DEPARTMENT OF THE TREASURY

2000 *Franchise Fund*

Accountability & Annual Report

Customer Focused
Customer Driven

Department of the Treasury Franchise Fund

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

A Message from the Deputy Chief Financial Officer

I am very pleased to present the FY 2000 Accountability/Annual Report for the Treasury Franchise Fund. Continued success remains the theme of this year's report. Offering unique solutions to administrative needs, helping our business partners achieve success, and increasing financial stability highlight the Fund's accomplishments this year.

The Fund has managed to build a strong business model focused on controlled growth and resulting in financial stability, as evidenced by the enclosed financial information. However, its what's behind the numbers that make the Fund so successful. Our customers have shared, "it's more than the dollar savings" that keep them coming back. The reduced hassle and increased flexibility they receive allow them to focus on their core missions and accomplish more. This combination of value and efficiency is the cornerstone of the "franchising" vision.

Our reputation has been built on 4 years of supplying over 2,000 federal customers with administrative services. I wish to thank each of those customers for their continued trust and confidence in our products and services. As the demands you face become increasingly more complex, we commit to meeting your needs through more products and services, more creative innovations, and more strategic alliances. We recognize that we must compete for your business everyday.

Finally, I wish to thank our hard working Franchise Fund family for their commitment and dedication to helping us achieve another year of continued success. I am especially thankful to the entrepreneurial leaders of our businesses who take personal pride in redefining the status quo, making the government better. Without their tireless efforts, none of this would be possible.

Steven O. App
Deputy Chief Financial Officer

TABLE OF CONTENTS

A Message from the Deputy Chief Financial Officer

Continued success remains the theme of the FY 2000 Annual Report.

Management Discussion and Analysis 4

Highlights 4

• ***Offering solutions:*** The Franchise Fund businesses offer unique solutions to difficult administrative problems.

• ***Helping others achieve success:*** As the Fund helps others succeed, the government works smarter and in the end the taxpayer wins.

• ***Permanency legislation:*** Proposed legislation provides opportunity to continue and expand upon the franchising concept.

• ***Continued growth:*** FY 2000 brought another year of record revenues and customer growth.

• ***Financial Stability:*** The sustained expansion and continued corpus replenishment offer signs of increased financial strength.

• ***Another "clean" audit opinion:*** The Fund receives its fourth straight unqualified opinion.

Our Businesses And Services 8

• ***Meet the businesses behind the Fund:*** The franchise businesses are a community

"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.

that fosters innovation, efficiency, and operational excellence.

• *Our products and services:* The Fund restructures their existing services and establishes some new innovative product lines.

Accomplishments and Outlook 14

• *Making a difference:* Employees and local communities benefit from some interesting partnerships established by the Fund.

• *Building a strong business model:* Growing the business responsibly and investing in the future lays the groundwork for continued success.

• *Meeting objectives:* The Treasury Franchise Fund exceeds all expectations in fulfilling the core franchise objectives.

• *Outlook:* The Fund commits to doing even more.

Program & Financial Performance 21

The Fund continues to meet established goals and exceed performance measure standards.

FMFIA/FFMIA 22

No material weaknesses are reported for the second straight year.

Independent Auditor's Reports 23

Audited Financial Statements and Notes 26

Advisory Board 36

"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

Designed by Administrative Resource Center • Graphics, Printing & Records Branch

MANAGEMENT'S DISCUSSION & ANALYSIS

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—as well as ensuring compliance with applicable rules and regulations. The Fund operates in a business-like manner by creating and maintaining a business relationship and environment that promotes customer participation and satisfaction through delivery of quality performance, teamwork, and continuous improvement, both in service and delivery and economic benefit.

HIGHLIGHTS OF THE YEAR

OFFERING SOLUTIONS

One of the successful aspects of the Treasury Franchise Fund has been our ability to understand our customer's problems and offer solutions to overcome them. The following are a few examples of the solutions that we have provided.

FBA-East helped one Department of Defense customer replace its Fort's entire copier inventory. After a careful evaluation, over 300 old analog copiers were replaced with new fully connected digital copiers and printers. The new equipment took up less space, was less expensive, had far more features, and was much more reliable due to the digital technology. The new equipment also provided a solution not available from the old analog machines; they were connected to the Fort's computers that enabled users to copy as well as print directly from PCs.

The Department of Justice sought the help of FBA-St. Louis to tackle investigations involving fraud and other criminal activities. Through the use of FBA-St. Louis contracts, the Justice Department was able to access experienced investigators, paralegals and support contractors quickly to conduct investigations. The savings in time and effort was critical to the success of the Justice Department's mission.

The U.S. Navy Department came to FBA-San Antonio with a procurement timeliness issue. The Navy was having difficulty awarding crucial contracts for engineering, logistics and technical support of their principal research, development, test and evaluation activity for surface ship combat systems, ordinance, mines, and strategic systems. As a result, FBA-San Antonio partnered with the Administrative Resource Center to put a procurement team in place and was instrumental in awarding several contracts within weeks. Realizing the level of support they received allowed the Navy to focus on their mission. Not only has FBA-San Antonio increased the response time for the Navy, but they have also saved them money with their purchasing power.

> *"(FBA San Antonio's) detailed knowledge of the acquisition process has allowed us to concentrate on our core mission of delivering the best Weapon Systems to the fleet. The acquisition reform methods employed by FBA-San Antonio have saved time and money on multiple occasions.... It is nice to see that some of the acquisition reform initiatives that were envisioned more than ten years ago are still alive and well."*
>
> *- Navy Program Management/PEO Liaison*

HELPING OTHERS ACHIEVE SUCCESS

In order for the Treasury Franchise Fund to flourish, the products and services that we offer must first help our customers succeed. The following are a few examples of how our efforts aided our business partners.

FBA-West has worked with the Federal Emergency Management Agency (FEMA) in developing a grant management program. FEMA, via FBA-West, is able to assist states

with limited contracting resources to implement Emergency Management Training along with Community Assistance Contacts and Community Assistance Visits. This is a unique program that ensures grant money is utilized by state and local communities to conduct high quality training and assistance visits. This enables the state and local communities to interact with federal emergency teams and respond more effectively to disasters.

The Federal Consulting Group's (FCG) work with the Federal Aviation Administration (FAA) Logistics Center in Oklahoma City contributed to the Center winning the President's Quality Award (Merit Achievement). Beginning over four years ago, the FAA Logistics Center used FCG's facilitation services and effectively saved itself from closure by streamlining its processes. The Center turned itself into a profit-making unit, which other federal agencies can look to benchmark.

The Center for Applied Financial Management provided assistance to numerous agencies in an effort to improve their cash management/reconciliation processes and enabled them to obtain a favorable financial statement audit opinion. In one instance, The Center helped resolve approximately $70 million worth of differences in an agency's Fund Balance with Treasury.

The Administrative Resource Center was instrumental in helping multiple federal entities achieve clean audit opinions. Since the inception of ARC in 1998 it has helped its customers receive 10 unqualified opinions in 10 financial statement audits. This includes four clean opinions this year.

PERMANENCY LEGISLATION

Under the Government Management Reform Act (GMRA), pilot franchise funds were designated at six agencies. Since implementation of the pilot program, OMB and the U.S. Chief Financial Officer's Council (comprised of the 24 CFO Act agencies, including those designated to operate franchises) have monitored individual and collective franchise performance. Based on performance information provided by pilots, OMB, with the urging of the CFO Council, believes that the franchise concept is valid. As such, the Administration has forwarded to Congress a legislative proposal, the "Franchise Fund Program Act of 2000." This legislation provides an important opportunity to continue and expand upon the achievements of the franchise fund pilots.

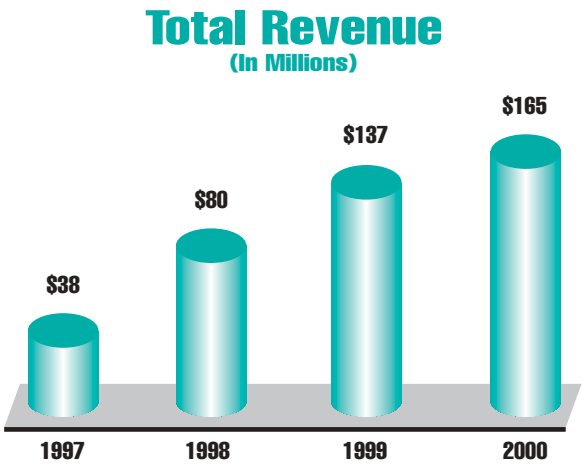
CONSOLIDATION OF ACCOUNTING PROCESSING CENTERS

The Financial Management Service decided to use the Administrative Resource Center as its full service accounting provider. This represents the first time that a Treasury bureau has eliminated an internal accounting function and consolidated its efforts with another entity to reduce the duplication of efforts and achieve the efficiencies gained through cross servicing. Other Treasury entities, including Departmental Offices, are considering consolidating accounting functions/system platforms with the Administrative Resource Center in the near future.

As part of the FMS decision, the Fund also consolidated its two accounting processing centers into one. The Center for Applied Financial Management, which was previously serviced by FMS, moved its accounting services to the Administrative Resource Center. The Administrative Resource Center has been providing accounting services to the remaining businesses within the Fund since its inception. Now all of Fund's businesses are serviced by the Administrative Resource Center. The consolidation (i) streamlined accounting processes and procedures, (ii) reduced audit costs by reducing the number of sites the auditors had to visit,

"The Administrative Resource Center (ARC) was proactive in assuring that the accounting and reporting operations of the D.C. Pensions Program were carried out in accordance with all applicable rules and guidelines. ARC's...diligence contributed significantly to the OIG's issuance of an unqualified audit opinion on the financial statements of the D.C. Pensions Program."

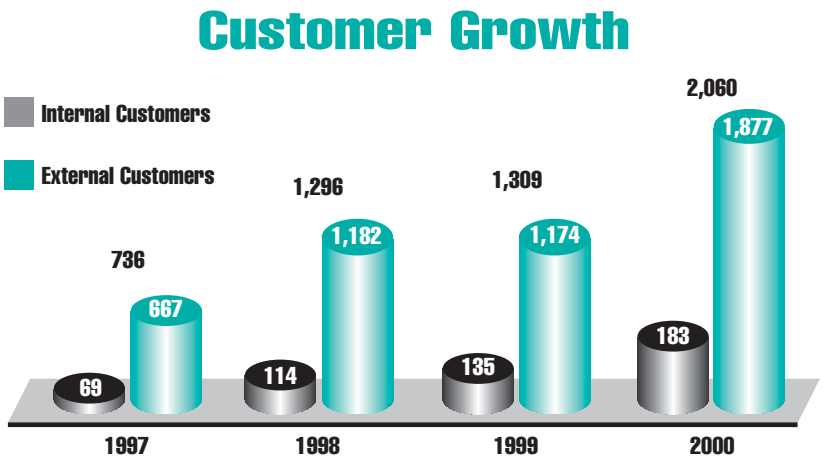
- Mary Beth Shaw, Director, Office of D.C. Pensions



and (iii) reduced the overall accounting service costs of the Fund.

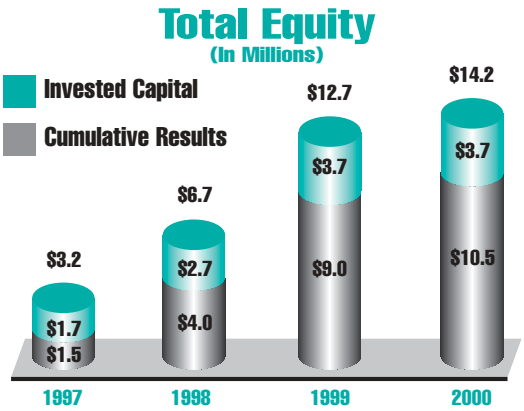
CONTINUED GROWTH

The Treasury Franchise Fund continued its impressive growth in FY 2000. The Fund's total revenue grew to more than $165 million, representing a 20 % increase over the previous fiscal year and demonstrating the continuing demand for the Fund's products and services (See graph above). Total revenue was increased through expanding services to existing customers and adding new customers. Total customers increased by 57% in FY 2000, bringing the current total to more than 2,000 customers (See graph below). Although growth by itself is not inherently good, growth for the Fund results in increased competition throughout the government and lower administration costs. In other words, as the Fund grows the government works smarter and the taxpayer wins.



FINANCIAL STABILITY

The Fund has sustained a four-year expansion that has enabled it to develop a reasonable operating reserve (equity). The operating reserve is critical to the health and stability of the Fund enabling it to (i) sustain downturns in business brought about by unforeseen circumstances, (ii) pay for system and process enhancements and (iii) maintain an adequate cash flow. In FY 2000, the Fund's total equity grew to over $14 million (See graph below). This 12% increase over the previous fiscal year was solely related to current results of operations of $1.8 million (offset by a $300K prior period adjustment).



Cumulative results of operations since the Fund's inception total over $10 million, which accounts for almost three fourths of the Fund's total equity. There was no change in the Fund's $3.7 million of Invested Capital.

Total Assets, comprised primarily of cash and accounts receivables, increased by 64% to over $65 million (See graph on next page). This was primarily due to a $21 million increase in cash. Cash flow has continued to improve as evidenced by the accounts receivable turnover ratio (the average time it takes to turn earned revenue into cash). The benchmark for the accounts

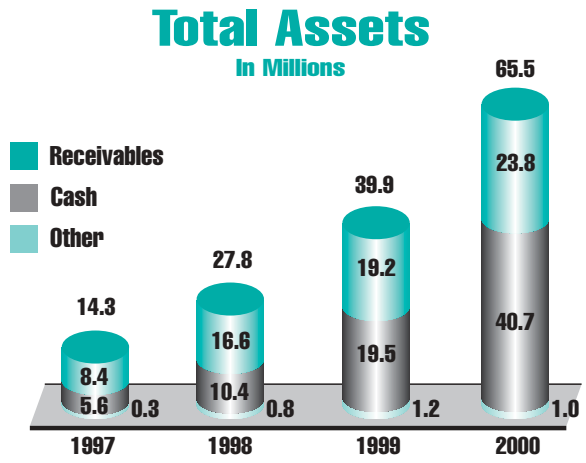
receivable turnover ratio is 60 days, which includes 30 days for billing and 30 days for collecting the cash. In FY 1997, the Fund's first year, the accounts receivable turnover ratio was 86 days. The Fund trimmed 34 days from this ratio to achieve an outstanding accounts receivable turnover ratio of only 52 days in FY 2000 (See graph on right). This resulted from the Fund's effort to streamline its billing and collecting processes. FBA-West provided a significant contribution to this endeavor by establishing agreements with various DFAS offices that allow funds to be collected immediately from Defense customers via the Online Payment & Collection (OPAC) system.

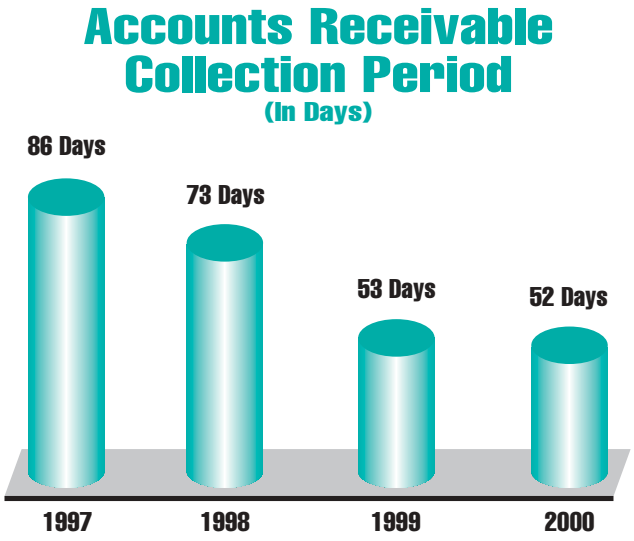
Another sign of financial stability was indicated by further replenishment of the Fund's corpus or "start-up" funds. At the inception of the Treasury Franchise Fund, $1,200,000 of corpus funds were invested in the Fund by the Treasury Department. Of the original corpus funds, $900,000 were distributed to the individual businesses to provide a temporary operating reserve until they were able to build up a reserve of their own. In FY 1999, FBA-West replenished their corpus of $100,000. In FY 2000, FBA-East returned their corpus of $150,000. Another $300,000 of corpus is expected to be returned in the first quarter of FY 2001 (See graph below right).

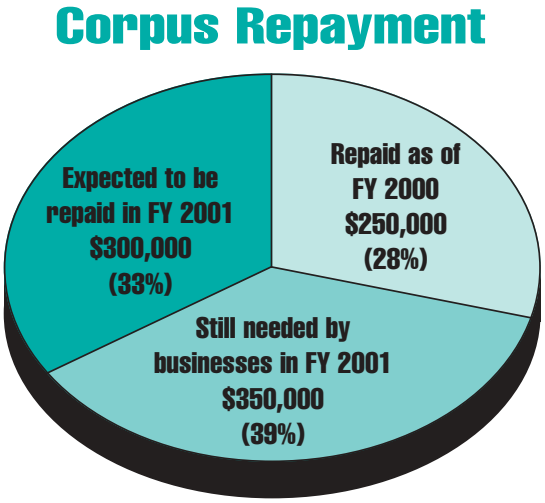
ANOTHER "CLEAN" AUDIT OPINION

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

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







OUR BUSINESSES & SERVICES

MEET THE BUSINESSES BEHIND THE FUND

The Treasury Franchise Fund's Business Activities attempt to create a new dynamic for identifying the best overall support service provision that relies on the full cost of performance to the taxpayer and full and open competition. The Business Activities provide common administrative services both within their own respective agencies as well as to Federal customers who are external to the franchising agency. The franchising concept extends philosophies of competitive business enterprise into the delivery of these 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 these funds should ideally compete. In a free market, the ability to compete effectively determines whether an organization ultimately survives, and thus provides an inherent incentive to succeed. Thus, effective entrepreneurial management, or the ability to make optimum use of resources (lower cost) in order to satisfy customer demands (satisfaction), and to perform better than the competition, becomes the key to surviving and succeeding in a business environment. On an operational level, the Business Activities provide services on a reimbursable basis and adhere to government wide performance and costing principles.

The Department of the Treasury's Franchise Fund currently consists of eleven (11) business activities divided into three service categories; (1) Consolidated/Integrated Administrative Management, (2) Financial Systems, Consulting & Training, and (3) Financial Management & Administrative Support. These franchise businesses are a community that fosters innovation, efficiency, and operational excellence in government through voluntary cooperation, consolidation of needs, and economies of scales. The products and services offered include services that have provided a demonstrated return in efficiency and cost effectiveness with future services to be determined by needs, feasibility and cost analysis.

Consolidated / Integrated Administrative Management

Franchise Business Activities (FBAs) - These business activities have long existed (prior to joining the Franchise Fund) as fee-for-service organizations that provide entrepreneurial business solutions for the acquisition, delivery and financial management of common administrative services and products in support of agencies' missions and objectives. Common administrative products and services include contract task order support for projects; contract management for copiers; employee assistance programs; information technology services; mail management and other administrative support services. Through competitively awarded contracts

Treasury Franchise Fund Time Line

October 1994 The "Government Management Reform Act of 1994" (GMRA) authorizes the establishment of six Franchise Fund Pilot Programs within the Federal Government.

March 1995 The Department of Treasury submits an application to OMB to be one of the six franchise fund pilot programs.

May 1996 OMB Director Alice M. Rivlin designated the Department of the Treasury as one of the six Executive branch agencies authorized to establish a franchise fund pilot program. First Franchise Fund Advisory Board meeting conducted.

(many nation-wide), the FBA's perform many value added, cost effective administrative services throughout the U.S.

Our FBA's include:

FBA-Central (Cincinnati)

FBA-East (Baltimore)

FBA-Midwest (FedSource)

FBA-St. Louis (FedSource)

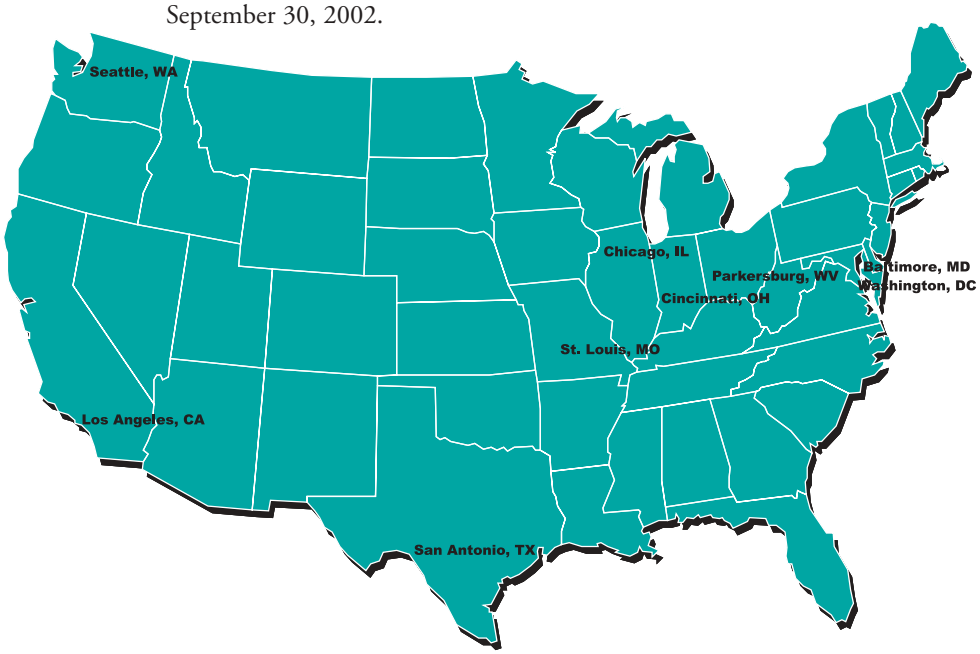
FBA-San Antonio

FBA-West (Los Angeles)

FBA-Seattle (FedSource)

Financial Systems, Consulting & Training

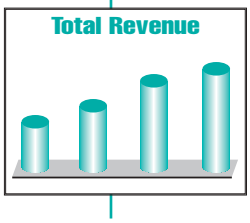
The Center for Applied Financial Management - The Center improves the quality of government financial management by providing individualized accounting operations and systems support, financial management consultation and advice, and financial education on a reimbursable basis to other Federal agencies. Accounting Operations provides cash reconciliation services for agencies' fund balances with Treasury and reconciliation of disbursing officers' cash reporting as well as the preparation of monthly and year-end reports. Financial Systems Consulting assists agencies in selecting and implementing a financial management system that meets Treasury, OMB, Joint Financial Management Improvement Program (JFMIP), and the agency's own requirements to improve the quality of financial decision-making: improving compliance with Treasury and OMB regulations; and enhancing the quality of financial reporting to Treasury and OMB. Financial Management Consulting provides financial management assistance, such as operational reviews, internal control reviews, financial reporting compliance reviews, standard general ledger conversions, strategic planning, and cost management. The Financial Education areas provide open enrollment and agency on-site courses, conferences, seminars, and workshops to financial and non-financial program managers and staff. This program supports compliance with existing and new financial legislation and regulations. Accounting cross-servicing provided mainframe cross-servicing to six agencies. This service, however, will be phased out by September 30, 2002.



Treasury Franchise Fund Time Line

July 1996 Treasury begins franchising operations consisting of the following business activities: Center for Applied Financial Management, FBA-East, FBA-Central, FBA Seattle, FBA-West and the Federal Quality Consulting Group.

September 1996 The Treasury FY 1997 Appropriation bill (Public Law 104-208) provided expanded authority for the Treasury Franchise Fund.



September 1997 Franchise Fund revenues for FY 1997 exceed $38 million.

The Federal Consulting Group - assists federal agencies and other public service organizations in meeting the highly diverse needs and expectations of Americans in the global economy and society of the 21st Century. The Group is comprised primarily of active federal career Senior Executives who have themselves managed major agency programs, and who are highly experienced in government operations, assessment of often conflicting organizational values, analysis of agency customer requirements, and creative approaches to federal organizational challenges. This cadre of highly skilled executives is trained in the latest techniques of organization diagnostics, facilitation, strategic planning, assessment of customer needs and development of customer service standards, reengineering and improvement of key federal systems and processes, implementation of learning organization concepts, human resources development, and the management of change. As the successor organization to the Federal Quality Institute, the Group and its cadre of Executive Consultants has a proven track record of working with federal agencies. More information is available at the FCG website - fqcg.ots.treas.gov.

The Inspectors General Auditor Training Institute - The President's Council on Integrity and Efficiency (PCIE) created the Inspectors General Auditor Training Institute (IGATI) in 1991 and IGATI joined the Treasury Franchise Fund during FY 1998. Its mission is to provide basic training to Federal auditors. Organizationally, it resides within the Department of the Treasury's Office of Inspectors General, but the PCIE's Audit Committee provides oversight functioning as the Institute's Board of Directors. The Institute has operated in the spirit of franchising since its inception. It competes in the open market with other training providers on the basis of quality and cost. Federal audit organizations are not required to send their employees to the Institute for any of their training. Rather, they are free to use any provider they choose. The Inspectors General Auditor Training Institute provides training that will enhance the skills, abilities and knowledge of Federal Office of Inspector General auditors, and other interested parties.

Financial Management & Administrative Support

The Administrative Resource Center (ARC) - is committed to providing the highest quality and best value administrative services available in the federal government. ARC offers a full range of services required by organizations to manage in the federal sector. Primary service lines are accounting, procurement, personnel, and facilities management. ARC has developed an automated on-line (Internet) infrastructure which facilitates doing business with customers regardless of geographic location. By using ARC for baseline administrative support, other federal agencies are free to concentrate on their core missions. More information is available on the ARC website at arc.publicdebt.treas.gov.

OUR PRODUCTS & SERVICES

The Fund offers a full range of high quality products and services that are competitively priced. Essentially, the Fund provides one stop

Treasury Franchise Fund Time Line

November 1997 The Treasury Department's CFO approves the recommendation of the Franchise Advisory Board to accept the application of the St. Louis CASU to become a new business activity in the Fund.

December 1997 The Fund receives an unqualified opinion on its first financial statement audit for FY 1997.

shopping for any agencies' administrative needs. For each service that is delivered through the Fund's contracts, the following is performed:

• **Quality Assurance** – The businesses oversee all aspects of contract management including monitoring delivery of service, all federal wage regulations, and benchmarks established by the customer.

• **Compliance** – All contracts have been competitively awarded under FAR regulations and meet A-76 requirements. All franchising products and services are priced to recover full costs of providing the good or service.

• **Demonstrated Savings** – A distinct pricing advantage for the customer is achieved through economies of scale for volume discounts. The contracts are in place and save the internal cost and time for the customer to initiate and administer the procurement process.

• **Ease of Use** – The contracts managed by the businesses are multi-year in duration. Customers can enter into interagency agreements that cross fiscal years in certain situations.

• **Ease of Payment** – The businesses perform the financial management requirements associated with the contract (reconciliation and resolution of all vendor invoices is performed, making it transparent to the customer). In addition, customized usage reports are provided to the appropriate customer official.

• **Flexibility** – The customers have the ability to expand or reduce their requirements as needed. In addition, their requirement may be for one day or through the duration of the contract.

• **Customer Focus** – Regional representatives are located across the nation to work with and resolve issues related to the delivery of service.

"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 ~

New Services & Initiatives

In the competitive arena of administrative services, the Fund has to listen intently to the needs of its customers. With an absolute dedication to meeting or exceeding our customer's or potential customers' expectations, much of FY 2000 was spent restructuring existing services and establishing new ones. The following are a few examples of the new services offered by the Fund's business activities.

• **The Federal Benefits Information System** - an Internet based Federal employee benefits application which provides Federal employees the ability to view their personal retirement estimates and make retirement projections at their convenience using the Federal Benefits Information System. Not only can employees take charge of their retirement planning process, but the agency's valuable Benefits Counselor resources are freed to deal with other issues.

PRODUCTS OFFERED

- Accounting Services
- Alternate Dispute Resolution
- Auditor Training
- Background Investigations
- Collaborative Consulting with Leaders
- Computer Repair Maintenance
- Conference-Room Management
- Copier Management
- Court Reporter Services
- Employee Assistance Programs
- Equipment Rental
- Federal Benefits Information Systems
- Financial Education and Training
- Financial Management Consulting
- Financial Systems Consulting
- Laser Cartridge Services
- Leasing
- Mail Room and Management Services
- Messenger Service
- Moving Services
- Personnel Services
- Procurement Services
- Records Management Destruction
- Resource Management Program
- Space Planning and Design
- Telecommuting Services
- Temporary Help
- Training Services

Treasury Franchise Fund Time Line

March 1998 The Treasury Department's CFO approves the recommendation of the Franchise Advisory Board to accept the applications of the Chicago and San Antonio CASUs to become new business activities of the Fund.

March 1998 OMB in conjunction with the Government-wide CFO Council issued an interim progress report to Congress on the progress of the franchise pilot programs meeting the objectives of the legislation creating the pilots.

May 1998 The Treasury Department's CFO approves the recommendation of the Franchise Advisory Board to accept the applications of the Bureau of the Public Debt's Administrative Resource Center and the OIG's Inspector General Auditor's Training Institute to become new business activities of the Fund.

• **Information Technology Support** - a comprehensive and integrated desktop and local area network management service to include management of the infrastructure, user support, and asset management. This new service provides hardware, software, professional placements, licensing, maintenance, repair, telecommunications, and many other IT services. Contractors are experienced in supporting a wide variety of IT requirements such as information security services, life-cycle program management, software development and systems analysis, programming services, legacy systems applications migration and web enablement services, data warehousing and data mining, data conversion, and network operations support and seat management.

• **Sharp Shield Disposal System (Flash Sanitizing)** - the newest patented innovation in the disposal of medical sharps in an environmentally safe method. This product, approved by the U.S. EPA and California Department of Health Services, revolutionizes the handling of bio-hazardous medical waste. FBA-West has been invited to present this new technology at the first NATO Civil-Military Blood Conference to be held in the United States.

• **Audit Recovery Contracts** - allow customer agencies to take advantage of an innovative service that enables them to recover funds that had been erroneously paid to vendors over the past several years.

• **Financial Tools for 21st Century Leadership** - a seminar that was premiered by The Center for Applied Financial Management. The seminar is designed explicitly for the senior management officials whose decisions have profound financial impact on accomplishing the business of Government.

• **Federal Research Service** – partnering with the Federal Research Division of the Library of Congress, this service will provide agencies with the research and analysis needed to carry out their national and international missions. Services range in complexity from document delivery to database development to comprehensive studies and reports.

Treasury Franchise Fund Time Line

May 1998 FBA West wins Vice President Gore's prestigious "Hammer" award.

September 1998
Franchise Fund revenues for FY 1998 exceed $80 million.

November 1998
The Fund completes a competitive benchmarking of administrative services contracts for mail and resource management.

• **Knowledge Management** - automated tools and related initiatives to enhance the Requirement Management process. This includes strategic planning, business process reengineering, operational architecture products, requirement portfolio management, education, customer service and development of integrated and validated requirements.

• **Human Resources Management** - providing one-stop shopping for training and development, performance management, workforce productivity, business process reengineering, EEO, workmen's compensation, employee and labor relations, investigations, long term administrative, technical, light industrial, professional and medical services, project management services, and last, but not least, outplacement to customer agencies.

• **American Customer Satisfaction Index (ACSI)** - a new service launched by the Federal Consulting Group. Introduced in the United States in 1994, the ACSI has been used by 200 private sector companies and is the most-widely recognized national measure of customer service quality. In 1999, the ACSI was chosen by the Executive Branch as the standard measure for Federal agencies. By offering the ACSI to customers, FCG is able to provide them with access to the "gold standard" measure of customer satisfaction. Agencies are able to identify areas of strength and weaknesses in their programs, use the data to improve their customer service performance, and meet performance measurement requirements of the Government Performance and Results Act.

Treasury Franchise Fund Time Line

February 1999 The Fund receives its second straight unqualified opinion on its financial statement audit for FY 1998.

March 1999 The Federal Quality Consulting Group wins the prestigious George Land World Class Innovator Award.

May 1999 OMB and the government-wide CFO Council conduct a comprehensive assessment of the Treasury Franchise Fund.

ACCOMPLISHMENTS AND OUTLOOK

MAKING A DIFFERENCE

The Fund is involved with numerous programs that not only make a difference to various agencies, but also make a significant impact on the employees and surrounding community. The following are a few examples:

• FBA Seattle, along with other FBAs, offers an Employee Assistance Program that offers help to federal employees. The Employee Assistance Program helps solve employee problems with the assistance from someone who is trained to counsel and provide guidance. The counselors help assess the problem, provide information about community resources and services, provide short-term counseling, assist in selecting outside resources, and follow-up to insure quality assistance is received.

• The FBA-San Antonio continues its involvement with the Youth and Education Council (YEC) of the Alamo Federal Executive Board (AFEB). Project SATISFY successfully matches business providers, government agencies and service organizations with schools that have reported needs in relation to service, equipment, and computers. Through responses to surveys during school year 1999-2000, the program furnished over 400 computers, printers, modems, fax machines, and copy machines. The results of Project SATISFY are overwhelming and the community involvement is still increasing. The partnerships that have formed will continue to ensure that "our children" receive the best educational opportunities possible.

• The Corps of Engineers has Emergency Operations Centers that operate around the clock during emergencies. When the Corps needed additional Emergency Management expertise, they turned to FBA-St. Louis for help. FBA-St. Louis supplied an experienced Emergency Management Specialist with the knowledge and expertise the Corps needed to consult on disasters including hurricanes and floods.

BUILDING A STRONG BUSINESS MODEL

Responsible Growth

The Fund's revenue has continued to grow since its inception. Fiscal year 1999 was a banner year for the Fund with total revenue increasing 71% from $80 million to $137 million. Although 18% of the increase was related to adding the Administrative Resource Center as another business line, the growth was impressive considering the customer base remained relatively unchanged. In FY 2000, the 20% increase in total revenue to $165 million was entirely due to new business. This is evidenced by the significant increase in the customer base which grew from 1,300 to over 2,000 customers.

Even though the Fund's revenue and customer base grew in FY 2000, net earnings decreased by 35% from FY 1999's $5.2 million to $1.8 million. This is due primarily to three reasons. First, FY 1999 was a watershed year for the Fund. Net earnings grew 118% from $2.4 million to $5.2 million. As a result, FY 1999 will be difficult to match. Second, several individual businesses had to deal with some of the difficult issues of working in a market environment such as the loss of significant customers and the loss of key personnel. This forced them to make critical decisions, such as the discontinuation of certain business lines. Finally, much of the net

Treasury Franchise Fund Time Line

May 1999 The Fund completes a universal benchmarking of Procurement practices.

September 1999 Franchise Fund revenues for FY 1999 exceed $140 million.

December 1999 The Fund receives its third straight unqualified opinion on its financial statement audit for FY 1999.

earnings in FY 2000 were invested back into the business to prepare the Fund for future expansion.

Investing in the Future

The responsible growth experienced by the Fund, as well as some initial capital that was invested, has allowed the Fund to develop a reasonable operating reserve (or equity) of $14.2 million. Cumulative results of operation, or the sum of Fund's net earnings since its inception, make up $10.5 million (74%) of the operating reserve (See graph below). The other $3.7 million is related to invested capital that includes $1.2 million initially invested by the Treasury Department and $2.5 million invested by the individual business activities. The Fund has not received any additional appropriated funds since its inception because it operates under a 100% full cost model.

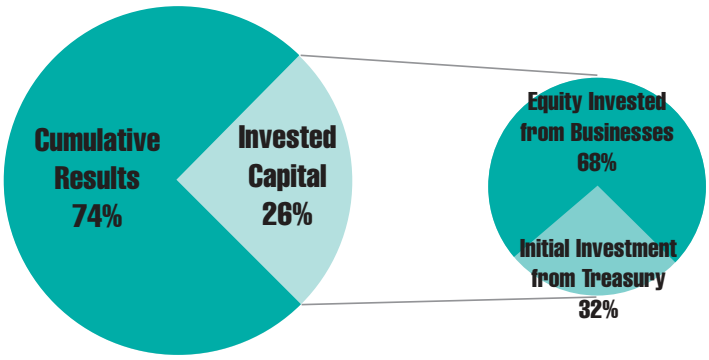
This operating reserve has been critical to the health and stability of the Fund. In the past few years it has been primarily used to help maintain an adequate cash flow. In FY 2000, the Fund made a concerted effort to prepare itself for the future. This is most apparent with the Administrative Resource Center, which invested over $1 million in non-recurring items related primarily to equipment, furniture, telecommunications and other costs to configure new workspace to prepare for future expansion. Other business also invested in various internal systems as well as the development of new products and services.

MEETING OBJECTIVES

The Franchise Fund was created as a testing ground for enhancing service value through market-driven competition. 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 following highlights how the Treasury Franchise Fund is meeting the franchising objectives of promoting efficiencies in the delivery of administrative products and services; reducing duplication of effort; fostering competition; full cost/self sufficiency; customer satisfaction; and implementing improve financial and business practices.

Equity Breakdown



Treasury Franchise Fund Time Line

September 2000 Franchise Fund revenues for FY 2000 exceed $145 million.

September 2000 OMB transmits legislation to the Congress proposing to make the franchise fund pilot program permanent.

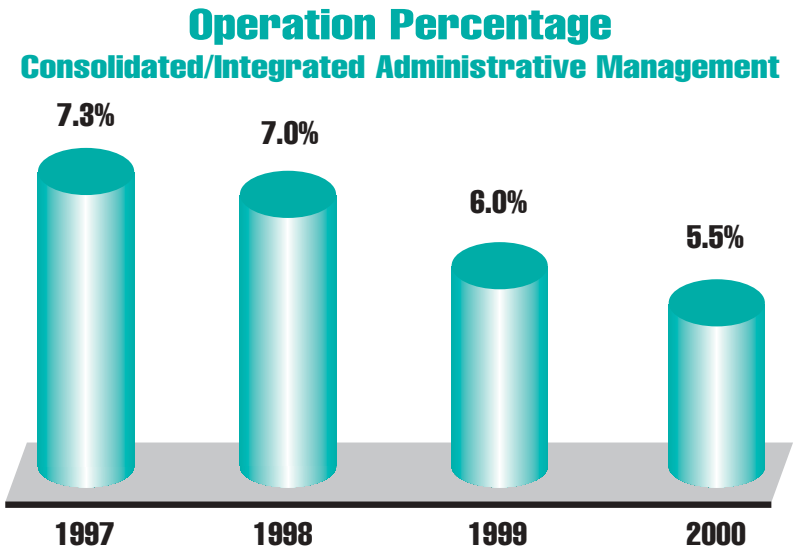
January 2001 The Fund receives its fourth straight unqualified opinion on its financial statement audit for FY 2000.

Promoting Efficiencies in the delivery of administrative products and services

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

"Efficiency is doing better what is already being done."
~ Peter F. Drucker ~

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. This is best illustrated by looking at their operating percentage that quantifies the relationship of operating costs as percentage of total revenue. Their operating percentage decreased from 6% in FY 1999 to 5.5% in FY 2000. Since the Fund's inception, they have been able to reduce their operating percentage by almost 25% (See graph below).



Many Customers have realized reduced pricing, rebates, and volume discounts due to economies of scale and improved efficiency of administration offered by the Franchise Fund. We are able to give a price reduction when obtaining large orders because, in most instances, our operating costs closely remain the same.

Reducing Duplication of Effort

The Treasury Franchising effort has achieved efficiencies and generated value internally to Treasury, externally to other agencies, and to the government as a whole. This is demonstrated by reducing and/or eliminating duplicative/redundant services, implementing best practices, reducing the costs of services, growth of the business, implementing performance measures and benchmarking, and customer service. Highlights of our efforts/successes follow:

• Reduced the number of service providers through the consolidation of administrative accounting functions — The Financial Management Service has eliminated its internal accounting function and consolidated its efforts with the Administrative Resource Center to reduce the duplication of efforts and achieve the efficiencies gained through cross servicing for accounting services. Including FMS, the Administrative Resource Center now cross services 21 organizations for administrative accounting.

• Reduced the number of service providers through the consolidation of procurement functions — The ARC provides full service procurement functions. Currently 18 organizations are being provided with full service procurement functions through cross servicing.

• Reduced the number of service providers through integrated contract and financial management — Our Franchise Business Activities (FBAs) provide integrated contract and financial administration. These services are provided to

almost 2,000 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.

Ability to Foster Competition

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

"Thank God for competition. When our competitors upset our plans or outdo our designs, they open infinite possibilities of our own work to us."
~ Gil Atkinson ~

The 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 2000, the Treasury Franchise Fund Activities in total had entered into agreements with over 2000 customers. Of these, approximately 9% are customers within Treasury and 91% 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 2000, over 80% of the Funds' expenses were paid directly to private sector businesses. For Consolidated/Integrated Administrative Management Services, over 90% of all their operations are accomplished through contracts with the private sector that have competed for and been awarded contracts for specific administrative services. The business relationships established with private sector companies for providing these products and services are done so under current federal acquisition regulations. Each of the product groupings is designed to meet the stated needs of the customer. The essential elements of quality, packaging and delivery, combined with volume consolidation, are built into contracts and agreements.

"A particular advantage for a small agency like OSC is that we actually are able to receive higher quality services from the Administrative Resource Center than we are able to maintain in house, because of the 'bench strength' of ARC's staff of highly qualified experts."

The U.S. Office of Special Counsel

Accounting for Full-cost and Achieving Self Sufficiency

Meeting the objective of financial responsibility is demonstrated through annual audits; full costing and self-sufficiency; effective fund operations; and managing operating reserves. Highlights of our efforts/successes follow:

The Treasury Franchise Fund is audited annually. 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

• Express an opinion on management's assertions about effectiveness of the entity's internal control structure, and

• Test for compliance with applicable laws and regulations.

The Franchise Fund does not receive appropriations support directly or indirectly. No annual appropriations have been requested for the Treasury Franchise Fund. Since inception of the Fund, all activities have been fully reimbursable. Treasury, however, provided the Franchise Fund with $1.2 million from reprogrammed funds to use as startup capital for cash flow purposes. This "corpus" represents the investment of the Government in the Fund. All other funding (revenue) is derived from sales of goods and services to customers and/or recognized as an "imputed" financing source.

The Fund is in compliance with cost accounting standards and guidance. Including:

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

Customer Satisfaction

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.

The Federal Consulting Group has assumed a leadership role in the customer satisfaction arena. They now direct the Federal Advisory Committee on the Excellence in Customer Satisfaction Initiative, an advisory board of public and private experts in customer service. The Federal Advisory Committee first met in 1998 and meets twice a year to assist in creating a customer-focused government.

Effective feedback mechanisms can result in increased sales, better products, improved personnel performance, and business economies. Our mechanisms used most often include: Immediate service/product follow-up calls, customer surveys, and customer needs analysis. The following are a few examples of the feedback we have received.

• ***"ARC is a model of true customer service and dedication to the term 'the client is number one'—providing excellent direction and guidance. They are very conscious to keep us informed while resolving issues with clear, professional judgment. Their technical knowledge and expertise of the federal government acquisition, accounting, and personnel laws, as well as commitment, outstanding dedication, and quality work, has been a key to the survival of our new, independent agency."***
- Chemical Safety Board

• ***"I just wanted to take the opportunity to reiterate the benefits that have accrued to INS through our relationship with FBA-Midwest. Utilization of project support, copier management and excess property areas have brought increased efficiencies and substantial savings in dollars to the INS and have been recommended by our Regional and Headquarters offices as "best practices" to be followed by other offices of INS who have franchise offices available to them. I cannot say enough about the positive effects on INS' operations support that FBA-Midwest has had here."***
- Immigration & Naturalization Service

• ***"Throughout the last 9 years a partnership with (FBA St. Louis) has resulted in mission successes for the LSSC. I would like to express my appreciation for the fine support that your organization provided."***
- Logistics Systems Support Center

Improved Financial Management and Business Practices

One of the hallmarks of a good business is financial strength and consistency. The Franchise Fund knows that it will take strong financial management and effective financial business practices to ensure continued financial strength and consistency in the future.

Franchise entities operate much like private-sector businesses in that they must be concerned with sales, cash flow, break-even analysis, net position, as well as, the conventional budget and fiscal requirements of federal agencies. This heightened degree of financial management requires Fund management to have a clear understanding of financial statements and various analytical techniques and ratios in order make the critical decisions necessary to operate their businesses. The following are a few of the initiatives undertaken by the Fund this year to help aid financial decision-making:

• The Fund held it's 2nd Annual Finance Officers Conference. The conference offers the financial personnel from each business an opportunity to share best practices. Best practices that were shared this year included: "Preparation of Revenue and Expense Accruals" and "Reconciling Revenue & Expenses." The conference is also used as an opportunity to train the finance officers on new accounting issues.

• The Fund developed a "Financial Statement Review Checklist" to provide our Chief Operating Officers with a tool to review their financial statements to ensure they were correct and accurately reflected their business.

• The Fund created the framework for a "Financial Condition Report" which helps the Advisory Board stay abreast of the hurdles facing businesses in financial trouble and monitor their progress toward greater financial health. Sharing the issues that affect our individual businesses helps the remaining businesses avoid such pitfalls.

The Fund continually strives to improve its existing workflows. The natural affects of working in a market-driven environment forces the businesses to find better, less costly ways of providing their services. The following represent a few of the processes that have been reengineered this year.

• The Fund streamlined its OPAC and credit card billing processes. Previously the billing data was input three separate times; once into the individual businesses databases, once into the OPAC and credit card software, and once into the accounting system. The Administrative Resource Center built interfaces that allow the data to be downloaded from the individual businesses databases directly into the OPAC and credit card software. The OPAC interface also allows the data to be downloaded into the accounting system. A similar interface with the credit card data is being evaluated. These reengineered processes reduce the chances for input errors and reconciliation problems.

• FBA San Antonio, along with other FBA's, researched and learned the DFAS payment offices they billed did not need the detailed line items that were being input into the OPAC

billing system. They only required proper and timely back up to be sent. As a result, the amount of time needed to prepare the bills has been significantly reduced. In addition, DFAS offices now save money, since they were being charged a fee-per-line for the OPAC billing system.

The Treasury Franchise Fund has also implemented "Benchmarking" to help ensure the effectiveness of their business practices. Benchmarking is a continuous process of comparing operations to best practices both internally and externally. Internal benchmarking is measuring one part of the organization against another. One advantage of internal benchmarking is that it can help identify best practices within an organization—in other words, proven methods that work within that organization's culture and environment. The Treasury Franchise Fund has established a wide range of standard internal benchmarks at the Fund and Business Activity level. Each quarter the Business Activities will discuss the results and trends of their financial statements and make comparisons to key financial ratios (current ratio, operating percentage, and account receivable turnover). Additionally, our Business Activities share and compare their efforts to improve learning and growth of employees, as well as serving customers.

FRANCHISING "OUTLOOK"

Franchising is changing the way government administrative functions are performed and delivered. The Treasury Franchise Fund businesses have been leaders in redefining the processes and methods for delivering administrative products and services that combines reliable business information, provides customers with streamlined processes, simplified rules, full accountability, competitive costing, timely completion, and a one-stop place for customers. Our efforts have resulted in significant dollar savings and have helped to eliminate and/or reduce duplicative or redundant administrative functions throughout government.

Over the next year the Fund has decided to focus on a few important initiatives. First, the Fund has arranged a strategic planning session in the Spring to re-look at its overall vision and mission. The Fund will also be proactive in reviewing its internal property management system to look for potential areas for improvement. In addition, the Fund will be reviewing various aspects of its performance management system. A pilot project has also been established to look at the merits of various compensation plans. Finally, the Fund will be performing an in-house finance benchmark that will look at a breakdown of the Fund's "finance cost" in comparison with a Treasury-wide benchmark performed last year.

Our reputation has been built on four years of supplying over 2,000 federal customers with trusted services. Since the launch of Franchising in 1997, our businesses have evolved into a leading source for administrative services and products. New rules are being written. Not only are we following them, we're writing a few of our own. While our successes in promoting competition, cost savings to customers and financial management improvements have reached new highs, it's no longer enough. We need to do more — more products and services for customers, more creative innovations in the delivery of information and services and more strategic alliances. Our commitment will be to continue to enhance service value through market-driven competition, reducing and/or eliminating duplicative/redundant services, implementing best practices, reducing the costs of services, strengthening the soundness of each business unit, implementing performance measures and benchmarking, and satisfying the customer.

PROGRAM & FINANCIAL PERFORMANCE

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.

Progress in Meeting Performance Goals

	Benchmark	FY 2000	FY 1999
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	1.2	1.4
GOAL: Customer Satisfaction			
1. Satisfaction Approval Rating	80% Approval	Exceeded	Exceeded
2. Sales Volume Growth	10% increase	20%	72%
3. Growth or Decline of Customer Base	10% increase	57%	1%
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	57%	1%

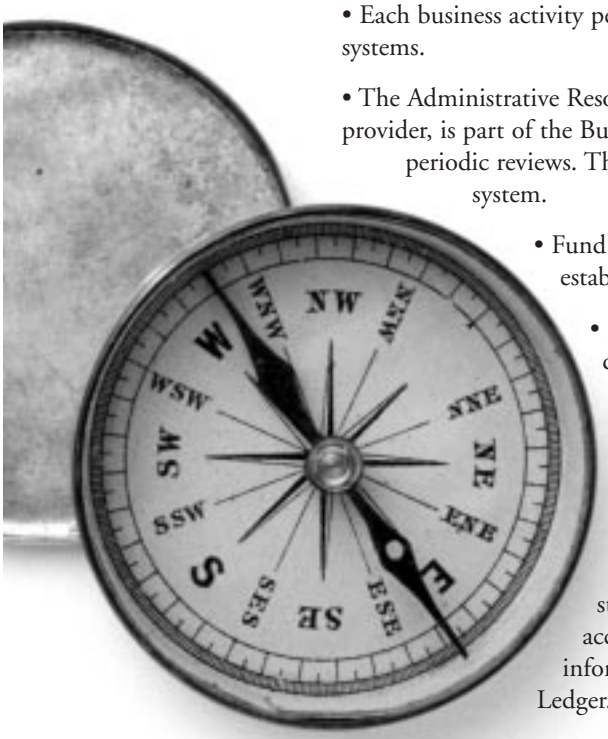
FINANCIAL MANAGERS' FINANCIAL INTEGRITY ACT & FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Treasury Franchise Fund places a high level of emphasis on maintaining adequate management controls. As required by the FMFIA and the FFMIA, 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

Various methodologies are used to determine if the management control systems as set forth by Section 2 of the FMFIA and financial management systems as set forth by Section 4 of the FMFIA and the FFMIA are in overall compliance with standards prescribed by the Comptroller General of the United States and guidelines issued by the Office of Management and Budget (OMB).

- Each business activity performs an annual evaluation of its processes and procedures as well as its internal systems.
- The Administrative Resource Center, the Fund's primary accounting, procurement and personnel service provider, is part of the Bureau of the Public Debt's Management Control Plan and therefore undergoes periodic reviews. The Bureau of the Public Debt also has an annual audit of its mainframe computer system.
- Fund management periodically visits the businesses and reviews the controls established over the workflow.
- Each individual business is included in a 4-year 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 11 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 FMFIA and FFMIA standards. Our financial management/accounting systems conform to generally accepted accounting principles; and the relevant financial management system and information objectives of OMB, including implementation of the Standard General Ledger. No material weaknesses are being reported for the second straight year.

"Internal Controls are put in place to keep businesses on course toward its mission and goals, and to reduce surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and increasing workloads. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations."

INDEPENDENT AUDITOR REPORTS

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, 2000, 1999, and 1998, and the related consolidated statements of net cost and changes in net position and results of operations, and the combined statements of budgetary resources and financing for each of the years ended September 30, 2000, 1999, and 1998. These principal statements are the responsibility of the U.S. Department of the Treasury. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the principal statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury Franchise Fund as of September 30, 2000, 1999, and 1998, the results of its operations, changes in its net position, budgetary resources, and financing for each of the years ended September 30, 2000, 1999, and 1998 in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2000 on our consideration of the U.S. Department of the Treasury Franchise Fund's internal control over financial reporting and a report dated December 8, 2000 on its compliance with laws and regulations.

The information in "Management's Discussion and Analysis" is presented for the purpose of additional analysis and is required by OMB Bulletin No. 97-01. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Arlington, Virginia
December 8, 2000

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, 2000, and have issued our report thereon dated December 8, 2000. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the U.S. Department of the Treasury Franchise Fund's (the Fund's) internal control over financial reporting by obtaining an understanding of the Fund's internal control, determined whether these 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.

We have noted other matters involving the internal control over financial reporting which we have reported to the U.S. Department of the Treasury in a separate letter dated December 8, 2000.

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

This report is intended solely for the information and use of the management of the U.S. Department of the Treasury, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
December 8, 2000

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, 2000, and have issued our report thereon dated December 8, 2000. We conducted our audit in accordance with generally accepted auditing standards. The standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

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

The results of our tests disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

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

This report is intended solely for the information and use of the management of the U.S. Department of the Treasury, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
December 8, 2000

Treasury Franchise Fund
Consolidated Balance Sheet
As of September 30, 2000, 1999 & 1998

	Fiscal Year 2000	Fiscal Year 1999	Fiscal Year 1998
ASSETS			
Intragovernmental Assets			
Fund Balance with Treasury (Note 2)	40,659,724	19,529,458	10,420,627
Accounts Receivable, Net (Note 3)	23,424,964	18,331,814	16,047,180
Advances & Prepayments	88,315	344,940	30,887
Total Intragovernmental Assets	**64,173,003**	**38,206,212**	**26,498,694**
Assets with the Public			
Accounts Receivable, Net (Note 3)	384,841	868,219	519,931
Advances & Prepayments	16,410	18,245	0
Inventory Held for Resale	159,410	219,074	0
IT Software & ADP Equipment (Note 5)	778,197	563,938	803,341
Total Assets with the Public	**1,338,858**	**1,669,476**	**1,323,272**
TOTAL ASSETS	**$65,511,861**	**$39,875,688**	**$27,821,966**
LIABILITIES			
Intragovernmental Liabilities			
Accounts Payable	127,275	284,388	1,865,401
Accrued Liabilities (Note 6)	3,561,603	3,384,661	187,792
Advances From Others	15,493,486	3,715,843	1,133,362
Total Intragovernmental Liabilities	**19,182,364**	**7,384,892**	**3,186,555**
Liabilities with the Public			
Accounts Payable	8,149,201	6,629,584	1,531,876
Accrued Liabilities (Note 6)	23,881,587	13,088,400	16,366,035
Advances From Others	26,708	32,864	0
Total Liabilities with the Public	**32,057,496**	**19,750,848**	**17,897,911**
TOTAL LIABILITIES	**$51,239,860**	**$27,135,740**	**$21,084,466**
NET POSITION			
Invested Capital (Note 4)	3,746,219	3,746,219	2,743,870
Cumulative Results of Operations (Note 4)	10,525,782	8,993,729	3,993,630
Total Net Position	**14,272,001**	**12,739,948**	**6,737,500**
TOTAL LIABILITIES AND NET POSITION	**$65,511,861**	**$39,875,688**	**$27,821,966**

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, 2000, 1999 & 1998

	Fiscal Year 2000	Fiscal Year 1999	Fiscal Year 1998
CONSOLIDATED / INTEGRATED ADMINISTRATIVE MANAGEMENT			
Costs	109,569,381	85,995,100	55,085,158
Less: Earned Revenue	112,246,717	88,133,579	55,871,401
Net Cost	(2,677,336)	(2,138,479)	(786,243)
Financing Sources (Other than Exchange Revenues)	199,621	1,208,865	179,399
Current Results of Operations (Financing Sources less Net Cost)	**$2,876,957**	**$3,347,344**	**$965,642**
FINANCIAL SYSTEMS, CONSULTING AND TRAINING			
Costs	21,462,390	22,747,299	21,417,783
Less: Earned Revenue	20,800,236	22,758,723	20,982,230
Net Cost	662,154	(11,424)	435,553
Financing Sources (Other than Exchange Revenues)	770,600	666,458	1,254,888
Current Results of Operations (Financing Sources less Net Cost)	**$108,446**	**$677,882**	**$819,335**
FINANCIAL MANAGEMENT ADMINISTRATIVE SUPPORT SERVICES			
Costs	32,384,134	23,179,485	1,502,037
Less: Earned Revenue	30,209,029	23,364,536	1,660,437
Net Cost	2,175,105	(185,051)	(158,400)
Financing Sources (Other than Exchange Revenues)	1,035,605	1,005,567	449,119
Current Results of Operations (Financing Sources less Net Cost)	**$(1,139,500)**	**$1,190,618**	**$607,519**
FUND TOTAL			
Costs (Note 7)	163,415,905	131,921,884	78,004,978
Less: Earned Revenue	163,255,982	134,256,838	78,514,068
Net Cost	159,923	(2,334,954)	(509,090)
Financing Sources (Other than Exchange Revenues) (Note 8)	2,005,826	2,880,890	1,883,406
Current Results of Operations (Financing Sources less Net Cost)	**$1,845,903**	**$5,215,844**	**$2,392,496**

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, 2000, 1999 & 1998

	Fiscal Year 2000	Fiscal Year 1999	Fiscal Year 1998
INVESTED CAPITAL			
Beginning Balance (As reported 9/30/99)	$3,746,219	$2,743,870	$1,713,276
Prior Period Adjustments (Note 4)	0	510,859	312,482
Adjusted Beginning Balance	3,746,219	3,254,729	2,025,758
Additions to Invested Capital (Note 4)	0	491,490	718,112
Ending Balance	**$3,746,219**	**$3,746,219**	**$2,743,870**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance (As reported 9/30/99)	8,993,729	3,993,630	1,497,948
Prior Period Adjustments (Note 4)	(313,849)	(215,745)	103,186
Adjusted Beginning Balance	8,679,880	3,777,885	1,601,134
Current Results of Operations	1,845,903	5,215,844	2,392,496
Ending Balance	**$10,525,783**	**$8,993,729**	**$3,993,630**
TOTAL NET POSITION ENDING BALANCE	**$14,272,002**	**$12,739,948**	**$6,737,500**

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, 2000, 1999 & 1998

	Fiscal Year 2000	Fiscal Year 1999	Fiscal Year 1998
BUDGETARY RESOURCES			
Budget Authority	$0	$0	$1,114,999
Unobligated Balance	29,312,662	14,977,968	5,870,151
Spending Authority from Offsetting Collections	209,378,960	159,835,879	86,965,173
Adjustments	5,631,171	813,706	431,031
Total Budgetary Resources	**$244,322,793**	**$175,627,553**	**$94,381,354**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	172,469,867	146,314,890	79,423,539
Unobligated Balances Available	71,852,926	29,165,693	14,859,669
Unobligated Balances Not Yet Available	0	146,970	98,146
Total Status of Budgetary Resources	**$244,322,793**	**$175,627,553**	**$94,381,354**
OUTLAYS			
Obligations Incurred	172,469,867	146,314,890	79,423,539
Less: Spending Authority From Offsetting Collections and Adjustments	215,010,132	160,649,584	87,396,203
Obligated Balance, Net - Beginning of Period	(9,783,204)	(4,557,341)	(101,974)
Less: Obligated Balance	(31,193,144)	(9,783,204)	(4,537,276)
Totals Outlays	**$(21,130,325)**	**$(9,108,831)**	**$(3,537,362)**

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

Treasury Franchise Fund
Combined Statement of Financing

For the years ended September 30, 2000, 1999 & 1998

	Fiscal Year 2000	Fiscal Year 1999	Fiscal Year 1998
OBLIGATIONS & NONBUDGETARY RESOURCES			
Obligations Incurred	$172,469,867	$146,314,890	$79,423,539
Less: Spending Authority from Offsetting Collections and Adjustments	215,010,132	160,649,584	86,965,173
Financing Imputed for Cost Subsidies	2,005,826	2,880,890	1,624,455
Transfers-in (out)	0	0	258,951
Total Obligations as Adjusted and Nonbudgetary Resources	**$(40,534,439)**	**$(11,453,804)**	**$(5,658,228)**
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS			
Change in Amount of Goods Services and Benefits Ordered but Not Yet Provided (Net Increases) Net Decreases	(2,555,267)	(13,515,163)	5,568,354
Change in Unfilled Customer Orders	43,705,819	23,123,703	0
Costs Capitalized on the Balance Sheet (Increases) Decreases	(413,130)	(202,978)	(523,697)
Other	(301,594)	(508,179)	(7,396)
Total Resources That Do Not Fund Net Costs of Operations	**$40,435,828**	**$8,897,383**	**$5,037,261**
COSTS THAT DO NOT REQUIRE RESOURCES			
Depreciation and Amortization	198,871	223,307	111,877
Other	59,663	(1,840)	0
Total Costs That Do Not Require Resources	**$258,534**	**$221,467**	**$111,877**
NET COST OF OPERATIONS	**$159,923**	**$(2,334,954)**	**$(509,090)**

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

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Treasury Franchise Fund
20X4560 (Corporate Account)

Business Activity (Los Angeles)
20X4560.001

Business Activity (Seattle)
20X4560.002

Business Activity (Cincinnati)
20X4560.003

Business Activity (Baltimore)
20X4560.004

Center For Applied Financial Management
20X4560.005

Federal Quality Consulting Group
20X4560.006

Business Activity (St. Louis)
20X4560.007

Business Activity (Chicago)
20X4560.008

Business Activity (San Antonio)
20X4560.009

Administrative Resource Center
20X4560.010

Inspectors General Auditor Training Institute
20X4560.011

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

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

B. Basis of Accounting

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

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

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of the OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountant's (AICPA) Council designated FASAB as the accounting standards authority for

Federal government entities. Therefore, these financial statements are presented in conformity with generally accepted accounting principles. Prior to the AICPA Council's designation, Federal financial statements were presented as an other comprehensive basis of accounting.

Officially established accounting principles, consists of the following:

1. 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. 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. 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. Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the Federal government

In the absence of a pronouncement covered by rule 203 or another source of established accounting principles, the auditor of financial statements of a Federal governmental entity may consider other accounting literature, depending on its relevance in the circumstances.

C. Basis of Presentation

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

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

D. Retirement Plan

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

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

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

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

2. FUND BALANCE WITH TREASURY

The Franchise Fund does not maintain cash in

commercial bank accounts. Funds collected by the Franchise Fund for services provided are deposited in the Fund's revolving fund account with Treasury. There are no restrictions on any of the funds held by the Franchise Fund. All funds are available to pay current liabilities of the Fund.

3. ACCOUNTS RECEIVABLE

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

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

4. NET POSITION

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

Invested Capital

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

Schedule of Changes to Invested Capital

	FY 2000	FY 1999	FY 1998
Prior Period Adjustments to Invested Capital			
Invested Capital previously Misclassified	$0	$215,746	$312,482
Adjusted for Leave Liability that Originally Reduced Invested Capital	0	295,113	0
Total Prior Period Adjustments to Invested Capital	$0	$510,859	$312,482
Additions to Invested Capital			
Net Income Transferred In	$0	$222,012	$718,112
Equity Transferred In to Cover Transferred Obligations	0	269,478	0
Total Additions to Invested Capital	$0	$491,490	$718,112

Cumulative Results of Operations

The cumulative results of operations primarily represent the net difference between revenue and expenses since the inception of the Fund. However, imputed financing sources as well as gains or losses may also contribute to the results of operations.

Schedule of Changes to Cumulative Results of Operations

	FY 2000	FY 1999	FY 1998
Prior Period Adjustments			
Cumulative Results of Operations Previously Misclassified	$(313,849)	$(215,746)	$103,186
Total Prior Period Adjustments	$(313,849)	$(215,746)	$103,186

5. IT SOFTWARE AND ADP EQUIPMENT

The Fund follows the Department of the Treasury's guidelines on Property, Plant, and Equipment concerning how to account for IT software and ADP equipment. The Department's fixed asset capitalization threshold was established pursuant to the Federal Accounting Standards Advisory Board's standard "Accounting for Property, Plant, and Equipment." In this standard, FASAB directed Federal agencies to

establish their own fixed asset capitalization threshold. The Department's capitalization threshold is $50,000, which has been adopted by the Fund.

Acquisitions have been capitalized at full acquisition cost and depreciation is calculated over the estimated useful lives of the assets. All maintenance and repairs are expensed as incurred. As of September 30, 2000, the Fund had capitalized information technology software and ADP equipment with an acquisition cost of $1,336,502 with estimated useful lives ranging from three to five years. Accumulated depreciation at year-end was $558,305 leaving a book value of $778,197.

Schedule of Depreciation

	Depreciation Method	Service Life (in years)	Cost	FY 98 - 00 Accumulated Depreciation	FY 00 Book Value
Information Technology Software	Straight-line (1/2 year convention)	3 - 5	$1,258,969	$480,772	$778,197
ADP Equipment	Straight-line	3	$77,533	$77,533	$0
TOTAL			$1,336,502	$558,305	$778,197

6. ACCRUED LIABILITIES

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

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

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

Schedule of Accrued Liabilities

	FY 2000	FY 1999	FY 1998
Program Expense Accrual			
Intragovernmental	$3,228,487	$3,342,927	$187,792
With the Public	21,163,153	10,404,424	13,780,791
TOTAL	$24,391,640	$13,747,351	$13,968,583
Payroll and Annual Leave Accrual			
Intragovernmental	$333,116	$41,734	$0
With the Public	2,718,434	2,683,976	2,585,244
TOTAL	$3,051,550	$2,725,710	$2,585,244
Total Accrued Liabilities			
Intragovernmental	$3,561,603	$3,384,661	$187,792
With the Public	23,881,587	13,088,400	6,366,035
TOTAL	$27,443,190	$16,473,061	$16,553,827

7. COSTS

Costs by major budgetary object classification are as follows:

BUDGETARY OBJECT CLASSIFICATION	FY 2000	FY 1999	FY 1998
Personnel & Benefits	$29,772,622	$26,515,856	$9,946,825
Travel & Transportation	729,781	803,414	522,980
Rents, Communications & Utilities	1,398,501	1,746,842	1,615,238
Printing & Reproduction	244,900	133,957	118,813
Contractual Services	128,415,247	101,041,927	64,364,843
Supplies & Materials	534,655	453,889	326,167
Equipment	2,319,986	1,223,139	1,047,913
Lands & Structures	0	0	62,199
Insurance Claims & Indemnities	101	2,000	0
Interest	112	860	0
TOTAL	$163,415,905	$131,921,884	$78,004,978

8. LEASE LIABILITIES

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

Schedule of Future Operating Lease Payments

	FY 2000
FY 2001	$962,271
FY 2002	318,702
FY 2003	168,780
FY 2004	116,810
FY 2005	120,314
After Five Years	171,294
TOTAL FUTURE PAYMENTS	$1,858,171

9. 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. In FY 2000, the Fund recognized $2,005,826 of imputed revenue as additional financing sources (See graph below).

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 detailed 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.

Schedule of Financing Sources

	FY 2000	FY 1999	FY 1998
Post Retirement Benefits to be Paid by OPM	$1,583,794	$1,723,734	$667,268
Financing Sources Transferred In	0	0	258,951
Salary Benefits Paid by Other Agencies	422,032	1,157,156	957,187
TOTAL FINANCING SOURCES	$2,005,826	$2,880,890	$1,883,406

10. COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies that require disclosure.

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