



Department of the Treasury Franchise Fund

2002

ACCOUNTABILITY & ANNUAL REPORT

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

Department of the Treasury Franchise Fund

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



A Message From the Chairman

It is my pleasure to present the Department of the Treasury's Franchise Fund Accountability/Annual Report for Fiscal Year 2002.

Since day one, the business activities of the Franchise Fund have provided a variety of administrative services and products that meet and/or exceed the expectations of our customers in terms of quality, timeliness, and cost. Additionally, we have achieved significant efficiencies and generated value not only internally to Treasury, but externally to other agencies, and to the government as a whole. FY 2002 has been another successful year for the Franchise Fund. This report represents the sixth straight year (since inception) our financial results, customer satisfaction and growth, and business performance objectives have been met and/or exceeded.

Requirements of competition and full-cost recovery, coupled with a dramatic increase in the complexity and the accelerated pace of business have created considerable management challenges. Addressing these challenges is critical to our continued success. As a 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. As such, we will relentlessly conduct ongoing reviews of our operations – to identify improvements in, not only how we deliver our services, but to identify ways in which to improve productivity and reduce costs.

We continually strive to provide our customers with the best services and customer support, and we are proud of the numerous compliments and endorsements this core value has evoked. In fact, franchising is built upon the trust of our customers. The Treasury Franchise Fund consists of a remarkable group of dedicated and committed people relentlessly pursuing the goals and objectives of franchising and hence contributing to its success. The reward for our efforts is not only a strong business model and financial stability but also seeing government administrative practices get better.

To all of our customers – we recognize that we must compete for your business everyday. Thank you for your continued trust and confidence in our products and services.

Sincerely,



Barry Hudson
Chairman, Treasury Franchise Fund Advisory Board

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CORPORATE GLANCE

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.

Since inception, the Fund has met or exceeded expectations related to financial results, customer satisfaction, and business performance objectives. This effort has achieved efficiencies and generated value internally to Treasury, externally to other agencies, and to the government as a whole.

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 Authority: The Treasury Department Appropriation Act of 1997 (PL 104-208) as amended by Public Law 106-554 provides the current authority for the Treasury Franchise Fund.

A LOOK AT OUR BUSINESSES

Current Picture

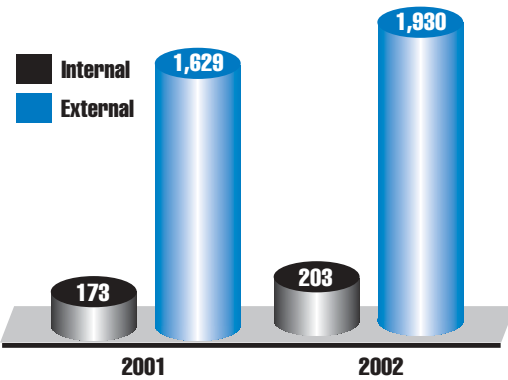
Employees: Close to 500 people nationwide

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

Website: www.ustreas.gov/franchising

Customers: Over 2,100 customers representing almost every Federal agency. Total customers increased about 18% in FY 2002. (See graph below).

CUSTOMER GROWTH



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. Businesses include:

- FBA-Central (Cincinnati)
- FBA-Global Services (San Antonio)
- FBA-West (Los Angeles)
- FedSource-Chicago
- FedSource-Seattle
- FedSource-Beaufort

- FedSource-St. Louis
- GoTo.Gov (Baltimore)
- Rocky Mountain Regional CASU (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. Businesses include:

- Treasury Agency Services
- Federal Consulting Group

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

- Administrative Resource Center

**“Qui Audacim Est”
“Those Who Dare”**

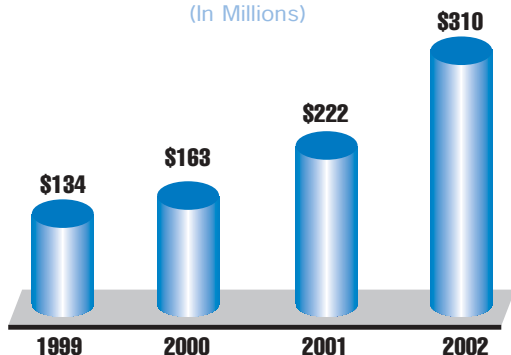
The franchise concept is captured in this Latin term, literally translated ‘Those Who Dare’; which expresses a shift of paradigm from bureaucratic operations to entrepreneurial business methods with reliance on market conditions and competition.



FINANCE IN FOCUS

The Treasury Franchise Fund continued its controlled growth in FY 2002. The Fund's total revenue grew to almost \$310 million, representing a 40% increase over the previous fiscal year and demonstrating the continuing demand for the Fund's products and services (See graph below).

TOTAL REVENUE (In Millions)



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.

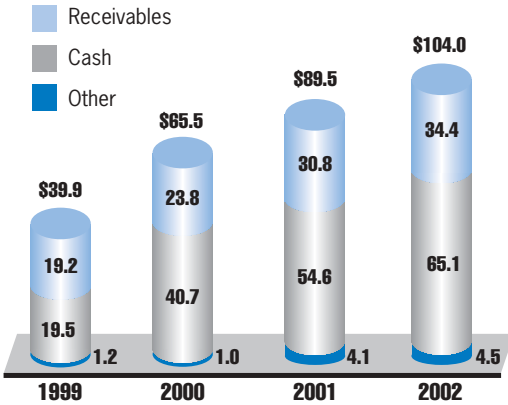
Building a Secure Foundation

Total Assets, comprised primarily of cash and accounts receivables, increased by 16% to over \$104 million (See graph on next page). This was primarily due to a \$10.5 million increase in cash. Cash flow has continued to improve as evidenced by the accounts receivable turnover ratio (the

RESPONSIBLE
GROWTH

TOTAL ASSETS

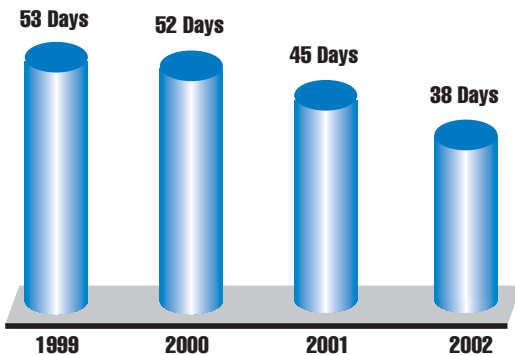
In Millions



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 more than cut the number of days in half to achieve an outstanding accounts receivable turnover ratio of only 38 days in FY 2002 (See graph below). This resulted from the Fund's continued effort to streamline its billing and collecting processes.

ACCOUNTS RECEIVABLE COLLECTION PERIOD

(In Days)

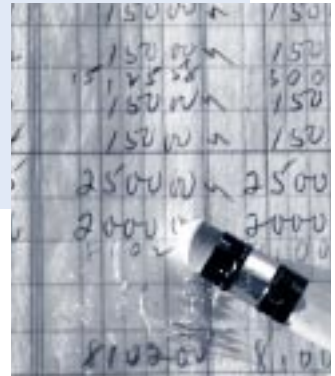


Continued Financial Reporting Improvement

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 challenged all Treasury entities to close their *monthly* books 3 days after the end of each month, as opposed to the standard 20 days. The challenge was met well before the required implementation date.

"Not everything that can be counted counts, and not everything that counts can be counted."

Albert Einstein



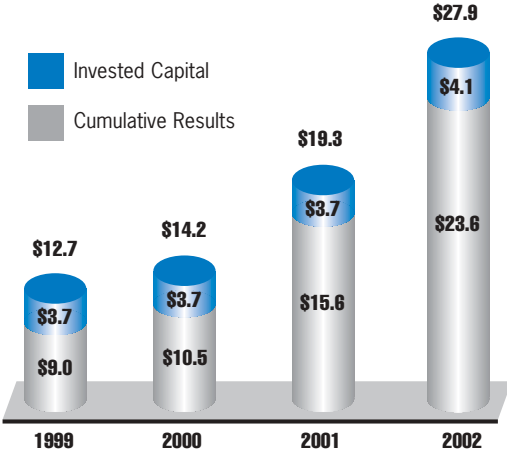
In FY 2002, Treasury raised the bar and challenged all of its entities to close their *year-end* books 30 days after the end of the year, as opposed to the previous year's standard of 90 days. The Fund reacted quickly to ensure they not only met Treasury's new challenge, but exceeded it. All twelve businesses sharpened their pencils and worked together to streamline their individual, as well as the corporate, *year-end* process. They reviewed priorities, consolidated processes, and worked with Treasury to close their *year-end* books and distribute financial information in only four days. Six days later, the financial statement audit was complete and a "clean" audit opinion was received.

Another “Clean” Audit Opinion

To add assurance to the financial stability, the Fund has received its sixth 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

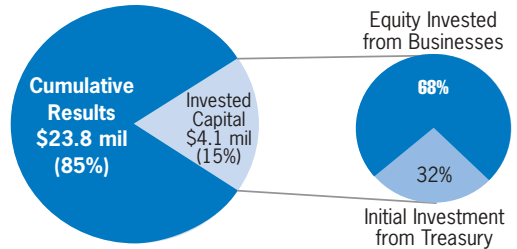
TOTAL EQUITY (In Millions)



Investing in the Future

The Fund has experienced a controlled six-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) maintain an adequate cash flow, (ii) pay for system and process enhancements and (iii) sustain downturns in business brought about by unforeseen circumstances. In FY 2002, the Fund's total equity grew to \$27.9 million (See graph below left). Approximately 60% of the equity is needed just to satisfy cash flow requirements. Without the operating reserve, the Fund would be unable to operate as a business. Cumulative results of operations since the Fund's inception total \$23.8 million, which accounts for over three quarters 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 graph below).

EQUITY BREAKDOWN



When one door closes, another opens; but we often look so long and so regretfully upon the closed door that we do not see the one which has opened for us.

Alexander Graham Bell

FRANCHISE OBJECTIVES

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.

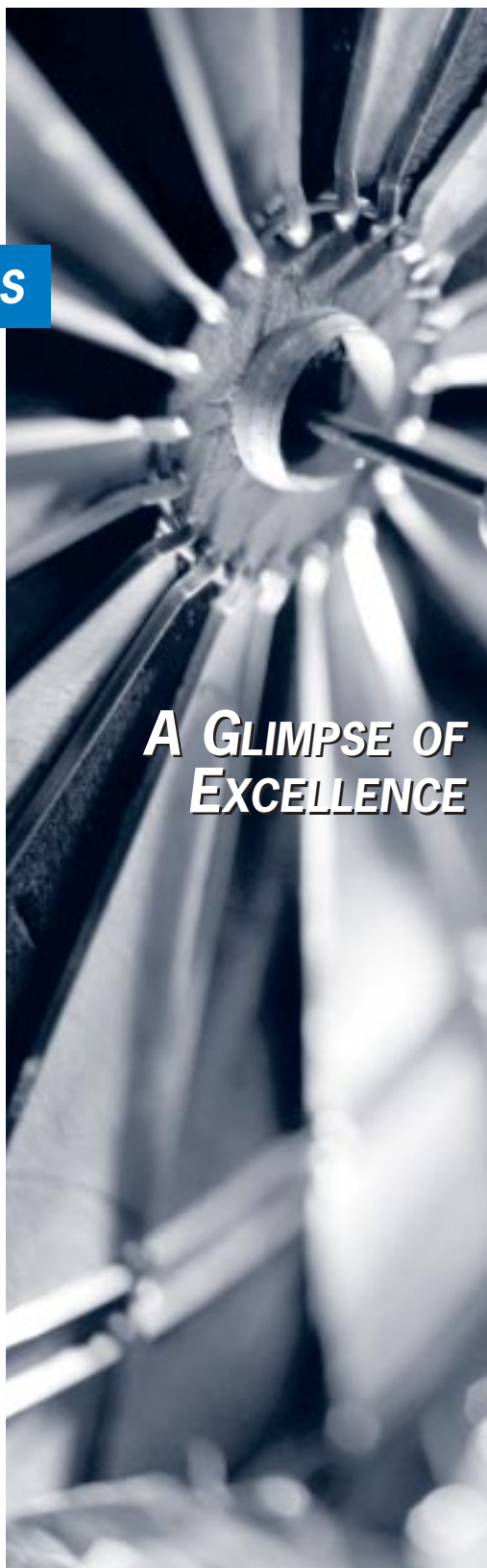
Customer satisfaction, whether in reference to lower cost, higher quality, or both, is the basis upon which the Fund competes. In a free market, the ability to compete effectively determines whether an organization ultimately survives, providing an inherent incentive to succeed. Thus, effective entrepreneurial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

The following highlights how the Treasury Franchise Fund is meeting franchising objectives:

- Promoting efficiencies in the delivery of administrative products and services
- Reducing duplication of effort
- Fostering competition
- Achieving full cost/self sufficiency
- Enhancing customer satisfaction.

Promoting Efficiencies in the Delivery of Administrative Products and Services

Once considered an oxymoron, government efficiency is significantly improved with the



**A GLIMPSE OF
EXCELLENCE**

“We have been utilizing FedSource-Seattle since they started business. We continue to use them largely because we save a lot of time and effort on our part to contract out these services on our own. FedSource-Seattle is very service/customer-oriented. Basically, FedSource-Seattle saves time and saves money. Using their services seems to be a win-win all around.”

***Phyllis Nicolas
Army Corps of Engineers***

injection of competition among common administrative service providers. 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.

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, 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 remain the same.

Reducing Duplication of Efforts

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 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 and 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 over 1,800 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.
- Reduced the number of service providers through the consolidation of administrative accounting, travel, procurement and personnel functions — The Administrative Resource Center now provides:
 - 28 entities with administrative accounting services
 - 29 entities with travel services
 - 23 entities with procurement services
 - 18 entities with personnel services

Fostering Competition

Program managers in many agencies are forced to rely upon in-house arrangements for the delivery of common administrative services. Our

“Before taking advantage of FedSource-St. Louis cost per copy program, the Coast Guard office owned all of our copiers and managed their maintenance. For me it was an easy transition. FedSource saves us time by competing all the bids and they save us money by being part of a larger contract. I do the buying for the other offices and this is the best way to go.

***Jane Indihar
U.S. Coast Guard***

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!

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 2002, the Treasury Franchise Fund Activities in total had entered into agreements with over 2,100 customers. Of

“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



these, approximately 10% are customers within Treasury and 90% 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 2002, the Consolidated/Integrated Administrative Management Services business line paid over 97% of their combined expenses to non-federal sources. The business relationships established with private sector companies for providing 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.

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 Federal Consulting Group understands my needs. They have the ability to adapt to the environment that they are working in and can speak the language of my people, which really helps.”

Immigration and Naturalization Service

Achieving Self-sufficiency and Accounting for Full-Cost

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.

At the beginning of FY 2003, the Administrative Resource Center (ARC) will begin accounting for the Fund's financial transactions using “Oracle Financials”. This well-known accounting system will allow the Fund to take even further steps into the cost accounting arena. Oracle Financials will allow the Fund to consolidate its varied service lines. This will significantly help the Fund compare shared costs across its businesses to identify potential cost savings.

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
- 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. 01-09

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

“Be daring, be different, be impractical, be anything that will assert integrity of purpose and imaginative vision against the play-it-safers, the creatures of the commonplace, the slaves of the ordinary.”

Sir Cecil Beaton



for cash flow purposes. This “corpus” represents the investment of the government in the Fund.

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. Since inception, some of the businesses in the Fund have struggled to cover their costs during difficult years. Most of the businesses have been able to make the tough decisions necessary to reduce their costs while increasing their customer base. However, two years ago, one franchise business had sustained an operating loss and was not meeting the objectives of the Franchise Fund. As a result, their management withdrew 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



“FBA Global Services’ support has dramatically improved our ability to respond to the funding dynamics and challenge involved with our projects.”

**Chip Giddens
CTA/SERMC, Amedd**

business from the Fund. Although this example is not desirable, it is evidence of the competitive marketplace at work.

Enhancing Customer Satisfaction

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.

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.

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.

A FOCUS ON THE FUTURE

We move into fiscal year 2003 with a strong financial position while delivering real benefits to our customers, stakeholders and employees. Our purpose is not to simply sell our goods and services. Our goal is to create innovative solutions to our customer's administrative problems. The real measure of our success is not sales or revenue, but the dollar savings recognized by our customers and their ability to focus more of their efforts on their core mission. To achieve these ends, we will need to focus externally – to obtain permanent legislative authority and internally – to enhance our business model.

Obtaining Permanent Legislative Authority

The need to have continuity in the delivery of services to our customers and the ability to make the necessary long-term commitment required to build an adequate infrastructure requires a permanent footing. Currently, the Senate Appropriation Subcommittee for Treasury included a provision in the FY 2003 Appropriations Bill (pending before Congress) that provides for the permanent extension of the Treasury Franchise Fund. The Committee recognizes the success of Treasury's efforts to



WHAT LIES AHEAD?

improve the quality and lower the cost of financial and administrative services.

Enhancing Our Business Model

Responsible Growth

Over the past several years, business growth and revenues have continued to out perform expectations. Our forecast beyond FY 2002 assumes these positive growth trends will continue for the next several years resulting in a more diverse customer base. We can not allow the allure of a hungry market place to entice us to overextend ourselves beyond our existing infrastructure. We must look ahead and make the important decisions to ensure our systems, processes, and people can meet the ever-growing needs of our customers. This takes a

“Efficiency is doing better what is already being done.”

– Peter F. Drucker



commitment to spending the resources to grow with market demand.

Implementing Oracle Financials

In today's business environment, building a solid infrastructure begins with a versatile information technology platform. With ARC moving the Fund's financial transactions into Oracle Financials, it provides the first step in creating an integrated financial solution. Oracle Financials also gives us the ability to re-look at how we capture our financial information. The possibilities for obtaining new financial management information, including better cost information, using Oracle's reporting tools are infinite.

Enhanced Cost Accounting

Oracle Financials has given us the ability to change our business model by consolidating our cost structure and eliminating duplicative cost centers. Included in this enhancement will be the ability to retrieve shared cost information across businesses. This will not only help us in providing more meaningful Fund-wide information to external sources, it should also present us with information to further mold our business model.

With this first step in place, we will begin to concentrate on refining our internal cost accounting rules with a goal to create more consistency. As in the past, we will continue to temper the desire to count the cost of each widget with the benefit that results from making decisions with the cost information. In our competitive arena, we can not waste resources simply to obtain information. We must use the data to make our businesses more efficient.

Increasing Efficiencies

The Fund will continue to strive to create efficiencies in the delivery of our products and services as well as in our internal administrative processes. Becoming more efficient and effective will add to our "bureaucracy-free" style of customer service. As the government works smarter the taxpayer wins.

Our People as Our Most Important Asset

While having robust systems and relevant financial information is important, without quality people — ideas are never generated and decisions are left unmade. The Fund encourages continued learning among its employees, free expression of opinions, and at the same time instills a shared vision and a common direction. Employees are empowered to take on major responsibilities and make decisions that will influence the outcome of their work. Our directors are determined to have a flat management structure to facilitate open and effective communication between the businesses, thereby encouraging the flow of ideas and enabling the Fund to move at a much faster pace.

“...we continue to appreciate FBA Global Services’ wonderful customer interaction. It is not often we at government agencies find such satisfactory treatment from other government agencies.”

**Susan M. Cline
Camp Pendleton**

The fundamental characteristic of an unaligned team is wasted energy. By contrast, the Fund strives to become more aligned, generating a commonality of direction where individual energies are harmonized. The result is a shared purpose, mutual vision, and the understanding of how to complement one another's efforts.



“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



A Message From the Chief Financial Officer

The Franchise Fund has been a dynamic entity since its inception. "Managed change" and "controlled growth" have not been simply concepts in a business plan but necessary tools used to bridge the demand for our services.

These concepts have been used, not only in the innovation and delivery of our products and services, but also in the "back room" functions necessary to support our business lines. As our businesses have grown, we have matured from being a slave to financial management and its endless deadlines and reports to harnessing the power of the new information to make better business decisions.

Fiscal Year 2002 has been a very successful year. All of our significant business measures are stronger, as evidenced in our "Finance in Focus" section. In the Fund, however, we do not measure financial success by increased revenue or a bigger bottom line as in the private sector. For us, financial success is ensuring that our businesses are healthy today and strong enough to meet the challenges of tomorrow.

In last year's report, we mentioned that we were beginning a revision of our business model. As our balance sheet becomes stronger, we continue to direct more of our focus to improving the efficiencies of our internal processes. The first step in this initiative was to move from our old mainframe accounting system to Oracle Financials. This change will provide us numerous benefits and increased flexibilities. Oracle Financials, coupled with a greater emphasis on taking cost accounting to the next level, will put us in a position to make better decisions for our future. We cannot afford to look at how things are done today, but we must point our focus to what our business environment will be in 3-5 years.

As a successful franchise business, we understand that we have a responsibility to provide leadership in the government arena. Being a responsible leader is something we take quite seriously. We don't simply believe in providing better administrative products and services. We also believe in making a difference.

Sincerely,

A handwritten signature in black ink, appearing to read "M. E. Davis". The signature is written in a cursive, flowing style. Below the signature is a horizontal line.

Martin E. Davis
Chief Financial Officer

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 2002	FY 2001
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	1.4	1.3
GOAL: Customer Satisfaction			
1. Satisfaction Approval Rating	80% Approval	Exceeded	Exceeded
2. Sales Volume Growth	10% increase	40%	35%
3. Growth or Decline of Customer Base	10% increase	18%	23%
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	18%	23%

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;
- controls are sufficient to minimize any improper or erroneous payments; 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 periodic audits 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, 2002 and 2001, 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, 2002 and 2001. 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, 2002 and 2001, the results of its operations, changes in its net position, budgetary resources, and financing for each of the years ended September 30, 2002 and 2001 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 11, 2002 on our consideration of the U.S. Department of the Treasury Franchise Fund's internal control over financial reporting and a report dated October 11, 2002 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. 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.

Arlington, Virginia
October 11, 2002



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, 2002, and have issued our report thereon dated October 11, 2002. 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.

Arlington, Virginia
October 11, 2002



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, 2002, and have issued our report thereon dated October 11, 2002. 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.

Arlington, Virginia
October 11, 2002

Treasury Franchise Fund Consolidated Balance Sheet

As of September 30, 2002 and 2001

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	\$65,142,254	\$54,634,606
Accounts Receivable (Note 3)	33,755,961	30,404,454
Advances & Prepayments	361,817	166,337
Total Intragovernmental Assets	99,260,032	85,205,397
Assets with the Public		
Accounts Receivable (Note 3)	676,452	423,106
Advances & Prepayments	16,259	16,341
Inventory Held for Resale	-	159,410
Property, Plant & Equipment, Net (Note 5)	4,075,101	3,701,120
Total Assets with the Public	4,767,812	4,299,977
TOTAL ASSETS	\$104,027,844	\$89,505,374
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	-	\$188,755
Accrued Liabilities (Note 6)	452,274	997,753
Advances From Others	36,181,972	24,850,105
Total Intragovernmental Liabilities	36,634,246	26,036,613
Liabilities with the Public		
Accounts Payable	-	20,625,044
Accrued Liabilities (Note 6)	39,475,073	23,449,651
Advances From Others	18,815	27,413
Total Liabilities with the Public	39,493,888	44,102,108
TOTAL LIABILITIES	\$76,128,134	\$70,138,721
NET POSITION		
Invested Capital (Note 4)	4,128,418	\$3,746,219
Cumulative Results of Operations	23,771,292	15,620,434
Total Net Position	27,899,710	19,366,653
TOTAL LIABILITIES AND NET POSITION	\$104,027,844	\$89,505,374

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, 2002 and 2001

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
CONSOLIDATED / INTEGRATED ADMINISTRATIVE MANAGEMENT		
Costs	\$253,811,829	\$165,951,436
Less: Earned Revenue	<u>258,718,268</u>	<u>168,039,937</u>
Net Cost	(4,906,439)	(2,088,501)
Financing Sources (Other than Exchange Revenues)	<u>311,152</u>	214,741
Current Results of Operations (Financing Sources less Net Cost)	<u>\$5,217,591</u>	<u>\$2,303,242</u>
FINANCIAL SYSTEMS, CONSULTING AND TRAINING		
Costs	11,270,230	16,374,959
Less: Earned Revenue	<u>12,058,542</u>	<u>16,974,369</u>
Net Cost	(788,312)	(599,410)
Financing Sources (Other than Exchange Revenues)	<u>813,282</u>	498,170
Current Results of Operations (Financing Sources less Net Cost)	<u>\$1,601,594</u>	<u>\$1,097,580</u>
FINANCIAL MANAGEMENT ADMINISTRATIVE SUPPORT SERVICES		
Costs	39,023,795	36,106,830
Less: Earned Revenue	<u>38,996,021</u>	<u>36,577,003</u>
Net Cost	27,774	(470,173)
Financing Sources (Other than Exchange Revenues)	<u>1,359,447</u>	1,223,657
Current Results of Operations (Financing Sources less Net Cost)	<u>\$1,331,673</u>	<u>\$1,693,830</u>
FUND TOTAL		
Costs (Note 7)	304,105,854	218,433,225
Less: Earned Revenue	<u>309,772,831</u>	<u>221,591,309</u>
Net Cost	(5,666,977)	(3,158,084)
Financing Sources (Other than Exchange Revenues) (Note 8)	<u>2,483,881</u>	1,936,568
Current Results of Operations (Financing Sources less Net Cost)	<u>\$8,150,858</u>	<u>\$5,094,652</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, 2002 and 2001

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
INVESTED CAPITAL		
Beginning Balance (As reported 9/30)	\$3,746,219	\$3,746,219
Net Addition to Invested Capital (Note 4)	382,199	0
Ending Balance	<u>\$4,128,418</u>	<u>\$3,746,219</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance (As reported 9/30)	\$15,620,434	\$10,525,782
Current Year Results of Operations	8,150,858	5,094,652
Ending Balance	<u>\$23,771,292</u>	<u>\$15,620,434</u>
TOTAL NET POSITION ENDING BALANCE	<u>\$27,899,710</u>	<u>\$19,366,653</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, 2002 and 2001

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
BUDGETARY RESOURCES		
Unobligated Balance Carried Forward	104,033,793	71,852,926
Budgetary Resources Transferred-Out	(529,486)	-
Spending Authority from Offsetting Collections	353,696,594	253,272,027
Adjustments	15,120,536	9,462,096
Total Budgetary Resources	<u>\$472,321,437</u>	<u>\$334,587,049</u>

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	332,847,831	230,553,256
Unobligated Balances Available	139,473,606	104,033,793
Total Status of Budgetary Resources	<u>\$472,321,437</u>	<u>\$334,587,049</u>

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligations Incurred	332,847,831	230,553,256
Less: Spending Authority From Offsetting Collections and Adjustments	368,817,130	262,734,123
Obligated Balance, Net - Beginning of Period	(49,399,187)	(31,193,144)
Less: Obligated Balance - End of Period	74,331,352	49,399,187
Net Outlays	<u>(\$11,037,134)</u>	<u>(\$13,974,824)</u>
Reconciliation of Net Outlays		
Disbursements	311,794,745	217,173,157
Collections	(322,831,879)	(231,147,982)
Subtotal	(11,037,134)	(13,974,824)
Less: Offsetting Receipts	-	-
Reconciled Net Outlays	<u>(\$11,037,134)</u>	<u>(\$13,974,824)</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, 2002 and 2001

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
OBLIGATIONS & NONBUDGETARY RESOURCES		
Obligations Incurred	\$332,847,831	\$230,553,256
Less: Spending Authority from Offsetting Collections and Adjustments	368,817,130	262,734,123
Financing Imputed for Cost Subsidies	2,483,881	1,936,568
Total Obligations as Adjusted and Nonbudgetary Resources	(\$33,485,418)	(\$30,244,299)
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Net (Increase)/Decreases In Goods, Services or Benefits Ordered but Not Yet Provided	(12,007,468)	2,234,779
Net Increase in Unfilled Customer Orders	39,230,951	27,790,301
Net Increase in Costs Capitalized on the Balance Sheet	(872,517)	(3,109,474)
Resources from Transferred-In Invested Capital	1,014,834	-
Other	(205,306)	(15,941)
Total Resources That Do Not Fund Net Costs of Operations	\$27,160,494	\$26,899,665
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	545,147	186,550
Writeoff Obsolete Inventory Held for Resale	112,800	-
Total Costs That Do Not Require Resources	\$657,947	\$186,550
NET COST OF OPERATIONS	(\$5,666,977)	(\$3,158,084)

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:

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

During FY2001, the Fund received a request for admittance from the Rocky Mountain Regional Casu (RMRC) and a notification of withdrawal from IGATI. At the June 2001 Franchise Fund Advisory Board meeting, RMRC was admitted effective July 1, 2001. In addition, in September and October 2001, an exit plan was developed and implemented to transition IGATI from the fund

effective September 30, 2001. These transitions were fully completed during FY2002.

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 Consolidated Statement of Financing.

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

D. Retirement Plan: Treasury 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 Fund does not maintain cash in commercial bank accounts. Funds collected for services provided are deposited 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 (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 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 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 (See

graph below). 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.

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

Progression of Invested Capital Balance	
Beginning Balance at 09/30/01	\$ 3,746,219
Additions:	
FBA Rocky Mountain Equity Transfer	424,212
FedSource - Beaufort Equity Transfer	590,622
Reductions:	
IGATI Withdrawal	576,963
FBA Rocky Mountain Beginning Leave Liability	38,202
FedSource-Beaufort Beginning Leave Liability	17,470
Ending Balance at 09/30/02	\$ 4,128,418

Schedule of Depreciation					
	Depreciation Method	Service Life (in years)	Cost	FY 98 - 02 Accumulated Depreciation	FY 02 Book Value
Internal Use Software (In Development)	N/A	N/A	\$156,414	N/A	\$156,414
Information Technology Software	Straight-line (1/2 year convention)	3 - 5	\$5,129,460	\$1,210,773	\$3,918,687
ADP Equipment	Straight-line	3	\$73,306	\$73,306	0
TOTAL			\$5,359,180	\$1,284,079	\$4,075,101

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

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 expensed as incurred. As of September 30, 2002, the Fund had capitalized information technology software and ADP equipment with an acquisition cost of \$5,202,766 with estimated useful lives ranging from three to five years. Accumulated depreciation on IT Software and ADP Equipment at year-end totaled \$1,284,079 leaving a book value of \$3,918,687 (See graph on previous page).

At September 30, 2002, the Administrative Resource Center had accumulated \$156,414 in costs in Internal Use Software in Development relating to the purchase and development of a

new automated payroll interface system/database (See graph on previous page). It is anticipated that the costs related to this system will be capitalized and amortized beginning in FY2003.

6. Accrued Liabilities

The accrued liabilities of the Fund are comprised of program expense accruals, payroll accruals, and funded leave accruals (See graph below). 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 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.

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 2002	FY 2001
Program Expense Accrual	Intragovernmental	310,002	702,589
	With the Public	36,588,910	20,101,735
	TOTAL	\$36,898,912	\$20,804,324
Payroll and Annual Leave Accrual	Intragovernmental	142,272	295,164
	With the Public	2,886,163	3,347,916
	TOTAL	\$3,028,435	\$3,643,080
Total Accrued Liabilities	Intragovernmental	452,274	997,753
	With the Public	39,475,073	23,449,651
	TOTAL	\$39,927,347	\$27,447,404

Schedule of Financing Sources	FY 2002	FY 2001
Post Retirement Benefits to be Paid by OPM	\$1,980,515	\$1,773,919
Salary Benefits Paid by Other Agencies	503,366	162,649
TOTAL FINANCING SOURCES	\$2,483,881	\$1,936,568

7. Operating/Program Costs

Costs by major budgetary object classification are as follows:

Budgetary Object Classification	FY 2002	FY 2001
Personnel & Benefits	\$35,610,231	\$30,235,367
Travel & Transportation	954,785	782,231
Rents, Communications & Utilities	2,695,087	1,471,054
Printing & Reproduction	894,962	2,459,429
Contractual Services	258,262,832	181,264,283
Supplies & Materials	767,443	449,481
Equipment	4,919,745	1,738,769
Miscellaneous	769	32,611
TOTAL	\$304,161,854	\$218,433,225

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:

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 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 payments due in accordance with the lease agreements at September 30, 2002, are as follows:

Scheduled Operating Lease Future Payment	
FY 2003	1,140,341
FY 2004	338,696
FY 2005	344,044
FY 2006	349,533
FY 2007	243,830
Thereafter	0
TOTAL FUTURE PAYMENTS	\$2,416,444

Undelivered Orders: At September 30, 2002, the Fund had \$27,726,892 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

Barry Hudson - Chairman & Executive Secretary

Karen Blum - Vice Chair & Chief Operating Officer,
FedSource-St. Louis

Iris Greenberg - Acting Managing Director
& Chief Operating Officer, FBA-West

Marty Davis - Chief Financial Officer

Kerry Lanham - Executive Director, Treasury Agency Services

Rick Rider - Chief Operating Officer, GoTo.Gov

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