

"To care for him who shall have borne the battle and for his widow, and his orphan".

DEPARTMENT'S MISSION

The Department's mission, *"To care for him who shall have borne the battle and for his widow and his orphan,"* are words taken from President Lincoln's Second Inaugural Address. VA is the veterans' principal advocate for promoting their health, welfare, and dignity in recognition of their service to the Nation. The VA Franchise Fund takes great pride in supporting VA's mission.

FRANCHISE FUND'S MISSION STATEMENT

To be the provider of choice of common administrative support services for VA and other government agency customers, enabling them to best meet their primary missions.

VISION

Comprehensive Business Solutions for Tomorrow's Government

VALUES

To guide us in fulfilling our mission as well as the Department's mission, our employees strive to uphold a set of core values that are consistent and closely aligned with VA's core values. These values include: commitment, excellence, people, communication and stewardship.

COMMITMENT

Veterans have earned our respect and commitment, and their health care, benefits, and memorial service needs drive our actions. We will value our commitment to veterans through all contingencies and remain fully prepared to achieve our mission.

EXCELLENCE

We strive to exceed the service delivery expectations of veterans and their families. We perform at the highest level of competence with pride in our accomplishments.

PEOPLE

We are committed to a highly skilled, diverse, and compassionate workforce. We foster a culture of respect, equal opportunity, innovation, and accountability.

COMMUNICATION

We practice open, accurate, and timely communication with veterans, employees, and external stakeholders, and seek continuous improvement in our programs and services by carefully listening to their concerns.

STEWARDSHIP

We will ensure responsible stewardship of the human, financial, information, and natural resources entrusted to us. We will improve performance through the use of innovative technologies and sound business principles.



Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations — the Office of Management, the Office of Policy, Planning and Preparedness, and the Office of Information and Technology.

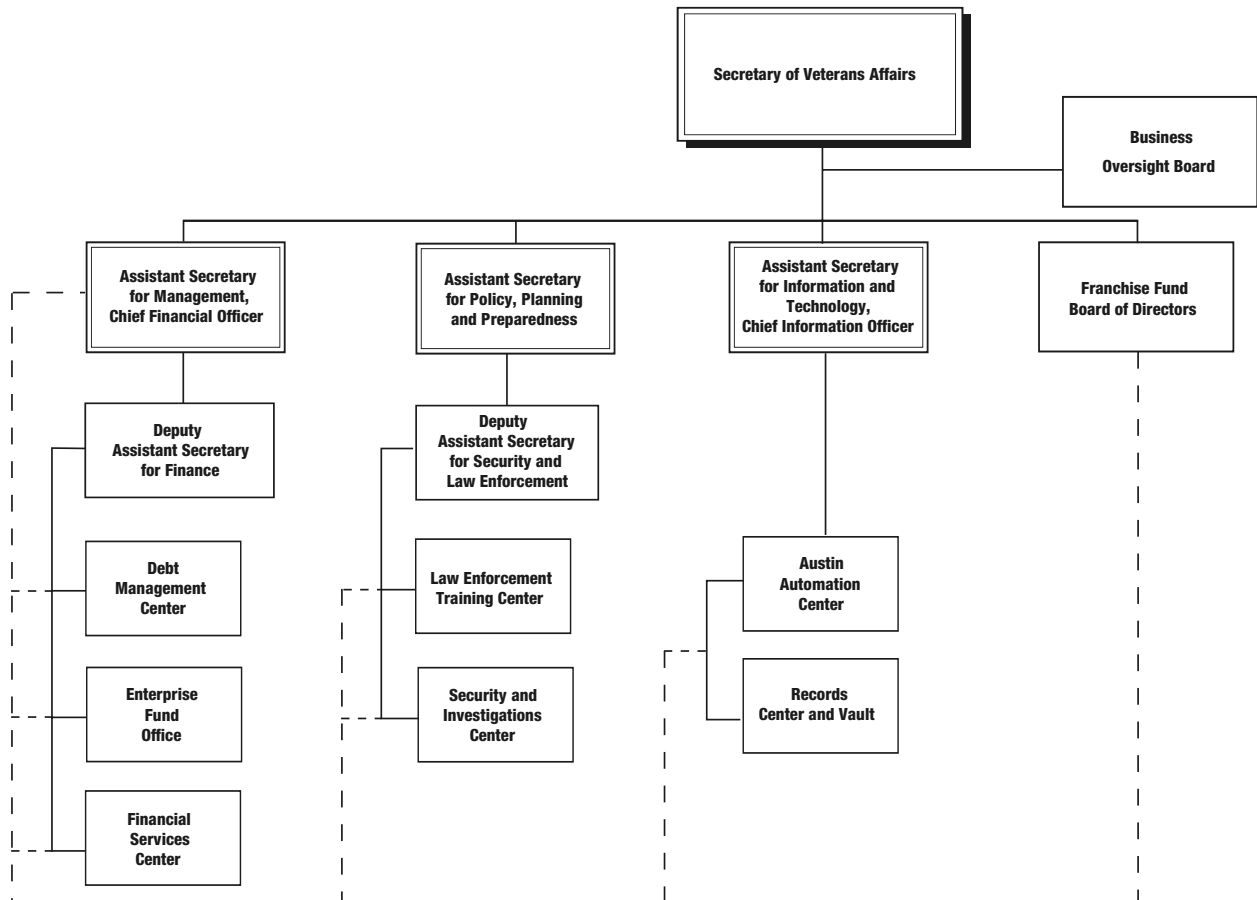
WHO WE ARE

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. 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. The VA Franchise Fund was created as a revolving fund and began providing common administrative support services to VA and other government agencies in 1997 on a fee-for-service basis.

The VA Franchise Fund is comprised of an administrative office (Enterprise Fund Office) and six self-supporting lines of business (Enterprise Centers). The directors of the individual Enterprise Centers and their staffs are responsible for customer liaison and coordination, business planning and development, staffing, and execution of day-to-day business activities consistent with their annual business plans. Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations—the Office of Management, the Office of Policy, Planning and Preparedness, and the Office of Information and Technology. The Franchise Fund Board of Directors and the Business Oversight Board provide oversight to ensure sound business principles, financial accountability, and goal attainment.

FRANCHISING CONCEPT

The franchising concept adds value to the government because it empowers self-supporting federal government business entities to promote efficiency and conserve resources by consolidating common administrative support services, reducing administrative costs, enhancing financial management practices, and expanding competition.



The VA Franchise Fund is divided into three major segments (information technology, financial management, and security and law enforcement). In FY 2005, the VA Franchise Fund generated \$251 million in revenue. The information technology segment generated \$151 million, accounting for 60 percent of the total revenue. Thirty-seven percent of the total revenue was generated by the financial management segment, which accounts for \$93 million. The security and law enforcement segment generated the remaining \$7 million, representing 3 percent of the total revenue.

WHAT WE DO



*Linda Voges, Director
Austin Automation Center
and the Records Center
and Vault*



*Steve Swanson, Director
Enterprise Fund Office*



*Daniel Osendorf, Director
Debt Management Center*

INFORMATION TECHNOLOGY (IT) SEGMENT

Austin Automation Center (AAC).

Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of VA and other federal agency customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions. In addition, the AAC offers a full complement of technical solutions to best meet customer needs.

for official federal records. The facility has been certified by the National Archives and Records Administration to operate as an agency records center. The RC&V can store records in any type of medium. This includes offsite storage of systems backups as well as general, vital, and classified records on paper, film, and electronic media.

FINANCIAL MANAGEMENT (FM) SEGMENT

Enterprise Fund Office (EFO).

Located in Washington, DC, the EFO functions as the Business Office for the VA Franchise Fund. As such, the EFO is responsible for overall operations including administering the financial resources, coordinating all business activities, and serving as the liaison between the Enterprise Centers, their customers, and the VA Franchise Fund Board of Directors.

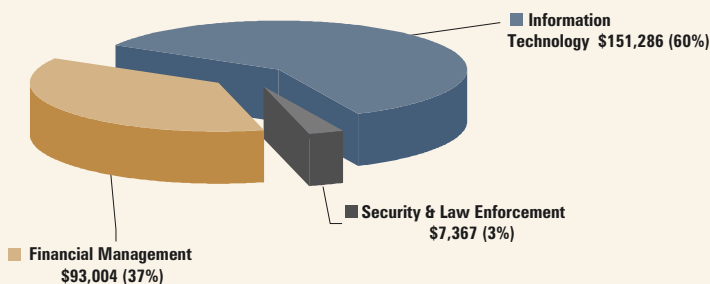
Records Center and Vault (RC&V).

Located in a subterranean, climate-controlled facility in a remote Midwestern part of the country, the RC&V provides records storage, protection, and retrieval services

Debt Management Center (DMC).

Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA.

VA Franchise Fund Revenue by Major Segments As of September 30, 2005
(Dollars in Thousands)





Rodney Wood, Director
Financial Services Center



Ronald Angel, Director
Law Enforcement
Training Center



Christopher Price
Business Manager
Security and
Investigations Center

Financial Services Center (FSC).

Located in Austin and Waco, TX, the FSC provides a full range of financial and accounting services, which include financial reports and accounting, invoice payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, payroll processing, customer support help desks for travel and payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, data matching and reconciliation, permanent change of station and temporary duty travel pay processing, common administrative services, accounting training, and consulting.

to approximately 2,700 law enforcement personnel working at VA health care facilities and to law enforcement professionals at other federal agencies.

Security and Investigations Center (SIC).

Located in Little Rock, AR, the SIC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The SIC also issues and manages employee identification badges and provides fingerprint processing.

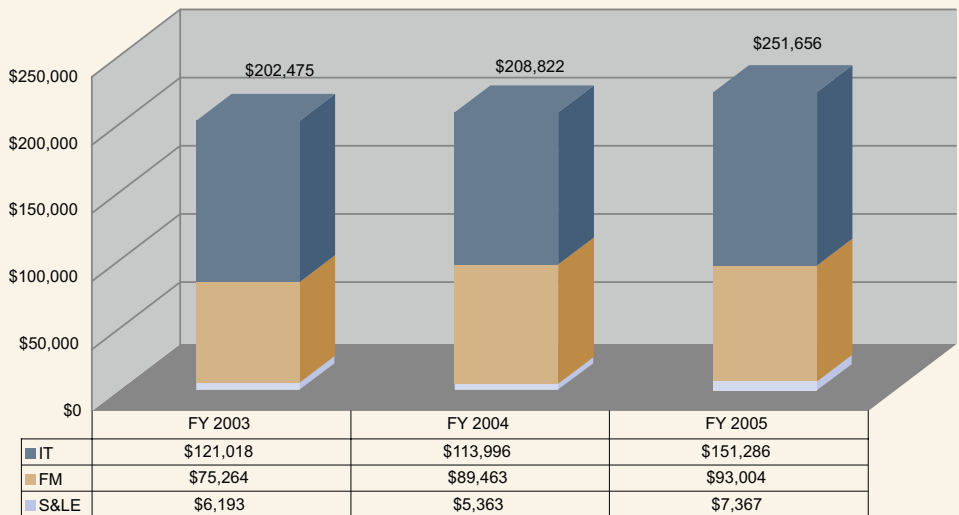
SECURITY AND LAW ENFORCEMENT (S&LE) SEGMENT

Law Enforcement Training Center (LETC). Located in Little Rock, AR, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available

Historically, the information technology and the financial management segments have generated the most revenue. The information technology segment ended FY 2005 with \$151 million—a 25 percent increase over FY 2003 and 33 percent increase over FY 2004, and the financial management segment ended FY 2005 with \$93 million—a 24 percent increase over FY 2003 and a 4 percent increase over FY 2004. The security and law enforcement segment ended FY 2005 with \$7 million—a 19 percent increase over FY 2003 and a 37 percent increase over FY 2004.

With the exception of the financial management segment, whose growth remained steady at 4 percent, the information technology and security and law enforcement segments had positive growth from FY 2004 to FY 2005. The driving force of this growth was to due to the increased demand for information technology services and specialized and advanced law enforcement course offerings.

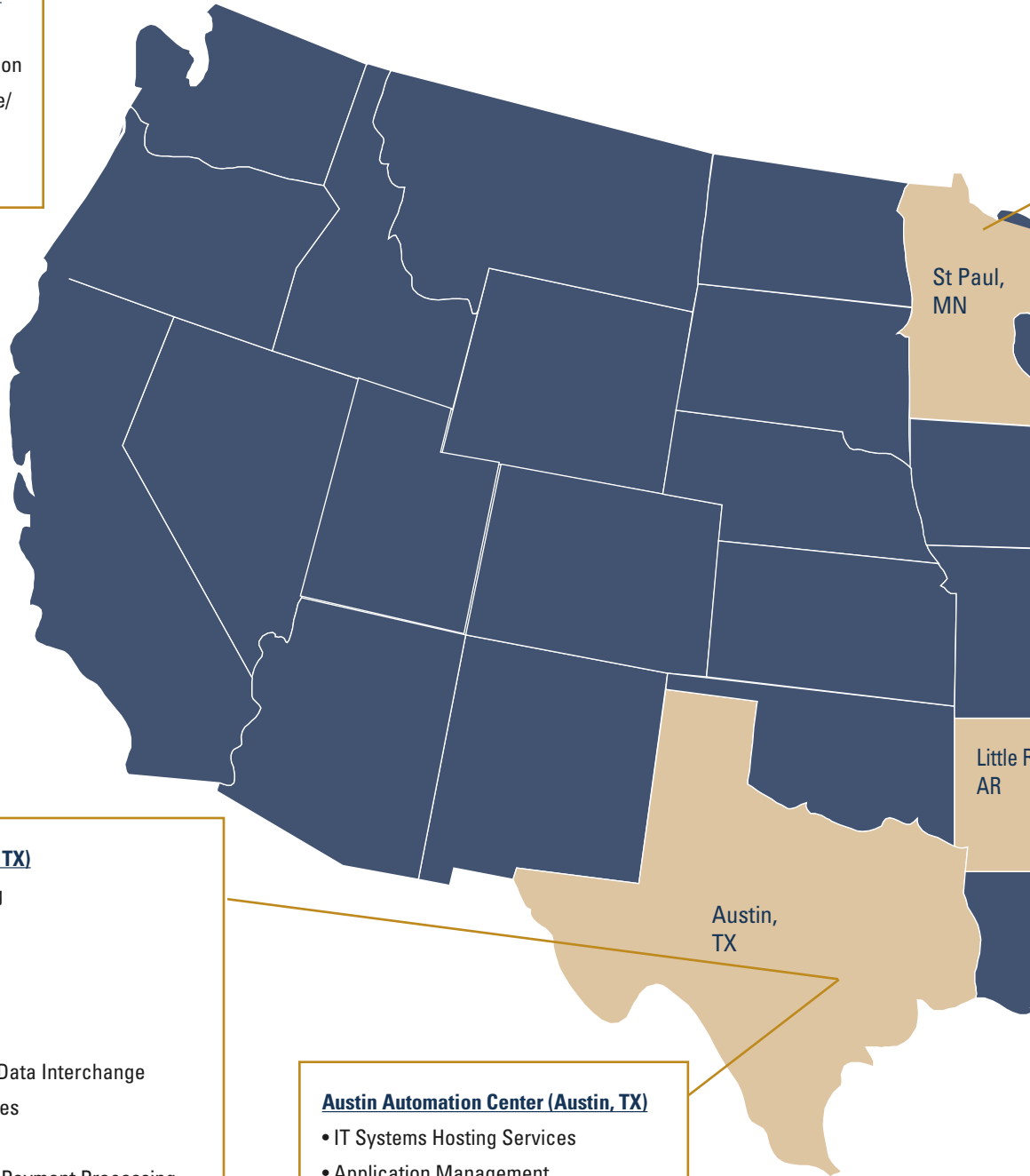
VA Franchise Fund Revenue Trend by Major Segments
(Dollars in Thousands)



COMMON ADMINISTRATIVE SUPPORT

Records Center and Vault (Midwest)

- Records Storage and Management
- Related Records Services (Accession Numbers, Records Retrieval, Re-file/Interfile, and other non-standard services)



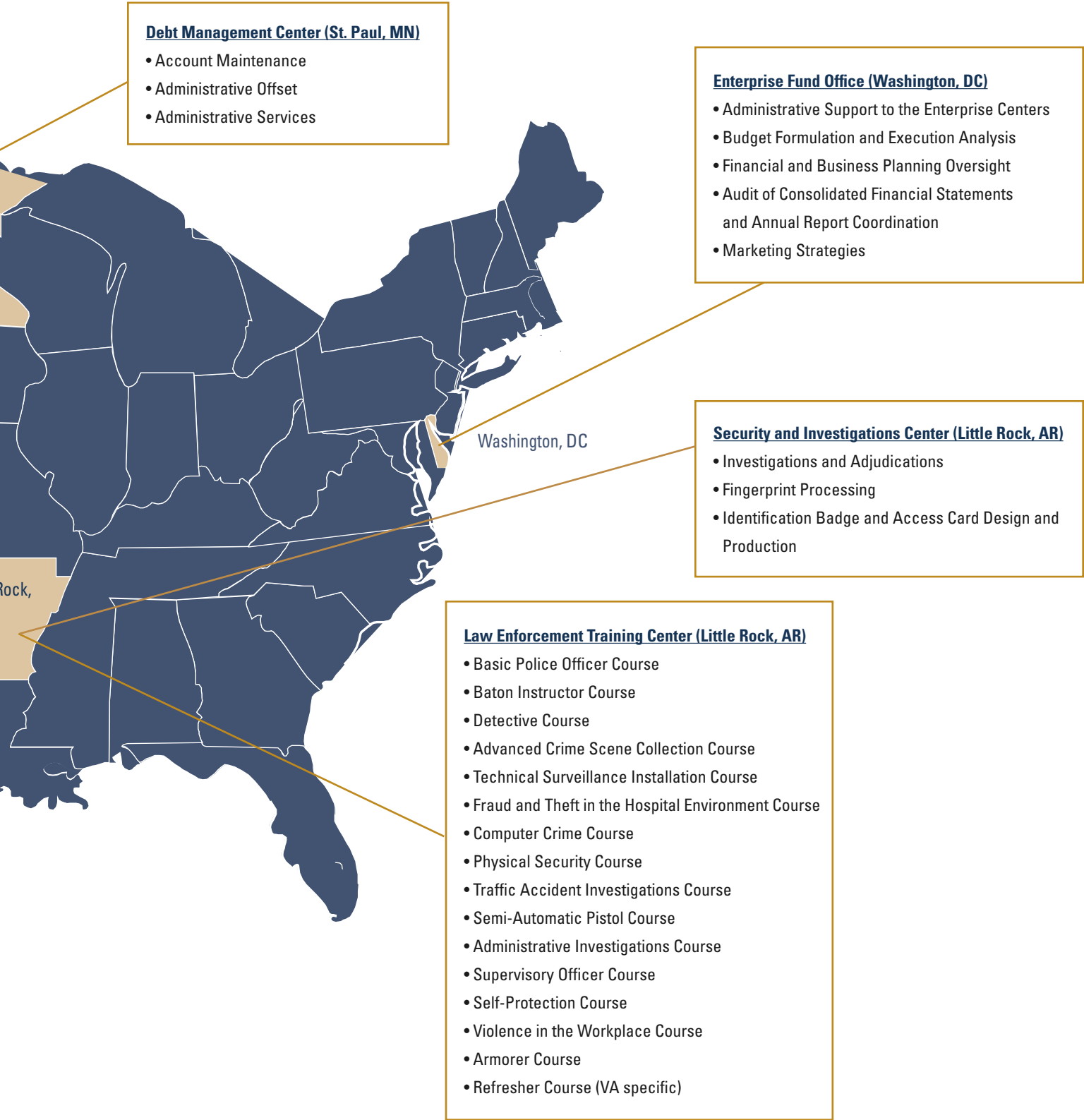
Financial Services Center (Austin, TX)

- Financial Reports and Accounting
- Audit Recovery
- Credit Card Payments
- Discount Subsistence Purchases
- Document Management System
- Electronic Commerce/Electronic Data Interchange
- Great Plains ®Accounting Services
- Invoice Payments
- Medical Claims Adjudication and Payment Processing
- Customer Support Help Desks for Travel and Payments
- Payroll Processing
- Permanent Change of Station and Temporary Duty Travel
- Vendor File Maintenance
- Common Administrative Services
- Accounting Training
- Consulting

Austin Automation Center (Austin, TX)

- IT Systems Hosting Services
- Application Management
- Information Assurance
- Customer Business Continuity
- Data Conversion and Data Interfacing
- IT Acquisition Services

SERVICES AT-A-GLANCE



EXTERNAL STAKEHOLDERS

- Veterans and their families
- Office of Management and Budget
- Congressional authorizations and appropriations committees and subcommittees
- Veterans service organizations
- Private sector vendors
- Denali Commission
- Department of Defense
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of the Treasury
- Department of State
- Export/Import Bank
- General Services Administration
- Government Accountability Office
- National Aeronautics and Space Administration
- National Archives and Records Administration
- Office of Federal Housing Enterprise Oversight
- Postal Rate Commission
- United States Capitol Police

INTERNAL STAKEHOLDERS

- Veterans Health Administration
- Veterans Benefits Administration
- National Cemetery Administration
- Staff offices within VA

WHO WE SERVE

Our ultimate stakeholders are those who directly benefit from the services VA provides and those who carefully monitor the delivery of these services including the Office of Management and Budget, Congressional authorizations and appropriations committees and subcommittees, and veterans service organizations.

As knowledgeable government professionals, we provide our stakeholders with creative, cost-effective and practical solutions so they can accomplish their primary mission. Although federal agencies have unique missions, our collective experience enables us to give expert advice from an insider's point of view. As a federal agency, we understand unique requirements and financial constraints.

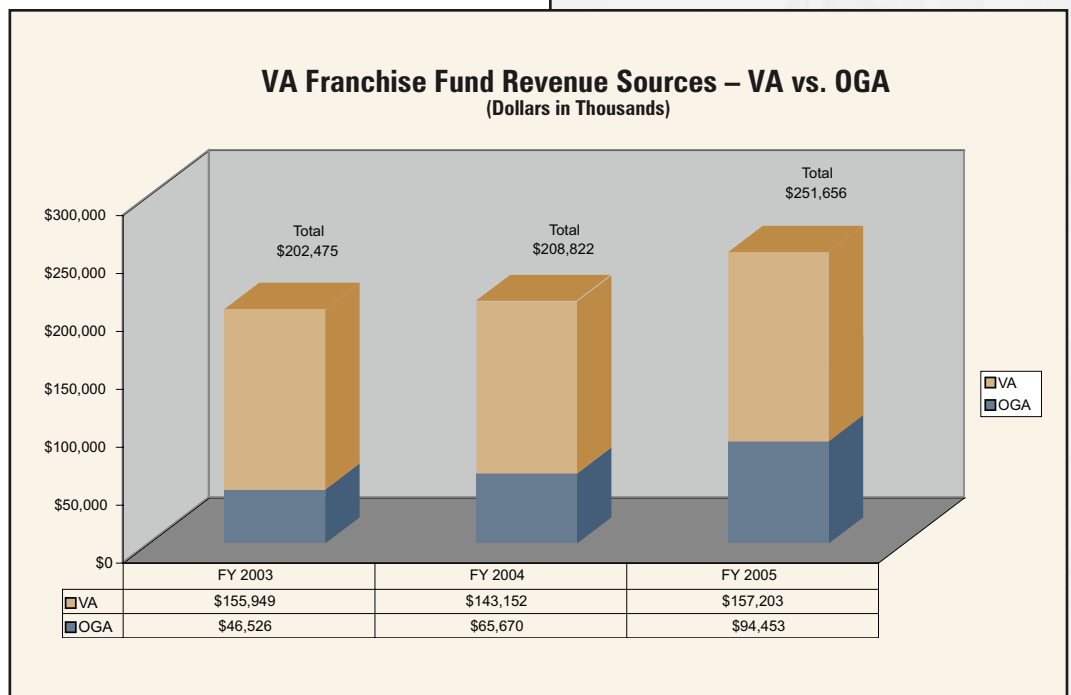
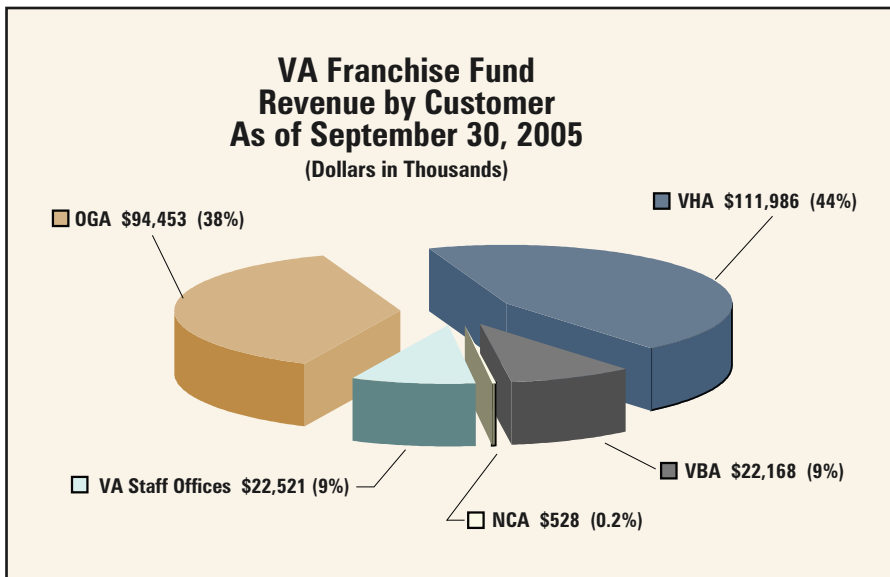
The American public also holds us accountable to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable. Our stakeholders are looking for us to provide them with the right services, at the right time, and in the right place at competitive prices. We embrace resilience and resourcefulness, which are hallmarks of a small business, as we adopt businesslike practices that enable us to become more efficient, responsive, and cost conscious.



We primarily serve VA, our parent agency, which accounts for 62 percent (\$157 million) of our FY 2005 total revenue (\$251 million). Of our FY 2005 total revenue, \$111 million came from VHA (our largest VA customer), which accounts for 44 percent; \$22 million came from VA staff offices, which accounts for 9 percent; \$22 million came from VBA, which accounts for 9 percent; \$528,000 came from NCA, which accounts for less than 1 percent; and \$94 million came from OGA, which accounts for 38 percent of the total revenue.

There has been a positive growth trend in total revenue. This phenomenal growth demonstrates the continuing customer demand for our common administrative support services. By the end of FY 2005, our total revenue grew to more than \$251 million—a 24 percent increase over FY 2003 levels (\$202 million) and 21 percent increase over FY 2004 levels (\$208 million). This growth was a direct result of an increase in OGA business.

We have made great strides in acquiring business from outside VA. We ended FY 2005 with record OGA sales—increasing our OGA sales by 103 percent over FY 2003 levels (\$46 million) and 44 percent over FY 2004 levels (\$65 million). This additional OGA business accrues benefits to all of our customers because it allows us to spread our overhead cost to a wider customer base.





In FY 2005, the Enterprise Centers rallied together to help those that were affected by Hurricane Katrina. We banded together to do what we do best—providing financial, information technology and emergency response support to assist with the evacuation efforts.

We recognize that this was a situation that enabled us to use our resources effectively and efficiently to support our fellow Americans in their recovery efforts.

- The AAC supported the necessary modifications to the payroll cycle in order to minimize the impact to VA employee's pay. Because many stations were unable to transmit data timely, employees at affected sites were issued "normal pay" (based on normal tour of duty hours).

The FSC also coordinated with the VA stations' agent cashiers and authorized interim payroll payments (cash/check) for evacuated VA employees. Wire transfers totaling \$482,000 were processed.

- VHA, VBA and the DMC suspended the establishment of new administrative offsets to collect delinquent medical billings and VBA benefit debts in areas most affected, which included 31 parishes in Louisiana, 15 counties in Mississippi and 3 counties in Alabama. VBA authorized regional offices to pay convenience checks to beneficiaries who did not receive their monthly benefit check. As of September 30, 2005, a total of 2,014 convenience checks were issued valued at \$1.5 million. Collection action will not be initiated against persons who receive convenience checks until we are instructed to do so by the Under Secretary for Benefits.
- The VAMCs in New Orleans and Biloxi evacuated their patients to other VAMCs in the region; however, the receiving hospitals did not have patient information. The FSC provided support to the Microsoft Technology Center in Austin, to design, develop and deploy a new application for VISN 16 (Gulf States). This system tapped backup data residing in Oklahoma City and used a Web application so medical staff

treating the displaced patients could access key information concerning pharmacy, lab, and outpatient data.

- In the aftermath of Hurricane Katrina and with no more than 2 hours notice from VA Central Office, the LETC deployed its staff to the VAMC New Orleans VAMC to facilitate the evacuation of over 700 critically ill patients. Large military trucks were obtained to transport medical supplies and other equipment from the Arkansas National Guard to assist with the successful evacuation.
- During a 3-day period the LETC conducted 100 trips from the New Orleans airport, transporting critically ill patients, who were met by a military transport aircraft for evacuation. This was accomplished under extremely austere and hazardous conditions, including coming under small arms fire; however, the LETC protected the critically ill patients and safely transported them. After all personnel were evacuated from the New Orleans VAMC, the LETC opened its doors to house and feed over 75 employees, patients, and other displaced personnel.
- With the New Orleans VAMC closed, and the extensive damage caused by Hurricane Katrina at the Gulfport and Biloxi facilities, the SIC in Little Rock took on the task of having all background related mailings from OPM sent to Little Rock for processing and dissemination to VISN 16.

HOW WE MEASURE OUR PERFORMANCE

VA's Strategic Enabling Goal and Objective are as follows:

Enabling Goal: Deliver world-class service to veterans and their families by applying sound business practices that result in effective management of people, communications, technology, and governance.

Objective: Improve the overall governance and performance of VA by applying sound business principles; ensuring accountability; enhancing our management of resources through improved capital asset management, acquisition, and competitive sourcing; and linking strategic planning, budgeting, and performance planning.

The Franchise Fund goals tie to the VA goals by:

- Ensuring all applications processing support and general support are of the highest quality
- Ensuring debt management collection services for delinquent consumer debt meet customer needs and requirements
- Ensuring payroll and financial services meet customer needs and requirements
- Ensuring VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all
- Ensuring high quality and timely investigations and adjudications for employees in national security and public trust positions and managing and issuing customer identification badges
- Ensuring accurate records management and secure archival storage, protection and retrieval services for veterans' records and for other stored federal records
- Establishing and managing the business aspects of the Fund

The performance information presented on pages 14 and 15 accurately represents the performance during FY 2002 – 2005. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continually seek to improve our data collection and monitoring techniques.

Each component that makes up the VA Franchise Fund is committed to achieving its performance goals to ensure we remain a performance-based organization. Out of 18 performance goals, 16 were met, 1 was not met, and 1 is only applicable in the event of a natural disaster. Process improvements have been implemented for the 1 unmet goal to improve future performance.

PERFORMANCE SUMMARY TABLE

Performance Measure	Actuals				Plan	Were 2005 Goals Achieved?	
	2002	2003	2004	2005	2005	Yes	No
Austin Automation Center							
Ranking in the Information Technology Customer Satisfaction peer database	12.5%	10%	6%	12%	15%	✓	
Availability rate of on-line systems ^{1,2}	99.9%	99.8%	99.8%	99.9%	99.8%	✓	
Service Desk First-Contact Resolution (Tier 1) rate ³	67.4%	69.6%	73%	74%	74%	✓	
Service Desk Abandoned Call Rate ⁴	4.1%	4%	3%	3%	3%	✓	
Debt Management Center							
Rate of Return (Collections versus Expenses)	N/A	\$63	\$63	\$67	\$66	✓	
Financial Services Center							
Percentage of W-2 release dates met (All W-2s must be mailed by January 31 st)	100%	100%	100%	100%	100%	✓	
Percentage of credit card transactions updated to FMS where the FSC receives the transactions from Citibank (calculated on a daily basis)	100%	100%	100%	100%	100%	✓	
Payment processing accuracy rate ⁵	97.9%	98.9%	98.4%	99%	98.4%	✓	
Customer satisfaction rate (range 1-5) ⁶	4.0	4.1	3.8	4.1	4.0	✓	

¹ The industry standard is 99 percent and best practice is 99.5 percent.

² Goal will be 99.9 percent for mission critical systems architected for high availability.

³ The industry standard is 66 percent and best practice is 70 percent.

⁴ The industry standard is 7 percent and best practice is 5 percent.

⁵ Payment processing accuracy has been successfully maintained as a result of utilizing an automated solution, strong training, measuring and reporting accuracy on a daily basis, and continuous process improvements at the work center level.

⁶ The FSC management responded to customer feedback by reducing rates and simplifying Service Level Agreements (SLAs) and Franchise Agreements (FAs). Using survey and benchmarking results, we will continue to implement process improvements to increase our customer satisfaction rating in FY 2006 and 2007.

PERFORMANCE SUMMARY TABLE

Performance Measure	Actuals				Plan	Were 2005 Goals Achieved?	
	2002	2003	2004	2005	2005	Yes	No
Law Enforcement Training Center							
Class graduation rate	98%	95%	95.6%	95%	95%	✓	
Security and Investigations Center							
Percentage of investigations that are completed within the established timeframes ⁷	95%	98%	98%	89%	98%		✓
Percentage of arrest records that are processed within 3 business days of receipt from OPM	100%	100%	100%	100%	100%	✓	
VA Records Center and Vault							
Percentage of routine recall requests that are processed within the established timeframes	99%	99.8%	99.8%	99.8%	97%	✓	
Percentage of emergency recall requests that are processed within the established timeframes	98%	99.9%	99.5%	99.7%	97%	✓	
Timeliness rate of rights and interests records that are available after a period of approximately 20 days in the event of a major national disaster ⁸	N/A	N/A	N/A	N/A	97%	N/A	
Percentage of accession number assignments that are processed within the established timeframes ⁹	N/A	N/A	99.7%	100%	98%	✓	
Enterprise Fund Office							
Percentage of operating reserves target attained	100%	100%	100%	100%	100%	✓	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

⁷ As a result of September 11th, OPM alerted Federal agencies that they were experiencing a backlog on the completion of most background investigations. Due to this backlog, the SIC could not make its 98 percent goal of timeliness rate of investigations.

⁸ National disaster record recalls will only occur in the event of a national disaster.

⁹ This is a new measure. Results were tracked in FY 2004.

FINANCIAL STATEMENT ANALYSIS

LIMITATION STATEMENT

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Veterans Affairs Franchise Fund (VA Franchise Fund), pursuant to the requirements of 31 U.S.C. 3515 (b). Brown & Company CPAs, PLLC, performed the audit of the statements.

While the statements have been prepared from the books and records of the VA Franchise Fund, in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

AUDIT OPINION

For the eighth consecutive year (1998-2005), we have received an unqualified "clean" audit opinion. This achievement caps our extensive efforts to produce timely, reliable, and auditable financial statements. Sound financial management is a basic building block for being a Catalyst for Good Government and Fiscal Responsibility for a wide range of federal clients.

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, and changes in net position, and provide information on budgetary resources and financing for FY 2005 and FY 2004. Highlights of the information contained in the consolidated financial statements are summarized in this section.

OVERVIEW OF FINANCIAL POSITION

Assets

The Consolidated Balance Sheets show the Fund had total assets of \$194.0 million at the end of FY 2005. This represents an increase of \$41.9 million (28 percent over the previous year's total assets of \$152.1 million). This increase is primarily the result of an increase of \$14.9 million in Fund Balance with Treasury and the Accounts Receivable nearly doubling prior year levels of \$27.9 million. The increase in Accounts Receivable is largely the result of an increase in information technology services provided towards the end of FY 2005.

The Fund's assets reflected in the Consolidated Balance Sheets are summarized in the following table:

(Dollars in Thousands)

	2005	2004
Fund Balance with Treasury	\$110,805	\$95,924
Property, Plant and Equipment, Net	21,247	21,778
Accounts Receivable, Net	54,765	27,929
Other Assets	7,197	6,458
Total Assets	\$194,014	\$152,089

Liabilities

The Fund had total liabilities of \$94.6 million at the end of FY 2005. This represents an increase of \$33.2 million (54 percent over the previous year's total liabilities of \$61.4 million). This increase is reflected in Other Liabilities (\$30.7 million increase in Accrued Payables). The increase in Accrued Payables is largely the result of an increase in information technology services provided towards the end of FY 2005.

The Fund's liabilities reflected in the Consolidated Balance Sheet are summarized in the following table:

(Dollars in Thousands)

	2005	2004
Other Liabilities	\$59,702	\$28,821
Intragovernmental Liabilities	31,789	28,536
Accounts Payable	3,147	4,039
Total Liabilities	\$94,638	\$61,396

Net Position

The Fund's net position increased by \$8.7 million in FY 2005 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$99.4 million in FY 2005, a 10 percent increase over the prior year's ending net position of \$90.7 million. Net position is the sum of unexpended funds and cumulative results of operations. The \$8.7 million increase in net position is comprised of results of operations net income of \$4.1 million and \$4.6 million from other financing sources.

Cumulative Results of Operations

The cumulative results of operation of the Fund present a net income of \$4.1 million in FY 2005. This represents a \$25.9 million increase from the previous year which ended with a net loss of \$21.8 million, as reflected in the Consolidated Statement of Net Cost. The net loss in FY 2004 was incurred to align reserve balances with business requirements.

Financing Operations

The Consolidated Statement of Financing reconciles the resources available to finance the Fund's operations with the net costs of providing services. The FY 2005 spending authority from offsetting collections and adjustments for the Fund totaled \$272.6 million, a 16 percent increase over FY 2004 levels of \$234.8 million. This increase is due to the strong growth in services that the Fund provided to its customers in FY 2005.

Budgetary Resources

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Fund during the year and the status at the end of the year. The Fund does not receive an annual appropriation from Congress. The Fund is fully self-sustained by recovering all cost through reimbursements for the services we provide. The Fund had total budgetary resources of \$348.3 million, a 13 percent increase over FY 2004 levels of \$307.7 million. The driving factor for this increase was due to the strong growth in services that the Fund provided to its customers in FY 2005.

The Fund's Budgetary Resources reflected in the Combined Statement of Budgetary Resources are summarized in the following table:

(Dollars in Thousands)

	2005	2004
Beginning Unobligated Balance	\$75,722	\$72,856
Spending Authority Earned and Collected	239,659	222,579
Receivable from Federal Sources	26,709	(417)
Change in Unfilled Customer Orders	6,182	12,660
Total Budgetary Resources	\$348,272	\$307,678

AUDITOR'S REPORTS

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