

Department of Defense
Military Retirement Fund
CONSOLIDATED BALANCE SHEET
As of March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 17,206,644.14	\$ 19,690,802.65
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	215,601,292,150.82	203,856,209,048.85
3. Accounts Receivable (Note 5)	0.00	0.00
4. Other Assets (Note 6)	0.00	0.00
5. Total Intragovernmental Assets	<u>\$ 215,618,498,794.96</u>	<u>\$ 203,875,899,851.50</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	26,139,873.71	26,520,196.98
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>\$ 215,644,638,668.67</u>	<u>\$ 203,902,420,048.48</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)	1,095,095.69	980,931.54
4. Total Intragovernmental Liabilities	<u>\$ 1,095,095.69</u>	<u>\$ 980,931.54</u>
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)	3,427,939,521.35	2,977,109,799.18
4. TOTAL LIABILITIES	<u>\$ 895,540,635,168.76</u>	<u>\$ 837,560,188,805.08</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	(679,895,996,500.09)	0.00
D. Cumulative Results of Operations - Other Funds	0.00	(633,657,768,756.60)
6. TOTAL NET POSITION	<u>\$ (679,895,996,500.09)</u>	<u>\$ (633,657,768,756.60)</u>
7. TOTAL LIABILITIES AND NET POSITION	<u>\$ 215,644,638,668.67</u>	<u>\$ 203,902,420,048.48</u>

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

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	\$ 20,376,540,120.61	\$ 19,103,783,361.09
B. (Less: Earned Revenue)	(38,057,818,442.63)	(35,141,075,615.44)
C. Net Program Costs	<u>\$ (17,681,278,322.02)</u>	<u>\$ (16,037,292,254.35)</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>\$ (17,681,278,322.02)</u></u>	<u><u>\$ (16,037,292,254.35)</u></u>

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

	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	(17,681,278,322.02)	0.00
7.B. All other funds	0.00	(16,037,292,254.35)
8. Net Change		
8.A. Earmarked funds	17,681,278,322.02	0.00
8.B. All other funds	0.00	16,037,292,254.35
9. Ending Balances		
9.A. Earmarked funds	(679,895,996,500.09)	0.00
9.B. All other funds	0.00	(633,657,768,756.60)

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

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>(679,895,996,500.09)</u>	\$ <u>(633,657,768,756.60)</u>

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

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
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	<hr/> 0.00	<hr/> 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	<hr/> 0.00	<hr/> 0.00
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 March 31, 2006 and 2005

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

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

	<u>2006 Combined</u>	<u>2005 Combined</u>
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	48,332,000,000.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3. Anticipated for rest of year, without advances	0.00	0.00
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>49,311,000,000.00</u>	<u>48,332,000,000.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	(28,935,095,895.13)	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 20,375,904,104.87</u></u>	<u><u>\$ 229,465,123,920.58</u></u>

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

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 20,375,904,104.87	\$ 19,104,970,554.35
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>20,375,904,104.87</u>	<u>19,104,970,554.35</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	210,360,153,366.23
9.C. Subtotal	<u>0.00</u>	<u>210,360,153,366.23</u>
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	<u><u>\$ 20,375,904,104.87</u></u>	<u><u>\$ 229,465,123,920.58</u></u>
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	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	<u>3,321,072,308.37</u>	<u>3,120,239,327.98</u>
13. Obligations incurred net (+/-)	<u>\$ 20,375,904,104.87</u>	<u>\$ 19,104,970,554.35</u>
14. Less: Gross outlays	(20,269,271,891.16)	(19,248,314,440.62)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	<u>0.00</u>	<u>0.00</u>
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	3,427,704,522.08	2,976,895,441.71
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>3,427,704,522.08</u>	<u>2,976,895,441.71</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	20,269,271,891.16	19,248,314,440.62
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>(25,524,000,000.00)</u>	<u>(22,897,000,000.00)</u>
19.D. Net Outlays	<u><u>\$ (5,254,728,108.84)</u></u>	<u><u>\$ (3,648,685,559.38)</u></u>

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

	<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
 Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended March 31, 2006 and 2005

	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	<u>0.00</u>	<u>0.00</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>0.00</u>	<u>0.00</u>
10. Unobligated balance not available	0.00	0.00
11. Total Status of Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>
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 from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	0.00	0.00
13. Obligations incurred net (+/-)	<u>\$ 0.00</u>	<u>\$ 0.00</u>
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 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	0.00	0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>0.00</u>	<u>0.00</u>
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	<u>0.00</u>	<u>0.00</u>
19.D. Net Outlays	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

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

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 20,375,904,104.87	\$ 19,104,970,554.35
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	20,375,904,104.87	19,104,970,554.35
4. Less: Offsetting receipts (-)	(25,524,000,000.00)	(22,897,000,000.00)
5. Net obligations	<hr/> (5,148,095,895.13)	<hr/> (3,792,029,445.65)
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/> \$ (5,148,095,895.13)	<hr/> \$ (3,792,029,445.65)
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	0.00	0.00
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ 0.00	<hr/> \$ 0.00
18. Total resources used to finance the net cost of operations	<hr/> \$ (5,148,095,895.13)	<hr/> \$ (3,792,029,445.65)

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

	2006 Consolidated	2005 Consolidated
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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	<hr/> 0.00	<hr/> 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	(12,533,818,442.63)	(12,244,075,615.44)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	636,015.74	(1,187,193.26)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> (12,533,182,426.89)	<hr/> (12,245,262,808.70)
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ (12,533,182,426.89)	<hr/> \$ (12,245,262,808.70)
30. Net Cost of Operations	<hr/> <hr/> \$ (17,681,278,322.02)	<hr/> <hr/> \$ (16,037,292,254.35)

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

The Defense Finance and Accounting Service (DFAS) prepared these financial statements to report the financial position and results of operations of the Military Retirement Fund, as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The DFAS Denver Trust Fund Division, Accounting Directorate, prepared the financial statements from its books and records of the Military Retirement Fund in accordance with the “DoD Financial Management Regulation,” the Office of Management and Budget Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Military Retirement Fund is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is no longer classified.

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 receives its appropriations and funds as general, working capital (revolving funds), trust, special, deposit funds and earmarked funds. The Military Retirement Fund uses these appropriations and funds to execute their missions and report on resource usage.

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

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

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

In addition, the Military Retirement Fund identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government and Performance and Results Act (GPRA). The Military Retirement Fund is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

Financing sources for the 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.

The Military Retirement Fund does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Statement of Financing. The U.S. has cost sharing agreements with other countries. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

The Military Retirement Fund records investments at book value in Standard General Ledger (SGL) 1610, Investments, Net. Discounts and premiums are recorded on the trial balance in SGL 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 SGL 1613, Amortized Discount/Premium, U.S. Treasury Securities Issued by Public Debt.

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

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

The Department of the Treasury Financial Management Service (FMS), is responsible for eliminating transactions between the DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government” and the Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide,” provide guidance for reporting and reconciling intragovernmental balances. The Military Retirement Fund is able to reconcile balances pertaining to investments in federal securities. The DoD’s proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD’s financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

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

The Military Retirement Fund’s monetary financial resources are maintained in U.S. Treasury accounts. The DFAS Denver Trust Funds staff processes all fund receipts and adjustments. The DFAS Denver staff prepares monthly reports that provide information to the U.S. Treasury on transfers and deposits.

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

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4 CFR 101).

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

1.L. Loans Receivable

N/A

1.M. Inventories and Related Property

N/A

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

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

The Military Retirement Fund invests in nonmarketable securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

1.O. General Property, Plant and Equipment

N/A

1.P. Advances and Prepayments

N/A

1.Q. Leases

N/A

1.R. Other Assets

N/A

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Military Retirement Fund recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of receivables, pending or threatened litigation, and possible claims and assessments. The Military Retirement Fund's loss contingencies arise as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damage, and contract disputes.

The Military Retirement Fund does experience Death Payment Contingencies that result from the DoD responsibility to pay entitlements to exact date of death, while Department

of Veterans Affairs entitlements end in the month preceding death. Footnote 11 provides material disclosures.

1.T. Accrued Leave

N/A

1.U. Net Position

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

The Military Retirement Fund does not report unexpended appropriations because these amounts are not applicable.

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

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Comparative Data

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or 10 percent from the previous period presented are explained within the notes to the financial statements. For comparative purposes, the financial statements display both FY 2005 and FY 2006 data.

1.X. Unexpended Obligations

N/A

1.Y. Undistributed Disbursements and Collections

N/A

Note 2.	Nonentity Assets
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As of March 31	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	1,095,095.69	980,931.54
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 1,095,095.69	\$ 980,931.54
3. Total Nonentity Assets	\$ 1,095,095.69	\$ 980,931.54
4. Total Entity Assets	\$ 215,643,543,572.98	\$ 203,901,439,116.94
5. Total Assets	\$ 215,644,638,668.67	\$ 203,902,420,048.48

Line 2.B, Accounts Receivable increased \$114 thousand (12 percent) due to a change in policy beginning in 4th Quarter, FY 2005, which mandated a quarterly debt report to account for all incurred debt within the quarter. This line represents “Penalties, Fines, and Administrative Fees Receivable,” net of the “Allowance for Loss on Penalties, Fines, and Administrative Fees” which the Fund will collect on behalf of the U.S. Department of the Treasury. The Defense Debt Management System assesses interest, penalties, and administrative charges as required by Title 31, United States Code (U.S.C.), section 3717 implemented by the Federal Claims Collection Standards, 31 CFR Chapter IX. 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 into the General Fund of the Treasury as miscellaneous receipts. Custodians of Money, 31 U.S.C. 3302(b), requires all agencies to deposit all monies received by an agency for the use of the United States. An Agency cannot retain these collections for its own use unless authorized by statute. Agencies must deposit into Treasury receipt accounts, since there is no statute authorizing agencies to augment their appropriations by using funds received for interest, penalties, and administrative charges. The changes in other intragovernmental liabilities and other non-federal liabilities are referenced in Note 11 and Note 15.

Note 3.	Fund Balance with Treasury
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As of March 31	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	17,206,644.14	19,690,802.65
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 17,206,644.14	\$ 19,690,802.65
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 17,206,644.14	\$ 19,690,802.65
B. Fund Balance per Military Retirement Fund	17,206,644.14	19,690,802.65
3. Reconciling Amount	\$ 0.00	\$ 0.00

The Fund Balance with Treasury (FBWT) decreased \$2.5 million (13 percent) from 2nd Quarter, FY 2005, to 2nd Quarter, FY 2006, due to a timing issue. Since the Military Retirement Fund (MRF) cannot capture the actual disbursements, the MRF uses an estimated amount for the last day of the month. The MRF starts with an estimated disbursement amount provided by the DFAS-Cleveland Military Pay Officer and adjusts the estimated amount daily as the actual disbursement data captured.

The MRF holds \$20 million in the FBWT to ensure sufficient funds are available to cover any disbursements not covered in MRF's estimate. For 2nd Quarter, FY 2005, MRF's actual disbursements exceeded the estimated amount by only \$309.0 thousand, leaving \$19.7 million in the FBWT. For 2nd Quarter, FY 2006, the actual disbursements exceeded the estimated amount by \$2.8 million, leaving \$17.2 million in FBWT. The difference between the \$19.7 million and \$17.2 million is the \$2.5 million difference.

Status of Fund Balance with Treasury

As of March 31	2006	2005
1. Unobligated Balance		
A. Available	\$ (11,469,668,430.97)	\$ 197,598,070,259.77
B. Unavailable	220,073,961,525.23	0.00
2. Obligated Balance not yet Disbursed	\$ 3,427,704,522.08	\$ (197,578,379,457.12)
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (212,014,790,972.20)	\$ 0.00
5. Total	\$ 17,206,644.14	\$ 19,690,802.65

The Office of Management and Budget (OMB) advised that certain U.S. Standard General Ledger accounts are inconsistent with the budget presentations for certain Special and Trust Fund Receipts. Consequently, the Fund reclassified unobligated fund balance brought forward in FY 2005 as receipts unavailable or precluded from obligation. As a result, the differences between 2nd Quarter, FY 2005, and 2nd Quarter, FY 2006, on the following lines, were attributable to the OMB-directed restatement in the 4th Quarter, FY 2005: Lines 1A and 1B (Unobligated Balances), line 2 (Obligated Balance not yet Disbursed), and line 4 (Non-FBWT Budgetary Accounts). Beginning with the September 30, 2005, year-end reporting, the unobligated unavailable balance is no longer displayed on the Statement of Budgetary Resources. In addition, the difference between the 2nd Quarter, FY 2005, and 2nd Quarter, FY 2006, amount on line 4, Non-FBWT Budgetary Accounts, is attributable to the change in the format of this footnote. The amount for the Non-FBWT Budgetary Accounts was first displayed in this footnote effective with 4th Quarter, FY 2005.

Disclosures Related to Suspense/Budget Clearing Accounts

As of March 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 March 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 March 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 190,815,162,905.98		\$ 21,199,628,066.22	\$ 212,014,790,972.20	\$ 207,266,310,704.56
B. Accrued Interest	3,586,501,178.62			3,586,501,178.62	3,586,501,178.62
C. Total Intragovernmental Securities	\$ 194,401,664,084.60		\$ 21,199,628,066.22	\$ 215,601,292,150.82	\$ 210,852,811,883.18
2. Other Investments					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of March 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 195,027,171,978.54		\$ 5,528,102,920.29	\$ 200,555,274,898.83	\$ 207,003,772,546.98
B. Accrued Interest	3,300,934,150.02			3,300,934,150.02	3,300,934,150.02
C. Total Intragovernmental Securities	\$ 198,328,106,128.56		\$ 5,528,102,920.29	\$ 203,856,209,048.85	\$ 210,304,706,697.00
4. Other Investments					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

3. Other Information.

Investments increased \$11.7 billion from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 because of a cumulative positive cash flow. This positive cash flow occurred because contributions exceeded beneficiary payments and earned accrued interest increased. The Fund's revenue exceeded its costs by \$17.7 billion. The Fund invests cumulative positive cash flows in U.S. Treasury government securities. The investments listed above are also presented at Market Value as of March 31, 2006. Listed below is Par Value of the U.S. Treasury Securities referenced above:

	FY 2006 <u>PAR VALUE (in thousands)</u>	FY 2005 <u>PAR VALUE (in thousands)</u>
Bills	\$ 3,000,000	\$ -
Bonds	\$ 51,110,543	\$ 54,098,431
Notes	\$ 49,437,658	\$ 79,875,820
TIPS	\$ 74,788,090	\$ 16,658,880
Overnights	<u>\$ 12,478,872</u>	<u>\$ 44,394,041</u>
Total	\$190,815,163	\$195,027,172

Interest on investments increased \$285.6 million (9 percent) in the 2nd Quarter, FY 2006, principally due to the increase in payments from Treasury.

Contributions to the Military Retirement Fund (MRF) maintain the fund on an actuarially sound basis. This concept means that there will be sufficient funds to make all covered payments on behalf of eligible beneficiaries each year, and that the MRF balance is projected to eventually equal the actuarial liability, i.e., all unfunded liabilities are liquidated. In order to accomplish this objective, the DoD Office of the Actuary calculates the normal costs to fully fund the current year projected liability for active duty members and reservists. In addition, the DoD Office of the Actuary calculates the amortization payments to fund liabilities that were present at the MRF's inception (initial unfunded) and any emerging actuarial gains or losses.

The actuaries are amortizing the initial unfunded liability of the program over a 50-year period and all subsequent gains and losses experienced by the system over a 30-year period. Chapter 56 of Title 10, U.S.C. requires that the methods and assumptions for the following amounts be approved by the DoD MRF Board of Actuaries: computation of actuarial costs and liabilities, as well as all actuarial gains and losses, and the amortization of the initial unfunded liability. The Secretary of Defense appoints the Board of Actuaries, which is a Federal Advisory Committee.

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

Note 5.	Accounts Receivable
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As of March 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)	\$ 32,085,404.56	\$ (5,945,530.85)	\$ 26,139,873.71	\$ 26,520,196.98
3. Total Accounts Receivable	\$ 32,085,404.56	\$ (5,945,530.85)	\$ 26,139,873.71	\$ 26,520,196.98

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 decreased \$380 thousand (1 percent) from 2nd Quarter, FY 2005, to 2nd Quarter, FY 2006, due to reconciliations performed between the source reports for debt and accounts receivable and the department level accounting system (STARS) in DFAS Cleveland. 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, interest, penalties and fees are assessed in Defense Debt Management System (DDMS) 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 accounts receivable 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.

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

For the TROR, debts must be aged based on specific requirements established by Treasury. An example of how DDMS must report this data is as follows: a debtor enters into an installment agreement and faithfully complies with the terms of the agreement for 4 years. The debtor fails to make payment on the debt for one month, thus breaking the terms of the installment agreement. In

accordance with TROR requirements, for this particular month, the debt in question must be reported as delinquent and is subsequently aged back to the original debt notification date. Under this scenario, Treasury requires us to report the installment amount due as delinquent, aged as 4 years delinquent. Under this scenario, the debt was never delinquent until the debtor failed to make payment in the 4th year. Once the debt reaches delinquent status it is referred to the Treasury Offset Program for simultaneous collection action. Debts with balances of \$2,500.00 or more can be referred to the Department of Justice (DOJ) for collection.

MILITARY RETIREMENT TRUST FUND -AGED ACCOUNTS RECEIVABLE GROUPS		
CATEGORY	Intragovernmental	Nonfederal
Nondelinquent		
Current		28,158,430.00
Noncurrent		
Delinquent		
1 to 30 days		77,593.00
31 to 60 days		4,768.00
61 to 90 days		862,462.00
91 to 180 days		433,008.00
181 days to 1 year		822,668.00
Greater than 1 year and less than or equal to 2 years		750,921.00
Greater than 2 years and less than or equal to 6 years		554,062.00
Greater than 6 years and less than or equal to 10 years		410,061.00
Greater than 10 years		11,431.00
Total		\$32,085,404.00

Note 6.	Other Assets
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As of March 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 March 31	2006	2005
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency	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 March 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 March 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 March 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 March 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 March 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 March 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 March 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 March 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 March 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 March 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 March 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 March 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

Military Retirement Fund

Administrative Expenses

Note 9.	Inventory and Related Property
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As of March 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 March 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 March 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 March 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 March 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 March 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. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of March 31	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	1,095,095.69	980,931.54
D. Total Intragovernmental Liabilities	\$ 1,095,095.69	\$ 980,931.54
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	672,037,639,026.49	624,221,944,708.13
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	234,999.27	214,357.47
E. Total Nonfederal Liabilities	\$ 672,037,874,025.76	\$ 624,222,159,065.60
3. Total Liabilities Not Covered by Budgetary Resources	\$ 672,038,969,121.45	\$ 624,223,139,997.14
4. Total Liabilities Covered by Budgetary Resources	\$ 223,501,666,047.31	\$ 213,337,048,807.94
5. Total Liabilities	\$ 895,540,635,168.76	\$ 837,560,188,805.08

Line 1.C., Other Intra-governmental Liabilities, increased \$114 thousand (12 percent), due to a change in policy beginning in 4th Quarter, FY 2005, which mandated a quarterly debt report to account for all incurred debt within the quarter. This liability represents an obligation to transfer the non-entity assets presented in Note 2 to the Department of Treasury. The Military Retirement Fund (MRF) collects these receivables on behalf of the Department of Treasury. The Defense Debt Management System assesses interest, penalties, and administrative charges as required by Title 31 U.S. Code 3717, implemented by the Federal Claims Collection Standards, 31 CFR Chapter IX. Note 2 provides additional details about the purpose of these charges and their disposition upon collection. Note 15 discusses changes in other intragovernmental liabilities and other non-federal liabilities.

Line 2B, Military Retirement Benefits and Other Employment Related Actuarial Liabilities increased \$47.8 billion (8 percent) in the unfunded actuarial liability for the MRF from the 2nd quarter, FY 2005, to the 2nd quarter, FY 2006. This increase is attributable to an increase of \$57.5 billion in the actuarial liability that is offset by an increase of \$9.7 billion in the value of assets available to pay benefits.

Line 2D, Other Liabilities, increased \$20 thousand (10 percent) from 2nd Quarter, FY 2005, to 2nd Quarter, FY 2006. The increase is due to the timing difference of reporting the date of the death of the retiree at the end of the calendar year. An accrual is reported in the 1st Quarter, and the actual payments are made in the 2nd Quarter. This line relates to the Death Payment contingency and represents DoD's responsibility to pay entitlements to the exact date of death of certain DoD retirees because the Department of Veterans Affairs entitlements end in the month preceding death. Notes 15 and 16 contain additional information about this contingency.

Note 12.	Accounts Payable
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As of March 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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 13.	Debt
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As of March 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 March 31	2006			2005	
	Current Liability	Noncurrent Liability	Total	Total	
1. Environmental Liabilities-- Nonfederal					
A. Accrued Environmental Restoration Liabilities					
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00		0.00
3. Formerly Used Defense Sites— IRP and BD/DR	0.00	0.00	0.00		0.00
4. Formerly Used Defense Sites-- MMRP	0.00	0.00	0.00		0.00
B. Other Accrued Environmental Liabilities—Active Installations					
1. Environmental Corrective Action	0.00	0.00	0.00		0.00
2. Environmental Closure Requirements	0.00	0.00	0.00		0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00		0.00
4. Other	0.00	0.00	0.00		0.00
C. Base Realignment and Closure (BRAC)					
1. Installation Restoration Program	0.00	0.00	0.00		0.00
2. Military Munitions Response Program	0.00	0.00	0.00		0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00		0.00
4. Other	0.00	0.00	0.00		0.00
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00		0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00		0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00		0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00		0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00		0.00
6. Other	0.00	0.00	0.00		0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00

Environmental Disclosures

As of March 31	2006	2005
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	0.00	0.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Note 15.	Other Liabilities
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As of March 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	1,095,095.69	1,095,095.69	980,931.54
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 1,095,095.69	\$ 1,095,095.69	\$ 980,931.54
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 3,427,704,522.08	\$ 0.00	\$ 3,427,704,522.08	\$ 2,976,895,441.71
B. Advances from Others	0.00	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	234,999.27	0.00	234,999.27	214,357.47
J. Total Nonfederal Other Liabilities	\$ 3,427,939,521.35	\$ 0.00	\$ 3,427,939,521.35	\$ 2,977,109,799.18
3. Total Other Liabilities	\$ 3,427,939,521.35	\$ 1,095,095.69	\$ 3,429,034,617.04	\$ 2,978,090,730.72

From the 2nd Quarter, FY 2005, to the 2nd Quarter, FY 2006, Line 1.F., Intragovernmental Other Liabilities, increased \$114.2 thousand (12 percent) as a result of a process improvement. This new process, which began in the 4th Quarter, FY 2005, mandated a quarterly debt report to account for all incurred debt within the quarter and that report has identified additional debt. This line represents a custodial liability for interest,

administrative, and penalties fees attributable to delinquent accounts receivable. Additionally, this liability is an obligation to transfer the non-entity asset presented in Note 2 to the Department of the Treasury.

Line 2A, Accrued Funded Payroll and Benefits increased \$450.8 million (15 percent) from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Fluctuations are primarily due to an increase in retiree benefits. This increase included concurrent receipt benefits for certain disabled retirees, an increase in Survivor Benefit Plan, and a cost of living increase for retirees.

Line 2I. Non-Federal Other Liabilities reports the death payment contingency for FY 2006. The contingency results from the DoD's responsibility to pay entitlements to the exact date of death, while Department of Veterans Affairs (DVA) entitlements end in the month preceding death. The contingency amount becomes payable by the DoD to cover the retiree benefits not paid by the DVA during the month of death. See Note 16 for additional details.

The Defense Debt Management System assesses interest, penalties, and fees on delinquent accounts receivable and includes these amounts 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 DFAS Cleveland staff only updated the Accounts Receivable portion of interest, penalties and administrative fees yearly. The DFAS Cleveland staff now updates the amount monthly. The increase in interest, penalties and fees relates to the reconciliation process described in Note 5. Within that reconciliation, the DFAS Cleveland staff identified additional Military Retirement Fund receivables and the associated interest, penalties and fees.

Capital Lease Liability

As of March 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. 2011	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

Note 16.	Commitments and Contingencies
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Note 17.	Military Retirement Benefits and Other Employment Related Actuarial Liabilities
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As of March 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		\$ (220,073,961,525.23)	\$ 672,037,639,026.49
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		\$ (220,073,961,525.23)	\$ 672,037,639,026.49
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		\$ (220,073,961,525.23)	\$ 672,037,639,026.49

Actuarial Cost Method Used: Aggregate Entry Age Normal Method

Assumptions: The long-term economic assumptions were 6.25 percent interest, 3.0 percent Consumer Price Index, and 3.75 percent salary increase. For fiscal years 2005 and 2006, inflation rates of 2.7 percent and 4.1 percent, salary increases of 3.5 percent and 3.1 percent were used, respectively. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year valuation results as reported in the DoD Office of Actuary Valuation of the Military Retirement System. For purposes of the Fund's financial reporting, this process is applied annually.

Market Value of Investments in Market-based and Marketable Securities: \$210,852,811,883.18

Fluctuation

Line 1A, Military Retirement Pensions above, displays an increase of \$47.8 billion (8 percent) in the unfunded actuarial liability for the Military Retirement Fund (MRF) from the 2nd quarter, FY 2005, to the 2nd quarter, FY 2006. This increase is attributable to an increase of \$57.5 billion in the actuarial liability that is offset by an increase of \$9.7 billion in the value of assets available to pay benefits. The table below provides further details about the \$57.5 billion increase in the actuarial liability. Footnote 11 also contains additional information about this change.

The market value of the MRF's nonmarketable market-based securities as of March 31, 2006, totaled \$210.8 billion, which included \$3.6 billion in accrued interest.

Change in MRF Actuarial Liability

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 March 31, 2006, AL from the September 30, 2005, AL. For the same reason, the change in the AL from March 31, 2005, to March 31, 2006, 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)	<u>FY 2005</u>
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

The Military Retirement Trust Fund 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 Department of Treasury. 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. Starting October 1, 2004, Public Law 108-136 requires U.S. Treasury to contribute the normal cost amount for the concurrent receipt provisions under Sections 1413, 1413a, and 1414 in addition to the unfunded liability amortization payment. The Board determines Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

Each year the actuarial 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, the DoD Office of the Actuary expected an increase of \$27.6 billion accrued liability 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 \$4.9 billion, shown on line D above. 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 benefits in the FY 2005 National Defense Authorization Act (NDAA).

The combined effect of these benefit changes is an increase in the September 30, 2005, accrued liability of \$25.8 billion, shown on line C. The decrease in the accrued liability due to the net experience gain of \$791 million, 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 DoD Retirement Board of Actuaries determined the October 1 unfunded liability amortization contribution from the Treasury in accordance with established methodology. This amortization contribution increased from \$22.9 billion in 1st quarter, FY 2005, to \$25.5 billion in 1st Quarter, FY 2006. The Board expected the amortization payment to increase \$802 million because of its amortization methodology. The majority of the remaining increase is due to Survivor Benefit Plan provisions of the FY 2005 NDAA. The FY 2005 NDAA was the primary reason for the actuarial loss that increased the benefit change amortization component of the contribution by \$1.3 billion (the expected October 1, 2005, benefit change portion of the contribution was \$4.8 billion; the actual was \$6.1 billion). The FY 2004 NDAA 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 totaled \$2.3 billion. Other assumption changes and experience gains affected the contribution minimally.

Military Service Contributions

The contributions from the Military Services represent the product of basic pay and normal cost percentages (NCPs) determined in accordance with methodology approved by the Board of Actuaries. Basic pay generally increases each year; on January 1, 2006, the Military Services received a 3.1 percent across-the-board basic pay increase. The Board of Actuaries set the following NCPs for FY 2005 in its September 2003 public meeting: 27.5 percent (full-time) and 16.7 percent (part-time). The Board set the following NCPs for FY 2006 in its August 2004 public meeting: 26.5 percent (full-time) and 16.7 percent (part-time). In the August 2004 meeting, the Board approved changes to factors in the model that reflect increasing Department of Veterans Affairs offsets to DoD military retired pay for new retirees. The primary reason for the 1.0 percent decrease in the full-time NCP is these new factors. The Board also adopted other assumption changes, 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 March 31	2006	2005
1. Intragovernmental Costs	\$ 0.00	\$ 0.00
2. Public Costs	20,376,540,120.61	19,103,783,361.09
3. Total Costs	\$ 20,376,540,120.61	\$ 19,103,783,361.09
4. Intragovernmental Earned Revenue	\$ (38,057,818,442.63)	\$ (35,141,075,615.44)
5. Public Earned Revenue	0.00	0.00
6. Total Earned Revenue	\$ (38,057,818,442.63)	\$ (35,141,075,615.44)
7. Net Cost of Operations	\$ (17,681,278,322.02)	\$ (16,037,292,254.35)

Line 4, Intragovernmental Earned Revenue increased \$2.9 billion due to the following:

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

	FY 2006	FY 2005
1. Service Contributions as a Percentage of Base Pay	\$6,706,253	\$7,165,587
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>5,827,565</u>	<u>5,078,488</u>
Total	<u>\$38,057,818</u>	<u>\$35,141,075</u>

As shown above in Line 1 of the Earned Revenues for Program Costs table, Service Contributions have decreased \$459 million (6 percent) from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the normal cost percentages determined in accordance with methodology approved by the Board of Actuaries.

Line 2, Annual Treasury Unfunded Liability Payment, increased \$1.8 billion from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Line 3, Annual Treasury Normal Cost Payment, increased \$805 million (52 percent), from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Both increases are based on the October 1 unfunded liability amortization contribution from the Treasury, which is determined in accordance with the methodology set by the DoD Retirement Board of Actuaries. The amortized payment increased \$802 thousand because of the Board's amortization methodology. The remaining increase is due to the Survivor Benefit Plan provisions of the FY 2005

National Defense Authorization Act. There were other assumption changes and experience gains that had minimal effects on the contribution. See additional details in Note 17.

Line 4, Interest on Investments, increased \$749 million (15 percent) in the 2nd Quarter, FY 2006, principally due to the increase in Treasury payments. Beginning with FY 2006, the Annual Treasury Payment includes, in addition to the Unfunded Liability Payment, the normal cost for the concurrent receipt benefits enacted in the FY 2004 National Defense Authorization Act.

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

Fluctuation

Line 7, Total Budgetary Resources, decreased \$209.1 billion (91 percent) from 2nd Quarter, FY 2005, to 2nd Quarter, FY 2006. This decrease is primarily attributable to the Office of Management and Budget-directed reclassification of the unobligated fund balance brought forward in FY 2005 as receipts unavailable or precluded from obligation. As a result, beginning with the September 30, 2005, year-end reporting, the unobligated unavailable balance is no longer displayed on the Statement of Budgetary Resources (SBR).

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 line 8 in the SBR. The Military Retirement Fund (MRF) reported \$20.4 billion in exempt from apportionment obligations and no category A or category B obligations.

Permanent Indefinite Appropriation

Title 10, United States Code 1461 established the MRF to accumulate funds to finance, on an actuarially sound basis, the liabilities of the Department of Defense military retirement and survivor benefit programs. This provides a permanent indefinite appropriation to operate.

Reconciliation Differences

The Department of the Treasury issues annual warrants that pay amortized payments for the unfunded actuarial liabilities for the MRF. The MRF's annual warrant for FY 2006 totaled \$25.5 billion. The Other Defense Organizations General Fund credits, and subsequently expends, this amount in accordance with the Office of Management and Budget (OMB) guidance. The OMB is aware, and approves, of this duplicate reporting for Appropriations Received.

In addition, the MRF reports Appropriations Received for contributions paid by the Departments of the Army, Navy, and Air Force. The Military Departments also include these amounts in their Appropriations Received. As a result, \$6.7 billion is duplicated on the SBR.

Appropriations Received on the SBR did not agree with Appropriations Received on the Statement of Changes in Net Position (SCNP) because of differences between proprietary and budgetary accounting concepts and reporting requirements. The SBR reported \$49.3 billion in Appropriations Received, and the SCNP reported zero. The MRF accounts for its incoming funds, which are treated as other financing sources, in the cumulative results of operations account rather than the unexpended appropriations account.

Note 21.	Disclosures Related to the Statement of Financing
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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 March 31				
	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

ASSETS

Fund balance with Treasury	\$	17,206,644.14	\$	0.00	\$	0.00	\$	17,206,644.14
Investments		215,601,292,150.82		0.00		0.00		215,601,292,150.82
Accounts and Interest Receivable		26,139,873.71		0.00		0.00		26,139,873.71
Other Assets		0.00		0.00		0.00		0.00
Total Assets	\$	215,644,638,668.67	\$	0.00	\$	0.00	\$	215,644,638,668.67

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		3,429,034,617.04		0.00		0.00		3,429,034,617.04
Unexpended Appropriations		0.00		0.00		0.00		0.00
Cumulative Results of Operations		(679,895,996,500.09)		0.00		0.00		(679,895,996,500.09)
Total Liabilities and Net Position	\$	215,644,638,668.67	\$	0.00	\$	0.00	\$	215,644,638,668.67

STATEMENT OF NET COST

As of March 31								
Program Costs	\$	20,376,540,120.61	\$	0.00	\$	0.00	\$	20,376,540,120.61
Less Earned Revenue		(38,057,818,442.63)		0.00		0.00		(38,057,818,442.63)
Net Program Costs	\$	(17,681,278,322.02)	\$	0.00	\$	0.00	\$	(17,681,278,322.02)
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
Net Cost of Operations	\$	(17,681,278,322.02)	\$	0.00	\$	0.00	\$	(17,681,278,322.02)

STATEMENT OF CHANGES IN NET POSITION

As of March 31								
Net Position Beginning of the Period	\$	(697,577,274,822.11)	\$	0.00	\$	0.00	\$	(697,577,274,822.11)
Net Cost of Operations		(17,681,278,322.02)		0.00		0.00		(17,681,278,322.02)
Other Nonexchange Revenue		0.00		0.00		0.00		0.00
Change in Net Position	\$	17,681,278,322.02	\$	0.00	\$	0.00	\$	17,681,278,322.02
Net Position End of Period	\$	(679,895,996,500.09)	\$	0.00	\$	0.00	\$	(679,895,996,500.09)

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 Military Retirement Fund receives its appropriations and funds as general, working capital (revolving funds), trust, special, deposit funds and earmarked funds. The Military Retirement Fund uses these appropriations and funds to execute their missions and report on resource usage.

The Military Retirement Fund is a pension program established in Fiscal Year (FY) 1984 by Public Law 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 the Treasury contribution is the annual unfunded amortization payment. Excess funds from the contributions are invested and accrued interest revenue is used to cover future liabilities of the Fund.

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 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.

On the consolidated Balance Sheet, Assets section, the Fund Balance with Treasury \$17.2 million represents the funds held back at the end of the month for any unexpected expenses. Next, the \$215.6 billion is the net Investments of the fund, which consists of bills, bonds, notes, overnights, and inflation-protected securities as well as interest receivable. The Accounts and Interest Receivable is the accounts receivable of \$26.1 million is attributed to interest, penalties and fees.

The consolidated Balance Sheet, Liabilities section, starts with \$892.1 billion for the actuarial military retirement benefits liability. The \$3.4 billion is comprised of concurrent receipt benefits for certain disabled retirees, a Survivor Benefit Plan, and a cost of living for retirees and annuitants. Finally, the \$679.9 billion 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.

The consolidated Statement of Net Cost, reports Program Costs of \$20.3 billion. This amount represents the total program costs, which is a combination of operating expenses, bad debt expenses, and future unfunded expenses. The Earned Revenue line of 38.0 billion is comprised of contributions and interest revenue from investments.

The consolidated Statement of Changes in Net Position displays the Net Position Beginning of the Period of \$697.6 billion. This amount represents the net difference since inception of the activity between the revenues and expenses. The Net Cost of Operations of \$17.7 billion represents the current year net result of totaling the interest revenue from investments, contributions, operating expenses, bad debt expenses, and future unfunded expenses.

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 MRF trades with other entities outside the Fund. These other entities are the Military Services and the U.S. Treasury.

Note 24.	Other Disclosures
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As of March 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
2011		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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