

VA's Mission

To fulfill President Lincoln's promise—"To care for him who shall have borne the battle, and for his widow, and his orphan"—by serving and honoring the men and women who are America's veterans.

Franchise Fund's Mission

To be the provider of choice of common administrative support services for VA and other government agency customers, enabling them to best meet their primary missions.

Vision

Comprehensive Business Solutions for Tomorrow's Government

Values

To guide us in fulfilling our own mission as well as VA's mission, our employees strive to uphold core values that are consistent and closely aligned with those of VA. These values include: compassion, commitment, excellence, professionalism, integrity, accountability, and stewardship.

Mission, Vision, and Values

■ Compassion

We will treat all veterans and their families with the utmost dignity and compassion. We will provide services in a caring manner, with a sympathetic consciousness of others' distress together with a desire to alleviate it.

■ Commitment

Veterans have earned our gratitude and respect. Their health care, benefits, and memorial service needs drive our actions.

■ Excellence

We strive to exceed the expectations of veterans and their families. We strive to perform at the highest level of competence and take pride in our accomplishments.

■ Professionalism

Our success depends on maintaining a highly-skilled, diverse, and compassionate workforce. We foster a culture that values equal opportunity, innovation, and accountability.

■ Integrity

We recognize the importance of accurate information. We practice open, truthful, and timely communication with veterans, employees, and external stakeholders. By carefully listening and responding to their concerns, we seek continuous improvement in our programs and services.

■ Accountability

We will perform in a manner at all times that makes us accountable, responsible, and answerable to veterans and their families, our leaders and other employees, as well as external stakeholders.

■ Stewardship

We will ensure responsible stewardship and natural resources as well as data and information entrusted to us. We will improve performance through the use of innovative technologies, evidence-based medical practices, and sound business principles.

Governance



Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations—the Office of Management; the Office of Policy, Planning, and Preparedness; and the Office of Information and Technology. The Franchise Fund Board of Directors provides oversight to ensure sound business principles, financial accountability, and goal attainment.

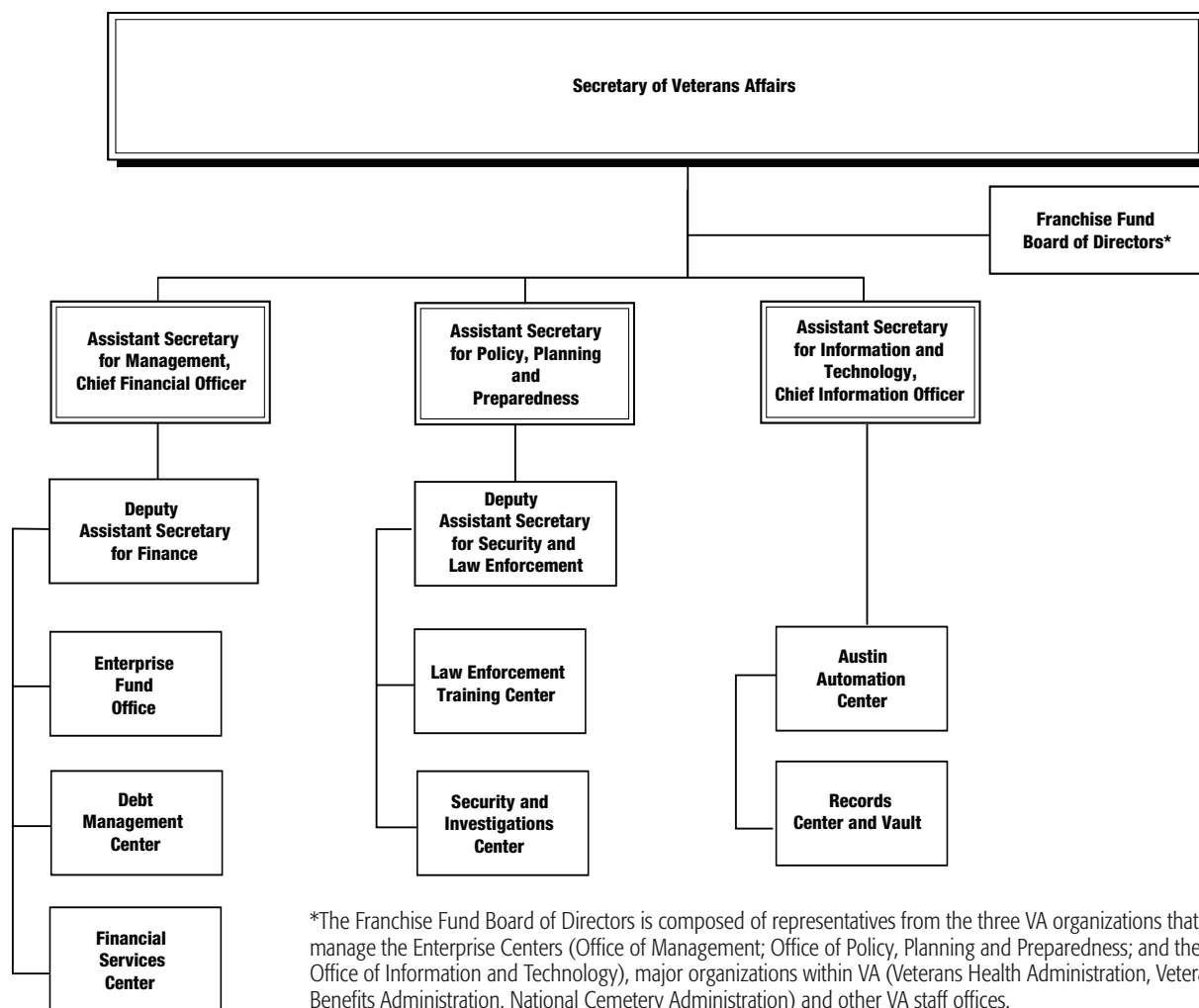
Members of the VA Franchise Fund Network

The VA Franchise Fund was established under the authority of the Government Management Reform Act of 1994 and the VA and Housing and Urban Development and Independent Agencies Appropriations Act of 1997. VA was selected by the Office of Management and Budget (OMB) in 1996 as one of six executive branch agencies to establish a franchise fund pilot program. Created as a revolving fund, the VA Franchise Fund began providing common administrative support services to VA and other government agencies in 1997 on a fee-for-service basis. In 2006, under Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.

The VA Franchise Fund is composed of an administrative office (Enterprise Fund Office) and six self-supporting lines of business (Enterprise Centers). The directors of the individual Enterprise Centers and their staffs are responsible for customer liaison and coordination, business planning and development, staffing, and execution of day-to-day business activities consistent with their annual business plans.

Franchising Concept

The franchising concept promotes efficiency and conserves resources by reducing administrative costs, enhancing financial management practices, and expanding competition.



Members of the VA Franchise Fund Network

The VA Franchise Fund is divided into three major segments: information technology, financial management, and security and law enforcement. In FY 2006, the VA Franchise Fund generated \$297 million in revenue. The information technology segment generated \$215 million, accounting for 72 percent of the total revenue. Twenty-five percent of the total revenue was generated by the financial management segment, which accounts for \$73 million of the total revenue, and the security and law enforcement segment generated the remaining \$8 million, representing 3 percent of the total revenue.



*Linda Voges, Director
Austin Automation Center and
the Records Center
and Vault*



*Steve Swanson, Director
Enterprise Fund Office*



*Daniel Osendorf, Director
Debt Management Center*

Information Technology

Austin Automation Center (AAC).

Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits, and supply functions. In addition, the AAC offers a full complement of technical solutions to best meet customer needs.

Records Center and Vault (RC&V).

Located in a subterranean, climate-controlled facility in a remote Midwestern part of the country, the RC&V provides records storage, protection, and retrieval services for official Federal records. The facility is certified by the National Archives and Records Administration to operate as an agency records center. The RC&V can store records in any medium. This includes general and vital records on paper, film, and electronic media.

Financial Management

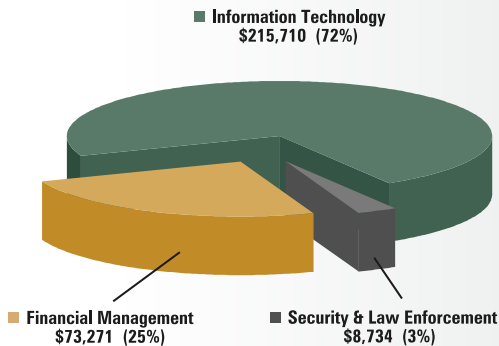
Enterprise Fund Office (EFO).

Located in Washington, DC, the EFO functions as the business office for the VA Franchise Fund. As such, the EFO is responsible for providing administrative support to the Enterprise Centers by directing and analyzing budget formulation and execution processes, administering financial resources, overseeing business planning activities, preparing the annual reports, coordinating marketing activities, and serving as the liaison between the Enterprise Centers, their customers, and the VA Franchise Fund Board of Directors.

Debt Management Center (DMC).

Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA.

**VA Franchise Fund
Revenue by Major Segments
As of September 30, 2006**
(Dollars in Thousands)





*Rodney Wood, Director
Financial Services Center*



*Ronald Angel, Director
Law Enforcement
Training Center*



*Christopher Price
Business Manager
Security and
Investigations Center*

Financial Services Center (FSC).

Located in Austin, TX, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, invoice payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, and payroll processing. The FSC also provides customer support help desks for travel and payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, permanent change of station and temporary duty travel pay processing, common administrative services, accounting training, and consulting.

Security and Law Enforcement

Law Enforcement Training Center (LETC).

Located in Little Rock, AR, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available to approximately 2,700 law enforcement personnel working at VA health care facilities and to law enforcement professionals at other Federal agencies.

Security and Investigations Center (SIC).

Located in Little Rock, AR, the SIC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The SIC also issues and manages employee identification badges and provides fingerprint processing.

The success of the Fund can be attributed to over 688 people who play an integral role in the customer liaison, coordination, business planning and development, staffing, and execution of the day-to-day business activities.

By working together, our Enterprise Centers leverage technology and apply innovative solutions to meet a wide range of customer requirements. Our commitment to continuous improvement and customer service has proven to be a very successful business model.



Members of the VA Franchise Fund Network

Entrepreneurial Network

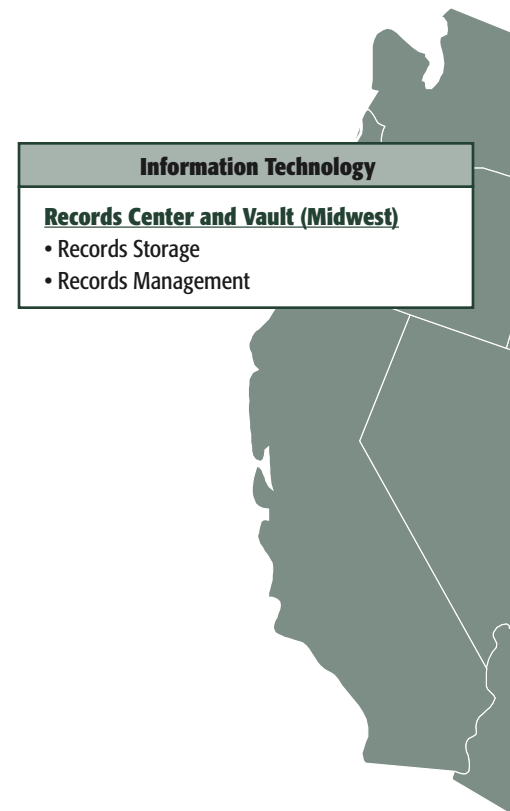
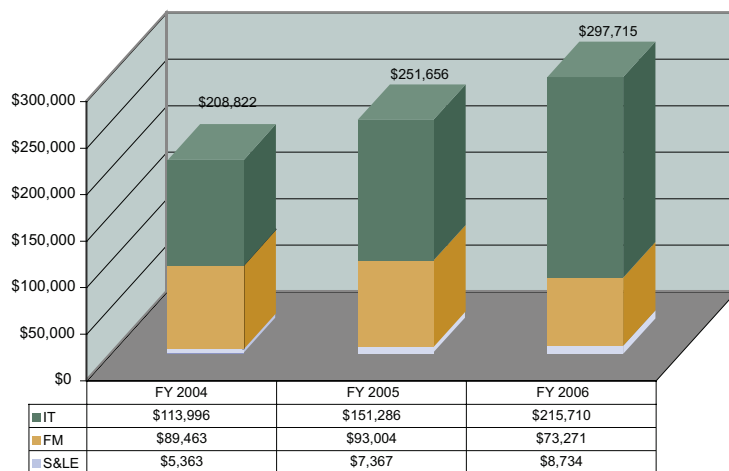
We are one of the leading fee-for-service operations in government. By employing people nationwide to execute our day-to-day business activities, we provide our customers with services that save resources and allow them to concentrate their attention on mission-critical functions within their organization. We have positioned ourselves to meet the needs of any Federal agency at competitive prices.

Business Segments

Historically, the information technology (IT) segment has generated the most revenue. The IT segment ended FY 2006 with \$215 million—an 89 percent increase over FY 2004 levels (\$113 million) and a 30 percent increase over FY 2005 levels (\$151 million) as a result of increased acquisition sales. The Financial Management (FM) segment ended FY 2006 with \$73 million—an 18 percent decrease under FY 2004 levels (\$89 million) and a 27 percent decrease under FY 2005 levels (\$93 million) as a result of the loss of the Cooperative Administrative Support Unit's business.

In recent years, heightened security measures have been put in place throughout the Federal government to protect the homeland. As a result, the security and law enforcement (S&LE) segment revenue dramatically increased to \$8.7 million in FY 2006, resulting in a 63 percent increase over FY 2004 levels (\$5.3 million) and a 66 percent increase over FY 2005 levels (\$7.3 million).

VA Franchise Fund Revenue Trend by Major Segments
(Dollars in Thousands)



Information Technology

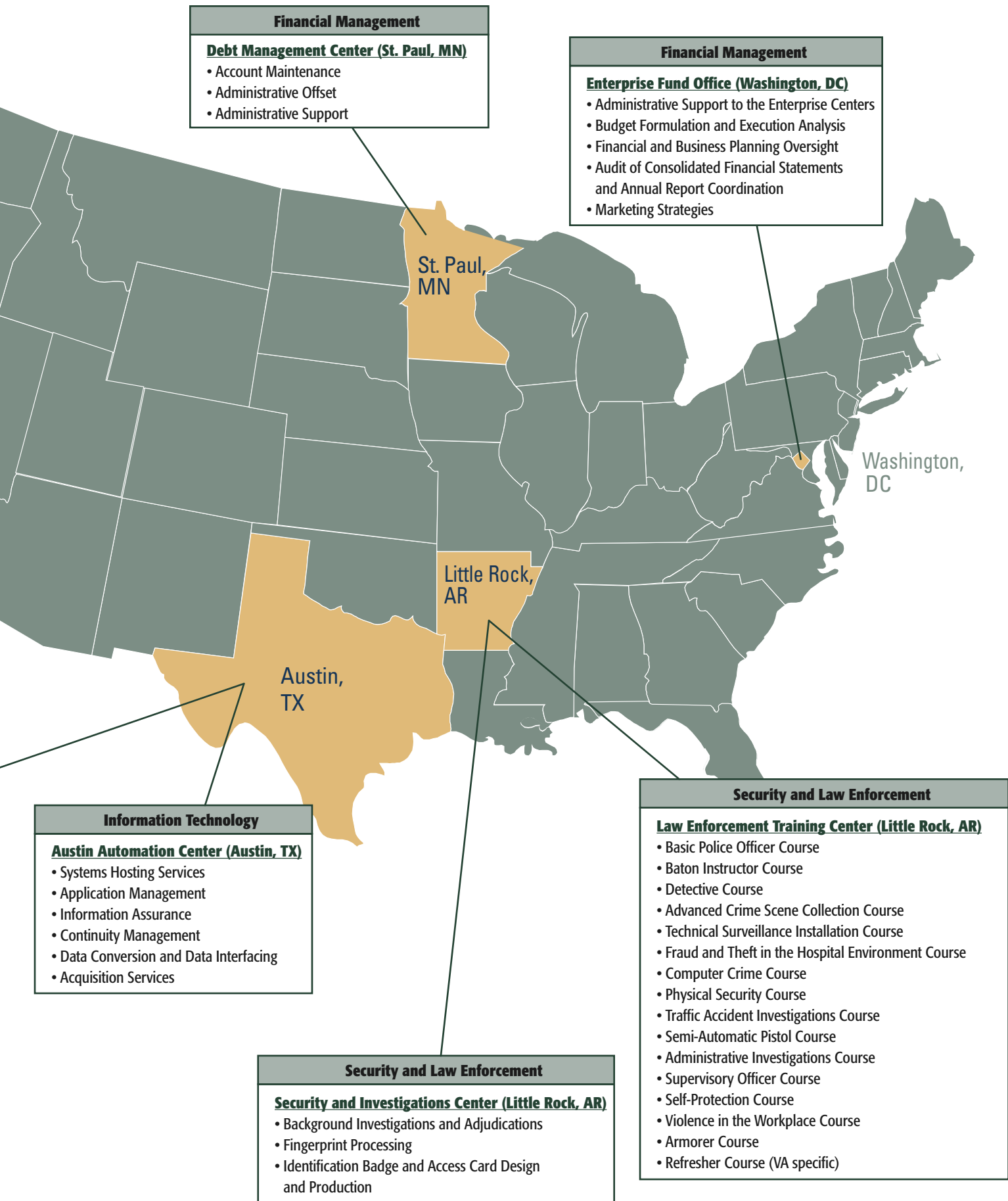
Records Center and Vault (Midwest)

- Records Storage
- Records Management

Financial Management

Financial Services Center (Austin, TX)

- Financial Reports and Accounting
- Audit Recovery
- Credit Card Payments
- Discount Subsistence Purchases
- Document Management System
- Electronic Commerce/Electronic Data Interchange
- Invoice Payments
- Medical Claims Adjudication and Payment Processing
- Customer Support Help Desks for Travel and Payments
- Payroll Processing
- Permanent Change of Station and Temporary Duty Travel
- Vendor File Maintenance
- Common Administrative Services
- Accounting Training
- Consulting



External Stakeholders

- Veterans and their families
- Office of Management and Budget
- Congressional authorization and appropriations committees and subcommittees
- Veterans service organizations
- Private sector vendors
- Department of Agriculture
- Department of Defense
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of Transportation
- Department of the Treasury
- Department of State
- Denali Commission
- Export/Import Bank
- Food and Drug Administration
- General Services Administration
- Government Accountability Office
- Internal Revenue Service
- National Aeronautics and Space Administration
- National Archives and Records Administration
- Office of Federal Housing Enterprise Oversight
- Office of Personnel Management
- Postal Rate Commission
- United States Capitol Police
- White House Commission of the National Remembrance

Internal Stakeholders

- Veterans Benefits Administration (VBA)
- Veterans Health Administration (VHA)
- National Cemetery Administration (NCA)
- VA Staff Offices

Our Stakeholders

Our ultimate stakeholders are those who directly benefit from the services VA provides and those who carefully monitor the delivery of these services including the Office of Management and Budget, Congressional authorization and appropriations committees and subcommittees, and veterans service organizations.

As knowledgeable government professionals, we provide our stakeholders with creative, cost-effective, and practical solutions to help them accomplish their primary mission. Although Federal agencies have unique missions, our collective experience enables us to give expert advice from an insider's point of view as we understand unique requirements and financial constraints. We realize that we must compete for business every day and we thank our new and repeat customers for their trust and confidence.

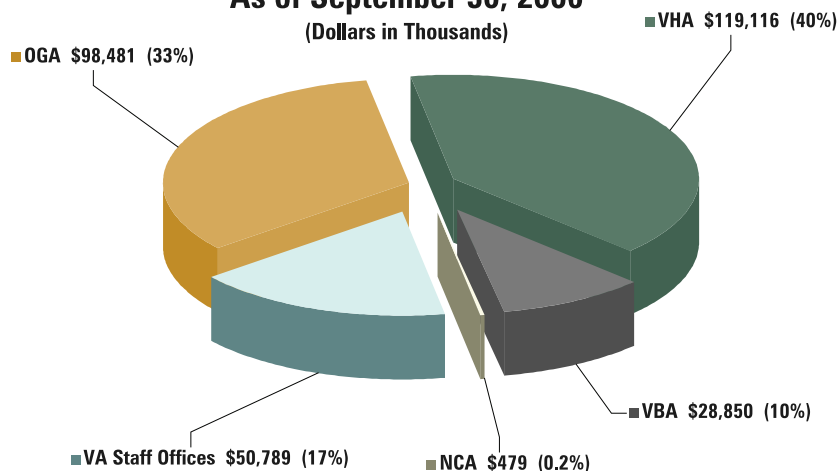
The American public also holds us accountable to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable. We embrace resilience and resourcefulness, which are hallmarks of a small business, as we adopt business practices that enable us to become more efficient, responsive, and cost conscious.



Our efforts to exceed expectations related to financial results, customer satisfaction, and performance objectives have achieved efficiencies and generated value not only to our parent agency but also to other Federal agencies that we serve.

VA Franchise Fund Revenue by Customer As of September 30, 2006

(Dollars in Thousands)

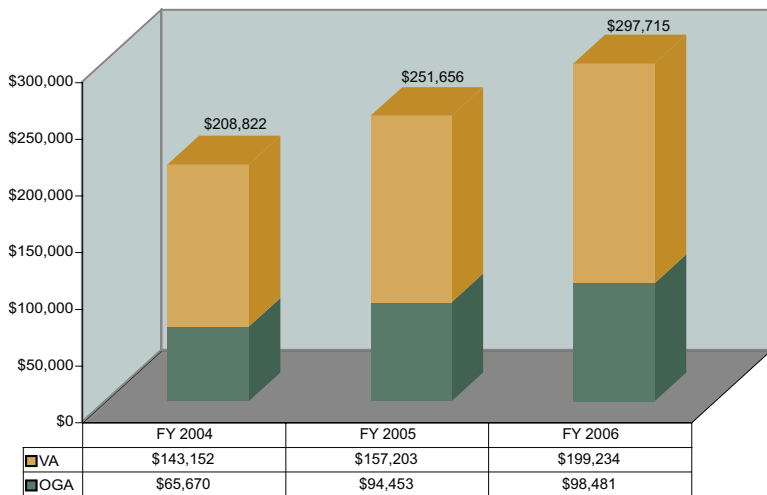


Our parent agency, VA, accounts for \$199 (67 percent) of our FY 2006 total revenue (\$297 million). Of our FY 2006 total revenue:

- \$119 million (40 percent) came from VHA, our largest customer
- \$50 million (17 percent) came from VA Staff Offices
- \$28 million (10 percent) came from VBA
- \$479,000 (less than 1 percent) came from NCA
- \$98 million (33 percent) came from OGA

VA Franchise Fund Revenue Sources – VA vs. OGA

(Dollars in Thousands)



Our total revenue has increased steadily over the last three years. Historically, VA has accounted for the majority of our total revenue. In FY 2006 our VA revenue reached an unprecedented level of \$199 million resulting in:

- 39 percent over FY 2004 levels (\$143 million)
- 27 percent over FY 2005 levels (\$157 million)

We have made great strides in acquiring business from outside VA. We ended FY 2006 with \$98 million in OGA revenue:

- 50 percent over FY 2004 levels (\$65 million)
- 4 percent over FY 2005 levels (\$94 million)

This additional business benefits all of our customers because it allows us to spread our overhead costs to a wider customer base.

FY 2006 Accomplishments

Receipt of Unqualified "Clean" Audit Opinion

The VA Franchise Fund received its ninth consecutive unqualified "clean" audit opinion. This achievement caps our extensive efforts to produce timely, reliable, and auditable financial statements.



Information Technology

■ Acquisition Center of Excellence

Through a partnership with VA's Office of Acquisition and Materiel Management, the Austin Automation Center (AAC) became a VA Center of Excellence in FY 2006 for solicitation, award, and administration of VA-wide contracts.

■ Federal Achievement Award for AAC

As a result of awarding \$2.5 million (more than 4 percent of procurement dollars) toward veteran and service-connected disabled veteran-owned small business (SDVOSB), the AAC earned the Federal Achievement Award from the VA Center for Veterans Enterprise for significant contributions to expand business opportunities for SDVOSBs. The catalyst for the award was the success of the AAC's Acquisition Center of Excellence, which exceeded Secretary Nicholson's goal of awarding 3 percent of total procurement dollars to SDVOSBs.

■ Largest Contract Award to SDVOSB

The AAC's Acquisition Center of Excellence awarded a contract to an SDVOSB for approximately 250,000 workstations and 9,000 servers. This award was one of the largest single awards ever made by the Federal government to an SDVOSB.

■ "Best in Class" Rating in Gartner Customer Satisfaction Survey

For the seventh consecutive year, the AAC contracted with Gartner Consulting, a division of Gartner, to conduct an independent satisfaction survey of 500 VA and OGA customers. The AAC scored in the top 8 percent of Gartner's Information Technology Customer Satisfaction database, with an overall satisfaction rating of 4.15 out of 5.0, earning a prestigious "best in class" rating, and greatly surpassing the database average score of 3.73 for all 232 private and public sector organizations in Gartner's database.

■ Completion of Records Center Expansion

The Records Center and Vault took possession of its newest records storage area, Bay G, in June 2006. The 50,912-square-foot build-out is adjacent to the existing facility and is critical to its future success as a records storage and management services entity. With the acquisition of over 3,200 13- and 14-shelf steel shelving units in FY 2006, we anticipate meeting new records storage growth through FY 2009.

Financial Management

■ Increase in Collections

Collections have grown consistently since FY 2003—showing a 44 percent increase from \$382 million to an estimated \$550 million in FY 2006. By taking advantage of all available collection tools, the Debt Management Center (DMC) strives to maximize the return on their dollar while reducing the Department's delinquent benefit debt portfolio.

■ Launch of Web-Enabled Applications

The DMC continues to make improvements to its Web-based payment application (Pay.va.gov), which offers a simple, convenient payment option for beneficiaries to use credit cards, debit cards, and electronic fund transfers to pay debts online. The DMC's Web-based collections reached \$7.4 million in FY 2006, resulting in a 57 percent increase from the prior year (\$4.7 million).

The Financial Services Center (FSC) completed the rollout of its new Web-based Standard Form (SF) 224 Report of Transaction application, which facilitates the process for stations to report corrections to unmatched SF-224 transactions, greatly simplifying workflow and dramatically improving operations and audit trail and service delivery.

The FSC completed the development and testing of Financial Accounting Service—Federal (FASFED), a Web-based application to expedite

and improve intragovernmental payment and collection transactions processed by other government agencies. Access to FASFED will provide customers with a mechanism to obtain documentation of transactions processed, expedite clearing suspense items, and offset outstanding advances.

The FSC also completed the rollout of its Medical Care Collections Fund lockbox portal to replace the manual processing of lockbox credit card coupons to field stations.

■ Instrumental in E-Gov Initiatives

The FSC led VA's implementation of the E-Gov Travel Service and provided support to VA's legacy travel systems. This role included coordinating with the managing partner (General Services Administration) and the vendor (Electronic Data Systems), and overseeing the deployment tasks. In addition, the FSC supported local payroll stations (approximately 1,500 employees) in Austin, TX, who were first to migrate the Defense Finance and Accounting Service e-Payroll application in August 2006. This transition was successful and transparent to the employees.

■ Increase in Rebates

As a result of aggressively using the commercial purchase card program for micro-purchases, fee basis, and travel, rebates increased from \$35 million in FY 2005 to \$37 million in FY 2006.

Attainment of Permanent Legislative Authority to Operate

In 2006, under Public Law 109-114, permanent legislative authority was conferred upon the VA Franchise Fund. This permanent footing will enable us to make a long-term commitment to improve the quality and lower the cost of services that we provide our customers.



Unprecedented Growth in Revenue

The unprecedented growth of total revenue demonstrates the continuing customer demand for our common administrative support services. By the end of FY 2006, total revenue grew to more than \$297 million. This growth was a direct result of an increase in VA business, which ended in record sales of \$199 million—39 percent over FY 2004 levels (\$143 million) and 27 percent over FY 2005 levels (\$157 million).



■ Centralization Efforts

The payments of most certified and matched invoices for goods and services were centralized at the FSC. The benefits of this centralization included a reduction in the Department's interest penalty payments and an increase in discounts earned. Centralization of construction payments began in FY 2006 and is scheduled for completion in FY 2007.

In addition, permanent change of station (PCS) services were centralized to take advantage of the FSC's resources and relocation expertise in order to improve services to VA travelers and provide better capability to handle the periodic PCS surge periods.

■ Launch of Online Interactive Web Application

All continuing education for VA police officers has been moved to an online interactive Web application, which enables the LETC to monitor VA stations' progress, and provide status reports to senior management.

■ Completion of 80-hour Refresher Training Course

The LETC completed the development of its 80-hour refresher training course. As a result, 700 VA police officers were trained over a span of 2 years. These police officers will be required to take the refresher every 4 to 5 years. The goal of this major initiative was to bring all VA police officers up to the same level of training.

Security and Law Enforcement

■ New Training Facility

The Law Enforcement Training Center (LETC) obtained additional space for its training facilities from the VA Medical Center in North Little Rock, Arkansas, to accommodate its advanced investigative training course offerings.

■ Increase in DoD Business

The LETC successfully implemented a concentrated marketing plan to increase business with Department of Defense (DoD) law enforcement agencies. During the fourth quarter of FY 2006, five DoD components visited the training site and were impressed with the program. As a result, the curriculum was expanded to accommodate additional DoD requirements.

Performance Measures

VA's Strategic Enabling Goal and Objective

Enabling Goal. Deliver world-class service to veterans and their families through effective communication and management of people, technology, business processes, and financial resources.

Objective. Improve the overall governance and performance of VA by applying sound business principles; ensuring accountability; employing resources effectively through enhanced capital asset management, acquisition practices, and competitive sourcing; and linking strategic planning to budgeting and performance.

The Franchise Fund goals tie to the VA goals by:

- Ensuring that all applications processing support and general support are of the highest quality.
- Ensuring that debt management collection services for delinquent consumer debt meet customer needs and requirements.
- Ensuring that payroll and financial services meet customer needs and requirements.
- Ensuring that VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all.
- Ensuring high quality and timely background investigations and adjudications for employees in national security and public trust positions and issuing and managing customer identification badges.
- Ensuring accurate records management and secure archival storage, protection, and retrieval services for veterans' records and for other stored Federal records.
- Establishing and managing the business aspects of the Fund.

The performance information presented on pages 16 and 17 accurately represents the performance during FY 2003–2006. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continually seek to improve our data collection and monitoring techniques.

Each component of the VA Franchise Fund is committed to achieving its performance goals to ensure that we remain a performance-based organization. Out of 8 performance goals, 6 were met and 2 were not met. Process improvements have been implemented for the 2 unmet goals to improve future performance.

Performance Summary Table

Performance Measure	Actuals				Plan	Were 2006 Goals Achieved?	
	2003	2004	2005	2006	2006	Yes	No
Austin Automation Center							
Ranking in the Information Technology Customer Satisfaction peer database	10%	6%	12%	8%	15%	✓	
Availability rate of online systems ^{1,2}	99.8%	99.8%	99.9%	99.9%	99.8%	✓	
Debt Management Center							
Rate of return (Collections versus Expenses)	\$63	\$63	\$67	\$80	\$66	✓	
Financial Services Center							
Payment processing accuracy rate ³	98.9%	98.4%	99%	97.9%	98.4%		✓

¹ The industry standard is 99 percent and best practice is 99.5 percent.

² Goal will be 99.9 percent for mission critical systems architected for high availability.

³ The payment processing accuracy rate will be improved as a result of implementing Optical Character Recognition and E-Invoicing. These solutions will reduce errors associated with manual keying of invoice data and eliminate the need for human intervention.

Performance Summary Table

Performance Measure	Actuals				Plan	Were 2006 Goals Achieved?	
	2003	2004	2005	2006	2006	Yes	No
Law Enforcement Training Center							
Class graduation rate	95%	95.6%	95%	96.5%	95%	✓	
Security and Investigations Center							
Percentage of background investigations completed within the established timeframes	98%	98%	89%	96%	98%		✓
Records Center and Vault							
Percentage of shipment (accession) numbers assigned within the established timeframes ⁴	N/A	99.7%	100%	100%	98%	✓	
Enterprise Fund Office							
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

⁴ This is a new measure. Results were tracked in FY 2004.

Limitation Statement

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Veterans Affairs Franchise Fund (VA Franchise Fund), pursuant to the requirements of 31 U.S.C. 3515 (b). Brown & Company CPAs, PLLC, performed the audit of the statements.

While the statements have been prepared from the books and records of the VA Franchise Fund, in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Audit Opinion

For the ninth consecutive year (1998-2006), we have received an unqualified "clean" audit opinion. This achievement caps our extensive efforts to produce timely, reliable, and auditable financial statements. Sound financial management is a basic building block for being a catalyst for good government and fiscal responsibility for a wide range of Federal clients.

Financial Statement Analysis

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, and changes in net position; and provide information on budgetary resources and financing for FY 2006 and FY 2005. Highlights of the information contained in the consolidated financial statements are summarized in this section.

Overview of Financial Position

Assets

The Consolidated Balance Sheets show that the Fund had total assets of \$222.5 million at the end of FY 2006—an increase of \$28.5 million (15 percent over the previous year's total assets of \$194.0 million). The increase is primarily the result of an increase of \$36.9 million in Fund Balance with Treasury, which is offset by decreases in Accounts Receivable of \$6.3 million and Other Assets of \$4.8 million. The increase in Fund Balance with Treasury is primarily driven by the 18 percent increase in the Fund's revenue of \$297.7 million. Other Assets decreased to nearly a third of its FY 2005 level primarily due to the amount of federal advances outstanding at the close of the fiscal year, which were greatly reduced. (Note 3)

The Fund's assets reflected in the Consolidated Balance Sheets are summarized in the table:

(Dollars in Thousands)

	2006	2005
Fund Balance with Treasury	\$147,785	\$110,805
Property, Plant and Equipment, Net	24,039	21,247
Accounts Receivable, Net	48,415	54,765
Other Assets	2,326	7,197
Total Assets	\$222,564	\$194,014

Liabilities

The Fund had total liabilities of \$112.6 million at the end of FY 2006—an increase of \$18 million (19 percent over the previous year's total liabilities of \$94 million). The increase is largely due to Other Liabilities (\$18 million increase in Accrued Payables). The increase in Accrued Payables is mostly due to additional activity with acquisition services in the IT segment.

The Fund's liabilities reflected in the Consolidated Balance Sheets are summarized in the table:

(Dollars in Thousands)

	2006	2005
Other Liabilities	\$77,932	\$59,702
Intragovernmental Liabilities	24,179	31,789
Accounts Payable	10,565	3,147
Total Liabilities	\$112,676	\$94,638

Management Assurances

The financial and performance data presented in this report are complete and reliable. Throughout the year, the VA Franchise Fund senior managers assess the efficiency and effectiveness of their organizations by analyzing financial and performance data. Management relies on this data to identify material inadequacies in the financial and program performance areas and to identify corrective tasks needed to resolve them.

As a part of a VA Departmentwide initiative, Department managers were tasked with the responsibility for establishing and maintaining effective internal controls over financial integrity and financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations. Based on statements of Written Assurance provided by the Under Secretaries, Assistant Secretaries, and other key officials, the Secretary of Veterans Affairs can provide reasonable assurance that the internal controls as described in the Federal Managers' Financial Integrity Act and Revisions to OMB Circular A-123, Management's Responsibility for Internal Control were operating effectively and no material weaknesses were found. The Secretary of Veterans Affairs' signed certification on internal controls may be found on page 81 in the 2006 Department of Veterans Affairs Performance and Accountability Report (<http://www.va.gov/budget/report/PartI.pdf>)

Net Position

The Fund's net position increased by \$10.5 million in FY 2006 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$109.8 million in FY 2006—a 10 percent increase over the prior year's ending net position of \$99.3 million. Net position is the sum of unexpended funds and cumulative results of operations.

Cumulative Results of Operations

The cumulative results of operation of the Fund had a net income of \$3.9 million in FY 2006—nearly the same level as the previous year of \$4.1 million, as reflected in the Consolidated Statement of Net Cost.

Financing Operations

The Consolidated Statement of Financing reconciles the resources available to finance the Fund's operations with the net costs of providing services. Direct financing resources are not required for some operating cost such as depreciation. The FY 2006 spending authority from offsetting collections and adjustments for the Fund totaled \$352.2 million—a 29 percent increase from the FY 2005 level of \$272.5 million.

Budgetary Resources

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Fund during the year and the status at the end of the year. The Fund does not receive an annual appropriation from Congress. The Fund is fully self-sustained by recovering all cost through reimbursements for the services we provide. The Fund had total budgetary resources of \$441.2 million—a 26 percent increase over the FY 2005 level of \$348.2 million.

The Fund's Budgetary Resources reflected in the Combined Statement of Budgetary Resources are summarized in the following table:

(Dollars in Thousands)

	2006	2005
Beginning Unobligated Balance	\$88,930	\$75,722
Spending Authority Earned and Collected	311,095	239,659
Receivable from Federal Sources	(6,233)	26,709
Change in Unfilled Customer Orders	47,432	6,182
Total Budgetary Resources	\$441,223	\$348,272