01 MANAGEMENT'S DISCUSSION AND ANALYSIS

Provides a High-Level Overview of the Department's Programmatic and Financial Performance

Previous Page:
F-22 Raptors and T-38 Talons from the 1st Fighter Wing conduct an elephant walk at Joint Base Langley-Eustis, Va., Jan. 31, 2025. (U.S. Air Force photo by Tech Sgt. Matthew Coleman-Foster)

Top Left:
Marines perform water-based exercises while training in the Marine Corps Martial Arts Program at Joint Base McGuire-Dix-Lakehurst, N.J., Jan. 10, 2025. (Air Force Senior Airman Matt Porter)

Left:
A soldier assigned to the 3rd U.S. Infantry Regiment, known as "The Old Guard," walks the mat at the Tomb of the Unknown Soldier in Arlington National Cemetery, Va., Jan. 6, 2025. (Elizabeth Fraser, Army)

DEPARTMENT OF DEFENSE

MISSION

The Mission of the DoD (or the Department) is to provide the military forces needed to deter war and ensure our nation's security. The Department is conducting this mission by focusing on restoring the warrior ethos, rebuilding the military, and reestablishing deterrence, in accordance with President Trump's America First Defense Policy and direction to achieve peace through strength. As directed in the Secretary's Interim National Defense Strategic Guidance, DoD will execute on the following lines of effort: Defend the Homeland, Deter the People's Republic of China (China) in the Indo-Pacific, and Increase burden sharing with Allies and Partners to address all threats.

STRATEGIC OVERVIEW

The United States faces one of the most dangerous strategic environments in our Nation's history. This environment is characterized by:

- A vulnerable U.S. Homeland arising from years of unsecured borders and increasingly capable air and missile threats.
- China's unprecedented military buildup and the direct threat that it poses to America's security and economy.
- A range of other threats, including: the Russian Federation, Islamic Republic of Iran, Democratic People's Republic of Korea, and select terrorist organizations.

In the face of these threats, President Trump has charged the Department with supporting his America First defense policy agenda and achieving his vision of Peace through Strength. The scale and urgency of the challenges we face demand clear prioritization, strategic discipline, and fiscal responsibility, all of which are reflected in the budget.

REESTABLISH DETERRENCE AGAINST THOSE WHO WOULD THREATEN THE AMERICAN PEOPLE BY ALLOCATING RESOURCES TOWARDS:

- Defending the Homeland by sealing our borders, repelling forms of invasion including illegal immigration and narcotics trafficking, advancing America's interests in the Western Hemisphere, modernizing and diversifying nuclear forces, bolstering cyber capabilities, conducting counter terror operations focused on organizations that possess capability and willingness to strike the homeland, and, the development and deployment of President Trump's Golden Dome next-generation missile shield.
- Deterring China in the Indo-Pacific by prioritizing combat credible military forces and capabilities postured forward in the Western Pacific. This includes funding the President's priorities of shipbuilding, strengthening our space capabilities, and the development of the Next-Generation Air Dominance manned fighter, the F-47.

RESTORE THE WARRIOR ETHOS BY:

- Giving a pay raise to our military and making investments to increase their quality of life.
- Prioritizing military excellence, readiness, and increasing recruiting efforts.

REBUILD THE MILITARY AND REVITALIZE AMERICA'S DEFENSE INDUSTRIAL BASE BY:

- Realizing savings through reform and optimization that can be applied directly towards increased lethality. In partnership with the Department of Government Efficiency, the Department continues to assess its workforce requirements across the enterprise and implement strategic reforms to our acquisition processes and business practices.
- Investing in our industrial base for critical requirements, such as munitions and ships, including submarines.

ORGANIZATION

The Secretary of Defense is the principal assistant and advisor to the President in all matters relating to the Department and exercises authority, direction, and control over the Department in accordance with *Title 10, United States Code, section 113(b)*. The Department is comprised of the: Office of the Secretary of Defense (OSD); Joint Chiefs of Staff; Joint Staff; Military Departments; Combatant Commands; Office of Inspector General of the DoD; Defense Agencies; DoD Field Activities; other offices, agencies, activities, organizations; and, commands established or designated by law, the President, or the Secretary of Defense.

More information on the Department's history, leadership, and structure is available on the *DoD website*.

Secretary of Defense Pete Hegseth poses for a photo with midshipmen during his visit to the U.S. Naval Academy, Annapolis, Maryland, April 1, 2025. (DoD photo by U.S. Navy Petty Officer 1st Class Alexander Kubitza)

U.S. Department *of* Defense

The Department reports the below organizations by major programs in the Statement of Net Cost.

DEPARTMENT OF THE ARMY

The Department of the Army includes the Department of the Army General Fund and Working Capital Fund.

DEPARTMENT OF THE NAVY

The Department of the Navy includes the United States Navy General Fund, Department of the Navy Working Capital Fund, and the United States Marine Corps General Fund.

DEPARTMENT OF THE AIR FORCE

The Department of the Air Force includes the United States Air Force General Fund and Working Capital Fund, and the United States Space Force General Fund.

SUPPORT ACTIVITIES

The Department of Defense Support Activities include Other Defense Organizations except for the Military Retirement Fund, and activities under the Military Departments.

MILITARY RETIREMENT FUND

The Military Retirement Fund (MRF) includes funding to support retired military personnel.

CIVIL WORKS

Civil Works includes the United States Army Corps of Engineers (USACE) Civil Works programs.

FINANCIAL POSITION & CONDITION

RESOURCES

In FY 2025, the Department received total appropriations of $1,312.1 billion from Congress (see **Figure 1**).

Figure 1. Trend in DoD Appropriations

Appropriations *(Dollars in billions)*	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021
DoD Budget Authority	$ 861.5	$ 909.7	$ 851.8	$ 776.6	$ 704.8
Treasury contribution for Military Retirement and Health Benefits	191.4	181.0	141.0	125.0	114.9
Civil Works Projects executed by USACE	10.9	10.6	11.7	25.9	6.2
Trust Fund Receipts	313.8	288.2	232.6	283.1	215.9
Trust Fund Resources Temporarily not Available	(218.8)	(195.3)	3.6	(191.1)	(136.7)
Reconciliation Funding	153.3	-	-	-	-
Appropriations (Discretionary and Mandatory) Reported on Statement of Budgetary Resources (SBR)	**$ 1,312.1**	**$ 1,194.2**	**$ 1,240.7**	**$ 1,019.5**	**$ 905.1**

Discretionary Budget Authority

Discretionary Budget Authority, commonly referred to as funding, represents the majority of the appropriations the Department receives from Congress. For FY 2025, Congress provided such funding through the *American Relief Act* (div. B of P.L. 118-58 (*Disaster Relief Supplemental Appropriations Act*)) as well as a series of continuing resolutions, culminating in the Full-Year Continuing Appropriations Act (div. A of *P.L. 119-4*). This discretionary funding totaled $861.5 billion for FY 2025, appropriated across seven categories (see **Figure 2**).

Figure 2. FY 2025 Discretionary Budget Authority

Appropriation Category *FY 2025*	Dollars in billions	Percentage
Operation and Maintenance	$ 339.0	39.4%
Military Personnel	185.6	21.5%
Procurement	174.0	20.2%
Research, Development, Test, and Evaluation	141.8	16.5%
Military Construction	17.1	2.0%
Family Housing	2.1	0.2%
Revolving Funds	1.9	0.2%
Total Discretionary Budget Authority	**$ 861.5**	**100%**

Operation and Maintenance

FY 2025 Operation and Maintenance (O&M) appropriations decreased by $24.2 billion from FY 2024. Generally, funds in this category provide for the Department's day-to-day costs. This includes amounts for: training and operations, civilian pay, contract services for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment.

Military Personnel

FY 2025 Military Personnel appropriations increased by $9.1 billion from FY 2024. Generally, funds in this category provide for *military compensation* to the Active and Reserve members of the Military Services. This includes various types of pay, benefits, and DoD contributions to retirement savings under the *Blended Retirement System*. Specifically, FY 2025 Military Personnel appropriations included funding for a 4.5 percent military base pay raise effective January 1, 2025.

Procurement

FY 2025 Procurement appropriations decreased by $26.9 billion from FY 2024. Generally, funds in this category provide for the acquisition of equipment. This includes: unmanned aerial systems; air and missile defense systems across the operational force; additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness; and, individual personal protective gear to support the warfighter.

Research, Development, Test, and Evaluation

FY 2025 Research, Development, Test, and Evaluation (RDT&E) appropriations decreased by $6.3 billion from FY 2024. Generally, funds in this category provide for critical investments in: basic and applied technologies; advanced technology development, prototypes and design; development for major acquisition programs; and, upgrades to ensure weapon systems used today—and those developed for the future—provide capabilities to maintain a technological advantage over potential adversaries.

Military Construction

FY 2025 Military Construction appropriations increased by $0.1 billion from FY 2024. Generally, funds in this category provide for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, unaccompanied housing, and other buildings to support the DoD mission worldwide.

Family Housing

FY 2025 Family Housing appropriations increased by $0.1 billion from FY 2024. Generally, funds in this category provide for: the construction of new housing; improvements to existing housing units; operation and maintenance of government - owned housing; and, the leasing of housing facilities domestically and internationally. Additionally, the funds provide for the oversight of the Military Housing Privatization Initiative (MHPI), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the U.S. and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

Revolving Funds

FY 2025 Revolving Funds decreased by $0.1 billion from FY 2024. Generally, funds in this category provide direct appropriations into the Defense Working Capital Fund (DWCF) to buy operating materials and supplies, or transport personnel, materiel, or other items required to satisfy a mobilization condition. Annual direct appropriations support the Defense Commissary Agency (*DeCA*), to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities. When a new DWCF activity is established, its founding cash corpus is established by a direct appropriation. Reprogramming associated with increased fuel cost also contributes to the DWCF.

Additional information regarding *FY 2025 DoD Programs* can be found on the Department's public website.

Civil Works Projects Executed by USACE

FY 2025 funding received for Civil Works projects increased by $0.3 billion from FY 2024. The funding received in FY 2025 was used to execute a number of civil works projects that included: supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and, reducing storm and flood damage. The Congress appropriates funding directly to the *USACE* under the *Consolidated Appropriations Act, 2024*, and *Infrastructure Investment and Jobs Act*.

MANDATORY APPROPRIATIONS

In addition to the discretionary budget authority received from annual appropriation acts, the Department also receives mandatory appropriations from the provisions of previously enacted laws. The amounts the Department receives for these mandatory appropriations are generally stipulated by statutorily defined criteria.

Treasury Contribution for Military Retirement and Health Benefits

The Department of the Treasury (Treasury) is required to contribute payments to the Military Retirement Fund (MRF), under the provisions of *10 U.S.C. § 1466(c)(1)* and for the Medicare-Eligible Retiree Health Care Fund (MERHCF), under the provisions of *10 U.S.C. §1116(a)(1)*. The funds cover: (1) a portion of the present value of future benefits payments to be paid to eligible retirees; and, (2) the fiscal year's amortization of the funds' unfunded liability. The Secretary of Defense determines the amounts of these contributions based on projection models that rely on data (e.g., average force strength) and assumptions (e.g., future inflation rates).

Trust Fund Receipts

Funds are paid into multiple DoD trust funds, primarily MRF and MERHCF, from various sources including the Treasury contributions, described above, and payments from the Uniformed Services (i.e., the Military Services), the *National Oceanic and Atmospheric Administration*, and the *Commissioned Corps of the U.S. Public Health Service* to cover the cost of benefits earned in the current year, and interest earned on Treasury investments held by the trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* (SBR), in the Financial Section, for additional information.

Trust Fund Resources Temporarily Not Available

Certain resources that were appropriated in the current year are precluded from obligation during the current year by a provision of law, such as a benefit formula or limitation. The Department will obligate these resources in future years to pay the current unfunded liabilities of the corresponding trust funds.

Creating Helpful Incentives to Produce Semiconductors (CHIPS)

The Department received $400.0 million in mandatory funding in the *CHIPS Act of 2022* for FY 2023 to FY 2027 to facilitate the procurement of semiconductors in the United States. Of the $400.0 million appropriated in FY 2025, the Department obligated $131.1 million as of September 30, 2025. These funds may not be apportioned or obligated until the enactment of the respective year's full-year appropriations for the Department.[1]

Reconciliation Funding

During FY 2025, *Public Law 119-21*, was passed by the Congress and signed into law by the President on July 4, 2025. DoD received $153.3 billion in multi-year, mandatory appropriations to fund Administration priorities, including: Golden Dome for America, Shipbuilding and the Maritime Industrial Base, Servicemember Quality of Life, Restocking America's Arsenal of Munitions, Nuclear and Pacific Deterrence, Border Security, Enhancing Military Readiness and Air Superiority and Achieving a Clean Audit. This funding will be apportioned to DoD over multiple fiscal years in accordance with Congressionally approved spend plans.

1. CHIPS funding is not shown on Figure 1 due to rounding.

Republic of Korea (April 7, 2025) Rear Adm. Todd F. Cimicata, commander, Logistics Group Western Pacific/Task Force 73 (COMLOG WESTPAC/ CTF-73), speaks with Republic of Korea (ROK) Navy Cmdr. Dong Sakong, the commanding officer of the Tongyeong-class salvage and rescue ship ROKS Gwangyang (ATS-32), during a tour as part of a joint dive and salvage exercise at Jinhae Naval Base, Republic of Korea, April 7, 2025. (U.S. Navy photo by Mass Communication Specialist 2nd Class Jordan Jennings)

SUPPLEMENTAL AND EMERGENCY RESPONSE FUNDING

Public Law 118-158, the "American Relief Act, 2025", was passed by the Congress and signed into law by the President on December 21, 2024. The DoD received $6.6 billion under Division A of P.L. 118-158 (Further Continuing Appropriations Act, 2025) and $5.2 billion under Division B of P.L. 118-158 (Disaster Relief Supplemental Appropriations Act).

NATURAL DISASTER RESPONSE

This act provided the Department with an additional $5.2 billion of supplemental funds across multiple appropriation categories for necessary expenses related to the consequences of several severe storms that occurred in calendar years 2023 to 2024 such as hurricanes Ian, Nicole, Idalia, Helene, Milton, and Typhoon Mawar.

As of FY 2025, the Department obligated a cumulative total of $3.5 billion, and $1.7 billion remains available for future obligation.

SUBMARINE INDUSTRIAL BASE UPLIFT

This act provided the Department with an additional $5.7 billion of supplemental funding in the Shipbuilding and Conversion, Navy appropriation for the Virginia Class Submarine program and for workforce wage and non-executive salary improvements for other nuclear-powered vessel programs.

As of FY 2025, the Department obligated a cumulative total of $4.2 billion, and $1.5 billion remains available for future obligation.

NATIONAL SECURITY SYSTEMS RISK REDUCTION AND MODIFICATION

This act provided the Department with an additional $913.4 million of supplemental O&M funds to conduct risk reduction and modification of National Security Systems.

As of FY 2025, the Department obligated a cumulative total of $913.4 million, and $0.0 million remains available for future obligation.

Flags and shovels are displayed prior to the Space Campus groundbreaking ceremony within the U.S. Central Command area of responsibility on Jan. 14, 2025. (U.S. Air Force photo by Senior Airman Violette Hosack)

Retired Lt. Col. Bill Buice, a former A-1 Skyraider pilot, poses for a photo in front of the new OA-1K Skyraider II at Hurlburt Field, Fla., April 3, 2025. The OA-1K Skyraider II takes its name from the A-1 Skyraider, which Buice flew in Vietnam from June 1967-July 1968 before being shot down, forcing him to medically retire. (U.S. Air Force photo by Staff Sgt. Natalie Fiorilli).

BUDGETARY RESOURCES

The Department's total budgetary resources represent the total funding available for its operation, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred, and payments made only to the extent that budgetary resources are available to cover such items. In FY 2025, the Department reported $1.9 trillion in total budgetary resources (see **Figure 3**).

Figure 3. Composition of DoD Total Budgetary Resources (Unaudited)

Description *(Dollars in billions)*	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021
Appropriations (Discretionary and Mandatory) Reported on SBR	$ 1,312.1	$ 1,194.2	$ 1,240.7	$ 1,019.5	$ 905.1
Unobligated Balances from Prior Year Budget Authority	335.7	288.4	269.1	213.8	211.2
Spending Authority from Offsetting Collections	151.1	140.0	240.9	150.3	153.7
Contract Authority	97.3	90.7	90.9	81.2	74.0
Total Budgetary Resources	**$ 1,896.2**	**$ 1,713.3**	**$ 1,841.6**	**$ 1,464.8**	**$ 1,344.0**

Of the $1.9 trillion in Total Budgetary Resources for FY 2025, $1.5 trillion was obligated. The remaining Unobligated Balance of $0.4 trillion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for procurement of goods and services.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2025, the amount of the Expired Unobligated Balance, End of Year increased by $1.9 billion to $26.9 billion in FY 2025 from $25.0 billion in FY 2024. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds, which may result in a violation of the Antideficiency Act. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments in accordance with 31 U.S.C. §1553.

See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.

FINANCIAL PERFORMANCE

The following table summarizes the Department's condensed FY 2025 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see **Figure 4**). Further details on causes of significant changes and trends can be found on the DoD major program pages.

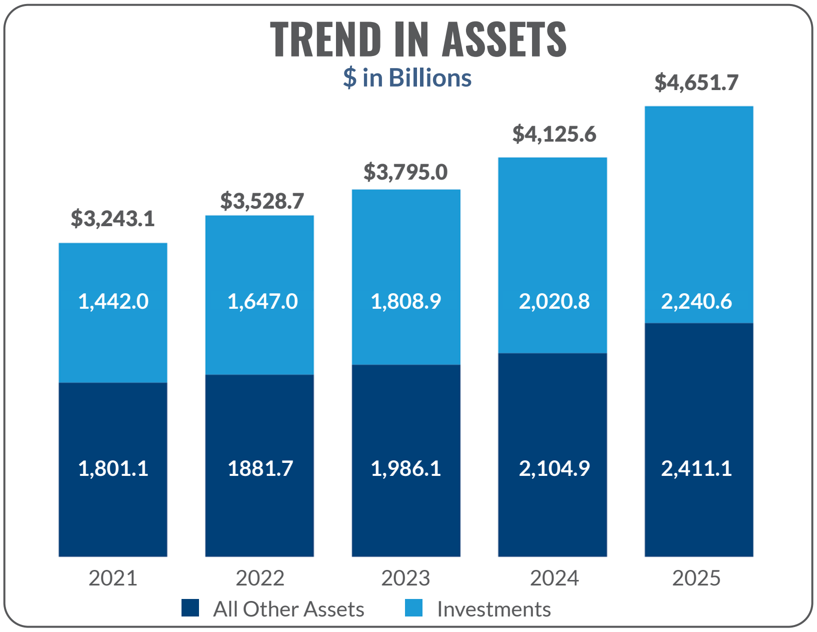
Figure 4. Financial Performance Summary (Unaudited)

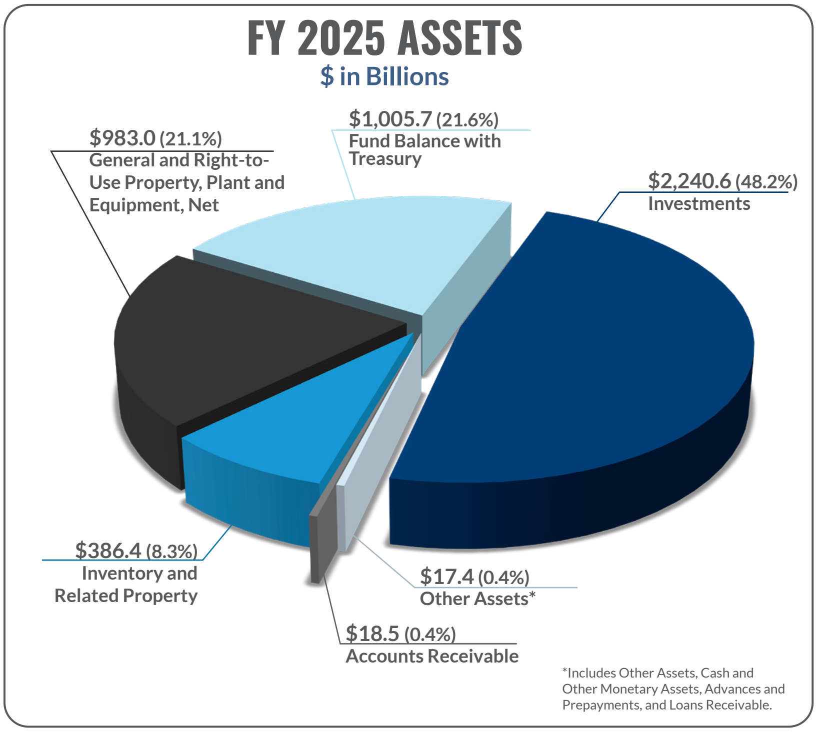
Dollars in billions	FY 2025	FY 2024	Increase/(Decrease) $	Increase/(Decrease) %
NET POSITION				
Assets:				
Fund Balance with Treasury	$ 1,005.7	$ 855.5	$ 150.2	17.6%
Investments, Net	2,240.6	2,020.8	219.8	10.9%
Accounts Receivable	18.5	18.6	(0.1)	-0.6%
Other Assets*	17.4	12.6	4.8	38.1%
Inventory and Related Property, Net	386.4	368.6	17.7	4.8%
General and Right-to-Use Property, Plant and Equipment, Net	983.0	849.5	133.5	15.7%
Total Assets	**$ 4,651.7**	**$ 4,125.6**	**$ 526.0**	**12.7%**
Liabilities:				
Accounts Payable	$ 49.8	$ 45.8	$ 4.0	8.6%
Other Liabilities**	39.1	41.6	(2.5)	-6.1%
Federal Employee and Veteran Benefits Payable	4,532.2	4,145.5	386.7	9.3%
Environmental and Disposal Liabilities	108.0	101.1	6.9	6.9%
Total Liabilities	**$ 4,729.1**	**$ 4,334.0**	**$ 395.1**	**9.1%**
COSTS				
Gross Program Costs	$ 1,152.0	$ 1,110.3	$ 41.7	3.8%
Less: Earned Revenue	(231.3)	(168.6)	(62.7)	37.2%
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	242.0	236.8	5.2	2.2%
Net Cost of Operations	**$ 1,162.7**	**$ 1,178.4**	**$ (15.7)**	**-1.3%**
Net Position (Assets minus Liabilities)	**$ (77.4)**	**$ (208.4)**	**$ 131.0**	**-62.8%**

** Other Assets includes Other Assets, Cash & Other Monetary Assets, Advances & Prepayments, and Loans Receivable*
*** Other Liabilities includes Other Liabilities, Debt, Loan Guarantee Liability, Advances from Others, and Deferred Revenue*
Rounding may cause small differences in totals

As of September 30, 2025, the Department's $4.7 trillion in assets predominantly comprises Investments; Fund Balance with Treasury (FBwT); General and Right-to-Use Property, Plant and Equipment, Net (GPP&E); and Inventory and Related Property (I&RP), which together represented 99.2 percent of the Department's assets (see **Figure 5**).

Figure 5. Summary of Total Assets (Unaudited)



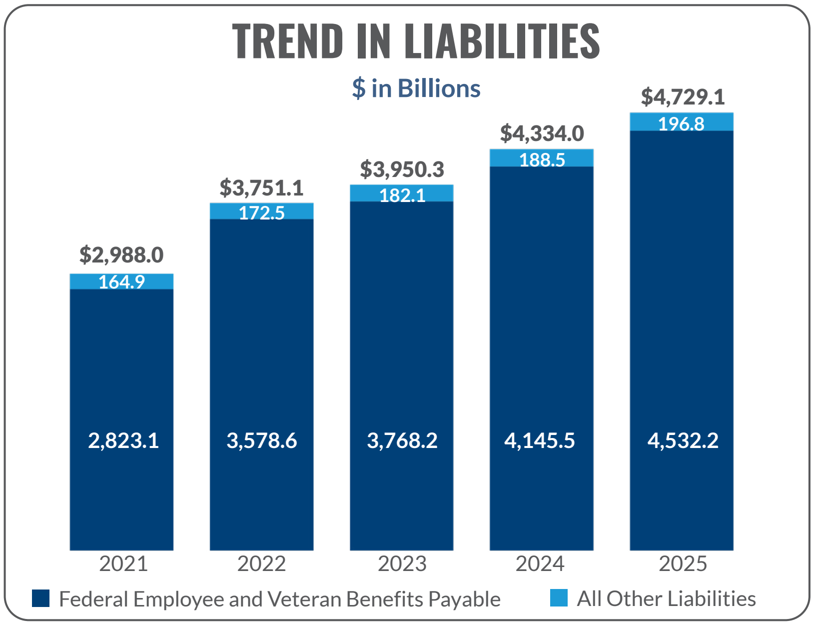


During FY 2025 the Department's total assets increased by $526.0 billion (12.7 percent) over the FY 2024 amount, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by $219.8 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, *Investments, Net*, in the Financial Section for more information.
- FBwT increased $150.2 billion, primarily as a result of increases in budgetary resources received over recent years. See Note 3, *Fund Balance with Treasury*, in the Financial Section for more information.
- GPP&E increased by $133.5 billion largely driven by asset additions, recognition of previously unrecorded asset costs, and updates to depreciation estimates reflecting revised useful lives. Increases were also related to construction-in-progress related to vessel development and adjustments to asset values. Depreciation estimates were also revised to align with updated equipment lifespans. These changes reflect ongoing efforts to improve financial reporting accuracy. See Note 9, *General and Right-to-Use PP&E, Net* in the Financial Section for more information.
- I&RP increased by $17.7 billion primarily due to inventory revaluation, reconciliation adjustments, and asset reclassification to improve accuracy and compliance with financial standards. These actions reflect a broader initiative to enhance transparency and consistency in asset reporting. See Note 8, *Inventory and Related Property, Net* in the Financial Section for more information.

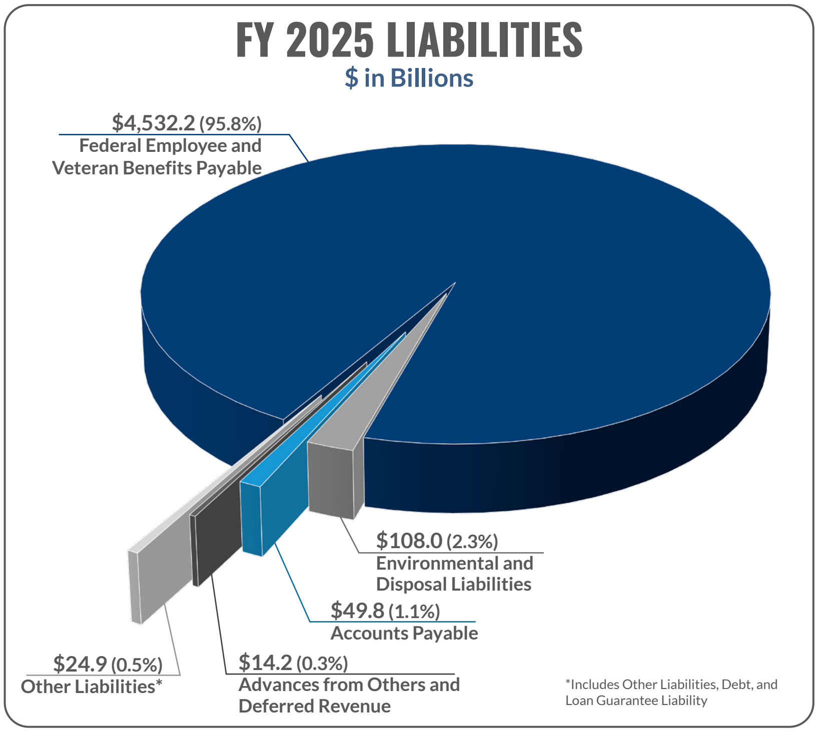
As of September 30, 2025, the Department's $4.7 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.8 percent of the Department's liabilities (see **Figure 6**).

Figure 6. Summary of Total Liabilities (Unaudited)



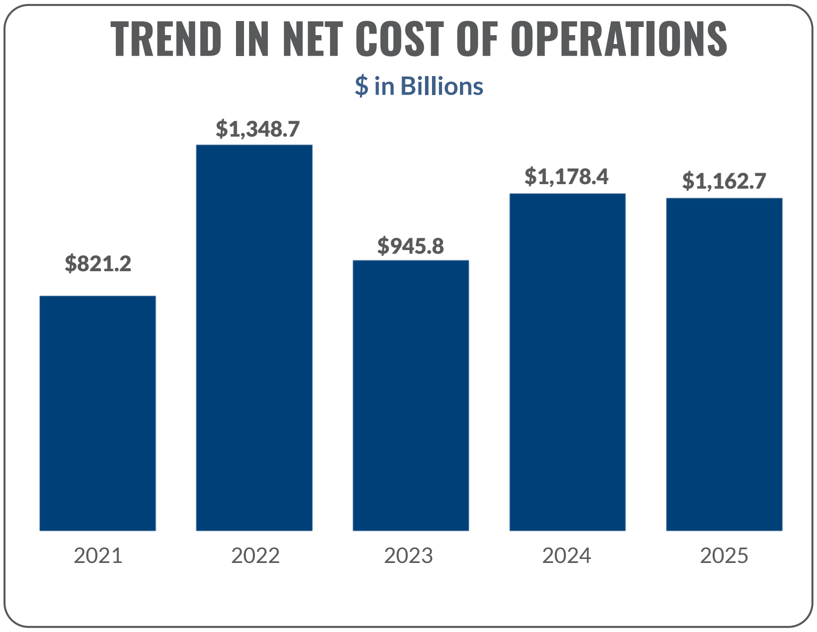
The Department's liabilities are backed by the full faith and credit of the U.S. Government. In FY 2025, the Department's total liabilities increased by $395.1 billion (9.1 percent) over the FY 2024 amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable increased by $386.7 billion, primarily attributable to a $244.7 billion increase in the actuarial liability of the Military Retirement Fund and a $142.1 billion increase in the actuarial liability in the Medicare-Eligible Retiree Healthcare Fund. See Note 13, *Federal Employee and Veteran Benefits Payable*, in Financial Section for more information.

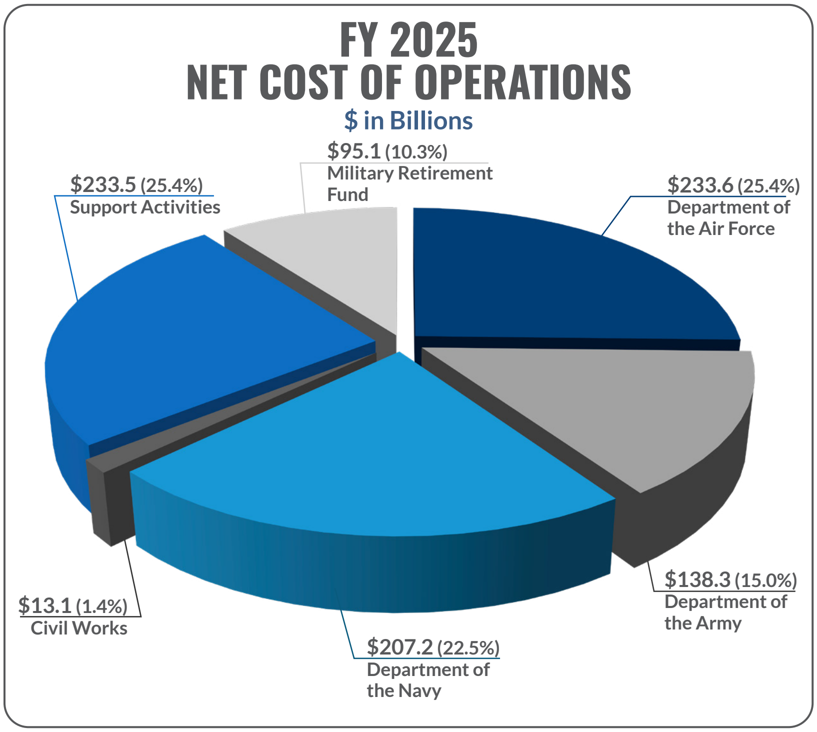


The major programs composing the greatest share of the Department's $920.7 billion FY 2025 Net Cost of Operations were Department of the Air Force; Department of the Army; Department of the Navy; Support Activities, and Military Retirement Fund which together represented 98.6 percent of the Department's Net Cost of Operations (see **Figure 7**).

Figure 7. Summary of Net Cost Operations (Unaudited)



During FY 2025, the Department's Net Cost of Operations decreased $15.7 billion (1.3 percent) over the FY 2024 amount.



PERFORMANCE OVERVIEW

STRATEGIC PRIORITIES AND OBJECTIVES

The FY 2026 to 2030 DoD Strategic Plan outlines both strategic and performance goals and measures, designed to achieve the Administration's priorities (as reflected in Congressional Mandates, Executive Orders, Memoranda, and Proclamations) and DoD's top business operational goals. The FY 2025 performance results will be published in the FY 2026 to 2030 DoD Strategic Plan, to be submitted alongside the President's Budget for FY 2027, and made available to the public on the Director of Administration and Management *(DA&M)'s* website.

The Ticonderoga-class guided-missile cruiser USS Philippine Sea (CG 58) departs Naval Station Norfolk, Jan. 20th, 2024. (U.S. Navy photo by Chief Mass Communication Specialist Evan Thompson)

DEPARTMENT OF THE ARMY

MISSION

The Department of the Army (or the Army) mission remains constant: to deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. The Army mission is vital to the Nation because we are a service capable of defeating enemy ground forces and indefinitely seizing and controlling those things an adversary prizes most - its land, resources, and population.

SIGNIFICANT CHANGES IN FINANCIAL POSITION & CONDITION

- Other Than Intragovernmental, Other Assets for General Fund (GF) increased by $0.9 billion (45.7 percent) primarily due to an increase in permanently removed but not yet disposed GPP&E, mostly consisting of wheeled and tracked combat assault and tactical vehicles. Other Assets reflect equipment reclassified as permanently removed from service.
- Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections) for GF decreased by $14.3 billion (76.3 percent) primarily due to the $8.6 billion decrease in appropriations received as well as $8.5 billion increase in appropriations used. These changes were impacted by the higher beginning balance for FY 2025 that in turn resulted from the $18.7 billion increase in appropriations realized during the prior year (see *FY 2024 Army Annual Financial Report*).
- Unapportioned, unexpired accounts for GF increased by $6.1 billion (7,489.9 percent) primarily due to increases of $2.9 billion in the Army's Operation and Maintenance authority, and $1.5 billion and $1.3 billion related to Military Personnel and Procurement, respectively.
- Gross Costs for GF decreased by $20.3 billion (8.4 percent) primarily due to exchange-related losses reported as part of the Equipment data call, partially offset by $1.0 billion less in exchange-related losses reported within the Operating Materials & Supplies (OM&S) data call for FY 2025.
- Earned Revenue for GF increased by $40.1 billion (144.7 percent) primarily due to exchange-related gains due to cumulative adjustments for accumulated depreciation, reflecting the Army General Fund's adoption of Equipment useful lives, as directed by the *DoD Financial Management Regulation*.
- Other Than Intragovernmental, I&RP, Net for WCF increased by $0.9 billion (4.6 percent) primarily due to the recording of new OM&S activity of spare and repair parts.

KEY PERFORMANCE RESULTS

The Army Working Capital Fund's (AWCF) key performance measures include its: Net Operating Results (NOR) and Accumulated Operating Results (AOR), Performance to Promise, and Supply Availability.

The **NOR** and **AOR** performance measure represents the difference between revenues and costs, measuring the net cost of operations within a single year. The goal of the AWCF is for costs to equal revenue at the end of the fiscal year, with AOR representing the cumulative NOR since the AWCF's inception. The AOR is used to assess operational performance relative to the ability to recover costs and maintain sufficient capital to fund operations. The goal is to achieve an AOR of zero in the budget year. When the AOR is not zero, rates are revised for the subsequent fiscal year, either at year-end or as needed.

The **Performance to Promise** performance measure reflects the AWCF's commitment to supporting materiel throughout its entire lifecycle. It ensures that equipment can be maintained in operational environments with minimal resources, supporting operational readiness and sustainability. The Cumulative Performance to Promise Metric evaluates the Army's ability to meet customer requirements by tracking monthly command schedule performance goals. Army Material Command (AMC) has set a target of 100.0 percent for this metric, indicating expected performance within established timelines. In FY 2024, the Information's Operations (IO) met requirements within the planned timeframe more than 90.0 percent of the time.

The **Supply Availability (SA)** performance measures the depth and breadth of inventory required to meet tactical units' demands across the full spectrum of military operations. The goal is to release orders within the required month based on delivery deadlines. The SA fill rate is the percentage of orders released out of the total due for the month. AMC has established a target has established a target SA rate of 92.0 percent for materials critical to readiness.

SIGNIFICANT OPPORTUNITIES & RISKS

Inventory Backorders

- **Opportunity:** Army can reduce inventory backorders, which would increase supply availability fill rates and enhance operational capacity to fulfill current orders within the current year's budget.

Performance to Promise

- **Opportunity:** Army can improve its Performance to Promise by reviewing and improving materiel lifecycle management guides. This will identify and implement efficiencies to enhance lifecycle management processes, improve delivery timelines, and reduce costs.
- **Risk and Mitigation:** Reduced materiel maintenance operational capacity could decrease operational readiness for Performance to Promise. To address this risk, Army intends to implement organizational cultural changes and process improvements, which are expected to stabilize costs while maintaining operational readiness within projected budget levels.

Supply Availability

- **Risk and Mitigation:** Cost reductions and increased demand have accelerated inventory depletion beyond projections. To mitigate this risk, the Army plans to enhance operational procedures to reduce costs and implement continuous inventory monitoring to anticipate higher demands. These measures aim to maintain supply availability goals and support overall readiness at lower costs and with more predictable projected costs.

DEPARTMENT OF THE NAVY

MISSION

To recruit, train, equip, and organize to deliver combat-ready Naval forces to win conflicts and wars, while maintaining security and deterrence through sustained forward presence.

SIGNIFICANT CHANGES IN FINANCIAL POSITION & CONDITION

- General and Right-to-Use Property, Plant, and Equipment, Net Other than Intragovernmental increased by $29.3 billion (6.2 percent) primarily due to increases in investments in shipbuilding of $17.1 billion and adjustments to accumulated depreciation to standardize placed in service dates for Buildings and Equipment of $11.5 billion.
- Gross Cost increased by $23.3 billion (11.0 percent) primarily due to:
  1. Valuation changes of various PP&E assets of $6.3 billion.
  2. Losses due to a price increase on electronic equipment for the United States Ship (USS) Arleigh Burke of $5.7 billion.
  3. A reclassification of operating materials and supplies considered excess, obsolete, and unserviceable, primarily ammunition and scrap metal, of $2.8 billion.
  4. A loss from inventory returned to the Navy of $1.3 billion.
- Earned Revenue increased $3.3 billion (11.0 percent) primarily due the Department of the Navy's Working Capital Fund reported gains of $1.1 billion related to clean-up of historical balances. Additionally, the Navy General Fund reported gains related to conversion of assets to the Enterprise Resource Planning (ERP) system of $780.0 million, and gains from the return of ship-based asset carcasses for credit with contractors of $714.0 million.

KEY PERFORMANCE RESULTS

The Department of the Navy (DON) key performance measures include: Strengthening Shipbuilding and the Maritime Industrial Base, Fostering an Adaptive Warfighting Culture, and Improving Personnel Health, Welfare, and Training.

The **Strengthening Shipbuilding and the Maritime** performance measure involves the DON to accelerate the efforts to expand domestic shipbuilding capacity, modernize public and private shipyards, strengthen supply chains, and address workforce shortages in the maritime industrial base. These actions aim to deliver a robust, sustainable fleet to meet national defense needs. The DON successfully added one Virginia Class Submarine and two Littoral Combat Ships (LCS) to the Fleet during the FY, further strengthening undersea dominance and expanding surface warfare capacity in support of a balanced and ready naval force. Additionally, the DON is ensuring training and deployment requirements are fully supported to maintain Fleet readiness. It is investing in critical maintenance for support ships and sustaining regular deployment cycles with a target of maintaining fifty-eight underway days per quarter for deployed forces.

The **Fostering an Adaptive Warfighting Culture** performance measure is achieved through the DON to continue to strengthen accountability and readiness by improving how information is managed, protected and applied across the enterprise. These efforts enhance the reliability and performance of supporting operations, ensuring that the naval mission is backed by capable, responsive and well-aligned internal practices. The DON has advanced IT modernization by consolidating legacy networks, reducing technical debt, and adopting agile practices like Development, Security, and Operations (DevSecOps). Operation Cattle Drive has divested obsolete business systems, enhancing cybersecurity and cloud integration. These efforts, in alignment with FY 2025 budget priorities, establish a secure, agile, and digitally evolving infrastructure for maritime decision advantage. Additionally, the DON is developing flexible, cost-effective, and robust security solutions that use commercial and government-furnished hardware and software, both of which can be tailored to any platform and in any operating environment.

The **Improving Personnel Health, Welfare, and Training** performance measure is achieved through the DON's commitment to cultivating a forward-leaning, accountable warfighting culture that emphasizes innovation, leadership, and agility. Concurrently, the DON continues to prioritize the quality of life, retention, and professional development of our military and civilian personnel. The DON surpassed its FY 2025 recruiting goal, bringing in approximately 3,500 more than the target. The DON also achieved 100.0 percent manning in key recruiting areas and maintained a strong civilian workforce. Civilian personnel, such as accountants, auditors, and engineers provide support to the military personnel and most of them are direct hire. Additionally, programs are being advanced to expand higher education opportunities for active-duty personnel and to strengthen officer development through Reserve Officers Training Corps (ROTC) training at colleges and universities. Tuition assistance continues to provide pathways for Sailors to pursue academic goals, while ROTC remains focused on preparing future Navy officers.

SIGNIFICANT OPPORTUNITIES & RISKS

Strengthening Shipbuilding and the Maritime Industrial Base

- **Opportunity:** Strategic investments in workforce development, shipyard modernization, and advanced manufacturing technologies offer the Navy the opportunity to dramatically reduce ship maintenance backlogs and cycle times.
- **Risk and Mitigation:** Neglecting to modernize ship maintenance processes poses a significant risk to fleet readiness. Persistent backlogs and long cycle times will limit ship availability, increase operational strain, and potentially jeopardize mission success. Successfully capitalizing on the opportunity for strategic investments will lead to increased fleet readiness, reduced operational costs, and a more resilient naval force.

Fostering an Adaptive, Accountable and Warfighting Culture

- **Opportunity:** Consolidating IT systems under Navy ERP provides the Navy with a platform to improve resource management efficiency, ultimately contributing to the overall strength and effectiveness of the Department.
- **Risk and Mitigation:** Failure to fully migrate to Navy ERP and maintaining disparate legacy systems will perpetuate inefficiencies, increase cybersecurity vulnerabilities, hinder data-driven decision-making, and impede the Navy's ability to achieve and sustain auditability. Completing the Navy ERP migration by FY 2026 will enable advanced data analytics, improving decision-making and bolstering audit readiness, translating to millions in potential savings and reducing the burden of compliance with IT regulations and auditability.

Improving the Health, Welfare and Training of Our People

- **Opportunity:** Proactive investment in facility modernization presents a crucial opportunity to enhance naval capabilities and readiness. The new Jacksonville shiplift and land-level repair facility serves as a model, demonstrating how targeted infrastructure improvements can triple dry-dock capacity, accelerate repairs, and significantly increase fleet availability.
- **Risk and Mitigation:** Deferring critical facility upgrades and modernization efforts exposes the Navy to significant operational risks. Aging infrastructure can lead to equipment failures, reduced capacity, safety hazards, and increased maintenance costs, ultimately hindering the Navy's ability to project power and respond effectively to global challenges. Continued investment in facility modernization projects across the enterprise can yield substantial improvements in operational effectiveness.

DEPARTMENT OF THE AIR FORCE

MISSION

The U.S. Air Force (USAF) mission statement is: To fly, fight, and win... airpower anytime, anywhere. The U.S. Space Force (USSF)'s mission statement is: Secure our Nation's interests in, from, and to space.

SIGNIFICANT CHANGES IN FINANCIAL POSITION & CONDITION

- Advances from Others and Deferred Revenue for GF increased by $3.5 billion (117.9 percent) primarily due to advances with Department of Commerce specifically regarding *Public Law 117-167*, 31 United States Code 3324. Additionally, the increase was also driven by changes with other selected activities, which resulted in a change in coding from internal to the Department of the Air Force (DAF) to Unknown Trading Partners (Unidentified).
- Net Changes in Unexpended Appropriations for GF increased by $14.1 billion (133.6 percent) primarily due to:
  1. Operations and Maintenance (O&M) Air Force Active of $7.1 billion increase.
  2. Procurement of $5.2 billion increase from a combination of increase of $9.2 billion on Aircraft Procurement offset by a decrease of $3.1 billion on Other Procurement and a decrease of $0.9 billion on Missile Procurement & Ammunition.
  3. Military Personnel (MILPERS) $2.6 billion increase from a combination of $2.5 billion increase is associated with MILPERS, Air Force and $0.1 billion increase is associated with Medicare-Eligible Retiree Health Fund Contribution Air Force.
  4. Research, Development, Test, and Evaluation (RDT&E) on Air Force Active of $1.1 billion increase.
- Family Housing & Military Construction (MILCON), Gross Cost for GF decreased by $7.0 billion (143.9 percent) primarily due to the decrease in MILCON was due to the rebaseline of Real Property (RP) assets during 4Q of FY 2025 to move balances between systems and revalue the RP population under Statement of Federal Financial Accounting Standards *(SFFAS) 50*. The rebaseline removed the assets from various appropriations were due to posting logic in the Accountable Property System of Record, however total Statement of Net Cost (SNC) was not affected.
- Net Cost of Operations for WCF increased by $3.0 billion (127.5 percent) was primarily due to the $2.3 billion adjustment required to correct an overstatement in inventory resulting from erroneous posting logic within the Financial Inventory Accounting and Billing System (FIABS). FIABS incorrectly valued inventory when the Maintenance division completed the repair of an asset and transferred the item back to the Supply division. This caused a negative net inventory value being recorded in the 'Held for repair' account and an automated reconciliation was used to correct the balances. However, the reconciliation does not address the in-transit account. Therefore, causing the overstated amount to not be corrected resulting in the increase in Net Cost of Operations reported in FY 2025.

KEY PERFORMANCE RESULTS

The DAF key peformance measures include: Comprehensive Modernization, Collaborative Combat Aircraft (CCA) program, and Investing in Critical Infrastructure and Information Systems.

Comprehensive Modernization performance measure represents the advancement of the DAF agenda. The goal is to integrate cutting-edge autonomous systems upgrading critical infrastructure, and streamlining IT operations to enhance mission readiness and operational effectiveness across the force.

The **Collaborative Combat Aircraft (CCA) program** performance measure represents the DAF's effort to integrate autonomous systems into the future force and the DAF began ground testing for the CCA program which was a major milestone. By leveraging open architectures and commercial technologies, CCA allows for rapid integration, iterative upgrades, and scalable production. The goal of the CCA program is to accelerate fielding through innovative design, acquisition strategies, and to turn readiness into operational dominance. This program will extend operational reach, enhance survivability, and deliver decisive advantages in highly contested environments at a fraction of the cost of traditional fighters.

Investing in Critical Infrastructure and Information Systems performance measure represents the DAF's modernization efforts, the DAF will reduce maintenance costs and system downtime, risks that directly impact daily operations and training. The goal of the DAF is to commit to investing in critical infrastructure and information systems, while also providing greater transparency and insight into its spending and effectiveness of its IT investments.

Other efforts included aligning the Headquarters Cyberspace Capabilities Center as a Field Operating Agency under the Office of the DAF Chief Information Officer to streamline and consolidate IT functions and ensure unity of effort in IT service delivery across the DAF. By combining and aligning functions, the IT enterprise will be able to produce capabilities in shorter, more rapid development cycles ensuring requirements are expediently actioned and delivered to the force.

SIGNIFICANT RISKS

Modernization

- **Risk and Mitigation:** DAF is facing an increasingly complex and contested global security environment, the DAF is accelerating modernization efforts and prioritizing strategic investments across all domains to preserve its competitive edge, ensure mission resilience, and maintain decisive advantage over emerging threats.

Highly Contested Environments

- **Risk and Mitigation:** To maintain and secure the DAF's qualitative advantage in highly contested environments, the DAF invested roughly $174.0 million in advancing an operationally optimized Advanced Battle Management System to improve situational awareness and provide decision-support tools and roughly $675.0 million in fielding Next Generation Air Dominance systems which will allow the DAF to achieve control of the air.

Space Capabilities

- **Risk and Mitigation:** The DAF is committed to enhancing and securing its space capabilities by investing roughly $1.3 billion in programs to enhance its space domain awareness such as the Deep Space Advanced Radar Capability, SILENTBARKER, and $9.1 billion in developing resilient space capabilities that guarantee its continuity of critical services to the joint forces.

Cybersecurity

- **Risk and Mitigation:** The DAF relies on key cyber capabilities to conduct and support operations across all domains and to enhance U.S. military advantages. Fortifying cyberspace operations remains a critical challenge that requires immediate and focused attention. This commitment is underscored by initiatives to secure systems, networks, and data through network consolidation, modern software methodologies, and cloud hosting. These efforts aim to maintain operational integrity, improve Department audit outcomes, enhance mission resilience, and reinforce global deterrence and assurance credibility.

SUPPORT ACTIVITIES

MISSION

To support and prepare DoD Combat Forces. This major program includes Other Defense Organizations, except for the Military Retirement Fund and the activities under the Military Departments.

SIGNIFICANT CHANGES IN FINANCIAL POSITION & CONDITION

- The United States Transportation Command (USTRANSCOM) Earned Revenue increased by $1.2 billion (12.8 percent) primarily due to increased workload and higher rates. Gross Costs increased by $0.2 billion (2.5 percent). The primary drivers of these financial shifts were an increased airlift and sealift workload attributable to missions in the United States Central Command, Southwest Asia, and the United States Indo-Pacific Command regions.
- The Defense Information Systems Agency (DISA) WCF's General and Right-to-Use PP&E increased by $133.6 million (9.0 percent) and other liabilities increased by $86.1 million (17.2 percent) primarily due to newly identified leased assets under *SFFAS 54* and increased construction-in-progress for the Defense Information Systems Network Infrastructure Services. Accounts receivable increased by $154.1 million (18.0 percent) primarily due to increase in intragovernmental receivables for various services (contracting, telecommunications and cybersecurity). This reflects DISA's ability to comply with new accounting standards, growing demand for DISA's services across the DoD, and the decision to invest in modernizing its infrastructure, both of which are significant for DoD-wide asset management.

KEY PERFORMANCE RESULTS

- The Defense Advanced Research Projects Agency (DARPA) performance measure represents prioritizing accelerated innovation within the DoD Strategic Management Framework. The DARPA Expedited Research Implementation Series (ERIS) is testing methods to reduce the time to contract award. In its first five months, ERIS received over 250 submissions and achieved a procurement administrative lead time of just 5 days for the initial award. This approach not only attracts new proposers and performers to agency efforts but also lowers their proposal and performance costs. These initiatives align with *Executive Order 14265* "Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base," which emphasizes speed, flexibility, and efficient execution.
- The Defense Acquisition University (DAU) performance measure represents playing a vital role in training military and civilian personnel in acquisition, technology, and logistics, which is essential the workforce. DAU reduces costs by delivering standardized training and resources that improve the efficiency and effectiveness of acquisition processes, leading to better budget management and resource utilization. For FY 2025, DAU's Cost Per Learning Hour (LH) is approximately $38.77. In comparison, the average cost per learning hour in private industry is approximately $124.00, according to the 2024 State of the Industry Report from the Association for Talent Development. The projected total learning hours for FY 2025 are approximately 5.6 million, totaling $217.0 million.
- The Defense Commissary Agency's (DeCA) performance measure represents providing premier service to military patrons at a lower cost as Patron Savings is the key performance indicator. DeCA's savings goal for FY 2025 is 25.0 percent, a target set since FY 2023. The agency met its savings goal in both previous fiscal years—25.5 percent in FY 2023 and 25.0 percent in FY 2024—and achieved a 25.2 percent savings rate in FY 2025. In FY 2025, DeCA's sales totaled $4.8 billion, saving customers over $1.6 billion. Projected sales for FY 2026 are $5.0 billion.
- The Defense Threat Reduction Agency (DTRA) Weapons of Mass Destruction (WMD) Combat Support and Operations sub-activity group performance measure represents providing essential support to military leaders and forces confronting WMD threats. This support includes assisting the Chairman of the Joint Chiefs of Staff, Combatant Commanders, and Military Services in countering threats from chemical, biological, radiological, nuclear, and high-yield explosive weapons, ensuring the safety and security of the United States, its forces, and its allies. For the Mission Assurance programs, DTRA completed 125 Survivability, Mission Assurance, and Red Team Assessments. These assessments identify vulnerabilities in critical systems, networks, and architectures that could be exploited below the level of armed conflict by state or non-state threat networks or impacted by natural or accidental hazards. The insights from these assessments enable DTRA to provide recommendations to mitigate risks to critical infrastructure within the DoD portfolio, equipping leadership with vital information to determine appropriate vulnerability remediation, migration, or acceptance strategies.
- DISA performance measure represents employing highly skilled and experienced teams of government and contractor personnel at Hybrid Compute centers to manage hardware and software applications encompassing a broad spectrum of computing, storage, and communications technologies. The facilities have been designed and are managed to provide secure, available, and interoperable environments for processing under military control. Collectively these facilities provide a robust enterprise computing environment to over four million users through approximately: 17 mainframes; 10,000 servers; 73 petabytes of storage; 235,000 square feet of raised floor; and 3,400 network devices. Since FY 2007, the number of customer driven server operating environments has increased by 202.0 percent, and total storage gigabytes have increased by 1,110.0 percent. The costs associated with operating and maintaining these data centers and providing assured computing services has decreased by 4.0 percent since FY 2006. Through centralized management, economies of scale, and optimized resource utilization, DISA's computing services model has provided more server operating environments, for only a small percentage increase in cost. This centralized approach saves the DoD resources compared to a decentralized approach where each component manages its own computing infrastructure.

SIGNIFICANT OPPORTUNITIES & RISKS

DISA's Cloud for Enhanced Warfighter Capabilities

- **Opportunity:** DISA can leverage the Cloud for Enhanced Warfighter Capabilities, specifically through the Joint Warfighting Cloud Capability (JWCC) program. This program is significant because it provides the DoD with direct access to multiple Cloud Service Providers (CSPs) to acquire commercial cloud capabilities and services at mission spe – at all classification levels, from headquarters to the tactical edge. DISA plans provide for a strategy to aggressively leverage JWCC to transition legacy systems and applications to the cloud. This transition will allow us to decommission outdated infrastructure, improve cybersecurity, and significantly enhance data accessibility for warfighters in the field.
- **Risk and Mitigation:** There is an increasing workload on DISA's existing data centers. This is driven by growing data volumes, new technologies, and the need to support increasingly complex mission requirements. To mitigate this risk, DISA is actively working to reduce its data center footprint through cloud migration and optimization efforts. By continuing to invest in modernization and optimization, DISA aim to avoid service disruptions, maintain data integrity, and prevent increased vulnerability to cyberattacks.

Defense Health Agency's (DHA) Financial Reporting and Internal Control

- **Opportunity:** Under the leadership of the Assistant Secretary of War for Health Affairs (ASW(HA)), the Defense Health Program (DHP) enterprise has an opportunity to continue to strengthen its financial reporting procedures. During FY 2025, DHA strengthened its financial reporting procedures and internal control environment, directly contributing to the Department's vital financial statement audit objectives. This year witnessed pivotal breakthroughs, including the successful remediation of the long-standing DHP Fund Balance with Treasury scope limitation – a critical milestone that unlocks greater financial transparency. For the first time ever, the DHP successfully withstood rigorous audit testing of revenue generated from Medicare-eligible retiree medical encounters, demonstrating a new level of financial maturity.
- **Risk and Mitigation:** Further bolstering its audit posture, the DHP resolved a long-standing deficiency in civilian payroll reconciliation and oversight procedures, eliminating a persistent source of risk. Underscoring its commitment to innovative healthcare research, the U.S. Army Medical Research and Development Command flawlessly supported audit testing of DHP funds awarded through grants and cooperative agreements, proving the robust internal controls and consistent compliance now embedded within the DHP enterprise's grant program. These achievements, while not exhaustive, represent a monumental leap forward in addressing prior-year audit findings, enhancing audit readiness, and positioning the DHP enterprise for continued audit success – a testament to ASW(HA)'s unwavering dedication to transparency and responsible stewardship of taxpayer dollars.

DTRA's Strategic Environment

- **Opportunity:** DTRA has the opportunity to improve the efficiency and effectiveness of agency-wide capabilities and further enhance DTRA's reach across the Indo-Pacific. DTRA can strengthen Countering Weapon of Mass Destruction Cooperation, Interoperability, and Posture by shaping capacity-building efforts that reinforce networks with Allies and partners that prevent and deter threat actors from acquiring, using or proliferating WMD materials, expertise, and delivery systems.
- **Risk and Mitigation:** One of the biggest threats include the China's unprecedented military buildup and its intent to seize control of the Indo-Pacific. To meet these challenges, DTRA will develop a deeper partnership and presence with the Commonwealth of Australia, focused on enhanced operational and exercise support, expanded research and development, technical information sharing, and coordinated regional partner engagements. In addition, the agency will continue to evaluate its forward posture to rebalance between embedded and reach back capabilities and deepen its partnership with the United States Strategic Command in light of growing nuclear risks from state actors.

DeCA's Discount Savings

- **Opportunity:** DeCA has a savings that represents a 25.0 percent discount over off base competitors. Savings is DeCA's greatest strength in this time of economic uncertainty and represents our greatest opportunity for increased sales. Expanding fresh and prepared foods, offering CLICK2GO, a curbside pickup option, and improving produce are focus areas to maintain patron savings and increase sales. DeCA is also working with industry to optimize its supply chain and increase its in-stock to 98.0 percent.

USTRANSCOM Enhancing Global Mobility Capacity

- **Opportunity:** USTRANSCOM has highlighted Enhancing Global Mobility Capacity as a significant opportunity. USTRANSCOM provides the essential surface, sealift, and airlift capacity to the Total Force and is concerned with the reduction in capacity, readiness, and availability of the organic Ready Reserve Force.
- **Risk and Mitigation:** Adversaries are actively developing capabilities aimed at disrupting our mobility and sustainment operations across multiple domains. A modernized and connected sealift, airlift and air refueling fleet are required to achieve a decisive advantage. By 2032, 54.0 percent of government owned sealift ships will reach the end of their service life. To address this concern, USTRANSCOM deploys initiatives to maintain aged material and purchase used vessels from the commercial market, supporting a modern and ready fleet. USTRANSCOM is working with its DoD partners on recapitalization initiatives to enhance materiel modernization and capacity, including the production of U.S. government-owned fleet of ships, sealift tankers, and the next generation air refueling system. These efforts will enhance our readiness to rapidly respond to complex and unplanned operations while guaranteeing our transportation capabilities are ready and responsive.

Air transportation specialists from the 621st Contingency Response Wing, 621st Contingency Response Squadron offload cargo from a KC-46 Pegasus from the 157th Air Refueling Wing during exercise Turbo Distribution at Westover Air Reserve Base, Mass., March 11, 2025. (U.S. Air Force photo by Master Sgt. Tristan McIntire)

MILITARY RETIREMENT FUND

MISSION

DoD Military Retirement Fund (MRF) provides benefits for military members' retirement from active duty and the reserves, disability retirement benefits, and survivor benefits. The MRF accumulates funds to finance, on an actuarial basis, the liabilities of DoD and the U.S. Coast Guard (USCG) under military retirement and survivor benefit programs.

SIGNIFICANT CHANGES IN FINANCIAL POSITION & CONDITION

- The Federal Employee and Veterans Benefits liability increased by $244.7 billion (14.0 percent) primarily due to increases in the actuarial liability and the liability for benefits due and payable. The actuarial liability is adjusted at the end of the fiscal year based on revised actuarial assumptions, plan amendments, and experience.
- Net Change in Cumulative Results of Operations increased by $43.5 billion (349.4 percent) primarily due to losses/gains from Actuarial Assumptions Changes as it increased by $55.8 billion (53.0 percent). The Earned Revenues increased by $11.3 billion (4.0 percent) primarily due to an increase in Interest Revenue of $6.2 billion. In addition, there was an increase in the contributions from Department of Treasury and Services for total of $5.1 billion in FY 2025.

KEY PERFORMANCE RESULTS

MRF's key performance measures include Benefits to Military Retirees and Survivors, Intra-Governmental Securities and Federal Employees and Veteran Benefits.

Benefits to Military Retirees and Survivors performance measure represent the total benefits paid to the military retirees and annuitants during the fiscal year. MRF paid approximately $80.5 billion in FY 2025 compared to approximately $72.2 billion in FY 2024.

Intra-Governmental Securities was $1.8 trillion in FY 2025 which represents a large portion of DoD's assets. The performance measure represents the total balance of the assets invested with U.S. Treasury. The investments are a portfolio of Treasury securities including bonds, notes, and Treasury Inflation Protection Securities. The growth in the total intra-governmental securities is primarily due to U.S. Treasury and Military Service contributions.

Federal Employees and Veteran Benefits payable was $3.1 trillion in FY 2025. The performance measure represents the actuarial liability, liability for benefits due and payable to the retirees and annuitants.

CIVIL WORKS

MISSION

The United States Army Corps of Engineers (USACE) has a multifaceted mission that supports both national defense and civil infrastructure. The USACE Civil Works (USACE-CW) mission supports three main areas: (1) Commercial Navigation; (2) Flood and Storm Damage Reduction; and (3) Aquatic Ecosystem Restoration.

SIGNIFICANT CHANGES IN FINANCIAL POSITION & CONDITION

Intragovernmental Accounts Receivable increased by $197.4 million (20.7 percent) primarily due to disaster relief efforts for hurricane Helene in North Carolina, and the California Wildfires and Straight-line Winds. The majority of this activity and the corresponding receivables increase occurred in FY 2025.

KEY PERFORMANCE RESULTS

Civil Works's key performance measures include: Disaster Events Response and the Federal Emergency Management Agency (FEMA).

Disaster Events Response performance measure represents the response to disaster events. In FY 2025, the USACE responded to 39 new disaster events providing critical support to Federal, State, Local, Territorial, and Tribal partners facing severe weather, flooding, and coastal storms. Nationwide, more than 5,000 USACE personnel either deployed to affected areas or offered reach-back expertise to bolster response efforts. The Corps utilized over $8.6 million in Flood Control and Coastal Emergencies (FCCE) funding to address a wide range of incidents, including three named storms — two of which were hurricanes — a glacial outburst in Alaska, atmospheric river conditions in the Pacific Northwest, major flooding along the Lower Mississippi River, and historic flood levels in Central Texas.

FEMA's performance measure represents mission assignments for emergency response. FEMA allocated approximately $3.9 billion for 89 mission assignments, primarily focused on debris removal following wildfires in Southern California and continued recovery operations related to Hurricane Helene. Under its Civil Works authorities, USACE also leveraged National Emergency Preparedness Program funds to support response efforts following an aviation disaster on the Potomac River in Washington District of Columbia (D.C.), where the Corps collaborated with other federal agencies to remove wreckage obstructing the navigation channel.

SIGNIFICANT RISKS

Maintain the Reliability of Principal Inland Waterways and Coastal Ports

- **Risk and Mitigation:** Many of the locks and dams on the inland waterways are beyond their design life and therefore require increased maintenance or will require rehabilitation to keep them functioning. Additionally, the unit price of dredging for coastal port improvements has increased in recent years, primarily driven by fuel, steel, and labor costs. Many recently completed channel improvement projects are experiencing increased maintenance dredging requirements, further adding to programmatic cost growth. Environmental requirements and dredging windows impact dredging demand at times, increasing the costs of channel dredging.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

STATEMENT OF ASSURANCE

December 18, 2025

The Department of War (DoW) assessed the effectiveness of internal controls over financial reporting and operations in accordance with section 3512(d)(2) of Title 31, U.S. Code (commonly referred to as section 2 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA)) and Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, as of September 30, 2025, the Department is unable to provide assurance over the effectiveness of internal controls in place to support reliable financial reporting with applicable laws and regulations.

The Department's management identified 69 internal controls over reporting financial reporting material weaknesses across the following 22 areas:

- Entity Level Controls
- Fund Balance with Treasury
- Financial Reporting Compilation – Beginning Balance
- Financial Reporting Compilation – DoD-wide Oversight and Monitoring
- Financial Reporting Compilation – Budgetary Resources
- Financial Reporting Compilation – Earned Revenue
- Financial Reporting Compilation – Reconciliation of Net Cost of Operation to Outlays
- Financial Reporting Compilation – Service Organization
- Financial Reporting Compilation – Universe of Transactions
- Financial Reporting Compilation – Unsupported Accounting Adjustment
- Financial Reporting Compilation – Gross Cost
- Financial Reporting Compilation – Leases
- Accounts Payable – Contract / Vendor Pay
- Accounts Payable – Healthcare Liabilities
- Intradepartmental Eliminations and Intragovernmental Transactions (includes Reimbursable Work Orders)
- Inventory
- Operating Materials & Supplies
- General Property, Plant, & Equipment
- Joint Strike Fighter Program
- Real Property Assets
- Environmental and Disposal Liabilities
- Property in the Possession of Contractors

The Department assessed the effectiveness of internal controls over reporting operations in accordance with FMFIA section 2 and OMB Circular No. A 123. Based on this assessment, as of September 30, 2025, the Department provides modified assurance over the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations. The Department's management identified 39 material weaknesses across the following 9 assessable units:

- Acquisition
- Communications
- Comptroller and Resource Management
- Contract Administration
- Financial Management Systems Modernization
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Personnel and Organizational Management
- Support Services

The Department assessed the compliance of DoW financial management systems in accordance with title 31, U.S. Code, section 3512(d)(2)(B), (commonly referred to as FMFIA section 4); section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA); and OMB Circular No. A 123, Appendix D. Based on this assessment, as of September 30, 2025 the Department is unable to provide assurance DoW financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger at the transaction level.

Management will continue to conduct annual assessments of controls to reduce risks, including fraud risk and risk of not achieving an entity's objectives related to operations, financial reporting, financial systems, and compliance. The Department remains committed towards financial excellence and improving upon its ability to provide accurate and reliable financial and managerial information to support reporting objectives.

Pete Hegseth

MANAGEMENT ASSURANCES

The Department established a tone of the top with a focus on maintaining integrity and accountability in all programs and operations to demonstrate consistent responsible stewardship of taxpayer dollars. The Department's commitment to integrity, ethical values, and an effective system of internal controls helps ensure those in the service to the country and civilian workforce remain dedicated to defending the Constitution and are guardians of nation's largest discretionary budget. The Department has implemented a Risk Management and Internal Control Program (RMIC) to ensure:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations,
- Reliability of reporting for internal and external use, and
- Focus on audit remediation and improvement.

The Federal Managers' Financial Integrity Act of 1982 (*FMFIA*) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. In accordance with OMB *Circular No. A-123*, Management's Responsibility for Enterprise Risk Management and Internal Control and Government Accountability Office (GAO) Standards for Internal Control in the Federal Government ("*Green Book*"), the Department continually strives to integrate proactive risk management and effective internal controls into its business activities. The Department conducted its assessment of risk and internal controls, and despite continuous efforts to resolve outstanding material weaknesses, the Department is unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting and compliance, and provides modified assurance over the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations.

The Federal Financial Management Improvement Act (*FFMIA*) requires Federal Agencies to implement and maintain financial management systems in substantial compliance with federal financial management requirements, federal accounting standards and the United States Standard General Ledger. The Department is unable to provide assurance DoD financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger at the transaction level for FY 2025.

Based on the Department's evaluation, it was concluded as of September 30, 2025, Internal Control Over Reporting – Financial Reporting (ICOR-FR) was not effective because of 69 conditions across 22 areas, ICOR-operations was not effective because of 42 conditions across 11 assessable units, and ICOR-FS was not effective because of 3 conditions across 3 assessable units. The Department continues remediation efforts to address Independent Public Accountant and self-identified material weaknesses.

A U.S. Air Force F-15E Strike Eagle prepares to refuel while flying over the U.S. Central Command area of responsibility, Feb. 18, 2025. (U.S. Air Force photo by Staff Sgt. William Rio Rosado)

SYSTEMS COMPLIANCE AND STRATEGY

The Department continues transformation efforts to streamline and modernize its financial systems environment for enhanced mission effectiveness and auditability. Modernization and improved interoperability of DoD business systems are critical to efficiently respond to warfighter needs, sustain public confidence in the Department's stewardship of taxpayer funds, and support the path to full auditability. Efforts include capturing additional opportunities for consolidation and ensuring enduring systems are compliant with Federal Financial Management Improvement Act of 1996 (*FFMIA*) and Federal Information Security Modernization Act (*FISMA*) requirements. These efforts were further illuminated in Section 5 of *Executive Order 14249*, "*Protecting America's Bank Account Against Fraud, Waste, and Abuse*". This executive order directs consolidation of core financial systems, directs using standard financial management solutions available through the Financial Management Marketplace, administered by the Financial Management Quality Service Management Office, and directs compliance with Federal accounting and financial reporting standards and relevant regulations, orders, guidance documents, policy statements, and other agency actions published by the Department of the Treasury.

In accordance with Title *10 U.S.C. §240g*, the Department submitted an updated Defense Business Systems (DBS) Audit Remediation Plan to the Congress in July 2025. The plan provided a current account of DBS being introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. The plan established a strategy that:

- Captures in-service, retirement, and other pertinent dates for affected DBS;
- Provides current cost-to-complete estimates for each affected DBS; and,
- Documents dependencies among the various DBS and the introduction, replacement, update, modification, and retirement of such systems.

Since June 2024, the DoD retired 6 systems from the portfolio and removed 19 systems from the inventory list. From FY 2025 to FY 2027, the DoD plans to retire another 39 ICOR-FR relevant systems, equating to 15.0 percent of the inventory. In FY 2025, the Department's migrated capability and/or financial information to enduring financial management systems and retired outdated systems, further simplifying the financial management systems environment. This progress is continually updated and reported through the DBS Audit Remediation Plans provided to Congress.

In accordance with Title *31 U.S.C. §3512 SEC 803*, the Department reported the results of its enduring core financial systems level of compliance with the FFMIA requirements to the Defense Business Council, as required by Title *10 U.S.C. §2222* and consistent with *Office of Management and Budget (OMB) Circular No. A-123*, *Appendix D*. Federal Financial Management System Requirements, Applicable Federal Accounting Standards, and U. S. Standard General Ledger at the transaction level:

- Federal Financial Management System Requirements,
- Applicable Federal Accounting Standards, and,
- U. S. Standard General Ledger at the transaction level.

In FY 2025, Components continue to demonstrate progress to bring systems into substantial compliance with applicable FFMIA requirements. Additional information is provided in the Other Information FMFIA Section 4 of this agency financial report.

LEGAL COMPLIANCE

Antideficiency Act

The Antideficiency Act (ADA), which is codified in *31 U.S.C. §§1341(a)(1)*, *1342*, and *1517(a)*, stipulates that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation, or fund, or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amounts permitted by a regulation prescribed for the administrative control of an appropriation. An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (e.g., suspension from duty without pay or removal from office) or penal sanctions (e.g., fines or imprisonment).

In keeping with the reporting requirements for violations of the Act under *31 U.S.C. §1351*, the Department reports confirmed ADA violations to the President through the Director of the OMB, the Congress, and the Comptroller General of the United States.

During FY 2025, the Department confirmed two cases involving purpose statute violations. The Department allowed the Reserved National Guard units of the States and Territories, including the District of Columbia, to make or authorize bonus and retention obligations without being constrained by funding limitations. In addition, the Department also transferred funds for non-specific repair projects and "parked" the funds for later use as projects became identified and definitized. These two cases resulted in ADA violations of Title *31 U.S.C. 1341(a)(1)(A)*. The Department has corrective action plans to address the violations and is committed to their prompt resolution. For further information, please review *https://www.gao.gov/legal/appropriations-law/resources*.

Further information about the Department's reported ADA violations and remedial actions taken are included in GAO's annual compilation of *Antideficiency Act Reports*.

A Soldier assigned to Bayonet Company, 1st Battalion, 5th Infantry Regiment, 1st Infantry Brigade Combat Team, 11th Airborne Division, provides cover for an Indian Army Soldier, under the command of Col. Yash Agrawal, assigned to the 4/8 Gurkha Rifles Infantry Battalion, 91st Infantry Brigade, during Exercise Tiger Triumph near Visakhapatnam, India, April 3, 2025. (U.S. Army photo by 1st Sgt. James Tomlinson)

U.S. Navy Aviation Boatswain's Mate (Handling) 3rd Class Elyjah Currie signals to a U.S. Marine Corps CH-53E Super Stallion, assigned to Marine Heavy Helicopter Squadron (HMH) 462, Marine Aircraft Group 16, 3rd Marine Aircraft Wing, on the flight deck of amphibious transport dock ship USS Somerset (LPD 25) as part of the Quarterly Underway Amphibious Readiness Training 25.2 off the coast of Marine Corps Base Camp Pendleton, California, March 5, 2025. (U.S. Navy photo by Mass Communication Specialist 2nd Class Nettie Mae Manfull)

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (DATA Act) empowers the American public with unprecedented access to financial data through USAspending.gov to track what the federal government spends on contracts and financial assistance awards—the source, recipients, and beneficiaries. This landmark legislation expanded upon the *Federal Funding Accountability and Transparency Act of 2006* (FFATA), demanding a higher standard for public reporting. This results in agencies across the federal government being held accountable for the completeness, accuracy, and timeliness of reported information. The DATA Act doesn't just reveal the amount of funding a department receives, it also sheds light on the sources of funding—such as appropriations, transfers, and carry-forward balances—and how it's allocated and spent, down to specific contract and financial assistance awards.

The increasing emphasis on open data has united stakeholders across federal agencies in pursuit of a common goal: producing high-quality spending data while safeguarding classified information critical to operational security. Each month, the Department publishes appropriation, obligation, and outlay data to USAspending.gov, ensuring taxpayers have a clear view of how their money is distributed. On a quarterly basis, additional spending and award data reveal details about specific contracts and financial assistance initiatives. As of June 2025, the Department certified the alignment of over $15.6 billion across more than 951,795 active awards, reinforcing its commitment to transparency while protecting sensitive information.

The impact of open spending data extends far beyond numbers—it fuels accountability, informs policy decisions, and fosters public trust. As technology evolves, the ability to refine, visualize, and interpret government spending will only strengthen. The path forward continues to balance transparency with security, ensuring that every taxpayer has the right to understand how federal dollars shape the nation's future.

U.S. Marines and Sailors with Combat Logistics Battalion 6, Combat Logistics Regiment 2, 2nd Marine Logistics Group, and 1st Battalion, 6th Marine Regiment, 2d Marine Division, hike as part of a tactical exercise during Mountain Training Exercise 2-25 at Marine Corps Mountain Warfare Training Center Bridgeport, California, March 3, 2025. (U.S. Marine Corps photo by Sgt. Mary Torres)

Payment Integrity Information Act

In accordance with the Payment Integrity Information Act of 2019 (PIIA) and OMB Circular No. A-123, Appendix C, the Department is required to report the status and recovery of improper and unknown payments to the President and Congress. In FY 2024, the Department did not fully comply with two of the six PIIA compliance requirements; specifically, conducting adequate risk assessments and publishing reliable improper and unknown payment estimates. While the Department did not fully comply with the PIIA compliance requirements at an individual program level, the Department increased PIIA compliance from 50.0 percent in FY 2023 to 79.0 percent in FY 2024.

In FY 2025, the Department reported 41 programs in Phase 1. Of those, 15 programs conducted improper payment risk assessments, 13 resulted in a determination that they were not likely to be susceptible to significant improper and unknown payments, and two programs were determined to be highly susceptible to significant improper payments. The remaining programs are adhering to their Phase 1 risk assessment timeline and will adhere to the three-year reporting cycle requirement.

The Department reported Phase 2 improper and unknown payment estimates for six programs in FY 2025. Due to the previous larger programs being restructured within the Payment Integrity portfolio with the intent to target high risk payment populations and drive DoD Component accountability, three of the six Phase 2 programs exceeded the 10.0 percent PIIA compliance criteria. Extensive corrective action plans have been developed and will be implemented in FY 2026 to reduce the improper and unknown payments. It is important to note that the largest contributing factor to exceeding the statutory threshold is attributed to technically improper payments where the right person or entity was paid the correct amount, but the payment process did not adhere strictly to regulatory or statutory requirements, such as missing a valid signature on the key supporting documentation.

The Department continues to demonstrate progress toward achieving all the PIIA compliance measures evaluated in the annual DoD Office of Inspector General (OIG) review of the Department's Payment Integrity portfolio. The Phase 1 classification of low-risk programs and the targeted focus of high-risk Phase 2 programs has allowed the Department to adopt a more granular approach to identifying the causes of improper payments, resulting in improved decision-making, more efficient allocation of resources, and the establishment of controls and processes to prevent and recover improper payments. These proactive measures to address challenges and augment financial stewardship capabilities reinforces the Department's steadfast dedication to achieving compliance with the requirements of the PIIA.

Preventing and recovering improper payments are among the top financial management priorities of the Department. See the *Other Information* section and the PaymentAccuracy.gov website for additional information on the results of the Department's payment recovery audit program.

Prompt Payment Act

The *Prompt Payment Act* requires federal agencies to pay vendors timely and pay interest penalties when payments are issued past their due dates. The Department complies with the Prompt Payment Act when applicable by statute, regulation, and within the terms of the contract. Defense Finance and Accounting Service (DFAS) is responsible for consolidating interest data for the Department; however, each DoD Component is responsible for capturing, validating, and explaining the results of their data. Established metrics are used to track payment timeliness and interest penalties for late payments.

The Department's goal is to average $90.00 or less in interest paid per million (IPPM) Prompt Payment Act dollars disbursed on a monthly basis across all applicable contracts. For FY 2025, the average interest paid per million Prompt Payment Act dollars disbursed on a monthly basis was $118.90, which represents a $13.62 increase from the average interest paid per million Prompt Payment Act dollars disbursed on a monthly basis in FY 2024. The Department continues to have recurring challenges, such as invoices without receiving reports, late and insufficient obligation posting, system migrations, prevalidation matching errors, and instant overage. These recurring challenges attribute to a large portion of IPPM and continue to have significant impacts as volume increases. Corrective actions focus on concentrated efforts to prioritize and clear the inventory of overaged invoices, reduce manual payments, and continued efforts to migrate from legacy to ERP systems.

The Department's Procure-to-Pay (P2P) process encompasses all business functions necessary to obtain goods and services through the execution of procurement processes and procedures, including procurement requirements, strategy, award management, receipt and acceptance, entitlement, disbursement, and closeout. This process continues to be modernized, through the standardization of electronic data interchange, or "handshakes." These efforts will improve the interoperability and integrity of the end-to-end P2P process, lead to more timely actions overall, and assist in reducing the number of late payments by the Department.

NASA astronaut and Space Force Col. Nick Hague is helped out of a SpaceX Dragon spacecraft onboard the SpaceX recovery ship MEGAN after he, fellow astronauts Suni Williams and Butch Wilmore, and Roscosmos cosmonaut Aleksandr Gorbunov landed in the water off the coast of Tallahassee, Fla., March 18, 2025. (U.S. Air Force photo courtesy of NASA by Keegan Barber)