Department of Defense
Agency Wide
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	$	651,757,849,401.45	$	325,407,840,248.77
b. Non-Entity Seized Iraqi Cash		30,055,057.10		57,715,612.99
c. Non-Entity-Other		9,702,883,292.53		615,654,181.92
2. Investments (Note 4)		348,106,541,960.79		313,022,057,671.99
3. Accounts Receivable (Note 5)		2,449,045,705.11		3,045,603,974.38
4. Other Assets (Note 6)		1,025,070,480.82		1,315,571,597.11
5. Total Intragovernmental Assets	$	1,013,071,445,897.80	$	643,464,443,287.16
B. Cash and Other Monetary Assets (Note 7)	$	2,484,936,472.01	$	1,901,778,598.72
C. Accounts Receivable,Net (Note 5)		7,843,379,756.06		8,077,406,476.41
D. Loans Receivable (Note 8)		3,862,628,892.12		4,254,580,876.16
E. Inventory and Related Property,Net (Note 9)		229,534,002,399.70		228,895,689,967.54
F. General Property, Plant and Equipment,Net (Note 10)		467,956,111,009.63		465,385,968,560.39
G. Investments (Note 4)		1,259,255,130.00		772,100,130.00
H. Other Assets (Note 6)		25,851,431,096.51		23,976,023,503.09
2. TOTAL ASSETS	$	1,751,863,190,653.83	$	1,376,727,991,399.47
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$	2,186,081,428.54	$	2,355,693,577.55
2. Debt (Note 13)		3,753,668,231.01		4,375,016,270.22
3. Other Liabilities (Note 15 & 16)		19,133,018,209.80		10,845,778,247.27
4. Total Intragovernmental Liabilities	$	25,072,767,869.35	$	17,576,488,095.04
B. Accounts Payable (Note 12)	$	26,337,296,297.44	$	27,558,471,002.86
C. Military Retirement and Other Federal Employment Benefits (Note 17)		1,816,269,323,051.91		1,736,057,866,413.76
D. Environmental and Disposal Liabilities (Note 14)		71,029,865,594.71		65,908,836,837.05
E. Loan Guarantee Liability (Note 8)		37,917,976.05		41,977,948.38
F. Other Liabilities (Note 15 & Note 16)		29,272,494,840.41		30,188,868,176.28
4. TOTAL LIABILITIES	$	1,968,019,665,629.87	$	1,877,332,508,473.37
5. NET POSITION				
A. Unexpended Appropriations - Earmarked Funds (Note 23)	$	11,146,564.73	$	259,029.32
B. Unexpended Appropriations - Other Funds		646,517,875,634.64		313,927,655,575.24
C. Cumulative Results of Operations - Earmarked Funds		(1,216,812,891,991.35)		(1,177,163,348,583.32)
D. Cumulative Results of Operations - Other Funds		354,127,394,815.94		362,630,916,904.86
6. TOTAL NET POSITION	$	(216,156,474,976.04)	$	(500,604,517,073.90)
7. TOTAL LIABILITIES AND NET POSITION	$	1,751,863,190,653.83	$	1,376,727,991,399.47

Department of Defense

Agency Wide

CONSOLIDATED STATEMENT OF NET COST

For the periods ended December 31, 2006 and 2005

	2007 Consolidated		2006 Consolidated	
1. Program Costs				
A. Gross Costs	$	150,441,855,649.34	$	131,438,997,363.98
B. (Less: Earned Revenue)		(9,731,141,469.65)		(15,192,635,853.55)
C. Net Program Costs	$	140,710,714,179.69	$	116,246,361,510.43
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	$	140,710,714,179.69	$	116,246,361,510.43

Department of Defense
Agency Wide
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	$ (1,206,769,332,749.45)	$ 302,900,988,741.72
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	(1,206,769,332,749.45)	302,900,988,741.72
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	284,306.61	177,254,411,303.65
4.C. Nonexchange revenue	570,566,615.96	5,087,509,863.66
4.D. Donations and forfeitures of cash	6,955,575.16	0.00
and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	322,101,628.96	(118,279,026.09)
4.F. Other budgetary financing sources	605,484.10	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	2,072,308.00
5.B. Transfers-in/out without reimbursement (+/-)	6,970,491.54	502,987.82
5.C. Imputed financing from costs absorbed by others	0.00	997,545,282.69
5.D. Other (+/-)	(117,289,735.96)	(2,120,396,074.09)
6. Total Financing Sources	790,194,366.37	181,103,366,645.64
7. Net Cost of Operations (+/-)	(47,784,453,986.05)	188,495,168,165.74
8. Net Change	48,574,648,352.42	(7,391,801,520.10)
9. Cumulative Results of Operations	(1,158,194,684,397.03)	295,509,187,221.62
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	$ 11,430,871.34	$ 313,301,864,412.90
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	11,430,871.34	313,301,864,412.90
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	512,622,172,127.97
13.B. Appropriations transferred-in/out	0.00	(81,006,122.00)
13.C. Other adjustments (rescissions, etc)	0.00	(2,070,743,480.58)
13.D. Appropriations used	(284,306.61)	(177,254,411,303.65)
14. Total Budgetary Financing Sources	(284,306.61)	333,216,011,221.74
15. Unexpended Appropriations	11,146,564.73	646,517,875,634.64
16. Net Position	(1,158,183,537,832.30)	942,027,062,856.26

Department of Defense
Agency Wide
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	$ (903,868,344,007.73)
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	(903,868,344,007.73)
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	177,254,695,610.26
4.C. Nonexchange revenue	0.00	5,658,076,479.62
4.D. Donations and forfeitures of cash	0.00	6,955,575.16
and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	203,822,602.87
4.F. Other budgetary financing sources	0.00	605,484.10
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	2,072,308.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	7,473,479.36
5.C. Imputed financing from costs absorbed by others	0.00	997,545,282.69
5.D. Other (+/-)	0.00	(2,237,685,810.05)
6. Total Financing Sources	0.00	181,893,561,012.01
7. Net Cost of Operations (+/-)	0.00	140,710,714,179.69
8. Net Change	0.00	41,182,846,832.32
9. Cumulative Results of Operations	0.00	(862,685,497,175.41)
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	$ 0.00	$ 313,313,295,284.24
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	313,313,295,284.24
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	512,622,172,127.97
13.B. Appropriations transferred-in/out	0.00	(81,006,122.00)
13.C. Other adjustments (rescissions, etc)	0.00	(2,070,743,480.58)
13.D. Appropriations used	0.00	(177,254,695,610.26)
14. Total Budgetary Financing Sources	0.00	333,215,726,915.13
15. Unexpended Appropriations	0.00	646,529,022,199.37
16. Net Position	0.00	(216,156,474,976.04)

Department of Defense
Agency Wide
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	$ (1,171,822,369,521.40)	$ 301,148,154,874.35
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	(1,207,720.24)
3. Beginning balances, as adjusted	(1,171,822,369,521.40)	301,146,947,154.11
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	900,623.50	169,461,078,358.04
4.C. Nonexchange revenue	478,136,976.91	4,983,029.96
4.D. Donations and forfeitures of cash	5,107,585.87	0.00
and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	7,304,128.34	216,681,522.00
4.F. Other budgetary financing sources	605,484.10	(171,280,265.89)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	10,506.00
5.B. Transfers-in/out without reimbursement (+/-)	(128,386,594.13)	128,310,594.13
5.C. Imputed financing from costs absorbed by others	0.00	1,066,766,210.63
5.D. Other (+/-)	287,456,008.26	1,034,928,006.49
6. Total Financing Sources	651,124,212.85	171,741,477,961.36
7. Net Cost of Operations (+/-)	(49,557,063,361.74)	165,806,674,847.12
8. Net Change	50,208,187,574.59	5,934,803,114.24
9. Cumulative Results of Operations	(1,121,614,181,946.81)	307,081,750,268.35
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	$ 1,059,652.82	$ 273,459,212,390.64
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	(527,457.36)
12. Beginning balances, as adjusted	1,059,652.82	273,458,684,933.28
13. Budgetary Financing Sources:		
13.A. Appropriations received	100,000.00	210,244,731,000.00
13.B. Appropriations transferred-in/out	0.00	(15,324,000.00)
13.C. Other adjustments (rescissions, etc)	0.00	(299,358,000.00)
13.D. Appropriations used	(900,623.50)	(169,461,078,358.04)
14. Total Budgetary Financing Sources	(800,623.50)	40,468,970,641.96
15. Unexpended Appropriations	259,029.32	313,927,655,575.24
16. Net Position	(1,121,613,922,917.49)	621,009,405,843.59

Department of Defense
Agency Wide
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	$ (870,674,214,647.05)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	(1,207,720.24)
3. Beginning balances, as adjusted	0.00	(870,675,422,367.29)
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	169,461,978,981.54
4.C. Nonexchange revenue	0.00	483,120,006.87
4.D. Donations and forfeitures of cash	0.00	5,107,585.87
and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	223,985,650.34
4.F. Other budgetary financing sources	0.00	(170,674,781.79)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	10,506.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(76,000.00)
5.C. Imputed financing from costs absorbed by others	3,249,974.95	1,063,516,235.68
5.D. Other (+/-)	0.00	1,322,384,014.75
6. Total Financing Sources	3,249,974.95	172,389,352,199.26
7. Net Cost of Operations (+/-)	3,249,974.95	116,246,361,510.43
8. Net Change	0.00	56,142,990,688.83
9. Cumulative Results of Operations	0.00	(814,532,431,678.46)
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	$ 0.00	$ 273,460,272,043.46
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	(527,457.36)
12. Beginning balances, as adjusted	0.00	273,459,744,586.10
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	210,244,831,000.00
13.B. Appropriations transferred-in/out	0.00	(15,324,000.00)
13.C. Other adjustments (rescissions, etc)	0.00	(299,358,000.00)
13.D. Appropriations used	0.00	(169,461,978,981.54)
14. Total Budgetary Financing Sources	0.00	40,468,170,018.46
15. Unexpended Appropriations	0.00	313,927,914,604.56
16. Net Position	0.00	(500,604,517,073.90)

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended December 31, 2006 and 2005

	2007 Combined	2006 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	$ 111,707,911,035.96	$ 68,608,624,657.41
2. Recoveries of prior year unpaid obligations	13,810,150,524.74	9,540,139,415.32
3. Budget authority		
3.A. Appropriation	600,734,432,174.30	509,528,496,978.75
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	53,431,431,969.38	60,424,307,584.01
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	40,757,777,915.04	37,009,013,704.24
3.D.1.b. Change in receivables from Federal sources	(2,085,116,149.44)	(95,596,169.57)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	190,692,803.22	290,640,774.53
3.D.2.b. Without advance from Federal sources	21,460,227,688.13	9,728,076,179.72
3.D.3. Anticipated for rest of year, without advances	45,317,929,192.60	38,963,743,147.93
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	759,807,375,593.23	655,848,682,199.61
4. Nonexpenditure transfers, net, anticipated and actual	6,554,792.11	215,260,522.00
5. Temporarily not available pursuant to Public Law	(68,800,107,265.32)	(281,210,657,359.76)
6. Permanently not available	(22,531,768,974.91)	(13,661,118,958.10)
7. Total Budgetary Resources	$ 794,000,115,705.81	$ 439,340,930,476.48

Department of Defense
Agency Wide
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	$ 252,376,001,239.23	$ 182,184,847,334.28
8.B. Reimbursable	62,870,761,376.85	43,479,477,433.60
8.C. Subtotal	315,246,762,616.08	225,664,324,767.88
9. Unobligated balance:		
9.A. Apportioned	449,854,880,471.73	191,227,142,188.33
9.B. Exempt from apportionment	5,342,415,617.24	6,007,533,186.95
9.C. Subtotal	455,197,296,088.97	197,234,675,375.28
10. Unobligated balance not available	23,556,057,000.76	16,441,930,333.32
11. Total status of budgetary resources	$ 794,000,115,705.81	$ 439,340,930,476.48
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	323,859,640,769.61	302,426,881,241.17
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (55,414,809,002.65)	$ (54,586,765,275.73)
12.C. Total unpaid obligated balance	268,444,831,766.96	247,840,115,965.44
13. Obligations incurred net (+/-)	$ 315,246,762,616.08	$ 225,664,324,767.88
14. Less: Gross outlays	(241,582,675,888.53)	(226,298,265,672.39)
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	(13,810,150,524.74)	(9,540,139,415.32)
17. Change in uncollected customer payments from Federal sources (+/-)	(19,375,111,538.69)	(9,632,480,010.15)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	383,713,576,972.42	292,252,800,921.34
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(74,789,920,541.34)	(64,219,245,285.88)
18.C. Total, unpaid obligated balance, net, end of period	308,923,656,431.08	228,033,555,635.46
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	241,582,675,888.53	226,298,265,672.39
19.B. Less: Offsetting collections	(40,948,470,718.26)	(37,299,654,478.77)
19.C. Less: Distributed Offsetting receipts	(56,276,904,339.46)	(55,417,021,398.08)
19.D. Net Outlays	$ 144,357,300,830.81	$ 133,581,589,795.54

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended December 31, 2006 and 2005

		2007 Combined		2006 Combined
NONBUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
1. Unobligated balance, brought forward, October 1	$	46,834,726.25	$	82,987,971.16
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		30,603,049.55		8,176,995.00
3.C. Contract authority		0.00		0.00
3.D. Spending authority from offsetting collections				
3.D.1 Earned				
3.D.1.a. Collected		239,728,196.76		155,632,305.47
3.D.1.b. Change in receivables from Federal sources		81,254.25		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		(3,430,086.00)		(8,980,700.00)
3.D.3 Anticipated for rest of year, without advances		433,346,634.90		508,150,599.60
3.D.4 Previously unavailable		0.00		0.00
3.D.5 Expenditure transfers from trust funds		0.00		0.00
3.E. Subtotal		700,329,049.46		662,979,200.07
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		(563,687,421.63)		(631,187,752.01)
7. Total Budgetary Resources	$	183,476,354.08	$	114,779,419.22

Department of Defense
Agency Wide
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	$ 23,298,075.55	$ 3,428,780.49
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	23,298,075.55	3,428,780.49
9. Unobligated balance:		
9.A. Apportioned	94,031,084.88	1,119,150.47
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	94,031,084.88	1,119,150.47
10. Unobligated balance not available	66,147,193.65	110,231,488.26
11. Total Status of Budgetary Resources	$ 183,476,354.08	$ 114,779,419.22
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	3,417,765,197.00	3,863,849,780.81
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (76,910,703.00)	$ (123,710,109.00)
12.C. Total unpaid obligated balance	3,340,854,494.00	3,740,139,671.81
13. Obligations incurred net (+/-)	$ 23,298,075.55	$ 3,428,780.49
14. Less: Gross outlays	(202,873,458.86)	(131,974,061.30)
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 (+/-)	3,348,831.75	8,980,700.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	3,238,189,813.69	3,735,304,500.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(73,561,871.25)	(114,729,409.00)
18.C. Total, unpaid obligated balance, net, end of period	3,164,627,942.44	3,620,575,091.00
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	202,873,458.86	(131,974,061.30)
19.B. Less: Offsetting collections	(239,728,196.76)	(155,632,305.47)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	$ (36,854,737.90)	$ (287,606,366.77)

Department of Defense

Agency Wide

CONSOLIDATED STATEMENT OF FINANCING

For the periods ended December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$ 315,270,060,691.63	$ 225,667,753,548.37
2. Less: Spending authority from offsetting collections and recoveries (-)	(74,370,112,146.70)	(56,618,925,509.71)
3. Obligations net of offsetting collections and recoveries	240,899,948,544.93	169,048,828,038.66
4. Less: Offsetting receipts (-)	(56,276,904,339.46)	(55,417,021,398.08)
5. Net obligations	184,623,044,205.47	113,631,806,640.58
Other Resources		
6. Donations and forfeitures of property	2,072,308.00	10,506.00
7. Transfers in/out without reimbursement (+/-)	7,473,479.36	(76,000.00)
8. Imputed financing from costs absorbed by others	997,545,282.69	1,063,516,235.68
9. Other (+/-)	(2,237,685,810.05)	1,322,384,014.75
10. Net other resources used to finance activities	(1,230,594,740.00)	2,385,834,756.43
11. Total resources used to finance activities	$ 183,392,449,465.47	$ 116,017,641,397.01
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 (-)	(60,198,564,445.82)	8,766,818,553.54
12b. Unfilled Customer Orders	21,647,490,405.35	10,009,736,254.25
13. Resources that fund expenses recognized in prior periods	(2,686,624,079.05)	(1,529,969,791.21)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	697,124,929.52	750,086,425.18
15. Resources that finance the acquisition of assets	(21,661,754,350.20)	(33,025,392,805.14)
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 (-)	(10,000,000.00)	(10,000,000.00)
16b. Other (+/-)	2,281,116,676.81	(1,290,122,635.31)
17. Total resources used to finance items not part of the net cost of operations	$ (59,931,210,863.39)	$ (16,328,843,998.69)
18. Total resources used to finance the net cost of operations	$ 123,461,238,602.08	$ 99,688,797,398.32

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
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	236,312,085.15	455,187,643.65
20. Increase in environmental and disposal liability	1,723,829,286.94	1,217,073,522.48
21. Upward/Downward reestimates of credit subsidy expense (+/-)	7,381,623.29	0.00
22. Increase in exchange revenue receivable from the public (-)	(28,894,565.51)	(10,809,586.56)
23. Other (+/-)	1,857,243,673.65	117,819,982.82
24. Total components of Net Cost of Operations that will require or generate resources in future periods	3,795,872,103.52	1,779,271,562.39
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	7,659,814,857.12	13,484,603,287.11
26. Revaluation of assets or liabilities (+/-)	372,298,220.53	393,008,282.68
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(5,011,648,909.28)	(7,024,988,410.17)
27b. Cost of Goods Sold	10,574,373,455.97	11,665,660,311.17
27c. Operating Material & Supplies Used	4,790,839,531.54	(2,767,872,112.80)
27d. Other	(4,932,073,681.79)	(972,118,808.27)
28. Total components of Net Cost of Operations that will not require or generate resources	13,453,603,474.09	14,778,292,549.72
29. Total components of net cost of operations that will not require or generate resources in the current period	$ 17,249,475,577.61	$ 16,557,564,112.11
30. Net Cost of Operations	$ 140,710,714,179.69	$ 116,246,361,510.43

Department of Defense

Agency Wide

COMBINED STATEMENT OF CUSTODIAL ACTIVITY

For the periods ended December 31, 2006 and 2005

		2007 Combined		2006 Combined
1.SOURCE OF COLLECTIONS				
A. Deposits by Foreign Governments	$	4,676,210,814.40	$	2,585,396,540.94
B. Seized Iraqi Cash		0.00		0.00
C. Other Collections		0.00		0.00
D. Total Cash Collections	$	4,676,210,814.40	$	2,585,396,540.94
E. Accrual Adjustments (+/-)	$	0.00	$	0.00
F. Total Custodial Collections	$	4,676,210,814.40	$	2,585,396,540.94
2.DISPOSITION OF COLLECTIONS				
A. Disbursed on Behalf of Foreign Governments and International Organizations	$	3,324,203,988.70	$	2,767,267,203.34
B. Seized Assets Disbursed on behalf of Iraqi People		160,517.29		3,654,232.40
C. Increase (Decrease) in Amounts to be Transferred		1,352,006,825.70		(181,870,662.40)
D. Collections Used for Refunds and Other Payments		0.00		0.00
E. Retained by The Reporting Entity		0.00		0.00
F. Seized Assets Retained for Support of the Iraqi People		(160,517.29)		(3,654,232.40)
G. Total Disposition of Collections	$	4,676,210,814.40	$	2,585,396,540.94
3. NET CUSTODIAL COLLECTION ACTIVITY	$	0.00	$	0.00

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), 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 the Department in accordance with the “DoD Financial Management Regulation,” the Office of Management and Budget (OMB) 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 the Department is responsible. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernable.

The Department is unable to fully implement all elements of GAAP and OMB Circular No. A-136 due to limitations of its financial management processes and systems, and non-financial systems and processes that feed into the financial statements. The Department derives its reported values and information for major asset and liability categories largely from non-financial systems, such as inventory systems and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Department continues to implement process and system improvements addressing these limitations. The Department currently has 12 previously identified auditor material weaknesses: (1) Financial Management Systems; (2) Intragovernmental Eliminations; (3) Unsupported Accounting Entries; (4) Fund Balance with Treasury; (5) Environmental Liabilities; (6) General Property, Plant and Equipment; (7) Government Property and Material in Possession of Contractors; (8) Inventory; (9) Operating Materials and Supplies (OM&S); (10) Statement of Net Cost; (11) Statement of Financing; and (12) Accounts Payable.

1.B. Mission of the Reporting Entity

The National Security Act of 1947 established the Department of Defense. The Department’s mission is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors against the United States and its allies. Fiscal year (FY) 2007 is the twelth year that the Department has prepared audited DoD Agency-wide financial statements as required by the Chief Financial Officers (CFO) Act and Government Management Reform Act (GMRA). Auditors are required to audit the financial statements of the following stand-alone DoD reporting activities: (1) Army General Fund, (2) Army Working Capital Fund, (3) Navy General Fund, (4) Navy Working Capital Fund, (5) Air Force General Fund, (6) Air Force Working Capital Fund, (7) Military Retirement Fund, (8) DoD Medicare-Eligible Retiree Health Care Fund, and (9) U.S. Army Corps of Engineers (Civil Works).

The Department requires the Marine Corps General and Working Capital Funds and the following Defense Agencies to prepare internal stand-alone auditable financial statements: (1) Defense Logistics Agency, (2) Defense Finance and Accounting Service, (3) Defense Information Systems Agency, (4) Defense Contract Audit Agency, (5) Defense Commissary Agency, (6) Defense Security Service, (7) Defense Threat Reduction Agency, (8) Defense Advanced Research Projects Agency, (9) Chemical and Biological Defense Program, (10) Missile Defense Agency, (11) Services Medical Activity, (12) TRICARE Management Activity, and (13) U.S. Special Operations Command.

1.C. Appropriations and Funds

The Department receives its appropriations and funds as general, working capital (revolving), trust, special, and deposit funds. The Components use these appropriations and funds to execute their missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance, research and development, procurement, and military construction accounts.

Working capital funds (WCF) receive their initial funding through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial startup. The WCF entities provide goods and services on a reimbursable basis. Reimbursable receipts fund ongoing operations.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Special fund accounts are used to record government receipts reserved for a specific purpose.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The Department is acting as an agent or a custodian for funds awaiting distribution, for example payroll taxes.

Certain special and trust funds may be designated as 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 also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule affecting the Department include the Executive Office of the President and the Treasury-Managed Trust Funds (South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance), for whom the Department is the child in the allocation transfer but, per OMB guidance, will report all activity relative to these allocation transfers in the Department's financial statements. In addition to these funds, the Department allocates funds, as the parent, to the Departments of Agriculture and Transportation. The Department receives allocation transfers, as the child, from the Departments of Agriculture, Interior, Energy, and Transportation; the Appalachian Regional Commission; Foreign Military Financing Program; Military Education and Training Program; and Federal Highway Administration.

1.D. Basis of Accounting

For FY 2007, the Department's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Department's financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the Department's (financial and non-financial) legacy systems were designed to record information on a budgetary basis.

The Department has undertaken efforts to determine the actions required to bring its financial and non-financial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of the Department's financial and non-financial feeder systems and processes are updated to collect and report financial information as required by GAAP, the Department's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from non-financial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, 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 (GPRA). 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 GPRA and the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

1.E. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Department recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is the Department's standard policy for services provided as required by OMB Circular No A-25. The Department recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department 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, the Department's policy requires the recognition of operating expenses in the period incurred. However, because the Department's financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. The Department's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of OM&S, operating expenses are generally recognized when the items are purchased. Efforts are underway to migrate towards the consumption method for recognizing OM&S expenses.

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. However, the Department cannot accurately identify most of its intragovernmental transactions by customer because DoD's systems do not track buyer and seller data needed to match related transactions. Seller entities within the Department 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-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated. The Department is developing long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that an after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

The Department of the 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 Treasury's "Federal Intragovernmental Transactions Accounting Policies Guide," provide guidance for reporting and reconciling intragovernmental balances. While the Department is unable to fully reconcile intragovernmental transactions with all federal partners, the Department is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the Office of Personnel Management (OPM). The Department's proportionate share of public debt and related expenses of the federal government are 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 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.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Department sells defense articles and services to foreign governments and international organizations under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the U.S. Government. Payment is required in advance.

Beginning in 1st Quarter, FY 2007, the Department began reporting in its basic financial statements all programs it executes on behalf of the Executive Office of the President, including the ones authorized by the "Arms Export Control Act of 1976." Funds managed by the Department for the Executive Office of the President were previously reported in the Department's financial statements as "Other Accompanying Information."

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

The Department's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Department'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, and interagency transfers, and deposits.

In addition, the DFAS sites and the USACE Finance Center 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 Fund Balance with Treasury (FBWT) account. Differences between the Department's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

Cash is the total of cash resources under the control of DoD, which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and non-purchased foreign currencies held in foreign currency fund accounts.

The majority of cash and all foreign currency is classified as nonentity and, therefore, is restricted. Amounts reported consist primarily of cash and foreign currency held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the restoration of Iraq.

The Department conducts a significant portion of its operations overseas. The Congress established a special account to capture the gains and losses from foreign currency transactions for five general fund appropriations (operations and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify currency fluctuations.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. By law, the DoD is to collect all costs incurred for reimbursable work with other federal agencies, therefore 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 at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

The Department uses a historical basis to estimate uncollectible accounts receivable from the public, either as a percentage of actual prior-year write-offs or a percentage of aged accounts receivable from the public.

1.L. Direct Loans and Loan Guarantees

The Department operates two direct loan and loan guarantee programs. The Military Housing Privatization Initiative program is authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106, Stat 186, Section 2801. The Act includes a series of authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually or in combination. They include guarantees (both loan and rental); conveyance/leasing of existing property and facilities; differential lease payments; investments (both limited partnerships and stock/bond ownership); and direct loans. In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

The Department administers the Foreign Military Financing program on behalf of the Executive Office of the President. This program is authorized by sections 23 and 24 of the Arms Export Control Act (P.L. 90-629) as amended and sections 503(a) and 541 of the Foreign Assistance Act. This program provides loans to help countries purchase U.S. produced weapons, defense equipment, services, or military training.

The Department also operates a loan guarantee program designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

The National Defense Authorization Act for FY 2005, Public Law 108-375, Section 2805, provided permanent authorities to the Military Housing Privatization Initiative.

1.M. Inventories and Related Property

The Department values approximately 60 percent of its resale inventory using the moving average cost method. An additional 2 percent (fuel inventory) is reported using the first-in-first-out method. The Department reports the remaining 38 percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than compliance with accounting standards. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, Department Components are continuing to transition the balance of their inventories to the moving average cost method. However, since the on-hand balances which transitioned were not, for the most part, baselined to auditable historical cost, the reported values remain non-compliant with SFFAS No. 3 and GAAP.

The Department manages only military or government-specific materiel under normal conditions. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies.

Therefore, the Department does not attempt to account separately for “inventory held for sale” and “inventory held in reserve for future sale” based on SFFAS No. 3 definitions.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Department uses the purchase method. Under this method materials and supplies are expensed when purchased. During FY 2007, the Department expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user.

The Department determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high-dollar managed items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Department recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Potentially redistributed materiel, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in “Held for Use” or “Held for Repair” categories according to its condition.

Past audits identified uncertainties about the completeness and existence of the reported values of inventory. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. It is more economical to repair than to procure these inventory items. Because the Department often relies on weapon systems and machinery no longer in production, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct cost. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate amounts paid to contractors under cost reimbursable contracts, including amounts withheld from payment to ensure performance, and amounts paid to other government plants for accrued costs of end items of material ordered but not delivered. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

1.N. Investments

The Department reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Department’s intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department 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 Department’s Net Investments are held by various trust and special funds. These funds are comprised of the Military Retirement Trust Fund (MRF); Medicare-Eligible Retiree Health Care Fund (MERHCF); Other Defense Organizations General Fund (ODO GF) trust and special funds; donations (Gift Funds); and the USACE South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts.

Other investments represent limited partnerships, entered into on behalf of the U.S. Government in support of the Military Housing Privatization Initiative authorized by Public Law 104-106, Section 2801. These investments do not require market value disclosure.

1.O. General Property, Plant and Equipment

The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," established generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The Standard provided for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The Department used Bureau of Economic Analysis (BEA) to calculate the value of the military equipment for reporting periods from October 1, 2002, through March 31, 2006.

Effective 3rd Quarter, FY 2006, the Department replaced the BEA estimation methodology with an estimation methodology for military equipment based on Departmental internal records. The Department initially identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure information and information related to acquisition and disposals.

The Department is moving away from a standard capitalization threshold for all categories (e.g., real property, military equipment, etc.) of General Property, Plant, and Equipment (PP&E) to one that is specific for each individual category.

In FY 2006, the capitalization threshold was revised from $100,000 to $20,000 for real property. The capitalization threshold for the remaining General PP&E categories remains at $100,000.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the Department's capitalization threshold of $100,000, except for the USACE and WCF as discussed below. The Department also requires capitalization of improvement costs over the Department's capitalization threshold of $100,000 for General PP&E. The Department depreciates all General PP&E on a straight-line basis, with the exception of land, which is not depreciated.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998. No adjustment was made for WCF assets. These assets remain capitalized and reported on WCF financial statements.

The USACE Civil Works General PP&E is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost exceeds $25,000. One exception is all buildings and structures related to hydropower projects which are capitalized regardless of cost. Prior to FY 2004, the Corps capitalized all buildings and structures regardless of cost. In FY 2003, the Corps increased the threshold (effective FY 2004) for building and structures to $25,000 for all Civil Works appropriations with the exception of Revolving Fund and Power Marketing Agency assets, and expensed all applicable previously acquired assets not meeting the new $25,000 threshold.

When it is in the best interest of the government, the Department provides government property to contractors to complete contract work. The Department either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, Federal Accounting Standards require that it be reported on the Department's Balance Sheet.

The Department has policies and is developing contractor reporting processes that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Department reports only government property in the possession of contractors that is maintained in the DoD property systems. The DoD has issued new property accountability and reporting requirements that require DoD Components to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD-proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards.

1.P. Advances and Prepayments

It is the Department's policy to record payments in advance of the receipt of goods and services as advances or prepayments and report the advances as an asset on the Balance Sheet, and to recognize the expense and/or proper asset classification when it receives the related goods and services.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), the Department records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The Department records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by the Department in support of contingency operations are the largest cost elements of operating leases. These costs were gathered from existing leases, General Services Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than the DoD non-pay inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases. The Department expects to continue to reduce the level of owned assets while increasing the number of leased assets. The Department will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and contract financing payments, that are not reported elsewhere on the Department's Balance Sheet.

Contract financing payments are defined in the Federal Acquisition Regulation (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing certain long-term contracts and facilitate competition for defense contracts. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisition Regulation Supplement (DFARS) authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on a percentage or stage of completion are reported as Construction in Progress under Property, Plant, and Equipment.

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 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 Department recognizes contingencies as 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. The Department's loss contingencies arise as a result of pending or threatened litigation or claims; and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Department's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon the Department's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." The Department recognizes nonenvironmental disposal liabilities for nuclear-powered military equipment when placed into service. Such amounts are developed in conjunction with, and not easily separately identifiable from, environmental disposal costs.

1.T. Accrued Leave

The Department reports earned military and civilian leave, except sick leave, as accrued liabilities, however it is not reported as of the Balance Sheet date, but rather reported as the amount of leave recorded as of the last payroll report. Sick leave is expensed when taken. The liability reported at the end of the accounting period reflects the current pay rates.

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations represent 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.

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfer in and out of assets without reimbursement.

1.V. Treaties for Use of Foreign Bases

The Department has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. This takes place after negotiations between the U.S. and the host country have determined the amount to be paid to the U.S. for such capital investments.

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 generally explained within the notes to the financial statements.

1.X. Unexpended Obligations

The Department 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 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. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. In-transit payments are those payments that have been made to other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The Department's policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities.

Note 2. Nonentity Assets

As of December 31	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 9,732,938,349.63	$ 673,369,794.91
B. Accounts Receivable	160,379.37	753,952.52
C. Total Intragovernmental Assets	$ 9,733,098,729.00	$ 674,123,747.43
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 2,259,222,623.22	$ 1,731,557,433.30
B. Accounts Receivable	5,462,071,089.40	5,021,640,268.80
C. Other Assets	196,825,000.00	156,911,724.36
D. Total Nonfederal Assets	$ 7,918,118,712.62	$ 6,910,109,426.46
3. Total Nonentity Assets	$ 17,651,217,441.62	$ 7,584,233,173.89
4. Total Entity Assets	$ 1,734,211,973,212.21	$ 1,373,297,017,026.49
5. Total Assets	$ 1,751,863,190,653.80	$ 1,380,881,250,200.40

Nonentity assets are assets for which the Department maintains stewardship accountability and responsibility to report, but are not available for the Department's operations.

Fluctuations

Total Nonentity Assets increased $10.1 billion primarily due to the change in reporting requirements effective 1st Quarter, FY 2007. The Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, requires the Department to include programs that are executed on behalf of the Executive Office of the President. This information was previously reported in Other Accompanying Information.

Note 3. Fund Balance with Treasury

As of December 31		2007		2006
1. Fund Balances				
A. Appropriated Funds	$	639,297,415,616.28	$	316,377,007,611.89
B. Revolving Funds		9,893,619,233.35		6,848,255,287.58
C. Trust Funds		9,397,828,078.76		683,888,234.93
D. Special Funds		196,771,972.09		301,309,393.24
E. Other Fund Types		2,705,152,850.60		1,870,749,516.04
F. Total Fund Balances	$	661,490,787,751.08	$	326,081,210,043.68
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	$	641,037,695,216.16	$	188,774,014,461.71
B. Fund Balance per Agency		661,490,787,751.08		326,081,210,043.68
3. Reconciling Amount	$	(20,453,092,534.92)	$	(137,307,195,581.97)

Fluctuations

Fund Balance with Treasury (FBWT) increased $335.4 billion primarily due to an increase of $323 billion in appropriated funds for military personnel, operation and maintenance, procurement, research and development, and test and evaluation. The increase in the fund balance is due to the Continuing Resolution Authority (CRA) that these appropriations were under during 1st Quarter, FY 2006, which limited the amount of funds allocated.

Other Disclosures

The Department of Defense (DoD) shows a reconciling net difference of $20.5 billion with the Department of the Treasury (Treasury) as of 1st Quarter, FY 2007, which is primarily comprised of $19.1 billion in CRA related to Defense Health Programs, U. S. Army Corps of Engineers, and military construction recorded by the Department, but not reported by the Treasury.

Status of Fund Balance with Treasury

As of December 31		2007		2006
1. Unobligated Balance				
A. Available	$	398,721,588,643.42	$	147,730,546,632.72
B. Unavailable		368,919,529,529.14		9,728,411,541.56
2. Obligated Balance not yet Disbursed	$	386,951,766,786.11	$	613,238,643,423.94
3. Nonbudgetary FBWT	$	10,351,510,252.25	$	7,249,718,445.00
4. NonFBWT Budgetary Accounts	$	(499,637,629,783.64)	$	(449,489,202,635.56)
5. Total	$	665,306,765,427.28	$	328,458,117,407.66

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

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

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.

Non-Budgetary Fund Balance with Treasury (FBWT) includes entity and nonentity Fund Balance with Treasury accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

Non-FBWT Budgetary Accounts include budgetary accounts that do not affect Fund Balance with Treasury, such as contract authority, borrowing authority and investment accounts. This category reduces the Status of Fund Balance with Treasury.

Fluctuations

Total Status of FBWT increased $336.8 billion primarily due to the receipt of the appropriation warrants for FY 2007 prior to the end of December 2006, and the nonreceipt of the FY 2006 appropriation warrants prior to the end of December 2005 due to operating under a Continuing Resolution Authority. Unobligated Balance Unavailable increased $359.2 billion and Obligated Balance not yet Disbursed decreased $226.2 billion due to a reclassification of certain funds that brings the Department into compliance with the Office of Management and Budget Circular No. A-136, “Financial Reporting Requirements,” and permits better reconciliation of FBWT to the President’s Budget. This change primarily involves the Medicare-Eligible Retiree Health Care Fund and the Military Retirement Fund, the balances of which are only available for investing in nonmarketable market-based securities purchased through the Department of Treasury.

Other Disclosures

The Status of Fund Balance with Treasury disagrees with the Fund Balance with Treasury by $3.8 billion. The Department has recognized the difference is a result of an internal weakness of creating proprietary accounting reports from budgetary information for Security Assistance. Security Assistance programs are reported by the Department for 1st Quarter, FY 2007, as a result of the change in reporting requirements for allocation transfers. The Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, generally requires financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) to be reported in the financial statements of the parent entity. Exceptions to this general rule affecting the Department include Security Assistance programs executed on behalf of the Executive Office of the President. Effective in 1st Quarter, FY 2007, the Department began reporting these balances in the financial statements.

Certain unobligated balances may be restricted for future use and are not apportioned for current use. Restrictions include nonmarketable market-based securities purchased through Treasury. The non-marketable market-based securities are restricted because they are not traded on the open market. These securities are restricted to federal entities with specific legislation to invest. In addition, the DoD is the lead agency for reporting the financial data for certain trust funds such as the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration. The Department of the Treasury, Bureau of Public Debt (BPD) maintains the investments and the investment accounting records and invests the trust fund receipts. The BPD transfers funds to the individual trust funds as funds are needed.

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	$ 1,016,766.01	$ 1,228,741.49	$ 653,643.38	$ (575,098.11)
F3875 – Disbursing Officer Suspense	589,259,738.92	809,808,227.67	872,628,237.93	62,820,010.26
F3880 – Lost or Cancelled Treasury Checks	20,305,514.27	11,475,682.09	21,392,342.43	9,916,660.34
F3882 – Uniformed Services Thrift Savings Plan Suspense	26,228,663.78	83,279,316.19	112,743,896.11	29,464,579.92
F3885 – Interfund/IPAC Suspense	(221,442,070.16)	(345,519,163.86)	(280,577,787.11)	64,941,376.75
F3886 – Thrift Savings Plan Suspense	7,462,998.26	8,862,387.62	(6,596,503.21)	(15,458,890.83)
Total	$ 422,831,611.08	$ 569,135,191.20	$ 720,243,829.53	$ 151,108,638.33

The F3845 suspense account represents the balance of proceeds from the sale of personal property.

The F3875 suspense clearing represents the Disbursing Officer's (DO) suspense. Account F3885, represents the Interfund and Intragovernmental Payment and Collection (IPAC) suspense. Account F3886 represents payroll deductions for the Thrift Savings Plan (TSP) suspense. These three suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

The F3880 suspense account represents the balance of Treasury checks that (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the TSP deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month.

Fluctuations

Total suspense accounts increased $151 million primarily attributable to a $64.9 million increase in Interfund/IPAC suspense account and a $62.8 million increase in Disbursing Officer (DO) suspense account. The increase in the Interfund/IPAC suspense account is attributed to a decrease in the amount of abnormal intragovernmental payments and collections in suspense. The Department implemented the Defense Finance and Accounting Service Transaction Interface Module IPAC (DTIM-IPAC) in 3rd Quarter, FY 2006. DTIM-IPAC greatly reduced transactions that remained in suspense (most of which were abnormal), thereby reducing the dollar value in the Interfund/IPAC suspense account. The increase in the DO suspense account was due to an increase in federal income tax being withheld for civilian and military personnel due to increases in Internal Revenue Service withholdings rates during calendar year 2006. The decrease to Thrift Saving Plan suspense account is due to the negative adjustments, lost earnings, forfeitures, and loan repayments as of 1st Quarter, FY 2007.

Other Disclosures

The total amount reported above for FY 2005 and FY 2006 does not agree with balances reported last year-end due to the inclusion of the Personal Property Proceeds account in the current year schedule. The note schedule did not include this account for 1st Quarter, FY 2006.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of December 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	$ 1,336,120,839.79	$ 2,179,897,704.81	$ 1,837,299,549.14	$ (342,598,155.67)
B. Negative Unliquidated Obligations (NULO)	179,184,105.66	250,884,721.04	372,525,013.42	121,640,292.38
2. Total In-transit Disbursements, Net	$ 6,820,321,659.42	$ 4,939,942,852.12	$ 9,198,730,682.62	$ 4,258,787,830.50

A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

A NULO occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The In-transits represent the net value of disbursements and collections paid and reported to Treasury on behalf of an accountable activity and have not been received or processed into the accounting system.

Fluctuations

The Department reported a $342.6 million decrease (16%) in UMDs. This decrease consists of $225.1 million in process improvements made by the Department during 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This decrease also consists of $167.9 million change in the contingency disbursing process during 4th Quarter, FY 2006 as a result of contingency disbursing stations in Iraq and Kuwait processing payments via an electronic file rather than shipping vouchers via postal service. Consequently, the unmatched disbursements decreased due to the enhanced timing of posting disbursements into the accounting system and with the Department of the Treasury. In addition to this decrease, changes were completed to the Automatic Reject Control System during FY 2006, which led to quicker isolation of problems, implementation of corrective actions, and an increase of the automatic posting rate of Mechanization of Contract Administration Services disbursements. These amounts were offset by a $106 million increase in 1st Quarter, FY 2007 due to the effects of Base Realignment and Closure in December 2006.

The Department reported a $121.6 million increase (48%) in NULOs. This increase consists of $129.7 million primarily due to a Military Pay operations change in procedure in 1st Quarter, FY 2007. NULOs are no longer recorded as obligations at the summary level, and are currently being reported at the lowest level of detail possible.

The Department reported a $4.3 billion increase (86%) in In-transits. This increase consists of $2.8 billion in TRICARE vouchers posted in January 2007. Due to inclement weather during the last week of December 2006, the DFAS-DE site was closed and personnel were unable to post the vouchers before the end of 1st Quarter, FY 2007. In addition, an increase of $615.7 million was due to implementation of the new Interfund Funds Control Module. During the 1st Quarter, FY 2007 Interfund Fund Bills were not processed to avoid duplicate obligations. This issue has been resolved and the processing of the backlog of bills started in December 2006.

Other Disclosures

The amounts reported in FY 2005 and FY 2006 have been changed to reflect correct balances reported in the prior year problem disbursements and in-transits. Due to timing issues in receipt of expenditure information in prior years, the Department corrected prior year balances to better reflect year-end reporting.

Note 4. Investments and Related Interest

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	$ 234,363,255,212.01	See Below	$ (5,384,422,404.54)	$ 228,978,832,807.47	$ 222,792,234,245.72
2. Medicare Eligible Retiree Health Care Fund	111,574,711,104.99	See Below	(1,277,469,022.39)	110,297,242,082.60	106,508,586,902.13
3. US Army Corps of Engineers	3,770,977,492.05	See Below	(85,802,859.61)	3,685,174,632.44	3,651,805,877.39
4. Other Funds	1,972,529,308.20	See Below	(8,487,105.85)	1,964,042,202.35	1,957,270,512.78
5. Total Nonmarketable, Market-Based	351,681,473,117.25		(6,756,181,392.39)	344,925,291,724.86	334,909,897,538.02
B. Accrued Interest	3,181,250,235.93			3,181,250,235.93	3,181,250,235.93
C. Total Intragovernmental Securities	$ 354,862,723,353.18		$ (6,756,181,392.39)	$ 348,106,541,960.79	$ 338,091,147,773.95
2. Other Investments					
A. Total Other Investments	$ 1,259,255,130.00		$ 0.00	$ 1,259,255,130.00	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	$ 231,336,052,685.34	See Below	$ (13,345,666,327.37)	$ 217,990,386,357.97	$ 219,561,065,366.81
2. Medicare Eligible Retiree Health Care Fund	87,325,640,667.28	See Below	(626,425,645.71)	86,699,215,021.57	86,534,815,312.74
3. US Army Corps of Engineers	3,315,583,674.46	See Below	(87,117,810.04)	3,228,465,864.42	3,184,339,574.64
4. Other Funds	1,853,443,384.29	See Below	(26,933,232.10)	1,826,510,152.19	1,828,577,546.48
5. Total Nonmarketable, Market-Based	323,830,720,411.37		(14,086,143,015.22)	309,744,577,396.15	311,108,797,800.67
B. Accrued Interest	3,277,480,275.84			3,277,480,275.84	3,277,480,275.84
C. Total Intragovernmental Securities	$ 327,108,200,687.21		$ (14,086,143,015.22)	$ 313,022,057,671.99	$ 314,386,278,076.51
4. Other Investments					
A. Total Other Investments	$ 772,100,130.00		$ 0.00	$ 772,100,130.00	N/A

Amortization Method Used: Effective Interest

Fluctuations

Intragovernmental Securities

Total Intragovernmental Securities, Net Investments increased $35.1 billion (11%). The Medicare-Eligible Retiree Health Care Fund investments increased $23.6 billion because of contributions (in excess of beneficiary payments) from the Treasury, the Military Services and other Uniformed Services (U.S. Coast Guard, U.S. Public Health Service, and the National Oceanic Atmospheric Administration) plus accrued interest earned. The Military Retirement Fund investments increased $11.0 billion because of contributions (in excess of beneficiary payments) from the Treasury, and the Military Services, the maturation of Treasury notes and bills that were reinvested in overnight Treasury securities yielding a higher interest rate, and accrued interest earned.

Other Investments

Other Investments (with the Public) increased $487.2 million (63%) from new investments in limited partnerships in support of military housing.

Other Disclosures

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 Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Department as evidence of its receipts. Treasury securities are an asset to the Department and a liability to the Treasury. Because the Department and the 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. Treasury securities provide the Department with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the Department requires redemption of these securities to make the 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	$ 2,449,045,705.11	N/A	$ 2,449,045,705.11	$ 3,045,603,974.38
2. Nonfederal Receivables (From the Public)	$ 8,117,584,057.33	$ (274,204,301.27)	$ 7,843,379,756.06	$ 8,077,406,476.41
3. Total Accounts Receivable	$ 10,566,629,762.44	$ (274,204,301.27)	$ 10,292,425,461.17	$ 11,123,010,450.79

Fluctuations

Intragovernmental accounts receivables decreased by $596.7 million (20%), primarily due to payments of outstanding receivables by the Federal Emergency Management Agency (FEMA) for hurricane relief efforts in the Gulf Coast during FY 2006.

Other Disclosures

The Code of Federal Regulations (CFR) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

Aged Accounts Receivable

As of December 31	2007		4th Quarter 2006	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	$ 7,070,067,028.62	$ 1,299,354,908.74	$ 7,735,556,043.50	$ 1,840,827,298.84
Noncurrent	209,588,120.07	1,974,377,243.94	232,111,648.02	1,740,931,578.87
Delinquent				
1 to 30 days	$ 425,628,704.11	$ 262,879,854.44	$ 321,052,693.18	$ 159,895,143.01
31 to 60 days	210,261,629.35	95,024,934.30	345,741,597.72	53,396,849.71
61 to 90 days	282,817,565.28	181,597,796.93	57,232,711.57	117,793,320.90
91 to 180 days	227,098,587.20	163,085,424.76	716,488,003.02	129,963,654.25
181 days to 1 year	507,387,653.37	167,478,754.51	908,685,038.83	207,191,912.01
Greater than 1 year and less than or equal to 2 years	87,518,790.43	223,755,543.02	44,433,330.59	192,238,715.34
Greater than 2 years and less than or equal to 6 years	58,941,822.24	904,697,888.78	55,010,117.48	896,217,986.17
Greater than 6 years and less than or equal to 10 years	1,916,274.19	577,347,076.04	1,178,125.70	676,041,862.31
Greater than 10 years	17,933.35	2,650,358,145.81	17,933.35	2,640,490,906.55
Subtotal	$ 9,081,244,108.21	$ 8,499,957,571.27	$ 10,417,507,242.96	$ 8,654,989,227.96
Less Supported Undistributed Collections	(533,617,457.72)	(362,218,013.15)	(492,669,515.54)	(478,889,512.10)
Less Eliminations	(5,893,747,999.41)	0.00	(6,986,274,309.01)	0.00
Less Other	(219,203,334.95)	(21,111,135.11)	(10,909,327.79)	37,516,930.32
Total	$ 2,434,675,316.13	$ 8,116,628,423.01	$ 2,927,654,090.62	$ 8,213,616,646.18

The aged intragovernmental accounts receivable for FY 2007 will not agree with the gross accounts receivable on the first schedule of this note. The intragovernmental accounts receivable for the Security Assistance activities are not included in this aging schedule, as they are not reported to Treasury as part of the Department's Treasury Report on Receivables. The accounts receivable aging schedule prior year column 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 not agree with the prior year balance on the Balance Sheet or the prior year balance in the first schedule in this note.

Fluctuations

Delinquent Intragovernmental Receivables

1 to 30 Days – An increase of $104.5 million is primarily due to an increase of $63.4 million due to FEMA receivables associated with Hurricanes Katrina, Rita, and Wilma and $15.1 million attributable to a backlog from the transitioning of workload to a new site.

31 to 60 Days – A decrease of $135.4 million is primarily due to a decrease of $126.2 million attributable to payments by FEMA for receivables associated with disaster relief efforts associated with Hurricanes Katrina, Rita, and Wilma.

61 to 90 Days – An increase of $225.6 million is primarily due to an increase of $95.6 million in adjustments made to bring accounting information into compliance with the Department of Defense Financial Management Regulation (DoDFMR) policy on posting and aging of receivables. FEMA receivables increased $66.3 million due to Hurricanes Katrina, Rita, and Wilma.

91 to 180 Days – A decrease of $489.4 million is primarily due to a decrease of $474.9 million for FEMA payments associated with disaster relief efforts associated with Hurricanes Katrina, Rita, and Wilma.

181 days to 1 year – A decrease of $401.3 million is primarily due to a decrease of $307.1 for FEMA payments associated with disaster relief efforts associated with Hurricanes Katrina, Rita, and Wilma.

Greater than 1 year and less than or equal to 2 years – An increase of $43.1 million is due primarily to an increase of $23.4 million in adjustments made to bring accounting information into compliance with the DoDFMR policy on posting and aging of receivables. An increase of $9.6 is due to an increase in FEMA receivables associated with Hurricanes Katrina, Rita, and Wilma.

Greater than 6 years and less than or equal to 10 years – An increase of $700.0 thousand is primarily due to an increase of $1.1 million in a temporary backlog due to transitioning workload to a new site. This increase is offset by a decrease of $410.0 thousand realized through improved processes between components and their accounting service providers.

Delinquent Nonfederal Receivables

1 to 30 Days –An increase of $103 million is primarily due to an increase of $39.2 million in adjustments made to bring accounting information into compliance with the DoDFMR policy on posting and aging of receivables. An increase of $20.0 million is attributed to Acquisition Cross Service Agreements (ACSA) debt. ACSAs are authorized by Subchapter I, Chapter 138, Title 10 of the United States Code as support agreements between the U.S. government and governments of other North Atlantic Treaty Organization countries. An increase of $15.6 million is a result of a temporary backlog in processing collections from customers in Supply Management Business Area (SMBA). Insufficient data provided on the interest file required detailed review of individual transactions to post collections.

31 to 60 Days – An increase of $41.6 million is primarily due to an increase of $23.5 due to a temporary backlog in processing collections from customers in SMBA. A $12.5 million increase is due to a rate increase for transportation.

61-90 Days – An increase of $63.9 million is primarily due to an increase of $26.4 million in adjustments made to bring accounting information into compliance with the DoDFMR and an increase of $22.8 million attributed to ACSA debt.

91-180 Days – An increase of $33.1 million is primarily due to an increase of $25.5 million as a result of a temporary backlog in processing collections from customers in SMBA.

181 Days to 1 year - A decrease of $36.7 million is primarily due to a reduction of $18.3 million in the backlog of SMBA collections. A decrease of $13.7 million is due to the payment of a receivable from the Department of Natural and Environmental Resources for the Cerrillos Dam water storage contract.

Greater than 1 year and less than or equal to 2 years – An increase of $31.6 million is primarily due to an increase of $11.2 million in the backlog of SMBA collections. An increase of $6.9 million is due to a temporary backlog from transitioning workload to a new site. An increase of $5.1 million is attributed to ACSA debt.

Greater than 6 years and less than or equal to 10 years – A decrease of $98.4 million is due to the resolution of accounts receivable that were in litigation.

Other Information

Nondelinquent noncurrent accounts receivable total $2.2 billion for 1st Quarter, FY 2007 and represents those amounts that are due beyond the next 12 months. These accounts are not considered delinquent since the associated repayment schedules allow for repayment after a 30-day period and the payments are not yet due under the contract or billing documents pertaining to the receivable.

The Intragovernmental Other line primarily consists of $210.9 million of interfund clearing accounts, pending customer returns, and purchase card payments.

The Nonfederal Other line primarily consists of $17.6 million of adjustments to collections and offsets in receivables.

The Department utilizes several different programs (Treasury Offset Program, Vendor Pay Offset Program, Central Debt System, Intragovernmental Payment and Collection, Defense Cash Accountability System, Delinquent Debt Management System, Salary Offset Program, and private collection services) to pursue collection action on delinquent and nondelinquent accounts receivable in accordance with Office of Management and Budget Circular A-129, “Policies for Federal Credit Programs and Non-Tax Receivables”. In certain instances, the status of litigation impacts the Department’s ability to pursue collection actions.

Note 6. Other Assets

As of December 31	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 900,145,480.82	$ 1,315,571,597.11
B. Other Assets	124,925,000.00	0.00
C. Total Intragovernmental Other Assets	$ 1,025,070,480.82	$ 1,315,571,597.11
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 23,450,080,553.85	$ 21,451,332,692.89
B. Other Assets (With the Public)	2,401,350,542.66	2,524,690,810.20
C. Total Nonfederal Other Assets	$ 25,851,431,096.51	$ 23,976,023,503.09
3. Total Other Assets	$ 26,876,501,577.33	$ 25,291,595,100.20

Fluctuations

Intragovernmental Other Assets

Intragovernmental Other Assets decreased $290.4 million (22%), primarily due to $376.2 million in Department advances returned from the Department of Interior. These advances were returned as a result of a Department-wide effort to review all Department funds with non-Department federal entities and coordinate the return of funds that had either expired or were no longer available for use. This decrease is offset by a $124.9 million 4th Quarter, FY 2006 adjustment to recognize as an other asset the right to approximately 6.4 million barrels of crude oil held by the Department of Energy (DOE) on behalf of the Department of Defense (DOD).

Other Disclosures

Intragovernmental Other Assets consists of the Department's right to approximately 6.4 million barrels of crude oil held by the Department of Energy on behalf of the Department. The Department provided funds to DOE in FY 1993 to acquire the reserve.

Other Assets (With the Public) are primarily comprised of advances for military and travel pay, and fish and wildlife migration studies performed by the U.S. Army Corps of Engineers.

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Department that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Department is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

Note 7. Cash and Other Monetary Assets

As of December 31	2007	2006
1. Cash	$ 1,653,885,835.71	$ 1,460,709,160.02
2. Foreign Currency	831,050,636.30	441,069,438.70
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 2,484,936,472.01	$ 1,901,778,598.72

Fluctuations

Cash and Other Monetary Assets increased $583.2 million (31%) primarily due to Cash and Foreign Currency advances of $324.2 million from the Republic of Korea for construction projects.

Other Disclosures

Approximately $1.4 billion in cash and $831.1 million in foreign currency are classified as nonentity and their use is restricted.

Note 8. Direct Loan and/or Loan Guarantee Programs

As of December 31

Direct Loan and/or Loan Guarantee Programs

The Department operates the following direct loan and/or loan guarantee programs:

- Military Housing Privatization Initiative
- Armament Retooling and Manufacturing Support Initiative
- Foreign Military Financing

The Federal Credit Reform Act of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

Direct loans are reported at the net present value of the following projected cash flows:

- Loan disbursements;
- Repayments of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties and other recoveries.

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments; offset by
- Payments to the Department including origination and other fees, penalties, and recoveries.

Military Housing Privatization Initiative

The Military Housing Privatization Initiative (MHPI) includes both Direct Loan and Loan Guarantee Programs. The Department obtains private sector capital to leverage government dollars. The Department provides protection against specific risks, such as base closure or member deployment, for the private sector partner. The Loan Guarantee Program is authorized by the National Defense Authorization Act for FY 1996, Public Law (P.L.) 104-106, Statute 186, Section 2801.

Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 United States Code (USC) 4551-4555, is a Loan Guarantee Program designed to encourage commercial use of the Army's Inactive Ammunition Plants through many incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements; however, this capacity may be needed by the military in the future. The revenues from the property rental are used to pay for the operation, maintenance and environmental cleanup at the facilities. The resulting savings in overhead costs lower the production cost of the goods manufactured and fund environmental cleanup at no cost to the government.

Foreign Military Financing Account

Foreign Military Financing Account (FMFA) is a military assistance program. The FMFA is under the purview of the Department of State (DOS) and is included in its International Affairs Budget request to Office of Management and Budget (OMB). The FMFA, appropriated by the U.S. Congress, is provided to the Department of Defense by the DOS to execute the authorities of the Foreign Assistance Act, sections 503(a) and 541 and the Arms Export Control Act, section 23. The Defense Security Cooperation Act (DSCA), under the auspices of the Executive Office of the President, administers the FMFA.

Direct Loans Obligated After FY 1991

As of December 31	2007	2006
Loan Programs		
1. Military Housing Privatization Initiative		
A. Loans Receivable Gross	$ 308,173,389.78	$ 172,395,426.53
B. Interest Receivable	5,315,783.81	3,765,369.22
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	(114,997,882.44)	(74,838,720.50)
E. Value of Assets Related to Direct Loans	$ 198,491,291.15	$ 101,322,075.25
2. Foreign Military Financing Account		
A. Loans Receivable Gross	$ 3,220,564,866.03	$ 3,797,943,532.25
B. Interest Receivable	375,041,577.19	363,865,735.94
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	53,221,093.20	(8,550,467.28)
E. Value of Assets Related to Direct Loans	$ 3,648,827,536.42	$ 4,153,258,800.91
3. Total Loans Receivable	$ 3,847,318,827.57	$ 4,254,580,876.16

Fluctuations

Military Housing Privatization Initiative (MHPI)

Value of Assets Related to Direct Loans increased $97.1 million (96%). The increase was due to five new direct loans totaling $135.8 million disbursed during FY 2006 and FY 2007 to Wright-Patterson Air Force Base (AFB), Ohio; Kirtland AFB, New Mexico; and Elmendorf AFB, Alaska.

Other Disclosures

Subsidy costs are recognized when direct loans are disbursed to borrowers and are reestimated each year as of the date of the financial statements. The allowance for subsidy cost is the difference between the outstanding principal of the loans and the present value of their net cash flows.

The Department's loans receivable are not the same as the proceeds that it would expect to receive from selling the loans.

Gross direct loan values for the MHPI program inclusive through December 31, 2006, consist of the following:

Direct Loans	(Amount in millions) 2007
Elmendorf AFB, Alaska	$134.4
Kirtland AFB, New Mexico	58.6
Camp Pendleton Marine Corps Base, California	29.4
Dyess AFB, Texas	28.9
Robins AFB, Georgia	22.3
Wright Patterson AFB, Ohio	21.9
Lackland AFB, Texas	10.2
Kingsville AFB, Texas	2.5
MHPI Total Loans Receivable Gross	**$308.2**

Foreign Military Financing Account (FMFA)

This is the first quarter that Security Assistance was included as part of the Department's basic financial statements. In FY 2006, Security Assistance was included in the Department's Other Accompanying Information. The OMB Circular A-136, Financial Reporting Requirements, generally requires financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) to be reported in the financial statements of the parent entity. Exceptions to this general rule affecting the Department include Security Assistance programs executed on behalf of the Executive Office of the President.

The Foreign Military Debt Reduction Financing Account wrote off $32.0 million in loans to impoverished countries.

The Foreign Military Financing Direct Loan Financing Account has not recorded any new loans since 2003. Regular loan payments are decreasing the overall loan obligations, causing differences between current year and prior year.

Total Amount of Direct Loans Disbursed

As of December 31	2007	2006
Direct Loan Programs		
1. Military Housing Privatization Initiative	$ 11,900,000.00	$ 31,000,000.00
2. Foreign Military Financing Account	0.00	0.00
3. Total	$ 11,900,000.00	$ 31,000,000.00

Direct loans disbursed decreased $19.1 million (62%). The Department disbursed one new direct loan in 1st Quarter FY 2007 for Elmendorf AFB, Alaska for $11.9 million. The demand for direct loans by private developers varies from year to year depending upon the progress of planned construction and renovation, and upon economic factors unrelated to the operations of the Department.

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	$ 2,126,653.00	$ 1,303,433.00	$ 0.00	$ 0.00	$ 3,430,086.00
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	$ 5,580,000.00	$ 3,400,700.00	$ 0.00	$ 0.00	$ 8,980,700.00
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	$ 234,866.00	$ 6,742,155.00	$ 6,977,021.00	$ 6,977,021.00
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

	2007	2006
5. Total Direct Loan Subsidy Expense:		
Military Housing Privatization Initiative	$ 10,407,107.00	$ 8,980,700.00
Foreign Military Financing Account	0.00	0.00

Fluctuations

Subsidy expenses for direct loans increased $1.3 million (14%). The increase resulted from $6.9 million in subsidy reestimates reported during 1st Quarter FY 2007, offset by $5.6 million in reduced expenses for interest differentials in defaults recognized on the lesser amount of the direct loan disbursed to date in FY 2007 as compared to FY 2006. Subsidy reestimates are typically recalculated at fiscal year end only and thus the lack of these expenses in 1st Quarter, FY 2006, however, in FY 2007 the Office of Management and Budget directed the Department reestimate expenses as of December 31, 2006.

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	19.44%	8.95%	0.00%	0.00%	28.39%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

Subsidy rates disclosed pertain to the loan agreements contracted during the current fiscal year. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans disbursed in the current year could result from disbursement of loans from both current and prior-year loan agreements. The subsidy expense reported in the current year also includes modifications and reestimates.

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	$ 104,590,775.44	$ 65,858,020.50
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	$ 2,126,653.00	$ 5,580,000.00
B. Default Costs (Net of Recoveries)	1,303,433.00	3,400,700.00
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	$ 3,430,086.00	$ 8,980,700.00
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	$ 108,020,861.44	$ 74,838,720.50
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	$ 234,866.00	$ 0.00
B. Technical/Default Reestimate	6,742,155.00	0.00
C. Total of the above Reestimate Components	$ 6,977,021.00	$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	$ 114,997,882.44	$ 74,838,720.50

The subsidy cost allowance increased $40.0 million (54%) due to interest differentials and default costs on the four loans disbursed since 1st Quarter, FY 2006 and subsidy reestimates in 1st Quarter FY 2007.

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

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	$ 14,407,200.02	$ 0.00
B. Interest Receivable	902,864.53	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	$ 15,310,064.55	$ 0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 15,310,064.55	$ 0.00

The Defaulted Guaranteed Loans Receivable above represents two defaulted loans in the ARMS Initiative Program. Payments to third party lenders were made on the loss claims for these defaults during 2nd Quarter, FY 2006 and 1st Quarter, FY 2007.

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	$ 551,320,000.00	$ 551,320,000.00
2. Armament Retooling & Manufacturing Support Initiative	$ 20,507,617.97	$ 18,231,875.27
3. Total	$ 571,827,617.97	$ 569,551,875.27
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	$ 739,852.83	$ 692,822.09
3. Total	$ 739,852.83	$ 692,822.09

Other Disclosures

The Guaranteed Loans Outstanding for the MHPI program as of the 1st Quarter, FY 2007, consist of the following:

Guarantees	**FY 2006 (in millions)**	**Default Rate**
Fort Polk, Louisiana	$165.0	6%
Fort Carson, Colorado	144.3	3%
Kirtland AFB, New Mexico	74.0	5%
Wright Patterson AFB, Ohio	65.0	6%
Elmendorf AFB, Alaska	48.0	6%
Lackland AFB, Texas	29.4	6%
Robins AFB, Georgia	25.6	6%
Total	**$551.3**	

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of December 31	2007	2006
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	$ 24,983,924.08	$ 29,584,103.06
2. Armament Retooling & Manufacturing Support Initiative	12,934,051.97	12,393,845.32
3. Total	$ 37,917,976.05	$ 41,977,948.38

For additional information, see the Schedule for Reconciling Loan Guarantee Liability Balances for Post 1991 Loan Guarantees.

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	$ 906,670.74	$ 0.00	$ 0.00	$ 0.00	$ 906,670.74
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 906,670.74	$ 0.00	$ 0.00	$ 0.00	$ 906,670.74

	2007	2006
5. Total Loan Guarantee:		
Military Housing Privatization Initiative	$ 0.00	$ 906,670.74
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	$ 0.00	$ 906,670.74

The $900.0 thousand in Loan Guarantee Modifications in FY 2006 reflected above was recorded in error.

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%	9.65%	0.00%	0.00%	9.65%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	20.00%	0.00%	0.00%	20.00%

The subsidy rates disclosed pertain only to loan agreements made during the current fiscal year. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year result from disbursements of loans from both current year loan agreements and prior year(s) loan agreements. The subsidy expense reported in the current year also includes modifications and reestimates.

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	$	36,737,916.80	$	41,071,277.64
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		1,180,059.25		906,670.74
G. Other		0.00		0.00
H. Total of the above Adjustments	$	1,180,059.25	$	906,670.74
4. Ending Balance of the Loan Guarantee Liability before Reestimates	$	37,917,976.05	$	41,977,948.38
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	$	37,917,976.05	$	41,977,948.38

Fluctuations

The beginning balance of the Loan Guaranteed Liability for FY 2007 reflects business activity conducted during FY 2006. The Loan Guaranteed Liability decreased $4.1 million (10%) primarily due to the reestimates completed in 4th Quarter, FY 2006, and the accrued interest accumulation on uninvested balances. The Department did not make any new Loan Guarantees in 1st Quarter, FY 2007.

The Department has had two loan guaranteed defaults for the ARMS Initiative Program. One loan defaulted in August 1999, but was previously in litigation to determine the actual amount of debt owed. This claim of $11.4 million was paid in 2nd Quarter, FY 2006. The second default occurred in September 2006, for which a loss claim of $15.3 million was paid in 1st Quarter, FY 2007.

Administrative Expenses

Administrative Expense is limited to separately identified expenses administered to direct and guaranteed loans. The Department does not maintain a separate program to capture the expenses related to direct and guaranteed loans for the MHPI Program. Administrative Expense for the ARMS Initiative Program is a fee paid to the U.S. Department of Agriculture Rural Business Cooperative Service for administering the loan guarantees under ARMS, which is a joint program. There were no administrative expenses in FY 2007.

Note 9. Inventory and Related Property

As of December 31	2007	2006
1. Inventory, Net	$ 84,478,241,390.64	$ 80,978,147,091.73
2. Operating Materials & Supplies, Net	144,005,799,507.36	146,708,096,483.53
3. Stockpile Materials, Net	1,049,961,501.70	1,209,446,392.28
4. Total	$ 229,534,002,399.70	$ 228,895,689,967.54

Inventory, Net

As of December 31	2007			2006	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method
1. Inventory Categories					
A. Available and Purchased for Resale	$ 87,775,247,366.23	$ (28,429,506,020.06)	59,345,741,346.17	$ 58,433,768,869.10	LAC,MAC
B. Held for Repair	31,005,260,161.79	(6,656,437,333.08)	24,348,822,828.71	21,729,792,333.25	LAC,MAC
C. Excess, Obsolete, and Unserviceable	9,388,782,751.72	(9,388,782,751.72)	0.00	0.00	NRV
D. Raw Materials	59,463,152.84	0.00	59,463,152.84	30,063,604.08	MAC,SP,LAC
E. Work in Process	724,214,062.92	0.00	724,214,062.92	784,522,285.30	AC
F. Total	$ 128,952,967,495.50	$ (44,474,726,104.86)	84,478,241,390.64	$ 80,978,147,091.73	

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

Restrictions

There are no restrictions on disposition of inventory as related to environmental liabilities or issues. Restrictions on disposition related to other liabilities include material pending litigation or negotiation with contractors or common carriers. This material is restricted from disposition until litigation or negotiation is completed. The balance of this restricted inventory as of December 31, 2006, was $86.7 million.

Generally, there are no restrictions on the use, sale, or disposition of inventory except in the following situations:

- Distributions without reimbursement are made when authorized by Department directives.
- War reserve material includes fuels and subsistence items that are considered restricted.
- Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with the current policies and guidance or at the direction of the President.

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale by the Defense Working Capital Funds. Inventory is tangible personal property that is:

- Held for sale, or held for repair and eventual sale;
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of service for a fee.

The relevant cost associated with maintaining the available inventory and the time required to replenish the inventory are the criteria used in determining the assigned category.

Operating Materials and Supplies, Net

As of December 31	2007			2006	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
1. OM&S Categories					
A. Held for Use	$ 128,312,043,743.62	$ (13,810.15)	$ 128,312,029,933.47	$ 129,929,304,356.23	SP, LAC
B. Held for Repair	16,762,098,165.38	(1,068,328,591.59)	15,693,769,573.79	16,778,792,127.30	SP, LAC
C. Excess, Obsolete, and Unserviceable	2,226,819,115.25	(2,226,819,115.15)	0.10	0.00	NRV
D. Total	$ 147,300,961,024.25	$ (3,295,161,516.89)	$ 144,005,799,507.36	$ 146,708,096,483.53	

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

Restrictions

Some munitions included in Operating Materials and Supplies (OM&S) are restricted for use. Restricted munitions are items that cannot be expected to meet performance requirements under all conditions. The restricted munitions are only used in emergency combat situations in which no other suitable munitions are immediately available.

General Composition of Operating Materials and Supplies

The OM&S includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Held for Use category includes a total of $55.9 million held for future use.

The relevant cost associated with maintaining the available operating materials and supplies, as well as the time required to replenish the operating materials and supplies, are the criteria used in determining the assigned category. There were no changes in accounting methods.

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	$ 955,881,054.90	$ 0.00	$ 955,881,054.90	$ 1,115,360,624.24	AC, LCM
B. Held in Reserve for Future Sale	94,080,446.80	0.00	94,080,446.80	94,085,768.04	AC, LCM
C. Total	$ 1,049,961,501.70	$ 0.00	$ 1,049,961,501.70	$ 1,209,446,392.28	

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

Restrictions

There are legal restrictions on the use of stockpile materials. All materials held by the National Defense Stockpile (NDS) are classified as Material Held in Reserve until congressional action declares the materials are no longer required to be stockpiled, and are available for sale on the open market. Disposals cannot be made from the stockpile except under the following situations: (1) necessary upgrading, refining, or processing, (2) necessary rotation to prevent deterioration, (3) determination as excess with potential financial loss if retained, and (4) as authorized by law.

Mercury sales were voluntarily suspended by the NDS in 1994. The suspension was in response to concerns raised by the United States Environmental Protection Agency regarding the accumulation of mercury in the global environment. An Environmental Impact Statement was issued and storage consolidation at Hawthorne, Nevada, was the selected alternative.

Additional restrictions on the use of materiel are being proposed in the Requirements Report to Congress for beryllium metal, mica block, and quartz.

General Composition of Stockpile Materials

Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or national emergencies.

The Annual Materials Plan lists the maximum quantity of each commodity that may be sold by the Department in a given fiscal year. Before any materials may be sold, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When NDS receives authorization to offer materials for sale, NDS removes the materials from Material Held in Reserve and reclassifies them as Materials Held for Sale. The estimated market price of the stockpile materials held for sale is $1.5 billion.

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	$ 10,509,815,420.28	N/A	$ 10,509,815,420.28	$ 10,464,163,784.81
B. Buildings, Structures, and Facilities	S/L	20 Or 40	169,177,993,458.05	$ (99,300,628,788.17)	69,877,364,669.88	67,806,906,842.25
C. Leasehold Improvements	S/L	lease term	330,100,309.74	(165,084,365.76)	165,015,943.98	174,030,062.54
D. Software	S/L	2-5 Or 10	8,913,319,999.18	(5,420,323,196.26)	3,492,996,802.92	3,386,340,805.91
E. General Equipment	S/L	5 or 10	60,111,337,422.52	(43,668,699,302.09)	16,442,638,120.43	16,476,259,250.63
F. Military Equipment	S/L	Various	647,526,619,858.84	(300,647,040,174.24)	346,879,579,684.60	345,970,000,000.00
G. Assets Under Capital Lease	S/L	lease term	903,022,114.73	(569,550,887.57)	333,471,227.16	176,999,450.68
H. Construction-in-Progress	N/A	N/A	20,192,911,497.13	N/A	20,192,911,497.13	20,868,729,565.42
I. Other			63,530,880.71	(1,213,237.46)	62,317,643.25	62,538,798.15
J. Total General PP&E			$ 917,728,650,961.18	$ (449,772,539,951.55)	$ 467,956,111,009.63	$ 465,385,968,560.39

[1] Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

General Property, Plant and Equipment (PP&E) increased $ 2.6 billion (.6%).

Military Equipment

In accordance with the requirements of the Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards (SFFAS) No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," beginning in FY 2003, the Department capitalized military equipment into General PP&E at estimated historical cost using information obtained from the Bureau of Economic Analysis (BEA). In FY 2006, the Department began valuing these assets using actual expenditure data and moved away from the BEA cost-estimation methodology. The move from the BEA model was made at 3rd Quarter, FY 2006 and therefore, FY 2007 values for military equipment are based on actual data. 1st Quarter, FY 2006 comparative balances were not restated.

Heritage Assets and Stewardship Land

The SFFAS 29, “Heritage Assets and Stewardship Land,” requires note disclosures for heritage assets and stewardship land. The Department is committed to preserving and accounting for its heritage assets’ historical, cultural, educational, or artistic importance. Additionally, the Department possesses and maintains land not acquired in connection with General PP&E, land donated to the Federal Government, and land previously recorded as public domain.

Heritage Assets within the Department consist of buildings and structures, museums, major collections, monuments and memorials, and archeological sites and cemeteries. Stewardship Land consists mainly of mission essential (donated, public domain, executive order) land. The Department, with minor exceptions, uses most of the buildings and structures as part of its everyday activities and includes them on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

Other Disclosures

The Department has restrictions on use and convertibility of real property (land and buildings) located outside the continental United States. The Department has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State.

The Department does not have the acquisition value for all PP&E and uses several cost systems to provide real property values for financial statement reporting purposes.

Assets Under Capital Lease

As of December 31	2007	2006
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 619,551,791.97	$ 619,551,791.97
B. Equipment	283,470,322.76	11,024,208.16
C. Accumulated Amortization	(569,550,887.57)	(453,576,549.45)
D. Total Capital Leases	$ 333,471,227.16	$ 176,999,450.68

Note 11. Liabilities Not Covered by Budgetary Resources

As of December 31	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 796,877.24	$ 0.00
B. Debt	1,863,957,005.87	2,004,490,002.53
C. Other	7,142,326,974.29	6,469,552,550.39
D. Total Intragovernmental Liabilities	$ 9,007,080,857.40	$ 8,474,042,552.92
2. Nonfederal Liabilities		
A. Accounts Payable	$ 550,309,246.47	$ 371,416,900.70
B. Military Retirement and Other Federal Employment Benefits	1,495,013,458,659.75	1,416,040,115,670.36
C. Environmental Liabilities	66,775,888,569.01	61,532,172,353.43
D. Other Liabilities	14,671,504,792.50	14,175,766,000.28
E. Total Nonfederal Liabilities	$ 1,577,011,161,267.70	$ 1,492,119,470,924.80
3. Total Liabilities Not Covered by Budgetary Resources	$ 1,586,018,242,125.10	$ 1,500,593,513,477.70
4. Total Liabilities Covered by Budgetary Resources	$ 382,001,423,504.74	$ 376,738,994,995.68
5. Total Liabilities	$ 1,968,019,665,629.80	$ 1,877,332,508,473.40

Liabilities Not Covered by Budgetary Resources are those liabilities which are not legally obligated with realized budgetary resources as of the Balance Sheet date.

Fluctuations

Total Liabilities Not Covered by Budgetary Resources increased by $85.4 billion (6%). This increase was primarily due to a $79 billion increase in Military Retirement and Other Federal Employment Benefits. A $100 billion unfunded liability increase in the Military Retirement Fund was attributable to a $71.6 billion actuarial liability increase combined with a $28.4 billion decrease in the value of invested assets used to pay retiree and survivor benefits (decreasing funded and increasing the unfunded liabilities). The $100 billion increase to unfunded liabilities was offset by a $26 billion decrease from additional availability of assets to pay Medicare-eligible beneficiaries from Medicare-Eligible Retiree Health Care Fund. See Note 17 for additional information.

Other Disclosures

Intragovernmental Liabilities Other are comprised of $5.7 billion in custodial liabilities and $1.4 billion in unfunded Employment Compensation Act liabilities.

Military Retirement and Other Federal Employment Benefits includes $1.7 billion in incurred but not reported medical claims liabilities.

Nonfederal Other Liabilities are comprised of $8.3 billion in unfunded annual leave liabilities, $2.6 billion in nonenvironmental disposal contingent liabilities, $2.3 billion in contingent liabilities, and $1.4 billion in custodial liabilities.

Note 12. Accounts Payable

As of December 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	$ 2,186,081,428.54	$ N/A	$ 2,186,081,428.54	$ 2,355,693,577.55
2. Nonfederal Payables (to the Public)	26,335,238,269.39	2,058,028.05	26,337,296,297.44	27,558,471,002.86
3. Total	$ 28,521,319,697.93	$ 2,058,028.05	$ 28,523,377,725.98	$ 29,914,164,580.41

The Department is involved in ongoing reconciliation efforts with its major trading partners resulting in payables information that is more accurate and will reduce reliance on the use of estimates.

Note 13. Debt

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	$ 692,487,628.37	$ 19,393,381.64	$ 711,881,010.01	$ 26,553,589.78	$ 757,698,200.62
B. Debt to the Federal Financing Bank	3,038,634,923.79	3,152,297.21	3,041,787,221.00	6,937,319.04	3,617,318,069.60
C. Total Agency Debt	$ 3,731,122,552.16	$ 22,545,678.85	$ 3,753,668,231.01	$ 33,490,908.82	$ 4,375,016,270.22
2. Total Debt	$ 3,731,122,552.16	$ 22,545,678.85	$ 3,753,668,231.01	$ 33,490,908.82	$ 4,375,016,270.22

The outstanding debt consists of interest and principal payments due to the U.S. Treasury and the Federal Financing Bank (FFB).

Fluctuations

Beginning in the 1st Quarter, FY 2007, the Department began reporting all programs it executes on behalf of the Executive Office of the President (EOP) at the direction of the Office of Management and Budget. As a result, the $621.4 million (14%) decrease in total Agency Debt primarily consists of a $205.4 million prepayment of debt for Foreign Military Sales in 3rd Quarter, FY 2006, and a $333.6 million principal payment for pre-1992 loans between 1st Quarter, FY 2006 and 1st Quarter, FY 2007.

Note 14. Environmental Liabilities and Disposal Liabilities

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)	$ 1,203,075,309.38	$ 7,725,726,300.83	$ 8,928,801,610.21	$ 9,895,806,391.27
2. Active Installations—Military Munitions Response Program (MMRP)	93,215,845.00	5,288,034,359.49	5,381,250,204.49	7,084,458,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	125,339,000.00	4,004,559,000.00	4,129,898,000.00	4,170,694,000.00
4. Formerly Used Defense Sites--MMRP	80,935,000.00	14,680,958,000.00	14,761,893,000.00	14,553,579,000.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	70,005,207.64	672,150,531.42	742,155,739.06	656,932,243.24
2. Environmental Closure Requirements	7,988,000.00	988,381,573.00	996,369,573.00	343,678,594.00
3. Environmental Response at Operational Ranges	22,560,000.00	246,130,066.00	268,690,066.00	304,087,000.00
4. Other	58,407,826.12	715,549,203.08	773,957,029.20	561,189,254.01
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	365,896,758.00	3,176,905,537.17	3,542,802,295.17	2,826,156,546.98
2. Military Munitions Response Program	13,592,275.00	891,534,930.00	905,127,205.00	699,329,000.00
3. Environmental Corrective Action / Closure Requirements	22,948,682.00	142,564,560.77	165,513,242.77	203,610,158.16
4. Other	181,475,000.00	0.00	181,475,000.00	414,856,705.61
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	5,671,610,721.38	5,671,610,721.38	6,742,200,000.00
2. Nuclear Powered Submarines	399,503,082.51	3,293,877,904.24	3,693,380,986.75	6,195,500,000.00
3. Other Nuclear Powered Ships	227,317,935.00	66,658,995.00	293,976,930.00	332,300,000.00
4. Other National Defense Weapons Systems	87,230,243.50	147,610,643.18	234,840,886.68	440,711,701.25
5. Chemical Weapons Disposal Program	1,337,506,000.00	15,783,211,000.00	17,120,717,000.00	10,371,745,000.00
6. Other	0.00	3,237,406,105.00	3,237,406,105.00	112,003,242.53
2. Total Environmental Liabilities	$ 4,296,996,164.15	$ 66,732,869,430.56	$ 71,029,865,594.71	$ 65,908,836,837.05

Service Component – Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities (Amounts in millions)	Army	Navy	Air Force	ODO	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)	$ 2,809.5	$ 2,339.1	$ 3,555.5	$ 224.7	$ 8,928.8
2. Active Installations--Military Munitions Response Program (MMRP)	3,312.2	675.3	1,393.7	0.0	5,381.2
3. Formerly Used Defense Sites--IRP and BD/DR	4,129.9	0.0	0.0	0.0	4,129.9
4. Formerly Used Defense Sites--MMRP	14,761.9	0.0	0.0	0.0	14,761.9
B. Other Accrued Environmental Liabilities--Active Installations					
1. Environmental Corrective Action	389.4	44.5	134.7	173.6	742.2
2. Environmental Closure Requirements	96.9	772.8	99.5	27.2	996.4
3. Environmental Response at Operational Ranges	226.0	41.8	0.0	0.9	268.7
4. Other	678.7	2.6	0.0	92.6	773.9
C. Base Realignment and Closure (BRAC)					
1. Installation Restoration Program	523.7	1,799.5	1,182.8	36.8	3,542.8
2. Military Munitions Response Program	800.3	104.8	0.0	0.0	905.1
3. Environmental Corrective Action/Closure Requirements	32.3	53.3	79.9	0.0	165.5
4. Other	181.5	0.0	0.0	0.0	181.5
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers	0.0	5,671.6	0.0	0.0	5,671.6
2. Nuclear Powered Submarines	0.0	3,693.4	0.0	0.0	3,693.4
3. Other Nuclear Powered Ships	0.0	294.0	0.0	0.0	294.0
4. Other National Defense Weapons Systems	0.0	234.8	0.0	0.0	234.8
5. Chemical Weapons Disposal Program	17,120.8	0.0	0.0	0.0	17,120.8
6. Other	0.0	3,237.4	0.0	0.0	3,237.4
2. Total Nonfederal Environmental Liabilities:	**45,063.1**	**18,964.9**	**6,446.1**	**555.8**	**71,029.9**

Others Category Disclosure Comparative Table

Types	December 31, 2006 ($ in Millions)	December 31, 2005 ($ in Millions)
Other Accrued Environmental Liabilities-Active Installations-Other		
U.S. Army Corps of Engineers Pollution Control & Abatement	$653.3	$529.6
Army Low Level Radioactive Waste Program	$25.4	$0.0
National Defense Stockpile Transaction	$51.2	$0.0
Defense Commissary Agency – Asbestos and/or Lead Based Paint	$30.0	$31.5
TRICARE Management Activity Uniformed Services University of Health Sciences	$11.4	$0.0
Navy estimate for disposal of Polychlorinated Biphenyls transformers.	$2.6	$0.0
Total	**$773.9**	**$561.1**
Base Realignment and Closure (BRAC)-Other		
Army Clean-up contracts at BRAC installations	$181.5	$188.5
Air Force contractual support for environmental program management at BRAC installations.	$0.0	$226.4
Total	**$181.5**	**$414.9**
Environmental Disposal for Weapons Systems Programs-Other		
Navy Spent Nuclear Fuel	$3,237.4	$0.0
National Defense Stockpile -Other Defense Organizations (ODO)	$0.0	$54.2
ODO's Environmental Disposal unliquidated obligations that cannot be identified to a specific program/project.	$0.0	$57.8
Total	**$3,237.4**	**$112.0**

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.	174,097,677.17	77,915,196.40
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	1,560,163,688.41	152,145,000.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	47,463,656.45	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

Environmental Disclosures – Line A represents the amount of operating and capital expenditures used to remediate legacy waste. The amount on Line A increased $96.2 million (124%) from 1st Quarter, FY 2006. This increase is due to Defense Environmental Restoration Program (DERP) activity which was established to clean up or control hazardous waste, as well as an increase in Base Realignment and Closure (BRAC) activity which led to a greater amount of environmental corrective actions and environmental restoration cleanup. The Department is working to accurately disclose the amount of operating and capital resources disbursed to remediate legacy waste. As these processes are being developed, fluctuations will occur.

Environmental Disclosures – Line B represents the unrecognized costs associated with General Property, Plant, and Equipment (PP&E). The amount on Line B increased approximately $1.4 billion (926%) from FY 2006, which is attributed to costs that were first reported in 3rd Quarter, FY 2006 for nuclear aircraft carriers, submarines, and conventional ships. The Department is working to accurately disclose the unrecognized portion of the estimated cleanup costs associated with General PP&E. As these processes are being developed, fluctuations will occur.

Environmental Disclosures – Line C represents the estimated cleanup costs associated with General Property, Plant, and Equipment placed into service during each fiscal year. The amount on Line C increased $47.5 million from 1st Quarter, FY 2006, which is associated with environmental disposal of weapons systems programs.

Environmental Disclosures – Line D represents the amount of changes in total cleanup costs due to changes in laws, regulations, and/or technology. The Department is unable to report this cost due to system and internal control weaknesses. The Department is working to accurately disclose changes in total cleanup costs due to changes in laws, regulations, and/or technology in FY 2007.

Environmental Disclosures – Line E represents the portion of changes in estimated costs due to changes in laws and technology that is related to prior periods. The Department is unable to report this amount due to system and internal control weaknesses. The Department is working to accurately disclose the amount of change in estimates for cost due to changes in laws and technology relating to prior periods in FY 2007.

Other Disclosures

Applicable Laws and Regulations for Cleanup Requirements

The Department is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity that created a public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC actions that have taken place.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Superfund Amendment and Reauthorization Act to clean up DERP-eligible contamination. Contamination clean up that is not eligible for DERP is performed in accordance with the Resource Conservation and Recovery Act (RCRA). The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates will put the Department at risk of incurring fines and penalties.

The clean-up requirements for nuclear-powered aircraft carriers, submarines, and other nuclear ships are based on laws that affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material. As in all cases with nuclear power, the Department coordinates actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 requires all owners and generators of high-level nuclear waste and spent nuclear fuel to pay their respective shares of the full cost of the program. Finally, the Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on FY 1986 National Defense Authorization Act (PL 99-145, as amended by subsequent acts) that directed the Department to destroy the unitary chemical stockpile by April 29, 2004. The current guidelines for destruction are based on the Chemical Weapons Convention treaty. The United States ratified the treaty in April 1997, requiring the stockpile of chemical weapons to be destroyed by April 2007, according to the terms outlined. The Army, as Executive Agent within the Department, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Nonstockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department uses engineering estimates and independently validated models to estimate environmental costs. The models are contained within the Remedial Action Cost Engineering Requirements and the Normalization of Data System. The Department validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, the Department complies with accounting standards to assign costs to current operating periods. The Department has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Department expensed that portion of the asset that has passed since the General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses the associated environmental costs systematically over the life of the asset. The Department expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

The Department uses two methods for systematic recognition: physical capacity for operating landfills, and life expectancy in years for all other assets.

Types of Environmental Liabilities and Disposal Liabilities Identified

The Department has clean-up requirements for the DERP sites at active installations, BRAC installations, Formerly Used Defense Sites, sites at active installations that are not covered by the DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear-powered aircraft carriers, nuclear-powered submarines, and other nuclear ships.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Department had changes in estimates resulting from overlooked or previously unknown contaminants, reestimation based on different assumptions, and lessons learned. Environmental liabilities may change in the future due to changes in laws and regulation, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities

The environmental liabilities for the Department are based on accounting estimates which require certain judgments and assumptions that are reasonable, based upon available information at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

The Department is uncertain regarding the extent of the liabilities at installations that are realigning or closing as a result of BRAC requirements. The Department is in the process of determining the extent of environmental liabilities at the BRAC installations, in particular those liabilities associated with unexploded ordnance on training ranges.

In addition to the liabilities reported above, the Department has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

The Army has a liability to take environmental restoration/corrective action for buried chemical munitions, and agents. The Army is unable to provide a reasonable estimate at this time, because the extent of the buried chemical munitions and agents is not known.

The USACE is unable to provide a complete estimate for the Formerly Utilized Sites Remedial Action Program. The USACE has studies on-going and will update its liabilities as it identifies additional liabilities.

Note 15. Other Liabilities

As of December 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 300,758,729.30	$ 0.00	$ 300,758,729.30	$ 361,755,308.77
B. Deposit Funds and Suspense Account Liabilities	1,663,054,552.11	0.00	1,663,054,552.11	1,054,471,659.72
C. Disbursing Officer Cash	8,959,973,606.09	0.00	8,959,973,606.09	1,873,800,609.31
D. Judgment Fund Liabilities	164,434,728.16	0.00	164,434,728.16	161,395,240.45
E. FECA Reimbursement to the Department of Labor	1,080,196,884.89	503,821,728.10	1,584,018,612.99	1,475,389,695.83
F. Other Liabilities	4,843,408,067.05	1,617,369,914.10	6,460,777,981.15	5,918,965,733.19
G. Total Intragovernmental Other Liabilities	$ 17,011,826,567.60	$ 2,121,191,642.20	$ 19,133,018,209.80	$ 10,845,778,247.27
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 3,985,950,557.75	$ 0.00	$ 3,985,950,557.75	$ 7,417,278,574.90
B. Advances from Others	2,104,087,162.50	0.00	2,104,087,162.50	1,860,365,515.08
C. Deferred Credits	0.00	0.00	0.00	11,800,000.00
D. Deposit Funds and Suspense Accounts	201,359,525.56	0.00	201,359,525.56	221,906,927.36
E. Temporary Early Retirement Authority	0.00	0.00	0.00	335,363.11
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	12,781,508.59	272,308,825.24	285,090,333.83	1,447,741,242.15
(2) Excess/Obsolete Structures	59,412,000.00	626,206,000.00	685,618,000.00	235,897,000.00
(3) Conventional Munitions Disposal	0.00	1,414,725,040.79	1,414,725,040.79	1,318,442,916.98
G. Accrued Unfunded Annual Leave	8,383,962,292.14	0.00	8,383,962,292.14	8,252,481,966.48
H. Capital Lease Liability	51,568,946.82	199,747,406.58	251,316,353.40	259,519,337.18
I. Other Liabilities	8,389,670,194.09	3,570,715,380.35	11,960,385,574.44	9,163,099,333.04
J. Total Nonfederal Other Liabilities	$ 23,188,792,187.45	$ 6,083,702,652.96	$ 29,272,494,840.41	$ 30,188,868,176.28
3. Total Other Liabilities	$ 40,200,618,755.05	$ 8,204,894,295.16	$ 48,405,513,050.21	$ 41,034,646,423.55

Fluctuations

Total Intragovernmental Other Liabilities increased approximately $8.3 billion (76%) primarily due to a $7.1 billion increase in disbursing officer cash. This increase in disbursing officer cash is due to the change in Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. Effective 1st Quarter, FY 2007 OMB directed the Department to include programs that are executed on behalf of the Executive Office of the President. This information was previously reported in Other Accompanying Information.

Other Disclosures

Intragovernmental Other Liabilities are comprised primarily of custodial liabilities from accounts receivable for cancelled appropriations and interest, penalties, fines, and administrative fees from the public. The amounts collected cannot be used by the Department and must be distributed to the Treasury.

Nonfederal Other Liabilities consist of contingencies, accrued liabilities for contractual services, custodial liabilities, and employee benefits and withholdings.

Contingent Liabilities balance includes $1.7 billion in estimated future contract financing payments that will be paid to the contractor upon delivery and government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The Department is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the Department and the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments, which are conditional pending delivery and government acceptance of a satisfactory product.

Capital Lease Liability

As of December 31	2007				2006
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2007	$ 42,721,209.82	$ 15,194,756.38	$ 0.00	$ 57,915,966.20	$ 106,107,020.09
B. 2008	47,123,104.55	2,828,453.48	0.00	49,951,558.03	48,279,055.55
C. 2009	43,853,305.76	2,831,060.08	0.00	46,684,365.84	47,825,363.76
D. 2010	43,853,305.76	2,798,502.48	0.00	46,651,808.24	43,853,305.76
E. 2011	41,295,407.67	2,863,492.44	0.00	44,158,900.11	41,295,407.67
F. 2012	13,087,621.97	2,938,502.40	0.00	16,026,124.37	0.00
G. After 5 Years	31,011,160.44	5,218,444.58	0.00	36,229,605.02	37,389,143.94
H. Total Future Lease Payments Due	$ 262,945,115.97	$ 34,673,211.84	$ 0.00	$ 297,618,327.81	$ 324,749,296.77
I. Less: Imputed Interest Executory Costs	46,214,248.35	87,726.06	0.00	46,301,974.41	65,229,959.60
J. Net Capital Lease Liability	$ 216,730,867.62	$ 34,585,485.78	$ 0.00	$ 251,316,353.40	$ 259,519,337.17
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 191,639,855.62	$ 191,306,240.76
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 59,676,497.78	$ 68,213,096.42

All leases entered into prior to FY 1992 are funded on an annual basis and subject to the availability of funds. Noncurrent amounts for these leases are shown as not covered by budgetary resources.

Leases originating after FY 1992 are required to be fully funded in the year of their inception. Therefore, budgetary resources show the present value of those lease payments as covered by budgetary resources.

Note 16. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for legal actions when the Department considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. The Department records Judgment Fund liabilities in Note 12, "Accounts Payable," and Note 15, "Other Liabilities." See those Notes for additional details.

The Department reported 65 legal actions with individual claims greater than the Department-wide materiality threshold of $107.6 million for Fiscal Year (FY) 2006. Management determined that claims totaling approximately $484 billion had a remote probability of an adverse decision against the Department.

Other Commitments and Contingencies

The Department's materiality threshold from FY 2006 for reporting litigation, claims, or assessments remains the same for the 1st Quarter of FY 2007. Cases meeting the FY 2006 threshold were reported on the Department's legal representation letter for FY 2006. The Department also had a number of potential claims that individually do not meet the FY 2006 materiality threshold of $107.6 million, but do meet individual DoD Component materiality thresholds. These claims are disclosed in the individual Components' financial statements.

The undelivered orders for open (unfilled or unreconciled) contracts citing cancelled appropriations, for which the Department may incur a contractual commitment for payment, total $1.4 billion.

Note 17. Military Retirement and Other Federal Employment Benefits

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	$ 963,696,276,612.06	6.0	$ (202,031,879,608.90)	$ 761,664,397,003.16	$ 892,111,600,551.72
B. Military Retirement Health Benefits	299,203,802,000.00	6.25	0.00	299,203,802,000.00	296,473,202,000.00
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	$ 1,800,932,625,612.10		$ (316,621,329,010.79)	$ 1,484,311,296,601.30	$ 1,725,981,894,551.70
2. Other Actuarial Benefits					
A. FECA	$ 6,855,989,000.01	5.17	$ 0.00	$ 6,855,989,000.01	$ 6,918,865,000.04
B. Voluntary Separation Incentive Programs	1,391,124,000.00	4.0	(656,372,941.80)	734,751,058.20	1,495,755,463.00
C. DoD Education Benefits Fund	1,785,339,161.00	5.2	(462,684,817.75)	1,322,654,343.25	1,661,351,399.00
D. Total Other Actuarial Benefits	$ 10,032,452,161.01		$ (1,119,057,759.55)	$ 8,913,394,401.46	$ 10,075,971,862.04
3. Other Federal Employment Benefits	$ 5,304,245,278.84		$ (3,515,477,621.82)	$ 1,788,767,657.02	$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	$ 1,816,269,323,052.00		$ (321,255,864,392.16)	$ 1,495,013,458,659.80	$ 1,736,057,866,413.70

Actuarial Cost Method Used: Aggregate entry-age method
Assumptions: See below
Market Value of Investments in Market-based and Marketable Securities: $331.2 billion

Fluctuations

The present value of Military Retirement and Other Federal Employment Benefits increased $80.2 billion (5%) and is primarily attributable to an increase of $71.6 billion (8%) in the actuarial liability for Military Retirement Pensions. Other Federal Employment Benefits due and payable contributed another $5.3 billion to the increase. In prior years, these liabilities were reported in Note 15, Other Liabilities.

Military Retirement Pensions

The $71.6 billion increase in the actuarial liability for Military Pensions primarily results from a decrease in the assumed interest rate on invested balances, and thus a decrease in the associated assumed earnings of $32.8 billion that reflects an increase of $30.0 billion in the actuarial liability. The majority of the remaining change is due to expected liability increases.

The Military Retirement Fund is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund, authorized by Public Law 98-94, come from three sources: interest earnings on Fund assets, monthly Department contributions, and annual contributions from the Treasury. The monthly Department contributions are determined as a percentage (approved by the Department's Retirement Board of Actuaries) of basic pay. The contribution from Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. Effective FY 2005, Treasury began making an annual contribution to the Fund that represents the normal cost amount for the concurrent receipt provisions of the FY 2004 National Defense Authorization Act.

The Board of Actuaries determines the Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The long-term economic assumptions for each valuation are set by the Department's Retirement Board of Actuaries. The long-term assumptions for the FY 2005 valuation were 6.25 percent interest, 3.0 percent Consumer Price Index, and 3.75 percent salary increase. The long-term economic assumption for interest was lowered to 6.00 percent by the Board at its August 2006 meeting. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. 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 valuation results as reported in the Department's Office of Actuary Valuation of the Military Retirement System. For purposes of the Fund's financial reporting, this process is applied annually. In calculating the FY 2006 roll-forward amount, the following assumptions were used:

	Inflation	Salary	Interest
Fiscal Year 2006	4.1% (actual)	3.1% (actual)	6.0%
Fiscal Year 2007	3.0% (estimated)	2.7% (estimated)	6.0%
Long-Term	3.0%	3.75%	6.0%

Change in MRF Actuarial Liability	(Amounts in billions)
Actuarial Liability as of 9/30/05	$892.1
Expected Normal Cost for FY 2006	15.5
Plan Amendment Liability	0.1
Assumption Change Liability	35.4
Expected Benefit Payments for FY 2006	(40.5)
Interest Cost for FY 2006	55.0
Actuarial (gains)/losses due to changes in trend assumptions	6.1
Actuarial Liability as of 09/30/06	$963.7
Change in Actuarial Liability	$71.6

Actuarial Cost Method Used: Aggregate entry-age normal method.
Market Value of Investments in Market-Based and Marketable Securities: $222.8 billion

Military Retirement Health Benefits (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries who are not Medicare-eligible, through private sector health care providers and Department Medical Treatment Facilities.

Change in MRHB Actuarial Liability	(Amounts in billions)
Actuarial Liability as of 09/30/05 (Department preMedicare + all uniformed services Medicare cost-basis effect)	$296.5
Expected Normal Cost for FY 2006	10.0
Expected Benefit Payments for FY 2006	(9.3)
Interest Cost for FY 2006	18.9
Actuarial (gains)/losses due to other factors	39.4
Actuarial (gains)/losses due to changes in trend assumptions	(56.3)
Actuarial Liability as of 09/30/06 (Department preMedicare + all uniformed services Medicare cost-basis effect)	$299.2
Change in Actuarial Liability	$ 2.7

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Assumed Interest Rate: 6.25%

Medical Trend	FY 2005 – FY 2006	Ultimate Rate 2030
Medicare Inpatient:	5.62%	6.25%
Medicare Outpatient:	7.83%	6.25%
Medicare Prescriptions (Direct Care):	8.13%	6.25%
Medicare Prescriptions (Purchased Care)	11.22%	6.25%
Non-Medicare Inpatient (Direct Care):	7.50%	6.25%
Non-Medicare Outpatient (Direct Care):	4.00%	6.25%
Non-Medicare Prescriptions (Direct Care):	7.00%	6.25%
Non-Medicare Inpatient (Purchased Care):	10.40%	6.25%
Non-Medicare Outpatient (Purchased Care):	7.40%	6.25%
Non-Medicare Prescriptions (Purchased Care):	12.11%	6.25%

Other Information

The MRHB liability represents the Department pre-Medicare liabilities for direct care and purchase care benefits, plus the direct-care cost-basis effect for Medicare liabilities for all Uniformed Services. The cost-basis effect is approximately $28 billion as of September 30, 2006, and arises because liabilities for direct care in the total retiree health liability are valued at a higher cost basis than they are in the Medicare Eligible Retiree Health Care Fund (MERHCF) liability. The $299.2 billion liability includes $600 million for the Coast Guard, $69.8 million for the Public Health Service, and $4.6 million for the National Oceanic and Atmospheric Administration (NOAA). For purposes of the Fund's financial reporting, the liability is calculated annually.

The actuarial liability reported above does not include $1.2 billion in incurred but not reported liabilities as of December 31, 2006. These liabilities are reflected in Other Federal Employment Benefits in the table above.

Military Medicare-Eligible Retiree Benefits

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 health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries beginning operations on October 1, 2002. Projected revenues into the MERHCF, authorized by Chapter 56 of Title 10, United States Code, come from three sources: interest earnings on Fund assets, annual Uniformed Services "normal cost" contributions, and annual contributions from the Treasury. Prior to October 1, 2005, the normal cost contributions by the Services were paid monthly at per capita amount (approved by the Department MERHCF Board of Actuaries) times actual end strength. Beginning in FY 2006, the normal cost is paid annually at the beginning of the fiscal year by the Treasury, from amounts appropriated to the Military Services, and is calculated at the approved rate times the budgeted force strengths. The contribution from Treasury is also paid into the Fund at the beginning of each fiscal year and represents the amortization of the unfunded liability for services performed prior to October 1, 2002, as well as the amortization of actuarial gains and losses that have arisen since then. The Board determines Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

Assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Claim cost assumptions for direct care were based on actual experience. Assumptions for purchased care were developed from industry-based cost estimates adjusted to approximate the military retired population. 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. For purposes of the Fund's financial reporting, this process is applied annually. In calculating the FY 2006 roll-forward amount, the following medical trend assumptions were used:

Medical Trend	FY 2005 - FY 2006	Ultimate Rate 2030
Medicare Inpatient:	5.62%	6.25%
Medicare Outpatient:	7.83%	6.25%
Medicare Prescriptions (Direct Care):	8.13%	6.25%
Medicare Prescriptions (Purchased Care):	11.22%	6.25%

Changes in MERHCF Actuarial Liability

	(Amounts in billions)
Actuarial Liability as of 09/30/05 (all uniformed services Medicare)	$537.4
Expected Normal Cost for FY 2006	11.0
Expected Benefit Payments for FY 2006	(7.5)
Interest Cost for FY 2006	34.0
Actuarial (gains)/losses due to other factors	42.1
Actuarial (gains)/losses due to changes in trend assumptions	(79.1)
Actuarial Liability as of 09/30/06 (all uniformed services Medicare)	$538.0
Change in Actuarial Liability	$0.6

Actuarial Cost Method Used for MERHCF Liability: Aggregate Entry-Age Normal
Market Value of Investments in Market-Based and Marketable Securities: $106.5 billion
Assumed Interest Rate: 6.25%

The MERHCF liability includes Medicare liabilities for all Uniformed Services. The $538.0 billion liability includes $526.3 billion for the Department, $10.5 billion for the Coast Guard, $1.1 billion for the Public Health Service, and $100 million for NOAA. The FY 2006 contributions from each of the services were: $10.8 billion by the Department, $300 million by the Coast Guard, $34.5 million by the Public Health Service, and $1.6 million by NOAA.

The actuarial liability reported above does not include $580.2 million in incurred but not reported liabilities as of December 31, 2006. These liabilities are reflected in Other Federal Employment Benefits in the table above.

Federal Employees Compensation Act (FECA)

Assumptions

The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is calculated until 4th Quarter of each fiscal year and is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. A 5.17 percent interest rate was assumed in year one and 5.31 percent was assumed in year two and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for charge back year (CBY) 2006 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years were as follows:

CBY	COLA	CPIM
2006	3.50%	4.00%
2007	3.13%	4.01%
2008	2.40%	4.01%
2009	2.40%	4.01%
2010	2.43%	4.09%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model of economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, (3) a comparison of the incremental paid losses (the medical component in particular) in CBY 2006 (by injury cohort) to the average pattern observed during the prior three charge back years, and (4) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Voluntary Separation Incentive Programs (VSI)

The present value of plan benefits actuarial liability for the VSI fund is $1.4 billion as of September 30, 2006. The Department's Office of Actuary does not provide changes to this liability until 4th Quarter of each fiscal year. The September 30, 2006, VSI Actuarial Present Value of Projected Plan Benefits (Actuarial Liability) was calculated at an assumed annual interest rate of 4%.

Assumptions

The VSI program was established by Public Law 102-190. The intent of this program is to reduce the number of military personnel on active duty. This plan was offered to personnel with a minimum of six years of service who did not qualify for retirement. The incentive payments are spread over a period equivalent to twice the years of active service. The annual payment is based on 2.5% of the person's annual basic pay at the time they departed service multiplied by the number of years of service. Since the VSI program is no longer offered, each year the Actuarial Liability is expected to decrease with benefit outlays, and increase with interest cost. The liability was calculated, as in prior years, at the present value of all remaining payments as of September 30, 2006.

Market Value of Investments in Market-based and Marketable Securities: $578.8 million.

DoD Education Benefits Fund (EBF)

The present value of plan benefits actuarial liability for the EBF is $1.8 billion as of September 30, 2006. The Department's Office of Actuary does not provide changes to this liability until 4th Quarter of each fiscal year. This amount was calculated at an assumed interest rate of 5 percent.

Assumptions

The EBF was established by Public Law 98-525. The program is designed to accumulate funds for the Educational Assistance program, to promote the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces, and aid in the readjustment of members of the Armed Forces to civilian life after separation from military service.

Market Value of Investments in Market-based and Marketable Securities: $1.3 billion

Other Federal Employment Benefits

The format of this note was changed in FY 2006 to include Other Federal Employment Benefits, such as pension and other post-employment benefits due and payable, which were previously included in Note 15.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue As of December 31	2007	2006
1. Intragovernmental Costs	$ 9,426,394,859.41	$ 6,588,576,564.55
2. Public Costs	141,015,460,789.93	124,850,420,799.43
3. Total Costs	$ 150,441,855,649.34	$ 131,438,997,363.98
4. Intragovernmental Earned Revenue	$ (2,919,561,186.02)	$ (7,738,528,841.17)
5. Public Earned Revenue	(6,811,580,283.63)	(7,454,107,012.38)
6. Total Earned Revenue	$ (9,731,141,469.65)	$ (15,192,635,853.55)
7. Net Cost of Operations	$ 140,710,714,179.69	$ 116,246,361,510.43

Fluctuations

Total Costs increased $19.0 billion (14%) driven primarily by increased expenses in support of the Global War on Terror and hurricane relief in the Gulf of Mexico.

Total Earned Revenue decreased $5.5 billion (36%). This is primarily the result of a $3.8 billion decrease in interest on Treasury Inflation Protected Securities (TIPS), which provide protection against inflation. In 1st Quarter, FY 2007, interest on TIPS reflects a decrease due to deflation.

Other Disclosures

The Statement of Net Cost (SNC) is unique because its principles are driven on understanding the net cost of programs and/or organizations 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. 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.

For General Funds, the amounts presented in the SNC are based on obligations and disbursements and therefore may not, in all cases, accrue actual costs. While the Department's Working Capital Funds generally record transactions on an accrual basis, the systems do not always capture actual costs in a timely manner. As such, information presented in the SNC is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems, adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

The majority of the Department's accounting systems do not capture information relative to Heritage Assets separately and distinctly from normal operations. When it was able to separately identify the cost of acquiring, constructing, improving, reconstructing or renovating heritage assets, the Department has identified $750.2 thousand for the fiscal year.

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	(527,457.36)
C. Total Prior Period Adjustments	$ 0.00	$ 0.00	$ 0.00	$ (527,457.36)
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 290,599,615.44	$ 0.00	$ 362,281,557.48	$ 0.00
B. Civilian Health	681,028,353.68	0.00	640,562,937.00	0.00
C. Civilian Life Insurance	6,098,764.77	0.00	6,079,828.48	0.00
D. Judgment Fund	19,818,548.80	0.00	54,591,912.72	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	$ 997,545,282.69	$ 0.00	$ 1,063,516,235.68	$ 0.00

Fluctuations

Nonexchange Revenue increased $5.2 billion. The increase is primarily attributable to a change in Office of Management and Budget Circular A-136, Financial Reporting Requirements, effective 1st Quarter, FY 2007, whereby the Department included Foreign Military Sales executed on behalf of the Executive Office of the President. This information was previously reported in the Other Accompanying Information.

Other Financing Sources, Other, which is used in the treatment and recording of adjustments to reconcile budgetary and proprietary trial balances, decreased by $3.6 billion. Due to system deficiencies, the Department is unable to fully reconcile budgetary and proprietary trial balances and must make adjustments.

Appropriations Received reflected significant increases due to the Department having more of its appropriations passed than the comparable period in 1st Quarter FY 2006 (which were under Continuing Resolution Authority).

Budgetary Financing Sources, other Adjustments increased $1.8 billion. Recessions were applied proportionately to the FY 2007 appropriations.

Other Disclosures

In FY 2006, prior period adjustments (PPAs) totaling $8.1 billion were made restating the cumulative results of operations for the revaluation of military equipment, and the recognition of a strategic petroleum reserve established FY 1993 (refer to DoD 2006 Performance and Accountability Report for additional information). The FY 2006 PPAs are included in the beginning net position for FY 2007, however are not presented in the 1st Quarter, FY 2006 comparative column in the table above. Due to system shortcomings, comparable quarterly data prior to the quarter in which PPAs are originally made are not restated. The FY 2006 PPAs were made in 3rd and 4th Quarters, FY 2006, and will not appear in the comparable quarterly table until 3rd and 4th Quarters, FY 2007.

The amounts the Department of Defense remits to the Office of Personnel Management by and for employees covered by the Civil Service Retirement System, the Federal Employees' Retirement System, the Federal Employees' Health Benefits program, and the Federal Employees' Group Life Insurance program do not fully cover the government's cost to provide these benefits. An imputed cost is recognized as the difference between the government's cost of providing these benefits to employees and the Department's contributions. The Office of Personnel Management provides cost factors for the computation of imputed financing costs, and these estimates are included in the Department's financial statements.

Fiscal year 2007 cumulative results of operation ending balance on the Statement of Changes in Net Position does not agree with the cumulative results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

There is an $88.1 billion difference between Appropriations Received that are reported on the Statement of Changes in Net Position ($512.6 billion) and Appropriations Received in the Statement of Budgetary Resources ($600.7 billion). This difference is primarily due to appropriations transferred to the trust and special funds which are duplicated in the Statement of Budgetary Resources. In addition, a small portion of the differences relates to interest collected by the trust funds. See Note 20, "Disclosures Related to the Statement of Budgetary Resources," for additional information.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of December 31	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 360,721,680,835.13	$ 268,469,404,219.26
2. Available Borrowing and Contract Authority at the End of the Period	80,059,098,833.76	78,462,202,531.27

Reconciliation Differences

There is a difference of $26.7 billion between the Borrowing and Contract Authority reported ($80.1 billion) in the table above and the amount reported for Available Borrowing and Contract Authority on the Statement of Budgetary Resources (SBR) ($53.4 billion). The table above reports current-year activity as well as carry-forward amounts for both categories of authority. The SBR only reports current-year activity for these categories.

Appropriations Received on the SBR exceed Appropriations Received on the Statement of Changes in Net Position by $88.1 billion. Appropriations received by the Military Departments and Defense Agencies that are subsequently recognized a second time on the SBR as appropriations transferred into trust and special funds comprise $55.7 billion. Actual and anticipated earnings in trust and special funds comprise the balance of the difference.

Permanent Indefinite Appropriations

The Department of Defense (DoD) received the following permanent indefinite appropriations:

- Department of the Army General Gift Fund (10 USC 2601(b)(1))
- Department of the Navy General Gift Fund (10 USC 2601(b)(2))
- Department of the Air Force General Gift Fund (10 USC 2601 (b)(3))
- Foreign National Employees Separation Pay Account, Defense (10 USC 1581)
- United States Naval Academy Gift and Museum Fund (10 USC 6973-4)
- Ship Stores Profits, Navy (10 USC 7220, 31 USC 1321)
- Midshipmen’s Store (10 USC 6971B)
- Burdensharing Contributions Account (10 USC 2350(j))
- Forest Program (10 USC 2665)
- Department of Defense Base Closure Account (10 USC 2687)
- Medicare Eligible Retiree Health Care Fund (MERHCF) (10 USC 1111)
- Military Retirement Fund (MRF) (10 USC 1461)
- Education Benefits Fund (10 USC 2006)
- Reserve Mobilization Income Insurance Fund (10 USC 12528)
- Host Nation Support for U.S. Relocation Activities (10 USC 2350(k))
- National Defense Sealift Fund (10 USC 2218)
- Environmental Restoration, Navy (10 USC 2702)
- Hydraulic Mining Debris Reservoir (33 USC 683)
- Maintenance and Operation of Dams and Other Improvements of Navigable Waters (16 USC 810(a))
- Payments to States (33 USC 701c-3)
- Wildlife Conservation (16 USC 670-670(f))
- Ainsworth Bequest (31 USC 1321)
- Department of Defense Family Housing Improvement Fund (10 USC 2883 (a))
- Department of Defense Military Unaccompanied Housing Improvement Fund (10 USC 2883 (a))

The above permanent indefinite appropriations cover a wide variety of purposes to help DoD accomplish its missions. These purposes include (1) military retirees healthcare benefits, retirement and survivor pay, and education benefits for veterans; (2) environmental, coastal, and wildlife habitat restoration, and water resources maintenance; (3) costs associated with the closure or realignment of military installations; (4) relocation of armed forces to a host nation; (5) separation payments for foreign nationals; (6) the construction, purchase, alteration, and conversion of sealift vessels; and (7) upkeep of libraries and museums. See Note 23 for additional information on those funds that are earmarked.

In addition to the above, the Executive Office of the President has given the Department authority to execute the funds listed below on its behalf:

- Special Defense Acquisition Fund (22 USC 2795)
- Foreign Military Loans Liquidating Account (22 USC 2764)
- Foreign Military Financing, Direct Loan Financing Account (2 USC 661 (d))
- Military Debt Reduction Financing Account (2 USC 661 (d))
- Advances, Foreign Military Sales (22 USC 2761-2762)

Apportionment Categories for Obligations

The Department reported the following amounts of direct obligations: $178.4 billion in category A; $60.5 billion in category B; and $13.5 billion in exempt from apportionment. The Department reported the following amounts of reimbursable obligations: $21.4 billion in category A; $20.6 billion in category B; and $20.9 in exempt from apportionment. Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation).

Other Disclosures

The Department received Continuing Resolution Authority for Civil Works, Military Construction, Family Housing, Energy and Water Development, and Foreign Military Financing Grant in the amount of $19.1 billion during the 1st Quarter, FY 2007, in order to continue operations until the FY 2007 appropriation and authorization bills are passed by Congress.

The SBR includes intraentity transactions because the statements are presented as combined and combining.

The Department utilizes borrowing authority for the Military Housing Privatization and the Armament Retooling and Manufacturing Support Initiatives. Borrowing authority is used in accordance with OMB Circular A-129, “Managing Federal Credit Programs.”

There are no legal arrangements affecting the use of unobligated balances of budget authority.

The Department had a reporting change in unobligated fund balances. The reporting change affected was the result of the change in reporting requirements for allocation transfers. OMB Circular A-136, Financial Reporting Requirements, generally requires financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) to be reported in the financial statements of the parent entity. Exceptions to this general rule affecting the Department include Security Assistance programs executed on behalf of the Executive Office of the President. Effective in 1st Quarter, FY 2007, the Department began reporting these balances in the financial statements. The change resulted in a $25.9 billion increase in the unobligated balances brought forward from FY 2006.

Note 21. Disclosures Related to the Statement of Financing

Due to the Department's financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency. To bring the Statement of Financing into balance with the Statement of Net Cost, the following adjustments (absolute value) were made:

Resources That Finance the Acquisition of Assets	$ 1.0 billion
Other - Other Components Not Requiring or Generating Resources	$ 26.7 million

The following Statement of Financing lines are presented as combined instead of consolidated due to intra agency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Disclosures

Other Resources – Other for ($2.2) billion and Resources Used to Finance Items not Part of the Net Cost of Operations - Other for $2.3 billion consist of nonexchange gains and losses necessary to reconcile the proprietary and budgetary accounts. Other is also comprised of other gains and losses to adjust intragovernmental transfers in and transfers out without reimbursement of construction in progress amounts and property.

Components Requiring or Generating Resources in Future Period-Other for $1.9 billion consists of $1.4 billion in an unfunded liability reflecting an estimate for potential contingent legal liabilities. The balance consists of a future funded expense for various liabilities such as Federal Employment Compensation Act, Judgment Fund, Unemployment Compensation, and Closed Accounts Payable.

Components not Requiring or Generating Resources - Other for ($4.9) billion consists of cost capitalization offsets and other expenses not requiring budgetary resources.

Liabilities not covered by budgetary resources on the Balance Sheet total $1.6 trillion and the amount reported as Components Requiring or Generating Resources in Future Periods on the Statement of Financing totals $3.8 billion. The difference of $1.6 trillion is primarily due to the differing perspectives between the two statements. Liabilities not covered by budgetary resources report the cumulative balance for Balance Sheet liabilities not yet funded whereas Components Requiring or Generating Resources in Future Periods reflect only the current period changes for all unfunded liabilities.

Note 22. Disclosures Related to the Statement of Custodial Activity

The Statement of Custodial Activity displays current year collections and disbursements for three custodial accounts: (1) Foreign Military Sales, (2) Development Fund for Iraq, and (3) Seized Assets. Funds held in a custodial activity are only used for the stated purposes and are not available for the Department's use.

Foreign Military Sales

Under authority of the Arms Export and Control Act, the Foreign Military Sales Trust Fund (FMSTF) receives collections from foreign governments that are dedicated specifically to FMS purchases. Funds collected into the FMSTF are in advance of the performance of services or sale of articles.

Current year Deposits by Foreign Governments into FMSTF are $4.7 billion. Disbursements on Behalf of Foreign Governments and International Organizations total $3.3 billion.

The FMSTF neither recognizes nor reports revenue, except for cost clearing accounts, which are reflected in all other principal financial statements. Since various Department Components actually perform the services and sell the articles, recognition of revenue and expense occurs in the financial statements of the applicable Department Components.

Development Fund for Iraq (DFI)

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. In 1st Quarter, FY 2007, there were $2.7 million in disbursements by the Multi-National Force Iraq with no additional deposits. Disbursements were processed to correct a misclassification of FY 2006 costs from one category to another. As of December 31, 2006, $16.1 million remains to be disbursed.

(Amounts in Millions)

	During FY 2007	Cumulative from Inception
Source of Collections		
Deposits By Foreign Governments	$ 0	$ 136.0
Disposition of Collections		
Security and Law Enforcement	$ 0	$ 1.0
Electric Sector	(.7)	44.5
Oil Infrastructure	0	.4
Water Resources and Sanitation	1.0	17.6
Transportation and Telecommunications	.3	5.6
Roads, Bridges and Construction	0	5.0
Health Care	0	2.9
Private Sector Development	0	7.2
Education, Refugees, Human Rights, and Governance	2.1	35.7
Total Disbursed on Behalf of Foreign Governments	2.7	119.9
Retained for Future Support of Foreign Governments *****	(2.7)	16.1
Total Disposition of Collections	$ 0	$ 136.0
Net Custodial Collection Activity	$ 0	$ 0

*Note - Reported on the Statement of Custodial Activity under Disposition of Collections, Increase (Decrease) in Amounts to be Transferred.

Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that are used in support of the Iraqi people. In 1st Quarter, FY 2007, $161 thousand was disbursed with no additional seized assets. As of December 31, 2006, $30.1 million of seized monetary assets remain to be disbursed in support of the Iraqi people as shown in the table below:

	(Amounts in Millions) **During FY 2007**	**Cumulative From Inception**
Source of Collections		
Seized Iraqi Cash	$ 0	$ 927.2
Disposition of Collections		
Iraqi Salaries	$ 0	$ 30.8
Repair/Reconstruction/Humanitarian Assistance	.2	526.3
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	0	264.7
Fuel/Supplies	0	75.3
Total Disbursed on Behalf of Iraqi People	.2	897.1
Retained for Future Support of the Iraqi People	(.2)	30.1
Total Disposition of Collections	$ 0	$ 927.2
Net Custodial Collection Activity	$ 0	$ 0

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	$ 22,830,788.13	$ (91,392,194.33)	$ 1,829,223,468.15	$ 0.00	$ 1,760,662,061.95
Investments	231,175,974,185.82	111,197,124,523.54	5,733,443,251.43	0.00	348,106,541,960.79
Accounts and Interest Receivable	20,610,073.58	9,839,574.41	1,033,828,161.69	(23,832,268.97)	1,040,445,540.71
Other Assets	0.00	0.00	1,810,990,716.56	0.00	1,810,990,716.56
Total Assets	$ 231,219,415,047.53	$ 111,115,571,903.62	$ 10,407,485,597.83	$ (23,832,268.97)	$ 352,718,640,280.01
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 967,210,726,197.33	$ 538,612,788,000.00	$ 3,176,463,161.00	$ 0.00	$ 1,508,999,977,358.30
Other Liabilities	1,340,835.39	373,084,981.03	1,551,607,206.53	(42,430,393.85)	1,883,602,629.10
Unexpended Appropriations	0.00	0.00	11,146,564.73	0.00	11,146,564.73
Cumulative Results of Operations	(735,992,651,985.19)	(427,870,301,077.41)	5,668,268,665.57	(58,618,207,594.32)	(1,216,812,891,991.40)
Total Liabilities and Net Position	$ 231,219,415,047.53	$ 111,115,571,903.62	$ 10,407,485,597.83	$ (58,660,637,988.17)	$ 294,081,834,560.73

STATEMENT OF NET COST For the period ended December 31, 2006	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Program Costs	$ 10,601,383,546.27	$ 1,902,627,899.49	$ 632,244,274.28	$ (683,466,707.96)	$ 12,452,789,012.08
Less Earned Revenue	(33,270,047,229.78)	(27,314,267,786.52)	(336,394,689.79)	59,114,697,035.30	(1,806,012,670.79)
Net Program Costs	$ (22,668,663,683.51)	$ (25,411,639,887.03)	$ 295,849,584.49	$ 58,431,230,327.34	$ 10,646,776,341.29
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	$ (22,668,663,683.51)	$ (25,411,639,887.03)	$ 295,849,584.49	$ 58,431,230,327.34	$ 10,646,776,341.29

STATEMENT OF CHANGES IN NET POSITION For the period ended December 31, 2006	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	$ (758,661,315,668.70)	$ (453,467,940,964.44)	$ 5,371,354,755.03	$ 0.00	$ (1,206,757,901,878.10)
Net Cost of Operations	(22,668,663,683.51)	(25,411,639,887.03)	295,849,584.49	58,431,230,327.34	10,646,776,341.29
Budgetary Financing Sources	0.00	186,000,000.00	714,229,304.18	(187,456,672.27)	712,772,631.91
Other Financing Sources	0.00	0.00	(110,319,244.42)	479,405.29	(109,839,839.13)
Change in Net Position	$ 22,668,663,683.51	$ 25,597,639,887.03	$ 308,060,475.27	$ (58,618,207,594.32)	$ (10,043,843,548.51)
Net Position End of Period	$ (735,992,651,985.19)	$ (427,870,301,077.41)	$ 5,679,415,230.30	$ (58,618,207,594.32)	$ (1,216,801,745,426.60)

Abnormal Balances

The Medicare-Eligible Retiree Health Care Fund (MERHCF) reported an abnormal Fund Balance with Treasury (FBWT) in the amount of ($91.4) million. The TRICARE Management Activity (TMA) processed a payment charging the MERHCF $96.4 million on the last business day of December 2006. However, the trust fund accounting staff did not have access to the payment notification from TMA for reasons beyond its control. Therefore, funds were not held back from the daily investment amount to cover the payment.

Other Disclosures

The Statement of Federal Financial Accounting Standards (SFFAS) 27, "Identifying and Reporting Earmarked Funds," requires the disclosure of Earmarked Funds separately from All Other Funds on the Statement of Changes in Net Position and Balance Sheet. Funds must meet three criteria to be classified as earmarked: (1) a statute committing use of specifically identified revenues for designated purposes, (2) explicit authority to retain the revenues, and (3) a requirement to account and report on the revenues. The Department earmarked funds are either special or trust funds and use both receipt and expenditure accounts to report activity to the Treasury. There have been no changes in legislation during or subsequent to this reporting period that significantly changed the purposes of any of the following funds.

The Total Earmarked Funds column is shown as consolidated and relates only to Earmarked Funds. The elimination column on this note includes only eliminations associated with Earmarked Funds and excludes the offsetting eliminations from All Other Funds. This exclusion causes assets to not equal liabilities and net position in the note. However, the amounts in the Total column equal the amounts reported for Earmarked Funds on the Balance Sheet.

The SFFAS, effective for reporting years after FY 2005, required that DoD modify the Statement of Changes in Net Position. To meet the requirement, additional columns were added to separately display gross amounts from Earmarked Funds and All Other (non-earmarked) Funds. Cumulative Results of Operations ending balances for Earmarked Funds on the Statement of Changes in Net Position do not agree with the Cumulative Results of Operations for Earmarked Funds reported on the Balance Sheet because the Cumulative Results of Operations on the Balance Sheet are presented net of eliminations. The summation for Military Retirement Fund (MRF), Medicare-Eligible Retiree Health Care Fund (MERHCF), and Other Earmarked Funds is equivalent to the gross amount presented on the Statement of Changes in Net Position.

Military Retirement Fund, 10 United States Code (USC) 1461. The MRF accumulates funds in order to finance, on an actuarially sound basis, the liabilities of the Department's military retirement and survivor benefit programs. Financing sources for the MRF are interest earnings on Fund assets, monthly Department contributions, and annual contributions from the Treasury. The monthly Department contributions are determined as a percentage of basic pay. The contribution from Treasury represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. The Treasury annual contribution also includes the normal cost amount for the concurrent receipt provisions of the fiscal year 2004 National Defense Authorization Act.

Medicare-Eligible Retiree Health Care Fund, 10 USC 1111. The MERHCF accumulates funds to finance, on an actuarially sound basis, liabilities of the Department and the uniformed services health care programs for specific Medicare-eligible beneficiaries. The MERHCF was authorized by Public Law 106-398. Financing sources for MERHCF are provided primarily through an annual actuarial liability payment from Treasury, annual contribution(s) 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 from the Fund's investments.

Other Earmarked Funds

Special Recreation Use Fees, 16 USC 4061-6a note. The United States Army Corps of Engineers (USACE) is granted the authority to charge and collect fair and equitable Special Recreation Use Fees at campgrounds located at lakes or reservoirs that are under the jurisdiction of the USACE. Types of allowable fees include, but are not limited to, daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The receipts are used for the operation and maintenance of the recreational sites.

Hydraulic Mining in California, Debris, 33 USC 683. Operators of hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. Taxes imposed under this code are collected and then expended under the supervision of the USACE and the direction of the Department of the Army. The funds are used for repayment of funds advanced by the federal government or other agency for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954, 33 USC 701c-3. Seventy-five percent of all funds received and deposited from the leasing of lands acquired by the United States for flood control, navigation and allied purposes, including the development of hydroelectric power, are returned to the state on which the property is located. The USACE collects lease receipts into a receipt account. Funds are appropriated for the amount of receipts the following fiscal year. The funds may be expended by the states for the benefit of public schools and public roads of the county, or counties, in which such property is situated, or for defraying any of the expenses of county government.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters, 16 USC 803(f) and 810. The USC states, "All proceeds from any Indian reservation shall be placed to the credit of the Indians of such reservation." However, the USC also states, "all other charges arising from licenses" except those charges established by the Federal Power Commission, now known as the Federal Energy Regulatory Commission, for purpose of administrative reimbursement shall be paid to the Treasury from which specific allocations will be made. From the specific allocations, 50% of charges from "all other licenses" is reserved and appropriated as a special fund in the Treasury to be expended under the direction of the Secretary of the Army in the maintenance, operation and improvement of dams and other navigation structures that are owned by the United States or in construction, maintenance, or operation of headwater or other improvements of navigable waters of the United States.

Fund for Non-Federal Use of Disposal Facilities (for dredged material), 33 USC 2326. Any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary of the Army (Secretary) may be used by a nonfederal interest if the Secretary determines that such use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to, and used by, the Secretary for the operation and maintenance of the disposal facility from which the fees were collected.

South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund, Public Law 106-53 Sec. 603. Yearly transfers are made from the General Fund of the Treasury to the Trust Fund for investment purposes. Investment activity is managed by the Bureau of Public Debt (BPD). The BPD purchases and redeems nonmarketable market-based securities issued by the BPD. Investments include one-day certificates, bonds and notes. When the fund reaches the aggregate amount of $108 million, withdrawals may be made by the USACE for payment to the State of South Dakota. The state uses the payments to fund the annually scheduled work for wildlife habitat restoration.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection and Restoration Act, 16 USC 3951-3956. The USACE, (along with the Environmental Protection Agency, and the Fish and Wildlife Service) is granted the authority to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of "no net loss of wetlands" in coastal Louisiana. The USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75% of project costs or 85% if the State has an approved Coastal Wetlands Conservation Plan.

Rivers and Harbors Contributed and Advance Funds, 33 USC 701h, 702f, and 703. Whenever any state or political subdivision offers to advance funds for a flood control project duly adopted and authorized by law, the Secretary of the Army may, in his discretion, receive such funds and expend them in the immediate prosecution of such work. The funding may be used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc. in the course of flood control and river/harbor maintenance.

Inland Waterways Trust Fund, 26 USC 9506. This law made the Inland Waterways Trust Fund available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections for excise taxes from the public are made into the Trust Fund. The collections are invested and investment activity is managed by the BPD. The BPD purchases and redeems nonmarketable market-based securities issued by the BPD. Investments include one-day certificates, bonds and notes. The fund is classified as a trust fund and utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Harbor Maintenance Trust Fund, 26 USC 9505. The USACE Civil Works mission is funded by the Energy and Water Developments Appropriations Act. The Water Resources Development Act of 1986 was implemented to cover a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the act and for the payment of all expenses of administration incurred by the Treasury, USACE, and the Department of Commerce. Collections are made into the Trust Fund from taxes collected from imports, domestics, passengers and foreign trade. The collections are invested and investment activity is managed by the BPD. The fund is classified as a trust fund and utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Foreign National Employees Separation Pay Account Trust Fund, 10 USC 1581. This fund makes payments from amounts obligated by the Secretary of Defense that remain unexpended for separation pay for foreign national employees of DoD. The foreign national employees' separation pay funded by Foreign Military Sales administrative funds is maintained as a separate fund.

Defense Commissary Agency Surcharge Revenue, 10 USC 2685. The Defense Commissary Agency Surcharge account was established as the repository for the surcharge on the cost of commissary goods paid for by authorized patrons to finance certain operating expenses and capital purchases of the Commissary System, which are precluded by law from being paid with appropriated funds. The major part of the Surcharge public revenue is generated by the 5% surcharge applied to each sale. These funds may be used to pay for the commissary store-related information technology investments, to purchase commissary equipment, to finance advance design modifications to prior year projects, for both minor and major construction projects and to maintain and repair commissary facilities and equipment. The surcharge account also allows for obligations based on anticipated proceeds without regard to fiscal year limitations, if needed to carry out the uses of the revenue as identified.

Note 24. Other Disclosures

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	$ 181,284,651.65	$ 2,305,659.11	$ 118,791,775.00	$ 302,382,085.76
2008	204,118,801.68	964,511.00	124,115,446.00	329,198,758.68
2009	195,403,692.17	980,511.00	128,566,159.00	324,950,362.17
2010	178,148,286.85	993,511.00	133,707,590.38	312,849,388.23
2011	167,089,015.20	797,000.00	139,054,649.36	306,940,664.56
2012	126,007,232.77	812,000.00	144,615,559.22	271,434,791.99
After 5 Years	170,906,570.42	826,000.00	150,309,492.00	322,042,062.42
Total Future Lease Payments Due	$ 1,222,958,250.74	$ 7,679,192.11	$ 939,160,670.96	$ 2,169,798,113.81

Note 25. Restatements

Not applicable for 1st Quarter, FY 2007.