WORKING CAPITAL FUND

FY 2001 Third 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). At this time, all business lines are operating satisfactorily and we expect to finish the fiscal year nominally breaking even.

$ During the third quarter of FY 2001, business earnings exceeded business expenses by $5.3 million as shown in Table I. These aggregate results are due largely to reporting patterns in the Building Occupancy business line and further savings in Payroll by preempting the implementation of PeopleSoft Payroll. These matters, and issues affecting other businesses, are discussed below. No business is proposing changes to its pricing policies for FY 2002.

WORKING CAPITAL FUND

TABLE I. FY 2001 Third Quarter Business Results (in Millions)

Business Line	**Third Quarter Earnings**	**Third Quarter Business Expenses**	**Third Quarter Net**
Supplies	$1.9	$2.0	$-0.1
PaperClips	$0.8	$0.8	$0.0
Mail	$1.3	$1.4	$-0.1
Copying	$1.8	$1.7	$0.1
Printing/Graphics	$2.9	$2.9	$0.0
Building Occupancy	$42.5	$38.3	$4.2
Telephones	$5.1	$5.0	$0.1
Desktop	$1.2	$1.0	$0.2
Network	$4.7	$4.9	$-0.2
Contract Closeout	$0.6	$0.4	$0.2
Payroll & Personnel	$2.3	$1.4	$0.9
TOTAL	**$64.9**	**$59.6**	**$5.3**

Discussion

- The Building Occupancy Business Line reported net earnings of $4.2 million through the third quarter. While earnings reflect equal quarterly distribution of the Board-approved improvements program, expenses lag behind the reporting of earnings, creating the temporary appearance of a net profit. There is also a structural $1.6 million prepayment for services that originated as contributed capital from the Office of Management and Administration when the Fund began. These contracts for elevator and building maintenance are largely expensed in the subsequent fiscal year.

  The Board's working group considered whether to use FY 2001 rent cost savings to expedite building improvements programmed for FY 2002 into FY 2001 or whether to return a portion to customers. The working group gave tentative approval to use the available cash to place FY 2002 planned improvements under contract. The Board can still decide in early FY 2002 whether to complete the improvement program or provide customers with rent offsets at that time. This schedule will allow the Department to accommodate impacts on individual space allocations resulting from FY 2002 budget decisions.

- Supply Business Line has negative net earnings of $123,823 through the third quarter related to non- operating expenses: write-off of obsolete forms ($102,000) and write-off of capital assets ($101,000). These factors were discussed in the Mid-Year Report. This business discontinued operations in March, and we are reporting on the results of the new business under the heading "PaperClips".

- The Mail Business Line had negative net earnings of $63,455 through the third quarter due to discounts offered customers to draw down past years' profits. Discounts previously applied to mail stops will end this year. The FY 2002 budget is projected at full cost.

- The Copy Business Line has net earnings of $130,993 through the third quarter that are the result of one-time prior year adjustments to accruals.

- The Telephone Business Line has net earnings of $116,924 through the third quarter due to a smaller charge to the Fund for long distance services.

- The Desktop Business Line has net earnings through the third quarter of $188,255 due to charging some desktop charges to the CIO. Further analysis of the business cost structure should extend this cost avoidance to future years and negate the need for revising the pricing policy. The Fund Manager approved discontinuing desktop training due to inadequate demand. Residual demand for IT courses can be met by the Online Learning Center or traditional training methods.

- The Network Business Line has negative net earnings through the third quarter of $236,686. This results from one-time prior year charges to closeout the DYNCORP contract.

- The Contract Closeout Business Line has net earnings of $200,509. Although costs are expected to increase in the fourth quarter, the business is projecting a net profit of $130,000.

- The Payroll Business Line has net earnings of $900,218 due to deferral of PeopleSoft implementation. The Fund Manager will discuss the proper disposition of these and other business fund balances after the decision in FY 2002 on whether to outsource payroll.

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 June, we had collected $86.1 million (102%) of the estimated $85.3 million in FY 2001 annual revenues. (Table II) These amounts can be compared to $82.9 million (102%) of the estimated $81.0 million in FY 2000 annual revenues in last year's third quarter report.

WORKING CAPITAL FUND			
FY 2001 Third Quarter Business Results (in Millions)			
TABLE II			
Business Line	**Advances as of Third Quarter** (including carryover)1	**Anticipated Full Year**	**% Collected**
Supplies	$ 3.7	$ 2.8	100%
Mail	$ 1.8	$ 1.7	100%
Copying	$ 2.6	$ 2.5	100%
Printing/Graphics	$ 3.8	$ 3.8	100%
Building Occupancy	$ 55.2	$ 56.4	98%
Telephones	$ 7.3	$ 6.9	100%
Desktop	$ 1.6	$ 1.2	100%
Network	$ 5.8	$ 6.2	94%
Contract Closeout	$ 0.7	$ 0.7	100%
Payroll & Personnel	$ 3.0	$ 3.1	97%
TOTAL	**$ 85.5**	**$ 85.3**	**100%**

1 Carryover balances of $0.6 million exist in other than business accounts at the discretion of the program customers.

- While some program customers accounts are fully funded, the June bill requests that remaining customers pay the balance of their FY 2001 projected WCF costs. We anticipate no difficulties arranging for the remaining advances.

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 $20.7 million by the end of the third quarter of FY 2001. The rate of obligation is on track with annualized estimates.

WORKING CAPITAL FUND					
FY 2001 Third Quarter Business Results (in Millions)					
TABLE III					
Business Line	**Unobligated Balance 2 10/00**	**Current Year Customer Advances**	**Total available for obligation**	**Third Quarter Obligations**	**Advances Remaining to be Obligated**
Supplies	$1.0	$ 2.7	$ 3.7	$1.9	$1.8
Mail	$0.7	$ 1.1	$ 1.8	$1.7	$0.1
Copying	$1.3	$ 1.3	$ 2.6	$2.2	$0.4
Printing/Graphics	$0.3	$ 3.5	$ 3.8	$2.8	$1.0
Building Occupancy	$2.5	$ 52.7	$ 55.2	$41.4	$13.8
Telephones	$0.7	$ 6.6	$ 7.3	$7.0	$0.3
Desktop	$0.1	$ 1.5	$ 1.6	$1.5	$0.1
Network	$0.3	$ 5.5	$ 5.8	$5.2	$0.6
Contract Closeout	$0.1	$ 0.6	$ 0.7	$0.5	$0.2
Payroll & Personnel	$0.0	$ 3.0	$ 3.0	$0.6	$2.4
TOTAL	**$7.0**	**$78.5**	**$ 85.5**	**$64.8**	**$20.7**

2 Carryover balances of $0.6 million exist in other than business accounts at the discretion of the program customers. 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 FY 2001 estimate for December 1999 decreased $3.4 million as the result of rent decreases but then increased in August 2000 as a result of DOENet charges added during the FY 2002 Corporate Review. The June 2001 estimate increased $1.3 million due to building alteration charges and $0.7 million due to printing charges experienced during FY 2001 execution. Except for these differences, aggregate estimates, as set forth in Table IV below, have changed little.

TABLE IV : FY 2001 Budget Estimates for WCF Businesses

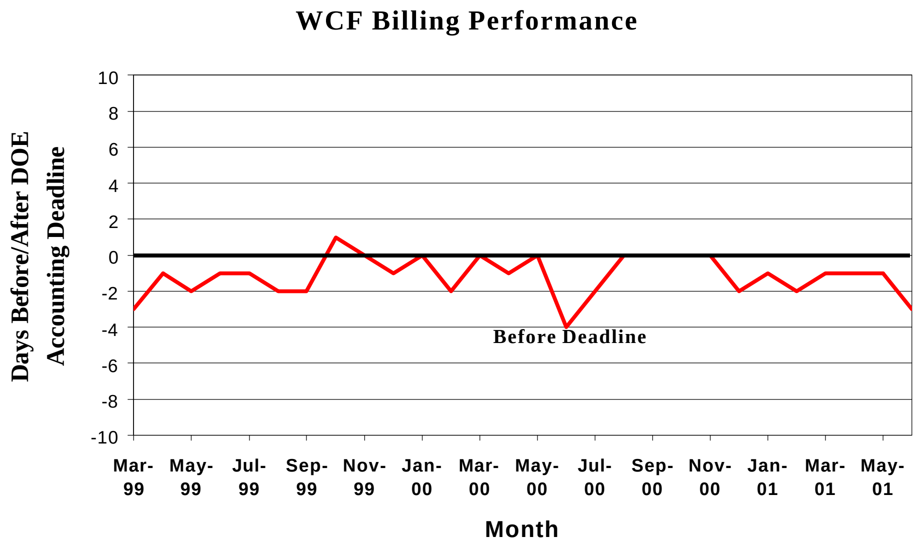
Date	Process	FY 2001 Billing Estimate ($Millions)
May 1999	FY 2001 Corporate Review	$83.6
December 1999	FY 2001 Congressional Budget	$80.2
August 2000	FY 2002 Corporate Review	$83.3
December 2000	FY 2002 Congressional Budget	$83.9
June 2001	June WCF Bill	$85.3

V. Anticipated Need to Change Pricing Policies

Because of actions taken during the third quarter, specifically in the Desktop business, we expect no change in pricing policies.

VI. Working Capital Fund Billing System

The Working Capital Fund billing system continues to perform well, and all monthly bills for the third quarter met the DISCAS cutoff dates. The following chart presents the overall progress of the billing system in terms of timeliness.



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APPENDIX I

Reconciling Working Capital Fund financial statements with the Department's financial statements.

The Working Capital Fund businesses manage their resources in two dimensions: (a) as "businesses" that need to maintain appropriate relationships between earnings and business expenses, and (b) as accountable Federal activities that need to address administrative control of funds criteria in limiting obligations to available authority provided by customer advances. These dimensions are illustrated by the Board-established policies for Fund Manager reporting.

Beginning with the FY 1997 Annual Report, the Fund Manager issued reports on the financial performance of the Fund businesses using standard financial accounting for business-type operations. This reporting required the Fund Manager to augment the Department's government accounting, which tracks appropriated funds, obligations, costs, and payments. In this way the Fund attempted to properly reflect the effects of depreciation, year-end accruals, earnings, and business expenses, which became the basis for billing customers and charging appropriation accounts. In some years, the Fund Manager has issued the annual report to the Board before the final preparation of the Department's annual financial statements.

During FY 2001, to prepare a comprehensive report to the Board upon completion of the Fund's first five full years of operation, the Fund Manager and the Office of the Chief Financial Officer initiated a reconciliation of the Fund's financial statements with those of the Department. This effort has revealed the need to adjust the Fund's reports for one item, a $1.0 million expense in the Network business line. The Chief Financial Officer recorded this expense in FY 1999 as a post closing entry for a FY 1998 DYNCORP expense. Because it was not reported in FY 1998 or FY 1999, Fund earnings must be adjusted to conform to the Department's financial records. This adjustment reduces the net income for the entire Fund at the end of FY 2000 to approximately $1.1 million.

This adjustment does not affect the Fund's activities. Although the expense was not reported in the Fund's financials, it creates no new liability. The related balances are unchanged. The business managers have operated within their obligation ceilings with the result that this accounting change does not impact the business. However, the adjustment confirms that there are no additional unencumbered resources in the Network business line to solve problems.