Notes to Consolidated Financial Statements

For the Years Ended September 30, 2008 and 2007 (dollars in millions, unless otherwise noted).

1. Summary of Significant Accounting Policies

Reporting Entity and Basis of Presentation
The Department of Veterans Affairs' (VA) consolidated financial statements report all activities of VA components, including the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and staff organizations. The consolidated financial statements meet the requirements of the Chief Financial Officers Act (CFO) of 1990 and the Government Management Reform Act (GMRA) of 1994. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that VA is a component unit of the U.S. Government.

Organization
The mission of VA is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries [(38 U.S.C. Section 301(b) 1997)].

The Department is organized under the Secretary of VA. The Secretary's office includes a Deputy Secretary and has direct lines of authority over the Under Secretary for Health, the Under Secretary for Benefits, and the Under Secretary for Memorial Affairs. Additionally, six Assistant Secretaries, an Inspector General, a General Counsel, an Executive-In-Charge for Human Resources and Administration, and the chairmen of the Board of Contract Appeals and the Board of Veterans' Appeals support the Secretary.

Budgets and Budgetary Accounting
Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of the purchase. Assets and liabilities that do not consume budgetary resources are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

Basis of Accounting
The principal financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. The American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards No. 91, Federal GAAP Hierarchy, established a hierarchy of GAAP for Federal financial statements.

Revenues and Other Financing Sources
Exchange revenues are recognized when earned to the extent the revenue is payable to VA from other federal agencies or the public as a result of costs incurred or services performed on its behalf. Revenue is recognized at the point the service is rendered. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by the Department of Treasury's (Treasury's) Judgment Fund and post-retirement benefits for VA employees. Non-exchange revenue, e.g., donations, is recognized when received, and related receivables are recognized when measurable and

legally collectible, as are refunds and related offsets.

Accounting for Intragovernmental Activities
VA, as a department of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the Department were a stand-alone entity.

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from VA's consolidated financial statements.

Transferring Budget Authority to Other Agencies

The VA is a party to allocation transfers with the Department of Defense (DoD) as a transferring (parent) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U. S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

Fund Balance with Treasury
Treasury performs cash management activities for all federal government agencies. The Fund Balance with Treasury represents the right of VA to draw on the Treasury for allowable expenditures. Trust fund balances consist primarily of amounts related to the Post-Vietnam Educational Assistance Trust Fund, the National Service Life Insurance (NSLI) Fund, the United States Government Life Insurance (USGLI) Fund, the Veterans Special Life Insurance (VSLI) Fund, General Post Fund, and the National Cemetery Gift Fund. The use of these funds is restricted.

Cash
Cash consists of Canteen Service and Loan Guaranty Program amounts held in commercial banks, cash held by non-federal trusts as well as Agent Cashier advances at VA field stations. Treasury processes all other cash receipts and disbursements. Amounts relating to the Loan Guaranty Program represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios. Funds held by non-federal trusts are restricted and may be used only in accordance with the terms of the trust agreements.

Investments
Investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are initially set based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2023, are generally held to maturity unless needed to finance insurance claims and dividends. Other program investments are in securities issued by Treasury, with the exception of non-federal Trust investments in mutual funds and the Loan Guaranty Program investments in trust certificates issued by the American Housing Trusts.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust certificates I through V. The estimated allowance computations are based upon discounted cash flow analysis. VA continues to use the income from these subordinated certificates to fund the American Housing Trust Reserve Fund, which is used in turn to fund deficiencies in scheduled monthly principal and interest on the loans as well as to cover any realized losses incurred in the prior month. Any excess funds in the Reserve Fund are reimbursed to VA upon request.

Accounts Receivable
Intragovernmental accounts receivable consists of amounts due from other federal government agencies and are considered to be fully collectible.

Public accounts receivable consists mainly of amounts due for veterans' health care and amounts due for compensation, pension, and readjustment benefit overpayments. Allowances are based on prior experience. For FY 2008, contractual adjustments were 20 percent of the Medical Care Collection Fund third party receivables. The bad debt allowances for medical-related receivables were 13 percent. For FY 2007, contractual adjustments were 56 percent and bad debt allowances for medical-related receivables were 10 percent. Educational–related receivables bad debt allowances were 47 percent for FY 2008 and 36 percent for FY 2007. Compensation and pension benefits overpayment-related bad debt allowances were 72 percent for FY 2008 and 68 percent for FY 2007.

VA is required by Public Law 96-466 to charge interest and administrative costs on benefits debts similar to charges levied on other debts owed the federal government. In a July 1992 decision, the then-VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. This decision continues to be VA policy.

Loans Receivable
Loans Receivable are recorded as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable amounts are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, an allowance equal to the subsidy costs associated with these loans adjusts the loans receivable. This adjustment is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

Inventories
Inventories consist of items such as Canteen Service retail store stock and are valued at cost. VA follows the purchase method of accounting for operating supplies, medical supplies, and pharmaceutical supplies in the hands of end users. The purchase method provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

Property, Plant, and Equipment
The majority of the general property, plant, and equipment is used to provide medical care to veterans and is valued at cost, including transfers from other federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Construction costs are capitalized as Construction Work in Progress until completion, and then transferred to the appropriate property account. Other Structures and Capital Leases includes items such as leasehold improvements and structures not classified as buildings. Individual items are capitalized if the useful life is 2 years or more and the unit price is $100,000 or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is also depreciated on a straight-line basis over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant, and equipment. For disclosure regarding Heritage Assets see Note 10.

Other Assets
Other assets consist of advance payments. Public advance payments are primarily to hospitals and medical schools under house staff contracts, grantees, beneficiaries, and employees on official travel. Intragovernmental advance payments are primarily to the Army Corps of Engineers (Corps) and the General Services Administration (GSA). Advances to the Corps are primarily for non-recurring maintenance of VHA medical facilities. Advances to the GSA are primarily for rent and Government Printing Office (GPO) for supplies, printing, and equipment.

Accounts Payable
Intragovernmental accounts payable consists of amounts owed to other federal government agencies. The remaining accounts payable consist of amounts due to the public.

Loan Guarantees
For direct loan obligations and loan guaranty commitments made after 1991, the resulting direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. The present value of the subsidy costs associated with direct loans and loan guarantees is recognized as a cost in the year the direct or guaranteed loan is disbursed. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimated will most likely require a future cash outflow to pay defaulted claims. Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The guaranteed loan sales liability represents the present value of the estimated cash flows to be paid by VA as a result of the guarantee. VA guarantees that the principal and interest payment due on a loan will be paid by the 15th of each month. If the payment is not made, VA allows the loan servicer to receive funds from a cash reserve account for the amount of the deficiency. VA guarantees the loans against losses at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.

Debt
All intragovernmental debt is due to Treasury and is primarily related to borrowing by the Direct Loan and Loan Guaranty Program. The interest rates ranged from 2.40 to 4.58 percent in FY 2008 and 4.73 to 4.99 percent in FY 2007.

Insurance Liabilities
Actuarial reserve liabilities for VA's insurance programs are based on mortality and interest rate assumptions at the time of issue. These assumptions vary by fund, type of policy, and type of benefit. The interest rate assumptions range from 2.25 to 5.0 percent for both the FY 2008 and FY 2007 calculations.

Annual Leave
The accrued annual leave balance is adjusted at the end of the fiscal year to reflect current pay rates for leave that has been earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not used, funding will be obtained from future financing sources.

Workers' Compensation Liability
The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by VA.

Workers' compensation is comprised of two components: (1) the accrued liability which represents money owed by VA to DOL for claims paid by DOL on behalf of VA through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a particular period to estimate the ultimate payments related to that period.

Pension, Other Retirement Benefits, and Other Post-Employment Benefits
Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which VA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

Veterans Benefits Liability
VA provides compensation benefits to veterans who are disabled by military service-related causes. Benefits are also provided to deceased veterans' beneficiaries. These benefits are provided in recognition of a veteran's military service. The liability for future compensation payments is reported on VA's balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments, discount rates, cost of living adjustments, and life expectancy, impact the amount of the liability.

Litigation
VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims will not materially affect the financial position or results of VA operations other than disclosed in Note 17, Contingencies.

Non-Federal Trusts
VA has entered into enhanced-use leases to maximize use of underutilized VA property. In seven of these enhanced-use leases, the assets and liabilities were transferred to a non-federal trust. The assets, liabilities, and results of operations of these seven trusts are consolidated in VA's consolidated financial statements.

Estimates
The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Non-Entity Assets

Entity and Non-Entity assets have been combined on the balance sheet. Non-Entity assets relate primarily to patient funds.

Non-Entity Assets as of September 30,	2008	2007
Fund Balance with Treasury	$ 96	$ 47
Intragovernmental Accounts Receivable	1	1
Public Accounts receivable	34	22
Total Non-Entity Assets	$ 131	$ 70

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30,	2008	2007
Entity Assets		
Trust Funds	$ 93	$ 76
Revolving Funds	3,734	3,476
Appropriated Funds	22,110	18,433
Special Funds	214	178
Other Fund Types	45	3
Total Entity Assets	26,196	22,166
Non-Entity Assets		
Other Fund Types	96	47
Total Non-Entity Assets	96	47
Total Entity and Non-Entity Assets	$ 26,292	$ 22,213
Reconciliation of VA General Ledger Balances with Treasury		
Entity VA General Ledger	$ 27,774	$ 23,630
Reconciled Differences, principally timing	(1,537)	(1,419)
Unreconciled Differences	55	2
Fund Balance with Treasury	$ 26,292	$ 22,213
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 7,852	$ 7,282
Unavailable	4,010	3,623
Obligated Balance not yet Disbursed	14,076	11,079
Deposit /Clearing Account Balances	354	229
Fund Balance with Treasury	$ 26,292	$ 22,213

4. Cash

Cash as of September 30,		2008		2007
Canteen Service	$	2	$	1
Agent Cashier Advance		6		4
Loan Guaranty Program		32		29
Total Cash	$	40	$	34

5. Investments

Investment Securities as of September 30, 2008		Cost	Amortization Method		Unamortized (Premium) Discount	Interest Receivable	Investments, Net		Market Value
Intragovernmental Securities									
Marketable (T-Bills)	$	26	Straight-line	$	-	-	26	$	26
Non-Marketable: Special Bonds		11,657	Interest		-	168	11,825		11,825
Treasury Notes		73	N/A		(1)	1	73		73
Total	$	11,756		$	(1)	169	11,924	$	11,924
Other Securities									
Trust Certificates (Loan Guaranty)	$	140	N/A	$	-	-	140	$	140
Mutual Funds (Non-Federal Trusts)		46	Straight-line		(3)	-	43		43
Total	$	186		$	(3)	-	183	$	183
as of September 30, 2007									
Intragovernmental Securities									
Marketable (T-Bills)	$	26	Straight-line	$	-	-	26	$	26
Non-Marketable: Special Bonds		12,151	Interest		-	180	12,331		12,331
Treasury Notes		69	N/A		-	1	70		70
Total	$	12,246		$	-	181	12,427	$	12,427
Other Securities									
Trust Certificates (Loan Guaranty)	$	130	N/A	$	-	-	130	$	130
Mutual Funds (Non-Federal Trusts)		50	Straight-line		(3)	-	47		47
Total	$	180		$	(3)	-	177	$	177

6. Accounts Receivable, Net

Accounts Receivable, Net
as of September 30,

	2008	2007
Intragovernmental Accounts Receivable, Net	$ 52	$ 79
Public Accounts Receivable		
Public Accounts Receivable, Gross	$ 3,041	$ 2,745
Allowance for Loss Provision	(1,281)	(1,416)
Net Public Accounts Receivable	$ 1,760	$ 1,329

7. Direct Loans and Loan Guarantees

Direct loan obligations and loan guarantee commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990 (the Act). This disclosure is also in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 2, Accounting for Direct Loans and Guarantees. The Act provides that the present value of the subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimates will most likely require a future cash outflow to pay defaulted claims.

Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The recorded value of loans receivable, net, and the value of assets related to direct loans are not the same as the proceeds that VA would expect to receive from selling its loans. VA operates the following direct loan and loan guaranty programs:

- Vocational Rehabilitation and Employment
- Education
- Insurance
- Loan Guaranty

Under the Loan Guaranty Program, a loan may be made to an eligible veteran by an approved private sector mortgage lender. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of such a loan, up to a maximum dollar amount, in the event of default by the veteran borrower. Occasionally, a delinquency is reported to VA and neither a realistic alternative to foreclosure is offered by the loan holder nor is VA in a position to supplementally service the loan. In such cases, VA determines, through an economic analysis, whether VA will authorize the holder to convey the property securing the loan (foreclosure) or pay the loan guarantee amount to the holder.

Direct Loans

Loans receivable related to direct loans represent the net value of assets related to acquired pre-1992 and post-1991 direct loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy costs at present value. An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the direct loans are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property From Direct Loans as of September 30, 2008

	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 25	10	(6)	-	$ 29
Insurance Policy Loans	569	14	-	-	583
Total Loans Receivable and Related Foreclosed Property Excluding Direct Loans Obligated After 1991, Net					$ 612

	Loans Receivable Gross	Interest Receivable	Allowance for Subsidy (Present Value)	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated After FY 1991	$ 721	10	748	29	$ 1,508
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					$ 2,120

Loans Receivable and Related Foreclosed Property From Direct Loans as of September 30, 2007

	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 36	12	(1)	-	$ 47
Insurance Policy Loans	608	15	-	-	623
Total Loans Receivable and Related Foreclosed Property Excluding Direct Loans Obligated After 1991, Net					$ 670

	Loans Receivable Gross	Interest Receivable	Allowance for Subsidy (Present Value)	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated After 1991	$ 868	13	620	32	$ 1,533
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					$ 2,203

Direct Loans Disbursed
The total amount of new direct loans disbursed for the years ended September 30, 2008 and 2007, was $130 and $127, respectively.

Provision for Losses on Pre-1992 Loans
The present value of the cost VA will bear as loans already guaranteed default is an element of the mortgage loan benefit that VA provides to veterans. This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that VA's outstanding vendee or direct loans will default over a 12-year period. For FY 2008, VA determined that these vendee loans have sufficient equity, due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA.

Subsidy Expense for Post-1991 Direct Loans
Pursuant to the Credit Reform Act, all direct loans established after September 30, 1991, will be subsidized. The subsidy expense for direct loans is as shown:

Direct Loan Subsidy Expense
for the years ended September 30,

	2008	2007
Interest Differential	$ (18)	$ (13)
Defaults*	9	11
Fees**	(1)	(1)
Other***	13	9
Subtotal	3	6
Interest Rate Reestimates	(10)	(220)
Technical Reestimates	12	(323)
Total Direct Loan Subsidy Expense	$ 5	$ (537)

* Includes approximately $5 thousand and $8 thousand in defaults and other expenses for the Vocational Rehabilitation Program in FY 2008 and 2007, respectively.
** "Fees" expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.
*** The "Other" expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

Subsidy Rates for Direct Loans by Component

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Subsidy rates for direct loans	
Interest Differential	(25.86%)
Defaults	16.74%
Fees	(1.79%)
Other	18.16%

Allowance for Subsidy for Direct Loans (Post-1991)

VA reports the allowance for subsidy for direct loans, subject to Credit Reform requirements. For these loans, the allowance for subsidy represents the present value of the estimated net cash flows to be paid by VA as a result of a disbursed direct loan. VA disburses a direct loan and receives an allowance for subsidy along with borrowing from Treasury. For FY 2008, the subsidy rate is (1.59) percent for Veterans Housing Direct – Vendee Loans, 8.84 percent for Veterans Housing Direct – Acquired Loans, and (14.48) percent for Native American Direct. In FY 2007, the subsidy rate was (3.46) percent for Veterans Housing Direct – Vendee Loans, 10.43 percent for Veterans Housing Direct – Acquired Loans, and (13.46) percent for Native American Direct. The allowance for subsidy as of September 30, 2008 and 2007 is $(748) and $(620), respectively.

Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance, Changes and Ending Balance

	FY 2008	FY 2007
Beginning balance of the allowance	$ (620)	$ (82)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(18)	(13)
Default costs (net of recoveries)	9	11
Fees and other collections	(1)	(1)
Other subsidy costs	13	9
Total of the above subsidy expense components	3	6
Adjustments:		
Fees received	2	3
Foreclosed property acquired	(16)	3
Loans written off	(2)	(5)
Subsidy allowance amortization	(33)	(2)
Change in execution	(84)	-
Ending balance of the allowance before reestimates	(750)	(77)
Subsidy reestimates by component		
Interest rate reestimate	(10)	(220)
Technical/default reestimate	12	(323)
Total of the above reestimate components	2	(543)
Ending balance of the allowance	$ (748)	$ (620)

Loan Guarantees

Loans receivable related to loan guarantees represent the net value of assets related to pre-1992 and post-1991 defaulted guaranteed loans and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loan guarantees are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30, 2008

	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans - Pre-1992 Guarantees	$ 49	-	(39)	9	$ 19
Defaulted Guaranteed Loans Post-1991	5	-	-	764	769
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 788

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30, 2007

	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans - Pre-1992 Guarantees	$ 80	-	(74)	11	$ 17
Defaulted Guaranteed Loans Post-1991	5	-	-	633	638
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 655

Total Loans Receivable and Related Foreclosed Property, Net

as of September 30,	2008	2007
Total Direct Loans	$ 2,120	$ 2,203
Total Guaranteed Loans	788	655
Total Loans Receivable and Related Foreclosed Property, Net	$ 2,908	$ 2,858

Foreclosed Property

Prior to the foreclosure of property secured by a VA loan, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff to make a determination of the fair market value. To determine the net value of the property, VA costs such as acquisition, management, and disposition of the property, as well as estimated losses on property resale, are subtracted from the estimated fair market value. The amount recorded for foreclosed property is estimated based upon the present value of future cash flows to be received upon the disposition of the property. Future cash flows are estimated based on the estimated selling price less the amounts paid at foreclosure plus estimated costs to carry the property. Recent volatility in the United States housing market could change the estimates and assumptions used for these calculations in the future, which could impact the amounts reported and disclosed herein.

As of September 30, 2008 and 2007, the estimated number of residential properties in VA's inventory was 7,605 and 6,975, respectively. For FY 2008 and FY 2007, the average holding period from the date properties were conveyed to VA until the properties were sold was estimated to be 11.7 months and 11.3 months, respectively. The number of properties for which foreclosure proceedings are in process is estimated to be 9,077 and 4,696 as of September 30, 2008 and 2007, respectively.

Guaranteed Loans
as of September 30,

		2008		2007
Guaranteed Loans Outstanding:				
Outstanding Principal Guaranteed Loans, Face Value	$	220,839	$	207,644
Amount of Outstanding Guarantee		63,921		61,456
New Guaranteed Loans Disbursed:				
Outstanding Principal Guaranteed Loans, Face Value	$	36,090	$	24,889
Amount of Outstanding Guarantee		9,236		6,438
Liabilities for Loan Guarantees Post 1991 (Present Value)	$	3,452	$	3,769

Guaranty Commitments
VA guaranteed 179,671 loans in FY 2008. The FY 2008 total guaranty amount is $9.2 billion. The total amount of loans guaranteed is $36 billion.

Subsidy Expense for Post-1991 Loan Guarantees
Pursuant to the Credit Reform Act, guaranteed loans closed after September 30, 1991, will be subsidized. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:

Guaranteed Loan Subsidy Expenses
for the years ended September 30,

		2008		2007
Defaults	$	454	$	312
Fees*		(587)		(394)
Subtotal		(133)		(82)
Interest Rate Reestimates		(212)		(37)
Technical Reestimates		(230)		193
Total Guaranteed Loan Subsidy Expenses**	$	(575)	$	74

* The "Fees" expense includes estimated up-front fees collected when the loans are guaranteed and the present value of estimated annual fees from loan assumptions.
** A negative subsidy rate indicates cash inflows from interest and fees are greater than disbursements.

Loan Sale-Guaranteed Loan Subsidy Expense for the years ended September 30,		2008		2007
Defaults	$	5	$	-
Other		(1)		-
Subtotal		4		-
Interest Rate Reestimates		(49)		58
Technical Reestimates		(52)		13
Total Loan Sale-Guaranteed Subsidy Expense	$	(97)	$	71

Total Subsidy Expense for the years ended September 30,		2008		2007
Total Direct Loans	$	5	$	(537)
Total Guaranteed Loans		(575)		74
Total Sale Loans		(97)		71
Total Subsidy Expense	$	(667)	$	(392)

Subsidy Rates for Loan Guarantees by Component

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Subsidy Rates for Loan Guarantees	
Defaults	1.26%
Fees	(1.63)%

Loan Sales

VA has vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 2008, the total loans sold amounted to $14 billion. Under the sale of vendee loans, certificates are issued pursuant to the Pooling and Servicing Agreement (the Agreement) among VA, the Master Servicer, and the Trustee. On the closing date of the certificates, VA transfers its entire interest in the related loans to the Trustee for the benefit of the related certificate holders pursuant to the Agreement. Under the Agreement, the Trust will issue certificates backed by mortgage loans and installment contracts. The Trust owns the mortgage loans and other property described in the offering and the Trust makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMIC) for U.S. federal income tax purposes. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. The certificates are issued as part of a designated series that may include one or more classes. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates and that guaranty is backed by the full faith and credit of the federal government.

VA may terminate the Trust, causing the early retirement of certificates, by purchasing all of the Trust's assets on any distribution date on or after the distribution date on which the current aggregate principal balance of all principal certificates is less than 1 percent of the original aggregate principal balance, or if VA determines that the Trust's REMIC status has been lost or a substantial risk exists that such status will be lost. In the event of termination, the certificate holder will be entitled to receive payment for the full principal balance of the certificates plus any accrued interest and unpaid interest through the related distribution date.

The Agreement requires the mortgage loans to be serviced generally in compliance with Fannie Mae and Freddie Mac standards and consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing industry. For mortgage loans sold during FY 2008, servicing was performed by Countrywide Home Loans, Inc. The Master Servicer is responsible for performing all the servicing functions under the separate Pooling and Servicing Agreements created for each Vendee Mortgage Trust. The Master Servicer is entitled to be compensated by retaining, from amounts received on each Mortgage Loan or Real Estate Owned (REO) Mortgage Loan (including REO Proceeds and Liquidation Proceeds) that are allocable to interest in accordance with the related Mortgage Note or, in the case of REO Proceeds and Liquidation Proceeds an amount equal to such amount allocable to interest multiplied by a fraction, the numerator of which is 0.2075% and the denominator of which is the Mortgage Rate for the related Mortgage Loan.

Additional servicing compensation in the form of prepayment charges, assumption fees, and late payment charges shall be retained by the Master Servicer as received. The Master Servicer also shall be entitled to withdraw and retain, as additional compensation, investment income on amounts on deposit in the Certificate Account. The Master Servicer shall be entitled to receive as additional compensation the interest earned on amounts remitted by the Master Servicer to the Trustee and deposited by the Trustee in the Distribution Account. The Master Servicer shall be required to pay all expenses incurred by it in connection with its servicing activities hereunder (including, without limitation, the fees and expenses of the Trustee, and the fees of the Sub-Servicers under the respective Sub-Servicing Agreements, if any) and shall not be entitled to reimbursement therefore except as specifically provided in each Pooling and Servicing Agreement.

VA completed one vendee loan sale of $193 during FY 2008 and none in FY 2007. The components of the vendee sale are summarized in the tables below.

Loan Sales
Years Ended September 30,

	2008	2007
Loans Receivable Sold	$ (193)	$ -
Net Proceeds from Sale	197	-
Gain on Receivables Sold	$ 4	$ -

Outstanding Balance of Loan Sale Guarantees
The outstanding balance for guaranteed loans sold is summarized in the table below:

Guaranteed Loans Sold
as of September 30,

	2008	2007
Outstanding Balance Guaranteed Loans Sold, Start of Year	$ 1,958	$ 2,364
Sold to the Public	193	-
Payments, Repayments, and Terminations	(250)	(406)
Outstanding Balance Guaranteed Loans Sold, End of Year	$ 1,901	$ 1,958

Liability for Loan Sale Guarantees (Post-1991)
VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs, subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. These sales contain two types of guarantees for which VA pays net cash flow. VA guarantees that the principal and interest payment due on a loan sold will be paid by the 15th of each month. If not paid by the borrower, VA allows the loan servicer to take funds from cash reserve accounts for the deficient amount. VA also guarantees the loan against loss at foreclosure. VA will not buy back the loans but will pay off the loan loss and foreclosure expenses. The subsidy rate for FY 2008 and 2007 is 2.14 percent and 3.99 percent, respectively. The liability for loan sale guarantees as of September 30, 2008 and 2007 is $73 and $166, respectively.

Schedule for Reconciling Loan Sale Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	**2008**	**2007**
Beginning balance of the liability	$ 166	$ 102
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Default costs (net of recoveries)	5	-
Other subsidy costs	(1)	-
Total of the above subsidy expense components	4	-
Adjustments:		
Claim payments to lenders	(10)	(12)
Interest accumulation on the liability balance	10	4
Other	4	-
Ending balance of the liability before reestimates	174	94
Subsidy reestimates by component		
Interest rate reestimate	(49)	59
Technical/default reestimate	(52)	13
Total of the above reestimate components	(101)	72
Ending balance of the liability	$ 73	$ 166

Liability for Loan Guarantees (Post-1991)
VA reports the liability on the guarantee of loans, subject to Credit Reform requirements. For these loans, the guaranteed loan liability represents the present value of the estimated net cash flows to be paid by VA as a result of a defaulted loan guarantee. VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual

loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the veteran, VA may acquire the loan by refunding the lender for the loan. The FY 2008 and FY 2007 subsidy rate was (0.37) and (0.36) percent, respectively. The liability for loan guarantees as of September 30, 2008 and 2007 is $3,379 and $3,603, respectively.

Schedule for Reconciling Loan Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance

		2008		**2007**
Beginning balance of the liability	$	3,603	$	3,170
Subsidy expense for guaranteed loans disbursed during the reporting years by component:				
Default costs (net of recoveries)		454		312
Fees and other collections		(587)		(394)
Total of the above subsidy expense components		(133)		(82)
Adjustments:				
Fees received		584		432
Foreclosed property and loans acquired		(132)		(24)
Claim payments to lenders		(246)		(178)
Interest accumulation on the liability balance		145		129
Ending balance of the liability before reestimates		3,821		3,447
Subsidy re-estimates by component				
Interest rate reestimate		(212)		(37)
Technical/default re-estimate		(230)		193
Total of the above reestimate components		(442)		156
Ending balance of the liability	$	3,379	$	3,603

Administrative Expense

Administrative expense on direct and guaranteed loans for the fiscal years ended September 30, 2008 and 2007 was $155 and $154, respectively.

8. Inventories and Related Properties

Inventories
as of September 30,

		2008		**2007**
Held for Current Sale	$	58	$	53
Other		3		1
Total Inventories	$	61	$	54

9. General Property, Plant and Equipment

Depreciation and amortization expense totaled $1,024 and $895 in FY 2008 and FY 2007, respectively.

General Property, Plant and Equipment
as of Sept. 30, 2008

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 576	$ (47)	$ 529
Buildings	17,355	(9,088)	8,267
Equipment	3,351	(1,786)	1,565
Other Structures and Capital Leases	2,324	(1,392)	932
Internal Use Software	274	(200)	74
Construction Work in Progress	1,459	-	1,459
Internal Use Software in Development	242	-	242
Total Property, Plant, and Equipment	$ 25,581	$ (12,513)	$ 13,068

General Property, Plant and Equipment
as of Sept. 30, 2007

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 421	$ (32)	$ 389
Buildings	16,411	(8,497)	7,914
Equipment	3,116	(1,727)	1,389
Other Structures and Capital Leases	2,108	(1,306)	802
Internal Use Software	293	(184)	109
Construction Work in Progress	1,375	-	1,375
Internal Use Software in Development	198	-	198
Total Property, Plant, and Equipment	$ 23,922	$ (11,746)	$ 12,176

10. Heritage Assets

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural; educational or aesthetic value; or significant architectural characteristics. VA has properties at medical centers and National Cemeteries that meet the criteria for heritage assets. Heritage assets allow VA to meet its responsibilities under the National Historic Preservation Act to administer federally owned, administered, or controlled prehistoric or historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations.

Generally, additions to VA's heritage assets inventory result from field station surveys, which identify items such as new collections or newly designated assets. VA classifies its heritage assets as: Art Collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials, and photographs); Buildings and Structures (including historic hospitals, quarters, lodges, and chapels); Monuments/Historic Flag Poles: Other Non-Structure Items (including rostrums, gates and historic walls); Archaeological Sites; and Cemeteries. According to VA's policy for heritage assets, only developed sections of National Cemeteries are classified as heritage assets; while undeveloped sections are not until they are developed. VA's policy for heritage assets can be found, in its entirety, in Directive and Handbook 7545, Cultural Resources Management Procedures.

Heritage Assets in Units		
As of September 30,	**2008**	**2007**
Art Collections	211	211
Buildings and Structures	1,543	1,543
Monuments/Historic Flag Poles	984	984
Other Non-Structure Items	225	225
Archaeological	34	34
Cemeteries	158	158
Total Heritage Assets in Units	3,155	3,155

11. Liabilities Not Covered By Budgetary Resources

The total amount of VA liabilities not covered by budgetary resources was $1,472.9 billion and $1,133.2 billion as of September 30, 2008 and 2007, respectively, as shown in the following table.

Components of Unfunded Liabilities				
as of September 30				
		2008		**2007**
Workers' Compensation*	$	2,304	$	2,208
Annual Leave		1,509		1,365
Judgment Fund		604		650
Environmental and Disposal		928		558
Accounts Payable – Canceled Appropriations		10		8
Veterans Compensation and Burial		1,466,700		1,127,700
Insurance		796		741
Total	$	1,472,851	$	1,133,230

* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 4.77 percent and 5.08 percent to discount the projected annual benefit payments as of FY 2008 and FY 2007, respectively.

12. Federal Employee and Veterans Benefits

Federal Employee Benefits: Imputed Expenses-Employee Benefits

Years ended September 30,	2008	2007
Civil Service Retirement System	$ 266	$ 276
Federal Employees Health Benefits	1,025	1,049
Federal Employees Group Life Insurance	3	2
Total Imputed Expenses-Employee Benefits	$ 1,294	$ 1,327

Veterans Benefits
Certain veterans who die or are disabled from military service-related causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a veteran's military service and are recorded as a liability on the balance sheet.

Federal Employee and Veterans Benefits Liabilities

as of September 30,	2008	2007
FECA	$ 1,905	$ 1,827
Compensation	1,462,000	1,123,900
Burial	4,700	3,800
Total Federal Employee and Veterans Benefits Liabilities	$ 1,468,605	$ 1,129,527

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from nonservice-related causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2008 and 2007 was $97.3 billion and $81.4 billion, respectively.

Assumptions Used to Calculate the Veterans Benefits Liability
Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) current veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Future benefits payments to survivors of those veterans in classes (1), (2), and (3) are also incorporated into the projection.

All future benefits were discounted. Discount rates were based on rates for securities issued by Treasury on September 30, 2008, ranging from 1.80 to 4.61 percent, and on September 30, 2007, ranging from 3.97 to 4.99 percent.
All calculations were performed separately by attained age for the Compensation and Pension programs, while the Burial liability was calculated on an aggregate basis.

Life expectancies of beneficiaries collecting benefits from the Compensation and Pension programs were based upon studies of mortality experience of those beneficiaries between 2002 and 2008. Life expectancies of veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from the 2004 U.S. Life Table. Applying mortality improvements at a rate that varies by age of between 0.85 and 1.00 percent per annum brought both sets of mortality rates forward. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected.

The amount of benefits by beneficiary category and age were based on current amounts being paid, future cost of living adjustments (COLAs) to determine the average benefits per veteran for each future time period, and changes in other factors that affect benefits. A COLA of 2.3 percent was applied for FY 2008. For fiscal years after 2006, COLAs have been determined from OMB's estimates prepared in conjunction with the Administration's annual budget. Expected changes in benefits due to other reasons were also reflected.

Expected benefit payments have been explicitly modeled for the next 75 years. This period is the same as that used by the Office of the Chief Actuary of the Social Security Administration (SSA). However, unlike Social Security, (1) estimates of expected benefit payments after this 75-year period were incorporated in the liability based on extrapolations reflecting expected aggregate experience by beneficiary category for the years 74 and 75 and (2) SSA uses an open population model, while the C&P projections only reflect benefits associated with military service through September 30, 2008.

New Accounting Standard

On October 14, 2008 the FASAB issued SFFAS No. 33, Pensions, Other Retirement Benefits, and Other Post-employment benefits: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, effective for periods beginning after September 30, 2009.

The changes resulting from implementing the standards in SFFAS No. 33 include: (1) disclosure of gains and losses from changes in long-term assumptions; (2) disclosure of the components of the expense associated with federal employee pensions, other retirement benefits, and other post-employment benefits pension liability balances, including veterans compensation; and (3) standards for selecting the discount rate assumption and valuation dates for estimating the liability.

13. Environmental and Disposal Liabilities

VA had unfunded environmental and disposal liabilities in the amount of $928 and $558 as of September 30, 2008 and 2007, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than federal guidelines, the Occupational Safety and Health Administration and Environmental Protection Agency regulations are the legal base behind the majority of VA's environmental and disposal liabilities. Estimated liabilities for these projects are based on known contamination that exists today and have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

14. Other Liabilities

Other liabilities are liabilities not reported elsewhere. They consist of Funded and Unfunded Liabilities. Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

Other Intragovernmental Funded Liabilities as of September 30,	2008	2007
Deposit and Clearing Account Liabilities	$ 100	$ 37
Accrued Expenses - Federal	232	109
Deferred Revenue	11	94
Resources Payable to Treasury	197	210
Custodial Liabilities*	769	1,200
General Fund Receipts Liability	5	5
Accrued VA Contributions for Employee Benefits	190	103
Total Other Intragovernmental Funded Liabilities	$ 1,504	$ 1,758

* The Custodial Liabilities Accounts include subsidy reestimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the government for the cohorts of loans. The subsidy amount for each cohort is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned.

Other Intragovernmental Unfunded Liabilities as of September 30,	2008	2007
Accrued FECA Liability	$ 395	$ 378
Unfunded Employee Liability	4	4
Total Other Intragovernmental Unfunded Liabilities	$ 399	$ 382
Total Other Intragovernmental Liabilities	$ 1,903	$ 2,140

Other Public Funded Liabilities as of September 30,	2008	2007
Accrued Funded Annual Leave	$ 12	$ 12
Accrued Expenses	2,197	2,765
Accrued Salaries and Benefits	908	701
Unearned Premiums	81	88
Insurance Dividends Left on Deposit and Related Interest Payable*	1,712	1,725
Dividend Payable to Policyholders	157	172
Capital Lease Liability	16	17
Other	53	28
Total Other Public Funded Liabilities	$ 5,136	$ 5,509

* Interest earned on dividends left on deposit is paid annually to insurance policyholders on the policy anniversary dates.

Other Public Unfunded Liabilities as of September 30,	2008	2007
Annual Leave*	$ 1,510	$ 1,365
Accounts Payable from Cancelled Appropriation	10	8
Amounts due to non-federal trust	173	178
Judgment Fund-Unfunded**	604	650
Total Other Public Unfunded Liabilities	$ 2,297	$ 2,201
Total Other Public Liabilities	$ 7,433	$ 7,710

* Annual leave is accrued when earned and is adjusted at the end of the fiscal year to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.
** The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA (see Note 17, Contingencies).

15. Leases

VA has both capital and operating leases. The capital lease liability is $16 and $17 as of September 30, 2008 and 2007, respectively. Real property leases reflect those that VA has committed to as of September 30, 2008. Due to the number of equipment operating leases and the decentralization of records, the future commitment for equipment operating leases is projected assuming annual increases between 4.1 and 4.2 percent. VA's FY 2008 operating lease costs were $348 for real property rentals and $112 for equipment rentals. The FY 2007 operating lease costs consisted of $299 for real property rentals and $101 for equipment rental. The following chart represents VA's projected operating lease commitments or costs for the next 5 years.

Leases: Year	Real Property	Percentage	Equipment
2009	$ 260	4.2	$ 117
2010	239	4.2	122
2011	198	4.2	127
2012	166	4.1	133
2013	128	4.1	139

16. Insurance Programs

Through VA, the United States Government administers five life insurance programs and the Veterans’ Mortgage Life Insurance program for certain totally disabled veterans. VA supervises the Service members’ Group Life Insurance (SGLI) and the Veterans’ Group Life Insurance (VGLI) programs, which provide life insurance coverage to members of the uniformed armed services, reservists, and post-Vietnam veterans. United States Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

Administered Programs
The United States Government Life Insurance (USGLI) program was the government's first venture into life insurance. During World War I, the U.S. provided Marine Insurance to protect the interests of ship owners and merchants who were providing supplies to the allies in Europe. USGLI was the natural outgrowth of this Marine Insurance. The program was established to meet the needs of World War I veterans, but remained open to service members and veterans with service before October 8, 1940. The government became a self-insurer because private insurance companies were unwilling to assume the unpredictable risks associated with war. By establishing this program, Congress intended to avoid the financial burden imposed on the government by the pension programs that were established after previous wars. The government became the largest life insurer in the United States with the coverage provided by this program.

The National Service Life Insurance (NSLI) program covers policyholders who served during World War II. The program opened October 8, 1940, when it became clear that large-scale military inductions were imminent. Over 22 million policies were issued under the NSLI program. The majority of policies VA administers directly are NSLI policies. This program remained open until April 25, 1951, when two new programs were established for Korean War service members and veterans.

The Veterans' Special Life Insurance (VSLI) program was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict, and the post-Korean period through January 1, 1957. During this period, all service members on active duty were covered for $10,000, at no cost, under a program known as Servicemen's Indemnity. They remained covered for 120 days after their discharge. The VSLI program allowed these newly discharged service members to apply for $10,000 of contract term insurance. Application had to be made during the 120-day period during which they remained covered by Servicemen's Indemnity. It was during this period that representatives of the commercial insurance industry began a major lobbying effort to get the government out of the insurance business because the programs were viewed as competition. As a result, the VSLI program was closed to new issues at the end of 1956, and coverage for individuals in the uniformed services was terminated. Approximately 800,000 VSLI policies were issued between 1951 and 1957.

In addition to VSLI coverage, which was provided to healthy veterans, the Insurance Act of 1951 also established the Service-Disabled Veterans Insurance (S-DVI) program for veterans with service-connected disabilities. S-DVI is open to veterans separated from the service on or after April 25, 1951, who receive a service-connected disability rating. New policies are still being issued under this program.

In 1964, Congress enacted legislation providing for a limited reopening of NSLI and VSLI, and the Veterans' Reopened Insurance (VRI) program was established. Beginning May 1, 1965, veterans who had been eligible to obtain insurance between October 8, 1940, and January 1, 1957, could once again apply for government life insurance. They had one year to apply for this "reopened" insurance, which was available only to disabled veterans. Approximately 228,000 VRI policies were issued. No term insurance policies were issued in this program.

The Veterans' Mortgage Life Insurance (VMLI) program began in 1971, and is designed to provide financial protection to cover eligible veterans' home mortgages in the event of death. VMLI is issued to those severely disabled veterans who have received grants for specially adapted housing from VA. These grants are issued to veterans whose movement is substantially impaired because of their disability. The maximum amount of VMLI allowed an eligible veteran is $90 thousand. The insurance is payable if the veteran dies before the mortgage is paid off and is payable only to the mortgage lender.

Supervised Insurance Programs
The Service members' Group Life Insurance (SGLI) program was established in 1965 for Vietnam-era service members. SGLI is supervised by VA and is administered by the Office of Service members' Group Life Insurance (OSGLI) under terms of a group policy. This program provides low-cost term insurance protection to service members and their families.

In 1974, the Veterans' Group Life Insurance (VGLI) program became available. VGLI, like SGLI, is supervised by VA, but is administered by the OSGLI. VGLI provides for the conversion of SGLI coverage to lifetime term insurance protection after a service member's separation from service.

The Traumatic Injury Protection (TSGLI) program became effective December 1, 2005. TSGLI, which automatically covers all who participate in SGLI, provides for insurance payments to members who suffer a serious traumatic injury in service. These payments range from $25,000 to a maximum of $100,000, depending on the type and severity of injury.

Public Insurance Carriers
VA supervises the administration of the SGLI and VGLI programs. VA has entered into a group policy with Prudential Insurance Company of America whereby Prudential and its reinsurers provide service members and veterans coverage in multiples of $50 thousand up to a maximum of $400 thousand. The basic SGLI coverage is provided to those members on active duty in the Army, Navy, Air Force, Marine Corps, Coast Guard, commissioned members of the Public Health Service and the National Oceanic and Atmospheric Administration. The Ready Reserve is also insured by SGLI, and includes reservists and members of the National Guard who are assigned to a unit or position in which they may be required to perform active duty or active duty for training. The VGLI coverage is comprised of separated and retired active duty members and reservists covered under Basic SGLI.

The Veterans' Opportunities Act of 2001 extended life insurance coverage to spouses and children of members insured under the SGLI program, effective November 1, 2001. For a spouse, up to $100 thousand of coverage can be purchased in increments of $10 thousand, not to exceed the amount of the service member's coverage. Each dependent child of every active duty service member or reservist insured under SGLI is automatically insured for $10 thousand free of charge.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel and their spouses are deducted from the service member's pay by the Armed Services components through the Department of Defense (DoD). DoD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential's insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in the VA reporting entity because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. Prudential administers the TSGLI program under an Administrative Services Only agreement with VA. Under the law, DoD pays for any claim costs for this program in excess of premiums collected.

The Secretary of Veterans Affairs determines the claim costs that are traceable to the extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The costs so identified by the Secretary are paid by the uniformed services, not from the service members' premiums, as are all other programs costs.

Reserve Liabilities

The insurance reserves for administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and Veterans Insurance and Indemnities (VI&I) reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25 to 5 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table, and the 2001 CSO Table.

Insurance Liability (Reserve) Balances

As of September 30, 2008

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$ 7,768	$ 115	$ 78	$ 7,961
USGLI	16	3	-	19
VSLI	1,567	9	20	1,596
S-DVI	341	3	437	781
VRI	295	1	3	299
VI&I	95	-	-	95
Subtotal	$ 10,082	$ 131	$ 538	$ 10,751
Less Liability not Covered by Budgetary Resources				(796)
Liability Covered by Budgetary Resources				$ 9,955

As of September 30, 2007

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$ 8,229	$ 127	$ 93	$ 8,449
USGLI	19	3	-	22
VSLI	1,565	9	23	1,597
S-DVI	329	3	400	732
VRI	318	2	3	323
VI&I	94	-	-	94
Subtotal	$ 10,554	$ 144	$ 519	$ 11,217
Less Liability not Covered by Budgetary Resources				(741)
Liability Covered by Budgetary Resources				$ 10,476

Insurance In-Force

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Prudential and its reinsurers provided coverage to 5,891,781 and 5,859,136 insured for a face value of $1,072 billion and $1,069.8 billion as of September 30, 2008 and 2007, respectively. The face value of the insurance provided by Prudential and its reinsurers represents 99 percent of the total insurance in-force as of September 30, 2008 and 2007. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2008 Policies	2007 Policies	2008 Face Value	2007 Face Value
Supervised Programs				
SGLI Active Duty	1,498,000	1,496,000	$ 580,589	$ 582,600
SGLI Ready Reservists	764,500	755,500	273,667	271,299
SGLI Post Separation	94,000	102,000	35,574	38,909
SGLI Family - Spouse	1,077,000	1,050,000	106,258	103,480
SGLI Family - Children	2,027,000	2,025,000	20,270	20,250
VGLI	431,281	430,636	55,636	53,260
Total Supervised	5,891,781	5,859,136	$ 1,071,994	$ 1,069,798
Administered Programs				
NSLI	921,942	1,013,557	$ 10,651	$ 11,516
VSLI	183,778	191,735	2,348	2,406
S-DVI	194,583	187,904	1,965	1,885
VRI	39,331	43,720	383	418
USGLI	5,620	6,720	17	21
VMLI	2,309	2,368	165	165
Total Administered	1,347,563	1,446,004	$ 15,529	$ 16,411
Total Supervised and Administered Programs	7,239,344	7,305,140	$ 1,087,523	$ 1,086,209

Policy Dividends
The Secretary of VA determines annually the excess funds available for dividend payment. Only administered policies are eligible for dividends. Dividends are based on an actuarial analysis of the individual programs at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance; or (5) deposit the amount in an interest-bearing account. A provision for dividends is charged to operations, and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs. Policy dividends for fiscal years 2008 and 2007 were $338 and $365, respectively.

17. Contingencies

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than $2.5 thousand for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 74 percent in FY 2008 and 84 percent in FY 2007. Contract dispute payments for FY 2008 and FY 2007 were $20.3 and $5.4, respectively. The discrimination case payments for FY 2008 were $1.7 and $3.3 for FY 2007.

VA uses accepted actuarial methods to estimate the liability resulting from medical malpractice and other tort claim exposure. VA discounted future estimated payments using U.S. Treasury spot rates as of September 30, 2008 and 2007.

VA has recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was $604 for FY 2008 and $650 for FY 2007. The contract and personnel law cases where there was at least a reasonable possibility that a loss may occur were 11 cases totaling $19.1, excluding the data theft litigation explained below, for FY 2008 and 18 cases totaling $228.7 for FY 2007. VA is also required to record an operating expense and imputed financing source for the Judgment Fund's pending claims and settlements. Judgment Fund accounting is shown below:

Judgment Fund
For the Years Ended September 30,

	2008	2007
Fiscal Year Settlement Payments	$ 103	$ 89
Less Contract Dispute and "No Fear" Payments	(22)	(8)
Imputed Financing-Paid by Other Entities	81	81
Increase (Decrease) in Liability for Claims	46	(35)
Operating Expense	$ 127	$ 46

It is the opinion of VA's management that resolution of pending legal actions as of September 30, 2008 will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases. Fiscal year 2008 tort payments were $81.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2008 and 2007 was $28 and $21.2, respectively. Any payments due that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990.

VA provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the fiscal years 2004-2008, the average medical care cost per year was $30 billion.

Haas v. Nicholson

The United States Court of Appeals for Veterans Claims (Veterans Court) issued a decision in Haas v. Nicholson, 20 Vet. App. 257 (2006), that reversed a decision of the Board of Veterans' Appeals, which denied service connection for disabilities claimed as a result of exposure to herbicides. VA disagreed with the court's decision in Haas and appealed to the United States Court of Appeals for the Federal Circuit. On May 8, 2008 the Federal Circuit ruled in favor of the VA; however, Mr. Haas has filed a petition asking the U.S. Supreme Court to hear the case. Pending a decision on appeal, the Veterans Court had stayed cases affected by the Haas decision pending before that court or at VA. Should the Supreme Court hear the case and overturn the Federal Circuit's decision, the adjudication of any stayed cases would resume and new adjudications would have to conform to the Supreme Court's decision, with the consequence that a liability for potential additional benefit costs may exist, but the amount or range of the possible liability cannot reasonably be estimated at this time. No claims have been paid or accrued as of this date.

VA Data Theft Litigation

VA is the subject of a class action lawsuit alleging breach of the Privacy Act, 5 U.S.C 552a (e) (10), in connection with the theft of a laptop computer containing sensitive personal information for approximately 17.5 million veterans. The plaintiffs seek statutory damages of at least $1 thousand per purported class member. The case is currently in pre-discovery mediation. An estimated range of potential loss, if any, is unknown at this stage of the litigation.

18. Earmarked Funds

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, requires disclosure of all earmarked funds for which VA has program management responsibility. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, and are required by statute to be used for designated activities or purposes. They are accounted for separately from the Government's general revenues. VA's earmarked funds consist of trusts, special and revolving funds and remain available over time. The "trust" funds do not involve a fiduciary relationship with an individual or group but are designated exclusively for a specific activity, benefit or purpose. The investments (Treasury Securities) are assets of earmarked funds and are available for authorized expenditures. Treasury Securities are issued to the earmarked fund as evidence of earmarked receipts and provide the fund the authority to draw upon the US Treasury for future expenditures. When the earmarked fund redeems its Treasury Securities to make expenditures, the US Treasury will finance those expenditures in the same manner that it finances all other expenditures.

The VA's Earmarked Funds are as follows:

Fund Name	Fund Type	Treasury Symbol	Authority	Purpose of Fund	Financing Sources
Medical Care Collections Fund	Special	36x5287	P.L. 105-33 111 Stat 665	Third-party and patient co-payments for medical services.	Public, primarily insurance carriers.
Cemetery Gift Fund	Trust	36x8129	38 U.S.C. 1007	Donations for veterans' cemeteries.	Public donors.
National Service Life Insurance Fund	Trust	36x8132	38 U.S.C. 720	Premiums insure WWII veterans.	Public, veterans.
Post-Vietnam Era Education Assistance Program	Trust	36x8133	38 U.S.C. 1622	Subsidizes the cost of education to veterans.	Veterans, DoD.
U.S. Government Life Insurance	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public, veterans.
Veterans Special Life Insurance Fund	Trust	36x8455	38 U.S.C. 723 101-228	Premiums insure Korean conflict veterans.	Public, veterans.
General Post Fund, National Homes	Trust	36x8180	38 U.S.C. 101-228	Donations for patient benefits.	Public, mostly veterans.
Canteen Service Revolving Fund	Revolving	36x4014	38 U.S.C. 78	Operates the canteen services at hospitals.	Revenue from sales.
National Cemetery Administration Facilities Operation Fund	Special	36x5392	P.L. 108-454	Proceeds benefit land and buildings.	Proceeds from leases.
Service-Disabled Veterans Insurance Fund	Revolving	36x4012	38 U.S.C. 1922	Provides insurance to veterans with service-connected disabilities	Public, veterans.
Servicemen's Group Life Insurance	Revolving	36x4009	38 U.S.C. 1965	Provides insurance to active duty, ready reservists, retired reservists and cadets attending service academies and ROTC.	Public, veterans.
Veterans Reopened Insurance Fund	Revolving	36x4010	38 U.S.C. 1925	Provides insurance to World War II and Korea veterans	Public, veterans.
Enhanced-Use Lease Trusts	Trust	N/A	38 U.S.C 8162	Lease underutilized VA property.	Public.

The following tables provide condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances:

Balance Sheet as of September 30, 2008	Insurance	Medical Care	Benefits	Burial	Total Earmarked Funds
Assets:					
Fund Balance with Treasury	$ 45	$ 233	$ 67	$ 1	$ 346
Investments with Treasury	11,826	98	-	-	11,924
Other Assets	587	1,519	-	3	2,109
Total Assets	$ 12,458	$ 1,850	$ 67	$ 4	$ 14,379
Liabilities and Net Position:					
Payables to Beneficiaries	$ 199	$ 22	$ 1	$ 1	$ 223
Other Liabilities	12,607	193	-	-	12,800
Total Liabilities	$ 12,806	$ 215	$ 1	$ 1	$ 13,023
Unexpended Appropriations	-	(11,627)	-	-	(11,627)
Cumulative Results of Operations	(348)	13,262	66	3	12,983
Total Liabilities and Net Position	$ 12,458	$ 1,850	$ 67	$ 4	$ 14,379

Statement of Net Cost for the Year Ended September 30, 2008					
Gross Program Costs	$ 1,256	$ 381	$ 3	$ -	$ 1,640
Less Earned Revenues	1,155	3,261	1	-	4,417
Net Program Costs	101	(2,880)	2	-	(2,777)
Costs Not Attributable to Program Costs	-	40	-	-	40
Net Cost of Operations	$ 101	$ (2,840)	$ 2	$ -	$ (2,737)

Statement of Changes in Net Position for the Year Ended September 30, 2008					
Net Position Beginning of Period	$ (280)	$ 1,182	$ 67	$ 3	$ 972
Budgetary and Other Financing Sources	33	(2,387)	1	-	(2,353)
Net Cost of Operations	(101)	2,840	(2)	-	2,737
Change in Net Position	(68)	453	(1)	-	384
Net Position End of Period	$ (348)	$ 1,635	$ 66	$ 3	$ 1,356

Balance Sheet
as of September 30, 2007

	Insurance	Medical Care	Benefits	Burial	Total Earmarked Funds
Assets:					
Fund Balance with Treasury	$ 40	$ 191	$ 69	$ 1	$ 301
Investments with Treasury	12,330	96	-	-	12,426
Other Assets	626	1,106	1	2	1,735
Total Assets	$12,996	$ 1,393	$ 70	$ 3	$ 14,462
Liabilities and Net Position:					
Payables to Beneficiaries	$ 168	$ 15	$ 1	$ -	$ 184
Other Liabilities	13,108	197	1	-	13,306
Total Liabilities	$13,276	$ 212	$ 2	$ -	$ 13,490
Unexpended Appropriations	-	(9,184)	-	-	(9,184)
Cumulative Results of Operations	(280)	10,365	68	3	10,156
Total Liabilities and Net Position	$12,996	$ 1,393	$ 70	$ 3	$ 14,462

Statement of Net Cost
for the Year Ended September 30, 2007

	Insurance	Medical Care	Benefits	Burial	Total Earmarked Funds
Gross Program Costs	$ 1,292	$ 467	$ 3	$ -	$ 1,762
Less Earned Revenues	1,222	2,750	-	-	3,972
Net Program Costs	70	(2,283)	3	-	(2,210)
Costs Not Attributable to Program Costs	-	29	-	-	29
Net Cost of Operations	$ 70	$ (2,254)	$ 3	$ -	$ (2,181)

Statement of Changes in Net Position
for the Year Ended September 30, 2007

	Insurance	Medical Care	Benefits	Burial	Total Earmarked Funds
Net Position Beginning of Period	$ (252)	$ 1,101	$ 70	$ 3	$ 922
Budgetary and Other Financing Sources	42	(2,173)	-	-	(2,131)
Net Cost of Operations	(70)	2,254	(3)	-	2,181
Change in Net Position	(28)	81	(3)	-	50
Net Position End of Period	$ (280)	$ 1,182	$ 67	$ 3	$ 972

19. Exchange Transactions

Exchange Revenues

Although VA recognizes full cost per SFFAS No. 4, VHA has legislated exceptions to the requirement to recover the full cost to the federal government of providing services, resources, or goods for sale. Under "enhanced sharing authority," VHA facilities may enter into arrangements that are in the best interest of the federal government. In FY 2008, 49 contracts at 10 medical facilities were reviewed by the Management Quality Assurance Service (MQAS) to determine compliance with SFFAS No. 7 and the Chief Financial Officers Act of 1990. MQAS found 7 contracts (14 percent) contained no cost analyses, 8 contracts (16 percent) had incomplete or outdated cost analyses, and 5 contracts (10 percent) had no billing documents. In addition, one medical facility erroneously certified (did not disclose losses) recovery of cost on four contracts for non-essential veteran services. Another medical facility certified and properly disclosed a loss on one contract for non-essential veteran services.

VA's Loan Guaranty Program collects rental fees on a small number of properties during the period when the property is titled to VA.

NCA leases lodges at 15 cemeteries to not-for-profit groups for no fee. These not-for-profit groups are required to provide the upkeep on the lodges and pay the costs for utilities, insurance, minor repairs and maintenance and any other costs associated with the lodges, and NCA pays for major repairs at these facilities. NCA also has five agricultural licenses and one agricultural lease with private companies/individuals. NCA licenses and leases land for growing crops and, on certain licenses, receives services in exchange from the licensee for brush and weed cutting, fence maintenance, removal services, backfilling and grading of roads, and welding services.

Exchange Transactions with Public

VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Business Office (CBO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health insurance, non-federal workers' compensation, tort feasor and no-fault or uninsured motorists insurance cases. Reasonable charges are based on provider charges in the market area of each VA facility. Under regulations issued pursuant to section 1729 and published at section 17.101, title 38, Code of Federal Regulations, third party payers may elect to pay VA's billed charges (less applicable deductible or co-payment amounts) for the care and services provided to veterans. Alternatively, third party payers may elect to pay VA an amount, generally known as usual and customary, that it would pay to other providers for care and services in the same geographic area.

Cost-based per diems are calculated annually to produce rates used to bill for medical care or services provided by the VA:

(a) in error or on tentative eligibility;
(b) in a medical workers' compensation (other than federal), humanitarian emergency;
(c) to pensioners of allied nations;
(d) for research purposes in circumstances under which VA medical care appropriation is to be reimbursed by VA research appropriation; and
(e) to beneficiaries of the Department of Defense or other federal agencies, when the care or service provided is not covered by an applicable sharing agreement.

These per diem costs are derived primarily from cost and workload data from a national cost allocation report.

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for FY 2008 were $567 and for FY 2007 were $435. The loan guarantee lender participation fees collected for FY 2008 were $2.1. The lender participation fees collected for FY 2007 were $1.5.

Intragovernmental Exchange Transactions
This section discloses intragovernmental exchange transactions in which VA provides goods or services at a price less than the full cost, or does not charge a price at all, with explanations for disparities between the billing and full cost.

Intragovernmental costs relate to the source of goods and services purchased by VA and not to the classification of related intragovernmental revenue.

VA and DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future. VBA collects funding from DoD in order to administer certain education programs. DoD transferred $341.5 during FY 2008 for the Post-Vietnam Era Education Assistance Program, Reinstated Entitlements Program for Survivors, and the New GI Bill for Veterans.

VA reports intragovernmental trading partner information to the US Treasury through Treasury's Intragovernmental Reporting and Analysis System (IRAS). VA and its trading partners are not able to completely reconcile all activities and balances with each other due to several factors including transaction volumes, recognition of timing differences, and system limitations between trading partners. In FY 2008 VA made improvements to the intragovernmental reporting process. A review of the intragovernmental vendor list was conducted and obsolete and redundant vendor IDs were removed. A Hyperion-based intragovernmental reporting tool is currently under development and testing. Delivery is scheduled for FY 2009.

When VA furnishes medical care or services for beneficiaries of other federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Similar to the tort rates, interagency billing rates are determined from cost and workload data in the Cost Distribution Report.

20. Net Cost of Veterans Affairs Programs

All of VA's net program costs are part of the 700 budget functional classification (Veterans Benefits and Services).

Schedule of Net Program Cost

For the Year Ended September 30, 2008 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
Production Costs												
Intragovernmental Costs	$ 5,678	$ 106	$ 119	$ 275	$ 35	$ 8	$ 25	$ 933	$ 8	$ 57	$ 55	$ 7,299
Less Earned Revenues	(50)	-	(32)	-	-	(396)	-	(249)	(701)	-	(780)	(2,208)
Net Intragovernmental Production Costs	5,628	106	87	275	35	(388)	25	684	(693)	57	(725)	5,091
Public Costs	32,821	1,261	842	375,694	3,943	3,118	762	(1,195)	1,267	1,291	1,924	421,728
Less Earned Revenues	(3,430)	-	(12)	-	-	(193)	-	(54)	(456)	-	(52)	(4,197)
Net Public Production Costs	29,391	1,261	830	375,694	3,943	2,925	762	(1,249)	811	1,291	1,872	417,531
Total Net Cost of Operations	$ 35,019	$ 1,367	$ 917	$375,969	$ 3,978	$ 2,537	$ 787	$ (565)	$ 118	$ 1,348	$ 1,147	$ 422,622

Schedule of Net Program Cost

For the Year Ended September 30, 2007 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
Production Costs												
Intragovernmental Costs	$ 4,582	$ 95	$ 97	$ 223	$ 27	$ 16	$ 18	$ 93	$ 8	$ 46	$ 70	$ 5,275
Less Earned Revenues	(113)	-	(35)	2	-	(427)	-	(743)	(742)	-	(1,064)	(3,122)
Net Intragovernmental Production Costs	4,469	95	62	225	27	(411)	18	(650)	(734)	46	(994)	2,153
Public Costs	30,450	1,172	794	8,672	3,875	2,962	704	513	1,310	209	1,996	52,657
Less Earned Revenues	(2,906)	-	(13)	-	-	(203)	-	(63)	(482)	-	(49)	(3,716)
Net Public Production Costs	27,544	1,172	781	8,672	3,875	2,759	704	450	828	209	1,947	48,941
Total Net Cost of Operations	$ 32,013	$ 1,267	$ 843	$ 8,897	$ 3,902	$ 2,348	$ 722	$ (200)	$ 94	$ 255	$ 953	$ 51,094

21. Disclosures Related to the Statements of Budgetary Resources

Apportionment categories of obligations incurred Obligations Years Ended September 30,	2008	2007
Category A, Direct	$ 41,643	$ 38,989
Category B, Direct	52,739	43,473
Reimbursable	5,711	5,959
Exempt from Apportionment	-	29
Total Obligations	$ 100,093	$ 88,450

Borrowing Authority
Loan Guaranty had borrowing authority of $1.3 billion and $0.7 billion as of September 30, 2008 and 2007, respectively. The Vocational Rehabilitation Program had borrowing authority of $4.0 and $2.7 as of September 30, 2008 and 2007, for making direct loans. Loan Guaranty borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to Vinnie MAC trusts. The Vocational Rehabilitation loans generally had duration of one year, and repayment was made from offsetting collections.

Adjustments to Budgetary Resources
During the reporting period, adjustments to budgetary resources available at the beginning of the year included VA appropriations that were subjected to a rescission that totaled $69. Additionally, unobligated balances of prior year recoveries of $3 were rescinded.

Permanent Indefinite Appropriations
VA has four permanent and indefinite appropriations. The Veterans Housing Benefit Program Fund covers all estimated subsidy costs arising from post-1991 loan obligations for veterans housing benefits. The Fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families. The Loan Guarantee Revolving Fund is a liquidating account that contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to financing accounts. The Native American Direct Loan Account was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

Use of Unobligated Balances of Budget Authority
Available unobligated balances on the Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts, which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 2008 use.

Unobligated VA funds are available for uses defined in VA's FY 2008 Appropriation Law (P.L. 110-161) and Supplemental Appropriations Law (P.L. 110-252). These purposes include: veterans medical care, research, education, construction and maintenance of VA buildings, veterans and dependents benefits, veterans life insurance, loan guaranty programs, veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations.

Explanation of Differences Between Statement of Budgetary Resources and the Budget
As a result of analysis of obligations and advances, obligations were reduced by $137 for FY 2008 on the Combined Statement of Budgetary Resources. This adjustment was not reflected in the FACTS II data used to prepare the President's Budget. No other differences were identified as of the preparation date of the financial statements.

Undelivered Orders at the End of Period
The amount of budgetary resources obligated for undelivered orders at the end of 2008 and 2007 was $8,462 and $5,690, respectively.

Contributed Capital
The amount of contributed capital received during FY 2008 consisted of donations in the amount of $55.9 to the General Post Fund and $0.1 to the National Cemetery Gift Fund. For FY 2007 $45.5 was donated to the General Post Fund and $0.1 to the National Cemetery Gift Fund.

22. Dedicated Collections

The table below summarizes the name, type, and purpose of the funds within VA that receive dedicated collections, other than earmarked funds which are separately disclosed in Note 18. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-11. All of the funds generally receive authority to use current year contributions as well as a portion of previously contributed amounts.

Fund Name	Fund Type	Treasury Symbol	Authority	Purpose of Fund	Financing Sources
Escrowed Funds for Shared Medical Equipment Purchases	Deposit	36x6019	106 Stat 1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceuticals & other medical organizations.
Personal Funds of Patients	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public, patients.
Employee Allotments for Savings Bonds	Deposit	36x6050	31 U.S.C. 3105	Temporarily holds funds.	Employees.

The following tables provide condensed information on assets, liabilities, fund balances.

For the year ended September 30, 2008

Fund Symbol	6020	6050	TOTAL
Assets:			
Fund balance with Treasury	$ 39	$ 1	$ 40
Investments with Treasury	-	-	-
Other Assets	-	-	-
Total Assets	$ 39	$ 1	$ 40
Liabilities:			
Payables to Beneficiaries	-	-	-
Other Liabilities	39	1	40
Total Liabilities	39	1	40
Net Position:			
Cumulative Results	-	-	-
Total Liabilities & Net Position	$ 39	$ 1	$ 40

23. Reconciliation of Net Cost of Operations to Budget

The objective of the information shown below is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the VA with its net cost of operations.

DEPARTMENT OF VETERANS AFFAIRS		
RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET (dollars in millions)		
for the Years Ended September 30,	**2008**	**2007**
Resources Used to Finance Activities		
Obligations Incurred	$ 100,093	$ 88,450
Less Spending Authority from Offsetting Collections and Adjustments	(7,861)	(6,539)
Obligations Net of Offsetting Collections and Adjustments	92,232	81,911
Less Offsetting Receipts	(4,243)	(3,610)
Net Obligations	87,989	78,301
Donations of Property	21	20
Transfers-out	(239)	(241)
Imputed Financing	1,375	1,408
Other Financing Sources	(966)	-
Total Resources Used to Finance Activities	**88,180**	**79,488**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(3,597)	(1,078)
Resources that Finance the Acquisition of Assets	(5,093)	(3,736)
Resources that Fund Expenses Recognized in Prior Periods	(1,676)	(633)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	4,553	2,842
Total Resources that Do Not Fund Net Costs of Operations	(5,813)	(2,605)
Total Resources Used to Finance the Net Cost of Operations	**82,367**	**76,883**
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	144	118
Increase in Environmental and Disposal Liability	370	174
Reestimates of Credit Subsidy Expense	(675)	(402)
Increase in Exchange Revenue Receivable from the Public	(366)	(276)
Increase (Decrease) in Veterans Benefits Actuarial Liability	339,233	(26,045)
Depreciation and Amortization	1,024	895
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	424	314
Loss on Disposition of Assets	130	134
Other	(29)	(701)
Total Costs That Do Not Require Resources in the Current Period	**340,255**	**(25,789)**
Net Cost of Operations	**$ 422,622**	**$ 51,094**

24. Reclassifications, Changes in Accounting Policy and Changes in Financial Statement Presentation

Heritage Assets

In FY 2008 the presentation of heritage asset information changed. In accordance with SFFAS No. 29, Heritage Assets and Stewardship Land, the basic information regarding Heritage Assets has been moved from Required Supplementary Information to a Note on the Balance Sheet (see Note 10).

Trust Funds with Collections Precluded from Obligations

The FY 2008 presentation of budgetary resources and status of budgetary resources within the Statement of Budgetary Resources has been prospectively changed to report unobligated balances in the National Service Life Insurance Fund and the United States Government Life Insurance Fund (the Trust Funds) as precluded from obligations. The precluded balance is reported on the line "Temporarily Not Available Pursuant to Public Law". The precluded balance, with authorization from OMB, is available to cover program obligations in current or future years in accordance with the legislation establishing the Trust Funds. In prior periods, the unobligated balances were reported as "Unobligated Balance Available".