CONSOLIDATED FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2012 and 2011

(Dollars in Thousands)

	2012	2011
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 160,214	$ 173,676
Accounts Receivable (Note 3)	36,473	31,562
Other Assets (Note 5)	2,335	2,536
Total Intragovernmental Assets	199,022	207,774
Public		
Accounts Receivable (Note 3)	20	18
General Property, Plant and Equipment, Net (Note 4)	63,148	44,197
Other Assets (Note 5)	4	1
Total Public Assets	63,172	44,216
Total Assets	**$ 262,194**	**$ 251,990**
LIABILITIES		
Intragovernmental:		
Other Liabilities (Note 7)	$ 30,365	$ 45,582
Total Intragovernmental Liabilities	30,365	45,582
Public		
Accounts Payable	5,208	4,057
Other Liabilities (Note 7)	48,476	31,905
Total Public Liabilities	53,684	35,962
Total Liabilities	**$ 84,049**	**$ 81,544**
NET POSITION	**$ 178,145**	**$ 170,446**
TOTAL LIABILITIES AND NET POSITION	**$ 262,194**	**$ 251,990**

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, 2012 and 2011

(Dollars in Thousands)

	2012	2011
PROGRAM COSTS:		
Gross Costs Intragovernmental	$ 200,955	$ 187,257
Less: Earned Revenue-Intragovernmental	(439,656)	(439,532)
Net Program Costs - Intragovernmental	$ (238,701)	$ (252,275)
Costs Not Assigned to Programs	239,096	219,837
NET COST OF OPERATIONS	**$ 395**	**$ (32,438)**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

(Dollars in Thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	**$ 170,446**	**$ 125,551**
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	411	4,072
Imputed Financing	7,683	8,385
Total Financing Sources	8,094	12,457
Net Cost of Operations	(395)	32,438
Net Change	7,699	44,895
NET POSITION	**$ 178,145**	**$ 170,446**

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, 2012 and 2011

(Dollars in Thousands)

BUDGETARY RESOURCES:	2012	2011
Unobligated Balance brought forward, October 1	$ 103,411	$ 90,933
Spending Authority from offsetting collections	453,380	483,202
Total Budgetary Resources	**$ 556,791**	**$ 574,135**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	$ 445,144	$ 470,724
Unobligated Balance, end of year	111,647	103,411
Total Budgetary Resources	**$ 556,791**	**$ 574,135**
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, October 1 (gross)	$ 157,955	$ 89,926
Uncollected customer payments from Federal sources, brought forward	(87,690)	(61,991)
Obligated balance start of year (net)	$ 70,265	$ 27,935
Obligations Incurred	$ 445,144	$ 470,724
Outlays (gross)	(437,198)	(402,694)
Change in Uncollected Customer Payments from Federal Sources	(29,644)	(25,700)
Obligated Balance, end of year, (net)	**$ 48,567**	**$ 70,265**
Obligated Balance, end of year		
Unpaid obligations,end of year (gross)	$ 165,901	$ 157,955
Uncollected customer payments from Federal sources, end of year	(117,334)	(87,690)
Obligated Balance, end of year, (net)	**$ 48,567**	**$ 70,265**
BUDGET AUTHORTY AND OUTLAYS, NET		
Budget Authority, gross	$ 453,380	$ 483,202
Actual offsetting collections	(423,736)	(457,503)
Change in Uncollected Customer Payments from Federal Sources	(29,644)	(25,699)
Budget Authority, net	**$ 0**	**$ 0**
Outlays, gross	$ 437,198	$ 402,694
Actual offsetting collections	(423,736)	(457,503)
Net Outlays	**$ 13,462**	**$ (54,809)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2012 and 2011

(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: Corporate Data Center , Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Franchise 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 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 2012 and 2011 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 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. 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 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.

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 its 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 postretirement 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 multiemployer 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,

	2012	2011
Fund Balance with Treasury	$ 160,214	$ 173,676

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

	2012	2011
Unobligated Apportionment		
Available	$ 111,647	$ 103,411
Unavailable		
Obligated Balance not yet Disbursed	$ 48,567	$ 70,265
Total Unexpended Apportionment	**$ 160,214**	**$ 173,676**

Note 3. Accounts Receivable

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 as of September 30,

	2012	2011
Intragovernmental Accounts Receivable	$ 36,473	$ 31,562
Public Accounts Receivable	20	18
Total Accounts Receivable	**$ 36,493**	**$ 31,580**

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2012:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	$ 16,659	$ (3,201)	$ 13,458
ADP Equipment	66,697	(36,189)	30,508
Software	17,694	(15,687)	2,007
Software in Development	8,175	0	8,175
Leasehold Improvements	25,613	(16,613)	9,000
Total PP&E	**$ 134,838**	**$ (71,690)**	**$ 63,148**

General PP&E as of September 30, 2011:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	$ 11,504	$ (3,344)	$ 8,160
ADP Equipment	57,636	(38,573)	19,063
Software	19,332	(15,212)	4,120
Software in Development	3,149	0	3,149
Leasehold Improvements	26,211	(16,506)	9,705
Total PP&E	**$ 117,832**	**$ (73,635)**	**$ 44,197**

Note 5. Other Assets

Other Assets as of September 30,

	2012	2011
Intragovernmental		
Advance Payment – Federal	$ 2,335	$ 2,536
Total Intragovernmental – Other Assets	**$ 2,335**	**$ 2,536**
Public		
Advance to Employees	$ 4	$ 1
Advance Payment – Other	0	0
Total Public – Other Assets	**$ 4**	**$ 1**
Total Other Assets	**$ 2,339**	**$ 2,537**

Note 6. Federal Employee Benefits

Imputed Expenses – Employee Benefits as of September 30,

	2012	2011
Civil Service Retirement System	$ 1,785	$ 2,335
Federal Employees Retirement System	1,130	845
Federal Employee Health Benefits	4,752	5,189
Federal Employee Group Life Insurance	16	16
Total Imputed Expenses – Employee Benefits	**$ 7,683**	**$ 8,385**

Note 7. Other Liabilities

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

Other Liabilities as of September 30,

	2012	2011
Intragovernmental		
Accrued Payables – Federal	$ 20,676	$ 17,056
Advances – Federal	9,689	28,526
Total Intragovernmental Other Liabilities	**$ 30,365**	**$ 45,582**
Public		
Accrued Payables	$ 40,931	$ 23,844
Accrued Salaries & Wages	1,601	1,689
Accrued Funded Annual Leave	5,944	6,372
Total Public Liabilities	**$ 48,476**	**$ 31,905**

Note 8. 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 2012 operating lease costs were $11,415,819 for real property rentals and $348,828 for equipment rentals. The Franchise Fund's FY 2011 operating lease costs were $10,651,386 for real property rentals and $561,566 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 2.9 to 3.1 percent annual increases in cost.

OPERATING LEASES			
Fiscal Year	**Percentage Increase**	**Real Property**	**Equipment**
2013	2.9	$ 11,747	$ 359
2014	2.9	$ 12,088	$ 369
2015	2.9	$ 12,438	$ 380
2016	3.0	$ 12,811	$ 391
2017	3.1	$ 13,208	$ 404

Note 9. Intragovernmental Costs and Exchange Revenue

Costs and Exchange Revenue as of September 30,

	2012	2011
Intragovernmental costs	$ 200,955	$ 187,257
Less: Earned Revenue – Intragovernmental	(439,656)	(439,532)
Net Intragovernmental Cost	(238,701)	(252,275)
Indirect Administrative Cost	239,096	219,837
Total Net Cost of Operations	**$ 395**	**$ (32,438)**

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2012 was $439,656. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2011 was $439,532.

Costs: By law, the VAFF, as an entity of the Department of Veterans Affairs (VA), provides centralized services to other VA entities and other government agencies. However, in certain cases, other VA entities and government agencies incur costs that are directly identifiable to VAFF operations. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting, VAFF recognizes identified costs paid for by other agencies as expenses to VAFF.

Note 10. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2012 and 2011 was $91,804 and $105,176, respectively.

Note 11. Changes in Accounting Estimates

The FSC completed a review of the useful lives of its fixed assets during FY 2012. FSC determined certain asset's useful lives had been underestimated. Therefore, with FSC's Executive Steering Committee approval, the FSC extended the useful lives of those facility assets effective July 2012. The effect of this change in estimate was a one-time reduction in depreciation expense and related accumulated depreciation of $1.1 million.

Note 12. 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.

Reconciliation of Net Cost of Operations to Budget

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 445,144	$ 470,724
Less: Spending Authority from Offsetting Collections and Adjustments	(453,380)	(483,202)
Net Obligations	(8,236)	(12,478)
Other Resources		
Transfers in/out	411	4,072
Imputed Financing from Costs Subsidies	7,683	8,385
Net Other Resources Used to Finance Activities	8,094	12,457
Total Resources Used to Finance Activities	(142)	(21)
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	19,490	(31,080)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(28,093)	(14,454)
Resources that Fund Expenses Recognized in Prior Periods	(2)	16
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(8,605)	(45,518)
Total Resources Used to Finance the Net Cost of Operations	(8,605)	(45,539)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	9,184	12,335
Bad Debts	0	0
Loss on Disposition of Assets	(42)	766
Other	(0)	(0)
Total Components that Will Not Require or Generate Resources	9,142	13,101
Total Components that Will Not Require or Generate Resources in the Current Period	9,142	13,101
Net Cost of Operations	**$ 395**	**$ (32,438)**

Department of Veterans Affairs
FRANCHISE FUND

Corporate Data Center Operations

1615 Woodward Street
Austin, TX 78772
Phone: 512-326-6005
Fax: 512-326-6922
E-mail: 00b@va.gov
Internet: www.cdco.va.gov

Debt Management Center

P. O. Box 11930
St. Paul, MN 55111

Phone: 612-970-5700
Fax: 612-970-5687
E-mail: dmc.ops@va.gov
Internet: www.va.gov/debtman

Financial Services Center

Management Support Division (104/00B)

P. O. Box 149975
Austin, TX 78772

Phone: 512-460-5110
Fax: 512-460-5117
E-mail: bso@va.gov
Internet: www.fsc.va.gov

Law Enforcement Training Center

2200 Fort Roots Drive, Building 104
North Little Rock, AR 72114

Phone: 501-257-4160
Fax: 501-257-4145
E-mail: robert.cagle@va.gov

Security and Investigations Center

2200 Fort Roots Drive, Building 192
North Little Rock, AR 72114

Phone: 501-257-4445
Fax: 501-257-4018
E-mail: joshua.blockburger@va.gov
http://www1.va.gov/VABackground_Investigations

Records Center and Vault

1615 Woodward Street
Austin, TX 78772

Phone: 512-326-6576
Fax: 512-326-7442
E-mail: aacvarc&v@va.gov
Internet: www.rcv.va.gov

Contact the Department of Veterans Affairs
for additional copies of this report or download from the Web:
www.va.gov/fund

Department of Veterans Affairs
Franchise Fund Oversight Office
810 Vermont Avenue, NW (047F)
Washington, DC 20420