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Report to the Committee on House Administration, House of Representatives

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LEGISLATIVE SERVICE ORGANIZATIONS

Proposed Accounting Standards and Guidelines

GAO/AIMD-94-49

GAO

United States
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Comptroller General of the United States

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December 16, 1993

The Honorable Charlie Rose
Chairman
The Honorable William M. Thomas
Ranking Minority Member
Committee on House Administration
House of Representatives

Enclosed are our proposed accounting standards and guidelines for legislative service organizations (LSOs). In October 1992, the Committee on Appropriations directed that we develop these standards and guidelines, in cooperation with your Committee.[1]

In developing the standards and guidelines, we met with staff of the Committee on Appropriations and your Committee and with the executive directors of many of the LSOs. On May 6, 1993, we provided a draft of the standards and guidelines to your Committee staff and certain Members and to the executive directors of all the LSOs. We incorporated the comments received and made those revisions that we believe were appropriate.

We issued audit reports in 1993 on three LSOs whose financial statements are consistent with our proposed standards.[2] The financial statements in those reports can be used as examples to show how the standards apply to LSOs. Also, we believe that LSO financial statements should be independently audited in order to enhance their reliability and adherence to appropriate standards.

We believe the new LSO regulations and handbook adopted by your Committee on August 5, 1993, significantly strengthen the controls over LSOs. For example, the establishment of revolving accounts in the House Office of Finance should improve controls over LSO disbursements. However, we believe that LSO financial reporting should go further than required by the regulations, particularly in the areas of three of our proposed accounting standards. Those standards call for accrual

[1] Making Appropriations for the Legislative Branch for the Fiscal Year Ending September 30, 1993, and for Other Purposes, House Report 102-1007, Oct. 3, 1992.

[2] Financial Audit: Ninety-eighth Democratic New Members Caucus Financial Statements—March '85 - April '92 (GAO/AFMD-93-33, May 5, 1993); Financial Audit: Environmental and Energy Study Conference Financial Statements for 1990 and 1989 (GAO/AIMD-93-10, July 27, 1993); and Financial Audit: Northeast-Midwest Congressional Coalition Financial Statements for 1991 and 1990 (GAO/AIMD-93-27, August 13, 1993).

accounting, disclosure of House regulations governing LSO operations, and disclosure of relationships with outside organizations.

Accrual Accounting

We believe that LSOs should report their financial operations on the accrual basis of accounting. LSOs are currently allowed to report on the cash basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred. Under the cash basis, revenues are recognized when received and expenses are recognized when paid.

The accrual basis of accounting recognizes the significance and accountable aspects of financial transactions, events, or allocations as they occur. Generally, accrual accounting can contribute materially to effective financial control over resources and costs of operations and is essential to develop adequate cost information. By reporting under the accrual basis, LSOs would be on a par with many revolving fund activities in the legislative branch and with most executive branch agencies covered by the Chief Financial Officers Act of 1990. That act requires specified departments and agencies to issue annual financial statements and to have those statements independently audited.

We do not believe that LSOs would incur unreasonable costs in preparing accrual-based financial statements. The three LSOs that we recently audited reported their financial operations on the accrual basis. None of them appeared to experience difficulty or any significant costs in preparing those reports.

LSO Regulations

Financial statements should disclose matters that affect the statements' use, understanding, and interpretation. We believe that oversight groups and interested public parties should be aware that the Committee on House Administration has adopted regulations specifically for LSOs, and that those regulations contain certain provisions, such as the authority to carry over unexpended funds, within certain limits, to following years. LSOs can provide that awareness by using their financial statements to disclose the House regulations governing their operations, as well as exceptions to the regulations that the Committee on House Administration may have granted.

Relationships With Outside Organizations

Related party transactions and the nature of certain common control relationships should be disclosed if the nature of those relationships could significantly affect an organization. The Committee and others have expressed concern in the past about LSO relationships with outside organizations. In 1981, in fact, the Committee adopted regulations prohibiting LSOs from receiving contributions from outside organizations.

Some LSOs have relationships with outside organizations. At least three LSOs, for example, have shared their executive directors with outside organizations, while another LSO has shared its staff printer with an outside organization. The 1993 LSO Handbook prohibits LSO staff from being compensated by outside organizations, but does not prohibit sharing personnel on an uncompensated basis. We believe that these types of relationships with outside organizations are important to oversight and other interested parties, and that LSOs should disclose, in their financial statements, the general nature and extent of those relationships.

Appendix I contains our proposed LSO accounting standards and guidelines, and appendix II is a list of all current LSOs.

We appreciate your cooperation and assistance and that of your staff and the LSO executive directors in the course of developing these standards. We would be pleased to work with you or your staff in providing any additional background and support. Please contact David Clark, Director, Legislative Reviews and Audit Oversight, at (202) 512-9489, or Rosemary Jellish, Assistant Director, at (202) 512-6920, if you or members of your staff have any questions.

Donald H Chapin for

Charles A. Bowsher
Comptroller General
of the United States

Proposed LSO Accounting Standards and Guidelines

Purpose. This appendix sets forth the accounting standards and related guidelines, including the form and content of financial statements of legislative service organizations (LSOs). It was developed by GAO in cooperation with the Committee on House Administration, as required by House Report 102-1007, the conference report on the 1993 Legislative Branch Appropriations Act, Public Law 102-302.

Applicability. These standards and guidelines apply to the LSOs regulated by the Committee. LSOs are unincorporated associations of Members that assist participating Members in carrying out activities of mutual interest and coordinate their efforts for reasons of efficiency and effectiveness. They are funded chiefly through Members' clerk-hire and official expenses allowances. The 28 LSOs in existence as of October 1993 are listed in appendix II.

Accounting Standards

Financial statements should be submitted to the Committee annually 45 days after the year-end for the preceding calendar year and should be open to public inspection. They should be presented in accordance with generally accepted accounting principles and thus should be prepared on the accrual basis (recognizing revenues when earned and expenses when goods or services have been received) following the formats and instructions presented in the next sections of this appendix. The purpose of the statements is to present an LSO's financial position and the results of its operations for public disclosure. Any other reports filed by the LSO that include financial information, such as the end-of-year report required by the Committee LSO regulations dated August 5, 1993, should reconcile to the financial statements described by this guidance.

The formats and instructions provide a framework for LSOs to develop financial statements that provide information useful to the Congress, the LSOs, and the public. The formats provide a means for presenting the information to be disclosed, and the instructions define the minimum disclosures for LSO financial statements and notes.

To provide a complete picture of the LSO's operations, the statement of revenues and expenses should include all readily determinable costs (and the associated revenues or financing sources) incurred in support of the activities of the LSO. This includes the applicable portions of the related appropriation accounts for salaries and expenses and costs borne by outside organizations. For example, besides clerk-hire salaries and other administrative costs paid by the LSO out of Members' dues and subscriptions, this would include (1) applicable benefits and payroll taxes paid separately from another appropriation for clerk-hire salaries, (2) if readily determinable, costs of other services provided out of legislative branch appropriations, such as office space, utilities, maintenance, and furniture (if these costs are not readily determinable, it is permissible to describe the costs in the notes to the statements and state that they are not readily determinable), and (3) costs of travel, conferences, and meals and lodging expenses for LSO staff who attend functions where the cost is partially or totally paid by an outside organization. Where readily determinable, these costs should be included on the face of the statements of revenues and expenses. If possible, with the help of the organization responsible for the cost, the LSO should attempt to obtain a reasonable estimate of the amounts of the costs that are not readily determinable to be disclosed on the face of the statement of revenues and expenses. Where the amounts of any of these costs cannot be readily estimated, the LSO should include a description of the costs in the notes to the financial statements.

LSOs should conform their financial statements to the prescribed form and content unless a variance is warranted. Variances would be warranted to allow the financial statements to reflect more accurately the financial position and results of operations. LSOs may modify their statement formats to improve disclosure based on the financial reporting practices of similar activities, if any, in the private and federal, state, and local government sectors. Statements may also be modified to reflect accounting principles published by authoritative standard-setting bodies and other authoritative sources. (For example, authoritative sources include the Financial Accounting Standards Board and the Securities and Exchange Commission for private sector generally accepted accounting principles, the Federal Accounting Standards Advisory Board for federal standards, the Government Accounting Standards Board for state and local government standards, the American Institute of Certified Public Accountants for specialized industry guidance, and the Cost Accounting Standards Board for cost accounting guidance. In particular, LSOs should refer to accounting standards pertinent to not-for-profit organizations published by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board.) LSOs should seek Committee approval for any significant modifications to the standards and guidance contained in this document.

Financial statements should be the culmination of a systematic accounting process. The statements should result from an accounting system that is an integral part of a total financial management system containing sufficient discipline, effective internal controls, and reliable data.

The financial statements should, except for the first year, be comparative, that is, present 2 years of information. Data should be reported in a format consistent with the current year's, and any reclassification of significant prior-year amounts to achieve comparability should be explained in notes to the statements. Note disclosures should also include prior-year information. For the first year of implementation of these accounting standards and guidelines, a single year is acceptable. The financial statements should include

- a statement of financial position, disclosing the LSO's assets, liabilities, and fund balance;
- a statement of revenues and expenses, disclosing the results of the LSO's operations for the year;
- a statement of cash flows, disclosing the LSO's gross cash receipts and cash payments, which explains the changes in cash for the year, and a reconciliation of excess of revenues over expenses to net cash provided by operating activities; and
- notes to the financial statements, which are an integral part of the financial statements, providing additional disclosures necessary to make the financial statements fully informative and not misleading.

Details on the financial statements and notes are in the next section of this appendix. For examples of financial statements and notes that are consistent with these standards (except that some regulations were different, under the 1981 LSO regulations in effect at the time, than the 1993 regulations), see the GAO audit reports on the Ninety-eighth Democratic New Members Caucus (GAO/AFMD-93-33, May 5, 1993), the Environmental and Energy Study Conference (GAO/AIMD-93-10, July 27, 1993), and the Northeast-Midwest Congressional Coalition (GAO/AIMD-93-27, August 13, 1993).

Effective Date. The provisions of these accounting standards and guidelines are effective for the preparation of financial statements for the calendar year ended December 31, 1994, and subsequent calendar years, with earlier implementation encouraged.

Inquiries and Exceptions. Inquiries and requests for exceptions from the requirements of this appendix should be addressed to the Committee on House Administration.

Proposed Formats for LSO Financial Statements

The following are proposed formats for LSO financial statements, including the Statements of Financial Position, Revenues and Expenses, and Cash Flows. Instructions for preparing the financial statements and notes are in the next section of this appendix.

Sample Statements of Financial Position

Name of LSO
Statements of Financial Position

	December 31,	
	1995	1994
Assets		
Current assets		
Funds with U.S. Treasury	$XXX	$XXX
Cash (note a)	XXX	XXX
Accounts receivable	XXX	XXX
Inventory (if any)	XXX	XXX
Prepaid expenses	XXX	XXX
Total current assets	XXX	XXX
Equipment at cost (if any)	XXX	XXX
Less accumulated depreciation	XXX	XXX
Net equipment	XXX	XXX
Total Assets	$XXX	$XXX
Liabilities and Fund Balance		
Liabilities		
Accounts payable	XXX	XXX
Accrued payroll	XXX	XXX
Unearned revenue from Members' dues and subscriptions	XXX	XXX
Accrued leave (if any)	XXX	XXX
Due to U.S. Treasury (if any) (note b)	XXX	XXX
Total liabilities	XXX	XXX
Fund balance (note c)	XXX	XXX
Total Liabilities and Fund Balance	$XXX	$XXX

The accompanying notes are an integral part of these statements.

Sample Statements of Revenues and Expenses

Name of LSO
Statements of Revenues and Expenses

	For the years ended December 31,	
	1995	1994
Revenues		
Members' dues and subscriptions	$XXX	$XXX
Special assessments for expenses	XXX	XXX
Government contribution for payroll expenses	XXX	XXX
Value of office space provided by Congress (if readily determinable)	XXX	XXX
Travel (or other) funds provided by others (note d)	XXX	XXX
Total revenues	XXX	XXX
Expenses		
Salaries	XXX	XXX
Benefits	XXX	XXX
Payroll taxes	XXX	XXX
Cost of office space (if readily determinable)	XXX	XXX
Equipment rental	XXX	XXX
Office supplies	XXX	XXX
Printing	XXX	XXX
Telecommunications	XXX	XXX
Periodicals	XXX	XXX
Insurance	XXX	XXX
Meetings and official functions (note e)	XXX	XXX
Travel (note f)	XXX	XXX
Training	XXX	XXX
Mail and messenger services	XXX	XXX
Professional services (note g)	XXX	XXX
Tax penalties (note h)	XXX	XXX
Uncollectible accounts (note i)	XXX	XXX
Depreciation and amortization	XXX	XXX
Miscellaneous (note j)	XXX	XXX
Total expenses	XXX	XXX
Excess of Revenues Over Expenses (Expenses Over Revenues)	$XXX	$XXX

The accompanying notes are an integral part of these statements.

Sample Statements of Cash Flows

Name of LSO
Statements of Cash Flows

	For the years ended December 31,	
	1995	1994
Cash Flows From Operating Activities		
Cash received from Members	$XXX	$XXX
Cash received from anyone else (name) (note k)	XXX	XXX
Cash paid to suppliers and service providers	(XXX)	(XXX)
Net cash provided (used) by operating activities	XXX	XXX
Cash Flows From Investing Activities		
Sale of equipment	XXX	XXX
Purchase of equipment	(XXX)	(XXX)
Net cash provided (used) by investing activities	XXX	XXX
Cash Flows From Financing Activities		
Payment of excess cash to U.S. Treasury	(XXX)	(XXX)
Appropriations	XXX	XXX
Borrowings	XXX	XXX
Repayment of borrowings	(XXX)	(XXX)
Net cash provided (used) by financing activities	XXX	XXX
Net Increase (Decrease) in Cash	$XXX	$XXX
Cash at beginning of year	XXX	XXX
Cash at End of Year	$XXX	$XXX

Reconciliations of Excess of Revenues Over Expenses (Expenses over Revenues) to Net Cash Provided (Used) by Operating Activities

	1995	1994
Excess of revenues over expenses (expenses over revenues)	$XXX	$XXX
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided (used) by operating activities		
Depreciation	XXX	XXX
Decrease (increase) in assets		
Accounts receivable	XXX	XXX
Inventory	XXX	XXX
Prepaid expenses	XXX	XXX
Increase (decrease) in liabilities		
Accounts payable	XXX	XXX
Accrued payroll	XXX	XXX
Unearned revenue	XXX	XXX
Accrued leave	XXX	XXX
Total adjustments	XXX	XXX
Net cash provided by operating activities	$XXX	$XXX

The accompanying notes are an integral part of these statements.

General Instructions for Preparing the Financial Statements and Notes

For guidance on matters or situations not covered in this document, LSOs should refer to accounting standards pertinent to not-for-profit organizations published by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board.

LSOs should round dollar amounts to the nearest whole dollar throughout the financial statements and notes. They should ensure that individual line items add up to the total by adjusting the line items for differences created by the rounding process rather than adjusting column totals.

LSOs may combine lines, using discretion, where balances are related in nature and are not material enough to warrant separate disclosure. They may exclude statement line items and notes that are not informative for the LSO. For example, for a line item for which the account balance is immaterial, they may combine the amount into another appropriate line and retitle the line as appropriate.

LSOs should not designate as “other” or “miscellaneous” any discrete balances of a material amount. Material balances should be separately reported and designated by name.

Where this guidance indicates that subsidiary records should be maintained as support in the accounting records for the various financial statement line items, such records may be subsidiary listings maintained in either a manual or computerized fashion. Also, the cash receipts, cash disbursements, and general journals and the general ledger may be maintained in either a manual or computerized fashion.

The financial statements should be presented on the accrual basis of accounting.

Records may be kept on a cash basis during the year. Cash transactions should be recorded in cash receipts and disbursements journals. At year-end, adjustments should be made in the general journal to convert to the accrual basis for presentation in the financial statements and notes. All transactions should be posted to the general ledger where account balances should be maintained for all asset, liability, fund balance, revenue, and expense accounts. The conversion to the accrual basis at year-end involves adjusting for

- accruing accounts receivable for revenues owed to the LSO which have not yet been collected;

- recording inventory for material amounts of supplies on hand that could otherwise result in large changes in the supplies expense from year to year, and prepaid expenses (an asset) for payments made for which the goods or services have not yet been fully received (for example, rental on equipment from House Office Systems Management extending beyond the current year, or insurance if the period of coverage extends beyond the year-end);
- recording depreciation on any capital assets owned by the LSO (not those acquired through House Office Systems Management, which continues to own the assets);
- accruing accounts payable for goods or services purchased which have been delivered, but for which the vendor has not yet been paid (and any other liabilities, such as accrued payroll or accrued annual leave, if leave is allowed to be carried over to the next year); and
- recording unearned revenue (a liability) for revenues received in advance of providing the Member the services to which he or she is entitled for the dues or subscriptions paid.

Instructions for Preparing the Statement of Financial Position

The following are instructions for preparing the statement of financial position. They follow the proposed format illustrated previously.

Assets

Assets are items of economic value owned by the LSO. Assets should be recorded at their full cost, including amounts paid to acquire them, and for transportation, installation, and any other significant related costs.

Funds with U.S. Treasury - The total of all account balances with the U.S. Treasury, including those maintained for the LSO by the House Office of Finance.

Amounts presented on this line should be supported by the LSO's accounting records and should be reconciled to the corresponding monthly statement from the Office of Finance with deposits in transit and outstanding vouchers.

Cash - The total of all other cash resources under the LSO's control, whether restricted or unrestricted, including petty cash, readily negotiable instruments such as uncashed checks, and amounts on deposit with banks or other financial institutions, if permitted by the Committee.

Accounts receivable - The total of all accounts receivable due from all sources, net of allowances for estimated uncollectible accounts (with parenthetical disclosure of the allowance, if material).

Amounts presented on this line should be supported in the accounting records by subsidiary records which list individual accounts receivable and the balance due from each. The total of the subsidiary should equal the amount on this line. The subsidiary should be supported by documentation of each individual receivable.

Inventory - This includes material amounts of certain supplies used in large quantities by the LSO, on hand at the end of the year. For example, if an LSO prints a newsletter and buys large quantities of paper during the year, it may be necessary to inventory the paper so that the statements of revenues and expenses are not misleading because of large changes in the office supplies expense from one year to the next. Expensing these items when purchased is permissible if it would not cause large changes in the expense account from year to year.

The inventory line item should be supported in the accounting records by a subsidiary listing of inventory items, quantity of each, cost per item (or other unit of measure), and extended cost of the total amount of each line item. An inventory count should be taken at year-end to support the year-end listing (or at other times during the year and reconciled to the year-end listing, by adding and subtracting inventory additions and deletions). The amount reported should be net of any allowance for spoilage or obsolescence, which should be supported by the methodology for computing the allowance.

Prepaid expenses - The total of payments made for which goods or services have not yet been fully received as of the end of the year. For example, if equipment has been rented from House Office Systems Management and payment has been made to cover a 3-year period, the cost for the portion of the rental period which has not yet passed as of the end of the year is a prepaid expense. Also, insurance which has not yet expired at year-end would be considered a prepaid expense.

The amount of prepaid expenses should be supported in the accounting records by computations showing the amounts to be carried forward to be expensed in subsequent years. The computations should be supported by documentation of the payment of a bill for the expense showing the period covered.

Equipment - If the LSO owns purchased or donated equipment, rather than, or in addition to, equipment rented from House Office Systems Management, the equipment should be shown at cost—the amount the LSO paid for the equipment, including shipping and installation—or fair market value at the time it was received if donated. (If equipment is acquired through House Office Systems Management, that entity continues to own it and it is not shown as an asset on the LSO's financial statements.) Accumulated depreciation should also be shown (that portion of the cost of the equipment charged to depreciation expense for the time the equipment was in use from the date the equipment was placed in service to the end of the year being reported on), and net equipment (cost less accumulated depreciation). The components of the equipment line item, the depreciation practices, and changes in the equipment account should be disclosed in the notes to the financial statements.

The equipment and accumulated depreciation line items should be supported in the accounting records by a subsidiary record of each item including description, cost, location, acquisition date, useful life, and depreciation charged each year.

Other assets - The LSO should include any other assets it may own.

Liabilities

Liabilities are amounts owed for items received, services rendered, expenses incurred, assets acquired, and construction performed; amounts received but as yet unearned; and payments owed to the U.S. Treasury.

Accounts payable - The total of debt owed to creditors because of credit purchases of goods or services that are received before the end of the year. The liability should include both invoices received and estimated amounts for invoices not yet received.

The amount should be supported in the accounting records by a subsidiary listing of creditors and amounts owed to each. The total of the subsidiary should equal the amount reported as accounts payable. The subsidiary should be supported by documentation for each individual creditor. The LSO may need to leave the books open after the end of the year to ensure all payables existing at year-end are properly accrued. However, the account should be finalized in time to submit the financial statements within 45 days of the year-end.

Accrued payroll - The total of the accrued liability for salaries, benefits, and payroll taxes earned by employees but not yet paid at year-end.

This amount should be supported in the accounting records by computations showing the amount of salaries, benefits, and payroll taxes paid after year-end, which includes payments for days in the reporting period, multiplied by the ratio of days included in the reporting period to total days in the pay period.

Unearned revenue - The total of payments received in advance of providing goods or services. For example, LSOs may receive Members' dues and subscriptions for the next year in December of the current year. These amounts are unearned revenue at year-end.

The amount should be supported in the accounting records by a subsidiary listing of Members who paid dues or subscriptions for the next year prior to year-end, and the amounts of each.

Accrued leave - The amount of leave earned but not used at year-end, if an LSO allows staff to carry over leave from one year to the next. It should be supported in the accounting records by a listing of staff, with hours of leave available, multiplied by each staff member's hourly rate.

Due to U.S. Treasury - The total amount due to the U.S. Treasury as miscellaneous receipts, if an LSO has a cash balance that exceeds the amount allowed by the 1993 regulations. The 1993 regulations allow an LSO to carry over a cash balance of 35 percent of the approved budget expenditures (or $20,000 through 1996, if greater), after deducting (1) unpaid obligations and (2) dues received in advance. Any excess is due to the U.S. Treasury.

Other liabilities - LSOs should disclose any other liabilities appropriately.

Fund Balance

This amount should be equal to the difference between the assets and the liabilities. It should also be equal to the prior year's fund balance, plus (or minus) the excess of revenues over expenses (or expenses over revenues), less any amounts determined to be owed to the U.S. Treasury because the LSO's cash balance exceeded the amount allowed by the 1993 regulations.

If the fund balance includes any items other than the cumulation of revenues over expenses over the years of the LSO's existence, such as any appropriated, invested, or donated capital, if allowed by the Committee, the components should be disclosed either on the face of the financial statements or in a note to the statements. If a liability, due to U.S. Treasury, is recorded because the cash balance at year-end exceeds the amount allowed by the 1993 regulations, the computations for deriving the year-end fund balance should be disclosed in the notes.

Instructions for Preparing the Statement of Revenues and Expenses

Most revenues and expenses should be supported in the accounting records by account balances in a general ledger, which was posted from cash receipts and disbursements journals and the general journal. The receipts and disbursements should also be supported by evidence from the House Office of Finance of deposits to and payments from the LSO's revolving account. In addition, before requesting disbursement of funds by the Office of Finance, the LSO should generally have evidence (and should check it for proper computations, etc.) of having ordered the goods or services being paid for, having received them, and being billed for them, and this documentation should be retained in a readily accessible form. The LSO should promptly reconcile its records to the Office of Finance's monthly statements, to identify and document timing differences, and to identify and correct possible errors.

Revenues and expenses should generally be listed in order from largest to smallest dollar amount, with any miscellaneous category listed last.

Revenues

Revenues are inflows or other enhancements of assets or settlements of liabilities arising from operations.

Members' dues or subscriptions - The total of revenue received from Representatives' dues and Senators' subscriptions. This should include (1) payments received during the year for the current year dues, (2) dues for the current year received during the prior year (unearned revenue at the prior year-end), and (3) dues for the current year which were not received as of year-end but which are receivable and which the LSO believes will be paid in a subsequent period (accounts receivable at year-end).

This amount should be supported in the accounting records by a subsidiary listing of all dues or subscription payers and amounts, segregated by those who paid in the prior and current years, and those expected to pay in a subsequent year.

Under the 1993 regulations, Members may pay dues from either their clerk-hire or their official expense allowance, and the LSO's revolving account pays all its staff salaries. Thus, LSOs should no longer have a separate clerk-hire revenue line item, unless some staff are partially or totally paid by Senate clerk-hire funds.

Special assessments for expenses - The total paid directly by Members for expenses of the LSO. Under the 1993 regulations, special assessments are paid into the LSO's revolving account maintained by the House Office of Finance. Thus, the LSO should recognize the revenue when the Member agrees to pay the special assessment and receives the approval of the Committee to have the amount transferred to the LSO's account.

Government contributions for payroll expenses - The total paid for benefits and payroll taxes from appropriations for LSO staff, including retirement, life insurance, health insurance, and social security (this does not include the portion withheld from employees' pay, which is included in gross salaries).

The amount should be supported in the accounting records by information from the House and Senate, giving the amount for each category of benefits and payroll taxes paid for each LSO staff member for the year.

Value of office space provided by Congress - The total allocated portion of costs paid by the Architect of the Capitol or the House for office space rental, utilities, building maintenance and security, furniture, etc., to the extent these costs are readily determinable. If they are not readily determinable, the nature of the costs should be disclosed in the notes to the financial statements. If the LSO chooses to estimate such costs, the notes should include a description of the allocation basis.

The amount should be supported in the accounting records by a subsidiary listing of items of cost borne by other appropriations. Each item on the list should be supported by cost information from the entity that made the payments, and LSO computations. For example, office space rental should be based on the market value rental of the same square footage in a comparable building near the LSO's office. The estimated cost of utilities, building maintenance, and security should be derived by multiplying the total cost of these items for the building by the ratio of the square footage the LSO occupies to the total square footage of the building. The estimated cost of furniture should be derived by either fair market rental prices for comparable furniture, or by an allocated portion of the historical cost of the furniture for the year, based on estimated useful life of the furniture.

Travel (or other) funds provided by others - The total of other expenses paid by other organizations on behalf of the LSO. For example, LSO staff or Members acting for the LSO sometimes attend certain conferences, training, briefings, etc., where the costs (conference registration or tuition, airfare, and other travel costs, and food and lodging expenses) are partially or totally borne by outside organizations.

The amount should be supported in the accounting records by documentation showing the actual or estimated costs of such other expenses.

Other revenue - If the LSO has any other revenue items, they should also be included on the statement of revenues and expenses and described in the notes.

Expenses

Expenses are outflows of assets or incurrences of liabilities arising from operations.

Salaries - Total for gross salaries paid to LSO staff, including part-time, temporary, and student staff, by the LSO and by the Senate from an appropriation similar to clerk-hire funds.

This amount should be supported in the accounting records by schedules showing amounts of agreed-upon salaries, computed amounts, and disbursements from the LSO's account for net salaries paid to staff and withholdings paid to taxing authorities and others. The schedules should also show the Senate clerk-hire funds.

Benefits - Total for benefits paid for LSO staff by the LSO and by the House or Senate from appropriations for benefits.

This amount should be supported in the accounting records by schedules showing amounts of any benefits paid by the LSO, such as retirement contributions (and evidence of disbursements from the LSO's revolving account by the House Office of Finance) and by House and Senate appropriations for benefits, as discussed previously under government contributions for payroll expenses revenue. This does not include the employees' portion of any benefits, which is included in gross salaries.

Payroll taxes - Total for employer's portion of taxes such as social security and unemployment taxes (not amounts withheld from employees' pay, which is part of gross salaries).

This amount should also be supported in the accounting records by schedules showing amounts of payroll taxes paid by the LSO or by House and Senate appropriations, as discussed previously under government contributions for payroll expenses revenue.

Cost of office space - Total paid by the LSO or House or other appropriations for office space, as discussed previously under revenue for value of office space.

Equipment rental - Total equipment rental charges for the year being presented, generally paid to House Office Systems Management. If some equipment rental is paid for a future period, that amount should be deducted from equipment rental expense (if the records are kept on a cash basis) and allocated to those future periods as a prepaid expense. In the future period, the current period's prepaid expense would be charged to equipment rental expense. If equipment maintenance is paid separately, it may be included in this line item, with the line retitled to include equipment rental and maintenance.

Office supplies - The cost of routine office supply items, such as paper, pens, etc. Although these items can generally be expensed as purchased, if certain items are material, such as paper for printing a newsletter, and the change in office supplies expense from year to year could be significant, they should be inventoried and expensed as used, as discussed previously under the inventory asset.

Printing - The cost of printing, such as sending out a newsletter to be printed. It should be recognized as a cost when the services are rendered.

Telecommunications - Telephone charges for the year presented, as well as any separate charges for facsimile transmissions, telegrams, and pager services, if any.

Periodicals - Cost of subscriptions to periodicals.

Insurance - Cost of any insurance the LSO purchases, indicating what type of insurance it is. If part of the insurance coverage extends beyond year-end, the cost of that portion should be allocated to those future periods as a prepaid expense. In the future periods, the current period prepaid expense would be charged to insurance expense.

Meetings and official functions - The entire cost of meetings and other official LSO functions, including, for example, meals and speaker fees. The notes to the statements should describe the purpose and nature of the meetings and functions.

Travel - Cost of transportation and food and lodging for any training, conferences, briefings, etc., attended by staff or Members, whether paid by the LSO or another organization, as well as local travel costs. If travel is paid by another organization, the amount may be an estimate or, if the amount is not readily determinable, the travel may be disclosed in the notes only. The notes to the statements should describe the purposes, locations, and costs of the trips, and identify organizations which paid or reimbursed the LSO for the trips.

If the LSO makes advance payments to travelers, these should be recorded as either (1) an asset at year-end if the travel has not yet occurred or if it is to be paid by another organization or (2) an expense if the travel has occurred but final settlement of the amount is not completed.

Training - Cost of any training undertaken by Members or staff of the LSO. This would include registration or tuition at any training, conferences, briefings, etc. If paid for by another organization, this fact and the organization should be disclosed.

Mail and messenger services - Cost of postage and other delivery expenses.

Professional services - This includes the expense of hiring the services of an accountant, payroll service, lawyer, computer instructor, consultant, researcher, etc. A note should describe the professional services included in the line item.

Tax penalties - Cost of any penalties for late filing of taxes. A note should describe the situation giving rise to the penalty.

Uncollectible accounts - The LSO writes off in this expense item any accounts receivable that are determined to be uncollectible. Care should be taken in recognizing accounts receivable that they are judged to be collectible at the time of recognition. The direct write-off method of recognizing uncollectible accounts should generally be used, since most LSOs do not have the volume of accounts receivable that would require an estimation based on history of the amount that will eventually become uncollectible. Use of the direct write-off or other method of recognizing uncollectible accounts should be disclosed in the notes to the financial statements. Also, if the amount is substantial, a note should discuss the uncollectible accounts.

Depreciation and amortization - If the LSO owns equipment or other assets that will benefit the LSO for 2 or more years, its cost should be allocated to the periods of its useful life in a rational, systematic manner. The straight-line method is preferred, in which an equal amount is charged to each period benefited. The depreciation policy, including method, useful lives of classes of assets, and the minimum amount capitalized, should be disclosed in the notes to the financial statements. Amortization is a similar charging of the cost of intangible assets and office improvements to the periods benefited.

Miscellaneous - Any other expenses not described above, if immaterial, may be included in a miscellaneous category. Any items not described above which are material should be separately stated, rather than being included in a miscellaneous category. In either case, the items should be described in the notes to the financial statements. Some examples of items that would be included as miscellaneous are bank charges, drinking water, and gifts for retirees, if allowed by the Committee.

Instructions for Preparing the Statement of Cash Flows

The statement of cash flows presents cash receipts and disbursements only. Thus, amounts paid for the LSO by other entities, such as office space in House buildings, or travel costs paid by an outside organization, are not included. Also, the accrual adjustments needed for the statements of financial position and revenues and expenses are not relevant here. The statement of cash flows should tie directly to activity in the revolving account maintained by the House Office of Finance (with reconciliations for items received or paid close to the end of the year and not yet recorded by the Office of Finance).

Cash Flows From Operating Activities

Operating activities generally involve producing and delivering goods and services. They would usually include all items not included as investment or financing activities.

Cash received from Members - This is the actual cash payments or transfers received for dues (House) or subscriptions (Senate) or special assessments, if permitted by the Committee, from LSO Members. Cash received from Members should also equal the accrual-based dues and subscription and special assessment revenues adjusted by the changes in accounts receivable and in unearned revenue from dues and subscriptions.

Cash received from anyone else - If cash was received from anyone else besides LSO Members (such as a tax refund), it should be reported on this line, which should include in its title the name of the person or organization that paid the cash. A note to the financial statements should describe the situation giving rise to the cash receipt.

Cash paid to suppliers and service providers - This line item represents the actual cash paid for expenses by the Office of Finance for the LSO. It should also equal the accrual-based expenses adjusted by the changes in accounts payable or other accrued liabilities, prepaid expenses, or inventory.

Net cash provided (used) by operating activities - This line item represents the net of the cash received and cash paid reported above from operating activities.

Cash Flows From Investing Activities

Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property such as equipment. Most LSOs will not have these activities.

Sale of equipment - Cash received from the sale of surplus equipment or other property.

Purchase of equipment - Cash paid for the purchase of equipment.

Cash Flows From Financing Activities

Financing activities include making payments of excess cash to the U.S. Treasury as miscellaneous receipts as required by the 1993 regulations, obtaining resources such as appropriations from the Congress or by transfers from other entities, and borrowing money and repaying amounts borrowed. Except for payments of excess cash to the U.S. Treasury, most LSOs will not have these activities.

Payments of excess cash to U.S. Treasury - Amounts transferred during the year to the U.S. Treasury as miscellaneous receipts resulting from a cash balance at the end of a year in excess of the amount allowed by the 1993 regulations.

Appropriations - Appropriated amounts transferred to the LSO's revolving account maintained by the House Office of Finance.

Borrowings - Cash received from any loans or other types of borrowings, if allowed by the Committee.

Repayments of borrowings - Cash paid on loans or other indebtedness.

Net increase (decrease) in cash - The sum of the net amounts of each of the three categories of cash flows above (operating, investing, and financing activities).

Cash at beginning of year - Cash at the beginning of the year should agree with the cash reported on the statement of financial position as of the end of the preceding year.

Reconciliations of Excess of Revenues Over Expenses (Expenses Over Revenues) to Net Cash Provided (Used) by Operating Activities

This section of the statement of cash flows reconciles the excess of revenues over expenses (or expenses over revenues) from the statement of revenues and expenses to the net cash provided (used) by operating activities reported at the top of the statement of cash flows.

Excess of revenues over expenses (expenses over revenues) - This is the figure reported as the bottom line of the statement of revenues and expenses.

Adjustments - These adjustments are those items of revenue and expense that did not involve an actual outflow or inflow of cash.

Depreciation - If the LSO owned equipment and depreciated it, the depreciation did not necessarily represent an outflow of cash in the current year, but in the earlier year when the equipment was purchased. Since purchases of equipment are recognized as cash outflows in the year the equipment is purchased, and depreciation expense is a method of allocating that cost to the years benefited, depreciation should be added back to excess of revenues over expenses to compute cash flows from operating activities.

Decrease (increase) in assets - Since accounts receivable represent revenue earned but not received, and inventory and prepaid expenses represent expenses paid but not expensed, they need to become adjustments to excess of revenues over expenses to compute cash flows from operating activities. For example, an increase in accounts receivable is subtracted from excess of revenues over expenses to get to cash flows, because the revenue was not received during the year.

Increase (decrease) in liabilities - Similarly, since accounts payable represent expenses recognized but not paid, and unearned revenue represents revenue received but not earned, they need to become adjustments to excess of revenues over expenses to compute cash flows from operating activities. However, changes in liabilities have the opposite effect on cash flows as decreases or increases in assets.

Instructions for Preparing Notes to Financial Statements

Notes to the financial statements should include the following items, with further elaboration of any item that may help the user of the statements understand the item and prevent the statements from being misleading. Any notes that relate specifically to particular line items on the financial statements should be annotated next to the line item on the face of the financial statements that contain the balance discussed in the notes.

Note 1. Description of the Entity

The first note to the statements should state that the entity is an LSO and describe it. The description should address the specific business and types of activities of the LSO.

Note 2. Regulations and Rules Pertaining to the Entity

The second note should list significant aspects of the regulations and rules the LSO follows. LSOs should follow the 1993 regulations adopted by the Committee for LSOs. Those 1993 regulations require LSOs to comply with all applicable House rules as issued in the LSO Handbook, an appendix to the 1993 regulations. Thus, where LSOs have not been required to follow certain rules that other offices of the House are required to follow, those instances and their dollar impact should also be disclosed in this note.

For example, the note should state that the 1993 regulations permit LSOs to carry over unexpended funds into the following year, up to 35 percent of the approved budget expenditures (or $20,000 through 1996, if greater), after deducting unpaid obligations and dues received in advance. It should state that the LSO's fund balance represents amounts received in earlier years as dues which have not yet been expended and will be available to cover operating costs of future periods.

This note should also disclose that the 1993 LSO Handbook allows LSOs to spend up to $2,500 (or 1 percent of the prior year's expenses if greater) on food and beverages. The note should also state the amount the LSO spent on food and beverages during the year.

If the LSO has received any individual exceptions to any of the 1993 regulations from the Committee, it should disclose them in this note.

Note 3. Significant Accounting Policies

The third note should summarize the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the LSO's significant assets, liabilities, fund balance, revenues, expenses, and cash flows. The first significant accounting policy presented should be the basis of accounting, which should state that assets, liabilities, revenues, and expenses are presented on the accrual basis of accounting. Other significant accounting policies to be described, if appropriate, are the (1) types of revenues and financing sources received, (2) accounts receivable and write-off policy, (3) inventory valuation policy, (4) property and equipment and depreciation policy including useful lives and capitalization minimum, (5) prepaid expenses and unearned revenue, and (6) annual, sick, and other leave.

Note 4. Appropriated Funds Support

If the LSO is unable to quantify the amounts of other costs of operation borne by appropriated funds, this note should disclose that the financial statements include only costs paid by or on behalf of Members of the LSO and that certain other costs of operation, such as office space, etc., are paid from legislative branch appropriations and cannot be readily determined.

Subsequent Notes

This section gives instructions for subsequent notes, some of which may not be needed in the case of any particular LSO. They should be numbered accordingly.

Line Items

The next note(s) should include descriptions of those line items in the financial statements for which an explanation would make them more understandable to the reader and would make the financial statements as a whole more useful to users. These notes can include tables itemizing the financial statement line items to individual accounts. The line items mentioned in previous sections as needing an explanation, in particular, should have a note describing them.

For example, if the LSO pays any retirement or other benefits for its staff, a description of the benefits and amounts, if material, should be included in the notes. For associated government benefits paid for staff receiving clerk-hire salary, a note should describe the government pension plans, give the amounts paid by the government to the pension plans, and state that the agency responsible for the plans (Office of Personnel Management) is responsible for reporting the plans' unfunded liabilities.

Due to U.S. Treasury or Fund Balance

If the LSO had a cash balance at year-end in excess of the amount permitted by the 1993 regulations (35 percent of the approved budget expenditures or $20,000 through 1996, if greater, after deducting unpaid obligations and dues received in advance), then the LSO should set up a liability, due to U.S. Treasury, for the excess amount. This amount is subtracted from the fund balance. This note should state that the LSO had a cash balance in excess of the amount allowed by the 1993 regulations and show how it was computed, including computations of the amount permitted and of the LSO's cash balance used to compare to the permitted amount.

The note should also include a table showing fund balance at the beginning of the year (the same as at the end of the preceding year), plus (or minus) the excess of revenues over expenses (expenses over revenues), and less the amount determined to be due to the U.S. Treasury, giving the fund balance at the end of the year.

Contingencies

If the LSO has any contingent liabilities, they should be disclosed in a note. Contingencies are existing conditions, situations, or circumstances involving uncertainty about possible gains or losses that will be resolved in the future when one or more events occur or fail to occur. Contingent liabilities often arise as a result of administrative proceedings, legal actions, and claims brought by or against the LSO. One example is the gain or loss that may be possible resulting from disputes over additional taxes that certain taxing authorities may attempt to impose. If such a claim is probable of resulting in a liability to the LSO and the amount can be reasonably estimated, it should be accrued and included as a liability on the face of the financial statements. If a claim is reasonably possible of resulting in a liability, or if it is probable but not reasonably estimable, it should be disclosed in the notes, giving the nature of the contingency and the estimate of the possible loss or range of the possible loss, or a statement that such an estimate cannot be made. Events giving rise to a contingent liability may occur after the date of the financial statements but before they are issued, that do not require accrual, but may require disclosure in the notes.

Relationships with Other Organizations

The LSO should disclose its relationships with any outside organizations with which it has any significant relationships or with which a reader may believe it to have relationships. This includes, in particular, outside organizations with similar sounding names, those that may have been formed as a result of the 1981 Committee regulations prohibiting LSOs from accepting contributions from any organizations or persons other than the Congress or its Members, any other organization the LSO may have assisted in forming, and any organization engaged in activities related to matters identical or substantially similar to matters considered by the LSO.

This note should describe the relationship and any significant transactions that occurred between the LSO and the outside organizations during the year. For example, the note should disclose whether the LSO makes its research available to an outside organization for reprinting. Also, it should disclose if research done by an outside organization is made available through the LSO to its Members. The note should disclose any instances of any Members in a policy-making position in both organizations. This note should also disclose whether any LSO staff are relatives, as defined by the LSO Handbook, of any Member of Congress.

If the LSO has relationships with many organizations as discussed above, none more significant than any other, such relationships may be disclosed for all of them in general terms.

Subsequent Events

This note should include disclosure of any events that occurred after the date of the financial statements but before their issuance, which would be useful for users of the financial statements because the events could have a substantial effect on the future of the organization.

Legislative Service Organizations as of October 1993

Arms Control and Foreign Policy Caucus
Arts Caucus, Congressional
Automotive Caucus, Congressional
Black Caucus, Congressional
Border Caucus, Congressional
California Democratic Congressional Delegation
Clearinghouse on the Future, Congressional
Democratic Study Group
Environmental and Energy Study Conference
Export Task Force
Federal Government Service Task Force
Hispanic Caucus, Congressional
House Wednesday Group
Human Rights Caucus, Congressional
Hunger Caucus, Congressional (interim approval)
New York State Congressional Delegation
Ninety-eighth Democratic New Members Caucus
Northeast-Midwest Congressional Coalition
Pennsylvania Congressional Delegation Steering Committee
Populist Caucus, Congressional
Republican Study Committee
Rural Caucus, Congressional
Space Caucus, Congressional
Steel Caucus, Congressional
Sunbelt Caucus, Congressional
Textile Caucus, Congressional
Travel and Tourism Caucus, U.S. Congressional
Women's Issues, Congressional Caucus for

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