Report of Independent Certified Public Accountants

Grant Thornton

Steve Swanson
Director, VA Enterprise Centers

We have audited the accompanying VA Enterprise Centers' consolidated balance sheet, and the related statements of net costs, changes in net position, and statement of budgetary resources and financing as of September 30, 2000 and 1999 for the years then ended. These financial statements are the responsibility of the VA Enterprise Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08. Audit Requirements for Federal Financial Statements, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We believe our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the VA Enterprise Centers' internal control over financial reporting and safeguarding assets in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We evaluated management's assertion about the effectiveness of its internal controls designed to safeguard assets against loss from unauthorized acquisition, use, or disposition; assure the execution of transaction in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the financial statements; and properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

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 material weaknesses. We obtained an understanding of the internal control structure. Specifically, our consideration included obtaining an understanding of significant internal control procedures; assessing the level of control risk relevant to significant accounting cycles, classes of transactions, or account balances; and performing tests. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

As part of obtaining reasonable assurance about whether the VA Enterprise Centers' financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts which could have a direct and material effect on the determination of financial statement amounts. The results of our test discloses no instances of noncompliance that are required to be reported in OMB Bulletin No. 98-08. However, the objective was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

The financial statements are the responsibility of management, who is primary responsible for the information set forth therein, as well as for the evaluation of the capability and integrity of the company's personnel and maintenance of an appropriate internal control structure, which includes adequate accounting records and procedures to safeguard the Administration's assets.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Veterans Affairs Enterprise Centers as of September 30, 2000 and 1999, and the results of its operations and its budgetary resources for the years then ended in conformity with generally accepted accounting principles.

this report is intended for the information and use of management of the VA Enterprise Centers, the Franchise Fund Board, the Department of Veterans Affairs, the OMB, and the Congress. However, this report is a matter of public record, and its distribution is not limited

Grant Thornton LLP

Vienna, VA
February 2, 2001

DEPARTMENT OF VETERANS AFFAIRS – ENTERPRISE CENTERS
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30,
(in dollars)

ASSETS	2000	1999
Intragovernmental		
Fund Balance with Treasury	$ 44,995,478	$ 33,680,562
Accounts Receivable, Net	10,043,793	2,442,136
Other Assets	1,886,375	579,331
Governmental		
Accounts Receivable, Net	3,112	287
Inventory and Related Property, Net (Note 2)	9	64
General Property Plant and Equipment (Note 3)	16,134,630	10,533,391
Other Assets	264	(629)
Total Assets	$ 73,063,661	$ 47,235,142
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	$ 161,860	$ 117,384
Other Intragovernmental Liabilities	9,161,290	2,941,271
Governmental Liabilities:		
Accounts Payable	2,093,396	3,800,225
Other Governmental Liabilities	18,946,224	11,973,883
Total Liabilities	$ 30,362,770	$ 18,832,763
Net Position		
Cumulative Results of Operations	42,700,891	28,402,379
Total Net Position	42,700,891	28,402,379
Total Liabilities and Net Position	$ 73,063,661	$ 47,235,142

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

DEPARTMENT OF VETERANS AFFAIRS – ENTERPRISE CENTERS
CONSOLIDATED STATEMENT OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(in dollars)

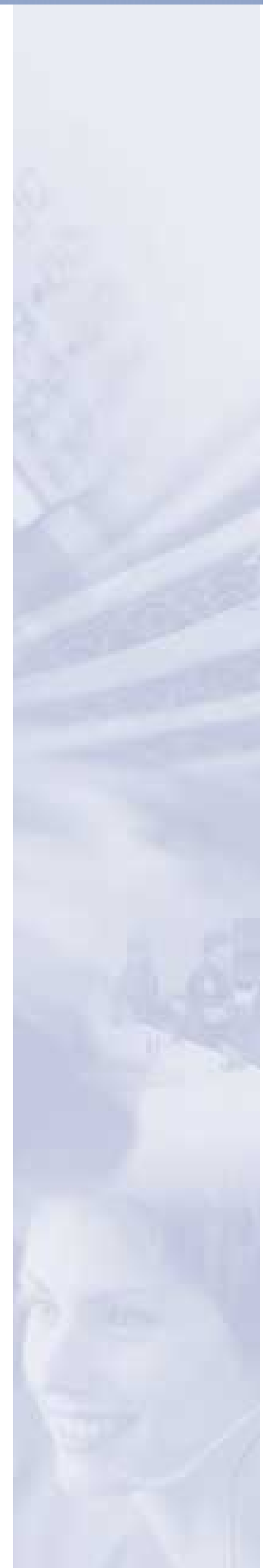
	2000	1999
Program Costs		
Total Program Costs	$ 126,047,642	$ 92,910,506
Less Earned Revenues:		
Federal	(137,740,930)	(95,283,775)
Non Federal	(1,630)	0
Net Program Costs	$ (11,694,918)	$ (2,373,269)

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

DEPARTMENT OF VETERANS AFFAIRS - ENTERPRISE CENTERS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(in dollars)

	2000	1999
Net Cost of Operations	$ (11,694,918)	$ (2,373,269)
Financing Sources (Other than Exchange Revenues)		
Imputed Financing	2,998,995	362,658
Transfer-in	0	7,220
Transfers-out	204,060	213,109
Subtotal	3,203,055	582,987
Net Results of Operations	14,897,973	2,956,256
Net Position-Beginning of Period	$ 28,402,379	$ 25,737,350
Prior Period Adjustments: add/(subtract)	0	3,091,174
Net Change in Cumulative Results of Operations	14,897,972	6,047,430
Increase (Decrease) in Unexpended Appropriations & Non-Operating Changes	(599,460)	3,382,401
Change in Net Position	14,298,512	2,665,029
Net Position - Beginning of the Period	28,402,379	25,737,350
Net Position - End of Period	$ 42,700,891	$ 28,402,379

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



DEPARTMENT OF VETERANS AFFAIRS – ENTERPRISE CENTERS
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(in dollars)

	2000	1999
BUDGETARY RESOURCES:		
Unobligated Balance at the Beginning of the Period	$ 17,644,941	$ 6,973,181
Net Transfers Prior - Year Balance, Actual (+ or -)	0	184,670
Spending Authority from Offsetting Collections	147,498,066	112,566,975
Total Budgetary Resources	**$165,143,007**	**$119,724,826**
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred	$ 159,216,747	$ 102,079,885
Unobligated Balance Available	5,926,260	14,190,541
Unobligated Balance Not Yet Available	0	3,454,400
Total Status of Budgetary Resources	**$165,143,007**	**$119,724,826**
OUTLAYS:		
Obligations Incurred	$ 159,216,747	$ 102,079,885
Less: Spending Authority from Offsetting Collections and Adjustments	(147,498,066)	(112,566,975)
Subtotal	11,718,681	(10,487,090)
Obligated Balance, Net - Beginning of the Period	16,035,621	25,574,242
Less: Obligated Balance, Net - End of Period	(39,069,219)	(16,035,622)
Total Outlays	**$ (11,314,917)**	**$ (948,470)**

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

DEPARTMENT OF VETERANS AFFAIRS – ENTERPRISE CENTERS
CONSOLIDATED STATEMENT OF FINANCING
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(in dollars)

	2000	1999
Obligations and Nonbudgetary Resources		
Obligations Incurred	$ 159,216,747	$ 102,079,885
Less: Spending Authority from Offsetting Collections and Adjustments	147,498,066	112,566,975
Financing Imputed for Cost Subsidies (Note 3)	2,998,995	362,658
Transfers-in (out)	204,060	220,329
Exchange Revenue Not in the Entity's Budget	(228)	0
Other Financing Sources	0	(184,670)
Total Obligations as Adjusted and Nonbudgetary Resources	**$ 14,921,508**	**$ (10,088,773)**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods Services and Benefits Ordered but Not Yet Provided (Net Increases) Net Decreases	(25,644,622)	666,344
Change in Unfilled Customer Orders	2,495,625	3,978,419
Costs Capitalized on the Balance Sheet (Increases) Decreases		
General Property, Plant and Equipment	(10,906,394)	(2,731,008)
Purchases of Inventory	55	9,435
Adjustments to Costs Capitalized on the Balance Sheet	(2,597)	20,993
Financing Sources That Fund Costs of Prior Periods	0	3,091,174
Other	2,859,866	0
Total Resources That Do Not Fund Net Costs of Operations	**$ (31,198,067)**	**$ 5,035,357**
Components of Costs of Operations That Do Not Require or Generate Resources		
Depreciation and Amortization	2,892,928	2,439,213
Loss on Disposition of Assets	152,623	240,934
Other	1,536,090	0
Total Costs That Do Not Require Resources	$ 4,581,641	$ 2,680,147
Net Cost of Operations	**$(11,694,918)**	**$ (2,373,269)**

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

DEPARTMENT OF VETERANS AFFAIRS - ENTERPRISE CENTERS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 and 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
Created by Congress (1996) as one of six Franchise Fund pilots operating within the Executive Branch of Government, VA's Franchise Fund (Fund), supports VA's mission by supplying common administrative services at competitive prices. By law, the business lines within the Fund can only sell to Federal entities.

Basis of Accounting
The Fund accounted for its funds in six lines of business (Enterprise Centers) and in one administrative organization: Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Enterprise Fund Office. The financial statements generally conform to Form and Content guidance specified by the Office of Management and Budget (OMB) and the Statements of Federal Financial Accounting Standards (SFFAS).

Principles of Consolidation
The consolidated financial statements include the six individual activity centers of the Franchise Fund. All material intra-fund transactions have been eliminated.

Public Accounts Receivable
Because the Enterprise Centers conduct all of their business with Federal entities, no allowance for uncollectible accounts is established.

Property and Equipment
The majority of the reported property represents facilities and equipment used to provide services to Fund customers. Property and equipment, including transfers from other Federal agencies, are valued at cost. Expenditures for major additions, replacements, and alterations are capitalized. Routine maintenance is expensed when incurred. Individual items with a unit price between $300 and $5,000 are capitalized at the discretion of the Enterprise Center provided they have a useful life of two years or more. Items costing over $5,000 are always capitalized. Equipment is depreciated straight-line over its useful life, usually 3 to 15 years.

DEPARTMENT OF VETERANS AFFAIRS –ENTERPRISE CENTERS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 and 1999

Revenues and Financing Sources

The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee - for - service" basis.

Recognition of Financing Sources

Exchange revenues are recognized when earned. Expenses are recognized when incurred. All significant intra-agency balances and transactions have been eliminated in consolidation.

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

Annual, Sick and Other Types of Leave

Annual leave is accrued when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.

NOTE 2. INVENTORY AND RELATED PROPERTY

Inventories

The Fund maintains no inventories.

Operating Materials & Supplies

Operating materials and supplies consist primarily of general office supplies that are in the hands of the end user for normal operations. Since it is not cost beneficial to the Fund to apply the consumption method of accounting, it adopted the Purchases Method, which provides that operating material and supplies be expensed when purchased. There are no changes in prior years' accounting methods.

Stockpile Materials, Seized Property, and Forfeited Property

The fund maintains no stockpile materials, seized or forfeited property.

Goods Held Under Price Support and Stabilization Programs

The Fund does not maintain goods held under price support and stabilization programs.

DEPARTMENT OF VETERANS AFFAIRS – ENTERPRISE CENTERS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 and 1999

NOTE 3. SPECIAL ADJUSTMENTS TO FINANCIAL STATEMENTS

Leasehold Improvements

To properly disclose assets that directly contribute to the ability of the Enterprise Centers to earn revenues, the Fund adjusted the financial statements to reflect additional amounts for Leasehold Improvements ($6,066,689) and associated Accumulated Amortization ($4,090,256). However, these items are not included within the billing rates charged to customers.

Imputed Financing of Retirement Benefits

The financial statements disclose this amount ($2,998,995) as costs borne by the Office of Personnel Management to support the retirement of Fund employees. This is not included within the billing rates charged to customers.