

**Department of Defense**  
**Military Retirement Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of June 30, 2008 and 2007**

	<b>2008 Consolidated</b>	<b>2007 Consolidated</b>
	<hr/>	<hr/>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	20,925,080.02	46,444,378.38
2. Investments (Note 4)	255,053,683,128.54	222,809,452,842.20
5. Total Intragovernmental Assets	<u>\$ 255,074,608,208.56</u>	<u>\$ 222,855,897,220.58</u>
C. Accounts Receivable, Net (Note 5)	26,482,176.19	23,287,216.03
<b>2. TOTAL ASSETS</b>	<u>\$ 255,101,090,384.75</u>	<u>\$ 222,879,184,436.61</u>
<b>3. STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>4. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
3. Other Liabilities (Note 15 & 16)	1,581,926.19	745,090.55
4. Total Intragovernmental Liabilities	<u>\$ 1,581,926.19</u>	<u>\$ 745,090.55</u>
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,030,102,157,867.73	967,240,203,537.12
F. Other Liabilities (Note 15 & Note 16)	196,709.44	196,746.69
<b>5. TOTAL LIABILITIES</b>	<u>\$ 1,030,103,936,503.36</u>	<u>\$ 967,241,145,374.36</u>
<b>6. NET POSITION</b>		
C. Cumulative Results of Operations - Earmarked Funds	(775,002,846,118.61)	(744,361,960,937.75)
<b>7. TOTAL NET POSITION</b>	<u>\$ (775,002,846,118.61)</u>	<u>\$ (744,361,960,937.75)</u>
<b>8. TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 255,101,090,384.75</u>	<u>\$ 222,879,184,436.61</u>

**Department of Defense**  
**Military Retirement Fund**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended June 30, 2008 and 2007**

	<b>2008 Consolidated</b>	<b>2007 Consolidated</b>
	<hr/>	<hr/>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 35,435,530,568.53	\$ 32,574,218,590.24
B. (Less: Earned Revenue)	(71,035,836,191.01)	(46,873,573,321.19)
C. Net Program Costs	<hr/> \$ (35,600,305,622.48)	<hr/> \$ (14,299,354,730.95)
<b>4. Net Cost of Operations</b>	<hr/> <hr/> \$ (35,600,305,622.48)	<hr/> <hr/> \$ (14,299,354,730.95)

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended June 30, 2008 and 2007

	<u>2008 Earmarked Funds</u>	<u>2008 All Other Funds</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
1. Beginning Balances	\$ (810,603,151,741.09)	\$ 0.00
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>(810,603,151,741.09)</u>	<u>0.00</u>
4. Budgetary Financing Sources:		
5. Other Financing Sources:		
7. Net Cost of Operations (+/-)	<u>(35,600,305,622.48)</u>	<u>0.00</u>
8. Net Change	<u>35,600,305,622.48</u>	<u>0.00</u>
9. Cumulative Results of Operations	<u>(775,002,846,118.61)</u>	<u>0.00</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<u>(775,002,846,118.61)</u>	<u>0.00</u>

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended June 30, 2008 and 2007

	<u>2008 Eliminations</u>	<u>2008 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
1. Beginning Balances	\$ 0.00	\$ (810,603,151,741.09)
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>0.00</u>	<u>(810,603,151,741.09)</u>
4. Budgetary Financing Sources:		
5. Other Financing Sources:		
7. Net Cost of Operations (+/-)	<u>0.00</u>	<u>(35,600,305,622.48)</u>
8. Net Change	<u>0.00</u>	<u>35,600,305,622.48</u>
9. Cumulative Results of Operations	<u>0.00</u>	<u>(775,002,846,118.61)</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<u>0.00</u>	<u>(775,002,846,118.61)</u>

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended June 30, 2008 and 2007

	<u>2007 Earmarked Funds</u>	<u>2007 All Other Funds</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
1. Beginning Balances	\$ (758,661,315,668.70)	\$ 0.00
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>(758,661,315,668.70)</u>	<u>0.00</u>
4. Budgetary Financing Sources:		
5. Other Financing Sources:		
7. Net Cost of Operations (+/-)	<u>(14,299,354,730.95)</u>	<u>0.00</u>
8. Net Change	<u>14,299,354,730.95</u>	<u>0.00</u>
9. Cumulative Results of Operations	<u>(744,361,960,937.75)</u>	<u>0.00</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<u>(744,361,960,937.75)</u>	<u>0.00</u>

Department of Defense  
 Military Retirement Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended June 30, 2008 and 2007

	<u>2007 Eliminations</u>	<u>2007 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
1. Beginning Balances	\$ 0.00	\$ (758,661,315,668.70)
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	<u>0.00</u>	<u>(758,661,315,668.70)</u>
4. Budgetary Financing Sources:		
5. Other Financing Sources:		
7. Net Cost of Operations (+/-)	<u>0.00</u>	<u>(14,299,354,730.95)</u>
8. Net Change	<u>0.00</u>	<u>14,299,354,730.95</u>
9. Cumulative Results of Operations	<u>0.00</u>	<u>(744,361,960,937.75)</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
11. Prior Period Adjustments:		
13. Budgetary Financing Sources:		
16. Net Position	<u>0.00</u>	<u>(744,361,960,937.75)</u>

**Department of Defense**  
**Military Retirement Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended June 30, 2008 and 2007**

	<b>2008 Combined</b>	<b>2007 Combined</b>
	<hr/>	<hr/>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
3. Budget authority		
3.A. Appropriation	71,583,837,258.14	50,818,000,000.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.2 Change in unfilled customer orders		
3.E. Subtotal	<hr/> 71,583,837,258.14	<hr/> 50,818,000,000.00
5. Temporarily not available pursuant to Public Law	(36,146,813,258.00)	(18,243,350,306.85)
<b>7. Total Budgetary Resources</b>	<hr/> <b>\$ 35,437,024,000.14</b> <hr/>	<hr/> <b>\$ 32,574,649,693.15</b> <hr/>

Department of Defense  
 Military Retirement Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2008 and 2007

	<b>2008 Combined</b>	<b>2007 Combined</b>
	<hr/>	<hr/>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 35,437,024,000.14	\$ 32,574,649,693.15
8.C. Subtotal	<hr/> 35,437,024,000.14	<hr/> 32,574,649,693.15
9. Unobligated balance:		
<b>11. Total status of budgetary resources</b>	<hr/> <b>\$ 35,437,024,000.14</b>	<hr/> <b>\$ 32,574,649,693.15</b>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	3,530,196,239.21	3,409,801,499.00
from Federal sources, brought forward, October 1		
12.C. Total unpaid obligated balance	3,530,196,239.21	3,409,801,499.00
13. Obligations incurred net (+/-)	<hr/> \$ 35,437,024,000.14	<hr/> \$ 32,574,649,693.15
14. Less: Gross outlays	(34,185,548,371.62)	(32,440,524,267.09)
15. Obligated balance transferred, net		
payments from Federal sources (+/-)		
payments from Federal sources (+/-)		
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	4,781,671,867.73	3,543,926,925.06
from Federal sources (-)		
18.C. Total, unpaid obligated balance, net, end of period	<hr/> 4,781,671,867.73	<hr/> 3,543,926,925.06
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	34,185,548,371.62	32,440,524,267.09
19.C. Less: Distributed Offsetting receipts	(46,187,000,000.00)	(28,500,000,000.00)
<b>19.D. Net Outlays</b>	<hr/> <b>\$ (12,001,451,628.38)</b>	<hr/> <b>\$ 3,940,524,267.09</b>



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

These financial statements have been prepared to report the financial position and results of operations of the Military Retirement Fund (MRF), as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation. The financial statements have been prepared from the books and records of MRF in accordance with the *Department of Defense (DoD) Financial Management Regulation*; the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*; and, to the extent possible, generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which MRF is responsible unless otherwise noted.

**1.B. Mission of the Reporting Entity**

The mission of MRF is to accumulate funds in order to finance, on an actuarially sound basis, the liabilities of DoD military retirement and survivor benefit programs. The MRF is a program for the payment of pensions to retired military personnel, annuities to eligible survivors, and special compensation for certain disabled retirees.

**1.C. Appropriations and Funds**

*The Defense Authorization Act of 1984, Public Law 98-94* authorized MRF and provided a permanent indefinite appropriation. Permanent authority becomes available based upon standing provisions of law without any further legislative action by Congress after transmittal of the budget for each year.

The DoD Board of Actuaries approves methods and assumptions used to determine the amount of the contributions made to MRF. The Military Services make a monthly contribution which is a percentage of basic pay. The MRF also receives a U. S. Treasury warrant at the beginning of each fiscal year for (1) the amortization of the unfunded liability and (2) to cover accruing costs for currently active military members. In addition, interest is earned on investments. Funds from the contributions that exceed the amounts required to pay current year expenses are invested. Those investments at maturity and their associated interest revenues will be used to cover future liabilities of MRF.

The MRF is a non-revolving trust fund. Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

All funds received by MRF are considered earmarked funds. Earmarked funds are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use, and retention of revenues and other financing sources.

**1.D. Basis of Accounting**

For FY 2008, MRF's financial feeder systems did not meet all of the requirements for full accrual accounting. These systems were designed and implemented before the issuance of GAAP for federal agencies and were not designed to collect and record financial information on the full accrual basis as required by GAAP. When necessary, MRF and the Defense Finance and Accounting Service (DFAS) have established manual controls to work around these system issues. For example, the accounting system used by MRF does not record information on a budgetary basis. Instead, the reporting system derives the budgetary account balances from information contained in the proprietary accounts.

The DoD has undertaken efforts to determine the actions required to bring its financial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on U.S. Standard General Ledger. Until all of MRF's financial feeder systems and processes are updated to collect and report financial information as required by GAAP, the financial data will be derived from transactions in noncompliant feeder systems, information from the proprietary accounts, and accruals made for major items such as estimated payables owed to beneficiaries.

In addition, DoD 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 DoD is working towards a cost reporting methodology that meets the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

#### **1.E. Revenues and Other Financing Sources**

Financing sources for MRF are provided primarily through monthly Military Service contributions as a percentage of basic pay, the annual amortization payments from the U.S. Treasury for the unfunded liability and a portion of accruing costs for active military members, and interest earned on investments.

#### **1.F. Recognition of Expenses**

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because MRF's financial system was not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as estimated payables owed to beneficiaries..

#### **1.G. Accounting for Intragovernmental Activities**

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. Seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. The MRF is able to reconcile its records and no adjustments are needed. The DoD is developing long-term system

improvements to ensure accurate intragovernmental information, to include sufficient up-front edits and controls, eliminating the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between 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 U.S. Treasury's *Federal Intragovernmental Transactions Accounting Policy Guide*, provide guidance for reporting and reconciling intragovernmental balances. The MRF 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 MRF's monetary resources are maintained in the Treasury accounts. The disbursing offices of DFAS, the Military Services, and other Federal Governmental financial service centers process the majority of MRF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites submit reports by appropriation to the U.S. Treasury on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable fund balance with treasury (FBWT) account. Differences between MRF's recorded balance in FBWT and the U.S. Treasury account balance sometimes result and are subsequently reconciled.

The U.S. Treasury allows MRF to be fully invested. Therefore, the FBWT may be zero at various times during the fiscal year including the end of a quarter or a fiscal year.

##### **1.J. Foreign Currency**

N/A

##### **1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes three categories: accounts, claims, and refunds receivable from other federal entities or from the public. The MRF calculates allowances for uncollectible accounts due from the public using the general reserve method. Under this method, a reserve is based on the age of debts and bad debt experience. 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 in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

**1.L. Direct Loans and Loan Guarantees**

N/A

**1.M. Inventories and Related Property**

N/A

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

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

The MRF invests in two types of nonmarketable securities. The two types are par value and market-based intragovernmental 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.

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

**1.O. General Property, Plant and Equipment**

N/A

**1.P. Advances and Prepayments**

N/A

**1.Q. Leases**

N/A

**1.R. Other Assets**

N/A

**1.S. Contingencies and Other Liabilities**

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The MRF 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 accounts receivable, pending or threatened litigation, and possible claims and assessments. The MRF reports death payment contingencies that result from DoD's responsibility to cover retiree benefits not paid by the Department of Veterans Affairs during the month of death.

**1.T. Accrued Leave**

N/A

**1.U. Net Position**

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

**1.V. Treaties for Use of Foreign Bases**

N/A

**1.W. Comparative Data**

The MRF's financial statements and notes are presented on a comparative basis.

**1.X. Unexpended Obligations**

The MRF recognizes annuity benefits expense and liability as earned or accrued. Therefore, there are no unexpended obligations or undelivered orders.

**1.Y. Undistributed Disbursements and Collections**

All disbursements for MRF are made by DFAS Cleveland Retired Pay Operations. The DFAS Cleveland reports these disbursements to the U.S. Treasury. The contributions to MRF are made by the Military Services and the U.S. Treasury and are processed by the Trust Fund Accounting Division (TFAD) and reported by TFAD to the U.S. Treasury. The TFAD records these transactions in the Trust Fund Accounting System (TFAS) and reconciles to the U.S. Treasury each month end. All transactions reported to the U.S. Treasury are included in TFAS. Therefore, MRF has no undistributed disbursements and collections.

**1.Z. Significant Events**

Beginning 4<sup>th</sup> Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as “Reconciliation of Net Cost of Operations to Budget.”

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2008	2007
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	1,581,926.19	745,090.55
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 1,581,926.19	\$ 745,090.55
<b>3. Total Nonentity Assets</b>	\$ 1,581,926.19	\$ 745,090.55
<b>4. Total Entity Assets</b>	\$ 255,099,508,458.56	\$ 222,878,439,346.06
<b>5. Total Assets</b>	\$ 255,101,090,384.75	\$ 222,879,184,436.61

### Information Related to Nonentity Assets

The Military Retirement Fund (MRF) categorizes its asset accounts as either entity or nonentity assets. Entity assets consist of resources that MRF has the authority to use or when management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets for which MRF maintains stewardship accountability and responsibility to report, but are not available for MRF's operations.

Nonfederal Assets, Accounts Receivable, represent the amounts of interest, penalties, and administrative charges that are collected by MRF on behalf of the U.S. Treasury. Once collected, these amounts are transferred to the appropriate U.S. Treasury receipt account. This amount, which represents a liability for MRF as well, is also reported on Note 11, Liabilities Not Covered by Budgetary Resources, and Note 15, Other Liabilities.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30	2008	2007
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	20,925,080.02	46,444,378.38
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 20,925,080.02	\$ 46,444,378.38
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 20,925,080.02	\$ 46,444,378.38
B. Fund Balance per Military Retirement Fund	20,925,080.02	46,444,378.38
<b>3. Reconciling Amount</b>	\$ 0.00	\$ 0.00



<b>Status of Fund Balance with Treasury</b>
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As of June 30	2008	2007
<b>1. Unobligated Balance</b>		
A. Available	\$ 0.00	\$ (3,211,286,173.46)
B. Unavailable	248,001,289,998.74	220,275,229,915.75
<b>2. Obligated Balance not yet Disbursed</b>	\$ 4,781,671,867.73	\$ 3,543,926,925.06
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (252,762,036,786.45)	\$ (220,561,426,288.97)
<b>5. Total</b>	<u>\$ 20,925,080.02</u>	<u>\$ 46,444,378.38</u>

### Information Related to Status of Fund Balance with Treasury

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. These unobligated balances, which are classified as available or unavailable, are related to trust fund accounts which are restricted by the public laws that established the funds. These balances become available subsequently without further Congressional action.

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, and goods and services that have been delivered/received but not yet paid. The Military Retirement Fund (MRF) balance represents benefits payable on July 1, 2008.

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

Non-FBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. The MRF balance represents investment accounts. This category reduces the Status of FBWT.

**Note 4. Investments and Related Interest**

As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 258,567,118,806.37	Effective Interest	\$ (5,805,082,019.92)	\$ 252,762,036,786.45	\$ 258,100,903,942.05
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	258,567,118,806.37		(5,805,082,019.92)	252,762,036,786.45	258,100,903,942.05
B. Accrued Interest	2,291,646,342.09			2,291,646,342.09	2,291,646,342.09
C. Total Intragovernmental Securities	\$ 260,858,765,148.46		\$ (5,805,082,019.92)	\$ 255,053,683,128.54	\$ 260,392,550,284.14
<b>2. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 226,791,000,712.69	Effective Interest	\$ (6,229,574,423.72)	\$ 220,561,426,288.97	\$ 209,235,604,929.87
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	226,791,000,712.69		(6,229,574,423.72)	220,561,426,288.97	209,235,604,929.87
B. Accrued Interest	2,248,026,553.23			2,248,026,553.23	2,248,026,553.23
C. Total Intragovernmental Securities	\$ 229,039,027,265.92		\$ (6,229,574,423.72)	\$ 222,809,452,842.20	\$ 211,483,631,483.10
<b>4. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

## Information Regarding Investments and Related Interest

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

The following table displays the cost of U.S. Treasury Securities.

	<b><u>FY 2008 COST</u></b> <b><u>(\$ in thousands)</u></b>	<b><u>FY 2007 COST</u></b> <b><u>(\$ in thousands)</u></b>
Notes	\$ 51,875,963	\$ 55,013,263
Bonds	5,118,728	27,958,981
TIPS	196,183,410	135,197,229
Overnights	<u>5,389,018</u>	<u>8,621,527</u>
Total Cost	\$258,567,119	\$226,791,000

The MRF purchases and redeems nonmarketable market-based securities that fluctuate in tandem with the current selling price of the equivalent marketable security on the open market. The Department of Defense Investment Board approves the strategy for the type of securities purchased by MRF at the semiannual meetings.

The MRF purchases securities with the intent to hold until maturity. These securities can include U.S. Treasury bills, notes, bonds, inflation-protected securities, and overnight certificates. The 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 either a discount or premium. The U.S. Treasury bonds are long-term securities with maturities of 10 years or more and are purchased at either a discount or premium. The U.S. Treasury Inflation-Protected Securities (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, the U.S. Treasury pays the adjusted principal or original principal, whichever is greater. Overnight securities are short-term securities, purchased at face value, that mature the next business day and earn interest at the daily Federal Reserve repurchase agreement rate.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2008			2007
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 0.00	N/A	\$ 0.00	\$ 0.00
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 31,874,992.60	\$ (5,392,816.41)	\$ 26,482,176.19	\$ 23,287,216.03
<b>3. Total Accounts Receivable</b>	\$ 31,874,992.60	\$ (5,392,816.41)	\$ 26,482,176.19	\$ 23,287,216.03

## Aged Accounts Receivable

As of June 30	2008		4th Quarter 2007	
CATEGORY	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<b>Nondelinquent</b>				
Current	\$ 0.00	\$ 28,250,820.00	\$ 118,949,483.96	\$ 25,512,893.61
Noncurrent	0.00	0.00	0.00	0.00
<b>Delinquent</b>				
1 to 30 days	\$ 0.00	\$ 207,748.00	\$ 0.00	\$ 6,993.00
31 to 60 days	0.00	97,888.00	0.00	3,524.00
61 to 90 days	0.00	420,414.00	0.00	644,421.00
91 to 180 days	0.00	479,143.00	0.00	404,313.00
181 days to 1 year	0.00	605,414.00	0.00	798,241.00
Greater than 1 year and less than or equal to 2 years	0.00	772,205.60	0.00	630,541.00
Greater than 2 years and less than or equal to 6 years	0.00	837,436.00	0.00	899,064.00
Greater than 6 years and less than or equal to 10 years	0.00	68,604.00	0.00	71,420.00
Greater than 10 years	0.00	135,320.00	0.00	225,590.00
<b>Subtotal</b>	<b>\$ 0.00</b>	<b>\$ 31,874,992.60</b>	<b>\$ 118,949,483.96</b>	<b>\$ 29,197,000.61</b>
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
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 31,874,992.60</b>	<b>\$ 118,949,483.96</b>	<b>\$ 29,197,000.61</b>

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2008	2007
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 0.00	\$ 0.00
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	0.00	0.00
D. Other Assets (With the Public)	0.00	0.00
E. Total Nonfederal Other Assets	\$ 0.00	\$ 0.00
<b>3. Total Other Assets</b>	\$ 0.00	\$ 0.00

Not Applicable.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of June 30	2008	2007
<b>1. Cash</b>	\$ 0.00	\$ 0.00
<b>2. Foreign Currency</b>	0.00	0.00
<b>3. Other Monetary Assets</b>	0.00	0.00
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
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As of June 30

**Direct Loan and/or Loan Guarantee Programs**

Not Applicable.



## Summary of Direct Loans and Loan Guarantees

As of June 30	2008	2007
<b>Loans Receivable</b>		
<u>Direct Loans</u>		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
<b>5. Total Direct Loans</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<u>Defaulted Loan Guarantees</u>		
6. A. Foreign Military Financing Account	\$ 0.00	\$ 0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>7. Total Default Loan Guarantees</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>8. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

As of June 30	2008	2007
<b>Loan Guarantee Liability</b>		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>4. Total Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Direct Loans Obligated

As of June 30	2008	2007
<b>Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):</b>		
<b>1. Foreign Military Loan Liquidating Account</b>		
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 Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
<b>Direct Loans Obligated After FY 1991 (Present Value Method):</b>		
<b>2. Military Housing Privatization Initiative</b>		
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
<b>3. Foreign Military Financing Account</b>		
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
<b>4. Military Debt Reduction Financing Account</b>		
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, Net	\$ 0.00	\$ 0.00
<b>5. Total Direct Loans Receivable</b>	\$ 0.00	\$ 0.00

**Total Amount of Direct Loans Disbursed**

As of June 30	2008	2007
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Military Debt Reduction Financing Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

2008	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

2007	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

	2008	2007
<b>5. Total Direct Loan Subsidy Expense:</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Subsidy Rate for Direct Loans by Program**

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
<b>Budget Subsidy Rates for Direct Loans:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans

As of June 30	2008	2007
<b>Beginning Balances, Changes and Ending Balance:</b>		
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
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
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>3. Adjustments</b>		
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
<b>G. Total of the above Adjustment Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
<b>C. Total of the above Reestimate Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Defaulted Guaranteed Loans

As of June 30	2008	2007
<b>Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):</b>		
<b>1. Foreign Military Liquidating Account</b>		
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 Loan Losses	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	<u>\$ 0.00</u>	<u>\$ 0.00</u>
<b>Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):</b>		
<b>2. Military Housing Privatization Initiative</b>		
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	<u>\$ 0.00</u>	<u>\$ 0.00</u>
<b>3. Armament Retooling &amp; Manufacturing Support Initiative</b>		
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	<u>\$ 0.00</u>	<u>\$ 0.00</u>
<b>4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>		
	<u>\$ 0.00</u>	<u>\$ 0.00</u>

## Guaranteed Loans Outstanding

As of June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2008		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>



**Liabilities for Post FY 1991 Loan Guarantees, Present Value**

As of June 30	2008	2007
<b>Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):</b>		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
<b>2. Total Loan Guarantee Liability (Pre-FY 1992)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):</b>		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>5. Total Loan Guarantee Liability (Post-FY 1991)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Total Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Loan Guarantees by Program

As of June 30

2008	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
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
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
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
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
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
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
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
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
	2008	2007			
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>			

## Subsidy Rates for Loan Guarantees by Program

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Budget Subsidy Rates for Loan Guarantees:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

## Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

As of June 30	2008		2007	
<b>Beginning Balance, Changes, and Ending Balance:</b>				
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>				
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
<b>E. Total of the above Subsidy Expense Components</b>	\$	0.00	\$	0.00
<b>3. Adjustments</b>				
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
<b>H. Total of the above Adjustments</b>	\$	0.00	\$	0.00
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	\$	0.00	\$	0.00
<b>5. Add or Subtract Subsidy Reestimates by Component</b>				
A. Interest Rate Reestimate		0.00		0.00
B. Technical/default Reestimate		0.00		0.00
<b>C. Total of the above Reestimate Components</b>	\$	0.00	\$	0.00
<b>6. Ending Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00

**Administrative Expenses**

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of June 30	2008	2007
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materiel & Supplies, Net	0.00	0.00
3. Stockpile Materiel, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

## Inventory, Net

As of June 30	2008			2007		
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Inventory, Net	Valuation Method
<b>1. Inventory Categories</b>						
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	LAC,MAC
C. Excess, Obsolete, and Unserviceable		0.00	0.00	0.00	0.00	NRV
D. Raw Materiel		0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process		0.00	0.00	0.00	0.00	AC
<b>F. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	

**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 Materiel and Supplies, Net

As of June 30	2008			2007		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC, MAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
<b>D. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	

**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



## Stockpile Materiel, Net

As of June 30	2008			2007		Valuation Method
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Stockpile Materiel, Net		
<b>1. Stockpile Materiel Categories</b>						
A. Held for Sale	\$ 0.00	\$ 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	0.00	AC, LCM
C. Total	\$ 0.00	\$ 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	2008					2007
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes</b>						
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

<sup>1</sup> Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Not applicable.

**Assets Under Capital Lease**

As of June 30	2008	2007
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
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

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2008	2007
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	1,581,926.19	745,090.55
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 1,581,926.19</b>	<b>\$ 745,090.55</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	777,319,196,001.26	746,632,332,869.77
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	196,709.44	196,746.69
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 777,319,392,710.70</b>	<b>\$ 746,632,529,616.46</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 777,320,974,636.89</b>	<b>\$ 746,633,274,707.01</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 252,782,961,866.47</b>	<b>\$ 220,607,870,667.35</b>
<b>5. Total Liabilities</b>	<b>\$ 1,030,103,936,503.40</b>	<b>\$ 967,241,145,374.36</b>

### Information Related to Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are amounts for which the Military Retirement Fund has no assets available, nor are these liabilities due and payable, in the current fiscal year.

The Intragovernmental Other Liabilities represent a custodial liability for the Military Retirement Fund and are comprised of interest, penalties, and administrative charges to be collected on behalf of the U.S. Treasury. This amount is also reported on Note 2, Nonentity Assets, and Note 15, Other Liabilities.

The Military Retirement and Other Federal Employment Benefits line not covered by budgetary resources represents actuarial pension benefits. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

The Nonfederal Other Liabilities represent estimated death payment contingent liabilities payable by the Department of Defense. These liabilities cover the retiree benefits not paid by the Department of Veterans Affairs during the month of death. This amount is also reported on Note 15, Other Liabilities, and Note 16, Commitments and Contingencies.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2008			2007
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 0.00	\$ N/A	\$ 0.00	\$ 0.00
2. Nonfederal Payables (to the Public)	0.00	0.00	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable

<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2008			2007	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
<b>1. Agency Debt (Intragovernmental)</b>					
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
<b>2. Total Debt</b>	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not Applicable.

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities--</b>				
<b>    Nonfederal</b>				
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—Non-BRAC				
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. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure Installations				
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. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Military Equipment / Weapons Programs				
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0.00	0.00	0.00	0.00
2. Non-Nuclear Powered Military Equipment	0.00	0.00	0.00	0.00
3. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
E. Chemical Weapons Disposal Programs				
1. Chemical Agents and Munitions Destruction (CAMD)	0.00	0.00	0.00	0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	0.00	0.00	0.00	0.00
3. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Environmental Disclosures

As of June 30	2008	2007
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Not Applicable.



<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
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. Custodial Liabilities	1,581,926.19	0.00	1,581,926.19	745,090.55
G. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00	0.00
H. Other Liabilities	0.00	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 1,581,926.19	\$ 0.00	\$ 1,581,926.19	\$ 745,090.55
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
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. Contract Holdbacks	0.00	0.00	0.00	0.00
J. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00	0.00
K. Contingent Liabilities	196,709.44	0.00	196,709.44	196,746.69
L. Other Liabilities	0.00	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 196,709.44	\$ 0.00	\$ 196,709.44	\$ 196,746.69
<b>3. Total Other Liabilities</b>	<b>\$ 1,778,635.63</b>	<b>\$ 0.00</b>	<b>\$ 1,778,635.63</b>	<b>\$ 941,837.24</b>

## Capital Lease Liability

As of June 30	2008				2007	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
<b>1. Future Payments Due</b>						
A. 2008	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. 2009	0.00	0.00	0.00	0.00	0.00	0.00
C. 2010	0.00	0.00	0.00	0.00	0.00	0.00
D. 2011	0.00	0.00	0.00	0.00	0.00	0.00
E. 2012	0.00	0.00	0.00	0.00	0.00	0.00
F. 2013	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
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	0.00
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	0.00

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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**Information Related to Commitments and Contingencies**

The Military Retirement Fund (MRF) may be a party in various administrative proceedings and legal actions. Currently there are no known contingent liabilities pending legal action.

The MRF has an estimated contingent liability of \$196.7 thousand that is measurable and probable and, therefore, has been recorded in the accounting records. Refer to Note 11, Liabilities Not Covered by Budgetary Resources, for the nature of this contingency, and Note 15, Other Liabilities, for this amount. The MRF is not aware of any other contingent liabilities.

<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
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As of June 30	2008				2007
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
<b>1. Pension and Health Actuarial Benefits</b>					
A. Military Retirement Pensions	\$ 1,025,320,486,000.00	6	\$ (248,001,289,998.74)	\$ 777,319,196,001.26	\$ 963,696,276,612.06
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 1,025,320,486,000.00		\$ (248,001,289,998.74)	\$ 777,319,196,001.26	\$ 963,696,276,612.06
<b>2. Other Actuarial Benefits</b>					
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>3. Other Federal Employment Benefits</b>	\$ 4,781,671,867.73		\$ (4,781,671,867.73)	\$ 0.00	\$ 3,543,926,925.06
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 1,030,102,157,867.70		\$ (252,782,961,866.47)	\$ 777,319,196,001.26	\$ 967,240,203,537.12

Actuarial Cost Method Used: See below

Assumptions: See below

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

### **Information Related to Military Retirement and Other Federal Employment Benefits**

The Military Retirement Fund (MRF) accumulates funds used to pay pensions and annuities to retired military personnel and their survivors. The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of MRF are not ascertainable.

#### **Actuarial Cost Method**

As dictated by law, MRF is funded using the Aggregate Entry-Age Normal Cost method. This is a method whereby projected retirement costs are spread over the projected future salaries of a new-entrant cohort.

## Projected Revenues

The MRF receives projected revenues from three sources: interest earnings on MRF assets, monthly Department of Defense (DoD) contributions, and an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is applied to MRF at the beginning of each fiscal year and represents the amortization of the unfunded liability for service performed before October 1, 1984, as well as the amortization of subsequent actuarial gains and losses. Starting October 1, 2004, Public Law (PL) 108-136 requires a contribution for the normal cost amount for the concurrent receipt provisions under Sections 1413, 1413a, and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amount for the U.S. Treasury warrant, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

## Assumptions

The Board sets the long-term economic assumptions for each valuation. The long-term assumptions for the FY 2006 valuation were 6.0% interest, 3.0% Consumer Price Index (CPI), and 3.75% salary increase. The same long-term economic assumptions were used in the FY 2007 valuation. The interest rate represents the long-term Fund yield. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward from the prior year valuation results as reported in DoD Office of Actuary Valuation of the Military Retirement System. Accepted actuarial methods are used for this roll-forward process, which is applied annually at September 30. In calculating the FY 2007 roll-forward amount, the following assumptions were used:

	<u>CPI</u>	<u>Salary</u>	<u>Interest</u>
Fiscal Year 2007	3.3 % (actual)	2.2 % (actual)	6.0 %
Fiscal Year 2008	2.3 % (actual)	3.5 % (actual)	6.0 %
Long-Term	3.0 %	3.75 %	6.0 %

Contributions to MRF are calculated so as to maintain MRF on an actuarially sound basis. An actuarially sound basis means that there will be sufficient funds to make all benefit payments to eligible recipients each year, and that MRF's balance is projected to eventually equal the actuarial liability, i.e., all unfunded liabilities are covered. In order to accomplish this process, normal costs are calculated to fully fund the current year projected liability for active duty members and reservists. In addition, amortization payments are calculated to fund liabilities that were present at plan inception (initial unfunded) and any emerging actuarial gains or losses.

The initial unfunded liability of the program was being amortized over a 50-year period through the FY 2007 payment. At its August 2007 meeting, the Board decided to decrease the period over which the initial unfunded liability is fully amortized by 8 years. The Board's decision was made to ensure that, at a minimum, the amortization payment at least covered the interest on the initial unfunded actuarial liability. Therefore, starting with the FY 2008 payment, the initial unfunded liability will be paid over a 42-year

period, with the last payment expected to be made October 1, 2025. All subsequent gains and losses experienced by the system are amortized over a 30-year period. As mandated by Chapter 74 of Title 10, United States Code, the Board must approve methods and assumptions used to (1) compute actuarial costs and liabilities, (2) amortize the initial unfunded liability, and (3) amortize all actuarial gains and losses. The Board is a Federal Advisory Committee appointed by the President.

**FY 2007 Change in MRF Actuarial Liability**

The net pension expense for the change in the actuarial accrued liability from September 30, 2006, to September 30, 2007, is developed in Table 1 below:

**Table 1. Change in Actuarial Liability**

<b>(\$ In Thousands)</b>	<b><u>FY 2007</u></b>
A. Beginning of Year Accrued Liability	\$ 963,696,277
B. Normal Cost Liability	17,728,766
C. Plan Amendment Liability	1,597,497
D. Assumption Change Liability	26,530,870
E. Benefit Outlays	(43,527,589)
F. Interest on Pension Liability	57,059,086
G. Actuarial Loss (Gain)	<u>2,235,579</u>
H. End-of-Year Accrued Liability (A+B+C+D+E+F+G)	<u>\$1,025,320,486</u>
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	<u>\$ 61,624,209</u>

Each year the accrued liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost resulting in an expected increase of \$31.3 billion in the accrued liability during FY 2007.

The September 30, 2007, accrued liability includes changes due to (1) assumptions, (2) benefit changes, and (3) experience. The new assumptions include updated non-disability retiree and survivor rates, updated retired pay factors, refinements to the death on active model, refinement to first year projection of benefit payments, and modeling the effect on future pay increases due to the April 1, 2007, new pay table. The net effect of these new assumptions is an increase in the September 30, 2007, accrued liability of \$26.5 billion, shown on Line D in Table 1, above (\$24.1 billion of this increase is due to the updated non-disability retiree rates).

The changes in retirement benefits for FY 2007 include the removal of the 75% cap used in the calculation of retired pay, which increases the limit on base pay for retirees with over 30 years service, a provision in the FY 2007 National Defense Authorization Act (NDAA). The effect of this benefit change is \$1.6 billion shown on Line C in Table 1, above. The increase in Accrued Liability due to the net experience loss of \$2.2 billion, shown on Line G, above, reflects the new population on which the September 30, 2006, roll-forward is based, as well as other economic experience being different from that assumed. The actuaries update the actuarial liability once a year as of September 30.

### **Treasury Contributions**

The October 1, 2007, U.S. Treasury contribution, which is determined in accordance with methodology set by the Board, increased \$20.5 billion (from \$28.5 billion in FY 2007 to \$49.0 billion in FY 2008). Approximately \$1.0 billion of the increase was expected based on the Board's unfunded liability amortization methodology. Approximately \$14.4 billion was due to the Board's shortening of the amortization period of the initial unfunded liability. Additional increases of \$4.8 billion in the unfunded liability payment due to actuarial experience (\$0.9 billion), assumption (\$4.0 billion), and benefit (\$0.1 billion) changes. Through PL 108-136, Treasury contributed the remaining \$0.3 billion.

### **Military Services Contributions**

The contributions from the Military Services are the product of basic pay and Normal Cost Percentages (NCPs) determined in accordance with methodology approved by the Board. Basic pay generally increases each year, and on January 1, 2007, there was a 2.2% across-the-board basic pay increase. The NCPs for FY 2007 are based on methods and assumptions approved by the Board at the August 2005 public meeting. These were promulgated by the Board in its August 2005 letter: 26.5% (full-time) and 17.5% (part-time). The NCPs for FY 2008 are based on methods and assumptions approved at the August 2006 public Board meeting. The NCP's for FY 2008 promulgated in the August 2006 letter were amended by the October 2006 letter because of legislative changes in the FY 2007 NDAA. The revised NCPs for FY 2008 are 29.0% (full-time) and 19.1% (part-time).

### **Market Value of Investments**

The market value of investments in MRF's nonmarketable market-based securities as of June 30, 2008, totaled \$258.1 billion.

**Note 18.****General Disclosures Related to the Statement of Net Cost****Intragovernmental Costs and Exchange Revenue**

As of June 30

	2008	2007
1. Intragovernmental Costs	\$ 0.00	\$ 0.00
2. Public Costs	35,435,530,568.53	32,574,218,590.24
<b>3. Total Costs</b>	<b>\$ 35,435,530,568.53</b>	<b>\$ 32,574,218,590.24</b>
4. Intragovernmental Earned Revenue	\$ (71,035,836,191.01)	\$ (46,873,573,321.19)
5. Public Earned Revenue	0.00	0.00
<b>6. Total Earned Revenue</b>	<b>\$ (71,035,836,191.01)</b>	<b>\$ (46,873,573,321.19)</b>
<b>7. Net Cost of Operations</b>	<b>\$ (35,600,305,622.48)</b>	<b>\$ (14,299,354,730.95)</b>

**Information Related to the Statement of Net Cost**

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The Statement of Net Cost is unique because its principles are driven on understanding the net cost of programs and/or organizations 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.



<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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As of June 30	2008		2007	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments</b>				
<b>Increases (Decreases) to Net Position Beginning Balance</b>				
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
<b>C. Total Prior Period Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
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. Other	0.00	0.00	0.00	0.00
F. IntraEntity	0.00	0.00	0.00	0.00
<b>G. Total Imputed Financing</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

### Information Related to the Statement of Changes in Net Position

There was a difference of \$71.6 billion between Appropriations Received on the Statement of Changes in Net Position and Appropriations Received on the Statement of Budgetary Resources. This difference is due to additional resources included in the Appropriations Received line on the Statement of Budgetary Resources. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources, for additional details.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2008	2007
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**

The Military Retirement Fund (MRF) reported \$35.4 billion of direct obligations incurred for amounts that are exempt from apportionment.

The Statement of Budgetary Resources (SBR) includes intraentity transactions because the statements are presented as combined.

The MRF's unobligated balances of budget authority represent the portion of trust fund receipts collected in the current fiscal year (1) that exceed the amount needed to pay benefits or other valid obligations and (2) that exceed the receipts temporarily precluded from obligation by law. The receipts, however, are assets of MRF and are available for obligation as needed in the future.

There was a difference of \$71.6 billion between Appropriations Received on the Statement of Changes in Net Position (SCNP) and Appropriations Received on the SBR. Nonrevolving trust funds receipts, immediately available for obligation, are reported as exchange revenue and included in the cost of operations on the SCNP. The MRF current receipts total \$71.6 billion.

Until 4<sup>th</sup> Quarter, FY 2007, the Military Services' contributions were misclassified as distributed offsetting receipts. This error was caused by a misinterpretation of the guidance. Effective 4<sup>th</sup> Quarter, FY 2007, the MRF began reporting distributed offsetting receipts in accordance with the OMB and U.S. Treasury guidance.

<b>Note 21.</b>	<b>Reconciliation of Net Cost of Operations to Budget</b>
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As of June 30	2008	2007

**Resources Used to Finance Activities:**

Budgetary Resources Obligated:

1. Obligations incurred	\$ 35,437,024,000.14	\$ 32,574,649,693.15
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	\$ 35,437,024,000.14	\$ 32,574,649,693.15
4. Less: Offsetting receipts (-)	(46,187,000,000.00)	(28,500,000,000.00)
5. Net obligations	\$ (10,749,975,999.86)	\$ 4,074,649,693.15
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	\$ 0.00	\$ 0.00
<b>11. Total resources used to finance activities</b>	<b>\$ (10,749,975,999.86)</b>	<b>\$ 4,074,649,693.15</b>

**Resources Used to Finance Items not Part of the Net Cost of Operations:**

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ 0.00	\$ 0.00
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior Periods (-)	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$ (10,749,975,999.86)</b>	<b>\$ 4,074,649,693.15</b>

Military Retirement Fund

As of June 30		
	2008	2007
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 0.00	\$ 0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 0.00	\$ 0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 0.00	\$ 0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(24,848,836,191.01)	(18,373,573,321.19)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material and Supplies Used	0.00	0.00
27d. Other	(1,493,431.61)	(431,102.91)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ (24,850,329,622.62)	\$ (18,374,004,424.10)
<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	<b>\$ (24,850,329,622.62)</b>	<b>\$ (18,374,004,424.10)</b>
<b>30. Net Cost of Operations</b>	<b>\$ (35,600,305,622.48)</b>	<b>\$ (14,299,354,730.95)</b>

**Information Related to the Reconciliation of Net Cost of Operations to Budget**

Beginning 4<sup>th</sup> Quarter, FY 2007, the Department of Defense began presenting the Statement of Financing (SOF) as a note in accordance with the Office of Management and Budget Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

The following note schedule 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; and net obligations.

Components not Requiring or Generating Resources – Other displays the change in accounts receivables since the beginning of both FY 2007 and FY 2008. These amounts represent refunds receivable for erroneous payments to military retirees or their survivors. These refunds receivable are recorded as an offset to expenses. This line also displays the changes in bad debts for both FY 2007 and FY 2008. These bad debts occurred because erroneous payments made to Military Retirement Fund beneficiaries were not repaid.

**Note 22.**

**Disclosures Related to Incidental Custodial Collections**

Not Applicable

Military Retirement Fund

**Note 23.**

**Earmarked Funds**

**BALANCE SHEET**  
As of June 30, 2008

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<b>ASSETS</b>					
Fund balance with Treasury	\$ 20,925,080.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 20,925,080.02
	255,053,683,128.5				
Investments	4	0.00	0.00	0.00	255,053,683,128.54
Accounts and Interest Receivable	26,482,176.19	0.00	0.00	0.00	26,482,176.19
Other Assets	0.00	0.00	0.00	0.00	0.00
	255,101,090,384.7				
<b>Total Assets</b>	<b>\$ 5</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 255,101,090,384.75</b>

**LIABILITIES and NET POSITION**

Military Retirement Benefits and Other Federal Employment Benefits	\$ 1,030,102,157,867.73	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,030,102,157,867.70
Other Liabilities	1,778,635.63	0.00	0.00	0.00	1,778,635.63
	1,030,103,936,503.3				1,030,103,936,503.3
<b>Total Liabilities</b>	<b>\$ 40</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0</b>
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	(775,002,846,118.61)	0.00	0.00	0.00	(775,002,846,118.61)
	1				
<b>Total Liabilities and Net Position</b>	<b>\$ 9</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 255,101,090,384.69</b>

**STATEMENT OF NET COST**

For the period ended June 30, 2008

Program Costs	\$ 35,435,530,568.53	\$ 0.00	\$ 0.00	\$ 0.00	\$ 35,435,530,568.53
	(71,035,836,191.01)				
Less Earned Revenue	)	0.00	0.00	0.00	(71,035,836,191.01)
	(35,600,305,622.48)				
<b>Net Program Costs</b>	<b>\$ )</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ (35,600,305,622.48)</b>
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
	(35,600,305,622.48)				
<b>Net Cost of Operations</b>	<b>\$ )</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ (35,600,305,622.48)</b>

## Military Retirement Fund

<b>STATEMENT OF CHANGES IN NET POSITION</b> For the period ended June 30, 2008	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ (810,603,151,741.0 9)	\$ 0.00	\$ 0.00	\$ 0.00	\$ (810,603,151,741.09 )
Net Cost of Operations	(35,600,305,622.48 )	0.00	0.00	0.00	(35,600,305,622.48)
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	<u>\$ 35,600,305,622.48</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 35,600,305,622.48</u>
Net Position End of Period	<u>\$ (775,002,846,118.6 1)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (775,002,846,118.61 )</u>

### Information Related to Earmarked Funds

Public Law 98-94, The Defense Authorization Act of 1984, established the Military Retirement Fund (MRF) as a pension program for the payment of pensions and annuities to retired military personnel and their survivors. The MRF accumulates funds to finance, on an actuarially sound basis, liabilities of the Department of Defense (DoD) retirement program. The MRF receives its appropriations and funds as trust and earmarked funds and uses these appropriations and funds to execute its mission and report on resource usage.

The primary financing sources for MRF are (1) monthly Military Service contributions as a percentage of base pay; (2) an annual warrant from the U.S Treasury for the unfunded liability and for the concurrent receipt provisions for certain disabled retirees; and (3) interest earned on investments. The DoD Board of Actuaries calculates the annual payment amounts and percentages. The financing sources are the result of intragovernmental flows. Excess funds from the contributions are invested. The investments and associated interest revenue are used to cover future liabilities of MRF.



<b>Note 24.</b>	<b>Other Disclosures</b>
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As of June 30	2008 Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

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
2012		0.00		0.00		0.00	0.00
2013		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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Not Applicable.

<b>Note 25.</b>	<b>Restatements</b>
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Not applicable.