Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 137,509	$ 147,785
Accounts Receivable	33,068	48,387
Other Assets (Note 3)	1,819	2,318
Total Intragovernmental	172,396	198,490
Accounts Receivable	24	28
Property, Plant and Equipment, Net (Note 4)	23,737	24,039
Other Assets (Note 3)	7	8
Total Assets	**$ 196,164**	**$ 222,565**
LIABILITIES		
Intragovernmental Liabilities		
Other Liabilities (Note 6)	23,592	24,179
Total Intragovernmental	23,592	24,179
Accounts Payable	3,799	10,565
Other Liabilities (Note 6)	46,422	77,932
Total Liabilities	**73,813**	**112,676**
NET POSITION	**$ 122,351**	**$ 109,889**
TOTAL LIABILITIES AND NET POSITION	**$ 196,164**	**$ 222,565**

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

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
PROGRAM COSTS:		
Gross Costs Intragovernmental	$ 40,053	$ 23,374
Less: Earned Revenue-Intragovernmental	(258,899)	(297,715)
Net Program Costs - Intragovernmental	(218,846)	(274,341)
Costs Not Assigned to Programs	211,052	270,390
NET COST OF OPERATIONS	**$ (7,794)**	**$ (3,951)**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	**$ 109,889**	**$ 99,376**
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	191	2,183
Imputed Financing	4,477	4,379
Total Financing Sources	4,668	6,562
Net Cost of Operations	7,794	3,951
Net Change	**12,462**	**10,513**
TOTAL NET POSITION	**$ 122,351**	**$ 109,889**

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

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
BUDGETARY RESOURCES		
Unobligated Balance at the Beginning of the Period	$ 150,351	$ 88,930
Spending Authority from Offsetting Collections		
Earned		
Collected	281,966	311,095
Receivable from Federal sources	(15,319)	(6,233)
Change in unfilled customer orders		
Advance Received	230	(20)
Without Advance from Federal Sources	29,263	47,452
Total Budgetary Resources	**446,491**	**441,224**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	254,410	290,873
Unobligated Balance Available (Note 2)	192,081	150,351
Total Status of Budgetary Resources	**446,491**	**441,224**
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net - Beginning of the Period	(2,566)	21,875
Obligations Incurred	254,410	290,873
Less Gross Outlays	(292,471)	(274,095)
Change in Uncollected Customer Payments from Federal Sources	(13,945)	(41,219)
Obligated Balance, Net End of Period	**$ (54,572)**	**$ (2,566)**
NET OUTLAYS		
Gross Outlays - Disbursements	292,471	274,095
Less: Offsetting Collections	(282,195)	(311,075)
Net Outlays	**$ 10,276**	**$ (36,980)**

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

Notes to the Consolidated Financial Statements

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Created by Congress in 1996, as one of six Franchise Fund pilots operating within the Executive Branch of Government, the Department of Veterans Affairs' (VA) Franchise Fund supports VA's mission by supplying common administrative services at competitive prices. 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 Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Enterprise Fund 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 Franchise Fund components. 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. The Franchise Fund's fiscal year (FY) 2007 and 2006 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements.

C. Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards and related concepts. The American Institute of Certified Public Accountants designated FASAB as the accounting standard-setting body for Federal governmental entities. As a result, accounting principles promulgated by FASAB are considered accounting principles generally accepted in the United States of America for Federal governmental entities.

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 the 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. There are no restrictions on the use or convertibility of general PP&E.

G. 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.

H. 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 not recognized as expenses until actually used. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

I. 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 Franchise Fund’s consolidated financial statements.

J. 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.

K. Imputed Financing

The imputed financing of retirement benefit costs is borne by the Office of Personnel Management to support the retirement of our employees. This cost is not included within the billing rates charged to customers.

L. 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,

	2007	2006
Fund Balance with Treasury	$ 137,509	$ 147,785

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.

	2007	2006
Unobligated Apportionment		
Available	$ 192,081	$ 150,351
Unavailable		
Obligated balance not yet Disbursed	(54,572)	(2,566)
Total Unexpended Apportionment	**$137,509**	**$147,785**

Note 3. Other Assets

Other assets are generally made up of advances. There are two types of advances handled by the Franchise 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 GSA rent, GPO printing services, FTS, and motor pool.

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

Note 4. Property, Plant and Equipment

Property, Plant and Equipment (PP&E), including transfers from other federal agencies, are recorded at cost. Expenditures for major additions, replacements, and alterations are capitalized. Routine maintenance is expensed when incurred. Items costing over $100,000 with a useful life of 2 years or more are capitalized. All capitalized purchases are depreciated using the straight-line method over the estimated useful life, usually 3 to 5 years.

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

PP&E as of September 30, 2007:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	$ 2,512	$ (849)	$ 1,663
ADP Equipment	29,035	(20,759)	8,276
Software	11,552	(9,591)	1,961
Software - In Development	694	0	694
Leasehold Improvements	23,210	(12,067)	11,143
Total PP&E	**$ 67,003**	**$ (43,266)**	**$ 23,737**

PP&E as of September 30, 2006:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	$ 1,054	$ (746)	$ 308
ADP Equipment	27,065	(17,483)	9,582
Software	11,073	(9,204)	1,869
Software - In Development	413	0	413
Leasehold Improvements	22,814	(10,947)	11,867
Total PP&E	**$ 62,419**	**$ (38,380)**	**$ 24,039**

Note 5. Leases

The Franchise Fund has operating leases. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2007 operating lease costs were $1,622,138 for real property rentals and $23,736 for equipment rentals. The Franchise Fund's FY 2006 operating lease costs were $1,420,809 for real property rentals and $48,672 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 4.1 to 4.5 percent annual increases in cost.

OPERATING LEASES

Fiscal Year	Percentage Increase	Real Property	Equipment
2008	4.5	$ 1,695	$ 25
2009	4.4	1,770	26
2010	4.2	1,844	27
2011	4.1	1,920	28
2012	4.1	1,998	29

Note 6. Other Liabilities

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

	2007	2006
Intragovernmental		
Accrued Payables – Federal	$ 3,786	$ 4,603
Advances – Federal	19,806	19,576
Total Intragovernmental Liabilities	**$ 23,592**	**$ 24,179**
Public		
Accrued Payables	$ 41,988	$ 72,490
Accrued Salaries & Wages	577	1,878
Accrued Funded Annual Leave	3,857	3,564
Total Public Liabilities	**$ 46,422**	**$ 77,932**

Note 7. Reconciliation of Net Cost of Operations to Budget

Effective for fiscal year 2007, OMB and the Chief Financial Officers Council decided that this reconciliation would be better placed and understood as a note rather than as a basic statement. Comparative displays for the current year and prior year are required.

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. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement.

FY 07 Reconciliation of Net Cost of Operations to Budget

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	254,409	290,872
Less: Spending Authority from Offsetting Collections and Adjustments	(296,140)	(352,294)
Net Obligations	(41,731)	(61,422)
Other Resources		
Transfers in/out	193	2,183
Imputed Financing from Costs Subsidies	4,477	4,379
Net Other Resources Used to Finance Activities	4,670	6,562
Total Resources Used to Finance Activities	(37,061)	(54,860)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	28,960	53,694
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(4,805)	(9,433)
Resources that Fund Expenses Recognized in Prior Periods	4	117
Total Resources Used to Finance Items not Part of the Net Costs of Operations	24,159	44,378
Total Resources Used to Finance the Net Cost of Operations	(12,902)	(10,482)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	5,108	6,901
Bad Debts	0	1
Loss on Disposition of Assets	0	(260)
Other	(0)	(111)
Total Components that Will Not Require or Generate Resources	5,108	6,531
Total Components that Will Not Require or Generate Resources in the Current Period	5,108	6,531
Net Cost of Operations	**(7,794)**	**(3,951)**