

# Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
 CONSOLIDATED BALANCE SHEETS  
 FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

(Dollars in Thousands)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 2)	\$ 118,868	\$ 90,624
Accounts Receivable (Note 3)	39,167	42,688
Other Assets (Note 4)	1,675	1,368
Total Intragovernmental Assets	<u>159,710</u>	<u>134,680</u>
<b>Public</b>		
Accounts Receivable (Note 3)	35	23
General Property, Plant and Equipment, Net (Note 5)	42,843	32,565
Other Assets (Note 4)	7	41
Total Public Assets	<u>42,885</u>	<u>32,629</u>
<b>Total Assets</b>	<b><u>\$ 202,595</u></b>	<b><u>\$ 167,309</u></b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities:</b>		
Other Liabilities (Note 7)	\$ 43,928	\$ 34,375
Total Intragovernmental Liabilities	<u>43,928</u>	<u>34,375</u>
<b>Public</b>		
Accounts Payable	2,120	3,219
Other Liabilities (Note 7)	30,996	21,092
Total Public Liabilities	<u>33,116</u>	<u>24,311</u>
<b>Total Liabilities</b>	<b><u>77,044</u></b>	<b><u>58,686</u></b>
<b>NET POSITION</b>	<b><u>\$ 125,551</u></b>	<b><u>\$ 108,623</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 202,595</u></b>	<b><u>\$ 167,309</u></b>

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
 CONSOLIDATED STATEMENT OF NET COST  
 FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

(Dollars in Thousands)

	<u>2010</u>	<u>2009</u>
<b>PROGRAM COSTS:</b>		
Gross Costs Intragovernmental	\$ 94,943	\$ 127,154
Less: Earned Revenue-Intragovernmental	(372,094)	(310,266)
Net Program Costs - Intragovernmental	<u>(277,151)</u>	<u>(183,112)</u>
Costs Not Assigned to Programs	266,935	182,255
<b>NET COST OF OPERATIONS</b>	<u><b>\$ (10,216)</b></u>	<u><b>\$ (857)</b></u>

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
 FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

(Dollars in Thousands)

	<u>2010</u>	<u>2009</u>
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>		
Beginning Balance	<b>\$ 108,623</b>	<b>\$ 102,659</b>
<b>OTHER FINANCING SOURCES (NON-EXCHANGE):</b>		
Transfers-In	317	35
Imputed Financing	6,395	5,072
Total Financing Sources	<u>6,712</u>	<u>5,107</u>
Net Cost of Operations	10,216	857
Net Change	<u>16,928</u>	<u>5,964</u>
<b>NET POSITION</b>	<u><b>\$ 125,551</b></u>	<u><b>\$ 108,623</b></u>

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
 COMBINED STATEMENT OF BUDGETARY RESOURCES  
 FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

(Dollars in Thousands)

	<u>2010</u>	<u>2009</u>
<b>BUDGETARY RESOURCES:</b>		
Unobligated Balance at the Beginning of the Period	\$ 98,646	\$ 124,072
Budget Authority		
Spending Authority from Offsetting Collections		
Earned		
Collected	383,148	284,657
Changes in Receivables from Federal sources	(3,544)	33,659
Change in unfilled customer orders		
Advance Received	(3,696)	23,459
Without Advance from Federal Sources	(2,862)	(44,055)
<b>Total Budgetary Resources</b>	<b>\$ 471,692</b>	<b>\$ 421,792</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>		
Obligations Incurred	\$ 380,759	\$ 323,146
Unobligated Balance Available (Note 2)	90,933	98,646
<b>Total Status of Budgetary Resources</b>	<b>\$ 471,692</b>	<b>\$ 421,792</b>
<b>CHANGE IN OBLIGATED BALANCE:</b>		
Obligated Balance, Net - Beginning of the Period	\$ (8,022)	\$ (20,347)
Obligations Incurred, Net	380,759	323,146
Less Gross Outlays	(351,209)	(321,217)
Change in Uncollected Customer Payments from Federal Sources	6,407	10,396
<b>Obligated Balance, Net, End of Period</b>	<b>\$ 27,935</b>	<b>\$ (8,022)</b>
<b>NET OUTLAYS</b>		
Gross Outlays - Disbursements	\$ 351,209	\$ 321,217
Less: Offsetting Collections	(379,452)	(308,116)
<b>Net Outlays</b>	<b>\$ (28,243)</b>	<b>\$ 13,101</b>

*The accompanying notes are an integral part of these financial statements.*

# Notes to the Consolidated Financial Statements

## For the Years Ending September 30, 2010 and 2009

*(Dollars in Thousands)*

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

VA was selected by the Office of Management and Budget in 1996 as one of six executive branch agencies to establish a franchise fund pilot program. In this program, entrepreneurial organizations or Enterprise Centers are authorized to sell common administrative support services to VA and other Government agencies and operate entirely on revenues earned from customers. Enterprise Centers receive no Federally appropriated funding. The VA Franchise Fund (Fund) was established under the authority of the Government Management Reform Act of 1994 and the VA and Housing and Urban Development and Independent Agencies Appropriations Act of 1997. In 2006, under Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.

Created as a revolving fund, the VA Franchise Fund began providing services to VA and other Government agencies on a fee-for-service basis in 1997. By law, the business lines within the Fund can only sell to Federal entities. This organization accounted for its funds in six activity centers (VA Enterprise Centers) and in one administrative organization: Austin Information Technology Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault, and the Franchise and Trust Fund Oversight Office. The consolidated financial statements include the six individual activity centers of the Fund. All material intrafund transactions have been eliminated.

#### B. Basis of Presentation

The VA Franchise Fund consolidated financial statements report all activities of the VA Enterprise Centers. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VA Franchise Fund is a component unit of the U.S. Government.

#### C. Basis of Accounting

The Franchise Fund's fiscal year (FY) 2010 and 2009 financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements. The American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards No. 91, Federal GAAP Hierarchy, established a hierarchy of GAAP for Federal financial statements.

#### D. Fund Balance with Treasury

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of the VA Franchise Fund to draw on the Treasury for allowable expenditures.

#### E. Accounts Receivable

Intragovernmental accounts receivable are from other Federal entities and are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

Public accounts receivable are incurred when the Fund makes payments on behalf of their employees. Examples of this would be advances for Permanent Change of Station travel or advances for Federal Employees Health Benefits when employees are on leave without pay and their health benefits are paid to the health carriers. These receivables are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

#### F. Property, Plant and Equipment

The majority of the general Property, Plant and Equipment (PP&E) is used to provide common administrative services to VA and other Federal entities and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Individual items are capitalized if the useful life is 2 years or more and the unit price is \$100,000 or greater. Equipment is depreciated on a straight-line basis over its useful life, usually 3 to 5 years. Software is also subject

to the \$100,000 threshold for capital assets. The costs subject to capitalization, including design, development, and testing, are accumulated in Software in Development until a project is successfully tested and placed in service. The costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned life cycle established during the software's planning phase. There are no restrictions on the use or convertibility of general PP&E.

Leasehold Improvements and related depreciation are accounted for as Departmental assets. The Franchise Fund uses these assets in the production of revenue. Since the leasehold improvements are VA assets, they are recorded at the Departmental threshold of \$100,000.

### **G. Other Assets**

Other assets are generally made up of advances. There are three types of advances handled by the Fund. The first is when Treasury processes charges from other agencies to the Franchise Fund via the Intra-Governmental Payment and Collection System (IPAC). Charges are recorded as an advance until the applicable obligation is located and the charges can be transferred. These charges are for General Services Administration rent, Government Printing Office printing services, Federal Telecommunications Service, and motor pool.

The second type of advance is advances paid to employees for travel. This includes payment for both permanent change of station (PCS) and temporary duty (TDY) travel.

One of the product lines available to other government agencies is the handling of the purchase card activity. When the purchase card payments are scheduled, an advance is set up. Charges are then IPACed to the applicable agency to offset the advances.

### **H. Other Liabilities**

Other liabilities are classified as either intragovernmental or public. Intragovernmental liabilities arise from transactions between the Fund and Federal entities, whereas public liabilities arise from transactions between the Fund and non-Federal entities. Budgetary resources cover all other liabilities, both intragovernmental and public. All liabilities are current.

### **I. Revenues and Financing Sources**

The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis. Revenue is recognized when earned. Expenses are recognized when incurred. All significant intra-entity balances and transactions have been eliminated in consolidation.

For financial reporting purposes under accrual accounting, operating expenses are recognized currently, while those for capital and other long-term assets are capitalized and depreciated and/or amortized over their useful life. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

### **J. Accounting for Intragovernmental Activities**

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from the Fund's consolidated financial statements.

### **K. Annual, Sick and Other Types of Leave**

Annual leave is accrued when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.

### **L. Pension, Other Retirement Benefits, and Other Post-Employment Benefits**

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); VA makes contributions according to both plan requirements. CSRS and FERS are multi-employer plans. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

### **M. Litigation**

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA Franchise Fund management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims will not materially affect the financial position or results of VA Franchise Fund operations.

### Note 2. Fund Balance with Treasury

The undisbursed account balance for the Fund is a revolving fund comprised of only entity assets.

#### The funds available as of September 30,

	2010	2009
<b>Fund Balance with Treasury</b>	\$ 118,868	\$ 90,624

The Fund does not receive an appropriation from Congress. The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis.

#### Status of Fund Balance with Treasury

	2010	2009
<b>Unobligated Apportionment</b>		
Available	\$ 90,933	\$ 98,646
Unavailable		
<b>Obligated Balance not yet Disbursed</b>	27,935	(8,022)
<b>Total Unexpended Apportionment</b>	<b>\$118,868</b>	<b>\$ 90,624</b>

### Note 3. Accounts Receivable

Intragovernmental accounts receivable consist of amounts due from VA and other Federal agencies. No allowances for losses are required.

Public accounts receivable consist mainly of amounts due from VA employees. No allowance for losses is required, based on prior experience of collectibles.

#### Accounts Receivable as of September 30,

	2010	2009
<b>Intragovernmental</b>		
Accounts Receivable	\$ 39,167	\$ 42,688
<b>Public</b>		
Accounts Receivable	\$ 35	\$ 23

### Note 4. Other Assets

#### Other Assets as of September 30,

	2010	2009
<b>Intragovernmental</b>		
Advance Payment – Federal	\$ 1,675	\$ 1,368
<b>Total Intragovernmental – Other Assets</b>	<b>\$ 1,675</b>	<b>\$ 1,368</b>
<b>Public</b>		
Advance to Employees	\$ 7	\$ 25
Advance Payment – Other	0	16
<b>Total Public – Other Assets</b>	<b>\$ 7</b>	<b>\$ 41</b>

### Note 5. General Property, Plant and Equipment

#### General PP&E as of September 30, 2010:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 11,208	\$ (2,322)	\$ 8,886
ADP Equipment	50,402	(31,790)	18,612
Software	17,107	(12,726)	4,381
Software in Development	1,020	0	1,020
Leasehold Improvements	25,437	(15,493)	9,944
<b>Total PP&amp;E</b>	<b>\$105,174</b>	<b>\$ (62,331)</b>	<b>\$ 42,843</b>

#### General PP&E as of September 30, 2009:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 9,214	\$ (1,248)	\$ 7,966
ADP Equipment	36,852	(26,321)	10,531
Software	25,120	(14,445)	10,675
Leasehold Improvements	14,745	(11,352)	3,393
<b>Total PP&amp;E</b>	<b>\$ 85,931</b>	<b>\$ (53,366)</b>	<b>\$ 32,565</b>

**Note 6. Leases**

The Franchise Fund has operating leases and no capital leases. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund’s FY 2010 operating lease costs were \$10,273,268 for real property rentals and \$278,460 for equipment rentals. The Franchise Fund’s FY 2009 operating lease costs were \$8,249,473 for real property rentals and \$16,952 for equipment rentals. The following chart represents the Franchise Fund’s estimate for operating lease costs for the next 5 years, assuming a range of 3.8 to 4.1 percent annual increases in cost.

<b>OPERATING LEASES</b>			
<b>Fiscal Year</b>	<b>Percentage Increase</b>	<b>Real Property</b>	<b>Equipment</b>
2011	3.8	\$ 10,664	\$ 289
2012	3.8	\$ 11,069	\$ 300
2013	4.0	\$ 11,512	\$ 312
2014	4.1	\$ 11,984	\$ 325
2015	4.1	\$ 12,475	\$ 338

**Note 7. Other Liabilities**

Budgetary resources fund all other liabilities, both intragovernmental and public. All liabilities are current.

	<b>2010</b>	<b>2009</b>
<b>Intragovernmental</b>		
Accrued Payables– Federal	\$ 19,199	\$ 5,950
Advances – Federal	24,729	28,425
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 43,928</b>	<b>\$ 34,375</b>
<b>Public</b>		
Accrued Payables	\$ 22,996	\$ 13,810
Accrued Salaries & Wages	3,321	2,868
Accrued Funded Annual Leave	4,679	\$ 4,414
<b>Total Public Other Liabilities</b>	<b>\$ 30,996</b>	<b>\$ 21,092</b>

## Note 8. Reconciliation of Net Cost of Operations to Budget

Statement of Federal Financial Accounting Standard 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The standard states that “OMB will provide guidance regarding details of the display for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.”

Statement of Federal Financial Accounting Concept 2, Entity and Display, provides concepts for reconciling budgetary and financial accounting by adding a category of financial information to further satisfy users’ needs to understand “how information on the use of budgetary resources relates to information on the cost of program operations.” The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

### FY 10 Reconciliation of Net Cost of Operations to Budget

	2010	2009
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 380,759	\$ 323,146
Less: Spending Authority from Offsetting Collections and Adjustments	(373,046)	(297,721)
Net Obligations	7,713	25,425
<b>Other Resources</b>		
Transfers in/out	317	35
Imputed Financing from Costs Subsidies	6,395	5,072
Net Other Resources Used to Finance Activities	6,712	5,107
<b>Total Resources Used to Finance Activities</b>	<b>14,425</b>	<b>30,532</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(14,351)	(26,654)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(19,521)	(15,127)
Resources that Fund Expenses Recognized in Prior Periods	(12)	61
<b>Total Resources Used to Finance Items not Part of the Net Costs of Operations</b>	<b>(33,884)</b>	<b>(41,720)</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>(19,459)</b>	<b>(11,188)</b>
<b>Components Not Requiring or Generating Resources</b>		
Depreciation and Amortization	9,243	10,285
Bad Debts	4	
Loss on Disposition of Assets	0	46
Other	(4)	
<b>Total Components that Will Not Require or Generate Resources</b>	<b>9,243</b>	<b>10,331</b>
<b>Total Components that Will Not Require or Generate Resources in the Current Period</b>	<b>9,243</b>	<b>10,331</b>
<b>Net Cost of Operations</b>	<b>\$ (10,216)</b>	<b>\$ (857)</b>