

WORKING CAPITAL FUND

FY 2002 First Quarter Report: Summary

I. Relation of Earnings to Expenses

\$ Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.

\$ The Fund experienced net earnings of \$0.4 M (2%) on \$20.2 M in earnings in the first quarter of FY 2002. The overall Fund performance trends toward break-even with profits in businesses with negative equity and a loss in a business with surplus equity. The exception is payroll, which is holding excess earnings until a decision is made on payroll outsourcing.

WORKING CAPITAL FUND			
FY 2002 First Quarter Business Results (in Millions)			
TABLE I			
<u>Business Line</u>	First Quarter Earnings	First Quarter Business Expenses	First Quarter Net
Supplies	\$0.8	\$0.8	\$0.0
Mail	\$0.4	\$0.4	\$0.0
Copying	\$0.4	\$1.1	(\$0.7)
Printing/Graphics	\$0.8	\$0.8	\$0.0
Building Occupancy	\$12.7	\$12.7	\$0.0
Telephones	\$1.7	\$1.5	\$0.2
Desktop	\$0.3	\$0.3	\$0.0
Network	\$1.5	\$1.1	\$0.4
Contract Closeout	\$0.2	\$0.1	\$0.1
Payroll Processing	\$0.8	\$0.4	\$0.4
CHRIS	\$0.5	\$0.5	\$0.0
On-Line Learn. Ctr.	\$0.1	\$0.1	\$0.0
TOTAL	\$20.2	\$19.8	\$0.4

\$ Specific differences in excess of \$50,000 are as follows:

- The Copying Business Line has net earnings of -\$728 k in the first quarter that are the result of prior year accruals (-\$0.4 M) that were discussed in the past Annual Report and reduced

earnings related to declining business at the staffed copy centers. The business is analyzing overall declining copy trends to determine impacts on the future.

- We commented in the Annual Report that we would conduct a thorough review of the IT businesses during the first quarter of FY 2002. The review is complete and it supports findings of the first quarter financials that the Telephone and Network businesses should have sufficient net earnings to pay back the fund for their negative equity position (due to a one-time capital purchase and prior year costs). Desktop requires additional earnings to break-even.
 - The Telephone Business Line has net earnings of \$247 k in the first quarter due to efficiencies and cost savings initiated in FY 2001. The business line is analyzing this performance to determine future profits.
 - The Network Business Line has net earnings of \$419 k in the first quarter due to efficiencies and cost savings initiated in FY 2001. The business line is analyzing this performance to determine future profits.
- The Contract Closeout Business Line has net earnings of \$83 k. This performance is consistent with past years. The business is expected to break even for the remainder of the year. The business is reviewing earnings and will make a recommendation to the Board next quarter.

II. Relation of Customer Payments to Anticipated Customer Billings

- Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.
- By December, we had collected \$69.5 million (81%) of the estimated \$86.2 million in FY 2002 annual revenues (Table II). These amounts can be compared to first quarter collections of \$60 million (74%) of the estimated \$81.7 million in FY 2000 annual revenues and \$66.3 million (79%) of the estimated \$84.2 million in FY 2001 annual revenues.

WORKING CAPITAL FUND			
FY 2002 First Quarter Business Results (in Millions)			
TABLE II			
<u>Business Line</u>	Advances as of First Quarter 1	Anticipated Full Year	% Collected
Supplies	\$3.0	\$2.8	100%
Mail	\$1.8	\$2.2	82%
Copying	\$2.0	\$2.6	77%
Printing/Graphics	\$2.9	\$3.6	81%
Building Occupancy	\$41.7	\$54.4	77%
Telephones	\$6.0	\$6.9	87%
Desktop	\$1.3	\$1.2	100%
Network	\$5.9	\$6.4	92%
Contract Closeout	\$0.8	\$0.7	100%
Payroll Processing	\$2.0	\$3.1	65%
Chris	\$2.1	\$2.1	100%
On-Line Learn. Ctr.	\$0.1	\$0.1	100%
TOTAL	\$69.5	\$ 86.2	81%

1 Customer advances include prior year unearned customer advances which are used to offset current year requirements (see Table III).

III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines.
- As shown in Table III, funds available exceeded obligations by an estimated \$53.7 million by the end of the first quarter. The rate of obligation is behind annualized estimates due to the length of the continuing resolution at the beginning of FY 2002.

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FY 2002 First Quarter Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	Unobligated Balance 2 10/01	Current Year Customer Advances	Total available for obligation	First Quarter Obligations	Advances Remaining to be Obligated
Supplies	\$0.2	\$2.7	\$ 3.0	-\$0.2	\$3.2
Mail	\$0.2	\$1.6	\$ 1.8	\$0.8	\$1.0
Copying	\$0.3	\$1.8	\$ 2.0	\$0.5	\$1.5
Printing/Graphics	\$0.3	\$2.6	\$ 2.9	\$1.4	\$1.5
Building Occupancy	\$1.6	\$40.1	\$ 41.7	\$11.6	\$30.1
Telephones	\$0.8	\$5.1	\$ 6.0	\$0.5	\$5.5
Desktop	\$0.3	\$0.9	\$ 1.3	\$0.0	\$1.3
Network	\$1.5	\$4.3	\$ 5.9	\$0.1	\$5.8
Contract Closeout	\$0.2	\$0.6	\$ 0.8	\$0.3	\$0.5
Payroll Processing	\$0.1	\$1.9	\$ 2.0	\$0.2	\$1.8
Chris	\$0.0	\$2.1	\$ 2.1	\$0.5	\$1.6
On-Line Learn. Ctr.	\$0.0	\$0.1	\$ 0.1	\$0.1	\$0.0
TOTAL	\$5.5	\$64.0	\$ 69.5	\$15.8	\$53.7

² The unobligated balances are unearned customer advances from the prior fiscal year. There are also \$0.8 million of unearned advances which are not allocated to businesses. These funds often act as working capital during the early weeks of a new fiscal year. These balances represent a liability of the fund and like other unearned customer advances, are uncommitted and can be returned to the customer at their request.

IV. Changes in Budget Estimates by Business Line and Customer

\$ The \$3.5 million increase in the December 2000 estimate was the result of adding DOENet charges and other small incremental increases that resulted during FY 2000 execution. Estimates in the January bill account for four months of actual usage and indicate that usage has declined in mail, copy, and printing and graphics offset by building alterations.

FY 2002 Budget Estimates for WCF Businesses		
Date	Process	FY 2002 Billing Estimate (\$Millions)
May 1999	FY 2002 Corporate Review	\$82.8
December 2000	FY 2002 Congressional Budget	\$86.3
May 2001	FY 2003 Corporate Review	\$86.2
December 2001	FY 2003 Congressional Budget	\$86.2
February 2002	January WCF Bill	\$85.1

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

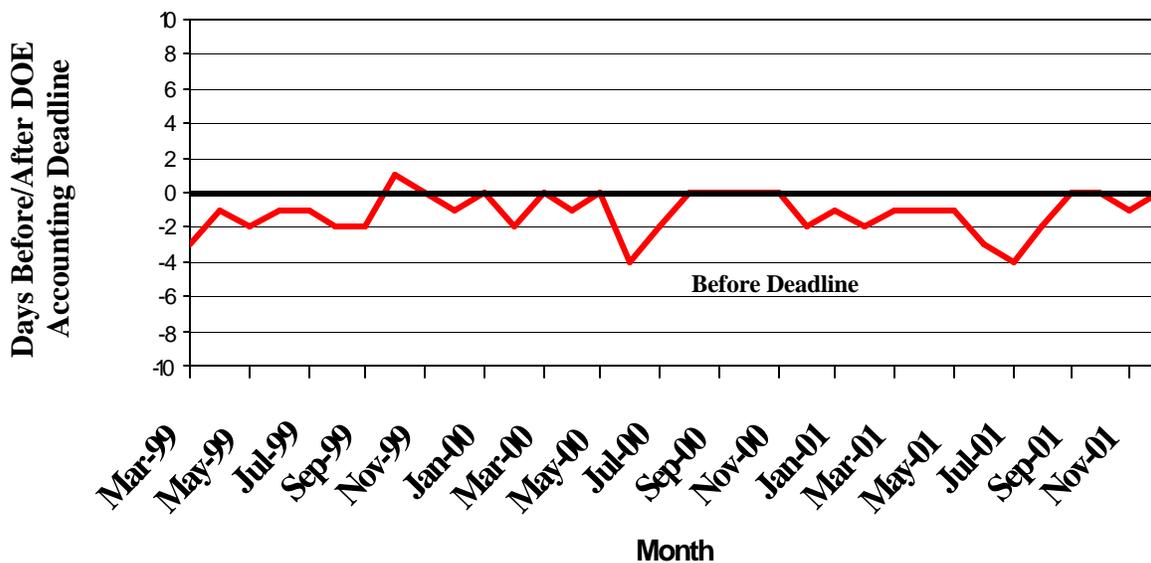
- With the recent developments in Telephone and Network Business Lines, Fund businesses are solvent and the financial statements do not reflect a need to make any substantial changes. Desktop remains an issue. A working group is reviewing desktop charges to determine whether to recommend a pricing policy change for the next Board meeting.

VI. Financial Management Systems Progress

Working Capital Fund Billing System

- \$ The Working Capital Fund billing system continues to perform well, and all three monthly bills in the first quarter met the DISCAS cutoff dates. The following table presents the overall progress of the billing system in terms of timeliness.
- The Fund recently initiated a “paperless” billing process, which distributes monthly billing information to program customers through e-mail. Customer response has been overwhelmingly positive. While we have eliminated non-value added copying and mail distribution costs to the Fund Manager, we have also provided more timely and manageable information to our customers. We are committed to the success of this process and are interested in your continued satisfaction. Please let us know if you experience any difficulties.

WCF Billing Performance



VII. Performance Review

- Business Lines report that they are accomplishing goals and performance objectives for FY 2002 consistent with annual projections in recent five-year plans. We have every expectation to meet performance standards at the end of FY 2002.