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United States General Accounting Office

**GAO**

Report to the President of the Senate and  
the Speaker of the House of  
Representatives

March 1986

**FINANCIAL AUDIT**

**Thomas J. Lankford,  
Incorporated,  
Financial Statements—  
September 30, 1984  
and 1983**



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**Comptroller General  
of the United States****B-164163**

March 28, 1986

To the President of the Senate and the  
Speaker of the House of Representatives

Pursuant to section 451 of the Legislative Reorganization Act of 1970 (40 U.S.C. 193m-1), which authorizes GAO to audit private organizations conducting activities on the Capitol grounds, we have examined the balance sheets of Thomas J. Lankford, Inc., the totally owned corporation of the minority printing clerk, House of Representatives, as of September 30, 1984 and 1983, and the related statements of operations, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We completed our audit work on November 1, 1985.

In our opinion, the financial statements referred to above present fairly the financial position of Thomas J. Lankford, Inc., as of September 30, 1984 and 1983, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles and the financial accounting policies described in note 2 to the financial statements, applied on a consistent basis.

Appendix I contains our report on internal accounting controls and compliance with laws and regulations. Appendixes II through VI present the corporation's financial statements and accompanying notes for the years ended September 30, 1984 and 1983.

The Legislative Reorganization Act of 1970 requires that the results of our audit be reported to the Congress. We are sending copies of this report to cognizant congressional committees, the House minority leader, and the House minority printing clerk. Copies will be available for Members of the House and Senate as well as the public.

*for*   
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 examined the financial statements of Thomas J. Lankford, Inc., for the fiscal years ended September 30, 1984 and 1983. Our examinations were 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 year ended September 30, 1984. (Our report on internal accounting controls and compliance with laws and regulations for the year ended September 30, 1983, is presented in GAO/AFMD-85-33, dated April 11, 1985.)

We did not complete a study and evaluation of the corporation's internal control system for the purpose of determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the corporation's financial statements. Rather, we concluded that it was more efficient to expand our substantive audit tests in examining the financial statements for the years ended September 30, 1984 and 1983.

While we did not study and evaluate the corporation's internal control system, we did not become aware of any condition, during our expanded substantive audit tests, which we believe to be a material weakness. In audits where we do study and evaluate the internal control system, material weaknesses in the internal control system would not necessarily be disclosed. Accordingly, even in such cases, we would not be able to express an opinion on the system taken as a whole.

As part of our examination, we also tested the corporation's compliance with applicable laws and regulations. In our opinion, Thomas J. Lankford, Inc., complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. Nothing came to our attention, in connection with our examination, that caused us to believe that the corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.



# Balance Sheet

	September 30,	
	1984	1983
<b>Assets (note 2)</b>		
Current Assets		
Cash	\$56,257	\$102,390
Accounts receivable—trade	414,856	277,750
Accounts receivable—officers	28,200	28,200
Accounts receivable—other	22,057	19,062
Inventory at cost	90,487	78,348
Prepaid expenses	6,049	2,599
Tax loss carryback claim (note 3)	5,198	5,198
Tax overpayment claim	0	11,229
<b>Total current assets</b>	<b>623,104</b>	<b>524,776</b>
Investments		
Warehouse property:		
Land	149,061	149,061
Building	73,346	73,346
Less accumulated depreciation	11,273	9,439
	62,073	63,907
Cash surrender value of officer's life insurance policy	47,399	42,754
<b>Total investments</b>	<b>258,533</b>	<b>255,722</b>
Fixed Assets		
Printing equipment	558,934	551,634
Station wagons	24,893	9,398
Office equipment	1,363	863
	585,190	561,895
Less accumulated depreciation	377,199	290,906
<b>Total fixed assets</b>	<b>207,991</b>	<b>270,989</b>
<b>Total Assets</b>	<b>\$1,089,628</b>	<b>\$1,051,487</b>

**Appendix II  
Balance Sheet**

	<b>September 30,</b>	
	<b>1984</b>	<b>1983</b>
<b>Liabilities and Stockholder's Equity</b>		
<b>Liabilities</b>		
Accounts payable	\$22,521	\$36,150
Notes payable	0	50,000
Pension plan payable (note 5)	19,618	70,476
Accrued taxes	141,888	186,393
Accrued salaries	6,174	6,683
Accrued interest	0	462
Unearned income	13,766	10,111
<b>Total liabilities</b>	<b>203,967</b>	<b>360,275</b>
<b>Stockholder's Equity</b>		
Capital stock—common		
\$100 par value, 1,500 shares authorized, 375 shares issued and outstanding	37,500	37,500
Capital in excess of par value	51,464	51,464
Total capital	88,964	88,964
Retained earnings	796,697	602,248
<b>Total stockholder's equity</b>	<b>885,661</b>	<b>691,212</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$1,089,628</b>	<b>\$1,051,487</b>

The accompanying notes are an integral part of this statement.

# Statement of Operations

	Fiscal years ended September 30,	
	1984	1983
<b>Net Sales</b>	<b>\$3,129,883</b>	<b>\$2,318,978</b>
<b>Printing Expenses</b>		
Salaries and wages	549,446	460,074
Payroll taxes	39,091	30,406
Union pension fund	14,405	8,352
Union welfare fund	29,846	23,100
Material and paper	1,253,884	616,884
Camera supplies	24,393	28,341
Type, composition, and ink	64,467	40,765
Express mail and postage	8,189	10,255
Repairs and parts	13,512	16,855
Leased equipment (note 4)	67,481	69,584
Depreciation	84,460	67,621
Subcontracts	160,691	137,064
<b>Total printing expenses</b>	<b>2,309,865</b>	<b>1,509,301</b>
<b>Gross profit from sales</b>	<b>820,018</b>	<b>809,677</b>
<b>Administrative Expenses</b>		
President-treasurer salary	201,000	171,400
Employee pension plan (note 5)	69,618	70,503
Telephone	1,219	1,280
Insurance	33,349	41,936
Advertising and promotion	43,257	39,871
Accounting fees	8,500	9,000
Legal fees	73	2,880
Station wagons	6,062	6,090
Contributions	3,900	0
General expenses	13,357	8,211
Depreciation	4,130	1,886
Taxes	42,904	39,338
<b>Total administrative expenses</b>	<b>427,369</b>	<b>392,395</b>
<b>Net operating income</b>	<b>\$392,649</b>	<b>\$417,282</b>

**Appendix III  
Statement of Operations**

	Fiscal years ended September 30,	
	1984	1983
<b>Nonoperating Income</b>		
Rental income (note 6)	\$9,383	\$18,312
Interest income	419	995
Miscellaneous income	6,869	4,921
<b>Nonoperating income</b>	<b>16,671</b>	<b>24,228</b>
<b>Nonoperating Expenses</b>		
Interest expense	18,041	28,229
Rental property expense	5,913	5,986
Loss on disposal of assets	0	150
<b>Nonoperating expenses</b>	<b>23,954</b>	<b>34,365</b>
<b>Income before taxes</b>	<b>385,366</b>	<b>407,145</b>
<b>Provision for Franchise and Income Taxes</b>		
District of Columbia	40,992	42,693
Federal (note 7)	149,925	136,782
<b>Total provision for franchise and income taxes</b>	<b>190,917</b>	<b>179,475</b>
<b>Net Income</b>	<b>\$194,449</b>	<b>\$227,670</b>
<b>Earnings Per Share</b>	<b>\$519</b>	<b>\$607</b>

The accompanying notes are an integral part of this statement.

# Statement of Retained Earnings

	Fiscal years ended September 30,	
	1984	1983
<b>Balance at Beginning of Year</b>	<b>\$602,248</b>	<b>\$374,578</b>
Net income for year	194,449	227,670
<b>Balance at End of Year</b>	<b>\$796,697</b>	<b>\$602,248</b>

The accompanying notes are an integral part of this statement.

# Statement of Changes in Financial Position

	Fiscal years ended September 30,	
	1984	1983
<b>Funds Provided</b>		
Net income from operations	\$194,449	\$227,670
Depreciation—not requiring an outlay of cash	90,423	71,342
<b>Total funds provided</b>	<b>\$284,872</b>	<b>\$299,012</b>
<b>Funds Applied</b>		
Increase in cash surrender value of officer's life insurance	4,645	4,554
Purchase of fixed assets	25,591	223,150
Increase in working capital	254,636	71,308
<b>Total funds applied</b>	<b>\$284,872</b>	<b>\$299,012</b>
<b>Analysis of Working Capital Increases and (Decreases)</b>		
<b>Working Capital Changes</b>		
Cash	\$(46,133)	\$102,390
Accounts receivable—trade	137,106	104,963
Accounts receivable—officers	0	(14,897)
Accounts receivable—other	2,995	7,657
Inventory	12,139	12,535
Advance payment on equipment	0	(149,197)
Prepaid expenses	3,450	1,646
Tax overpayment claim	(11,229)	11,229
Accounts payable	13,629	(2,340)
Notes payable—current portion	50,000	9,601
Estimated franchise and income tax liability	44,505	8,594
Pension plan payable	50,858	(24,246)
Accrued liabilities	971	(2,413)
Unearned income	(3,655)	5,786
<b>Net Increase in Working Capital</b>	<b>\$254,636</b>	<b>\$71,308</b>

The accompanying notes are an integral part of this statement.

# Notes to Financial Statements

## Note 1. Organization

Thomas J. Lankford, Inc., is the totally owned corporation of Thomas J. Lankford, who is the minority printing clerk, House of Representatives. The corporation was incorporated on December 16, 1963. Its offices and printing plant are located in the west underground garage of the House of Representatives. Through the corporation and for a fee, Mr. Lankford does official printing for the minority leadership and offers printing and related services to Members of Congress, congressional committees, state societies, and political organizations.

The position of minority printing clerk was established by House Resolution 295 (July 7, 1943, 78th Congress), which authorized the employment of a clerk in charge of printing for the minority caucus room and provided that the clerk be appointed by the minority leader. From 1943 through 1978, the minority clerk's pay increased from \$2,000 to \$16,743 per annum from specifically appropriated funds. Because the clerk was earning a sufficient amount from his corporate activities, effective October 1, 1978, appropriations for the clerk's salary were terminated. Since then, the clerk has received a small salary as a staff member in the Office of the Minority Leader—\$1,200 for fiscal year 1984.

## Note 2. Significant Accounting Policies

Certain benefits and services, such as space, utilities, and ordinary building repairs and maintenance, are paid from appropriated funds and furnished to the corporation at no charge.

Depreciation of assets placed in service prior to fiscal year 1981 is provided at rates based on estimated useful lives using the straight-line method. Depreciation equivalent to the accelerated cost recovery system was used for assets placed in service after January 1, 1981. The rates generally used are as follows:

Table VI.1: Depreciation Rates

Buildings	40 years
New printing equipment	10 years
Used printing equipment	5 years
Office furniture and equipment	10 years
Station wagons	3 years

Investment tax credit is accounted for on the flow-through method, which treats the credit as a reduction of taxes for the year in which the credit arises.

Inventory is valued at cost on a first-in, first-out basis.

**Note 3. Tax Loss Carryback Claim** The corporation has an unresolved claim for a refund of prior-year tax payments resulting from the application of a net operating loss carryback.

**Note 4. Leased Equipment** The corporation has operating leases for certain duplicating and computer equipment. Leases are on an annual basis with the option of terminating the leases at any time.

**Note 5. Pension Plan** The corporation has a defined benefit pension plan covering its employees. The corporation's policy is to fund pension costs accrued. The expenses for this plan for the years ended September 30, 1984 and 1983, were \$69,618 and \$70,503, respectively. A comparison of accumulated plan benefits and plan net assets for the corporation's pension plans, assuming rates of return of 6 percent, as of the two most recent actuarial valuation dates, is presented in table VI.2.

**Table VI.2: Pension Plan Benefits and Net Assets**

	11/30/83	11/30/82
Actuarial present value of accumulated plan benefits:		
Vested	\$628,758	\$392,077
Nonvested	5,726	4,189
<b>Total</b>	<b>\$634,484</b>	<b>\$396,266</b>
<b>Plan net assets available for benefits</b>	<b>\$442,665</b>	<b>\$383,243</b>

**Note 6. Rental Income** A portion of the corporation's warehouse is rented on a month-to-month basis.

**Note 7. Income Taxes** Differences between the estimated federal income taxes at the statutory rates and the amounts provided are shown in table VI.3.

**Appendix VI**  
**Notes to Financial Statements**

**Table VI.3: Provision for Federal  
Income Tax**

	<b>Fiscal years ended September 30,</b>	
	<b>1984</b>	<b>1983</b>
Provision at statutory rate	\$138,162	\$147,897
Investment credit	(1,439)	(21,830)
Tax penalties	7,872	11,396
Prior years' tax adjustment	4,926	0
Officer's life insurance	1,370	1,370
Excess of tax depreciation over financial statement depreciation	(966)	(1,449)
1982-1983 tax proration	0	(372)
Disposal of assets	0	(230)
<b>Provision for federal income tax</b>	<b>\$149,925</b>	<b>\$136,782</b>

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