

**Department of Defense
 Military Retirement Fund
 CONSOLIDATED BALANCE SHEET
 As of June 30, 2009 and 2008**

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 324,733,396.85	\$ 20,925,080.02
2. Investments (Note 4)	282,409,736,413.81	255,053,683,128.54
3. Accounts Receivable (Note 5)	62,396,139.87	0.00
5. Total Intragovernmental Assets	<u>\$ 282,796,865,950.53</u>	<u>\$ 255,074,608,208.56</u>
C. Accounts Receivable, Net (Note 5)	31,362,058.74	26,482,176.19
2. TOTAL ASSETS	<u>\$ 282,828,228,009.27</u>	<u>\$ 255,101,090,384.75</u>
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
3. Other Liabilities (Note 15 & 16)	1,637,270.79	1,581,926.19
4. Total Intragovernmental Liabilities	<u>\$ 1,637,270.79</u>	<u>\$ 1,581,926.19</u>
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,154,484,971,869.00	1,030,102,157,867.73
F. Other Liabilities (Note 15 & Note 16)	192,027.24	196,709.44
5. TOTAL LIABILITIES	<u>\$ 1,154,486,801,167.03</u>	<u>\$ 1,030,103,936,503.36</u>
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)		
7. NET POSITION		
C. Cumulative Results of Operations - Earmarked Funds	(871,658,573,157.76)	(775,002,846,118.61)
8. TOTAL NET POSITION	<u>\$ (871,658,573,157.76)</u>	<u>\$ (775,002,846,118.61)</u>
9. TOTAL LIABILITIES AND NET POSITION	<u>\$ 282,828,228,009.27</u>	<u>\$ 255,101,090,384.75</u>

Department of Defense
Military Retirement Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2009 and 2008

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
1. Program Costs		
A. Gross Costs	\$ 37,787,606,041.46	\$ 35,435,530,568.53
B. (Less: Earned Revenue)	(67,150,294,739.48)	(71,035,836,191.01)
C. Net Program Costs	<u>\$ (29,362,688,698.02)</u>	<u>\$ (35,600,305,622.48)</u>
4. Net Cost of Operations	<u>\$ (29,362,688,698.02)</u>	<u>\$ (35,600,305,622.48)</u>

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended June 30, 2009 and 2008

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (901,021,261,855.78)	\$ 0.00
3. Beginning balances, as adjusted	(901,021,261,855.78)	0.00
7. Net Cost of Operations (+/-)	(29,362,688,698.02)	0.00
8. Net Change	29,362,688,698.02	0.00
9. Cumulative Results of Operations	(871,658,573,157.76)	0.00
16. Net Position	(871,658,573,157.76)	0.00

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended June 30, 2009 and 2008

	<u>2009 Eliminations</u>	<u>2009 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (901,021,261,855.78)
3. Beginning balances, as adjusted	0.00	(901,021,261,855.78)
7. Net Cost of Operations (+/-)	0.00	(29,362,688,698.02)
8. Net Change	0.00	29,362,688,698.02
9. Cumulative Results of Operations	0.00	(871,658,573,157.76)
16. Net Position	0.00	(871,658,573,157.76)

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended June 30, 2009 and 2008

	<u>2008 Earmarked Funds</u>	<u>2008 All Other Funds</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ (810,603,151,741.09)	\$ 0.00
3. Beginning balances, as adjusted	(810,603,151,741.09)	0.00
7. Net Cost of Operations (+/-)	(35,600,305,622.48)	0.00
8. Net Change	35,600,305,622.48	0.00
9. Cumulative Results of Operations	(775,002,846,118.61)	0.00
16. Net Position	(775,002,846,118.61)	0.00

Department of Defense
 Military Retirement Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the periods ended June 30, 2009 and 2008

	<u>2008 Eliminations</u>	<u>2008 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ (810,603,151,741.09)
3. Beginning balances, as adjusted	0.00	(810,603,151,741.09)
7. Net Cost of Operations (+/-)	0.00	(35,600,305,622.48)
8. Net Change	0.00	35,600,305,622.48
9. Cumulative Results of Operations	0.00	(775,002,846,118.61)
16. Net Position	0.00	(775,002,846,118.61)

Department of Defense
Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
3. Budget authority		
3.A. Appropriation	77,990,000,000.00	71,583,837,258.14
3.E. Subtotal	<u>77,990,000,000.00</u>	<u>71,583,837,258.14</u>
5. Temporarily not available pursuant to Public Law	0.00	(36,146,813,258.00)
7. Total Budgetary Resources	<u><u>\$ 77,990,000,000.00</u></u>	<u><u>\$ 35,437,024,000.14</u></u>

Department of Defense
 Military Retirement Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended June 30, 2009 and 2008

	<u>2009 Combined</u>	<u>2008 Combined</u>
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 37,794,439,106.65	\$ 35,437,024,000.14
8.C. Subtotal	<u>37,794,439,106.65</u>	<u>35,437,024,000.14</u>
9. Unobligated balance:		
9.B. Exempt from apportionment	40,195,560,893.35	0.00
9.C. Subtotal	<u>40,195,560,893.35</u>	<u>0.00</u>
11. Total status of budgetary resources	<u><u>\$ 77,990,000,000.00</u></u>	<u><u>\$ 35,437,024,000.14</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	3,359,247,411.86	3,530,196,239.21
12.C. Total unpaid obligated balance	<u>3,359,247,411.86</u>	<u>3,530,196,239.21</u>
13. Obligations incurred net (+/-)	\$ 37,794,439,106.65	\$ 35,437,024,000.14
14. Less: Gross outlays	(37,417,558,649.51)	(34,185,548,371.62)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	3,736,127,869.00	4,781,671,867.73
18.C. Total, unpaid obligated balance, net, end of period	<u>3,736,127,869.00</u>	<u>4,781,671,867.73</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	37,417,558,649.51	34,185,548,371.62
19.C. Less: Distributed Offsetting receipts	(51,125,000,000.00)	(46,187,000,000.00)
19.D. Net Outlays	<u><u>\$ (13,707,441,350.49)</u></u>	<u><u>\$ (12,001,451,628.38)</u></u>

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

These financial statements have been prepared to report the financial position and results of operations for 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 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 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

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

Using methods and assumptions approved by the DoD Board of Actuaries, the DoD Office of the Actuary determines the amount of the contributions made to MRF. The Military Services make a monthly contribution, which is a percentage of basic pay, to cover accruing costs for currently active military members. The MRF also receives a U. S. Treasury warrant at the beginning of each fiscal year (1) for the amortization of the unfunded liability and (2) to cover accruing costs for concurrent receipts (certain beneficiaries who have combat related injuries and are receiving VA payments). 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.

The MRF funds are designated as 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 2009, the financial feeder systems used by MRF 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 and nonfinancial 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 and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, MRF's financial data will be derived from transactions from noncompliant feeder systems, from the proprietary accounts, and from accruals made for major items such as estimated payables owed to beneficiaries.

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 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 U.S. Treasury accounts. The disbursing offices of DFAS, the Military Departments, and other Federal Government 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 these transactions to the applicable fund balance with treasury (FBWT) account. The MRF-recorded FBWT account must balance monthly with the U.S. Treasury.

The U.S. Treasury allows MRF to be fully invested. Therefore, FBWT may be zero at various times during the fiscal year including the end of a quarter or a fiscal year; however, precautions are taken to prevent abnormal balances at the U.S. Treasury.

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*.

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, there is no provision for unrealized gains or losses on these securities.

The MRF invests in nonmarketable market-based U.S. Treasury securities. The Bureau of the Public Debt issues this type of security to federal agencies. These intragovernmental securities mirror marketable securities but are not publicly traded. The MRF receives interest semiannually from the U.S. Treasury on the value of these securities.

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 Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The 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 of expenses, losses, and financing sources (including appropriations, revenue, and gains) since the inception of the fund.

1.V. Treaties for Use of Foreign Bases

N/A

1.W. Unexpended Obligations

Unexpended obligations represent the amount of earned and accrued pension and annuity payments reported as accounts payable. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources and is referred to as "Total, unpaid obligated balances, net, end of period."

1.X. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. The MRF has no undistributed disbursements or collections.

1.Y. Significant Events

N/A

1.Z. Fiduciary Activities

N/A

Note 2.	Nonentity Assets
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As of June 30	2009	2008
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	1,637,270.79	1,581,926.19
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 1,637,270.79	\$ 1,581,926.19
3. Total Nonentity Assets	\$ 1,637,270.79	\$ 1,581,926.19
4. Total Entity Assets	\$ 282,826,590,738.48	\$ 255,099,508,458.56
5. Total Assets	\$ 282,828,228,009.27	\$ 255,101,090,384.75

Information Related to Nonentity Assets

Nonentity assets are assets for which the Military Retirement Fund (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.

Note 3.	Fund Balance with Treasury
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As of June 30	2009	2008
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	0.00	0.00
C. Trust Funds	324,733,396.85	20,925,080.02
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 324,733,396.85	\$ 20,925,080.02
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 324,733,396.85	\$ 20,925,080.02
B. Fund Balance per MRF	324,733,396.85	20,925,080.02
3. Reconciling Amount	\$ 0.00	\$ 0.00

Status of Fund Balance with Treasury

As of June 30	2009	2008
1. Unobligated Balance		
A. Available	\$ 29,614,573,506.18	\$ 0.00
B. Unavailable	246,956,711,282.63	248,001,289,998.74
2. Obligated Balance not yet Disbursed	\$ 3,736,127,869.00	\$ 4,781,671,867.73
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (279,982,679,260.96)	\$ (252,762,036,786.45)
5. Total	\$ 324,733,396.85	\$ 20,925,080.02

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 the amount of earned and accrued pension and annuity payments reported as accounts payable. The Military Retirement Fund (MRF) balance represents benefits payable on July 1, 2009.

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. The MRF balance represents investment accounts that reduce the Status of FBWT.

Note 4. Investments and Related Interest

As of June 30	2009				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 286,371,327,837.00	Effective Interest	\$ (6,388,648,576.04)	\$ 279,982,679,260.96	\$ 286,295,285,121.28
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	286,371,327,837.00		(6,388,648,576.04)	279,982,679,260.96	286,295,285,121.28
B. Accrued Interest	2,427,057,152.85			2,427,057,152.85	2,427,057,152.85
C. Total Intragovernmental Securities	\$ 288,798,384,989.85		\$ (6,388,648,576.04)	\$ 282,409,736,413.81	\$ 288,722,342,274.13
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
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
4. Other Investments					
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 or other 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 its 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 to make expenditures, 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.

	<u>FY 2009 COST</u> <u>(\$ in thousands)</u>	<u>FY 2008 COST</u> <u>(\$ in thousands)</u>
Notes	\$ 50,905,963	\$ 51,875,963
Bonds	2,805,625	5,118,728
TIPS	223,174,665	196,183,410
Overnights	<u>9,485,075</u>	<u>5,389,018</u>
Total Cost	\$286,371,328	\$258,567,119

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. At the semiannual meetings, the Department of Defense Investment Board approves the strategy for the type of securities purchased by MRF.

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 and are purchased at either a discount or premium. 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.

Note 5.	Accounts Receivable
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As of June 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 62,396,139.87	N/A	\$ 62,396,139.87
2. Nonfederal Receivables (From the Public)	\$ 32,878,930.03	\$ (1,516,871.29)	\$ 31,362,058.74
3. Total Accounts Receivable	\$ 95,275,069.90	\$ (1,516,871.29)	\$ 93,758,198.61

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

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2009	2008
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	1,581,926.19
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 1,581,926.19
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	874,177,559,211.19	777,319,196,001.26
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	192,027.24	196,709.44
E. Total Nonfederal Liabilities	\$ 874,177,751,238.43	\$ 777,319,392,710.70
3. Total Liabilities Not Covered by Budgetary Resources	\$ 874,177,751,238.43	\$ 777,320,974,636.89
4. Total Liabilities Covered by Budgetary Resources	\$ 280,309,049,928.60	\$ 252,782,961,866.47
5. Total Liabilities	\$ 1,154,486,801,167.00	\$ 1,030,103,936,503.40

Information Related to Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. The Military Retirement Fund (MRF) liabilities not covered by budgetary resources generally represent the difference between the actuarial liability for future benefit payments and the current assets of MRF.

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

Nonfederal Other Liabilities represent contingent liabilities payable by the Department of Defense for estimated death payments. 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.

Note 15.	Other Liabilities
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As of June 30	2009		
	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	1,637,270.79	0.00	1,637,270.79
G. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00
H. Other Liabilities	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 1,637,270.79	\$ 0.00	\$ 1,637,270.79
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00
B. Advances from Others	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	0.00	0.00	0.00
J. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00
K. Contingent Liabilities	192,027.24	0.00	192,027.24
L. Other Liabilities	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 192,027.24	\$ 0.00	\$ 192,027.24
3. Total Other Liabilities	\$ 1,829,298.03	\$ 0.00	\$ 1,829,298.03

Military Retirement Fund

As of June 30	2008		
	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	1,581,926.19	0.00	1,581,926.19
G. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00
H. Other Liabilities	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 1,581,926.19	\$ 0.00	\$ 1,581,926.19
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 0.00	\$ 0.00	\$ 0.00
B. Advances from Others	0.00	0.00	0.00
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	0.00	0.00	0.00
J. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00
K. Contingent Liabilities	196,709.44	0.00	196,709.44
L. Other Liabilities	0.00	0.00	0.00
M. Total Nonfederal Other Liabilities	\$ 196,709.44	\$ 0.00	\$ 196,709.44
3. Total Other Liabilities	\$ 1,778,635.63	\$ 0.00	\$ 1,778,635.63

Information Related to Other Liabilities

Intragovernmental Custodial Liabilities represent a liability for the Military Retirement Fund and is comprised of interest, penalties and administrative charges to be collected on behalf of U.S. Treasury. This amount is also reported on Note 11, Liabilities Not Covered by Budgetary Resources, and as a nonfederal accounts receivable on Note 2, Nonentity Assets.

Nonfederal Other Liabilities represent contingent liabilities payable by the Department of Defense for estimated death payments. 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 11, Liabilities Not Covered by Budgetary Resources, and on Note 16, Commitments and Contingencies.

Note 16.	Commitments and Contingencies
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Information Related to Commitments and Contingencies

Currently there are no known contingent liabilities pending legal action.

The MRF has an estimated contingent liability of \$192.0 thousand that is measurable and probable and, therefore, has been recorded in the accounting records. Nonfederal Other Liabilities represent contingent liabilities payable by the Department of Defense for estimated death payments. 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 11, Liabilities Not Covered by Budgetary Resources, and Note 15, Other Liabilities.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 1,150,748,844,000.00	5.75	\$ (276,571,284,788.81)	\$ 874,177,559,211.19
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 1,150,748,844,000.00		\$ (276,571,284,788.81)	\$ 874,177,559,211.19
2. Other Actuarial Benefits				
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 3,736,127,869.00		\$ (3,736,127,869.00)	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,154,484,971,869.00		\$ (280,307,412,657.81)	\$ 874,177,559,211.19

Actuarial Cost Method Used: See below

Assumptions: See below

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

Military Retirement Fund

As of June 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 1,025,320,486,000.00	6.00	\$ (248,001,289,998.74)	\$ 777,319,196,001.26
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 1,025,320,486,000.00		\$ (248,001,289,998.74)	\$ 777,319,196,001.26
2. Other Actuarial Benefits				
A. FECA	\$ 0.00		\$ 0.00	\$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
3. Other Federal Employment Benefits	\$ 4,781,671,867.73		\$ (4,781,671,867.73)	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	<u>\$ 1,030,102,157,867.70</u>		<u>\$ (252,782,961,866.47)</u>	<u>\$ 777,319,196,001.26</u>

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 to retired military personnel and pay annuities to their survivors. The Military Retirement System is a single-employer, defined benefit plan.

The MRF actuarial liability is adjusted at the end of each fiscal year. The 3rd Quarter, FY 2009, balance represents the September 30, 2008 (4th Quarter, FY 2008) amount.

The above table displays two distinct types of liabilities that are related to Military Retirement and Other Federal Employment Benefits. It presents the actuarial liability for future pension benefits not yet incurred displayed on the line titled "Military Retirement Pensions." It also presents the retirement benefits that are due and payable on the first day of the next reporting period displayed on the line titled "Other Federal Employment Benefits."

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 contributions from the Military Services, 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 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 2007 valuation were 6.0% interest, 3.0% Consumer Price Index, and 3.75% salary increase. For the FY 2008 valuation, the long-term economic assumption for interest is 5.75%; the inflation and salary assumptions are the same. The long-term interest assumption represents the assumed long-run yield of MRF assets. 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 the 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 2008 roll-forward amount, the following assumptions were used:

	<u>Inflation</u>	<u>Salary</u>	<u>Interest</u>
Fiscal Year 2008	2.3 % (actual)	3.5 % (actual)	5.75 %
Fiscal Year 2009	6.2 % (estimated)	3.9 % (estimated)	5.75 %
Long-Term	3.0 %	3.75 %	5.75 %

Contributions to MRF are calculated 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 the asset 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 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 Secretary of Defense.

FY 2008 MRF Actuarial Liability

The net pension expense for the actuarial accrued liability as of September 30, 2008 is developed in Table 1 below:

Table 1. Change in Actuarial Liability

(\$ In Thousands)	<u>FY 2008</u>
A. Beginning of Year Accrued Liability	\$ 1,025,320,486
B. Normal Cost Liability	18,914,714
C. Plan Amendment Liability	8,057,970
D. Assumption Change Liability	60,075,022
E. Benefit Outlays	(45,682,983)
F. Interest on Pension Liability	60,727,879
G. Actuarial Loss (Gain)	<u>23,335,756</u>
H. End-of-Year Accrued Liability (A+B+C+D+E+F+G)	<u>\$1,150,748,844</u>
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	<u>\$ 125,428,358</u>

Each year the accrued liability is expected to increase with the normal cost (Line B), decrease with benefit outlays (Line E), and increase with the interest cost (Line F) resulting in an expected increase of \$34.0 billion in the accrued liability during FY 2008.

The September 30, 2008, accrued liability includes changes due to (1) assumptions, (2) benefit changes, and (3) experience. The new assumptions include a lower interest rate, a new set of mortality improvement factors, and a new set of nondisability retiree death and "other loss" rates. The net effect of these new assumptions is an increase in the September 30, 2008, accrued liability of \$60.1 billion, shown on Line D in Table 1 above (\$41.7 billion of this increase is due to the lower interest rate assumption).

The change in retirement benefits for FY 2008 includes the early reserve retirement provision in the FY 2008 National Defense Authorization Act (NDAA). The effect of

this benefit change is \$8.1 billion, shown on Line C above. The increase in the accrued liability due to the net experience loss of \$23.3 billion, shown on Line G above, reflects the new population on which the September 30, 2007, roll-forward is based, as well as other economic experience being different from that assumed.

Treasury Contributions

The October 1, 2008, U.S. Treasury contribution, which is determined in accordance with methodology set by the Board, increased \$5.9 billion (from \$49.0 billion in FY 2008 to \$54.9 billion in FY 2009). Reasons for the change include an expected increase of \$1.7 billion inherent in the Board's unfunded liability amortization methodology and the Board's decision to lower the long-term interest rate which account for \$2.9 billion of the increase.

Military Services Contributions

The contributions from the Military Services are the product of basic pay and Normal Cost Percentages (NCPs) determined in accordance with the methodology set by the Board. Basic pay generally increases each year, and on January 1, 2009, there was a 3.9% across-the-board basic pay increase. The Board set the NCPs for FY 2008 in its October 2006 letter amending those set in the August 2006 public meeting: full-time at 29.0% and part-time at 19.1%. The Board set the NCPs for FY 2009 in its March 2008 letter amending those set in the August 2007 public meeting: full-time at 29.4% and part-time at 21.1%.

Market Value of Investments

The market value of investments in MRF's nonmarketable market-based securities as of June 30, 2009, totaled \$288.7 billion. This amount is also reported on Note 4, Investments and Related Interest.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of June 30	2009	2008

As of June 30	2009	2008
1. Intragovernmental Costs	\$ 0.00	\$ 0.00
2. Public Costs	37,787,606,041.46	35,435,530,568.53
3. Total Costs	\$ 37,787,606,041.46	\$ 35,435,530,568.53
4. Intragovernmental Earned Revenue	\$ (67,150,294,739.48)	\$ (71,035,836,191.01)
5. Public Earned Revenue	0.00	0.00
6. Total Earned Revenue	\$ (67,150,294,739.48)	\$ (71,035,836,191.01)
7. Net Cost of Operations	\$ (29,362,688,698.02)	\$ (35,600,305,622.48)

Information Related to the Statement of Net Cost

Interest revenue, a component of the Statement of Net Cost, has an abnormal balance of \$0.7 billion. This abnormality is the result of \$5.8 billion in deflation of Treasury Inflation-Protected Securities and \$1.4 billion in premium amortization offset by \$6.5 billion in interest earned. Current year inflation and deflation are reflected in the financial statements as a component of interest earned based on the consumer price index. The result is inflation as the index rises and deflation as the index declines. The described deflation is a direct result of the current economic situation.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity.

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 Intragovernmental Earned Revenue is comprised of the following amounts:

Intragovernmental Earned Revenues for Program Costs

(\$ in Thousands)	<u>FY 2009</u>	<u>FY 2008</u>
1. Military Service Contributions as a Percentage of Base Pay	\$ 12,980,120	\$ 12,013,859
2. Annual Treasury Unfunded Liability Payment	51,125,000	46,187,000
3. Annual Treasury Normal Cost Payment	3,745,000	2,776,000
4. Interest on Investments	(699,825)	10,058,977
Total	\$ <u>\$67,150,295</u>	\$ <u>\$71,035,836</u>

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

There was a difference of \$78.0 billion between Appropriations Received on the Statement of Changes in Net Position and Appropriations Received on the Statement of Budgetary Resources (SBR). This difference is due to additional resources included in the Appropriations Received line on the SBR. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources, for additional details.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2009	2008
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 \$37.8 billion of direct obligations 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 \$78.0 billion between appropriations on the Statement of Changes in Net Position (SCNP) and appropriations received on the SBR. This difference represents current receipts, immediately available for obligation, reported as exchange revenue on the Statement of Net Cost and included in appropriations on the SBR.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of June 30	2009	2008

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$ 37,794,439,106.65	\$ 35,437,024,000.14
2. Less: Spending authority from offsetting collections and recoveries (-)	0.00	0.00
3. Obligations net of offsetting collections and recoveries	\$ 37,794,439,106.65	\$ 35,437,024,000.14
4. Less: Offsetting receipts (-)	(51,125,000,000.00)	(46,187,000,000.00)
5. Net obligations	\$ (13,330,560,893.35)	\$ (10,749,975,999.86)
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	0.00	0.00
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	\$ 0.00	\$ 0.00
11. Total resources used to finance activities	\$ (13,330,560,893.35)	\$ (10,749,975,999.86)

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

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ 0.00	\$ 0.00
12b. Unfilled Customer Orders	0.00	0.00
13. Resources that fund expenses recognized in prior Periods (-)	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	0.00	0.00
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the Net Cost of Operations	\$ 0.00	\$ 0.00
18. Total resources used to finance the Net Cost of Operations	\$ (13,330,560,893.35)	\$ (10,749,975,999.86)

As of June 30		
	2009	2008
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 0.00	\$ 0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 0.00	\$ 0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 0.00	\$ 0.00
26. Revaluation of assets or liabilities (+/-)	0.00	0.00
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(16,025,294,739.48)	(24,848,836,191.01)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material and Supplies Used	0.00	0.00
27d. Other	(6,833,065.19)	(1,493,431.61)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ (16,032,127,804.67)	\$ (24,850,329,622.62)
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ (16,032,127,804.67)	\$ (24,850,329,622.62)
30. Net Cost of Operations	\$ (29,362,688,698.02)	\$ (35,600,305,622.48)

Information Related to the 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.
- Net Obligations.

Components not Requiring or Generating Resources – Other displays the change in accounts receivable since the beginning of both FY 2008 and FY 2009. These amounts represent refunds receivable and changes in bad debt for erroneous payments to military retirees or their survivors.

The MRF reported \$874.2 billion in pension liabilities that are not covered by budgetary resources. These liabilities represent amounts for which MRF has no assets available, nor are these liabilities due and payable, in the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 23.	Earmarked Funds
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	2009				
BALANCE SHEET As of June 30	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 324,733,396.85	\$ 0.00	\$ 0.00	\$ 0.00	\$ 324,733,396.85
Investments	282,409,736,413.81	0.00	0.00	0.00	282,409,736,413.81
Accounts and Interest Receivable	93,758,198.61	0.00	0.00	0.00	93,758,198.61
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 282,828,228,009.27	\$ 0.00	\$ 0.00	\$ 0.00	\$ 282,828,228,009.27
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 1,154,484,971,869.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,154,484,971,869.00
Other Liabilities	1,829,298.03	0.00	0.00	0.00	1,829,298.03
Total Liabilities	\$ 1,154,486,801,167.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,154,486,801,167.00
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	(871,658,573,157.76)	0.00	0.00	0.00	(871,658,573,157.76)
Total Liabilities and Net Position	\$ 282,828,228,009.24	\$ 0.00	\$ 0.00	\$ 0.00	\$ 282,828,228,009.24
STATEMENT OF NET COST					
For the period ended June 30					
Program Costs	\$ 37,787,606,041.46	\$ 0.00	\$ 0.00	\$ 0.00	\$ 37,787,606,041.46
Less Earned Revenue	(67,150,294,739.48)	0.00	0.00	0.00	(67,150,294,739.48)
Net Program Costs	\$ (29,362,688,698.02)	\$ 0.00	\$ 0.00	\$ 0.00	\$ (29,362,688,698.02)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ (29,362,688,698.02)	\$ 0.00	\$ 0.00	\$ 0.00	\$ (29,362,688,698.02)

Military Retirement Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ (901,021,261,855.78) \$	0.00 \$	0.00 \$	0.00 \$	(901,021,261,855.78)
Net Cost of Operations	(29,362,688,698.02)	0.00	0.00	0.00	(29,362,688,698.02)
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	\$ 29,362,688,698.02 \$	0.00 \$	0.00 \$	0.00 \$	29,362,688,698.02
Net Position End of Period	\$ (871,658,573,157.76) \$	0.00 \$	0.00 \$	0.00 \$	(871,658,573,157.76)

Military Retirement Fund

BALANCE SHEET As of June 30	2008				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 20,925,080.02	\$ 0.00	\$ 0.00	\$ 0.00	20,925,080.02
Investments	255,053,683,128.54	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
Total Assets	\$ 255,101,090,384.75	\$ 0.00	\$ 0.00	\$ 0.00	255,101,090,384.75
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
Total Liabilities	\$ 1,030,103,936,503.40	\$ 0.00	\$ 0.00	\$ 0.00	1,030,103,936,503.30
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)
Total Liabilities and Net Position	\$ 255,101,090,384.79	\$ 0.00	\$ 0.00	\$ 0.00	255,101,090,384.69
STATEMENT OF NET COST					
For the period ended June 30					
Program Costs	\$ 35,435,530,568.53	\$ 0.00	\$ 0.00	\$ 0.00	35,435,530,568.53
Less Earned Revenue	(71,035,836,191.01)	0.00	0.00	0.00	(71,035,836,191.01)
Net Program Costs	\$ (35,600,305,622.48)	\$ 0.00	\$ 0.00	\$ 0.00	(35,600,305,622.48)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ (35,600,305,622.48)	\$ 0.00	\$ 0.00	\$ 0.00	(35,600,305,622.48)

Military Retirement Fund

STATEMENT OF CHANGES IN NET POSITION 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	\$ (810,603,151,741.09) \$	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	\$ 35,600,305,622.48 \$	0.00 \$	0.00 \$	0.00 \$	35,600,305,622.48
Net Position End of Period	\$ (775,002,846,118.61) \$	0.00 \$	0.00 \$	0.00 \$	(775,002,846,118.61)

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 to retired military personnel, annuities to eligible survivors, and special compensation for certain disabled retirees. The MRF accumulates funds to finance, on an actuarially sound basis, liabilities of the Department of Defense (DoD) retirement program. The MRF receives its funding as an earmarked trust fund and uses these resources to execute its mission.

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. Using methods and assumptions approved by the DoD Board of Actuaries, the DoD Office of the Actuary 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.