CONSOLIDATED FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 241,119	$ 255,243
Accounts Receivable (Note 3)	60,035	61,517
Other Assets (Note 5)	5,836	1,961
Total Intragovernmental Assets	306,990	318,721
Public:		
Accounts Receivable (Note 3)	35	14
General Property, Plant and Equipment, Net (Note 4)	72,145	72,647
Other Assets (Note 5)	1	1
Total Public Assets	72,181	72,662
Total Assets	**$ 379,171**	**$ 391,383**
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 15,906	$ 23,096
Other Liabilities (Note 7)	37,414	47,519
Total Intragovernmental Liabilities	53,320	70,615
Public:		
Accounts Payable	36,466	58,367
Other Liabilities (Note 7)	11,683	11,111
Total Public Liabilities	48,149	69,478
Total Liabilities	**$ 101,469**	**$ 140,093**
NET POSITION	**$ 277,702**	**$ 251,290**
TOTAL LIABILITIES AND NET POSITION	**$ 379,171**	**$ 391,383**

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, 2015 and 2014

(Dollars in Thousands)

	2015	2014
PROGRAM COSTS:		
Gross Costs Intragovernmental (Note 9)	$ 236,723	$ 245,618
Less: Earned Revenue - Intragovernmental	(705,644)	(627,246)
Net Program Costs - Intragovernmental	(468,921)	(381,628)
Gross Costs Indirect Administrative	415,356	356,702
NET COST OF OPERATIONS	**$ (53,565)**	**$ (24,926)**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	**$ 251,290**	**$ 217,657**
BUDGETARY FINANCING SOURCES:		
Transfer Without Reimbursement	(36,030)	0
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	1,159	274
Imputed Financing (Note 6)	7,718	8,433
Total Financing Sources	**(27,153)**	**8,707**
Net Cost of Operations (Note 9)	53,565	24,926
Net Change	**26,412**	**33,633**
NET POSITION	**$ 277,702**	**$ 251,290**

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, 2015 and 2014

(Dollars in Thousands)

	2015	2014
BUDGETARY RESOURCES:		
Unobligated Balance brought forward, October 1	$ 139,110	$ 107,809
Recoveries of Prior Year Unpaid Obligations	30,108	0
Unobligated Balance from Prior Year Budget Authority, Net	169,218	107,809
Spending Authority from offsetting collections	743,878	703,149
Total Budgetary Resources	**$ 913,096**	**$ 810,958**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 11)	775,674	671,848
Unobligated Balance, end of year	137,422	139,110
Total Budgetary Resources	**$ 913,096**	**$ 810,958**
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1 (gross)	254,794	181,524
Obligations Incurred	775,674	671,848
Outlays (gross)	(686,813)	(598,578)
Recoveries of Prior year Unpaid Obligations	(30,108)	0
Unpaid Obligations, end of Year	**313,547**	**254,794**
Uncollected payments:		
Uncollected customer payments from Fed sources, brought forward, October 1	138,661	(88,806)
Change in Uncollected Customer Payments from Federal Sources	(71,190)	(49,855)
Uncollected Payments, Fed Sources, End of Year	**$ 209,851**	**$ 138,661**
Memorandum (Non-Add) Entries:		
Obligated Balance, Start of Year	116,133	91,718
Obligated Balance, End of Year	$ 103,696	$ 116,133
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, gross	743,878	703,149
Actual offsetting collections	(708,718)	(653,294)
Change in Uncollected Customer Payments from Federal Sources	(71,190)	(49,855)
Budget Authority, Net	**$ (36,030)**	**$ 0**
Outlays, gross	686,813	598,578
Actual offsetting collections	(708,718)	(653,294)
Net Outlays	**$ (21,905)**	**$ (54,716)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

(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, 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) 2015 and 2014 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, as revised. The Franchise Fund's financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources. The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues and other financing sources are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

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 are incurred during the software development phase, and include the design of the chosen path, programming development, installation of hardware and testing, and are accumulated in Software in Development until a project is successfully tested and placed in service. The capitalized 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, which generally ranges from 2 to 4 years. Preliminary design phase costs and post implementation costs are expensed as incurred. 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, benefits, annuities for insurance programs, interest payable 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's 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. Application of Accounting Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from the estimated amounts.

O. 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.

P. Transfer of Unobligated Balances

In June 2015, Public Law 114-25 extended authority to the Franchise Fund to provide funding to VA's Construction, Major Projects appropriation to carry out the replacement of the existing VA Medical Center in Denver, Colorado. The Franchise Fund transferred $36,030,000 of unobligated balances.

Q. 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 Available Fund Balance with Treasury for the years ended September 30,

	2015	2014
Fund Balance with Treasury	$ 241,119	$ 255,243

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

	2015	2014
Unobligated Apportionment		
Available	$ 137,422	$ 131,044
Unavailable	0	8,066
Obligated Balance not yet Disbursed	103,697	116,133
Total Unexpended Apportionment	**$ 241,119**	**$ 255,243**

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.

Account Receivable for the years ended September 30,

	2015	2014
Intragovernmental Accounts Receivable	$ 60,035	$ 61,517
Public Accounts Receivable	35	14
Total Accounts Receivable	**$ 60,070**	**$ 61,531**

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2015:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 18,273	$ (14,075)	$ 4,198
Structure	581	(141)	440
Furniture & Equipment	19,991	(5,963)	14,028
ADP Equipment	78,498	(55,462)	23,036
Capital Lease Equipment	2,119	(1,352)	767
Software	25,593	(19,478)	6,115
Software in Development	16,994		16,994
Leasehold Improvements	25,123	(18,556)	6,567
Total PP&E	**$ 187,172**	**$ (115,026)**	**$ 72,145**

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		21,146
Leasehold Improvements	24,974	(17,717)	7,257
Total PP&E	**$ 165,986**	**$ (93,338)**	**$ 72,647**

Note 5. Other Assets

Other Asset for the years ended September 30,

	2015	2014
Intragovernmental		
Advance Payment – Federal	$ 5,836	$ 1,961
Total Intragovernmental	**$ 5,836**	**$ 1,961**
Public		
Advance to Employees	$ 1	$ 1
Advance Payment – Other	0	0
Total Public – Other Assets	**$ 1**	**$ 1**
Total Other Assets	**$ 5,837**	**$ 1,962**

Note 6. Federal Employee Benefits

Imputed Expenses – Employee Benefits For the Period ended September 30,

	2015	2014
Civil Service Retirement System	$ 1,733	$ 1,791
Federal Employees Retirement System	718	1,953
Federal Employee Health Benefits	5,250	4,673
Federal Employee Group Life Insurance	17	16
Total Imputed Expenses – Employee Benefits	**$ 7,718**	**$ 8,433**

Note 7. Other Liabilities

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

	2015	2014
Intragovernmental		
Accrued Expenses – Federal	$ 55	$ 21
Accrued VA Contributions for Benefits	866	661
Advances – Federal	36,493	46,837
Total Other Intragovernmental Liabilities	**$ 37,414**	**$ 47,519**
Public		
Accrued Salaries & Benefits	$ 3,314	$ 2,758
Accrued Funded Annual Leave	7,411	6,901
Capital Lease Liability	957	1,452
Total Other Public Liabilities	**$ 11,683**	**$ 11,111**

Note 8. Leases

The Franchise Fund has 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 2015 operating lease costs were $13,521 for real property rentals and $1,263 for equipment rentals. The Franchise Fund's FY 2014 operating lease costs were $13,281 for real property rentals and $1,794 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 2.7 to 3.2 percent annual increases in cost.

OPERATING LEASES

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2016	2.7	$ 13,886	$ 1,297
2017	2.9	14,289	1,335
2018	3.1	14,732	1,377
2019	3.1	15,188	1,419
2020	3.2	15,675	1,465

Note 9. Intragovernmental Costs and Exchange Revenue

Cost and Exchange Revenue for the years ended September 30,

	2015	2014
Intragovernmental costs	$ 236,723	$ 245,618
Less: Earned Revenue – Intragovernmental	(705,644)	(627,246)
Net Intragovernmental Cost	(468,921)	(381,628)
Indirect Administrative Cost	415,356	356,702
Total Net Cost of Operations	**$ (53,565)**	**$ (24,926)**

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2015 was $705,644. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2014 was $627,246.

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 for the years ended September 30,

	2015	2014
Category B, Reimbursable Obligations	$ 775,674	$ 671,848

- **Undelivered Orders at the End of a Period**

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2015 and 2014 was $249,771 and $163,230, 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 15 Reconciliation of Net Cost of Operations to Budget

	2015	2014
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 775,674	$ 671,848
Less: Spending Authority from Offsetting Collections and Adjustments	(773,986)	(703,149)
Net Obligations	1,688	(31,301)
Other Resources		
Transfers in/out	(34,871)	274
Imputed Financing from Costs Subsidies	7,718	8,433
Net Other Resources Used to Finance Activities	(27,153)	8,707
Total Resources Used to Finance Activities	(25,465)	(22,594)
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	(28,089)	(1,673)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(21)	(13,528)
Resources that Fund Expenses Recognized in Prior Periods	(15,719)	2
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(43,829)	(15,199)
Total Resources Used to Finance the Net Cost of Operations	(69,294)	(37,793)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	15,260	12,984
Bad Debts	0	0
Loss on Disposition of Assets	961	472
Other	(492)	(589)
Total Components that Will Not Require or Generate Resources	15,729	12,867
Total Components that Will Not Require or Generate Resources in the Current Period	15,729	12,867
Net Cost of Operations	$ (53,565)	$ (24,926)

DEPARTMENT OF VETERANS AFFAIRS

FRANCHISE FUND
ANNUAL REPORT

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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Franchise Fund Oversight Office
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Washington, DC 20420

Debt Management Center

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

Phone: 612-970-5745
Fax: 612-970-5687
e-mail: dmc.ops@va.gov
Internet: www.va.gov/debtman

Enterprise Operations

1615 Woodward Street
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Phone: 512-326-6005
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Financial Services Center Enterprise Business Management Section (104)

1615 Woodward Street
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Phone: 512-460-5121
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Law Enforcement Training Center

2200 Fort Roots Drive, Building 104
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Phone: 501-257-4160
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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

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Internet: www.rcv.va.gov

Security and Investigations Center

2200 Fort Roots Drive, Building 192
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Internet: http://www.osp.va.gov/Security_and_Investigations_Center_FF.asp