



DEPARTMENT OF VETERANS AFFAIRS

Office of Inspector General

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS' FRANCHISE FUND CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2004 and 2003

TABLE OF CONTENTS

	PAGE
MEMORANDUM TO THE ASSISTANT SECRETARY FOR MANAGEMENT (004).....	1
INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS.....	2
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	3
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS.....	5
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	6
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets.....	7
Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position.....	8
Combined Statement of Budgetary Resources.....	9
Consolidated Statement of Financing.....	10
Notes to the Consolidated Financial Statements.....	11
FINAL DISTRIBUTION.....	17



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Assistant Secretary for Management (004)

**Report of Audit of the Department of Veterans Affairs' Franchise Fund Consolidated
Financial Statements for Fiscal Year 2004**

1. Attached is the Office of Inspector General's (OIG) Report of Audit of the Department of Veterans Affairs (VA) Franchise Fund Consolidated Financial Statements (CFS) for Fiscal Years (FY) 2004 and 2003. The Franchise Fund is one of the components included in VA's CFS. The Franchise Fund management defined the requirements of the audit and contracted with the independent public accounting firm, Brown & Company CPAs, PLLC, to perform the audit. The independent auditors' report provides an unqualified opinion on VA's Franchise Fund FYs 2004 and 2003 CFS.
2. The report on internal control over financial reporting identifies one material weakness concerning information technology security controls. This finding and the related recommendation were included in the VA's FY 2004 CFS audit reports.
3. The report on compliance with laws and regulations concluded that VA, as a whole, is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The VA's CFS includes the Franchise Fund. The VA's internal control issues concerning an integrated financial system and information technology security controls indicate the Franchise Fund's noncompliance with the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," which incorporates by reference OMB Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources."
4. The independent auditors will follow up on the internal control finding and evaluate any corrective actions during the audits of the VA's and the Franchise Fund's FY 2005 CFS.

For the Assistant Inspector General
for Auditing

A handwritten signature in blue ink that reads "Marie A. Maguire".

MARIE A. MAGUIRE
Director, Financial Audit Division (52CF)

Attachment



INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Director
VA Enterprise Fund Office

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, financing, and the combined statements of budgetary resources for the years ended September 30, 2004 and 2003. These financial statements are the responsibility of the VA Franchise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VA Franchise Fund as of September 30, 2004 and 2003, its net cost, changes in net position, budgetary resources, and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2004 on our consideration of the VA Franchise Fund's internal control over financial reporting and our report dated November 17, 2004 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion and Analysis" is presented for the purpose of additional analysis and is required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Largo, Maryland
November 17, 2004

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.com

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrownco-cpas@aol.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Director
VA Enterprise Fund Office

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the years ended September 30, 2004, and have issued our report thereon dated November 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the VA Franchise Fund's internal control over financial reporting by obtaining an understanding of the VA Franchise Fund's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect VA Franchise Fund's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that are considered to be reportable conditions that are also considered to be material weaknesses.

The VA Office of Inspector General (OIG) brought to our attention that other auditors performing the audit of VA's consolidated financial statements noted certain matters involving the internal control over financial reporting that could affect the VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The VA's consolidated financial statements include the Franchise Fund. The material weakness noted relate to one of the Enterprise Centers within the Franchise Fund and is described in the following paragraphs.

Material Weakness - Information Technology (IT) Security Controls (Repeat Condition)

During fiscal year (FY) 2004, VA's program and financial data continue to be at risk due to serious weaknesses related to: 1) inadequate implementation and enforcement of controls and oversight over access to information systems; 2) improper segregation of key duties and responsibilities of employees; and 3) underdeveloped contingency planning. These weaknesses placed financial data at risk.

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.com

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrownco-cpas@aol.com

Recommendation

We reaffirm the recommendation contained in the VA's FY 2004 consolidated financial statements audit that the VA improve information systems security and segregation of duties controls over general systems, key financial applications, and assign, communicate, and coordinate responsibility for monitoring and enforcing such controls.

During the course of our audit we noted other matters involving internal control and its operation that we have reported to management of the VA Franchise Fund in a separate management letter dated November 17, 2004.

In addition, with respect to internal control related to performance measures reported in "Management's Discussion and Analysis," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, the VA OIG, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.



Largo, Maryland
November 17, 2004

═══════════════════════ BROWN & COMPANY CPAS, PLLC ════════════════════▶



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Director
VA Enterprise Fund Office

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2004, and have issued our report thereon dated November 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the VA Franchise Fund is responsible for complying with laws and regulations applicable to the VA Franchise Fund. As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the VA Franchise Fund.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the VA Franchise Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the VA Franchise Fund financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph. However, the VA Office of Inspector General brought to our attention that other auditors performing the audit of VA's consolidated financial statements noted certain matters involving the internal control over financial reporting that could effect the VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The VA's consolidated financial statements include the Franchise Fund. The material weaknesses in internal control over financial reporting indicate that the VA is not in full compliance with the requirements of OMB Circulars A-123, A-127, and A-130. The other auditors believe these material weaknesses, in the aggregate, result in departures from certain of the requirements of OMB Circulars A-123, A-127, and A-130, and are therefore, instances of substantial non-compliance with the Federal financial management systems requirements under FFMIA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, the VA OIG, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
November 17, 2004

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.com

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrownco-cpas@aol.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the full text of the Management's Discussion and Analysis

See the following website:

<http://www.va.gov/fund/fy04ar/fy04ar.html>

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30,
(Dollars in Thousands)

	<u>2004</u>	<u>2003</u>
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 95,924	\$ 90,392
Accounts Receivable	27,911	28,328
Other Assets (Note 3)	6,455	6,642
Total Intragovernmental	<u>130,290</u>	<u>125,362</u>
Accounts Receivable	18	41
Property, Plant and Equipment, Net (Note 4)	21,778	24,389
Other Assets (Note 3)	3	97
Total Assets	<u><u>\$ 152,089</u></u>	<u><u>\$ 149,889</u></u>
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	\$ 95	\$ 243
Other Liabilities (Note 6)	28,536	9,722
Total Intragovernmental	<u>28,631</u>	<u>9,965</u>
Accounts Payable	3,944	7,495
Other Liabilities (Note 6)	28,821	24,533
Total Liabilities	<u>61,396</u>	<u>41,993</u>
NET POSITION	<u>\$ 90,693</u>	<u>\$ 107,896</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 152,089</u></u>	<u><u>\$ 149,889</u></u>

All liabilities are current.

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

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)

	<u>2004</u>	<u>2003</u>
PROGRAM COSTS		
Gross Costs Intragovernmental	\$ 35,929	\$ 36,634
Less: Intragovernmental Earned Revenue	<u>(208,785)</u>	<u>(202,475)</u>
Intragovernmental Net Costs	(172,856)	(165,841)
Gross Costs Public	194,692	147,757
Less: Public Earned Revenue (Note 7)	<u>(37)</u>	<u>-</u>
NET COST OF OPERATIONS	<u><u>\$ 21,799</u></u>	<u><u>\$ (18,084)</u></u>

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)

	<u>2004</u>	<u>2003</u>
NET POSITION		
Beginning Balance	<u>\$ 107,896</u>	<u>\$ 87,493</u>
OTHER FINANCING SOURCES:		
Transfers-In	333	1,199
Imputed Financing	<u>4,263</u>	<u>3,783</u>
Total Financing Sources	<u>4,596</u>	<u>4,982</u>
NET COST OF OPERATIONS	(21,799)	18,084
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>(2,663)</u>
TOTAL NET POSITION	<u><u>\$ 90,693</u></u>	<u><u>\$ 107,896</u></u>

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

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)**

	<u>2004</u>	<u>2003</u>
BUDGETARY RESOURCES		
Unobligated Balance at the Beginning of the Period	\$ 72,856	\$ 52,682
Spending Authority from Offsetting Collections		
Earned		
Collected	222,579	200,055
Receivable from Federal sources	(417)	14,416
Change in unfilled customer orders		
Advance received	12,660	(118)
Total Budgetary Resources	<u>307,678</u>	<u>267,035</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	231,956	194,179
Unobligated Balance Available (Note 2)	48,055	54,414
Unobligated Balance Not Available (Note 2)	27,667	18,442
Total Status of Budgetary Resources	<u>307,678</u>	<u>267,035</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net - Beginning of the Period	17,536	20,410
Less: Obligated Balance, Net - End of the Period (Note 2)		
Accounts Receivable	(27,911)	(28,328)
Undelivered Orders	375	4,865
Accounts Payable	47,738	40,999
Outlays:		
Disbursements	229,707	182,637
Collections	(235,239)	(199,937)
Net Outlays	<u>\$ (5,532)</u>	<u>\$ (17,300)</u>

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

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)

	<u>2004</u>	<u>2003</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 231,956	\$ 194,179
Less: Spending Authority from Offsetting Collections and Adjustments	(234,822)	(214,353)
Net Obligations	<u>(2,866)</u>	<u>(20,174)</u>
Other Resources		
Transfers-In	333	1,199
Financing Imputed for Cost Subsidies	4,263	3,783
Net Other Resources Used to Finance Activities	<u>4,596</u>	<u>4,982</u>
Total Resources Used to Finance Activities	<u>1,730</u>	<u>(15,192)</u>
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	17,431	(4,674)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(6,752)	(5,780)
Resources that Fund Expenses Recognized in Prior Periods	22	244
Total Resources Used to Finance Items Not Part of Net Cost of Operations	<u>10,701</u>	<u>(10,210)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>12,431</u>	<u>(25,402)</u>
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	9,248	10,152
Gain/Loss on Disposition of Assets	115	(251)
Other	5	(2,583)
	<u>9,368</u>	<u>7,318</u>
NET COST OF OPERATIONS	<u>\$ 21,799</u>	<u>\$ (18,084)</u>

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

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2004 and 2003
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Created by Congress in 1996, as one of six Franchise Fund pilots operating within the Executive Branch of Government, the Department of Veterans Affairs' (VA) Franchise Fund, supports VA's mission by supplying common administrative services at competitive prices. 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: Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Enterprise Fund Office. The consolidated financial statements include the six individual activity centers of the Fund. All material intrafund transactions have been eliminated.

B. Basis of Presentation

The VA Franchise Fund consolidated financial statements report all activities of Franchise Fund components. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VA Franchise Fund is a component unit of the U.S. Government. The Franchise Fund's fiscal year (FY) 2004 and 2003 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements," as amended.

C. Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards and related concepts. The American Institute of Certified Public Accountants designated FASAB as the accounting standard-setting body for Federal governmental entities. As a result, accounting principles promulgated by FASAB are considered accounting principles generally accepted in the United States of America for Federal governmental entities.

D. Fund Balance with Treasury

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of the VA Franchise Fund to draw on the Treasury for allowable expenditures.

E. Accounts Receivable

Intragovernmental accounts receivable are from other federal entities and are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

Public accounts receivable are incurred when the Fund makes payments on behalf of their employees. Examples of this would be advances for Permanent Change of Station travel or advances for Federal Employees Health Benefits when employees are on leave without pay and their health benefits are paid to the health carriers. These receivables are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

F. Property, Plant and Equipment

The majority of the general Property, Plant and Equipment (PP&E) is used to provide common administrative services to the VA and other federal entities and is valued at cost, including transfers from other federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Individual items are capitalized if the useful life is 2 years or more and the unit price is \$100,000 or greater. Equipment is depreciated on a straight-line basis over its useful life, usually 3 to 5 years. There are no restrictions on the use or convertibility of general PP&E.

G. Other Liabilities

Other liabilities are classified as either intragovernmental or public. Intragovernmental liabilities arise from transactions between the Fund and federal entities, whereas public liabilities arise from transactions between the Fund and non-federal entities. Budgetary resources cover all other liabilities, both intragovernmental and public. All liabilities are current.

H. Revenues and Financing Sources

The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis. Exchange revenues are recognized when earned. Expenses are recognized when incurred. All significant intra-entity balances and transactions have been eliminated in consolidation.

For financial reporting purposes under accrual accounting, operating expenses are recognized currently, while those for capital and other long-term assets are capitalized and not recognized as expenses until actually used. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

I. 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.

J. Imputed Financing

The imputed financing of retirement benefit costs is borne by the Office of Personnel Management to support the retirement of our employees. This cost is not included within the billing rates charged to customers.

K. 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,

	<u>2004</u>	<u>2003</u>
Fund Balance with Treasury	\$ 95,924	\$ 90,392

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.

	<u>2004</u>	<u>2003</u>
Unobligated Apportionment		
Available	\$ 48,055	\$ 54,414
Unavailable	27,667	18,442
Obligated balance not yet		
Disbursed	<u>20,202</u>	<u>17,536</u>
Total Unexpended Apportionment	<u>\$ 95,924</u>	<u>\$ 90,392</u>

Note 3. Other Assets

Other assets are generally made up of advances. There are two types of advances handled by the Franchise Fund. The first is when Treasury processes charges from other agencies to the Franchise Fund via the IPAC system. Charges are recorded as an advance until the applicable obligation is located and the charges can be transferred. These charges are for GSA rent, GPO printing services, FTS, and motor pool.

One of the product lines available to other government agencies is the handling of the purchase card activity. When the purchase credit card payments are scheduled, an advance is set up. Charges are then IPACed to the applicable agency to offset the advances.

Note 4. Property, Plant and Equipment

Property, Plant and Equipment (PP&E), including transfers from other federal agencies, are recorded at cost. Expenditures for major additions, replacements, and alterations are capitalized. Routine maintenance is expensed when incurred. Items costing over \$100,000 with a useful life of 2 years or more are capitalized. All capitalized purchases are depreciated using the straight-line method over the estimated useful life, usually 3 to 5 years.

Leasehold Improvements and related depreciation are accounted for as Departmental assets. The Franchise Fund utilizes these assets in the production of revenue. Since the leasehold improvements are VA assets, they are recorded at the Departmental threshold of \$100,000.

PP&E As of September 30, 2004:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 1,421	\$ (837)	\$ 584
Capital Leases	-	-	-
ADP Equipment	24,276	(15,186)	9,090
Software	9,026	(7,569)	1,457
Software - In Development	165	-	165
Leasehold Improvements	<u>19,121</u>	<u>(8,639)</u>	<u>10,482</u>
Total PP&E	<u>\$ 54,009</u>	<u>\$ (32,231)</u>	<u>\$ 21,778</u>

PP&E As of September 30, 2003:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 1,503	\$ (725)	\$ 778
Capital Leases	7,921	(7,921)	-
ADP Equipment	20,296	(8,830)	11,466
Software	8,196	(6,088)	2,108
Software – In Development	-	-	-
Leasehold Improvements	<u>17,540</u>	<u>(7,503)</u>	<u>10,037</u>
Total PP&E	<u>\$ 55,456</u>	<u>\$ (31,067)</u>	<u>\$ 24,389</u>

Note 5. Leases

The Franchise Fund has operating leases. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2004 operating lease costs were \$1,293,809 for real property rentals and \$83,308 for equipment rentals. The Franchise Fund's FY 2003 operating lease costs were \$713,934 for real property rentals and \$40,967 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 3.1 to 3.5 percent annual increase in cost.

OPERATING LEASES

<u>Fiscal Year</u>	<u>Percentage Increase</u>	<u>Real Property</u>	<u>Equipment</u>
2005	3.1	\$ 1,334	\$ 86
2006	3.5	1,381	89
2007	3.4	1,428	92
2008	3.4	1,476	95
2009	3.4	1,526	98

Note 6. Other Liabilities

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

	<u>2004</u>	<u>2003</u>
Intragovernmental		
Accrued Payables – Federal	\$ 15,121	\$ 8,972
Advances – Federal	<u>13,415</u>	<u>750</u>
Total Intragovernmental Liabilities	<u>\$ 28,536</u>	<u>\$ 9,722</u>
Public		
Accrued Payables	\$ 23,476	\$ 19,783
Accrued Salaries & Wages	1,932	1,400
Accrued Funded Annual Leave	<u>3,413</u>	<u>3,350</u>
Total Public Liabilities	<u>\$ 28,821</u>	<u>\$ 24,533</u>

Note 7. Public Earned Revenue

In 1987, the General Services Administration (GSA) issued regulations providing guidelines for the establishment and installation of physical fitness facilities in government-owned space. GSA coordinates the Cooperative Administrative Support Unit (CASU) program. This program establishes the legal and administrative framework for agencies in multi-tenant buildings to share common services, including health and fitness centers. The Financial Services Center is the sponsor agency for the Mid-Atlantic CASU. The Mid-Atlantic CASU manages a health and fitness center in a Federal building in New York City. Federal employees are members and the revenue for their fees is considered public revenue.

REPORT DISTRIBUTION

VA DISTRIBUTION

Secretary (00)
General Counsel (02)
Director, Management and Administration (01E)
Acting Assistant Secretary for Public and Intergovernmental Affairs (002)
Assistant Secretary for Management (004)
Associate Deputy Assistant Secretary for Financial Policy (047G)
Acting Deputy Assistant Secretary for Finance (047)
Director, Financial Reporting Service (047GB)
Director, Enterprise Fund Office (047F)
Director, Austin Automation Center (200/00)
Director, Debt Management Center (389)
Director, Financial Services Center (104)
Acting Director, Law Enforcement Training Center (598)
Chief Operating Officer, VA Records Center and Vault (200/31)
Director, Security and Investigations Center (07C)
Assistant Secretary for Information and Technology (005)
Principal Deputy Assistant Secretary for Human Resources and Administration (006)
Assistant Secretary for Policy, Planning, and Preparedness (008)
Assistant Secretary for Congressional and Legislative Affairs (009)
Chairman, Board of Contract Appeals (09)
Veterans Health Administration, Chief Financial Officer (17)
Veterans Benefit Administration, Chief Financial Officer (24)
National Cemetery Administration, Chief Financial Officer (402A)
Director, Office of Resource Management (24)
Director, Office of Finance and Planning (41B)