



**Department of the Treasury
Franchise Fund
Accountability & Annual Report**

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**THE FUTURE
OF FEE-FOR-SERVICE BUSINESS
IN THE FEDERAL GOVERNMENT**

● **FULLY COSTED**

● **SELF SUFFICIENT**

● **CUSTOMER DRIVEN**

IT'S WORKING!



Department of the Treasury Franchise Fund

*...committed to delivering cost effective and high
quality administrative products and services*

A Message from the Deputy Chief Financial Officer

The Franchise Fund was created to improve the delivery of administrative services through the introduction of market-driven business practices. **It's Working!** For the fifth consecutive year, since inception, the Treasury Franchise Fund has thrived in the competitive marketplace of providing administrative products and services to Federal entities. We are proud of this performance and are looking forward to maintaining it in the years to come.

We're convinced, in fact, that the greatest challenge ahead may be simply keeping up with the demand for our services. This is due primarily to our in-depth understanding of the government arena, which allows us to offer new pathways, not roadblocks, to help our customers reach their goals. Our customers choose us for good reason: We are able to bring them innovative solutions in a cost effective and timely manner.

As a successful franchise operation, we understand that we have a responsibility to provide leadership in all areas of government reform; from the delivery of administrative products and services to our internal business operations. Our reward for our efforts is not only a strong business model and financial stability but also seeing government administrative practices get better. As one customer put it, we provide "bureaucracy-free" service.

The source of our success has always been our exhaustive focus on the customer. For this we owe a debt of gratitude to our employees, whose dedication, loyalty and hard work make it all possible.

A handwritten signature in black ink that reads "Steven O. App". The signature is written in a cursive style.

Steven O. App
Deputy Chief Financial Officer

A Message from the Deputy Chief Financial Officer

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Corporate snapshot

Picture this!

Background

The Treasury Franchise Fund is an entrepreneurial governmental enterprise established to provide common administrative support services on a competitive and fully cost-reimbursable basis. The desired result is to have internal administrative services delivered in the most effective and least costly manner. The Fund's services/products are offered on a voluntary and competitive basis to promote greater economy (reduced costs), increase productivity and efficiency in the use of resources, and ensure compliance with applicable rules and regulations.

Authorizing Legislation: The Government Management Reform Act of 1994 (GMRA) authorized six Franchise Fund Pilot Programs within the Federal government.

Founded: In May 1996, OMB designated the Department of the Treasury as one of the six Executive branch agencies authorized to establish a Franchise Fund Pilot Program.

Current Picture

Employees: Over 450 people nationwide

Value Proposition: The Treasury Franchise Fund businesses have been leaders in redefining the processes and methods for delivering administrative products and services that combines streamlined

processes, simplified rules, full accountability, competitive costing, timely completion, and one-stop shopping for customers. Our efforts have resulted in significant dollar savings throughout the federal government.

Customers: Over 1,800 customers representing almost every Federal agency. Total customers increased by 23% in FY 2001. (See graph below).

Website: www.ustreas.gov/franchising

Markets & Businesses

Consolidated/Integrated Administrative Management - providing entrepreneurial business solutions for the acquisition, delivery and financial management of common administrative services and products in support of agencies' missions and objectives.

- FBA-Central (Cincinnati)
- FBA-Global Services (San Antonio)
- FBA-West (Los Angeles)
- FedSource-Chicago
- FedSource-Seattle
- FedSource-South Carolina
- FedSource-St. Louis
- GoTo.Gov (Baltimore)
- Rocky Mountain Regional FBA (Denver)

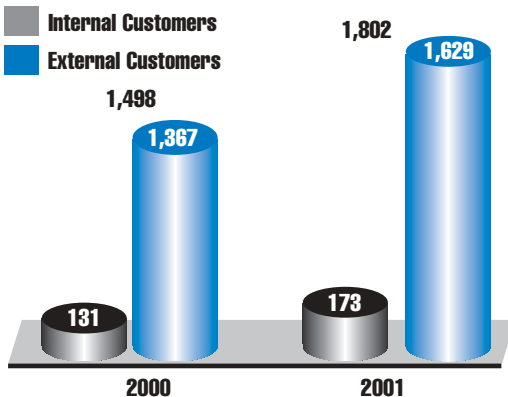
Financial Systems, Consulting and Training - providing financial education, management consultation, organization diagnostics and facilitation, strategic planning, assessment of customer needs, development of customer service standards, reengineering key Federal systems and processes, and human resources development.

- Treasury Agency Services
- Federal Consulting Group
- Inspector General Auditor Training Institute

Financial Management & Administrative Support - providing full service, as well as system platforms, for accounting, travel, procurement, personnel, and facilities management.

- Administrative Resource Center

Customer Growth



Gains & Losses

The Rocky Mountain Regional FBA and FedSource-South Carolina (both formerly with the Department of Interior's Franchise Fund) joined the Treasury Franchise Fund July 1, 2001.

The Inspector General Auditor Training Institute (IGATI) had an operating loss of over \$120,000 over the last two years and was not meeting the objectives of the Franchise Fund. As a result, their management withdrew IGATI from the Fund effective September 30, 2001.

Economic Impact

One example of the Fund's economic impact is demonstrated by the value that the Bureau of the Public Debt's Administrative Resource Center (ARC) brings to West Virginia. The City of Parkersburg is a vital residential and commercial center along the Ohio River in West Virginia. Employment opportunities have grown substantially over the past two years for residents in and around Parkersburg. This substantial growth is due to increased business by ARC. Located in downtown Parkersburg, ARC has become a focal point for employment by the many public and private colleges and universities in the area.

The potential for future growth is significant. ARC is becoming known as an excellent service provider. Therefore it is contacted frequently by other agencies inquiring about potential services. Four years ago ARC was an unknown service provider. It is reasonable to expect ARC to grow at a similar pace over the next 4 years and add another 100+ positions and another \$10 million annually to the local economy. ARC

has had a significant positive financial impact on the Parkersburg area.

- ARC has added 120 positions in Parkersburg since it began offering franchise services in FY 1997.
- The Bureau of the Public Debt is the second largest employer in the Parkersburg area, second to Dupont.
- The 120 new positions receive approximately \$7.3 million in salary and benefits which are added to the local economy.
- The local area benefits financially in other ways from Public Debt's franchising activity. Many goods and services needed to support the growing workforce are obtained locally, additional office space had to be acquired, and the local hotels and restaurants benefit from the many business visits to Parkersburg by franchising customers. It's estimated these items will add another \$2 - 3 million to the local economy in FY 2002.

"Qui Audacim Est"

"Those Who Dare"

The franchise concept is captured in this Latin term, literally translated 'Those Who Dare'; which expresses a shift of paradigm from bureaucratic operations to entrepreneurial business methods with reliance on market conditions and competition.



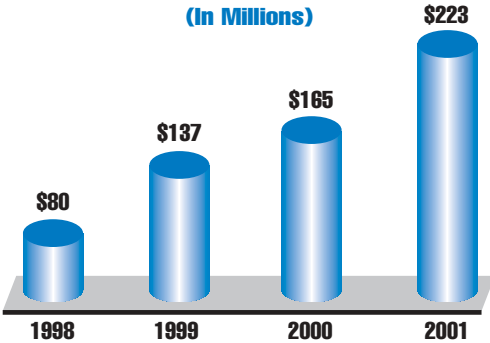
- The new positions not only add dollars to the economy, but their availability allows many people to remain in the area when they have completed college rather than being forced to look for appropriate employment out of state.



Financial Snapshot

A Focus on Controlled Growth!

Total Revenue (In Millions)



Continued Growth

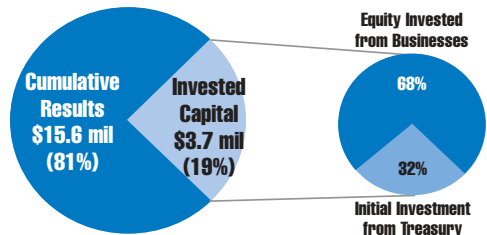
The Treasury Franchise Fund continued its impressive growth in FY 2001. The Fund's total revenue grew to more than \$223 million, representing a 35% increase over the previous fiscal year and demonstrating the continuing demand for the Fund's products and services (See graph above).

Although growth by itself is not inherently good, growth for the Fund results in increased competition throughout the government and lower administration costs. In other words, as the Fund grows the government works smarter and the taxpayer wins.

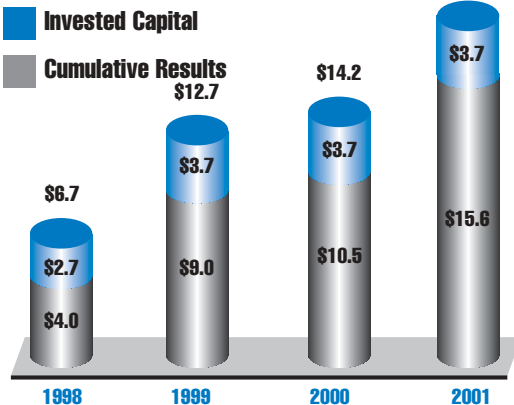
Financial Stability

The Fund has sustained a five-year expansion that has enabled it to develop a reasonable operating reserve (equity). The operating reserve is critical to the health and stability of the Fund enabling it to (i) sustain downturns in business brought about by unforeseen circumstances, (ii) pay for system and process enhancements and (iii) maintain an adequate cash flow. In FY 2001, the Fund's total equity grew to over \$19.3 million (See graph below left). Cumulative results of operations since the Fund's inception total \$15.6 million, which accounts for over three quarters of the Fund's total equity. The \$3.7 million of Invested Capital represents \$1.2 million initially invested by Treasury and \$2.5 million invested by the individual businesses (See graph below).

Equity Breakdown



Total Equity (In Millions)

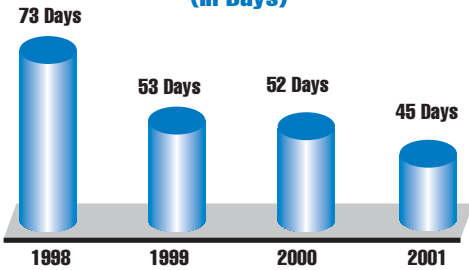


A Strong Balance Sheet

Total Assets, comprised primarily of cash and accounts receivables, increased by 37% to over \$89.5 million (See graph on next page). This was primarily due to a \$14 million increase in cash. Cash flow has continued to improve as evidenced by the accounts receivable turnover ratio (the average time it takes to turn earned revenue into cash). The benchmark for the accounts receivable turnover ratio is 60 days, which includes 30 days for billing and 30 days for collecting. In FY 1997, the Fund's first year, the accounts receivable turnover ratio was 86 days. The Fund has trimmed 41 days from this ratio to achieve an outstanding accounts receivable

turnover ratio of only 45 days in FY 2001 (See graph below). This resulted from the Fund's continued effort to streamline its billing and collecting processes.

Accounts Receivable Collection Period (In Days)

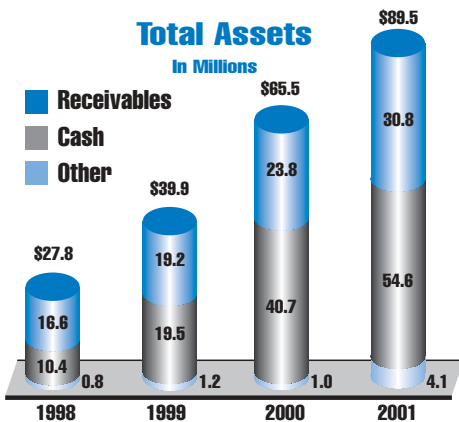


Another "Clean" Audit Opinion:

To add assurance to the financial stability, the Fund has received its fourth straight unqualified opinion on the audit of its financial statements. The independent auditors provide separate reports each year focusing on three key areas:

- Report on the Financial Statements
- Report on Internal Controls Over Financial Reporting
- Report on Compliance with Laws and Regulations

Total Assets In Millions



Improved Financial Reporting

The Fund has always been among Treasury's best in quality and timeliness of financial reporting. This is a direct result of the Fund using the Administrative Resource Center (ARC) as their accounting service provider. During FY 2001 this premise was put to the test as Treasury's Secretary, Paul O'Neil, challenged all Treasury entities to "close their books" in 3 days after the end of each month, as opposed to the standard 20 days. The new reporting requirement had to be implemented by June 2002.

ARC reacted quickly to ensure that the Fund (as well as the other Treasury entities they serviced) not only met the Secretary's challenge but exceeded it. ARC reviewed priorities, streamlined processes and worked with their customers to ensure the Fund met the Secretary's 3-day close challenge the very next month. By year-end, only 11 of the 25 Treasury reporting entities had met the Secretary's 3-day close requirement; ARC services 5 of those 11 entities.

The Fund continues to strive to set the example for efficiency and quality in the area of financial reporting. New goals have been set to make improvements to the timeliness of the year-end close processes and financial reporting. The Fund will work closely with ARC, its members, and the auditors to put a plan in place to have the year-end books closed and audits completed by the end of October. Currently this process is not completed until the end of December.

RESOURCE



Accomplishments & Outlook

It's Working!

The Franchise Fund was created to enhance service value through competition.

It's Working!

The franchising concept extends philosophies of competitive business enterprise into the delivery of administrative services, with the intention of reducing costs, enhancing efficiency, and improving financial management within the Federal government. Integral elements of this approach include emphasis on customer satisfaction, competition, success and failure as dictated by market forces, decentralization of authority and the incentive to excel. These elements are very much inter-related.

Customer satisfaction, whether in reference to lower cost, higher quality, or both, is the

“Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives..”

– William A. Foster

basis upon which the Fund competes. In a free market, the ability to compete effectively determines whether an organization ultimately survives, providing an inherent incentive to succeed. Thus, effective entrepreneurial management, or the ability to make optimum use of resources (lower cost) in order to satisfy customer demands (satisfaction), and to perform better than the competition, becomes the key to surviving and succeeding in a business environment.

The following highlights how the Treasury Franchise Fund is meeting the franchising objectives of promoting efficiencies in the delivery of administrative products and services; reducing duplication of effort;

fostering competition; full cost/self sufficiency; customer satisfaction; and implementing improved financial and business practices.

The Fund was designed to efficiently deliver administrative products and services.

It's Working!

Competition among common administrative service providers is a way to improve government efficiency. Inherent in the concept of franchising, competition will (i) increase the focus of service providers on the needs of the customer, (ii) introduce the need for market solutions instead of administrative bureaucracy, (iii) decentralize authority, and (iv) improve efficiency by helping program managers carry-out their missions in the least costly and most effective manner. The following examples illustrate the Fund's ability to efficiently deliver services and products.

- GoTo.Gov recently worked with two of its largest vendors to enhance the methods in which they invoice the Government. This enabled GoTo.Gov to easily review each invoice for accuracy, which saved more than 10 days of staff time each month. As a result, GoTo.Gov is able to provide its customers with a more timely and accurate bill. In this case, the private sector and the government became more efficient.

“Their unique capabilities, coupled with efficient and effective processes, result in ‘bureaucracy-free’ customer service . . . I attribute my organization's successes, enhanced reputation, and continued growth to our business relationship with FedSource-Seattle.”

- The US Army's Joint Regional Training Center had this to say, “The FedSource-Seattle operation is truly a leading edge business model for the Federal government. FedSource provides my training organization with a vast line of exceptional products and

services. Its unique capabilities, coupled with efficient and effective processes, result in 'bureaucracy-free' customer service. The FedSource-Seattle team is the most diversely talented knowledgeable, ethical staff I have worked with in my 20+ years of government service. I attribute my organization's successes, enhanced reputation, and continued growth to our business relationship with FedSource-Seattle."

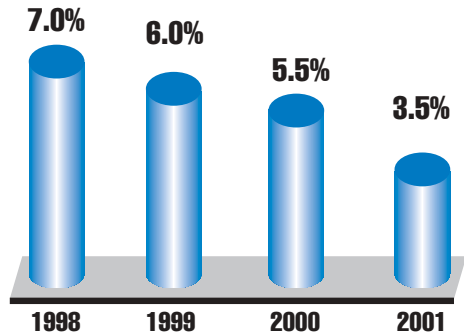
– Carol Martin, Joint Regional Training Center,
US Army

- Kelly Air Force Base came to the FBA Global Services in San Antonio with a significant problem. The base was scheduled to close July 2001. Federal employees working at Kelly took early buy-out incentives, retired, or found other jobs. It was faced with the same level of workload, but with hundreds of fewer employees to do it. Kelly had its own Mission Support Contract, but it was too cumbersome, not user-friendly, and extremely expensive. The FBA team worked with departmentalized units and brought them together under one strategy – meeting with the Commanding General, the procurement officials and the personnel officials to help come up with a useful tool that would be able to deliver services in an unprecedented fashion, that is to use civilian pay dollars for the FBA contract. The Commanding General himself thanked FBA Global Services for its efforts saying, "Thank you for not only saving us significant dollars, but we could not have survived without you." On July 13, 2001, FBA closed out all the task orders as the base successfully closed its doors and went in the history books as the largest base closure in history. This unprecedented strategy has not only paved the way for them to realize efficiencies and savings, but has become the model to be used by all military bases on the Base Realignment and Closure (BRAC) listing. Showcased as a huge success story at Kelly, it is now being implemented at Lackland Air Force Base in San Antonio.

In order to remain competitive, the Franchise Business Activities in our Consolidated/Integrated Administrative Management business line have continued to find ways to

reduce their operating (overhead) costs. Many customers have realized reduced pricing, rebates, and volume discounts due to economies of scale and improved efficiency of administrative services offered. The Franchise Fund is able to give a price reduction when obtaining large orders because, in most instances, our operating costs closely remain the same. This is best illustrated by looking at their operating percentage, which quantifies the relationship of operating costs as percentage of total revenue. Their operating percentage decreased from 5.5% in FY 2000 to 3.5% in FY 2001. (See graph below) Since the Fund's inception (FY 1997), they have been able to reduce their operating percentage by over 50%.

Operation Percentage Consolidated/Integrated Administrative Management



The Fund was envisioned to reduce duplication of effort.

It's Working!

The Treasury Franchising effort has achieved efficiencies and generated value internally to Treasury, externally to other agencies, and to the government as a whole. This is demonstrated by reducing and/or eliminating duplicative/redundant services, implementing best practices, reducing the costs of services, implementing performance measures and

benchmarking, and focusing on customer service. Highlights of our efforts/successes follow:

Reduced the number of service providers through integrated contract and financial management — Our Franchise Business Activities (FBAs) provide integrated contract and financial administration. These services are provided to almost 1,600 customers government-wide. A primary function of the FBAs is to act as the general agent for government agencies in the acquisition process. FBAs perform a value-added function as the consolidator of requirements and the operating agent of the participating agencies.

- A recent GoTo.Gov customer was looking to consolidate multiple requirements into one procurement vehicle. GoTo.Gov had multiple contracts, which they combined to meet the immediate needs of the customer in the most cost-effective method. GoTo.Gov combined copiers/equipment, software for the agency's

They were able to give the customer one agreement for multiple services eliminating the need for the agency to seek several vendors.

GoTo.Gov became "one-stop" shopping.

copy center, and placements to run the copy center: all for one price. They were able to give the customer one agreement for multiple services eliminating the need for the agency

to seek several vendors. GoTo.Gov became "one-stop" shopping.

- FedSource-Seattle established a single "master agreement" for one of its customers that eliminated the need for separate agreements for each of its customer's offices. That alone saved the customer agency time and reduced its administrative burden significantly. This not only proved to be a time saver, it also facilitated cost savings for the customer.

Reduced the number of service providers through the consolidation of administrative accounting, procurement and personnel

functions — The Administrative Resource Center now provides:

- 25 organizations with administrative accounting services
- 21 organizations with procurement services
- 16 organizations with personnel services

The Fund was developed to foster competition.

It's Working!

Program managers in many agencies are forced to rely upon in-house arrangements for the delivery of common administrative services such as payroll, real property management, or supply. Our businesses have been challenging these arrangements by taking customers and revenue away from those providers. We made them sharpen their pencils and create a strategy to deal with competition. These providers have subsequently begun to worry about customer service and as a result they are now concerned about their response time, improving product features, improving their billing process, increased availability, and lower prices. Competition is working!

"We sought many avenues to obtain sufficient resources to manage this huge workload . . . The FedSource contract was a significant contributor in our ability to manage the workload.

The support provided from the St. Louis FedSource office has been excellent."

Many times the Franchise Fund competes against alternate administrative solutions. For example, when the Internal Revenue Service (IRS) began its agency-wide reorganization, it created a tremendous increase in workload for the IRS personnel offices. "We sought many avenues to obtain sufficient resources to manage this huge workload, including working large amounts of overtime, obtaining detailees from other offices, use of the OPM contract, etc. We learned of the services

available from FedSource and pursued that avenue as well. The FedSource contract was a significant contributor in our ability to manage the workload. The support provided from the St. Louis FedSource office has been excellent. The response to orders is very fast. Overall, our experience under this contract and with the local FedSource office has been excellent.”

—Cheryl Hemann, Personnel Services
Operations Area C, IRS

The following represents various aspects of the Treasury Franchise Fund in fostering competition:

- Penetration — Customers using services of the Treasury Franchise Fund come from virtually every Federal government agency reflecting the breadth of our competitive area. At the end of FY 2001, the Treasury Franchise Fund Activities in total had entered into agreements with over 1,800 customers. Of these, approximately 4% are customers within Treasury and 96% are external to Treasury.
- All goods and services provided by the Business Activities of the Treasury Franchise Fund are done so on a fully reimbursable basis and are completely voluntary (i.e., no mandated services). The customer has freedom of choice and makes purchase decisions based on quality, price, and best value.
- All reimbursable agreements with customers contain a certification statement that they are A-76 compliant. Full costs are made available for customers in performing cost comparisons. All goods and services are fully costed. This allows Franchise Fund management, as well, as potential customers to determine the true cost to the government of the product or service.
- Treasury’s Franchise Businesses make extensive use of private sector sources to deliver goods and services to their Federal customers. In FY 2001, over 85% of the Funds’ expenses were paid directly to pri-

ate sector businesses. For Consolidated/Integrated Administrative Management Services, over 90% of all their operations are accomplished through contracts with the private sector that have competed for and been awarded contracts for specific administrative services. The business relationships established with private sector companies for providing these products and services are done so under current Federal acquisition regulations. Each of the product groupings is designed to meet the stated needs of the customer. The essential elements of quality, packaging and delivery, combined with volume consolidation, are built into contracts and agreements.



“Thank God for competition. When our competitors upset our plans or outdo our designs, they open infinite possibilities of our own work to us.”

— Gil Atkinson

The Fund is held to standards that are intended to level the competitive playing field with the private sector and among other Federal reimbursable entities. Activities operating within the Franchise Fund are intended to be self-sustaining, depending on fees from customers in lieu of appropriated dollars to fund operations. A customer’s ability to seek alternate sources for services, whether public or private, places the emphasis of franchising on generating customer satisfaction and value.

The Fund was set-up to account for full cost and achieve self-sufficiency.

It's working!

Meeting the objective of financial responsibility is primarily demonstrated through full costing and self-sufficiency. Each individual business within the fund identifies the specific costs of each of its service lines. Based on this analysis, pricing structures are developed which allow the businesses to recover all their costs and maintain a reasonable operating reserve.

The Fund is in compliance with cost accounting standards and guidance, which includes:

- OMB Circular A-76
- The Statement of Federal Financial Accounting Standards (SFFAS) Number 4, Managerial Cost Accounting Concepts and Standards for the Federal government
- The Managerial Cost Accounting Implementation Guide
- Concepts and Standards for the Federal government and Statement of Federal Financial Accounting Standards Number 7, Accounting for Revenue and Other Financing Sources
- Form and content requirements included in OMB Bulletin No. 97-01

One of the inherent risks with operating in a full-cost environment is the potential for businesses to fail or not generate enough revenue to cover their costs. Over the last

two years, the Inspector General Auditor Training Institute (IGATI) had an operating loss of over \$120,000 and was not meeting the objectives of the Franchise Fund. As a result, their management withdrew IGATI from the Fund effective September 30, 2001. Although this example is not desirable, it is evidence of the competitive marketplace at work.

The annual financial statement audit ensures “full-costing” is being performed accurately and applicable laws and regulations are being followed. The purpose of the audit is to:

- Express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, the results of its operations and changes in net position, in conformity with the Statements of Federal Financial Accounting Standards issued by the Federal Accounting Standards Advisory Board which constitute generally accepted accounting principles for the Federal government;
- Report on the Fund’s internal control over financial reporting;
- Report on the Fund’s compliance with applicable laws and regulations.

The Franchise Fund does not receive appropriation support directly or indirectly. Since inception of the Fund, all activities have been fully reimbursable. Treasury, however, provided the

Franchise Fund with \$1.2 million from reprogrammed funds to use as startup capital for cash flow purposes. This “corpus” represents the investment of the government in the Fund.



The Fund was designed to enhance customer satisfaction.

It's Working!

In the technological age, we do not forfeit the human aspect of product/service delivery, which is important to our customers. The value we bring to the customers is the high-tech, high touch approach to providing a solution. We don't just offer a "catalog" of services; we provide support to the customers as evidenced by the following examples:

- FedSource-Seattle provides EAP services to the Defense Distribution Center (DDC). Paul Okum of the DDC said, "Because of your ability to provide a comprehensive range of EAP services to all of our sites throughout the US and Hawaii, regardless of size, DDC is able to offer consistent and comprehensive EAP services to its civilian workforce, and to obtain detailed utilization reports on the use of that service... You continue to be there for us to resolve any problems and to respond to the needs of our employees and managers at a moments notice. We appreciate your superior service and sincerely hope that our partnership can continue in the future."

– Paul Okum, Defense Distribution Center.

- FedSource –St. Louis entered into an agreement with the Bureau of Alcohol, Tobacco and Firearms to provide qualified placements to support their Youth Crime Gun Interdiction Initiative and National Integrated Ballistic Information Network Programs. "FedSource/FBA has done an exceptional job of placing Firearms Program Specialists in at least 20 cities throughout the US to support the YCGI Program. These programs have unique requirements and (FedSource) has succeeded in providing qualified placements, thus making both programs a success. We would like to commend the efforts of (FedSource-St.

Louis), and Westaff, a FedSource vendor. Both have been instrumental to ensure that ATF has received qualified placements in a prompt manner."

– Toni Sigler, Program Analyst,
National Tracing Center Division, ATF

Customer feedback is a measure of our concern for the quality of our merchandise and services and our desire for consumer satisfaction. Feedback is a critical form of communication between buyer and seller. This offers us an opportunity to correct immediate problems and can provide for constructive ideas for improving products, adapting marketing practices, upgrading servicing, or modifying promotional material and product information.

You continue to be there for us to resolve any problems and to respond to the needs of our employees and managers at a moments notice. We appreciate your superior service and sincerely hope that our partnership can continue in the future.

The Federal Consulting Group has assumed a leadership role in the customer satisfaction arena. Last year FCG introduced the American Customer Satisfaction Index (ACSI). In FY 2001, FCG negotiated a new agreement with the CFI group and the University of Michigan School of Business who provide the analytical component of the ACSI. Under the terms of the agreement, FCG is now the ACSI Executive Agent for the Federal government.

Effective feedback mechanisms can result in increased sales, better products, improved personnel performance, and business economies. Our mechanisms used most often include: Immediate service/product follow-up calls, customer surveys, and customer needs analysis.

"Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage."

- Victor Kiam

Responsible Growth

Over the past several years, business growth and revenues have continued to outperform expectations – continuing strength in providing value added administrative products and services has translated into healthy increases in revenues and retained earnings. Our forecast beyond 2001 assumes that these positive growth and revenue trends will continue, and that Franchise revenue will continue to grow at moderate rates through 2002-05.

Key areas of growth will be in accounting and travel services. The Administrative Resource Center (ARC), a franchise business of the Bureau of the Public Debt, offers full service administrative accounting, HR, Procurement, travel, etc. on a cross-service basis. With emphasis placed on enterprise systems and reducing redundant duplicative systems, the prospect for ARC to add more customers is directly related to their ability to support new customers. For example, ARC is currently replacing its mainframe core accounting system, Federal Financial Systems (FFS), to offer additional benefits to its customer agencies. ARC is implementing Oracle Financials, an off-the-shelf JFMIP certified system that uses Internet technology. The new system provides a *completely integrated financial management solution.*

Legislative Update

Since implementation of the franchising concept, OMB and the U.S. Chief Financial Officers Council (comprised of the 24 CFO Act agencies, including those designated to operate franchises), have monitored individual and collective franchise performance. Based on the performance of the Franchise Funds, the Administration will be forwarding to Congress a legislative proposal, "Budgetary Cost and Performance Integration Act of 2002." Title III of the proposed legislation provides for Intra-governmental Support Revolving Funds (ISRFS) to be established to sell support goods and services on a full cost, reimbursable, and self-sustaining basis. This legislation is significant in that it validates the efforts and accomplishments that

Franchising has achieved – now requiring all government operations that provide support services to other government agencies (through Working Capital Funds, Reimbursement via Economy Act authority, etc.) to operate in the same manner as Franchise Funds!

Revision of Franchise Business Model

Managing a successful business or building up the health of an existing business requires sound, ongoing leadership and management, planning, product and service development, marketing and financial management. The odds of a small business succeeding can be daunting – according to the Small Business Administration, only 50 percent of small businesses survive their first year of operation. This fact underscores the difficulties inherent in running a business. Our business managers must know and be many things – chief executive, sales manager, controller, advertising department, personnel director, and head bookkeeper.

Due to our growth potential, we can foresee the need for changes in our business model. The dramatic increase in the complexity of managing the business and the pace of business is accelerating rapidly. Our past success is not necessarily the right formula for the future. The current organizational structure and existing operational processes and procedures will have to be remolded to ensure operational efficiency in the future. Designing the right structure for the organization's future requires an objective and coordinated review of present operations and needs. This process will include examination of the external and internal operations of our corporate and individual business units.

The main thrust of the organizational redesign will be to enhance the flexibility of the businesses both in terms of how to organize internal operations and how to best interact with external markets. This would include improvements in structure, work processes, people and skills, culture, internal administrative systems, and core goals and strategies.

Progress in Meeting Performance Goals

The Treasury Franchise Fund has established performance goals and measures consistent with the intent of the legislation establishing and operating criteria for franchise funds, i.e., financial self-sufficiency, competition, compliance, and customer service.

	Benchmark	FY 2001	FY 2000
GOAL: Ensure Business Activities are Self-Sufficient			
1. Annual financial results are equal to or greater than break even (total expenses equal total revenues)	Positive Net Position	Met	Met
2. Current Ratio	1.2	1.3	1.2
GOAL: Customer Satisfaction			
1. Satisfaction Approval Rating	80% Approval	Exceeded	Exceeded
2. Sales Volume Growth	10% increase	35%	20%
3. Growth or Decline of Customer Base	10% increase	23%	57%
GOAL: Ensure Compliance with Legal & Regulatory Requirements			
1. Results of Management Controls Reviews	No Deficiencies	Met	Met
2. Results of Annual Audit	Unqualified "Clean" Opinion	Met	Met
GOAL: Ensure Competitiveness			
1. Program Voluntary	All agreements have customer escape clause	Met	Met
2. Growth in Customer Base	10% increase	23%	57%

ANNUAL ASSURANCE STATEMENT

The Treasury Franchise Fund places a high level of emphasis on maintaining adequate management controls. As required by the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and the Reports Consolidation Act of 2000, the Treasury Franchise Fund has evaluated both its management controls and financial management systems. Our system of management controls is designed to provide reasonable assurance that:

- Programs achieve their intended results;
- Resources are used in accordance with the Fund's mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed;
- Reliable and timely information is obtained, maintained, reported and used for decision making;
- Continuity of operations planning in critical areas is sufficient to reduce risks to reasonable levels; and
- Performance information is reliable.

Various methodologies are used to determine if the management control systems and financial management systems are in overall compliance with standards prescribed by the Comptroller General of the United States and guidelines issued by the Office of Management and Budget (OMB).

- Each business activity performs an annual evaluation of its processes and procedures as well as its internal systems.
- The Administrative Resource Center, the Fund's primary accounting, procurement and personnel service provider, is part of the Bureau of the Public Debt's Management Control Plan and therefore undergoes periodic reviews. The Bureau of the Public Debt also has an annual audit of its mainframe computer system.
- Fund management periodically visits the businesses and reviews the controls established throughout the workflow.
- Each individual business is included in a 4-year audit site-visit schedule. This ensures detailed audit scrutiny of at least three businesses each year. These visits are performed in conjunction with the annual financial statement audit.

The 12 Franchise businesses and the accounting office in the Bureau of the Public Debt have been subject to review and evaluation including a financial statement audit by an independent public accounting firm. As a result, our systems of management control and the financial management systems provide reasonable assurance that the Fund is in compliance with the aforementioned standards. Our financial management/accounting systems conform to generally accepted accounting principles; and the relevant financial management system requirements and information objectives of OMB, including implementation of the Standard General Ledger. No material weaknesses or reportable conditions are being reported.



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

U.S. Department of the Treasury
Washington, D.C.

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury Franchise Fund as of September 30, 2001 and 2000, and the related consolidated statements of net cost and results of operations and changes in net position, and the combined statements of budgetary resources and financing for each of the years ended September 30, 2001 and 2000. These principal statements are the responsibility of the U.S. Department of the Treasury. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; 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*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the principal 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 principal statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury Franchise Fund as of September 30, 2001 and 2000, the results of its operations, changes in its net position, budgetary resources, and financing for each of the years ended September 30, 2001 and 2000 in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2001 on our consideration of the U.S. Department of the Treasury Franchise Fund's internal control over financial reporting and a report dated December 7, 2001 on its compliance with laws and regulations.

The information in "Management's Discussion and Analysis" is presented for the purpose of additional analysis and is required by OMB Bulletin No. 97-01. 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.

Brown & Company

Arlington, Virginia
December 7, 2001



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

U.S. Department of the Treasury
Washington, D.C.

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Department of the Treasury Franchise Fund as of and for the year ended September 30, 2001, and have issued our report thereon dated December 7, 2001. We conducted our audit in accordance with generally accepted auditing standards; 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*.

In planning and performing our audit, we considered the U.S. Department of the Treasury Franchise Fund's (the Fund) internal control over financial reporting by obtaining an understanding of the 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 the 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 no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

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 U.S. Department of the Treasury, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
December 7, 2001



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

U.S. Department of the Treasury
Washington, D.C.

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Department of the Treasury Franchise Fund as of and for the year ended September 30, 2001, and have issued our report thereon dated December 7, 2001. We conducted our audit in accordance with generally accepted auditing standards; 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*.

The management of the U.S. Department of the Treasury Franchise Fund (the Fund) is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the 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 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 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 Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

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 U.S. Department of the Treasury, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
December 7, 2001

Treasury Franchise Fund
Consolidated Balance Sheet
 As of September 30, 2001 and 2000

	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2000</u>
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	\$54,634,606	\$40,659,724
Accounts Receivable, Net (Note 3)	30,404,454	23,424,964
Advances & Prepayments	166,337	88,315
Total Intragovernmental Assets	85,205,397	64,173,003
Assets with the Public		
Accounts Receivable, Net (Note 3)	423,106	384,841
Advances & Prepayments	16,341	16,410
Inventory Held for Resale	159,410	159,410
Property, Plant & Equipment, Net (Note 5)	3,701,120	778,197
Total Assets with the Public	4,299,977	1,338,858
TOTAL ASSETS	89,505,374	65,511,861
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	\$188,755	\$127,275
Accrued Liabilities (Note 6)	997,753	3,561,603
Advances From Others	24,850,105	15,493,486
Total Intragovernmental Liabilities	26,036,613	19,182,364
Liabilities with the Public		
Accounts Payable	20,625,044	8,149,201
Accrued Liabilities (Note 6)	23,449,651	23,881,587
Advances From Others	27,413	26,708
Total Liabilities with the Public	44,102,108	32,057,496
TOTAL LIABILITIES	70,138,721	51,239,860
NET POSITION		
Invested Capital (Note 4)	\$3,746,219	\$3,746,219
Cumulative Results of Operations (Note 4)	15,620,434	10,525,782
Total Net Position	19,366,653	14,272,001
TOTAL LIABILITIES AND NET POSITION	89,505,374	65,511,861

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

Treasury Franchise Fund

Consolidated Statement of Net Cost and Results of Operations

For the years ended September 30, 2001 and 2000

	Fiscal Year 2001	Fiscal Year 2000
CONSOLIDATED / INTEGRATED ADMINISTRATIVE MANAGEMENT		
Costs	\$165,951,436	\$109,569,381
Less: Earned Revenue	168,039,937	112,246,716
Net Cost	(2,088,501)	(2,677,335)
Financing Sources (Other than Exchange Revenues)	214,741	199,621
Current Results of Operations (Financing Sources less Net Cost)	\$2,303,242	\$2,876,956
FINANCIAL SYSTEMS, CONSULTING AND TRAINING		
Costs	16,374,959	21,462,390
Less: Earned Revenue	16,974,369	20,800,236
Net Cost	(599,410)	662,154
Financing Sources (Other than Exchange Revenues)	498,170	770,600
Current Results of Operations (Financing Sources less Net Cost)	\$1,097,580	\$108,446
FINANCIAL MANAGEMENT ADMINISTRATIVE SUPPORT SERVICES		
Costs	36,106,830	32,384,134
Less: Earned Revenue	36,577,003	30,209,029
Net Cost	(470,173)	2,175,105
Financing Sources (Other than Exchange Revenues)	1,223,657	1,035,605
Current Results of Operations (Financing Sources less Net Cost)	\$1,693,830	(\$1,139,500)
FUND TOTAL		
Costs (Note 7)	218,433,225	163,415,905
Less: Earned Revenue	221,591,309	163,255,981
Net Cost	(3,158,084)	159,924
Financing Sources (Other than Exchange Revenues) (Note 8)	1,936,568	2,005,826
Current Results of Operations (Financing Sources less Net Cost)	\$5,094,652	\$1,845,902

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

Treasury Franchise Fund
Consolidated Statement of Changes in Net Position
 For the years ended September 30, 2001 and 2000

	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2000</u>
INVESTED CAPITAL		
Total Invested Capital	<u>\$3,746,219</u>	<u>\$3,746,219</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance (As reported 9/30/99)	\$10,525,782	\$8,993,729
Prior Period Adjustments	0	(313,849)
Adjusted Beginning Balance	<u>10,525,782</u>	<u>8,679,880</u>
Current Results of Operations	5,094,652	1,845,902
Ending Balance	<u>\$15,620,434</u>	<u>\$10,525,782</u>
TOTAL NET POSITION ENDING BALANCE	<u>\$19,366,653</u>	<u>\$14,272,001</u>

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

Treasury Franchise Fund Combined Statement of Budgetary Resources

For the years ended September 30, 2001 and 2000

	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2000</u>
BUDGETARY RESOURCES		
Unobligated Balance	71,852,926	29,312,662
Spending Authority from Offsetting Collections	253,272,027	209,378,960
Adjustments	9,462,096	5,631,171
Total Budgetary Resources	<u>\$334,587,049</u>	<u>\$244,322,793</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	230,553,256	172,469,867
Unobligated Balances Available	104,033,793	71,852,926
Total Status of Budgetary Resources	<u>\$334,587,049</u>	<u>\$244,322,793</u>
OUTLAYS		
Obligations Incurred	230,553,256	172,469,867
Less: Spending Authority From Offsetting Collections and Adjustments	262,734,123	215,010,132
Obligated Balance, Net - Beginning of Period	(31,193,144)	(9,783,204)
Less: Obligated Balance	49,399,187	(31,193,144)
Totals Outlays	<u>(\$13,974,824)</u>	<u>(\$21,130,325)</u>

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

Treasury Franchise Fund
Combined Statement of Financing
 For the years ended September 30, 2001 and 2000

	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2000</u>
OBLIGATIONS & NONBUDGETARY RESOURCES		
Obligations Incurred	\$230,553,256	\$172,469,867
Less: Spending Authority from Offsetting Collections and Adjustments	262,734,123	215,010,132
Financing Imputed for Cost Subsidies	1,936,568	2,005,826
Total Obligations as Adjusted and Nonbudgetary Resources	(\$30,244,299)	(\$40,534,439)
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Change in Amount of Goods Services and Benefits Ordered but Not Yet Provided (Net Increases) Net Decreases	2,234,779	(2,555,267)
Change in Unfilled Customer Orders	27,790,301	43,705,819
Costs Capitalized on the Balance Sheet (Increases) Decreases	(3,109,474)	(413,130)
Other	(15,941)	(301,593)
Total Resources That Do Not Fund Net Costs of Operations	\$26,899,665	\$40,435,829
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	186,550	198,871
Other	0	59,663
Total Costs That Do Not Require Resources	\$186,550	\$258,534
NET COST OF OPERATIONS	(\$3,158,084)	\$159,924

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

1. Significant Accounting Policies

A. Reporting Entity: The Treasury Franchise Fund was authorized by the Government Management and Reform Act of 1994 and P.L. 104-208, the Treasury Department FY 1997 Appropriations Act. The Treasury Franchise Fund provides administrative support services on a competitive, fee-for-service, and full-cost basis. The Fund currently consists of twelve separate "business activities" most with a separate account established to facilitate financial reporting. The financial statements presented in this report are consolidated to reflect the activity of the Fund as a whole. The accounts established to date are:

<i>Corporate Account, Rocky Mountain Regional FBA, FedSource-SC</i>	<i>.20X4560</i>
<i>Business Activity (Los Angeles)</i>	<i>.20X4560.001</i>
<i>FedSource-Seattle</i>	<i>.20X4560.002</i>
<i>Business Activity (Cincinnati)</i>	<i>.20X4560.003</i>
<i>GoTo.Gov (Baltimore)</i>	<i>.20X4560.004</i>
<i>Treasury Agency Services</i>	<i>.20X4560.005</i>
<i>Federal Consulting Group</i>	<i>.20X4560.006</i>
<i>FedSource-St. Louis</i>	<i>.20X4560.007</i>
<i>FedSource-Chicago</i>	<i>.20X4560.008</i>
<i>Global Services (San Antonio)</i>	<i>.20X4560.009</i>
<i>Administrative Resource Center</i>	<i>.20X4560.010</i>
<i>Inspectors General Audit Training Institute (IGATI)</i>	<i>.20X4560.011</i>

During FY 2001, the fund received a request for admittance from RMRC and a notification of withdrawal from IGATI. In June 2001, Franchise Fund Advisory Board voted to admit RMRC into the fund effective July 1, 2001. In addition, in September 2001 an exit plan was developed and implemented to tran-

sition IGATI from the fund effective September 30, 2001.

The Government Management and Reform Act, as amended, authorizes a five-year pilot program of which Fiscal Year 1997 was the first year. By the end of the pilot program, the Office of Management and Budget (OMB) will evaluate the program determining whether to extend the pilot or make the Franchise Fund permanent. If it is determined that the Franchise Fund will not be renewed, it is expected that these organizations composing the Treasury Franchise Fund will each continue to operate as reimbursable funded operations within the Department of Treasury.

P.L. (104-208) allows the Fund to retain its earnings in excess of costs to the extent that they are needed to establish a reasonable operating reserve. Earnings over costs that are in excess of a reasonable operating reserve will be transferred to an account to support initiatives of the Secretary of the Treasury (as prescribed in P.L. 104-208) or returned to Treasury's General Fund. Reasonable operating reserves have been defined as those funds necessary to cover the cost of performing our services plus investments necessary to continue to provide those services.

B. Basis of Accounting: These financial statements are prepared using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash.

The OMB publishes applicable accounting standards and principles for Federal entities, as well as the form and content to be followed for the preparation of these statements.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal government, the Secretary of the Treasury, the Comptroller of the United States, the Director of the OMB, and the Joint Financial Management Improvement Program (JFMIP)

established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountant's (AICPA) Council designated FASAB as the accounting standards authority for Federal government entities. Therefore, these financial statements are presented in conformity with generally accepted accounting principles. Prior to the AICPA Council's designation, Federal financial statements were presented as an other comprehensive basis of accounting.

The Federal GAAP Hierarchy is as follows:

1. Officially established accounting principles, consists of Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations, as well as AICPA and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to Federal governmental entities by FASAB Statements or Interpretations. FASAB Statements and Interpretations will be periodically incorporated in a publication by the FASAB.
2. Consists of FASAB Technical Bulletins and, if specifically made applicable to Federal governmental entities by the AICPA and clearly by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
3. Consist of AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.
4. Includes implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the Federal government.
5. In the absence of a pronouncement covered by rule 203 or another source of established accounting principles, the auditor of financial statements of a Federal governmental entity may consider other accounting literature, depending on its relevance in the circumstances.

C. Basis of Presentation: These financial statements are provided to meet the requirements of the Government Management and Reform Act (GMRA) of 1994. The statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and Results of Operations, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Combined Statement of Financing.

These financial statements have been prepared from the books and records of the Franchise Fund in accordance with the formats prescribed by OMB.

D. Retirement Plan: Franchise Fund employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and the Fund makes a mandatory 1 percent contribution to this account. In addition, the Fund makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the Fund remits the employer's share of the required contribution.

The Fund does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

2. Fund Balance with Treasury

The Franchise Fund does not maintain cash in commercial bank accounts. Funds collected by the Franchise Fund for services provided are deposited in the Fund's revolving fund account with Treasury. There are no restrictions on any of the funds held by the Franchise Fund. All funds are available to pay current liabilities of the Fund.

3. Accounts Receivable

Intra-governmental (Federal) accounts receivable represent billed and unbilled costs of services provided to other government agencies/bureaus. Accounts receivable with the public consists of amounts due from entities outside the Federal government.

Past experience for the Franchise Fund shows the majority of receivables will be collected. The dollar amount of receivables that have not been collected has been very small. Therefore, an allowance for doubtful accounts is not estimated.

4. Net Position

The Fund's net position is composed of invested capital and the cumulative results of operations.

Invested Capital: To facilitate the start-up of the Franchise Fund, the Department of the Treasury transferred appropriated funds in FY 1996 to provide the initial cash needed to begin franchise operations. The initial transfer represents the government's investment in the Franchise Fund. The \$3.7 million of invested capital includes \$1.2 million in appropriated funds transferred to the Franchise Fund by the Department of the Treasury as well as \$2.5 million brought into the Fund by the Franchise Business Activities as they have entered the fund. The Franchise Business Activities' initial investment represented \$3.6 million of cash that was brought into the fund and was reduced by \$1.1 million of annual leave liability that they also brought into the Fund at the same time. The total

Invested Capital was reduced by the amount of annual leave liability that each entity brought with them as they entered the Fund.

Cumulative Results of Operations: The cumulative results of operations, represents the net difference between revenue and expenses and gains and losses incurred since the inception of the Fund.

5. Property, Plant and Equipment, Net

The Fund follows the Department of the Treasury's guidelines on Property, Plant, and Equipment concerning how to account for IT software and ADP equipment. The Department's fixed asset capitalization threshold was established pursuant to the Federal Accounting Standards Advisory Board's standard "Accounting for Property, Plant, and Equipment." In this standard, FASAB directed Federal agencies to establish their own fixed asset capitalization threshold. The Department's capitalization threshold is \$50,000, which has been adopted by the Fund.

Acquisitions have been capitalized at full acquisition cost and depreciation is calculated over the estimated useful lives of the assets. All maintenance and repairs are expended as incurred. As of September 30, 2001, the Fund had capitalized information technology software and ADP equipment with a cost of \$1,615,236 with estimated useful lives ranging from three to five years. Accumulated depreciation on IT Software and ADP Equipment at year-end totaled \$738,932 leaving a book value of \$876,304. (See graph next page.)

During FY2001, the Administrative Resource Center accumulated \$2,824,816 in Construction-in-Progress (CIP) relating to the purchase and development of a new automated accounting system. It is anticipated that the new system will be amortized beginning in FY 2002.

Schedule of Depreciation

	Depreciation Method	Service Life (in years)	Cost	FY 98 - 01 Accumulated Depreciation	FY 01 Book Value
CIP - IT Software	N/A	N/A	\$2,824,816	N/A	\$2,824,816
Information Technology Software	Straight-line (1/2 year convention)	3 - 5	\$1,458,664	\$665,626	\$793,038
ADP Equipment	Straight-line	3	\$156,572	\$73,306	\$83,266
TOTAL			\$4,440,052	\$738,932	\$3,701,120

6. Accrued Liabilities

The accrued liabilities for the Franchise Fund are comprised of program expense accruals, payroll accruals, and annual leave accruals. The program and payroll expense accruals represent expenses that were incurred prior to year-end but were not paid.

Leave liability accruals represent the current value of unpaid annual, restored annual and compensatory leave at year-end. The leave liability for the Franchise Fund is funded. In other words, budgetary resources have been set aside to cover any necessary payments related to the liability. Any leave balances that were brought into the fund at its inception reduced the initial invested capital that was also brought into the fund (rather than being recorded as an expense). These initial leave balances are also funded.

Sick leave and other types of non-vested leave are not accrued and are charged to operating costs only when taken.

Schedule of Accrued Liabilities

	FY 2001	FY 2000
Program Expense Accrual		
Intragovernmental	702,589	3,228,487
With the Public	20,101,735	21,163,153
TOTAL	\$20,804,324	\$24,391,640
Payroll and Annual Leave Accrual		
Intragovernmental	295,164	333,116
With the Public	3,347,916	2,718,434
TOTAL	\$3,643,080	\$3,051,550
Total Accrued Liabilities		
Intragovernmental	997,753	3,561,603
With the Public	23,449,651	23,881,587
TOTAL	\$24,447,404	\$27,443,190

7. Operating/ Program Costs

Costs by major budgetary object classification are as follows:

BUDGETARY OBJECT CLASSIFICATION	FY 2001	FY 2000
Personnel & Benefits	\$30,235,367	\$29,772,622
Travel & Transportation	782,231	729,781
Rents, Communications & Utilities	1,471,054	1,398,501
Printing & Reproduction	2,459,429	244,900
Contractual Services	181,264,283	128,415,247
Supplies & Materials	449,481	534,655
Equipment	1,738,769	2,319,986
Miscellaneous	32,611	213
TOTAL	\$218,433,225	\$163,415,905

8. Financing Sources (Other than Exchange Revenue)

The Fund's activities are financed through the revenue it receives for the services and products it provides. In order to show the full cost

Schedule of Financing Sources

	FY 2001	FY 2000
Post Retirement Benefits to be Paid by OPM	\$1,773,919	\$1,583,794
Salary Benefits Paid by Other Agencies	162,649	422,032
TOTAL FINANCING SOURCES	\$1,936,568	\$2,005,826

of operations, the Fund also shows imputed costs and imputed revenue. In FY 2001, the Fund recognized \$1,936,568 of imputed revenue as additional financing sources.

The Office of Personnel Management (OPM), rather than the agency for which the employee works, pays some pension and benefit costs of Federal agencies. The pension and benefit costs paid by OPM are composed of three basic items: pension expense, health insurance expense, and life insurance expense. The payment of those costs represents imputed financing sources for the Fund. The Balance Sheet does not reflect the related liability because the Fund has no obligation to pay those costs (these will be paid by the Office of Personnel Management).

"Salary and Benefits Paid by Other Agencies" represents the salary and benefits of personnel detailed from other agencies (at no cost to the Fund) that add staff to one entity in the Fund. These detail assignments represent executive training for the individuals detailed and thus the agency providing the detailee has determined, consistent with appropriations law, that the value of the training received equals the cost of the detailed employee's salary and benefits. The Fund has recognized the salary and benefits of these employees as costs of the Fund and has recognized an off-setting financing source for the payment of these costs by the agencies authorizing the detail assignments.

9. Lease Liabilities

The Fund incurs expenses for operating leases, primarily for facilities needed to conduct required functions. Currently, each Franchise Business Activity leases office space but those leases do not meet the criteria for recognition as capital leases.

Scheduled Operating Lease Future Payment

	FY 2001
FY 2002	964,674
FY 2003	343,074
FY 2004	89,975
FY 2005	92,674
FY 2006	95,455
Thereafter	0
TOTAL FUTURE PAYMENTS	\$1,585,853

10. Commitments and Contingencies

There are no commitments or contingencies that require disclosure.

**Treasury Franchise Fund
Advisory Board**

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Karen Blum - Vice Chair & Chief Operating Officer,
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