

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2008 and 2007

	<u>2008 Consolidated</u>	<u>2007 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	5,000,000.00	5,000,000.00
2. Investments (Note 4)	133,190,987,874.77	110,157,377,007.80
5. Total Intragovernmental Assets	<u>\$ 133,195,987,874.77</u>	<u>\$ 110,162,377,007.80</u>
C. Accounts Receivable, Net (Note 5)	15,152,106.25	14,878,631.27
2. TOTAL ASSETS	<u>\$ 133,211,139,981.02</u>	<u>\$ 110,177,255,639.07</u>
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 65,212,097.87	\$ 70,376,622.11
4. Total Intragovernmental Liabilities	<u>\$ 65,212,097.87</u>	<u>\$ 70,376,622.11</u>
B. Accounts Payable (Note 12)	\$ 193,845,353.80	\$ 163,747,001.16
C. Military Retirement and Other Federal Employment Benefits (Note 17)	517,063,459,000.00	538,634,752,000.00
5. TOTAL LIABILITIES	<u>\$ 517,322,516,451.67</u>	<u>\$ 538,868,875,623.27</u>
6. NET POSITION		
C. Cumulative Results of Operations - Earmarked Funds	(384,111,376,470.65)	(428,691,619,984.20)
7. TOTAL NET POSITION	<u>\$ (384,111,376,470.65)</u>	<u>\$ (428,691,619,984.20)</u>
8. TOTAL LIABILITIES AND NET POSITION	<u>\$ 133,211,139,981.02</u>	<u>\$ 110,177,255,639.07</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2008 and 2007

	2008 Consolidated	2007 Consolidated
	<hr/>	<hr/>
1. Program Costs		
A. Gross Costs	\$ 5,926,033,706.31	\$ 5,705,430,057.47
B. (Less: Earned Revenue)	(29,611,488,198.11)	(30,295,751,037.71)
C. Net Program Costs	<hr/> \$ (23,685,454,491.80)	<hr/> \$ (24,590,320,980.24)
4. Net Cost of Operations	<hr/> <hr/> \$ (23,685,454,491.80)	<hr/> <hr/> \$ (24,590,320,980.24)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2008 and 2007

	2008 Earmarked Funds	2008 All Other Funds
	<hr/>	<hr/>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (407,796,830,962.45)	\$ 0.00
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<hr/> (407,796,830,962.45)	<hr/> 0.00
4. Budgetary Financing Sources:		
4.E. Transfers-in/out without reimbursement	0.00	0.00
5. Other Financing Sources:		
6. Total Financing Sources	<hr/> 0.00	<hr/> 0.00
7. Net Cost of Operations (+/-)	(23,685,454,491.80)	0.00
8. Net Change	<hr/> 23,685,454,491.80	<hr/> 0.00
9. Cumulative Results of Operations	<hr/> (384,111,376,470.65)	<hr/> 0.00
UNEXPENDED APPROPRIATIONS		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<hr/> (384,111,376,470.65)	<hr/> 0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2008 and 2007

	2008 Eliminations	2008 Consolidated
	<hr/>	<hr/>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (407,796,830,962.45)
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<hr/> 0.00	<hr/> (407,796,830,962.45)
4. Budgetary Financing Sources:		
4.E. Transfers-in/out without reimbursement	0.00	0.00
5. Other Financing Sources:		
6. Total Financing Sources	<hr/> 0.00	<hr/> 0.00
7. Net Cost of Operations (+/-)	0.00	(23,685,454,491.80)
8. Net Change	<hr/> 0.00	<hr/> 23,685,454,491.80
9. Cumulative Results of Operations	0.00	(384,111,376,470.65)
UNEXPENDED APPROPRIATIONS		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<hr/> 0.00	<hr/> (384,111,376,470.65)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2008 and 2007

	2007 Earmarked Funds	2007 All Other Funds
	<hr/>	<hr/>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (453,467,940,964.44)	\$ 0.00
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<hr/> (453,467,940,964.44)	<hr/> 0.00
4. Budgetary Financing Sources:		
4.E. Transfers-in/out without reimbursement	186,000,000.00	0.00
5. Other Financing Sources:		
6. Total Financing Sources	<hr/> 186,000,000.00	<hr/> 0.00
7. Net Cost of Operations (+/-)	(24,590,320,980.24)	0.00
8. Net Change	<hr/> 24,776,320,980.24	<hr/> 0.00
9. Cumulative Results of Operations	<hr/> (428,691,619,984.20)	<hr/> 0.00
UNEXPENDED APPROPRIATIONS		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<hr/> (428,691,619,984.20)	<hr/> 0.00

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2008 and 2007

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (453,467,940,964.44)
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	0.00	(453,467,940,964.44)
4. Budgetary Financing Sources:		
4.E. Transfers-in/out without reimbursement	0.00	186,000,000.00
5. Other Financing Sources:		
6. Total Financing Sources	0.00	186,000,000.00
7. Net Cost of Operations (+/-)	0.00	(24,590,320,980.24)
8. Net Change	0.00	24,776,320,980.24
9. Cumulative Results of Operations	0.00	(428,691,619,984.20)
UNEXPENDED APPROPRIATIONS		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	0.00	(428,691,619,984.20)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2008 and 2007

	2008 Combined	2007 Combined
	<hr/>	<hr/>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
3. Budget authority		
3.A. Appropriation	32,362,000,000.00	32,324,000,000.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.2 Change in unfilled customer orders		
3.E. Subtotal	<hr/> 32,362,000,000.00	<hr/> 32,324,000,000.00
4. Nonexpenditure transfers, net, anticipated and actual	0.00	186,000,000.00
5. Temporarily not available pursuant to Public Law	(24,013,390,000.00)	(24,828,999,000.00)
7. Total Budgetary Resources	<hr/> \$ 8,348,610,000.00 <hr/>	<hr/> \$ 7,681,001,000.00 <hr/>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2008 and 2007

	2008 Combined	2007 Combined
	<hr/>	<hr/>
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 6,259,921,988.78	\$ 6,033,281,901.75
8.C. Subtotal	<hr/> 6,259,921,988.78	<hr/> 6,033,281,901.75
9. Unobligated balance:		
9.A. Apportioned	2,088,688,011.22	1,647,719,098.25
9.C. Subtotal	<hr/> 2,088,688,011.22	<hr/> 1,647,719,098.25
11. Total status of budgetary resources	<hr/> \$ 8,348,610,000.00 <hr/>	<hr/> \$ 7,681,001,000.00 <hr/>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	368,772,974.36	397,172,252.77
from Federal sources, brought forward, October 1		
12.C. Total unpaid obligated balance	<hr/> 368,772,974.36	<hr/> 397,172,252.77
13. Obligations incurred net (+/-)	\$ 6,259,921,988.78	\$ 6,033,281,901.75
14. Less: Gross outlays	(5,969,560,800.78)	(5,752,215,764.10)
15. Obligated balance transferred, net		
payments from Federal sources (+/-)		
payments from Federal sources (+/-)		
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	659,134,162.36	678,238,390.42
from Federal sources (-)		
18.C. Total, unpaid obligated balance, net, end of period	<hr/> 659,134,162.36	<hr/> 678,238,390.42
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	5,969,560,800.78	5,752,215,764.10
19.C. Less: Distributed Offsetting receipts	(18,165,864,616.73)	(30,295,751,037.71)
19.D. Net Outlays	<hr/> \$ (12,196,303,815.95) <hr/>	<hr/> \$ (24,543,535,273.61) <hr/>

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

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

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

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

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

The DoD MERHCF Board of Actuaries determines the amount of the contribution to MERHCF. The contribution consists of two parts: a U. S. Treasury warrant for the amortization payment of the original unfunded liability and an annual contribution from each Uniformed Service: Army, Navy, Air Force, Marine Corps, U.S. Coast Guard, Public Health Service, and National Oceanographic and Atmospheric Administration. Funds from the contributions that exceed the amounts required to pay current year expenses are invested. Those investments at maturity and their associated interest revenues will be used to cover future liabilities of MERHCF.

The MERHCF is a special fund. The special funds in MERHCF are used, in compliance with the law, to provide for health care costs of former service members entitled to retired or retainer pay, and their dependents or survivors who are Medicare-eligible.

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

1.D. Basis of Accounting

For FY 2007, MERHCF's financial feeder systems did not meet all of the requirements for full accrual accounting. These systems were designed and implemented before the issuance of GAAP for Federal agencies and were not designed to collect and record financial information on the full accrual basis as required by GAAP. When necessary, MERHCF and the Defense Finance and Accounting Service (DFAS) have established manual controls to work around these system issues. For example, the accounting system used by MERHCF does not record information on a budgetary basis. Instead, the reporting system derives the budgetary account balances from information contained in the proprietary accounts.

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

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of benefit expenses in the period incurred.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. Seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer entities adjust their records to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. The MERHCF is able to reconcile its buyer/seller transactions without making any adjustments. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, to include sufficient up-front edits and controls, eliminating the need for after-the-fact reconciliations.

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

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

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

The U.S. Treasury allows MERHCF to be fully invested. Since Fund Balance with Treasury (FBWT) for MERHCF consists entirely of earmarked funds, the balance may be zero at various times during the fiscal year including the end of a quarter or a fiscal year.

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

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

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include three categories: accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon an analysis of actual uncollectible amounts experienced by MERHCF during the previous 11 months.

1.L. Direct Loans and Loan Guarantees

N/A

1.M. Inventories and Related Property

N/A

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

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

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

The MERHCF receives interest on the value of its nonmarketable, market-based securities from the U.S. Treasury on a semiannual 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 MERHCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

1.T. Accrued Leave

N/A

1.U. Net Position

Net position consists of cumulative results of operations. Cumulative results of operations represent the net difference, since the inception of the Fund, between expenses and losses and financing sources (including appropriations, revenue, and gains). 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

N/A

1.X. Unexpended Obligations

The MERHCF obligates funds to provide goods and services; some of which are not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered, unless title passes.

1.Y. Undistributed Disbursements and Collections

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

1.Z. Significant Events

Beginning 4th Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be

considered a basic statement and is now referred to as “Reconciliation of Net Cost of Operations to Budget.”

Note 2.	Nonentity Assets
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As of June 30	2008	2007
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 133,211,139,981.02	\$ 110,177,255,639.07
5. Total Assets	\$ 133,211,139,981.02	\$ 110,177,255,639.07

Not Applicable.

Note 3.	Fund Balance with Treasury
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As of June 30	2008	2007
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	0.00	0.00
D. Special Funds	5,000,000.00	5,000,000.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 5,000,000.00	\$ 5,000,000.00
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 5,000,000.00	\$ 5,000,000.00
B. Fund Balance per MERHCF	5,000,000.00	5,000,000.00
3. Reconciling Amount	\$ 0.00	\$ 0.00

Status of Fund Balance with Treasury

As of June 30	2008	2007
1. Unobligated Balance		
A. Available	\$ (611,488,812.05)	\$ (546,620,547.14)
B. Unavailable	132,093,031,453.12	109,097,708,458.26
2. Obligated Balance not yet Disbursed	\$ 659,134,162.36	\$ 678,238,390.42
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (132,135,676,803.43)	\$ (109,224,326,301.54)
5. Total	<u>\$ 5,000,000.00</u>	<u>\$ 5,000,000.00</u>

Information Related to Status of Fund Balance with Treasury

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

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. These unobligated balances, which are classified as available or unavailable, are related to trust fund accounts which are restricted by the public laws that established the funds. These balances become available subsequently without further congressional action.

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

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

Non-FBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. The MERHCF balance represents investment accounts. This category reduces the Status of Fund Balance with Treasury.

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 - 2008
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Budget Clearing Account Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Disclosures Related to Problem Disbursements

As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 to 2008
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
C. In-Transit Disbursements	0.00	0.00	0.00	0.00
Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>0.00</u>

Note 4. Investments and Related Interest

As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	134,570,097,932.17	Effective Interest	(2,434,421,128.74)	132,135,676,803.43	135,464,441,559.76
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	134,570,097,932.17		(2,434,421,128.74)	132,135,676,803.43	135,464,441,559.76
B. Accrued Interest	1,055,311,071.34			1,055,311,071.34	1,055,311,071.34
C. Total Intragovernmental Securities	\$ 135,625,409,003.51		\$ (2,434,421,128.74)	\$ 133,190,987,874.77	\$ 136,519,752,631.10
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	110,891,956,448.18	Effective Interest	(1,667,630,146.64)	109,224,326,301.54	102,513,004,338.31
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	110,891,956,448.18		(1,667,630,146.64)	109,224,326,301.54	102,513,004,338.31
B. Accrued Interest	933,050,706.26			933,050,706.26	933,050,706.26
C. Total Intragovernmental Securities	\$ 111,825,007,154.44		\$ (1,667,630,146.64)	\$ 110,157,377,007.80	\$ 103,446,055,044.57
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Information Regarding Investments and Related Interest

The Federal Government does not set aside assets to pay future benefits and expenditures associated with earmarked funds. The cash generated from earmarked funds are deposited in the U.S.

Treasury, which uses the cash for general Government purposes. The U.S. Treasury securities are issued to the earmarked funds as evidence of earmarked fund receipts. The U.S. Treasury securities are an asset to the Medicare-Eligible Retiree Health Care Fund (MERHCF) and a liability to the U.S. Treasury. Because MERHCF and the U.S. Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements. The U.S. Treasury securities provide MERHCF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When MERHCF requires redemption of these securities to make expenditures, the Federal Government finances the securities out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way the Federal Government finances all other expenditures.

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

COST FY 2008		COST FY 2007	
	<u>(in thousands)</u>		<u>(in thousands)</u>
Bills	--	Bills	--
Notes	\$16,298,088	Notes	\$19,304,657
Bonds	3,203,750	Bonds	3,203,750
TIPS	113,752,020	TIPS	84,520,860
Overnights	<u>1,316,240</u>	Overnights	<u>3,862,689</u>
Total Cost	\$134,570,098	Total Cost	\$110,891,956

The MERHCF purchases and redeems nonmarketable, market-based securities that fluctuate in tandem with the current selling price of the equivalent marketable securities on the open market. The Department of Defense Investment Board approves the strategy for the type of securities purchased by MERHCF at the semiannual meetings.

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

Note 5. Accounts Receivable

As of June 30	2008			2007
	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)	\$ 15,192,177.77	\$ (40,071.52)	\$ 15,152,106.25	\$ 14,878,631.27
3. Total Accounts Receivable	\$ 15,192,177.77	\$ (40,071.52)	\$ 15,152,106.25	\$ 14,878,631.27

Aged Accounts Receivable

As of June 30	2008		4th Quarter 2007	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 0.00	\$ 8,309,061.77	\$ 0.00	\$ 4,914,728.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 0.00	\$ 1,283,939.00	\$ 0.00	\$ 1,713,135.00
31 to 60 days	0.00	1,135,107.00	0.00	847,991.00
61 to 90 days	0.00	887,709.00	0.00	713,484.00
91 to 180 days	0.00	1,503,805.00	0.00	506,839.00
181 days to 1 year	0.00	1,495,110.00	0.00	735,132.00
Greater than 1 year and less than or equal to 2 years	0.00	577,446.00	0.00	1,018,674.00
Greater than 2 years and less than or equal to 6 years	0.00	0.00	0.00	0.00
Greater than 6 years and less than or equal to 10 years	0.00	0.00	0.00	0.00
Greater than 10 years	0.00	0.00	0.00	0.00
Subtotal	\$ 0.00	\$ 15,192,177.77	\$ 0.00	\$ 10,449,983.00
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	\$ 15,192,177.77	\$ 0.00	\$ 10,449,983.00

Note 6.	Other Assets
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As of June 30

	2008	2007
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. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	0.00	0.00
D. Other Assets (With the Public)	0.00	0.00
E. 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
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As of June 30	2008	2007
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 June 30

Direct Loan and/or Loan Guarantee Programs

Not Applicable.

Summary of Direct Loans and Loan Guarantees
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As of June 30	2008	2007
Loans Receivable		
<u>Direct Loans</u>		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
5. Total Direct Loans	\$ 0.00	\$ 0.00
<u>Defaulted Loan Guarantees</u>		
6. A. Foreign Military Financing Account	\$ 0.00	\$ 0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
7. Total Default Loan Guarantees	\$ 0.00	\$ 0.00
8. Total Loans Receivable	\$ 0.00	\$ 0.00

As of June 30	2008	2007
Loan Guarantee Liability		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
4. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

Direct Loans Obligated

As of June 30	2008	2007
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
Direct Loans Obligated After FY 1991 (Present Value Method):		
2. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
3. Foreign Military Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
4. Military Debt Reduction Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
5. Total Direct Loans Receivable	\$ 0.00	\$ 0.00

Total Amount of Direct Loans Disbursed

As of June 30	2008	2007
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Military Debt Reduction Financing Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

2008	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2008	2007		
5. Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00		0.00		
Military Debt Reduction Financing Account	0.00		0.00		
Total	\$ 0.00	\$ 0.00			

Subsidy Rate for Direct Loans by Program

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Direct Loans:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

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

As of June 30	2008	2007
Beginning Balances, Changes and Ending Balance:		
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00

Defaulted Guaranteed Loans

As of June 30

	2008		2007
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):			
1. Foreign Military Liquidating Account			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$	0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Loan Losses	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):			
2. Military Housing Privatization Initiative			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$	0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Subsidy Cost (Present Value)	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
3. Armament Retooling & Manufacturing Support Initiative			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$	0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Subsidy Cost (Present Value)	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable			
	\$ 0.00	\$	0.00

Guaranteed Loans Outstanding

As of June 30	Outstanding Principal of Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed	
Guaranteed Loans Outstanding				
1. Military Housing Privatization Initiative	\$	0.00	\$	0.00
2. Armament Retooling & Manufacturing Support Initiative		0.00		0.00
3. Foreign Military Liquidating Account		0.00		0.00
4. Total	\$	0.00	\$	0.00
2008				
New Guaranteed Loans Disbursed				
1. Military Housing Privatization Initiative	\$	0.00	\$	0.00
2. Armament Retooling & Manufacturing Support Initiative		0.00		0.00
3. Foreign Military Liquidating Account		0.00		0.00
4. Total	\$	0.00	\$	0.00
2007				
New Guaranteed Loans Disbursed				
1. Military Housing Privatization Initiative	\$	0.00	\$	0.00
2. Armament Retooling & Manufacturing Support Initiative		0.00		0.00
3. Foreign Military Liquidating Account		0.00		0.00
4. Total	\$	0.00	\$	0.00

Liabilities for Post FY 1991 Loan Guarantees, Present Value
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As of June 30	2008	2007
Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Total Loan Guarantee Liability (Pre-FY 1992)	\$ 0.00	\$ 0.00
Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
5. Total Loan Guarantee Liability (Post-FY 1991)	\$ 0.00	\$ 0.00
6. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

Subsidy Expense for Loan Guarantees by Program

As of June 30

2008	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	
2007	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	
2008	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	
2007	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	
		2008	2007			
5. Total Loan Guarantee:						
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00			
Total	\$ 0.00	\$ 0.00	0.00			

Subsidy Rates for Loan Guarantees by Program

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

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

As of June 30	2008		2007	
Beginning Balance, Changes, and Ending Balance:				
1. Beginning Balance of the Loan Guarantee Liability	\$	0.00	\$	0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component				
A. Interest Supplement Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
E. Total of the above Subsidy Expense Components	\$	0.00	\$	0.00
3. Adjustments				
A. Loan Guarantee Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Interest Supplements Paid		0.00		0.00
D. Foreclosed Property and Loans Acquired		0.00		0.00
E. Claim Payments to Lenders		0.00		0.00
F. Interest Accumulation on the Liability Balance		0.00		0.00
G. Other		0.00		0.00
H. Total of the above Adjustments	\$	0.00	\$	0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$	0.00	\$	0.00
5. Add or Subtract Subsidy Reestimates by Component				
A. Interest Rate Reestimate		0.00		0.00
B. Technical/default Reestimate		0.00		0.00
C. Total of the above Reestimate Components	\$	0.00	\$	0.00
6. Ending Balance of the Loan Guarantee Liability	\$	0.00	\$	0.00

Administrative Expenses

Note 9.	Inventory and Related Property
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As of June 30	2008	2007
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materiel & Supplies, Net	0.00	0.00
3. Stockpile Materiel, Net	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Not Applicable.

Inventory, Net

As of June 30	2008			2007		
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method	
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair		0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable		0.00	0.00	0.00	0.00	NRV
D. Raw Materiel		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 Materiel and Supplies, Net

As of June 30	2008			2007		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, MAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	

Legend for Valuation Methods:

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

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

Stockpile Materiel, Net

As of June 30	2008			2007		Valuation Method
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Stockpile Materiel, Net		
1. Stockpile Materiel 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 June 30	2008					2007
	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 June 30	2008	2007
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	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2008	2007
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	385,581,916,358.93	427,889,324,443.49
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	0.00
E. Total Nonfederal Liabilities	\$ 385,581,916,358.93	\$ 427,889,324,443.49
3. Total Liabilities Not Covered by Budgetary Resources	\$ 385,581,916,358.93	\$ 427,889,324,443.49
4. Total Liabilities Covered by Budgetary Resources	\$ 131,740,600,092.74	\$ 110,979,551,179.78
5. Total Liabilities	\$ 517,322,516,451.67	\$ 538,868,875,623.27

Information Related to Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are amounts for which the Medicare-Eligible Retiree Health Care Fund has no assets available, nor are these liabilities due and payable, in the current fiscal year.

The Military Retirement and Other Federal Employment Benefits not covered by budgetary resources represent health benefit liabilities of \$385.6 billion. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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As of June 30	2008			2007
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 65,212,097.87	\$ N/A	\$ 65,212,097.87	\$ 70,376,622.11
2. Nonfederal Payables (to the Public)	193,845,353.80	0.00	193,845,353.80	163,747,001.16
3. Total	\$ 259,057,451.67	\$ 0.00	\$ 259,057,451.67	\$ 234,123,623.27

Information Related to Accounts Payable

The MERHCF's system does not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue and accounts receivable. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13.	Debt
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As of June 30	2008			2007	
	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 June 30	2008			2007	
	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—Non-BRAC					
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. Asbestos	0.00	0.00	0.00		0.00
5. Non-Military Equipment	0.00	0.00	0.00		0.00
6. Other	0.00	0.00	0.00		0.00
C. Base Realignment and Closure Installations					
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. Asbestos	0.00	0.00	0.00		0.00
5. Non-Military Equipment	0.00	0.00	0.00		0.00
6. Other	0.00	0.00	0.00		0.00
D. Environmental Disposal for Military Equipment / Weapons Programs					
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0.00	0.00	0.00		0.00
2. Non-Nuclear Powered Military Equipment	0.00	0.00	0.00		0.00
3. Other National Defense Weapons Systems	0.00	0.00	0.00		0.00
4. Other	0.00	0.00	0.00		0.00
E. Chemical Weapons Disposal Programs					
1. Chemical Agents and Munitions Destruction (CAMD)	0.00	0.00	0.00		0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	0.00	0.00	0.00		0.00
3. Other	0.00	0.00	0.00		0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00

Environmental Disclosures

As of June 30	2008	2007
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. 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 June 30	2008			2007	
	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	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00	0.00
F. Custodial Liabilities	0.00	0.00	0.00	0.00	0.00
G. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00	0.00	0.00
H. Other Liabilities	0.00	0.00	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
2. Nonfederal					
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
B. Advances from Others	0.00	0.00	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities					
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00	0.00
I. Contract Holdbacks	0.00	0.00	0.00	0.00	0.00
J. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00	0.00	0.00
K. Contingent Liabilities	0.00	0.00	0.00	0.00	0.00
L. Other Liabilities	0.00	0.00	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
3. Total Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00

Capital Lease Liability

As of June 30	2008				2007	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2008	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2009	0.00	0.00	0.00	0.00	0.00	0.00
C. 2010	0.00	0.00	0.00	0.00	0.00	0.00
D. 2011	0.00	0.00	0.00	0.00	0.00	0.00
E. 2012	0.00	0.00	0.00	0.00	0.00	0.00
F. 2013	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

Not Applicable

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

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2008				2007
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	516,479,229,000.00	6.0	(130,897,312,641.07)	385,581,916,358.93	538,032,547,000.00
D. Total Pension and Health Actuarial Benefits	\$ 516,479,229,000.00		\$ (130,897,312,641.07)	\$ 385,581,916,358.93	\$ 538,032,547,000.00
2. Other Actuarial Benefits					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 584,230,000.00		\$ (584,230,000.00)	\$ 0.00	\$ 602,205,000.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 517,063,459,000.00		\$ (131,481,542,641.07)	\$ 385,581,916,358.93	\$ 538,634,752,000.00

Actuarial Cost Method Used: See below

Assumptions: See below

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

Information Related to Military Retirement and Other Federal Employment Benefits

The Medicare-Eligible Retiree Health Care Fund (MERHCF) actuarial liabilities are only adjusted each fiscal year end. The 3rd Quarter, FY 2008, balances represent the September 2007 amount.

The MERHCF accumulates funds to pay for health care programs for Medicare-eligible Military and other Uniformed Service retirees and their Medicare-eligible dependents or survivors.

Administrative costs of MERHCF are not ascertainable.

The Other Federal Employment Benefits, which represent incurred-but-not-reported costs, are an actuarially determined estimate of incurred liabilities for already-provided covered medical services for which a health care claim had not been received by the end of the 3rd Quarters of FY 2007 and FY 2008.

Actuarial Cost Method

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

Projected Revenues

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

Assumptions

Assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. The discount rate used was 6.0% and represents the expected long-term rate of return on U.S. Treasuries. The discount rate was reduced 0.25% from the prior actuarial valuation. Incurred cost assumptions for direct care were based on actual experience in FY 2006. Assumptions for purchased care were developed from actual experience incurred during FY 2004 through FY 2006. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year's results. The FY 2007 change in the actuarial liability is displayed below. In calculating the actuarial liabilities, the following medical trend assumptions were used:

<u>Medical Trend</u>	<u>FY 2006 - FY 2007</u>	<u>Ultimate Rate 2031</u>
Medicare Inpatient	6.74%	6.25%
Medicare Outpatient	6.54%	6.25%
Medicare Prescriptions (Direct Care)	6.25%	6.25%
Medicare Prescriptions (Purchased Care)	10.95%	6.25%

The medical cost trend rate assumptions have a significant effect on the amounts reported. For example, if the FY 2007 assumed rates had increased by one percentage point, the actuarial present value of projected plan benefits would have increased by 28%, or approximately \$144.1 billion.

FY 2007 Change in MERHCF Actuarial Liability

(\$ in Thousands)

a	Actuarial Liability as of September 30, 2006 (all Uniformed Services Medicare)	\$ 538,032,547
b	Expected Normal Cost for FY 2007	10,801,402
c	Expected Benefit Payments for FY 2007	(8,494,519)
d	Interest Cost for FY 2007	34,040,697
e	Actuarial (Gains)/Losses Due to Other Factors	(4,783,551)
f	Actuarial (Gains)/Losses Due to Changes in Trend Assumptions	(53,117,437)
g	Actuarial Liability as of September 30, 2007 (all Uniformed Services Medicare)	\$ <u>516,479,229</u>
h	Change in Actuarial Liability (line g-line a)	\$ <u>(21,553,318)</u>

Each year the actuarial liability is expected to increase with normal (or service) cost, decrease with benefit payments, and increase with interest cost (interest on the liability during the period), resulting in an expected increase of \$36.3 billion in the FY 2007 actuarial liability (line b plus line c plus line d). The September 30, 2007, actuarial liability includes changes due to new assumptions and actuarial experience. The actuarial gain due to the new medical trend assumptions decreased the liability by \$53.1 billion (line f). The Actuarial Gains and Losses Due to Other Factors, line e, decreased the liability by an additional \$4.8 billion. These other factors (line e) also include new population data, a 0.25% decrease in the discount rate, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions and discount rate.

FY 2007 Actuarial Liability for the Uniformed Services

The MERHCF liability included Medicare liabilities for all Uniformed Services. The approximate breakout of the September 30, 2007, Medicare liability (\$ in thousands) for all Uniformed Services is as follows:

DoD	\$ 505,103,001
Coast Guard	10,216,768
Public Health Service	1,086,666
National Oceanic and Atmospheric Administration	72,794
Total	\$ <u>516,479,229</u>

FY 2007 Military Service and Other Uniformed Service Contributions

The FY 2007 Military Service and other Uniformed Service contributions to MERHCF (\$ in thousands) were as follows:

DoD	\$ 11,230,630
Coast Guard	278,704
Public Health Service	36,288
National Oceanic and Atmospheric Administration	1,820
Total	\$ <u>11,547,442</u>

Market Value of MERHCF's Securities

The market value of MERHCF's nonmarketable market-based securities as of June 30, 2008, totaled \$136.5 billion.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of June 30	2008	2007

As of June 30	2008	2007
1. Intragovernmental Costs	\$ 1,805,596,904.07	\$ 1,828,310,012.80
2. Public Costs	4,120,436,802.24	3,877,120,044.67
3. Total Costs	\$ 5,926,033,706.31	\$ 5,705,430,057.47
4. Intragovernmental Earned Revenue	\$ (29,611,488,198.11)	\$ (30,295,751,037.71)
5. Public Earned Revenue	0.00	0.00
6. Total Earned Revenue	\$ (29,611,488,198.11)	\$ (30,295,751,037.71)
7. Net Cost of Operations	\$ (23,685,454,491.80)	\$ (24,590,320,980.24)

Information Related to the Statement of Net Cost

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. For the Medicare-Eligible Retiree Health Care Fund (MERHCF), these costs include amounts paid to the military treatment facilities (MTF) and the Defense Logistics Agency.

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity. For MERHCF, these costs include payments to medical facilities and providers other than MTFs (e.g., hospitals, clinics, physicians, and retail pharmacies); bad debt expense, reduction in expenses due to refunds, the change in the incurred-but-not reported claim reserve, and the change in the actuarial liability.

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

The MERHCF's system does not track intragovernmental transactions by customer at the transaction level. Therefore, internal Department of Defense buyer-side balances are adjusted to agree with internal seller-side balances for revenue. Expenses were adjusted by reclassifying amounts between federal and nonfederal expenses.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of June 30	2008		2007	
	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. Other	0.00	0.00	0.00	0.00
F. IntraEntity	0.00	0.00	0.00	0.00
G. Total Imputed Financing	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Information Related to the Statement of Changes in Net Position

There was a difference of \$32.4 billion between Appropriations Received on the Statement of Changes in Net Position and Appropriations Received on the Statement of Budgetary Resources (SBR). This difference is due to additional resources included in the Appropriations Received line on SBR. Refer to Note 20, Disclosures Related to SBR, for additional details.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2008	2007
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 400,076,710.69	\$ 444,114,767.15
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Information Related to the Statement of Budgetary Resources

The Medicare-Eligible Retiree Health Care Fund (MERHCF) reported \$6.3 billion in direct, Category B obligations. Category B obligations are apportioned funds that relate to a specific project or program.

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

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

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

There was a difference of \$32.4 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) and Appropriations Received on SBR. Nonrevolving trust funds receipts, immediately available for obligation, are reported as exchange revenue and included in the cost of operations on SCNP. The MERHCF current receipts total \$29.7 billion and the remaining \$2.7 billion represents anticipated amounts. The anticipated amount is the difference between the President's Budget, which includes projected interest revenue, and actual receipts including actual interest revenue. The MERHCF uses the President's Budget until such time as receipts exceed the budget amount, or the end of the fiscal year, whichever occurs first.

In FY 2007, the Military Services (Army, Navy, Air Force, and Marines) contributions should not have been included in distributed offsetting receipts; therefore, this line was overstated. In 4th Quarter, FY 2007, MERHCF removed the Military Services contribution from the distributed offsetting receipts.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of June 30	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 6,259,921,988.78	\$ 6,033,281,901.75
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	\$ 6,259,921,988.78	\$ 6,033,281,901.75
4. Less: Offsetting receipts (-)	(18,165,864,616.73)	(30,295,751,037.71)
5. Net obligations	\$ (11,905,942,627.95)	\$ (24,262,469,135.96)
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	\$ 0.00	\$ 0.00
11. Total resources used to finance activities	\$ (11,905,942,627.95)	\$ (24,262,469,135.96)
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 (-)	\$ (287,941,141.46)	\$ (319,317,161.17)
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior Periods (-)	(41,188,000.00)	(2,459,000.00)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (329,129,141.46)	\$ (321,776,161.17)
18. Total resources used to finance the Net Cost of Operations	\$ (12,235,071,769.41)	\$ (24,584,245,297.13)

DoD Medicare-Eligible Retiree Health Care Fund

As of June 30			2008	2007
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	\$	0.00	\$	0.00
Components not Requiring or Generating Resources:				
25. Depreciation and amortization	\$	0.00	\$	0.00
26. Revaluation of assets or liabilities (+/-)		0.00		0.00
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		(11,445,623,581.38)		0.00
27b. Cost of Goods Sold		0.00		0.00
27c. Operating Material and Supplies Used		0.00		0.00
27d. Other		(4,759,141.01)		(6,075,683.11)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	(11,450,382,722.39)	\$	(6,075,683.11)
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$	(11,450,382,722.39)	\$	(6,075,683.11)
30. Net Cost of Operations	\$	(23,685,454,491.80)	\$	(24,590,320,980.24)

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

Beginning 4th Quarter, FY 2007, the Department started presenting the Statement of Financing (SOF) as a note in accordance with the Office of Management and Budget Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as a "Reconciliation of Net Cost of Operations to Budget."

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

Components not Requiring or Generating Resources – Other displays the changes in accounts receivables for both FY 2007 and FY 2008. These amounts represent refunds receivable for duplicate or other erroneous MERHCF payments made to contractors for care of the beneficiaries and for copayments from MERHCF beneficiaries for prescriptions. These refunds receivable are recorded as an offset to expenses. This line also displays the changes in bad debts for both FY 2007 and FY 2008. These bad debts occurred because erroneous payments made to MERHCF beneficiaries or to nonfederal providers of medical services were not repaid.

Note 22.

Disclosures Related to Incidental Custodial Collections

Not Applicable

DoD Medicare-Eligible Retiree Health Care Fund

Note 23.

Earmarked Funds

BALANCE SHEET
As of June 30, 2008

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0.00	\$ 5,000,000.00	\$ 0.00	\$ 0.00	\$ 5,000,000.00
Investments	0.00	133,190,987,874.77	0.00	0.00	133,190,987,874.77
Accounts and Interest Receivable	0.00	15,152,106.25	0.00	0.00	15,152,106.25
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 133,211,139,981.02	\$ 0.00	\$ 0.00	\$ 133,211,139,981.02

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 517,063,459,000.00	\$ 0.00	\$ 0.00	\$ 517,063,459,000.00
Other Liabilities	0.00	259,057,451.67	0.00	0.00	259,057,451.67
Total Liabilities	\$ 0.00	\$ 517,322,516,451.67	\$ 0.00	\$ 0.00	\$ 517,322,516,451.67
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	(384,111,376,470.65)	0.00	0.00	(384,111,376,470.65)
Total Liabilities and Net Position	\$ 0.00	\$ 133,211,139,981.02	\$ 0.00	\$ 0.00	\$ 133,211,139,981.02

STATEMENT OF NET COST

For the period ended June 30, 2008

Program Costs	\$ 0.00	\$ 5,926,033,706.31	\$ 0.00	\$ 0.00	\$ 5,926,033,706.31
Less Earned Revenue	0.00	(29,611,488,198.11)	0.00	0.00	(29,611,488,198.11)
Net Program Costs	\$ 0.00	\$ (23,685,454,491.80)	\$ 0.00	\$ 0.00	\$ (23,685,454,491.80)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ (23,685,454,491.80)	\$ 0.00	\$ 0.00	\$ (23,685,454,491.80)

DoD Medicare-Eligible Retiree Health Care Fund

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

Information Related to Earmarked Funds

Public Law 106-398 authorized the establishment of the Medicare-Eligible Retiree Health Care Fund (MERHCF). The MERHCF accumulates funds to finance, on an actuarially sound basis, liabilities of the Department of Defense and the Uniformed Services health care programs for specific Medicare-eligible beneficiaries. The MERHCF receives its appropriations and funds as special and earmarked funds and uses these appropriations and funds to execute its mission and report on resource usage.

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

Note 24.	Other Disclosures
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As of June 30	2008 Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

2008	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
2011		0.00		0.00		0.00		0.00
2012		0.00		0.00		0.00		0.00
2013		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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Not Applicable.

Note 25.	Restatements
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Not Applicable.