

Department of Defense
Military Retirement Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 10,601,383,546.27	\$ 10,011,839,246.17
B. (Less: Earned Revenue)	(33,270,047,229.78)	(32,530,109,187.15)
C. Net Program Costs	<u>\$ (22,668,663,683.51)</u>	<u>\$ (22,518,269,940.98)</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>\$ (22,668,663,683.51)</u></u>	<u><u>\$ (22,518,269,940.98)</u></u>

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended December 31, 2006 and 2005

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (758,661,315,668.70)	\$ 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	(758,661,315,668.70)	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	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 (+/-)	(22,668,663,683.51)	0.00
8. Net Change	22,668,663,683.51	0.00
9. Cumulative Results of Operations	(735,992,651,985.19)	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	(735,992,651,985.19)	0.00

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended December 31, 2006 and 2005

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (758,661,315,668.70)
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	(758,661,315,668.70)
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	(22,668,663,683.51)
8. Net Change	0.00	22,668,663,683.51
9. Cumulative Results of Operations	0.00	(735,992,651,985.19)
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	(735,992,651,985.19)

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended December 31, 2006 and 2005

	2006 Earmarked Funds	2006 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (697,577,274,822.11)	\$ 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	(697,577,274,822.11)	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	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 (+/-)	(22,518,269,940.98)	0.00
8. Net Change	22,518,269,940.98	0.00
9. Cumulative Results of Operations	(675,059,004,881.13)	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	(675,059,004,881.13)	0.00

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended December 31, 2006 and 2005

	2006 Eliminations	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (697,577,274,822.11)
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	(697,577,274,822.11)
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	(22,518,269,940.98)
8. Net Change	0.00	22,518,269,940.98
9. Cumulative Results of Operations	0.00	(675,059,004,881.13)
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	(675,059,004,881.13)

Department of Defense
 Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended December 31, 2006 and 2005

	<u>2007 Combined</u>	<u>2006 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	50,818,000,000.00	49,311,000,000.00
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>50,818,000,000.00</u>	<u>49,311,000,000.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	(40,219,261,491.42)	(39,300,187,600.38)
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 10,598,738,508.58</u></u>	<u><u>\$ 10,010,812,399.62</u></u>

Department of Defense
Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2006 and 2005

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 10,598,738,508.58	\$ 10,010,812,399.62
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>10,598,738,508.58</u>	<u>10,010,812,399.62</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>\$ 10,598,738,508.58</u></u>	<u><u>\$ 10,010,812,399.62</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	3,409,801,499.00	3,321,072,308.37
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>3,409,801,499.00</u>	<u>3,321,072,308.37</u>
13. Obligations incurred net (+/-)	<u>\$ 10,598,738,508.58</u>	<u>\$ 10,010,812,399.62</u>
14. Less: Gross outlays	(10,494,090,422.31)	(9,898,161,930.93)
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	3,514,449,585.27	3,433,722,777.06
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	0.00	0.00
18.C. Total, unpaid obligated balance, net, end of period	<u>3,514,449,585.27</u>	<u>3,433,722,777.06</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	10,494,090,422.31	9,898,161,930.93
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	(28,500,000,000.00)	(25,524,000,000.00)
19.D. Net Outlays	<u><u>\$ (18,005,909,577.69)</u></u>	<u><u>\$ (15,625,838,069.07)</u></u>

Department of Defense
 Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended December 31, 2006 and 2005

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

Department of Defense
Military Retirement Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2006 and 2005

	2007 Consolidated	2006 Consolidated
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Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 10,598,738,508.58	\$ 10,010,812,399.62
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	10,598,738,508.58	10,010,812,399.62
4. Less: Offsetting receipts (-)	(28,500,000,000.00)	(25,524,000,000.00)
5. Net obligations	<hr/> (17,901,261,491.42)	<hr/> (15,513,187,600.38)
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/> \$ (17,901,261,491.42)	<hr/> \$ (15,513,187,600.38)
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 (-)	0.00	0.00
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ 0.00	<hr/> \$ 0.00
18. Total resources used to finance the net cost of operations	<hr/> \$ (17,901,261,491.42)	<hr/> \$ (15,513,187,600.38)

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF FINANCING
 For the periods ended December 31, 2006 and 2005

	<u>2007 Consolidated</u>	<u>2006 Consolidated</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	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	(4,770,047,229.78)	(7,006,109,187.15)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	2,645,037.69	1,026,846.55
28. Total components of Net Cost of Operations that will not require or generate resources	<u>(4,767,402,192.09)</u>	<u>(7,005,082,340.60)</u>
29. Total components of net cost of operations that will not require or generate resources in the current period	\$ (4,767,402,192.09)	\$ (7,005,082,340.60)
30. Net Cost of Operations	\$ <u>(22,668,663,683.51)</u>	\$ <u>(22,518,269,940.98)</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 of the Military Retirement Fund (MRF), as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The DFAS Denver Trust Fund Division, Accounting Directorate, prepared the financial statements from its books and records of the MRF in accordance with the “DoD Financial Management Regulation,” the Office of Management and Budget Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Military Retirement Fund is responsible.

1.B. Mission of the Reporting Entity

The MRF provides benefits for retirement after a military career, disability retirement, and survivor benefits for eligible survivors of deceased retirees. The mission of the Department of Defense (DoD) MRF is to accumulate funds in order to finance, on an actuarially sound basis, the liabilities of the DoD under military retirement and survivor benefit programs.

1.C. Appropriations and Funds

MRF is a Non-Revolving Trust Fund. All appropriations and funds 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 also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish it from general revenues. The MRF uses these appropriations and funds to execute their missions and report on resource usage.

The MRF is a pension program established in fiscal year (FY) 1984 by PL 98-94, for the payment of annuities and pensions to retired military personnel and their survivors. The DoD Retirement Board of Actuaries determines the contributions made to the MRF. The DoD contribution is a percentage of basic pay. The Department of Treasury contribution is the annual unfunded amortization payment. Excess funds from the contributions are invested and accrued interest revenue is used to cover future liabilities of the Fund.

1.D. Basis of Accounting

Under the authority of the CFO Act of 1990, the Federal Accounting Standards Advisory Board (FASAB) was established to recommend Federal Accounting Standards to the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB) and the Comptroller General. The Statements of Federal Financial Accounting Standards (SFFAS) have been issued by the Director of OMB and the Comptroller General, some of which have deferred effective dates.

In April 2000, the American Institute of Certified Public Accountants (AICPA) through Statements on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in

Conformity with GAAP in the Auditor's Report, as amended by SAS No. 91, established the following hierarchy of accounting principles for Federal government entities:

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

In the absence of a pronouncement covered by Federal GAAP or another source of established accounting principles, the auditor of a federal government entity may consider other accounting literature, depending on its relevance in the circumstances. When directed by OMB, through OMB Circular A-136, generally accepted accounting principles in the United States of America serve as authoritative guidance for Federal agencies in preparing reports that are addressed within this circular.

In addition, 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 and Performance and Results Act (GPRA). 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 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 the MRF are provided primarily through monthly Military Service contributions as a percentage of base pay, an annual unfunded liability payment from the U.S. Department of Treasury, and interest earned on investments.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the MRF financial feeder system was not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within the DoD or between two or more federal agencies. Seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government” and the Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide,” provide guidance for reporting and reconciling intragovernmental balances. While the MRF is unable to fully reconcile intragovernmental transactions with all federal partners, the MRF is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees’ Compensation Act transactions with the Department of Labor (DOL), and the benefit program transactions with the Office of Personnel Management (OPM). The DoD’s proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD’s financial statements, therefore, do not report any portion of 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 the Fund to be fully invested. Therefore, the Fund Balance with Treasury (FBWT) may be zero during various quarters of the fiscal year.

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

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

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type.

The MRF bases the estimate of uncollectible accounts receivable from the public on the General Reserve Method. Under this method, a reserve is based on the age of debts and bad debt experience.

1.L. Direct Loans and Loan Guarantees

N/A

1.M. Inventories and Related Property

N/A

1.N. Investments

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

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

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

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

1.O. General Property, Plant and Equipment

N/A

1.P. Advances and Prepayments

N/A

1.Q. Leases

N/A

1.R. Other Assets

N/A

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The MRF 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 receivables, pending or threatened litigation, and possible claims and assessments. The MRF's loss contingencies arise as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damage, and contract disputes.

The MRF does experience Death Payment Contingencies that result from the DoD responsibility to pay entitlements to exact date of death, while Department of Veterans Affairs entitlements end in the month preceding death. Footnote 11 provides material disclosures.

1.T. Accrued Leave

N/A

1.U. Net Position

Net Position consists of cumulative results of operations.

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

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Comparative Data

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

1.X. Unexpended Obligations

N/A

1.Y. Undistributed Disbursements and Collection

Due to the daily cash processes for the MRF, there are no undistributed disbursements or collections.

Note 2.	Nonentity Assets
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As of December 31	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	1,144,088.70	1,055,521.30
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 1,144,088.70	\$ 1,055,521.30
3. Total Nonentity Assets	\$ 1,144,088.70	\$ 1,055,521.30
4. Total Entity Assets	\$ 231,218,270,958.83	\$ 220,486,553,446.92
5. Total Assets	\$ 231,219,415,047.53	\$ 220,487,608,968.22

Other Information

The Military Retirement Fund (MRF) categorizes its asset accounts used to prepare the statement as either entity or non-entity assets. Entity accounts consist of resources that the MRF has the authority to use or when management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that an entity holds but are not available for use in the operations of the entity.

Nonfederal Assets, Accounts Receivable, represent the amounts of interest, penalties, and administrative charges that are due to the MRF. As the custodian of these funds, the MRF collects these fees on behalf of the US Department of the Treasury and deposits these collections into the Treasury's receipt accounts.

Note 3.	Fund Balance with Treasury
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As of December 31	2007	2006
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	22,830,788.13	26,182,327.92
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 22,830,788.13	\$ 26,182,327.92
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 22,830,788.13	\$ 26,182,327.92
B. Fund Balance per Military Retirement Fund	22,830,788.13	26,182,327.92
3. Reconciling Amount	\$ 0.00	\$ 0.00

Fluctuation

The Fund Balance with Treasury (FBWT) decreased \$3.4 million (13%) due to a reduced amount of cash held back from investments to cover estimated disbursements. The MRF routinely holds back \$25.0 million at each month end plus the anticipated daily disbursements. At the December 2006 month end, the Defense Finance and Accounting Service Denver was unexpectedly closed due to inclement weather. As a result, the staff could not hold back the additional funds to cover the anticipated disbursements.

Status of Fund Balance with Treasury

As of December 31	2007	2006
1. Unobligated Balance		
A. Available	\$ (16,727,920,084.39)	\$ (15,856,207,321.65)
B. Unavailable	242,251,141,100.32	0.00
2. Obligated Balance not yet Disbursed	\$ 3,514,449,585.27	\$ 233,872,776,007.54
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (229,014,839,813.07)	\$ (217,990,386,357.97)
5. Total	<u>\$ 22,830,788.13</u>	<u>\$ 26,182,327.92</u>

Fluctuation

The decrease in FBWT is due to failure to withhold the amount to cover the anticipated daily disbursements for the reasons as disclosed above.

Other Information

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

The Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding balances. These balances are only available for investing in nonmarketable market-based securities purchased through the Department of Treasury.

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

Non FBWT 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 Fund Balance With Treasury.

Other Information

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

Disclosures Related to Suspense/Budget Clearing Accounts

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

Not applicable.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

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

Not applicable.

Note 4. Investments and Related Interest

As of December 31	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 234,363,255,212.01	Effective Interest	\$ (5,384,422,404.54)	\$ 228,978,832,807.47	\$ 222,792,234,245.72
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
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	234,363,255,212.01		(5,384,422,404.54)	228,978,832,807.47	222,792,234,245.72
B. Accrued Interest	2,197,141,378.35			2,197,141,378.35	2,197,141,378.35
C. Total Intragovernmental Securities	\$ 236,560,396,590.36		\$ (5,384,422,404.54)	\$ 231,175,974,185.82	\$ 224,989,375,624.07
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of December 31	2006				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 231,336,052,685.34	Effective Interest	\$ (13,345,666,327.37)	\$ 217,990,386,357.97	\$ 219,561,065,366.81
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
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	231,336,052,685.34		(13,345,666,327.37)	217,990,386,357.97	219,561,065,366.81
B. Accrued Interest	2,445,330,813.82			2,445,330,813.82	2,445,330,813.82
C. Total Intragovernmental Securities	\$ 233,781,383,499.16		\$ (13,345,666,327.37)	\$ 220,435,717,171.79	\$ 222,006,396,180.63
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Fluctuations

Investments increased \$10.7 billion (5%) from 1st Quarter, FY 2006, to 1st Quarter, FY 2007, because of a cumulative positive cash flow. This positive cash flow occurred because there were a number of U.S. Treasury Notes and Bills that matured. The principal and interest earned were reinvested in overnight U.S. Treasury Securities, which yield a higher interest. The investments listed above are also presented at Market Value as of December 31, 2006, and December 31, 2005. The following tables display the cost of the U.S. Treasury Securities referenced above:

	<u>FY 2007</u> <u>COST (in billions)</u>	<u>FY 2006</u> <u>COST (in billions)</u>
Bills	\$ 7.0	\$ 5.9
Bonds	28.0	64.7
Notes	57.0	52.0
TIPS	132.6	94.2
Overnights	<u>9.8</u>	<u>14.5</u>
Total Cost	<u>\$ 234.4</u>	<u>\$ 231.3</u>

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, Treasury pays the adjusted principal or original principal, whichever is greater. The above cost figures include the TIPS inflation compensation adjustment of \$12.4 billion for FY 2007 and \$7.7 billion for FY 2006.

Accrued Interest decreased \$248.2 million (10%) from FY 2006 to FY 2007 principally due to higher interest rate bonds being called by the Department of Treasury, and higher interest rate notes maturing. Proceeds were reinvested in lower rate TIPS.

Other Information

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury issues securities to Military Retirement Fund (MRF) as evidence of its receipts. Treasury securities are an asset to MRF and a liability to the U.S. Treasury. Because MRF and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government wide financial statements. The U.S. Treasury securities provide MRF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When MRF requires redemption of these securities to make expenditures, the Government finances those expenditures by raising taxes or other receipts, by borrowing from the public, repaying less debt, or by curtailing other expenditures.

Note 5. Accounts Receivable

As of December 31	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 0.00	N/A	\$ 0.00	\$ 0.00
2. Nonfederal Receivables (From the Public)	\$ 26,287,725.45	\$ (5,677,651.87)	\$ 20,610,073.58	\$ 25,709,468.51
3. Total Accounts Receivable	\$ 26,287,725.45	\$ (5,677,651.87)	\$ 20,610,073.58	\$ 25,709,468.51

Fluctuations

Nonfederal Receivables (From the Public) decreased by a total of \$5.1 million (20 %) from 1st Quarter, FY 2006, to 1st Quarter, FY 2007.

During 3rd Quarter FY 2006, \$1.8 million was identified as the overstated amount of Accounts Receivable which attributed to only a portion of the overall Accounts Receivable variance. The remaining \$3.3 million variance cannot be accurately analyzed until the 3rd Quarter of FY 2007. The inability to accurately analyze the overall Accounts Receivable variance is due to two issues that occurred prior to the 3rd Quarter of FY 2006. Accounts receivable were understated on the Quarterly Financial Statement because problems related to capturing and reporting of Accounts Receivables figures in the Military Retired Pay and Annuity Pay Accounting Systems. One issue was the omission of the temporarily suspended debt collections from the accounts receivable amount. The other issue is the that the system programming code was reporting the original amount of the debt not the remainder after increasing for administrative fees and interest and decreasing for collections received. In the 3rd Quarter FY 2006, these issues were identified and manual corrections are being made to the amount reported as accounts receivable.

Aged Accounts Receivable

As of December 31	2007		4th Quarter 2006	
CATEGORY	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
Nondelinquent				
Current	\$ 0.00	\$ 22,925,929.45	\$ 0.00	\$ 25,091,175.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 0.00	\$ 3,174.00	\$ 0.00	\$ 3,317.00
31 to 60 days	0.00	3,810.00	0.00	2,609.00
61 to 90 days	0.00	584,447.00	0.00	1,055,431.00
91 to 180 days	0.00	444,940.00	0.00	208,407.00
181 days to 1 year	0.00	481,919.00	0.00	743,185.00
Greater than 1 year and less than or equal to 2 years	0.00	766,198.00	0.00	697,802.00
Greater than 2 years and less than or equal to 6 years	0.00	715,141.00	0.00	720,661.00
Greater than 6 years and less than or equal to 10 years	0.00	157,739.00	0.00	212,141.00
Greater than 10 years	0.00	204,428.00	0.00	159,547.00
Subtotal	\$ 0.00	\$ 26,287,725.45	\$ 0.00	\$ 28,894,275.00
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	\$ 26,287,725.45	\$ 0.00	\$ 28,894,275.00

The table above displays the non-delinquent and delinquent amounts that retirees and survivors owe to the Fund because of improper payments. The Military Retirement Fund delinquent receivables over 30 days as of December 30, 2006, are maintained in Defense Debt Management System (DDMS) at DFAS-Denver.

The accounts receivable aging schedule column represents the 4th Quarter, FY 2006 ending balances, rather than the ending balances as of 1st Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will not agree with the prior year balance on the Balance Sheet nor the prior year balance in the first schedule in this note.

DDMS' collection procedures involve the following actions: when the debt is 2 to 62 days old demand letters are generated; on the 92nd day debt is referred to the Treasury Offset Program and DDMS generates electronic files to refer debts to Treasury in accordance with the Debt Collection Improvement Act of 1996; when the debt reaches 122 to 681 days, the debt is referred to private collection agencies prior to the debt being written off; and after 682 days the debt is reported as currently not collectible.

In compliance with the Debt Collection Improvement Act of 1996, all individual out-of-service debts referred to DFAS-Project Officer (PO) for collection assistance are established in the DDMS, and processed through all required debt collections actions.

In compliance with Department of Treasury requirements, the system-generated DDMS data for the Treasury Report on Receivables Due from the Public (TROR) separates the dollar amount of delinquent debts by aging categories. The data to be included in each category is stated in the instruction for preparing the TROR. By law, federal agencies must pursue debt collection for 10 years for the types of debts worked using DDMS.

Receivable in the 61 to 90 days category decreased \$471 thousand (45%) from 4th Quarter, FY 2006 to 1st Quarter, FY 2007. The decrease is attributable to the net of debts moved from the previous aging category to this category, collections made and debts moved to the next aging category.

Receivable in the 91 to 180 days category increased \$236.2 thousand (113%) from 4th Quarter, FY 2006 to 1st Quarter, FY 2007. The increase is primarily attributable to debts moved from the previous aging category to this category, offset by collections made and debts moved to the next aging category.

Receivable in the 181 days to 1 year and less than 2 years category decreased \$261.2 thousand (35%) from 4th Quarter, FY 2006 to 1st Quarter, FY 2007. The decrease is primarily attributable to collections made.

Note 6.	Other Assets
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As of December 31	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0.00	\$ 0.00
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 0.00	\$ 0.00
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	\$ 0.00

Not applicable.

Note 7.	Cash and Other Monetary Assets
----------------	---------------------------------------

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

Not applicable.

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

Direct Loan and/or Loan Guarantee Programs

Not applicable.

Direct Loans Obligated After FY 1991

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

Not applicable.

Total Amount of Direct Loans Disbursed

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

Not applicable.

Subsidy Expense for Post FY 1991 Direct Loan

As of December 31

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

Not applicable.

Subsidy Rate for Direct Loans

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

Not applicable.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post 1991 Direct Loans
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As of December 31	2007	2006
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00

Not applicable.

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

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

Not applicable.

Guaranteed Loans Outstanding

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

Not applicable.

Liabilities for Post FY 1991 Loan Guarantees, Present Value

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

Not applicable.

Subsidy Expense for Post FY 1991 Loan Guarantees

As of December 31

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

Not applicable.

Subsidy Rates for Loan Guarantees

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

Not applicable.

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

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

Not applicable.

Administrative Expenses

Not applicable.

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

Not applicable.

Inventory, Net

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

Legend for Valuation Methods:

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

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

Operating Materials and Supplies, Net

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

Legend for Valuation Methods:

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

NRV = Net Realizable Value
 O = Other

Stockpile Materials, Net

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

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Not applicable.

Assets Under Capital Lease

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

Not applicable.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of December 31	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	1,144,088.70	1,055,521.30
D. Total Intragovernmental Liabilities	\$ 1,144,088.70	\$ 1,055,521.30
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	761,664,397,003.16	661,672,547,321.24
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	196,746.69	234,999.27
E. Total Nonfederal Liabilities	\$ 761,664,593,749.85	\$ 661,672,782,320.51
3. Total Liabilities Not Covered by Budgetary Resources	\$ 761,665,737,838.55	\$ 661,673,837,841.81
4. Total Liabilities Covered by Budgetary Resources	\$ 205,546,329,194.17	\$ 233,872,776,007.54
5. Total Liabilities	\$ 967,212,067,032.72	\$ 895,546,613,849.35

Fluctuations

Military Retirement Benefits and Other Employment-Related Actuarial Liabilities increased \$100.0 billion (15%) from 1st Quarter, FY 2006, to 1st Quarter, FY 2007. This increase is attributable to an increase of \$71.6 billion in the actuarial liability, and a decrease of \$28.4 billion in the value of the assets available to pay benefits to the retirees and their survivors. See Footnote 17 for additional information.

Other Information

The Intragovernmental Other Liabilities represents a custodial liability. This liability is an obligation for the Military Retirement Fund (MRF) to transfer the interest, penalties, and administrative charges, which are classified as non-entity assets, to the U.S. Department of Treasury upon collection. The MRF collects these amounts on behalf of the U.S. Department of the Treasury.

The Nonfederal Other Liabilities represents Death Payment Contingent liabilities. The Department of Defense (DoD) responsibility is to pay entitlements to exact date of death, while Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by DoD to cover the retiree benefits not paid by DVA during the month of death.

Note 12.	Accounts Payable
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As of December 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 0.00	\$ N/A	\$ 0.00	\$ 0.00
2. Nonfederal Payables (to the Public)	0.00	0.00	0.00	0.00
3. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

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

Not applicable.

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

Not applicable.

Environmental Disclosures

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

Not applicable.

Note 15.	Other Liabilities
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As of December 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	0.00	1,144,088.70	1,144,088.70	1,055,521.30
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 1,144,088.70	\$ 1,144,088.70	\$ 1,055,521.30
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,433,722,777.06
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	196,746.69	0.00	196,746.69	234,999.27
J. Total Nonfederal Other Liabilities	\$ 196,746.69	\$ 0.00	\$ 196,746.69	\$ 3,433,957,776.33
3. Total Other Liabilities				
\$ 196,746.69	\$ 1,144,088.70	\$ 1,340,835.39	\$ 3,435,013,297.63	\$ 3,435,013,297.63

Fluctuations

Accrued Funded Payroll and Benefits decreased from \$3.4 billion to zero from 1st Quarter, FY 2006, to 1st Quarter, FY 2007. This fluctuation is due to the reclassification of Pension Benefits Due and Payable to Beneficiaries to Note 17, Other Federal Employment Benefits, beginning in the 4th Quarter, FY 2006.

Other Information

Intragovernmental Other Liabilities represents a custodial liability. This liability is an obligation for the MRF to transfer the interest, penalties, and administrative charges to the U.S. Department of Treasury upon collection. The MRF collects these amounts on behalf of the Treasury.

Nonfederal Other Liabilities represents Death Payment Contingent liabilities. The Department of Defense (DoD) responsibility is to pay entitlements to exact date of death, while Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by DoD to cover the retiree benefits not paid by DVA during the month of death.

Capital Lease Liability

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

Not applicable.

Note 16.	Commitments and Contingencies
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Death Payment Contingencies represents the Department of Defense responsibility to pay entitlements to exact date of death, while Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by DoD to cover the retiree benefits not paid by DVA during the month of death. The contingent liability is an estimated amount which is reported on Footnotes 11 and 15.

Note 17. Military Retirement and Other Federal Employment Benefits

As of December 31	2007			2006	
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 963,696,276,612.06		\$ (202,031,879,608.90)	\$ 761,664,397,003.16	\$ 892,111,600,551.72
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 963,696,276,612.06		\$ (202,031,879,608.90)	\$ 761,664,397,003.16	\$ 892,111,600,551.72
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	\$ 3,514,449,585.27		\$ (3,514,449,585.27)	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 967,210,726,197.33		\$ (205,546,329,194.17)	\$ 761,664,397,003.16	\$ 892,111,600,551.72

Actuarial Cost Method Used: See below

Assumptions: See below

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

Fluctuations

The estimated Actuarial Liability (AL) is updated only at the end of each fiscal year so there is no change from September 30, 2006 AL.

Military Retirement Pensions (actuarial liability) increased \$75.1 billion (8%) from the 1st Quarter, FY 2006, to the 1st Quarter, FY 2007. The increase is primarily the result of two actuarial calculations.

Each year, the actuarial liability is expected to increase by an amount equal to the interest on the beginning-of-year actuarial liability, the normal cost payments for that year, less the benefit payments for that year. The calculated increase from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 is \$30.0 billion.

Each year there are also changes in the actuarial liability if there have been any benefit or assumption changes. The most significant of these was a decrease in the long-term interest (discount) rate, which resulted in a \$32.8 billion increase to the expected liability to cover the associated reduced earning to the fund.

Other Federal Employment Benefits increased from zero to \$3.5 billion from 1st Quarter, FY 2006, to 1st Quarter, FY 2007. This fluctuation is due to the reclassification of Pension Benefits Due and Payable to Beneficiaries, of Note 15, Other Liabilities, beginning 4th Quarter, FY 2006. These benefits are comprised of the amounts due and payable to military retirees and their survivors as of December 31, 2006.

Assumptions

- a. Actuarial Cost Method Used: Aggregate entry-age normal method. As dictated by law, the Military Retirement System is funded using the aggregate entry-age normal method. This is a method whereby projected retirement costs are spread over the projected future salaries of a cohort at the point of entry.
- b. The Military Retirement Fund (MRF) is a pension program established in Fiscal Year 1984 by PL 98-94, for the payment of annuities and pensions to retired military personnel and their survivors. The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund come from three sources: interest earnings on Fund assets, monthly DoD contributions, and annual contributions from the Treasury Department. The monthly DoD contributions are determined as the percentage of basic pay approved by the DoD Retirement Board of Actuaries. The contribution from Treasury is paid into the Fund at the beginning of each fiscal year and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. Starting October 1, 2004, Public Law 108-136 requires the Treasury to contribute the normal cost amount for the concurrent receipt provisions under Sections 1413, 1413a, and 1414 in addition to the unfunded liability amortization payment. The Board determines Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The long-term economic assumptions for each valuation are set by the DoD Retirement Board of Actuaries. The long-term assumptions for the FY 2005 valuation were 6.25% interest, 3.0% Consumer Price Index, and 3.75% salary increase. The long-term economic assumption for interest for the FY 2006 valuation was lowered to 6.00% by the Board at its August 2006 meeting. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year valuation results as reported in the DoD Office of Actuary Valuation of the Military Retirement System. In calculating the FY 2006 roll-forward amount, the following assumptions were used:

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

For purposes of the Fund's financial reporting, this roll-forward process is applied annually.

Contributions to the Fund are calculated so as to maintain the Fund on an actuarially sound basis. This means that there will be sufficient funds to make all benefit payments to eligible recipients each year, and that the Fund balance is projected to eventually equal the actuarial liability, i.e., all unfunded liabilities are covered. In order to accomplish this, normal costs are calculated to fully fund the current year projected liability for active duty members and reservists. In addition, amortization payments are calculated to fund liabilities that were present at plan inception (initial unfunded) and any emerging actuarial gains or losses. The initial unfunded liability of the program is being amortized over a 50-year period. All subsequent gains and losses experienced by the system are amortized over a 30-year period. Methods and assumptions used to compute actuarial costs and liabilities, and to amortize the initial unfunded liability as well as all actuarial gains and losses, must be approved by the DoD Retirement Board of Actuaries, as required by Chapter 74 of Title 10, United States Code. The Board is a Federal Advisory Committee appointed by the President.

c. Market Value of Investments in Market-based and Marketable Securities:
\$ 222.8 billion.

Change in MRF Actuarial Liability

The net pension expense for the change in the actuarial accrued liability from September 30, 2005 to September 30, 2006 (which, as previously mentioned, is the same as the change from 1st Quarter, FY 2006, to 1st Quarter, FY 2007) is developed in the table below:

(\$ In Billions)	<u>FY 2006</u>	<u>FY 2005</u>
A. Beginning of Year Accrued Liability	\$892.1	\$834.6
B. Normal Cost Liability	15.5	14.9
C. Plan Amendment Liability	0.1	25.8
D. Assumption Change Liability	35.4	4.9
E. Benefit Outlays	(40.5)	(38.7)
F. Interest on Pension Liability	55.0	51.4
G. Actuarial Loss (Gain)	<u>6.1</u>	<u>(0.8)</u>
H. End-of-Year Accrued Liability (A+B+C+D+E+F+G)	<u>\$963.7</u>	<u>\$892.1</u>
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	<u>\$71.6</u>	<u>\$57.5</u>

Other Information

Each year the Accrued Liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains and losses, (2) plan benefit changes, and (3) assumption changes, an increase of \$30.0 billion in the Accrued Liability was expected during FY 2006.

The September 30, 2006, Accrued Liability includes changes due to (1) assumptions, (2) benefit changes, and (3) experience. The new assumptions include a change in the interest rate (from 6.25% to 6.00%), updated Temporary Disability retiree rates, a refined set of survivor pay factors, an update to the percentage of Redux members electing the Career Status Bonus, and a refinement in the way the savings due to the phase-in of Concurrent Receipt benefits is calculated. The net effect of these new assumptions is an increase in the September 30, 2006, accrued liability of \$35.4 billion, shown on Line D (\$32.8 billion of this increase is due to the new interest assumption). The changes in retirement benefits for FY 2006 include an accelerated phase-in schedule of Concurrent Receipt benefits for certain retirees in the FY 2006 National Defense Authorization Act (NDAA), and a one-year Survivor Benefit Plan (SBP) open enrollment period beginning October 1, 2005, in the FY 2005 NDAA. The accelerated phase-in schedule of Concurrent Receipt benefits for certain retirees results in an increase in the September 30, 2006, Accrued Liability of \$46.3 million, and the increase in the Accrued Liability due to the SBP open season as of September 30, 2006, is \$71.5 million. The total of these benefit changes is \$117.7 million, shown on Line C. The increase in Accrued Liability due to the net experience loss of \$6.1 billion, shown on line G, reflects the new population on which the September 30, 2005, roll-forward is based, as well as other economic experience being different from that assumed. The 2007 National Defense Authorization Act (NDAA) (also, PL 109-364, or HR 5122) included a number of provisions impacting the MRF, including: (1) revisions to the basic pay rates for the uniformed services, effective April 1, 2007; and (2) increases to the limit on base pay for retired pay computations for retirees with over 30 years creditable service, retiring after December 31, 2007, by revising the multiplier (previously 75% limit). The Office of the Actuary estimated that the effect of the benefit changes from the 2007 NDAA would be to increase the actuarial liability by approximately \$4.6 billion as of September 30, 2006. This increase is not reflected in the actuarial liability in the accompanying balance sheet as of December 31, 2006. The estimate of the change in actuarial liability due to benefit changes in the 2007 NDAA will be updated and reflected in the September 30, 2007, financial statements.

Treasury Contributions

The October 1 contribution from the Treasury is determined in accordance with methodology set by the Board of Actuaries, and increased \$3.0 billion (from \$25.5 billion in FY 2006 to \$28.5 billion in FY 2007). The main reasons for the change include an expected increase of \$0.9 billion inherent in the Board's unfunded liability amortization methodology and additional increases of \$2.0 billion in the unfunded liability payment due to actuarial experience and assumption changes.

Military Services Contributions

The contributions from the Military Services are the product of basic pay and Normal Cost Percentages (NCPs) determined in accordance with methodology set by the Board of Actuaries. Basic pay generally increases each year, and on January 1, 2006, there was a 3.1% across-the-board basic pay increase. The NCPs for FY 2006 were set by the Board of Actuaries in its November 2004 Board Letter, amending those set in the August 2004 public meeting: 26.5% (full-time) and 16.7% (part-time). The NCPs for FY 2007 were set by the Board in its August 2005 public meeting: 26.5% (full-time) and 17.5% (part-time).

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

As of December 31	2007	2006
1. Intragovernmental Costs	\$ 0.00	\$ 0.00
2. Public Costs	10,601,383,546.27	10,011,839,246.17
3. Total Costs	\$ 10,601,383,546.27	\$ 10,011,839,246.17
4. Intragovernmental Earned Revenue	\$ (33,270,047,229.78)	\$ (32,530,109,187.15)
5. Public Earned Revenue	0.00	0.00
6. Total Earned Revenue	\$ (33,270,047,229.78)	\$ (32,530,109,187.15)
7. Net Cost of Operations	\$ (22,668,663,683.51)	\$ (22,518,269,940.98)

Other Information

The Statement of Net Cost (SNC) is unique because its principles are driven on understanding the net cost of programs that the Federal Government supports through appropriations or other means. The SNC provides gross and net cost information that can be related to the amount of output for a given program administered by a responsible reporting entity.

Intragovernmental Earned Revenues for Program Costs, shows the revenues that comprise intragovernmental earned revenue. Intragovernmental revenue and costs are related to transactions made between two reporting entities within the Federal Government. Alternatively, public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The Military Retirement Fund was able to compare its intragovernmental costs and revenues with the corresponding balances of its intragovernmental trading partners. There were no material differences.

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

Information Related to the Statement of Changes in Net Position

There was a difference of \$50.8 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) (\$0) and Appropriations Received on the Statement of Budgetary Resources (SBR) (\$50.8 billion) in 1st Quarter, FY 2007. This difference is due to the transfer of appropriations to the Military Retirement Fund from the Military Services and Defense Agencies. This transfer is reported as appropriated trust fund receipts and included in the appropriations line on the SBR. However, non-revolving trust funds receipts, immediately available for obligation, are reported as exchange revenue and included in the cost of operations on the SCNP.

The eliminations column on the Statement of 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 DoD modify the Statement of Changes in Net Position. The Federal Accounting Standards Advisory Board determined that restatement of prior comparative balances would not be allowed. To meet the requirement, additional columns were added to separately display gross amounts for earmarked funds and all other (non-earmarked) funds. In the SCNP, all offsetting balances (i.e., transfers-in and transfers out, revenues

and expenses) for intra-DoD activity between earmarked and other (non-earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line.

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

Apportionment Categories

Office of Management and Budget Circular No. A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under category A obligations, which relate to a specific period of time; category B obligations, which relate to a specific project or program; and exempt from apportionment obligations, which relate to funds that are not apportioned. The Military Retirement Fund (MRF) reported \$10.6 billion in exempt from apportionment obligations and no category A or category B obligations.

Permanent Indefinite Appropriation

Title 10, United States Code 1461, established the MRF to accumulate funds to finance, on an actuarially sound basis, the liabilities of the Department of Defense military retirement and survivor benefit programs. This provides a permanent indefinite appropriation with which to operate. These funds are only available to pay pensions and annuities to retired military personnel and their survivors, respectively. Amounts that are not needed to pay the current costs of the Fund may be invested in nonmarketable market-based securities purchased through the Department of the Treasury.

Use of Unobligated Balances of Budget Authority

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

Capital Infusions

The MRF received no capital infusions during 1st Quarter, FY 2007.

Intraentity Transactions

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

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

Due to DoD's financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. However, the Military Retirement Fund (MRF) has implemented a process to ensure the data is in agreement. Therefore, the MRF made no adjustments to balance its data before it was imported into the Defense Departmental Reporting System. In addition, the MRF made no adjustment to bring its Statement of Financing (SOF) into balance with its Statement of Net Cost.

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

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

Other Information

Components not Requiring or Generating Resources – Other, represents the change in accounts receivable between the 4th Quarter, FY 2005, and 1st Quarter, FY 2006, and between 4th Quarter, FY 2006, and 1st Quarter, FY 2007. These balances are the amounts owed to the Fund by military retirees and their survivors for improper payments. When these fees are reported they reduce the expense amount previously reported in prior periods.

Note 22.

Disclosures Related to the Statement of Custodial Activity

Not applicable.

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

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 22,830,788.13	\$ 0.00	\$ 0.00	\$ 0.00	\$ 22,830,788.13
Investments	231,175,974,185.8	2	0.00	0.00	231,175,974,185.82
Accounts and Interest Receivable	20,610,073.58	0.00	0.00	0.00	20,610,073.58
Other Assets	0.00	0.00	0.00	0.00	0.00
	<u>231,219,415,047.5</u>				
Total Assets	\$ 3	\$ 0.00	\$ 0.00	\$ 0.00	\$ 231,219,415,047.53

**LIABILITIES and NET
POSITION**

Military Retirement Benefits and Other Federal Employment Benefits	\$ 967,210,726,197.3	\$ 3	\$ 0.00	\$ 0.00	\$ 0.00	\$ 967,210,726,197.33
Other Liabilities Unexpended Appropriations	1,340,835.39	0.00	0.00	0.00	0.00	1,340,835.39
Cumulative Results of Operations	(735,992,651,985.1	9)	0.00	0.00	0.00	(735,992,651,985.19
	<u>231,219,415,047.5</u>					<u>9</u>
Total Liabilities and Net Position	\$ 3	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 231,219,415,047.53

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

Program Costs	\$ 10,601,383,546.27	\$ (33,270,047,229.78	0.00	0.00	0.00	\$ 10,601,383,546.27
Less Earned Revenue	(22,668,663,683.51)	0.00	0.00	0.00	(33,270,047,229.78)
Net Program Costs	\$)	\$)	0.00	0.00	0.00	\$ (22,668,663,683.51)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00	0.00
	<u>(22,668,663,683.51</u>					
Net Cost of Operations	\$)	\$)	0.00	0.00	0.00	\$ (22,668,663,683.51)

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

Net Position Beginning of the Period	\$ (758,661,315,668.7	\$ 0)	\$ 0.00	\$ 0.00	\$ 0.00	\$ (758,661,315,668.70
Net Cost of Operations	(22,668,663,683.51)	0.00	0.00	0.00	(22,668,663,683.51)
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 22,668,663,683.51	\$)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 22,668,663,683.51
Net Position End of Period	\$ (735,992,651,985.1	\$ 9)	\$ 0.00	\$ 0.00	\$ 0.00	\$ (735,992,651,985.19

The Military Retirement Fund (MRF) receives its appropriations and funds as trust and earmarked funds. The MRF uses these appropriations and funds to execute its mission and report on resource usage.

The MRF is a pension program established in fiscal year 1984 by Public Law 98-94 for the payment of annuities and pensions to retired military personnel and their survivors. The Department of Defense (DoD) Retirement Board of Actuaries determines the contributions made to the MRF. The DoD contribution is a percentage of basic pay. The Department of the Treasury contribution is the annual unfunded amortization payment. Excess funds from the contributions are invested and accrued interest revenue is used to cover future liabilities of the Fund.

Financing sources for the MRF are provided primarily through monthly Military Service contributions as a percentage of base pay, an annual unfunded liability payment from the U.S. Department of Treasury, and interest earned on investments.

On the consolidated Balance Sheet, Assets section, the Fund Balance with Treasury \$22.8 million represents the funds held back at the end of the month for any unexpected expenses. Next, the \$231.2 billion represents the net Investments of the fund, which consist of bills, bonds, notes, overnights, and inflation-protected securities as well as interest receivable. The Accounts Receivable, Net line represents the accounts receivable of \$20.6 million attributed to interest, penalties and fees.

The consolidated Balance Sheet, Liabilities section, contains \$967.2 billion for the actuarial military retirement benefits liability. The \$1.3 million amount, in the Other Liabilities line, is comprised of concurrent receipt benefits for certain disabled retirees, Survivor Benefit Plan benefits, and a cost of living for retirees and annuitants. Finally, the \$(736.0) billion is the net difference since inception of the MRF between the revenues and expenses, interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

The consolidated Statement of Net Cost reports Program Costs of \$10.6 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 \$(33.3) billion is comprised of contributions and interest revenue from investments.

The consolidated Statement of Changes in Net Position displays the Net Position Beginning of the Period of \$758.7 billion. This amount represents the net difference since inception of the activity between the revenues and expenses. The Net Cost of Operations of \$22.7 billion represents the current year net result of totaling the interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

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

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

Future Payments Due

Fiscal Year

2007	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 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	\$ 0.00
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Not applicable.

Note 25.

Restatements

Not applicable.