

Department of Defense
Military Retirement Fund
CONSOLIDATED BALANCE SHEET
As of December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 26,182,327.92	\$ 21,035,044.49
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	220,435,717,171.79	207,618,045,285.14
3. Accounts Receivable (Note 5)	0.00	0.00
4. Other Assets (Note 6)	0.00	0.00
5. Total Intragovernmental Assets	\$ 220,461,899,499.71	\$ 207,639,080,329.63
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	25,709,468.51	23,452,964.44
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	\$ 220,487,608,968.22	\$ 207,662,533,294.07
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)	1,055,521.30	927,535.69
4. Total Intragovernmental Liabilities	\$ 1,055,521.30	\$ 927,535.69
B. Accounts Payable (Note 12)	\$ 0.00	\$ 0.00
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	892,111,600,551.72	834,582,098,074.36
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)	3,433,957,776.33	3,126,229,316.40
4. TOTAL LIABILITIES	\$ 895,546,613,849.35	\$ 837,709,254,926.45
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	(675,059,004,881.13)	0.00
D. Cumulative Results of Operations - Other Funds	0.00	(630,046,721,632.38)
6. TOTAL NET POSITION	\$ (675,059,004,881.13)	\$ (630,046,721,632.38)
7. TOTAL LIABILITIES AND NET POSITION	\$ 220,487,608,968.22	\$ 207,662,533,294.07

Department of Defense
Military Retirement 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	\$ 10,011,839,246.17	\$ 9,466,143,386.17
B. (Less: Earned Revenue)	(32,530,109,187.15)	(29,114,482,764.74)
C. Net Program Costs	\$ (22,518,269,940.98)	\$ (19,648,339,378.57)
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	\$ (22,518,269,940.98)	\$ (19,648,339,378.57)

Department of Defense
Military Retirement 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	\$ (697,577,274,822.11)	\$ (649,695,061,010.95)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(697,577,274,822.11)	(649,695,061,010.95)
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	(22,518,269,940.98)	0.00
7.B. All other funds	0.00	(19,648,339,378.57)
8. Net Change		
8.A. Earmarked funds	22,518,269,940.98	0.00
8.B. All other funds	0.00	19,648,339,378.57
9. Ending Balances		
9.A. Earmarked funds	(675,059,004,881.13)	0.00
9.B. All other funds	0.00	(630,046,721,632.38)

Department of Defense
Military Retirement 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	\$ (675,059,004,881.13)	\$ (630,046,721,632.38)

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	\$ 0.00	\$ 0.00
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	0.00
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	0.00	0.00
7.B. All other funds		
8. Net Change		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	0.00	0.00
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	0.00	0.00

Department of Defense
Military Retirement 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	\$	0.00	\$	0.00

Department of Defense
 Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 181,133,123,920.58
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	49,311,000,000.00	30,277,667,305.79
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	49,311,000,000.00	30,277,667,305.79
4. Nonexpenditure transfers, net, anticipated and actual	0.00	16,307,332,694.21
5. Temporarily not available pursuant to Public Law	(39,300,187,600.38)	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	\$ 10,010,812,399.62	\$ 227,718,123,920.58

Department of Defense
Military Retirement 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	\$ 10,010,812,399.62	\$ 9,464,316,742.74
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	10,010,812,399.62	9,464,316,742.74
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	218,253,807,177.84
9.C. Subtotal	0.00	218,253,807,177.84
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	\$ 10,010,812,399.62	\$ 227,718,123,920.58
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	3,321,072,308.37	3,120,239,327.98
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ 0.00	\$ 0.00
12.C. Total unpaid obligated balance	3,321,072,308.37	3,120,239,327.98
13. Obligations incurred net (+/-)	\$ 10,010,812,399.62	\$ 9,464,316,742.74
14. Less: Gross outlays	(9,898,161,930.93)	(9,458,541,111.79)
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 (+/-)	0.00	0.00
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	3,433,722,777.06	3,126,014,958.93
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	0.00	0.00
18.C. Total, unpaid obligated balance, net, end of period	3,433,722,777.06	3,126,014,958.93
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	9,898,161,930.93	9,458,541,111.79
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	(25,524,000,000.00)	(22,897,000,000.00)
19.D. Net Outlays	\$ (15,625,838,069.07)	\$ (13,438,458,888.21)

Department of Defense
Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined		2005 Combined
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	0.00		0.00
4. Nonexpenditure transfers, net, anticipated and actual	0.00		0.00
5. Temporarily not available pursuant to Public Law	0.00		0.00
6. Permanently not available	0.00		0.00
7. Total Budgetary Resources	\$ 0.00	\$	0.00

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

Department of Defense
Military Retirement Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 10,010,812,399.62	\$ 9,464,316,742.74
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	10,010,812,399.62	9,464,316,742.74
4. Less: Offsetting receipts (-)	(25,524,000,000.00)	(22,897,000,000.00)
5. Net obligations	(15,513,187,600.38)	(13,432,683,257.26)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	0.00	0.00
11. Total resources used to finance activities	\$ (15,513,187,600.38)	\$ (13,432,683,257.26)
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	0.00	0.00
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	\$ 0.00	\$ 0.00
18. Total resources used to finance the net cost of operations	\$ (15,513,187,600.38)	\$ (13,432,683,257.26)

Department of Defense
Military Retirement Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	0.00	0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	0.00	0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(7,006,109,187.15)	(6,217,482,764.74)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	1,026,846.55	1,826,643.43
28. Total components of Net Cost of Operations that will not require or generate resources	(7,005,082,340.60)	(6,215,656,121.31)
29. Total components of net cost of operations that will not require or generate resources in the current period	\$ (7,005,082,340.60)	\$ (6,215,656,121.31)
30. Net Cost of Operations	\$ (22,518,269,940.98)	\$ (19,648,339,378.57)

Note 1.	Significant Accounting Policies
----------------	--

1.A. Basis of Presentation

The Department of Defense (DoD) Military Retirement Fund was authorized by Public Law (PL) 98-94 for the accumulation of funds to finance the liabilities of the DoD under military retirement and survivor benefit programs.

These financial statements have been prepared to report the financial position and results of operations of the Military Retirement 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 the 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 Military Retirement Fund financial statements, in addition to the financial reports, are prepared pursuant to OMB directives, which are used to monitor and control budgetary resources within the Fund.

Detailed explanation of these financial statement elements are discussed in applicable footnote.

1.B. Mission of the Reporting Entity

The mission of the DoD Military Retirement Fund is to accumulate funds in order to finance, on an actuarially sound basis, the liabilities of the DoD under military retirement and survivor benefit programs.

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

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

In April 2000, the American Institute of Certified Public Accountants (AICPA) through Statements on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity with 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) Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations plus AICPA and Financial Accounting Standards Board (FASB) pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation; (B) FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statement of Position; (C) AICPA Accounting Standards Executive Committee (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; and (D) Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal government.

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

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

The Military Retirement Fund purchases and redeems non-marketable market based securities issued by the U.S. Department of Treasury, Bureau of Public Debt. Non-marketable market based securities include Treasury bills, notes, bonds, and over-night certificates. Treasury bills are short-term securities with maturity of one year or less and are purchased at a discount. Treasury notes have a maturity of at least one-year, but not more than ten, and are purchased at a discount or premium. Treasury bonds are long term securities with maturity terms of ten years or more and are purchased at either a discount or premium.

The Military Retirement Fund records investments at market value on the trial balance in United States Standard General Ledger Account (USSGL) 1600, Net Investments. Discounts and premiums are recorded on the Fund's trial balances in USSGL 1611, Discount, On U.S. Treasury Securities Issued By Public Debt and 1612, Premium, On U.S. 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 USSGL 1613, Amortized Discount/Premium, U.S. Treasury Securities Issued By Public Debt.

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

The Military Retirement Fund's financial resources are maintained in U.S. Department of Treasury Accounts. The Defense Finance and Accounting Service (DFAS) processes all fund receipts and adjustments. DFAS prepares monthly reports, which provide information to the U.S. Department of Treasury, by appropriation, on transfers, deposits, and collections received. The U.S. Department of Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the U.S. Department of Treasury system. Differences between the Military Retirement Fund's recorded balance in the FBWT account and the U.S. Department of Treasury FBWT are reconciled.

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in 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. Direct Loans and Loan Guarantees

N/A

1.M. Inventories and Related Property

N/A

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

Intra-governmental securities represent non-marketable market based securities issued by the U.S. Department of Treasury, Bureau of Public Debt. These securities are redeemable at market value exclusively through the U.S. Department of Treasury, Bureau of Public Debt. These non-marketable market based Treasury securities are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Investments are recorded at amortized cost on the Balance Sheets. Material disclosures are provided at Note 4.

1.O. General Property, Plant and Equipment

N/A

1.P. Advances and Prepayments

N/A

1.Q. Leases

N/A

1.R. Other Assets

N/A

1.S. Contingencies and Other Liabilities

Contingencies occur when DoD Military Retired Pay is offset by Department of Veterans Affairs (DVA) payments. DoD entitlements are payable to the exact date of death and DVA entitlements end in the month preceding death. The contingency becomes payable by DoD to cover retiree benefits not paid by DVA during the month of death.

1.T. Accrued Leave
N/A

1.U. Net Position

Changes in Net Position reflect changes in net cost of operations.

1.V. Treaties for Use of Foreign Bases
N/A

1.W. Comparative Data

FY 2005 and FY 2006 First Quarter 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
----------------	-------------------------

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	1,055,521.30	927,535.69
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	\$ 1,055,521.30	\$ 927,535.69
3. Total Nonentity Assets	\$ 1,055,521.30	\$ 927,535.69
4. Total Entity Assets	\$ 220,486,553,446.92	\$ 207,661,605,758.38
5. Total Assets	\$ 220,487,608,968.22	\$ 207,662,533,294.07

Line 2.B, Accounts Receivable of \$1,056 thousand represents “Penalties, Fines, and Administrative Fees Receivable (USSGL 1360)”, net of the “Allowance for Loss on Penalties, Fines, and Administrative Fees (USSGL 1369)” which will be collected on behalf of the U.S. Department of Treasury. Defense Debt Management System (DDMS) assesses interest, penalties, and administrative charges as required by 31 U.S.C. 3717, implemented by the Federal Claims Collection Standards, 31 C. F. R., Chapter 9. The intent of interest is to compensate for the loss of the use of money over a period of time; penalty charges are intended to stimulate prompt payment of delinquent claims owed to the government by individuals (debts); and administrative charges are assessed to recover costs incurred in the processing of such debts. In compliance with 31 USC 3302(b), all monies received by an agency for the use of the United States must be deposited into the General Fund of the Treasury as miscellaneous receipts, and cannot be retained for the agency’s own use unless authorized by statute. Since there is no statute authorizing agencies to augment their appropriations by using funds received for interest, penalties, and administrative charges they must be deposited into Treasury receipt accounts. The changes in other intra-governmental liabilities and other non-federal liabilities are referenced in Note 15 and Note 11. Therefore, as the receivable amount increased from \$23,453 thousand in FY 05 to \$25,709 thousand in FY 06, so did the custodial liability.

Note 3.	Fund Balance with Treasury
----------------	-----------------------------------

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	26,182,327.92	21,035,044.49
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 26,182,327.92	\$ 21,035,044.49
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 26,182,327.92	\$ 21,035,044.49
B. Fund Balance per Military Retirement Fund	26,182,327.92	21,035,044.49
3. Reconciling Amount	\$ 0.00	\$ 0.00

Fund Balance with Treasury (FBWT) increased from \$21,035 thousand in FY05 to \$26,182 thousand in FY06 due to changes in disbursements. A balance of \$25 million dollars is maintained in FBWT to ensure that sufficient funds are available to cover disbursements for the last business day of the quarter. On the last day of the quarter the fund had disbursements of \$2,753 thousand of which \$1,822 thousand was attributed to the Army, (\$323) thousand was attributed to the Navy, \$170 thousand was attributed to the Marine Corps, and \$1,084 thousand was attributed to the Air Force.

Status of Fund Balance with Treasury

As of December 31	2006	2005
1. Unobligated Balance		
A. Available	\$ (15,856,207,321.65)	\$ 201,946,474,483.63
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ 233,872,776,007.54	\$ (201,925,439,439.14)
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (217,990,386,357.97)	\$ 0.00
5. Total	\$ 26,182,327.92	\$ 21,035,044.49

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 Military Retirement Fund. Lines 1A and 1B (Unobligated Balances), 2 (Obligated Balance not yet Disbursed), and 4 (Non-FBWT Budgetary Accounts) were impacted by the OMB directed restatement for FY2005. Beginning with 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	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>0.00</u>

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

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	\$ 196,230,780,713.75		\$ 21,759,605,644.22	\$ 217,990,386,357.97	\$ 219,561,065,366.81
B. Accrued Interest	2,445,330,813.82			2,445,330,813.82	2,445,330,813.82
C. Total Intragovernmental Securities	<u>\$ 198,676,111,527.57</u>		<u>\$ 21,759,605,644.22</u>	<u>\$ 220,435,717,171.79</u>	<u>\$ 222,006,396,180.63</u>
2. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

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	\$ 198,820,650,031.50		\$ 6,230,804,366.57	\$ 205,051,454,398.07	\$ 213,673,071,767.59
B. Accrued Interest	2,566,590,887.07			2,566,590,887.07	2,566,590,887.07
C. Total Intragovernmental Securities	<u>\$ 201,387,240,918.57</u>		<u>\$ 6,230,804,366.57</u>	<u>\$ 207,618,045,285.14</u>	<u>\$ 216,239,662,654.66</u>
4. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

3. Other Information.

Investments increased from \$207,618,045 thousand in FY 05 to \$220,435,717 thousand in FY 06 because of cumulative positive cash flow. The cumulative positive cash flow occurred due to Earned Revenue for Program Costs being greater than Benefit Outlays. The investments listed above are also presented at Market Value as of December 31, 2005. Listed below is Par Value of the U.S. Treasury Securities referenced above.

	FY 2006 <u>PAY VALUE (in thousands)</u>	FY 2005 <u>PAR VALUE (in thousands)</u>
Bills	\$ 6,000,000	\$ -
Bonds	\$ 51,110,543	\$ 54,098,431
Notes	\$ 49,437,658	\$ 79,875,820
TIPS	\$ 75,141,008	\$ 16,674,720
Overnights	<u>\$ 14,541,672</u>	<u>\$ 48,171,679</u>
Total	\$196,230,781	\$198,820,650

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

Note 5.	Accounts Receivable
----------------	----------------------------

As of December 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 0.00	N/A	\$ 0.00	\$ 0.00
2. Nonfederal Receivables (From the Public)	\$ 31,660,921.88	\$ (5,951,453.37)	\$ 25,709,468.51	\$ 23,452,964.44
3. Total Accounts Receivable	\$ 31,660,921.88	\$ (5,951,453.37)	\$ 25,709,468.51	\$ 23,452,964.44

The General Reserve Method, under which a reserve is based on age of debts and bad debt experience, is used as stated in Volume 4, Chapter 3, Annex 1 (3) of the DoD Financial Management Regulation to calculate an allowance percentage.

Accounts Receivable increased from \$23,453 thousand in FY 05 to \$25,709 thousand in FY 06 because of reconciliations performed between the source reports for debt and accounts receivable and the department level accounting system (STARS). The source reports come from multiple sources (Defense Debt Management System and the Retired Pay office). Upon review of STARS, it was discovered that corrections were required to ensure the correct accounts receivable balances were posted. In addition, during FY2003, consolidation of Military Retirement Trust Fund reporting occurred. The process improvements from consolidated operations standardized the reporting of accounts receivable data for both retirees and annuitants. By centralizing the reporting of the Military Retirement Trust Fund, it ensures that consistent application of source data is used in the production of the budget execution reports of all branches of service – to include items such as Accounts Receivable, Debt and Obligation Reports from external entitlement systems.

In addition, interest, penalties and fees are assessed in Defense Debt Management System on delinquent accounts receivable and included in accounts receivable. The fees relate to collection costs and may also relate to costs of separate tracking. Treasury receives all interest, penalties and fees collected so there are additional tracking requirements within that process. Previously, the A/R portion of interest, penalties and fees was only updated yearly, now it is being updated monthly. The increase in interest, penalties and fees relates to the reconciliation process described above. Within that reconciliation, additional MRF receivables and the associated interest, penalties and fees were identified.

ENTITY	CATEGORY	Intragovernmental	Nonfederal
MRF	Nondelinquent Current	\$ -	\$ 27,530,939.00
MRF	Nondelinquent Noncurrent	\$ -	\$ -
MRF	Delinquent 1 to 30 days	\$ -	\$ 212,928.00
MRF	Delinquent 31 to 60 days	\$ -	\$ 1,984.00
MRF	Delinquent 61 to 90 days	\$ -	\$ 853,912.00
MRF	Delinquent 91 to 180 days	\$ -	\$ 435,754.00
MRF	Delinquent 181 days to 1 year	\$ -	\$ 736,772.00
MRF	Delinquent Greater than 1 year and less than or equal to 2 years	\$ -	\$ 914,146.00
MRF	Delinquent Greater than 2 years and less than or equal to 6 years	\$ -	\$ 510,188.00
MRF	Delinquent Greater than 6 years and less than 10 years	\$ -	\$ 464,299.00
MRF	Delinquent Greater than 10 years	\$ -	\$ -

Note 6.	Other Assets
----------------	---------------------

As of December 31	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0.00	\$ 0.00
B. Total Intragovernmental Other Assets	\$ 0.00	\$ 0.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	0.00	0.00
C. Total Nonfederal Other Assets	\$ 0.00	\$ 0.00
3. Total Other Assets	\$ 0.00	\$ 0.00

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

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
----------------	---

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

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
----------------	---------------------------------------

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	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
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
E. Total Capital Leases	\$ 0.00	\$	0.00

Note 11. Liabilities Not Covered by Budgetary Resources

As of December 31	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	1,055,521.30	927,535.69
D. Total Intragovernmental Liabilities	\$ 1,055,521.30	\$ 927,535.69
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	661,672,547,321.24	616,328,290,896.52
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	234,999.27	214,357.47
F. Total Nonfederal Liabilities	\$ 661,672,782,320.51	\$ 616,328,505,253.99
3. Total Liabilities Not Covered by Budgetary Resources	\$ 661,673,837,841.81	\$ 616,329,432,789.68
4. Total Liabilities Covered by Budgetary Resources	\$ 233,872,776,007.54	\$ 221,379,822,136.77
5. Total Liabilities	\$ 895,546,613,849.35	\$ 837,709,254,926.45

For FY 2006 and FY 2005, Line 1.C. Other Intra-governmental Liabilities of \$1,056 thousand and \$928 thousand, respectively, represents a custodial liability. This liability is an obligation to transfer the non-entity assets presented in Note 2 to the U.S. Department of Treasury. Any collections on these receivables are collected on behalf of the U.S. Department of Treasury. The Defense Debt Management System assesses interest, penalties, and administrative charges as required by 31 U.S.C. 3717, implemented by the Federal Claims Collection Standards, 31 C. F. R., Chapter 9. The intent of interest is to compensate for the loss of the use of money over a period of time; penalty charges are intended to stimulate prompt payment of delinquent claims owed to the government by individuals (debts); and administrative charges are assessed to recover costs incurred in the processing of such debts. In compliance with 31 USC 3302(b), all monies received by an agency for the use of the United States must be deposited into the General Fund of the Treasury as miscellaneous receipts, and cannot be retained for the agency's own use unless authorized by statute. Since there is no statute authorizing agencies to augment their appropriations by using funds received for interest, penalties, and administrative charges they must be deposited into Treasury receipt accounts. The non-entity assets replace the budgetary resources to cover the liability. The changes in other intra-governmental liabilities and other non-federal liabilities are referenced in Note 15.

Death Payment Contingencies of \$235 thousand for FY 2006 and \$214 thousand for FY 2005 result from the DoD responsibility to pay entitlements to exact date of death, while Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by DoD to cover the retiree benefits not paid by DVA during the month of death.

For additional detail on line 2.B., Military Retirement Benefits and Other Employment-Related Actuarial Liabilities, see Note 17.

Note 12.	Accounts Payable
-----------------	-------------------------

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)	0.00	0.00	0.00	0.00
3. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Note 13.	Debt
-----------------	-------------

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
-----------------	---

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
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS)--ER	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	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
2. Active Installations-- Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Active Installations-- Environ. Response at Active Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations-- Environmental Restoration (ER)	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00
3. BRAC Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 15.	Other Liabilities
-----------------	--------------------------

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	1,055,521.30	1,055,521.30	927,535.69
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 1,055,521.30	\$ 1,055,521.30	\$ 927,535.69
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 3,433,722,777.06	\$ 0.00	\$ 3,433,722,777.06	\$ 3,126,014,958.93
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	234,999.27	0.00	234,999.27	214,357.47
J. Total Nonfederal Other Liabilities	\$ 3,433,957,776.33	\$ 0.00	\$ 3,433,957,776.33	\$ 3,126,229,316.40
3. Total Other Liabilities	\$ 3,433,957,776.33	\$ 1,055,521.30	\$ 3,435,013,297.63	\$ 3,127,156,852.09

During the First Quarter FY 06, Accrued Funded Payroll and Benefits increased \$307,728 thousand. This was primarily due to an increase in retiree benefits for first quarter FY06, which include concurrent receipt benefits for certain disabled retirees, increase in Survivor Benefit Plan benefits, and a cost of living increase for retirees and annuitants.

For First Quarter FY06 and FY05, Line 1.F. Other Liabilities of \$1,056 thousand and \$928 thousand, represent a custodial liability for interest, penalties and fees attributable to delinquent accounts receivable. This liability is an obligation to transfer the non-entity asset presented in Note 2 to the U.S. Department of Treasury.

Interest, penalties and fees are assessed in Defense Debt Management System on delinquent accounts receivable and included in accounts receivable. The fees relate to collection costs and may also relate to costs of separate tracking. Treasury receives all interest, penalties and fees collected so there are additional tracking requirements within that process. Previously, the A/R portion of interest, penalties and fees was only updated yearly. MRF now updates the amount monthly. The increase in interest, penalties and fees relates to the reconciliation process described in Note 5. Within that reconciliation, additional MRF receivables and the associated interest, penalties and fees were identified.

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
-----------------	--------------------------------------

1. Other Liabilities Covered by Budgetary Resources:

	FY 2006	FY 2005
With the Public:	\$3,433,723	\$3,126,015
Total:	\$3,433,723	\$3,126,015

2. Other Liabilities Not Covered by Budgetary Resources:

With the Public:		
Death Payment Contingencies:	\$235	\$214
Total:	\$235	\$214

Other Information:

Other Liabilities of \$3,433,723 thousand for FY 06 and \$3,126,015 thousand for FY 05 represent accrued entitlement benefits for military retirees and survivors.

Death Payment Contingencies of \$235 thousand for FY 06 and \$214 thousand for FY 05 results from the DoD responsibility to pay entitlements to exact date of death, while Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by DoD to cover the retiree benefits not paid by DVA during the month of death.

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
1. Pension and Health Benefits				
A. Military Retirement Pensions	\$ 892,111,600,551.72		\$ (230,439,053,230.48)	\$ 661,672,547,321.24
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Benefits	\$ 892,111,600,551.72		\$ (230,439,053,230.48)	\$ 661,672,547,321.24
2. Other				
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Other	\$ 0.00		\$ 0.00	\$ 0.00
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 892,111,600,551.72		\$ (230,439,053,230.48)	\$ 661,672,547,321.24

Actuarial Cost Method Used:

Assumptions:

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

The reported Actuarial (or Accrued) Liability (AL) is only changed at the end of each fiscal year. For this reason, there is no change in the December 31, 2005, AL from the September 30, 2005 AL. For the same reason, the change in the AL 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 AL is developed in the table below.

(\$ In Thousands)

FY 2005

A. Beginning of Year Accrued Liability	\$834,582,098
B. Normal Cost Liability	14,857,208
C. Plan Amendment Liability	25,835,945
D. Assumption Change Liability	4,904,136
E. Benefit Outlays	(38,704,379)
F. Interest on Pension Liability	51,427,451
G. Actuarial Loss (Gain)	<u>(790,858)</u>
H. End-of-Year Accrued Liability (A+B+C+D+E+F+G)	<u>\$892,111,601</u>
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	<u>\$57,529,502</u>

Other Information:

Each year the Accrued Liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains and losses, (2) plan benefit changes, and (3) assumption changes, an increase of \$27,580,280 thousand in the Accrued Liability was expected during FY 2005.

The September 30, 2005, Accrued Liability includes changes due to (1) assumptions, (2) benefit changes, and (3) experience. The new assumptions include an updated set of retiree divorce rates and refinements in the methodology used to project drilling reservists, the net effect of which is an increase in the September 30, 2005, accrued liability of \$4,904,136 thousand, shown on Line D. The change in retirement benefits for FY 2005 includes accelerated phase-in of concurrent receipt benefits for certain retirees, and an increase in Survivor Benefit Plan (SBP) benefits in the 2005 National Defense Authorization Act.

The combined effect of these benefit changes is an increase in the September 30, 2005, Accrued Liability of \$25,835,945 thousand, shown on Line C. The decrease in Accrued Liability due to the net experience gain of \$790,858 thousand, shown on line G, reflects the new population on which the September 30, 2004, roll-forward is based, as well as other economic experience being different than assumed.

The October 1 unfunded liability amortization contribution from the Treasury is determined in accordance with the methodology set by the DoD Retirement Board of Actuaries, and increased from \$22,897,000 thousand in first quarter FY 2005 to \$25,524,000 thousand in first quarter FY 2006. The amortization payment was expected to increase \$802,000 thousand because of the Board's amortization methodology. The majority of the rest of the increase is due to Survivor Benefit Plan provisions of the FY 2005 National Defense Authorization Act (NDAA 05). The NDAA 05 was the primary reason for actuarial loss that increased the benefit change amortization component of the contribution \$1,280,000 thousand (the expected October 1, 2005, benefit change portion of the contribution was \$4,801,000 thousand; the actual was \$6,081,000 thousand). NDAA 04 required that the Treasury contribution include the normal cost for the concurrent receipt benefits, beginning October 1, 2004. This normal cost component of the October 1, 2005, Treasury contribution was \$2,344,000 thousand. There were other assumption changes and experience gains that had minimal effects on the contribution.

SERVICE CONTRIBUTIONS:

The contributions from the Services are the product of basic pay and normal cost percentages (NCPs) determined in accordance with methodology set by the Board of Actuaries. Basic pay generally increases each year, and on January 1, 2005, there was a 3.5% across-the-board basic pay increase. The NCPs for FY 2005 set by the Board of Actuaries in their September 2003 public meeting were 27.5% (full-time) and 16.7% (part-time). The NCPs for FY 2006 set by the Board in their August 2004 public meeting were 26.5% (full-time) and 16.7% (part-time). In the August 2004 meeting, the Board approved changes to factors in the model that reflect increasing VA offsets to DoD military retired pay for new retirees. These new factors were the primary reason for the 1.0% decrease in the full-time NCP. Other assumptions were also adopted by the Board, but these had a minimal effect on the NCP.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue

As of December 31

	2006	2005
1. Intragovernmental Costs	\$ 0.00	\$ 0.00
2. Public Costs	10,011,839,246.17	9,466,143,386.17
3. Total Costs	\$ 10,011,839,246.17	\$ 9,466,143,386.17
4. Intragovernmental Earned Revenue	\$ (32,530,109,187.15)	\$ (29,114,482,764.74)
5. Public Earned Revenue	0.00	0.00
6. Total Earned Revenue	\$ (32,530,109,187.15)	\$ (29,114,482,764.74)
7. Net Cost of Operations	\$ (22,518,269,940.98)	\$ (19,648,339,378.57)

Earned Revenues for Program Costs:
(\$ in thousands)

	FY 2006	FY 2005
1. Service Contributions as a Percentage of Base Pay	\$3,155,585	\$3,557,573
2. Annual Treasury Unfunded Liability Payment	23,180,000	21,358,000
3. Annual Treasury Normal Cost Payment	2,344,000	1,539,000
4. Interest on Investments	<u>3,845,762</u>	<u>2,659,910</u>
Total	<u>\$32,525,347</u>	<u>\$29,114,483</u>

Interest on investments increased from \$2,659,910 thousand in FY 05 to \$3,845,762 thousand in FY 06 principally due to the increase in the Annual Treasury Payments and increased service contributions. Beginning with FY 06, the Annual Treasury Payment includes, in addition to the Unfunded Liability payment, the normal cost for the concurrent receipt benefits enacted in the FY 04 National Defense Authorization Act. More information on the increase in the Treasury payment is found in Note 17.

Gross Costs with the Public increased from \$9,466,143 thousand in FY 05 to \$10,011,839 thousand in FY 06. The increase was principally due to the change in actuarial liability in FY 06 of \$57,529,502 thousand. Due to the change in the actuarial liability, the Net Cost of operations also increased.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
-----------------	--

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
-----------------	--

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 Resources

Apportionment Categories

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 SBR. Category A direct obligation total is \$10,010,812.4 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
-----------------	--

Note 22.	Disclosures Related to the Statement of Custodial Activity
-----------------	---

Note 23.	Earmarked Funds
-----------------	------------------------

BALANCE SHEET As of December 31				
	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

ASSETS

Fund balance with Treasury	\$ 26,182,327.92	\$ 0.00	\$ 0.00	\$ 26,182,327.92
Investments	220,435,717,171.79	0.00	0.00	220,435,717,171.79
Accounts and Interest Receivable	25,709,468.51	0.00	0.00	25,709,468.51
Other Assets	0.00	0.00	0.00	0.00
Total Assets	\$ 220,487,608,968.22	\$ 0.00	\$ 0.00	\$ 220,487,608,968.22

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$ 892,111,600,551.72	\$ 0.00	\$ 0.00	\$ 892,111,600,551.72
Other Liabilities	3,435,013,297.63	0.00	0.00	3,435,013,297.63
Unexpended Appropriations	0.00	0.00	0.00	0.00
Cumulative Results of Operations	(675,059,004,881.13)	0.00	0.00	(675,059,004,881.13)
Total Liabilities and Net Position	\$ 220,487,608,968.22	\$ 0.00	\$ 0.00	\$ 220,487,608,968.22

STATEMENT OF NET COST

Program Costs	\$ 10,011,839,246.17	\$ 0.00	\$ 0.00	\$ 10,011,839,246.17
Less Earned Revenue	(32,530,109,187.15)	0.00	0.00	(32,530,109,187.15)
Net Program Costs	\$ (22,518,269,940.98)	\$ 0.00	\$ 0.00	\$ (22,518,269,940.98)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ (22,518,269,940.98)	\$ 0.00	\$ 0.00	\$ (22,518,269,940.98)

STATEMENT OF CHANGES IN NET POSITION

Net Position Beginning of the Period	\$ (697,577,274,822.11)	\$ 0.00	\$ 0.00	\$ (697,577,274,822.11)
Net Cost of Operations	(22,518,269,940.98)	0.00	0.00	(22,518,269,940.98)
Other Nonexchange Revenue	0.00	0.00	0.00	0.00
Change in Net Position	\$ 22,518,269,940.98	\$ 0.00	\$ 0.00	\$ 22,518,269,940.98
Net Position End of Period	\$ (675,059,004,881.13)	\$ 0.00	\$ 0.00	\$ (675,059,004,881.13)

The purpose of the DoD Military Retirement Fund is to accumulate funds in order to finance on an actuarially sound basis the liabilities of the DoD under military retirement and survivor benefit programs.

The asset accounts used to prepare the statements are categorized as either entity or nonentity 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. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

The Military Retirement Fund's financial resources are maintained in U.S. Department of Treasury Accounts. The Defense Finance and Accounting Service (DFAS) processes all fund receipts and adjustments. DFAS prepares monthly reports, which provide information to the U.S. Department of Treasury, by appropriation, on transfers, deposits, and collections received. The U.S. Department of Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the U.S. Department of Treasury system. Differences between the Military Retirement Fund's recorded balance in the FBWT account and the U.S. Department of Treasury FBWT are reconciled.

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.

Intra-governmental securities represent non-marketable market based securities issued by the U.S. Department of Treasury, Bureau of Public Debt. These securities are redeemable at market value exclusively through the U.S. Department of Treasury, Bureau of Public Debt. These non-marketable market based Treasury securities are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Investments are recorded at amortized cost on the Balance Sheets.

The Military Retirement Fund records investments at market value on the trial balance in United States Standard General Ledger Account (USSGL) 1600. Discounts and premiums are recorded on the Fund's trial balances in USSGL 1611 and 1612 respectively. The Fund calculates amortization of discounts and premiums using the effective interest method and records this amortization on the trial balance in USSGL 1613.

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

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

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

The Military Retirement Fund purchases and redeems non-marketable market based securities issued by the U.S. Department of Treasury, Bureau of Public Debt. Non-marketable market based securities include Treasury bills, notes, bonds, and over-night certificates. Treasury bills are short-term securities with maturity of one year or less and are purchased at a discount. Treasury notes have a maturity of at least one-year, but not more than ten, and are purchased at a discount or premium. Treasury bonds are long term securities with maturity terms of ten years or more and are purchased at either a discount or premium. The investments listed above are also presented at Market Value as of December 31, 2005. Listed below is Par Value of the U.S. Treasury Securities. Interest Receivable on the Investments is \$2,445,331 thousand.

FY 2006	
PAY VALUE (in thousands)	
Bills	\$ 6,000,000
Bonds	\$ 51,110,543
Notes	\$ 49,437,658
TIPS	\$ 75,141,008
Overnights	<u>\$ 14,541,672</u>
Total	\$196,230,781

The increase in the actuarial liability is primarily the result of an amendment to the MRF Plan established by the National Defense Authorization Act for FY 2004 for new concurrent receipt benefits.

The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund, authorized by PL 98-94, come from three sources: Interest earnings on Fund assets, monthly DoD contributions, and annual contributions from the Treasury Department. The monthly DoD contributions are determined as a percentage (approved by the DoD Retirement Board of Actuaries) of basic pay. The contribution from Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. Effective FY 2005, Treasury began making an annual contribution to the Fund that represents the normal cost amount for the new concurrent receipt provisions of the 2004 National Defense Authorization Act. The Board determines Treasury's contribution and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The long-term economic assumptions for each valuation are set by the DoD Retirement Board of Actuaries. The long-term assumptions for the FY 2003 valuation were 6.25 percent interest, 3.0 percent Consumer Price Index, and 3.75 percent salary increase. The long-term economic assumptions did not change for the FY 2004 valuation. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Because of reporting deadlines, the FY 2004 actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year valuation results as reported in the DoD office of Actuary Valuation of the Military Retirement System.

Other Liabilities of \$ 3,433,723 thousand for FY 2006 represents accrued entitlement benefits for military retirees and survivors.

Note 24.	Other Disclosures
-----------------	--------------------------

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
--	----	------	----	------	----	------	----	------