

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED BALANCE SHEET
As of March 31, 2007 and 2006

	2007 Consolidated	2006 Consolidated
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1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 5,000,000.00	\$ 5,000,000.00
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	110,022,510,053.38	86,097,083,835.66
3. Accounts Receivable (Note 5)	0.00	43,104,933.00
4. Other Assets (Note 6)	0.00	425,880,004.00
5. Total Intragovernmental Assets	<u>\$ 110,027,510,053.38</u>	<u>\$ 86,571,068,772.66</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	11,740,294.44	8,700,928.08
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	0.00	0.00
F. General Property, Plant and Equipment, Net (Note 10)	0.00	0.00
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	0.00	0.00
2. TOTAL ASSETS	<u><u>\$ 110,039,250,347.82</u></u>	<u><u>\$ 86,579,769,700.74</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 54,296,200.96	\$ 0.00
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	0.00	0.00
4. Total Intragovernmental Liabilities	<u>\$ 54,296,200.96</u>	<u>\$ 0.00</u>
B. Accounts Payable (Note 12)	\$ 284,087,506.59	\$ 238,102,352.25
C. Military Retirement and Other Federal Employment Benefits (Note 17)	538,620,353,000.00	537,397,092,000.00
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	0.00	705,659,000.00
4. TOTAL LIABILITIES	<u><u>\$ 538,958,736,707.55</u></u>	<u><u>\$ 538,340,853,352.25</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	(428,919,486,359.73)	(451,761,083,651.51)
D. Cumulative Results of Operations - Other Funds	0.00	0.00
6. TOTAL NET POSITION	<u><u>\$ (428,919,486,359.73)</u></u>	<u><u>\$ (451,761,083,651.51)</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 110,039,250,347.82</u></u>	<u><u>\$ 86,579,769,700.74</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended March 31, 2007 and 2006

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 3,827,601,791.23	\$ 3,572,981,892.35
B. (Less: Earned Revenue)	(28,190,056,395.94)	(29,471,953,607.66)
C. Net Program Costs	<u>\$ (24,362,454,604.71)</u>	<u>\$ (25,898,971,715.31)</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ (24,362,454,604.71)</u></u>	<u><u>\$ (25,898,971,715.31)</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended March 31, 2007 and 2006

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (453,467,940,964.44)	\$ 0.00
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(453,467,940,964.44)	0.00
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	186,000,000.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	186,000,000.00	0.00
7. Net Cost of Operations (+/-)	(24,362,454,604.71)	0.00
8. Net Change	24,548,454,604.71	0.00
9. Cumulative Results of Operations	(428,919,486,359.73)	0.00
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	(428,919,486,359.73)	0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended March 31, 2007 and 2006

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (453,467,940,964.44)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	(453,467,940,964.44)
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	186,000,000.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	186,000,000.00
7. Net Cost of Operations (+/-)	0.00	(24,362,454,604.71)
8. Net Change	0.00	24,548,454,604.71
9. Cumulative Results of Operations	0.00	(428,919,486,359.73)
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	(428,919,486,359.73)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended March 31, 2007 and 2006

	2006 Earmarked Funds	2006 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (477,660,055,366.82)	\$ 0.00
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(477,660,055,366.82)	0.00
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	0.00
7. Net Cost of Operations (+/-)	(25,898,971,715.31)	0.00
8. Net Change	25,898,971,715.31	0.00
9. Cumulative Results of Operations	(451,761,083,651.51)	0.00
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	(451,761,083,651.51)	0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended March 31, 2007 and 2006

	2006 Eliminations	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (477,660,055,366.82)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	(477,660,055,366.82)
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	0.00
7. Net Cost of Operations (+/-)	0.00	(25,898,971,715.31)
8. Net Change	0.00	25,898,971,715.31
9. Cumulative Results of Operations	0.00	(451,761,083,651.51)
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	(451,761,083,651.51)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2007 and 2006

	2007 Combined	2006 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 97,212,208.75
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	32,324,000,000.00	29,967,000,000.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3. Anticipated for rest of year, without advances	0.00	0.00
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>32,324,000,000.00</u>	<u>29,967,000,000.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	186,000,000.00	0.00
5. Temporarily not available pursuant to Public Law	(24,828,999,000.00)	(25,845,757,878.92)
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 7,681,001,000.00</u></u>	<u><u>\$ 4,218,454,329.83</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2007 and 2006

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 4,323,441,488.85	\$ 4,218,454,329.83
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>4,323,441,488.85</u>	<u>4,218,454,329.83</u>
9. Unobligated balance:		
9.A. Apportioned	3,357,559,511.15	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>3,357,559,511.15</u>	<u>0.00</u>
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	<u>\$ 7,681,001,000.00</u>	<u>\$ 4,218,454,329.83</u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	397,172,252.77	387,880,772.27
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	<u>397,172,252.77</u>	<u>387,880,772.27</u>
13. Obligations incurred net (+/-)	\$ 4,323,441,488.85	\$ 4,218,454,329.83
14. Less: Gross outlays	(3,781,388,076.75)	(4,059,047,732.37)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	<u>0.00</u>	<u>0.00</u>
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	939,225,664.87	547,287,369.73
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>939,225,664.87</u>	<u>547,287,369.73</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	3,781,388,076.75	4,059,047,732.37
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>(28,190,056,395.94)</u>	<u>(29,471,953,607.66)</u>
19.D. Net Outlays	<u>\$ (24,408,668,319.19)</u>	<u>\$ (25,412,905,875.29)</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2007 and 2006

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

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2007 and 2006

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

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended March 31, 2007 and 2006

	2007 Consolidated	2006 Consolidated
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Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 4,323,441,488.85	\$ 4,218,454,329.83
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	4,323,441,488.85	4,218,454,329.83
4. Less: Offsetting receipts (-)	(28,190,056,395.94)	(29,471,953,607.66)
5. Net obligations	<hr/> (23,866,614,907.09)	<hr/> (25,253,499,277.83)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	<hr/> 0.00	<hr/> 0.00
11. Total resources used to finance activities	<hr/> \$ (23,866,614,907.09)	<hr/> \$ (25,253,499,277.83)
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 (-)	(476,044,351.34)	(588,889,411.93)
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	(16,858,000.00)	(56,504,000.00)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (492,902,351.34)	<hr/> \$ (645,393,411.93)
18. Total resources used to finance the net cost of operations	<hr/> \$ (24,359,517,258.43)	<hr/> \$ (25,898,892,689.76)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended March 31, 2007 and 2006

	<u>2007 Consolidated</u>	<u>2006 Consolidated</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<u>0.00</u>	<u>0.00</u>
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	0.00	0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(2,937,346.28)	(79,025.55)
28. Total components of Net Cost of Operations that will not require or generate resources	<u>(2,937,346.28)</u>	<u>(79,025.55)</u>
29. Total components of net cost of operations that will not require or generate resources in the current period	<u>\$ (2,937,346.28)</u>	<u>\$ (79,025.55)</u>
30. Net Cost of Operations	<u><u>\$ (24,362,454,604.71)</u></u>	<u><u>\$ (25,898,971,715.31)</u></u>

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

These financial statements have been prepared to report the financial position and results of operations for the Medicare-Eligible Retiree Health Care Fund (MERHCF), as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994* and other appropriate legislation. The financial statements have been prepared from the books and records of the MERHCF in accordance with the *Department of Defense Financial Management Regulation*; the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*; and, to the extent possible, generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which MERHCF is responsible.

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Public Law 106-398, authorized the MERHCF. The Fund pays the costs of all Military Service and other Uniformed Service retiree health care programs for members or former members of a participating service who are entitled to retired or retainer pay and are Medicare-eligible, their dependents who are Medicare-eligible, and survivors who are Medicare-eligible.

The MERHCF is designated as a special fund. As a special fund, the MERHCF uses both receipt and expenditure accounts as well as a budget activity level structure. Since the 1st Quarter, Fiscal Year (FY) 2006, all appropriations received are considered earmarked funds. Earmarked funds are financed by specifically identified revenues; required by statute to be used for designated activities, benefits, or purposes; and remain available over time. Earmarked funds are also required to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

1.D. Basis of Accounting

For FY 2007, the MERHCF's financial feeder systems did not meet all of the requirements for full accrual accounting. These systems were designed and implemented before the issuance of GAAP for federal agencies and were not designed to collect and record financial information on the full accrual basis as required by GAAP. When

necessary, MERHCF and the Defense Finance and Accounting Service (DFAS) have established manual controls to work around these system issues. For example, the accounting system used by MERHCF does not record information on a budgetary basis. Instead, the accounting office establishes the budgetary account balances from information contained in the proprietary accounts.

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

The DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the *Government Performance and Results Act*. The DoD is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The *Treasury Financial Manual*, Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, and U.S. Treasury's *Federal Intragovernmental Transactions Accounting Policy Guide* provide guidance for reporting and reconciling intragovernmental balances.

The MERHCF is able to reconcile balances pertaining to investments in federal securities. The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

The U.S. Treasury allows MERHCF to be fully invested. Therefore, the fund balance with treasury (FBWT) may be zero at various times during the fiscal year including the end of a quarter or a fiscal year.

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

In addition, DFAS sites submit reports to U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable FBWT account. Differences between the recorded balance

in the accounting system for FBWT and U.S. Treasury's FBWT sometimes result and are subsequently reconciled.

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon an analysis of actual uncollectible amounts experienced by MERHCF during the previous fiscal year.

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>.

1.L. Direct Loans and Loan Guarantees

N/A

1.M. Inventories and Related Property

N/A

1.N. Investments

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

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

The MERHCF receives interest on the value of its nonmarketable, market-based securities from U.S. Treasury on a semi-annual basis for U.S. Treasury bonds and notes.

1.O. General Property, Plant and Equipment

N/A

1.P. Advances and Prepayments

It is DoD policy to record payments in advance of the receipt of goods and services as advances or prepayments. The DoD entities report the advances as an asset on the Balance Sheet and recognize the expense and/or proper asset classification when they receive the related goods and services.

1.Q. Leases

N/A

1.R. Other Assets

N/A

1.S. Contingencies and Other Liabilities

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

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

1.T. Accrued Leave

N/A

1.U. Net Position

Net position consists of cumulative results of operations and unexpended appropriations. Cumulative results of operations represent the net difference, since the inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Effective FY 2003, when MERHCF began operations, the

cumulative results also include donations and transfer in and out of assets without reimbursement.

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

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Comparative Data

Financial statement fluctuations greater than 2% of total assets on the Balance Sheet or 10% from the prior period presented, but no less than \$100 thousand, are explained within the notes to the financial statements.

1.X. Unexpended Obligations

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

1.Y. Undistributed Disbursements and Collection

The TRICARE Management Activity makes and reports to U.S. Treasury MERHCF disbursements for purchased care. The quarterly distributions from MERHCF to the Military Services are made by the Trust Fund Accounting Division (TFAD) which reports these to U.S. Treasury. The contributions to MERHCF, which are made by the Military Services and U.S. Treasury, are processed and reported by TFAD to U.S. Treasury. On a daily basis, TFAD records in the Trust Fund Accounting System (TFAS) all transactions cited above and reconciles to U.S. Treasury each month end. These actions ensure all transactions reported to U.S. Treasury are included in TFAS. Therefore, MERHCF has no undistributed disbursements and collections.

Note 2.	Nonentity Assets
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As of March 31	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 110,039,250,347.82	\$ 86,579,769,700.74
5. Total Assets	\$ 110,039,250,347.82	\$ 86,579,769,700.74

Not applicable.

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

Other Information

At each month end, the Medicare-Eligible Retiree Health Care Fund (MERHCF) manager holds back approximately \$5.0 million to ensure the availability of sufficient funds to cover estimated month-end disbursements and invests the remaining funds in nonmarketable market-based securities.

Status of Fund Balance with Treasury

As of March 31	2007	2006
1. Unobligated Balance		
A. Available	\$ (1,116,420,472.81)	\$ (715,983,743.90)
B. Unavailable	109,097,708,458.26	85,564,592,698.19
2. Obligated Balance not yet Disbursed	\$ 939,225,664.87	\$ 547,287,369.73
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (108,915,513,650.32)	\$ (85,390,896,324.02)
5. Total	\$ 5,000,000.00	\$ 5,000,000.00

Other Disclosures

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

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. These unobligated balances, which are segregated to show the available and unavailable amounts, are related to trust fund accounts which are restricted by the public laws that established the funds. These balances become available subsequently without appropriations actions. The MERHCF manager records the funds and invests the trust fund receipts with U.S. Treasury, Bureau of Public Debt. These investments are redeemed as funds are needed.

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. The MERHCF balance represents amounts payable to the Defense Logistics Agency for purchases of drugs and to private hospitals for medical services rendered.

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

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

Disclosures Related to Suspense/Budget Clearing Accounts

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

Disclosures Related to Problem Disbursements

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

Note 4. Investments and Related Interest

As of March 31	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	110,381,420,943.19	Effective Interest	(1,465,907,292.87)	108,915,513,650.32	106,191,211,709.19
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	110,381,420,943.19		(1,465,907,292.87)	108,915,513,650.32	106,191,211,709.19
B. Accrued Interest	1,106,996,403.06			1,106,996,403.06	1,106,996,403.06
C. Total Intragovernmental Securities	\$ 111,488,417,346.25		\$ (1,465,907,292.87)	\$ 110,022,510,053.38	\$ 107,298,208,112.25
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of March 31	2006				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	86,150,309,734.83	Effective Interest	(759,413,410.81)	85,390,896,324.02	82,440,852,530.11
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	86,150,309,734.83		(759,413,410.81)	85,390,896,324.02	82,440,852,530.11
B. Accrued Interest	706,187,511.64			706,187,511.64	706,187,511.64
C. Total Intragovernmental Securities	\$ 86,856,497,246.47		\$ (759,413,410.81)	\$ 86,097,083,835.66	\$ 83,147,040,041.75
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Fluctuation

Investments, Net increased \$23.9 billion (28%) from 2nd Quarter, FY 2006, to 2nd Quarter, FY 2007. This increase is the result of investing \$27.1 billion of the amortization payment for the unfunded liability (\$15.6 billion) and the annual contributions from the Military and other Uniformed Services (\$11.5 billion).

Other Information

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

COST FY 2007		COST FY 2006	
	<u>(in thousands)</u>		<u>(in thousands)</u>
Bills	--	Bills	\$2,205,316
Bonds	\$3,203,750	Bonds	3,203,750
Notes	20,297,001	Notes	23,571,923
Overnights	3,759,996	Overnights	6,958,792
TIPS	<u>83,120,674</u>	TIPS	<u>50,210,529</u>
Total Cost	\$110,381,421	Total Cost	\$86,150,310

The Medicare-Eligible Retiree Health Care Fund (MERHCF) purchases and redeems nonmarketable, market-based securities. The Investment Board determines the strategy for the type of securities purchased by MERHCF. This strategy was not changed at the September 2006 Investment Board meeting.

The MERHCF securities include U.S. Treasury bills, bonds, notes, inflation-protected securities, and overnight certificates. The U.S. Treasury bills are short-term securities with maturities of 1 year or less and are purchased at a discount. The U.S. Treasury bonds are long-term securities with maturity terms of 10 years or more and are purchased at either a discount or premium. The U.S. Treasury notes have maturities of at least 1 year, but not more than 10 years, and are purchased at either a discount or premium. The U.S. Treasury Inflation-Protected Securities (TIPS) provide protection against inflation. The TIPS principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, U.S. Treasury pays the adjusted principal or original principal, whichever is greater. The TIPS amount includes inflation compensation as well as the par value of the shares. Overnight securities are short-term securities that mature the next business day and earn interest at the daily Federal Reserve repurchase agreement rate.

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 U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury issues securities to MERHCF as evidence of its receipts. The U.S. Treasury securities are an asset to MERHCF and a liability to U.S. Treasury. Because MERHCF and U.S. Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements. The U.S. Treasury securities provide MERHCF with authority to draw upon U.S. Treasury to make future benefit payments or other expenditures. When MERHCF requires redemption of these securities to make expenditures, the Federal Government finances 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 Federal Government finances all other expenditures.

Note 5. Accounts Receivable

As of March 31	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 0.00	N/A	\$ 0.00	\$ 43,104,933.00
2. Nonfederal Receivables (From the Public)	\$ 11,976,655.55	\$ (236,361.11)	\$ 11,740,294.44	\$ 8,700,928.08
3. Total Accounts Receivable	\$ 11,976,655.55	\$ (236,361.11)	\$ 11,740,294.44	\$ 51,805,861.08

Fluctuations**Intragovernmental**

Intragovernmental Receivables decreased from \$43.1 million to \$0 because the Army Reserve paid its FY 2005 contribution in 4th Quarter, FY 2006.

Nonfederal

Nonfederal Receivables increased \$3.0 million (35%) between 2nd Quarter, FY 2006, and 2nd Quarter, FY 2007, due to an increase in current receivables of \$1.7 million and an increase in the receivables delinquent 1-30 days. All accounts receivable for the Medicare-Eligible Retiree Health Care Fund are held by the TRICARE Dual-Eligible Fiscal Intermediary Contract (TDEFIC) contractor in accordance with the contract requirements. These receivables are made up of overpayments against claims for purchased care for Medicare-Eligible retirees, their dependents, or survivors, and are offset by future amounts due to the same service provider.

Aged Accounts Receivable

As of March 31	2007		4th Quarter 2006	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 0.00	\$ 6,568,097.00	\$ 0.00	\$ 4,789,287.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 0.00	\$ 1,617,231.00	\$ 0.00	\$ 0.00
31 to 60 days	0.00	607,399.00	0.00	6,509.00
61 to 90 days	0.00	468,246.00	0.00	1,879,501.00
91 to 180 days	0.00	754,140.00	0.00	1,157,359.00
181 days to 1 year	0.00	1,623,402.00	0.00	504,135.00
Greater than 1 year and less than or equal to 2 years	0.00	338,141.00	0.00	678,969.00
Greater than 2 years and less than or equal to 6 years	0.00	0.00	0.00	0.00
Greater than 6 years and less than or equal to 10 years	0.00	0.00	0.00	0.00
Greater than 10 years	0.00	0.00	0.00	0.00
Subtotal	\$ 0.00	\$ 11,976,656.00	\$ 0.00	\$ 9,015,760.00
Less Supported Undistributed Collections	0.00	0.00	0.00	0.00
Less Eliminations	0.00	0.00	0.00	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 11,976,656.00	\$ 0.00	\$ 9,015,760.00

The prior year column in the account receivable aging schedule represents 4th Quarter, FY 2006, ending balances, rather than the ending balances as of 2nd Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will neither agree with the prior year balance on the Balance Sheet nor agree with the prior year balance in the first schedule in this note.

Aged accounts receivable up to 180 days are held by TDEFIC in accordance with contract requirements. The explanation of the aging of receivables is in the paragraph below. A contract modification is being developed to require TDEFIC to provide more detailed information on delinquent accounts receivable to TRICARE Management Activity (TMA) on a monthly basis. This modification should be in effect by 3rd Quarter, FY 2007. The TDEFIC tries to recoup the receivables from the providers.

If TDEFIC has not received payment by the time it receives another claim from that particular provider, TDEFIC deducts the accounts receivable amount owed the government from the amount owed on the new claim, pays the difference, and closes out the receivable. Once the accounts age to 180 days, TDEFIC transfers the larger debts, totaling at least \$600, to TMA General Counsel for review and transfer to U.S. Treasury. The TDEFIC holds accounts of less than \$600 for the life of the contract and continues to pursue collection or claims offset. When TMA awards the contract to a new contractor, the incumbent contractor transfers these accounts receivable to the new contractor for appropriate collection action. Since TDEFIC does not transfer debts less than \$600, these debts age beyond the 180 days.

The total delinquent receivables greater than 180 days are \$2.0 million (16% of total receivables).

Aged accounts receivable greater than 181 days to one year: Of the balance in 180 days or less as of 4th Quarter, FY 2006, 46% were collected. Of the 2nd Quarter, FY 2007 amount (\$1.6 million), \$104.0 thousand has been transferred to U.S. Treasury for collection. The other \$1.5 million is held by TDEFIC for processing as described above.

Aged accounts received between 1 and 2 years: Through the 2nd Quarter, FY 2007; of the balances that were in the 181 days to 1 year and the greater than 1 to 2 years categories as of 4th Quarter, FY 2006, 71% were collected. Of the 2nd Quarter, FY 2007, balance (\$338.1 thousand), \$324.0 thousand is not available for collection (\$3.0 thousand in bankruptcy, \$319.0 thousand at U. S. Treasury, and \$2.0 thousand at Department of Justice). The remaining balance of \$14.0 thousand is held by TDEFIC for processing as described above.

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

Fluctuation

The Advances and Prepayments decreased from \$425.9 million to \$0 in 2nd Quarter, FY 2007, because the Medicare-Eligible Retiree Health Care Fund (MERHCF) is no longer providing advance payments due to a change in policy. Starting in 1st Quarter, FY 2003, MERHCF used U.S. Treasury's monthly Statement of Transactions to record and report to U.S. Treasury the funds that were advanced to the military medical treatment facilities (MTF). These advance payments were for care that was expected to be provided in the military MTFs during the succeeding quarter to Medicare-eligible Uniformed Services beneficiaries. Effective 3rd Quarter, FY 2006, MERHCF stopped making advances. Currently, MERHCF makes payments for the current quarter to the Military Services for distribution to the military MTFs. This new procedure allows these payments to be classified as current payments, rather than advances.

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

Not applicable.

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

Direct Loan and/or Loan Guarantee Programs

Not applicable.

Summary of Direct Loans and Loan Guarantees
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As of March 31	2007	2006
Direct Loan Programs		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
5. Defaulted Guaranteed Loans Receivable:		
A. Foreign Military Loan Liquidating Account	0.00	0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
6. Total Loans Receivable	\$ 0.00	\$ 0.00

As of March 31	2007	2006
Loan Guarantee Programs		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
4. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

Direct Loans Obligated

As of March 31	2007	2006
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
 Direct Loans Obligated After FY 1991 (Present Value Method):		
2. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
3. Foreign Military Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
4. Military Debt Reduction Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
5. Total Direct Loans Receivable	\$ 0.00	\$ 0.00

Total Amount of Direct Loans Disbursed

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

Subsidy Expense for Post FY 1991 Direct Loan

As of March 31

2007	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	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 Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	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. 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
Military Debt Reduction Financing Account	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. 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
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2007	2006		
5. Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00		0.00		
Military Debt Reduction Financing Account	0.00		0.00		
Total	\$ 0.00	\$ 0.00			

Subsidy Rate for Direct Loans by Program

As of March 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Direct Loans:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans

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

Defaulted Guaranteed Loans

As of March 31

	2007		2006
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):			
1. Foreign Military Loan Liquidating Account			
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 Loan Losses	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):			
2. 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
3. Armament Retooling & Manufacturing Support Initiative			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$	0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Subsidy Cost (Present Value)	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable			
	\$ 0.00	\$	0.00

Guaranteed Loans Outstanding

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

Liabilities for Post FY 1991 Loan Guarantees, Present Value
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As of March 31	2007	2006
Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Total Loan Guarantee Liability (Pre-FY 1992)	\$ 0.00	\$ 0.00
Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
5. Total Loan Guarantee Liability (Post-FY 1991)	\$ 0.00	\$ 0.00
6. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

Subsidy Expense for Loan Guarantees by Program

As of March 31

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

Subsidy Rates for Loan Guarantees by Program

As of March 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

Administrative Expenses

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

Not applicable.

Inventory, Net

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

Legend for Valuation Methods:

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

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

Operating Materials and Supplies, Net

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

Legend for Valuation Methods:

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

NRV = Net Realizable Value
 O = Other

Stockpile Materials, Net

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

Legend for Valuation Methods:

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

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

Note 10. General PP&E, Net

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

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Not applicable.

Assets Under Capital Lease

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

Not applicable.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of March 31	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	426,165,085,030.59	451,832,499,301.81
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	705,659,000.00
E. Total Nonfederal Liabilities	\$ 426,165,085,030.59	\$ 452,538,158,301.81
3. Total Liabilities Not Covered by Budgetary Resources	\$ 426,165,085,030.59	\$ 452,538,158,301.81
4. Total Liabilities Covered by Budgetary Resources	\$ 112,793,651,676.96	\$ 85,802,695,050.44
5. Total Liabilities	\$ 538,958,736,707.55	\$ 538,340,853,352.25

Fluctuation

The Total Liabilities Not Covered by Budgetary Resources line is comprised primarily of Military Retirement and Other Federal Employment Benefits. These benefits, which represent an actuarial liability, decreased \$26.3 billion (6%). This decrease is attributable to an increase of \$26.9 billion in the value of the assets available to pay benefits. This increase in assets is due to the receipt of annual contributions and a transfer of funds from the National Defense Stockpile Transaction Fund that were applied to the actuarial liability and invested in marketable securities.

Other Information

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources are comprised of various employee actuarial liabilities. See Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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As of March 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 54,296,200.96	\$ N/A	\$ 54,296,200.96	\$ 0.00
2. Nonfederal Payables (to the Public)	284,087,506.59	0.00	284,087,506.59	238,102,352.25
3. Total	\$ 338,383,707.55	\$ 0.00	\$ 338,383,707.55	\$ 238,102,352.25

Fluctuations**Intragovernmental Payables**

Intragovernmental Payables increased from \$0 to \$54.3 million. These payables have existed since the start of Medicare-Eligible Retiree Health Care Fund (MERHCF) operations in the 1st Quarter, FY 2003. However, these amounts had been misclassified as nonfederal payables until 3rd Quarter, FY 2006. The MERHCF has coordinated a methodology with the Defense Logistics Agency (DLA) trading partner to ensure MERHCF intragovernmental accounts payable can be accurately identified and match DLA accounts receivable in support of the pharmaceutical inventory used by the TRICARE Mail Order Pharmacy contractor, Express Scripts Inc.

Had the identification of intragovernmental payables been practiced in FY 2006, the amount of these payables would have been \$44.7 million. The increase of \$9.6 million (21%) is attributable to both the increased use of the mail order pharmacy by DoD Medicare-eligible beneficiaries and the increased cost of pharmaceuticals.

Nonfederal Payables

NonFederal Payables (to the Public) increased \$46.0 million (19%). Had the intragovernmental payables not been comingled with the nonfederal payables in FY 2006, the amount of these payables would have been \$193.4 million. The increase of \$90.7 million is primarily attributable to an increase in the demand for purchased health care and an increase in the cost of purchased health care.

Included in the \$284.1 million of nonfederal payables is \$214.3 thousand in pharmaceutical refunds payable to pharmaceutical manufacturing companies as a result of the lost litigation, which is discussed below.

Other Information

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

On September 11, 2006, the Court of Appeals for the Federal Circuit ruled against the Federal Government's position. As a result, the refund invoicing to manufacturers has been suspended. As of August 31, 2006, MERHCF had received \$53.8 million in voluntary refunds. When the Federal Government lost the litigation, the refunds were recorded as a nonfederal payable in 4th Quarter, FY 2006, with reimbursement of the \$53.8 million planned during FY 2007. As of the close of 2nd Quarter, FY 2007, \$53.6 million had been refunded to pharmaceutical manufacturers.

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

Not applicable.

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

Not applicable.

Environmental Disclosures

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

Note 15.	Other Liabilities
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As of March 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	0.00	0.00	0.00	0.00
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Advances from Others	0.00	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	0.00	0.00	0.00	705,659,000.00
J. Total Nonfederal Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 705,659,000.00
3. Total Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 705,659,000.00

Fluctuation

The Nonfederal Other Liabilities were reclassified because of a policy change to report these costs on the Other Federal Employment Benefits line in Note 17, effective 4th Quarter, FY 2006

Capital Lease Liability

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

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

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of March 31	2007				2006
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	538,032,547,000.00	6.25	(111,867,461,969.41)	426,165,085,030.59	537,397,092,000.00
D. Total Pension and Health Actuarial Benefits	\$ 538,032,547,000.00		\$ (111,867,461,969.41)	\$ 426,165,085,030.59	\$ 537,397,092,000.00
2. Other Actuarial Benefits					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 587,806,000.00		\$ (587,806,000.00)	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 538,620,353,000.00		\$ (112,455,267,969.41)	\$ 426,165,085,030.59	\$ 537,397,092,000.00

Actuarial Cost Method Used: See below

Assumptions: See below

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

Other Information

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

The Military Medicare-Eligible Retiree Benefits represent the actuarial liability for the Medicare-eligible beneficiaries. This amount, which is only changed once a year at September 30, includes the Medicare liabilities for all Uniformed Services. The FY 2006 change is displayed in the Change in MERHCF Actuarial Liability section below.

The Other Federal Employment Benefits, which represent incurred but not reported costs, were previously reported in Note 15 and are now part of this note due to a policy change in 4th Quarter,

FY 2006. These benefit costs represent an actuarially determined estimate of incurred but not reported liabilities for covered medical services rendered before the end of the 2nd Quarter, FY 2007.

Actuarial cost method used for the MERHCF liability: Aggregate Entry-Age Normal. As dictated by law, the MERHCF is funded using the aggregate entry-age normal method. This is a method whereby projected retirement costs are spread over the projected future service of a cohort at the point on entry.

Interest Rate: 6.25%

Assumptions in the calculation of the MERHCF liability:

Medical Trend Rate Assumptions

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

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

The market value of the MERHCF's nonmarketable market-based securities as of March 31, 2007, totaled \$107.3 billion.

The table below displays the FY 2006 change in the actuarial liability.

Change in MERHCF Actuarial Liability

(\$ in Thousands)

a. Actuarial Liability as of September 30, 2005 (all Uniformed Services Medicare)	\$537,397,092
b. Expected Normal Cost for FY 2006	\$11,043,720
c. Expected Benefit Payments for FY 2006	(\$7,461,017)
d. Interest Cost for FY 2006	\$34,047,927
e. Actuarial (gains)/losses due to other factors	\$42,129,764
f. Actuarial (gains)/losses due to changes in trend assumptions	<u>(\$79,124,939)</u>
g. Actuarial Liability as of September 30, 2006 (all Uniformed Services Medicare)	<u>\$538,032,547</u>
h. Change in Actuarial Liability	\$635,455

Each year the actuarial liability is expected to increase with normal cost and interest cost (interest on the liability during the period) and decrease with benefit payments. In the absence of actuarial gains and losses or benefit changes, an increase of \$37.6 billion in the actuarial liability was expected during FY 2006 (line b plus line c plus line d). The September 30, 2006, actuarial liability includes

changes due to new assumptions and actuarial experience. The actuarial gain due to new medical trend assumptions decreased the liability by \$79.1 billion (line f). The actuarial gains and losses due to other factors, line e, net to \$42.1 billion. The net amount includes the change in the projected number of eligible beneficiaries, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions.

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

As of March 31	2007	2006
1. Intragovernmental Costs	\$ 1,233,300,214.09	\$ 1,029,373,364.00
2. Public Costs	2,594,301,577.14	2,543,608,528.35
3. Total Costs	\$ 3,827,601,791.23	\$ 3,572,981,892.35
4. Intragovernmental Earned Revenue	\$ (28,190,056,395.94)	\$ (29,474,587,792.62)
5. Public Earned Revenue	0.00	2,634,184.96
6. Total Earned Revenue	\$ (28,190,056,395.94)	\$ (29,471,953,607.66)
7. Net Cost of Operations	\$ (24,362,454,604.71)	\$ (25,898,971,715.31)

Other Information

Public Revenue decreased from \$2.6 million to \$0 due to new procedures for recording refund receivables. Effective 4th Quarter, FY 2006, the Medicare-Eligible Retiree Health Care Fund (MERHCF) began recording refund receivables as an offset to expense. From the 1st Quarter through the 3rd Quarter, FY 2006, these amounts had been recorded as an increase to revenue, which was an incorrect procedure. This previous procedure caused an overstatement of revenue and an overstatement of expenses totaling \$6.7 million, which is immaterial to the overall Net Cost of Operations for MERHCF.

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

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of March 31	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Civilian Health	0.00	0.00	0.00	0.00
C. Civilian Life Insurance	0.00	0.00	0.00	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Information Related to the Statement of Changes in Net Position

There was a difference of \$32.3 billion between Appropriations Received on the Statement of Changes in Net Position (\$0) and Appropriations Received on the Statement of Budgetary Resources (\$32.3 billion). This difference is due to additional resources included in the Appropriations Received line on the Statement of Budgetary Resources. See Note 20 for additional details.

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

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

Information Related to the Statement of Budgetary Resources

Apportionment Categories

The Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. The Medicare-Eligible Retiree Health Care Fund (MERHCF) reported \$4.3 billion in direct obligations. This amount includes \$1.6 million in category B obligations. The remaining obligations are exempt from apportionment. Exempt from apportionment obligations relate to funds that are not apportioned; category B obligations are apportioned funds that relate to a specific project or program. The MERHCF reported no category A obligations, which are apportioned funds that relate to a specific period of time.

Permanent Indefinite Appropriation

Public Law 106-398, *The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001*, provides MERHCF with a permanent indefinite appropriation. The purpose of this appropriation is to finance, on an actuarially sound basis, the liabilities of the Department of Defense uniformed services retiree health care programs for Medicare-eligible beneficiaries. These funds are only available to pay for the costs of the retiree health care program for all eligible beneficiaries of MERHCF. Amounts that are not needed to pay the current costs of MERHCF may be invested in nonmarketable market-based securities purchased through U.S. Treasury.

Use of Unobligated Balances of Budget Authority

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

Intraentity Transactions

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

Differences in Appropriations Received

There was a difference of \$32.3 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) (\$0) and Appropriations Received on the Statement of Budgetary Resources (\$32.3 billion). Nonrevolving trust funds receipts, immediately available for obligation, are reported as exchange revenue and included in the cost of operations on SCNP. For MERHCF, current receipts total \$27.8 billion and the remaining \$4.5 billion represents anticipated amounts. The anticipated amount is the difference between the President's budget, which includes projected interest revenue, and actual receipts including actual interest revenue. The MERHCF uses the President's budget until such time as receipts exceed the budget amount, or the end of the fiscal year, whichever occurs first.

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

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

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

Other Information

Components not Requiring or Generating Resources – Other displays the change in accounts receivables for 2nd Quarter, FY 2007. These amounts represent refund receivables for duplicate or other erroneous MERHCF payments made to contractors for care of the beneficiaries and for copayments from MERHCF beneficiaries for prescriptions. Effective 4th Quarter, FY 2006, refund receivables are being recorded as an offset to expense; prior to that time, these amounts were recorded as an increase to revenue, which was an incorrect procedure. This line also displays the change in bad debts for both 2nd Quarter, FY 2006, and 2nd Quarter, FY 2007. These bad debts occurred because of erroneous payments made to MERHCF beneficiaries or to nonfederal service providers.

Note 22.	Disclosures Related to the Statement of Custodial Activity
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Not applicable.

DoD Medicare-Eligible Retiree Health Care Fund

Note 23.

Earmarked Funds

BALANCE SHEET
As of March 31, 2007

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0.00	\$ 5,000,000.00	\$ 0.00	\$ 0.00	\$ 5,000,000.00
Investments	0.00	110,022,510,053.38	0.00	0.00	110,022,510,053.38
Accounts and Interest Receivable	0.00	11,740,294.44	0.00	0.00	11,740,294.44
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 110,039,250,347.82	\$ 0.00	\$ 0.00	\$ 110,039,250,347.82

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 538,620,353,000.00	\$ 0.00	\$ 0.00	\$ 538,620,353,000.00
Other Liabilities	0.00	338,383,707.55	0.00	0.00	338,383,707.55
Total Liabilities	\$ 0.00	\$ 538,958,736,707.55	\$ 0.00	\$ 0.00	\$ 538,958,736,707.55
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	(428,919,486,359.73)	0.00	0.00	(428,919,486,359.73)
Total Liabilities and Net Position	\$ 0.00	\$ 110,039,250,347.82	\$ 0.00	\$ 0.00	\$ 110,039,250,347.82

STATEMENT OF NET COST

For the period ended March 31, 2007

Program Costs	\$ 0.00	\$ 3,827,601,791.23	\$ 0.00	\$ 0.00	\$ 3,827,601,791.23
Less Earned Revenue	0.00	(28,190,056,395.94)	0.00	0.00	(28,190,056,395.94)
Net Program Costs	\$ 0.00	\$ (24,362,454,604.71)	\$ 0.00	\$ 0.00	\$ (24,362,454,604.71)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ (24,362,454,604.71)	\$ 0.00	\$ 0.00	\$ (24,362,454,604.71)

DoD Medicare-Eligible Retiree Health Care Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended March 31, 2007	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0.00	\$ (453,467,940,964.4 4)	\$ 0.00	\$ 0.00	\$ (453,467,940,964.44)
Net Cost of Operations	0.00	(24,362,454,604.71)	0.00	0.00	(24,362,454,604.71)
Budgetary Financing Sources	0.00	186,000,000.00	0.00	0.00	186,000,000.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 24,548,454,604.71	\$ 0.00	\$ 0.00	\$ 24,548,454,604.71
Net Position End of Period	\$ 0.00	\$ (428,919,486,359.7 3)	\$ 0.00	\$ 0.00	\$ (428,919,486,359.73)

Purpose and Authority of the Fund

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

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

Sources of Revenue

Financing sources for MERHCF are provided primarily through three financing sources: an annual unfunded actuarial liability payment from U.S. Treasury; annual contribution(s) from the Military Services and other Uniformed Services (U.S. Coast Guard, the National Oceanic and Atmospheric Administration, and U.S. Public Health Service); and interest earned on investments. These financing sources are the result of intragovernmental flows. Excess funds from the contributions are invested. These investments and associated revenue are used to cover future liabilities of MERHCF.

Reporting

On the Consolidated Balance Sheet, Assets section, the Fund Balance with Treasury of \$5.0 million represents the funds held back at the end of the month for any unexpected expenses. Next, the \$110.0 billion is the net investments of the fund, which consist of bonds, notes, overnights, and inflation-protected securities as well as interest receivable. The Accounts Receivable represents the accounts receivable of \$11.7 million due from the public.

The Balance Sheet, Liabilities and Net Position section begins with \$538.6 billion for the actuarial health insurance liability and the incurred but not reported liabilities. The Other

Liabilities of \$338.4 million represents accounts payable amounts. Finally, the \$428.9 billion in Cumulative Results of Operations is the net difference since inception of MERHCF between the revenues and expenses, interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

The Statement of Net Cost reports Program Costs of \$3.8 billion. This amount represents the total program costs, which is a combination of operating expenses, bad debt expenses, and future unfunded expenses. The Earned Revenue line of \$28.2 billion is comprised of contributions and interest revenue from investments.

The Statement of Changes in Net Position displays the Net Position Beginning of the Period of \$453.5 billion. This amount represents the net difference since inception of MERHCF between the revenues and expenses. The Net Cost of Operations of \$24.4 billion represents the current year net result of totaling the interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses. The Budgetary Financing Sources of \$186.0 million represent a transfer of funds during 1st Quarter, FY 2007, from the National Defense Stockpile Transaction Fund as required by the FY 2007 National Defense Authorization Act Conference Report.

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

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

Future Payments Due

Fiscal Year

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

**Total Future Lease
Payments Due**

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

Note 25.	Restatements
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Not applicable.