Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2009 and 2008

(Dollars in Thousands)

	2009	2008
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 90,624	$103,725
Accounts Receivable (Note 3)	42,688	9,028
Other Assets (Note 4)	1,368	2,171
Total Intragovernmental	134,680	114,924
Accounts Receivable (Note 3)	23	83
General Property, Plant and Equipment, Net (Note 5)	32,565	27,769
Other Assets (Note 4)	41	4
Total Assets	**$167,309**	**$142,780**
LIABILITIES		
Intragovernmental Liabilities:		
Other Liabilities (Note 7)	34,375	8,579
Total Intragovernmental	34,375	8,579
Accounts Payable	3,219	2,967
Other Liabilities (Note 7)	21,092	28,575
Total Liabilities	**58,686**	**40,121**
NET POSITION	**$108,623**	**$102,659**
TOTAL LIABILITIES AND NET POSITION	**$167,309**	**$142,780**

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, 2009 and 2008

(Dollars in Thousands)

	2009	2008
PROGRAM COSTS:		
Gross Costs Intragovernmental	$127,154	$ 43,732
Less: Earned Revenue-Intragovernmental	(310,266)	(231,191)
Net Program Costs - Intragovernmental	(183,112)	(187,459)
Costs Not Assigned to Programs	182,255	212,070
NET COST OF OPERATIONS	**$ (857)**	**$ 24,611**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

(Dollars in Thousands)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	**$102,659**	**$122,351**
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	35	522
Imputed Financing	5,072	4,397
Total Financing Sources	5,107	4,919
Net Cost of Operations	857	(24,611)
Net Change	5,964	(19,692)
NET POSITION	**$108,623**	**$102,659**

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, 2009 and 2008

(Dollars in Thousands)

	2009	2008
BUDGETARY RESOURCES:		
Unobligated Balance at the Beginning of the Period	$124,072	$192,081
Budget Authority		
Spending Authority from Offsetting Collections		
Earned		
Collected	284,657	261,877
Changes in Receivables from Federal sources	33,659	(24,040)
Change in unfilled customer orders		
Advance Received	23,459	(14,839)
Without Advance from Federal Sources	(44,055)	(6,951)
Total Budgetary Resources	**421,792**	**408,128**
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred	323,146	284,056
Unobligated Balance Available (Note 2)	98,646	124,072
Total Status of Budgetary Resources	**421,792**	**408,128**
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net - Beginning of the Period	(20,347)	(54,572)
Obligations Incurred, Net	323,146	284,056
Less Gross Outlays	(321,217)	(280,822)
Change in Uncollected Customer Payments from Federal Sources	10,396	30,991
Obligated Balance, Net, End of Period	**$ (8,022)**	**$ (20,347)**
NET OUTLAYS		
Gross Outlays - Disbursements	321,217	280,822
Less: Offsetting Collections	(308,116)	(247,037)
Net Outlays	**$ 13,101**	**$ 33,785**

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

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2009 and 2008

(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 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 Austin Information Technology Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and one administrative office, 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 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 FY 2009 and 2008 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 the 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,

	2009	2008
Fund Balance with Treasury	$90,624	$103,725

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.

	2009	2008
Unobligated Apportionment		
Available	$98,646	$124,072
Unavailable		
Obligated balance not yet Disbursed	(8,022)	(20,347)
Total Unexpended Apportionment	**$90,624**	**$103,725**

Note 3. Accounts Receivable, Net

Intragovernmental accounts receivable consist of amounts due from the 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, Net as of September 30,

	2009	2008
Intragovernmental Accounts Receivable	$42,688	$ 9,028
Public Accounts Receivable	23	83
Allowance for uncollectible amount	0	0
Net Public Accounts Receivable	$ 23	$ 83

Note 4. Other Assets

Other assets are generally made up of advances. There are three 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.

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 credit card payments are scheduled, an advance is set up. Charges are then IPACed to the applicable agency to offset the advances.

	2009	2008
Intragovernmental		
Advance Payment – Federal	$1,368	$2,171
Total Intragovernmental	**$1,368**	**$2,171**
Advances to Employees	$25	$1
Advance Payment – Other	16	3
Total Other Assets	**$1,409**	**$2,175**

Note 5. General Property, Plant and Equipment

General 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.

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
Total PP&E	**$85,931**	**$(53,366)**	**$32,565**

General PP&E as of September 30, 2008:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	$ 2,512	$ (1,010)	$ 1,502
ADP Equipment	35,873	(22,564)	13,309
Software	12,455	(10,100)	2,355
Leasehold Improvements	23,885	(13,282)	10,603
Total PP&E	**$74,725**	**$(46,956)**	**$27,769**

Note 6. 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 2009 operating lease costs were $1,924,478 for real property rentals and $16,952 for equipment rentals. The Franchise Fund's FY 2008 operating lease costs were $1,575,557 for real property rentals and $79,223 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 3.9 to 4.1 percent annual increases in cost.

OPERATING LEASES

Fiscal Year	Percentage Increase	Real Property	Equipment
2010	3.9	$2,000	$18
2011	3.8	2,076	18
2012	3.8	2,154	19
2013	4.0	2,241	20
2014	4.1	2,332	21

Note 7. Other Liabilities

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

	2009	2008
Intragovernmental		
Accrued Payables – Federal	$ 5,950	$ 3,612
Advances – Federal	28,425	4,967
Total Intragovernmental Liabilities	**$34,375**	**$ 8,579**
Public		
Accrued Payables	$13,810	$21,928
Accrued Salaries & Wages	2,868	2,568
Accrued Funded Annual Leave	4,414	4,079
Total Public Liabilities	**$21,092**	**$28,575**

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

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.

FY 09 Reconciliation of Net Cost of Operations to Budget

	2009	2008
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	323,146	284,056
Less: Spending Authority from Offsetting Collections and Adjustments	(297,721)	(216,046)
Net Obligations	25,425	68,010
Other Resources		
Transfers in/out	35	522
Imputed Financing from Costs Subsidies	5,072	4,397
Net Other Resources Used to Finance Activities	5,107	4,919
Total Resources Used to Finance Activities	30,532	72,929
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	(26,654)	(44,226)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(15,127)	(9,005)
Resources that Fund Expenses Recognized in Prior Periods	61	(60)
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(41,720)	(53,291)
Total Resources Used to Finance the Net Cost of Operations	(11,188)	19,638
Components Not Requiring or Generating Resources		
Depreciation and Amortization	10,285	7,852
Loss on Disposition of Assets	46	(2,879)
Total Components that Will Not Require or Generate Resources	10,331	4,973
Total Components that Will Not Require or Generate Resources in the Current Period	10,331	4,973
Net Cost of Operations	(857)	24,611