



A MESSAGE *from the* CHIEF FINANCIAL OFFICER

I take pleasure in joining the Director in presenting the FY2006 PAR for the U.S. OPM. The report provides information to the President and the Congress on our use of financial resources to provide human capital leadership to the Federal Government. We carry out our stewardship responsibilities over the \$700 billion dollars in the Federal Employees earned benefit trust funds with pride, and are honored to safeguard these assets on behalf of Federal employees, retirees, their survivors and families against waste fraud and abuse.

Our continuing success in financial management results from the coordinated efforts of all of our program and financial managers supported by our accounting and actuarial teams. We work to provide accurate, timely and useful financial information to decision makers and our customers, and our consolidated financial statements have received an unqualified, or clean, audit opinion from our independent public accountants, KPMG LLP, for the seventh year in succession. Our Retirement, Health Benefits and Life Insurance financial statements also received clean opinions independently. These opinions show our financial status and results to be reported fairly and free of material misstatement. For the second consecutive year, we received a financial statement audit opinion with no material weaknesses in internal control over financial reporting.

This year, we successfully implemented the requirements of the revised OMB Circular A-123, Management's Responsibility for Internal Control. This required the timely completion of a rigorous assessment, documentation and testing of our procedures and controls over financial reporting that found no material internal control weaknesses.

For FY 2007, OPM will continue to work to improve our financial management and work with our partners to modernize our financial systems. The Agency is firmly on course toward achieving green in the Improved Financial Performance and Eliminating Improper Payments initiatives under PMA remains a high priority.

This is my last PAR as CFO of OPM. For the past 4 years I have greatly valued the opportunity to work with my financial management colleagues to succeed in meeting critical goals. I would also like to pay tribute to my former Deputy Evelyn Brown without whom the accomplishments of this past year would have been impossible. Together we are very proud of the improvements in financial management implemented at OPM and we expect those left behind to both maintain and build on our accomplishments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Clarence C. Crawford'.

Clarence C. Crawford
Chief Financial Officer



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

November 13, 2006

Report No. 4A-CF-00-06-045

MEMORANDUM FOR LINDA M. SPRINGER

Director

FROM: PATRICK E. McFARLAND
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland".

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2006 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2006 Consolidated Financial Statements and the results of the Office of Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program (RP), Health Benefits Program (HBP), Life Insurance Program (LP), Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

Audit Reports on Financial Statements, Internal Controls and Compliance with Laws and Regulations

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit the consolidated financial statements of OPM as of September 30, 2006 and for the fiscal year then ended. The contract requires that the audit be done in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 06-03, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2006 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- There were no material weaknesses identified in the internal controls. A material weakness is a condition in which the design or operation of an internal control does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period.

However, KPMG's report did identify four reportable conditions:

- Information systems general control environment;
- Financial information received from experience-rated and life insurance carriers;
- Financial management and reporting processes of the Office of the Chief Financial Officer (OCFO); and
- Managerial cost accounting to determine full cost associated with strategic goals and major outcomes.

A reportable condition represents a significant deficiency in the design or operation of internal controls that could adversely affect OPM's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements.

- KPMG's report on compliance with certain provisions of laws and regulations disclosed the following instances of non-compliance or other matters:
 - Prompt Payment Act of 1982 (OPM), and
 - Other matters related to the Federal Financial Management Improvement Act of 1996 (W and S&E only).

OIG Evaluation of KPMG's Audit Performance

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2006 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;

- examined its working papers related to planning the audit and assessing internal controls over the financial reporting process;
- reviewed KPMG's audit reports to ensure compliance with Government Auditing Standards;
- coordinated issuance of the audit report; and
- performed other procedures we deemed necessary.

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 6, 2006, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted GAS.

In accordance with the OMB Circular A-50 and Public Law 103-355, all audit findings must be resolved within six months of the date of this report. In order to ensure audit findings are resolved within the required six-month period, we are asking that the OCFO respond directly to the OIG within 90 days of the date of this report advising us whether they agree or disagree with the audit findings and recommendations. As stated in OMB Circular A-50, where agreement is indicated, the OCFO should describe planned corrective action. If the OCFO disagrees with any of the audit findings and recommendations, they need to explain the reason for the disagreement and provide any additional documentation that would support their opinion.

In closing, we would like to congratulate OPM's financial management staff for once again issuing the consolidated financial statements by the November 15 due date. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG's audit, and the OIG's oversight of the financial statement audit this year. If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2 143.

cc: Clarence C. Crawford
Chief Financial Officer



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Director and Inspector General
U.S. Office of Personnel Management:

We have audited the accompanying balance sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements"), for the years then ended. We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2006 and 2005, and the related individual statements of net cost, changes in net position, budgetary resources, and financing (hereinafter referred to as the Programs' "individual financial statements"), for the years then ended.

The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year audit, we also considered OPM's and the Programs' internal control over financial reporting and key performance measures and tested OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that OPM's consolidated financial statements and the Programs' individual financial statements as of and for the years ended September 30, 2006 and 2005, as presented in OPM's *Fiscal Year 2006 Performance and Accountability Report*, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting and performance measures resulted in the following conditions being identified as reportable conditions:

1. Information systems general control environment. (OPM and the Programs)
2. Financial information received from experience-rated and life insurance carriers. (OPM and the Health Benefits and Life Insurance Programs)
3. Financial management and reporting processes of the Office of Chief Financial Officer (OCFO). Revolving Fund Program (RF Program) and Salaries and Expenses (S&E) Fund
4. Managerial cost accounting to determine full cost associated with strategic objectives and major outcomes. (RF Program and S&E Fund)

However, none of the reportable conditions are believed to be material weaknesses.

KPMG LLP, A U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative



The results of our tests of compliance with certain provisions of laws, regulations, and contracts, disclosed the following instances of non-compliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin Number (No.) 06-03, *Audit Requirements for Federal Financial Statements*:

5. Prompt Payment Act (OPM)
6. Other matters related to Federal Financial Management Improvement Act (FFMIA) (RF Program and S&E Fund)

The following sections discuss our opinion on OPM's consolidated financial statements and the Programs' individual financial statements, our consideration of OPM's and the Programs' internal control over financial reporting and performance measures, our tests of OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2006 and 2005, and the related individual statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2006 Performance and Accountability Report*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2006 and 2005, and the consolidated and individual Programs' net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 12 to the financial statements, OPM changed its method of reporting earmarked funds to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005. Also, as discussed in Note 13 to the financial statements, OPM changed its method of accounting for its annual transfer-in from the U.S. Treasury, effective October 1, 2005.

The information in the Management Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2006 Performance and Accountability Report* is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and OMB Circular No. A-136, Financial Reporting Requirements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the RF Programs and S&E Funds included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2006 Performance and Accountability Report* (Schedules 1 through 5) are presented



for purposes of additional analysis of the consolidated financial statements of OPM rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the individual Funds. The financial statements of the Funds have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material respects in relation to OPM's consolidated financial statements taken as a whole.

In addition, the statement of net cost information of Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) included in the consolidating statement of net cost (Schedule 2) and the changes in net position and budgetary resources of the Retirement and Retirement Feeder funds included in the consolidating statement of changes in net position and the combining statement of budgetary resources (Schedules 6 and 7) are presented for purposes of additional analysis of the consolidated financial statements of OPM and the individual financial statements of the Retirement Program rather than to present the net costs of the CSRS and FERS funds and the change in net position and budgetary resources of the Retirement and Retirement Feeder funds. The consolidating information of the CSRS and FERS and the Retirement and Retirement Feeder funds have been subjected to the auditing procedures applied in the audit of OPM's consolidated financial statements and the individual financial statements of the Retirement Program, in our opinion is fairly stated in all material respects in relation to OPM's consolidated statements of net cost and changes in net position and combined statement of budgetary resources and the individual statements of net cost and changes in net position and combining statement of budgetary resources of the Retirement Program taken as a whole.

FY 2006 Performance Information (Part B), Other Accompanying Information (Part D), and Appendices A, B and C are an integral part of OPM's Fiscal Year 2006 *Performance and Accountability Report*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. The information in the FY 2006 Performance Information, Other Accompanying Information, and Appendices A, B and C has not been subjected to the auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect OPM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated and Programs' individual financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, described in Items 1 through 4 below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weaknesses. Exhibit I presents the status of prior year reportable conditions.



1. Information systems general control environment

The OCFO continues to make progress in enhancing its technology and information security infrastructure for OPM and the Programs. However, the OCFO needs to strengthen certain entity-wide security controls, access controls, and change control processes to strengthen their IT General Controls.

Recommendation

We recommend that the OCFO continue the implementation of planned enhancements to its information technology infrastructure. The continued implementation of planned enhancements will assist in enhancing agency-wide monitoring of critical IT resources to prevent and detect unauthorized use.

Management Response

OPM concurs with the recommendation and will continue to implement security controls, to include entitywide security controls, access controls, and change control processes in accordance with FISMA and National Institute for Standards and Technology, Special Publication 800-53.

2. Financial information received from experience-rated and life insurance carriers

OPM relies on unaudited financial information from experience-rated and life insurance carriers to include in its consolidated and Health Benefit and Life Insurance Programs' individual financial statements. While we were able to satisfy ourselves with regard to this information, we noted that:

- a. OPM lacks documented policies and procedures to timely validate the completeness, accuracy, existence and valuation of financial information received from experience-rated and life insurance carriers;
- b. OPM lacks policies and procedures to assess the internal controls over processing and reporting transactions of the experience-rated and life insurance carriers.

According to OMB Circular A-123, Federal agencies are responsible for the stewardship of Federal resources and establishing and maintaining effective internal controls. Without appropriate policies, procedures and internal controls, the financial information from the experience-rated and life insurance carriers may be misstated.

Recommendation

We recommend that OPM develop, document and implement policies and procedures, to include internal controls, to assess and validate financial information received from experience-rated and life insurance carriers included in its fiscal year end consolidated and Health Benefit and Life Insurance Programs' individual financial statements, before issuance of the fiscal year Performance and Accountability Report (PAR).

These policies and procedures should include a review of the experience-rated and life insurance carriers to assess whether appropriate internal controls are in place and effective as of and for the fiscal year end, before the issuance of the PAR.

Management Response

OPM concurs with the recommendation and will strengthen the process to monitor the accuracy and completeness of amounts reported by MetLife and the ERCs in the Schedule of Selected Balances, and will perform analytical procedures during the year to assess those analyses. OPM will work with the carriers to



ensure there is sufficient reporting to assess carrier controls over accounting and reporting, and will properly document the resulting policies and procedures.

3. Financial Management and Reporting Process of the Office Chief Financial Officer

Certain deficiencies in the operation of the OCFO's internal control over financial management and reporting, affecting the accuracy of the RF Programs and S&E Funds, continue to exist at OPM. Specifically:

- a. The Government Financial Information System (GFIS) does not properly capture certain financial information and is not properly configured to produce useful financial reports that provide accurate information regarding related intragovernmental activities and balances.
- b. Reconciliations are not consistently or always clearly documented and are not always performed in a timely manner.
- c. Manual entries are made to adjust for unidentified differences between the total trial balance as reported in GFIS and the balance as reported on the Undisbursed Appropriation Account Trial Balance (FMS 6533).

According to OM. Circular A-123, transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for documentation.

Deficiencies in the ability to record, process, summarize and report financial data for the RF Programs and S&E Fund may misstate the financial statements.

Recommendation

The OCFO should continue implementation of its corrective action plan. Further, we recommend that:

- a. OPM consider implementing a new accounting system or modify the existing accounting system, as appropriate, to ensure that all financial information is properly captured and is properly configured to produce useful financial reports that provide accurate information regarding related intra-governmental activities and balances.
- b. OPM continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury.
- c. OPM OCFO management actively enforce procedures regarding the documentation and timely performance of reconciliations in accordance with guidelines outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures".

Management Response

OPM acknowledges the deficiencies in its internal control over financial management and reporting as it pertains to the RF Programs and S&E Funds and concurs fully with each of our recommendations. Many of these deficiencies are attributable, as the report correctly points out, to GFIS, which cannot be effectively configured to capture essential financial information and generate useful accurate financial information related to intragovernmental activities and balances. The deficiencies in GFIS have prompted OPM to work with OMB to recompute the software, integration hosting and application of a new financial system to support RF Programs and S&E Funds. In the meantime, OPM will take the necessary actions to correct each of the specific deficiencies.



4. Managerial cost accounting to determine full cost associated with strategic objectives and major outcomes

OPM's information technology systems are not designed or configured in a way that allows the accumulation of RF Programs and S&E Funds costs from the responsibility segment "Provide Human Resource Services" to its seven strategic objectives. Instead, OPM manually aggregated data within the system to derive the amount of costs for each strategic objectives. According to SFFAS No. 4, *The Managerial Cost Accounting Concepts and Standards for the Federal Government*, "costs may be accumulated through the use of cost accounting systems or through the use of cost finding techniques. A cost accounting system is an organized grouping of methods and activities designed to consistently produce reliable cost information."

Recommendation

We recommend that OPM utilize its integrated information systems to capture and report the costs of services and products that each responsibility segment produces and delivers. The costs should be aligned with OPM's strategic objectives including the major objectives and outputs of the programs and activities.

Management Response

OPM concurs with the recommendation. The GFIS financial system cannot be reconfigured to meet fully the management cost accounting standards. OMB has given OPM to recompile software, integration, hosting and application management to support the RF Programs and S&E Funds. During the migration to a new system, OPM will provide for managerial cost accounting in its requirements definitions.

INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a key performance measure or aggregation of related key performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

We also noted other matters involving internal control over financial reporting and its operation and performance measures that we have reported to the management of OPM in a separate letter dated November 6, 2006.



COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, and contracts as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and is described below.

5. Prompt Payment Act

OPM does not have adequate controls to ensure a properly determined prompt payment date. As such, OPM did not make certain payments for property or services, excluding payments to their contractors associated with performing investigations and purchase and travel card transactions, within the proper time period in accordance with the Prompt Payment Act. In certain instances, OPM did not pay the interest penalty due to the improper determination of the prompt payment date.

The cause for noncompliance is due to several factors, which include lack of:

- Designed and implemented controls to ensure that the receipt of each invoice and the corresponding acceptance of goods and services is properly documented and recorded in the GFIS; and
- Adequate training to responsible personnel on a periodic basis.

Recommendation

We recommend OPM:

- Enforce documented policies and procedures which include internal control, regarding the Prompt Payment Act and specifically ensure that the program offices document the date the invoice is received and the date of acceptance of goods, and
- Provide regular training on the application of Prompt Payment Act policies and procedures.

Management Response

OPM concurs with the recommendations and agrees that the Prompt Payment Act area is one for which additional attention is required. OPM will continue its training and work with program offices and financial staff to optimize its performance in this critical area.

The results of our tests of compliance with certain provision of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed no instance in which OPM's or the Programs' financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report. The results of our tests did disclose two other matters regarding FFMIA related to the RF Program and S&E Funds, as described below.

6. Other matters related to Federal Financial Management Improvement Act of 1996 (FFMIA)

a. Federal Accounting Standards—

In accordance with FFMIA, as amended, OPM is to prepare financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purposes that are consistent with Federal accounting standards. The reportable conditions noted above,



“Financial Management and Reporting Process of the OCFO” and “Managerial Cost Accounting to determine full cost associated with strategic objectives and major outcomes”, resulted in OPM preparing financial statements and related disclosures, along with other financial information for agency management decision-making, related to the RF Programs and S&E Funds accounts that are not consistent with Federal accounting standards, specifically the SFFAS No. 1, Accounting for Selected Assets and Liabilities and No. 4, The Managerial Cost Accounting Concepts and Standards for the Federal Government. The RF Programs and S&E Funds are immaterial to the consolidated financial statements as a whole.

b. United States Standard General Ledger at the Transaction Level—

In accordance with OMB Circular A-127, *Financial Management Systems*, as amended, OPM is to record financial events consistent with the applicable definitions, attributes, and processing rules defined in the USSGL at the transaction level. While improvements have been made, the OCFO does not consistently record RF Programs and S&E Funds transactions at the USSGL level to support the RF Programs and S&E Funds financial statements at the transaction level.

Recommendation

We recommend OPM review the GFIS system and related processes and procedures to enable the OCFO to account for the RF Programs and S&E Funds’ transactions in accordance with the USSGL at the transaction level in fiscal year 2007. The OCFO should develop policies and procedures to prepare financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purpose that are consistent with Federal accounting standards.

Management Response

OPM concurs with the recommendation. The GFIS financial system cannot be reconfigured to meet fully the requirements of FFMIA. OMB has given OPM approval to recompile software, integration, hosting and application management to support the RF Programs and S&E Funds. For its migration to a new system, OPM will ensure that its requirements definitions and implementation are consistent with FFMIA.

RESPONSIBILITIES

Management’s Responsibilities

The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, OPM prepares and submits annual financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the financial statements, including:

- Preparing the consolidated financial statements of OPM and the individual financial statements of the Programs in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management Discussion and Analysis (including the performance measures), and Required Supplementary Information;
- Establishing and maintaining internal controls;
- Complying with laws, regulations, and contracts, including FFMIA.



In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the overall consolidated and Programs' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated and Programs' individual financial statement presentation.

We believe that our audits provide a reasonable basis for our opinions.

In planning and performing our fiscal year 2006 audit, we considered OPM's and the Programs' internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on OPM's consolidated financial statements and the individual financial statements of the Programs. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, we considered OPM's and the Programs' internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determine whether these controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2006 consolidated and the Programs' fiscal year 2006 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin



No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audits and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether OPM's and the Programs' financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended solely for the information and use of OPM's management, OPM's Office of the Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 6, 2006

PART C—FINANCIAL INFORMATION

Exhibit I

No.	Title of Finding from FY05 Report	Program/Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OcFO)	Salaries and Expenses (S&E), Revolving Fund (RF) Program	Reportable Condition	Reportable Condition—See FY 2006, Condition 3	OPM has made improvements, however, deficiencies still exist because of system limitations.
2	Information Systems General Control Environment	All ¹	Reportable Condition	Reportable Condition—See FY 2006, Condition No. 1	OPM has made continual annual improvements on a whole to Information Systems General Control Environment, however, deficiencies still exist.
3	Managerial cost accounting to determine full cost associated with strategic goals and major outcomes	S&E and RF	Reportable Condition	Reportable Condition—See FY 2006, Condition No. 4	OPM has made improvements, however, deficiencies still exist because of system limitations.

¹ Includes the Retirement Program, Health Benefits Program (HBP), Life Insurance Program, Revolving Fund (RF) Programs and Salaries and Expenses Funds.

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED BALANCE SHEET As of September 30, 2006 (In Millions)	
	2006
ASSETS	
Intragovernmental:	
Fund Balance with Treasury [Note 2]	\$1,254
Investments [Note 3]	745,341
Accounts Receivable [Note 4]	1,391
Total Intragovernmental	747,986
Accounts Receivable from the Public, Net [Note 4]	1,090
General Property and Equipment, Net	12
Other [Note 1L]	637
TOTAL ASSETS	\$749,725
LIABILITIES	
Intragovernmental	\$662
Federal Employee Benefits:	
Benefits Due and Payable	8,758
Pension Liability [Note 5A]	1,286,600
Postretirement Health Benefits Liability [Note 5B]	286,279
Actuarial Life Insurance Liability [Note 5C]	33,556
Total Federal Employee Benefits	1,615,193
Other [Notes 6 and 11]	1,050
Total Liabilities	1,616,905
NET POSITION	
Unexpended Appropriations—Other Funds	85
Cumulative Results of Operations—Earmarked Funds [Note 12]	(867,285)
Cumulative Results of Operations—Other Funds	20
Total Net Position	(867,180)
TOTAL LIABILITIES AND NET POSITION	\$749,725

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT
 CONSOLIDATED BALANCE SHEET
 As of September 30, 2005
 (In Millions)

2005

<i>ASSETS</i>	
Intragovernmental:	
Fund Balance with Treasury [Note 2]	\$1,189
Investments [Note 3]	712,050
Accounts Receivable [Note 4]	1,366
Total Intragovernmental	714,605
Accounts Receivable from the Public, Net [Note 4]	1,036
General Property and Equipment, Net	12
Other [Note 1L]	732
TOTAL ASSETS	\$716,385
 <i>LIABILITIES</i>	
Intragovernmental	\$586
Federal Employee Benefits:	
Benefits Due and Payable	8,572
Pension Liability [Note 5A]	1,214,900
Postretirement Health Benefits Liability [Note 5B]	281,558
Actuarial Life Insurance Liability [Note 5C]	32,263
Total Federal Employee Benefits	1,537,293
Other [Notes 6 and 11]	1,025
Total Liabilities	1,538,904
 <i>NET POSITION</i>	
Unexpended Appropriations	82
Cumulative Results of Operations	(822,601)
Total Net Position	(822,519)
TOTAL LIABILITIES AND NET POSITION	\$716,385

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED STATEMENTS OF NET COST For the Years Ended September 30, 2006 and 2005 (In Millions)			
		2006	2005
Provide CSRS Benefits	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public	\$93,296	\$68,461
	Total Gross Costs	<u>93,296</u>	<u>68,461</u>
	Intragovernmental Earned Revenue	(27,829)	(28,381)
	Earned Revenue with the Public	(2,908)	(3,112)
	Total Earned Revenue	<u>(30,737)</u>	<u>(31,493)</u>
	Total Net Cost	<u>\$62,559</u>	<u>\$36,968</u>
Provide FERS Benefits	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public	\$36,293	\$26,629
	Total Gross Costs	<u>36,293</u>	<u>26,629</u>
	Intragovernmental Earned Revenue	(27,021)	(25,413)
	Earned Revenue with the Public	(1,027)	(958)
	Total Earned Revenue	<u>(28,048)</u>	<u>(26,371)</u>
	Total Net Cost	<u>\$8,245</u>	<u>\$258</u>
Provide Health Benefits	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public	\$35,945	\$49,766
	Total Gross Costs	<u>35,945</u>	<u>49,766</u>
	Intragovernmental Earned Revenue	(16,157)	(15,174)
	Earned Revenue with the Public	(9,112)	(8,448)
	Total Earned Revenue	<u>(25,269)</u>	<u>(23,622)</u>
	Total Net Cost	<u>\$10,676</u>	<u>\$26,144</u>
Provide Life Insurance Benefits	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public	\$3,515	\$3,585
	Total Gross Costs	<u>3,515</u>	<u>3,585</u>
	Intragovernmental Earned Revenue	(1,642)	(1,651)
	Earned Revenue with the Public	(2,088)	(1,907)
	Total Earned Revenue	<u>(3,730)</u>	<u>(3,558)</u>
	Total Net Cost	<u>(\$215)</u>	<u>\$27</u>
Provide Human Resource Services	Intragovernmental Gross Costs	\$106	\$136
	Gross Costs with the Public	934	754
	Total Gross Costs	<u>1,040</u>	<u>890</u>
	Intragovernmental Earned Revenue	(890)	(687)
	Earned Revenue with the Public	(2)	(1)
	Total Earned Revenue	<u>(892)</u>	<u>(688)</u>
	Total Net Cost	<u>\$148</u>	<u>\$202</u>
Total Net Cost of Operations	Intragovernmental Gross Costs	\$106	\$136
	Gross Costs with the Public	169,983	149,195
	Total Gross Costs	<u>170,089</u>	<u>149,331</u>
	Intragovernmental Earned Revenue	(73,539)	(71,306)
	Earned Revenue with the Public	(15,137)	(14,426)
	Total Earned Revenue	<u>(88,676)</u>	<u>(85,732)</u>
	Total Net Cost	<u>\$81,413</u>	<u>\$63,599</u>

The accompanying notes are an integral part of the financial statements

PART C—FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 For the Years Ended September 30, 2006 and 2005
 (In Millions)

	Earmarked Funds	All Other Funds	2006 Consolidated Total	2005 Consolidated Total
<i>CUMULATIVE RESULTS OF OPERATIONS</i>				
Beginning Balances	(\$822,612)	\$11	(\$822,601)	(\$792,814)
Budgetary Financing Sources:				
Appropriations used	36,552	124	36,676	8,070
Transfers-in Without Reimbursement	0	0	0	6
Other	33	0	33	34
OTHER FINANCING SOURCES				
Transfer-in from General Fund	0	-	0	25,618
Other	7	33	40	84
Total Financing Sources	36,592	157	36,749	33,812
Net Cost of Operations	81,265	148	81,413	63,599
Net Change	(44,673)	9	(44,664)	(29,787)
Cumulative Results of Operations	(\$867,285)	\$20	(\$867,265)	(\$822,601)
<i>UNEXPENDED APPROPRIATIONS</i>				
Beginning Balance	-	\$82	\$82	\$49
Budgetary Financing Sources:				
Appropriations Received	\$36,867	124	36,991	8,019
Appropriations Used	(36,552)	(124)	(36,676)	(8,070)
Other Budgetary Financing Sources	(315)	3	(312)	84
Total Budgetary Financing Sources	0	3	3	33
Total Unexpended Appropriations	-	85	85	82
Net Position	(\$867,285)	\$105	(\$867,180)	(\$822,519)

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

**U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2006 and 2005
(In Millions)**

	2006	2005
BUDGETARY RESOURCES		
Unobligated Balance—Brought Forward, October 1:	\$39,283	\$36,083
Recoveries of Prior-Year Unpaid Obligations	16	34
Budget Authority:		
Appropriations:		
Received [Note 13]	36,991	8,019
Other	(320)	58
Appropriated Trust Fund Receipts	87,164	83,691
Spending Authority from Offsetting Collections:		
Collected	38,621	35,841
Change in Receivables from Federal Sources and Unfilled Customer Orders	334	66
<i>Subtotal</i>	<u>38,955</u>	<u>35,907</u>
Nonexpenditure Transfers, Net, Actual	0	6
Temporarily Not Available Pursuant to Public Law	(28,903)	(28,649)
<i>Total Budgetary Resources</i>	<u>\$173,186</u>	<u>\$135,149</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 9 and 13]		
Direct	\$128,419	\$95,182
Reimbursable	1,289	684
<i>Subtotal</i>	<u>129,708</u>	<u>95,866</u>
Unobligated Balance:		
Apportioned	322	126
Unobligated Balance not Available	43,156	39,157
<i>Total Status of Budgetary Resources</i>	<u>\$173,186</u>	<u>\$135,149</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$10,332	\$9,885
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,042	1,984
Total Unpaid Obligated Balance, Net	8,290	7,901
Obligations Incurred, Net [Note 13]	129,708	95,866
Less: Gross Outlays [Note 13]	129,206	95,387
Obligated Balance Transferred, Net	0	10
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	16	34
Change in Uncollected Customer Payments from Federal Sources	334	66
Obligated Balance, Net, End of Period		
Unpaid Obligations	10,818	10,332
Less: Uncollected Customer Payments from Federal Sources	2,376	(2,042)
Total Unpaid Obligated Balance, Net, End of Period	<u>8,442</u>	<u>8,290</u>
NET OUTLAYS		
Net Outlays:		
Gross Outlays [Note 13]	129,206	95,387
Less Offsetting Collections	38,621	35,841
Less: Distributed Offsetting Receipts	28,184	25,652
Net Outlays	<u>\$62,401</u>	<u>\$33,894</u>

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT
 CONSOLIDATED STATEMENTS OF FINANCING
 For the Years Ended September 30, 2006 and 2005
 (In Millions)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	\$129,708	\$95,866
Less: Spending Authority from Offsetting Collections and Recoveries	38,971	35,941
Less: Appropriated Trust Fund Receipts	87,164	83,691
Obligations Net of Offsetting Receipts and Recoveries	3,573	(23,766)
Less: Offsetting Receipts	28,184	25,652
Net Obligations	(24,611)	1,886
Other Resources	40	84
<i>Total Resources Used to Finance Activities</i>	(24,571)	1,970
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Transfer -in From the General Fund [Note 13]	28,151	0
Other	310	(34)
<i>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</i>	28,461	(34)
<i>Total Resources Used to Finance the Net Cost of Operations</i>	3,890	1,936
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Actuarial Liabilities	77,714	61,835
Exchange Revenue not in the Budget	(204)	(225)
<i>Total Components of Net Cost of Operations that Will Require or Generate Resources in the Future Period</i>	77,510	61,610
Components not Requiring or Generating Resources:		
Other	13	53
<i>Total Components of Net Cost of Operations that Will Not Require or Generate Resources</i>	13	53
<i>Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</i>	77,523	61,663
NET COST OF OPERATIONS	\$81,413	\$63,599

The accompanying notes are an integral part of the financial statements.

PART C: FINANCIAL INFORMATION

Notes to Financial Statements

September 30, 2006 and 2005

[In millions]

Note I—Summary of Significant Accounting Policies

A. REPORTING ENTITY

The United States Office of Personnel Management (OPM) is the Federal Government's human resources agency. It was created as an independent agency of the Executive Branch of Government on January 1, 1979. Many of the functions of the former Civil Service Commission were transferred to OPM at that time.

The accompanying financial statements present OPM's financial position, net cost of operations, change in net position, status of budgetary resources, and a reconciliation of its net cost of operations to its budgetary obligations as required by the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA). The financial statements include all accounts—appropriation, trust, trust revolving and revolving funds—under OPM's control. The financial statements do not include the effect of any centrally-administered assets and liabilities related to the Federal Government as a whole, which may in part be attributable to OPM.

The financial statements comprise the following major programs administered by OPM. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are “earmarked funds,” as defined by Statement of Federal Financial Accounting Standards (SFFAS) No. 27—*Identifying and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. See Note 12 – Earmarked Funds for additional information.

Retirement Program. The Program consists of two defined-benefit pension plans: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Together, the two plans cover substantially all full-time, permanent civilian Federal employees. The CSRS, implemented in 1921, is a stand-alone plan, providing benefits to most Federal employees hired before 1984. The FERS, established in 1986, uses Social Security as its base and provides an additional defined benefit and a voluntary thrift savings plan to most employees entering the Federal service after 1983; OPM does not administer the Thrift Savings Plan. Both plans are operated via the Civil Service Retirement and Disability Fund (CSRDF), a trust fund. Title 5, United States Code, Chapters 83 and 84, provide a complete description of the CSRDF's provisions.

Health Benefits Program. The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund. Title 5, United States Code, Chapter 89, provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMOs), which provide or arrange for services on a prepaid basis through designated providers. Most of the contracts of carriers that provide fee-

for-service benefits are *experience-rated*, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated*, so that the amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

Life Insurance Program. The Program provides group term life insurance coverage to Federal employees and retirees. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Employees Group Life Insurance Fund, a trust revolving fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. Title 5, United States Code, Chapter 87 provides a complete description of the fund's provisions. The Program provides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

Revolving Fund Programs. OPM provides a variety of human resource-related services to other Federal agencies, such as pre-employment testing, security investigations, and employee training. These activities are financed through an intragovernmental revolving fund.

Salaries and Expenses. *Salaries and Expenses* provides the budgetary resources used by OPM to administer the Agency. These resources are furnished by annual, multiple-year, and no-year appropriations. Annual appropriations are made for a specified fiscal year and are available for obligation only during that fiscal year. Multiple-year appropriations are available for a definite period in excess of one fiscal year. No-year appropriations are available for obligation without fiscal year limitation.

B. BASIS OF ACCOUNTING AND PRESENTATION

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations of OPM as required by the CFO Act and GMRA. These financial statements have been prepared from the books and records of OPM in accordance with accounting principles generally accepted in the United States of America (GAAP) and Office of Management Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. OPM, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control the OPM's use of budgetary resources.

OPM has presented comparative financial statements for the Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of Changes in Net Position, Combined and Combining Statements of Budgetary Resources, and Consolidated and Consolidating Statements of Financing, in accordance with OMB financial statement reporting guidelines. Certain prior year amounts have been reclassified to conform to current year presentation.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

C. USE OF MANAGEMENT'S ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make certain estimates. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of earned revenues and costs during the reporting period. Actual results could differ from those estimates.

D. FINANCIAL STATEMENT CLASSIFICATIONS

Entity vs. Non-entity Assets. Entity assets are those that the reporting entity has the legal authority to use in its operations. Accordingly, all of OPM's assets are entity assets.

Intragovernmental and Other Balances. Throughout these financial statements, intragovernmental assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. OPM classifies as intragovernmental, those transactions with other Federal entities, including the U.S. Postal Service (USPS). In accordance with Federal accounting standards, OPM classifies employee contributions to the Retirement, Health Benefits and Life Insurance Programs as exchange revenues "from the public." OPM's entire gross cost to provide Retirement, Health and Life Insurance benefits, however, is classified as costs "with the public" because the recipients of these benefits are Federal employee, retirees, and their survivors and families. As a consequence, on the accompanying consolidated Statements of Net Cost and in other notes to OPM's financial statements, OPM reports that there are no intragovernmental gross costs to provide retirement, health and life insurance benefits. The consolidated Statements of Net Cost provides its users with the ability to ascertain whether OPM's exchange revenues are sufficient to cover the total cost it has incurred to provide Retirement, Health and Life Insurance benefits.

Exchange vs. Non-exchange Revenue. Exchange or earned revenue is an inflow of resources to a Government entity that the entity has earned; it arises when each party to a transaction sacrifices value and receives value in return. All of OPM's revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the entity's "predominant source of revenue;" OPM, therefore, classifies it as earned revenue. Employing agency and Participant Contributions to the Retirement, Health Benefits and Life Insurance Programs (as well as the special contributions by the USPS) are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits.

Liabilities Covered by Budgetary Resources. OPM has no authority to liquidate a liability, unless budgetary resources have been made specifically available to do so. Where budgetary resources have not been made available, the liability is disclosed as being "not covered by budgetary resources." Since no budgetary resources have been made available to liquidate the Pension, Postretirement Health Benefits, and Actuarial Life Insurance Liabilities, they are disclosed as being "not covered by budgetary resources." With minor exception, all other OPM liabilities are disclosed as being "covered by budgetary resources."

Net Position. OPM's Net Position is classified into two separate balances. The *Cumulative Results of Operations* comprises OPM's net results of operations since its inception. *Unexpended Appropriations* is the balance of appropriated authority granted to OPM against which no outlays have been made. Beginning in fiscal year 2006, OMB Circular No. A-136, *Financial Reporting Requirements*, requires a new columnar display for the Statement of Changes in Net Position—one column for earmarked funds and another column for all other funds, showing separately earmarked nonexchange revenue and other financing sources, including appropriations, as well as net cost of operations and cumulative results of operations attributable to earmarked funds.

Obligated vs. Unobligated Balance. OPM's Combined Statements of Budgetary Resources present its unobligated and obligated balances as of the end of the fiscal year. The obligated balance reflects the budgetary resources against which OPM has incurred obligations, but has not made outlays. The unobligated balance is the portion of budgetary

resources against which OPM has not yet incurred obligations. OPM’s unexpended balance is the total of its obligated and unobligated balances.

Direct vs. Reimbursable Obligations. A reimbursable obligation reflects the costs incurred to perform services or provide goods that must be paid back by the recipients. OPM classifies all of its incurred obligations as direct, except those of the Revolving Fund Programs, against which only reimbursable obligations may be incurred.

E. NET COST OF OPERATIONS

To derive its net cost of operations, OPM deducts the earned revenues associated with its gross cost of providing benefits and services on the accompanying Consolidated Statements of Net Cost.

Gross Cost of Providing Benefits and Services. OPM’s gross cost of providing benefits and services is classified by responsibility segment. All Program costs (including Salaries and Expenses) are directly traced, assigned, or allocated on a reasonable and consistent basis to one of five responsibility segments. The following table associates OPM’s gross cost by Program to its responsibility segments:

Program	Responsibility Segment
Retirement Program	Provide CSRS Benefits Provide FERS Benefits
Health Benefits Program	Provide Health Benefits
Life Insurance Program	Provide Life Insurance Benefits
Revolving Fund Programs Salaries and Expenses	Provide Human Resources Services

Earned Revenue. OPM has two major sources of earned revenues: earnings on its investments and the contributions to the Retirement, Health Benefits and Life Insurance Programs by and for participants.

F. PROGRAM FUNDING

Retirement Program. Service cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fund fully their future CSRS or FERS benefits. For fiscal years 2006 and 2005, the service cost for most or “regular” CSRS participants is 25.0 percent of pay; for most or “regular” FERS participants, 12.0 percent of pay. Federal accounting standards require that employing agencies recognize an imputed cost for the difference between the amount contributed by and for their participating employees and the service cost of the CSRS and FERS.

CSRS. Both CSRS participants and their employing agencies are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both fiscal years 2006 and 2005. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for fiscal years 2006 and 2005, this amount was \$28.2 and \$25.6, respectively. Additionally, the USPS is required by statute to contribute an amount equal to the service cost of the CSRS less the amount actually contributed by USPS participants. Accordingly, the USPS contributed 18.0 percent of the pay of its participating employees in both 2006 and 2005. The statute also requires the USPS to contribute annually an amount that would amortize over 40 years the “supplemental liability” that has resulted from the CSRS benefits earned by its employees.

FERS. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less

the prevailing Old Age Survivor and Disability Insurance deduction rate; 0.8 percent for most participants for fiscal years 2006 and 2005. The employer contribution rate is equal to the FERS service cost less the participant contribution rate [11.2 percent of pay in fiscal years 2006 and 2005 for most participants]. The total contributions by and for FERS participants [12.0 percent], therefore, fully funded the FERS service cost in both fiscal years 2006 and 2005.

Health Benefits Program. The Program is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). The Program continues to provide benefits to active employees (or their survivors) after they retire (postretirement benefits). With the exception of the USPS, agencies are not required to make contributions for the postretirement coverage of their active employees. These agencies, therefore, must recognize the service cost of providing postretirement health benefits for active employees [\$5,229 and \$4,903 per participant for fiscal years 2006 and 2005, respectively] as an imputed cost.

Life Insurance Program. The Program is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). The Program is funded by means of the “level premium” method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of postretirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2006 and 2005) is not funded. Employing agencies must recognize this amount as an imputed cost.

Revolving Fund Programs. OPM’s Revolving Fund Programs provide for a continuing cycle of human resource services primarily to Federal agencies on a reimbursable basis. Each program is operated at rates established by OPM to be adequate to recover costs over a reasonable period of time. Receipts derived from operations are, by law, available in their entirety for use of the fund without further action by Congress. Since the Revolving Funds Programs charge full cost, customer agencies, as well as responsibility segments within OPM, do not recognize imputed costs.

G. FINANCING SOURCES OTHER THAN EARNED REVENUE

OPM receives inflows of assets from financing sources other than earned revenue. These financing sources are not deducted from OPM’s gross cost of providing benefits and services on the Consolidated Statements of Net Cost, but added to its net position on the Consolidated Statements of Changes in Net Position. OPM’s major financing sources other than earned revenue are:

Transfer-in from the General Fund. The U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part the under-funding of the CSRS. The fiscal year 2006 presentation of this transfer for the Retirement Program in the Statement of Budgetary Resources reflects the change in accounting based on guidance provided by the OMB. Previously, OPM treated this transfer-in as direct financing of the CSRDF on the Statement of Budgetary Resources. See Note 13 for further details.

Appropriations Used. By an act of Congress, OPM receives appropriated authority allowing it to incur obligations and make expenditures to cover the operating costs of the agency (“Salaries and Expenses”) and the Government’s share of the cost of health and life insurance benefits for Retirement Program annuitants. In addition, the U.S. Treasury General Fund transfers an amount annually to the OPM CSRDF to subsidize, in part the under-funding of the CSRDF. OPM recognizes appropriations as “used” at the time it incurs these obligations against its appropriated authority.

H. BUDGETARY RESOURCES

Budgetary resources reflect OPM's authority to incur obligations that will result in the outlay of monies. OPM receives new budgetary resources each fiscal year in the form of appropriations, trust fund receipts, and spending authority from offsetting collections. In addition, OPM normally carries-over a balance of unobligated budgetary resources from the prior fiscal year, which is generally unavailable for obligation, but may be drawn-upon should new budgetary resources be insufficient to cover obligations incurred.

Appropriations. By act of Congress, OPM receives budgetary resources in the form of appropriations that allow it to incur obligations to pay (1) the Government's share of the cost of health and life insurance benefits for Retirement Program annuitants and (2) in part, the administrative and operating expenses of the Agency. In addition, the U.S. Treasury General Fund transfers an amount annually to the OPM CSRDF to subsidize, in part the under-funding of the CSRDF. OPM's appropriations are "definite," in that the amount of the authority is stated at the time it is granted, and "annual," in that the authority is available for obligation only during the current fiscal year. At fiscal year-end, any unobligated balances in the appropriations that fund the Government's share of the cost of health and life insurance benefits are cancelled.

Trust Fund Receipts. The amounts collected by OPM and credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance [See Note 7].

Spending Authority from Offsetting Collections. The amount collected by OPM and credited to the Health Benefits, Life Insurance and Revolving Fund Programs generate budgetary resources in the form of "spending authority from offsetting collections" (SAOC). During the fiscal year, the obligations incurred by OPM for these Programs may not exceed their SAOC or the amounts apportioned by OMB, whichever is less. At year-end, the balance of SAOC in excess of obligations incurred is brought forward into the subsequent fiscal year, but is generally unavailable for obligation.

I. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) comprises the aggregate total of OPM's unexpended, uninvested balances in its appropriation, trust, revolving, and trust revolving accounts. All of OPM's collections are deposited into and its expenditures paid from one of its FBWT accounts. OPM invests FBWT balances associated with the Retirement, Health Benefits, and Life Insurance Program that are not immediately needed to cover expenditures.

J. INVESTMENTS

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. OPM invests the excess FBWT for the earmarked funds associated with the Retirement, Health Benefits, and Life Insurance Programs in securities guaranteed by the United States as to principal and interest. Retirement Program monies are invested initially in Certificates of Indebtedness ("Certificates"), which are issued by the Treasury at par value and mature on the following June 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each June 30, all outstanding Certificates are "rolled over" into special Government account series (GAS) securities that are issued by the Treasury at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity. The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

Health Benefits and Life Insurance Program monies are invested in “market-based” securities that mirror the terms of marketable Treasury securities. In addition, OPM invests Health Benefits and Life Insurance Program monies that are immediately needed for expenditure in “overnight” market-based securities.

Investments are stated at original acquisition cost net of amortized premium and discount. Premium and discount are amortized into interest income over the term of the investment, using the interest method.

K. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of amounts owed to OPM by Federal entities (“intragovernmental”) and amounts owed by the public (“from the public”). The balance of accounts receivable from the public is stated net of an allowance for uncollectible amounts, which is based on past collection experience and an analysis of outstanding amounts. OPM regards its intergovernmental accounts receivable balance as fully collectible.

L. OTHER ASSETS

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM.

M. GENERAL PROPERTY AND EQUIPMENT

OPM capitalizes major long-lived software and equipment. Software costing over \$10 thousand is capitalized at the cost of either purchase or development, and is amortized using a straight-line method over a useful life of five years. Equipment valued costing over \$10 thousand is capitalized at purchase cost and depreciated using the straight-line method over five years. The cost of minor purchases, repairs and maintenance is expensed as incurred.

N. BENEFITS DUE AND PAYABLE

Benefits due and payable is comprised of two categories of accrued expenses. The first reflects claims filed by participants in the Retirement, Health Benefits and Life Insurance Programs that are unpaid in the current reporting period and includes an estimate of health benefits and life insurance claims incurred but not yet reported. The second is a liability for the amount owed as premiums to community-rated carriers participating in the Health Benefits Program that are unpaid in the current reporting period.

O. ACTUARIAL LIABILITIES AND ASSOCIATED EXPENSES

OPM records actuarial liabilities [the Pension Liability, Postretirement Health Benefits Liability, and the Actuarial Life Insurance Liability] and associated expenses. These liabilities are measured as of the first day of the year, with a “roll-forward” or projection to the end of the year. The “roll-forward” considers all major factors that affect the measurement that occurred during the reporting year, including pay raises, cost of living allowances, and material changes in the number of participants.

P. CUMULATIVE RESULTS OF OPERATIONS

The balance of OPM’s Cumulative Results of Operations is negative because of the recognition of actuarial liabilities that will be liquidated in future periods.

Q. TAX STATUS

As an agency of the Federal Government, OPM is generally exempt from all income taxes imposed by any governing body, whether it be a Federal, state, commonwealth, local, or foreign Government.

NOTE 2—FUND BALANCE WITH TREASURY

Fund Balances. OPM's FBWT balances by account type at the end of fiscal years 2006 and 2005 are:

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	\$17	-	-	-	\$17
Revolving Fund	-	-	-	\$295	295
Appropriated Funds	-	\$847	\$5	86	938
Trust Revolving Funds	-	3	1	-	4
Total	\$17	\$850	\$6	\$381	\$1,254
2005					
Trust Fund	\$23	-	-	-	\$23
Revolving Fund	-	-	-	\$233	233
Appropriated Funds	-	\$826	\$4	99	929
Trust Revolving Funds	-	3	1	-	4
Total	\$23	\$829	\$5	\$332	\$1,189

Status of Unexpended Balances. OPM's unexpended balances are comprised of its FBWT and its investments, (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at the end of fiscal years 2006 and 2005:

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
<i>UNEXPENDED BALANCES</i>					
FBWT	\$17	\$850	\$6	\$380	\$1,253
Investments	689,936	14,771	30,784	-	735,491
Total, Unexpended Balances	\$689,953	\$15,621	\$30,790	\$380	\$736,744
<i>STATUS OF UNEXPENDED BALANCES</i>					
Unobligated:					
Available	-	-	-	\$322	\$322
Unavailable	-	\$12,532	\$30,449	175	43,156
Obligated not yet Disbursed	\$5,129	3,089	341	(117)	8,442
Precluded (See Note 7)	684,824	-	-	-	684,824
Total, Status of Unexpended Balances	\$689,953	\$15,621	\$30,790	\$380	\$736,744

PART C—FINANCIAL INFORMATION

2005	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
<i>UNEXPENDED BALANCES</i>					
FBWT	\$23	\$829	\$5	\$332	\$1,189
Investments	660,749	12,506	29,050	-	702,305
<i>Total, Unexpended Balances</i>	<i>\$660,772</i>	<i>\$13,335</i>	<i>\$29,055</i>	<i>\$332</i>	<i>\$703,494</i>
<i>STATUS OF UNEXPENDED BALANCES</i>					
Obligated	\$4,851	\$3,219	\$338	(\$118)	\$8,290
Unobligated:					
Available	-	-	-	126	126
Unavailable	-	10,116	28,717	324	39,157
Precluded (See Note 7)	655,921	-	-	-	655,921
<i>Total, Status of Unexpended Balances</i>	<i>\$660,772</i>	<i>\$13,335</i>	<i>\$29,055</i>	<i>\$332</i>	<i>\$703,494</i>

NOTE 3—INVESTMENTS

All of OPM investments are in securities issued by other Federal entities and are therefore classified as intragovernmental. See Note 1J for further explanation, including the amortization method.

All of OPM's investments are in U.S. Treasury securities held by earmarked funds—the Retirement, Health Insurance, and Life Insurance Programs. The Federal Government does not set aside funds to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to OPM as evidence of its receipts. Treasury securities are an asset to OPM and a liability to the U.S. Treasury. Because OPM 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. They are eliminated in consolidation for the U.S. Government-wide financial statements.

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

PART C—FINANCIAL INFORMATION

The following tables summarize OPM's investments by Program (all earmarked funds) at the end of fiscal years 2006 and 2005.

As of September 30, 2006	Cost	Amortized Discount/ (Premium)	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Retirement Program:					
Par-value GAS securities	\$645,846	-	\$645,846	-	\$645,846
Certificates of Indebtedness	30,090	-	30,090	-	30,090
FFB Securities	14,000	-	14,000	-	14,000
Subtotal	689,936	-	689,936	-	689,936
Interest Receivable	-	-	9,153	-	-
Total Retirement Program	689,936	-	699,089	-	689,936
Health Benefits Program:					
GAS securities	14,841	(\$13)	14,828	\$3	14,647
Interest Receivable	-	-	55	-	-
Total Health Benefits Program	14,841	(\$13)	14,883	3	14,647
Life Insurance Program:					
GAS securities	30,857	180	31,037	(246)	30,619
Interest Receivable	-	-	332	-	-
Total Life Insurance Program	30,857	180	31,369	(246)	30,619
<i>Total Investments</i>	<i>\$735,634</i>	<i>\$167</i>	<i>\$745,341</i>	<i>(\$243)</i>	<i>\$735,202</i>

As of September 30, 2005	Cost	Amortized Discount/ (Premium)	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Retirement Program:					
Par-value GAS securities	\$619,277	-	\$619,277	-	\$619,277
Certificates of Indebtedness	27,473	-	27,473	-	27,473
FFB Securities	14,000	-	14,000	-	14,000
Subtotal	660,750	-	660,750	-	660,750
Interest Receivable	-	-	8,967	-	-
Total Retirement Program	660,750	-	669,717	-	660,750
Health Benefits Program:					
GAS securities	12,576	(\$13)	12,563	\$31	12,412
Interest Receivable	-	-	43	-	-
Total Health Benefits Program	12,576	(\$13)	12,606	31	12,412
Life Insurance Program					
GAS securities	29,129	303	29,432	(53)	29,102
Interest Receivable	-	-	295	-	-
Total Life Insurance Program	29,129	303	29,727	(53)	29,102
<i>Total Investments</i>	<i>\$702,455</i>	<i>\$290</i>	<i>\$712,050</i>	<i>(\$22)</i>	<i>\$702,264</i>

PART C—FINANCIAL INFORMATION

NOTE 4—ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM’s intragovernmental accounts receivable as of September 30, 2006 and 2005 are:

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	\$708	\$532	\$16	-	\$1,256
Other	-	-	-	\$135	135
<i>Total</i>	<i>\$708</i>	<i>\$532</i>	<i>\$16</i>	<i>\$135</i>	<i>\$1,391</i>
2005					
Employer contributions receivable	\$717	\$520	\$16	-	\$1,253
Other	-	-	-	\$113	113
<i>Total</i>	<i>\$717</i>	<i>\$520</i>	<i>\$16</i>	<i>\$113</i>	<i>\$1,366</i>

From the Public. The balances comprising the accounts receivable OPM classifies as “from the public” at September 30, 2006 and 2005 are presented, in the following table. See Note 1J. for the methodology used to determine the allowance.

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	\$146	\$558	\$110	-	\$814
Overpayment of benefits <i>[net of allowance of \$53]</i>	131	-	-	-	131
Due from carriers <i>[net of allowance of \$2]</i>	-	39	-	-	39
Other	-	-	-	\$106	106
<i>Total</i>	<i>\$277</i>	<i>\$597</i>	<i>\$110</i>	<i>\$106</i>	<i>\$1,090</i>
2005					
Participant contributions receivable	\$154	\$528	\$103	-	\$785
Overpayment of benefits <i>[net of allowance of \$52]</i>	122	-	-	-	122
Due from carriers <i>[net of allowance of \$2]</i>	-	44	-	-	44
Other	-	-	-	\$85	85
<i>Total</i>	<i>\$276</i>	<i>\$572</i>	<i>\$103</i>	<i>\$85</i>	<i>\$1,036</i>

NOTE 5—FEDERAL EMPLOYEE BENEFITS

A. PENSIONS

OPM's actuary, in computing the Pension Liability and associated expense, applies economic assumptions to historical cost information to estimate the Government's future cost to provide CSRS and FERS benefits to current and future retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. Actuarial gains or losses occur to the extent that actual experience differs from these assumptions used to compute the Pension Liability and associated expense.

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related expense were changed for the valuations performed in FY 2006. The following presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2006 and 2005:

	2006	2005
Interest rate	6.25%	6.25%
Rate of inflation	3.50%	3.25%
Rate of increases in salary	4.25%	4.00%

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2006 and 2005:

2006	CSRS	FERS	TOTAL
Service cost	\$10,635	\$14,652	\$25,287
Interest cost	61,054	13,858	74,912
Actuarial loss	21,607	7,783	29,390
<i>Pension Expense</i>	<u>\$93,296</u>	<u>\$36,293</u>	<u>\$129,589</u>
2005			
Service cost	\$11,145	\$13,833	\$24,978
Interest cost	60,137	12,341	72,478
Actuarial (gain)/loss	(2,821)	455	(2,366)
<i>Pension Expense</i>	<u>\$68,461</u>	<u>\$26,629</u>	<u>\$95,090</u>

PART C—FINANCIAL INFORMATION

Pension Liability. The following tables present the Pension Liability at September 30:

2006	CSRS	FERS	TOTAL
Pension Liability at October 1, 2005	\$999,000	\$215,900	\$1,214,900
Plus: Pension Expense	93,296	36,293	129,589
Less: Costs applied to Pension Liability	54,896	2,993	57,889
<i>Pension Liability at September 30, 2006</i>	<u><u>\$1,037,400</u></u>	<u><u>\$249,200</u></u>	<u><u>\$1,286,600</u></u>
2005			
Pension Liability at October 1, 2004	\$982,700	\$191,800	\$1,174,500
Plus: Pension Expense	68,461	26,629	95,090
Less: Costs applied to Pension Liability	52,161	2,529	54,690
<i>Pension Liability at September 30, 2005</i>	<u><u>\$999,000</u></u>	<u><u>\$215,900</u></u>	<u><u>\$1,214,900</u></u>

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in fiscal years 2006 and 2005:

2006	CSRS	FERS	TOTAL
Annuities	\$54,546	\$2,864	\$57,410
Refunds of contributions	231	96	327
Administrative and other expenses	119	33	152
<i>Costs applied to the Pension Liability</i>	<u><u>\$54,896</u></u>	<u><u>\$2,993</u></u>	<u><u>\$57,889</u></u>
2005			
Annuities	\$51,840	\$2,400	\$54,240
Refunds of contributions	204	89	293
Administrative and other expenses	117	40	157
<i>Costs applied to the Pension Liability</i>	<u><u>\$52,161</u></u>	<u><u>\$2,529</u></u>	<u><u>\$54,690</u></u>

B. POSTRETIREMENT HEALTH BENEFITS

OPM's actuary, in computing the Postretirement Health Benefits (PRHB) Liability and associated expense, applies economic assumptions to historical cost information to estimate the Government's future cost of providing postretirement health benefits to current employees and retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. Actuarial gains or losses will occur to the extent that actual experience differs from the assumptions used to compute the PRHB Liability and associated expense.

Economic Assumptions. The following presents the significant economic assumptions used to compute the PRHB Liability as of the September 30 measurement date:

	2006	2005
Interest rate	6.25%	6.25%
Increase in per capita cost of covered benefits	7.00%	7.00%

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2006 and 2005:

	2006	2005
Service cost	\$11,617	\$11,074
Interest cost	16,809	16,532
Actuarial (gain)/loss	(12,609)	2,955
<i>PRHB Expense</i>	<u>\$15,817</u>	<u>\$30,561</u>

PRHB Liability. The following table presents the PRHB Liability at the September 30 measurement date:

	2006	2005
PRHB Liability at the beginning of the year	\$281,558	\$261,556
Plus: PRHB Expense	15,817	30,561
Less: Costs applied to the PRHB Liability	11,096	10,559
<i>PRHB Liability at the end of the year</i>	<u>\$286,279</u>	<u>\$281,558</u>

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following the costs that have been applied to the PRHB Liability in fiscal years 2006 and 2005:

	2006	2005
Current benefits	\$8,130	\$7,726
Premiums	2,161	2,078
Administrative and other expenses	805	755
<i>Total costs applied to the PRHB Liability</i>	<u>\$11,096</u>	<u>\$10,559</u>

PART C—FINANCIAL INFORMATION

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM’s actuaries (7.0 percent in fiscal years 2006 and 2005) has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the per capita cost of covered benefits assumption would have the following effects in fiscal years 2006 and 2005:

	2006		2005	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	\$19,146	\$14,844	\$18,868	\$14,575
Service cost component	14,452	9,388	13,818	8,923
PRHB Liability	\$328,752	\$250,715	\$323,940	\$246,216

C. LIFE INSURANCE

Actuarial Life Insurance Liability. The Actuarial Life Insurance Liability (ALIL) is the expected present value (EPV) of future benefits to be paid to, or on behalf of, existing Life Insurance Program participants, less the EPV of future contributions to be collected from those participants. In calculating the ALIL, OPM’s actuary uses assumptions that are consistent with those used in computing the Pension Liability [See Note 5A].

The following table presents the ALIL as of the September 30 measurement date:

	2006	2005
EPV of future benefits	\$71,486	\$68,365
EPV of future contributions by participants	(37,930)	(36,102)
<i>ALIL</i>	<u>\$33,556</u>	<u>\$32,263</u>

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2006 and 2005:

	2006	2005
New Entrant Expense	\$256	\$327
Interest cost	2,008	1,921
Actuarial (gain)	(454)	(313)
<i>Life Insurance Expense</i>	<u>\$1,810</u>	<u>\$1,936</u>

Future Life Insurance Benefits Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2006 and 2005:

	2006	2005
Life Insurance Expense	\$1,810	\$1,936
Less: Net Costs applied to Life liability	517	503
<i>Future Life Insurance Benefits Expense</i>	<u>\$1,293</u>	<u>\$1,433</u>

NOTE 6—OTHER LIABILITIES

The following liabilities, all current and “with the public,” are classified as “other” on the Balance Sheet as of September 30, 2006 and 2005:

2006	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued administrative expenses	Contingencies	Total
Retirement	\$585	-	-	-	\$585
Health Benefits	-	\$336	-	\$5	341
Revolving Fund	-	-	\$77	-	77
Salaries and Expenses	-	-	47	-	47
<i>Total Other Liabilities</i>	<i>\$585</i>	<i>\$336</i>	<i>\$124</i>	<i>\$5</i>	<i>\$1,050</i>
2005					
Retirement	\$529	-	-	-	\$529
Health Benefits	-	\$374	-	\$7	381
Revolving Fund	-	-	\$76	-	76
Salaries and Expenses	-	-	39	-	39
<i>Total Other Liabilities</i>	<i>\$529</i>	<i>\$374</i>	<i>\$115</i>	<i>\$7</i>	<i>\$1,025</i>

NOTE 7—AVAILABILITY OF UNOBLIGATED BALANCES

Retirement Program. Historically, OPM’s trust fund receipts have exceeded the amount needed to cover the Retirement Program’s obligations. The excess of trust fund receipts over incurred obligations is classified as being temporarily precluded from obligation. These receipts, however, remain assets of the CSRDF and will become immediately available, if circumstances dictate, to meet obligations to be incurred in the future. See Note 13 for further explanation. The following table presents the unobligated balance of the CSRDF that is temporarily precluded from obligation as of September 30, 2006 and 2005:

	2006	2005
Temporarily precluded from obligation at the beginning of the year	\$655,921	\$627,272
Plus: Trust fund receipts during the year	87,164	83,691
Plus: Appropriations Received	28,151	-
Less: Obligations incurred during the year	86,412	55,042
Excess of trust fund receipts over obligations incurred during the year	28,903	28,649
<i>Temporarily Precluded from Obligation at the End of the Year</i>	<i>\$684,824</i>	<i>\$655,921</i>

Health Benefits and Life Insurance Programs. OPM administers the Health Benefits and Life Insurance Programs through three trust revolving funds. A trust revolving fund is a single account that is authorized to be credited with receipts and incur obligations and expenditures in support of a continuing cycle of business-type operations in accordance with the provisions of statute. The unobligated balance in OPM’s trust revolving funds is available for obligation and expenditure, upon apportionment by OMB, without further action by Congress.

Revolving Fund Programs. OPM’s Revolving Fund Programs are administered through an intragovernmental revolving fund. An intragovernmental revolving fund is designed to carry-out a cycle of business-type operations with other Federal agencies or separately funded components of the same agency. The unobligated balance in OPM’s intragovernmental revolving fund is available for obligation and expenditure, upon apportionment by OMB, without further action by Congress.

PART C—FINANCIAL INFORMATION

Salaries and Expenses. OPM funds the administrative costs of the Agency through annual, multiple-year, and “no-year” appropriations. For its annual appropriations, the unobligated balance expires at the end of the applicable fiscal year. For OPM’s multiple-year appropriations, the unobligated balance remains available for obligation and expenditure for a specified period in excess of a fiscal year. For its no-year appropriations, the unobligated balance is carried forward and is available for obligation and expenditure indefinitely until the objectives for which it was intended have been accomplished.

NOTE 8—HEALTH BENEFITS/LIFE INSURANCE PROGRAM CONCENTRATIONS

During fiscal years 2006 and 2005, approximately half of the Health Benefits Program’s benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits. For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company.

NOTE 9—APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions the Revolving Fund and Salaries and Expense account on a quarterly basis [Category A]. Most other accounts under OPM’s control are apportioned annually [Category B], with the exception being the transfer-in from the U.S. Treasury General Fund to the Retirement Fund, which is not subject to apportionment [Category C]. The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2005 and 2005:

<i>FY 2006 Program/Fund</i>	<i>Category</i>	<i>Direct</i>	<i>Reimbursable</i>	<i>Total</i>
Retirement	B	\$58,261	–	\$58,261
Retirement	C	28,151	–	28,151
<i>Subtotal</i>		<u>\$86,412</u>	<u>–</u>	<u>\$86,412</u>
Health Benefits	B	39,540	–	39,540
Life Insurance	B	2,199	–	2,199
Revolving Fund	A	–	\$1,215	1,215
Salaries and Expense	A	268	74	342
<i>Total</i>		<u><u>\$128,419</u></u>	<u><u>\$1,289</u></u>	<u><u>\$129,708</u></u>

<i>FY 2005 Program/Fund</i>	<i>Category</i>	<i>Direct</i>	<i>Reimbursable</i>	<i>Total</i>
Retirement	B	\$55,042	–	\$55,042
Health Benefits	B	37,646	–	37,646
Life Insurance	B	2,202	–	2,202
Revolving Fund	A	–	\$622	622
Revolving Fund	B	25	–	25
Salaries and Expenses	A	267	62	329
<i>Total</i>		<u><u>\$95,182</u></u>	<u><u>\$684</u></u>	<u><u>\$95,866</u></u>

NOTE 10—INTRAGOVERNMENTAL GROSS COSTS AND EARNED REVENUE

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" in FY 2006 and FY 2005:

FY 2006	Gross Costs			Earned Revenue		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Provide CSRS Benefits	–	\$93,296	\$93,296	\$27,829	\$2,908	\$30,737
Provide FERS Benefits	–	36,293	36,293	27,021	1,027	28,048
Provide Health Benefits	–	35,945	35,945	16,157	9,112	25,269
Provide Life Insurance Benefits	–	3,515	3,515	1,642	2,088	3,730
Provide Human Resources Services	\$106	934	1,040	890	2	892
<i>Total</i>	<i>\$106</i>	<i>\$169,983</i>	<i>\$170,089</i>	<i>\$73,539</i>	<i>\$15,137</i>	<i>\$88,676</i>
FY 2005						
Provide CSRS Benefits	–	\$68,461	\$68,461	\$28,381	\$3,112	\$31,493
Provide FERS Benefits	–	26,629	26,629	25,413	958	26,371
Provide Health Benefits	–	49,766	49,766	15,174	8,448	23,622
Provide Life Insurance Benefits	–	3,585	3,585	1,651	1,907	3,558
Provide Human Resources Services	\$136	754	890	687	1	688
<i>Total</i>	<i>\$136</i>	<i>\$149,195</i>	<i>\$149,331</i>	<i>\$71,306</i>	<i>\$14,426</i>	<i>\$85,732</i>

NOTE 11 – CONTINGENCIES

Health Benefits Program Carriers. OPM is a party to litigation in which certain Health Benefits Program carriers are seeking relief for alleged underpayments of premiums. Although OPM is contesting these allegations, any underpayments that have occurred will have stemmed from inaccuracies in the amount of contributions by and for participants remitted to OPM by employing agencies and retirement systems. OPM has recorded a liability of \$5 million and \$7 million at September 30, 2006 and 2005, respectively for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined that, at September 30, 2006, it is reasonably possible that an additional \$0.3 million will result in losses. All losses involving this litigation will be paid from the Treasury Judgment Fund (TJF); OPM, however, does not have the budgetary resources to and is precluded by law from reimbursing the TJF. Although it is impossible to ascertain the ultimate legal liability with respect to contingent liabilities, OPM believes that the outcome of this litigation, either pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. OPM management, based upon the opinion of its General Counsel, believes that the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

NOTE 12—EARMARKED FUNDS

Funds' Purpose. Effective October 1, 2005, OPM adopted OMB Circular No. A-136, *Financial Reporting Requirements*, and the provisions of SFFAS No. 27—*Identifying and Reporting Earmarked Funds*. In accordance with SFFAS No. 27, OPM reported earmarked nonexchange revenue and other financing sources, including appropriations, and net cost of operations separately on the fiscal year 2006 Statement of Changes in Net Position and on the fiscal year 2006 Balance Sheet, and disclosed in the notes to the financial statements a description of the purpose of earmarked funds, accounting and reporting of the funds, sources of revenue or other financing and an explanation of the extent to which they are inflows of resources to the Government or the results of intragovernmental flows, authority to use revenues and other financing sources of the funds, changes in legislation significantly impacting the funds and condensed financial information for earmarked funds. In accordance with the Federal accounting and reporting standards, OPM did not apply the provisions of SFFAS No. 27 to the fiscal year 2005 statements and note disclosures and therefore, the fiscal year 2005 balance sheet, statement of changes in net position, and earmarked fund note disclosure are not comparable to the fiscal year 2006 balance sheet, statement of changes in net position, and earmarked funds note disclosure. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are “earmarked funds,” as defined by SFFAS No. 27—*Identifying and Reporting Earmarked Funds*.

The statutory authority for OPM's earmarked funds can be found in Title 5, United States Code; Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89, provides a complete description of the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees Group Life Insurance Fund provisions.

There have been no changes in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

PART C—FINANCIAL INFORMATION

The condensed version of the individual Programs' Balance Sheet follows:

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
<i>ASSETS</i>				
Fund Balance with Treasury	\$17	\$850	\$6	\$873
Investments	699,089	14,883	31,369	745,341
Accounts Receivable	985	1,129	126	2,240
Other Assets	-	47	590	637
<i>Total Assets</i>	<u><u>\$700,091</u></u>	<u><u>\$16,909</u></u>	<u><u>\$32,091</u></u>	<u><u>\$749,091</u></u>
<i>LIABILITIES and NET POSITION</i>				
Intragovernmental	\$3	\$254	-	\$257
Benefits Due & Payable	4,545	3,527	\$686	8,758
Pension Liability	1,286,600	-	-	1,286,600
Postretirement Health Benefits Liability	-	286,279	-	286,279
Actuarial Life				
Insurance Liability	-	-	33,556	33,556
Other Liabilities	585	341	-	926
<i>Total Liabilities</i>	<u><u>\$1,291,733</u></u>	<u><u>\$290,401</u></u>	<u><u>\$34,242</u></u>	<u><u>\$1,616,376</u></u>
Cumulative Results of Operations	(591,642)	(273,492)	(2,151)	(\$867,285)
<i>Total Liabilities and Net Position</i>	<u><u>\$700,091</u></u>	<u><u>\$16,909</u></u>	<u><u>\$32,091</u></u>	<u><u>\$749,091</u></u>

Sources of Revenue or Other Financing Sources. The following describes the sources of revenue and other financing sources for OPM's earmarked funds. Earmarked funds' revenues represent both inflows of resources to the Government (contributions by participants) as well as intragovernmental flows (contributions by employing agencies). Both CSRS participants and their employing agencies are required by statute to make contributions to CSRS coverage. Since the combined 14.0 percent of pay does not cover the service cost of a CSRS benefit, to lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The Health Benefits Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Life Insurance Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation).

PART C—FINANCIAL INFORMATION

A condensed version of the individual Programs' Statement of Net Cost follows:

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	\$129,589	\$35,945	\$3,515	\$169,049
Less Earned Revenues	58,785	25,269	3,729	87,783
Net Program Costs	70,804	10,676	(214)	81,266
Less Earned Revenues Not Attributable to Program Costs	-	-	1	1
Net Cost of Operations	<u>\$70,804</u>	<u>\$10,676</u>	<u>(\$215)</u>	<u>\$81,265</u>

The condensed version of the individual Programs' Statement of Changes in Net Position follows:

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	(\$549,022)	(\$271,183)	(\$2,407)	(\$822,612)
Budgetary Financing Sources:				
Appropriations Use	28,151	8,360	41	36,552
Other	33	-	-	33
Other Financing Sources	-	7	-	7
Net Cost of Operations	70,804	10,676	(215)	81,265
Change in Net Position	(42,620)	(2,309)	256	(44,673)
Net Position End of Period	<u>(\$591,642)</u>	<u>(\$273,492)</u>	<u>(\$2,151)</u>	<u>(\$867,285)</u>

NOTE 13—TRANSFER IN FROM THE TREASURY GENERAL FUND

The U.S. Treasury General Fund transfers an amount annually to the OPM CSRDF to subsidize, in part the underfunding of the CSRDF. In fiscal year 2005, OPM presented this transfer-in as direct financing of the CSRDF on the Statement of Budgetary Resources. Effective October 1, 2005, OPM changed its accounting of this transfer-in based on guidance provided by the OMB to present the transfer-in from the Treasury General Fund, obligation, and disbursement of the funds to the CSRDF on the fiscal year 2006 Statement of Budgetary Resources. The impact of this change in accounting on the Retirement Program in the fiscal year 2006 Statement of Budgetary Resources is demonstrated by the addition of the Retirement Feeder column, as presented below:

Retirement Program Statement of Budgetary Resources for the Period Ended September 30, 2006	Retirement Fund	Retirement Feeder	Total Retirement Program
Budgetary Authority			
Appropriations Received	0	\$28,151	\$28,151
Appropriated Trust Fund Receipts	\$87,164	-	87,164
Subtotal	87,164	28,151	115,315
Temporarily not Available Pursuant to Public Law	(28,903)	-	(28,903)
Total Budgetary Resources	\$58,261	\$28,151	\$86,412
Status of Budgetary Resources			
Obligations Incurred - Direct	\$58,261	\$28,151	\$86,412
Total, Status of Budgetary Resources	\$58,261	\$28,151	\$86,412
Change in Obligated Balance			
Obligated Balance, Net			
Unpaid Obligations, Brought Forward, October 1	\$4,851	-	\$4,851
Obligations Incurred	58,261	\$28,151	86,412
Less: Gross Outlays	57,983	28,151	86,134
Obligated Balance, Net End of Period			
Unpaid Obligations	5,129	-	5,129
Total Unpaid Obligated Balance, Net	5,129	-	5,129
Net Outlays			
Gross Outlays	\$57,983	\$28,151	\$86,134
Less: Distributed Offsetting Receipts	28,184	0	28,184
Net Outlays	\$29,799	\$28,151	\$57,950

This change in accounting also impacts corresponding lines on the fiscal year 2006 Statements of Changes in Net Position and Financing. The change in accounting was made to eliminate the note disclosure of the differences between the fiscal year 2006 Statement of Budgetary Resources and the fiscal year 2006 Budget of the U.S. Government (the “President’s Budget”) related to this transfer in.

NOTE 14—COMPARISON OF COMBINED STATEMENTS OF BUDGETARY RESOURCES TO THE PRESIDENT’S BUDGET

OPM reports information about budgetary resources on the accompanying Combined Statements of Budgetary Resources and for presentation in the “President’s Budget.” The President’s Budget for fiscal year 2008, which will contain budgetary resources information for fiscal year 2006, will be published in February 2007. The President’s Budget for fiscal year 2007, which contains budgetary resource information for fiscal year 2005, was released on February 3, 2006.

As shown below, OPM has reconciled its total budgetary resources, obligations incurred, and net outlays, as presented in the accompanying Combined Statement of Budgetary Resources, with the amounts presented in the President’s Budget for fiscal year 2005:

	Statement of Budgetary Resources	President’s Budget	Difference
Combined:			
Total budgetary resources	\$135,149	\$160,801	\$(25,652)
Obligations incurred	95,866	121,518	(25,652)
Disbursements	95,387	121,039	(25,652)
Retirement Program:			
Total budgetary resources	\$55,042	\$80,694	\$(25,652)
Obligations incurred	55,042	80,694	(25,652)
Disbursements	54,790	80,442	(25,652)

The \$25,652 difference in total budgetary resources, obligations incurred and disbursements between the accompanying Combined Statement of Budgetary Resources and the President’s Budget is associated with the presentation of the Transfer-in from the General Fund [the “transfer”]. The President’s Budget reflects the transfer as a separate appropriation, including it in the budgetary resources, obligations incurred and disbursements of the separate appropriations as well as the CSRDF. The accompanying fiscal year 2005 Combined Statement of Budgetary Resources, on the other hand, reflects the transfer as direct financing of the CSRDF and, thus, includes it as budgetary resources, obligations incurred, and disbursements of the CSRDF *only*. In fiscal year 2006, OPM made a change in the accounting of this transfer-in from the Treasury General Fund on the Statement of Budgetary Resources based on guidance provided by the OMB (see Note 13). The effect of this change in presentation will eliminate the differences noted above between the fiscal year 2008 President’s Budget and the fiscal year 2006 Combined Statement of Budgetary Resources.

PART C—FINANCIAL INFORMATION

NOTE 15—NET COST BY STRATEGIC OBJECTIVES

The following chart summarizes OPM's Strategic Objectives for fiscal years 2006–2010:

Strategic Objective A	The Federal civilian workforce will be focused on achieving agency goals.
Strategic Objective B	The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers.
Strategic Objective C	Federal agencies will be employers of choice.
Strategic Objective D	Federal agencies will be recognized as leaders in having exemplary human resources practices.
Strategic Objective E	The Office of Personnel Management will be a model of performance for other Federal agencies.
Strategic Objective F	The Office of Personnel Management will be a leader in the human resources professional community and will have positive name recognition outside the Federal Government.
Strategic Objective G	The Office of Personnel Management will have constructive and productive relationships with external stakeholders.

The following table presents a cross-walk of OPM's net cost by responsibility segment to its net cost by strategic objective for fiscal year 2006. Total costs for this table were allocated based on the distribution of budgetary resources.

Strategic Objectives 2006		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	-	-	-	-	\$19	\$19
	Less earned revenue	-	-	-	-	11	11
	Net program cost	-	-	-	-	\$8	\$8
Objective B:	Total program cost	\$56,325	\$21,910	\$21,701	\$2,122	\$90	\$102,148
	Less earned revenue	18,557	16,933	15,255	2,252	82	53,079
	Net program cost	\$37,768	\$4,977	\$6,446	(\$130)	\$8	\$49,069
Objective C:	Less earned revenue	-	-	-	-	\$146	\$146
	Net program cost	-	-	-	-	132	132
	Net program cost	-	-	-	-	\$14	\$14
Objective D:	Total program cost	-	-	-	-	\$84	\$84
	Less earned revenue	-	-	-	-	49	49
	Net program cost	-	-	-	-	\$35	\$35
Objective E:	Total program cost	\$36,971	\$14,383	\$14,244	\$1,393	\$691	\$67,682
	Less earned revenue	12,180	11,115	10,014	1,478	612	35,399
	Net program cost	\$24,791	\$3,268	\$4,231	(\$86)	\$79	\$32,283
Objective F: ¹	Total program cost	-	-	-	-	-	-
	Less earned revenue	-	-	-	-	-	-
	Net program cost	-	-	-	-	-	-
Objective G:	Total program cost	-	-	-	-	\$10	\$10
	Less earned revenue	-	-	-	-	6	6
	Net program cost	-	-	-	-	\$4	\$4
Total	Total program cost	\$93,296	\$36,293	\$35,945	\$ 3,515	\$1,040	\$170,089
	Less earned revenue	30,737	28,048	25,269	3,730	892	88,676
	Net program cost	\$62,559	\$8,245	\$10,676	(\$215)	\$148	\$81,413

¹ The amount expended in fiscal year 2006 was under the rounding threshold for this report.

PART C—FINANCIAL INFORMATION

The following chart summarizes OPM's Strategic Goals for fiscal year 2005:

Strategic Goal I	Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations.
Strategic Goal II	Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission.
Strategic Goal III	Meet the needs of Federal agencies, employees, and annuitants through the delivery of efficient and effective products and services.
Management Strategy	OPM creates an environment that fosters the delivery of services to its customers and employees through effective communication and management of human capital, technology, financial resources, and business processes.

The following table presents a cross-walk of OPM's net cost by responsibility segment to its net cost by strategic goals for fiscal year 2005:

Strategic Goals 2005		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
I	Total program cost	-	-	-	-	\$34	\$34
	Less earned revenue	-	-	-	-	19	19
	Net program cost	-	-	-	-	\$15	\$15
II	Total program cost	-	-	-	-	\$42	\$42
	Less earned revenue	-	-	-	-	24	24
	Net program cost	-	-	-	-	\$18	\$18
III	Total program cost	\$68,461	\$26,629	\$49,766	\$ 3,585	\$649	\$149,090
	Less earned revenue	31,493	26,371	23,622	3,558	553	85,597
	Net program cost	\$36,968	\$258	\$26,144	\$27	\$96	\$63,493
Management Strategy	Total program cost	-	-	-	-	\$164	\$164
	Less earned revenue	-	-	-	-	92	92
	Net program cost	-	-	-	-	\$72	\$72
Total	Total program cost	\$68,461	\$26,629	\$49,766	\$ 3,585	\$890	\$149,331
	Less earned revenue	31,493	26,371	23,622	3,558	688	85,732
	Net program cost	\$36,968	\$258	\$26,144	\$27	\$202	\$63,599

NOTE 16—UNDELIVERED ORDERS AT THE END OF THE PERIOD

Beginning with FY 2006, the format of the Statement of Budgetary Resources changed and the amount of Undelivered Orders at the end of the period is no longer reported on the face of the statement. To comply with SFFAS No. 7, paragraph 79 (a), the amount of budgetary resources obligated for undelivered orders at the end of fiscal year 2006 and fiscal year 2005 is as follows:

Undelivered Orders	Revolving Fund Programs	Salaries & Expenses	Total
FY 2006	\$328	\$75	\$403
FY 2005	\$81	\$71	\$152

Consolidating Financial Statements

Schedule 1

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
 As of September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina- tions	2006
<i>ASSETS</i>							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	\$17	\$850	\$6	\$295	\$86	–	\$1,254
Investments [Note 3]	699,089	14,883	31,369	–	–	–	745,341
Accounts Receivable [Note 4]	708	532	16	131	9	(\$5)	1,391
Total Intragovernmental	699,814	16,265	31,391	426	95	(5)	747,986
Accounts Receivable from the Public, Net [Note 4]	277	597	110	105	1	–	1,090
General Property and Equipment, Net	–	–	–	10	2	–	12
Other [Note 1L]	–	47	590	–	–	–	637
TOTAL ASSETS	\$700,091	\$16,909	\$32,091	\$541	\$98	(\$5)	\$749,725

Schedule 1 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
 As of September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina- tions	2006
<i>LIABILITIES</i>							
Intragovernmental	\$3	\$254	–	\$407	\$3	(\$5)	\$662
Federal Employee Benefits:							
Benefits Due and Payable	4,545	3,527	686	–	–	–	8,758
Pension Liability [Note 5A]	1,286,600	–	–	–	–	–	1,286,600
Postretirement Health Benefits Liability [Note 5B]	–	286,279	–	–	–	–	286,279
Actuarial Life Insurance Liability [Note 5C]	–	–	33,556	–	–	–	33,556
Total Federal Employee Benefits	1,291,145	289,806	34,242	–	–	–	1,615,193
Other [Notes 6 and 1I]	585	341	–	77	47	–	1,050
Total Liabilities	1,291,733	290,401	34,242	484	50	(5)	1,616,905
<i>NET POSITION</i>							
Unexpended Appropriations - Other Funds	–	–	–	3	82	–	85
Cumulative Results of Operations - Earmarked Funds [Note 12]	(591,642)	(273,492)	(2,151)	–	–	–	(867,285)
Cumulative Results of Operations - Other Funds	–	–	–	54	(34)	–	20
Total Net Position	(591,642)	(273,492)	(2,151)	57	48	–	(867,180)
TOTAL LIABILITIES AND NET POSITION	\$700,091	\$16,909	\$32,091	\$541	\$98	(\$5)	\$749,725

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 1—continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina- tions	2005
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	\$23	\$829	\$5	\$233	\$99	-	\$1,189
Investments [Note 3]	669,717	12,606	29,727	-	-	-	712,050
Accounts Receivable [Note 4]	717	520	16	116	2	(\$5)	1,366
Total Intragovernmental	670,457	13,955	29,748	349	101	(5)	714,605
Accounts Receivable from the Public, Net [Note 4]	276	572	103	84	1	-	1,036
General Property and Equipment, Net	-	-	-	9	3	-	12
Other [Note 1L]	-	78	654	-	-	-	732
TOTAL ASSETS	\$670,733	\$14,605	\$30,505	\$442	\$105	(\$5)	\$716,385

Schedule 1—continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina- tions	2005
LIABILITIES							
Intragovernmental	\$3	\$249	-	\$331	\$8	(\$5)	\$586
Federal Employee Benefits:							
Benefits Due and Payable	4,323	3,600	649	-	-	-	8,572
Pension Liability [Note 5A]	1,214,900	-	-	-	-	-	1,214,900
Postretirement Health Benefits Liability [Note 5B]	-	281,558	-	-	-	-	281,558
Actuarial Life Insurance Liability [Note 5C]	-	-	32,263	-	-	-	32,263
Total Federal Employee Benefits	1,219,223	285,158	32,912	-	-	-	1,537,293
Other [Notes 6 and 11]	529	381	-	76	39	-	1,025
Total Liabilities	1,219,755	285,788	32,912	407	47	(5)	1,538,904
NET POSITION							
Unexpended Appropriations	-	-	-	5	77	-	82
Cumulative Results of Operations	(549,022)	(271,183)	(2,407)	30	(19)	-	(822,601)
Total Net Position	(549,022)	(271,183)	(2,407)	35	58	-	(822,519)
TOTAL LIABILITIES AND NET POSITION	\$670,733	\$14,605	\$30,505	\$442	\$105	(\$5)	\$716,385

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 2

U.S. OFFICE OF PERSONNEL MANAGEMENT
 CONSOLIDATING STATEMENT OF NET COST
 For the Year Ended September 30, 2006
 (In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2006
	CSRS	FERS	Total						
<i>GROSS COSTS</i>									
Intragovernmental [Note 1D]	-	-	-	-	-	\$146	\$223	(\$263)	\$106
With the Public:									
Pension Expense [Note 5A]	\$93,296	\$36,293	\$129,589	-	-	-	-	-	129,589
Postretirement Health Benefits [Note 5B]	-	-	-	\$15,817	-	-	-	-	15,817
Future Life Insurance Benefits [Note 5C]	-	-	-	-	\$1,293	-	-	-	1,293
Current Benefits and Premiums	-	-	-	19,305	2,220	-	-	-	21,525
Other	-	-	-	823	2	808	126	-	1,759
Total Gross Costs with the Public	93,296	36,293	129,589	35,945	3,515	808	126	-	169,983
Total Gross Costs	93,296	36,293	129,589	35,945	3,515	954	349	(263)	170,089
<i>EARNED REVENUE</i>									
Intragovernmental:									
Employer Contributions	4,114	14,118	18,232	15,568	437	-	-	-	34,237
Earnings on Investments	23,715	12,903	36,618	589	1,205	-	-	-	38,412
Other	-	-	-	-	-	954	199	(263)	890
Total Intragovernmental Earned Revenue	27,829	27,021	54,850	16,157	1,642	954	199	(263)	73,539
With the Public:									
Participant Contributions	2,908	1,027	3,935	9,112	2,087	-	-	-	15,134
Other	-	-	-	-	1	2	-	-	3
Total Earned Revenue with the Public	2,908	1,027	3,935	9,112	2,088	2	-	-	15,137
Total Earned Revenue	30,737	28,048	58,785	25,269	3,730	956	199	(263)	88,676
<i>Net Cost of Operations</i>	\$62,559	\$8,245	\$70,804	\$10,676	(\$215)	(\$2)	\$150	-	\$81,413

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 2 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2005
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2005
	CSRS	FERS	Total						
<i>GROSS COSTS</i>									
Intragovernmental [Note 1D]	-	-	-	-	-	\$139	\$229	(\$232)	\$136
With the Public:									
Pension Expense [Note 5A]	\$68,461	\$26,629	\$95,090	-	-	-	-	-	95,090
Postretirement Health Benefits [Note 5B]	-	-	-	\$30,561	-	-	-	-	30,561
Future Life Insurance Benefits [Note 5C]	-	-	-	-	\$1,433	-	-	-	1,433
Current Benefits and Premiums	-	-	-	18,377	2,150	-	-	-	20,527
Other	-	-	-	828	2	634	120	-	1,584
Total Gross Costs with the Public	68,461	26,629	95,090	49,766	3,585	634	120	-	149,195
Total Gross Costs	68,461	26,629	95,090	49,766	3,585	773	349	(232)	149,331
<i>EARNED REVENUE</i>									
Intragovernmental:									
Employer Contributions	4,379	13,154	17,533	14,794	419	-	-	-	32,746
Earnings on Investments	24,002	12,259	36,261	380	1,232	-	-	-	37,873
Other	-	-	-	-	-	724	195	(232)	687
Total Intragovernmental Earned Revenue	28,381	25,413	53,794	15,174	1,651	724	195	(232)	71,306
With the Public:									
Participant Contributions	3,112	958	4,070	8,448	1,906	-	-	-	14,424
Other	-	-	-	-	1	1	-	-	2
Total Earned Revenue with the Public	3,112	958	4,070	8,448	1,907	1	-	-	14,426
Total Earned Revenue	31,493	26,371	57,864	23,622	3,558	725	195	(232)	85,732
<i>Net Cost of Operations</i>	\$36,968	\$258	\$37,226	\$26,144	\$27	\$48	\$154	-	\$63,599

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 3

U.S. OFFICE OF PERSONNEL MANAGEMENT
 CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
 For the Year Ended September 30, 2006
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2006
<i>CUMULATIVE RESULTS OF OPERATIONS</i>								
Beginning Balance	(\$549,022)	(\$271,183)	(\$2,407)	(\$822,612)	\$30	(\$19)	\$11	(\$822,601)
Budgetary Financing Sources:								
Appropriations Used [Note 13]	28,151	8,360	41	36,552	2	122	124	36,676
Other	33	-	-	33	-	-	-	33
Other Financing Sources	0	7	-	7	20	13	33	40
Total Financing Sources	28,184	8,367	41	36,592	22	135	157	36,749
Net Cost of Operations	70,804	10,676	(215)	81,265	(2)	150	148	81,413
Net Change	(42,620)	(2,309)	256	(44,673)	24	(15)	9	(44,664)
Cumulative Results of Operations	(\$591,642)	(\$273,492)	(\$2,151)	(\$867,285)	\$54	(\$34)	\$20	(\$867,265)
<i>UNEXPENDED APPROPRIATIONS</i>								
Beginning Balance	-	-	-	-	\$5	\$77	\$82	\$82
Budgetary Financing Sources:								
Appropriations Received [Note 13]	\$28,151	\$8,674	\$42	\$36,867	0	124	124	36,991
Appropriations Used [Note 13]	(28,151)	(8,360)	(41)	(36,552)	(2)	(122)	(124)	(36,676)
Other Budgetary Financing Sources	-	(314)	(1)	(315)	-	3	3	(312)
Total Budgetary Financing Sources	-	-	-	-	(2)	5	3	3
Total Unexpended Appropriations	-	-	-	-	\$3	\$82	\$85	\$85
<i>NET POSITION, END OF THE YEAR</i>	(\$591,642)	(\$273,492)	(\$2,151)	(\$867,285)	\$57	\$48	\$105	(\$867,180)

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 3 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
<i>CUMULATIVE RESULTS OF OPERATIONS</i>						
Beginning Balance	(\$537,448)	(\$252,979)	(\$2,418)	\$31	0	(\$792,814)
Budgetary Financing Sources:						
Appropriations Used	-	7,889	38	20	\$123	8,070
Transfers-in Without Reimbursement	-	-	-	6	-	6
Other	34	-	-	-	-	34
Other Financing Sources						
Transfers-in from the General Fund [Note 13]	25,618	-	-	-	-	25,618
Other	0	51	-	21	12	84
Total Financing Sources	25,652	7,940	38	47	135	33,812
Net Cost of Operations	37,226	26,144	27	48	154	63,599
Net Change	(11,574)	(18,204)	11	(1)	(19)	(29,787)
Cumulative Results of Operations	(\$549,022)	(\$271,183)	(\$2,407)	\$30	(\$19)	(\$822,601)
<i>UNEXPENDED APPROPRIATIONS</i>						
Beginning Balance	-	-	-	-	\$49	\$49
Budgetary Financing Sources:						
Appropriations Received	-	\$7,831	\$36	25	127	8,019
Appropriations Used	-	(7,889)	(38)	(20)	(123)	(8,070)
Other Budgetary Financing Sources	-	58	2	-	24	84
Total Budgetary Financing Sources	-	-	-	5	28	33
Total Unexpended Appropriations	-	-	-	\$5	\$77	\$82
<i>NET POSITION, END OF THE YEAR</i>	(\$549,022)	(\$271,183)	(\$2,407)	\$35	\$58	(\$822,519)

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 4

U.S. OFFICE OF PERSONNEL MANAGEMENT
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2006
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2006
<i>BUDGETARY RESOURCES</i>						
Unobligated Balance—Brought Forward, October 1	-	\$10,116	\$28,717	\$349	\$101	\$39,283
Recoveries of Prior-Year Obligations	-	-	-	10	6	16
Budgetary Authority:						
Appropriations:						
Received [Note 13]	\$28,151	8,674	42	0	124	36,991
Other	-	(314)	(1)	-	(5)	(320)
Appropriated Trust Fund Receipts	87,164	-	-	-	-	87,164
Spending Authority from Offsetting Collections:						
Collected	-	33,549	3,855	1,021	196	38,621
Changes in Receivables from Federal Sources and Unfilled Customer Orders Without Advance	-	47	35	242	10	334
Subtotal	-	33,596	3,890	1,263	206	38,955
Temporarily not Available Pursuant to Public Law	(28,903)	-	-	-	-	(28,903)
Total Budgetary Resources	\$86,412	\$52,072	\$32,648	\$1,622	\$432	\$173,186
<i>STATUS OF BUDGETARY RESOURCES</i>						
Obligations Incurred: [Note 9 and 13]						
Direct	\$86,412	\$39,540	\$2,199	0	\$268	\$128,419
Reimbursable	-	-	-	\$1,215	74	1,289
Subtotal	86,412	39,540	2,199	1,215	342	129,708
Unobligated Balance:						
Apportioned	-	-	-	265	57	322
Unobligated Balance Not Available	-	12,532	30,449	142	33	43,156
Total Status of Budgetary Resources	\$86,412	\$52,072	\$32,648	\$1,622	\$432	\$173,186

PART C—FINANCIAL INFORMATION

Schedule 4 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2006
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2006
<i>CHANGE IN OBLIGATED BALANCE</i>						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	\$4,851	\$4,607	\$653	\$132	\$89	\$10,332
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	-	1,388	315	248	91	2,042
Total Unpaid Obligated Balance, Net	4,851	3,219	338	(116)	(2)	8,290
Obligations Incurred [Note 13]	86,412	39,540	2,199	1,215	342	129,708
Less: Gross Outlays [Note 13]	86,134	39,623	2,161	959	329	129,206
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	-	-	-	10	6	16
Changes in Uncollected Customer Payments from Federal Sources	-	47	35	242	10	334
Obligated Balance, Net End of the Period						
Unpaid Obligations	5,129	4,524	691	378	96	10,818
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	-	1,435	350	490	101	2,376
Total Unpaid Obligated Balance, Net	5,129	3,089	341	(112)	(5)	8,442
<i>NET OUTLAYS</i>						
Net Outlays:						
Gross Outlays [Note 13]	86,134	39,623	2,161	959	329	129,206
Less Offsetting Collections	-	33,549	3,855	1,021	196	38,621
Less: Distributed Offsetting Receipts	28,184	-	-	-	-	28,184
Net Outlays	\$57,950	\$6,074	(\$1,694)	(\$62)	\$133	\$62,401

PART C—FINANCIAL INFORMATION

Schedule 4 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2005
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
<i>BUDGETARY RESOURCES</i>						
Unobligated Balance - Brought Forward, October 1	-	\$8,408	\$27,370	\$242	\$63	\$36,083
Recoveries of Prior-Year Obligations	-	-	-	33	1	34
Budgetary Authority:						
Appropriations:						
Received		7,831	36	25	127	8,019
Other	-	58	2	0	(2)	58
Appropriated Trust Fund Receipts	83,691	-	-	-	-	83,691
Spending Authority from Offsetting Collections:						
Collected	-	31,307	3,516	819	199	35,841
Changes in Receivables from Federal Sources and Unfilled Customer Orders Without Advance	-	158	(5)	(129)	42	66
Subtotal	-	31,465	3,511	690	241	35,907
Nonexpenditure Transfers, Net Actual	-	-	-	6	-	6
Temporarily not Available Pursuant to Public Law	(28,649)	-	-	-	-	(28,649)
Total Budgetary Resources	\$55,042	\$47,762	\$30,919	\$996	\$430	\$135,149
<i>STATUS OF BUDGETARY RESOURCES</i>						
Obligations Incurred: [Note 9]						
Direct	\$55,042	\$37,646	\$2,202	25	\$267	\$95,182
Reimbursable	-	-	-	622	62	684
Subtotal	55,042	37,646	2,202	647	329	95,866
Unobligated Balance:						
Apportioned	-	-	-	70	56	126
Unobligated Balance Not Available	-	10,116	28,717	279	45	39,157
Total Status of Budgetary Resources	\$55,042	\$47,762	\$30,919	\$996	\$430	\$135,149

PART C—FINANCIAL INFORMATION

Schedule 4 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2005
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
<i>CHANGE IN OBLIGATED BALANCE</i>						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	\$4,599	\$4,340	\$634	\$212	\$100	\$9,885
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	-	1,230	320	377	57	1,984
Total Unpaid Obligated Balance, Net	4,599	3,110	314	(165)	43	7,901
Obligations Incurred	55,042	37,646	2,202	647	329	95,866
Less: Gross Outlays	54,790	37,379	2,183	704	331	95,387
Obligated Balance Transferred, Net	-	-	-	10	-	10
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	-	-	-	33	1	34
Changes in Uncollected Customer Payments from Federal Sources	-	158	(5)	(129)	42	66
Obligated Balance, Net End of the Period						
Unpaid Obligations	4,851	4,607	653	132	89	10,332
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	-	1,388	315	248	91	2,042
Total Unpaid Obligated Balance, Net	4,851	3,219	338	(116)	(2)	8,290
<i>NET OUTLAYS</i>						
Net Outlays:						
Gross Outlays	54,790	37,379	2,183	704	331	95,387
Less Offsetting Collections	-	31,307	3,516	819	199	35,841
Less: Distributed Offsetting Receipts	25,652	-	-	-	-	25,652
Net Outlays	\$29,138	\$6,072	(\$1,333)	(\$115)	\$132	\$33,894

PART C—FINANCIAL INFORMATION

<i>Schedule 5</i>						
U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATING STATEMENT OF FINANCING <i>For the Year Ended September 30, 2006</i> <i>(In Millions)</i>						
	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2006
<i>RESOURCES USED TO FINANCE ACTIVITIES</i>						
Budgetary Resources Obligated:						
Obligations Incurred	\$86,412	\$39,540	\$2,199	\$1,215	\$342	\$129,708
Less: Spending Authority from Offsetting Collections and Recoveries	–	33,596	3,890	1,273	212	38,971
Less: Appropriated Trust Fund Receipts	87,164	–	–	–	–	87,164
Obligations Net of Offsetting Collections and Recoveries	(752)	5,944	(1,691)	(58)	130	3,573
Less: Offsetting Receipts	28,184	–	–	–	–	28,184
Net Obligations	(28,936)	5,944	(1,691)	(58)	130	(24,611)
Other Resources	–	7	–	20	13	40
<i>Total Resources Used to Finance Activities</i>	(28,936)	5,951	(1,691)	(38)	143	(24,571)
<i>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</i>						
Transfer-in from General Fund [Note 13]	28,151	–	–	–	–	28,151
Other	66	26	190	32	(4)	310
<i>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</i>	28,217	26	190	32	(4)	28,461
<i>Total Resources Used to Finance the Net Cost of Operations</i>	(719)	5,977	(1,501)	(6)	139	3,890
<i>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</i>						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	71,700	4,721	1,293	–	–	77,714
Exchange Revenue not in the Budget	(168)	(30)	(7)	1	–	(204)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Period	71,532	4,691	1,286	1	–	77,510
Components not Requiring or Generating Resources						
Other	(9)	8	–	3	11	13
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(9)	8	–	3	11	13
<i>Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</i>	71,523	4,699	1,286	4	11	77,523
NET COST OF OPERATIONS	\$70,804	\$10,676	(\$215)	(\$2)	\$150	\$81,413

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 5 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
 CONSOLIDATING STATEMENT OF FINANCING
 For the Year Ended September 30, 2005
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
<i>RESOURCES USED TO FINANCE ACTIVITIES</i>						
Budgetary Resources Obligated:						
Obligations Incurred	\$55,042	\$37,646	\$2,202	\$647	\$329	\$95,866
Less: Spending Authority from Offsetting Collections and Recoveries	–	31,465	3,511	723	242	35,941
Less: Appropriated Trust Fund Receipts	83,691	–	–	–	–	83,691
Obligations Net of Offsetting Collections and Recoveries	(28,649)	6,181	(1,309)	(76)	87	(23,766)
Less: Offsetting Receipts	25,652	–	–	–	–	25,652
Net Obligations	(2,997)	6,181	(1,309)	(76)	87	1,886
Other Resources	–	51	–	21	12	84
<i>Total Resources Used to Finance Activities</i>	(2,997)	6,232	(1,309)	(55)	99	1,970
<i>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</i>						
Other	0	(85)	(85)	100	36	(34)
<i>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</i>	0	(85)	(85)	100	36	(34)
Total Resources Used to Finance the Net Cost of Operations	(2,997)	6,147	(1,394)	45	135	1,936
<i>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</i>						
Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods						
Increase in Actuarial Liabilities	40,400	20,002	1,433	–	–	61,835
Exchange Revenue not in the Budget	(170)	(44)	(12)	1	–	(225)
<i>Total Components of Net Cost of Operations that Will Require or Generate Resources in the Future Period</i>	40,230	19,958	1,421	1	–	61,610
Components not Requiring or Generating Resources						
<i>Other</i>	(7)	39	–	2	19	53
<i>Total Components of Net Cost of Operations that Will Not Require Or Generate Resources</i>	(7)	39	–	2	19	53
<i>Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period</i>	40,223	19,997	1,421	3	19	61,663
NET COST OF OPERATIONS	\$37,226	\$26,144	\$27	\$48	\$154	\$63,599

The accompanying notes are an integral part of the financial statements.

PART C—FINANCIAL INFORMATION

Schedule 6

U.S. OFFICE OF PERSONNEL MANAGEMENT
RETIREMENT PROGRAM
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2006
(In Millions)

	Retirement Fund	Retirement Feeder	Elimination	Total Retirement Program Earmarked
<i>CUMULATIVE RESULTS OF OPERATIONS</i>				
Beginning Balance	(\$549,022)	-	-	(\$549,022)
Budgetary Financing Sources:				
Appropriation Used	-	\$28,151	-	28,151
Transfer in Without Reimbursements	28,151		(\$28,151)	0
Transfer Out Without Reimbursements		(28,151)	28,151	0
Other Financing Sources	33	-	-	33
Total Financing Sources	28,184	-	-	28,184
Net cost of Operations	70,804	-	-	70,804
Net Change	(42,620)	-	-	(42,620)
Ending Balance	(\$591,642)	-	-	(\$591,642)
<i>UNEXPENDED APPROPRIATIONS</i>				
Budgetary Financing Sources:				
Appropriations Received	-	\$28,151	-	\$28,151
Appropriations Used	-	(28,151)	-	(28,151)
Total Financing Sources	-	-	-	-
Ending Balance	-	-	-	-
<i>NET POSITION, END OF THE YEAR</i>	(\$591,642)	-	-	(\$591,642)

PART C—FINANCIAL INFORMATION

Schedule 7

U.S. OFFICE OF PERSONNEL MANAGEMENT
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 Retirement Program
 For the Year Ended September 30, 2006
 (In Millions)

	Retirement Fund	Retirement Feeder	2006 Combining
<i>BUDGETARY RESOURCES</i>			
Budgetary Authority:			
Appropriations: Received	-	\$28,151	\$28,151
Appropriated Trust Fund Receipts	\$87,164	-	87,164
Subtotal	87,164	28,151	115,315
Temporarily Not Available Pursuant to Public Law	(28,903)	-	(28,903)
Total Budgetary Resources	\$58,261	\$28,151	\$86,412
<i>STATUS OF BUDGETARY RESOURCES</i>			
Obligations Incurred:			
Direct	\$58,261	\$28,151	\$86,412
Total, Status of Budgetary Resources	\$58,261	\$28,151	\$86,412
<i>CHANGE IN OBLIGATED BALANCE</i>			
Obligated Balance, Net			
Unpaid Obligations, Brought Forward, October 1	\$4,851	-	\$4,851
Total Unpaid Obligated Balance, Net	4,851	-	4,851
Obligations Incurred	58,261	\$28,151	86,412
Less: Gross Outlays	57,983	28,151	86,134
Obligated Balance, Net End of Period			
Unpaid Obligations, Brought Forward, October 1	5,129	-	5,129
Total Unpaid Obligated Balance, Net	5,129	-	5,129
<i>NET OUTLAYS</i>			
Net Outlays:			
Gross Outlays	57,983	28,151	86,134
Less: Distributed Offsetting Receipts	28,184	-	28,184
Net Outlays	\$29,799	\$28,151	\$57,950

PART C—FINANCIAL INFORMATION

Required Supplemental Information

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2006
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2006
<i>BUDGETARY RESOURCES</i>							
Unobligated Balance—Brought Forward, October 1	-	\$10,116	\$28,717	\$349	\$101	-	\$39,283
Recoveries of Prior Year Obligations	-	-	-	10	6	-	16
Budgetary Authority							
Appropriations:							
Received [Note 13]	-	-	-	0	124	\$36,867	\$36,991
Other	-	-	-	-	(5)	(315)	(320)
Appropriated Trust Fund Receipts	87,164	-	-	-	-	-	87,164
Spending Authority from Offsetting Collections:							
Collected	-	33,549	3,855	1,021	196	-	38,621
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	47	35	242	10	-	334
Subtotal	-	33,596	3,890	1,263	206	-	38,955
Temporarily not Available Pursuant to Public Law	(28,903)	-	-	-	-	-	(28,903)
Total Budgetary Resources	\$58,261	\$43,712	\$32,607	\$1,622	\$432	\$36,552	\$173,186
<i>STATUS OF BUDGETARY RESOURCES</i>							
Obligations Incurred: [Note 13]							
Direct	\$58,261	\$31,180	\$2,158	-	\$268	\$36,552	\$128,419
Reimbursable	-	-	-	\$1,215	74	-	1,289
Subtotal	58,261	31,180	2,158	1,215	342	36,552	129,708
Unobligated Balance:							
Available	-	-	-	265	57	-	322
Not available	-	12,532	30,449	142	33	-	43,156
Subtotal	-	12,532	30,449	407	90	-	43,478
Total, Status of Budgetary Resources	\$58,261	\$43,712	\$32,607	\$1,622	\$432	\$36,552	\$173,186

LEGEND:

Civil Service Retirement and Disability Fund	CSRDF
Employees Health Benefits Fund	HBF
Employees Group Life Insurance Fund	LIF
Revolving Fund	RF
Salaries and Expenses account	S&E
Trust Fund feeder accounts	Feeder

PART C—FINANCIAL INFORMATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2006 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2006
<i>CHANGE IN OBLIGATED BALANCE</i>							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	\$4,851	\$3,781	\$649	\$132	\$89	\$830	\$10,332
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	-	1,388	315	248	91	-	2,042
Total Unpaid Obligated Balance, Net	4,851	2,393	334	(116)	(2)	830	8,290
Obligations Incurred [Note 13]	58,261	31,180	2,158	1,215	342	36,552	129,708
Less: Gross Outlays [Note 13]	57,983	31,284	2,121	959	329	36,530	129,206
Less: Recoveries of Prior Year Unpaid Obligations, Actual	-	-	-	10	6	-	16
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	47	35	242	10	-	334
Obligated Balance, Net—End of the Period							
Unpaid Obligations	5,129	3,677	686	378	96	852	10,818
Less: Uncollected customer Payments from Federal Sources, Brought Forward, October 1	-	1,435	350	490	101	-	2,376
Total Unpaid Obligated Balance, Net	5,129	2,242	336	(112)	(5)	852	8,442
<i>NET OUTLAYS</i>							
Net Outlays							
Gross Outlays [Note 13]	57,983	31,284	2,121	959	329	36,530	129,206
Less: Offsetting Collections	-	33,549	3,855	1,021	196	-	38,621
Less: Distributed Offsetting Receipts	28,184	-	-	-	-	-	28,184
Net Outlays	\$29,799	(\$2,265)	(\$1,734)	(\$62)	\$133	\$36,530	\$62,401

LEGEND:

Civil Service Retirement and Disability Fund	CSRDF
Employees Health Benefits Fund	HBF
Employees Group Life Insurance Fund	LIF
Revolving Fund	RF
Salaries and Expenses account	S&E
Trust Fund feeder accounts	Feeder

PART C—FINANCIAL INFORMATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2005
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2005
<i>BUDGETARY RESOURCES</i>							
Unobligated Balance - Brought Forward, October 1	-	\$8,408	\$27,370	\$242	\$63	-	\$36,083
Recoveries of Prior-Year Obligations	-	-	-	33	1	-	34
Budgetary Authority							
Appropriations:							
Received	-	-	-	25	127	\$7,867	8,019
Other	-	-	-	-	(2)	60	58
Appropriated Trust Fund Receipts	\$83,691	-	-	-	-	-	83,691
Spending Authority from Offsetting Collections:							
Collected	-	31,307	3,516	819	199	-	35,841
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	158	(5)	(129)	42	-	66
Subtotal	-	31,465	3,511	690	241	-	35,907
Nonexpenditure Transfers, Net Actual	-	-	-	6	-	-	6
Temporarily not Available Pursuant to Public Law	(28,649)	-	-	-	-	-	(28,649)
Total Budgetary Resources	\$55,042	\$39,873	\$30,881	\$996	\$430	\$7,927	\$135,149
<i>STATUS OF BUDGETARY RESOURCES</i>							
Obligations Incurred:							
Direct	\$55,042	\$29,757	\$2,164	\$25	\$267	\$7,927	\$95,182
Reimbursable	-	-	-	622	62	-	684
Subtotal	55,042	29,757	2,164	647	329	7,927	95,866
Unobligated Balance:							
Available	-	-	-	70	56	-	126
Not available	-	10,116	28,717	279	45	-	39,157
Subtotal	-	10,116	28,717	349	101	-	39,283
Total, Status of Budgetary Resources	\$55,042	\$39,873	\$30,881	\$996	\$430	\$7,927	\$135,149

LEGEND:

Civil Service Retirement and Disability Fund	CSRDF
Employees Health Benefits Fund	HBF
Employees Group Life Insurance Fund	LIF
Revolving Fund	RF
Salaries and Expenses account	S&E
Trust Fund feeder accounts	Feeder

PART C—FINANCIAL INFORMATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2005 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2005
<i>CHANGE IN OBLIGATED BALANCE</i>							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	\$4,599	\$3,580	\$649	\$212	\$100	\$764	\$9,904
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	-	1,230	339	377	57	-	2,003
Total Unpaid Obligated Balance, Net	4,599	2,350	310	(165)	43	764	7,901
Obligations Incurred	55,042	29,757	2,164	647	329	7,927	95,866
Less: Gross Outlays	54,790	29,556	2,145	704	331	7,861	95,387
Obligated Balance Transferred, Net	-	-	-	10	-	-	10
Less: Recoveries of Prior Year Unpaid Obligations, Actual	-	-	-	33	1	-	34
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	158	(5)	(129)	42	-	66
Obligated Balance, Net—End of the Period							
Unpaid Obligations	4,851	3,781	649	132	89	830	10,332
Less: Uncollected customer Payments from Federal Sources, Brought Forward, October 1	-	1,388	315	248	91	-	2,042
Total Unpaid Obligated Balance, Net	4,851	2,393	334	(116)	(2)	830	8,290
<i>NET OUTLAYS</i>							
Net Outlays							
Gross Outlays	54,790	29,556	2,145	704	331	7,861	95,387
Less: Offsetting Collections	-	31,307	3,516	819	199	-	35,841
Less: Distributed Offsetting Receipts	25,652	-	-	-	-	-	25,652
Net Outlays	\$29,138	(\$1,751)	(\$1,371)	(\$115)	\$132	\$7,861	\$33,894

LEGEND:

Civil Service Retirement and Disability Fund	CSRDF
Employees Health Benefits Fund	HBF
Employees Group Life Insurance Fund	LIF
Revolving Fund	RF
Salaries and Expenses account	S&E
Trust Fund feeder accounts	Feeder

Required Supplemental Information

