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GAO

Report to the Congress

July 1987

FINANCIAL AUDIT

Veterans Administration's Financial Statements for Fiscal Year 1986

133566

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GAO/AFMD-87-38

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-226801

July 29, 1987

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our examination of the Veterans Administration's (VA) consolidated financial statements for the fiscal year ended September 30, 1986. Our report describes restrictions on the scope of our examination, the result of which was to limit our opinion to VA's consolidated statement of financial position as of September 30, 1986. The opinion is qualified for our concerns about the fair presentation of land, buildings, and equipment, and for our concerns that insurance reserves are not calculated in accordance with generally accepted accounting principles for federal agencies.

The report contains separate reports on VA's system of internal accounting controls and on its compliance with laws and regulations. VA's medical care programs have internal accounting control weaknesses affecting patients' billings. VA did not fully comply with provisions of the Prompt Payment Act (31 U.S.C. 3901-3906) and the debt collection provisions of the Veterans' Rehabilitation and Education Amendments of 1980 (38 U.S.C. 3115).

VA was established in July 1930 as an independent agency under the President by Executive Order 5398, in accordance with the act of July 3, 1930 (46 Stat. 1016). VA is responsible for administering federal benefit programs for veterans and their dependents. These programs include compensation payments for disabilities and death related to military service, as well as for pensions, education and rehabilitation, home loan guaranties, burial payments, comprehensive medical care, and life insurance.

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairman and former Chairman, Senate Committee on Veterans' Affairs; the Chairman, House Committee on

Veterans' Affairs; the Secretary of the Treasury; and the Administrator of Veterans Affairs.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

DMS	Department of Medicine and Surgery
GAO	General Accounting Office
VA	Veterans Administration

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To the Administrator of Veterans Affairs,
Veterans Administration

We have examined the consolidated statement of financial position of the Veterans Administration (VA) as of September 30, 1986, and the related consolidated statements of operations and changes in financial position and reconciliation to budget for the fiscal year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following two paragraphs.

For fiscal year 1985, VA did not prepare its financial reports nor maintain its accounting records in accordance with generally accepted accounting principles for federal agencies, which became effective in November 1984. Although VA adopted such principles as of the beginning of fiscal year 1986, it was not practicable to extend our auditing procedures to enable us to express an opinion on the accompanying consolidated statements of operations and changes in financial position and reconciliation to budget or on the consistency of application of accounting principles with the preceding year.

The consolidated statement of financial position includes land, buildings, and equipment, many of which were acquired by or transferred to VA over periods dating back to its establishment in 1930. Because these assets were acquired over periods dating back so many years, documents of original cost are no longer readily obtainable, and we were unable, by means of alternative auditing procedures, to satisfy ourselves as to the aggregate net book value of land, buildings, and equipment.

VA uses statutorily mandated investment yields and mortality rates to calculate its insurance reserves on its life insurance programs (note 5). Assumed investment yields used by VA have ranged from 2.25 percent to 4.50 percent and mortality rates used by VA were developed over periods dating back to 1936. The insurance reserve balance calculated under generally accepted accounting principles for federal agencies differs from that under statutory assumptions, since more current actuarial assumptions are used. Had the insurance reserves been calculated under generally accepted accounting principles for federal agencies, we have estimated that the insurance reserve balance of $11.2 billion would be lower by as much as $4.0 to $5.7 billion.

Note 3 to the consolidated financial statements contains amounts of future liabilities for VA's compensation and pension programs. These future liabilities have been disclosed to show the magnitude of the probable future costs VA will incur for benefits it is committed to pay under its compensation and pension programs. These amounts are estimates based on historical trends and statistics prevailing as of September 30, 1986. To the extent that economic and demographic factors which affect these trends change in the future, these liabilities will increase or decrease accordingly.

In our opinion, except for the effect on the consolidated statement of financial position of such adjustments as might have been necessary had we been able to perform the necessary auditing procedures to satisfy ourselves as to the net book value of land, buildings, and equipment and except for the effect on the insurance reserves that would have resulted had VA used actuarial assumptions based on generally accepted accounting principles for federal agencies, the accompanying consolidated statement of financial position presents fairly the financial position of the Veterans Administration at September 30, 1986, in conformity with generally accepted accounting principles for federal agencies.

Our examination was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules included in note 10 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the examination of the basic consolidated financial statements. In our opinion, except for the effect on the schedule of assets, liabilities, and equity of the matters discussed in the preceding paragraph, the schedules of assets, liabilities, and equity and of budgeted and actual outlays by major program are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. For the reasons discussed in the second paragraph of this report, we do not express an opinion on the schedule of expenses, dividends, revenue, and financing sources by major program or on the schedule of sources and uses of resources and reconciliation to budget by major program.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 1, 1987

Report on Internal Accounting Controls

We have examined the consolidated financial statements of the Veterans Administration (VA) for the fiscal year ended September 30, 1986, and have issued our report thereon dated May 1, 1987. This report pertains only to our study and evaluation of the system of internal accounting controls for the fiscal year ended September 30, 1986.

As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on VA's consolidated financial statements. For purposes of this report, we have classified the significant internal accounting controls in the following categories:

- medical care,
- life insurance,
- compensation and pension,
- housing credit assistance,
- education,
- construction,
- payroll,
- administration and other, and
- financial reporting.

Our study included all of the control categories listed above except for the administration and other and the financial reporting categories. For these activities, we found it more efficient to expand the scope of our substantive audit tests. In addition, we reviewed VA's report issued pursuant to section 2 of the Federal Managers' Financial Integrity Act of 1982 to identify and determine the status of internal control weaknesses relevant to financial matters.

VA's management is responsible for establishing and maintaining a system of internal accounting controls in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over agency assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the second paragraph, would not necessarily disclose all weaknesses in the system. Accordingly, we do not express an opinion on VA's system of internal accounting controls taken as a whole or on the categories of controls identified in the second paragraph. However, our study and evaluation disclosed the following condition which we believe could result in errors or irregularities in amounts material in relation to VA's consolidated financial statements, which may not be promptly detected.

Billings Not Always Rendered for Medical Services

Internal accounting control procedures involving billings for medical services are not being followed at many of VA's medical centers. Thus, VA cannot be assured that all patients receiving medical care for which VA should be reimbursed are properly billed for these services.

VA can obtain reimbursement for some or all medical services provided to certain veterans depending on either their income level or their ability to defray costs. Effective July 1, 1986, 38 U.S.C. 610 established a "means test" for veterans with disabilities that did not result from military service whereby a veteran's ability to defray medical costs is determined based upon his or her income level. Those veterans that meet or exceed these income levels must agree to pay VA an established deductible ("copayment").

VA's Department of Medicine and Surgery policy manual requires that eligibility for treatment be determined and verified. Determination of eligibility is based on information furnished by the veteran on the application form. The information must then be verified. VA cannot delay providing medical care while verifying a veteran's eligibility or financial means. However, in order to ensure that VA will render billings for all reimbursable medical care, it is equally important that patients' eligibility status be determined and verified.

We found that documentation for determining patients' eligibility status was inadequate in many cases. Of the 1,225 cases reviewed at 43 of 172 hospitals, 160 did not have complete documentation for verifying the patients' eligibility status. Of these 160 cases, 31 patients' files did not contain the required VA Form 10-10F, "Financial Worksheet," which is used to gather and analyze financial data for those patients who are unable to defray medical care expenses. The remaining cases lacked the necessary evidence to show that the hospital verified the information included on the patients' application forms.

We also reviewed an additional 191 cases where patients receiving treatment should have been billed. Of these 191 cases, 34, or 18 percent, of the patients were not billed. The 34 cases where no billing was rendered involved patients not eligible for free treatment or patients who were required to pay VA a preestablished deductible (copayment) pursuant to 38 U.S.C. 610.

Patients who should be billed are receiving free treatment. In the past, the amount of potential revenue generated from these patients was minimal. As of September 30, 1986, VA's records showed about $20.2 million of receivables for ineligible hospitalization cases. With the new copayment requirements, however, the number of patients who should be billed for medical services is expected to increase significantly as is the anticipated revenue from such billings.

Conclusions and Recommendation

Stronger internal accounting controls are needed to maximize reimbursements and to ensure that all veterans who have received medical services for which VA should be reimbursed are identified and billed. Given the current constraints on federal budgetary resources, it is also important that VA obtain all reimbursements it is entitled to receive.

We recommend that the Administrator of Veterans Affairs direct the Department of Medicine and Surgery (DMS) to review the medical centers' compliance with VA's procedures for determining the eligibility status of veterans from whom reimbursements should be received. For those medical centers where compliance is not being achieved, DMS should provide the Administrator with a detailed plan of corrective actions.

Except for the above weaknesses and those identified by VA in its report pursuant to section 2 of the Federal Managers' Financial Integrity Act, our study and evaluation disclosed no other conditions which we considered to be material in relation to the consolidated financial statements taken as a whole. We considered the above weaknesses in determining the nature, timing, and extent of our audit tests. We concluded that these weaknesses in internal accounting controls do not affect our opinion on the consolidated financial statements.

Other Opportunities for Improvement

During the course of our examination, we identified a number of weaknesses in internal accounting controls and procedures which we are reporting separately to the Administrator of Veterans Affairs. Although we did not consider these weaknesses to be material to the consolidated financial statements, they nonetheless merit corrective action to strengthen VA's internal accounting controls.

Agency Comments

Although we did not obtain formal comments on this report, we did provide appropriate VA officials with a draft of the report and agreed to incorporate their informal comments. The Director of Administration of DMS commented that "VA Medical Centers are currently using the Decentralized Hospital Computer Program (DHCP) to partially automate this billing process. It is hoped that within the next 2-3 years the billing process will be fully automated. Concurrently, DMS is also doing its utmost to automate its eligibility procedures through use of DHCP computers."

Report on Compliance With Laws and Regulations

We have examined the consolidated financial statements of the Veterans Administration (VA) for the fiscal year ended September 30, 1986, and have issued our report thereon dated May 1, 1987. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, VA, except for the matters discussed below, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected VA's consolidated financial statements.

Violations of the Prompt Payment Act

During fiscal year 1986, VA did not always pay to vendors the interest penalties that the Prompt Payment Act (31 U.S.C. 3901-3906) requires for late payments. However, VA has implemented an automated payment system to improve the timeliness of its payments to vendors.

The Prompt Payment Act provides governmentwide payment standards for determining when federal agencies should pay commercial vendors. Additionally, the act requires agencies, in the absence of contractual agreements stating otherwise, to pay interest penalties on amounts paid after prescribed grace periods.

VA has not complied fully with the requirements of the act. During fiscal year 1986, 17 percent of the agency's payments subject to the act were made after due dates (16 percent within the grace period and 1 percent requiring interest). VA paid approximately $586,000 in interest penalties on payments made after the specified grace period, but postpayment audits revealed that penalties were not paid, as required, in all instances.

VA has reported its Prompt Payment Act violations to the President in accordance with section 2 of the Federal Managers' Financial Integrity Act and to the Office of Management and Budget as required by the Prompt Payment Act (31 U.S.C. 3905).

In 1986, VA implemented an automated payment system which improved the timeliness of vendor payments. This system, the Computer Assisted Payment Processing System, automated the matching of vendor invoices with receiving reports and calculates interest on late payments. All VA facilities were fully converted to the system by August 1986, and VA officials expect that the system will enable the agency to comply more fully with provisions of the Prompt Payment Act.

Violations of the Veterans' Rehabilitation and Education Amendments of 1980

The Veterans' Rehabilitation and Education Amendments of 1980 (Public Law 96-466, now codified at 38 U.S.C. 3115) specifies interest and administrative costs to be charged to VA's delinquent debtors. This law requires that interest on delinquent debt should be accrued based on the Department of the Treasury's rate, which, as of September 30, 1986, was 8 percent. However, during fiscal year 1986, VA did not fully comply with the provisions of the Veterans' Rehabilitation and Education Amendments of 1980 because it did not assess interest and administrative costs on certain debts generated by its compensation and pension program. These debts principally relate to overpayments of compensation and pension benefits for which VA is seeking reimbursement. Section 3102 of title 38 of the United States Code allows VA to waive interest and administrative costs if assessment is deemed to be against equity and good conscience. However, to date, no waivers have been executed. We also noted that VA used an interest rate of 4 percent—below the rate required by the Veterans' Rehabilitation and Education Amendments of 1980—to assess interest on delinquent loan guaranty debts.

Applicability of the Debt Collection Act of 1982 to VA

There is an unresolved issue as to whether VA should also be accruing penalties on its delinquent debt as required by section 11 of the Debt Collection Act of 1982 (Public Law 97-365, now codified at 31 U.S.C. 3717). VA maintains that it is not subject to the penalty provisions of the Debt Collection Act because the Veterans' Rehabilitation and Education Amendments of 1980, which predates the former act by 2 years, fixes interest and charges applicable to debts owed VA but provides no specific authority for assessment of penalties. In our previous report Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved (GAO/AFMD-86-39, May 23, 1986), we stated that because the Debt Collection Act was intended to improve governmentwide collection efforts and because the VA-specific legislation does not address penalties, an argument can be made that VA should assess penalties on its delinquent debt in accordance with the Debt Collection Act. VA submitted a request for a Comptroller General decision regarding this question, and, as of this date, our decision is pending.

Treatment of October 1, 1986, Entitlement Payments

VA terminated processing benefit entitlements under its compensation and benefit programs late in fiscal year 1986. The payments for these entitlements were made as scheduled on October 1, 1986. The use of fiscal year 1987 funds to pay obligations which normally would have been processed and paid out of funds available for use in fiscal year 1986 raised a question, which arose late in our audit, whether the later enacted fiscal year 1987 appropriation was available for those payments. We are examining these issues and will address them separately.

Conclusions and Recommendation

VA has made progress in complying with the Prompt Payment Act, but it should continue to monitor late payments to ensure that all penalties are paid as required.

VA is not fully complying with the provisions of the Veterans' Rehabilitation and Education Amendments of 1980. We recommend that the Administrator of Veterans Affairs conduct a review of VA's delinquent debts and, accordingly, either assess the proper amount of interest and administrative costs, as required by law, or execute waivers if there are appropriate reasons for doing so.

In connection with our examination, except for the matters discussed above, nothing came to our attention that caused us to believe that VA was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The matters explained above were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and they do not affect our opinion on VA's consolidated financial statements dated May 1, 1987.

Agency Comments

Although we did not obtain formal comments on this report, we did provide appropriate VA officials with a draft of the report and agreed to incorporate the agency's comments. The Department of Veterans Benefits Debt Management Staff Director commented that "With limited ADP resources, priority emphasis has been placed on debt collection initiatives such as IRS income tax refund offset. Our ADP modernization plans will address compliance with all provisions of the Veterans' Rehabilitation and Education Amendments of 1980." VA's Director, Office of Program Analysis and Evaluation, commented, "Once the report has been issued formally, we will track progress made toward implementing the GAO recommendations as part of the quarterly program performance review process. We will also continue to monitor VA's efforts to comply with the provisions of the Prompt Payment Act and the Debt Collection Act through the internal control segment of the performance review process."

Consolidated Statement of Financial Position

VETERANS ADMINISTRATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 1986

(Dollars in Thousands)

ASSETS:	
Fund Balance with U. S. Treasury	$ 6,148,403
Impress Funds	9,790
Advances, Accounts, and Loans Receivable, net (note 7)	3,404,365
Investments (note 6)	11,789,489
Foreclosed Property Held for Sale	807,531
Land, Buildings, and Equipment Net of Accumulated Depreciation (note 8)	6,310,049
Other Assets	154,585
Future Financing Sources	2,160,312
TOTAL ASSETS	$ 30,784,524
LIABILITIES AND EQUITY:	
Accounts Payable, Principally to the Public	$ 1,041,710
Accrued Compensation and Pension Benefits	1,259,671
Accrued Payroll and Payroll Related Liabilities	846,912
Dividends on Credit or Deposit (note 5)	630,381
Insurance Dividends Payable (note 5)	929,714
Other Liabilities	382,386
Reserve for Losses on Guaranteed Loans (note 4)	1,735,252
Insurance Reserves (note 5)	11,229,292
Borrowings from Treasury	1,730,078
TOTAL LIABILITIES	19,785,396
EQUITY OF THE U.S. GOVERNMENT:	
Unrealized Appropriations:	
Deferred Appropriations	6,612,935
Unobligated Balances	2,146,143
Undelivered Orders	1,518,269
Trust Fund Balances	669,502
Insurance Fund Balances	52,279
TOTAL EQUITY OF THE U.S. GOVERNMENT	10,999,128
TOTAL LIABILITIES AND EQUITY	$ 30,784,524

The accompanying notes are an integral part of these statements.
Note 10 includes financial information by major program area.

Consolidated Statement of Operations

VETERANS ADMINISTRATION

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1986

(Dollars in Thousands)

OPERATING EXPENSES AND DIVIDENDS:	
Expenses by Category:	
Personnel Compensation and Fringe Benefits	$ 6,582,472
Veterans Benefits	15,695,819
Insurance Claims and Indemnities	1,112,657
Depreciation	337,997
Supplies and Materials	1,537,771
Contractual Services	1,180,408
Rent, Communications, and Utilities	503,446
Other	1,429,705
Total Operating Expenses	28,380,275
Dividends to Insurance Policyholders (note 5)	908,251
	$29,288,526
OPERATING REVENUE AND FINANCING SOURCES:	
Operating Revenues:	
Premium Income	$ 845,559
Interest Income	1,350,391
Loan Origination fees	258,111
Reimbursements and Other	377,142
Total Operating Revenue	2,831,203
Financing by Source:	
Appropriations Realized	26,230,260
Transfers, Reimbursements, and Other	227,063
Total Financing Sources	26,457,323
	$29,288,526

The accompanying notes are an integral part of this statement.
Note 10 includes financial information by major program area.

Consolidated Statement of Changes in Financial Position and Reconciliation to Budget

VETERANS ADMINISTRATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION AND RECONCILIATION TO BUDGET
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1986

(Dollars in Thousands)

NET USE OF RESOURCES:	
Operations:	
Operating Expenses	$ 28,380,275
Items Requiring (Providing) Funds:	
Increase in Insurance and Guaranteed Loan Reserves	(695,096)
Depreciation	(337,997)
Increase in Accounts Receivable	60,621
Increase in Accounts Payable and Accruals	(174,165)
Revenues Accounted for as	
Offsetting Collections	(2,114,310)
Funds Used By Operations	25,119,328
Non-Operating Uses:	
Dividends (note 5)	925,149
Acquisitions of Land, Buildings and Equipment	952,690
Purchase of Foreclosed Property Held for Sale	1,147,210
Issuance and Repurchase of Loans and Liens	1,085,081
Other, Net	34,083
Financing Activities:	
Sale of Foreclosed Property Held for Sale	(1,214,867)
Sale of Loans, with Recourse	(818,368)
Loan and Lien Repayments	(284,809)
Disposals of Equipment and Other	(296,534)
Revenues Collected for Treasury	(113,253)
NET USE OF RESOURCES (BUDGETARY OUTLAYS)	26,535,710
RESOURCES PROVIDED:	
Current Year Appropriation	26,464,426
Less: Reductions Pursuant to P.L. 99-177	
(Gramm-Rudman-Hollings)	(234,053)
Current Year Appropriations, Net	26,230,373
Interest on Government Securities	943,956
Net Transfers, Reimbursements and Other	(95,185)
Funds Returned to Treasury	(58,723)
TOTAL RESOURCES PROVIDED	27,020,421
INCREASE IN U.S. TREASURY AND IMPREST FUNDS	484,711
Funds Exchanged for U.S. Government Securities	(360,611)
NET INCREASE IN U.S. TREASURY AND IMPREST FUNDS	124,100
U.S. TREASURY AND IMPREST FUNDS:	
Beginning of Year	6,034,093
End of Year	$ 6,158,193

The accompanying notes are an integral part of this statement.
Note 10 includes financial information by major program area.

Notes to the Financial Statements

NOTE 1: ACCOUNTING POLICIES

Entity and Basis of Consolidation

In fulfilling its mission to provide veterans with care, support and recognition, the Veterans Administration maintains 15 general funds, 10 revolving funds, 5 trust funds and 10 other funds. The financial activities of these funds have been classified into the following functional areas: medical and construction; compensation, pension, education and other benefits (veterans benefits); housing credit assistance; life insurance; and administration. Some of the trust and revolving fund activities for the insurance and housing credit assistance programs are augmented by budget appropriations.

The consolidated financial statements account for all funds for which the VA is responsible and are presented on the accrual basis of accounting as required by the GAO policy and procedures manual for guidance of Federal agencies (Title 2). All significant intra-agency balances and transactions have been eliminated in consolidation.

Recognition of Financing Sources

Financing sources are provided through Congressional appropriations on both an annual and multi-year basis. They may be used to fund operating expenses as well as capital expenditures such as for land, buildings, equipment and other long term assets as specified by law.

The current budgetary process does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources (outlays) as paid.

For financial reporting purposes under accrual accounting, however, operating expenses are recognized currently while expenditures for capital and other long term assets are capitalized and are not recognized as expenses until they are consumed in the VA's operations. Financing sources for these expenses, which derive both from current and prior year appropriations, are recognized on this same basis.

To the extent current or prior year appropriations are not available to fund certain accrued expenses, such as for annual leave earned but untaken and for losses on guaranteed loans, funding will be obtained from future financing sources. Accordingly, a financing source has been recognized for those expenses that will be paid from future financing sources.

Operating Revenue Recognition

Insurance premiums are recognized as revenue when due. Loan origination fees, which are charged to veterans at a rate of 1 % of the loan principal, are recognized as revenues at the time of the guaranty.

Funds With U.S. Treasury

Funds with U.S. Treasury consist of all unexpended balances on the VA's accounts with the U.S. Treasury. As of September 30, 1986, $1,518,269,000 represents funds available to pay outstanding obligations while the remaining balance is available until expended.

Accrued Compensation and Pension Benefits

Compensation and pension benefits are accrued when veterans have satisfied the VA's eligibility criteria. This accrual only pertains to benefits due and payable in a particular fiscal year. See note 3 for a description of the VA's future liability under its compensation and pension program.

Losses on Guaranteed Loans

Upon foreclosure of a guaranteed loan, the VA may be required to pay the maximum claim, acquire the property, or acquire the property and pay less than the maximum claim pursuant to criteria established in Section 1816 of Title 38, United States Code. Thus, when the VA acquires the property, the cost is comprised of the claimed amount paid the lender less net proceeds from the sale of the property. The VA incurs an additional cost for direct home (vendee) loans, issued upon the sale of foreclosed property, that subsequently default.

Estimated losses on anticipated defaults of guaranteed loans are recorded as expenses and a reserve is established at the time loans are guaranteed. This reserve represents the estimated cost of defaults for those guaranteed loans which will, based on prior default experience, default in the future. A portion of this reserve is subsequently reclassified as a reduction to direct home loans receivable when such loans are issued (see note 7) and as a reduction of foreclosed property held for sale when property is acquired, in order to record such property at its net realizable value.

Insurance Program Liabilities

Insurance program liabilities are recorded for unpaid claims in process, for an experience based estimate of claims incurred but not reported, and for incurred death and permanent disability installment claims. These liabilities are included in accounts payable.

Insurance Cash Surrender Value

All whole life policies build cash surrender values equal to the policy reserve plus any dividends held on account. Policy holders may borrow up to 94% of the cash surrender value or use it to purchase paidup insurance.

Annual, Sick and Other Leave

Annual leave is accrued as earned and is relieved as leave is taken. Sick and other types of leave are expensed as taken.

Dividends Payable

Dividends from the VA's insurance programs are recorded as a liability and are relieved either from operations or from the insurance fund balance when declared by the Administrator of Veterans Affairs. Dividends are normally declared when fund balances are in excess of statutorily required insurance claim reserves. Prior to Fiscal Year 1986 VA recorded dividends as an expense when paid.

NOTE 2: INTRAGOVERNMENTAL FINANCIAL ACTIVITIES

The VA's financial activities interact with and are dependent upon those of the Federal Government as a whole. Thus, VA's financial statements do not reflect the results of all financial decisions and activities applicable to it, as if it were a stand-alone entity.

- The VA's consolidated financial statements are not intended to report the Agency's proportionate share of the Federal deficit or of public borrowings, including interest thereon. Financing for budget appropriations reported on the VA's statement of operations could derive from tax revenues or public borrowings or both; the ultimate source of this financing, whether it be tax revenues or public borrowings, has not been specifically allocated to the VA.

- Financing for major and minor construction projects was obtained through budget appropriations. To the extent this financing was derived from public borrowings, no interest has been capitalized since such borrowings are recorded in total by the Department of the Treasury and are not allocated to individual departments and agencies.

- During Fiscal Year 1986 the majority of the VA's employees participated in the contributory Civil Service Retirement System (CSRS), to which VA made matching contributions Such contributions amounted to $352,630,000 for fiscal year 1986. The VA does not, however, report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees since this data is only reported in total by the Office of Personnel Management.

On January 1, 1987 the new Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior thereto may elect to either join FERS or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which VA will automatically contribute 1 % of pay and then match employee contribution up to an additional 4 % of their basic pay.

- Most legal actions that affect the VA and involve an amount in excess of $2,500 fall under the Federal Tort Claims Act and are paid from Treasury's Claims, Judgments and Relief Acts Fund. Thus, most contingent liabilities arising from legal actions originating at the VA will not affect its operations or financial condition.

- VA's Housing Credit Assistance program has a liability to the U.S. Treasury of $1.7 billion. These funds were originally provided to support the direct loan fund, but were subsequently transferred to the loan guaranty fund and have since been fully used. The liability bears no interest and VA's ability to pay it is contingent upon receiving other financing.

NOTE 3: FUTURE LIABILITY FOR COMPENSATION AND PENSIONS

Veterans or their dependents receive compensation benefits if the veteran was disabled or died from military service connected causes. War veterans or their dependents receive pension benefits if the veteran was disabled or died from non-service connected causes or is age 65 or older. Certain pension benefits are subject to specific income limitations. For Fiscal Year 1986, compensation and pension benefits were $10,427,024,000 and $3,850,179,000, respectively.

The VA has a future liability for benefits expected to be paid in future fiscal years to veterans and, if applicable, their survivors who have met or are expected to meet defined eligibility criteria. The future liability of the compensation and pension programs is not currently funded, nor is there any intent to do so. Rather, payments for benefits that become due in a particular fiscal year are financed from that year's appropriation; in effect on a pay as you go basis. Payments of the future liability as it becomes due rely on Congressional authorization of future tax revenues or other methods, such as public borrowings, for their financing.

The future liability for compensation and pension benefits represents the present value, using a 9.2 % discount rate, of projected annual benefit payments. Projected benefit payments were based on assumed cost of living increases ranging from 1.3 % to 3.6 % for 1987 - 1991 and 5.0 % to 5.7 % thereafter. In addition, the mortality and accession rates used were based on trends in the current veteran population.

This calculation was not based on an independent actuarial study and thus there is a risk that the assumptions and methods underlying it may not be reflective of actual economic and demographic trends affecting veterans.

The present value of the estimated future liability for compensation and pension benefits payable for the next five fiscal years and thereafter is as follows (dollars in thousands):

1987	$ 13,117,307
1988	12,154,107
1989	11,326,699
1990	10,560,100
1991	9,817,609
Thereafter	95,356,660
TOTAL	$152,332,482

No liability for compensation and pension benefits has been included in the accompanying consolidated statement of financial position.

NOTE 4: HOUSING CREDIT ASSISTANCE PROGRAM - COST OF GUARANTEED LOAN DEFAULTS

Most of the VA's housing credit assistance program involves the partial guaranty of loans, primarily home mortgages, issued to eligible veterans by private lenders. The total amount of such loans at September 30, 1986 was $143 billion of which VA had guaranteed $63 billion. This guaranty in effect transfers some or all risk of default from the lender to the VA. The guaranty also provides other benefits to the veteran by inducing lenders to provide interest rates which are usually lower than conventional mortgage rates and by not requiring a down payment. Thus a subsidy is provided to veterans inasmuch as they are receiving terms that are more favorable than would exist without Federal Government involvement.

One element of this subsidy is the present value of the cost the VA will bear as loans already guaranteed default in the future. A reserve for estimated losses from such defaults has been included in the consolidated statement of financial position. The calculation of the present value of the cost of defaults is based on historical default data developed by the VA and assumes that guaranteed loans will default over a nine year period, as follows (dollars in thousands):

1987	$ 605,243
1988	487,274
1989	326,138
1990	254,884
1991	138,261
1992 - 1995	113,959
	$1,925,759

The projected cost of guaranteed loan defaults will not necessarily reflect the VA's future appropriation requests over the next nine years, since those requests will also include anticipated inflows and outflows of resources for non-operating uses such as for transfers, purchases and sales of property, and issuances and repayments of loans.

Of the total reserve of $1,925,759,000 recorded at September 30, 1986, $107,056,000 is offset against loans receivable (note 7) and $83,451,000 is offset against foreclosed property held for sale; the remainder is recorded as a reserve for losses on guaranteed loans on the consolidated statement of financial position.

To the extent revolving fund revenues are not sufficient to fund this future cost, then financing will have to be obtained from future appropriations or other Congressionally approved sources.

During Fiscal Year 1986 VA sold certain of its direct home mortgage loans to the public under agreements with recourse provisions for $818,368,000. Under these agreements, loans sold that subsequently default are repurchased by the VA. Any losses from defaults of repurchased loans are borne by the VA. Estimated losses from future defaults of loans sold with recourse are a component of the reserve for losses on guaranteed loans.

Commencing in Fiscal Year 1987, the VA will sell certain of its direct home mortgages to the public without recourse. Anticipated losses from defaults of these loans will be reflected in the reduced proceeds the VA will receive since, once they are sold, the VA is no longer liable for any such losses. Preparations for the sale of loans without recourse provisions, which will include some of the direct loans on hand as of September 30, 1986, have just recently begun and at present the VA is not able to determine the magnitude of the discount.

NOTE 5: LIFE INSURANCE PROGRAMS

The Veterans Administration administers the following six life insurance programs: National Service Life Insurance (NSLI); United States Government Life Insurance (USGLI); Veterans Special Life Insurance (VSLI); Service Disabled Veterans Insurance (SDVI); Veterans Reopened Insurance (VRI); and insurance policies funded through the Veterans Insurance and Indemnities (VII) account. SDVI is the only program still authorized to issue new insurance policies.

Data on insurance in force for each of these programs is as follows:

	Insurance in Force		
Program	Number of Policies	Amount (millions)	Principal Veterans Group Covered
NSLI	3,007,746	$21,679	WW II
USGLI	58,144	223	WW I
VSLI	357,148	3,162	KOREA/VIETNAM
SDVI	183,953	1,668	KOREA/VIETNAM
VRI	132,862	908	WW II/KOREA
VII	2,946	16	MISC.
Total	3,742,799	$27,656	

Insurance Reserves

Insurance reserves consist of the actuarial computation of the present value of amounts that will be necessary to pay benefits in the future as policyholders or their beneficiaries make benefit claims. The two most important factors used by the actuaries to compute these reserves are assumed investment yields and mortality rates. The assumed investment yields and mortality rates used by the VA are prescribed by Federal Statutes.

The statutory Insurance Reserve Balance as of September 30, 1986 consists of reserves for:

	Death Benefits	Death Benefit Annuities	Disability Income and Waiver of Premium	Other	Total
			(dollars in thousands)		
NSLI	$ 7,832,313	$ 498,662	$ 929,186	$ 129,719	$ 9,389,880
USGLI	181,837	35,728	2,798	1,371	221,734
VSLI	792,724	3,420	121,572	10,600	928,316
SDVI	248,075	2,341			250,416
VRI	407,153	1,219	29,363		437,735
VII	1,211				1,211
TOTAL	$ 9,463,313	$ 541,370	$1,082,919	$ 141,690	$11,229,292

These statutorily computed reserve balances differ from those that would have been computed under generally accepted accounting principles for federal agencies since more current investment yield and mortality experience assumptions would have been used. These more current assumptions are principally based on the following differences from VA's statutory assumptions:

- VA's statutes mandate interest yields ranging from 2.25% to 4.50%. Actual investment yields have ranged from 7.08% to 9.94% over the past 5 years.
- Statutory mortality rate assumptions include the American Experience Table and others dating back to 1936. More recent insurance mortality studies show longer life expectancies.

The statutory accounting principles used by the VA are the same as those used by many mutual life insurance companies in the United States.

Policy Dividends

The VA Administrator annually determines the excess funds available for dividend payment. Dividends to be paid are based on an actuarial analysis of the appropriate programs as of the end of the preceding calendar year. In addition to regular annual dividends, the VA declared termination dividends of approximately $800,000 for VRI. These termination dividends represent a return of excess funds in insurance reserves. Dividends are declared on a calendar year basis and are paid on policy anniversary dates. Policyholders may receive them in cash, use them to pay premiums in advance, repay loans, purchase paid up insurance, or place them in an interest-bearing account. Dividends held to pay premiums in advance and those placed in interest-bearing accounts are recorded as dividends on credit or deposit on the consolidated statement of financial position. Dividends paid during Fiscal Year 1986 and accrued as of September 30, 1986 are as follows:

	NSLI	USGLI	VSLI	VRI	TOTAL
			(dollars in thousands)		
Paid	$ 764,086	$ 14,667	$ 69,018	$ 35,164	$882,935
Declared and Accrued	802,800	13,466	76,223	32,660	925,149

Of the $925,149,000 dividends declared and accrued for fiscal year 1986, $908,251,000 were provided from operations, while the remaining $16,898,000 were provided from the trust fund balance.

VA Supervised Insurance Programs

VA also supervises the administration of the Servicemen's Group Life Insurance Program (SGLI). While this program is supervised by VA, it is administered by the Prudential Insurance Company which provides group life insurance coverage and pays all claims and expenses associated with the program. This coverage is provided to members of the Military Services, to cadets attending service academies, and to active members of the Armed Forces Reserves, National Guard and ROTC performing certain activities.

VA's responsibilities are to act as the transfer agent for premiums paid by payroll deductions and for extra hazard costs paid by the service organizations involved. VA also determines the adequacy of SGLI's insurance reserves, and, if excess reserves exist, VA can both lower premium rates and withdraw excess funds. To date, VA has withdrawn approximately $93 million from these reserves. These funds, together with investment interest earned thereon, are held in a trust which, as of September 30, 1986, had a balance of $133.2 million. They remain available to augment Prudential's primary policy reserves. SGLI's insurance in force at September 30, 1986 was $172 billion on 3,457,300 policies. In addition to SGLI, VA supervises a similar program, the Veterans Group Life Insurance Program, which insures 240,400 veterans and had insurance in force of approximately $8.2 billion at September 30, 1986.

NOTE 6: INVESTMENTS

Insurance program investments, which comprise most of VA's investments, are in non-marketable U.S. Treasury special bonds and certificates and, to a lesser degree, in GNMA participation certificates. Interest rates for Treasury Special securities are based on average market yields for similar Treasury issues. The special bonds, which mature during various years through 2001, are generally held to maturity unless needed to finance insurance claims and dividends. The certificates are short term in nature and are either redeemed or replaced at maturity depending upon the cash needs of the insurance program. At September 30, 1986 investment securities consist of:

Security	Interest Range	Insurance Programs	Other Programs	Total
		(dollars in thousands)		
Special Bonds	5.875-13.75%	$11,285,674		$11,285,674
Certificates	7.125-11%	214,344		214,344
GNMA Certificates	6.2-6.45%	135,000		135,000
Bonds	7.875-8.5%		$ 2,251	2,251
Notes	7-14.625%		17,420	17,420
Other	Various		134,800	134,800
		$11,635,018	$154,471	$11,789,489

All Investments are in securities issued by the U.S. Department of Treasury except for GNMA, which were issued by the Government National Mortgage Association, a subdivision of the U.S. Department of Housing and Urban Development.

NOTE 7: RECEIVABLES

	ACCOUNTS	ADVANCES	LOANS	TOTAL
		(dollars in thousands)		
Current:				
Individuals/Corporations	$1,990,668	$ 56,550	$ 536,287	$2,583,505
Federal government	330,088	132,837		462,925
	2,320,756	189,387	536,287	3,046,430
Non-Current:				
Individuals/Corporations	42,364		1,968,101	2,010,465
Federal government	445			445
	42,809		1,968,101	2,010,910
Total Receivables	2,363,565	189,387	2,504,388	5,057,340
Allowance for doubtful accounts and loans	(1,545,919)		(107,056)	(1,652,975)
Net Receivables	$ 817,646	$ 189,387	$2,397,332	$3,404,365

Non-Federal accounts receivable principally represent amounts due from individuals for Education Loan defaults, Home Loan Guaranty and Direct Loan defaults, and Compensation and Pension overpayments. Federal accounts receivable are mostly accrued interest payments due from the U.S. Treasury Department on VA investments. Non-Federal advance payments are principally advances to VA construction contractors, grant recipients, beneficiaries and VA employees engaged in official travel. Federal advance payments are mostly to the General Services Administration for the procurement of supplies and equipment. Current loans receivable are wholly amounts due under VA's Housing Credit Assistance Program. Non-Current loans receivable represent amounts due from loans and liens against VA-issued life insurance policies and also amounts owed VA's Housing Credit Assistance Program beyond the next twelve months.

NOTE 8: PROPERTY AND EQUIPMENT

The majority of the reported property represents facilities and equipment used to provide medical care to veterans. Property and equipment, including transfers from other Federal agencies, are valued at cost. Expenditures for major additions, replacements and alterations are capitalized. Routine maintenance is recognized as an expense when incurred. Costs of construction are capitalized as Construction in Progress until completed and then transferred to the appropriate property account.

Buildings are depreciated using the straight line method over estimated useful lives ranging from 25 to 40 years, based upon the American Hospital Association's estimate of useful lives of hospital assets. Equipment is depreciated using the straight line method over useful lives, which, for most equipment, range from 5 to 20 years.

Property and equipment consisted of the following as of September 30, 1986:

	Cost	Accumulated Depreciation	Net Book Value
	(dollars in thousands)		
Land	$ 81,416	$	$ 81,416
Buildings	4,873,656	1,638,255	3,235,401
Equipment	2,543,943	1,433,636	1,110,307
Other	663,542	263,617	399,925
Construction in Progress	1,483,000		1,483,000
TOTAL	$9,645,557	$3,335,508	$6,310,049

Prior to 1986, VA did not record depreciation for property and equipment, except for equipment in its Supply Fund. During 1986, in addition to recording 1986 depreciation, VA also recorded accumulated depreciation of $2,982,024,000 relating to fiscal years prior to 1986. This amount has been treated as a prior period adjustment and the deferred appropriations account has been adjusted accordingly. Current year depreciation amounted to $337,997,000.

VA leases facilities, primarily office space and medical facilities, from GSA. These leases are cancelable without penalty. In addition, VA has operating leases with the public for office, data processing and other equipment. Fiscal Year 1986 rent expense for these leases amounted to approximately $77,628,000 from GSA and $27,577,000 from the public.

NOTE 9: COMMITMENTS AND CONTINGENCIES

VA is committed under obligations it has incurred as of September 30, 1986 for goods and services which have been ordered but not yet received (undelivered orders). Aggregate undelivered orders amounted to $1,518,269,000 at September 30, 1986. Of this amount, $755,962,000 relates to construction projects of both long and short term duration. The remainder is principally comprised of obligations for medical supplies and equipment which were incurred by VA in the normal course of fulfilling its mission.

VA is a party in various administrative proceedings, legal actions and claims brought by or against it. These primarily relate to allegations of medical malpractice but also include other tort claims and contract disputes. Under the Federal Tort Claims Act, any award, compromise or settlement in excess of $2,500 is paid from the Claims, Judgments and Relief Acts fund maintained by the Department of the Treasury, while those of $2,500 or less are paid by VA. Payments during Fiscal Year 1986 for awards, compromises and settlements resulting from such legal actions amounted to $33,410,000 from Treasury's Claims, Judgments and Relief Acts Fund and $256,806 from VA.

In the opinon of VA's management and general counsel, the ultimate resolution of legal actions still pending will not materially affect VA's operations or financial position.

NOTE 10: SUPPLEMENTAL INFORMATION

The following schedules provide further detail, by major program area, of assets, liabilities and U.S. government equity, of revenue, financing sources and expenses, of sources and uses of funds by major program area and of budgeted and actual outlays.

- The medical program area includes financial data for the medical care program, including the VA's 172 medical centers, medical research and administration, and construction. The construction program was included since most of its activities relate to medical facilities.

- The veterans' benefits area includes the compensation, pensions and education programs, as well as the burial and miscellaneous assistance and veterans' job training programs.

- Housing credit assistance includes both VA's loan guaranty and direct loan programs.

- The administration area includes costs of managing the Agency as a whole and the National Cemetery System. Also included are costs of managing the Supply Fund and automated data processing systems.

Personnel compensation and fringe benefits for employees involved in veterans benefits, housing credit assistance and life insurance have not been allocated to these major program areas and are included in the administration area.

NOTE 10: (CONTINUED)

VETERANS ADMINISTRATION

SCHEDULE OF ASSETS, LIABILITIES AND EQUITY BY MAJOR PROGRAM
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1986

(Dollars in Thousands)

	Medical and Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration and Other	Consolidated
ASSETS:						
Fund Balance with U. S. Treasury	$ 3,532,060	$ 1,917,842	$ 368,897	$ 24,817	$ 304,787	$ 6,148,403
Imprest Funds	9,790					9,790
Advances, Accounts, and Loans Receivable	215,204	414,697	1,208,749	1,495,768	69,947	3,404,365
Investments	19,671		134,800	11,635,018		11,789,489
Foreclosed Property Held for Sale			807,531			807,531
Land, Buildings, and Equipment Net of Accumulated Depreciation	6,307,381				2,668	6,310,049
Other Assets	34,544				120,041	154,585
Future Financing Sources	492,726		1,626,322		41,264	2,150,312
TOTAL ASSETS	$10,611,376	$ 2,332,539	$4,146,299	$13,155,603	$ 538,707	$30,784,524
LIABILITIES AND EQUITY:						
Accounts Payable, Principally to the Public	$ 612,829	$ 5	$ 109,373	$ 178,358	$ 141,445	$ 1,041,710
Accrued Compensation and Pension Benefits		1,259,671				1,259,671
Accrued Payroll and Payroll Related Liabilities	776,662				70,250	846,912
Dividends on Credit or Deposit				630,381		630,381
Insurance Dividends Payable				929,714		929,714
Other Liabilities	8,309	6,552	159,767	135,879	71,879	382,386
Reserve for Losses on Guaranteed Loans			1,735,252			1,735,252
Insurance Reserves				11,229,292		11,229,292
Borrowings from Treasury			1,730,078			1,730,078
TOTAL LIABILITIES	1,397,800	1,266,228	3,734,470	13,103,324	283,574	19,785,396
EQUITY OF THE U. S. GOVERNMENT:						
Unrealized Appropriations:						
Deferred Appropriations	6,337,930	107,222			167,783	6,612,935
Unobligated Balances	1,419,041	307,437	411,826		7,839	2,146,143
Undelivered Orders	1,435,594	3,161	3		79,511	1,518,269
Trust Fund Balances	21,011	648,491				669,502
Insurance Fund Balances				52,279		52,279
TOTAL EQUITY OF THE U. S. GOVERNMENT	9,213,576	1,066,311	411,829	52,279	255,133	10,999,128
TOTAL LIABILITIES AND EQUITY	$10,611,376	$ 2,332,539	$4,146,299	$13,155,603	$ 538,707	$30,784,524

NOTE 10: (CONTINUED)

VETERANS ADMINISTRATION

SCHEDULE OF SOURCES AND USES OF
RESOURCES AND RECONCILIATION TO BUDGET BY MAJOR PROGRAM
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1986
(Dollars in Thousands)

	Medical and Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration and Other	Consolidated
NET USE OF RESOURCES:						
Operations:						
Operating Expenses	$ 9,708,174	$ 15,695,819	$ 1,094,250	$ 1,112,657	$ 769,375	$ 28,380,275
Items Requiring (Providing) Funds:						
Increase in Insurance and Guaranteed Loan Reserves			(513,875)	(181,221)		(695,096)
Depreciation	(337,997)					(337,997)
Increase (Decrease)in Accounts Receivable	75,482	(35,799)	(5,433)	3,825	22,546	60,621
Decrease (Increase) in Accounts Payable and Accruals	(111,938)	1,592	(8,055)	(61,040)	5,276	(174,165)
Revenues Accounted for as Offsetting Collections	(259,716)	(298,682)	(441,846)	(1,067,561)	(46,505)	(2,114,310)
Funds Used (Provided) by Operations	9,074,005	15,362,930	125,041	(193,340)	750,692	25,119,328
Non-Operating Uses:						
Dividends				925,149		925,149
Acquisitions of Land, Buildings and Equipment	952,690					952,690
Purchase of Foreclosed Property Held for Sale			1,147,210			1,147,210
Issuance and Repurchase of Loans and Liens			969,590	115,491		1,085,081
Other, Net	4,065	3,531	26,487			34,083
Financing Activities:						
Sale of Foreclosed Property Held for Sale			(1,214,867)			(1,214,867)
Sale of Loans, with Recourse			(818,368)			(818,368)
Loan and Lien Repayments			(100,993)	(183,816)		(284,809)
Disposals of Equipment and Other	(145,328)	(96,812)		(54,394)		(296,534)
Revenues Collected for Treasury	(460)	(112,793)				(113,253)
NET USE OF RESOURCES (BUDGETARY OUTLAYS)	9,884,972	15,156,856	134,100	609,090	750,692	26,535,710
RESOURCES PROVIDED:						
Intra-agency Transfers	(43,984)	35,000			8,984	0
Current Year Appropriation	10,165,045	15,349,800	200,000	9,750	739,831	26,464,426
Less: Reductions Pursuant to P.L.99-177 (Gramm-Rudman-Hollings)	(156,659)	(45,232)		(5)	(32,157)	(234,053)
Current Year Appropriations, Net	9,964,402	15,339,568	200,000	9,745	716,658	26,230,373
Interest on Government Securities				943,956		943,956
Net Transfers, Reimbursements and Other	4,507	(107,628)	(2,120)	3,485	6,571	(95,185)
Funds Returned to Treasury	(53,151)	(785)			(4,787)	(58,723)
TOTAL RESOURCES PROVIDED	9,915,758	15,231,155	197,880	957,186	718,442	27,020,421
INCREASE (DECREASE) IN U.S. TREASURY AND IMPREST FUNDS	30,786	74,299	63,780	348,096	(32,250)	484,711
Funds Exchanged for U.S. Government Securities	(2,394)			(358,217)		(360,611)
NET INCREASE (DECREASE) IN U.S. TREASURY AND IMPREST FUNDS	28,392	74,299	63,780	(10,121)	(32,250)	124,100
U.S. TREASURY AND IMPREST FUNDS:						
Beginning of Year	3,513,458	1,843,543	305,117	34,938	337,037	6,034,093
End of Year	$ 3,541,850	$ 1,917,842	$ 368,897	$ 24,817	$ 304,787	$ 6,158,193

NOTE 10: (CONTINUED)

VETERANS ADMINISTRATION

SCHEDULE OF EXPENSES, DIVIDENDS, REVENUE, AND FINANCING SOURCES BY MAJOR PROGRAM FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1986

(Dollars in Thousands)

	Medical and Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration and Other	Consolidated
OPERATING EXPENSES AND DIVIDENDS:						
Expenses By Category:						
Personnel Compensation and Fringe Benefits	$ 6,039,907				$ 542,565	$ 6,582,472
Veterans' Benefits		$ 15,695,819				15,695,819
Insurance Claims & Indemnities				$1,112,657		1,112,657
Depreciation	337,997					337,997
Supplies & Materials	1,525,631				12,140	1,537,771
Contractual Services	1,133,073				47,335	1,180,408
Rent, Communications and Utilities	374,624				128,822	503,446
Other	296,942		$1,094,250		38,513	1,429,705
Total Operating Expenses	9,708,174	15,695,819	1,094,250	1,112,657	769,375	29,380,275
Dividends to Policy Holders				908,251		908,251
	$ 9,708,174	$ 15,695,819	$1,094,250	$2,020,908	$ 769,375	$29,288,526
OPERATING REVENUE AND FINANCING SOURCES:						
Operating Revenues:						
Premium Income				845,559		845,559
Interest Income			184,433	1,165,958		1,350,391
Loan Origination Fees			258,111			258,111
Reimbursements and Other	259,716	71,619	(698)		46,505	377,142
Total Operating Revenue	259,716	71,619	441,846	2,011,517	46,505	2,831,203
Financing by Source:						
Appropriations Realized	9,448,458	15,397,137	652,404	9,391	722,870	26,230,260
Transfers, Reimbursements and Other		227,063				227,063
Total Budgetary Financing	9,448,458	15,624,200	652,404	9,391	722,870	26,457,323
	$ 9,708,174	$ 15,695,819	$1,094,250	$2,020,908	$ 769,375	$29,288,526

NOTE 10: (CONTINUED) VETERANS ADMINISTRATION

BUDGETED AND ACTUAL OUTLAYS BY FUNCTION AND PROGRAM
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1986

	Budgeted Outlays		
	President's Budget	Enacted * Bill	Actual Outlays
	(Dollars in Thousands)		
HOSPITAL AND MEDICAL CARE:			
Medical Care	$ 9,051,700	$ 9,067,560	$ 9,095,306
Medical and Prosthetic Research	187,080	181,491	181,246
Medical Administration	57,379	55,631	54,780
Construction	737,800	555,081	522,386
All Other	(27,192)	19,450	31,254
Total Hospital and Medical Care	10,006,767	9,879,213	9,884,972
BENEFITS:			
Income Security for Veterans:			
Compensation	10,194,000	10,453,000	10,416,201
Pensions	3,833,000	3,835,000	3,874,368
Burial and Other Benefits	136,800	128,007	121,909
Proposed Legislation	285,700		
Reinstated Entitlement for Survivors		14,970	9,856
Subtotal Income Security	14,449,500	14,430,977	14,422,334
Education, Training and Rehabilitation:			
Readjustment Benefits (G.I. Bill)	1,034,500	910,422	918,056
Post-Vietnam Era Education	40,000	(210,600)	(98,624)
Veterans Job Training	35,000	49,200	34,192
All Other	(7,570)	(158,215)	(119,102)
Subtotal Education, Training and Rehabilitation	1,101,930	590,807	734,522
Total Benefits	15,551,430	15,021,784	15,156,856
HOUSING CREDIT ASSISTANCE:			
Loan Guaranty	383,500	285,450	162,769
Proposed Legislation	(604,600)		
Direct Loans	(45,600)	(44,740)	(28,669)
Total Housing Credit Assistance	(266,700)	240,710	134,100
INSURANCE PROGRAMS	685,961	678,633	609,090
ADMINISTRATION	751,456	718,025	750,692
TOTAL	$26,728,914	$26,538,365	$26,535,710

*After reduction pursuant to P.L. 99-177 (Gramm-Rudman-Hollings). Where actual outlays exceeded outlays budgeted in the enacted bill, funds were obtained from available unobligated balances. This does not constitute a violation of the Anti-Deficiency Act (31 U.S.C. 1341).

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