

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2009 and 2008

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 5,000,000.00	\$ 5,000,000.00
2. Investments (Note 4)	148,545,050,207.10	133,190,987,874.77
5. Total Intragovernmental Assets	<u>\$ 148,550,050,207.10</u>	<u>\$ 133,195,987,874.77</u>
C. Accounts Receivable, Net (Note 5)	20,477,541.15	15,152,106.25
2. TOTAL ASSETS	<u>\$ 148,570,527,748.25</u>	<u>\$ 133,211,139,981.02</u>
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 84,738,638.40	\$ 65,212,097.87
4. Total Intragovernmental Liabilities	<u>\$ 84,738,638.40</u>	<u>\$ 65,212,097.87</u>
B. Accounts Payable (Note 12)	\$ 157,631,401.16	\$ 193,845,353.80
C. Military Retirement and Other Federal Employment Benefits (Note 17)	500,845,181,000.00	517,063,459,000.00
5. TOTAL LIABILITIES	<u>\$ 501,087,551,039.56</u>	<u>\$ 517,322,516,451.67</u>
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)		
7. NET POSITION		
C. Cumulative Results of Operations - Earmarked Funds	(352,517,023,291.31)	(384,111,376,470.65)
8. TOTAL NET POSITION	<u>\$ (352,517,023,291.31)</u>	<u>\$ (384,111,376,470.65)</u>
9. TOTAL LIABILITIES AND NET POSITION	<u>\$ 148,570,527,748.25</u>	<u>\$ 133,211,139,981.02</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2009 and 2008

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
1. Program Costs		
A. Gross Costs	\$ 6,360,583,050.81	\$ 5,926,033,706.31
B. (Less: Earned Revenue)	(20,553,410,354.67)	(29,611,488,198.11)
C. Net Program Costs	<u>\$ (14,192,827,303.86)</u>	<u>\$ (23,685,454,491.80)</u>
4. Net Cost of Operations	<u>\$ (14,192,827,303.86)</u>	<u>\$ (23,685,454,491.80)</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (366,709,850,595.17)	\$ 0.00
3. Beginning balances, as adjusted	<u>(366,709,850,595.17)</u>	<u>0.00</u>
7. Net Cost of Operations (+/-)	(14,192,827,303.86)	0.00
8. Net Change	<u>14,192,827,303.86</u>	<u>0.00</u>
9. Cumulative Results of Operations	(352,517,023,291.31)	0.00
16. Net Position	<u>(352,517,023,291.31)</u>	<u>0.00</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

	<u>2009 Eliminations</u>	<u>2009 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (366,709,850,595.17)
3. Beginning balances, as adjusted	0.00	(366,709,850,595.17)
7. Net Cost of Operations (+/-)	0.00	(14,192,827,303.86)
8. Net Change	0.00	14,192,827,303.86
9. Cumulative Results of Operations	0.00	(352,517,023,291.31)
16. Net Position	0.00	(352,517,023,291.31)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

	<u>2008 Earmarked Funds</u>	<u>2008 All Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (407,796,830,962.45)	\$ 0.00
3. Beginning balances, as adjusted	<u>(407,796,830,962.45)</u>	<u>0.00</u>
7. Net Cost of Operations (+/-)	(23,685,454,491.80)	0.00
8. Net Change	<u>23,685,454,491.80</u>	<u>0.00</u>
9. Cumulative Results of Operations	(384,111,376,470.65)	0.00
16. Net Position	<u>(384,111,376,470.65)</u>	<u>0.00</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

	<u>2008 Eliminations</u>	<u>2008 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (407,796,830,962.45)
3. Beginning balances, as adjusted	0.00	(407,796,830,962.45)
7. Net Cost of Operations (+/-)	0.00	(23,685,454,491.80)
8. Net Change	0.00	23,685,454,491.80
9. Cumulative Results of Operations	0.00	(384,111,376,470.65)
16. Net Position	0.00	(384,111,376,470.65)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
3. Budget authority		
3.A. Appropriation	34,887,000,000.00	32,362,000,000.00
3.E. Subtotal	<u>34,887,000,000.00</u>	<u>32,362,000,000.00</u>
5. Temporarily not available pursuant to Public Law	0.00	(24,013,390,000.00)
7. Total Budgetary Resources	<u><u>\$ 34,887,000,000.00</u></u>	<u><u>\$ 8,348,610,000.00</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 6,540,368,086.09	\$ 6,259,921,988.78
8.C. Subtotal	<u>6,540,368,086.09</u>	<u>6,259,921,988.78</u>
9. Unobligated balance:		
9.A. Apportioned	2,165,347,913.91	2,088,688,011.22
9.C. Subtotal	<u>2,165,347,913.91</u>	<u>2,088,688,011.22</u>
10. Unobligated balance not available	26,181,284,000.00	0.00
11. Total status of budgetary resources	<u><u>\$ 34,887,000,000.00</u></u>	<u><u>\$ 8,348,610,000.00</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	240,101,346.69	368,772,974.36
12.C. Total unpaid obligated balance	<u>240,101,346.69</u>	<u>368,772,974.36</u>
13. Obligations incurred net (+/-)	\$ 6,540,368,086.09	\$ 6,259,921,988.78
14. Less: Gross outlays	(6,300,019,591.18)	(5,969,560,800.78)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	480,449,841.60	659,134,162.36
18.C. Total, unpaid obligated balance, net, end of period	<u>480,449,841.60</u>	<u>659,134,162.36</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	6,300,019,591.18	5,969,560,800.78
19.C. Less: Distributed Offsetting receipts	(10,212,654,594.27)	(18,165,864,616.73)
19.D. Net Outlays	<u><u>\$ (3,912,635,003.09)</u></u>	<u><u>\$ (12,196,303,815.95)</u></u>

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

These financial statements have been prepared to report the financial position and results of operations for the Medicare-Eligible Retiree Health Care Fund (MERHCF), as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation. The financial statements have been prepared from the books and records of MERHCF in accordance with the *Department of Defense (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 (GAAP). The accompanying financial statements account for all resources for which MERHCF is responsible unless otherwise noted.

The MERHCF currently has two auditor-identified financial statement material weaknesses: (1) The DoD-managed Military Treatment Facilities (MTFs) do not have compliant, transaction-based accounting systems that support the costs of direct care provided to MERHCF beneficiaries and (2) The MTF-level health care cost data is based on budget execution processes rather than accrual-based accounting.

1.B. Mission of the Reporting Entity

The mission of MERHCF is to accumulate funds in order to finance, on an actuarially sound basis, liabilities of health care programs for DoD Military Services and other Uniformed Services. The MERHCF provides benefits for a Medicare-eligible member of a participating Military Service or other Uniformed Service entitled to retired or retainer pay and such member's Medicare-eligible dependents or survivors.

1.C. Appropriations and Funds

Public Law 106-398, *The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001*, authorized MERHCF and provided a permanent, indefinite appropriation. Permanent authority becomes available based upon standing provisions of law without any further legislative action by the Congress after transmittal of the budget for each year. The law does not specify an amount of budget authority for the indefinite appropriation; however, the law does specify a variable factor that determines the amount available until expended.

Using methods and assumptions approved by the DoD MERHCF Board of Actuaries, the DoD Office of the Actuary determines the amount of the contribution to MERHCF. The contribution consists of two parts: a U. S. Treasury warrant for the amortization payment of the original unfunded liability and an annual contribution from each Uniformed Service: Army, Navy, Air Force, Marine Corps, U.S. Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration. Funds from the contributions that exceed the amounts required to pay current year expenses are invested.

Those investments at maturity and their associated interest revenues will be used to cover future liabilities of MERHCF.

The MERHCF is a special fund. The funds in MERHCF are used, in compliance with the law, to provide benefits for the Medicare-eligible beneficiaries listed in paragraph 1B.

The MERHCF funds are designated as earmarked funds. Earmarked funds are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use, and retention of revenues and other financing sources that distinguish such funds from general revenues.

1.D. Basis of Accounting

For FY 2009, the financial feeder systems used by MERHCF did not meet all of the requirements for full accrual accounting. These systems were designed and implemented before the issuance of GAAP for Federal agencies and were not designed to collect and record financial information on the full accrual basis as required by GAAP. When necessary, MERHCF and the Defense Finance and Accounting Service (DFAS) have established manual controls to work around these system issues. For example, the accounting system used by MERHCF does not record information on a budgetary basis. Instead, the reporting system derives the budgetary account balances from information contained in the proprietary accounts.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on U.S. Standard General Ledger. Until all of MERHCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, MERHCF's financial data will be derived from transactions from noncompliant feeder systems, information from the proprietary accounts, and accruals made for major items such as accounts receivable and accounts payable.

1.E. Revenues and Other Financing Sources

Financing sources for MERHCF are provided primarily through the annual contributions from the Military Services and other Uniformed Services made at the beginning of each fiscal year; a U.S. Treasury warrant, made at the beginning of each fiscal year, for annual amortization of the unfunded liability; and interest earned on investments.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of benefit expenses in the period incurred. However, because MERHCF's financial system was not designed

to collect and record financial information on the full accrual accounting basis, accruals 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 DoD or between two or more federal agencies. Seller entities within 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. IntraDoD balances are then eliminated. The MERHCF is able to reconcile its buyer/seller transactions. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, to include sufficient up-front edits and controls, eliminating the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between 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 U.S. Treasury’s *Federal Intragovernmental Transactions Accounting Policy Guide* provide guidance for reporting and reconciling intragovernmental balances. The MERHCF 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.

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

The MERHCF’s monetary resources are maintained in the U.S. Treasury accounts. The disbursing offices of DFAS, the Military Departments, and other Federal Government financial service centers process the majority of MERHCF’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, DFAS sites submit reports by appropriation to the U.S. Treasury on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT)

account. The MERHCF-recorded FBWT account must balance monthly with the U.S. Treasury.

The U.S. Treasury allows MERHCF to be fully invested. Therefore, FBWT may be zero at various times during the fiscal year including the end of a quarter or a fiscal year; however, precautions are taken to prevent abnormal balances at the U.S. Treasury.

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include three categories: 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 actual uncollectible amounts experienced by MERHCF during the previous 11 months. The DoD 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*.

Since the beginning of the Federal Ceiling Price (FCP) Program, outpatient pharmaceuticals purchased by DoD for medical treatment facility pharmacies have been subject to FCPs, as have those under the TRICARE Mail Order Pharmacy (TMOP) program. The MERHCF implemented FCP for the TRICARE Retail Pharmacy program in compliance with the National Defense Authorization Act for Fiscal Year 2008, §703. The MERHCF applied this rule to all retail prescriptions filled unless the TRICARE Management Activity granted a waiver to a particular manufacturer. Compliance is mandatory and the advantage to the manufacturers is that their drugs will be included on the DoD Uniform Formulary (list of available prescription drugs). The MERHCF records accounts receivable upon receipt of the calculation from the TRICARE Pharmacy Operations Directorate and posts the collections from the manufacturers to the fiscal year of receipt pursuant to Title 10, U.S.C. §1079a.

1.L. Direct Loans and Loan Guarantees

N/A

1.M. Inventories and Related Property

N/A

1.N. Investments in U.S. Treasury Securities

The MERHCF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts (book value). Premiums or discounts are amortized over the term of the investment using the effective interest rate method. The MERHCF'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 MERHCF invests in nonmarketable, market-based U.S. Treasury securities. The Bureau of the Public Debt issues this type of security to federal agencies. These securities mirror marketable securities, but are not publicly traded. The MERHCF receives interest semiannually from the U.S. Treasury on the value of these securities.

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 Statement of Federal Financial Accounting Standards (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 involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The MERHCF 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. Cumulative results of operations represent the net of expenses, losses, and financing sources (including appropriations, revenue, and gains) since the inception of the fund. The cumulative results also include donations and transfer in and out of assets without reimbursement.

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Unexpended Obligations

The MERHCF obligates funds to provide goods and services; some of which are not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered, unless title passes. Unexpended obligations include (1) obligations for which goods and services have been delivered (title passed) and a liability recognized and (2) obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources and is referred to as "Total, unpaid obligated balances, net, end of period."

1.X. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. The MERHCF has no undistributed disbursements or collections.

1.Y. Significant Events

N/A

1.Z. Fiduciary Activities

N/A

Note 2.	Nonentity Assets
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As of June 30	2009	2008
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	\$ 148,570,527,748.25	\$ 133,211,139,981.02
5. Total Assets	\$ 148,570,527,748.25	\$ 133,211,139,981.02

Note 3.	Fund Balance with Treasury
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As of June 30	2009	2008
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	5,000,000.00	5,000,000.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 5,000,000.00	\$ 5,000,000.00
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 5,000,000.00	\$ 5,000,000.00
B. Fund Balance per MERHCF	5,000,000.00	5,000,000.00
3. Reconciling Amount	\$ 0.00	\$ 0.00

Status of Fund Balance with Treasury

As of June 30	2009	2008
1. Unobligated Balance		
A. Available	\$ (11,864,647,491.82)	\$ (611,488,812.05)
B. Unavailable	158,745,822,245.63	132,093,031,453.12
2. Obligated Balance not yet Disbursed	\$ 480,449,841.60	\$ 659,134,162.36
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (147,356,624,595.41)	\$ (132,135,676,803.43)
5. Total	\$ 5,000,000.00	\$ 5,000,000.00

Information Related to Status of Fund Balance with Treasury

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. These unobligated balances are classified as available or unavailable. The Medicare-Eligible Retiree Health Care Fund (MERHCF) balances relate to special fund accounts which are treated similarly to a trust fund and are restricted by the public laws that established the fund. These balances become available subsequently without further congressional action.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received, services that have not been performed, and goods and services that have been delivered/received but not yet paid. The MERHCF balance represents amounts payable to the Defense Logistics Agency (DLA) for purchases of pharmaceuticals, to private contractors waiting for DLA to replenish the pharmaceutical supply, and to private health care providers.

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. The MERHCF balance represents investment accounts that reduce the Status of FBWT.

Note 4. Investments and Related Interest

As of June 30	2009				
	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	150,769,163,208.70	Effective Interest	(3,412,538,613.29)	147,356,624,595.41	151,566,011,887.74
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	150,769,163,208.70		(3,412,538,613.29)	147,356,624,595.41	151,566,011,887.74
B. Accrued Interest	1,188,425,611.69			1,188,425,611.69	1,188,425,611.69
C. Total Intragovernmental Securities	\$ 151,957,588,820.39		\$ (3,412,538,613.29)	\$ 148,545,050,207.10	\$ 152,754,437,499.43
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of June 30	2008				
	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	134,570,097,932.17	Effective Interest	(2,434,421,128.74)	132,135,676,803.43	135,464,441,559.76
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	134,570,097,932.17		(2,434,421,128.74)	132,135,676,803.43	135,464,441,559.76
B. Accrued Interest	1,055,311,071.34			1,055,311,071.34	1,055,311,071.34
C. Total Intragovernmental Securities	\$ 135,625,409,003.51		\$ (2,434,421,128.74)	\$ 133,190,987,874.77	\$ 136,519,752,631.10
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Information Regarding Investments and Related Interest

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

The following table displays the cost of the U.S. Treasury Securities.

COST FY 2009		COST FY 2008	
	<u>(in thousands)</u>		<u>(in thousands)</u>
Bills	--	Bills	--
Notes	\$14,313,315	Notes	\$16,298,088
Bonds	4,957,957	Bonds	3,203,750
TIPS	126,217,200	TIPS	113,752,020
Overnights	<u>5,280,691</u>	Overnights	<u>1,316,240</u>
Total Cost	<u>\$150,769,163</u>	Total Cost	<u>\$134,570,098</u>

The MERHCF purchases and redeems nonmarketable, market-based securities that fluctuate in tandem with the current selling price of the equivalent marketable securities on the open market. The MERHCF purchases securities with the intent to hold until maturity; therefore, balances are not adjusted to market value.

At the semiannual meetings, the Department of Defense Investment Board approves the strategy for the type of securities purchased by MERHCF. These securities may include U.S. Treasury bills, notes, bonds, inflation-protected securities, and overnight certificates. The 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 maturities of 10 years or more and are purchased at either a discount or premium. The U.S. Treasury Inflation-Protected Securities (TIPS) provide protection against inflation and are purchased at either a discount or premium. The TIPS principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, the U.S. Treasury pays the adjusted principal or original principal, whichever is greater. The TIPS amount includes inflation compensation as well as the par value of the shares. Overnight securities are short-term securities, purchased at face value, that mature the next business day and earn interest at the daily Federal Reserve repurchase agreement rate.

Note 5.	Accounts Receivable
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As of June 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 0.00	N/A	\$ 0.00
2. Nonfederal Receivables (From the Public)	\$ 20,506,406.48	\$ (28,865.33)	\$ 20,477,541.15
3. Total Accounts Receivable	\$ 20,506,406.48	\$ (28,865.33)	\$ 20,477,541.15

As of June 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 0.00	N/A	\$ 0.00
2. Nonfederal Receivables (From the Public)	\$ 15,192,177.77	\$ (40,071.52)	\$ 15,152,106.25
3. Total Accounts Receivable	\$ 15,192,177.77	\$ (40,071.52)	\$ 15,152,106.25

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2009	2008
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	353,964,006,246.19	385,581,916,358.93
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	0.00
E. Total Nonfederal Liabilities	\$ 353,964,006,246.19	\$ 385,581,916,358.93
3. Total Liabilities Not Covered by Budgetary Resources	\$ 353,964,006,246.19	\$ 385,581,916,358.93
4. Total Liabilities Covered by Budgetary Resources	\$ 147,123,544,793.37	\$ 131,740,600,092.74
5. Total Liabilities	\$ 501,087,551,039.56	\$ 517,322,516,451.67

Information Related to Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources represent the difference between the actuarial liability for future benefit payments and the current assets of the Medicare-Eligible Retiree Health Care Fund.

The Military Retirement and Other Federal Employment Benefits not covered by budgetary resources represent health benefit liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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As of June 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 84,738,638.40	\$ N/A	\$ 84,738,638.40
2. Nonfederal Payables (to the Public)	157,631,401.16	0.00	157,631,401.16
3. Total	\$ 242,370,039.56	\$ 0.00	\$ 242,370,039.56

As of June 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 65,212,097.87	\$ N/A	\$ 65,212,097.87
2. Nonfederal Payables (to the Public)	193,845,353.80	0.00	193,845,353.80
3. Total	\$ 259,057,451.67	\$ 0.00	\$ 259,057,451.67

Information Related to Accounts Payable

The Medicare-Eligible Retiree Health Care Fund's system does not track intragovernmental transactions by customer at the transaction level. Therefore, internal Department of Defense buyer-side balances are adjusted to agree with internal seller-side balances for revenue and accounts receivable. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00	5.75	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	500,195,710,000.00		(146,231,703,753.81)	353,964,006,246.19
D. Total Pension and Health Actuarial Benefits	\$ 500,195,710,000.00		\$ (146,231,703,753.81)	\$ 353,964,006,246.19
2. Other Actuarial Benefits				
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 649,471,000.00		\$ (649,471,000.00)	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 500,845,181,000.00		\$ (146,881,174,753.81)	\$ 353,964,006,246.19

Actuarial Cost Method Used: See below

Assumptions: See below

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

DoD Medicare-Eligible Retiree Health Care Fund

As of June 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	516,479,229,000.00	5.75	(130,897,312,641.07)	385,581,916,358.93
D. Total Pension and Health Actuarial Benefits	\$ 516,479,229,000.00		\$ (130,897,312,641.07)	\$ 385,581,916,358.93
2. Other Actuarial Benefits				
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 584,230,000.00		\$ (584,230,000.00)	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	<u>\$ 517,063,459,000.00</u>		<u>\$ (131,481,542,641.07)</u>	<u>\$ 385,581,916,358.93</u>

Actuarial Cost Method Used: See below

Assumptions: See below

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

Information Related to Military Retirement and Other Federal Employment Benefits

The Medicare-Eligible Retiree Health Care Fund (MERHCF) accumulates funds to pay for health care programs for Medicare-eligible Military and other Uniformed Service retirees and their Medicare-eligible dependents or survivors.

The MERHCF actuarial liability is adjusted at the end of each fiscal year. The 3rd Quarter, FY 2009, balance represents the September 30, 2008, amount.

The table for this note displays two distinct types of liabilities that are related to Military Retirement and Other Federal Employment Benefits. This table presents the actuarial liability for health care benefits which are not yet incurred on the line titled “Military Medicare-Eligible Retiree Benefits.” It also displays the incurred-but-not-reported reserve estimate that represents an estimate of benefits already incurred but not yet reported to the Department of Defense (DoD) on the line titled “Other Federal Employment Benefits.”

Actuarial Cost Method

As dictated by law, MERHCF is funded using the Aggregate Entry-Age Normal Cost method. This is a method whereby projected retiree medical plan costs are spread over the projected service of a new entrant cohort.

Projected Revenues

The MERHCF receives projected revenues from three sources: interest earnings on MERHCF's assets, annual Uniformed Services normal cost contributions, and an annual U.S. Treasury contribution. The normal cost contributions are paid annually at the beginning of the fiscal year by the U.S. Treasury from the amounts appropriated to the Military Services and are calculated at the approved full-time and part-time per capita rates times the budgeted full-time and part-time force strengths. The contribution from the U.S. Treasury is also paid into MERHCF at the beginning of each fiscal year and represents the amortization of the unfunded liability for services performed before October 1, 2002, as well as the amortization of subsequent actuarial gains and losses. The DoD MERHCF Board of Actuaries approves the U.S. Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

Assumptions

Assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. The discount rate used was 5.75% and represents the expected long-term rate of return on U.S. Treasury Securities. The discount rate was reduced 0.25% from the prior actuarial valuation. Incurred cost assumptions for direct care were based on actual experience in FY 2007. Assumptions for purchased care were developed from actual experience incurred during FY 2005 through FY 2007. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year's results. The FY 2008 change in the actuarial liability is displayed below. In calculating the actuarial liabilities, the following medical trend assumptions were used:

<u>Medical Trend</u>	<u>FY 2007 - FY 2008</u>	<u>Ultimate Rate 2032</u>
Medicare Inpatient (Direct Care)	5.65%	6.25%
Medicare Inpatient (Purchased Care)	6.65%	6.25%
Medicare Outpatient (Direct Care)	3.33%	6.25%
Medicare Outpatient (Purchased Care)	4.33%	6.25%
Medicare Prescriptions (Direct Care)	3.00%	6.25%
Medicare Prescriptions (Purchased Care)	8.55%	6.25%
USFHP (Purchased Care)	10.00%	6.25%

Beginning with the actuarial liability determined for the September 30, 2008, MERHCF financial statements, separate medical trend rates were used for direct care and purchased care costs to incorporate the assumption that purchased care medical trends will be higher than direct care medical trends. In addition, a new set of trends was introduced for the U.S. Family Health Plan (USFHP) costs. The USFHP costs are now valued as a separate benefit in order to more accurately reflect that portion of the liability.

The medical cost trend rate assumptions have a significant effect on the amounts reported. For example, if the FY 2008 assumed rates had increased by one percentage point, the actuarial present value of projected plan benefits would have increased by 28.6%, or approximately \$143.0 billion.

FY 2008 Change in MERHCF Actuarial Liability

(\$ in Thousands)

A. Actuarial Liability as of September 30, 2007 (all Uniformed Services Medicare)	\$ 516,479,229
B. Expected Normal Cost for FY 2008	10,070,293
C. Expected Benefit Payments for FY 2008	(8,545,983)
D. Interest Cost for FY 2008	31,340,326
E. Actuarial (Gains)/Losses Due to Other Factors	(5,248,219)
F. Actuarial (Gains)/Losses Due to Changes in Trend Assumptions	<u>(43,899,936)</u>
G. Actuarial Liability as of September 30, 2008 (all Uniformed Services Medicare)	\$ <u>500,195,710</u>
H. Change in Actuarial Liability (line G-line A)	\$ <u><u>(16,283,519)</u></u>

Each year the actuarial liability is expected to increase with normal (or service) cost (Line B), decrease with benefit payments (Line C), and increase with interest cost (interest on the liability during the period) (Line D), resulting in an expected increase of \$32.9 billion in the FY 2008 actuarial liability (Line B + Line C + Line D). The September 30, 2008, actuarial liability incorporates changes in assumptions, new assumptions, and actuarial experience. The Actuarial Gains and Losses Due to Other Factors (Line E) decreased the liability by an additional \$5.2 billion. Key factors contributing to these “Other Factors” include a 0.25% decrease in the discount rate, adding an assumption to reflect mandated federal ceiling prices for retail prescription drugs, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions and discount rate. The actuarial gain due to changes in medical trend assumptions (and the introduction of new trend rates for USFHP) (Line F) decreased the liability by \$43.9 billion.

FY 2008 Actuarial Liability for the Uniformed Services

The MERHCF liability included Medicare liabilities for all Uniformed Services. The approximate breakout of the September 30, 2008, Medicare liability (\$ in thousands) for all Uniformed Services is as follows:

DoD	\$ 489,038,340
Coast Guard	10,015,552
Public Health Service	1,070,835
National Oceanic and Atmospheric Administration	<u>70,983</u>
Total	\$ <u><u>500,195,710</u></u>

FY 2009 Military Service and Other Uniformed Service Contributions

The FY 2009 Military Service and other Uniformed Service contributions to MERHCF (\$ in thousands) were as follows:

DoD	\$	10,350,593
Coast Guard		257,305
Public Health Service		34,778
National Oceanic and Atmospheric Administration		1,674
Total	\$	<u>10,644,350</u>

Market Value of MERHCF's Securities

The market value of MERHCF's nonmarketable market-based securities as of June 30, 2009, totaled \$152.8 billion. This amount is also reported on Note 4, Investments and Related Interest.

Note 18.**General Disclosures Related to the Statement of Net Cost****Intragovernmental Costs and Exchange Revenue**

As of June 30	2009	2008
1. Intragovernmental Costs	\$ 1,875,612,501.24	\$ 1,805,596,904.07
2. Public Costs	4,484,970,549.57	4,120,436,802.24
3. Total Costs	\$ 6,360,583,050.81	\$ 5,926,033,706.31
4. Intragovernmental Earned Revenue	\$ (20,553,410,354.67)	\$ (29,611,488,198.11)
5. Public Earned Revenue	0.00	0.00
6. Total Earned Revenue	\$ (20,553,410,354.67)	\$ (29,611,488,198.11)
7. Net Cost of Operations	\$ (14,192,827,303.86)	\$ (23,685,454,491.80)

Information Related to the Statement of Net Cost

Interest revenue, a component of the Statement of Net Cost, has an abnormal balance of \$0.7 billion. This abnormality is the result of \$3.3 billion in deflation of Treasury Inflation-Protected Securities and \$0.7 billion in premium amortization offset by \$3.3 billion in interest earned. Current year inflation and deflation are reflected in the financial statements as a component of interest earned based on the consumer price index. The result is inflation as the index rises and deflation as the index declines. The described deflation is a direct result of the current economic situation.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's 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 developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS No. 30, *Inter-entity Cost Implementation*.

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The MERHCF's system does not track intragovernmental transactions by customer at the transaction level. Therefore, internal Department of Defense buyer-side balances are adjusted to agree with

internal seller-side balances for revenue. Expenses were adjusted by reclassifying amounts between federal and nonfederal expenses. The Intragovernmental Earned Revenue is shown in the table below.

Intragovernmental Earned Revenue for Program Costs

(\$ in Thousands)	FY 2009	FY 2008
1. Uniformed Services Contributions	\$10,644,350	\$11,495,959
2. U.S. Treasury Annual Unfunded Liability Payment	10,660,000	12,930,000
3. Interest on Investments	<u>(750,940)</u>	<u>5,185,529</u>
4. Total Intragovernmental Revenue	<u>\$20,553,410</u>	<u>\$29,611,488</u>

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

There was a difference of \$34.9 billion between Appropriations Received on the Statement of Changes in Net Position and Appropriations Received on the Statement of Budgetary Resources (SBR). This difference is due to additional resources included in the Appropriations Received line on the SBR. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources, for additional details.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2009	2008
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 238,079,802.04	\$ 400,076,710.69
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Information Related to the Statement of Budgetary Resources

The Medicare-Eligible Retiree Health Care Fund (MERHCF) reported \$6.5 billion in direct, Category B obligations. Category B obligations are apportioned funds that relate to a specific project or program.

The Statement of Budgetary Resources (SBR) includes intraentity transactions because the statements are presented as combined.

Public Law 106-398, *The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001*, provides MERHCF with a permanent indefinite appropriation.

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 MERHCF and are available for obligation as needed in the future.

There was a difference of \$34.9 billion between appropriations on the Statement of Changes in Net Position (SCNP) and appropriations on the SBR. This difference represents current receipts reported as exchange revenue on the Statement of Net Cost, as appropriations on the SBR, and as a part of the Net Cost of Operations on the SCNP.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of June 30	2009	2008
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 6,540,368,086.09	\$ 6,259,921,988.78
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	\$ 6,540,368,086.09	\$ 6,259,921,988.78
4. Less: Offsetting receipts (-)	(10,212,654,594.27)	(18,165,864,616.73)
5. Net obligations	\$ (3,672,286,508.18)	\$ (11,905,942,627.95)
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	\$ 0.00	\$ 0.00
11. Total resources used to finance activities	\$ (3,672,286,508.18)	\$ (11,905,942,627.95)
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 (-)	\$ (197,793,747.02)	\$ (287,941,141.46)
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior Periods (-)	0.00	(41,188,000.00)
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	\$ (197,793,747.02)	\$ (329,129,141.46)
18. Total resources used to finance the Net Cost of Operations	\$ (3,870,080,255.20)	\$ (12,235,071,769.41)

As of June 30	2009	2008
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 (+/-)	26,001,000.00	0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 26,001,000.00	\$ 0.00
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	(10,340,755,760.40)	(11,445,623,581.38)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material and Supplies Used	0.00	0.00
27d. Other	(7,992,288.26)	(4,759,141.01)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ (10,348,748,048.66)	\$ (11,450,382,722.39)
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ (10,322,747,048.66)	\$ (11,450,382,722.39)
30. Net Cost of Operations	\$ (14,192,827,303.86)	\$ (23,685,454,491.80)

Information Related to the Reconciliation of Net Cost of Operations to Budget

The following note schedule 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.
- Undelivered Orders.

Components Requiring or Generating Resources in Future Period – Other displays the change in the FY 2009 incurred-but-not-reported reserve amount that represents an estimate of medical benefits already incurred but not yet reported to the Department of Defense (DoD).

Components not Requiring or Generating Resources – Other displays the changes in accounts receivables for both FY 2008 and FY 2009. These amounts represent refunds receivable for duplicate or other erroneous Medicare-Eligible Retiree Health Care Fund (MERHCF) payments made to contractors for care of the beneficiaries and for copayments from MERHCF beneficiaries for prescriptions. These refunds receivable are recorded as an offset to expenses. This line also displays the changes in bad debts for both FY 2008 and FY 2009. These bad debts occurred because erroneous payments made to MERHCF beneficiaries or to nonfederal providers of medical services were not repaid.

The MERHCF reported \$354.0 billion in health care liabilities that are not covered by budgetary resources. These liabilities represent amounts for which MERHCF has no assets available, nor are these liabilities due and payable, in the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

DoD Medicare-Eligible Retiree Health Care Fund

Note 23. Earmarked Funds

BALANCE SHEET As of June 30	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0.00	\$ 5,000,000.00	\$ 0.00	\$ 0.00	\$ 5,000,000.00
Investments	0.00	148,545,050,207.10	0.00	0.00	148,545,050,207.10
Accounts and Interest Receivable	0.00	20,477,541.15	0.00	0.00	20,477,541.15
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 148,570,527,748.25	\$ 0.00	\$ 0.00	\$ 148,570,527,748.25
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 500,845,181,000.00	\$ 0.00	\$ 0.00	\$ 500,845,181,000.00
Other Liabilities	0.00	242,370,039.56	0.00	0.00	242,370,039.56
Total Liabilities	\$ 0.00	\$ 501,087,551,039.56	\$ 0.00	\$ 0.00	\$ 501,087,551,039.56
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	(352,517,023,291.31)	0.00	0.00	(352,517,023,291.31)
Total Liabilities and Net Position	\$ 0.00	\$ 148,570,527,748.25	\$ 0.00	\$ 0.00	\$ 148,570,527,748.25
STATEMENT OF NET COST For the period ended June 30					
Program Costs	\$ 0.00	\$ 6,360,583,050.81	\$ 0.00	\$ 0.00	\$ 6,360,583,050.81
Less Earned Revenue	0.00	(20,553,410,354.67)	0.00	0.00	(20,553,410,354.67)
Net Program Costs	\$ 0.00	\$ (14,192,827,303.86)	\$ 0.00	\$ 0.00	\$ (14,192,827,303.86)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ (14,192,827,303.86)	\$ 0.00	\$ 0.00	\$ (14,192,827,303.86)

DoD Medicare-Eligible Retiree Health Care Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0.00	\$ (366,709,850,595.17)	\$ 0.00	\$ 0.00	\$ (366,709,850,595.17)
Net Cost of Operations	0.00	(14,192,827,303.86)	0.00	0.00	(14,192,827,303.86)
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 14,192,827,303.86	\$ 0.00	\$ 0.00	\$ 14,192,827,303.86
Net Position End of Period	\$ 0.00	\$ (352,517,023,291.31)	\$ 0.00	\$ 0.00	\$ (352,517,023,291.31)

DoD Medicare-Eligible Retiree Health Care Fund

		2008				
BALANCE SHEET As of June 30		Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS						
Fund balance with Treasury	\$	0.00	\$ 5,000,000.00	\$ 0.00	\$ 0.00	5,000,000.00
Investments		0.00	133,190,987,874.77	0.00	0.00	133,190,987,874.77
Accounts and Interest Receivable		0.00	15,152,106.25	0.00	0.00	15,152,106.25
Other Assets		0.00	0.00	0.00	0.00	0.00
Total Assets	\$	0.00	\$ 133,211,139,981.02	\$ 0.00	\$ 0.00	133,211,139,981.02
LIABILITIES and NET POSITION						
Military Retirement Benefits and Other Federal Employment Benefits	\$	0.00	\$ 517,063,459,000.00	\$ 0.00	\$ 0.00	517,063,459,000.00
Other Liabilities		0.00	259,057,451.67	0.00	0.00	259,057,451.67
Total Liabilities	\$	0.00	\$ 517,322,516,451.67	\$ 0.00	\$ 0.00	517,322,516,451.67
Unexpended Appropriations		0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations		0.00	(384,111,376,470.65)	0.00	0.00	(384,111,376,470.65)
Total Liabilities and Net Position	\$	0.00	\$ 133,211,139,981.02	\$ 0.00	\$ 0.00	133,211,139,981.02
STATEMENT OF NET COST For the period ended June 30						
Program Costs	\$	0.00	\$ 5,926,033,706.31	\$ 0.00	\$ 0.00	5,926,033,706.31
Less Earned Revenue		0.00	(29,611,488,198.11)	0.00	0.00	(29,611,488,198.11)
Net Program Costs	\$	0.00	(23,685,454,491.80)	\$ 0.00	\$ 0.00	(23,685,454,491.80)
Less Earned Revenues Not Attributable to Programs		0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$	0.00	(23,685,454,491.80)	\$ 0.00	\$ 0.00	(23,685,454,491.80)

DoD Medicare-Eligible Retiree Health Care Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30	2008				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0.00	\$ (407,796,830,962.45)	\$ 0.00	\$ 0.00	(407,796,830,962.45)
Net Cost of Operations	0.00	(23,685,454,491.80)	0.00	0.00	(23,685,454,491.80)
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 23,685,454,491.80	\$ 0.00	\$ 0.00	23,685,454,491.80
Net Position End of Period	\$ 0.00	\$ (384,111,376,470.65)	\$ 0.00	\$ 0.00	(384,111,376,470.65)

Information Related to Earmarked Funds

Public Law 106-398, *The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001*, authorized the establishment of the Medicare-Eligible Retiree Health Care Fund (MERHCF). The 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. The MERHCF receives its funding as an earmarked special fund and uses these resources to execute its mission and report on resource usage.

The primary financing sources for MERHCF are (1) an annual unfunded actuarial liability payment from the U.S. Treasury; (2) annual contributions from the Military Services and other Uniformed Services (U.S. Coast Guard, the National Oceanic and Atmospheric Administration, and U.S. Public Health Service); and (3) interest earned on investments. These financing sources are the result of intragovernmental flows. Contributions in excess of the projected current year health care benefits are invested. These investments and associated revenue are used to cover future liabilities of MERHCF.