

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2006 and 2005

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 5,000,000.00	\$ 4,999,999.99
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	86,027,080,578.51	58,862,047,008.44
3. Accounts Receivable (Note 5)	43,104,933.00	0.00
4. Other Assets (Note 6)	0.00	417,381,000.00
5. Total Intragovernmental Assets	<u>\$ 86,075,185,511.51</u>	<u>\$ 59,284,428,008.43</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	8,817,473.38	11,077,814.68
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	0.00	0.00
F. General Property, Plant and Equipment, Net (Note 10)	0.00	0.00
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	0.00	0.00
2. TOTAL ASSETS	<u><u>\$ 86,084,002,984.89</u></u>	<u><u>\$ 59,295,505,823.11</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 47,320,741.56	\$ 0.00
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	0.00	0.00
4. Total Intragovernmental Liabilities	<u>\$ 47,320,741.56</u>	<u>\$ 0.00</u>
B. Accounts Payable (Note 12)	\$ 193,858,160.40	\$ 278,541,242.59
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	537,397,092,000.00	504,073,807,000.00
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	689,741,000.00	698,527,000.00
4. TOTAL LIABILITIES	<u><u>\$ 538,328,011,901.96</u></u>	<u><u>\$ 505,050,875,242.59</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	(452,244,008,917.07)	0.00
D. Cumulative Results of Operations - Other Funds	0.00	(445,755,369,419.48)
6. TOTAL NET POSITION	<u><u>\$ (452,244,008,917.07)</u></u>	<u><u>\$ (445,755,369,419.48)</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 86,084,002,984.89</u></u>	<u><u>\$ 59,295,505,823.11</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
1. Program Costs		
A. Gross Costs	\$ 5,338,869,909.03	\$ 4,967,122,018.89
B. (Less: Earned Revenue)	(30,754,916,358.78)	(25,307,953,251.17)
C. Net Program Costs	<hr/> \$ (25,416,046,449.75)	<hr/> \$ (20,340,831,232.28)
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	<hr/> <hr/> \$ (25,416,046,449.75)	<hr/> <hr/> \$ (20,340,831,232.28)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (477,660,055,366.82)	\$ (466,096,200,651.76)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	(477,660,055,366.82)	(466,096,200,651.76)
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	0.00	0.00
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	0.00	0.00
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	(25,416,046,449.75)	0.00
7.B. All other funds	0.00	(20,340,831,232.28)
8. Net Change		
8.A. Earmarked funds	25,416,046,449.75	0.00
8.B. All other funds	0.00	20,340,831,232.28
9. Ending Balances		
9.A. Earmarked funds	(452,244,008,917.07)	0.00
9.B. All other funds	0.00	(445,755,369,419.48)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>(452,244,008,917.07)</u>	\$ <u>(445,755,369,419.48)</u>

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

DoD Medicare-Eligible Retiree Health Care Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2006 and 2005

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

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
	<hr/>	<hr/>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 97,212,208.75	\$ 38,085,939,479.84
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	29,967,000,000.00	28,026,000,000.00
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	<hr/> 29,967,000,000.00	<hr/> 28,026,000,000.00
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	(24,392,082,276.58)	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<hr/> <hr/> \$ 5,672,129,932.17	<hr/> <hr/> \$ 66,111,939,479.84

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 5,672,129,932.17	\$ 5,425,784,053.61
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>5,672,129,932.17</u>	<u>5,425,784,053.61</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	1,070,154,946.39
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>0.00</u>	<u>1,070,154,946.39</u>
10. Unobligated balance not available	0.00	59,616,000,479.84
11. Total status of budgetary resources	<u><u>\$ 5,672,129,932.17</u></u>	<u><u>\$ 66,111,939,479.84</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	387,880,772.27	262,058,524.40
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	<u>387,880,772.27</u>	<u>262,058,524.40</u>
13. Obligations incurred net (+/-)	\$ 5,672,129,932.17	\$ 5,425,784,053.61
14. Less: Gross outlays	(5,411,893,590.85)	(5,031,063,806.30)
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	648,117,113.59	656,778,771.71
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>648,117,113.59</u>	<u>656,778,771.71</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	5,411,893,590.85	5,031,063,806.30
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>(30,754,916,358.78)</u>	<u>(25,307,953,251.17)</u>
19.D. Net Outlays	<u><u>\$ (25,343,022,767.93)</u></u>	<u><u>\$ (20,276,889,444.87)</u></u>

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 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
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 5,672,129,932.17	\$ 5,425,784,053.61
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	5,672,129,932.17	5,425,784,053.61
4. Less: Offsetting receipts (-)	(30,754,916,358.78)	(25,307,953,251.17)
5. Net obligations	<hr/> (25,082,786,426.61)	<hr/> (19,882,169,197.56)
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/> \$ (25,082,786,426.61)	<hr/> \$ (19,882,169,197.56)
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 (-)	(260,762,602.08)	(662,785,356.62)
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior periods	(72,422,000.00)	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/> \$ (333,184,602.08)	<hr/> \$ (662,785,356.62)
18. Total resources used to finance the net cost of operations	<hr/> \$ (25,415,971,028.69)	<hr/> \$ (20,544,954,554.18)

Department of Defense
DoD Medicare-Eligible Retiree Health Care Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
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	207,183,000.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 0.00	<hr/> 207,183,000.00
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	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(75,421.06)	(3,059,678.10)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> (75,421.06)	<hr/> (3,059,678.10)
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ (75,421.06)	<hr/> \$ 204,123,321.90
30. Net Cost of Operations	<hr/> <hr/> \$ (25,416,046,449.75)	<hr/> <hr/> \$ (20,340,831,232.28)

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

Public Law (PL) 106-398 authorized the Department of Defense (DoD) Medicare-Eligible Retiree Health Care Fund (MERHCF) (hereby referred to as “the Fund” or “the MERHCF”) for the purpose of accumulating funds to finance the liabilities of the DoD and the Uniformed Services health care programs for specific Medicare-eligible beneficiaries.

The Defense Finance and Accounting Service (DFAS) prepared these financial statements to report the financial position and results of operations for the Fund, as required by the “Chief Financial Officers (CFO) Act of 1990,” which the Government Management Reform Act of 1994 and other appropriate legislation expanded. Specifically, the DFAS Denver Trust Fund Accounting Division, Accounting Directorate, prepared the financial statements from its books and records 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. The accompanying financial statements account for all resources for which the MERHCF is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

1.B. Mission of the Reporting Entity

The MERHCF accumulates funds in order to finance, on an actuarially sound basis, liabilities of the DoD and the Uniformed Services health care programs for specific Medicare-eligible beneficiaries.

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

1.C. Appropriations and Funds

The “Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001” authorized the Fund. The Fund pays the costs of all Military Service and other Uniformed Service retiree health care programs for members or former members of a participating service who are entitled to retired or retainer pay and are Medicare-eligible, their dependents who are Medicare-eligible, and survivors who are Medicare-eligible.

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

The MERHCF is a special fund and uses both receipt and expenditure accounts. The Fund symbol is 97X5472. The account uses a budget activity level structure. The Fund establishes lower level accounts as necessary to meet reporting requirements.

Effective 1st Quarter, Fiscal Year (FY) 2006, the Fund started reporting its financial position and results of operations using the term “Earmarked Funds.” Earmarked Funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds are also required 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

The CFO Act of 1990 established the Federal Accounting Standards Advisory Board (FASAB) for the purpose of recommending Federal Accounting Standards to the Secretary of the Treasury, the Director of the OMB, the Director of the Office of Personnel Management, and the Comptroller General. The OMB and the Comptroller General issue Statements of Federal Financial Accounting Standards (SFFAS), some of which have deferred effective dates.

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

(A) FASAB Statements and Interpretations plus AICPA and Financial Accounting Standards Board 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.

(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 to the circumstance. When directed by OMB, through its Circular No. A-136, GAAP in the United States

(U.S.) of America serves as authoritative guidance for federal agencies in preparing reports that are addressed within this circular.

The 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 Performance and Results Act. The 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

Up until FY 2006, the Fund received its financing sources primarily through an annual unfunded actuarial liability payment from the U.S. Treasury; monthly contributions from the Military Services and other Uniformed Services (U.S. Coast Guard, the National Oceanic and Atmospheric Administration, and the U.S. Public Health Service); and interest earned on investments. The Military Services and other Uniformed Services calculates the monthly contributions by multiplying the monthly per capita rates (full-time and part-time) by the reported end-strength for the most recently reported month. The DoD Office of the Actuary provides the full-time and part-time monthly per capita rates.

However, beginning in FY 2006, the Military Services and other Uniformed Services stopped making normal cost payments monthly. Instead, the U.S. Treasury now includes one lump-sum cost payment for the entire year, on behalf of these contributors, in its annual amortization payment of the unfunded liability. The U.S. Treasury makes this payment at the beginning of each fiscal year.

The 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 benefit expenses in the period incurred. However, because the Fund's financial feeder system was not designed to collect and record financial information on the full accrual basis, accrual adjustments are made for major items such as accounts receivable and accounts payable.

1.G. Accounting for Intragovernmental Activities

The Fund purchases and redeems nonmarketable market-based securities issued by the U.S. Treasury, Bureau of 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 1 year or less and are purchased at a discount. The U.S. Treasury notes have maturities of at least 1 year, but not more than 10 years, and are purchased at a discount or premium. The 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 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 entities adjust their records 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 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 is not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD’s financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

1.H. Transactions with Foreign Governments and International Organizations

N/A

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

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

The Fund maintains its monetary financial resources 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 U.S. Treasury, by appropriation, on collections received and disbursements issued. The U.S. Treasury records this information to the applicable fund balance with treasury (FBWT) account. Differences between the MERHCF's recorded balance in the FBWT and Treasury's FBWT accounts sometime result and are subsequently reconciled.

1.J. Foreign Currency

N/A

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include 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 Fund bases the estimate of uncollectible accounts receivable from the public on an analysis of the actual uncollectible amounts experienced during previous fiscal years. The current estimate is based on an analysis of the actual uncollectible amounts experienced during FY 2004 and the first 3 quarters of FY 2005.

1.L. Loans Receivable

N/A

1.M. Inventories and Related Property

N/A

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

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

The Fund invests in nonmarketable securities. The Bureau of the Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded. Note 4 provides material disclosures.

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 involve an uncertainty as to possible gain or loss. The 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 incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments.

1.T. Accrued Leave

N/A

1.U. Net Position

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

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

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Comparative Data

The notes to the financial statements explain financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet or 10 percent from the amounts presented in the previous period. 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 June 30	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		0.00		0.00
C. Other Assets		0.00		0.00
D. Total Nonfederal Assets	\$	0.00	\$	0.00
3. Total Nonentity Assets	\$	0.00	\$	0.00
4. Total Entity Assets	\$	86,084,002,984.89	\$	59,295,505,823.11
5. Total Assets	\$	86,084,002,984.89	\$	59,295,505,823.11

Note 3.	Fund Balance with Treasury
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As of June 30	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	0.00	0.00
D. Special Funds	5,000,000.00	4,999,999.99
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 5,000,000.00	\$ 4,999,999.99
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 5,000,000.00	\$ 4,999,999.99
B. Fund Balance per	5,000,000.00	4,999,999.99
3. Reconciling Amount	\$ 0.00	\$ 0.00

The fund balance with treasury (FBWT) remained the same, approximately \$5.0 million, from FY 2005 to FY 2006. At each month end, the DoD Medicare Eligible Retiree Health Care Fund holds back approximately \$5.0 million to ensure the availability of sufficient funds to cover estimated month-end disbursements and invests the remaining funds in nonmarketable market-based securities.

Status of Fund Balance with Treasury

As of June 30	2006	2005
1. Unobligated Balance		
A. Available	\$ 487,602,277.60	\$ (2,040,999,460.24)
B. Unavailable	84,110,917,095.85	59,616,000,479.84
2. Obligated Balance not yet Disbursed	\$ 648,117,113.59	\$ (57,570,001,019.61)
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (85,241,636,487.04)	\$ 0.00
5. Total	<u>\$ 5,000,000.00</u>	<u>\$ 4,999,999.99</u>

In September 2005, the Office of Management and Budget (OMB) advised that certain US Standard General Ledger accounts were inconsistent with the budget presentations for certain special and trust fund receipts. Consequently, the DoD Medicare Eligible Retiree Health Care Fund (MERHCF) reclassified the unobligated fund balance brought forward from FY 2005 as receipts unavailable or precluded from obligation. The OMB-directed restatement impacted, for FY 2006, Lines 1A and 1B (Unobligated Balances); Line 2 (Obligated Balance not yet Disbursed); and Line 4 (Non-FBWT Budgetary Accounts).

The Status of Fund Balance with Treasury (FBWT) consists of unobligated and obligated balances. These balances reflect the budget authority remaining for disbursements against current or future obligations. In addition, the Status includes various accounts that affect either budgetary reporting or FBWT, but not both.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unobligated unavailable balances are restricted to future use and are not apportioned for current use. Furthermore, Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year-end that remain available only for obligation adjustments until the account is closed.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed.

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

NonFBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, and investment accounts. This category reduces the Status of FBWT. The \$85 billion amount represents investments of the MERHCF, which are discussed in Note 4.

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs) \$	0.00 \$	0.00 \$	0.00 \$	0.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
2. Total In-transit Disbursements, Net \$	0.00 \$	0.00 \$	0.00 \$	0.00

Note 4.	Investments and Related Interest
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As of June 30	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 73,193,367,648.94		\$ 12,027,465,514.67	\$ 85,220,833,163.61	\$ 80,469,300,081.13
B. Accrued Interest	806,247,414.90			806,247,414.90	806,247,414.90
C. Total Intragovernmental Securities	<u>\$ 73,999,615,063.84</u>		<u>\$ 12,027,465,514.67</u>	<u>\$ 86,027,080,578.51</u>	<u>\$ 81,275,547,496.03</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 June 30	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 50,901,771,204.76		\$ 7,319,089,445.17	\$ 58,220,860,649.93	\$ 59,616,173,428.04
B. Accrued Interest	641,186,358.51			641,186,358.51	641,186,358.51
C. Total Intragovernmental Securities	<u>\$ 51,542,957,563.27</u>		<u>\$ 7,319,089,445.17</u>	<u>\$ 58,862,047,008.44</u>	<u>\$ 60,257,359,786.55</u>
4. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

Total Intragovernmental Securities increased \$27.2 billion (46 %). Effective 1st Quarter, FY 2006, the Military Services and other Uniformed Services stopped making normal cost payments monthly. Instead, the U.S. Treasury processed annual cost contribution warrants using 10 new contribution accounts reserved by the Office of Management and Budget. The Uniformed Services' (Military Services, US Public Health Service, National Oceanic and Atmospheric Administration, and Coast Guard) normal cost annual contributions were transferred into the DoD Medicare-Eligible Retiree Health Care Fund as a one-time payment at the beginning of FY 2006. The FY 2006 normal cost payment totaled \$11.1 billion. This change in procedures resulted in the availability of additional funds for investments at the beginning of the fiscal year which resulted in an increase in the related interest income in 3rd Quarter, FY 2006. In addition, Treasury made its annual unfunded liability payment of \$16.6 billion, and the Fund earned \$806.2 million in interest from investments. Fund contributions are actuarially determined and are not intended to equal the amount of beneficiary payments. Instead, Fund contributions reflect the present value of future benefit earned during the year, plus a portion of the present value of future benefit payments already earned in prior periods. The FY 2006 table, above, displays the Fund's investments at market value as of June 30, 2006.

The following tables display the Par Values of the U.S. Treasury Securities referenced above:

<u>PAR VALUE FY 2006</u>		<u>PAR VALUE FY2005</u>	
<u>(\$000)</u>		<u>(\$000)</u>	
Bonds	\$2,000,000	Bonds	\$2,000,000
Notes	22,634,102	Notes	23,384,102
Overnights	2,505,658	Overnights	1,071,100
TIPS (see Note)	<u>46,053,608</u>	TIPS (see Note)	<u>24,446,569</u>
Total	\$73,193,368	Total	\$50,901,771

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

The 3rd Quarter, FY 2006, fluctuations in the notes, overnights, and TIPS reflect a change in the Fund's investment strategy away from short-term to more long-term investments. This strategy is oriented toward the Fund achieving a higher rate of return on investment. This new investment strategy was effective during 4th Quarter, FY 2005.

Contributions to the Medicare-Eligible Retiree Health Care Fund (MERHCF) 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 Fund 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 Fund'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, United States (U.S.) Code requires that the methods and assumptions for the following amounts be approved by the DoD MERHCF 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 MERHCF as evidence of its receipts. Treasury securities are an asset to the MERHCF and a liability to the U.S. Treasury. Because the MERHCF 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 MERHCF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the MERHCF 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 June 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 43,104,933.00	N/A	\$ 43,104,933.00	\$ 0.00
2. Nonfederal Receivables (From the Public)	\$ 9,090,178.74	\$ (272,705.36)	\$ 8,817,473.38	\$ 11,077,814.68
3. Total Accounts Receivable	\$ 52,195,111.74	\$ (272,705.36)	\$ 51,922,406.38	\$ 11,077,814.68

Intragovernmental

Intragovernmental receivables increased \$43.1 million from \$0 because the Army Reserve underpaid its “normal cost” contribution for September 2005. The auditors discovered this discrepancy after the DoD published the year-end FY 2005 financial statements. Management believed that the effects of this uncorrected financial statement misstatement of accounts receivable at the close of FY 2005 were immaterial. Management so stated this fact in its November 7, 2005, Management Representation Letter to the auditors.

Nonfederal

Nonfederal Accounts Receivable decreased \$2.3 million (20 %) primarily due to debt of \$10.0 million owed to the government by the Managed Care Support contractors in the 2nd Quarter, FY 2005. This debt pertained to the transfer of responsibility for processing all TRICARE for Life dual-eligible claims from the Managed Care Support contractors to the TRICARE Dual-Eligible Fiscal Intermediary Contract (TDEFIC) contractor. The TDEFIC contractor, Wisconsin Physician Services, collected the debt during the remainder of FY 2005. Additionally, the TDEFIC contractor has more aggressively pursued debt collections during FY 2006, which has helped to reduce the nonfederal net accounts receivable from \$11.1 million in the 3rd Quarter, FY 2005, to the current nonfederal net receivable level of \$8.8 million.

The TMA calculates an allowance for estimated uncollectible accounts as a percentage (3 %) of receivables from all sources. The TDEFIC holds the majority of the receivables. The TMA bases the allowance for uncollectible accounts on an analysis of the actual uncollectible amounts experienced during FY 2004 and the first 3 quarters of FY 2005. The allowance for 3rd Quarter, FY 2005, was \$646.2 thousand, which reduced the gross accounts receivable of \$11.7 million to a net of \$11.1 million. The allowance for 3rd Quarter, FY 2006, was \$272.7 thousand, which reduced the gross accounts receivable of \$9.1 million to a net of \$8.8 million. Both of these net accounts receivable amounts are reported in the above table and the Balance Sheet.

The table below displays the non-delinquent and delinquent amounts through 180 days that the TDEFIC holds in accordance with contract requirements. During this timeframe, the TDEFIC tries to recoup the receivables from the providers. If the TDEFIC has not received payment by the time it receives another claim from that particular provider, the TDEFIC deducts the accounts receivable amount owed the government from the amount owed on the new claim, pays the difference, and closes out the receivable. Once the accounts age to

180 days, the TDEFIC transfers the larger debts, totaling at least \$600, to the TRICARE Management Activity (TMA) General Counsel for review and transfer to Treasury. The TDEFIC holds accounts of less than \$600 for the life of the contract and continues to pursue collection or claims offset. When the TMA awards the contract to a new contractor, the incumbent contractor transfers these accounts receivable to the new contractor for appropriate collection action.

Of the \$1.2 million delinquent accounts receivables over 180 days, the TMA General Counsel is reviewing \$66.9 thousand. The status of the remaining amount is as follows: \$599.7 thousand has been transferred to the Treasury for collection and \$574.3 thousand is held by the fiscal intermediary (FI) for collection in accordance with the contract that requires the FI to retain claims of \$600 or less for collection efforts for the duration of the FI contract.

Aged Accounts Receivable

As of June 30	2006		2005	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 0.00	\$ 6,064,920.00	\$ 0.00	\$ 3,572,974.00
Noncurrent	43,104,933.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 0.00	\$ 1,299,092.00	\$ 0.00	\$ 0.00
31 to 60 days	0.00	0.00	0.00	0.00
61 to 90 days	0.00	2,336.00	0.00	3,501,851.00
91 to 180 days	0.00	482,899.00	0.00	1,425,394.00
181 days to 1 year	0.00	611,331.00	0.00	2,646,592.00
Greater than 1 year and less than or equal to 2 years	0.00	629,601.00	0.00	414,269.00
Greater than 2 years and less than or equal to 6 years	0.00	0.00	0.00	162,904.00
Greater than 6 years and less than or equal to 10 years	0.00	0.00	0.00	0.00
Greater than 10 years	0.00	0.00	0.00	0.00
Subtotal	\$ 43,104,933.00	\$ 9,090,179.00	\$ 0.00	\$ 11,723,984.00
Less Supported Undistributed Collections	0.00	0.00	0.00	0.00
Less Eliminations	0.00	0.00	0.00	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 43,104,933.00	\$ 9,090,179.00	\$ 0.00	\$ 11,723,984.00

Note 6.	Other Assets
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As of June 30	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0.00	\$ 417,381,000.00
B. Total Intragovernmental Other Assets	\$ 0.00	\$ 417,381,000.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	0.00	0.00
C. Total Nonfederal Other Assets	\$ 0.00	\$ 0.00
3. Total Other Assets	\$ 0.00	\$ 417,381,000.00

Line 1A, Advances and Prepayments, decreased \$417.4 million to \$0 in 3rd Quarter, FY 2006. Until this fiscal quarter, advances/prepayments were made from the MERHCF in the 1st, 2nd and 3rd quarters of each fiscal year for care that was expected to be provided in the succeeding quarter to Medicare-eligible Uniformed Services beneficiaries in the military medical treatment facilities. Since this prepayment was for care to be provided in these facilities during the next quarter, the prepayment was recorded as other assets on the Balance Sheet.

The advance payment process was established when the Medicare-Eligible Retiree Health Care Fund (MERHCF) began operations effective the 1st Quarter, FY 2003. This process was established to ensure that the timing of the reporting of military medical treatment facility payments did not exceed 30 or more days because of the monthly reporting process. The MERHCF used the Treasury Standard Form (SF) 224 monthly report, Statement of Transactions, to record and report to Treasury the funds that were transferred to the military medical treatment facilities. There was no additional documentation provided to the Military Services to support the expenditure transfer. Therefore, this caused a timing delay of 30 or more days in notifying the Military Services of the availability of funds for the military medical treatment facilities. In summary, the advance payment process was a work-around to solve the lack of supporting documentation and ensure timely notification of the availability of funds.

Starting in the 3rd Quarter, FY 2006, all entities involved in the transfer of MERHCF funds agreed to use the Standard Form (SF) 1081, Voucher and Schedule of Withdrawals and Credits, to support the SF 224 entries. These entities use the SF 1081 to record and document the transfer of MERHCF funds to the military medical treatment facilities. The payments no longer have to be classified as advance payments; instead, the SF 1081 is processed early in the first month of the new fiscal quarter to allow these payments to be classified as current payments. These payments reduce cash and are recorded as an expense on the Statement of Net Cost, rather than as an asset on the Balance Sheet. The primary benefit of this processing change is the elimination of the delay of the funds transfer to the military medical treatment facilities in the first quarter of each fiscal year.

The distribution of MERHCF funds to the military medical treatment facilities in the 4th Quarter, FY 2006, will be shown on the year-end FY 2006, Statement of Net Cost rather than on the 3rd Quarter, FY 2006, Balance Sheet as other assets.

Note 7.	Cash and Other Monetary Assets
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As of June 30	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 June 30

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 June 30	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 June 30	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 June 30

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 June 30	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 June 30	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 June 30	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 June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. 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 June 30	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 June 30

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 June 30	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 June 30	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

DoD Medicare-Eligible Retiree Health Care Fund

Administrative Expenses

Note 9.	Inventory and Related Property
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As of June 30	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 June 30	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 June 30	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 June 30	2006			2005		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
1. Stockpile Materials Categories						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00		AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		

Legend for Valuation Methods:

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

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

Note 10. General PP&E, Net

As of June 30	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 June 30	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 June 30	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	453,286,174,904.15	443,387,651,573.77
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	689,741,000.00	698,527,000.00
E. Total Nonfederal Liabilities	\$ 453,975,915,904.15	\$ 444,086,178,573.77
3. Total Liabilities Not Covered by Budgetary Resources	\$ 453,975,915,904.15	\$ 444,086,178,573.77
4. Total Liabilities Covered by Budgetary Resources	\$ 84,352,095,997.81	\$ 60,964,696,668.82
5. Total Liabilities	\$ 538,328,011,901.96	\$ 505,050,875,242.59

Line 3, Total Liabilities Not Covered by Budgetary Resources, increased \$9.9 billion (2 %) in 3rd Quarter, FY 2006, primarily due to an increase of \$33.3 billion in the actuarial liability that is offset by an increase of \$23.4 billion in the value of assets available to pay benefits. For additional information, see Note 17.

Note 12.	Accounts Payable
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As of June 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 47,320,741.56	\$ N/A	\$ 47,320,741.56	\$ 0.00
2. Nonfederal Payables (to the Public)	193,858,160.40	0.00	193,858,160.40	278,541,242.59
3. Total	<u>\$ 241,178,901.96</u>	<u>\$ 0.00</u>	<u>\$ 241,178,901.96</u>	<u>\$ 278,541,242.59</u>

Intragovernmental Payables

Line 1, Intragovernmental Payables, increased \$47.3 million from \$0. These payables have existed since the start of Medicare-Eligible Retiree Health Care Fund (MERHCF) operations in the 1st Quarter, FY 2003. However, these amounts have been commingled with the nonfederal payables until this quarter. The MERHCF had been awaiting coordination of a procedure with the Defense Logistics Agency (DLA) trading partner to ensure MERHCF intragovernmental accounts payable would match DLA accounts receivable. A methodology was developed in 3rd Quarter, FY 2006, to accurately identify those payables attributable to DLA support of the pharmaceutical inventory used by the TRICARE Mail Order Pharmacy (TMOP) contractor, Express Scripts Inc (ESI). The TMOP program provides DoD beneficiaries the option of calling or emailing ESI to obtain prescription refills. The ESI receives prescription orders, and fills and mails the prescription orders to the beneficiaries.

The ESI is required to maintain an inventory of pharmaceuticals sufficient to meet the needs of the beneficiaries entitled to this benefit. The replenishment of stock comes from a Defense Supply Center Philadelphia (DSCP) Prime Vendor, McKesson Corporation. The DSCP validates the quantities shipped from the Prime Vendor and the date received by ESI. Upon validation, the DSCP reimburses the Prime Vendor through the accounting function at the TRICARE Management Activity (TMA) – Aurora, Colorado. At no time does TMA take title to or possession of the pharmaceuticals and, thus, maintains no drug inventory.

After ESI fills a prescription order, ESI transmits a claim record to the TRICARE Encounter Data System (TEDS). Periodically, ESI communicates replenishment orders to McKesson which, in turn, submits a replenishment requisition to the DSCP. The replenishment does not occur at the same rate as prescription fulfillment. Consequently, the TMA will still have an Accounts Payable – Public balance resulting from the outstanding TEDS records for prescriptions filled to patients that have not been replenished by McKesson.

Nonfederal Payables

Line 2, NonFederal Payables (to the Public), decreased \$84.7 million (30%). The decrease is primarily attributable to two issues.

- There was \$32.5 million in nonfederal payables normally due the DSCP for the supply of pharmaceutical inventory purchased for the TMOP contractor in June 2005, which was not collected until July 2005. This resulted in 3rd Quarter, FY 2005, reported accounts payable of \$32.5 million more than would have otherwise been included in the account if the DSCP had charged the MERHCF in the usual timely fashion.
- There was \$47.3 million identified as intergovernmental payables that were previously included in nonfederal payables until 3rd Quarter, FY 2006.

Of the \$193.9 million of nonfederal payables for 3rd Quarter, FY 2006, approximately \$20.7 million is attributable to prescriptions filled by ESI without replenishment of inventory.

Note 13.	Debt
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As of June 30	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 June 30	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 June 30	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 June 30	2006			2005	
	Current Liability	Noncurrent Liability	Total	Total	
1. Intragovernmental					
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00		0.00
C. Disbursing Officer Cash	0.00	0.00	0.00		0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00		0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00		0.00
F. Other Liabilities	0.00	0.00	0.00		0.00
G. Total Intragovernmental Other Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
2. Nonfederal					
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$	698,527,000.00
B. Advances from Others	0.00	0.00	0.00		0.00
C. Deferred Credits	0.00	0.00	0.00		0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00		0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00		0.00
F. Nonenvironmental Disposal Liabilities					
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00		0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00		0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00		0.00
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	689,741,000.00	0.00	689,741,000.00		0.00
J. Total Nonfederal Other Liabilities	\$ 689,741,000.00	\$ 0.00	\$ 689,741,000.00	\$	698,527,000.00
3. Total Other Liabilities	\$ 689,741,000.00	\$ 0.00	\$ 689,741,000.00	\$	698,527,000.00

Line 2A, Accrued Funded Payroll and Benefits, decreased \$698.5 million to \$0 due to the reclassification in 4th Quarter, FY 2005, of the incurred but not reported (IBNR) costs from other unfunded employment-related liabilities to other accrued liabilities, which are displayed on Line 2I, Other Liabilities. This reclassification caused the increase of \$689.7 million (100 %) on Line 2I. IBNR costs represent an actuarially determined

estimate of liabilities for covered medical services rendered before the end of the 3rd Quarter, FY 2005, and the end of the 3rd Quarter, FY 2006.

Line 2J, Total Nonfederal Other Liabilities, decreased \$8.8 million (1 %).

Capital Lease Liability

As of June 30	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 June 30	2006			2005	
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	537,397,092,000.00		(84,110,917,095.85)	453,286,174,904.15	443,387,651,573.77
D. Total Pension and Health Benefits	\$ 537,397,092,000.00		\$ (84,110,917,095.85)	\$ 453,286,174,904.15	\$ 443,387,651,573.77
2. Other					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Other	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 537,397,092,000.00		\$ (84,110,917,095.85)	\$ 453,286,174,904.15	\$ 443,387,651,573.77

Actuarial Cost Method Used:

Assumptions:

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

Actuarial Cost Method Used: Aggregate Entry-Age Normal**Assumptions:** Interest Rate 6.25%**Market Value of Investments in Market-based and Marketable Securities:** \$81.3 billion**Fluctuation**

Line 1C, above, displays an increase of \$9.9 billion (2 %) in the unfunded actuarial liability from the 3rd Quarter, FY 2005, to the 3rd Quarter, FY 2006. This change is attributable to an increase of \$33.3 billion in the actuarial liability that is offset by an increase of \$23.4 billion in the value of assets available to pay benefits. The table below provides further details about the \$33.3 billion increase in the actuarial liability. Note 11 also contains information about this change.

Other Information

Public Law 106-398 authorized the establishment of the Medicare-Eligible Retiree Health Care Fund (MERHCF) for the purpose of accumulating funds to finance the liabilities of the Department of Defense (DoD) and the uniformed services health care programs for specific Medicare-eligible beneficiaries. The Fund began operations effective October 1, 2002.

The DoD Office of the Actuary has provided the following information about the MERHCF:

Actuarial Cost Method Used for MERHCF Liability: Aggregate Entry-Age Normal

Interest Rate: 6.25%

Assumptions in Calculation of MERHCF Liability:

Medical Trend: 3.2 percent from FY 2004 to FY 2005, ultimate rate of 6.25 percent in 2029

Medical Inpatient: 5.6 percent from FY 2004 to FY 2005, ultimate rate of 6.25 percent in 2029

Medicare Outpatient: 10.0 percent from FY 2004 to FY 2005, ultimate rate of 6.25 percent in 2029

Medicare Prescriptions

(Purchased Care): 15.2 percent from FY 2004 to FY 2005, ultimate rate of 6.25 percent in 2029

The medical cost trend rate assumptions have a significant effect on the amounts reported. If the assumed rates increased by 1 percentage point in each year, that would increase the actuarial present value of projected plan benefits as of September 30, 2005, by 28%, or approximately \$150.0 billion.

The market value of the MERHCF's nonmarketable market-based securities as of June 30, 2006, totaled \$81.3 billion, which included \$806.2 million in accrued interest.

The liability for the MERHCF includes Medicare liabilities for all uniformed services. The reported MERHCF actuarial liability is only changed once a year, at September 30. For this reason, there is no change in the June 30, 2006, actuarial liability from the September 30, 2005, actuarial liability. For the same reason, the change in the actuarial liability from June 30, 2005, to June 30, 2006, is the same as the change from September 30, 2004, to September 30, 2005. The table below displays the FY 2005 change in the actuarial liability:

Change in MERHCF Actuarial Liability

(\$ in Thousands)

a. Actuarial Liability as of September 30, 2004 (all Uniformed Services Medicare)	\$504,073,807
b. Expected Normal Cost for FY 2005	\$10,613,753
c. Expected Benefit Payments for FY 2005	(\$6,546,888)
d. Interest Cost for FY 2005	\$31,629,776
e. Actuarial (gains)/losses due to other factors	(\$14,902,660)
f. Actuarial (gains)/losses due to changes in trend assumptions	\$12,529,304
g. Actuarial Liability as of September 30, 2005 (all Uniformed Services Medicare)	\$537,397,092
h. Change in Actuarial Liability	\$33,323,285

Each year the actuarial liability is expected to increase with normal cost, decrease with benefit payments, and increase with the interest cost. In the absence of actuarial gains and losses or benefit changes, an increase of \$36.0 billion in the actuarial liability was expected during FY 2005 (line b plus line c plus line d). The September 30, 2005, actuarial liability includes changes due to new assumptions and actuarial experience. The actuarial loss due to new medical trend assumptions is \$12.5 billion (line f). The actuarial gains and losses due to other factors (net -\$14.9 billion, line e) includes new population data, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of June 30	2006	2005

As of June 30	2006	2005
1. Intragovernmental Costs	\$ 1,845,526,633.68	\$ 1,143,949,000.00
2. Public Costs	3,493,343,275.35	3,823,173,018.89
3. Total Costs	\$ 5,338,869,909.03	\$ 4,967,122,018.89
4. Intragovernmental Earned Revenue	\$ (30,757,430,393.95)	\$ (25,307,953,251.17)
5. Public Earned Revenue	2,514,035.17	0.00
6. Total Earned Revenue	\$ (30,754,916,358.78)	\$ (25,307,953,251.17)
7. Net Cost of Operations	\$ (25,416,046,449.75)	\$ (20,340,831,232.28)

The Statement of Net Cost is unique because its principles are driven on understanding the net cost of programs that the Federal Government supports through appropriations or other means. This Statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity. For public earned revenue, the buyer of the goods or services is a nonfederal entity. Intragovernmental costs and revenue are related to transactions made between two reporting entities within the federal government.

The Medicare-Eligible Retiree Health Care Fund (MERHCF) identified no differences when it compared its intragovernmental costs and revenues with the corresponding balances of its intragovernmental trading partners.

Line 1, Intragovernmental Costs, represents the distribution of funds from the MERHCF to the military medical treatment facilities for care provided to these Medicare-eligible uniformed service beneficiaries in these facilities. The increase of \$701.6 million (61 %) is attributable to increased ambulatory pharmacy use and increases in actual costs per encounter for inpatient, outpatient, and pharmacy care/services.

Line 2, Public Costs, decreased \$329.8 million (9 %).

Line 4, Intragovernmental Revenue, increased \$5.4 billion (22 %) and line 5, Public Earned Revenue, decreased \$2.5 million (100 %). See the table below and the explanations that follow for details:

Intragovernmental and Public Earned Revenues for Program Costs
(\$ in 000's)

	<u>FY 2006</u>	<u>FY 2005</u>
1. Uniformed Services Contributions	\$11,115,152	\$7,920,038
2. U.S. Treasury Annual Unfunded Liability Payment	16,612,000	15,721,000
3. Interest on Investments	3,030,278	1,666,915
4. Public Earned Revenue	<u>(2,514)</u>	<u>0</u>
5. Total Earned Revenue	\$30,754,916	\$25,307,953

Line 1, Uniformed Services (Military Services, U.S. Public Health Service, U.S. Coast Guard, and National Oceanic and Atmospheric Administration) contributions increased \$3.2 billion (40 %) due to a change in policy in the 1st quarter, FY 2006, that requires upfront annual contributions rather than monthly contributions. The FY 2005 Defense Authorization Act assigned Treasury, vice the Uniformed Services, the responsibility of paying normal cost contributions into the Fund, starting in FY 2006. The \$3.2 billion variance also includes an increase in normal cost contribution rates (a per-capita amount times end strength) provided by the Board of Actuaries. In addition, these contributions include \$43.1 million that was underpaid by the Army Reserves, which is reflected in Note 5.

Line 2, U.S. Treasury Annual Unfunded Liability Payment, increased \$891 million (6 %) due to the computation provided by the DoD Retirement Board of Actuaries. This payment represents the amortization of the unfunded liability for service performed before October 1, 2002, as well as the amortization of actuarial gains and losses that have arisen since then.

Line 3, Interest on Investments, increased \$1.4 billion (82 %) primarily due to the large increase in contributions received in October 2005 and the compounding effect of higher rates of return since that time.

Line 4, Public Earned Revenue, which represents amounts owed to the MERHCF, decreased \$2.5 million (100 %) from the close of the 4th quarter, FY 2005, through the close of the 3rd Quarter, FY 2006. This decrease was due to the aggressive collections by the TRICARE Dual-Eligible Fiscal Intermediary Contractor during the 1st, 2nd, and 3rd Quarters, FY 2006. See Note 5 for additional details.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of June 30	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

Appropriations Received on the Statement of Changes in Net Position (SCNP) did not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) because of differences between proprietary and budgetary accounting concepts and reporting requirements. The SCNP reported zero Appropriations Received, and the SBR reported \$30.0 billion. The Medicare-Eligible Retiree Health Care Fund 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 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	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

The Office of Management and Budget (OMB) 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 Statement of Budgetary Resources (SBR). The Medicare-Eligible Retiree Health Care Fund (MERHCF) reported \$1.5 billion in category B obligations and \$4.2 billion in exempt from apportionment obligations. The MERHCF reported no category A obligations.

Permanent Indefinite Appropriation

Title 10, U.S. Code 1111 provides the MERHCF a permanent indefinite appropriation with which to finance, on an actuarially sound basis, the liabilities of DoD's uniformed services retiree health care programs for Medicare-eligible beneficiaries.

Intraentity Transactions

Intraentity transactions have not been eliminated because the statements are presented as combined and combining.

Reconciliation Differences

The Department of the Treasury issues annual warrants that pay amortized payments for the unfunded actuarial liabilities of the MERHCF. The MERHCF's annual warrant for FY 2006 totaled \$16.6 billion. The Other Defense Organizations General Fund credits, and subsequently expends, this amount to the MERHCF in accordance with OMB guidance. The OMB is aware, and approves, of this duplicate reporting.

In addition, the MERHCF reports Appropriations Received for contributions that the Army, Navy, and Air Force pay. The Military Departments also include these amounts in their respective Appropriations Received. The MERHCF reported a total of \$11.1 billion for FY 2006.

Note 21.	Disclosures Related to the Statement of Financing
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Information Related to the Statement of Financing

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

Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods report unfunded expenses that were incurred during FY 2006. The cumulative total of unfunded expenses from all fiscal years is reported as “Liabilities Not Covered by Budgetary Resources” in Note 11.

The amount on Line 4, Less: Offsetting Receipts, increased \$5.4 billion (22 %) for the following reasons:

Contributions from the Uniformed Services increased \$3.2 billion from 3rd Quarter, FY 2005, to 3rd Quarter, FY 2006, primarily due to a change in policy in the 1st Quarter, FY 2006, which requires upfront annual contributions rather than monthly contributions. The FY 2005 Defense Authorization Act assigned Treasury, vice the Uniformed Services, the responsibility of paying normal cost contributions into the Fund, starting in FY 2006. See Note 18 for additional details.

The United States Treasury annual unfunded liability payment increased \$891 million from 3rd Quarter, FY 2005, to 3rd Quarter, FY 2006, based on the computation provided by the Department of Defense Retirement Board of Actuaries. See Note 18 for additional details.

See Note 1 for additional information on the Uniformed Services contributions and Treasury payments and Note 18 for further details about the fluctuation.

Line 12a, Undelivered Orders decreased \$402.0 million (61%). This decrease is related to the decision by the Medicare-Eligible Retiree Health Care Fund (MERHCF) in 3rd Quarter, FY 2006, to no longer make advances/prepayments to the military medical treatment facilities for care provided to eligible beneficiaries. Rather than transferring MERHCF funds in the month prior to the start of a new fiscal quarter, the funds transfer will be made at the beginning of the quarter in which care will be provided to the eligible beneficiaries. Consequently, transactions are now recorded as cash expenses reflected on the Statement of Net Cost rather than as an advanced cash payment reflected as an “other asset” on the Balance Sheet. See Note 6 for additional details.

Line 13, Resources that funded expenses recognized in prior periods, decreased \$72.4 million (100%) in FY 2006; and line 23, Other, decreased \$207.2 million (100 %) between 3rd Quarter, FY 2005, and 3rd Quarter, FY 2006, due to the reclassification of incurred but not reported (IBNR) costs. These costs were reclassified from other unfunded employment-related

liabilities to other accrued liabilities in 4th Quarter, FY 2005, because IBNR costs are funded amounts.

Line 27d, Other, decreased \$3.0 million (98 %) between 3rd Quarter, FY 2005, and 3rd Quarter, FY 2006. The majority of this difference represents a change in accounts receivable. Effective 1st quarter, FY 2006, the change in accounts receivable is reflected as a decrease to revenue and appears on the Statement of Net Cost.

The remaining difference, on line 27d, represents bad debt expense for the MERHCF. These bad debts occur because of erroneous payments to beneficiaries of the MERHCF or to nonfederal medical service providers.

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 June 30

	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
ASSETS				
Fund balance with Treasury	\$ 0.00	\$ 5,000,000.00	\$ 0.00	\$ 5,000,000.00
Investments	0.00	86,027,080,578.51	0.00	86,027,080,578.51
Accounts and Interest Receivable	0.00	51,922,406.38	0.00	51,922,406.38
Other Assets	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 86,084,002,984.89	\$ 0.00	\$ 86,084,002,984.89

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$ 0.00	\$ 537,397,092,000.00	\$ 0.00	\$ 537,397,092,000.00
Other Liabilities	0.00	930,919,901.96	0.00	930,919,901.96
Unexpended Appropriations	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	(452,244,008,917.07)	0.00	(452,244,008,917.07)
Total Liabilities and Net Position	\$ 0.00	\$ 86,084,002,984.89	\$ 0.00	\$ 86,084,002,984.89

STATEMENT OF NET COST

As of June 30

Program Costs	\$ 0.00	\$ 5,338,869,909.03	\$ 0.00	\$ 5,338,869,909.03
Less Earned Revenue	0.00	(30,754,916,358.78)	0.00	(30,754,916,358.78)
Net Program Costs	\$ 0.00	\$ (25,416,046,449.75)	\$ 0.00	\$ (25,416,046,449.75)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ (25,416,046,449.75)	\$ 0.00	\$ (25,416,046,449.75)

STATEMENT OF CHANGES IN NET POSITION

As of June 30

Net Position Beginning of the Period	\$ 0.00	\$ (477,660,055,366.82)	\$ 0.00	\$ (477,660,055,366.82)
Net Cost of Operations	0.00	(25,416,046,449.75)	0.00	(25,416,046,449.75)
Other Nonexchange Revenue	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 25,416,046,449.75	\$ 0.00	\$ 25,416,046,449.75
Net Position End of Period	\$ 0.00	\$ (452,244,008,917.07)	\$ 0.00	\$ (452,244,008,917.07)

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

Public Law 106-398 authorized the establishment of the MERHCF. The MERHCF's appropriations are designated as special funds which are used to fund the daily execution of the MERHCF's mission. The MERHCF, which is classified as a special fund, uses both receipt and expenditure accounts. These accounts have a budget activity level structure, and the MERHCF can establish lower level accounts as necessary to meet reporting requirements.

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

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

There are three primary financing sources for the MERHCF--which are inflows only to the Fund. These sources are an annual unfunded actuarial liability payment from Treasury; annual contribution(s) from the Military Services and other uniformed services (US Coast Guard, the National Oceanic and Atmospheric Administration, and the US Public Health Service); and interest earned from the Fund's investments.

On the consolidated Balance Sheet, Assets section, the Fund Balance with Treasury \$5.0 million represents the funds held back at the end of the month for any unexpected expenses. Next, the \$86.0 billion is the net investments of the fund, which consists of, bonds, notes, overnights, and inflation-protected securities as well as interest receivable. The Accounts and Interest Receivable is the accounts receivable of \$43.1 million, which is an underpayment of the Army Reserve's FY 2005 contribution, and another accounts receivable of \$9.1 million due from the public.

The consolidated Balance Sheet, Liabilities and Net Position section, starts with \$537.4 billion for the actuarial health insurance liability. The \$964.4 million is comprised of incurred but not reported amounts of \$689.7 million and accounts payable amounts of \$274.6 million. Finally, the \$451.6 billion is the net difference since inception of the MERHCF 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 \$5.3 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 \$30.8 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 \$477.7 billion. This amount represents the net difference since inception of the MERHCF between the revenues and expenses. The Net Cost of Operations of \$25.4 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.

The Congress has made no changes in legislation during or after this reporting period that significantly changed the purpose of this Fund.

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

The MERHCF only trades with other entities outside the Fund—that is, the Military Services, the other Unformed Services, and the US Treasury. There are eliminations with these federal trading partners, but they are considered outside reporting entities.

Note 24.	Other Disclosures
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As of June 30	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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