

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED BALANCE SHEET
As of December 31, 2005 and 2004

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 5,000,000.00	\$ 5,117,981.50
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	87,475,115,343.02	55,284,600,069.40
3. Accounts Receivable (Note 5)	43,104,933.00	0.00
4. Other Assets (Note 6)	425,880,004.00	417,381,000.00
5. Total Intragovernmental Assets	<u>\$ 87,949,100,280.02</u>	<u>\$ 55,707,099,050.90</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	9,376,178.82	7,392,278.94
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	0.00	0.00
F. General Property, Plant and Equipment (Note 10)	0.00	0.00
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	0.00	0.00
2. TOTAL ASSETS	<u><u>\$ 87,958,476,458.84</u></u>	<u><u>\$ 55,714,491,329.84</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 0.00	\$ 0.00
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	0.00	0.00
4. Total Intragovernmental Liabilities	<u>\$ 0.00</u>	<u>\$ 0.00</u>
B. Accounts Payable (Note 12)	\$ 266,129,600.94	\$ 110,704,715.62
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	537,397,092,000.00	504,073,807,000.00
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	769,904,000.00	491,344,000.00
4. TOTAL LIABILITIES	<u><u>\$ 538,433,125,600.94</u></u>	<u><u>\$ 504,675,855,715.62</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	(450,474,649,142.10)	0.00
D. Cumulative Results of Operations - Other Funds	0.00	(448,961,364,385.78)
6. TOTAL NET POSITION	<u><u>\$ (450,474,649,142.10)</u></u>	<u><u>\$ (448,961,364,385.78)</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 87,958,476,458.84</u></u>	<u><u>\$ 55,714,491,329.84</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	\$ 1,891,634,968.08	\$ 1,510,937,507.10
B. (Less: Earned Revenue)	(29,077,041,192.80)	(18,645,773,773.08)
C. Net Program Costs	<u>\$ (27,185,406,224.72)</u>	<u>\$ (17,134,836,265.98)</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ (27,185,406,224.72)</u></u>	<u><u>\$ (17,134,836,265.98)</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (477,660,055,366.82)	\$ (466,096,200,651.76)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(477,660,055,366.82)	(466,096,200,651.76)
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	0.00	0.00
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	0.00	0.00
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	(27,185,406,224.72)	0.00
7.B. All other funds	0.00	(17,134,836,265.98)
8. Net Change		
8.A. Earmarked funds	27,185,406,224.72	0.00
8.B. All other funds	0.00	17,134,836,265.98
9. Ending Balances		
9.A. Earmarked funds	(450,474,649,142.10)	0.00
9.B. All other funds	0.00	(448,961,364,385.78)

Department of Defense

DoD Medicare-Eligible Retiree Health Care Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>(450,474,649,142.10)</u>	\$ <u>(448,961,364,385.78)</u>

Department of Defense

DoD Medicare-Eligible Retiree Health Care Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>0.00</u>	\$ <u>0.00</u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
	<hr/>	<hr/>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 97,212,208.75	\$ 38,085,939,479.84
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	29,967,000,000.00	18,360,502,613.45
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3. Anticipated for rest of year, without advances	0.00	0.00
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<hr/> 29,967,000,000.00	<hr/> 18,360,502,613.45
4. Nonexpenditure transfers, net, anticipated and actual	0.00	6,863,497,386.55
5. Temporarily not available pursuant to Public Law	(22,967,150,640.75)	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<hr/> <hr/> \$ 7,097,061,568.00	<hr/> <hr/> \$ 63,309,939,479.84

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 2,365,840,759.76	\$ 2,478,221,735.68
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>2,365,840,759.76</u>	<u>2,478,221,735.68</u>
9. Unobligated balance:		
9.A. Apportioned	4,731,220,808.24	2,804,699,264.32
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>4,731,220,808.24</u>	<u>2,804,699,264.32</u>
10. Unobligated balance not available	0.00	58,027,018,479.84
11. Total status of budgetary resources	<u><u>\$ 7,097,061,568.00</u></u>	<u><u>\$ 63,309,939,479.84</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	387,880,772.27	262,058,524.40
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	387,880,772.27	262,058,524.40
13. Obligations incurred net (+/-)	<u>\$ 2,365,840,759.76</u>	<u>\$ 2,478,221,735.68</u>
14. Less: Gross outlays	(2,285,048,782.15)	(1,946,213,285.74)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	468,672,749.88	794,066,974.34
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	0.00	0.00
18.C. Total, unpaid obligated balance, net, end of period	<u>468,672,749.88</u>	<u>794,066,974.34</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	2,285,048,782.15	1,946,213,285.74
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	(29,077,041,192.80)	(18,645,773,773.08)
19.D. Net Outlays	<u><u>\$ (26,791,992,410.65)</u></u>	<u><u>\$ (16,699,560,487.34)</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	<u>2006 Combined</u>	<u>2005 Combined</u>
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>0.00</u>	<u>0.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
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Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 2,365,840,759.76	\$ 2,478,221,735.68
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	2,365,840,759.76	2,478,221,735.68
4. Less: Offsetting receipts (-)	(29,077,041,192.80)	(18,645,773,773.08)
5. Net obligations	<hr/> (26,711,200,433.04)	<hr/> (16,167,552,037.40)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	<hr/> 0.00	<hr/> 0.00
11. Total resources used to finance activities	<hr/> \$ (26,711,200,433.04)	<hr/> \$ (16,167,552,037.40)
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(482,247,543.39)	(967,910,086.22)
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (482,247,543.39)	<hr/> \$ (967,910,086.22)
18. Total resources used to finance the net cost of operations	<hr/> \$ (27,193,447,976.43)	<hr/> \$ (17,135,462,123.62)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2005 and 2004

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	7,741,000.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<u>7,741,000.00</u>	<u>0.00</u>
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	0.00	0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	300,751.71	625,857.64
28. Total components of Net Cost of Operations that will not require or generate resources	<u>300,751.71</u>	<u>625,857.64</u>
29. Total components of net cost of operations that will not require or generate resources in the current period	<u>\$ 8,041,751.71</u>	<u>\$ 625,857.64</u>
30. Net Cost of Operations	<u><u>\$ (27,185,406,224.72)</u></u>	<u><u>\$ (17,134,836,265.98)</u></u>

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

The Department of Defense (DoD) Medicare-Eligible Retiree Health Care Fund (hereby referred to as the Fund) was authorized by Public Law (PL) 106-398 for the accumulation of funds to finance the liabilities of the DoD and the uniformed services health care programs for specific Medicare-eligible beneficiaries.

These financial statements have been prepared to report the financial position and results of operations for the Fund, as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Trust Fund Accounting Division, Accounting Directorate, Defense Finance and Accounting Service, in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements," and accounting principles generally accepted in the United States of America. The Fund financial statements, in addition to the financial reports, are prepared by DFAS pursuant to OMB directives, which are used to monitor and control budgetary resources within the fund.

Detailed explanations of these financial statement elements are discussed in applicable footnotes.

1.B. Mission of the Reporting Entity

The mission of the Fund is to accumulate funds in order to finance, on an actuarially sound basis, liabilities of the DoD and the uniformed services health care programs for specific Medicare-eligible beneficiaries.

The asset accounts used to prepare the statements are categorized as either entity or non-entity assets, where applicable. Entity accounts consist of resources that the agency has the authority to use or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

1.C. Appropriations and Funds

The Fund was authorized by the "Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001." The purpose of this Fund is to pay the costs of all Military Service and uniformed service retiree health care programs for members or former members of a participating service who are entitled to retired or retainer pay and are Medicare-eligible, their dependents who are Medicare-eligible, and survivors who are Medicare-eligible.

The Fund appropriations are designated as special funds. These appropriations are used to fund the daily execution of the Fund mission.

The Fund is classified as a special fund and uses both receipt and expenditure accounts. The Fund symbol is 97X5472. The account uses a budget activity level structure. Lower level accounts are established as necessary to meet reporting requirements.

Effective FY 2006, quarter 1, the Fund started reporting its financial position and results of operations using the term "Earmarked Funds." Earmarked Funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish it from general revenues.

1.D. Basis of Accounting

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

In April 2000, the American Institute of Certified Public Accountants (AICPA), via its Statements on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles (GAAP) in the Auditor's Report*, as amended by SAS No. 91, established the following hierarchy of accounting principles for federal government entities.

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

In the absence of a pronouncement covered by Federal generally accepted accounting principles (GAAP) or another source of established accounting principles, the auditor of a federal government entity may consider other accounting literature, depending on its relevance to the circumstance. When directed by OMB, through OMB Circular No. A-136, GAAP in the United States of America serve as authoritative guidance for federal agencies in preparing reports that are addressed within this circular.

1.E. Revenues and Other Financing Sources

Financing sources for the Fund are provided primarily through an annual unfunded actuarial liability payment from Treasury, monthly contributions from the Military Services and other Uniformed Services (United States Coast Guard, the National Oceanic and Atmospheric Administration, and the United States Public Health Service), and interest earned on investments. The monthly contributions are calculated by multiplying the monthly per capita rates (full time and part time) provided by the DoD Office of the Actuary by the reported end strength for the most recently reported month. However, beginning in FY 2006, the Military Services and other Uniformed Services stopped making normal cost payments monthly. Instead, the Treasury now includes one lump sum cost payment for the entire year, on behalf of these contributors, in its annual amortization payment of the unfunded liability. This payment is made at the beginning of each fiscal year.

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

The Fund purchases and redeems non-marketable market-based securities issued by the United States Treasury, Bureau of Public Debt. Non-marketable market-based securities include Treasury bills, notes, bonds, Treasury Inflation-Protected Securities (TIPS), and overnight certificates. Treasury bills are short-term securities with maturities of 1 year or less and are

purchased at a discount. Treasury notes have maturities of at least 1 year, but not more than 10 years, and are purchased at a discount or premium. Treasury bonds are long-term securities with maturity terms of 10 years or more and are purchased at either a discount or premium.

The Fund records investments at book value on the trial balance in SGL 1600, Investments, Net.. Discounts and premiums are recorded on the trial balances in SGL 1611, Discount on US Treasury Securities Issued by Public Debt; and 1612, Premium on US Treasury Securities Issued by Public Debt; respectively. The Fund calculates amortization of discounts and premiums using the effective interest method and records this amortization on the trial balance in SGL 1613, Amortized Discount/Premium, US Treasury Securities Issued by Public Debt.

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

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

The U.S. Treasury allows the Fund to be fully invested. Therefore, the Fund Balance with Treasury (FBWT) may be zero during various quarters of the fiscal year.

Fund financial resources are maintained in U.S. Treasury Accounts. The Defense Finance and Accounting Service (DFAS) Denver processes all fund receipts and adjustments. DFAS-Denver prepares monthly reports, which provide information to the U.S. Treasury on transfers and deposits.

In addition, DFAS-Denver submits reports to Treasury, by appropriation, on collections received. Treasury then records this information in the FBWT account maintained in the Treasury system. Differences between the Fund recorded balance in the FBWT account and the Treasury FBWT are reconciled.

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented on the Balance Sheets, accounts receivable includes accounts, claims, and refunds receivable from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by the Fund.

1.L. Loans Receivable

N/A

1.M. Inventories and Related Property

N/A

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

1.O. General Property, Plant and Equipment

N/A

1.P. Advances and Prepayments

Advances are made to the Military Services for Military Treatment Facility expenses for the upcoming quarter. These payments are made each quarter, except the fourth quarter (year-end).

1.Q. Leases

N/A

1.R. Other Assets

N/A

1.S. Contingencies and Other Liabilities

N/A

1.T. Accrued Leave

N/A

1.U. Net Position

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

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Comparative Data

FY 2006 and FY 2005 financial statements are presented for comparative purposes.

1.X. Unexpended Obligations

N/A

1.Y. Undistributed Disbursements and Collections

N/A

Note 2.	Nonentity Assets
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As of December 31	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 87,958,476,458.84	\$ 55,714,491,329.84
5. Total Assets	\$ 87,958,476,458.84	\$ 55,714,491,329.84

Note 3.	Fund Balance with Treasury
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As of December 31	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	0.00	0.00
D. Special Funds	5,000,000.00	5,117,981.50
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 5,000,000.00	\$ 5,117,981.50
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 5,000,000.00	\$ 5,117,981.50
B. Fund Balance per	5,000,000.00	5,117,981.50
3. Reconciling Amount	\$ 0.00	\$ 0.00

Fund Balance with Treasury (FBWT) decreased \$118 thousand from FY 2005 to FY 2006 due to the implementation of a new investment strategy that required the investment of all the funds on a daily basis. At each month end, approximately \$5,000 thousand is held back to ensure that sufficient funds are available to cover estimated month-end disbursements with the remaining funds invested in non-marketable market-based securities.

Status of Fund Balance with Treasury

As of December 31	2006	2005
1. Unobligated Balance		
A. Available	\$ 3,562,167,205.69	\$ (4,058,798,122.23)
B. Unavailable	0.00	58,027,018,479.84
2. Obligated Balance not yet Disbursed	\$ 83,154,658,209.90	\$ (53,963,102,376.11)
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (86,711,825,415.59)	\$ 0.00
5. Total	\$ 5,000,000.00	\$ 5,117,981.50

The Office of Management and Budget advised that certain U.S. Standard General Ledger accounts are inconsistent with the budget presentations for certain Special and Trust Fund Receipts. Consequently, the unobligated fund balance brought forward in FY 2005 had to be reclassified as receipts unavailable or precluded from obligation for the DoD Medicare-Eligible Retiree Health Care Fund. Lines 1A and 1B (Unobligated Balances); Line 2 (Obligated Balance not yet Disbursed); and Line 4 (Non-FBWT Budgetary Accounts) were impacted by the OMB-directed restatement for FY 2005. Beginning with the September 30, 2005, year-end reporting, the unobligated unavailable balance is no longer visible on the Statement of Budgetary Resources.

Disclosures Related to Suspense/Budget Clearing Accounts

As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3875	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3880	0.00	0.00	0.00	0.00
F3882	0.00	0.00	0.00	0.00
F3885	0.00	0.00	0.00	0.00
F3886	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs) \$	0.00 \$	0.00 \$	0.00 \$	0.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
2. Total In-transit Disbursements, Net \$	0.00 \$	0.00 \$	0.00 \$	0.00

Note 4.	Investments and Related Interest
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As of December 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 75,390,281,038.80		\$ 11,308,933,982.77	\$ 86,699,215,021.57	\$ 86,534,815,312.74
B. Accrued Interest	775,900,321.45			775,900,321.45	775,900,321.45
C. Total Intragovernmental Securities	<u>\$ 76,166,181,360.25</u>		<u>\$ 11,308,933,982.77</u>	<u>\$ 87,475,115,343.02</u>	<u>\$ 87,310,715,634.19</u>
2. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	N/A

As of December 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 52,371,717,294.43		\$ 2,385,452,056.02	\$ 54,757,169,350.45	\$ 54,963,759,262.87
B. Accrued Interest	527,430,718.95			527,430,718.95	527,430,718.95
C. Total Intragovernmental Securities	<u>\$ 52,899,148,013.38</u>		<u>\$ 2,385,452,056.02</u>	<u>\$ 55,284,600,069.40</u>	<u>\$ 55,491,189,981.82</u>
4. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	N/A

The increase in Net Investments from \$55,284,600 thousand in FY 2005 to \$87,475,115 thousand in FY 2006 represents contributions in excess of beneficiary payments, accrued interest earned and a change in the normal cost funding methodology in FY 2006. Beginning in FY 2006, the Military Services and other Uniformed Services stopped making normal cost payments monthly. Instead, Treasury makes one lump sum payment on behalf of these contributors, for normal cost for the entire year at the beginning of the year which increased investments in the first quarter. The investments listed above in the FY 2006 table are presented at Market Value as of December 31, 2005.

Listed below are the Par Values of the U.S. Treasury Securities referenced above.

<u>PAR VALUE FY 2006 (\$000)</u>		<u>PAR VALUE FY2005 (\$000)</u>	
Bills	\$4,500,000	Bills	\$0
Bonds	2,000,000	Bonds	2,000,000
Notes	22,634,102	Notes	23,384,102
Overnights	5,718,070	Overnights	18,650,255
TIPS (see Note)	<u>40,538,109</u>	TIPS (see Note)	<u>8,337,360</u>
Total	\$75,390,281	Total	\$52,371,717

Note: Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, Treasury pays the adjusted principal or original principal, whichever is greater.

The investments for FY 2006, quarter 1, include an investment of \$4,500,000 thousand in Treasury Bills. These nonmarketable, market-based securities are short-term securities with maturities of 1 year or less and are purchased at a discount. The investment strategy has changed to better match the maturities of the investments to the timing of the cash flows.

Contributions to the Medicare-Eligible Retiree Health Care Fund (the Fund) are calculated to maintain the Fund on an actuarially sound basis. This process means that there will be sufficient funds to make all covered payments on behalf of eligible beneficiaries each year, and that the Fund balance is projected to eventually equal the actuarial liability, i.e., all unfunded liabilities are liquidated. In order to accomplish this objective, normal costs are calculated to fully fund the current year projected liability for active duty members and reservists. In addition, amortization payments are calculated to fund liabilities that were present at the Fund's inception (initial unfunded) and any emerging actuarial gains or losses. The initial unfunded liability of the program is being amortized over a 50-year period. All subsequent gains and losses experienced by the system are amortized over a 30-year period. Methods and assumptions used to compute actuarial costs and liabilities, and to amortize the initial unfunded liability as well as all actuarial gains and losses, must be approved by the Department of Defense Medicare-Eligible Retiree Health Care Board of Actuaries. This approval is required by Chapter 56 of Title 10, United States Code. The Board is a Federal Advisory Committee appointed by the Secretary of Defense.

Note 5.	Accounts Receivable
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As of December 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 43,104,933.00	N/A	\$ 43,104,933.00	\$ 0.00
2. Nonfederal Receivables (From the Public)	\$ 10,025,056.95	\$ (648,878.13)	\$ 9,376,178.82	\$ 7,392,278.94
3. Total Accounts Receivable	\$ 53,129,989.95	\$ (648,878.13)	\$ 52,481,111.82	\$ 7,392,278.94

Intragovernmental

The \$43,105 thousand in Intragovernmental receivables was a result of the Army Reserve underpaying its normal cost contribution for September 2005. This discrepancy was not discovered until the FY 2005 financial statements had been published. Management believes that the effects of this uncorrected financial statement misstatement of accounts receivable at the close of FY 2005 is immaterial and so stated this fact in the Management Representation Letter to the auditors, dated November 7, 2005. We expect this receivable to be recouped during the second quarter of FY 2006.

Non-Federal

Non-Federal Accounts Receivable increased \$1,984 thousand (27 percent). The increase is due primarily to the fiscal intermediary (Wisconsin Physician Service) identifying additional erroneous payments, recording/reporting the accounts receivable, and placing the beneficiary/provider on offset in its claims processing system. Also, approximately \$1.9 million of the \$10.0 million of the total accounts receivable represent current accounts receivable due to the Fund from the TRICARE Mail Order Pharmacy (TMOP) contractor (Express Scripts) for co-payments made by Medicare-eligible beneficiaries for generic drugs (\$3/script) and band-name drugs (\$9/script). These co-payments are made by beneficiaries to Express Scripts at the time they order their prescription refills through the TMOP. Express Scripts then refunds to the government those co-payments at a later date. This particular account has increased slightly over the past several years due to a slight increase in the demand for pharmaceuticals through the TMOP program.

In the table below, the non-delinquent and delinquent amounts through 180 days are held by the TRICARE Dual Eligible Fiscal Intermediary Contractor (TDEFIC) per contract requirements. The TDEFIC holds these accounts and tries to recoup the receivables from the providers. If the TDEFIC has not received payment by the time it gets another claim from that particular provider, the TDEFIC deducts the amount owed the government in the accounts receivable (AR) from the amount owed on the new claim, pays the difference, and closes out the receivable. Once the accounts age to 180 days, the larger debts, totaling at least \$600, are transferred to TMA General Counsel for review and transfer to Treasury. Accounts that are less than \$600 are held by the TDEFIC contractor for the life of the contract. The contractor continues to pursue collection or claims offset. When the contract is awarded to a new contractor, these AR are transferred to that contractor for appropriate collection action.

The Allowance for Estimated Uncollectibles is calculated as a percentage (3 percent) of receivables from all sources. The majority of the receivables are held by the TDEFIC. The allowance for uncollectible accounts is based on an analysis of the actual uncollectible amounts experienced during FY 2004 and the first 3 quarters of FY 2005.

AGED ACCOUNTS RECEIVABLE GROUPS

CATEGORY	Intragovernmental	Nonfederal
Non-delinquent		
Current	\$43,104,933	\$3,999,801
Non-current		
Delinquent		
1 to 30 days		\$2,549,112
31 to 60 days		
61 to 90 days		\$664,996
91 to 180 days		\$1,404,169
181 days to 1 year		\$1,406,979
>1 year and \leq 2 yrs		
> 2 years and \leq 6 yrs		
> 6 years and \leq 10 yrs		
> 10 years		
Totals	\$43,104,933	\$10,025,057

Note 6.	Other Assets
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As of December 31	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 425,880,004.00	\$ 417,381,000.00
B. Total Intragovernmental Other Assets	\$ 425,880,004.00	\$ 417,381,000.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	0.00	0.00
C. Total Nonfederal Other Assets	\$ 0.00	\$ 0.00
3. Total Other Assets	\$ 425,880,004.00	\$ 417,381,000.00

Line 1A, Advances and Prepayments, increased \$8,499 thousand in FY 2006. Advances are used to pay the Military Treatment Facility expenses for the upcoming quarter, except at yearend. The first quarter FY 2006 payments were made in October 2005, and the second quarter FY 2006 advances were paid in late December 2005.

Note 7.	Cash and Other Monetary Assets
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As of December 31	2006	2005
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency (Nonpurchased)	0.00	0.00
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

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

Direct Loan and/or Loan Guarantee Programs The entity operates the following direct loan and/or Loan guarantee program(s)

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Direct Loans Obligated After FY 1991

As of December 31	2006	2005
Loan Programs		
1. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
2. Total Loans Receivable	\$ 0.00	\$ 0.00

Total Amount of Direct Loans Disbursed

As of December 31	2006	2005
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Subsidy Expense for Post FY 1991 Direct Loan

As of December 31

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2006	2005		
5. Total Direct Loan Subsidy Expense: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00		

Subsidy Rate for Direct Loans

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

Schedule for Reconciling Subsidy Cost Allowance Balances for Post 1991 Direct Loans

As of December 31	2006	2005
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

As of December 31	2006		2005	
Loan Guarantee Program(s)				
1. Military Housing Privatization Initiative				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0.00	\$	0.00
2. Armament Retooling & Manufacturing Support Initiative				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0.00	\$	0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable				
	\$	0.00	\$	0.00

Guaranteed Loans Outstanding

As of December 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of December 31	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

Subsidy Expense for Post FY 1991 Loan Guarantees

As of December 31

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	2005				
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

Subsidy Rates for Loan Guarantees

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

Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees
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As of December 31	2006	2005
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00

Administrative Expenses

As of December 31	2006	2005
1. Direct Loans		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00
2. Loan Guarantees		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	\$ 0.00	\$ 0.00

Note 9.	Inventory and Related Property
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As of December 31	2006	2005
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Inventory, Net

As of December 31	2006			2005		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	0.00	0.00	AC
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	

Legend for Valuation Methods:

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

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

Operating Materials and Supplies, Net

As of December 31	2006			2005		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

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

NRV = Net Realizable Value
 O = Other

Stockpile Materials, Net

As of December 31	2006			2005		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
1. Stockpile Materials Categories						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00		AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		

Legend for Valuation Methods:

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

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

Note 10. General PP&E, Net

As of December 31	2006					2005	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
1. Major Asset Classes							
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$	0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	0.00	\$ 0.00	0.00		0.00
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00		0.00
D. Software	S/L	2-5 Or 10	0.00	0.00	0.00		0.00
E. General Equipment	S/L	5 or 10	0.00	0.00	0.00		0.00
F. Military Equipment	S/L	Various	0.00	0.00	0.00		0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00		0.00
H. Construction-in- Progress	N/A	N/A	0.00	N/A	0.00		0.00
I. Other			0.00	0.00	0.00		0.00
J. Total General PP&E			\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Assets Under Capital Lease

As of December 31	2006	2005
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Other	0.00	0.00
D. Accumulated Amortization	0.00	0.00
	\$ 0.00	\$ 0.00
E. Total Capital Leases	\$ 0.00	\$ 0.00

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of December 31	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	450,007,851,066.74	443,242,089,255.84
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	769,904,000.00	491,344,000.00
F. Total Nonfederal Liabilities	\$ 450,777,755,066.74	\$ 443,733,433,255.84
3. Total Liabilities Not Covered by Budgetary Resources	\$ 450,777,755,066.74	\$ 443,733,433,255.84
4. Total Liabilities Covered by Budgetary Resources	\$ 87,655,370,534.20	\$ 60,942,422,459.78
5. Total Liabilities	\$ 538,433,125,600.94	\$ 504,675,855,715.62

Line 2E, Other Liabilities, increased \$278,560 thousand in FY 2006, quarter 1, because of the increase in the Incurred But Not Reported (IBNR) costs. The rationale for the increase is discussed in Footnote 15. Beginning with the September 30, 2005, year-end reporting, it was determined that the IBNR costs were not Other Unfunded Employment-Related Liabilities; therefore, the Fund reclassified the IBNR costs to Other Accrued Liabilities to accurately classify the liability.

Line 4, Total Liabilities Covered by Budgetary Resources, increased \$26,730,949 thousand in FY 2006, quarter 1, due to increased total assets. The increased assets resulted from contributions exceeding beneficiary payments. (Please see further discussion at Footnotes 4 and 15.)

Note 12.	Accounts Payable
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As of December 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 0.00	\$ N/A	\$ 0.00	\$ 0.00
2. Nonfederal Payables (to the Public)	266,129,600.94	0.00	266,129,600.94	110,704,715.62
3. Total	<u>\$ 266,129,600.94</u>	<u>\$ 0.00</u>	<u>\$ 266,129,600.94</u>	<u>\$ 110,704,715.62</u>

Nonfederal

The increase in the non-federal accounts payable is due to an understatement of accounts payable in early FY 2005 and an overstatement of the FY 2005 undelivered orders. This situation resulted from the backlog of health care claims processing through the new claims record (TRICARE Encounter Data System – TEDS). The backlog occurred because the TRICARE Management Activity (TMA) converted from the old claims record, Health Care Service Record (HCSR), to TEDS. Processing problems with the TEDS records were not corrected until early second quarter of FY 2005, which resulted in a backlog of claims records not being eliminated until the third quarter of FY 2005.

Note 13.	Debt
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As of December 31	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of December 31	2006			2005	
	Current Liability	Noncurrent Liability	Total	Total	
1. Environmental Liabilities--					
Nonfederal					
A. Accrued Environmental Restoration (DERP funded) Costs:					
1. Active Installations-- Environmental Restoration (ER)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS)--ER	0.00	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	0.00	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Costs (Non-DERP funds)					
1. Active Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00	0.00
2. Active Installations-- Environmental Closure Requirements	0.00	0.00	0.00	0.00	0.00
3. Active Installations-- Environ. Response at Active Ranges	0.00	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)					
1. BRAC Installations-- Environmental Restoration (ER)	0.00	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00	0.00
3. BRAC Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 15.	Other Liabilities
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As of December 31	2006			2005	
	Current Liability	Noncurrent Liability	Total	Total	
1. Intragovernmental					
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00		0.00
C. Disbursing Officer Cash	0.00	0.00	0.00		0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00		0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00		0.00
F. Other Liabilities	0.00	0.00	0.00		0.00
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
2. Nonfederal					
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$	491,344,000.00
B. Advances from Others	0.00	0.00	0.00		0.00
C. Deferred Credits	0.00	0.00	0.00		0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00		0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00		0.00
F. Nonenvironmental Disposal Liabilities					
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00		0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00		0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00		0.00
(4) Other	0.00	0.00	0.00		0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00		0.00
H. Capital Lease Liability	0.00	0.00	0.00		0.00
I. Other Liabilities	769,904,000.00	0.00	769,904,000.00		0.00
J. Total Nonfederal Other Liabilities	\$ 769,904,000.00	\$ 0.00	\$ 769,904,000.00	\$	491,344,000.00
3. Total Other Liabilities	\$ 769,904,000.00	\$ 0.00	\$ 769,904,000.00	\$	491,344,000.00

In line 2A, the \$491,344 thousand (100 percent) decrease in Accrued Funded Payroll and Benefits is due to the recording of Incurred But Not Reported (IBNR) costs as Other Accrued Liabilities beginning in 4th Quarter, 2005. These amounts were previously recorded as Other Unfunded Employment Related Liabilities. The IBNR costs are not unfunded and, therefore, were reclassified to Other Accrued Liabilities, which is line 2I.

In line 2I, Other Liabilities, the current IBNR liabilities increased \$278,560 thousand from FY 2005, quarter 1 to FY 2006, quarter 1. The explanation of this fluctuation is not available because there was no IBNR estimate for FY 2005, quarter 1 due to a system issue. However, this increase can be partially attributed to the change between FY 2005, quarter 4 and FY 2006, quarter 1 for the following reasons:

1. \$42,277 thousand – an expected increase due to medical cost trends.
2. \$8,970 thousand – an increase due to the improvement of the Care-End date versus Care-Beginning date assumption process. In addition, the IBNR reserve increased \$9 thousand.
3. \$28,111 thousand – an increase due to a residual change in methodology. This is the equivalent of the gain/loss component of a change in actuarial liability. There are hundreds of factors and assumptions that come into play, and it is impossible to quantify every reason for change. However, the general reason for the increase in the residual change in methodology can be attributed to increases in the utilization of medical services and changes in incurred vs. paid claims patterns observed during the first quarter of FY 2006.
4. (\$71,616 thousand) – a decrease due to an acceptance date versus processes date adjustment added as a result of adjusting paid claims in the Legacy triangles, Board of Actuaries' spreadsheets, and tying to the accounting reports. This revision to the purchased care claims triangles ties future adjustments to already paid claims to the month and year in which the adjustment was made rather than back to the month and year in which the claim was initially paid.

Capital Lease Liability

As of December 31	2006				2005	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2006	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2007	0.00	0.00	0.00	0.00	0.00	0.00
C. 2008	0.00	0.00	0.00	0.00	0.00	0.00
D. 2009	0.00	0.00	0.00	0.00	0.00	0.00
E. 2010	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

Note 16.	Commitments and Contingencies
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Note 17.**Military Retirement Benefits and Other Employment Related Actuarial Liabilities**

As of December 31	2006			2005	
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	537,397,092,000.00		(87,389,240,933.26)	450,007,851,066.74	443,242,089,255.84
D. Total Pension and Health Benefits	\$ 537,397,092,000.00		\$ (87,389,240,933.26)	\$ 450,007,851,066.74	\$ 443,242,089,255.84
2. Other					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Other	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:					
	\$ 537,397,092,000.00		\$ (87,389,240,933.26)	\$ 450,007,851,066.74	\$ 443,242,089,255.84

Actuarial Cost Method Used:

Assumptions:

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

Other Information:

The reported Medicare Eligible Retiree Health Care Fund (MERHCF) actuarial liability is only changed once a year, at September 30. For this reason, there is no change in the December 31, 2005 actuarial liability from the September 30, 2005 actuarial liability. For the same reason, the change in the actuarial liability from December 31, 2004 to December 31, 2005 is the same as the change from September 30, 2004 to September 30, 2005. This FY 2005 change in the actuarial liability is developed in the table below.

Change in MERHCF Actuarial Liability

(\$ in Thousands)

a. Actuarial Liability as of 09/30/04 (all uniformed services Medicare)	\$504,073,807
b. Expected Normal Cost for FY 2005	\$10,613,753
c. Expected Benefit Payments for FY 2005	(\$6,546,888)
d. Interest Cost for FY 2005	\$31,629,776
e. Actuarial (gains)/losses due to other factors	(\$14,902,660)
f. Actuarial (gains)/losses due to changes in trend assumptions	\$12,529,304
g. Actuarial Liability as of 09/30/05 (all uniformed services Medicare)	\$537,397,092
h. Change in Actuarial Liability	\$33,323,285

Each year the actuarial liability is expected to increase with normal cost, decrease with benefit payments, and increase with the interest cost. In the absence of actuarial gains and losses or benefit changes, an increase of \$35,696,641 thousand in the actuarial liability was expected during FY 2005 (line b plus line c plus line d). The September 30, 2005, actuarial liability includes changes due to new assumptions and actuarial experience. The actuarial loss due to new medical trend assumptions is \$12,529,304 thousand (line f). The actuarial gains and losses due to other factors (net - \$14,902,660 thousand, line e) includes new population data, other actuarial experience being different from assumed and actuarial assumption changes other than the change in trend assumptions.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of December 31	2006	2005

As of December 31	2006	2005
1. Intragovernmental Costs	\$ 603,493,360.00	\$ 466,741,000.00
2. Public Costs	1,288,141,608.08	1,044,196,507.10
3. Total Costs	\$ 1,891,634,968.08	\$ 1,510,937,507.10
4. Intragovernmental Earned Revenue	\$ (29,078,620,349.76)	\$ (18,645,773,773.08)
5. Public Earned Revenue	1,579,156.96	0.00
6. Total Earned Revenue	\$ (29,077,041,192.80)	\$ (18,645,773,773.08)
7. Net Cost of Operations	\$ (27,185,406,224.72)	\$ (17,134,836,265.98)

Intragovernmental Gross Costs represent the distribution of funds from the MERHCF to the military treatment facilities (MTFs) for care provided to Medicare-eligible uniformed service beneficiaries in our MTFs. The increase of \$136,752 thousand is attributable to increased ambulatory pharmacy use and increases in actual costs per encounter for inpatient, outpatient and pharmacy care/services. Demand for inpatient and outpatient services has remained relatively constant since the Fund's inception. Demand for ambulatory pharmacy services has increased each year since FY 2003. The increase in pharmacy services is due to a combination of an increase in the number of users and an increase in average demand per user.

Earned Revenues for Program Costs:

(\$ in thousands)

	FY 2006	FY 2005
1. Uniformed Services Contributions	\$11,115,152	\$2,492,206
2. U.S. Treasury Annual Unfunded Liability Payment	16,612,000	15,721,000
3. Interest on Investments	1,351,468	432,568
4 Total	\$29,078,620	\$18,645,774

Line 1, above reflects the total contributions from the Military Services plus the U.S. Public Health Service, U.S. Coast Guard, and National Oceanic and Atmospheric Administration, known collectively as the Uniformed Services. These contributions also include an accounts receivable owed by the Army Reserves in the amount of \$43,105 thousand as reflected in note 5.

The Uniformed Services contributions increased \$8,622,946 thousand from FY 2005 to FY 2006. This fluctuation is primarily due to a change in policy that required upfront annual contributions rather than monthly contributions. This fluctuation also includes an increase in normal cost contribution rates provided by the Board of Actuaries.

Line 2, U.S. Treasury Annual Unfunded Liability Payment, increased \$891,000 thousand from FY 2005 to FY 2006 due to the computation furnished by the Board of Actuaries. The FY 2005 Defense Authorization Act assigns Treasury, vice the Uniformed Services, the responsibility of paying normal cost contributions into the Fund, starting in FY 2006.

Line 3, Interest on Investments, increased \$918,900 thousand from FY 2005 to FY 2006. This fluctuation is primarily due to the large increase in contributions received in October 2005 and the compounding effect of higher rates of return.

Public Earned Revenue represents accounts receivable. From the close of FY 2005, quarter 4, through the close of FY 2006, quarter 1, accounts receivable decreased \$1,579 thousand. During FY 2006, quarter 1, the TRICARE Dual Eligible Fiscal Intermediary Contractor (TDEFIC) aggressively pursued collections of \$5,500 thousand while it identified only \$3,900 thousand in new accounts receivable.

Gross Costs with the Public increased \$243,945 thousand due to the following reasons:

- 1) An increase in payments to the daily Purchased Care Operations and Maintenance of \$236,529 thousand.
- 2) An increase in the change of Incurred But Not Reported (IBNR) payables of \$7,741 thousand. This increase represents the net difference in the fourth quarter FY 2005 IBNR change of \$270,819 thousand, and the fourth quarter FY 2004 IBNR change of \$236,432 thousand.
- 3) An increase in Allowance for Estimated Uncollectible of \$301 thousand.
- 4) A decrease in Accounts Receivables of \$626 thousand.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of December 31	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Civilian Health	0.00	0.00	0.00	0.00
C. Civilian Life Insurance	0.00	0.00	0.00	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of December 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 0.00	\$ 0.00
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Information Related to the Statement of Budgetary ResourcesApportionment Categories

The Office of Management and Budget Circular No. A-136, section 9.27, specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. This disclosure should agree with the aggregate of the related information as included in each reporting entity's SF 133 and lines 8A and 8B in the Statement of Budgetary Resources (SBR). The Category A direct obligation total is \$2,365,841 thousand. There were no category B or exempt obligations.

Undelivered Orders

N/A

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the SBR), are not included in the "Spending Authority from Offsetting Collections and Adjustments" line on the SBR or the "Spending Authority from Offsetting Collections and Adjustments" line on the Statement of Financing.

Note 21.	Disclosures Related to the Statement of Financing
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Line 4, Less: Offsetting receipts, increased \$10,432,846 thousand for the following reasons:

Contributions from the Uniformed Services increased \$8,622,946 thousand primarily due to a change in policy that requires upfront annual contributions rather than monthly contributions.

The US Treasury annual unfunded liability payment increased \$891,000 thousand due to the computation furnished by the Board of Actuaries.

The interest on investments increased \$918,900 thousand due to the large increase in contributions received in October 2005 and the compounding effect of higher rates of return.

Note 22.	Disclosures Related to the Statement of Custodial Activity
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Note 23.	Earmarked Funds
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BALANCE SHEET				
As of December 31	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

ASSETS

Fund balance with

Treasury	\$	0.00	\$	5,000,000.00	\$	0.00	\$	5,000,000.00
Investments		0.00		87,475,115,343.02		0.00		87,475,115,343.02
Accounts and Interest Receivable		0.00		52,481,111.82		0.00		52,481,111.82
Other Assets		0.00		425,880,004.00		0.00		425,880,004.00
Total Assets	\$	0.00	\$	87,958,476,458.84	\$	0.00	\$	87,958,476,458.84

LIABILITIES and NET POSITION

Military Retirement

Benefits and Other

Employment Related

Actuarial Liabilities	\$	0.00	\$	537,397,092,000.00	\$	0.00	\$	537,397,092,000.00
Other Liabilities		0.00		1,036,033,600.94		0.00		1,036,033,600.94
Unexpended Appropriations		0.00		0.00		0.00		0.00
Cumulative Results of Operations		0.00		(450,474,649,142.10)		0.00		(450,474,649,142.10)
Total Liabilities and Net Position	\$	0.00	\$	87,958,476,458.84	\$	0.00	\$	87,958,476,458.84

STATEMENT OF NET COST

As of December 31

Program Costs	\$	0.00	\$	1,891,634,968.08	\$	0.00	\$	1,891,634,968.08
Less Earned Revenue		0.00		(29,077,041,192.80)		0.00		(29,077,041,192.80)
Net Program Costs	\$	0.00	\$	(27,185,406,224.72)	\$	0.00	\$	(27,185,406,224.72)
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
Net Cost of Operations	\$	0.00	\$	(27,185,406,224.72)	\$	0.00	\$	(27,185,406,224.72)

STATEMENT OF CHANGES IN NET POSITION

As of December 31

Net Position Beginning

of the Period	\$	0.00	\$	(477,660,055,366.82)	\$	0.00	\$	(477,660,055,366.82)
Net Cost of Operations		0.00		(27,185,406,224.72)		0.00		(27,185,406,224.72)
Other Nonexchange Revenue		0.00		0.00		0.00		0.00
Change in Net Position	\$	0.00	\$	27,185,406,224.72	\$	0.00	\$	27,185,406,224.72
Net Position End of Period	\$	0.00	\$	(450,474,649,142.10)	\$	0.00	\$	(450,474,649,142.10)

1. A description of the fund's purpose, how the component accounts for and reports the fund, and its authority to use those revenue, and other financing sources.

The purpose of the Medicare-Eligible Retiree Health Care Fund (MERHCF) fund is to accumulate funds to finance, on an actuarially sound basis, liabilities of the Department of Defense and the uniformed services health care programs for specific Medicare-eligible beneficiaries.

The MERHCF was authorized by Public Law 106-398. The Fund appropriations are designated as special funds. These appropriations are used to fund the daily execution of the Fund mission. The Fund is classified as a special fund and uses both receipt and expenditure accounts. The account uses a budget activity level structure and establishes lower level accounts as necessary to meet reporting requirements.

The Fund prepares financial statements to report the financial position and results of operations as required by the Chief Financial Officers Act of 1990, which was expanded by the Government Management Reform Act of 1994.

2. The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows or resources to the Department.

Financing sources for the MERHCF, which are inflows only to the Fund, are provided primarily through an annual unfunded actuarial liability payment from Treasury, annual contribution(s) from the Military Services and other Uniformed Services (US Coast Guard, the National Oceanic and Atmospheric Administration, and the US Public Health Service), and interest earned from the Fund's investments.

On the consolidated Balance Sheet, assets section, the Fund Balance with Treasury \$5,000 thousand represents the funds held back at the end of the month for any unexpected expenses. Next, the \$87,475,115 thousand is the net investment of the fund, which is comprised of bills, bonds, notes, overnights, and Treasury Inflation-Protected Securities as well as interest receivable. Then the Accounts and Interest Receivable is the accounts receivable of \$43,105 thousand underpayment of contribution by the Army Reserve in FY 2005, the accounts receivable of \$10,025 thousand that the TRICARE debt collection contractors are collecting from the retirees, and the allowance for bad debts. Finally, the Other Assets of \$425,880 thousand is the advance that the Fund made to the Military Treatment Facilities for the first quarter of FY 2006.

The consolidated Balance Sheet, liabilities section, starts with \$537,397,092 thousand for the actuarial health insurance liability. After that, the \$1,036,034 thousand is comprised of Incurred But Not Reported (IBNR) amounts of \$769,904 thousand and \$284,131 thousand in accounts payable. Finally, the \$450,474,649 thousand is the net difference since inception of the activity between the revenues and expenses, interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

Next, the consolidated Statement of Net Cost, has Total Program Costs of \$1,891,635 thousand. This is a combination of operating expenses, bad debt expenses, and future unfunded expenses. The Earned Revenue line is comprised of contributions and interest revenue from investments.

Last, the consolidated Statement Changes in Net Position displays the Net Position Beginning of the Period of \$477,660,055 thousand. This amount is the net difference since inception of the activity between the revenues and expenses, and the Net Cost of Operations of \$27,185,406 thousand, which represents interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

3. Any change 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.

There have been no changes in legislation during or subsequent to this reporting period that significantly changed the purpose of this Fund.

4. Any elimination(s) between earmarked funds and other funds within the reporting entity should be disclosed.

The MERHCF only trades with other entities outside the Fund—that is, the Military Services, the other Uniformed Services, and the US Treasury.

Note 24.	Other Disclosures
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As of December 31	2006 Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

2006	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2007		0.00		0.00		0.00		0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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