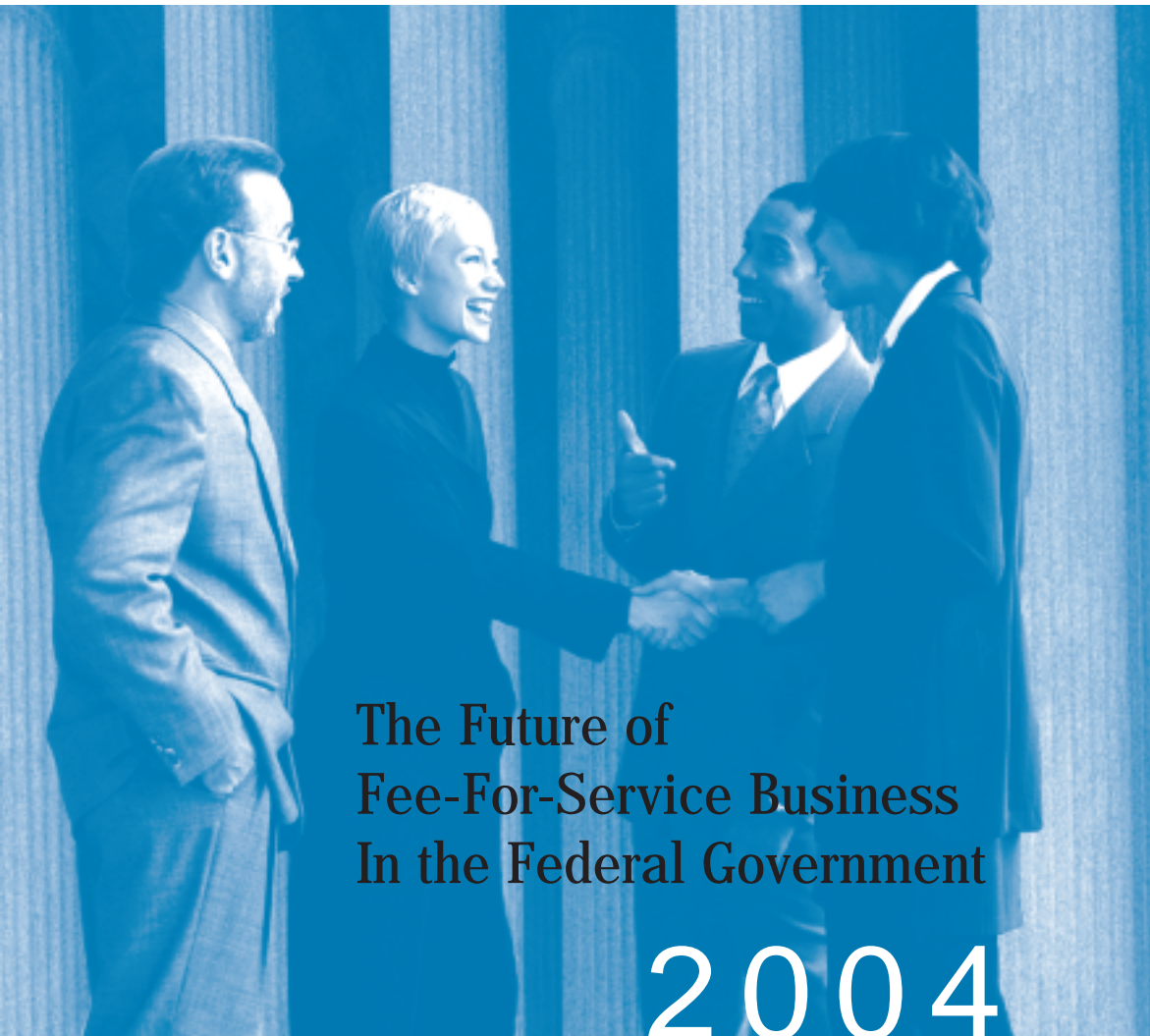


Department of the Treasury

Franchise Fund



The Future of
Fee-For-Service Business
In the Federal Government

2004

ACCOUNTABILITY & ANNUAL REPORT

Partner with the Leader

Treasury's Shared Services

***An OMB Approved
Financial Management Center of Excellence***

Message from the Deputy CFO of Treasury

Adaptation... Foresight ... Evolution... These concepts are woven deep into the fabric of our culture and are part of what has made the Fund a leader in the shared services industry. In the spirit of “franchising”, we have continually responded to shifts in the marketplace to ensure we are positioned for the future.

This past year has been marked by significant change for the Fund. As we have all learned in the franchise arena – change is constant. It’s part of what makes us unique in the government landscape. Like any other private sector company, we have to respond to market shifts, customer demands, and an ever-evolving business model. However, this year has been distinctive in that the changes that have been taking place within the Fund and across the government landscape seem to be pointing the Fund to a single destination –Shared Services.

Under the President’s Management Agenda, the Office of Management & Budget created the Financial Management Line of Business Initiative. The Financial Management Line of Business is one of many e-gov initiatives addressing redundant IT investments and business processes across the government. OMB has adopted the Treasury Franchise Fund’s shared services business model as the standard for the entire government. They have designated a few Shared Service Centers or “Centers of Excellence” to provide the financial system platform that will capture efficiencies and reduce costs without compromising support for agency accountability, financial controls, or mission effectiveness. I am very proud that the Treasury Franchise Fund has been chosen as one of the Centers of Excellence in Financial Management. Financial management has continued to be the cornerstone in our suite of shared services that also includes procurement, travel and human resources.

On these next few pages, we will guide you through the decision process of choosing a shared services provider. We will then make the case for choosing the Treasury Franchise Fund.

The success of the shared services model has been proven in the private sector and has already seen considerable accomplishment in the government arena. On these next few pages, we will guide you through the decision process of choosing a shared services provider. We will walk you through the characteristics of a successful shared services provider and then make the case for choosing the Treasury Franchise Fund.

Barry Hudson
DCFO
Treasury Department

Shared Services - It Works!

Focus on your core mission and allow us to focus on ours – making you more productive. By creating an efficient administrative platform and eliminating duplicative backroom functions, the Treasury Franchise Fund has developed a “Shared Services” business model that can offer marketplace success to the federal government in the administrative support arena.

What is a Shared Service Provider?

A Shared Service Provider is a business unit that offers system platform and/or transaction processing to other business units while ensuring a high level of customer service, charging customers for services provided, and developing a performance measurement culture. The Treasury Franchise Fund is a shared service provider offering a broad range of administrative services to the entire federal community.

Primary Benefits of Shared Services for Government Agencies

- Reduced Capital Investment Costs
- Enhanced Focus on Core Results
- Increased Administrative Service Productivity

How do you choose a Shared Service Provider?

The administrative burden that accompanies any federal entity’s core mission is enormous. Keeping systems up to date and making sure administrative processes and procedures are compliant with the ever changing environment can shift your focus off of your central mission. Finding a partner that can ease this administrative load is critical in today’s government, but what do you look for in a Shared Service Provider?

Find a partner that has the following characteristics:

- **Strong Heritage** – you want a partner that has demonstrated success over the long haul.
- **Industry Leader** – you want a partner that is recognized as an industry leader.
- **Proven Business Model** - you want a partner that has financial stability, integrated system platform, growth capabilities, and a clear vision of where they are heading.
- **Strong Private Sector Alliance** – you want a partner that has built a coalition with other industry leading private sector corporations.
- **Competitive Position** – you want a partner that is in the marketplace and has to compete for your business and the other business that it retains.
- **Intense Customer Focus** – you want a partner that sees your individual needs and has the capabilities to meet your changing requirements.

The Treasury Franchise Fund is recognized as the expert of choice. As we support you every day and as we continuously strive to help you focus on your core missions, you will recognize our commitment to quality as well as our flexibility, business expertise, and world-class delivery options.

Message from the Deputy CFO of Treasury

Shared Services - It Works!

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CORPORATE PROFILE - LEARN MORE ABOUT US!

Overview

The Treasury Franchise Fund is one of the government's leading shared services providers. As an entrepreneurial government enterprise, we were 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. We foster innovation in the delivery of administrative services that enables our customers to focus on what matters to them – serving the taxpayer.

Our vision is to become the *preeminent* administrative service provider in the federal government by energizing a shared services business model that can offer marketplace success in the government administrative support arena.

Our mission is to help agencies concentrate on their core missions by creating a more efficient administrative platform and eliminating duplicative backroom functions.

We are differentiated in the marketplace because of our:

- **Partners:** We have partnered with the best private sector providers such as Oracle, CompuSearch, Citibank, mLINQS and 3I to offer the government's finest integrated administrative system platform.
- **Unique Relationship with the Treasury Department:** Being part of Treasury allows us to monitor the ever-changing financial environment and stay a step ahead of the competition.
- **Customer Depth:** We have clients in every executive branch agency as well as in all of our nations defense departments.
- **Leadership:** We have been a leading service provider of administrative services in the government for several years. We have even provided guidance to other foreign governments in their efforts to develop shared services models.
- **Experience:** We have been satisfying customer needs for over eight (8) years.

Building a Partnership

mLINQS is proud to partner with the Treasury Franchise Fund's Administrative Resource Center (ARC), because ARC is a leading Travel Service provider in the federal government... With ARC, agencies achieve a stronger eTS return on investment and deliver travel services to their customers in a high quality manner.

Greg McIntyre,
President,
mLINQS, LLC
(Travel Relocation System Provider)

Service Offerings

- **Accounting:** We are an OMB approved "Center of Excellence" for Financial Management. We offer a complete range of financial services using a contemporary,

web-based, integrated financial system (Oracle Financials) in combination with an experienced and dedicated staff. On one end of the spectrum, we can provide total accounting support including transaction processing, system setup and support, and comprehensive reporting. At the other end, if all you need is platform support, we can provide a fully integrated and modern system that can be configured to meet the financial needs of any Federal organization.

- **Travel:** Using a state-of-the-art, web-based system (GovTrip), we provide Federal financial managers the opportunity to meet their travel processing needs without purchasing, installing, and maintaining expensive new software or training staff to operate such a system. Though not limited to the following, our range of travel-related services includes document processing, Travel Management Centers, Citibank Charge Card Program Administration, and Employee Relocation.

- **Procurement:** We offer a complete range of acquisition support; from awarding and administering complex contracts to providing simplified acquisition support. A state of the art web-based procurement system (Prism) that is fully integrated with the accounting system facilitates efficient processing.

- **Human Resources:** We provide the full range of personnel services. The level of service provided can be customized to meet an organization's unique needs.

- **Project Support:** We can assist you with staffing and managing your long- and short-term project requirements in a variety of different skill categories.

- **Digital Copiers / Document Automation:** We can assess your agency's copying patterns and design a service to fit your needs. We work with you to develop a customized document management solution.

- **Professional Development Training & Consulting:** We provide the financial management training and professional consulting to support life-long learning and organizational development.

- **Customer Satisfaction Measurement:** Using on-line responses with the American Customer Satisfaction Index (a cross-industry measure of the quality of goods and services) we enable federal agencies to: measure program performance, identify targets of opportunity, and obtain valuable feedback from their customers.

Integrated Procurement System (PRISM)

"Access to and integration with other Federal systems including CCR and FPDS-NG, make this a truly robust solution for Administrative Resource Center (ARC) clients. ARC clients can take advantage of the interface capability of PRISM to seamlessly exchange financial and other key data with external systems.

The implementation of this fully scalable solution has positioned the ARC for future growth and expansion of its client base and has equipped it with the tools to continue to provide a superior level of service.

Chae Y. Shir,
Director, Business Development,
CompuSearch Software Systems, Inc.

QUICK FACTS

Our Heritage

- Conceptualized in the Reinventing Government effort
- Established by the Government Management Reform Act of 1994 (GMRA)
- Founded by OMB in May 1996
- Made permanent in 2004
- Delivering results ever since!

Our Customers

- Over 2,800 customers.
- Total customers increased by 23% in FY 2004. (See graph on next page).
- We have customers in all three Branches of the Government, every Executive Branch department, and all branches of the US Military.
- Visit our websites below for a complete customer list.

Our People

- Over 650 employees nation-wide

Our Presence

- Nation-wide and limited global coverage

Our 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.

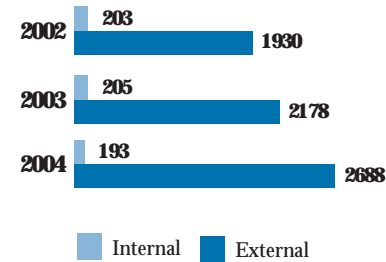
Our Businesses & Websites

- ARC: <http://arc.publicdebt.treas.gov>
- FedSource: www.fedsource.gov
- TAS: www.fms.treas.gov/tas
- FCG: www.fcg.gov

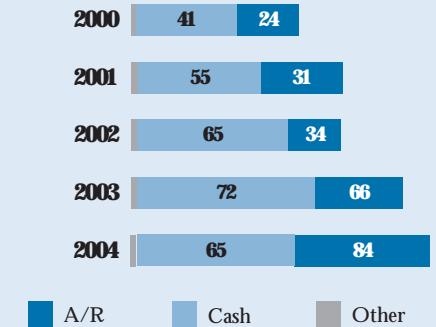


Financial Highlights

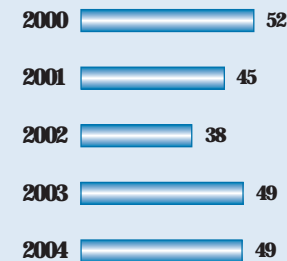
CUSTOMER BREAKDOWN
In Millions



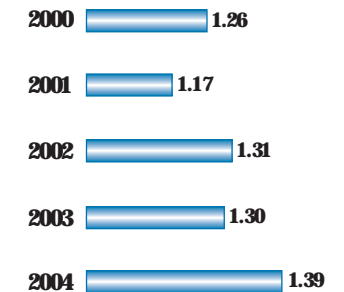
TOTAL ASSETS
In Millions



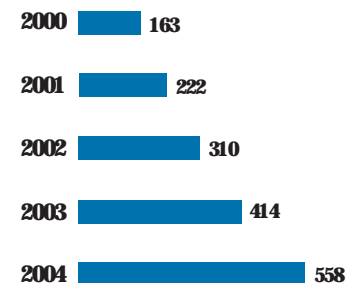
ACCOUNTS RECEIVABLE
COLLECTION PERIOD
In Days



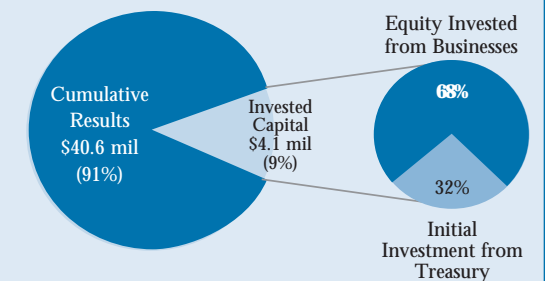
CURRENT RATIO



TOTAL REVENUE
In Millions



EQUITY BREAKDOWN
FY 2004



STRONG HERITAGE – FINDING A PARTNER THAT HAS DEMONSTRATED LONG-TERM SUCCESS

Success can be fleeting. When choosing a shared service provider, look for a business that cannot only achieve short-term results but has a proven track record of meeting their objectives over and over again. This type of success can only be provided by industry leaders who have demonstrated, over the long haul, they can help reduce duplicative and unnecessary systems and processes and offer more efficient delivery of administrative services.

Demonstrated Success – Eliminating Duplication

To often in the federal landscape we find duplicate systems and processes that are implemented across the street from each other. These decisions are the product of stovepipe management and budget processes that keep federal entities from seeing the value in sharing platform and implementation costs. The Treasury Franchise Fund has achieved efficiencies and generated value to the government by eliminating duplicative services and offering systems platforms that can be shared by many – thus reducing the cost to the government. In a shared services environment, agencies own the data but not the technology to process it. This saves the agencies money on hardware and software without losing the control and accountability of their financial or human resources data. Highlights of our efforts/successes follow:

Shared Platform & Services

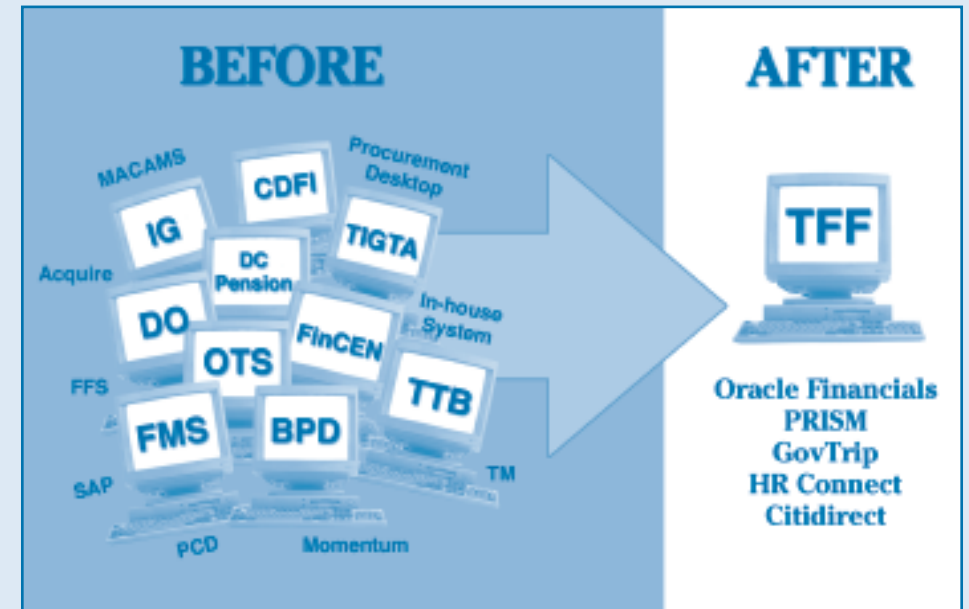
ARC has reduced the number of federal administrative systems by providing access to an integrated system platform for administrative accounting, travel, procurement and personnel functions. In addition, ARC acts as a shared service provider for many customers providing full-service transaction processing and reporting.

The Administrative Resource Center (an OMB approved Center of Excellence for Financial Management) now provides:

- Σ 28 organizations with administrative accounting services
- Σ 28 organizations with travel services
- Σ 32 organizations with procurement services
- Σ 17 organizations with personnel services

The consolidation of these federal organizations onto a shared systems platform has provided substantial savings to the federal government. These organizations now get better license costs because the vendors offer large volume discounts. These organizations also share the costs associated with maintenance and operations (see pg. 6). In additions to the cost savings, these organizations are upgraded to the latest version of the software simultaneously as opposed to each organization managing their upgrade independently.

CASE IN POINT: TREASURY SHARES SERVICES



In the past, the Department of Treasury had a decentralized administrative service environment where decision making was stove-piped and duplicate systems were the norm. There were 14 different Bureaus and organizations within Treasury running their own accounting, procurement, travel and various system platforms. Each organization trained separate staffs to manage their systems and process the transactions. With the evolution of the Administrative Resource Center (ARC), Treasury has now moved to a shared services environment where 11 of the 14 entities share systems on a single integrated platform. In addition, many of the Bureaus take advantage of ARC's experienced staff to process their transactions and provide their reporting.

Consolidating agency needs

FedSource can consolidate multiple requirements from several offices within the same agency into one procurement vehicle. For example, FedSource has combined copier equipment, software for the agency's 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. FedSource became "one-stop" shopping. In another example, FedSource 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.

Demonstrated Success – Efficiency

Efficiency is the ability to perform well or achieve a result without wasted energy, resources, effort, time or money. Competition, a cornerstone of the franchising concept, has been the impetus behind improving government efficiency. Competition has increased the focus of service providers on the needs of the customer, introduced the need for market solutions instead of administrative bureaucracy, decentralized authority, and improved efficiency by delivering better services at lower costs in the most effective manner.

The following example illustrates the Fund's ability to efficiently deliver services and products.

CASE IN POINT: AHEAD OF SCHEDULE AND UNDER BUDGET

March Air Reserve Base in Riverside California approached FedSource about a major pavement project needed on a large portion of their tarmac (air runway). The asphalt was in really bad shape; lifting in some areas, sinking in others, making it. This in turn made it difficult for the Joint Forces Command to support the mission in Iraq and Afghanistan.

One of the major dilemmas faced by March ARB was that their contracting office had already closed for the fiscal year. FedSource offered March ARB their flexibility and timeliness by: (1) reviewing of the statement, (2) providing “walk through” meetings with a FedSource Construction Technical Specialist, (3) offering six highly qualified construction companies to bid on project, (4) negotiating price quotes to offer best value to March ARB, and (5) awarding the contract and obligating funds prior to September 30, 2003. (FedSource went as far as assisting March AFB contracting office to fill out all their necessary paperwork to be able to transfer funds prior to midnight of September 30.)

This has been a real success story because the Tarmac Asphalt Project was actually completed to the Air Field Manger's expectations ahead of schedule and under budget! The base Air Manger and Lead Civil Engineer said at a pre-inspection meeting that this was possible only because of the flexibility, adaptiveness and accuracy of FedSource and their prime construction vendor. The base was able to make full use of the tarmac and the landing of light aircraft was resumed. The base supports the mission against terrorism overseas by using the tarmac to load and unload supplies on aircraft on route to Iraq and Afghanistan. More importantly, March AFB uses the tarmac to land aircraft carrying U.S. service members bringing them home safely!

... the real success story was that the Tarmac Asphalt Project was actually completed to the Air Field Manger's expectations prior to project deadline and under budget!

Reducing Overhead Costs

Many customers have realized reduced pricing, rebates, and volume discounts as a result of the economies of scale and improved efficiency of FedSource's services. In order to remain competitive, FedSource continues to find ways to reduce their operating (overhead) costs. FedSource is able to give a price reduction when obtaining large orders because, in most instances, their operating costs remain fairly constant. This is best illustrated by looking at their operating percentage, which quantifies operating costs as percentage of total revenue. The increase in revenue has outpaced the increase in operating costs. As a result, FedSource's operating percentage has steadily decreased from 7.0% in FY 1998 to 2.7% in FY 2004 representing a 61% reduction.

Timely Financial Information (And it's Accurate!)

The Administrative Resource Center has always been among Treasury's best in quality and timeliness of financial reporting. ARC



continues to strive to set the example for efficiency and quality in the area of financial reporting. With Oracle's reporting tool (Discoverer), federal managers have real-time data at their fingertips any day of the month. By closing their customer's books by the 3rd business day following each month, timely financial data (such as unobligated balances) is quickly in the hands of federal managers for decision-making. By closing the year-end books five business days after year-end, federal managers have the data necessary to provide year-end reporting well ahead of their counterparts in other agencies.

There is no better test for the accuracy and quality of financial data than an annual financial statement audit. The Treasury Franchise Fund has received eight straight “clean” audit opinions. Externally, ARC has helped their customers receive over 40 consecutive clean audit opinions. You can also count on the internal control structure that ARC maintains. Each year ARC undergoes a SAS 70 Audit that verifies the entire control structure from disbursement processing to financial reporting. Each agency saves money on their annual financial statement audits because those auditors can rely on the work done during ARC's SAS 70 Audit.

“ARC is highly responsive to our needs, very professional, and an invaluable partner to ensure the sound fiscal management and operations of our agency.”

~Linda Borst Kolko,
Vice President for Operations,
Inter-American Foundation

Private Sector Accountability

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

"FedSource's billing and project reporting instructions are clear, efficient, and effective. What they have asked for covers all the legal and contractual requirements without being burdensome. I believe this process will assist us in controlling our support costs, and the experience may well allow us to propose larger discounts on future efforts just knowing that my support costs will not be excessive."

~ Robert Mortenson,
Digitalnet Government Solutions

Increased Buying Power

FedSource provides integrated contract and financial administration. These services are provided to over 2,500 federal customers. The primary function of FedSource is to award and administer task orders on behalf of customer agencies for commonly required services. FedSource is able to leverage its buying power through its marketplace presence to obtain pricing that would otherwise be unavailable to agencies purchasing these services on their own. FedSource does this mindful of the government's socioeconomic program goals and objectives.



RECOGNIZED INDUSTRY LEADER – FINDING A PARTNER THAT ‘SETS THE BAR’ FOR THE PROFESSION.

Partnering with the “best in class” is always a good business decision. When choosing a shared service provider you need to look for a business that is held up as the benchmark. Selecting an industry leader will ensure that you align your agency with a business that has a clear vision of the changing environment and a plan to make sure your needs will be met.

"The Administrative Resource Center (ARC) has emerged as a leading provider of cross-servicing application solutions to the federal government using Oracle® E-Business Suite."

~ Wayne Bobby,
Finance and Administration
Solutions Director,
Oracle Public Sector

Leading the Industry

The Fund has taken a leadership role in the cross-servicing arena. As an industry leader we have served as the model of the new shared services initiative. When OMB looked for a business model to meet their needs for the Financial Management Line of Business initiative they chose one that mirrors the Treasury Franchise Fund — one that focuses on common solutions (or shared platforms and processes) that are driven by the competitive market.

Setting the Standard

The success of our business model has been highly touted throughout the government. As a result, the Fund has had numerous inquiries regarding: how we were established, the keys to our success, and what we saw as the future of shared services. For example, we were sought out by government representatives from both Canada and the United Kingdom and asked to explain our business model. We shared the basics of our shared services model and highlighted the importance of the competitive marketplace to drive innovation and ensure customer satisfaction.

FedSource's partnering efforts with private contractors may well be the most effective contracting procedure ever introduced by the Federal Government. Without question, FedSource has established a reputation that will be long lasting and of incomparable value to the Federal Government.

~ Breil Worldwide Mgt, Inc.

OMB has approved the Treasury Franchise Fund as a Center4r for Excellence for Financial Management.

Experience Makes a Difference

The difference when you partner with the Treasury Franchise Fund is evident from day one. We have developed the depth of resources, scope of experience, and the breadth of capabilities to meet your needs. For over eight years, the Fund has been a partner that our customers have learned to trust. With each new customer that is added, our cadre of experienced professionals grows. For example, ARC currently has over 36 CPA's providing accounting services and offering expert advice.

Creating a Vision

As a high performing business, the Fund sees opportunities amidst the chaos. We put insight into action. We also have the courage to move before change is inevitable. Since our inception, we have consistently stayed ahead of the competition by anticipating our customer's needs and taking the steps necessary to modify our service offerings.

Make no little plans. They have no magic to stir men's blood and probably themselves will not be realized. Make big plans. Aim high in hope and work. Remembering that a noble, logical diagram once recorded will not die
~ Daniel H. Burnham

Careful Planning Creates Opportunity

Through careful planning and making decisions based on a long-term horizon, the Fund has positioned itself to take full advantage of OMB's designation as a Center of Excellence. By partnering with the leading private sector vendors and developing a state-of-the-art system platform that can be shared by multiple government agencies, the Fund has created and successfully implemented the model that was finally chosen by OMB. As a Center of Excellence, the Treasury Franchise Fund has moved their proven shared service model onto the "big stage" and positioned themselves to cross-service other large federal agencies.



PROVEN BUSINESS MODEL – FINDING A PARTNER THAT HAS BUILT A BUSINESS PLATFORM THAT POSITIONS THEM FOR CONTINUED GROWTH

A solid business model encompasses many facets. When choosing a shared service provider you need to look for a business that has created a strong financial foundation, invested in a state-of-the-art system platform, and is positioned for growth.

Financial Stability

Strong Balance Sheet

We have developed a solid balance sheet over the last 8 years. Unlike normal federal entities, cash flow for a business entity is extremely important. As a result, we must constantly monitor our cash balance and our receivable cycle. We use the Accounts Receivable Turnover Ratio to track our receivable cycle. This ratio identifies how long it takes to bill and collect funds from customers after revenue has been earned. Traditionally, this period is 60 days; 30 days to bill and 30 days to collect. The Fund however has managed to cycle receivables in less than 50 days.

By ensuring that we have adequate cash in-flow, the Fund can meet its payment obligation to its vendors. The Fund has maintained a prompt payment rate over 99% for several years. This is extremely important because we rely a great deal on our private sector partners, many of which are small businesses and struggle with their own cash flow problems.

Reasonable Operating Reserve

The Fund does not receive an annual appropriation from Congress. Therefore, the Fund is responsible for covering all their costs through reimbursements for the services that we provide. The Fund has sustained a controlled eight-year expansion that has enabled it to develop a reasonable operating reserve. The operating reserve is critical to the health of the Fund enabling it to (i) weather downturns in business brought about by unforeseen circumstances, (ii) pay for system and process enhancements, and (iii) maintain an adequate cash flow. In FY 2004, the Fund's total equity was \$44.7 million (see Chart on page 7). Cumulative Results of Operations since the Fund's inception totaled \$40.6 million, which accounts for 91% of the Fund's total equity. The \$4.1 million of Invested Capital represents \$1.2 million initially invested by Treasury and \$2.9 million invested by the individual businesses (see Chart on page 7).

Another “Clean” Opinion

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

- Financial Statements,
- Internal Controls over Financial Reporting, and
- Compliance with Laws and Regulations.

Added Assurance

The Fund has received its eighth straight unqualified opinion on the audit of its financial statements.



Integrated Platform

We believe that customers find enormous value in a truly integrated, affordable administrative platform. To continue to strengthen our value proposition, we are focused on the following objectives:

- Advanced integration between Prism and FPDS-NG (Fed Procurement Data System – Next Generation)
- Enhanced payroll interface capability - to be able to accommodate files from all four e-gov approved payroll providers (currently only NFC and GSA are interfaced)
- Improved automated payroll projection functionality

“ARC clients can take advantage of the interface capability of PRISM (ARC’s integrated procurement solution) to seamlessly exchange financial and other key data with external systems.

~ Chae Y. Shim

Director of Business Development,
Compusearch Software Systems, Inc.

Growth Capabilities

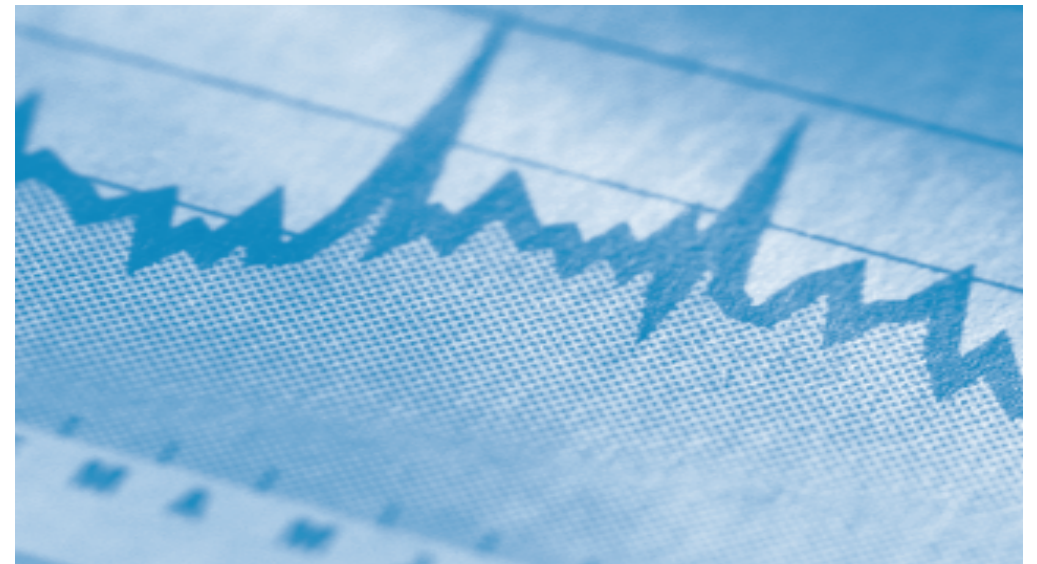
Can we still grow? This question has been asked every year since our inception. The Fund has one answer – As long as inefficient and ineffective administrative services exist; as long as duplicative and unreliable systems exist – the Fund must grow!

Answering to the Customer: “Revenue is not King”

While most private sector industries are judged by their sales growth, the Fund uses sales growth as one of many business indicators. The Fund does not base its compensation policies on targeted profitability and revenue levels. Employees and managers are judged based on their ability to streamline processes and reduce duplication. The Fund does not answer to shareholders that desire a specific return on investment. The Fund answers to their federal customer who demands quality administrative solutions at a reasonable price. In the end, the Fund answers to the American taxpayer who desires a more efficient government.

Responsible Growth

While we have exceeded our goals for customer growth and sales volume (see charts on page 7), the Fund has had the opportunity to grow even larger at a much faster pace. We have purposely turned down potential customers in efforts to manage our growth. We have conscientiously decided not extend our resources beyond the capacity to provide new and existing customers with superior service. These efforts have allowed the Fund to build a solid customer base and maintain an up to date system platform that is essential for future growth.



ESTABLISHED PRIVATE SECTOR ALLIANCES – FINDING A PARTNER THAT IS SOUGHT AFTER BY THE BEST THE PRIVATE SECTOR HAS TO OFFER

One of the key components of building a strong business mode is to partner with other industry leaders. We are constantly looking for partners that will enable us to provide services- better, faster, cheaper. We have chosen the best that the private sector has to offer to partner with us to accomplish our mission.

“Working with FedSource, one of the Treasury Department’s premier franchise activities, has allowed several of PEC’s customers to outsource their requirements in a much more timely and cost effective manner. The professionalism and dedication of FedSource continues to ensure customer benefit from a positive government industry business relationship.”

~ PEC Solutions

Our Story, Their Words

“The Administrative Resource Center [ARC] has emerged as a leading provider of cross-servicing application solutions to the federal government using Oracle® E-Business Suite. In an era of tight budgets and limited resources, the relationship between Oracle and the Bureau of the Public Debt’s ARC has served the federal financial management community well. Customers that historically were burdened with costly implementations and ongoing operational costs can now turn to the ARC and get top-quality service by federal employees who understand their business needs using Oracle’s federal financial solution, certified by the Joint Financial Management Improvement Program.



~Wayne Bobby,
Finance and Administration Solutions Director,
Oracle Public Sector

“Ricoh Corp is very proud to be a vendor business partner with FedSource since 1998. With our long-standing and successful partnership, our Federal customers have experienced a high level of ongoing satisfaction from the Ricoh products and the FedSource program’s. Ricoh Corp and FedSource, have jointly proven, that a strong business partnership can provide those products and services offered to our Government with extremely high levels of customer satisfaction. Working together, managing our mutual business, has produced over 11,000 happy Federal customers. We look forward to our years ahead.”



~David R Hibbard,
Senior Contract Manager,
Ricoh Corp.

“The University of Michigan’s American Customer Satisfaction Index™ (ACSI) has partnered successfully with the Federal Consulting Group (FCG) for the past four years, together bringing our Federal customers high quality, actionable data regarding the satisfaction users have with government services. In pursuit of the goal of a citizen-centric government, FCG has utilized ACSI findings to help Federal customers better understand what drives user satisfaction in order to improve program operating performance, better leverage scarce resources, identify best practices through benchmarking, and raise overall citizen trust in the Federal government. Since 2001, FCG and the ACSI have come together to provide valuable insights on citizen satisfaction to over 150 unique government services; and we are proud to continue to partner with such a valued organization.”



~David VanAmburg, Managing Director,
American Customer Satisfaction Index,
University of Michigan

“mLINQS is proud to partner with the Administrative Resource Center (ARC) because ARC is a leading travel service provider in the federal government. ARC earned that position by providing essential support services for software products, such as mLINQS’ relocation system. This allows ARC’s clients to focus on their core non-travel missions. With ARC, agencies achieve a stronger eTravel return on investment and deliver travel services to their customers in a higher quality manner. As the government-wide eTravel Initiative rolls out, ARC’s business will expand as agencies seek to totally outsource their travel administration. This is good news for ARC- and good news for taxpayers- as ARC helps make government work more efficiently.”



~Greg McIntyre,
President,
mLINQS, LLC

“End To End Technical Services (ETETS) has enjoyed a 9-year relationship with FedSource providing project/task support staffing...The collaboration between FedSource and ETETS removes the pre-qualification, hiring, contract administration, employee human resource/benefits support, and accounting tasks from the federal agencies allowing the agencies to focus on its core mission. We at ETETS are proud to be part of the federal/private team that increases government mission proficiency and reduces cost by providing private price competitive execution.”



~Kelvin D. Howard,
Corporate Vice President,
End To End Technical Services

"The Administrative Resource Center, through its relationship with Compusearch, has adopted a web-based approach to providing rapid response, full procurement life-cycle support to their Federal agency clients. This new program takes advantage of Compusearch's e-procurement suite, PRISMTM, and offers a level of comprehensive, management service that would normally be out of the financial reach of many small agencies.



The ARC's centralized approach utilizes PRISM's multi-site support to enable each agency to customize the service to meet its unique business processes. Access to and integration with other Federal systems including CCR and FPDS NG, as well as compliance with Federal standards such as JFMIP and Section 508, make this a truly robust solution for ARC clients. In addition, ARC clients can take advantage of the interface capability of PRISM to seamlessly exchange financial and other key data with external systems. The implementation of this fully scalable solution has positioned the ARC for future growth and expansion of its client base and has equipped it with the tools to continue to provide a superior level of service."

-Chae Y. Shim,
 Director of Business Development,
 Compusearch Software Systems, Inc.

"FedSource's efforts in partnering with private contractors like us, Breil Worldwide Mgmt, Inc., may well be the most effective contracting procedure ever introduced by the Federal Government. It clearly has expanded the capacity of participating agencies to accomplish a broad range of tasks and responsibilities, regardless of the simplicity or complexity of the requirement. With a customer base represented by multiple Federal agencies, FedSource has proven its worth to an incomparable level. FedSource is staffed with quality staff administrators who have considerable knowledge and understanding of the customers and their related missions. This capability permits FedSource to be highly responsive and capable of solving the personnel and service support needs unique to each customer. Without question, FedSource has established a reputation that will be long lasting and of incomparable value to the Federal Government."

-Breil Worldwide Mgmt, Inc.



COMPETITIVE POSITION - FINDING A PARTNER THAT IS IN THE MARKETPLACE AND HAS TO COMPETE FOR YOUR BUSINESS

Stand and Be Heard

For customers to have a "voice", the service provider must compete for their business. Many internal serving relationships involve captured audiences. Managers are forced to use systems and processes that do not meet their needs and sometimes add additional bureaucracy. The Fund is required to have "escape" clauses in all our service level agreements. In other words, if the customer is not satisfied they are receiving the appropriate value based on the costs, they can give notice and find another service provider. The Fund has to earn the trust and approval of its customers each day.

"Words cannot express my gratitude for all the hard work the ARC staff has done to ensure a smooth transition from ATF on HR Services as well as the complex challenges facing our accounting transition."

~ Joseph Burruss,
 Tax and Trade Bureau
 Department of the Treasury

Standing Alone

The Fund is required to recover all our costs from our customers. In other words, we cannot be subsidized by other agencies. Our prices provide sufficient revenue to cover both direct and all the indirect costs that can sometimes be overlooked. This is important when looking for a shared service provider because if an agency can subsidize the efforts of a service provider, they can also demand special treatment that may be detrimental to the other customers. By being self sufficient, the Fund remains independent and can make decisions based on the needs of its customers.



INTENSE CUSTOMER FOCUS – FINDING A PARTNER THAT ANTICIPATES YOUR NEEDS AND HAS THE CAPABILITIES TO MEET YOUR CHANGING REQUIREMENTS

Responsiveness to Customers

Providing value to customers involves not only providing great products, but also listening carefully to customers, responding quickly, and being more transparent and accountable. The Treasury Franchise Fund has set the standard for customer service response. For example, FedSource customers expressed the need to be able to see their bill electronically. FedSource responded with on-line access to their customer's billing statement. The Administrative Resource Center (ARC) customers desired more performance metrics in their service level agreements. ARC added more measurements and is currently looking at software options to help customers manage their service level agreements on-line. In short, we are committed to doing whatever it takes to ensure that our customers are highly satisfied with our services.

More than IT and Websites

We believe our business plan puts the Fund on a sure path to achieve our goals. To accomplish this, all our actions are aimed at putting the customer first. Doing so, we believe, is critical to the Fund's continued success. This level of customer service starts with a state-of-the-art system platforms that allows our customers to perform all their business via the web. Customer service, however, does not stop there. Beyond the PC's, websites, and data tools lies the key to superior customer service – good old-fashioned courtesy. Treating others as you would like to be treated. Taking the time to listen to our customer's needs and to learn where they are heading so we can move with them and meet their requests.

“And I can't say enough about the customer-friendly service we have always enjoyed from FedSource. Responses have been immediate, accurate answers provided quickly, numbers crunched and interpreted, and all within budget constraints. That value added is unbeatable anywhere else.”

*- Terry L. Carpenter
Lt. Col.,
USAF*

The Path Forward

With an ever-increasing customer base the Fund has learned that we must not only stay ahead of our competition, in terms of service offerings, but also we must anticipate the future needs of our customers. In an effort to accomplish this difficult task, the Fund's business activities have user conferences to provide a forum for customers to interact as well as express the needs they foresee having in the near future. The Fund's businesses also meet with their vendors to stay in the loop on current private sector trends and to see the new technology that is being rolled out.

Making a Difference

The most rewarding aspect of our work is that we have endless opportunities to make positive changes. By eliminating red tape and focusing on getting the job done, not only do programs become more efficient but the employees also take more pride in their work knowing they are part of a solution

CASE IN POINT: FEDSOURCE WARMS UP THE HOLIDAYS

Fort McCoy serves as a support installation, a ready and capable mobilization site. Fort McCoy's primary mission is providing for the training and ensuring the readiness of America's reserve- and active- component armed forces. Aside from temporary lulls, the installation has been in almost constant use since its founding in 1909.

FedSource received an urgent call from the Base Engineering Office on Christmas Eve. The boiler, which provides heat to the barracks, went out and was leaving soldiers mobilized for deployment without heat. To compound the problem, the outdoor temperature was -20F.

Understanding the urgency of the call, FedSource went into action. In a matter of days, FedSource had completed the entire process and had the new boiler installed. Fort McCoy was able to ensure the deploying soldiers had reasonable accommodations during the holiday season. This also helped keep the deploying soldier's morale high.

FedSource received an urgent call from the Base Engineering office on Christmas Eve. The boiler was out and the the temperature was -20F.

In a matter of days, FedSource had completed the entire acquisition process and had the new boiler installed ensuring the deploying soldiers had reasonable accommodations during the holiday season.



BUSINESS STRATEGIES FOR THE FUTURE

Corporate Structure

The Treasury Department is currently looking at the management structure of the Treasury Franchise Fund. In the past, the Fund has been managed through the participation of several Bureaus that directed the businesses they sponsored within the Fund. As the Fund has grown more and more in the shared services environment, Treasury is taking the opportunity to align the management of the Fund to create synergy with other Treasury policy makers.

Creating Opportunities through innovation

Government business has significant needs when it comes to information. Making information actionable is central to an entity's performance. The ability to collaborate and share ideas, to make better-informed decisions, and to connect with customers relies on effectively managing information. At the same time, reducing costs remains a long-term priority. For these reasons, the importance of information technology as a strategic asset has never been greater.

We are collaborating with our private sector partners to create high-impact solutions that integrate across the organization, such as using technology to give our customers desktop access to critical information. Focusing on

"FedSource is on the forefront of moving into new technologies that lower cost and improve productivity."

David W Schumaker, Director-
FedSource Operations, Océ North America

our customer's needs fuels our passion for innovation. We believe innovative technology has the power to eliminate obstacles and create opportunities. As such, we will focus much of our efforts in FY 2005 to further developing our on-line offerings.

Raising the Bar

Not surprisingly, change is upon us. Although we are proud of our marketplace success and track record of delivering innovation, quality and results to our clients, the time has come for us to raise the bar in our industry once again. OMB's designation of the Treasury Franchise Fund as a "Center of Excellence" in Financial Management will open new doors. Not only will this designation help expand the Administrative Resource Center's current target audience of small to mid-level agencies but it should provide the pathway to compete for the business of large cabinet level agencies. To ensure the Fund can meet these new opportunities we have been making substantial investments today to enhance the power and value of our integrated system platform. We are optimistic about our long-term growth opportunities.

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 2003	FY 2002
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	1.4
GOAL: Customer Satisfaction			
1. Satisfaction Approval Rating	80% Approval	Exceeded	Exceeded
2. Sales Volume Growth	10% increase	34%	35%
3. Growth or Decline of Customer Base	10% increase	12%	21%
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	12%	21%

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;
- Controls are sufficient to minimize any improper or erroneous payments;
- Performance information is reliable;
- Systems security is in substantial compliance with all relevant requirements; and
- Continuity of operations planning in critical areas is sufficient to reduce risks to reasonable levels.

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 periodic audits of its mainframe computer system and ARC contracts for a SAS-70 review each year.
- Fund management periodically visits the businesses and reviews the controls established throughout the workflow.
- Each individual business location is included in a 4-year audit site-visit schedule. This ensures detailed audit scrutiny of at least three business locations each year. These visits are performed in conjunction with the annual financial statement audit.

The 4 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 at the transaction level. 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, 2004 and 2003, 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, 2004 and 2003. 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 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*. 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, 2004 and 2003, the results of its operations, changes in its net position, budgetary resources, and financing for each of the years ended September 30, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 08, 2004 on our consideration of the U.S. Department of the Treasury Franchise Fund's internal control over financial reporting and a report dated October 08, 2004 on its compliance with laws and regulations. These 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. 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.

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

Largo, Maryland
October 08, 2004



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, 2004, and have issued our report thereon dated October 08, 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*.

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

Largo, Maryland
October 08, 2004



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, 2004, and have issued our report thereon dated October 08, 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*.

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

Largo, Maryland
October 08, 2004

FINANCIAL STATEMENTS

Treasury Franchise Fund Consolidated Balance Sheet As of September 30, 2004 and September 30, 2003

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	\$64,993,260	\$72,199,030
Accounts Receivable (Note 3)	83,461,987	65,549,359
Advances & Prepayments	169,250	68,535
Total Intragovernmental Assets	<u>148,624,497</u>	<u>137,816,924</u>
Assets with the Public		
Accounts Receivable (Note 3)	227,829	426,097
Advances & Prepayments	95,185	103,005
Property, Plant & Equipment, Net (Note 5)	2,643,536	3,138,198
Total Assets with the Public	<u>2,966,550</u>	<u>3,667,300</u>
TOTAL ASSETS	<u>\$151,591,047</u>	<u>\$141,484,224</u>
LIABILITIES		
Intragovernmental Liabilities		
Accrued Liabilities (Note 6)	390,754	452,563
Advances From Others	11,404,193	31,326,014
Total Intragovernmental Liabilities	<u>11,794,947</u>	<u>31,778,577</u>
Liabilities with the Public		
Accounts Payable	16,214,595	17,869,192
Accrued Liabilities (Note 6)	78,825,635	56,875,381
Advances From Others	6,003	10,930
Total Liabilities with the Public	<u>95,046,233</u>	<u>74,755,503</u>
TOTAL LIABILITIES	<u>\$106,841,180</u>	<u>\$106,534,080</u>
NET POSITION		
Invested Capital (Note 4)	4,128,418	4,128,418
Cumulative Results of Operations	40,621,449	30,821,726
Total Net Position	<u>44,749,867</u>	<u>34,950,144</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$151,591,047</u>	<u>\$141,484,224</u>

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, 2004 and September 30, 2003

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>
CONSOLIDATED / INTEGRATED ADMINISTRATIVE MANAGEMENT		
Costs	\$471,210,773	\$345,940,703
Less: Earned Revenue	480,478,426	351,860,058
Net Cost	<u>(9,267,653)</u>	<u>(5,919,355)</u>
Other Financing Sources	549,464	380,220
Current Results of Operations (Other Financing Sources less Net Cost)	<u>\$9,817,117</u>	<u>\$6,299,575</u>
FINANCIAL SYSTEMS, CONSULTING AND TRAINING		
Costs	11,493,309	10,149,451
Less: Earned Revenue	12,919,809	12,181,485
Net Cost	<u>(1,426,500)</u>	<u>(2,032,034)</u>
Other Financing Sources	485,766	455,053
Current Results of Operations (Other Financing Sources less Net Cost)	<u>\$1,912,266</u>	<u>\$2,487,087</u>
FINANCIAL MANAGEMENT ADMINISTRATIVE SUPPORT SERVICES		
Costs	68,706,948	53,452,309
Less: Earned Revenue	64,449,721	49,90,487
Net Cost	<u>4,257,227</u>	<u>3,548,822</u>
Other Financing Sources	2,327,567	1,812,594
Current Results of Operations (Other Financing Sources less Net Cost)	<u>(\$1,929,660)</u>	<u>(\$1,736,228)</u>
FUND TOTAL		
Costs (Note 7)	551,411,030	409,542,463
Less: Earned Revenue	557,847,956	413,945,030
Net Cost	<u>(6,436,926)</u>	<u>(4,402,567)</u>
Other Financing Sources (Note 8)	3,362,797	2,647,867
Current Results of Operations (Other Financing Sources less Net Cost)	<u>\$9,799,723</u>	<u>\$7,050,434</u>

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, 2004 and September 30, 2003

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>
INVESTED CAPITAL		
Beginning Balance (As reported 9/30)	\$4,128,418	\$4,128,418
Net Addition to Invested Capital (Note 4)	0	0
Ending Balance	<u>\$4,128,418</u>	<u>\$4,128,418</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance (As reported 9/30)	\$30,821,726	\$23,771,292
Current Year Results of Operations	9,799,723	7,050,434
Ending Balance	<u>\$40,621,449</u>	<u>\$30,821,726</u>
TOTAL NET POSITION ENDING BALANCE	<u>\$44,749,867</u>	<u>\$34,950,144</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, 2004 and September 30, 2003

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>
BUDGETARY RESOURCES		
Unobligated Balance Carried Forward	\$202,301,466	\$139,473,606
Budgetary Resources Transferred-Out	0	0
Spending Authority from Offsetting Collections	828,562,615	504,426,792
Adjustments	39,889,092	19,009,719
Total Budgetary Resources	<u>\$1,070,754,173</u>	<u>\$662,910,117</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	725,241,331	460,608,651
Unobligated Balances Available	345,512,842	202,301,466
Total Status of Budgetary Resources	<u>\$1,070,754,173</u>	<u>\$662,910,117</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred	725,241,331	460,608,651
Less: Spending Authority From Offsetting Collections and Adjustments	868,452,707	523,436,511
Obligated Balance, Net - Beginning of Period	(130,102,436)	(74,332,846)
Obligated Balance - End of Period	280,519,582	130,102,437
Net Outlays	<u>\$7,205,770</u>	<u>(\$7,058,269)</u>
Reconciliation of Net Outlays		
Disbursements	537,150,170	377,425,497
Collections	(529,944,400)	(384,483,766)
Subtotal	(7,205,770)	(7,058,269)
Less: Offsetting Receipts	0	0
Reconciled Net Outlays	<u>(\$7,205,770)</u>	<u>(\$7,058,269)</u>

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

NOTES TO FINANCIAL STATEMENTS

Treasury Franchise Fund Consolidated Statement of Financing For the years ended September 30, 2004 and September 30, 2003

	Fiscal Year 2004	Fiscal Year 2003
OBLIGATIONS & NONBUDGETARY RESOURCES		
Obligations Incurred	\$725,241,331	\$460,608,651
Less: Spending Authority from Offsetting Collections and Adjustments	868,452,707	523,436,511
Financing Imputed for Cost Subsidies	3,362,797	2,647,867
Total Obligations as Adjusted and Nonbudgetary Resources	<u>(\$139,848,579)</u>	<u>(\$60,179,993)</u>
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Net (Increase)/Decreases In Goods, Services or Benefits Ordered but Not Yet Provided	(127,732,253)	(28,101,546)
Net Increase in Unfilled Customer Orders	260,690,286	82,930,056
Net Increase in Costs Capitalized on the Balance Sheet	(423,123)	(12,767)
Other	(19,137)	19,137
Total Resources That Do Not Fund Net Costs of Operations	<u>\$132,515,773</u>	<u>\$54,834,880</u>
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	917,784	949,671
Other	(21,904)	(7,125)
Total Costs That Do Not Require Resources	<u>895,880</u>	<u>\$942,546</u>
NET COST OF OPERATIONS	<u><u>(\$6,436,926)</u></u>	<u><u>(\$4,402,567)</u></u>

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

1. Significant Accounting Policies

A. Reporting Entity

The Treasury Franchise Fund (the Fund) was authorized by the Government Management and Reform Act of 1994 and The Treasury Department Appropriation Act of 1997 (P.L. 104-208), as amended by the Treasury Department Appropriations Act of 2001 (P.L. 106-554). The Fund provides administrative support services on a competitive, fee-for-service, and full-cost basis and currently consists of twelve separate "business activities". Separate treasury accounts have been established for most of these entities 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:

FedSource - Denver & Beaufort	.20X4560
FedSource - Los Angeles	.20X4560.001
FedSource - Seattle	.20X4560.002
FedSource - Cincinnati	.20X4560.003
FedSource - Baltimore	.20X4560.004
Treasury Agency Services	.20X4560.005
Federal Consulting Group	.20X4560.006
FedSource - St. Louis	.20X4560.007
FedSource - Chicago	.20X4560.008
FedSource - San Antonio	.20X4560.009
Administrative Resource Center	.20X4560.010

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 & Presentation

The financial statements have been prepared from the accounting records of the Fund in conformity with accounting principles generally accepted in the United States of America (GAAP), and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), the official accounting standards setting

body of the Federal Government by the American Institute of Certified Public Accountants (AICPA).

These financial statements are provided to meet the requirements of the Government Management and Reform Act (GMRA) of 1994. They 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 Consolidated Statement of Financing.

While these financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records

C. Pension Costs, Other Retirement Benefits and Other Post Employment Benefits

The Fund recognizes the full costs of its employees' pension benefits, however, the assets and liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Fund.

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 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 FERS, TSP accounts are automatically established and the Fund makes mandatory 1 percent contributions to the accounts. In addition, the Fund makes matching contributions, ranging from 1 to 4 percent of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, matching contributions are not made to the TSP accounts established by CSRS employees.

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

2. Fund Balance with Treasury

Fund Balance with Treasury represents funds remaining on deposit in the Fund's revolving fund account with Treasury. There are no restrictions on the use of the funds held, thus they are available to pay current liabilities of the Fund.

3. Accounts Receivable

Intra-governmental accounts receivable represent billed and unbilled revenue earned for services provided to other federal government agencies. Accounts receivable with the public consists of amounts due from entities outside the federal government.

Past experience for the Fund shows the majority of receivables are subsequently collected. 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.

A. Invested Capital

To facilitate the start-up of the Fund, the Department of the Treasury transferred \$1.2 million of 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 Fund. The \$4.1 million of invested capital includes the transferred appropriation and the Business Activities' initial investments in the Fund totaling \$2.9 million. The Business Activities' initial investments represents \$4.0 million of cash brought into the Fund, reduced by \$1.1 million in accrued leave liabilities that required funding as they were admitted.

Progression of Invested Capital Balance	FY 2004	FY 2003
Beginning Balance at 09/30	\$4,128,418	\$4,128,418
Additions:	0	0
Reductions:	0	0
Ending Balance at 09/30	\$4,128,418	\$4,128,418

B. Cumulative Results of Operations

Cumulative results of operations, represents the net difference between revenue and expenses and gains and losses incurred of all business activities since the inception of the Fund.

5. Property, Plant and Equipment, Net

The Fund has established fixed asset capitalization thresholds pursuant to the Department of the Treasury's Accounting Policy Memorandums No. OAIC 99-01 and OAIC 00-02. The thresholds adopted by the Fund are:

- Capitalize acquisitions that exceed \$50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000.

The Fund's property, plant and equipment is recorded at cost and depreciated using the straight-line method over the asset's estimated useful life, with six months depreciation taken in the first and last years. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred.

The components of Property, Plant and Equipment, Net are as follows:

There are no restrictions on the use of the Fund's general Property, Plant and Equipment.

Schedule of Depreciation				
	Service Life (in years)	Cost	Accumulated Depreciation	FY 03 Book Value
Information Technology Software	5	\$5,298,642	\$3,057,073	\$2,241,569
Leasehold Improvements	10	\$423,123	\$21,156	\$401,967
TOTAL		\$5,721,765	\$3,078,229	\$2,643,536

6. Accrued Liabilities

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

Employee leave liability represents the current value of unpaid annual, restored annual and compensatory leave at year-end. The leave liability for the Fund is required to be funded, thus budgetary resources have been set aside to cover any necessary payments related to the liability. Leave balances brought into the Fund by the business activities reduced their initial invested capital balances, as described in Note 4, and are also fully funded.

Schedule of Accrued Liabilities		FY 2004	FY 2003
Program Expense Accrual	Intragovernmental	89,199	260,319
	With the Public	74,405,457	53,432,896
	TOTAL	\$74,494,656	\$56,693,215
Payroll and Annual Leave Accrual	Intragovernmental	301,555	192,244
	With the Public	4,420,178	3,442,485
	TOTAL	\$4,721,733	\$3,364,729
Total Accrued Liabilities	Intragovernmental	390,754	452,563
	With the Public	78,825,635	56,875,381
	TOTAL	\$79,216,389	\$57,327,944

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

7. Operating/Program Costs

Costs by major budgetary object classification are as follows:

Schedule of Costs by Budget Object Class	FY 2004	FY 2003
Personnel & Benefits	\$51,069,556	\$42,370,568
Travel & Transportation	1,377,154	1,177,112
Rents, Communications & Utilities	3,863,157	3,249,383
Printing & Reproduction	1,774,043	1,234,618
Contractual Services	482,155,369	353,521,292
Supplies & Materials	1,877,457	666,281
Equipment	9,289,627	7,313,075
Miscellaneous	4,668	10,134
TOTAL	\$551,411,031	\$409,542,463

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 of operations, the Fund also shows imputed costs and imputed revenue. The amount of imputed costs and financing sources recognized are as follows:

Schedule of Financing Sources	FY 2004	FY 2003
Post Retirement Benefits to be Paid by OPM	\$3,251,7434	\$2,532,910
Salary Benefits Paid by Other Agencies	111,063	114,957
TOTAL FINANCING SOURCES	\$3,362,797	\$2,647,867

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). 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 offsetting financing source for the payment of these costs by the agencies authorizing the detail assignments.

9. Commitments and Contingencies

Operating Leases

The Business Activities enter lease agreements for facilities needed to conduct their required functions. These agreements do not meet the criteria for recognition as capital leases. Combined future minimum payments due in accordance with the lease agreements at September 30, 2004, are as follows:

Scheduled of Future Operating Lease Agreements	
FY 2005	\$1,661,000
FY 2006	1,637,178
FY 2007	1,267,000
FY 2008	436,878
FY 2009	391,473
and thereafter	1,552,279
TOTAL FUTURE PAYMENTS	\$6,945,808

Undelivered Orders

At September 30, 2004, the Fund had \$183,986,140 in goods and services that had been ordered, but not yet received.

Contingencies

There are no contingencies that require disclosure.

Treasury Franchise Fund Advisory Board

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