Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (DOLLARS IN MILLIONS)
AS OF SEPTEMBER 30,

		2003		2002
ASSETS				
INTRAGOVERNMENTAL				
Fund Balance with Treasury (Note 3)	$	17,795	$	15,076
Investments (Note 5)		13,941		14,135
Accounts Receivable, Net (Note 6)		196		114
Other Assets		96		95
TOTAL INTRAGOVERNMENTAL ASSETS		**32,028**		**29,420**
PUBLIC				
Investments (Note 5)		201		214
Accounts Receivable, Net (Note 6)		859		1,199
Loans Receivable, Net (Note 7)		4,655		4,541
Cash (Note 4)		41		40
Inventories (Note 8)		73		82
General Property, Plant and Equipment (Note 9)		10,949		11,028
Other Assets		29		28
TOTAL PUBLIC ASSETS		**16,807**		**17,132**
TOTAL ASSETS	**$**	**48,835**	**$**	**46,552**
LIABILITIES				
INTRAGOVERNMENTAL				
Accounts Payable	$	61	$	74
Debt		2,854		3,026
Other Liabilities (Note 13)		3,506		2,016
TOTAL INTRAGOVERNMENTAL LIABILITIES		**6,421**		**5,116**
PUBLIC				
Accounts Payable		2,907		2,564
Liabilities for Loan Guarantees (Note 7)		4,756		5,662
Federal Employee and Veterans Benefits Liability (Note 11)		956,688		850,963
Environmental and Disposal Liabilities (Note 12)		375		271
Insurance Liabilities (Note 15)		12,640		12,870
Other Liabilities (Note 13)		6,309		6,090
TOTAL PUBLIC LIABILITIES		**983,675**		**878,420**
TOTAL LIABILITIES		**990,096**		**883,536**
NET POSITION				
Unexpended Appropriations		4,233		3,366
Cumulative Results of Operations		(945,494)		(840,350)
TOTAL NET POSITION		**(941,261)**		**(836,984)**
TOTAL LIABILITIES AND NET POSITION	**$**	**48,835**	**$**	**46,552**

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

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DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF NET COST (DOLLARS IN MILLIONS)
YEAR ENDED SEPTEMBER 30,

		2003		2002
NET PROGRAM COSTS (NOTE 18)				
Medical Care	$	23,576	$	21,963
Medical Education		1,036		1,019
Medical Research		826		807
Compensation		25,546		22,893
Pension		3,491		3,225
Education		1,740		1,317
Vocational Rehabilitation and Employment		649		504
Loan Guaranty		(988)		160
Insurance		91		66
Burial		325		402
NET PROGRAM COSTS BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITIES		**56,292**		**52,356**
Compensation		105,800		156,700
Burial		(200)		600
SUBTOTAL		105,600		157,300
NET NON-PROGRAM COSTS		582		659
NET COST OF OPERATIONS (NOTE 18)	**$**	**162,474**	**$**	**210,315**

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

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2003
(DOLLARS IN MILLIONS)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (840,350)	$ 3,366
Cumulative Effect of Changes in Accounting Principles (Note 22)	-	-
Subtotal	(840,350)	3,366
Budgetary Financing Sources		
Appropriations Received	-	59,060
Other Adjustments	(1,113)	1,092
Appropriations Used	59,285	(59,285)
Nonexchange Revenue	1	-
Donations	27	-
Other Financing Sources		
Donations of Property	15	-
Transfers-out	(1,925)	-
Imputed Financing	1,082	-
Other	(42)	-
Total Financing Sources	**57,330**	**867**
Net Cost of Operations	(162,474)	-
Ending Balances	**$ (945,494)**	**$ 4,233**

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2002
(DOLLARS IN MILLIONS)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (683,050)	$ 4,115
Cumulative Effect of Changes in Accounting Principles (Note 22)	(618)	-
Subtotal	(683,668)	4,115
Budgetary Financing Sources		
Appropriations Received	-	52,931
Other Adjustments	-	(113)
Appropriations Used	53,567	(53,567)
Nonexchange Revenue	2	-
Donations	33	-
Other Financing Sources		
Donations of Property	15	-
Transfers-out	(909)	-
Imputed Financing	925	-
Other	-	-
Total Financing Sources	**53,633**	**(749)**
Net Cost of Operations	(210,315)	-
Ending Balances	**$ (840,350)**	**$ 3,366**

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

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19) (DOLLARS IN MILLIONS)
YEAR ENDED SEPTEMBER 30, 2003

		Budgetary		Credit Financing
Budgetary Resources				
Budget Authority	$	61,723	$	1,334
Unobligated Balance at the Beginning of the Period		15,579		5,316
Net Transfers-Prior Year Balance		(105)		-
Spending Authority from Offsetting Collections		4,906		4,666
Adjustments		(206)		(1,506)
Total Budgetary Resources	**$**	**81,897**	**$**	**9,810**
Status of Budgetary Resources				
Obligations Incurred	$	65,689	$	3,660
Unobligated Balance Available		13,708		218
Unobligated Balance Not Yet Available		2,500		5,932
Total Status of Budgetary Resources	**$**	**81,897**	**$**	**9,810**
Outlays				
Obligations Incurred	$	65,689	$	3,660
Less Spending Authority from Offsetting Collections and Adjustments		(4,906)		(4,666)
Obligated Balance, Net Beginning of Period		7,819		103
Less Obligated Balance, Net End of Period		(8,945)		(76)
Outlays		59,657		(979)
Less Offsetting Receipts		(2,174)		-
Net Outlays	**$**	**57,483**	**$**	**(979)**

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19) (DOLLARS IN MILLIONS)
YEAR ENDED SEPTEMBER 30, 2002

		Budgetary		Credit Financing
Budgetary Resources				
Budget Authority	$	55,254	$	3,750
Unobligated Balance at the Beginning of the Period		15,481		4,678
Net Transfers-Prior Year Balance		(66)		-
Spending Authority from Offsetting Collections		4,130		5,641
Adjustments		(349)		(2,642)
Total Budgetary Resources	**$**	**74,450**	**$**	**11,427**
Status of Budgetary Resources				
Obligations Incurred	$	58,871	$	6,111
Unobligated Balance Available		13,119		-
Unobligated Balance Not Yet Available		2,460		5,316
Total Status of Budgetary Resources	**$**	**74,450**	**$**	**11,427**
Outlays				
Obligations Incurred	$	58,871	$	6,111
Less Spending Authority from Offsetting Collections and Adjustments		(4,130)		(5,641)
Obligated Balance, Net Beginning of Period		7,354		114
Less Obligated Balance, Net End of Period		(7,819)		(103)
Outlays		54,276		481
Less Offsetting Receipts		(2,226)		-
Net Outlays	**$**	**52,050**	**$**	**481**

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

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF FINANCING (NOTE 20)
YEAR ENDED SEPTEMBER 30,
(DOLLARS IN MILLIONS)

	2003	2002
Resources Used to Finance Activities		
Obligations Incurred	$ 69,349	$ 64,982
Less Spending Authority from Offsetting Collections and Adjustments	(9,572)	(9,771)
Obligations Net of Offsetting Collections and Adjustments	59,777	55,211
Less Offsetting Receipts	(2,174)	(2,226)
Net Obligations	57,603	52,985
Donations of Property	15	15
Transfers-out	(1,925)	(847)
Imputed Financing	1,082	925
Other Financing Sources	(42)	(11)
Total Resources Used to Finance Activities	**56,733**	**53,067**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(357)	(38)
Resources that Finance the Acquisition of Assets	(4,428)	(7,078)
Resources that Fund Expenses Recognized in Prior Periods	(1,105)	(873)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	4,812	5,829
Other	2	2
Total Resources That Do Not Fund Net Costs of Operations	(1,076)	(2,158)
Total Resources Used to Finance the Net Cost of Operations	**55,657**	**50,909**
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	55	48
Increase in Environmental and Disposal Liability	104	12
Reestimates of Credit Subsidy Expense	(565)	793
Increase in Exchange Revenue Receivable from the Public	157	8
Increase in Veterans Benefits Actuarial Liability	105,600	157,300
Depreciation and Amortization	1,345	809
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	194	89
Loss on Disposition of Assets	109	89
Other	(182)	258
Total Costs That Do Not Require Resources in the Current Period	**106,817**	**159,406**
Net Cost of Operations	**$ 162,474**	**$ 210,315**

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

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2003 and 2002 (Dollars in Millions)

1. Summary of Significant Accounting Policies

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 (CFO) Act 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. VA fiscal year (FY) 2003 and FY 2002 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," as amended.

Reporting Entity

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 (VHA), the Under Secretary for Benefits (VBA), and the Under Secretary for Memorial Affairs (NCA). Additionally, six Assistant Secretaries, an Inspector General, a General Counsel, 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 accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards. The Comptroller General, the Secretary of the Treasury, and the Director of the OMB sponsor FASAB, which determines Federal accounting concepts and standards.

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 Treasury's Judgment Fund and post-retirement benefits for VA employees. Non-exchange revenue, e.g., donations, are 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.

Fund Balance with Treasury

The Department of the 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 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.

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 based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2017, are generally held to maturity unless needed to finance insurance claims and dividends. Other investments from VA programs are in securities issued by Treasury, with the exception of Insurance Program holdings in stock received from Prudential as a result of its demutualization and the Loan Guaranty Program investments, which are in trust certificates issued by the American Housing Trusts, private entities not associated with the Government.

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. Although VA continues to use the income from these subordinated certificates to cover the immediate cash requirements of the Federal guarantee on loans sold under American Housing Trust certificates VI through XI and the Veterans Mortgage Trust program, the income is reimbursed to VA and is not used to pay the amount of the realized losses on guaranteed loan sales.

Accounts Receivable

Intragovernmental accounts receivable consists of amounts due from other Federal Government agencies. No allowances for losses are required.

Public Accounts Receivable consists mainly of amounts due from patients and third-party insurers for veterans' health care and amounts due from individuals for compensation, pension, and readjustment benefit overpayments. For FY 2003 and FY 2002, allowances for bad debt losses were 9 percent and 16 percent, respectively, for medical-related contractually adjusted receivables. Educational–related receivables bad debt allowances were 37 percent for FY 2003 and 45 percent for FY 2002. Compensation and pension benefits overpayment-related bad debt receivables were 74 percent for both FY 2003 and FY 2002.

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 former 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 reduces the loans receivable. This reduction 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 precious metals held for sale and Canteen Service retail store stock and are valued at cost, utilizing the First In First Out (FIFO) method. 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 in Progress until completion, and then transferred to the appropriate property account. 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. All VA heritage assets are multi-use facilities and are classified as general property, plant, and equipment.

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 General Services Administration (GSA) 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 Loan Guaranty Program. The interest rates ranged from 1.20 to 5.03 percent in FY 2003 and from 1.94 to 5.62 percent in FY 2002. VA's financial activities interact with and are dependent upon those of the Federal Government as a whole.

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 2003 and FY 2002 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 nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, 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.

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 face of the balance sheet.
Non-Entity assets relate primarily to patient funds.

Non-Entity Assets as of September 30,	2003	2002
Fund Balance with Treasury	$ 57	$ 42
Intragovernmental Accounts Receivable	1	1
Public Accounts Receivable	14	19
Total Non-Entity Assets	$ 72	$ 62

3. Fund Balance With Treasury

Fund Balance with Treasury as of September 30,	2003	2002
Entity Assets		
Trust Funds	$ 89	$ 107
Revolving Funds	7,190	6,054
Appropriated Funds	10,427	8,780
Special Funds	116	105
Other Fund Types	(83)	(12)
Total Entity Assets	$ 17,739	15,034
Non-Entity Assets		
Other Fund Types	56	42
Total Non-Entity Assets	56	42
Total Entity and Non-Entity Assets	$ 17,795	$ 15,076
Reconciliation of VA General Ledger Balances with Treasury		
Entity VA General Ledger	$ 17,867	$ 15,114
Reconciled Differences	(75)	(42)
Unreconciled Differences	3	4
Fund Balance with Treasury	$ 17,795	$ 15,076
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 2,153	$ 1,540
Unavailable	6,554	5,584
Obligated Balance not yet Disbursed	9,114	7,922
Deposit/Clearing Account Balances	(26)	30
Fund Balance with Treasury	$ 17,795	$ 15,076

4. Cash

Cash as of September 30,	2003	2002
Canteen Service	$ 1	$ 1
Agent Cashier Advance	4	4
Loan Guaranty Program	36	35
Total Cash	$ 41	$ 40

5. Investments

Investment Securities as of September 30,		2003	2002
Intragovernmental Securities	Interest Range		
Special Bonds	5.00 - 10.00%	$ 13,618	$ 13,816
Treasury Notes *	1.64 - 7.25%	92	74
Treasury Bills	0.11 - 0.79%	2	2
Subtotal		13,712	13,892
Accrued Interest		229	243
Total Intragovernmental Securities		$ 13,941	$ 14,135
Other Securities			
Prudential Stock (Insurance)		$ 9	$ 11
Trust Certificates (Loan Guaranty)		192	203
Total Other Securities		$ 201	$ 214

*The investment in Treasury Notes includes unamortized premiums of $0.7 million as of September 30, 2003 and $0.7 million as of September 30, 2002. Premiums and discounts are amortized on a straight-line basis over the life of the investments.

Offset for Losses on Investments as of September 30,	2003	2002
Investment in Subordinate Certificates at Time of Sale	$ 425	$ 424
Cumulative Reductions	(224)	(200)
Subtotal	201	224
Allocation of Loss Provision	(9)	(21)
Trust Certificates (Loan Guaranty)	$ 192	$ 203

6. Accounts Receivable, Net

Accounts Receivable, Net as of September 30,	2003	2002
Intragovernmental Accounts Receivable	$ 196	$ 114
Public Accounts Receivable, Gross	$ 2,029	$ 2,567
Allowance for Loss Provision	(1,170)	(1,368)
Net Public Accounts Receivable	$ 859	$ 1,199

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 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; and
- 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. When a delinquency is reported to VA and no realistic alternative to foreclosure is developed by the loan holder or VA supplemental servicing of the loan, 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 pre-1992 and post-1991 direct loans acquired. 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. 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, 2003	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)	$ 114	$ 15	$ -	$ -	$ 129
Direct Loans Obligated after 1991	1,585	29	1,136	87	2,837
Insurance Policy Loans	770	19	-	-	789
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					$ 3,755

Loans Receivable and Related Foreclosed Property From Direct Loans

as of September 30, 2002	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)	$ 148	$ 19	$ -	$ -	$ 167
Direct Loans Obligated after 1991	1,619	48	853	64	2,584
Insurance Policy Loans	827	20	-	-	847
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					$ 3,598

Direct Loans Disbursed

The total amount of direct loans disbursed for the years ended September 30, 2003 and 2002, was $563 and $1,076 million, respectively.

Provision for Losses on Pre-1992 Loans

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the cost VA will bear as loans already guaranteed default in the future. 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 guaranteed loans will default over a 12-year period. For FY 2003, 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. The components of the provision are as follows:

Provision for Loss as of September 30,	2003	2002
Offsets Against Foreclosed Property Held for Sale	8	8
Total Provision for Loss	$ 8	$ 8

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,	2003	2002
Interest Differential	$ (55)	$ (175)
Defaults*	12	33
Fees**	(9)	(926)
Other***	44	1,077
Subtotal	(8)	9
Interest Rate Reestimates	(178)	181
Technical Reestimates	(44)	14
Total Direct Loans	$ (230)	$ 204

* Includes approximately $42,000 and $58,000 in defaults and other expenses for the Vocational Rehabilitation Program for FY 2003 and 2002 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	$ (10.64%)
Defaults	2.36%
Fees	(1.66%)
Other	8.55%

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 both FY 2003 and FY 2002, the subsidy rate is 0.86 percent. The allowance for subsidy as of September 30, 2003 and 2002 is ($974) and ($853) million respectively.

Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance, Changes and Ending Balance	FY 2003	FY 2002
Beginning balance of the allowance	$ (853)	$ (1,044)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(55)	(175)
Default costs (net of recoveries)	12	33
Fees and other collections	(9)	(926)
Other subsidy costs	44	1,077
Total of the above subsidy expense components	(8)	9
Adjustments:		
Loan modification	-	-
Fees received	11	18
Foreclosed property acquired	(5)	11
Loans written off	(6)	(7)
Subsidy allowance amortization	(53)	(35)
Other	-	-
Ending balance of the allowance before reestimates	(914)	(1,048)
Subsidy reestimates by component		
Interest rate reestimate	(44)	181
Technical/default reestimate	(178)	14
Total of the above reestimate components	(222)	195
Ending balance of the allowance	$ (1,136)	$ (853)

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,

2003	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	147	4	(138)	46	59
Defaulted Guaranteed Loans Post-1991	-	-	-	841	841
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 900

Loans Receivable and Related Foreclosed Property from Loan Guarantees

as of September 30, 2002	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	162	5	(150)	54	71
Defaulted Guaranteed Loans Post-1991	-	-	-	872	872
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					**$ 943**

Total Loans Receivable and Related Foreclosed Property, Net for the years ended September 30,	2003	2002
Total Direct Loans	$ 3,755	$ 3,598
Total Guaranteed Loans	900	943
Total Loans Receivable and Related Foreclosed Property, Net	$ 4,655	$ 4,541

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 who make a determination of the fair market value. To determine the net value of the property, VA costs for acquisition, management and disposition of the property, as well as estimated losses on property resale, are subtracted from the estimated fair market value. As of September 30, 2003 and 2002, the estimated number of residential properties in VA's inventory was 11,872 and 11,981, respectively. For FY 2003 and FY 2002, the average holding period from the date properties were conveyed to VA until the properties were sold was estimated to be 8.9 months and 8.7 months, respectively. The number of properties for which foreclosure proceedings are in process is estimated to be 10,513 and 10,986 as of September 30, 2003 and 2002, respectively.

Guaranteed Loans as of September 30,	2003	2002
Guaranteed Loans Outstanding:		
Outstanding Principal Guaranteed Loans, Face Value	$ 213,248	$ 216,042
Amount of Outstanding Guarantee	67,654	69,547
New Guaranteed Loans Disbursed:		
Outstanding Principal Guaranteed Loans, Face Value	$ 63,255	$ 40,129
Amount of Outstanding Guarantee	18,245	11,667
Liabilities for Loan Guarantees Post 1991 (Present Value)	$ 4,756	$ 5,662

Guaranty Commitments

As of September 30, 2003, VA had outstanding commitments to guarantee loans that will originate in FY 2004. The number and amount of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA's guaranteed loans originate under this authority.

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,		2003		2002
Defaults	$	1,678	$	1,242
Fees*		(1,145)		(723)
Other**		-		(374)
Subtotal		533		145
Interest Rate Reestimates		(1,407)		(82)
Technical Reestimates		(471)		(88)
Total Guaranteed Loan Subsidy Expense	$	(1,345)	$	(25)

* 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.
** The "Other" expense for guaranteed loans includes estimated recoveries on defaults through the sales of foreclosed properties.

Loan Sale-Guaranteed Loan Subsidy Expense for the years ended September 30,		2003		2002
Defaults	$	14	$	49
Other		-		-
Subtotal		14		49
Interest Rate Reestimates		(50)		(57)
Technical Reestimates		(109)		(96)
Total Loan Sale-Guaranteed Subsidy Expense	$	(145)	$	(104)

Total Subsidy Expense for the years ended September 30,		2003		2002
Total Direct Loans	$	(230)	$	204
Total Guaranteed Loans		(1,346)		(25)
Total Sale Loans		(145)		(104)
Total Subsidy Expense	$	(1,721)	$	75

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	2.25%
Fees	(1.74%)
Other	0%

Loan Sales

VA continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 2003, the total loans sold amounted to $13.5 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 2003 and 2004, servicing is/will be performed by Countrywide Home Loans, Inc. ("CHL" or "Master Servicer"). The Master Servicer is responsible for the performance of all of the servicing functions under the Agreement. The Master Servicer is entitled to be compensated by receiving (1) a service fee of 0.2075 percent per annum payable monthly and calculated by multiplying the interest payment received by a fraction, the numerator of which is 0.2075 percent and the denominator of which is the mortgage interest rate on such loan; (2) earnings on investment of funds in the certificate account; and (3) all incidental fees and other charges paid by the borrowers and a portion of the liquidation proceeds in connection with the liquidated loans.

VA completed one sale during FY 2003 and four sales during FY 2002 totaling approximately $283 million and $970 million of vendee loans, respectively. The components of the vendee sales are summarized in the tables below:

Loan Sales Years ended September 30,	2003	2002
Loans Receivable Sold	$ 283	$ 970
Net Proceeds From Sale	299	1,007
Loss (Gain) on Receivables Sold	**$ (16)**	**$ (37)**

Outstanding Balance of Loan Sale Guarantees

All loans sold under the American Housing Trust (AHT VI through AHT XI) and the Vendee Mortgage (VMT 92-1 through 03-1) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

Guaranteed Loans Sold as of September 30,	2003	2002
Outstanding Balance Guaranteed Loans Sold, Start of Year	$ 7,406	$ 7,952
Sold to the Public	283	970
Payments, Repayments, and Terminations	(2,120)	(1,516)
Outstanding Balance Guaranteed Loans Sold, End of Year	**$ 5,569**	**$ 7,406**

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 2003 and FY 2002 is 5.06 and 5.05 percent, respectively. The liability for loan sale guarantees as of September 30, 2003 and 2002 is $77 and $210 million.

Schedule for Reconciling Loan Sale Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	FY 2003	FY 2002
Beginning balance of the liability	$ 210	$ 283
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	14	49
Fees and other collections	-	-
Other subsidy costs	-	-
Total of the above subsidy expense components	14	49
Adjustments:		
Loan guarantee modifications	-	-
Fees received	-	-
Interest supplements paid	-	-
Foreclosed property and loans acquired	-	-
Claim payments to lenders	(19)	(21)
Interest accumulation on the liability balance	15	17
Other	16	35
Ending balance of the liability before reestimates	236	363
Subsidy reestimates by component		
Interest rate reestimate	(50)	(57)
Technical/default reestimate	(109)	(96)
Total of the above reestimate components	(159)	(153)
Ending balance of the liability	$ 77	$ 210

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 2003 and FY 2002 subsidy rate is 0.81 and 0.39 percent, respectively. The liability for loan guarantees as of September 30, 2003 and 2002 is $4,679 and $5,452 million.

Schedule for Reconciling Loan Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	FY 2003	FY 2002
Beginning balance of the liability	$ 5,452	$ 5,027
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	1,677	1,242
Fees and other collections	(1,145)	(723)
Other subsidy costs	-	(374)
Total of the above subsidy expense components	532	145
Adjustments:		
Loan guarantee modifications	-	-
Fees received	549	524
Interest supplements paid	-	-
Foreclosed property and loans acquired	189	230
Claim payments to lenders	(449)	(581)
Interest accumulation on the liability balance	284	277
Other	-	-
Ending balance of the liability before reestimates	6,557	5,622
Subsidy reestimates by component		
Interest rate reestimate	(471)	(82)
Technical/default reestimate	(1,407)	(88)
Total of the above reestimate components	(1,878)	(170)
Ending balance of the liability	$ 4,679	$ 5,452

Administrative Expense

Administrative expense on direct and guaranteed loans for the years ended September 30, 2003 and 2002, was $168 and $165 million, respectively.

8. Inventories

Inventories as of September 30,	2003	2002
Held for Current Sale	$ 62	$ 73
Other	11	9
Total Inventories	$ 73	$ 82

9. General Property, Plant and Equipment

Depreciation and amortization expense totaled $779 and $851 million in FY 2003 and FY 2002, respectively.

General Property, Plant and Equipment as of September 30, 2003

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 285	$ (10)	$ 275
Buildings	14,507	(6,599)	7,908
Equipment	3,017	(1,789)	1,228
Other	1,797	(1,021)	776
Work in Progress	762	-	762
Total Property, Plant, and Equipment	$ 20,368	$ (9,419)	$ 10,949

General Property, Plant and Equipment as of September 30, 2002

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 269	$ (7)	$ 262
Buildings	14,158	(6,178)	7,980
Equipment	2,938	(1,684)	1,254
Other	1,754	(966)	788
Work in Progress	744	-	744
Total Property, Plant, and Equipment	$ 19,863	$ (8,835)	$ 11,028

10. Liabilities Not Covered By Budgetary Resources

The total amount of VA liabilities not covered by budgetary resources was $959.6 billion and $853.8 billion as of September 30, 2003 and 2002, respectively. The following table contains the components of the balance sheet liability:

Components of Unfunded Liabilities as of September 30,

	2003	2002
Workers' Compensation*	2,239	$ 2,105
Annual Leave	1,097	1,042
Judgment Fund	528	625
Environmental and Disposal	375	271
Accounts Payable – Canceled Appropriations	6	4
Veterans Compensation and Burial	954,800	849,200
Insurance	581	549
Total	959,626	$ 853,796

* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 3.84 percent for FY 2003 and 5.20 percent for FY 2002.

11. Federal Employee and Veterans Benefits

Federal Employee Benefits

Imputed Expenses-Employee Benefits years ended September 30,		2003		2002
Civil Service Retirement System	$	351	$	257
Federal Employees Health Benefits		641		576
Federal Employees Group Life Insurance		2		2
Total Imputed Expenses-Employee Benefits	$	994	$	835

Veterans Benefits

Certain veterans who die or are disabled from military service-connected 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,		2003		2002
FECA	$	1,888	$	1,763
Compensation		951,600		845,800
Burial		3,200		3,400
Total Federal Employee and Veterans Benefits Liabilities	$	956,688	$	850,963

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-connected 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, 2003 and 2002 was $102.7 and $91.6 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, 2003, ranging from 1.15 to 4.91 percent, and on September 28, 2002, ranging from 1.53 to 4.75 percent. Benefit payments were assumed to occur at the midpoint of the fiscal year.

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 1995 and 2003. 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 1990 U.S. decennial census and beneficiary mortality experience. Applying mortality improvements at a rate of 1 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 category and age were based on current amounts being paid and future cost of living adjustments (COLAs) to determine the average benefits per veteran for each future time period. A COLA of 2.1 percent was assumed for FY 2004. For fiscal years after 2003, 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 approximately the same as that used by the Office of the Actuary of the Social Security Administration (75 years). However, unlike Social Security, estimates of expected benefit payments after this 70-year period were incorporated in the liability based on extrapolations reflecting expected aggregate experience by beneficiary category between the years 65 and 70. The 2002 liability was not changed to 75 years because the change is deemed immaterial.

12. Environmental and Disposal

VA had unfunded environmental and disposal liabilities in the amount of $375 million and $271 million for the years ended September 30, 2003 and 2002, 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.

13. Other 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,	2003	2002
Deposit and Clearing Account Liabilities	$ (73)	$ (13)
Accrued Expenses - Federal	99	46
Deferred Revenue	446	234
Resources Payable to Treasury	404	467
Custodial Liabilities*	2,260	879
General Fund Receipts Liability	12	20
Accrued VA Contributions for Employee Benefits	2	41
Total Other Intragovernmental Funded Liabilities	$ 3,150	$ 1,674

* 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,	2003	2002
Accrued FECA Liability	$ 356	$ 342
Total Other Intragovernmental Unfunded Liabilities	$ 356	$ 342

Other Public Funded Liabilities as of September 30,	2003	2002
Accrued Funded Annual Leave	$ 10	$ 10
Accrued Expenses	2,159	1,988
Accrued Salaries and Benefits	420	292
Contract Holdbacks	16	17
Deferred Revenue	1	3
Unredeemed Coupons	1	1
Deposit and Clearing Account Liability	17	42
Unearned Premiums	118	124
Insurance Dividends Left on Deposit and Related Interest Payable*	1,673	1,636
Dividend Payable to Policyholders	254	279
Capital Lease Liability	9	27
Total Other Public Funded Liabilities	$ 4,678	$ 4,419

* 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,	2003	2002
Annual Leave*	$ 1,097	$ 1,042
Accounts Payable from Cancelled Appropriation	6	4
Judgment Fund-Unfunded**	528	625
Total Other Public Unfunded Liabilities	$ 1,631	$ 1,671

* 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.

14. Leases

VA has both capital and operating leases. The capital lease liability is $33 and $27 million as of September 30, 2003 and 2002, respectively. Due to the number of operating leases and the decentralization of records, the future commitment for operating leases is not known. VA's FY 2003 operating lease costs were $236 million for real property rentals and $67 million for equipment rentals. The FY 2002 operating lease costs consisted of $206 million for real property rentals and $55 million for equipment rental. The following chart represents VA's estimate for operating lease costs for the next 5 years, assuming a range of 2.5 to 2.9 percent yearly increase in cost.

Leases:

Year	Percentage	Real Property	Equipment
2004	2.5	$ 236	$ 67
2005	2.6	242	69
2006	2.7	248	70
2007	2.8	255	72
2008	2.9	262	74

15. 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 Servicemembers' 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 State 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 servicemembers 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 servicemembers 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 servicemembers 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 servicemembers 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 $90,000. 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 Servicemembers' Group Life Insurance (SGLI) program was established in 1965 for Vietnam-era servicemembers. SGLI is supervised by VA and is administered by the Office of Servicemembers' Group Life Insurance (OSGLI) under terms of a group insurance contract. This program provides low-cost term insurance protection to servicemembers.

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 servicemember's separation from service.

Public Insurance Carriers

VA supervises the administration of the SGLI and VGLI programs. Prudential Insurance Company of America (Prudential) provides insurance coverage directly for the SGLI and VGLI programs. VA has entered into a group policy with Prudential whereby Prudential and its reinsurers provide servicemembers and veterans coverage in multiples of $10,000 up to a maximum of $250,000. 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 $100,000 of coverage can be purchased in increments of $10,000, not to exceed the amount of the servicemember's coverage. Each dependent child of every active duty servicemember or reservist insured under SGLI is automatically insured for $10,000 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 servicemember'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.

Effective January 1, 1970, the Secretary of Veterans Affairs determined the 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 Secretary is authorized to make adjustments regarding contributions from pay appropriations as may be indicated from actual experience.

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 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. 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 5.0 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, 1958 CSO Basic Table and the 1980 CSO Basic Table.

Insurance Liability (Reserve) Balances

Insurance Liability (Reserve) Balances
As of September 30, 2003

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$9,660	$185	$167	$10,012
USGLI	34	5	-	39
VSLI	1,493	11	33	1,537
S-DVI	404	2	156	562
VRI	396	2	6	404
VI&I	86	-	-	86
Subtotal	$12,073	$205	$362	$12,640
Less Liability not Covered by Budgetary Resources				(581)
Liability Covered by Budgetary Resources				$12,059

Insurance Liability (Reserve) Balances As of September 30, 2002

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$9,878	$201	$192	$10,271
USGLI	38	6	-	44
VSLI	1,466	12	36	1,514
S-DVI	399	2	132	533
VRI	410	2	7	419
VI&I	89	-	-	89
Subtotal	$12,280	$223	$367	$12,870
Less Liability not Covered by Budgetary Resources				(549)
Liability Covered by Budgetary Resources				$12,321

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 5,901,345 and 5,910,381 insured for a face value of $725.8 billion and $728.3 billion as of September 30, 2003 and 2002, respectively. The face value of the insurance provided by Prudential and its reinsurers represents 97.4 and 97.3 percent of the total insurance in-force as of September 30, 2003 and 2002, respectively. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2003 Policies	2002 Policies	2003 Face Value	2002 Face Value
Supervised Programs				
SGLI Active Duty	1,548,000	1,510,000	$372,659	$365,285
SGLI Ready Reservists	775,500	799,500	174,171	180,826
SGLI Post Separation	87,000	97,000	20,512	23,016
SGLI Family - Spouse	990,000	1,013,000	96,215	99,578
SGLI Family - Children	2,100,000	2,100,000	21,000	21,000
VGLI	400,845	390,881	41,275	38,563
Total Supervised	5,901,345	5,910,381	$725,832	$728,268
Administered Programs				
NSLI	1,401,357	1,502,463	$14,802	$15,550
VSLI	220,719	227,341	2,566	2,604
S-DVI	154,537	148,913	1,484	1,414
VRI	62,696	67,531	556	587
USGLI	11,770	13,217	37	42
VMLI	2,793	3,060	176	186
Total Administered	1,853,872	1,962,525	$19,621	$20,383
Total Supervised and Administered Programs	7,755,217	7,872,906	$745,453	$748,651

Policy Dividends

The Secretary of VA determines annually the excess funds available for dividend payment. 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 2003 and 2002 were $551 and $604 million, respectively.

Sale of Prudential Stock

On December 18, 2001, Prudential completed its conversion from a mutual company to a stock company. As policyholder of the SGLI and VGLI programs, VA received 369,177 shares of Prudential stock. VA plans to liquidate these shares in six sales over a three-year period, starting in 2003. As of fiscal year end, VA has liquidated 123,000 shares of stock in two sales, which occurred in April and September of 2003. Proceeds of $4,142,360 from the sales have been deposited into the SGLI Contingency Reserve, which is held for VA by Prudential in an interest-bearing account. This guarantees that the monies will be used for the benefit of the servicemembers and veterans who are the intended recipients of these life insurance programs.

16. 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 $2,500 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 84 percent in FY 2003 and 77 percent in FY 2002. Contract dispute payments for FY 2003 and FY 2002 were $5.9 and $11.0 million, respectively.

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 $528 million for FY 2003 and $625 million for FY 2002. There were 11 contract and personnel law cases with claimed amounts totaling $125.3 million where there was at least a reasonable possibility that a loss may occur. 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,	2003	2002
Fiscal Year Settlement Payments	$ 92	$ 101
Less Contract Dispute Payments	(6)	(11)
Imputed Financing-Paid by Other Entities	86	90
Increase (Decrease) in Liability for Claims	(97)	187
Operating Expense (Revenue)	$ (11)	$ 277

It is the opinion of VA's management that resolution of pending legal actions as of September 30, 2003 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 2003 settlement payments were $92 million.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2003 and 2002 was $20.5 million and $111.3 million, 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 time period 2000-2003, the average medical care cost per year was $21.2 billion.

Under 38 U.S.C. 8161, *et seq.,* VA may enter into long-term (up to 75 years) leases of VA property in return for in-kind consideration including goods, services, or building space beneficial to VA's mission. As of 9/30/03, VA has entered into 30 enhanced-use lease agreements. Six of the projects use independent trusts, not funded by VA, to pay for capital and other improvements under the lease agreements.

17. Exchange Transactions

Exchange Revenues

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 2002, randomly selected VA medical centers were reviewed by the Financial and Systems Quality Assurance Service to determine the facility's compliance with Statement of Federal Financial Accounting Standards No. 7 and the Chief Financial Officers Act of 1990.

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 11 cemeteries to not-for-profit groups for no fee. The 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 four agricultural leases with private companies/individuals. NCA leases land for growing crops and, on certain leases, receives various services in exchange from the lessee, such as brush cutting and removal services, backfilling and grading of roads, and welding services. In addition, NCA received fees for motion picture filming performed at three cemeteries.

Exchange Transactions with Public

Exchange transactions with the public occur when prices are set by law or executive order and are not based on full cost or on market price. 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 Financial Officer (CFO) 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 and no-fault or uninsured motorists insurance cases. Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA-billed charges or their usual customary and reasonable payment to other providers will be paid.

Cost-based per diems are calculated annually to produce tort rates used to bill for tort fees or, workers' compensation (other than Federal), humanitarian emergency, ineligible patient, VA employee, family member, allied beneficiary, no fault or uninsured motorist's insurance, or reimbursable insurance cases. These per diem costs are derived primarily from cost and workload data from a national cost allocation report (Cost Distribution Report).

VA is required to collect a co-payment of $7 from veterans for treatment of a nonservice-connected condition for each 30-day supply of medication furnished on an outpatient basis. This fee does not cover the cost of the medications in the vast majority of cases.

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for FY 2003 were $634 million and for FY 2002 were $523 million. The loan guarantee lender participation fees collected for FY 2003 were $1.9 million and for FY 2002 were $1.6 million.

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.

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 $266.7 million during the year for the Post-Vietnam Era Education Assistance Program, Reinstated Entitlements Program for Survivors and the New GI Bill for Veterans.

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.

18. 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, 2003 (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	$ 3,542	$ 30	$ 76	$ 139	$ 9	$ 8	$ 6	$ 816	$ 43	$ 56	$ 170	$ 4,895
Less Earned Revenues	(61)		(35)		(7)	(256)		(706)	(949)		(1,029)	(3,043)
Net Intragovernmental Production Costs	3,481	30	41	139	2	(248)	6	110	(906)	56	(859)	1,852
Public Costs	21,583	1,006	795	131,207	3,489	2,209	643	(991)	1,642	69	1,488	163,140
Less Earned Revenues	(1,592)		(10)			(221)		(107)	(645)		(47)	(2,622)
Net Public Production Costs	19,991	1,006	785	131,207	3,489	1,988	643	(1098)	997	69	1,441	160,518
Non-Production Costs												
Hazardous Waste Clean-up	104											104
Total Net Cost of Operations	$ 23,576	$ 1,036	$ 826	$ 131,346	$3,491	$1,740	$649	$ (988)	$ 91	$ 125	$582	$ 162,474

Schedule of Net Program Cost

For the Year Ended September 30, 2002 (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	$ 2,898	$ 26	$ 62	$ 120	$ 8	$ 7	$ 5	$ 432	$ 6	$ 51	$ 63	$ 3,678
Less Earned Revenues	(43)	-	(8)	-	(10)	(235)	-	(563)	(995)	-	(637)	(2,491)
Net Intragovernmental Production Costs	2,855	26	54	120	(2)	(228)	5	(131)	(989)	51	(574)	1,187
Public Costs	20,524	993	771	179,473	3,227	1,781	499	438	1,746	951	1,289	211,692
Less Earned Revenues	(1,427)	-	(18)	-	-	(236)	-	(147)	(691)	-	(56)	(2,575)
Net Public Production Costs	19,097	993	753	179,473	3,227	1,545	499	291	1,055	951	1,233	209,117
Non-Production Costs												
Hazardous Waste Clean-up	11	-	-	-	-	-	-	-	-	-	-	11
Total Net Cost of Operations	$ 21,963	$ 1,019	$ 807	$ 179,593	$ 3,225	$ 1,317	$ 504	$ 160	$ 66	$ 1,002	$ 659	$ 210,315

19. Disclosures Related to the Statements of Budgetary Resources

Apportionment categories of obligations incurred

Obligations Years Ended September 30,	**2003**	**2002**
Category A, Direct	$ 29,252	$ 26,452
Category B, Direct	34,432	33,491
Reimbursable	4,434	3,303
Exempt from Apportionment	1,231	1,736
Total Obligations	$ 69,349	$ 64,982

Borrowing Authority

Loan Guaranty had borrowing authority of $1.3 billion and $3.8 billion as of September 30, 2003, and 2002, respectively. The Vocational Rehabilitation Program had borrowing authority of $3.5 and $2.8 million as of September 30, 2003 and 2002, 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 1 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 $16 million. Various VA program accounts received a cut in discretionary budget authority.

Permanent Indefinite Appropriations
VA has three 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 2002 use.

Unobligated VA funds are available for uses defined in VA's FY 2002 Appropriation Law (P.L. 108-7). 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. Examples include travel obligation limitations and limitation of the use of medical care multi-year funds to object classes for equipment, structures, and land.

Explanation of Differences Between Statement of Budgetary Resources and the Budget
As a result of an analysis of aged obligations, obligations were reduced by $90 million on the Statements of Budgetary Resources for both FY 2003 and FY 2002. These adjustments were 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.

Contributed Capital
The amount of contributed capital received during the fiscal year consisted of donations in the amount of $42 million to the General Post Fund and $0.8 million to the National Cemetery Gift Fund.

20. Disclosures Related to the Statements of Financing

The Statement of Financing section "Costs That Do Not Require Resources in the Current Period" includes only the fiscal year increases in liabilities not covered by budgetary resources. For existing liabilities, there will always be a difference between this section and the value of liabilities not covered by budgetary resources disclosed in Note 10 and included in the liabilities section of the Balance Sheet.

21. Dedicated Collections

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term "trust funds" as used in this report and in Federal budget accounting is frequently misunderstood. In the private sector, "trust" refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term "trust fund" means only that the law requires that funds be accounted for separately, used only for specified purposes and that the account be designated as a "trust fund."

A change in law may change the future receipts and the terms under which the fund's resources are spent. The "trust fund assets" represent all sources of receipts and amounts due the trust fund regardless of source. This includes "related governmental transactions," which are transactions between two different entities within the Federal Government. The "Investments with Treasury" assets are comprised of investments in Federal debt securities and related accrued interest. These securities will require redemption if a fund's disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g., Federal debt securities).
The table below summarizes the name, type, and purpose of the funds within VA that receive dedicated collections. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed also adhere to the requirements of FASB No. 120, "Accounting and Reporting by Mutual Life Insurance Enterprise," and issue a separate annual report. 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**
Medical Care Collections Fund	Special	36x5287	P.L. 105-33 111 Stat 665	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
Health Service Improvement Fund	Special	36x5358	P.L 106-117 113 Stat 1561	Accumulates recoveries from enhanced use leases and patient co-payments.	Public.
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.
Cemetery Gift Fund	Trust	36x8129	38 U.S.C. 1007	Receives donations for veteran cemeteries.	Public donors.
National Service Life Insurance Fund	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	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 without Service-related disabilities.	Public, veterans.
General Post Fund, National Homes	Trust	36x8180	38 U.S.C. 101-228	Receives restricted and unrestricted use donations	Public, mostly veterans.

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

For the year ended 2003 Fund Symbol Assets:	5287	5358	6020	8132	8133	8150	8455	8180	Total
Fund balance with Treasury	$ 86	$ 31	$ 43	$ 9	$ 77	$ -	$ 1	$ 2	$ 249
Investments with Treasury	-	-	-	11,430	-	57	1,886	63	13,436
Other Assets	483	101	-	594	1	2	112	18	1,311
Total Assets	569	132	43	12,033	78	59	1,999	83	14,996
Liabilities:									
Payables to Beneficiaries	-	-	-	131	1	2	10	1	145
Other Liabilities	-	-	43	11,593	-	55	1,920	2	13,613
Total Liabilities	-	-	43	11,724	1	57	1,930	3	13,758
Net Position:									
Cumulative Results	569	132	-	309	77	2	69	80	1,238
Total Liabilities & Net Position	$ 569	$ 132	$ 43	$ 12,033	$ 78	$ 59	$ 1,999	$ 83	$ 14,996

For the year ended September 30, 2003

Fund Symbol	5287	5358	8132	8133	8150	8455	8180	Total
Revenues:								
Exchange - Federal	$ (19)	$ -	$ 770	$ -	$ 4	$ 142	$ -	$ 897
Exchange - Public	805	447	510	1	-	75	1	1,839
Non-Exchange - Federal	-	-	-	-	-	-	-	-
Non-Exchange - Public	-	-	-	-	-	-	-	-
Total Revenues	786	447	1,280	1	4	217	1	2,736
Expenses:								
Program Expenses	55	17	1,299	4	4	218	34	1,631
Total Expenses	55	17	1,299	4	4	218	34	1,631
Net Change from Operations								
Beginning Net Position	910	104	327	80	2	70	79	1,572
Total Financing Sources	(1,072)	(402)	1	-	-	-	34	(1,439)
Change in Accounting Policy	-	-	-	-	-	-	-	-
Net Cost of Operations	731	430	(19)	(3)	-	(1)	(33)	1,105
Ending Equity	$ 569	$ 132	$ 309	$ 77	$ 2	$ 69	$ 80	$ 1,238