

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED BALANCE SHEET
 AS OF SEPTEMBER 30, 2014 and 2013

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 255,243	\$ 200,527
Accounts Receivable (Note 3)	61,517	38,843
Other Assets (Note 5)	1,961	1,402
Total Intragovernmental Assets	<u>318,721</u>	<u>240,772</u>
Public:		
Accounts Receivable (Note 3)	14	16
General Property, Plant and Equipment, Net (Note 4)	72,647	72,576
Other Assets (Note 5)	1	1
Total Public Assets	<u>72,662</u>	<u>72,593</u>
Total Assets	<u><u>\$ 391,383</u></u>	<u><u>\$ 313,365</u></u>
LIABILITIES		
Intragovernmental:		
Accounts Payable	23,096	16,783
Other Liabilities (Note 7)	47,519	7,759
	<u>70,615</u>	<u>24,542</u>
Public:		
Accounts Payable	58,367	60,759
Other Liabilities (Note 7)	11,111	10,407
Total Public Liabilities	<u>69,478</u>	<u>71,166</u>
Total Liabilities	<u><u>\$ 140,093</u></u>	<u><u>\$ 95,708</u></u>
NET POSITION	<u><u>\$ 251,290</u></u>	<u><u>\$ 217,657</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 391,383</u></u>	<u><u>\$ 313,365</u></u>

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, 2014 and 2013

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>
PROGRAM COSTS:		
Gross Costs Intragovernmental (Note 9)	\$ 245,618	\$ 208,616
Less: Earned Revenue - Intragovernmental	(627,246)	(498,113)
Net Program Costs - Intragovernmental	(381,628)	(289,497)
Costs Not Assigned to Programs	356,702	263,729
NET COST OF OPERATIONS	<u><u>\$ (24,926)</u></u>	<u><u>\$ (25,768)</u></u>

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED SEPTEMBER 30, 2014 and 2013

(Dollars in Thousands)

	<u>2014</u>	<u>2013</u>
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ 217,657	\$ 178,145
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	274	6,457
Imputed Financing (Note 6)	8,433	7,287
Total Financing Sources	8,707	13,744
Net Cost of Operations (Note 9)	24,926	25,768
Net Change	33,633	39,512
NET POSITION	<u><u>\$ 251,290</u></u>	<u><u>\$ 217,657</u></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, 2014 and 2013

(Dollars in Thousands)

	2014	2013
BUDGETARY RESOURCES:		
Unobligated Balance brought forward, October 1	\$ 107,809	\$ 111,647
Spending Authority from offsetting collections	703,149	473,364
Total Budgetary Resources	810,958	585,011
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	671,848	477,202
Unobligated Balance, end of year	139,110	107,809
Total Budgetary Resources	810,958	585,011
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, October 1 (gross)	181,525	165,901
Uncollected customer payments from Federal sources, brought forward	(88,807)	(117,334)
Obligated balance start of year(net)	92,718	48,567
Obligations Incurred	671,848	477,202
Outlays (gross)	(598,578)	(461,578)
Change in Uncollected Customer Payments from Federal Sources	(49,855)	28,527
Obligated Balance, end of year, (net)	116,133	92,718
Obligated Balance, end of year		
Unpaid obligations, end of year (gross)	254,794	181,525
Uncollected customer payments from Federal sources, end of year	(138,661)	(88,807)
Obligated Balance, end of year, (net)	116,133	92,718
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, gross	703,149	473,364
Actual offsetting collections	(653,294)	(501,891)
Change in Uncollected Customer Payments from Federal Sources	(49,855)	28,527
Budget Authority, net	0	0
Outlays, gross	598,578	461,578
Actual offsetting collections	(653,294)	(501,891)
Net Outlays	\$ (54,716)	\$ (40,313)

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

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2014 and 2013

(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: Enterprise Operations, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, 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) 2014 and 2013 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 two years or more and the unit price is \$100,000 or greater if acquired prior to October 1, 2013 and \$1,000,000 or greater if acquired after October 1, 2013. Equipment is depreciated on a straight-line basis over its useful life, usually 5 to 20 years. Software is also subject to the \$1,000,000 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 Departments threshold.

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. Accounts Payable

Accounts payable are classified as either intragovernmental or public. Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies. Public accounts payable are amounts owed by the Fund for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. Accounts payable do not include liabilities related to on-going continuous expenses

such as employee's salaries, and benefits which are covered by other liabilities. When the Fund accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, the Fund recognizes a liability for the unpaid amount of the goods and services. Intragovernmental and public accounts payable are covered by budgetary resources.

I. 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.

J. 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.

K. 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.

L. 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.

M. 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.

The Fund's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); the Fund 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.

N. 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.

O. Subsequent Events

Subsequent events have been evaluated through the auditors' report date which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

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:

	2014	2013
Fund Balance with Treasury	\$ 255,243	\$ 200,527

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:

	2014	2013
Unobligated Apportionment		
Available	\$ 131,044	\$ 107,809
Unavailable	8,066	0
Obligated Balance not yet Disbursed	116,230	92,718
Total Unexpended Apportionment	\$ 255,243	\$ 200,527

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:

	2014	2013
Intragovernmental		
Accounts Receivable	\$ 61,517	\$ 38,843
Public		
Accounts Receivable	14	16
Total Accounts Receivable	\$ 61,531	\$ 38,859

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2014:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	\$ 3,774	\$ (426)	\$ 3,348
Structure	581	(112)	469
Furniture & Equipment	20,156	(4,926)	15,230
ADP Equipment	73,017	(51,416)	21,601
Capital Lease Equipment	2,119	(823)	1,296
Software	20,219	(17,919)	2,300
Software in Development	21,146	0	21,146
Leasehold Improvements	24,974	(17,717)	7,257
Total PP&E	\$ 165,986	\$ (93,338)	\$ 72,647

General PP&E as of September 30, 2013:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	\$ 3,774	\$ (238)	\$ 3,536
Structure	581	(82)	498
Furniture & Equipment	18,889	(4,775)	14,114
ADP Equipment	68,927	(43,037)	25,891
Capital Lease Equipment	2,119	(293)	1,826
Software	19,165	(16,602)	2,563
Software in Development	16,010	0	16,010
Leasehold Improvements	24,974	(16,836)	8,138
Total PP&E	\$ 154,439	\$ (81,863)	\$ 72,576

Note 5. Other Assets

Other Assets as of September 30:

	2014	2013
Intragovernmental		
Advance Payment – Federal	\$ 1,961	\$ 1,402
Total Intragovernmental	\$ 1,961	\$ 1,402
Public		
Advance to Employees	\$ 1	\$ 1
Advance Payment – Other	0	0
Total Public – Other Assets	\$ 1	\$ 1
Total Other Assets	\$ 1,962	\$ 1,403

Note 6. Federal Employee Benefits

Imputed Expenses – Employee Benefits as of September 30:

	2014	2013
Civil Service Retirement System	\$ 1,791	\$ 1,804
Federal Employees Retirement System	1,953	1,077
Federal Employee Health Benefits	4,673	4,391
Federal Employee Group Life Insurance	16	15
Total Imputed Expenses – Employee Benefits	\$ 8,433	\$ 7,287

Note 7. Other Liabilities

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

Other Liabilities as of September 30:

	2014	2013
Intragovernmental		
Accrued Expenses – Federal	\$ 21	\$ 10
Accrued VA Contributions for Benefits	661	513
Advances – Federal	46,837	7,236
Total Other Intragovernmental Liabilities	\$ 47,519	\$ 7,759
Public		
Accrued Salaries & Benefits	\$ 2,758	\$ 2,164
Accrued Funded Annual Leave	6,901	6,199
Capital Lease Liability	1,452	2,044
Total Other Public Liabilities	\$ 11,111	\$ 10,407

Note 8. Leases

The Franchise Fund has no capital leases of \$2,119. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2014 operating lease costs were \$13,281 for real property rentals and \$1,794 for equipment rentals. The Franchise Fund's FY 2013 operating lease costs were \$13,904 for real property rentals and \$2,443 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 3.0 to 3.3 percent annual increases in cost.

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2015	3.0	\$ 13,680	\$ 1,848
2016	3.2	14,118	1,907
2017	3.3	14,584	1,970
2018	3.3	15,065	2,035
2019	3.3	15,562	2,102

Note 9. Intragovernmental Costs and Exchange Revenue

Costs and Exchange Revenue as of September 30:

	2014	2013
Intragovernmental costs	\$ 245,618	\$ 208,616
Less: Earned Revenue – Intragovernmental	(627,246)	(498,113)
Net Intragovernmental Cost	(381,628)	(289,497)
Indirect Administrative Cost	356,702	263,729
Total Net Cost of Operations	\$ (24,926)	\$ (25,768)

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2014 was \$627,246. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2013 was \$498,113.

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. Disclosures Related to the Statements of Budgetary Resources

Apportionment Categories of Obligations Incurred Direct vs. Reimbursable Obligations

Category A, Direct/Reimbursable, consists of amounts requested to be apportioned by each calendar quarter in the fiscal year. Category B, Direct/Reimbursable, consists of amounts requested to be apportioned on a basis other than calendar quarters, such as activities, projects, objects, or a combination of these categories. The VA Franchise Fund obligations are apportioned by activity.

Reimbursable Obligations as of September 30:

	2014	2013
Category B, Reimbursable Obligations	\$ 671,848	\$ 477,202

Undelivered Orders at the End of a Period

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2014 and 2013 was \$163,230 and \$95,336, respectively.

Note 11. 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 14 Reconciliation of Net Cost of Operations to Budget

	2014	2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 671,848	\$ 477,202
Less: Spending Authority from Offsetting Collections and Adjustments	(703,149)	(473,364)
Net Obligations	(31,301)	3,838
Other Resources		
Transfers in/out	274	6,457
Imputed Financing from Costs Subsidies	8,433	7,287
Net Other Resources Used to Finance Activities	8,707	13,744
Total Resources Used to Finance Activities	(22,594)	17,582
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	(1,673)	(35,967)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(13,528)	(23,378)
Resources that Fund Expenses Recognized in Prior Periods	2	4
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(15,199)	(59,341)
Total Resources Used to Finance the Net Cost of Operations	(37,793)	(41,759)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	12,984	13,950
Bad Debts	0	2
Loss on Disposition of Assets	472	
Other	(589)	2,039
Total Components that Will Not Require or Generate Resources	12,867	15,991
Total Components that Will Not Require or Generate Resources in the Current Period	12,867	15,991
Net Cost of Operations	\$ (24,926)	\$ (25,768)

Department of Veterans Affairs

FRANCHISE FUND

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

Enterprise 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

Financial Services Center Enterprise Business Management Section (104)

1615 Woodward Street
Austin, TX 78772
Phone: 512-460-5121
Fax: 512-460-5507
e-mail: vafscbusinessservices@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: james.ward4@va.gov
Internet: http://www.osp.va.gov/Law_Enforcement_Training_Center_LETC.asp

Records Center and Vault

1615 Woodward Street
Austin, TX 78772
Phone: 512-326-6576
Fax: 512-326-7442
e-mail: aacvarcv@va.gov or
RCVBusinessOffice@va.gov
Internet: www.rcv.va.gov

Security and Investigations Center

2200 Fort Roots Drive, Building 192
North Little Rock, AR 72114
Phone: 501-257-4469/4490
Fax: 501-257-4018
e-mail: vhalitbackgroundinvestigations@va.gov
Internet: http://www.osp.va.gov/Security_and_Investigations_Center_FF.asp



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

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