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Audit Of Financial Statements
Government Services, Inc.
Year Ended December 31, 1971

B-174820

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~701083~~

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MARCH 24, 1972



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

B-114820

To
R The Board of Trustees C-2159
Government Services, Inc.

The General Accounting Office has made an audit,
(pursuant to your request, of GOVERNMENT SERVICES, INC.--a C-2159
private, domestic, nonstock, non-profit-sharing membership
corporation--for the year ended December 31, 1971.

The audit included an examination of the corporation's
statement of assets, liabilities, and accumulated income as
of December 31, 1971, 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 con-
sidered 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, 1971, 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.

Comptroller General
of the United States

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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, 1971 AND 1970

A S S E T S

	<u>1971</u>	<u>1970</u>
CURRENT ASSETS:		
Cash	\$ 458,157	\$ 815,525
Accounts receivable	<u>272,703</u>	<u>264,037</u>
Inventories (at standard cost, which approximates cost):		
Merchandise	799,200	697,872
Supplies	<u>268,103</u>	<u>265,512</u>
	<u>1,067,303</u>	<u>963,384</u>
Prepaid expenses and other current assets	<u>128,319</u>	<u>82,124</u>
Total current assets	<u>1,926,482</u>	<u>2,125,070</u>
INVESTMENTS:		
U.S. Government bonds at cost less amortized premiums (market value \$196,360 in 1971 and \$94,190 in 1970) (note 2)	200,354	100,723
Certificates of deposit (note 1)	<u>2,500,000</u>	<u>1,350,000</u>
	<u>2,700,354</u>	<u>1,450,723</u>
SPECIAL FUND FOR REPLACEMENT OF GOVERNMENT-OWNED EQUIPMENT (note 2):		
U.S. Government bonds at cost less amortized premiums (market value \$94,190 in 1970)	<u>-</u>	<u>100,000</u>
LAND	<u>371,503</u>	<u>371,503</u>
BUILDINGS AND EQUIPMENT:		
Buildings	1,198,643	1,198,643
Operating equipment	4,040,578	4,127,784
Leasehold improvements (note 3)	<u>2,227,740</u>	<u>2,202,896</u>
	7,466,961	7,529,323
Less accumulated depreciation and amortization	<u>5,354,514</u>	<u>5,320,711</u>
	<u>2,112,447</u>	<u>2,208,612</u>
DEFERRED EXPENSES	<u>93,045</u>	<u>52,597</u>
Total assets	<u>\$7,203,831</u>	<u>\$6,308,505</u>

The notes on pages 7 and 8 are an integral part of this statement.

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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>1971</u>	<u>1970</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 771,311	\$ 632,177
Accrued franchise fees (note 4)	218,727	203,017
Accrued taxes	152,030	107,858
Payroll deductions withheld	68,483	76,624
Fringe benefits payable	60,418	58,486
Real estate mortgage--current installments	-	5,500
Other current liabilities	<u>76,844</u>	<u>55,189</u>
Total current liabilities	<u>1,347,813</u>	<u>1,138,851</u>
RESERVES:		
For replacement and major repair of Government-owned equipment (note 4)	328,962	333,271
For replacement of National Gallery of Art equipment	11,670	5,000
For replacement of National Bureau of Standards equipment	3,880	-
Self-insurance	91,504	86,434
Special retirement benefits	<u>21,987</u>	<u>31,263</u>
	<u>458,003</u>	<u>455,968</u>
ACCUMULATED INCOME:		
Balance at beginning of year	4,713,686	4,113,399
Net income for year (schedule 2)	684,329	77,824
Franchise fees applicable to 1969 and 1968 waived by GSA (note 4)		<u>522,463</u>
Balance at end of year	<u>5,398,015</u>	<u>4,713,686</u>
Total liabilities and accumulated income	<u>\$7,203,831</u>	<u>\$6,308,505</u>

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SCHEDULE 2

GOVERNMENT SERVICES, INC.

COMPARATIVE STATEMENT OF INCOME YEARS ENDED DECEMBER 31, 1971 AND 1970

	1971	1970
NET SALES AND OTHER OPERATING INCOME	\$23,409,004	\$23,353,330
Less cost of goods sold	<u>8,382,343</u>	<u>8,562,329</u>
Gross profit on sales	15,026,661	14,791,001
OPERATING EXPENSES:		
Payroll and related expenses	\$10,693,371	\$10,776,400
Employee travel	67,779	83,343
Operating supplies	1,001,204	1,043,769
Utilities and other services (note 5)	573,195	557,298
Maintenance and repairs	342,512	233,866
Replacement and major repair of Government-owned equipment (note 4)	269,627	575,921
Equipment rental	65,066	48,687
Depreciation of buildings and equipment and amortization of leasehold improvements	331,326	411,238
Franchise fees and rent:		
General Services Administration	-	263,069
Less amount waived during the year (note 4)	-	-263,069
Tennessee Valley Authority (note 3)	118,896	114,028
Other Government agencies	101,080	89,453
Taxes and licenses	182,060	174,048
Insurance	205,614	161,174
Professional services	255,779	328,252
Advertising and promotion	61,237	95,029
Donations	27,676	33,476
Other expenses	<u>214,691</u>	<u>128,896</u>
	<u>14,511,113</u>	<u>14,854,878</u>
Net operating income or loss (-)	515,548	-63,877
OTHER INCOME	<u>168,781</u>	<u>141,701</u>
Net income	<u>\$ 684,329</u>	<u>\$ 77,824</u>

The notes on pages 7 and 8 are an integral part of this statement.

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STATEMENT OF
SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1971

FUNDS WERE OBTAINED FROM:			
Net sales and operating income			\$23,409,004
Other income			<u>168,781</u>
Total funds obtained			23,577,785
FUNDS WERE APPLIED TO:			
Cost of sales	\$ 8,382,343		
Operating expenses	<u>14,511,113</u>		
Total	22,893,456		
Less expenses not requiring the expenditure of funds (note a)		<u>616,942</u>	
		22,276,514	
Replacement of Government-owned equipment		273,936	
Increase in operating equipment and leasehold improvements		235,161	
Purchase of certificates of deposit		1,150,000	
Reduction of Special Retirement Fund		9,276	
Increase in deferred expenses		<u>40,448</u>	
Total funds applied			<u>23,985,335</u>
DECREASE IN WORKING CAPITAL			<u>\$ 407,550</u>
	<u>1971</u>	<u>1970</u>	<u>Increase or decrease(-)</u>
Current assets	\$1,926,482	\$2,125,070	\$ -198,588
Less current liabilities	<u>1,347,813</u>	<u>1,138,851</u>	<u>208,962</u>
Working capital	<u>\$ 578,669</u>	<u>\$ 986,219</u>	<u>\$ -407,550</u>

^aExpenses 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	\$331,326
Amortization of bond premiums	369
Provision for self-insurance	5,070
Provision for replacement and major repair of Government-owned equipment	269,627
Provision for replacement of National Gallery of Art equipment	6,670
Provision for replacement of National Bureau of Standards equipment	<u>3,880</u>
	<u>\$616,942</u>

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SCHEDULE 4

GOVERNMENT SERVICES, INC.

STATEMENT OF INCOME AND EXPENSES BY DIVISION

YEAR ENDED DECEMBER 31, 1971

	Consolidated total	Operations Division (note a)	Parks and Recreation Division	Fontana Division	Miscel- laneous Division (note b)
SALES	\$23,409,004	\$19,535,767	\$1,923,935	\$1,906,267	\$ 43,035
LESS OPERATING EXPENSES:					
Cost of goods sold	8,382,343	7,220,334	657,074	504,935	-
Other operating expenses	14,511,113	11,999,538	958,574	1,415,556	137,445 ^c
	22,893,456	19,219,872	1,615,648	1,920,491	137,445
INCOME OR LOSS (-) FROM OPERATIONS	515,548	315,895	308,287	-14,224	-94,410
OTHER INCOME	168,781	4,953	15,488	48,426	99,914 ^d
Net income	\$ 684,329	\$ 320,848	\$ 323,775	\$ 34,202	\$ 5,504

^aThe Operations Division includes all GSI cafeterias and snack bars.

^bThe Miscellaneous Division includes GSI operations at the Warrenton Training Center, the Armed Forces Experimental Training Activity, Bear Creek Junction, North Carolina, and the Miscellaneous Office Unit.

^cOther operating expenses of the Miscellaneous Division includes the write-off of inventories and equipment at Bear Creek Junction totaling \$79,718.

^dOther income of the Miscellaneous Division includes \$95,310 interest on investments.

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NOTES TO FINANCIAL STATEMENTS

1. On January 28, 1972, Government Services, Inc. (GSI), purchased the fixed concession assets at Sequoia/Kings Canyon National Parks, in California, and agreed to purchase the fixed concession assets at Mt. Rainier National Park, in Washington, at a cost of \$1,280,000. GSI also paid \$106,000 for inventories at Sequoia. Cash totaling \$1,161,000 and a note payable in the amount of \$225,000 (due December 31, 1972) were given to the previous owner, Amfac/Fred Harvey, Inc. This transaction was financed primarily by the redemption of certificates of deposit.
2. Under the previous contract with the General Services Administration (GSA), GSI had established a reserve for the replacement or major repair of GSA-owned equipment used in its operations. GSI was required to segregate from its cash and securities an aggregate amount equal to the reserve. This reserve was to be maintained at a level satisfactory to GSA but not at less than \$100,000. On October 15, 1970, GSI and GSA agreed to eliminate the requirement for this funded reserve. The \$100,000 in Government bonds in the reserve was subsequently transferred to the Investments account.
3. 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 1971 operations will amount to \$118,896, making a total of \$442,971 that will have been paid to TVA for operations through 1971. 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.
4. 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 2 years' franchise fees. Also, in October 1970, GSA

waived the \$263,069 franchise fee for 1970. Under an informal agreement with GSA, GSI credited this \$263,069 to a reserve account for replacement and major repair of Government-owned equipment. Under the new contract between GSA and GSI, dated July 21, 1971, the provision for a franchise fee has been eliminated. Instead, at the end of each accounting period, GSI is required to credit to the reserve for replacement and major repair of Government-owned equipment an amount up to 1-1/2 percent of its gross income. The estimated amount specified in the annual budget of GSI as approved by GSA for replacement and major repair of Government-owned equipment determines the amount to be credited to the reserve account, and the 1-1/2 percent is considered the maximum amount to be so credited.

5. The costs of \$573,195 for utilities and other services in 1971 and \$557,298 in 1970 do not include the cost of utilities provided by GSA for food preparation. Under the new agreement GSA furnished these utilities to GSI without charge.

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