

GAO

Report to the Clerk of the House of
Representatives

March 1989

FINANCIAL AUDIT

House Child Care Center Financial Statements for the Year Ending August 31, 1988





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

Comptroller General
of the United States

B-234458

March 29, 1989

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

Dear Mr. Anderson:

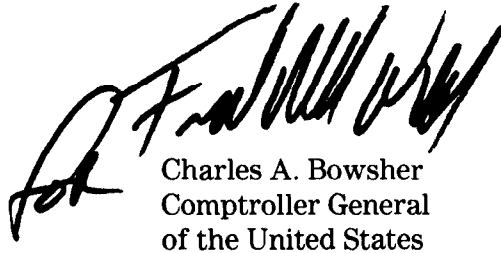
As required by section 2(d) of House Resolution 21, dated December 11, 1985, we have audited the accompanying balance sheet of the House of Representatives Child Care Center, Inc., as of August 31, 1988, and the related statement of revenue, expenses, and fund balance for the fiscal year then ended. This was the initial audit of the Center, which began operating on September 1, 1987. We completed our audit on January 31, 1989. 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 audit.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit 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 audit provides 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, 1988, and the results of its operations for the fiscal year then ended in conformity with generally accepted accounting principles.

Our report on internal accounting controls and compliance with laws and regulations, together with the Center's financial statements and accompanying notes for the fiscal year ended August 31, 1988, is included in this report.

Sincerely yours,



Charles A. Bowsher
Comptroller General
of the United States

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Report on Internal Accounting Controls and Compliance With Laws and Regulations

We have audited the financial statements of the House of Representatives Child Care Center, Inc., for the fiscal year ended August 31, 1988. Our audit was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our preliminary review of the system of internal accounting controls and our review of compliance with laws and regulations for the fiscal year ended August 31, 1988.

We did not complete a study and evaluation of the Center's internal accounting control system for the purpose of determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Center's financial statements. Based on our preliminary review, we concluded that it was more efficient to expand our substantive tests in auditing the financial statements for the fiscal year ended August 31, 1988.

While we did not perform a complete study and evaluation of the Center's internal accounting control system, we did not become aware of any condition during our expanded substantive audit tests which we believe to be a material weakness.

As part of our audit, we also tested the Center's compliance with the terms and provisions of H. Res. 21. In our opinion, the House of Representatives Child Care Center, Inc., complied with the terms and provisions of H. Res. 21 for the transactions tested that could have materially affected its financial statements. Nothing came to our attention, in connection with our audit, that caused us to believe that the Center was not in compliance with the terms and provisions of H. Res. 21 for those transactions not tested.

Balance Sheet

August 31, 1988

Assets

Current Assets

Cash	\$100,758
Restricted cash (note 2)	10,605
Prepaid insurance expense	6,401
Total current assets	117,764

Fixed Assets

Equipment (note 3)	14,056
Less accumulated depreciation	977
Total fixed assets	13,079

Total Assets

\$130,843

Liabilities and Fund Balance

Current Liabilities

Accounts payable	\$174
Payroll taxes payable	1,592
Deferred revenue (note 4)	1,486
Total current liabilities	3,252

Long-Term Liabilities

Deposits held for parents (note 2)	7,200
Payroll held for employees (note 2)	3,405
Loan payable (note 5)	100,000
Total long-term liabilities	110,605

Total liabilities

113,857

Fund Balance

Net investment in donated assets (note 3)	4,325
Fund balance—general operating	12,661
Total fund balance	16,986

Total Liabilities and Fund Balance

\$130,843

The accompanying notes are an integral part of this statement.

Statement of Revenue, Expenses, and Fund Balance

	Fiscal year ended August 31, 1988
Revenue	
Operating	
Tuition	\$215,436
Application fees	1,475
Miscellaneous	4,891
	221,802
Nonoperating	
Donations (note 1)	85,064
Interest (note 6)	7,138
	92,202
Total Revenue	314,004
Expenses	
Salaries	237,999
Employment taxes	17,703
Employee benefits (note 7)	6,520
Classroom supplies	12,778
Office supplies	743
Class activities	698
Utilities - telephone	4,363
Child care equipment - small	12,720
Printing and advertising	2,996
Insurance	6,114
Staff development	867
Depreciation	302
Miscellaneous	8,904
Total Expenses	312,707
Excess of revenue over expenses	1,297
Fund balance, beginning of period (note 8)	11,364
Fund Balance, End of Period	\$12,661

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

Note 1. Significant Accounting Policies

Organization

The House of Representatives Child Care Center, Inc., was established by H. Res. 21, December 11, 1985. The Center is an independent, non-profit, nongovernmental corporation, incorporated under the laws of the District of Columbia for the sole purpose of providing child care. The Center provides its services for children of Members, officers, their staffs, and other support personnel of the House of Representatives. It is exempt from income tax under section 501(c)(3) of the Internal Revenue Code.

Depreciation Policy

Equipment is depreciated over a 5-year or 10-year period using the straight-line method.

Donated Facilities and Services

The financial statements do not include the costs of space, utilities (except telephone), and ordinary repairs and maintenance, which are provided to the Center without charge.

Administration and Fund Raising Expenses

Administration and fund raising expenses are about 4 percent of total revenue and include office supplies, printing and advertising, staff development, and miscellaneous costs. Administration and fund raising services are performed by officers, directors, parents, and others at no expense to the Center.

Donations

The Center solicits and receives donations from corporations and individuals. The donations received were in the form of cash, equipment, and services. For financial statement purposes, no value was assigned to the donated services.

Note 2. Restricted Cash and Related Liability

The Center is holding \$7,200 cash from the children's parents as initial deposits which are refundable if proper notice of withdrawal is given. The Center is also holding \$3,405 cash from employees' first week's pay which is due the employees upon proper notice of termination of their employment and payment of any existing debts to the Center. The total cash held and related liability at August 31, 1988, was \$10,605.

Note 3. Equipment

The Center purchased or received by donation the following items of equipment.

Table 1: Schedule of Purchased and Donated Assets

	Estimated useful life	Cost or fair market value	Accumulated depreciation	Net value
Purchased				
Playground equipment	10 years	\$9,056	\$302	\$8,754
Donated				
Kitchen equipment	10 years	3,250	325	2,925
Cleaning equipment	5 years	900	180	720
Educational equipment	5 years	850	170	680
Total donated		5,000	675	4,325
Totals		\$14,056	\$977	\$13,079

Note 4. Deferred Revenue

Deferred revenue of \$1,486 consists of tuition payments received in advance for the subsequent fiscal year.

Note 5. Loan Payable

The \$100,000 loan provided for in H. Res. 21 for equipment and other expenses of starting the Center was received in January 1987. It remained a Center liability as of August 31, 1988. Initial payment is not due until the end of the fourth year of operation which will be on August 31, 1991. Reduction of the liability is planned in accordance with the following schedule as provided in the Resolution. The loan is interest free.

Table 2. Loan Repayment Schedule

Payment date	Amount outstanding	Payment due	Balance
8/31/91	\$100,000	\$33,333	\$66,667
8/31/92	66,667	33,333	33,334
8/31/93	33,334	33,334	0

Note 6. Interest

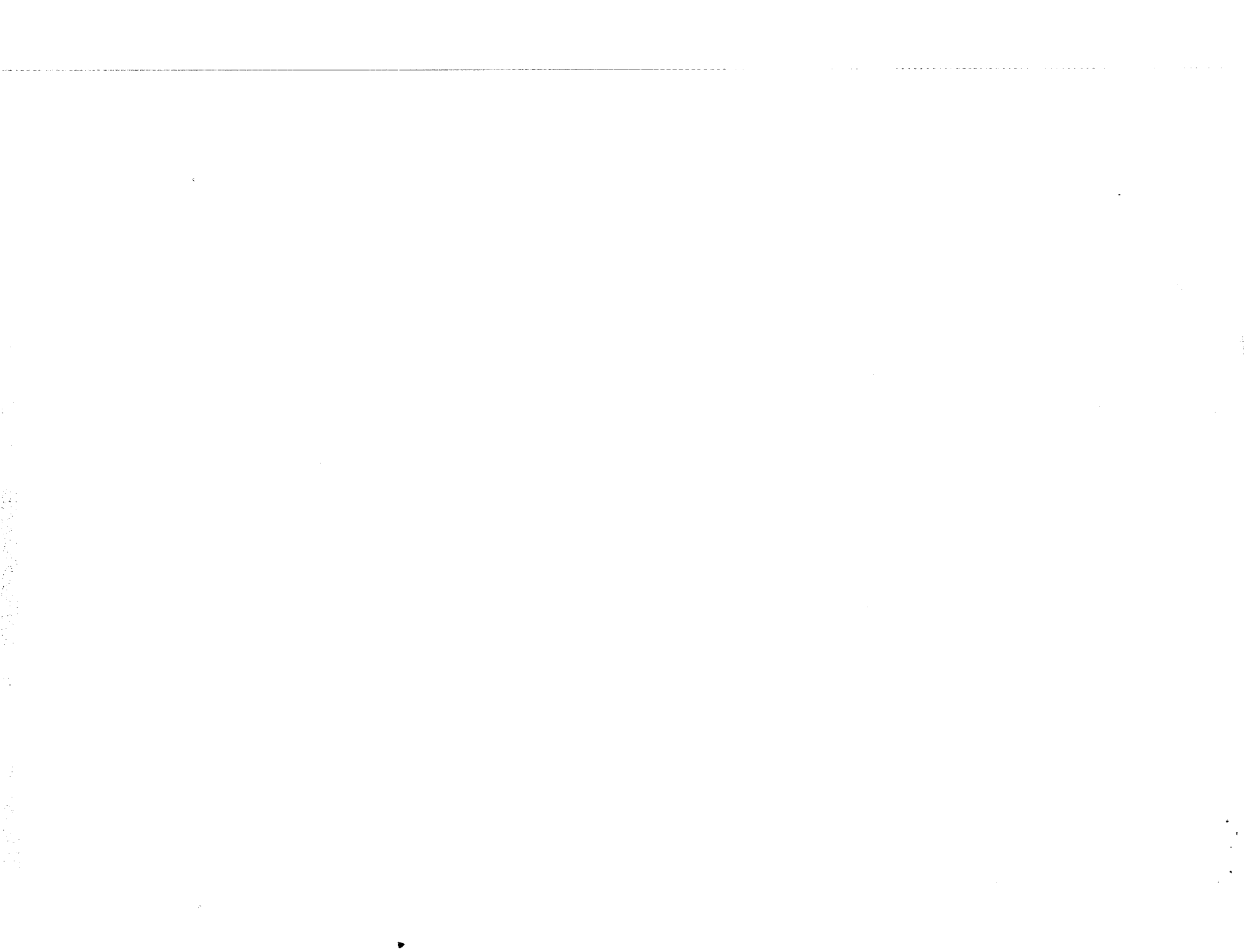
Cash consists of the checking, savings, and share accounts which earn interest. All interest is reported under nonoperating revenue because its source is other than child care operations.

Note 7. Employee Benefits

The Center contributes to the cost of health and benefit plans selected by employees. All employees are covered by the Social Security Act. The Center has no retirement plan to supplement Social Security. The Center has no future benefits liability since it does not administer the plans.

Note 8. Fund Balance

The fund balance at the beginning of the period represents the net assets remaining from the \$100,000 loan after start-up costs were paid for the period January through August 1987. No detailed financial records were kept for this period.



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