

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED BALANCE SHEET
As of December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ (91,392,194.33)	\$ 5,000,000.00
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	111,197,124,523.54	87,475,115,343.02
3. Accounts Receivable (Note 5)	0.00	43,104,933.00
4. Other Assets (Note 6)	0.00	425,880,004.00
5. Total Intragovernmental Assets	<u>\$ 111,105,732,329.21</u>	<u>\$ 87,949,100,280.02</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	9,839,574.41	9,376,178.82
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	0.00	0.00
F. General Property, Plant and Equipment, Net (Note 10)	0.00	0.00
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	0.00	0.00
2. TOTAL ASSETS	<u><u>\$ 111,115,571,903.62</u></u>	<u><u>\$ 87,958,476,458.84</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 22,512,524.56	\$ 0.00
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	0.00	0.00
4. Total Intragovernmental Liabilities	<u>\$ 22,512,524.56</u>	<u>\$ 0.00</u>
B. Accounts Payable (Note 12)	\$ 350,572,456.47	\$ 266,129,600.94
C. Military Retirement and Other Federal Employment Benefits (Note 17)	538,612,788,000.00	537,397,092,000.00
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	0.00	769,904,000.00
4. TOTAL LIABILITIES	<u><u>\$ 538,985,872,981.03</u></u>	<u><u>\$ 538,433,125,600.94</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	(427,870,301,077.41)	(450,474,649,142.10)
D. Cumulative Results of Operations - Other Funds	0.00	0.00
6. TOTAL NET POSITION	<u><u>\$ (427,870,301,077.41)</u></u>	<u><u>\$ (450,474,649,142.10)</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 111,115,571,903.62</u></u>	<u><u>\$ 87,958,476,458.84</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 1,902,627,899.49	\$ 1,891,634,968.08
B. (Less: Earned Revenue)	(27,314,267,786.52)	(29,077,041,192.80)
C. Net Program Costs	<u>\$ (25,411,639,887.03)</u>	<u>\$ (27,185,406,224.72)</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ (25,411,639,887.03)</u></u>	<u><u>\$ (27,185,406,224.72)</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2006 and 2005

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (453,467,940,964.44)	\$ 0.00
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(453,467,940,964.44)	0.00
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	186,000,000.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	186,000,000.00	0.00
7. Net Cost of Operations (+/-)	(25,411,639,887.03)	0.00
8. Net Change	25,597,639,887.03	0.00
9. Cumulative Results of Operations	(427,870,301,077.41)	0.00
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	(427,870,301,077.41)	0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2006 and 2005

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (453,467,940,964.44)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	(453,467,940,964.44)
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	186,000,000.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	186,000,000.00
7. Net Cost of Operations (+/-)	0.00	(25,411,639,887.03)
8. Net Change	0.00	25,597,639,887.03
9. Cumulative Results of Operations	0.00	(427,870,301,077.41)
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	(427,870,301,077.41)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2006 and 2005

	2006 Earmarked Funds	2006 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (477,660,055,366.82)	\$ 0.00
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(477,660,055,366.82)	0.00
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	0.00
7. Net Cost of Operations (+/-)	(27,185,406,224.72)	0.00
8. Net Change	27,185,406,224.72	0.00
9. Cumulative Results of Operations	(450,474,649,142.10)	0.00
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	(450,474,649,142.10)	0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2006 and 2005

	2006 Eliminations	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (477,660,055,366.82)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	(477,660,055,366.82)
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	0.00
7. Net Cost of Operations (+/-)	0.00	(27,185,406,224.72)
8. Net Change	0.00	27,185,406,224.72
9. Cumulative Results of Operations	0.00	(450,474,649,142.10)
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	(450,474,649,142.10)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2006 and 2005

	<u>2007 Combined</u>	<u>2006 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 97,212,208.75
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	32,324,000,000.00	29,967,000,000.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3. Anticipated for rest of year, without advances	0.00	0.00
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>32,324,000,000.00</u>	<u>29,967,000,000.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	186,000,000.00	0.00
5. Temporarily not available pursuant to Public Law	(24,829,649,000.00)	(22,967,150,640.75)
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 7,680,351,000.00</u></u>	<u><u>\$ 7,097,061,568.00</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2006 and 2005

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 2,189,260,056.37	\$ 2,365,840,759.76
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>2,189,260,056.37</u>	<u>2,365,840,759.76</u>
9. Unobligated balance:		
9.A. Apportioned	5,491,090,943.63	4,731,220,808.24
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>5,491,090,943.63</u>	<u>4,731,220,808.24</u>
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	<u><u>\$ 7,680,351,000.00</u></u>	<u><u>\$ 7,097,061,568.00</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	397,172,252.77	387,880,772.27
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	<u>397,172,252.77</u>	<u>387,880,772.27</u>
13. Obligations incurred net (+/-)	<u>\$ 2,189,260,056.37</u>	<u>\$ 2,365,840,759.76</u>
14. Less: Gross outlays	(1,827,377,191.50)	(2,285,048,782.15)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	<u>0.00</u>	<u>0.00</u>
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	759,055,117.64	468,672,749.88
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>759,055,117.64</u>	<u>468,672,749.88</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	1,827,377,191.50	2,285,048,782.15
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>(27,314,267,786.52)</u>	<u>(29,077,041,192.80)</u>
19.D. Net Outlays	<u><u>\$ (25,486,890,595.02)</u></u>	<u><u>\$ (26,791,992,410.65)</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2006 and 2005

	<u>2007 Combined</u>	<u>2006 Combined</u>
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>0.00</u>	<u>0.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2006 and 2005

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	0.00	0.00
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	0.00	0.00
10. Unobligated balance not available	0.00	0.00
11. Total Status of Budgetary Resources	\$ 0.00	\$ 0.00
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	0.00	0.00
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ 0.00	\$ 0.00
12.C. Total unpaid obligated balance	0.00	0.00
13. Obligations incurred net (+/-)	\$ 0.00	\$ 0.00
14. Less: Gross outlays	0.00	0.00
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	0.00	0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	0.00	0.00
18.C. Total, unpaid obligated balance, net, end of period	0.00	0.00
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	0.00	0.00
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	\$ 0.00	\$ 0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
	<hr/>	<hr/>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 2,189,260,056.37	\$ 2,365,840,759.76
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	2,189,260,056.37	2,365,840,759.76
4. Less: Offsetting receipts (-)	(27,314,267,786.52)	(29,077,041,192.80)
5. Net obligations	<hr/> (25,125,007,730.15)	<hr/> (26,711,200,433.04)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	<hr/> 0.00	<hr/> 0.00
11. Total resources used to finance activities	<hr/> \$ (25,125,007,730.15)	<hr/> \$ (26,711,200,433.04)
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(261,172,530.63)	(482,247,543.39)
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	(24,423,000.00)	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (285,595,530.63)	<hr/> \$ (482,247,543.39)
18. Total resources used to finance the net cost of operations	<hr/> \$ (25,410,603,260.78)	<hr/> \$ (27,193,447,976.43)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2006 and 2005

	<u>2007 Consolidated</u>	<u>2006 Consolidated</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	7,741,000.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<u>0.00</u>	<u>7,741,000.00</u>
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	0.00	0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(1,036,626.25)	300,751.71
28. Total components of Net Cost of Operations that will not require or generate resources	<u>(1,036,626.25)</u>	<u>300,751.71</u>
29. Total components of net cost of operations that will not require or generate resources in the current period	<u>\$ (1,036,626.25)</u>	<u>\$ 8,041,751.71</u>
30. Net Cost of Operations	<u><u>\$ (25,411,639,887.03)</u></u>	<u><u>\$ (27,185,406,224.72)</u></u>

Note 1.	Significant Accounting Policies
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1.A. Basis of Presentation

Public Law (PL) 106-398 authorized the Department of Defense (DoD) Medicare-Eligible Retiree Health Care Fund (MERHCF) (hereby referred to as “the Fund” or “the MERHCF”) for the purpose of accumulating funds to finance the liabilities of the DoD and the Uniformed Services health care programs for specific Medicare-eligible beneficiaries.

The Defense Finance and Accounting Service (DFAS) prepared these financial statements to report the financial position and results of operations for the Fund, as required by the “Chief Financial Officers (CFO) Act of 1990,” which the Government Management Reform Act of 1994 and other appropriate legislation expanded. Specifically, the DFAS Denver Trust Fund Accounting Division, Accounting Directorate, prepared the financial statements from its books and records in accordance with the *DoD Financial Management Regulation*; the Office of Management and Budget Circular No. A -136, *Financial Reporting Requirements*; and, to the extent possible, generally accepted accounting principles. The accompanying financial statements account for all resources for which the MERHCF is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

1.B. Mission of the Reporting Entity

The MERHCF accumulates funds in order to finance, on an actuarially sound basis, liabilities of the DoD and the Uniformed Services health care programs for specific Medicare-eligible beneficiaries.

1.C. Appropriations and Funds

The “Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001” authorized the Fund. The Fund pays the costs of all Military Service and other Uniformed Service retiree health care programs for members or former members of a participating service who are entitled to retired or retainer pay and are Medicare-eligible, their dependents who are Medicare-eligible, and survivors who are Medicare-eligible.

The Fund appropriations are designated as special funds. These appropriations fund the daily execution of the Fund mission. As a special fund, the MERHCF uses both receipt and expenditure accounts. The Fund symbol is 97X5472. The account uses a budget activity level structure. The Fund establishes lower level accounts as necessary to meet reporting requirements.

Certain special and trust funds may be designated as earmarked funds. Effective 1st Quarter, Fiscal Year (FY) 2006, the Fund started reporting its financial position and

results of operations using the term “Earmarked Funds.” Earmarked Funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds are also required to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

1.D. Basis of Accounting

The CFO Act of 1990 established the Federal Accounting Standards Advisory Board (FASAB) for the purpose of recommending Federal Accounting Standards to the Secretary of the Treasury, the Director of the OMB, the Director of the Office of Personnel Management, and the Comptroller General. The OMB and the Comptroller General issue Statements of Federal Financial Accounting Standards (SFFAS), some of which have deferred effective dates.

In April 2000, the American Institute of Certified Public Accountants (AICPA), via its Statements on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles (GAAP) in the Auditor’s Report*, as amended by SAS No. 91, established the following hierarchy of accounting principles for federal government entities:

- (A) FASAB Statements and Interpretations plus AICPA and Financial Accounting Standards Board pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation.
- (B) FASAB Technical Bulletins and the following pronouncements if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statement of Position.
- (C) AICPA Accounting Standards Executive Committee Practice Bulletins, if specifically made applicable to federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.
- (D) Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the federal government.

In the absence of a pronouncement covered by federal GAAP or another source of established accounting principles, the auditor of a federal government entity may consider other accounting literature, depending on its relevance to the circumstance. When directed by OMB, through its Circular No. A-136, GAAP in the United States (U.S.) of America serves as authoritative guidance for federal agencies in preparing reports that are addressed within this circular.

The Department identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report

accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

Up through FY 2005, the Fund received its financing sources primarily through an annual unfunded actuarial liability payment from the U.S. Treasury; monthly contributions from the Military Services and other Uniformed Services (U.S. Coast Guard, the National Oceanic and Atmospheric Administration, and the U.S. Public Health Service); and interest earned on investments.

Beginning in FY 2006, the Fund receives its financing sources primarily through the annual contributions from the Military Services and other Uniformed Services made at the beginning of each fiscal year; a Treasury payment for annual amortization of the unfunded liability made at the beginning of each fiscal year; and interest earned on investments.

The Fund does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Statement of Financing. The U.S. has cost sharing agreements with other countries. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of benefit expenses in the period incurred. However, because the Fund's financial feeder system was not designed to collect and record financial information on the full accrual basis, accrual adjustments are made for major items such as accounts receivable and accounts payable.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within the DoD or between two or more federal agencies. Seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer entities adjust their records to agree with DoD seller-side balances. The fund is able to reconcile its records and no adjustments are needed. Intra-DoD intragovernmental balances are then eliminated.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, and the Treasury's *Federal Intragovernmental Transactions Accounting Policy Guide* provide guidance for reporting and reconciling intragovernmental balances. The Fund is able to reconcile balances pertaining to investments in federal securities. The DoD's proportionate share of public debt and related expenses of the federal government is not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies. The fund does not finance any construction costs.

1.H. Transactions with Foreign Governments and International Organizations

N/A

1.I. Funds with the U.S. Treasury

The U.S. Treasury allows the Fund to be fully invested. Therefore, the fund balance with Treasury (FBWT) may be zero during various quarters of the fiscal year.

The Fund's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS) and the Military Services, and other federal governmental financial service centers process the majority of the Fund's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, the DFAS sites submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury records this information to the applicable FBWT account. Differences between the Fund's recorded balance in the FBWT and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon an analysis of collection experience by fund type. The Fund calculates an allowance for estimated uncollectible accounts receivable from the public as a percentage (3 %) of receivables from all sources. The Fund bases the estimate of these uncollectible accounts receivable on an analysis of the actual uncollectible amounts experienced during previous fiscal years. The current estimate is based on an analysis of the actual uncollectible amounts experienced during FY 2006 as well as the 4th Quarter, FY 2005.

The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fm.treas.gov/tfm/vol1/07-03.pdf>.

1.L. Direct Loans and Loan Guarantees

N/A

1.M. Inventories and Related Property

N/A

1.N. Investments

The Fund reports investments in U.S. Treasury securities at cost, net of amortized premium or discount, on the Balance Sheet. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method. The Fund's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, there is no provision for unrealized gains or losses on these securities.

The Fund invests in nonmarketable securities. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

The Fund purchases and redeems nonmarketable market-based securities issued by the U.S. Treasury, Bureau of Public Debt. Nonmarketable market-based securities include U.S. Treasury bills, notes, bonds, inflation-protected securities, and overnight certificates. U.S. Treasury bills are short-term securities with maturities of 1 year or less and are purchased at a discount. The U.S. Treasury notes have maturities of at least 1 year, but not more than 10 years, and are purchased at either a discount or premium. The U.S. Treasury bonds are long-term securities with maturity terms of 10 years or more and are purchased at either a discount or premium.

The Fund records investments at book value representing amortized cost. The Fund calculates amortization of discounts and premiums using the effective interest method. The Fund receives interest on the value of its nonmarketable market-based securities from the U.S. Treasury on a semi-annual basis for U.S. Treasury bonds and notes.

1.O. General Property, Plant and Equipment

N/A

1.P. Advances and Prepayments

N/A

1.Q. Leases

N/A

1.R. Other Assets

N/A

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involve an uncertainty as to possible gain or loss. The Fund recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments.

1.T. Accrued Leave

N/A

1.U. Net Position

Net position consists of cumulative results of operations and unexpended appropriations. Cumulative results of operations represent the net difference, since the inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Effective FY 2003, when the Fund began operations, the cumulative results also include donations and transfer in and out of assets without reimbursement.

Unexpended Appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. The Fund does not report unexpended appropriations, as the balances are temporarily unavailable for obligation.

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Comparative Data

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or ten percent from the prior period presented, but no less than \$100 thousand, are explained within the notes to the financial statements.

1.X. Unexpended Obligations

The Fund obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

1.Y. Undistributed Disbursements and Collection

Due to the processes for the MERHCF, there are no undistributed disbursements or collections.

Note 2.	Nonentity Assets
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As of December 31	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 111,115,571,903.62	\$ 87,958,476,458.84
5. Total Assets	\$ 111,115,571,903.62	\$ 87,958,476,458.84

The Medicare-Eligible Retiree Health Care Fund does not have any Nonentity Assets.

Note 3.	Fund Balance with Treasury
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As of December 31	2007	2006
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	0.00	0.00
D. Special Funds	(91,392,194.33)	5,000,000.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ (91,392,194.33)	\$ 5,000,000.00
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ (91,392,194.33)	\$ 5,000,000.00
B. Fund Balance per MERHCF	(91,392,194.33)	5,000,000.00
3. Reconciling Amount	\$ 0.00	\$ 0.00

Fluctuation

The fund balance with Treasury decreased \$96.4 million (1,928%) resulting in an abnormal balance. The decrease occurred because the TRICARE Management Activity (TMA) processed a payment charging the Medicare-Eligible Retiree Health Care Fund (MERHCF) \$96.4 million. This payment was for direct care medical services rendered and was paid directly to the service provider. However, the trust fund accounting staff did not have access to the payment notification from TMA because the DFAS Denver Site was closed due to inclement weather. Therefore, funds were not held back from the daily investment amount to cover the payment. The payment was recorded on January 3, 2007, and the funds were held from investments to restore the Fund Balance.

Status of Fund Balance with Treasury

As of December 31	2007	2006
1. Unobligated Balance		
A. Available	\$ 348,436,312.37	\$ 3,562,167,205.69
B. Unavailable	109,098,358,458.26	0.00
2. Obligated Balance not yet Disbursed	\$ 759,055,117.64	\$ 83,154,658,209.90
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (110,297,242,082.60)	\$ (86,711,825,415.59)
5. Total	\$ (91,392,194.33)	\$ 5,000,000.00

Fluctuations

The decrease in the Total Status of Fund Balance with Treasury is the result of the payment for direct care medical services that did not get recorded and therefore was inadvertently invested, as discussed above.

Other Disclosures

The Status of Fund Balance with Treasury (FBWT) consists of unobligated and obligated balances. These balances reflect the budget authority remaining for disbursements against current or future obligations. In addition, the Status includes various accounts that affect either budgetary reporting or FBWT, but not both.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. These unobligated balances, which are segregated to show the available and unavailable amounts in the note schedule above, are restricted to future use and are not apportioned for current use. For the MERHCF, these balances are only available for investing in nonmarketable market-based securities purchased through the Department of Treasury.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

NonFBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, and investment accounts. This category reduces the Status of FBWT.

Disclosures Related to Suspense/Budget Clearing Accounts

As of December 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 – 2007
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Not applicable.

Disclosures Related to Problem Disbursements and In-Transit Disbursements
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As of December 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs) \$	0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
2. Total In-transit Disbursements, Net	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Not applicable.

Note 4.	Investments and Related Interest
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As of December 31	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	111,574,711,104.99	Effective Interest	(1,277,469,022.39)	110,297,242,082.60	106,508,586,902.13
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	111,574,711,104.99		(1,277,469,022.39)	110,297,242,082.60	106,508,586,902.13
B. Accrued Interest	899,882,440.94			899,882,440.94	899,882,440.94
C. Total Intragovernmental Securities	\$ 112,474,593,545.93		\$ (1,277,469,022.39)	\$ 111,197,124,523.54	\$ 107,408,469,343.07
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of December 31	2006				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	87,325,640,667.28	Effective Interest	(626,425,645.71)	86,699,215,021.57	86,534,815,312.74
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	87,325,640,667.28		(626,425,645.71)	86,699,215,021.57	86,534,815,312.74
B. Accrued Interest	775,900,321.45			775,900,321.45	775,900,321.45
C. Total Intragovernmental Securities	\$ 88,101,540,988.73		\$ (626,425,645.71)	\$ 87,475,115,343.02	\$ 87,310,715,634.19
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Fluctuation

Total Intragovernmental Securities increased \$23.7 billion (27%) because the Fund's revenue exceeded its expenses. Most of these excess funds were used to purchase additional securities. The Fund's revenue consisted of the FY 2007 contributions from the Military Services and other Uniformed Services totaling \$11.1 billion, Treasury's annual unfunded liability payment of \$15.6 billion, and \$158.8 million in interest. Fund contributions are actuarially determined and are not intended to equal the amount of beneficiary payments. The Fund contributions reflect the present value of future benefits earned during the year plus a portion of the present value of future benefit payments already earned in prior period.

The two tables, above, display the cost value of the Fund's investments at December 31, 2005, and at December 31, 2006.

Other Information

The following tables display the cost values of the U.S. Treasury Securities referenced above:

<u>COST VALUE FY 2007</u>		<u>COST VALUE FY 2006</u>	
<u>(\$Billions)</u>		<u>(\$Billions)</u>	
Bills	--	Bills	\$4.5
Bonds	\$2.0	Bonds	2.0
Notes	19.4	Notes	22.6
Overnights	5.1	Overnights	5.7
TIPS (see Note)	67.0	TIPS (see Note)	40.6
Less: Discount*	---	Less: Discount*	---
Plus: Premium	18.1	Plus: Premium	11.9
Total	\$111.6	Total	\$87.3

*Discount for FY 2007 is \$25.4 million and \$0 for FY 2006.

Note: Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The TIPS principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, Treasury pays the adjusted principal or original principal, whichever is greater. The TIPS amount includes inflation compensation as well as the shares par value.

The 1st Quarter, FY 2007, fluctuations in the Fund's bills, notes, overnights, and TIPS reflect the continuing investment strategy to invest in more long-term investments than short-term. This new investment strategy, which began during 4th Quarter, FY 2005, is oriented toward the Fund achieving a higher rate of return on investment.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury issues securities to the Medicare-Eligible Retiree Health Care Fund (MERHCF) as evidence of its receipts. Treasury securities are an asset to the MERHCF and a liability to the U.S. Treasury. Because the MERHCF and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements. U.S. Treasury securities provide the MERHCF with authority to draw upon the U.S. Treasury to make

future benefit payments or other expenditures. When the MERHCF requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 5. Accounts Receivable

As of December 31	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 0.00	N/A	\$ 0.00	\$ 43,104,933.00
2. Nonfederal Receivables (From the Public)	\$ 10,058,599.75	\$ (219,025.34)	\$ 9,839,574.41	\$ 9,376,178.82
3. Total Accounts Receivable	\$ 10,058,599.75	\$ (219,025.34)	\$ 9,839,574.41	\$ 52,481,111.82

Fluctuation**Intragovernmental**

Intragovernmental receivables decreased from \$43.1 million to \$0, between 1st Quarter, FY 2006, and 1st Quarter, FY 2007, because the Army Reserve paid its “normal cost” contribution in full.

Aged Accounts Receivable

As of December 31	2007		4th Quarter 2006	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 0.00	\$ 4,613,547.00	\$ 0.00	\$ 4,789,287.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 0.00	\$ 3,277,275.00	\$ 0.00	\$ 0.00
31 to 60 days	0.00	0.00	0.00	6,509.00
61 to 90 days	0.00	0.00	0.00	1,879,501.00
91 to 180 days	0.00	562,554.00	0.00	1,157,359.00
181 days to 1 year	0.00	1,045,653.00	0.00	504,135.00
Greater than 1 year and less than or equal to 2 years	0.00	559,571.00	0.00	678,969.00
Greater than 2 years and less than or equal to 6 years	0.00	0.00	0.00	0.00
Greater than 6 years and less than or equal to 10 years	0.00	0.00	0.00	0.00
Greater than 10 years	0.00	0.00	0.00	0.00
Subtotal	\$ 0.00	\$ 10,058,600.00	\$ 0.00	\$ 9,015,760.00
Less Supported Undistributed Collections	0.00	0.00	0.00	0.00
Less Eliminations	0.00	0.00	0.00	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 10,058,600.00	\$ 0.00	\$ 9,015,760.00

The prior year column in the account receivable aging schedule represents 4th Quarter, FY 2006, ending balances, rather than the ending balances as of 1st Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will neither agree with the prior year balance on the Balance Sheet nor agree with the prior year balance in the first schedule in this note.

Aged accounts receivable up to 180 days are held by the TRICARE Dual-Eligible Fiscal Intermediary Contract (TDEFIC) contractor in accordance with contract requirements; therefore, more detailed information on accounts up to 180 days delinquent is not available. A contract modification is being developed to require the TDEFIC contractor to provide more detailed information on delinquent accounts receivable to the TRICARE Management Activity (TMA) on a monthly basis. This modification should be in effect by 3rd Quarter, FY 2007. The TDEFIC tries to recoup the receivables from the providers.

If the TDEFIC has not received payment by the time it receives another claim from that particular provider, the TDEFIC deducts the accounts receivable amount owed the government from the amount owed on the new claim, pays the difference, and closes out the receivable. Once the accounts age to 180 days, the TDEFIC transfers the larger debts, totaling at least \$600, to the TMA General Counsel for review and transfer to Treasury. The TDEFIC holds accounts of less than \$600 for the life of the

contract and continues to pursue collection or claims offset. When the TMA awards the contract to a new contractor, the incumbent contractor transfers these accounts receivable to the new contractor for appropriate collection action.

The variance between 4th Quarter, FY 2006, and 1st Quarter, FY 2007, for aged delinquent accounts receivable from 181 days-2 years is due primarily to the slippage of aged accounts between the 91-180 days category to the 181 days-1 year category.

Of the \$1.6 million delinquent accounts receivables over 180 days, the TMA General Counsel is reviewing \$117.5 thousand. The status of the remaining amount is as follows: \$299.7 thousand has been transferred to the Treasury for collection and \$1,183.0 thousand is held by the TDEFIC for collection in accordance with the contract that requires the TDEFIC to retain claims of \$600 or less for collection efforts for the duration of the contract.

Note 6.	Other Assets
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As of December 31	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0.00	\$ 425,880,004.00
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 0.00	\$ 425,880,004.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	0.00	0.00
C. Total Nonfederal Other Assets	\$ 0.00	\$ 0.00
3. Total Other Assets	\$ 0.00	\$ 425,880,004.00

Fluctuation

The Advances and Prepayments decreased from \$425.9 million to \$0 in 1st Quarter, FY 2007, because the Medicare-Eligible Retiree Health Care Fund (MERHCF) is no longer providing advance payments due to a change in policy. Effective 3rd Quarter, FY 2006, the MERHCF stopped making advances and made regular payments to the military medical treatment facilities (MTFs). Until 2nd Quarter, FY 2006, the MERHCF had made advances/prepayments in the 1st, 2nd, and 3rd quarters of each fiscal year. These payments were for care that was expected to be provided in the succeeding quarter to Medicare-eligible Uniformed Services beneficiaries in the military MTFs.

Note 7.	Cash and Other Monetary Assets
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As of December 31	2007	2006
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency	0.00	0.00
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

Not applicable.

Note 8.	Direct Loan and/or Loan Guarantee Programs
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As of December 31

Direct Loan and/or Loan Guarantee Programs

Not applicable.

Direct Loans Obligated After FY 1991

As of December 31	2007	2006
Loan Programs		
1. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
3. Total Loans Receivable	\$ 0.00	\$ 0.00

Not applicable.

Total Amount of Direct Loans Disbursed

As of December 31	2007	2006
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

Not applicable.

Subsidy Expense for Post FY 1991 Direct Loan

As of December 31

2007	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
2006	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
5. Total Direct Loan Subsidy Expense:					
	2007	2006			
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00	0.00			

Not applicable.

Subsidy Rate for Direct Loans

As of December 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
Direct Loan Programs					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post 1991 Direct Loans

As of December 31	2007		2006	
1. Beginning Balance of the Subsidy Cost Allowance	\$	0.00	\$	0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component				
A. Interest Rate Differential Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
E. Total of the above Subsidy Expense Components	\$	0.00	\$	0.00
3. Adjustments				
A. Loan Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Foreclosed Property Acquired		0.00		0.00
D. Loans Written Off		0.00		0.00
E. Subsidy Allowance Amortization		0.00		0.00
F. Other		0.00		0.00
G. Total of the above Adjustment Components	\$	0.00	\$	0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$	0.00	\$	0.00
5. Add or Subtract Subsidy Re-estimates by Component				
A. Interest Rate Re-estimate	\$	0.00	\$	0.00
B. Technical/Default Reestimate		0.00		0.00
C. Total of the above Reestimate Components	\$	0.00	\$	0.00
6. Ending Balance of the Subsidy Cost Allowance	\$	0.00	\$	0.00

Not applicable.

Defaulted Guaranteed Loans from Post FY 1991 Guarantees
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As of December 31	2007	2006
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00

Not applicable.

Guaranteed Loans Outstanding

As of December 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2007		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

Not applicable.

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of December 31	2007	2006
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

Not applicable.

Subsidy Expense for Post FY 1991 Loan Guarantees

As of December 31

2007	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
	2007	2006			
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

Not applicable.

Subsidy Rates for Loan Guarantees

As of December 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantee Programs:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable.

Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees

As of December 31	2007		2006	
1. Beginning Balance of the Loan Guarantee Liability	\$	0.00	\$	0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component				
A. Interest Supplement Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
E. Total of the above Subsidy Expense Components	\$	0.00	\$	0.00
3. Adjustments				
A. Loan Guarantee Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Interest Supplements Paid		0.00		0.00
D. Foreclosed Property and Loans Acquired		0.00		0.00
E. Claim Payments to Lenders		0.00		0.00
F. Interest Accumulation on the Liability Balance		0.00		0.00
G. Other		0.00		0.00
H. Total of the above Adjustments	\$	0.00	\$	0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$	0.00	\$	0.00
5. Add or Subtract Subsidy Reestimates by Component				
A. Interest Rate Reestimate		0.00		0.00
B. Technical/default Reestimate		0.00		0.00
C. Total of the above Reestimate Components	\$	0.00	\$	0.00
6. Ending Balance of the Loan Guarantee Liability	\$	0.00	\$	0.00

Not applicable.

Administrative Expenses

Not applicable.

Note 9.	Inventory and Related Property
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As of December 31	2007	2006
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Not applicable.

Inventory, Net

As of December 31	2007			2006		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair		0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable		0.00	0.00	0.00	0.00	NRV
D. Raw Materials		0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process		0.00	0.00	0.00	0.00	AC
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
 SP = Standard Price
 AC = Actual Cost

NRV = Net Realizable Value
 O = Other
 MAC = Moving Average Cost

Operating Materials and Supplies, Net

As of December 31	2007			2006		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
 SP = Standard Price
 AC = Actual Cost

NRV = Net Realizable Value
 O = Other

Stockpile Materials, Net

As of December 31	2007			2006		
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method	
1. Stockpile Materials Categories						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM	
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM	
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
 SP = Standard Price
 AC = Actual Cost

NRV = Net Realizable Value
 LCM = Lower of Cost or Market
 O = Other

Note 10. General PP&E, Net

As of December 31	2007					2006
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	0.00	\$ 0.00	0.00	0.00
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	0.00	0.00	0.00	0.00
E. General Equipment	S/L	5 or 10	0.00	0.00	0.00	0.00
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in- Progress	N/A	N/A	0.00	N/A	0.00	0.00
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

Not applicable.

Assets Under Capital Lease

As of December 31	2007	2006
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

Not applicable.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of December 31	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	424,023,338,598.11	450,007,851,066.74
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	769,904,000.00
E. Total Nonfederal Liabilities	\$ 424,023,338,598.11	\$ 450,777,755,066.74
3. Total Liabilities Not Covered by Budgetary Resources	\$ 424,023,338,598.11	\$ 450,777,755,066.74
4. Total Liabilities Covered by Budgetary Resources	\$ 114,962,534,382.92	\$ 87,655,370,534.20
5. Total Liabilities	\$ 538,985,872,981.03	\$ 538,433,125,600.94

Fluctuations

The Military Retirement and Other Federal Employment Benefits line, which represents an unfunded liability, decreased \$26.0 billion (6%) because of the increase in the availability of assets to pay benefits to Medicare-eligible beneficiaries. During the period between the end of the 1st Quarter, FY 2006 and the 1st Quarter, FY 2007, the Medicare-Eligible Retiree Health Care Fund's revenue exceeded its expenses, which provided a positive cash flow of more than \$25.0 billion. See Note 4 for additional information.

The Nonfederal Other Liabilities, which are comprised of incurred but not reported (IBNR) costs, decreased from \$769.9 million to \$0 between the 1st Quarter, FY 2006, and 1st Quarter, FY 2007, due to a policy change to report these costs on Note 17, Military Retirement and Other Federal Employment Benefits. This new requirement was effective 4th Quarter, FY 2006.

Note 12.	Accounts Payable
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As of December 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 22,512,524.56	\$ N/A	\$ 22,512,524.56	\$ 0.00
2. Nonfederal Payables (to the Public)	350,572,456.47	0.00	350,572,456.47	266,129,600.94
3. Total	\$ 373,084,981.03	\$ 0.00	\$ 373,084,981.03	\$ 266,129,600.94

Fluctuations**Intragovernmental Payables**

Intragovernmental Payables increased from \$0 to \$22.5 million. These payables have existed since the start of Medicare-Eligible Retiree Health Care Fund (MERHCF) operations in the 1st Quarter, FY 2003. However, these amounts have been commingled with the nonfederal payables until 3rd Quarter, FY 2006. The MERHCF has coordinated a methodology with the Defense Logistics Agency (DLA) trading partner to ensure MERHCF intragovernmental accounts payable can be accurately identified and match DLA accounts receivable in support of the pharmaceutical inventory used by the TRICARE Mail Order Pharmacy contractor, Express Scripts Inc.

Nonfederal Payables

NonFederal Payables (to the Public) increased \$84.4 million (32%). The increase is primarily attributable to an understatement of accounts payable in early FY 2006 due to a claims backlog that occurred in FY 2005, the effects of which carried over into FY 2006. The claims backlog resulted from the transition to a new claims processing system, the TRICARE Encounter Data System.

Included in the \$350.6 million of nonfederal payables is \$41.0 million in pharmaceutical refunds due to drug companies as a result of the lost litigation, which is discussed below.

The Veterans Health Care Act (VHCA) of 1992 established federal ceiling prices of covered pharmaceuticals. The DoD is one of four federal agencies covered by this Act, which includes a health care discount program managed by the Veterans Administration. In May 2004, the VHCA was applied to the retail pharmacy operations included in the TRICARE Pharmacy Benefits Program. Pharmaceutical manufacturers were required to calculate the discount rate and pay refunds to DoD for covered drugs issued at retail pharmacies. Refunds were required to be paid starting in FY 2005, but some of the large pharmaceutical companies requested a legal review.

On September 11, 2006, the Court of Appeals for the Federal Circuit ruled against the government's position. As a result, the refund invoicing to manufacturers has been suspended. As of August 31,

2006, the MERHCF had received \$53.8 million in voluntary refunds. When the government lost the litigation, the refunds were recorded as a nonfederal payable in 4th Quarter, FY 2006, with reimbursement of the \$53.8 million planned during FY 2007. As of the close of 1st Quarter, FY 2007, \$12.8 million had been refunded to pharmaceutical manufacturers.

Note 13.	Debt
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As of December 31	2007			2006	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of December 31	2007			2006	
	Current Liability	Noncurrent Liability	Total	Total	
1. Environmental Liabilities--					
Nonfederal					
A. Accrued Environmental Restoration Liabilities					
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)					
\$	0.00	\$	0.00	\$	0.00
2. Active Installations—Military Munitions Response Program (MMRP)					
	0.00		0.00		0.00
3. Formerly Used Defense Sites—IRP and BD/DR					
	0.00		0.00		0.00
4. Formerly Used Defense Sites--MMRP					
	0.00		0.00		0.00
B. Other Accrued Environmental Liabilities—Active Installations					
1. Environmental Corrective Action					
	0.00		0.00		0.00
2. Environmental Closure Requirements					
	0.00		0.00		0.00
3. Environmental Response at Operational Ranges					
	0.00		0.00		0.00
4. Other					
	0.00		0.00		0.00
C. Base Realignment and Closure (BRAC)					
1. Installation Restoration Program					
	0.00		0.00		0.00
2. Military Munitions Response Program					
	0.00		0.00		0.00
3. Environmental Corrective Action / Closure Requirements					
	0.00		0.00		0.00
4. Other					
	0.00		0.00		0.00
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers					
	0.00		0.00		0.00
2. Nuclear Powered Submarines					
	0.00		0.00		0.00
3. Other Nuclear Powered Ships					
	0.00		0.00		0.00
4. Other National Defense Weapons Systems					
	0.00		0.00		0.00
5. Chemical Weapons Disposal Program					
	0.00		0.00		0.00
6. Other					
	0.00		0.00		0.00
2. Total Environmental Liabilities					
\$	0.00	\$	0.00	\$	0.00

Not applicable.

Environmental Disclosures

As of December 31	2007	2006
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	0.00	0.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Note 15.	Other Liabilities
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As of December 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	0.00	0.00	0.00	0.00
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Advances from Others	0.00	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	0.00	0.00	0.00	769,904,000.00
J. Total Nonfederal Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 769,904,000.00
3. Total Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 769,904,000.00

Fluctuation

The Nonfederal Other Liabilities, which consist of incurred but not reported (IBNR) costs, decreased from \$769.9 million to \$0 between the 1st Quarter, FY 2006 and 1st Quarter, FY 2007. This decrease occurred because of a policy change to report these costs on the Other Federal Employment Benefits line in Note 17, Military Retirement and Other Federal Employment Benefits. This new requirement was effective 4th Quarter, FY 2006.

Capital Lease Liability

As of December 31	2007				2006	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2007	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2008	0.00	0.00	0.00	0.00	0.00	0.00
C. 2009	0.00	0.00	0.00	0.00	0.00	0.00
D. 2010	0.00	0.00	0.00	0.00	0.00	0.00
E. 2011	0.00	0.00	0.00	0.00	0.00	0.00
F. 2012	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 16.	Commitments and Contingencies
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The DoD Medicare-Eligible Retiree Health Care Fund reported no commitments or contingencies.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of December 31	2007				2006
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	538,032,547,000.00	6.25	(114,589,449,401.89)	423,443,097,598.11	537,397,092,000.00
D. Total Pension and Health Actuarial Benefits	\$ 538,032,547,000.00		\$ (114,589,449,401.89)	\$ 423,443,097,598.11	\$ 537,397,092,000.00
2. Other Actuarial Benefits					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 580,241,000.00		\$ 0.00	\$ 580,241,000.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 538,612,788,000.00		\$ (114,589,449,401.89)	\$ 424,023,338,598.11	\$ 537,397,092,000.00

Actuarial Cost Method Used: See below

Assumptions: See below

Market Value of Investments in Market-based and Marketable Securities: See below

Fluctuation

The Other Federal Employment Benefits line, which represents incurred but not reported (IBNR) costs, increased from \$0 to \$580.2 million due to a policy change effective 4th Quarter, FY 2006. In prior quarters, these costs were reported in Notes 11 and 15. The IBNR costs represent an actuarially determined estimate of liabilities for covered medical services rendered before the end of the 1st Quarter, FY 2007. From 1st Quarter, FY 2006, to 1st Quarter, FY 2007, IBNR costs decreased from \$769.9 million to \$580.2 million—a decrease of \$189.7 million (25%). The decrease was due to the following reasons:

- The claims were processed faster.
- There was a lower rate of claims submitted for inpatient, outpatient, and retail pharmacy services.
- There were refinements to the claims reporting system.

Other Information

Public Law 106-398 authorized the establishment of the Medicare-Eligible Retiree Health Care Fund (MERHCF) for the purpose of accumulating funds to finance the liabilities of the Department of Defense (DoD) and the uniformed services health care programs for specific Medicare-eligible beneficiaries. The Fund began operations effective October 1, 2002.

Actuarial cost method used for the MERHCF liability: Aggregate Entry-Age
 Normal Interest Rate: 6.25%

Assumptions in the calculation of the MERHCF liability:

Medical Trend Rate Assumptions

Medical Inpatient:	5.6 % from FY 2005 to FY 2006, ultimate rate of 6.25 % in 2030
Medicare Outpatient:	7.8 % from FY 2005 to FY 2006, ultimate rate of 6.25 % in 2030
Medicare Prescriptions (Direct Care):	8.1% from FY 2005 to FY 2006, ultimate rate of 6.25% in 2030
Medicare Prescriptions (Purchased Care):	11.2 % from FY 2005 to FY 2006, ultimate rate of 6.25 % in 2030

The medical cost trend rate assumptions have a significant effect on the amounts reported. If the assumed rates increased by 1 percentage point in each year, that would increase the actuarial present value of projected plan benefits as of September 30, 2006, by 28%, or approximately \$148.7 billion.

The market value of the MERHCF's nonmarketable market-based securities as of December 31, 2006, totaled \$107.4 billion, which included \$899.9 million in accrued interest.

Change in MERHCF Actuarial Liability

(\$ in Billions)

a. Actuarial Liability as of September 30, 2005 (all Uniformed Services Medicare)	\$537.4
b. Expected Normal Cost for FY 2006	\$11.0
c. Expected Benefit Payments for FY 2006	(\$7.5)
d. Interest Cost for FY 2006	\$34.0
e. Actuarial (gains)/losses due to other factors	\$42.1
f. Actuarial (gains)/losses due to changes in trend assumptions	(\$79.1)
g. Actuarial Liability as of September 30, 2006 (all Uniformed Services Medicare)	\$538.0
h. Change in Actuarial Liability	\$0.6

Each year the actuarial liability is expected to increase with normal cost, decrease with benefit payments, and increase with the interest cost (interest on the liability during the period). In the absence of actuarial gains and losses or benefit changes, an increase of \$37.5 billion in the actuarial liability was expected during FY 2006 (line b plus line c plus line d). The September 30, 2006, actuarial liability includes changes due to new assumptions and actuarial experience. The actuarial gain due to new medical trend assumptions is a negative \$79.1 billion (line f). The actuarial gains and losses due to other factors (net \$42.1 billion, line e) includes new population data, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of December 31	2007	2006

As of December 31	2007	2006
1. Intragovernmental Costs	\$ 639,802,647.43	\$ 603,493,360.00
2. Public Costs	1,262,825,252.06	1,288,141,608.08
3. Total Costs	\$ 1,902,627,899.49	\$ 1,891,634,968.08
4. Intragovernmental Earned Revenue	\$ (27,314,267,786.52)	\$ (29,078,620,349.76)
5. Public Earned Revenue	0.00	1,579,156.96
6. Total Earned Revenue	\$ (27,314,267,786.52)	\$ (29,077,041,192.80)
7. Net Cost of Operations	\$ (25,411,639,887.03)	\$ (27,185,406,224.72)

Fluctuation

Public Revenue decreased from \$1.6 million to \$0 between 1st Quarter, FY 2006, to 1st Quarter, FY 2007 due to new procedures for recording refund receivables. Beginning 4th Quarter, FY 2006, the Fund began recording refund receivables as an offset to expense; prior to that time, these amounts were recorded as an increase to revenue, which was an incorrect procedure.

Other Information

The Statement of Net Cost is unique because its principles are driven on understanding the net cost of programs that the Federal Government supports through appropriations or other means. This Statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity. For public earned revenue, the buyer of the goods or services is a nonfederal entity. Intragovernmental costs and revenue are related to transactions made between two reporting entities within the federal government.

The Medicare-Eligible Retiree Health Care Fund's financial feeder system was not designed to collect and record financial information on the full accrual basis. As a result, accrual adjustments are necessary for accounts receivable and accounts payable.

Note 19. Disclosures Related to the Statement of Changes in Net Position

As of December 31	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Civilian Health	0.00	0.00	0.00	0.00
C. Civilian Life Insurance	0.00	0.00	0.00	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Information Related to the Statement of Changes in Net Position

There was a difference of \$32.3 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) (\$0) and Appropriations Received on the Statement of Budgetary Resources (SBR) (\$32.3 billion). This difference is due to the transfer of appropriations to the Medicare-Eligible Retiree Health Care Fund from the Military Services and Defense Agencies. This transfer is reported as appropriated trust fund receipts and included in the appropriations line on the SBR. However, non-revolving trust funds receipts, immediately available for obligation, are reported as exchange revenue and included in the cost of operations on the SCNP.

The eliminations column on the SCNP will reflect zero dollars. Statement of Federal Financial Accounting Standards Number 27, *Identifying and Reporting Earmarked Funds*, effective for reporting years after FY 2005, required that DoD modify the SCNP. To meet the requirement, additional columns were added to separately display gross amounts for earmarked funds and all other (non-earmarked) funds. In the SCNP, all offsetting balances (i.e., transfers-in and transfers out, revenues and expenses) for intra-DoD activity between earmarked and other (non-earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of December 31	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 0.00	\$ 0.00
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Information Related to the Statement of Budgetary Resources

Apportionment Categories

The Office of Management and Budget Circular No. A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. The Medicare-Eligible Retiree Health Care Fund (MERHCF) reported \$2.2 billion in direct obligations. This amount includes \$1.6 million in category B obligations. The remaining obligations are exempt from apportionment. Exempt from apportionment obligations relate to funds that are not apportioned; category B obligations are apportioned funds that relate to a specific project or program. The MERHCF reported no category A obligations, which are apportioned funds that relate to a specific period of time.

Permanent Indefinite Appropriation

Title 10, U.S. Code 1111 provides the MERHCF a permanent indefinite appropriation with which to finance, on an actuarially sound basis, the liabilities of DoD's uniformed services retiree health care programs for Medicare-eligible beneficiaries. These funds are only available to pay for the costs of the retiree health care program for all eligible beneficiaries of the MERHCF. Amounts that are not needed to pay the current costs of the Fund may be invested in nonmarketable market-based securities purchased through the Department of the Treasury.

Use of Unobligated Balances of Budget Authority

The MERHCF's unobligated balances of budget authority represent the portion of trust fund receipts collected in the current fiscal year (1) that exceed the amount needed to pay benefits or other valid obligations and (2) that exceed the receipts temporarily precluded from obligation by law. The receipts, however, are assets of the MERHCF and are available for obligation as needed in the future.

Intraentity Transactions

Intraentity transactions have not been eliminated because the statements are presented as combined and combining.

Capital Infusion

On November 29, 2006, the Fund received \$186.0 million of unobligated balances from the National Defense Stockpile Transaction Fund. These funds were transferred in accordance with Section 708(b) of the FY 2007 National Defense Authorization Act Conference Report.

Note 21.	Disclosures Related to the Statement of Financing
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Information Related to the Statement of Financing

Due to DoD's financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. However, the Medicare-Eligible Retiree Health Care Fund (MERHCF)'s budgetary data is in agreement; therefore, no adjustments were needed to balance the data before it was imported into the Defense Departmental Reporting System. In addition, the MERHCF made no adjustment to bring its Statement of Financing (SOF) into balance with its Statement of Net Cost.

The following SOF lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated: obligations incurred; obligations net of offsetting collections and recoveries; less: offsetting receipts; net obligations; and undelivered orders.

Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods report unfunded expenses that were incurred during FY 2007. The cumulative total of unfunded expenses from all fiscal years is reported as "Liabilities Not Covered by Budgetary Resources" in Note 11.

Other Information

Components Requiring or Generating Resources in Future Periods – Other displays the change in the incurred but not reported (IBNR) costs for 1st Quarter, FY 2006. The IBNR costs are an actuarially determined estimate of liabilities for covered medical services rendered before the end of 1st Quarter, FY 2006.

Components not Requiring or Generating Resources – Other displays the change in accounts receivables for 1st Quarter, FY 2007. These amounts represent refund receivables for duplicate or other erroneous payments made by contractors to the MERHCF beneficiaries and for copayments from MERHCF beneficiaries for prescriptions. Effective 4th Quarter, FY 2006, refund receivables are being recorded as an offset to expense; prior to that time, these amounts were recorded as an increase to revenue, which was an incorrect procedure. This line also displays the changes in bad debts for both 1st Quarter, FY 2006, and 1st Quarter, FY 2007. These bad debts occurred because of erroneous payments made to the MERHCF beneficiaries or to nonfederal service providers.

Note 22.

Disclosures Related to the Statement of Custodial Activity

Not applicable.

Note 23.**Earmarked Funds****BALANCE SHEET**As of December 31,
2006

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0.00	\$ (91,392,194.33)	\$ 0.00	\$ 0.00	\$ (91,392,194.33)
Investments	0.00	111,197,124,523.54	0.00	0.00	111,197,124,523.54
Accounts and Interest Receivable	0.00	9,839,574.41	0.00	0.00	9,839,574.41
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 111,115,571,903.62	\$ 0.00	\$ 0.00	\$ 111,115,571,903.62

**LIABILITIES and NET
POSITION**

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 538,612,788,000.00	\$ 0.00	\$ 0.00	\$ 538,612,788,000.00
Other Liabilities Unexpended Appropriations	0.00	373,084,981.03	0.00	0.00	373,084,981.03
Cumulative Results of Operations	0.00	(427,870,301,077.41)	0.00	0.00	(427,870,301,077.41)
Total Liabilities and Net Position	\$ 0.00	\$ 111,115,571,903.62	\$ 0.00	\$ 0.00	\$ 111,115,571,903.62

**STATEMENT OF NET
COST**For the period ended
December 31, 2006

Program Costs	\$ 0.00	\$ 1,902,627,899.49	\$ 0.00	\$ 0.00	\$ 1,902,627,899.49
Less Earned Revenue	0.00	(27,314,267,786.52)	0.00	0.00	(27,314,267,786.52)
Net Program Costs	\$ 0.00	\$ (25,411,639,887.03)	\$ 0.00	\$ 0.00	\$ (25,411,639,887.03)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ (25,411,639,887.03)	\$ 0.00	\$ 0.00	\$ (25,411,639,887.03)

**STATEMENT OF
CHANGES IN NET
POSITION**For the period ended
December 31, 2006

Net Position Beginning of the Period	\$ 0.00	\$ (453,467,940,964.44)	\$ 0.00	\$ 0.00	\$ (453,467,940,964.44)
Net Cost of Operations	0.00	(25,411,639,887.03)	0.00	0.00	(25,411,639,887.03)
Budgetary Financing Sources	0.00	186,000,000.00	0.00	0.00	186,000,000.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 25,597,639,887.03	\$ 0.00	\$ 0.00	\$ 25,597,639,887.03
Net Position End of Period	\$ 0.00	\$ (427,870,301,077.41)	\$ 0.00	\$ 0.00	\$ (427,870,301,077.41)

The Medicare-Eligible Retiree Health Care Fund (MERHCF) accumulates funds to finance, on an actuarially sound basis, liabilities of the Department of Defense and the uniformed services health care programs for specific Medicare-eligible beneficiaries.

Public Law 106-398 authorized the establishment of the MERHCF. The MERHCF's appropriations are designated as special funds which are used to fund the daily execution of the MERHCF's mission. The MERHCF, which is classified as a special fund, uses both receipt and expenditure accounts. These accounts have a budget activity level structure, and the MERHCF can establish lower level accounts as necessary to meet reporting requirements.

The MERHCF prepares financial statements to report the financial position and results of operations as required by the Chief Financial Officers Act of 1990, which was expanded by the Government Management Reform Act of 1994.

Sources of Revenue

There are three primary financing sources for the MERHCF--which are inflows only to the Fund. These sources are an annual unfunded actuarial liability payment from Treasury; annual contribution(s) from the Military Services and other uniformed services (US Coast Guard, the National Oceanic and Atmospheric Administration, and the US Public Health Service); and interest earned from the Fund's investments.

On the Balance Sheet, Assets section, the Fund Balance with Treasury (FBWT), a negative \$91.4 million amount, represents a payment reported after the end of the month that exceeded funds available at month-end. Next, the \$111.2 billion is the net investments of the fund, which consists of bonds, notes, overnights, and inflation-protected securities as well as accrued interest receivable related to these investments. The Accounts and Interest Receivable is the accounts receivable of \$9.8 million due from the public.

The Balance Sheet, Liabilities and Net Position section begins with \$538.6 billion for the actuarial health insurance liability and the incurred but not reported amounts. The Other Liabilities of \$373.1 million represents accounts payable amounts. Finally, the \$427.9 billion is the net difference since inception of the MERHCF between the revenues and expenses, interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

The Statement of Net Cost reports Program Costs of \$1.9 billion. This amount represents the total program costs, which is a combination of operating expenses, bad debt expenses, and future unfunded expenses. The Earned Revenue line of \$27.3 billion is comprised of contributions and interest revenue from investments.

The Statement of Changes in Net Position displays the Net Position Beginning of the Period of \$453.5 billion. This amount represents the net difference since inception of the MERHCF between the revenues and expenses. The Net Cost of Operations of \$25.4 billion represents the current year net result of totaling the interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses. The Budgetary Financing Sources of \$186.0 million represent a transfer of funds from the National Defense Stockpile Transaction Fund as required by the FY 2007 National Defense Authorization Act Conference Report.

Other Disclosures

The Congress has made no changes in legislation during or after this reporting period that significantly changed the purpose of this Fund.

Note 24.	Other Disclosures
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As of December 31	2007			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

**1. ENTITY AS LESSEE-
Operating Leases**

Future Payments Due

Fiscal Year

2007	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
2011		0.00		0.00		0.00		0.00
2012		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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Not applicable.

Note 25.	Restatements
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Not applicable.