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**Audit Of Financial Statements
Government Services, Inc.
Year Ended December 31, 1970**

B-114820

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

APRIL 1, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114820

To
The Board of Trustees
Government Services, Inc.

CNG 02159

The General Accounting Office has made an audit, pursuant to your request, of GOVERNMENT SERVICES, INC.--a private, domestic, non-stock, non-profit-sharing membership corporation--for the year ended December 31, 1970.

The audit included an examination of the corporation's statement of assets, liabilities, and accumulated income as of December 31, 1970, and related statements of income and of source and application of funds for the year then ended. The examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

OPINION OF FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schs. 1 through 4) present fairly the financial position of Government Services, Inc., at December 31, 1970, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

James B. Aberts

Comptroller General
of the United States

C o n t e n t s

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FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

G O V E R N M E N T S E R V I C E S , I N C .

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,
AND ACCUMULATED INCOME
DECEMBER 31, 1970 AND 1969

A S S E T S

	<u>1970</u>	<u>1969</u>
CURRENT ASSETS:		
Cash	\$ <u>815,525</u>	\$ <u>538,938</u>
Accounts receivable	<u>264,037</u>	<u>233,537</u>
Inventories (at standard cost, which approximates cost):		
Merchandise	697,872	1,066,828
Supplies	<u>265,512</u>	<u>343,215</u>
	<u>963,384</u>	<u>1,410,043</u>
Prepaid expenses and other current assets	<u>82,124</u>	<u>141,497</u>
Total current assets	<u>2,125,070</u>	<u>2,324,015</u>
INVESTMENTS:		
U.S. Government bonds at cost less amortized premiums (market value \$94,190 in 1970 and \$68,320 in 1969)	100,723	80,437
Certificates of deposit	1,350,000	-
U.S. Treasury bills	<u>-</u>	<u>388,338</u>
	<u>1,450,723</u>	<u>468,775</u>
SPECIAL FUND FOR REPLACEMENT OF GOVERNMENT-OWNED EQUIPMENT (note 1):		
U.S. Government bonds at cost less amortized premiums (market value \$94,190 in 1970 and \$102,480 in 1969)	<u>100,000</u>	<u>120,655</u>
LAND	<u>371,503</u>	<u>371,503</u>
BUILDINGS AND EQUIPMENT:		
Buildings	1,198,643	1,198,643
Operating equipment	4,127,784	4,281,801
Leasehold improvements (note 2)	<u>2,202,896</u>	<u>2,204,785</u>
	7,529,323	7,685,229
Less accumulated depreciation and amortization	<u>5,320,711</u>	<u>5,195,012</u>
	<u>2,208,612</u>	<u>2,490,217</u>
DEFERRED EXPENSES	<u>52,597</u>	<u>57,148</u>
Total assets	<u>\$6,308,505</u>	<u>\$5,832,313</u>

The notes on pages 8 and 9 are an integral part of this statement.

L I A B I L I T I E S A N D A C C U M U L A T E D I N C O M E		
	<u>1970</u>	<u>1969</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 632,177	\$ 361,578
Accrued franchise fees (note 3)	203,017	646,998
Accrued taxes	107,858	155,294
Payroll deductions withheld	76,624	209,998
Fringe benefits payable	58,486	59,697
Real estate mortgage--current installments	5,500	11,000
Other current liabilities	<u>55,189</u>	<u>49,352</u>
Total current liabilities	<u>1,138,851</u>	<u>1,493,917</u>
REAL ESTATE MORTGAGE	<u>-</u>	<u>5,500</u>
RESERVES:		
For replacement or major repair of Government-owned equipment (note 1)	333,271	100,000
For replacement of National Gallery equipment	5,000	5,000
Self-insurance	86,434	82,145
Special retirement benefits	<u>31,263</u>	<u>32,352</u>
	<u>455,968</u>	<u>219,497</u>
ACCUMULATED INCOME:		
Balance at beginning of year	4,113,399	4,367,794
Net income or loss(-) for year (schedule 2)	77,824	-254,395
Franchise fees applicable to 1969 and 1968 waived by GSA (note 3)	<u>522,463</u>	<u>-</u>
Balance at end of year	<u>4,713,686</u>	<u>4,113,399</u>
Total liabilities and accumulated income	<u>\$6,308,505</u>	<u>\$5,832,313</u>

SCHEDULE 2

GOVERNMENT SERVICES, INC.

COMPARATIVE STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1970 AND 1969

	1970	1969
NET SALES AND OTHER OPERATING INCOME	\$23,353,330	\$22,863,964
Less cost of goods sold	<u>8,562,329</u>	<u>8,132,167</u>
Gross profit on sales	14,791,001	14,731,797
OPERATING EXPENSES:		
Payroll and related expenses	\$10,776,400	\$11,221,359
Employee travel	83,343	81,233
Operating supplies	1,043,769	995,115
Utilities and other services (note 4)	557,298	786,515
Maintenance and repairs	233,866	238,780
Replacement and major repair of Government-owned equipment (note 1)	575,921	72,785
Equipment rental	48,687	56,315
Depreciation of buildings and equip- ment and amortization of leasehold improvements	411,238	435,321
Franchise fees and rent:		
General Services Admin- istration	\$263,069	260,724
Less amount waived dur- ing the year (note 3)	<u>263,069</u>	
Tennessee Valley Author- ity (note 2)	114,028	42,039
Other Government agencies	89,453	84,444
Taxes and licenses	174,048	152,781
Insurance	161,174	134,920
Professional services	328,252	265,035
Advertising and promotion	95,029	136,622
Donations	33,476	31,733
Other expenses	<u>128,896</u>	<u>83,803</u>
Net operating loss	63,877	347,727
OTHER INCOME	<u>141,701</u>	<u>119,210</u>
Net income or loss (-) before extraordinary item	77,824	-228,517
EXTRAORDINARY ITEM--1968 payroll and re- lated expenses (note 5)	<u>-</u>	<u>25,878</u>
Net income or loss (-) after extraordinary item	<u>\$ 77,824</u>	<u>\$ -254,395</u>

The notes on pages 8 and 9 are an integral part of this statement.

STATEMENT OF
SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1970

FUNDS WERE OBTAINED FROM:			
Net sales and operating income			\$23,353,330
Other income			141,701
Waiver of franchise fees for 1969 and 1968			522,463
Sale of U.S. Treasury bills			<u>388,338</u>
Total funds obtained			24,405,832
FUNDS WERE APPLIED TO:			
Cost of sales	\$ 8,562,329		
Operating expenses			<u>14,854,878</u>
Total		23,417,207	
Less expenses not requiring the expenditure of funds (note a)			<u>653,718</u>
			22,763,489
Purchase of equipment		129,633	
Purchase of certificates of deposit		1,350,000	
Reduction of long-term mortgage		5,500	
Reduction of Special Retirement Fund		<u>1,089</u>	
Total funds applied			<u>24,249,711</u>
INCREASE IN WORKING CAPITAL			<u>\$ 156,121</u>
	<u>1970</u>	<u>1969</u>	Increase or decrease(-)
Current assets	\$2,125,070	\$2,324,015	\$ -198,945
Less current liabilities	<u>1,138,851</u>	<u>1,493,917</u>	<u>-355,066</u>
Working capital	<u>\$ 986,219</u>	<u>\$ 830,098</u>	<u>\$ 156,121</u>

^a Expenses not requiring the expenditure of funds during the current year consisted of the following items.

Depreciation of buildings and equipment and amortization of leasehold improvements	\$411,238
Amortization of bond premiums	369
Provision for self-insurance	4,289
Provision for replacement and major repair of Government- owned equipment	233,271
Decrease in deferred charges	<u>4,551</u>
	<u>\$653,718</u>

G O V E R N M E N T S E R V I C E S , I N C .

COMPARATIVE STATEMENT OF INCOME AND EXPENSES BY DIVISION

YEARS ENDED DECEMBER 31, 1970 AND 1969

	<u>Consolidated total</u>	<u>Cafeteria Division</u>
YEAR ENDED DECEMBER 31, 1970:		
Sales	<u>\$23,353,330</u>	<u>\$18,297,700</u>
Less operating expenses:		
Cost of goods sold	8,562,329	6,880,531
Other operating expenses	<u>14,854,878</u>	<u>11,685,500</u>
	<u>23,417,207</u>	<u>18,566,031</u>
Income or loss(-) from operations	-63,877	-268,331
Other income	<u>141,701</u>	<u>38,930</u>
Net income or loss(-)	<u>\$ 77,824</u>	<u>\$ -229,401</u>
 YEAR ENDED DECEMBER 31, 1969:		
Sales	<u>\$22,863,964</u>	<u>\$17,334,888</u>
Less operating expenses:		
Cost of goods sold	8,132,167	6,175,740
Other operating expenses	<u>15,079,524</u>	<u>11,866,759</u>
	<u>23,211,691</u>	<u>18,042,499</u>
Income or loss(-) from operations	-347,727	-707,611
Other income	<u>119,210</u>	<u>45,564</u>
Income or loss(-) before extraor- dinary item	-228,517	-662,047
Extraordinary item--1968 payroll and related expenses	<u>25,878</u>	<u>23,718</u>
Net income or loss(-)	<u>\$ -254,395</u>	<u>\$ -685,765</u>

<u>Snack Bar Division</u>	<u>Park Division</u>	<u>Fontana Division</u>	<u>Other</u>
<u>\$1,285,228</u>	<u>\$1,471,439</u>	<u>\$1,831,231</u>	<u>\$467,732</u>
572,512	529,205	483,363	96,718
<u>717,314</u>	<u>811,624</u>	<u>1,340,943</u>	<u>299,497</u>
<u>1,289,826</u>	<u>1,340,829</u>	<u>1,824,306</u>	<u>396,215</u>
-4,598	130,610	6,925	71,517
<u>4,647</u>	<u>5,152</u>	<u>31,500</u>	<u>61,472</u>
<u>\$ 49</u>	<u>\$ 135,762</u>	<u>\$ 38,425</u>	<u>\$132,989</u>
<u>\$1,909,176</u>	<u>\$1,500,781</u>	<u>\$1,679,405</u>	<u>\$439,714</u>
840,776	553,552	478,239	83,860
<u>1,001,213</u>	<u>746,573</u>	<u>1,185,593</u>	<u>279,386</u>
<u>1,841,989</u>	<u>1,300,125</u>	<u>1,663,832</u>	<u>363,246</u>
67,187	200,656	15,573	76,468
<u>9,909</u>	<u>3,009</u>	<u>27,455</u>	<u>33,273</u>
77,096	203,665	43,028	109,741
<u>2,160</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 74,936</u>	<u>\$ 203,665</u>	<u>\$ 43,028</u>	<u>\$109,741</u>

NOTES TO FINANCIAL STATEMENTS

1. Under a contract with the General Services Administration (GSA), Government Services, Inc. (GSI) has established a reserve for the replacement or major repair of GSA-owned equipment used in its operations. GSI is required to segregate from its cash and securities an aggregate amount equal to the reserve. This reserve is to be maintained at a level satisfactory to GSA and shall not be less than \$100,000. At December 31, 1970, GSI had segregated bonds with a face value of \$100,000 and a market value of \$94,190. On October 15, 1970, GSI and GSA agreed to eliminate the requirement for this funded reserve. Under this agreement GSI is required to credit \$263,069 (which represents the 1970 franchise fee waived by GSA) to the reserve account. Although the agreement has not been formalized, GSI had voluntarily credited this amount to the reserve account at December 31, 1970.

2. Under the terms of a 30-year lease, as amended, with the Tennessee Valley Authority (TVA), GSI will acquire title to recreational facilities at Fontana Village, North Carolina, should it pay \$742,925 to TVA during the 30-year period which ends in 1976. Excess receipts from GSI's Fontana operations, as defined by the terms of the lease, must be paid to TVA to be applied against this amount. Also, under the terms of the lease, GSI may use its own funds to pay the \$742,925. Payment of excess receipts to TVA from 1970 operations will amount to \$114,028, making a total of \$324,075 that will have been paid to TVA for operations through 1970. Excess receipts have been expensed, rather than capitalized, because GSI's equity lapses at the end of the period covered by the lease unless the entire amount is paid.

3. This franchise fee is in lieu of reimbursement for space, heating, lighting, air conditioning, ventilation, painting, decorating, and general structural repairs. At the request of GSI, GSA, in March 1970, released GSI from its obligation to pay the 1969 and 1968 franchise fees of \$260,724 and \$261,739, respectively. An adjustment to accumulated income was made for the waiver of these two franchise fees. Also in October 1970 GSA

waived the franchise fee for 1970. The franchise fee for 1970 amounted to \$263,069.

4. The cost of \$557,298 for utilities and other services in 1970 did not include the cost of utilities provided by GSA for food preparation. GSA agreed, commencing with 1970, to furnish these utilities to GSI without charge. In 1969, charges for these utilities amounted to about \$250,000.
5. As a result of a U.S. Department of Labor action against the corporation for increased wage rates under the McNamara-O'Hara Act of 1965, the corporation was required to make additional wage payments of \$25,878 covering the period from August 9 to September 20, 1968. The amount was paid in 1969.