





02 FINANCIAL SECTION (UNAUDITED)

The Financial Section provides detailed information regarding the Department's financial position, financial condition, and results of operations.

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Alaska Army National Guardsmen, assigned to Detachment 2, Charlie Company, 3-140th Security and Support Battalion, guide a UH-72A Lakota light utility helicopter while loading it onto an Alaska Air National Guard C-17 Globemaster III at Joint Base Elmendorf-Richardson, Alaska, Oct. 11, 2024. (Alaska National Guard photo by Alejandro Peña)

Top Left:

U.S. Marines with the 15th Marine Expeditionary Unit fast-rope onto the flight deck of the amphibious assault ship USS Boxer (LHD 4) during an air power demonstration as part of a Tiger Cruise aboard Boxer in the Pacific Ocean, Nov. 16, 2024. (U.S. Marine Corps photo by Sgt. Amelia Kang)

Left:

Damage Controlman Fireman Gavin Davies, from Anza, California, left, and Damage Controlman 1st Class Sammy Cohen, from Antioch, California, connect hoses aboard the Arleigh Burke-class guided-missile destroyer USS Milius (DDG 69) in the South China Sea, Feb. 26, 2025. (U.S. Navy photo by Mass Communication Specialist 3rd Class Trevor Hale)



MESSAGE FROM THE UNDER SECRETARY OF WAR (COMPTROLLER)/CHIEF FINANCIAL OFFICER

December 18, 2025

The result of the Fiscal Year (FY) 2025 year-end audit reaffirms the Department of War's (DoW) commitment to responsible financial stewardship. At the heart of our mission lies the protection of our nation and its interests, and we recognize that effective financial management is integral to achieving that goal.

This year's audit cycle has provided us with a crucial opportunity to critically examine our financial processes, identify areas for improvement, and implement reforms that will enhance our accountability and transparency.

These efforts are not just a compliance exercise. They are an opportunity to strengthen our financial systems and processes, improve decision-making, and to ensure that we are equipped to meet the evolving challenges of the 21st century. We understand that every dollar entrusted to us is a dollar earned by the American taxpayer.

For FY 2025, we have seen measurable audit outcomes that demonstrate our efforts are yielding tangible results. We maintained existing audit opinions and successfully closed one material weakness and consolidated another across the Department. Additionally, we have implemented new controls and systems to enhance our stewardship of taxpayer dollars, using audit findings to drive reforms, technology upgrades, and process improvements across various areas.

Our commitment extends beyond addressing immediate audit findings. While we made significant progress in FY 2025, the Department of War will not reach its goal of achieving a clean financial statement audit without a significant acceleration of its efforts. We will change the trajectory in FY 2026 to rapidly address longstanding issues through a revised strategy and approach.

We recognize that achieving our financial management goals requires a collaborative effort across the entire Department. We are committed to working closely with Congress, our federal and industry partners, and our military and civilian personnel to achieve our shared objectives. By working together, we will strengthen the DoW's financial management capabilities and ensure that we are able to effectively support our national security mission.

Finally, I want to express my sincere gratitude to the men and women of the DoW, both military and civilian, who dedicate themselves to safeguarding our nation and ensuring the responsible stewardship of taxpayer dollars. Your hard work and dedication are essential to our success, and I am proud to serve with each and every one of you.

Thank you for all that you do.

A handwritten signature in black ink that reads "Jules W. Hurst III".

Jules W. Hurst III

Performing the Duties of the Under Secretary of
War (Comptroller)/Chief Financial Officer



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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

December 18, 2025

MEMORANDUM FOR SECRETARY OF WAR

**UNDER SECRETARY OF WAR (COMPTROLLER)/CHIEF
FINANCIAL OFFICER OF THE DEPARTMENT OF WAR**

SUBJECT: Independent Auditor's Reports on the DoD FY 2025 Financial Statements
(Project No. D2025-D000FV-0064.000, Report No. DODIG-2026-032)

We are providing the subject Independent Auditor's Reports to be published in the DoD FY 2025 Agency Financial Report. Our reports are issued to accompany the DoD Agency-Wide Financial Statements as of the fiscal year ended September 30, 2025.

This audit report fulfills the DoD Office of Inspector General (DoD OIG) requirement to audit the DoD Agency-Wide Financial Statements, as outlined in section 3521, title 31, United States Code. It is supported by Component audit reports developed by independent public accounting firms. We participate in the selection of these firms and monitor them, as outlined in section 240, title 10, United States Code.

We conducted our group audit in accordance with generally accepted government auditing standards; Office of Management and Budget Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."¹ Our attached Independent Auditor's Reports consist of:

- Report on the Financial Statements;
- Report on Internal Control over Financial Reporting; and
- Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

Our audit consolidated the results of: (1) audits of the Military Services and other significant DoD Components, and (2) audit procedures we conducted over balances for DoD Components that were not under audit by an independent public accounting firm.

¹ Government Accountability Office GAO-21-368G, "Government Auditing Standards," April 2021.

Office of Management and Budget Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.

Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.



Material weaknesses identified at the DoD Component level combined with materials weaknesses identified at the DoD level led to a disclaimer of opinion.

The Report on Internal Control over Financial Reporting includes a description of 26 material weaknesses and 2 significant deficiencies related to the DoD's internal controls over financial reporting.² In that report, we consolidated the FY 2024 Beginning Balances material weakness into other FY 2025 financial statement material weaknesses to align with specific deficiencies, such as the Fund Balance with Treasury. This change provides greater specificity and transparency into areas in which the DoD and its Components must improve their financial management. The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements includes a description of five instances of noncompliance.

To foster transparency and provide insight into these reports, the DoD OIG will issue its annual report on understanding the results of the DoD financial statement audit. The report will provide a plain language explanation of the results of the audit and specify the entities that contribute to each material weakness. Additionally, the DoD OIG will add to its website metrics related to the DoD's financial statement audit performance.

Sound financial management is the responsibility of management at every level in the Department. Reliable financial statements provide better information for decision makers and promote responsible stewardship of taxpayer dollars. Effective internal controls help ensure accurate and reliable information for key areas that affect operational readiness, such as the availability of assets and funds.

We appreciate the cooperation and assistance received during the audit and look forward to continuing our work in this critically important area. The Inspector General Act, as amended, requires OIGs to post their reports on their website. Accordingly, this report will be posted at <https://www.dodig.mil>.



Steven A. Stebbins
Acting

² A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

**OFFICE OF INSPECTOR GENERAL****DEPARTMENT OF DEFENSE**

4800 MARK CENTER DRIVE

ALEXANDRIA, VIRGINIA 22350-1500

December 18, 2025

Report on the Financial Statements***Disclaimer of Opinion***

The DoD Agency-Wide Financial Statements include the Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures in the DoD Agency Financial Report. These statements are referred to as the financial statements in this report. We were engaged to audit the financial statements as of and for the fiscal year ended September 30, 2025, as required by the Chief Financial Officers Act of 1990, and in accordance with Office of Management Budget (OMB) guidance requiring single-year presentation.¹ The resulting audit report fulfills the DoD Office of Inspector General requirement to audit the DoD Agency-Wide Financial Statements, as outlined in section 3521, title 31 United States Code.

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of this report, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on the accompanying financial statements. Thus, the financial statements may contain undetected misstatements that are both material and pervasive.

Basis for Disclaimer of Opinion

As the group auditor for the DoD Agency Financial Report, the OIG is responsible for performing the audit of the DoD Agency Financial Report and overseeing the financial statement audits of significant DoD Components, such as the Military Services. The OIG used the results from that audit work to form an opinion on the DoD Agency Financial Report.

¹ Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.

Office of Management and Budget, Circular A-136, "Financial Reporting Requirements," July 2025.



Independent public accounting firms that were engaged to perform financial statement audits issued disclaimers of opinion for the following DoD reporting entities:²

- Department of the Army General Fund
- Department of the Army Working Capital Fund
- U.S. Navy General Fund
- Department of the Air Force General Fund
- Department of the Air Force Working Capital Fund
- U.S. Transportation Command Transportation Working Capital Fund
- Defense Intelligence Agency
- National Geospatial-Intelligence Agency
- Defense Health Program General Fund
- Defense Information Systems Agency General Fund
- Defense Logistics Agency Working Capital Fund

The DoD reporting entities that received disclaimers of opinion on their financial statements, when combined, account for at least 43 percent of the DoD's total assets and at least 64 percent of the DoD's total budgetary resources. These combined balances are material to the Agency-Wide Financial Statements.

Additionally, we identified the following material misstatements during our audit.

- Building Partner Capacity programs are a means by which the DoD uses its own appropriations to build the capacity and capabilities of partner-nation security forces. To fulfill the missions of these programs, Congress appropriates funding to the DoD.³ However, the DoD did not accurately report the status of that funding in the Agency-Wide Financial Statements. The DoD

² A DoD Component is a Military Department, Defense agency, DoD field activity, combatant command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency General Fund. As of the date of this audit report, the Agency Financial Reports for the U.S. Marine Corps and Defense Logistics Agency Stockpile Transaction Fund have not been published. In addition, the Department of the Navy Working Capital Fund will not publish an Agency Financial Report in FY 2025, as it is under a 2-year audit cycle. As a result, we were unable to confirm the accuracy or consider amounts or disclosures directly attributed to those reporting entities.

³ While some Building Partner Capacity programs are funded with non-DoD appropriations, we included only DoD appropriations in the misstatement amounts discussed in this report.

transferred some of this funding to a trust fund account for the future purchase of goods and services. The DoD recorded the funding as spent when it transferred the funds, instead of when goods or services were purchased for the partner nation. This accounting treatment resulted in an \$18.9 billion material misstatement in the amount of Building Partner Capacity funding on the Agency-Wide Financial Statements, which is reported in the DoD-Wide Oversight and Monitoring material weakness in our Report on Internal Control over Financial Reporting.

- The Joint Strike Fighter Program is a multiservice, multinational acquisition to develop and field strike fighter aircraft for the Departments of the Navy and Air Force, the Marine Corps, and international partners. However, DoD management did not account for or report Global Spares Pool assets for the Joint Strike Fighter Program in the Agency-Wide Financial Statements, as required by OMB Circular No. A-136 and Statements of Federal Financial Accounting Standards (SFFAS) 3 and 6.⁴ This omission resulted in a material misstatement in the DoD's assets on the Agency-Wide Financial Statements. Because the DoD is unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Global Spares Pool assets for the Joint Strike Fighter Program, we could not quantify the material misstatement in the DoD's assets on the Agency-Wide Financial Statements. We report on this matter in the Joint Strike Fighter Program material weakness identified within our Report on Internal Control over Financial Reporting.

We considered the matters described previously as a scope limitation in forming our conclusions on the financial statements. As a result, our work may not have identified all issues that could affect the financial statements.

Other Matters

DoD management referenced information on websites or other forms of interactive data within the Agency Financial Report. This information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. As a result, this information was not subjected to our audit

⁴ OMB Circular No. A-136, "Financial Reporting Requirements," July 2025.

Federal Accounting Standards Advisory Board (FASAB), SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

FASAB, SFFAS No. 6, "Accounting for Property, Plant, and Equipment, November 1995.



procedures. Accordingly, we do not express an opinion or provide any assurance on the websites, data, or information referred to on these websites, or other forms of interactive data included in the Agency Financial Report.

Management's Responsibility for the Agency Financial Report

DoD management is responsible for the Agency Financial Report. Specifically, management is responsible for: (1) preparing financial statements that conform with generally accepted accounting principles; (2) preparing, measuring, and presenting the Required Supplementary Information, which includes the Management's Discussion and Analysis, in accordance with generally accepted accounting principles; and (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Agency Financial Report

Our responsibility is to express an opinion on the financial statements based on our performance of the audit, and to review the Management's Discussion and Analysis section within the Agency Financial Report in accordance with generally accepted government auditing standards (GAGAS); OMB Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."⁵ However, because of the significance of matters described in the "Basis for Disclaimer of Opinion" section, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements.

GAGAS requires that we exercise professional judgment and maintain professional skepticism throughout the audit. Additionally, GAGAS requires us to be independent of the DoD and to meet our other ethical responsibilities in accordance with the relevant ethical principles relating to our audit.

Required Supplementary Information

OMB mandates that the Required Supplementary Information, which includes Management's Discussion and Analysis, be presented in the Agency Financial Report to supplement the financial statements. The Required Supplementary Information is the

⁵ Government Accountability Office GAO-21-368G, "Government Auditing Standards," April 2021.

OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.

Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.

responsibility of management and, although not a part of the financial statements, it is required by the OMB and Federal Accounting Standards Advisory Board, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the Required Supplementary Information in accordance with GAGAS because of managements' inability to provide sufficient, appropriate evidence that led to the disclaimers outlined in the "Basis for Disclaimer of Opinion" section. Accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with GAGAS and OMB Bulletin No. 24-02, we also issued reports dated December 15, 2025, on our consideration of the DoD's internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing; it is not to provide an opinion on the effectiveness of the DoD's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 24-02 and should be considered in assessing the results of our audit.

Agency Comments

We provided a draft of this report to the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War (USW[C]/CFO) to provide a formal response; their response follows our audit reports. Government Auditing Standards require the auditor to perform limited procedures on the USW(C)/CFO's response to the findings identified during our engagement and described in the accompanying Agency Financial Report. In the USW(C)/CFO's response, they acknowledged the findings identified and



expressed their commitment to resolving critical issues. The USW(C)/CFO's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.



Lorin T. Venable, CPA

Assistant Inspector General for Audit
Financial Management and Reporting

**OFFICE OF INSPECTOR GENERAL****DEPARTMENT OF DEFENSE**

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December 18, 2025

Report on Internal Control over Financial Reporting

We conducted the audit of the DoD Agency-Wide Financial Statements, as required by the Chief Financial Officers Act of 1990, and in accordance with generally accepted government auditing standards; Office of Management and Budget (OMB) Bulletin No. 24-02; and the Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency, Financial Audit Manual.¹ The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal year ended September 30, 2025. Our Report on the Financial Statements, dated December 18, 2025, disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, which indicates we could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for: (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud, abuse, or error; and (2) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act of 1982.²

Auditors previously communicated the recommendations included in this report to DoD and DoD Component management through notices of findings and recommendations to address identified findings.³ Additionally, the recommendations included in this report

¹ GAO-21-368G, "Government Auditing Standards," April 2021.

OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.

GAO/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.

² Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.

³ A DoD Component is a Military Department, Defense agency, or DoD field activity, such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoD.



are addressed to DoD management as a whole, including functional areas such as the Office of the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War(OUSW[C]/CFO); Office of the DoW Chief Information Officer; and Office of the Under Secretary of War for Acquisition and Sustainment.

Auditor's Responsibilities

Generally accepted government auditing standards and OMB guidance require auditors to report on an entity's internal control over financial reporting. In connection with our audit of the financial statements, we considered the DoD's internal control over financial reporting when we designed audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the DoD's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing performance information and ensuring efficient operations. Additionally, as the group auditor for the DoD consolidated financial statements, we performed audit procedures at the Agency-Wide level and considered the results of the DoD reporting entities' audits to identify material weaknesses and significant deficiencies in internal control over financial reporting.⁴ Based on the scope and limitations of our work and the effects of these limitations noted throughout this audit report, we did not design our internal control work to identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that we did not identify.

Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner. Descriptions of the 26 material weaknesses we identified through our audit and our recommendations to address them are as follows.

⁴ A DoD reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

1. Financial Management Systems Modernization

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires the DoD to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (the general ledger) at the transaction level.⁵ The DoD uses thousands of systems, hundreds of which are relevant to internal controls over financial reporting. Many of these systems used to report data in the DoD Component and Agency-Wide Financial Statements did not comply with the FFMIA. For example, several general ledger systems that maintain material balances are not scheduled to retire until FY 2031, even though the DoD plans state that the DoD will correct this weakness by FY 2028. The DoD has acknowledged its noncompliance with the FFMIA since FY 2001.

Through our audit procedures, we identified that DoD management did not:

- develop and maintain systems that were FFMIA compliant, or
- have a complete and accurate list of financial management systems.

These conditions occurred because DoD management did not:

- have modernization plans for financial management systems that were aggressive enough to ensure the timely remediation of its FFMIA noncompliance, and the plans did not consistently include the adoption of all capabilities available through the DoD's existing enterprise resource planning systems;⁶
- accurately define a legacy system;⁷ or
- coordinate with DoD Components to fully understand business processes to identify all financial management systems that were relevant to internal controls over financial reporting.

⁵ Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

⁶ A modern enterprise resource planning system is a system that is capable of running all of the core business processes, such as finance, human resources, supply chain, contracting, and procurement, in one integrated system.

⁷ The Office of the Department of War Chief Information Officer defines a legacy system as a system scheduled to be retired in the next 3 years, regardless of how outdated it may be.



As a result, the DoD's failure to modernize the financial management systems environment increased the risk of the DoD not being able to produce accurate, reliable, and timely financial management information or achieve compliance with the FFMIA. This will continue to impede the ability of the DoD and its Components to achieve an unmodified audit opinion.

Recommendations

We recommended that DoD management coordinate with DoD Component management to:

- develop a comprehensive plan with detailed milestones for each DoD system to become FFMIA compliant or be retired and replaced in a timely manner;
- expedite the retirement and replacement of systems that the DoD does not intend to modernize to make the systems FFMIA compliant;
- expedite the modernization of systems that the DoD intends to continue using to make the systems FFMIA compliant;
- update the definition of a legacy system to ensure it encompasses systems that are outdated and need to be modernized or retired, regardless of when the DoD chooses to modernize or retire them;
- document and review all end-to-end business processes to identify all systems that are relevant to internal controls over financial reporting;
- develop a control to ensure the completeness and accuracy of the data used to track systems relevant to financial reporting; and
- continue to oversee and monitor the identification and retirement of noncompliant systems until the DoD is substantially compliant with the FFMIA.

2. Configuration Management

The GAO Federal Information System Controls Audit Manual states that configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. Configuration management controls are designed and implemented to prevent unauthorized or untested changes to critical information system resources and provide reasonable assurance that systems are securely configured and operate as intended.

In addition, configuration management controls are designed and implemented to provide reasonable assurance that software programs and changes to software programs go through a formal, documented systems development process that identifies all changes to the baseline configuration. System owners should authorize, document, test, and independently review system changes. This is done to reasonably assure that changes to applications are approved, work as intended, and do not result in the loss of data or program integrity. Furthermore, the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 establishes mandatory controls to protect information on Federal information systems by identifying and addressing risks related to configuration management controls.⁸

Through our audit procedures, we identified that the DoD's configuration management controls over its financial management systems at the Component level did not comply with NIST SP 800-53. Specifically, the DoD Components did not:

- develop, document, and disseminate configuration management plans and procedures to facilitate the implementation of configuration management policies;
- retain records of configuration changes to DoD Component financial management systems;
- monitor and review activities associated with configuration-controlled changes to the DoD Component financial management systems; or
- define, document, approve, and enforce physical and logical configuration access restrictions associated with changes to DoD Component financial management systems.

These conditions occurred because DoD management did not coordinate with Component management to ensure Components developed and implemented comprehensive configuration management control policies, procedures, and processes over the financial management systems affecting the Agency-Wide Financial Statements.

As a result of the lack of proper configuration management controls, the DoD increased the risk of unauthorized or inappropriate changes to the financial management systems. The identified weaknesses increased the risks of financial management systems and

⁸ NIST SP 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020.



applications not functioning as intended or reporting data that are incomplete or inaccurate in the Agency Financial Statements.

Recommendations

We recommended that DoD management work with DoD Component management to:

- review and provide feedback for improving DoD Component configuration management policies and procedures; and
- resolve previously issued Component-level configuration management deficiencies within DoD financial management systems.

3. Security Management

The GAO Federal Information System Controls Audit Manual states that security management is the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Security management programs should provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning responsibilities, and monitoring the adequacy of the entity's information system controls. Without the DoD's control environment including a well-designed security management program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. Furthermore, NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to security management controls.

Through our audit procedures, we identified that the DoD's security management controls at the Component level over its financial management systems did not comply with NIST SP 800-53. Specifically, the DoD Components did not:

- develop, document, and periodically review policies and procedures related to their financial management systems; or
- develop and update plans of actions and milestones for systems with identified weaknesses and vulnerabilities.

These conditions occurred because DoD management did not ensure the development and implementation of Component-level security management policies, procedures, and processes over Component financial management systems affecting the Agency-Wide Financial Statements.

As a result, DoD and its Components may not be able to rely on the confidentiality, integrity, and availability of data within financial management systems. The lack of security management controls increased the risk of security incidents that affect DoD financial management systems.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement processes to confirm that each financial management system has a comprehensive set of policies, plans, and procedures at the system level that is required by DoD guidance;
- review and provide feedback for improving DoD Component security management policies and procedures; and
- resolve previously issued Component-level security management deficiencies within DoD financial management systems.

4. Access Controls

The GAO Federal Information System Controls Audit Manual states that access controls limit access or detect inappropriate access to information resources, thereby protecting these resources against unauthorized modification, intentional or unintentional loss, impairment, and disclosure.⁹ NIST SP 800-53 provides a framework, required by OMB Circular No. A-130, for the DoD to establish policies and procedures to identify and address risks related to access controls.¹⁰

⁹ GAO-24-107026, "Federal Information System Controls Audit Manual," September 2024.

¹⁰ OMB Circular No. A-130, "Managing Information as a Strategic Resource," July 2016.



Through our audit procedures, we identified that the DoD's controls at the Component level over its financial management systems did not comply with NIST SP 800-53, as it relates to access controls. Specifically, the DoD Components did not consistently:

- review and monitor user access before providing additional system access or determining whether such access remained necessary for a user's job function;
- maintain systems that can generate reports that contain all applicable events, and maintain a consistent frequency of management's review of security events;¹¹ or
- remove user access from terminated and separated employees from financially significant systems in a consistent and timely manner.

These conditions occurred because DoD management did not:

- coordinate with DoD Components to ensure the development and implementation of sufficient access controls over the financial management systems affecting the Agency-Wide Financial Statements; or
- fully implement a uniform and reliable off-boarding process, such as the Identity, Credential, and Access Management solution, for terminated and separated employees across the DoD.¹²

As a result, the DoD risks allowing users to gain or retain unauthorized, excessive, or otherwise inappropriate access to DoD financial management systems. In addition, without proper event logging and review, the DoD risks being unable to promptly detect, investigate, and address unauthorized activities or errors in its financial management systems. Together, these increased the likelihood that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management work with DoD Component management to:

- ensure the enforcement of access controls related to user account statuses, access reviews, privileged user functions, event logging, and application activity;

¹¹ An event is an observable occurrence in a system. Event types include password changes, failed logons or failed accesses related to systems, security or privacy attribute changes, administrative privilege usage, PIV credential usage, data action changes, query parameters, or external credential usage.

¹² Identity, Credential, and Access Management is a set of systems that are the DoD's solution to centrally monitor, manage, secure, and audit user identity, access, and authorization across DoD Components.

- establish, implement, and monitor a baseline frequency of how often user accounts in financial management systems should be reviewed;
- create a DoD standard to define the time period for revoking a terminated or separated user's access to help facilitate a timely and uniform removal process; and
- monitor the continued implementation of the Identity, Credential, and Access Management solution to ensure it stays on schedule and any challenges are addressed in a timely manner.

5. Segregation of Duties

NIST SP 800-53 states that Segregation of Duties (SoD) addresses the potential for abuse of authorized privileges and helps to reduce the risk of malicious activity without collusion. NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to SoD. Additionally, the GAO Federal Information System Controls Audit Manual states that SoD includes policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations, thereby preventing unauthorized actions or unauthorized access to assets or records. SoD involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective SoD split responsibilities between two or more individuals or organizational units. In addition, dividing duties this way establishes controls that reduce the likelihood that errors and wrongful acts will go undetected.

Through our audit procedures, we identified that the DoD's controls at the Component level over its financial management systems did not comply with NIST SP 800-53 guidance, as it relates to SoD. Specifically, the DoD Components did not:

- identify and document SoD at an organizational level;
- define system access authorizations to align with segregated duties;
- define and document types of user accounts and account privilege;
- ensure system owners adhered to the least privilege principle within DoD Component financial management systems;¹³ or

¹³ Least privilege, as defined in the NIST SP800-53, is the principle that a security architecture should be designed so that each entity is granted the minimum system resources and authorizations needed to perform its function.



- review accounts at an organizationally defined frequency for compliance with account management requirements.

These conditions occurred because DoD Components did not develop and implement comprehensive SoD controls over their financial management systems that affect the Agency-Wide Financial Statements.

As a result, DoD financial management system users may have had inappropriate access to critical systems and may have been able to implement changes affecting the DoD financial management systems. This increased the risk of security incidents within the systems. Additionally, there was increased risk of inaccurate, invalid, or unauthorized transactions being processed. Without adhering to the least privilege principle, system users may have compromised the confidentiality and integrity of DoD financial management systems.

Recommendations

We recommended that DoD management work with DoD Component management to:

- ensure the enforcement of SoD controls related to defining incompatible duties, segregating incompatible duties, establishing a minimum frequency of periodic reviews, and employing the least privilege principle;
- review and provide feedback for improving DoD Component SoD policies and procedures, once implemented; and
- resolve previously issued Component-level SoD deficiencies within DoD financial managements systems.

6. Interface Controls

The GAO Federal Information System Controls Audit Manual states that interface controls are those controls over the timely, accurate, and complete exchange of information between systems and applications on an ongoing basis, and complete and accurate migration of clean data during conversion. Interfaces are periodic and recurring, and interface controls may be performed manually or automated and may be scheduled or event driven. NIST SP 800-53 provides a framework, required by OMB Circular No. A-130, for the DoD to establish policies and procedures to identify and address risks related to interface controls.

Through our audit procedures, we identified that the DoD's interface controls at the Component level over its financial management systems did not comply with NIST SP 800-53. Specifically, the DoD Components did not:

- document the minimum requirements for establishing, designing, maintaining, tracking, and terminating information exchanges;
- determine a complete and accurate population of interface edits and validations and identify, review, and remediate errors in a timely manner; or
- maintain a complete and accurate population of interface processing results and errors.

These conditions occurred because DoD management did not coordinate with its Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that included sufficient interface controls to ensure data transmitted to interface files are reconciled, all interface file errors are logged, and errors are resolved in a timely manner.

As a result, DoD management could not validate the completeness and accuracy of its data. Additionally, the DoD could not determine whether significant edits and validations were operating as intended. Therefore, this increased the risk that the financial management systems reported data that were incomplete or inaccurate in the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement processes to ensure interfaces with financial management systems have proper documentation that captures the minimum requirements, including the interface characteristics, security and privacy requirements, controls, and responsibilities for each system, and the impact level of the information communicated;
- review and provide feedback for improving DoD Component interface control policies and procedures; and
- develop and implement a plan to aggressively and systematically reduce the interfaces it maintains.



7. Universe of Transactions

OMB Bulletin No. 24-02 states that internal control over financial reporting includes ensuring transactions are properly recorded, processed, and summarized to allow for reliable financial statements preparation. In addition, the DoD Financial Management Regulation (FMR) states that DoD Components must maintain internal controls to ensure the data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.¹⁴

Through our audit procedures, we identified that:

- the DoD did not provide transaction-level populations that support adjustments made to reported balances in the financial statements or that support material line items; or
- some DoD Components did not have sufficient documentation to reconcile data to underlying transaction-level detail. For example, DoD Components performed reconciliations at a summary level, rather than the transaction level, and did not always perform these reconciliations before preparing their financial statements.

These conditions occurred because:

- the DoD did not ensure the controls, policies, and procedures at the DoD Component level were consistently implemented; and
- some DoD Components did not have internal controls, policies, and procedures to maintain sufficient documentation to support a complete universe of transactions (UoT) for material line items within the Agency-Wide Financial Statements.

As a result of the lack of UoTs for material line items, the DoD and some of its Components could not verify the completeness and accuracy of data reported in their respective financial statements; therefore, there is an increased risk that the balances in the Agency-Wide Financial Statements may be materially misstated.

¹⁴ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

Recommendations

We recommended that DoD management:

- establish and implement a DoD-wide plan, including establishing policies and procedures, to ensure the availability of a complete UoT that supports material line items within the Agency-Wide Financial Statements;
- include in the DoD-wide plan a strategy to ensure DoD Components develop and implement internal controls to confirm the accuracy and completeness of data reported on their financial statements; and
- coordinate with the DoD Components to design or enhance controls within the existing systems for preparation, recording, and review of general ledger transactions to ensure DoD Components' systems can provide a complete UoT to support their financial statement balances.

8. Fund Balance with Treasury

As of September 30, 2025, the DoD reported a Fund Balance with Treasury (FBWT) balance of \$1 trillion. Statement of Federal Financial Accounting Standards (SFFAS) 1 defines FBWT as the aggregate amount of funds in the DoD's accounts with the U.S. Treasury for which the DoD is authorized to make expenditures and pay liabilities.¹⁵ SFFAS 1 and the Treasury Financial Manual require the DoD to reconcile its FBWT and explain any discrepancies between balances reported by the DoD and the Treasury to ensure the integrity and accuracy of the Agency-Wide and Government-Wide Financial Statements.¹⁶ Additionally, the DoD FMR provides guidance to the DoD for reconciling and supporting FBWT beginning balances.¹⁷ The DoD's FBWT is maintained within various U.S. Treasury accounts, or treasury indexes (TIs), including TI-97, which is a shared appropriation used by more than 50 Defense agencies and programs.¹⁸ The Defense Finance and Accounting Service (DFAS), as the DoD's principal accountant, is responsible for working with the DoD Components to reconcile FBWT balances for TI-97 and perform necessary accounting adjustments to ensure the consolidated TI-97 FBWT balance matches the balance reported to the Treasury. The DoD's FBWT

¹⁵ FASAB Handbook, SFFAS 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

¹⁶ Department of the Treasury, Bureau of the Fiscal Service, "Treasury Financial Manual," volume 1, part 2, chapter 5100, "Fund Balance with Treasury Accounts."

¹⁷ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 2, Annex 1: "Supporting Fund Balance With Treasury Balances Brought Forward."

¹⁸ In addition to TI-97, the following TIs are also included in the Agency-Wide FBWT: TI-17 (Navy/Marines), TI-21 (Army), TI-57 (Air Force), and TI-96 (U.S. Army Corps of Engineers).



balance should equal the beginning balance for the fiscal year plus or minus disbursements and collections that occurred in the current fiscal year. As of September 30, 2025, the consolidated TI-97 FBWT balance was \$223.8 billion, or 22 percent of the total Agency-Wide FBWT balance.¹⁹

Through our audit procedures, we identified that DoD management and DFAS could not adequately support:

- FBWT beginning balances for TI-97, specifically historical balances from multiple data sources; and
- accounting adjustments that affected TI-97 FBWT balances.

These conditions occurred because DoD management and DFAS did not:

- perform a reconciliation in accordance with the DoD FMR of historical TI-97 FBWT balances; or
- provide sufficient and appropriate documentation to support accounting adjustments that affect TI-97 FBWT balances.

As a result, there is a risk that TI-97 FBWT balances may be incomplete or inaccurate. Therefore, there is a high risk that FBWT balances reported within the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management, in coordination with DFAS:

- perform a reconciliation in accordance with the DoD FMR, volume 4, chapter 2, Annex 1, of all FBWT beginning balance data that affects TI-97 to ensure that the TI-97 FBWT balance is complete and accurate; and
- establish effective internal controls to include proper and sufficient documentation to support accounting adjustments made to TI-97 FBWT balances.

¹⁹ Military Departments general and working capital fund balances are not included in this finding.

9. Inventory and Stockpile Materials

As of September 30, 2025, the DoD reported an Inventory and Stockpile Materials balance of \$155.4 billion.²⁰ SFFAS 3 requires the DoD to value its inventory and stockpile materials on the basis of historical cost or on a basis that reasonably approximates historical cost.²¹ SFFAS 48 amends SFFAS 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of inventory and stockpile material.²²

Through our audit procedures, we identified several deficiencies related to the DoD's inventory and stockpile materials practices. Specifically, DoD and its Components did not:

- account for inventory and stockpile materials in accordance with SFFAS 3, or an alternative valuation method allowable by SFFAS 48;
- substantiate the existence, completeness, and valuation of inventory and stockpile materials reported on the Balance Sheet; or
- monitor inventory counts to ensure inventory and stockpile materials activity were reported accurately.

These conditions occurred because the DoD and its Components did not:

- design their control environment and business processes to:
 - consistently and accurately report values of inventory and stockpile materials in accordance with SFFAS 3, or
 - use an alternative valuation method to establish opening balances in accordance with SFFAS 48; and
- have internal controls or follow guidance to maintain key supporting documentation to substantiate the existence, completeness, and valuation of the DoD's inventory.

²⁰ Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line item on the Balance Sheet.

²¹ FASAB Handbook, SFFAS 3, "Accounting for Inventory and Related Property," October 1993.

²² FASAB Handbook, SFFAS 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.



As a result, the DoD could not support a material portion of its inventory and stockpile materials balances. This increased the risk that the balances reported in the Inventory and Related Property line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management implement DoD-wide policies and procedures to ensure that the DoD Components accurately and consistently report the value, disclose assertions, and maintain support for inventory and stockpile materials in accordance with SFFAS 3 and 48.

10. Operating Materials and Supplies

As of September 30, 2025, the DoD reported an Operating Materials and Supplies (OM&S) balance of \$231 billion.²³ SFFAS 3 requires the DoD to value OM&S at historical cost or on a basis that reasonably approximates historical cost. SFFAS 48 amends SFFAS 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. Furthermore, SFFAS 3 requires that OM&S be categorized as: (1) held for use; (2) held in reserve for future use; or (3) excess, obsolete, and unserviceable (EOU). Excess OM&S are assets that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete OM&S are assets that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S are assets that are physically damaged and cannot be consumed in operations. SFFAS 3 also states that EOU OM&S should be valued at their estimated net realizable value.²⁴

Through our audit procedures, we identified the following deficiencies related to the DoD's accounting and reporting of OM&S.

- DoD Components did not properly value their OM&S or use an alternative valuation method to make an unreserved assertion to establish opening balances for OM&S, in accordance with SFFAS 3, SFFAS 48, and the DoD FMR, volume 4, chapter 4.²⁵

²³ Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line item on the Balance Sheet.

²⁴ Net Realizable Value is the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding, and disposal.

²⁵ An unreserved assertion is an unconditional statement that one or more line items are presented fairly in accordance with generally accepted accounting principles.

- A DoD Component did not have sufficient controls over the reporting of EOU material on its financial statements. Specifically, the Component did not have:
 - a process to classify assets as EOU material or
 - documentation to support the EOU material reported at net realizable value on its financial statements.

These conditions occurred because the DoD Components did not:

- implement DoD policies or design, document, and implement their own policies and procedures to identify and properly value OM&S inventory, including EOU material, in accordance with SFFAS and DoD FMR standards; or
- ensure their respective accountable property systems of record support valid and accurate valuation of OM&S.

As a result, the lack of controls over OM&S increased the risk that the balances reported in the Inventory and Related Property line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management ensure:

- DoD Components consistently follow SFFAS 48 standards and policies related to the alternative valuation method for opening balances and ensure DoD Components comply with SFFAS 3 standards once the alternative valuation method has been implemented;
- DoD Components' accountable property systems of record, or other appropriate systems, can accurately account for OM&S activity in accordance with SFFAS 3 and 48; and
- DoD Components consistently implement DoD policies and procedures related to accurate identification of EOU OM&S and proper recording of material at its net realizable value.

11. General Property, Plant, and Equipment

General Property, Plant, and Equipment (PP&E) is made up of General Equipment and Internal Use Software. As of September 30, 2025, the DoD reported a General



Equipment and Internal Use Software balance of \$501.2 billion.²⁶ SFFAS 6 requires the DoD to value its General PP&E on the basis of historical cost or on a basis that reasonably approximates historical cost.²⁷ SFFAS 10 requires the DoD to value internally developed software on the basis of historical cost or on a basis that reasonably approximates historical cost.²⁸ SFFAS 50 amends both SFFAS 6 and 10 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the DoD makes an unreserved assertion that its financial statements are presented in accordance with generally accepted accounting principles.²⁹

Through our audit procedures, we identified that DoD Components could not:

- provide and maintain appropriate documentation supporting the valuation of a material amount of the General PP&E reported on the Agency-Wide Financial Statements;
- substantiate the existence and completeness of General PP&E reported on DoD Component financial statements; or
- adequately demonstrate that their procedures for managing and reporting General PP&E are designed or operating effectively.

These conditions occurred because DoD Components did not:

- have properly designed or implemented policies, procedures, or controls to maintain key documentation supporting the valuation of General PP&E; or
- have a control environment and business processes that consistently and accurately established the historical acquisition cost of General PP&E in accordance with SFFAS 6 and 10, or the one-time alternative valuation method allowed under SFFAS 50.

As a result, the DoD did not accurately record, report, and value the General PP&E amounts reported in the Agency-Wide Financial Statements; therefore, there is an

²⁶ General Equipment, Internal Use Software, Real Property, and Leases are all reported in the General PP&E line item on the Balance Sheet.

²⁷ FASAB Handbook, SFFAS 6, "Accounting for Property, Plant, and Equipment," November 1995, as amended.

²⁸ FASAB Handbook, SFFAS 10, "Accounting for Internal Use Software," October 1998, as amended.

²⁹ FASAB Handbook, SFFAS 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

increased risk that the General PP&E balance in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management:

- implement a DoD-wide process to confirm that DoD Components appropriately and consistently developed policies, procedures, and controls for maintaining key supporting documentation to substantiate the valuation of General PP&E in accordance with SFFAS 6 and SFFAS 10 historical cost reporting requirements; and
- disclose an unreserved assertion for the opening balances of its General PP&E, after the DoD Components have disclosed unreserved assertions on their respective financial statements, as afforded by SFFAS 50.

12. Real Property

As of September 30, 2025, the DoD reported a Real Property balance of \$478.7 billion.³⁰ The DoD FMR states that real property assets consist of buildings, structures, facilities, land, land rights, construction-in-progress, assets under capital lease, and leasehold improvements.³¹ The DoD FMR requires DoD Components to properly recognize, account for, and report real property on the appropriate financial statements. Furthermore, the DoD FMR requires that DoD reporting entities ensure real property activity is supported, and the accountable property systems of record that account for real property can be reconciled to the DoD reporting entities' financial statements.

Through our audit procedures, we identified that:

- the DoD did not provide a complete UoT for the real property of all DoD reporting entities,
- DoD Components could not support real property balances reported in their financial statements, and

³⁰ General Equipment, Internal Use Software, and Real Property are all reported in the General PP&E line item on the Balance Sheet.

³¹ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 24, "Real Property."



- DoD Components could not substantiate the existence and completeness of their real property assets.

These conditions occurred because DoD management did not ensure DoD Components implemented internal controls, policies, and procedures, or had supporting documentation to substantiate the existence, completeness, and valuation of real property assets.

As a result, the DoD's lack of proper internal controls over real property assets increased the risk that the balances reported in the General PP&E line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement internal controls, policies, and procedures to ensure the DoD can maintain an accurate and complete real property balance and ensure consistent implementation of these controls, policies, and procedures at the Component level.

13. Government Property in the Possession of Contractors

According to the Federal Acquisition Regulation, government property is all materials and property owned or leased by the Government, including material and property the Government furnished to contractors for performance of a contract.³² The DoD is required to: (1) recognize and account for government-furnished materials in accordance with SFFAS 3 and 48, and (2) recognize and account for government-furnished property in accordance with SFFAS 6 and 50.

Through our audit procedures, we identified that:

- DoD Components could not reconcile the Government Property in the Possession of Contractors balances reported on their financial statements to an accountable property system of record; and
- the DoD could not substantiate the existence, completeness, valuation, presentation, and disclosure of Government Property in the Possession of Contractors reported on the consolidated balance sheet.

³² Federal Acquisition Regulation Part 45, "Government Property."

These conditions occurred because DoD Components:

- did not have the policies, procedures, and internal controls in place to consistently and accurately report Government Property in the Possession of Contractors in an accountable property system of record in accordance with applicable SFFAS, or properly report balances on their financial statements; and
- relied on contractors to account for government-furnished material and property without the policies, procedures, and internal controls in place to provide effective oversight of those contractors that managed material and property on the Government's behalf.

As a result, the DoD could not accurately record and report Government Property in the Possession of Contractors balances on its financial statements; therefore, there is an increased risk that the Agency-Wide Financial Statements may be incomplete and could be materially misstated.

Recommendations

We recommended that DoD management:

- implement DoD-wide policies and procedures for measuring and reporting Government Property in the Possession of Contractors to confirm that DoD Components appropriately and consistently account for it in accordance with SFFAS 3, 6, 48, and 50; and
- develop standard inventory management policies, procedures, and metrics, and develop procedures to ensure the policies and procedures are incorporated consistently across all contracts in which the contractor manages government inventory control points and contractor-managed warehouses.

14. Joint Strike Fighter Program

The Joint Strike Fighter Program, which has an estimated total life-cycle cost of \$2 trillion, is a multiservice, multinational acquisition that develops and fields the F-35 strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners.³³ OMB Circular No. A-136 states that management is responsible for

³³ Life-cycle cost includes the costs of Acquisition, such as Research, Development, Test, and Evaluation; Procurement; Military Construction; and the costs of Operating and Support/Disposal.



providing complete and reliable information, including the disposition of its assets.³⁴ SFFAS 3 and 6 require property and equipment to be reported on the Balance Sheet and the Statement of Net Cost.

Through our audit procedures, we determined that the DoD did not account for or report Global Spares Pool assets for the Joint Strike Fighter Program, or accurately record this government property in an accountable property system of record.³⁵ The DoD could not provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Global Spares Pool assets for the Joint Strike Fighter Program and did not report this government property on its financial statements as of September 30, 2025. This occurred because DoD officials did not use contracting mechanisms to request financial data to support the valuation of government property or implement procedures to account for and manage government property in accordance with SFFAS 3 and 6.

As a result, the omission of the Joint Strike Fighter Program Global Spares Pool assets resulted in a material misstatement on the Agency-Wide Financial Statements.

Recommendation

We recommended that DoD management implement DoD-wide controls to ensure all Joint Strike Fighter Program assets are appropriately and consistently recorded, reported, and valued.

15. Accounts Payable

As of September 30, 2025, the DoD reported an Accounts Payable balance of \$49.8 billion. SFFAS 1 defines Accounts Payable as unpaid amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rents. In addition, the DoD FMR states that DoD Components must maintain internal controls to ensure data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.³⁶

³⁴ OMB Circular No. A-136, "Financial Reporting Requirements," July 2025.

³⁵ Global Spares Pool assets include spare parts and equipment, not the aircraft and uninstalled aircraft engines.

³⁶ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

Through our audit procedures, we identified that the DoD did not:

- have sufficient documentation to support the existence of its Accounts Payable balances; or
- record unpaid expense transactions appropriately and accurately in the period in which the transactions occurred.

These conditions occurred because the DoD did not:

- develop and implement internal controls to ensure that the DoD accurately included Accounts Payable amounts in its financial statements and that DoD Components effectively implemented accounting standards; or
- follow SFFAS and DoD policy when reporting Accounts Payable balances on its financial statements. Specifically, DoD Component management did not maintain supporting documentation or ensure they recorded Accounts Payable in the appropriate accounting period for the receipt of goods or services ordered.

As a result, the DoD had an increased risk of unsupported Accounts Payable transactions; therefore, there is increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement a DoD-wide action plan to ensure that accurate Accounts Payable amounts are included in the financial statements and that DoD Components are appropriately and consistently implementing SFFAS 1 and the DoD FMR.

16. Environmental and Disposal Liabilities

As of September 30, 2025, the DoD reported an Environmental and Disposal Liabilities (E&DL) balance of \$108 billion. SFFAS 5 defines a liability as a probable future outflow or other sacrifice of resources resulting from past transactions or events.³⁷

Furthermore, Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.³⁸ SFFAS 6 defines cleanup costs associated with the closure or shutdown of General PP&E as the costs of

³⁷ FASAB Handbook, SFFAS 5, "Accounting for Liabilities of the Federal Government," December 1995.

³⁸ Federal Financial Accounting and Auditing Technical Release 2, March 1998.



removing, containing, or disposing hazardous waste.³⁹ Additionally, the DoD FMR requires environmental liability estimates to include all environmental liability sites in the site universe and that environmental liability estimates “must include all asset-driven cleanup, closure, and/or disposal costs.”⁴⁰

Through our audit procedures, we identified that a DoD Component:

- did not include all cleanup, closure, or disposal costs on the E&DL and related balances line items; and
- could not provide supporting records to document completeness of its list of environmental sites.

These conditions existed because the DoD did not ensure a DoD Component followed accounting standards to estimate a complete calculation of E&DL. For example, the DoD Component did not:

- develop a methodology to estimate future environmental disposal costs for General PP&E;
- develop a complete and reasonable estimate across all General PP&E categories; or
- provide sufficient documentation to support that the assessments of contaminated environmental sites were complete.

As a result, the DoD has an increased risk that E&DL and related balances may be incomplete or inaccurate; therefore, the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management implement controls to ensure that DoD Components use a complete population of cleanup, closure, and disposal costs to ensure the E&DL calculation is complete and accurate.

³⁹ FASAB Handbook, SFFAS 6, “Accounting for Property, Plant, and Equipment,” November 1995.

⁴⁰ DoD 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 13, “Environmental and Disposal Liabilities.”

17. Leases

On April 17, 2018, the Federal Accounting Standards Advisory Board (FASAB) issued SFFAS 54, which revised the financial reporting standards for Federal lease accounting.⁴¹ SFFAS 54 provided a new set of lease accounting standards to recognize lease activities in financial reports and note disclosures. The FASAB deferred the original effective date to reporting periods beginning after September 30, 2023 (the effective date). On September 25, 2020, OUSW[C]/CFO released a memorandum to the DoD Components establishing the financial reporting policy for implementing SFFAS 54 by the effective date.⁴²

Through our audit procedures, we determined that the DoD and its Components were not in compliance with SFFAS 54. Specifically, 8 of 16 significant DoD Components we reviewed did not:

- identify all leases and intragovernmental leases;
- determine whether leases were significant to the reporting entity; or
- recognize and disclose lease activity in accordance with SFFAS 54.⁴³

This condition occurred because the OUSW(C)/CFO directed the DoD Components to begin implementation efforts to fully comply with SFFAS 54 but never ensured the DoD Components were taking action to implement the requirements of SFFAS 54.

As a result, the Agency-Wide Financial Statements and disclosures in the financial statements are not compliant with SFFAS 54; therefore, the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- establish, implement, and monitor a process to oversee the DoD Components' implementation and reporting under SFFAS 54 and regularly communicate

⁴¹ FASAB Handbook, SFFAS 54, "Leases," April 2018.

⁴² OUSD(C)/CFO memorandum, "Implementation of Statement of Financial Accounting Standards 54, Leases (FPM 20-03)," September 25, 2020.

⁴³ We considered 16 DoD Components to be significant based on certain thresholds compared to our established DoD Agency-Wide audit materiality.



expectations to the DoD Components upon establishing these processes and until implementation is complete; and

- oversee the DoD Components' implementation of SFFAS 54 to ensure they properly report their lease activity on their financial statements.

18. Unsupported Accounting Adjustments

The GAO Standards for Internal Control in the Federal Government (Green Book) requires the DoD to promptly and accurately record transactions.⁴⁴ Additionally, the DoD FMR states that DoD Components must ensure all adjustments are researched and traceable to supporting documents as instructed in the Treasury Financial Manual.⁴⁵ Supporting documentation is necessary to provide an audit trail. DoD Components record adjustments for various reasons, including instances in which subsidiary records do not reconcile with the general ledger, to correct previously recorded transactions, and to align intragovernmental transactions.

Through our audit procedures, we identified that the DoD did not have effective internal controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded. Many DoD Components recorded accounting adjustments that did not have supporting documentation. In the last two quarters of FY 2025, DoD Components recorded more than 5,665 unsupported accounting adjustments totaling more than \$859 billion.

This occurred because detailed support did not always exist to support these adjustments. As a result, there is increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- research and correct the underlying problems that require DFAS to process accounting adjustments as unsupported; and
- establish effective control procedures so that manual and system-generated adjustments contain sufficient supporting documentation to ensure that adjustments are valid, complete, and accurately recorded in its reporting,

⁴⁴ GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.

⁴⁵ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 2, "Accounting for Cash and Fund Balances with Treasury."

accounting, and general ledger systems, including an audit trail to the source documentation that required the adjustment.

19. Intragovernmental Transactions and Intradepartmental Eliminations

The Treasury Financial Manual explains that intragovernmental transactions result from business activities conducted between two Government entities, such as the DoD and Department of State. These entities conducting business are called trading partners, one a buyer and one a seller. Intradepartmental transactions are those occurring between a buyer and a seller within the same department, such as the DoD. For example, transactions between the Army General Fund and the Defense Logistics Agency Working Capital Fund are within the same department; therefore, the transactions are eliminated when the DoD financial statements are consolidated. The DoD is required to eliminate intradepartmental balances from its financial statements and report intragovernmental balances on its financial statements. The Treasury eliminates DoD-identified intragovernmental balances from the Government-Wide Financial Statements. For proper eliminations to occur, it is essential that the DoD captures accurate trading partner data for intragovernmental and intradepartmental transactions.

Through our audit procedures, we identified that the DoD:

- did not include proper documentation when recording journal voucher adjustments to reconcile trading partner records; and
- did not record or report all necessary trading partner information at the transaction level in accordance with requirements in the Treasury Financial Manual.

These conditions occurred because the DoD did not have effective controls to properly capture trading partner information at the transaction level or produce the data necessary to reconcile corresponding buyer and seller transactions.

As a result, DoD intragovernmental transaction journal voucher adjustments and intradepartmental eliminations were incomplete, inaccurate, and unsupported; therefore, there is an increased risk that intragovernmental balances in the Agency-Wide Financial Statements may be materially misstated.



Recommendations

We recommended that DoD management:

- identify which DoD reporting entities can and cannot obtain the necessary trading partner support;
- monitor the implementation of the G-Invoicing system to ensure that the DoD will be able to obtain and provide sufficient details for DoD intragovernmental balances and intradepartmental elimination entries;⁴⁶ and
- implement controls to ensure that adjustments and journal vouchers for the reconciliation of trading partner data are supported by transaction-level details.

20. Gross Costs

As of September 30, 2025, the DoD reported a Gross Costs balance of \$1.5 trillion. SFFAS 4 states that the DoD should report the full costs of outputs in financial reports and that reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.⁴⁷ SFFAS 4 defines outputs as the products and services generated from the consumption of an entity's resources. Costs of the products and services may include salaries, materials, supplies, equipment, facilities, utilities, and other costs. Statement of Federal Financial Accounting Concepts (SFFAC) 2 states that the DoD should provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the Statement of Net Cost.⁴⁸ SFFAC 2 also states that the Statement of Net Cost should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.

Through our audit procedures, we determined that the DoD and some of its Components did not comply with generally accepted accounting principles and did not have sufficient support for transactions related to Gross Costs.

⁴⁶ G-invoicing is a Treasury initiative that is being implemented Government-wide, and while not an accounting system, it will be a central repository to support the accounting of Buy/Sell transaction events that offers a data exchange platform for Federal entities to communicate with one another.

⁴⁷ FASAB Handbook, SFFAS 4, "Managerial Cost Accounting Standards and Concepts," July 1995, as amended.

⁴⁸ FASAB Handbook, SFFAC 2, "Entity and Display," June 1995.

Specifically, some DoD Components did not:

- have adequate controls over Gross Costs processes to reconcile accounts;
- validate that subledger systems reconcile to the amounts reported in the financial statements;
- accurately record Gross Costs transactions, including operating expenses and disbursements;
- record transactions in a timely manner in the correct accounting period or fiscal year;
- have sufficient processes in place to identify, calculate, record, and report other imputed costs; or
- provide sufficient appropriate evidence to support the existence, completeness, and accuracy of Gross Costs.

These conditions occurred because the DoD did not ensure that the Components implemented policies and procedures to properly account for and sufficiently support transactions for Gross Costs amounts included on the Statement of Net Cost.

Without adequate controls to account for, report, and support Gross Costs, DoD management did not have reliable financial information to effectively assess the financial performance of the DoD's major programs. As a result, these deficiencies increased the risk that expense-related transactions are materially misstated on the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement a DoD-wide action plan to assess, oversee, and ensure that DoD Components implement effective internal controls for recording Gross Costs; and
- develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, accuracy, and timeliness of recorded transactions and balances to support the Statement of Net Cost.



21. Earned Revenue

As of September 30, 2025, the DoD reported an Earned Revenue balance of \$569.6 billion. SFFAS 7 states that Earned Revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.⁴⁹

Through our audit procedures, we identified that the DoD and its Components did not accurately record transactions related to Earned Revenue. In addition, DoD Components did not:

- fully design, implement, and document controls over revenue;
- recognize Earned Revenues from services provided and goods sold, or did not recognize these transactions in the appropriate period in accordance with generally accepted accounting principles; or
- have adequate policies and procedures to address risks and maintain supporting documentation to support the revenue balances on the financial statements and notes.

These conditions occurred because the DoD did not:

- have adequate procedures or internal controls to record transactions related to Earned Revenue; or
- perform adequate oversight and coordination with its Components to ensure they implemented DoD policies, procedures, and controls to properly account for and record Earned Revenue transactions.

Without adequate controls to account for, report, and support Earned Revenue, DoD management did not have reliable financial information to effectively assess the financial performance of the DoD's major programs. Therefore, controls could fail to prevent or detect and correct material misstatements in the Agency-Wide Financial Statements.

⁴⁹ FASAB Handbook, SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.

Recommendations

We recommended that DoD management coordinate with DoD Component management to:

- develop and implement a DoD-wide action plan to assess, oversee, and ensure that the DoD Components implement effective internal controls to record revenue in a timely manner and produce the Earned Revenue line item on the Statement of Net Cost;
- perform a risk assessment that identifies and analyzes risks relevant to the revenue processes;
- design, document, and implement processes and controls to ensure timely recording of related transactions based on the identified risks; and
- develop, implement, and monitor controls to ensure that supporting documentation is consistently maintained and readily available for inspections for revenue transactions.

22. Reconciliation of Net Cost of Operations to Outlays

SFFAS 7 requires the DoD to reconcile its budgetary and proprietary data.⁵⁰

Additionally, OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements.

Through our audit procedures, we identified that:

- DoD Components could not support adjustments made to reconcile budgetary and proprietary data on the Component financial statements; and
- the DoD reported a \$1.3 billion unreconcilable difference between the budgetary and proprietary accounts in Note 24, Reconciliation of Net Cost to Net Outlays.

⁵⁰ FASAB Handbook, SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.



These conditions occurred because:

- DoD Component management did not research, resolve, and reconcile the variances between the budgetary and proprietary data throughout the reporting period for Note 24 to the Component financial statements; and
- DoD management did not ensure DoD Components adequately implemented procedures for preparing complete, accurate, and consistent financial statements and notes disclosures throughout the DoD for Note 24.

As a result, the Agency-Wide Financial Statements and Note 24 does not accurately reflect the financial position of the DoD; therefore, there is increased risk that balances in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management ensure that DoD Components:

- support and document the research and resolution, in accordance with SFFAS 7, of the variances between budgetary and proprietary data; and
- implement DoD-wide procedures to ensure that the DoD financial statement note disclosures related to Note 24 reconciliations are complete, accurate, and consistent and comply with the requirements in OMB Circular No. A-136.

23. Budgetary Resources

SFFAS 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources (SBR). The statement presents total budgetary resources available to the DoD during the period, and the status and outlays of those resources. The DoD FMR, volume 6B, chapter 7, details policy for formatting the SBR and includes a requirement to format the SBR to align with the Standard Form 132 (SF 132), "Apportionment and Reapportionment Schedule," and Standard Form 133 (SF 133), "Report of Budget Execution and Budgetary Resources," using budget execution guidance published in OMB Circular No. A-11.⁵¹ OMB Circular No. A-123 describes management responsibilities in

⁵¹ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, chapter 7, "Statement of Budgetary Resources."

OMB Circular No. A-11, "Presentation, Submission, and Execution of the Budget," July 2024.

establishing and operating an effective system of internal control, correcting internal control deficiencies, and meeting corrective action plan requirements.⁵²

Through our audit procedures, we identified that significant DoD Components and the DoD did not prepare a complete and accurate SBR. Specifically, significant DoD Components did not:

- accurately prepare, report, and support the balances reported in the SBR; or
- design their financial reporting procedures to resolve variances identified in the reconciliation to ensure that they do not reoccur in future accounting periods.

These conditions occurred because the DoD did not have adequate internal controls to ensure that all DoD Components prepared, accounted for, and reconciled their budgetary resources in accordance with the DoD FMR, volume 6B, chapter 7, and OMB Circulars No. A-11 and No. A-123. A few examples follow.

- Some DoD Components did not implement sufficient controls at the Component level to ensure the reporting of budgetary resources was accurate, complete, and supported by data from the Components' financial reporting system.
- DoD management did not design and implement procedures to ensure that the actions taken addressed the root cause of the variances detected on the SF 132 to SF 133 reconciliation and prevent the variances from reoccurring in future accounting periods.

Without adequate controls to account for budgetary resources, there is an increased risk that the DoD and its Components cannot monitor the status of total budgetary resources available and the status of those resources during the reporting period. The inability to monitor the status of budgetary resources creates the potential for violations of the Antideficiency Act, and the Agency-Wide SBR may be materially misstated.

⁵² OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.



Recommendations

We recommended that DoD management develop and implement adequate internal controls and procedures to ensure that DoD Components prepare, account for, and reconcile budgetary resources in accordance with the DoD FMR, volume 6B, chapter 7, and OMB Circulars No. A-11 and No. A-123, including actions to:

- provide adequate oversight of the controls implemented by DoD Components to ensure the reporting of budgetary resources is accurate, complete, and supported by data from the Components' financial reporting system; and
- design and implement procedures that ensure that action taken address the root cause of the variances detected on the SF 132 to SF 133 reconciliation to prevent the variances from reoccurring in future accounting periods.

24. Service Organizations

The Green Book states that management may engage service organizations to perform certain operational processes for the entity. However, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes the service organizations perform. If the processes a service organization provides are significant to a user entity's internal control objectives, then the user entity is responsible for establishing controls that complement the service organization's controls. Service organizations perform critical activities across the DoD, such as inventory management and financial services. For example, DFAS is a service organization that provides accounting services to the DoD and its Components.

Through our audit procedures, we identified that the DoD did not adequately monitor the use of service organizations or the design and implementation of complementary user entity controls (CUECs) at the Component level to ensure compliance with the Green Book and prevent control failures.⁵³ Specifically, the DoD Components did not fully document, implement, test, and monitor their CUECs.

⁵³ CUECs are controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities, and are necessary to achieve the control objectives stated in management's description of the service organization's systems.

In addition, auditors issued qualified or adverse opinions in 10 of the 28 reports resulting from DoD System and Organization Controls assessments conducted in FY 2025, which means the auditors concluded that service organizations did not properly design or operate a portion of their controls.⁵⁴

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the implementation of a comprehensive set of policies, procedures, and processes with sufficient service organization controls and effective controls to address the CUECs.

As a result, without sufficient CUECs and service organization controls that are operating effectively, the DoD remains at an increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement processes to confirm that each Component has completed a comprehensive evaluation of the System and Organization Controls reports to identify the relevant service organizations and develop comprehensive business process documentation to identify relevant CUECs;
- review DoD Component policies and procedures and provide feedback on them to improve the process of identifying, documenting, and testing relevant CUECs; and
- review Component corrective action plans and risk acceptance documentation and provide feedback on implementation.

25. Component Entity-Level Controls

The Federal Managers' Financial Integrity Act of 1982 requires the DoD to establish internal control, and the Green Book defines the standards for internal control in the U.S. Government. The Green Book states that internal control is a process used by management to help an entity achieve its objectives. The Green Book also states that

⁵⁴ The DoD typically manages the risks of service organizations through System and Organization Controls reports. These reports discuss the description and suitability of the design and operating effectiveness of those controls.



the five components of internal control—Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring—must be designed, implemented, and operating together for an internal control system to be effective.

Through our audit procedures, we identified that DoD Components had material deficiencies related to two internal control components—Control Activities and Monitoring. According to the Green Book, Control Activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. Monitoring involves the activities established and used to assess the quality of performance and to resolve findings. Specifically, DoD Components did not:

- have sufficient controls in place to ensure reliable financial reporting and compliance with applicable standards and generally accepted accounting principles; or
- provide documentation that identified and described processes, controls, and their implementation.

These conditions occurred because:

- DoD Components did not have or did not effectively design, implement, and operate internal controls to prevent or detect identified material misstatements; and
- DoD management did not have proper policies and procedures in place to monitor, identify, and resolve internal control deficiencies that could affect DoD Component financial statements.

The DoD could not achieve the objectives of reliable financial reporting, operating efficiency and effectiveness, and compliance with generally accepted accounting principles. Ineffective implementation of Component Entity-Level controls increased the risk of both ineffective internal controls and misstatement at the DoD Component financial reporting level. As a result, there was an increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- coordinate with DoD Components to design and implement effective control activities that prevent and detect identified risks of material misstatement; and
- ensure monitoring and documenting of internal control procedures by establishing criteria, completing regular reviews, and performing analyses of all relevant controls to demonstrate how the internal controls will prevent or detect and correct material misstatements.

26. DoD-Wide Oversight and Monitoring

The Federal Managers' Financial Integrity Act of 1982 establishes management's responsibility for producing reliable financial reports and ensuring financial transactions are recorded in accordance with generally accepted accounting principles. OMB Circular No. A-123 requires DoD management to establish and integrate internal controls into the DoD's operations and to continuously monitor, assess, and improve the effectiveness of those internal controls.⁵⁵ The DoD FMR states that DoD management is responsible for directing, managing, and providing policy guidance and oversight of DoD financial management activities, including establishing financial management policies for DoD Components and ensuring compliance with applicable accounting policies and standards throughout the DoD.⁵⁶ The DoD FMR also requires that DoD Components ensure the data in their financial statements are exactly the same as the data included in the Defense Departmental Reporting System, which consolidates the data to produce the Agency-Wide Financial Statements.⁵⁷

Through our audit procedures, we identified several deficiencies related to DoD management's oversight and monitoring of the Agency-Wide Financial Statements, including the following deficiencies.

- DoD management lacked sufficient processes and documentation for reporting financial data included in the DoD Component Level Accounts.

⁵⁵ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

⁵⁶ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 1, "Chief Financial Officer of the DoD."

⁵⁷ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 3, "Reporting of Outlays, Receipts, and Adjusted Trial Balances," section 3.2.2.



- Component financial statement data included in the Agency-Wide Financial Statements did not always match the data included in component-level audited financial statements.
- As of September 30, 2025, DoD management reported \$18.9 billion in DoD-appropriated funds as spent; however, the funds were not spent and were still available for use.

These conditions occurred because DoD management did not:

- design effective internal controls to ensure complete and accurate reporting of financial data within the DoD Component Level Accounts;
- enforce the DoD FMR, volume 6A, chapter 3, which requires that DoD Components ensure their financial statement data are exactly the same as the data included in the Defense Departmental Reporting System;
- have adequate internal controls over identifying DoD Component adjustments made after the Agency-Wide Financial Statements were issued and determining how to account for them in the Agency-Wide Financial Statements; and
- develop a process to accurately account for the status of DoD-appropriated funds for Building Partner Capacity programs.⁵⁸

As a result, the lack of internal controls over financial reporting:

- led to misstatements on the Agency-Wide Financial Statements and increased the risk that the Agency-Wide Financial Statements may be materially misstated; and
- increased the risk that the Government-Wide Financial Statements may be misstated.

In addition, when a DoD Component audit is completed after the Agency-Wide Financial Statements are issued, the DoD OIG cannot use the audit opinion on the Component's financial statements to form its opinion on the Agency-Wide Financial Statements, which could impede the DoD's ability to achieve an unmodified audit opinion on the Agency-Wide Financial Statements.

⁵⁸ Building Partner Capacity programs are a means by which the DoD uses its own appropriations to build the capacity and capabilities of partner-nation security forces.

Recommendations

We recommended that DoD management:

- develop, document, and implement adequate internal controls over the DoD Component Level Accounts consolidation entity;
- enforce the DoD FMR, volume 6A, chapter 3;
- require that all adjustments to DoD Component financial statements occur within the Defense Departmental Reporting System;
- starting in FY 2028, ensure the Agency-Wide Financial Statements are finalized after all audit opinions on the Component financial statements are issued; and
- design and implement controls to ensure that the Agency-Wide Financial Statements accurately report all DoD appropriations related to Building Partner Capacity programs and accurately report the current status of those appropriations.

Identified Significant Deficiencies

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A description of the two significant deficiencies we identified through our audit and our recommendations to address them are as follows.

1. Risk Management Framework

The Federal Information Security Modernization Act of 2014 requires the DoD to provide adequate controls over information security considering the risk of not having those controls in place.⁵⁹ The Risk Management Framework (RMF) provides a disciplined, structured, and flexible process for managing security risk. The RMF includes information security categorization; control selection, implementation, and assessment; system and common control authorizations; and continuous monitoring.

⁵⁹ Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.



The DoD's RMF process adopts the NIST RMF to comply with Federal Information Security Modernization Act of 2014 requirements and to carry out DoD missions and business functions.⁶⁰ Success of the missions and functions depends on protecting the confidentiality, integrity, and availability of information processed, stored, and transmitted by those systems. Executing RMF tasks links essential risk management processes at the system level to risk management processes at the organization level.

Through our audit procedures, we identified that the DoD did not fully implement the RMF for DoD financial management systems. Specifically, the DoD did not fully:

- conduct control assessments,
- conduct system risk assessments, or
- implement continuous monitoring capabilities.

These conditions occurred because DoD management did not coordinate with DoD Components to monitor and ensure the implementation of an RMF.

As a result, DoD Components may not have all the information necessary to assess risks and may not be able to resolve deficiencies that affect internal control over financial reporting. The lack of RMF controls can affect the completeness and accuracy of financial reporting, which increases the risk that the Agency-Wide Financial Statements may be misstated.

Recommendations

We recommended that DoD management develop and implement processes to ensure each DoD Component has:

- implemented adequate control assessment procedures,
- implemented a system-level risk assessment, and
- developed and implemented a continuous monitoring program.

⁶⁰ NIST SP 800-37, "RMF for Information Systems and Organizations," December 2018.

2. Accounts Receivable

As of September 30, 2025, the DoD reported a non-Federal Accounts Receivable balance of \$15.6 billion.⁶¹ SFFAS 1 requires the DoD to recognize a receivable when the DoD establishes a claim to cash or other assets against other entities, based on either legal provisions, such as a payment due date, or goods or services provided. The DoD FMR states that a receivable must be established when payment is not received in advance or at the time revenue is recognized.⁶² In addition, receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to the DoD, that is, in the applicable accounting system during the month the receivables occur. DoD Components must maintain accounting records for receivables so that all transactions affecting the receivables are included in the reporting period of occurrence. Furthermore, the Green Book requires management to design the entity's information system to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks.

Through our audit procedures, we identified that DoD Components did not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. Specifically, DoD Components:

- could not provide an Accounts Receivable subsidiary ledger at the invoice level that reconciles to the general ledger, and
- did not liquidate receivables collected in prior accounting periods in the accounting records.

These conditions occurred because the DoD did not develop or implement effective internal controls to prevent or detect misstatements of non-Federal Accounts Receivable balances. For example:

- DoD Component accounting systems did not have effective controls to record transactions to the correct general ledger accounts, and
- DoD Components did not follow SFFAS and DoD policy when reporting Accounts Receivable balances on the financial statements.

⁶¹ Non-Federal Accounts Receivable are amounts that the DoD collects for the U.S. Government or other entities and amounts for which the DoD is not authorized to spend.

⁶² DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 3, "Receivables."



As a result, there was a significant risk that balances presented in the Agency-Wide Financial Statements may be misstated.

Recommendation

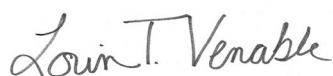
We recommended that DoD management improve its oversight of non-Federal Accounts Receivable balances by ensuring that DoD Components have detailed transactions to support balances, have and regularly review reports, and are implementing SFFAS 1 and the DoD FMR.

Agency Comments

We provided a draft of this report to the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War (USW[C]/CFO) to provide a formal response; their response follows our audit reports. Government Auditing Standards require the auditor to perform limited procedures on the USW(C)/CFO's response to the findings identified during our engagement and described in the accompanying Agency Financial Report. In the USW(C)/CFO's response, they acknowledged the findings identified and expressed their commitment to resolving critical issues. The USW(C)/CFO's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The Report on Internal Control over Financial Reporting is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of internal control over financial reporting, not to provide an opinion on the effectiveness of internal control over financial reporting. This report is not suitable for any other purpose.



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Assistant Inspector General for Audit
Financial Management and Reporting

**OFFICE OF INSPECTOR GENERAL**

DEPARTMENT OF DEFENSE
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December 18, 2025

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

We conducted the audit the DoD Agency-Wide Financial Statements, as required by the Chief Financial Officers Act of 1990, and in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget (OMB) Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual.¹ The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal year ended September 30, 2025. Our Report on the Financial Statements, dated December 18, 2025, disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, which indicates we could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for complying with provisions of applicable laws, regulations, contracts, and grant agreements related to financial reporting and ensuring that the DoD's financial management systems comply substantially with the Federal Financial Management Improvement Act of 1996 (FFMIA).²

Auditor's Responsibilities

GAGAS and OMB guidance require auditors to report on an entity's compliance with provisions of applicable laws, regulations, contracts, and grant agreements. In connection with our responsibility as the group auditor for the audit of the Agency-Wide Financial Statements, we performed tests at the Agency-Wide level and considered the results of DoD reporting entity audits to determine whether

¹ Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021.

OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.

Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.

² Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.



the DoD substantially complied with provisions of applicable laws, regulations, contracts, and grant agreements.³ We identified instances of noncompliance that could have a direct and material effect on the financial statements, on the determination of financial statement amounts the DoD is required to report under GAGAS and the provisions of OMB Bulletin No. 24-02, and the requirements referred to in Section 803(a) of the FFMIA. However, our engagement objectives did not include providing an opinion on compliance with the provision of applicable laws, regulations, contracts, and grant agreements; accordingly, we do not express such an opinion. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Identified Instances of Noncompliance or Potential Noncompliance

The Antideficiency Act. The Antideficiency Act (ADA) prohibits the DoD and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds.⁴ It specifies that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, the DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. The ADA specifies that if a DoD officer or employee violates the ADA, the Chief Financial Officer must immediately report to the President and Congress all relevant facts and provide a statement of actions taken in response to the ADA violation. The DoD Financial Management Regulation, volume 14, chapter 3, requires the DoD to complete formal investigations of suspected ADA violations within 15 months.⁵ The DoD reported two ADA cases resulting in multiple violations, totaling \$106.9 million, in FY 2025. Additionally, the DoD identified eight ongoing ADA investigations as of September 30, 2025, and had four cases open for more than 15 months.

³ A DoD Component is a Military Department, Defense agency, or DoD field activity such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

⁴ Public Law 97-258, "Antideficiency Act," September 1982.

⁵ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process."

We also identified an instance in which a DoD policy and business process could result in an ADA violation. Specifically, the DoD's use of Discontinued Research Packages to write off suspense account and cash management report transactions that lack supporting documentation allows for potential violations of the purpose statute, *bona fide* needs rule, or both. The Government Accountability Office, "Principles of Federal Appropriations Law," states that there are three elements—purpose, time, and amount—that must be present for an obligation or expenditure to be legal.⁶ The first element, known as the purpose statute, states that appropriations must only be used for objects for which the appropriations were made. The second element, known as the *bona fide* needs rule, says that appropriated funds can only be used for legitimate needs that arise during the period of availability for those funds. The Discontinued Research Package process may allow transactions to be applied to incorrect appropriations, applied to the wrong period, or both, which could result in ADA violations.

Federal Financial Management Improvement Act of 1996. The FFMIA requires the DoD to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas of FFMIA noncompliance, OMB Circular No. A-136 requires the DoD to identify remediation activities that are planned or underway and to describe target dates and offices responsible for bringing systems into compliance.⁷ DoD management identified over 130 systems relevant to internal controls over financial reporting that were noncompliant with the FFMIA; accordingly, we determined that the DoD and its Components did not substantially comply with the FFMIA. In addition, DoD management has not created a strategy for DoD financial management systems relevant to internal controls over financial reporting to either become compliant with the FFMIA or be retired and replaced in a timely manner.

The Federal Managers' Financial Integrity Act of 1982. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires DoD management to perform evaluations and report on the adequacy of DoD systems of internal accounting and administrative control.⁸ OMB Circular No. A-123, which implements the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and

⁶ Government Accountability Office, "Principles of Federal Appropriations Law," chapter 3, "Availability of Appropriations: Purpose," Fourth Edition, 2017 (The Red Book).

⁷ OMB Circular No. A-136, "Financial Reporting Requirements," July 2025.

⁸ Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.



compliance with provisions of applicable laws and regulations.⁹ We identified DoD Components that did not substantially comply with the FMFIA. For example, DoD Components did not perform a complete risk assessment to define all compliance objectives, identify all risks and information, define risk tolerances, analyze risks, and respond to risks identified. In addition, DoD Components did not monitor the effectiveness of their FMFIA internal control assessment programs or implement corrective actions in a timely manner. We also reported multiple material weaknesses related to FMFIA noncompliance in our Report on Internal Control over Financial Reporting.

The Federal Information Security Modernization Act. One of the requirements of the Federal Information Security Modernization Act (FISMA) is for agencies to provide information security controls commensurate with the risk and potential harm of not having those controls.¹⁰ The National Institute of Standards and Technology publishes standards and guidelines for Federal entities to implement in their systems.¹¹ Deviations from these standards and guidelines represent departures from FISMA requirements. We identified that multiple DoD Components did not comply with National Institute of Standards and Technology guidance for their financial management systems and thus did not comply with certain aspects of FISMA. For example, DoD Components did not fully implement security controls, such as policies and procedures for configuration management and security management, managing and monitoring access controls, using proper segregation of duties, or fully implementing Complementary User Entity Controls.

The Debt Collection Improvement Act. The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires the DoD to report to the Treasury any nontax debts or claims owed to the U.S. Government that are delinquent for more than 120 days.¹² We identified one DoD Component that may be noncompliant with the Debt Collection Improvement Act. Specifically, the DoD Component could not sufficiently support the validity of recorded debts, which limited the extent of audit procedures that could be performed over Debt Collection Improvement Act requirements.

⁹ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016.

¹⁰ Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

¹¹ National Institute of Standards and Technology, Special Publication 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020, does not apply to national security systems, subject to exceptions.

¹² Public Law 104-134, "Debt Collection Improvement Act of 1996," as amended by Public Law 113-101, "Digital Accountability and Transparency Act of 2014," May 2014.

Recommendations

This report does not include recommendations to correct identified noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements. Auditors provided notices of findings and recommendations to management for the DoD and DoD Components to address reported instances of noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements during the audits. In addition, auditors of the DoD reporting entities' financial statements included recommendations within their Reports on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

Agency Comments

We provided a draft of this report to the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War (USW[C]/CFO) to provide a formal response; their response follows our audit reports. Government Auditing Standards require the auditor to perform limited procedures on the USW(C)/CFO's response to the findings identified during our engagement and described in the accompanying Agency Financial Report. In the USW(C)/CFO's response, they acknowledged the findings identified and expressed their commitment to resolving critical issues. The USW(C)/CFO's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of compliance with provisions of applicable laws, regulations, contracts, and grant agreements; not to provide an opinion on compliance. This report is not suitable for any other purpose.



Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting





COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF WAR

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

Ms. Lorin T. Venable, CPA
Assistant Inspector General for Audit
Office of Inspector General
Department of War
4800 Mark Center Drive
Alexandria, VA 22350-1500

DEC 18 2025

Dear Ms. Venable:

We have reviewed the audit report and acknowledge the findings and results. The Department of War is committed to resolving its critical issues and achieving an unmodified audit opinion by 2028. This goal reflects our dedication to transparency, accountability, and the responsible stewardship of taxpayer resources. As we look ahead to the upcoming year, we have identified key priorities that will guide our efforts toward this objective:

- **Defense Working Capital Fund (DWCF):** Our immediate focus is on preparing a combined DWCF Financial Report culminating in an unmodified opinion on the fiscal year 2027 financial statements over a two-year period. This milestone will serve as a critical building block in our broader financial improvement strategy.
- **Agency-Wide Annual Financial Report:** Building on the success of the DWCF audit, the Department will channel its efforts toward achieving an unmodified opinion on the fiscal year 2028 agency-wide financial statements.
- **Implementation of Automation and Artificial Intelligence:** To further enhance our financial management capabilities, the Department is implementing automation and artificial intelligence to automate internal controls, streamline processes, and produce accurate financial reports that comply with federal accounting standards. By leveraging these advanced technologies, we will improve efficiency, reduce errors, and ensure the integrity of our financial data.

These efforts will strengthen public trust and ensure our financial operations align with the highest standards of accountability. We are confident that, through the dedication of our team and the integration of innovative technologies, we will achieve these critical milestones. Thank you for your continued partnership and oversight as we work toward these goals.

A handwritten signature in dark ink, reading "Jules W. Hurst III".

Jules W. Hurst III
Performing the Duties of the Under Secretary of
War (Comptroller)/Chief Financial Officer

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PRINCIPAL FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) ([31 U.S.C. § 3515\(b\)](#)). The statements are prepared from the accounting records of the Department and, to the extent possible, in accordance with the formats prescribed by Office of Management and Budget ([OMB Circular No. A-136](#)) and, U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board ([FASAB](#)). Reports used to monitor and control budgetary resources are prepared from the same records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The principal financial statements of the Department include the four financial statements described below.

1

CONSOLIDATED BALANCE SHEET

Presents the Department's financial position as of September 30, 2025. Assets reflect the economic benefits controlled by the Department, Liabilities reflect probable future outflows or other sacrifices of resources as a result of past transactions or events, and Net Position reflects the residual amounts.

2

CONSOLIDATED STATEMENT OF NET COST

Presents the Net Cost of the Department's operations by major program for the fiscal year ended September 30, 2025. The Department's Net Cost of Operations is equal to the gross cost incurred net of exchange revenue earned and gains/losses from actuarial assumption changes for Military Retirement Benefits.

3

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

Presents the change in the Department's Net Position that resulted from the Net Cost of Operations, Budgetary Financing Sources, and Other Financing Sources for the fiscal year ended September 30, 2025.

4

COMBINED STATEMENT OF BUDGETARY RESOURCES

Presents information about the Budgetary Resources available to the Department, the year-end status of the resources, and the outlays of resources for the fiscal year ended September 30, 2025. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are reflected in the amounts reported on the statement.



U.S. Department of Defense

CONSOLIDATED BALANCE SHEET

As of September 30, 2025
(Dollars in millions)

2025
(Unaudited)

Assets (Note 2)

Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 1,005,721.5
Investments (Note 5)	2,230,016.9
Accounts Receivable, Net (Note 6)	2,975.7
Other Assets (Note 10)	1,409.7
Total Intragovernmental Assets	3,240,123.8
Total Other than Intragovernmental:	
Cash and Other Monetary Assets (Note 4)	1,063.1
Accounts Receivable, Net (Note 6)	15,572.8
Loans Receivable, Net (Note 7)	2,128.0
Inventory and Related Property, Net (Note 8)	386,367.7
General and Right-to-Use Property, Plant and Equipment, Net (Note 9)	983,008.8
Advances and Prepayments (Note 10)	9,842.1
Investments (Note 5)	10,555.6
Other Assets (Note 10)	2,991.3
Total Other than Intragovernmental:	1,411,529.4
Total Assets	4,651,653.2

Stewardship Property, Plant and Equipment (Note 9)

Liabilities (Note 11)

Intragovernmental:	
Accounts Payable	4,911.5
Debt (Note 12)	2,042.9
Advances from Others and Deferred Revenue (Note 15)	6,979.8
Other Liabilities (Notes 13 and 15)	11,208.5
Total Intragovernmental Liabilities	25,142.7
Other Than Intragovernmental:	
Accounts Payable	44,881.4
Federal Employee Salary, Leave, and Benefits Payable (Note 13)	26,492.2
Pensions, Other Post-Employment, and Veterans Benefits Payable (Note 13)	4,505,748.3
Environmental and Disposal Liabilities (Note 14)	107,983.6
Loan Guarantee Liabilities (Note 7)	22.2
Advances from Others and Deferred Revenue (Note 15)	7,182.9
Other Liabilities (Notes 15, 16, and 17)	11,625.1
Total Other Than Intragovernmental:	4,703,935.7
Total Liabilities	4,729,078.4



U.S. Department of Defense



U.S. Department of Defense

CONSOLIDATED BALANCE SHEET

As of September 30, 2025
(Dollars in millions)

2025
 (Unaudited)

Commitments and Contingencies (Note 17)

Net Position (Consolidated Totals)

Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	0.0
Unexpended Appropriations - Funds Other Than Dedicated Collections	906,950.7
Total Unexpended Appropriations (Consolidated)	906,950.7
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	13,281.5
Cumulative Results of Operations - Funds Other Than Dedicated Collections	(997,657.4)
Total Cumulative Results of Operations (Consolidated)	(984,375.9)

Total Net Position	(77,425.2)
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Total Liabilities and Net Position	\$ 4,651,653.2
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The accompanying notes are an integral part of these statements.



U.S. Department of Defense

CONSOLIDATED STATEMENT OF NET COST

For Year Ended September 30, 2025
(Dollars in millions)

2025
(Unaudited)

Program Costs (Note 19)

Department of the Air Force

Gross Costs	\$ 245,027.0
Less: Earned Revenue	(11,449.8)
Net Program Cost	233,577.2

Department of the Army

Gross Costs	200,870.4
Less: Earned Revenue	(62,590.6)
Net Program Cost	138,279.8

Department of the Navy

Gross Costs	239,724.2
Less: Earned Revenue	(32,524.5)
Net Program Cost	207,199.7

Civil Works

Gross Costs	20,599.8
Less: Earned Revenue	(7,501.4)
Net Program Cost	13,098.4

Support Activities

Gross Costs	281,335.1
Less: Earned Revenue	(47,858.5)
Net Program Cost	233,476.6

Military Retirement Fund

Gross Costs	164,462.5
Less: Earned Revenue	(69,398.5)
Net Program Cost	95,064.0

Net Costs Before Losses/(Gains) from Actuarial

Assumption Changes for Military Retirement Benefits	920,695.7
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Losses/(Gains) from Actuarial Assumption Changes for

Military Retirement Benefits (Note 13)	241,960.1
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Net Program Costs Including Assumption Changes

1,162,655.8

Costs Not Assigned to Programs

-

(Less: Earned Revenues) Not Attributed to Programs

-

Net Cost of Operations

\$ 1,162,655.8

The accompanying notes are an integral part of these statements.



U.S. Department of Defense



U.S. Department of Defense

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For Year Ended September 30, 2025
(Dollars in millions)
2025
(Unaudited)
Unexpended Appropriations

Beginning Balance (Includes Funds from Dedicated Collections of \$0.0 in FY 2025 - See Note 18)	\$ 753,246.1
Prior Period Adjustments:	
Corrections of Errors	3.3
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of \$0.0 in FY 2025 - See Note 18)	753,249.4
Appropriations Received	1,216,512.1
Appropriations Transferred In/Out	252.0
Other Adjustments (+/-)	(17,887.2)
Appropriations Used	(1,045,175.6)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections of \$0.0 in FY 2025- See Note 18)	153,701.3

Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections of \$0.0 in FY 2025 - See Note 18)

906,950.7

Cumulative Results of Operations

Beginning Balance	(961,623.1)
Prior Period Adjustments:	
Changes in Accounting Principles (+/-) (Note 28)	18,827.5
Corrections of Errors (+/-) (Note 28)	55,459.8
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of \$13,967.6 in FY 2025 - See Note 18)	(887,335.8)
Other Adjustments (+/-)	6,497.3
Appropriations Used	1,045,175.6
Nonexchange Revenue (Note 20)	3,449.5
Donations and Forfeitures of Cash and Cash Equivalents	1,153.0
Transfers In/Out Without Reimbursement	231.8
Donations and Forfeitures of Property	2.8
Imputed Financing	12,732.7
Other (+/-)	(3,627.0)
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of \$347.9 in FY 2025 - See Note 18)	1,162,655.8
Net Change in Cumulative Results of Operations Dedicated Collections of \$(686.1) in FY 2025 - See Note 18)	(97,040.1)

Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections of \$13,281.5 in FY 2025- See Note 18)

(984,375.9)

Net Position
\$ (77,425.2)
The accompanying notes are an integral part of these statements.



U.S. Department of Defense

COMBINED STATEMENT OF BUDGETARY RESOURCES

For Year Ended September 30, 2025
(Dollars in millions)

	2025 (Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources		
Unobligated Balance from Prior Year Budget	\$ 335,717.9	\$ 28.2
Authority, Net (Discretionary and Mandatory) (Note 21)		
Appropriations (Discretionary and Mandatory)	1,312,132.9	0.2
Borrowing Authority (Discretionary and Mandatory)	-	165.4
Contract Authority (Discretionary and Mandatory)	97,330.5	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	151,032.5	95.9
		-
Total Budgetary Resources	1,896,213.8	289.7
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	1,486,824.7	264.7
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	236,837.7	-
Exempt from Apportionment, Unexpired Accounts	3,964.8	-
Unapportioned, Unexpired Accounts	141,643.5	25.0
Unexpired Unobligated Balance, End of Year	382,446.0	25.0
Expired Unobligated Balance, End of Year	26,943.1	-
Unobligated Balance, End of Year (Total)	409,389.1	25.0
Total Budgetary Resources	1,896,213.8	289.7
Outlays, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	1,146,509.8	-
Distributed Offsetting Receipts (-)	(189,666.1)	-
Agency Outlays, Net (Discretionary and Mandatory)	\$ 956,843.7	\$ -
Disbursements, Net		
Disbursements, Net (Total) (Mandatory)	\$ -	\$ 47.6

The accompanying notes are an integral part of these statements.



NOTES TO THE FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE DISCLOSURES RELATED TO THE BALANCE SHEET

NOTE 2. NON-ENTITY ASSETS

NOTE 3. FUND BALANCE WITH TREASURY

NOTE 4. CASH AND OTHER MONETARY ASSET

NOTE 5. INVESTMENTS, NET

NOTE 6. ACCOUNTS RECEIVABLE, NET

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

NOTE 9. GENERAL AND RIGHT-TO-USE PP&E, NET

NOTE 10. OTHER ASSETS

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

NOTE 12. DEBT

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

NOTE 15. OTHER LIABILITIES

NOTE 16. LEASES

NOTE 17. COMMITMENTS AND CONTINGENCIES

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

OTHER STATEMENTS

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

NOTE DISCLOSURES NOT PERTAINING TO A SPECIFIC STATEMENT

NOTE 22. INCIDENTAL CUSTODIAL COLLECTIONS

NOTE 23. FIDUCIARY ACTIVITIES

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

NOTE 26. DISCLOSURE ENTITIES AND RELATES PARTIES

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

NOTE 28. RESTATEMENTS

NOTE 29. SUBSEQUENT EVENTS

NOTE 30. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Department of Defense (Department or DoD) includes the Office of the Secretary of Defense ([OSD](#)), The Joint Chiefs of Staff ([JCS](#)), DoD Office of the Inspector General ([DoD OIG](#)), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the [Army](#), the [Navy](#) (of which the [Marine Corps](#) is a component), and the [Air Force](#) (of which the [Space Force](#) is a component). Appendix A of the Agency Financial Report (AFR) provides a list of the Consolidation Entities which comprise the Department's reporting entity for the purposes of these consolidated / combined financial statements.

The reporting entity is a component of the United States (U.S.) Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for the Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization they are for a component of the U.S. Government.

B. Mission of the Reporting Entity

The Department was established by the [National Security Act of 1947](#). Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States by deterring war and ensuring our nation's security.

C. Basis of Presentation

The financial statements have been prepared to report the financial position, financial condition, and results of DoD operations, as required by the [Chief Financial Officers Act of 1990](#), as amended and expanded by the [Government Management Reform Act of 1994](#) and other applicable legislation. The financial statements account for all resources for which the Department is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

To the extent possible, the financial statements have been prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget ([OMB Circular A 136](#), *Financial Reporting Requirements*), and with U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board ([FASAB](#)). The Department is unable to fully comply with all elements of GAAP and OMB Circular A 136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Department continues to implement process and system improvements addressing these limitations.

In accordance with FASAB Statement of Federal Financial Accounting Standards ([SFFAS](#)) 47, *Reporting Entity*, in Note 26, *Disclosure Entities and Related Parties*, the Department is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities.

D. Basis of Accounting

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the consolidation entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from non-financial feeder systems and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Department presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components reflecting the aggregation of DoD Component data



after eliminating intradepartmental activities. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the consolidation entities. Therefore, intradepartmental activity has not been eliminated. DoD financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The Department is continuing to evaluate the effects of adopting the below accounting standards and other authoritative guidance issued by FASAB.

1. [SFFAS 48](#), *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. The Department has valued some of its I&RP using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with [SFFAS 3](#), *Accounting for Inventory and Related Property*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

2. [SFFAS 49](#), *Public-Private Partnerships: Disclosure Requirements*: Issued on April 27, 2016; Effective for periods beginning after September 30, 2018.

The Department identified Military Housing Privatization Initiative (MHPI) agreements as public-private partnerships (P3s) requiring disclosure. Accordingly, in concurrence with the considerations of [SFFAS 47](#), the Department performed assessments of the MHPI P3s and has determined that they meet the criteria for disclosure entities. DoD Components are still assessing agreements to determine if there are additional P3s to disclose. See Notes 25, *Public Private Partnerships*, and 26, *Disclosure Entities and Related Parties*, for additional disclosure details and information. The Department continues to assess agreements to determine if there are additional P3s to disclose.

3. [SFFAS 50](#), *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (PP&E) as permitted by SFFAS 50. Some General PP&E has already been valued using deemed cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for General PP&E in accordance with [SFFAS 6](#), *Accounting for Property, Plant and Equipment*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to the General and Right-to-Use Property, Plant and Equipment line item.

4. [SFFAS 53](#), *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

5. [SFFAS 54](#), *Leases*: Issued April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under [SFFAS 58](#), *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption was not permitted. For additional information, see [SFFAS 60](#), *Omnibus Amendments 2021: Leases-Related Topics*, [Technical Release 20](#), *Implementation Guidance for Leases*, and [Technical Bulletin 2023-1](#), *Intragovernmental Leasehold Reimbursable Work Agreements*.

6. [SFFAS 57](#), *Omnibus Amendments 2019*: Issued September 27, 2019; Effective dates vary based on the paragraph number.
7. [SFFAS 59](#), *Accounting and Reporting of Government Land*: Issued September 30, 2021; Effective dates vary based on the paragraph number.
8. [Interpretation 9](#), *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019.
9. [Technical Bulletin 2020-1](#), *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.

The Department has not recorded all transactions consistent with GAAP. The Department continues transitioning to systems that can produce GAAP compliant financial statements. The transactions not recorded consistent with GAAP and believed to be materially misstated in the financial statements include, but are not limited to:

1. Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.
2. Transactions that should have been recorded in prior years, were recorded in the current year.

As DoD Components obtain audit extensions and continue working toward achieving an unmodified audit opinion on their financial statements, audit-required adjustments may continue. This ongoing process could further contribute to the potential for material misstatements.

E. Accounting for Intragovernmental and Intergovernmental Activities

Intragovernmental Activities: Treasury Financial Manual ([TFM](#)) Volume I, Part 2, [Chapter 4700](#), provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

Intergovernmental Activities: Goods and services are received from other federal agencies at no cost or at a reduced cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with [SFFAS 55](#), *Amending Inter-entity Cost Provisions*, the Department recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act ([FECA](#)); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

For additional information, see Note 19, *Disclosures Related to the Statement of Net Cost*.



F. Non-Entity Assets

The Department classified assets as either entity or non-entity. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. The Department combines its entity and non-entity assets on the Balance Sheet and discloses its non-entity assets in the notes.

For additional information, see Note 2, *Non-Entity Assets*.

G. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents the aggregate amount in the Department's accounts with the U.S. Treasury that is available to pay current liabilities and fund authorized purchases, subject to legal restrictions. The Department's monetary resources of collections and disbursements are maintained in U.S. Treasury ([Treasury](#)) accounts. The disbursing offices of the Defense Finance and Accounting Service ([DFAS](#)), the Military Departments, the U.S. Army Corps of Engineers ([USACE](#)), and the Department of State's financial service centers currently process the majority of the DoD's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using DoD's disbursing systems instead of Treasury's system is recognized by Treasury as Non-Treasury Disbursing Office (NTDO). DoD is actively migrating NTDO transactions to Treasury Disbursing Offices (TDO) under the TDO Enterprise Strategy effort. TDO is DoD's target end state of executing payments and collections directly between DoD and Treasury using Treasury's systems and Treasury as the Service Provider. This posture will allow DoD to achieve FBWT accountability and traceability through daily reconciliation and reporting directly with Treasury.

FBWT is an asset of the Department and a liability of the U.S. Government General Fund. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the Department and liabilities of the U.S. Government General Fund. In both cases, the amounts represent commitments by the U.S. Government to provide resources for programs, but they do not represent net assets to the Government as a whole.

When the Department seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, if in cases of a budget deficit.

In addition, the Department reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account.

For additional information, see Note 3, *Fund Balance with Treasury*.

H. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Department, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the [Treasury prevailing rate of exchange](#). The TFM Volume I, Part 2, [Chapter 3200](#), provides guidance for accounting and reporting foreign currency.

The Department conducts a significant portion of its operations overseas. Congress established a special appropriations account to handle the gains and losses from foreign currency transactions for five general fund appropriation types: (1) operation and maintenance, (2) military personnel, (3) military construction, (4) family housing operations and maintenance, and (5) family housing construction. The gains and losses are calculated as the difference between the exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

For additional information, see Note 4, *Cash and Other Monetary Assets*.

I. Investments

The Department reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, no provision is made for unrealized gains or losses on these securities.

For additional information, see Note 5, *Investments*.

J. Accounts Receivable

Accounts receivable from other federal entities or the public include reimbursements, receivables, and refunds receivable. Allowances for uncollectible accounts are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history.

For additional information, see Note 6, *Accounts Receivable, Net*.

K. Loans Receivable, Net and Loan Guarantee Liabilities

The Department operates a direct loan and loan guarantee program authorized by the National Defense Authorization Act ([NDAA](#)) for fiscal year (FY) 1996, which provides the Department with the authorities to operate guarantees (both loan and rental), conveyance, and leasing of existing property and facilities, differential lease payments, investments (both limited partnerships, and stock and bond ownership), and direct loans to the extent of the sanctions which are defined in the Federal Credit Reform Act of 1990 ([FCRA](#)).

The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers; to attract private lending, expertise, and innovation; and provide housing more efficiently.

As required by [SFFAS 2](#), *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

OMB [Circular A-11](#), *Preparation, Submission, and Execution of the Budget*, Part 5, and OMB Circular A-136, specify disclosure requirements for government direct loans and loan guarantees.

For additional information, see Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*.

L. Inventories and Related Property

The Department values substantially all inventory available at historical cost using the moving average cost flow assumption. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 48. Inventory held for sale includes consumable spare and repair parts and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory requiring repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process encouraging the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness to defend the nation. The Department's policy for accounting and reporting for Inventory Held for Repair is to use the allowance method as described in SFFAS 3. Inventory Work-in-Process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term relating to military force management and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are



not managed in the Department's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies.

Related property includes Operating Materiel and Supplies (OM&S) and stockpile materiel. OM&S, including munitions not held for sale, are valued using various methods including moving average cost, standard price, historical cost, replacement price, and direct method. The Department uses both the consumption method and the purchases method of accounting for OM&S. Centrally managed and stored items, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. Under this method, OM&S are expensed when consumed. The purchase method expenses OM&S when purchased. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than General Equipment. The Department determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

OM&S are recognized at net realizable value through an allowance account. For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency ([DLA](#)) [Disposition Services](#), the net realizable value will generally be zero. The net realizable value of EOU disposed of through a [Qualified Recycling Program](#) or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU inventory, such as buyer quotes, or other reasonable means.

For additional information, see Note 8, *Inventory and Related Property, Net*.

M. General Property, Plant and Equipment

The Department generally records General PP&E at the estimated historical cost. Some consolidating entities used the alternative valuation methods from SFFAS 50 based on historical records such as expenditure data, contracts, budget information, and engineering documentation. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications / improvements to existing General PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is \$250 thousand with the following exceptions:

Table 1. Capitalization Thresholds

DoD Entity	Capitalization Threshold
Department of the Navy General Fund (General Equipment and Real Property)	\$1 million
Department of the Army General Fund (Real Property)	\$1 million
Department of the Air Force General Fund (General Equipment and Real Property)	\$1 million
DoD Intelligence Agencies	\$1 million
Marine Corps General Fund (Real Property)	\$500 thousand
Marine Corps General Fund (General Equipment)	\$100 thousand

Except for those related to USACE Civil Works, DoD Intelligence Agencies, and Department of Navy General Fund (Real Property), these capitalization thresholds apply to General PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General PP&E assets acquired prior to October 1, 2013, were capitalized at prior thresholds (\$100 thousand for general equipment and \$20 thousand for real property). However, in the years leading up to the DoD entities making unreserved assertions under SFFAS 50, each DoD Entity may apply the applicable capitalization threshold to its entire population of General PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. The Department depreciates all General PP&E assets, other than land and construction in progress, on a straight-line basis.

The Department provides government-owned or leased General PP&E (Government-Furnished Property (GFP)) to contractors for performing a contract, for which the Department must recognize the GFP for accountability and financial reporting purposes.

Contactor-Acquired Property (CAP) is General PP&E acquired by a contractor on behalf of the Department for performing a contract, where the government will ultimately hold the title to the General PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, GAAP requires the CAP to be reported on the Department's Balance Sheet when title passes to the Department or when the General PP&E is delivered to the Department.

For additional information, see Note 9, *General and Right-to-Use, PP&E, Net*.

N. Other Assets

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation ([FAR](#)), [Part 32](#), as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement ([DFARS](#)) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, see Note 10, *Other Assets*.

O. Leases

Lease payments for the rental of equipment, internal use software, and operating facilities are classified as either intragovernmental, short term or right-to-use lease asset.

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in [SFFAS 47](#), *Reporting Entity* whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

A short-term lease is a non-intragovernmental lease with a lease term of twenty-four months or less.

Right-to-use leases are comprised of leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. Right-to-use leases differ from short-term and intragovernmental leases in that right-to-use asset is recorded on the Department's balance sheet, whereas short-term and intragovernmental leases only record expenses and revenues associated with the lease.

When a right-to-use lease substantially transfers all the benefits and risks of ownership to the Department, the Department records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The Department records the asset and liability at the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor). The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.



For additional information, see Note 16, *Leases*.

P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, see Note 11, *Liabilities Not Covered by Budgetary Resources*.

Q. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with [SFFAS 5, Accounting for Liabilities of the Federal Government](#), non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered and non-nuclear powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

For additional information, see Note 14, *Environmental and Disposal Liabilities*.

R. Other Liabilities

Other Liabilities include the following:

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

The [FECA](#) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor ([DOL](#)), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

[SFFAS 51, Insurance Programs](#), established accounting and financial reporting standards for insurance programs. The Office of Personnel Management ([OPM](#)) administers insurance benefit programs available for coverage to the Department's civilian employees; however, they are not required to participate. These programs include life, health, and long-term care insurance.

The life insurance program, Federal Employee Group Life Insurance ([FEGLI](#)) plan, is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits ([FEHB](#)) program is comprised of different types of health plans that are available to federal employees for individual and family coverage

for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program ([FEDVIP](#)). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long Term Care Insurance Program ([FLTCIP](#)) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB; however, there is no requirement to enroll in FEHB.

OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The Department has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

[TRICARE](#) is a worldwide health care program providing coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with network and non-network TRICARE authorized civilian health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The Defense Health Program serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors.

For additional information, see Note 13, *Federal Employee and Veterans Benefits Payable* and Note 15, *Other Liabilities*.

S. Commitments and Contingencies

The Department recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 17, *Commitments and Contingencies*. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

The Department executes project agreements pursuant to the framework cooperative agreement with foreign governments. All these agreements give rise to obligations fully reported in the DoD financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The Department does not enter into treaties and other international agreements that create contingent liabilities.

The Department does report environmental contingencies separate from legal contingencies. The environmental contingencies are reported in Note 14, *Environmental and Disposal Liabilities*. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 17, *Commitments and Contingencies*.

T. Federal Employee and Veteran Benefits

The Department applies [SFFAS 33](#), *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost.

Refer to Note 13, *Federal Employee and Veterans Benefits Payable* and Note 19, *General Disclosures Related to the Statement of Net Cost*, for additional information.



As an employer entity, the Department recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans including health and life insurance plans. However, as the administering entity, OPM, is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DoD employees hired prior to January 1, 1987, participate in the Civil Service Retirement System ([CSRS](#)), while the majority of DoD employees hired after December 31, 1983 are covered by the Federal Employees Retirement System ([FERS](#)) and Social Security. Employees hired between January 1, 1984, and December 31, 2012, are covered by the FERS basic annuity benefit. A primary feature of FERS offers a defined contribution plan ([Thrift Savings Plan](#)) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the FEHB Program and FEGLI Programs. The Department reports both the full annual cost of providing these other retirement benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for other post-employment benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

U. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, the Department is subject to the federal budget process, which involves appropriations provided both annually and on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DoD and Government-wide financial reports.

The Department's budgetary resources reflect past congressional action and enable the Department to incur budgetary obligations, but do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The Department receives congressional appropriations and funding as general, working capital (revolving), trust, and special funds. The Department uses these appropriations and funds to execute its missions, and subsequently reports on resource usage.

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DoD general fund appropriations cover costs including personnel, operation and maintenance, research and development, procurement, and military construction.

Working capital funds (WCF) conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions flowing through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management

WCF activities recognize revenue from the sale of inventory items.

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. Special fund accounts are used to record government receipts reserved for a specific purpose and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. In accordance with [SFFAS 27](#), *Identifying and Reporting Funds from Dedicated Collections*, as amended by [SFFAS 43](#), *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards SFFAS 27, Identifying and Reporting Earmarked Funds*, the Department separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for Funds from Dedicated Collections.

For additional information, see Note 18, *Funds from Dedicated Collections*.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DoD funds and, as such, are not available for the Department's operations. The Department is acting as an agent or custodian for funds awaiting distribution.

In accordance with [SFFAS 7](#), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Department recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The United States has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

V. Recognition of Expenses

The Department's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

In the case of OM&S, operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which consolidating entities may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under GAAP.

W. Budgetary Resources

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The following budgetary terms are commonly used:

An appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.



Offsetting Collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Outlays are the liquidation of obligations that generally take the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections, and they are the measure of Government spending.

X. Treaties for Use of Foreign Bases

The Department uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any irretrievable capital assets. The settlement due to the United States or host nation is negotiated and takes into account the value of capital investments and may be offset by environmental cleanup costs, if applicable.

Y. Use of Estimates

The Department's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as environmental liabilities, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation.

Z. Parent-Child Reporting

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account; and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed all activity be reported in the financial statements of the child entity.

The Department receives allocation transfers, as a child entity, from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation and the Appalachian Regional Commission.

Additionally, the Department also receives allocation transfers from certain funds meeting the OMB exception, and all related activity is included in the Department's financial statements. These funds include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance.

As a parent entity, the Department reports in these financial statements certain funds allocated to the Departments of Transportation and Agriculture.

AA. Transactions with Foreign Governments and International Organizations

The Department is implementing the administration's foreign policy objectives under the provisions of the [*Arms Export Control Act of 1976*](#) by facilitating the sale of U.S. Government approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

BB. Fiduciary Activities

Fiduciary activities which the Department must uphold are the collection or receipt, and the management, protection, accounting, investment, and disposition of cash and other assets in which non-federal individuals or entities have an ownership interest. Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet.

For additional information, see Note 23, *Fiduciary Activities*.

CC. Tax Exempt Status

As an agency of the federal government, the Department is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

DD. Standardized Balance Sheet, the Statement of Changes in Net Position, Statement of Net Cost and Related Footnotes – Comparative Year Presentation

The Department implemented a single-year financial statement presentation format for FY 2025. This implementation follows the guidance specified in Section II.3.1 of Office of Management and Budget Circular A-136. This transition streamlines the reporting process and ensures compliance with current federal financial statement presentation requirements.



NOTE 2. NON-ENTITY ASSETS

The Department has stewardship accountability and reporting responsibility for non-entity assets. Non-entity assets consist of assets held by but not available to the Department. These are offset by liabilities to accurately reflect the Department's net position. Refer to Note 11, *Liabilities Not Covered by Budgetary Resources*, and Note 15, *Other Liabilities*, for additional information.

Table 2. Non-Entity Assets

As of September 30 (Dollars in millions)	2025
Intragovernmental Assets	
Fund Balance with Treasury	\$ 2,359.1
Accounts Receivable, Net	-
Total Intragovernmental Assets	2,359.1
Other than Intragovernmental Assets	
Cash and Other Monetary Assets	0.3
Accounts Receivable, Net	7,744.5
Total Other than Intragovernmental Assets	7,744.8
Total Non-Entity Assets	10,103.9
Total Entity Assets	4,641,549.3
Total Assets	\$ 4,651,653.2

Restatements

In FY 2024, adjustments were made after the Agency Financial Report was issued. In FY 2025, adjustments were made to correct these differences, increasing total entity assets by \$12.0 million.

The Department uses several cost methodologies to provide asset values pursuant to [SFFAS 48](#), *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, and [SFFAS 50](#), *Establishing Opening Balances for General Property, Plant, and Equipment*. Some consolidation entities used the deemed cost valuation methods from these standards based on historical records such as expenditure data, contracts, budget information, and engineering documentation. This increased the beginning balance of total entity assets by \$18.8 billion.

Additionally, the Department recorded prior period adjustments due to the correction of errors that increased the beginning balance of total entity assets by \$55.4 billion, primarily due to assets that were not capitalized upon acquisition and depreciation revaluation.

Intragovernmental Assets

Fund Balance with Treasury consists primarily of amounts held in nonfiduciary deposit fund accounts and general fund receipt accounts. Deposit funds temporarily hold monies that do not belong to the Federal Government until paid to the appropriate party. General fund receipt accounts represent collections that are not identified by law for another account for a specific purpose, and which are transferred to the U.S. Treasury at the end of the fiscal year. See Note 3, *Fund Balance with Treasury* for additional information.

Other than Intragovernmental Assets

The Department adopted a revised accounting policy to recognize funds held outside of the U.S. Treasury. These amounts are now considered to be the Department's cash and are reported in Total Entity Assets. Cash and other monetary assets on this note represent amounts seized during investigation related to waste, fraud, abuse, and corruption within the department. See Note 4, *Cash and Other Monetary Assets* for additional information.

Accounts Receivable primarily consist of amounts associated with long-term agreements such as easements, sales of hydroelectric power, recreational development, and water storage; amounts due to appropriations that have canceled, including amounts related to noncompliance with cost accounting standard requirements; and interest, penalties, and fees assessed on delinquent accounts. The Department cannot use proceeds from non-entity accounts receivable and must transfer them to the U.S. Treasury unless permitted by law. See Note 6, *Accounts Receivable, Net* for more information.



NOTE 3. FUND BALANCE WITH TREASURY

The U.S. Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's Fund Balance with Treasury (FBWT) consist of general funds, revolving funds, trust funds, special funds and other fund types.

FBWT is increased by receiving appropriations, continuing resolutions, transfers-in, and offsetting collections, and it is decreased through rescissions and cancellations of budget authority, transfers-out, and disbursements.

Table 3. Status of Fund Balance with Treasury

As of September 30 (Dollars in millions)	2025
Unobligated Balance	\$ 2,510,393.4
Obligated Balance Not Yet Disbursed	763,994.0
Non-Budgetary FBWT	
Clearing accounts	115.4
Deposit funds	2,294.5
Disbursing Officer Funds	(981.1)
Non-entity and other	171.4
Total Non-Budgetary FBWT	1,600.2
Non-FBWT Budgetary Accounts	
Investments in U.S. Treasury-Securities	(2,111,142.6)
Unfilled Customer Orders without Cash Advance	(101,469.0)
Unfunded Contract Authority	(38,904.6)
Borrowing Authority	(186.9)
Budgetary Receivables from Federal Sources	(18,563.0)
Total Non-FBWT Budgetary Accounts	(2,270,266.1)
Total FBWT	\$ 1,005,721.5

Other Disclosures

The Status of FBWT reflects the reconciliation between the budgetary resources supporting FBWT (consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means.

Unobligated Balance represents the cumulative amount of budgetary authority set aside to cover future obligations.

Obligated Balance Not Yet Disbursed represents funds set aside to liquidate amounts due on binding agreements that have not been paid.

Non-Budgetary FBWT includes accounts that do not have budget authority such as clearing accounts, deposit funds, disbursing officer funds, and non-entity funds.

Non-entity FBWT represents amounts held by but not available to the Department. Other balances on this line include taxes and fees collected by the U.S. Army Corps of Engineers.

Non-FBWT Budgetary accounts create budgetary authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budgetary authority, such as appropriations. The Non-FBWT Budgetary accounts are comprised of the following:

- Investments in U.S. Treasury securities provide the Department with budgetary authority and enable the Department to access funds to make future benefit payments or other expenditures. The Department must redeem these securities before they become part of the FBWT.
- Unfilled Customer Orders without Cash Advances are accounts receivable that provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.
- Contract Authority permits the Department to incur obligations in advance of appropriations, offsetting collections or receipts. It does not increase FBWT when initially posted but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected.
- Borrowing authority is budget authority that permits obligations and outlays to be financed by borrowing from the U.S. Treasury. The Department utilizes borrowing authority for the Military Housing Privatization Initiative, the Defense Production Act, and the Defense Strategic Capital Credit Program. Borrowing authority is used in compliance with Office of Management and Budget [Circular No. A-129](#). See Note 12, *Debt*, for additional information.
- Budgetary Receivables from Federal Sources are funds receivable by the Department that are owed from a federal source. They are considered budgetary resources because they represent future collections.

The FBWT reported in the financial statements has been adjusted to reflect the Department's balance as reported by the U.S. Treasury. The difference between FBWT in the Department's general ledgers and FBWT reflected in the U.S. Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements.



NOTE 4. CASH AND OTHER MONETARY ASSETS

Table 4. Cash and Other Monetary Assets

As of September 30 (Dollars in millions)	2025
Cash	\$ 827.0
Foreign Currency	236.1
Total Cash and Foreign Currency	\$ 1,063.1

The Department reported \$1.1 billion in unrestricted entity cash and foreign currency, as well as \$257.0 thousand in restricted non-entity cash. The entity cash and foreign currency (i.e., cash that a reporting entity has authority to use in its operations) primarily consists of cash held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. The non-entity cash (i.e., cash that a reporting entity collects and holds in a custodial capacity for the U.S. Treasury or other Federal entity) consists of seized assets.

In FY 2025, the Department had \$257.0 thousand in seized assets. This amount consists of \$189.4 thousand on hand at the beginning of FY 2025 and \$67.6 thousand seized during the year, and none disposed or returned to the Treasury. These assets were seized in investigations related to waste, fraud, abuse, and corruption in the department. When assets are seized, the Department serves as the custodian until they are returned to the Treasury.

NOTE 5. INVESTMENTS, NET

Table 5A. Intragovernmental Investments

As of September 30 (Dollars in millions)	2025						
	Cost/ Acquisition Value	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
Intragovernmental Investments							
Non-Marketable, Market-Based							
Military Retirement Fund	\$ 1,837,275.8	Eff. Int.	\$ (52,714.5)	\$ 8,135.2	\$ 1,792,696.5	\$ (254,079.9)	\$ 1,538,616.6
Medicare Eligible Retiree							
Health Care Fund	442,800.3	Eff. Int.	(20,645.4)	3,103.8	425,258.7	(38,468.0)	386,790.7
U.S. Army Corps of Engineers	10,561.1	Eff. Int.	74.6	27.4	10,663.1	(26.6)	10,636.5
Other Funds	1,403.6	Eff. Int.	(7.3)	2.3	1,398.6	(10.2)	1,388.4
Total Non-Marketable, Market-Based	2,292,040.8		(73,292.6)	11,268.7	2,230,016.9	(292,584.7)	1,937,432.2
Total Intragovernmental Investments	\$ 2,292,040.8		\$ (73,292.6)	\$ 11,268.7	\$ 2,230,016.9	\$ (292,584.7)	\$ 1,937,432.2
Legend for Amortization Methods: Eff. Int. = Effective Interest Method							

Other Disclosures – Intragovernmental Investments

The Department invests in non-marketable, market-based U.S. Treasury securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value. See Note 1.I, *Investments*, for additional information.

The securities were issued to funds legally authorized to invest balances with the U.S. Treasury, which includes funds from dedicated collections. See Note 18, *Funds From Dedicated Collections*, for additional information.

Securities are an asset to the Department and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds from sureties reaching maturity) is deposited in the U.S. Treasury. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements.

The Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public, or curtailing other expenditures. The Federal Government uses the same method to finance all of its other expenditures.

The Military Retirement Fund's (MRF) and Medicare-Eligible Retiree Health Care Fund's (MERHCF) investing goals are to maintain expected average maturity of future investments of approximately 15 years or greater depending on the market and performance of the portfolio. The types of investments purchased and related maturity dates are selected to meet the projected timing of funds obligation to pay future benefits. The investments consist of the following for MRF and MERHCF:



- Zero Coupon Bonds: These bonds do not pay interest, but instead are bought at a larger initial discount. These bonds will mature between August 15, 2033, and August 15, 2035.
- Bonds: Bonds pay interest between 1.875% and 6.875%. The maturity dates for bonds held are between February 15, 2026, and February 15, 2055.
- Treasury Inflation-Protected Security (TIPS): TIPS pay interest between 0.125% and 3.875%. TIPS also pay inflation compensation, so the security maintains its original purchase power over the life of the security. This amount varies with the rate of inflation. The maturity dates for TIPS are between January 15, 2026, and February 15, 2055.
- One Day: MRF and MERHCF invest in One Day securities daily. The interest paid by these securities is determined by the Treasury daily.

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of \$10.1 billion in the Harbor Maintenance Trust Fund.

Other invested funds primarily consist of \$689.6 million in support of [relocation activities](#) and \$660.4 million for military [tuition assistance](#).

Table 5B. Reconciliation of Investment Activity for Other than Intragovernmental Securities

As of September 30 (Dollars in millions)		2025
Beginning Balance	\$	9,573.5
Acquisition of Investments		400.00
Other:		
Gains (Losses) upon dissolution of joint ventures		-
Other		582.1
Ending Balance	\$	<u>10,555.6</u>

Other Disclosures – Other than Intragovernmental Investments

Other than Intragovernmental Investments consists of Military Housing Privatization Initiative (MHPI) agreements in the form of limited partnerships (LPs) and limited liability companies (LLCs). An LP or LLC is a single purpose entity, defined as public-private partnership (P3) with risk-sharing agreement and an expected life greater than five years. The private sector managing partner provides private industry expertise and financial tools and capital to leverage government dollars. The DoD serves as minority and non-managing member which invests in LPs and LLCs involved in the acquisition or construction of family housing at the Department of the Army, Department of the Air Force, and Department of the Navy installations. The DoD provides cash, loan guarantees, land (through long-term ground leases), housing or facilities as equity. The DoD's involvement in the operations and management of the LP and LLC is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership.

The P3 investments' gain was calculated using the equity method in accordance with the [DoD Financial Management Regulation](#), Volume 4, Chapter 7, "Investments and Other Assets". The amount is shown as Other: Other in Table 5B. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI LPs.

Under the authority of the [Defense Production Act of 1950](#), the Department invested \$400.0 million in a rare earth elements producer to accelerate the build-out of an end-to-end U.S. rare earth magnet supply chain and reduce foreign dependency.

NOTE 6. ACCOUNTS RECEIVABLE, NET

Table 6. Accounts Receivable, Net

As of September 30 (Dollars in millions)	2025		
	Gross Amount Due	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental			
Receivables	\$ 3,099.4	\$ (123.7)	\$ 2,975.7
Non-Federal Receivables			
(From the Public)	16,441.7	(868.9)	15,572.8
Total Accounts Receivable	\$ 19,541.1	\$ (992.6)	\$ 18,548.5

Other Disclosures

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of the Treasury Financial Manual, Volume I, Part 2, [Chapter 4700](#). Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and are calculated on consolidated receivable balances.

The Federal Accounting Standards Advisory Board issued [Technical Bulletin 2020-1](#), *Loss Allowance for Intragovernmental Receivables*, which clarified [SFFAS 1](#), *Accounting for Selected Assets and Liabilities*. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. The Department recognizes a 100% allowance on intragovernmental accounts receivable aged over two years.

In accordance with SFFAS 1, the Department reported accounts receivable of \$6.1 billion based on contractually asserted claims against vendors. This includes principal, interest, and penalties. These claims are due to various issues, including contractor non-compliance with governmental cost accounting standards, contractor overpayments, and accruals for debts.

Additionally, the Department has Fuel Exchange Agreements that provide reciprocal fuel sales with foreign countries. Accounts receivable and accounts payable balances are periodically offset, with the remaining balances settled in fuel or cash payment with the respective country.



NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

Table 7A. Summary of Direct Loan and Loan Guarantees

As of September 30 (Dollars in millions)	2025
Loans Receivable, Net	
Direct Loans	
Military Housing Privatization Initiative	\$ 1,732.0
Defense Production Act	268.2
Defense Strategic Capital Credit Program	127.7
Water Infrastructure Finance and Innovation Act	0.1
Total Direct Loans	2,128.0
Total Default Loan Guarantees	-
Total Loans Receivable, Net	<u>\$ 2,128.0</u>
As of September 30 (Dollars in millions)	2025
Loan Guarantee Liabilities	
Military Housing Privatization Initiative	\$ 22.2
Total Loan Guarantee Liabilities	<u>\$ 22.2</u>

The Department operates both direct loan and loan guarantee programs. Direct loans are disbursements of funds by the Department to nonfederal borrowers under a contract that requires repayment. Loan guarantees are pledges with respect to the payment on a debt obligation of nonfederal borrowers to nonfederal lenders.

[The Federal Credit Reform Act \(FCRA\) of 1990](#) governs all new and amended direct loan obligations and loan guarantee commitments made after fiscal year (FY) 1991.

The Office of Strategic Capital (OSC) had 1 new credit program activity subject to the FCRA.

Military Housing Privatization Initiative (MHPI)

The MHPI was authorized by the [National Defense Authorization Act \(NDAA\) for Fiscal Year 1996](#), which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family and unaccompanied housing, and the [Ronald W. Reagan NDAA for Fiscal Year 2005](#), which made the authority permanent. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage Government funds. Using the MHPI direct loan authority, the Department borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction and rehabilitation of suitable housing for military families. When the private sector repays the loans, the Department returns the funds to the Treasury. See Note 12, *Debt*, for additional information. In specific instances, the Department may use the MHPI loan guarantee authority to provide private loan repayment protection to private sector partners against specific risks, limited to downsizing of a military installation, prolonged deployment, and base closure. See Note 25, *Public-Private Partnerships*, for additional information.

Defense Production Act (DPA)

Under the authority of the [Defense Production Act of 1950](#), a finance agreement was signed with a borrower in March 2023 to enable the development and manufacture of biologics, vaccines, and nucleic acids. The projects under the finance agreement include acquisition; architectural, engineering, mechanical, electrical, and plumbing work; interior improvements of facilities; and completion of systems.

OSC

In December 2022, the Department established the OSC, which works with private capital to build enduring national supply chain security. Congress subsequently authorized OSC's mission in the [NDAA for FY 2024](#) and expanded OSC's mission in the [Servicemember Quality of Life Improvement and NDAA for FY 2025](#). The NDAA for FY 2024 also set out the mission of a "Pilot Program on Capital Assistance to Support Defense Investment in the Industrial Base" that defined "Capital Assistance" and authorized the credit program through FY 2028.

Under these authorities, a finance agreement was signed with a borrower in July 2025. A disbursement of \$150.0 million related to this agreement occurred in August 2025, which is reflected in Table 7C.

Water Infrastructure Finance and Innovation Act (WIFIA)

The Corps Water Infrastructure Financing Program (CWIFP) is a credit assistance program providing direct loans to local, State, and Tribal governments, as well as private entities for dam safety and levee projects. The program enables critical local infrastructure investments to improve public safety across the nation. Projects are fully implemented at the local level, with local control and ownership. CWIFP provides significant financial savings to local taxpayers while leveraging minimal federal investment and risk.

CWIFP is authorized by the WIFIA which was signed into law on June 10, 2014 as part of the [Water Resources Reform and Development Act of 2014](#). A [Notice of Funding Availability](#) was issued on September 20, 2023. No funding for direct loans has been obligated at this time.

Table 7B. Direct Loans Obligated

As of September 30 (Dollars in millions)	2025
Direct Loans Obligated Post - 1991:	
Military Housing Privatization Initiative	
Loans Receivable, Gross	\$ 1,641.3
Allowance for Subsidy Cost (Present Value)	90.7
Direct Loans, Net	1,732.0
Defense Production Act	
Loans Receivable, Gross	246.0
Allowance for Subsidy Cost (Present Value)	22.2
Direct Loans, Net	268.2
Defense Strategic Capital Credit Program	
Loans Receivable, Gross	150.0
Allowance for Subsidy Cost (Present Value)	(22.3)
Direct Loans, Net	127.7
Water Infrastructure Finance and Innovation Act	
Interest and Fees Receivable	0.1
Direct Loans, Net	0.1
Total Direct Loans Receivable, Net	
Loans Receivable, Gross	2,037.3
Interest and Fees Receivable	0.1
Allowance for Subsidy Cost (Present Value)	90.6
Direct Loans, Net	\$ 2,128.0



Post-1991 direct loans receivable are reported at the net present value (NPV) of the following projected cash flows, and do not represent proceeds the Department would expect to receive from selling the loans.

- Loan disbursements
- Repayment of principal, and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries

Interest is calculated using the interest earned method or the compound interest method subject to the terms of each agreement.

Table 7C. Total Amount of Direct Loans Disbursed (Post-1991)

As of September 30 (Dollars in millions)	2025
Direct Loan Programs	
Defense Strategic Capital Credit Program	\$ 150.0
Total	\$ 150.0

There was 1 direct loan disbursement in FY 2025.

See Table 7D for the related subsidy expense for new direct loans disbursed and further discussion of subsidy expense on Table 7E.

Table 7D. Subsidy Expense for Direct Loan Programs by Component

Table 7D.1. Subsidy Expense for New Direct Loans Disbursed					
2025					
As of September 30 (Dollars in millions)	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ -	\$ -	\$ -	\$ -	\$ -
Defense Strategic Capital Credit Program	35.7	(15.2)	-	-	20.5
Total	35.7	(15.2)	\$ -	\$ -	\$ 20.5

Table 7D.2. Direct Loan Modifications and Reestimates

2025				
As of September 30 (Dollars in millions)	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ (6.9)	\$ (23.1)	\$ (42.0)	\$ (65.1)
Defense Strategic Capital Credit Program	-	0.1	1.8	1.9
Total	\$ (6.9)	\$ (23.0)	\$ (40.2)	\$ (63.2)

Table 7D.3. Total Direct Loan Subsidy Expense:

As of September 30 (Dollars in millions)	2025
Military Housing Privatization Initiative	\$ (72.0)
Defense Strategic Capital Credit Program	22.4
Total	\$ (49.6)

Subsidy expenses for new direct loans are related to the \$150.0 million OSC loan disbursement.

Military Housing Privatization Initiative

Since inception of the program, no MHPI project has ever defaulted on its direct loan obligations. The Department recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review of MHPI projects is performed periodically. On an annual basis, there is a re-forecast of projected cash flows to assess each project's sustainability.

Additionally, the Department is planning, programming, and budgeting for direct loan modifications and / or making Government Equity Investments for various MHPI projects.

Table 7E. Subsidy Rates for Direct Loans by Program and Component

	2025				
As of September 30	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%
Defense Production Act	0%	0%	0%	0%	0%
Defense Strategic Capital Credit Program	-13%	18%	-1%	0%	5%
Water Infrastructure Finance and Innovation Act	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There was 1 new direct loan disbursed in FY 2025; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The budget assumption discount rates are part of the economic assumptions for the budget year of obligation. Economic assumptions include the interest rates used for discounting cash flows, the rate of inflation, and may include other assumptions as applicable to a particular program. They also include the interest rate charged to the borrower on the loan, if the rate is tied to a variable benchmark, such as the rate on specified Treasury securities.

The Department is required to re-estimate the subsidy cost throughout the life of each direct loan or loan guarantee to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These re-estimates represent additional costs or savings to the Government, new forecasts about future economic conditions, and other events and improvements in the methods used to estimate future cash flows.

The subsidy rates disclosed in Table 7E pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current and prior year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.



Table 7F. Schedule for Reconciling Subsidy Cost Allowance Balances (Post- 1991 Direct Loans)

As of September 30 (Dollars in millions)	2025
Beginning Balance of the Subsidy Cost Allowance	\$ (39.5)
Add total subsidy expense for direct loans disbursed during the reporting years shown in Table 7D.1	20.5
Adjustments:	
Loan Modifications	(6.9)
Subsidy Allowance Amortization	(1.5)
Other	-
Ending Balance of the Subsidy Cost Allowance before Reestimates	(27.4)
Add or subtract total subsidy reestimates as shown in Table 7D.2	(63.2)
Ending Balance of the Subsidy Cost Allowance	<u>\$ (90.6)</u>

The data used for budgetary subsidy cost estimates are updated, or re-estimated, annually after the end of the fiscal year to reflect actual loan performance and to incorporate any changes in assumptions about future loan performance. An upward re-estimate indicates that insufficient funds had been paid to the financing account. A downward re-estimate indicates that too much subsidy had been paid to the financing account.

In cases where the Department executes a risk category on a loan-by-loan basis, increases or decreases in subsidy cost for different loans within the same cohort and risk category will be netted against each other; that is, loans which require increased subsidies may first draw on the excess from any risk categories within the cohort where the re-estimate shows a subsidy decrease. Characteristics or indicators that may predict cost include the loan-to-value ratio, the relationship between the loan interest rate and relevant market rates, type of school attended for education loans, country risk categories for international loans, various asset or income ratios, and major contract terms.

The subsidy allowance amortization may be either positive or negative. A positive amortization implies that the interest received and the accrued interest receivable are greater than the accrued interest expense. This results in an increase to the subsidy cost allowance and a decrease to the loans receivable balance. A negative amortization implies that the interest received and the accrued interest receivable are less than the accrued interest expense. This results in a decrease to the subsidy cost allowance and an increase to the loans receivable balance.

Table 7G. Defaulted Guaranteed Loans from Post-1991 Guarantees

In estimating default costs, the following risk factors are considered

- Loan performance experience
- Current and forecasted international, national, or regional economic conditions that may affect the performance of the loans
- Financial and other relevant characteristics of borrowers
- The value of collateral to the loan balance
- Changes in recoverable value of collateral
- Newly developed events that would affect the performance of the loan
- Improvements in methods to re-estimate defaults

There were no defaulted loan guarantees in FY 2025.

Table 7H. Guaranteed Loans Outstanding**Table 7H.1. Guaranteed Loans Outstanding**

As of September 30 (Dollars in millions)	2025	
	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	\$ 781.5	\$ 781.5
Total	\$ 781.5	\$ 781.5

Table 7H.2. New Guaranteed Loans Disbursed

There were no new guaranteed loans disbursed in FY 2025

Table 7I. Liability for Loan Guarantees (Present Value)

As of September 30 (Dollars in millions)	2025
Liability for Post-FY1991 (Present Value):	
Military Housing Privatization Initiative	\$ 22.2
Total Loan Guarantee Liabilities for Loan Guarantees	\$ 22.2

Loan guarantee liabilities are reported at NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.



Table 7J. Subsidy Expense for Loan Guarantees by Program and Component**Table 7J.1. Subsidy Expense for New Loan Guarantees**

There were no subsidy expenses for new loan guarantees in FY 2025.

Table 7J.2. Modifications and Reestimates

As of September 30 (Dollars in millions)	2025			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (0.9)	\$ (1.9)	\$ (2.8)

Table 7J.3. Total Loan Guarantee Subsidy Expense

As of September 30 (Dollars in millions)	2025
Military Housing Privatization Initiative	\$ (2.8)

There were no subsidy expenses for new loan guarantees in FY 2025.

Table 7K. Budget Subsidy Rates for Loan Guarantees by Program for the Current Year's Cohorts

As of September 30	2025				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%
Defense Strategic Capital Credit Program	0%	0%	0%	0%	0%
Water Infrastructure Finance and Innovation Act	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan guarantees in FY 2025; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The subsidy rates disclosed in Table 7K pertain only to the current year's cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current and prior year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

**Table 7L. Schedule for Reconciling Loan Guarantee Liability Balances
(Post-1991 Loan Guarantees)**

As of September 30 (Dollars in millions)	2025
Beginning Balance of the Loan Guarantee Liabilities	\$ 24.4
Add interest expense on entity borrowings	\$ 0.6
Less downward reestimates	(2.8)
Ending Balance of the Loan Guarantee Liabilities	\$ 22.2

Table 7L relates to loan guarantee liabilities on Tables 7I through 7K

Table 7M. Administrative Expenses

Administrative expenses are limited to separately identified expenses in support of the direct loan and loan guarantee programs. Administrative expenses for loans were immaterial and, as such, not funded within the loan program accounts.

Table 7N. Loans Receivable

Table 7N.1. Summary Table: Changes in Net Receivables, Post-1991 Direct Loans

As of September 30 (Dollars in millions)	2025
Beginning Balance of the Loans Receivable, Net	\$ 1,988.3
Add loan disbursements	150.00
Less principal and interest payments received	(136.2)
Add Interest Accruals	74.8
Less Subsidy Expense	(20.5)
Add Negative Subsidy Payments	0.2
Less Upward Reestimates	(1.9)
Add Downward Reestimates	65.1
Other Increase/(Decrease) to the Subsidy Allowance	1.3
Other changes to the loan modifications	6.7
Allowance for loan and interest loss adjustments	-
Other non-cash reconciling items	0.2
Ending Balance of Loans Receivable, Net	\$ 2,128.0

Table 7N relates to direct loans receivable on Tables 7A through 7F.



NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Table 8A. Inventory and Related Property

As of September 30 (Dollars in millions)	2025
Inventory, Net	\$ 154,918.8
Operating Materials & Supplies, Net	230,972.0
Stockpile Materiel, Net	476.9
Total Inventory and Related Property, Net	\$ 386,367.7

Inventory, Net

Table 8B. Inventory Categories

	2025			
As of September 30 (Dollars in millions)	Inventory, Gross Value	Allowance for Loss	Inventory, Net	Valuation Method
Held for Sale	\$ 85,947.3	\$ (0.2)	\$ 85,947.1	LAC, MAC
Held in Reserve for Future Sale	9,474.0	-	9,474.0	MAC
Held for Repair	53,883.7	(2.2)	53,881.5	LAC, MAC
Raw Materials	1,630.0	-	1,630.0	MAC
Work-in-Process	3,986.2	-	3,986.2	MAC, SP
Excess, Obsolete, and Unserviceable	1,918.7	(1,918.7)	-	NRV
Total	\$ 156,839.9	\$ (1,921.1)	\$ 154,918.8	

Legend for Valuation Methods:
 LAC = Latest Acquisition Cost, adjusted for holding gains and losses | NRV = Net Realizable Value
 SP = Standard Price | MAC = Moving Average Cost | AC = Actual Cost

Recognition of Prior Period Adjustments

The Department uses several cost methodologies to provide inventory values pursuant to [SFFAS 48](#), Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials. Some consolidation entities used the deemed cost valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. This increased inventory beginning balances by \$19.1 billion.

General Composition of Inventory

Inventory is tangible personal property that is held for sale, in the process of production for sale; or to be consumed in the production of goods for sale. Examples include raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels held for sale.

The Department assigns inventory to a category based on condition: held for sale; held in reserve for future sale; held for repair; raw material; work-in-process; and excess, obsolete, and unserviceable (EO&U). The decision criteria for categorizing inventory is documented in the [DoD Financial Management Regulation \(FMR\)](#), Volume 4, Chapter 4, Paragraph 3.1 (Inventory Types).

Inventory Restrictions

The following types of inventory are subject to restrictions on sale.

- Inventory maintained as [war reserve materiel](#) (WRM) with a value of \$1.9 billion. WRM are mission-essential items necessary to equip and support the increase in military requirements forecasts in anticipation of a war. WRM primarily consists of bulk petroleum, subsistence items, medical supplies and equipment.
- Commissary items with a value of \$388.4 million. These consist of grocery, meat, and produce items that are limited for resale to authorized commissary patrons.
- Dispositions pending litigation or negotiation with a value of \$186.2 million. Issues include inventory condition, pricing disputes, and product specifications.

There are no known restrictions on inventory disposition related to environmental or other liabilities.

Other Disclosures

In addition to amounts reported in Table 8B, the Department has EO&U inventory with a gross value of \$1.6 million and an NRV of zero.

Operating, Materiel and Supplies, Net

Table 8C. OM&S Categories					
2025					
As of September 30 (Dollars in millions)	OM&S, Gross Value		Allowance for Loss	OM&S, Net	Valuation Method
Held for Use	\$	179,346.6	\$ (247.9)	\$ 179,098.7	Note 1
Held in Reserve for Future Use		27,019.4	(9.6)	27,009.8	Note 1
Held for Repair		21,223.1	(2,707.9)	18,515.2	Note 1
In Development		6,333.4	-	6,333.4	Note 1
Excess, Obsolete, and Unserviceable		2,881.9	(2,867.0)	14.9	NRV
Total	\$	236,804.4	\$ (5,832.4)	\$ 230,972.0	
Legend for Valuation Methods: Note 1: Direct Method, Consumption Method, Historical Cost, Moving Average Cost, Standard Price, Replacement Price, Direct Cost, Latest Acquisition Cost, Estimated Historical Cost, and Specific Identification NRV = Net Realizable Value					

Recognition of Prior Period Adjustments

The Department uses several cost methodologies to provide Operating Materiel and Supplies (OM&S) values pursuant to [SFFAS 48](#). Some consolidation entities used the deemed cost valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. This decreased OM&S beginning balances by \$174.8 million.

General Composition of OM&S

OM&S are tangible personal property to be consumed in normal operations, excluding inventory, stockpile materiel, and items used to construct real property or equipment, and includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption.

The Department assigns OM&S to a category based on condition: held for use; held in reserve for future use; held for repair; in development; and EO&U. The decision criteria for categorizing OM&S is documented in the [DoD FMR](#), Volume 4, Chapter 4, Paragraph 5.1 (OM&S Types).



OM&S Restrictions

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, EO&U OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

Other Disclosures

In addition to amounts reported in Table 8C, the Department has EO&U OM&S with an estimated gross value of \$16.0 billion and an NRV of zero.

Stockpile Materiel, Net

Table 8D. Stockpile Materiel Categories		
As of September 30 (Dollars in millions)	2025	Valuation Method
Held for Sale	\$ 5.3	HC, LCM
Held in Reserve	471.6	HC, LCM
Total	\$ 476.9	
Legend for Valuation Methods: HC = Historical Cost LCM = Lower of Cost or Market		

Recognition of Prior Period Adjustments

In FY 2024, adjustments were made after the Agency Financial Report was issued. In FY 2025, adjustments were made to correct these differences, increasing stockpile materiel beginning balances by \$10.8 million.

General Composition of Stockpile Materiel

Stockpile Materiel are strategic and critical materials held due to statutory requirements for national defense, conservation or national emergencies. The National Defense Stockpile consists of a variety of industrial commodities including base and minor metals, ferrous and non-ferrous ores, metal powders, and mercury. For additional information on Defense Logistics Agency's (DLA's) mission related to the National Defense Stockpile, see [DLA Strategic Materiel](#). Stockpile Materiel held by the Navy includes medicines, vaccines, medical devices, and other biological products.

The Department assigns stockpile materiel to a category based on condition: held for sale and held in reserve. Before selling any stockpile materiel, Congress must enact specific enabling legislation. When authorized to offer materiel for sale, the Department reclassifies the materiel from held in reserve to held for sale.

Stockpile Materiel Restrictions

Materiel held by the National Defense Stockpile is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed of except for (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) when determined excess materiel will contribute to a potential financial loss if retained; or (4) authorization by law.

The estimated selling price of stockpile materiel held for sale is \$9.2 million. This represents an increase of \$3.9 million over their carrying value.

NOTE 9. GENERAL AND RIGHT-TO-USE PP&E, NET

Table 9A. Major General and Right-to-Use PP&E Asset Classes

As of September 30 (Dollars in millions)	2025				
	Depreciation / Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	\$ 9,151.4	N/A	\$ 9,151.4
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	484,467.5	(263,384.3)	221,083.2
Leasehold Improvements	S/L	Lease Term	969.6	(597.6)	372.0
Internal Use Software	S/L	2 - 5 or 10**	19,270.9	(9,814.9)	9,456.0
General Equipment	S/L	Various	1,245,445.2	(753,705.5)	491,739.7
Right-to-Use Lease Asset	S/L	Lease Term	2,227.5	(625.7)	1,601.8
Construction-in-Progress	N/A	N/A	248,134.2	N/A	248,134.2
Other	S/L	35, 40, or 45 *	3,395.3	(1,924.8)	1,470.5
Total General and Right-to-Use PP&E			\$ 2,013,061.6	\$ (1,030,052.8)	\$ 983,008.8

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method

* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

** Estimated useful service life of capitalized IUS is determined during the planning phase of IUS development and is based on how long the IUS is expected to provide economic benefit or service potential to the Department. Estimated useful service life of licensed IUS is the term of the license agreement, or 5 years for perpetual licenses

Recognition of Prior Period Adjustments

The Department uses several cost methodologies to provide General Property, Plant, and Equipment (PP&E) values pursuant to [SFFAS 50](#), *Establishing Opening Balances for General PP&E*. Some consolidation entities used alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. This decreased General PP&E beginning balances by \$134.1 million.

Additionally, land and land rights are excluded from General PP&E opening balances as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 22.5 million.

The Department also recorded prior period adjustments due to the correction of errors that increased the beginning balance of General PP&E by \$55.4 billion, primarily due to assets that were not capitalized upon acquisition and depreciation revaluation.

Other Disclosures

The Department's PP&E consists primarily of furniture, fixtures, and equipment; construction in progress; buildings and structures; internal use software; and land. A building is a roofed and floored facility with exterior walls and one or more levels suitable for single or multiple functions, including protecting human beings and enclosing property from direct harsh effects of weather and other natural factors (e.g., office building, hospital, housing, and museum). A linear structure is a facility whose function requires traversing land (e.g., runway, road, rail line, pipeline, fence, pavement, and electrical distribution line). A structure is a facility, other than a building or linear structure, constructed on or in land (e.g., bridge, dam, and parking garage).

Right-to-Use Lease Assets represent the Department's right to control the use of an underlying asset during the lease term. See Note 16, *Leases*, for additional information. Also see Note 16 and Note 10, *Other Assets*, for leases where the Department is the lessor.



Other PP&E consists of “caretaker” real property. Caretaker real property is unutilized, meaning it is not occupied for current program purposes and the Department provides minimal maintenance to that property to only ensure its safety and security. Caretaker property is often awaiting disposal action but can also be returned to active use.

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department’s use and disposal of real property (land and buildings) located outside the United States.

Table 9B. Reconciliation: General and Right-to-Use PP&E, Net

As of September 30 (Dollars in millions)	2025
Balance beginning of year unadjusted	\$ 849,462.5
Effects of implementation of SFFAS 54	-
Balance beginning of year, adjusted	\$ 849,462.5
Capitalized acquisitions	86,290.7
Right-to-use lease assets	368.3
Amortization of right-to-use lease assets	(223.6)
Dispositions	(6,448.3)
Transfer in/(out) without reimbursement	193.5
Revaluations (+/-)	104,375.7
Depreciation expense	(51,079.7)
Donations	2.9
Other (+/-)	66.8
Balance end of year	\$ 983,008.8

Reconciliation of PP&E

To support the [Financial Report of the United States Government](#) compilation process, a reconciliation of PP&E activity is provided in Table 9B.

Table 9C. Heritage Assets

For the period ended September 30 (Physical Count)	2025			
Categories	Beginning Balance	Additions	(Withdrawals)	Ending Balance
Buildings and Structures	26,715	4,786	(786)	30,715
Archaeological Sites	14,734	225	(48)	14,911
Museum Collection Items (Objects, Not Including Fine Art)	1,432,230	1,838	(2,042)	1,432,026
Museum Collection Items (Objects, Fine Art)	57,149	1,472	(147)	58,474

Heritage Assets and Stewardship Land

[SFFAS 29](#) provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its Heritage Assets, which are items of historical, cultural, educational, or artistic importance.

As the Department executed its mission to provide the military forces needed to deter war and protect the security of our country, it has become a large-scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's Heritage Assets and Stewardship Land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the Buildings and Stewardship Land in its daily activities and includes the Buildings on the Balance Sheet as Multi-Use Heritage Assets. Multi-Use Heritage Assets are recognized and presented with General and Right-to-Use PP&E in the basic financial statements, and additional information for the Multi-Use Heritage Assets is included with the Heritage Assets information above and in the Required Supplementary Information section.

The Department is unable to identify quantities of Heritage Assets and Stewardship Land added through donation or devise (e.g., a clause in a will leaving real estate to the Department) due to limitations of financial and non-financial management processes and systems. However, the Department continues to progress towards this goal. The Department is also working towards disclosing transfers of Heritage Assets and Stewardship Land, as well as establishing standardized methods for acquisition and withdrawal.

The Department acquires heritage assets through purchase, transfer from other agencies, donation, or other means. The Department designates General and Right-to-Use PP&E assets as heritage assets and withdraws such designations through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the [National Historic Preservation Act, as amended](#). Designation is in accordance with the standards articulated with the collection scopes and collecting plans or by application of the criteria of the [National Register of Historic Places](#). Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. In accordance with the National Historic Preservation Act, the Department defines these as follows:

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets.
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places.
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.



Table 9D. Stewardship Land

For the period ended September 30 (Acres in thousands)		2025			
Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	9,474	556	(19)	10,011
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	1,383	-	-	1,383
9140	Public Land	6	-	-	6
Total Stewardship Land		10,863	556	(19)	11,400

Stewardship Land represents land and land rights owned by the Department, but not acquired for, or in connection with items of General and Right-to-Use PP&E. Regardless of its use, all land from the public domain provided to the Department at no cost is classified as Stewardship Land.

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship Land is categorized by facility type and reported in acres based on the predominant use of the land.

The three categories of Stewardship Land are Government Owned Land, Withdrawn Public Land (not available for settlement, sale, location, or entry), and Public Land (held by local governments), all of which are held in public trust.

The Department's methods of acquisition and withdrawal of Stewardship Land are as follows:

- Acquiring additional land through donation or withdrawals from public domain
- Identifying missing land records
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component
- Identifying cemeteries and historical facilities
- Disposing of BRAC property or excess installations
- Privatizing residential community initiatives programs

NOTE 10. OTHER ASSETS

Table 10. Other Assets

As of September 30 (Dollars in millions)	2025
Intragovernmental	
Advances and Prepayments	\$ 1,286.4
Other Assets	123.3
Total Intragovernmental	1,409.7
Other than Intragovernmental	
Outstanding Contract Financing Payments	9,651.9
Advances and Prepayments	190.2
Other Assets	2,991.3
Subtotal	12,833.4
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(9,842.1)
Net Other than Intragovernmental	2,991.3
Total Other Assets	\$ 4,401.0

Restatements

In FY 2024, adjustments were made after the Agency Financial Report was issued. In FY 2025, adjustments were made to correct these differences, increasing other than intragovernmental advances and prepayments by \$1.3 million.

Intragovernmental

Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred, such as prepaid rent.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of \$123.3 million in FY 2025), held by the Department of Energy. In accordance with the [Department of Defense Appropriations Act of 1993](#), these assets are maintained as a [Strategic Petroleum Reserve](#) for national defense purposes.

Other than Intragovernmental

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, are Department cash disbursements to a contractor under the contract prior to Department acceptance of goods and services.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets excluding those made as Outstanding Contract Financing Payments.

In FY 2025, Other Assets (Other than Intragovernmental) consists primarily of General and Right-to-Use PP&E that was permanently removed from service but not yet disposed.

Other assets include right-to-use lease receivables where the Department is the lessor. The Department has \$99.3 million gross lease receivable with no allowance for uncollectible accounts, for a net of \$99.3 million. Please refer to Note 9 *General and Right-to-Use PP&E, Net* and Note 16, *Leases* for additional information related to the Department's lease assets.



NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 (Dollars in millions)	2025
Intragovernmental Liabilities	
Accounts payable	\$ 5.4
Other	2,413.6
Total Intragovernmental Liabilities	2,419.0
Other than Intragovernmental Liabilities	
Accounts payable	7,352.2
Federal employee salary, leave, and benefits payable	14,122.3
Pension, post-employment, and veterans benefits payable	2,413,612.3
Environmental and disposal liabilities	103,886.3
Other liabilities	5,697.6
Total Other than Intragovernmental Liabilities	2,544,670.7
Total Liabilities Not Covered by Budgetary Resources	2,547,089.7
Total Liabilities Covered by Budgetary Resources	2,172,988.7
Total Liabilities Not Requiring Budgetary Resources	9,000.0
Total Liabilities	\$ 4,729,078.4

Recognition of Prior Period Adjustments

In FY 2024, adjustments were made after the Agency Financial Report was issued. In FY 2025, adjustments were made to correct these differences, decreasing liabilities covered by budgetary resources by \$1.2 million.

Intragovernmental Liabilities

Accounts Payable represent liabilities in appropriations that have been canceled, which, when paid, will be disbursed using current year funds.

Other Liabilities include Judgment Fund liabilities under the [Contract Disputes Act of 1978](#) for which budgetary resources have not yet been obligated. The Judgment Fund pays court judgments and compromise settlements of lawsuits against the government. Losses in litigation proceedings are paid from the Treasury Judgment Fund but are required to be reimbursed by the Department. It also consists of claims under the [Federal Employee Compensation Act](#) paid by the Department of Labor but not yet reimbursed by the Department. See Note 1R, *Other Liabilities*, for additional information.

The amount of Intragovernmental Liabilities not Covered by Budgetary Resources but expected to be paid within the next year are \$1.9 billion.

Other than Intragovernmental Liabilities

Accounts Payable represent liabilities in appropriations that have been canceled, which, when paid, will be disbursed using current year funds.

Federal Employee Salary, Leave, and Benefits Payable primarily consist of \$14.0 billion in unfunded annual leave.

Pension, Post-employment, and Veterans Benefits Payable consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$1.4 trillion in pension liabilities and \$1.0 trillion in health benefit liabilities. See Note 13, *Federal Employee and Veterans Benefits Payable*, for additional details.

Environmental and Disposal Liabilities represent the Department's liability for existing and anticipated environmental clean-up and disposal. See Note 14, *Environmental and Disposal Liabilities*, for additional details.

Other Liabilities primarily consist of the following.

- \$2.1 billion in contingent liabilities, which record the amount of liabilities recognized as a result of past events or transactions in which a future outflow or other sacrifice of resources is both probable and measurable. These include legal contingencies. See Note 17, *Commitments and Contingencies*, for additional information.
- \$1.9 billion in liabilities for the disposal of conventional munitions.
- \$638.3 million of uncovered lease liabilities. The Department reports right-to-use lease assets and corresponding lease liabilities for material, non-intragovernmental long-term contracts for which it has the right to control access to and/or obtain economic benefits from the use of real property, equipment or other assets. See Note 16, *Leases*, for additional information.

The amount of Other than Intragovernmental Liabilities Not Covered by Budgetary Resources but expected to be paid within the next year are \$989.4 million.

Total Liabilities

Budgetary Resources, which cover liabilities, include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without having to first meet a contingency.

Liabilities Not Covered by Budgetary Resources require future congressional action before budgetary resources can be provided, whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurred, when the liabilities are liquidated, the U.S. Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Liabilities Not Requiring Budgetary Resources are covered by assets that are not budgetary resources to the entity.

Liabilities Not Requiring Budgetary Resources primarily consist of liabilities for non-entity accounts receivable, which represent liabilities for amounts to be collected on behalf of the General Fund of the U.S. Treasury and required to be transferred to them. See Note 2, *Non-Entity Assets*, for additional information. Additionally, this line consists of non-fiduciary deposit fund liabilities, which represent liabilities for money that does not belong to the Federal Government.



NOTE 12. DEBT

Table 12. Debt

2025			
As of September 30 (Dollars in millions)	Beginning Balance	Net Borrowing	Ending Balance
Source of Debt (Intragovernmental)			
Debt owed to:			
Treasury other than the Federal Financing Bank	\$ 1,998.7	\$ 44.2	\$ 2,042.9
Total Debt	\$ 1,998.7	\$ 44.2	\$ 2,042.9

The Department's debt consists of principal amounts due to the Treasury when borrowing funds from the Treasury for the Military Housing Privatization Initiative (MHPI). Debt is established when MHPI borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury.

In FY 2023, the Department entered into a Finance Agreement pursuant to the terms of the Defense Production Act with a borrower. When the private sector repays the loans, DPA returns the funds to the Treasury.

In FY 2023, the Department established the Office of Strategic Capital, which works with private capital to build enduring national supply chain security. The [NDAA for FY 2024](#) set out the mission of a "Pilot Program on Capital Assistance to Support Defense Investment in the Industrial Base" that defined "Capital Assistance" and authorized the credit program through FY 2028.

Please see Note 7, *Loans Receivable* for additional information.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

The Department complies with the requirements of [SFFAS 33](#), which directs that the long-term discount rate, underlying inflation rate, (cost of living adjustment [COLA]) and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. SFFAS 33 also requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions and other retirement and postemployment benefits. SFFAS 33 provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

Table 13A. Federal Employee and Veteran Benefits Liability

2025			
As of September 30 (Dollars in millions)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	\$ 3,053,161.1	\$ (1,686,560.3)	\$ 1,366,600.8
Military Pre Medicare-Eligible Retiree Health Benefits	423,310.5	-	423,310.5
Military Medicare-Eligible Retiree Health Benefits	1,013,616.8	(398,297.2)	615,319.6
Total Pension and Health Benefits	4,490,088.4	(2,084,857.5)	2,405,230.9
Other Benefits			
FECA	4,367.3	-	4,367.3
Voluntary Separation Incentive Programs	43.3	(29.9)	13.4
DoD Education Benefits Fund	583.5	(583.5)	-
Other	10,665.8	(6,665.1)	4,000.7
Total Other Benefits	15,659.9	(7,278.5)	8,381.4
Pensions, Other Post-Employment, and Veteran Benefits Payable (presented separately on the Balance Sheet)	4,505,748.3	(2,092,136.0)	2,413,612.3
Federal Employee and Veteran Benefits Payable	26,492.2	(12,369.9)	14,122.3
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,471.5	(951.2)	520.3
Total Federal Employee and Veteran Benefits Payable	\$ 4,533,712.0	\$ (2,105,457.1)	\$ 2,428,254.9
Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method			
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$2.0 trillion.			



Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employee Benefits

2025					
As of September 30 (Dollars in millions)	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	\$ 2,808,441.4	\$ 361,667.8	\$ 933,144.8	\$ 503.1	\$ 4,103,757.1
Plus Expense:					
Normal Cost	76,330.8	18,666.4	25,965.6	104.5	121,067.3
Interest Cost	84,230.9	11,223.2	28,582.7	15.8	124,052.6
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	1,099.6	13,875.5	(11,802.2)	75.1	3,248.0
Other Factors	-	-	-	(0.2)	(0.2)
Expenses Before Losses (Gains) from					
Subtotal: Expenses Before Losses (Gains) from Actuarial Assumption Changes	161,661.3	43,765.1	42,746.1	195.2	248,367.7
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	34,462.2	105,994.9	-	140,457.1
Changes in Assumptions Other Than Trend	160,888.1	(4,039.9)	(55,464.3)	119.1	101,503.0
Losses (Gains) from Actuarial					
Assumption Changes	160,888.1	30,422.3	50,530.6	119.1	241,960.1
Total Expenses	322,549.4	74,187.4	93,276.7	314.3	490,327.8
Less: Benefit Outlays	77,829.7	12,544.7	12,804.7	190.6	103,369.7
Total Changes in Actuarial Liability	244,719.7	61,642.7	80,472.0	123.7	386,958.1
Ending Actuarial Liability	\$ 3,053,161.1	\$ 423,310.5	\$ 1,013,616.8	\$ 626.8	\$ 4,490,715.2

The Other column is actuarial liability activity related to the Voluntary Separation Incentive Program and the DoD Education Benefits Fund.

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund (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 is authorized to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer defined benefit plan. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates).

Information Related to Military Retirement Fund Benefit Liabilities

Each year the actuarial liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost; however, it is a complex calculation impacted by the other factors previously discussed, including updated actuarial assumptions, plan amendments, and experience.

The September 30, 2025, actuarial liability includes changes due to updated actuarial assumptions and experience. The updated long-term economic assumptions under SFFAS No. 33 are as follows: 3.1% discount rate; 3.1% COLA; 3.1% across-the-board salary increase. There is a \$104.3 billion loss due to these newly adopted SFFAS No. 33 long-term economic assumptions. There are also updated non-economic assumptions. Updated non-economic actuarial assumptions led to a \$56.6 billion loss. The total effect of the updated actuarial assumptions is an increase in the September 30, 2025, actuarial liability of \$160.9 billion. The experience loss of \$1.1 billion reflects economic experience being different from that assumed, as well as the new census data on which the September 30, 2025, actuarial liability is based.

The first column of Table 13A reflects two distinct types of liabilities related to MRF. The line entitled “Military Retirement Pensions” represents the actuarial liability for future pension benefits not yet paid, i.e., the present value of future benefits less the present value of future normal costs. The line titled “Other” represents retirement benefits due and payable on the first business day of the next reporting period.

The second column of Table 13A for MRF, “Assets Available to Pay Benefits,” differs from those reported on the balance sheet for MRF. MRF’s balance sheet assets consist primarily of investments, the value of which is based on the fully amortized cost, “book value,” of the securities (see Note 5, *Investments and Related Interest*). The value of assets available to pay benefits presented in Table 13A is based on available budgetary funding. The difference between investments and assets available to pay benefits is the premium on U.S. Treasury Securities. At the time of purchase, budgetary funding is reduced by the premium on U.S. securities because the premium on securities is no longer a budgetary resource.

Table 13A also discloses the “Unfunded Liabilities”, i.e. liabilities not covered by budgetary resources, which is the difference between the “Liabilities” and the “Assets Available to Pay Benefits.”

Information Related to MRF’s Actuarial Cost Method

As prescribed by law, the MRF is funded using the Aggregate Entry-Age Normal (AEAN) method. Per [SFFAS 5](#), AEAN is also used to compute the actuarial liabilities reported herein. AEAN is a method whereby the costs of future retirement and survivor benefits for a new entrant cohort are spread over the projected salaries of that group.

Assumptions listed in Table 13C are used by the OACT to calculate the FY 2025 actuarial liability.



Table 13C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)	Salary	Interest
FY 2025	2.5% (Actual)	4.5% (Actual)	N/A
FY 2026	2.8% (Estimated)	3.8% (Estimated)	3.1%
Long Term	3.1%	3.1%	3.1%
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method Market value of investments in non-marketable, market-based securities: \$1.5 trillion Assumed Interest Rate: 3.1%			

Chapter 74 of Title 10, United States Code (U.S.C.), requires the Board approve the methods and assumptions used to (1) compute actuarial costs and liabilities for funding purposes, (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.

Information Related to MRF's Revenues

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, [Public Law 108-136](#) requires a Treasury contribution for the normal cost amount of 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 amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

See Note 5, *Investments, Net* and Note 21, *Disclosures Related to the Statement of Budgetary Resources*, for additional information related to MRF's investments and received contributions.

Military Retirement Health Benefits (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. OACT calculates actuarial liabilities annually using assumptions and actual experience.

Assumptions listed in Table 13D were used to calculate the 'rolled-forward' FY 2025 actuarial liability.

Table 13D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2024 - FY 2025	Ultimate Rate FY 2049
Non-Medicare Inpatient (Direct Care)	5.58%	5.10%
Non-Medicare Outpatient (Direct Care)	6.60%	5.10%
Non-Medicare Prescriptions (Direct Care)	9.75%	5.10%
Non-Medicare Inpatient (Purchased Care)	4.84%	5.10%
Non-Medicare Outpatient (Purchased Care)	6.60%	5.10%
Non-Medicare Prescriptions (Purchased Care)	10.73%	5.10%
U.S. Family Health Plan (USFHP) (Purchased Care)	7.29%	5.10%
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method Assumed Interest Rate: 3.2%		

For the FY 2025 financial statement valuation, a single equivalent medical cost trend rate of 5.44% was used to calculate the total retiree health benefits liability. The total retiree health benefits liability includes MRHB and Medicare-Eligible Retiree Health Care Fund liabilities.

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with [NDAA for FY 2001](#), MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

Assumptions listed in Table 13E were used to calculate the FY 2025 actuarial liability.



Table 13E. Actuarial Assumptions for MERHCF Liability

MERHCF Benefits - Medical Trend	FY 2024 - FY 2025	Ultimate Rate FY 2049
Medicare Inpatient (Direct Care)	5.06%	5.10%
Medicare Outpatient (Direct Care)	6.08%	5.10%
Medicare Prescriptions (Direct Care)	9.67%	5.10%
Medicare Inpatient (Purchased Care)	4.55%	5.10%
Medicare Outpatient (Purchased Care)	6.08%	5.10%
Medicare Prescriptions (Purchased Care)	11.05%	5.10%
Medicare USFHP (Purchased Care)	6.12%	5.10%
<i>Actuarial Cost Method Used: Aggregate Entry-Age Normal Method</i> <i>Market value of investments in non-marketable, market-based securities: \$386.8 billion</i> <i>Assumed Interest Rate: 3.2%</i>		

The FY 2025 MERHCF liability includes Medicare liabilities for all Uniformed Services. The \$1,013.6 billion liability includes \$987.5 billion for the Department, \$23.2 billion for the Coast Guard, \$2.8 billion for the Public Health Service, and \$0.1 billion for the National Oceanic and Atmospheric Administration (NOAA).

The FY 2025 normal cost contributions from each of the Uniformed Services were \$11.0 billion from the Department, \$290.1 million from the Coast Guard, \$38.0 million from the Public Health Service, and \$2.4 million from NOAA.

For the FY 2025 financial statement valuation, a single equivalent medical cost trend rate of 5.44% was used to calculate the total retiree health benefits liability. The total retiree health benefits liability includes MRHB and MERHCF liabilities.

Other Benefits

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual payments have been discounted to present value that is based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues ([TNC Yield Curve](#)) which reflects the average duration of income payments and medical payments. An interest rate for wage benefits of 3.221% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.944% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (COLA) and medical inflation factors (consumer price index medical [CPIM]). The actual rates for these factors were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 13F.

Table 13F. Actuarial Assumptions for FECA Liability

CBY	COLA	CPIM
2026	4.35%	2.54%
2027	4.05%	2.90%
2028	3.05%	3.06%
2029	2.45%	3.66%
2030	2.26%	3.84%

Voluntary Separation Incentive (VSI) Program

The [VSI Program](#) was established by [NDAA for FYs 1992 and 1993](#) to reduce the size of the armed forces while avoiding serious skill and grade imbalances, which would degrade the readiness of future forces. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 2.2% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest costs.

The market value of investments in non-marketable, market-based securities is \$30.9 million for FY 2025.

DoD Education Benefits Fund (EBF)

The EBF was established by [NDAA for FY 1985](#) to recruit and retain military members and aid in the readjustment of military members to civilian life. The DoD OACT calculates the actuarial liability annually based on the assumed interest rate of 3.5% as approved by the DoD Board of Actuaries.

The market value of investments in non-marketable, market-based securities for FY 2025 is \$651.6 million.

Other Federal Employment Benefits

In FY 2025, Other Federal Employment Benefits primarily consists of unfunded annual leave of \$14.0 billion and health insurance claims on behalf of military employees and veterans, including costs incurred but not yet recorded, of \$4.0 billion.

Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet includes liabilities for clearing accounts, amounts that offset undistributed disbursements or deposited collections awaiting disposition or reclassification. It also includes Employer Contributions and Payroll Taxes Payable, which represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. Unfunded FECA Liability and Unfunded Unemployment Insurance Liability, which the DOL bills to the DoD for payments made on the Department's behalf, is also included. This liability will be funded by future years' budgetary resources.

Life Insurance Liabilities and Other Civilian Insurance Programs

The Department's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management ([OPM](#)). The Department does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.



Other Military Insurance Programs

The Defense Health Program (DHP) within the Department provides healthcare for military members through the Military Health System (MHS). The DHP is the nomenclature used to describe a congressionally-mandated uniform program of medical and dental care for members and certain former members of the uniformed services and for their dependents. The term “uniformed services” means the armed forces and the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) and of the Public Health Service.

MHS is a complex system, globally integrating healthcare delivery, public health and medical education, and cutting-edge medical research and development. More information, including its most recently published Agency Financial Report, may be found at [Office of the Assistant Secretary of Defense for Health Affairs](#).

Covered individuals of the Department include active duty personnel, military retirees, certain members of the Reserve Component, family members, survivors, ex-spouses, and other eligible members. These MHS beneficiaries receive direct care through Military Medical Treatment Facilities (MTFs), private sector care through TRICARE’s civilian provider networks and other authorized TRICARE providers, and prescription and mail order coverage through the TRICARE Pharmacy Program.

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Members, Retirees, and Reserve members. The TRICARE Insurance Portfolio includes TRICARE Prime, TRICARE Select, TRICARE Continued Health Care Benefits Program (CHCBP), TRICARE Young Adult Program (TYA), TRICARE Reserve Select (TRS), and TRICARE Retired Reserve (TRR). The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected, due to the relative stability in the number of enrollees. Premium rate calculations are based on the benefit cost from prior calendar years. This eliminates any inherent risk to third parties, including the beneficiary and the Manage Care Support Contractors, who provide healthcare claims processing and the initial collections on behalf of DHP.

The total amount of Insurance Premium collections was \$1.0 billion in FY 2025. The benefit cost for FY 2025 correlates to the premium collections reported.

For Calendar Year 2025 Monthly Premium Rates are established on an annual basis in accordance with [Title 10, U.S.C. Sections 1076d, 1076e, 1078a](#), and [1110b](#) along with [Title 32, Code of Federal Regulations, part 199.20, 24, 25](#) and [26](#), as enacted by [FY 2017 Section 701 of NDAA; Public Law 114 328](#). The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP’s Agency Financial Report at the link previously noted.

Unfunded actuarial liabilities (\$423.3 billion for FY 2025) related to MHS are reported in Table 13A where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits. The estimated MHS liability for incurred-but-not-reported (IBNR) medical claims (\$3.2 billion in FY 2025) is included in Table 13A, Other Benefits, Other.

Liability for Unpaid Insurance Claims

Beneficiary claims for Premium health care services are processed through the TRICARE Encounter Data Set. The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost is accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, change in administration cost estimates and required margin, change in population size, and movement of health care delivery to alternative types of service.

The table below presents the changes in the liability balance for unpaid insurance claims, including IBNR.

Table 13G. Liability for Unpaid Insurance Claims	
As of September 30 (Dollars in millions)	2025
Beginning Balance	\$ 2,661.6
Claims Expense	18,445.5
Claims Adjustment Expense	(102.9)
Payments to Settle Claims	(17,276.8)
Recoveries and Other Adjustments	43.3
Ending Balance	<u>\$ 3,770.7</u>



NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Table 14. Environmental and Disposal Liabilities	
As of September 30 (Dollars in millions)	2025
Environmental and Disposal Liabilities—Other than Intragovernmental	
Accrued Environmental Restoration Liabilities	
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 21,231.5
Active Installations - Military Munitions Response Program (MMRP)	4,794.7
Formerly Used Defense Sites - IRP and BD/DR	4,479.9
Formerly Used Defense Sites - MMRP	12,842.7
Other Accrued Environmental Liabilities - Non-BRAC	
Environmental Corrective Action	10,921.7
Environmental Closure Requirements	3,470.8
Asbestos	11,011.9
Non-Military Equipment	2.3
Other	4,104.0
Base Realignment and Closure Installations	
IRP	8,643.9
MMRP	1,298.3
Environmental Corrective Action/Closure Requirements	419.7
Asbestos	7.2
Environmental Disposal for Military Equipment/Weapons Program	
Nuclear Powered Military Equipment/Spent Nuclear Fuel	20,860.0
Non-Nuclear Powered Military Equipment	983.5
Other Weapon Systems	415.7
Chemical Weapons Disposal Program	
Chemical Demilitarization - Chemical Materials Agency (CMA)	1,687.0
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	617.3
Red Hill Response	
Community Spill	-
Tank Closure Requirements	189.6
Environmental Corrective Action	1.9
Total Environmental and Disposal Liabilities	\$ 107,983.6

The Department has cleanup requirements and conducts the cleanup under the Defense Environmental Restoration Program ([DERP](#)) at active installations, Base Realignment Closure (BRAC), and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not driven by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities - Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program ([FUSRAP](#)) which the U.S. Army Corps of Engineers is responsible for cleaning up sites with contamination resulting from the nation's early atomic energy program.

Environmental and Disposal Liabilities Involving Multiple Component Entities

There are instances when the DoD entity that recognizes General and Right-to-Use PP&E during its useful life differs from the entity that will eventually be responsible for the future outflow of resources required for cleanup when the General and Right-to-Use PP&E is removed from service. [FASAB Interpretation 9](#), Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 and SFFAS 6, clarifies during the General and Right-to-Use PP&E's useful life the entity owning the General and Right-to-Use PP&E must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General and Right-to-Use PP&E on its Balance Sheet. When the General and Right-to-Use PP&E is transferred to the designated entity responsible by law, statute, or policy for cleanup, the General and Right-to-Use PP&E and the associated liability must be de-recognized by the entity that recognized them during the useful life. The General and Right-to-Use PP&E then must be recognized by the entity responsible for clean-up and liquidating the liability. The entity recording the environmental and disposal liabilities must have sufficient supporting documentation to establish its responsibility for the liability.

Sources for Cleanup Requirements

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activities resulting in public health or environmental risks. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General and Right-to-Use PP&E and environmental corrective action costs for current operations. Tracking and reporting all environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC action are required by the Department.

The Department follows the *Comprehensive Environmental Response, Compensation, and Liability Act of 1980* ([CERCLA](#)), *Superfund Amendments and Reauthorization Act of 1986* ([SARA](#)), *Resource Conservation and Recovery Act of 1976* ([RCRA](#)) or other applicable federal or state laws to clean up contamination. The CERCLA, SARA, and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The [Atomic Energy Act of 1954](#), as amended, set forth the development, use, and control of atomic energy so as to promote world peace, improve general welfare, increase standard of living, and strengthen free competition in private enterprise. The [Nuclear Waste Policy Act of 1982](#), as amended, supports the use of deep geologic repositories for the safe storage and disposal of radioactive waste. The [Low Level Radioactive Waste Policy Amendments Act of 1985](#), as amended, authorizes and encourages states to enter into compacts for safe and efficient management of low-level radioactive wastes.

The Chemical Weapons Disposal Program is based on the [NDAA for FY 1986](#), directing the Department to carry out the destruction of chemical agents and munition stockpile in accordance with the Chemical Weapons Convention.



Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department utilizes an estimating methodology model which includes the use of mathematical equations to convert resources data into cost data to project environmental cleanup cost. The Department validates the models in accordance with [DoD Instruction 5000.61](#) and estimates liabilities based on data received during preliminary assessment and site investigation.

Once the environmental cleanup cost estimates are complete, the Department complies with accounting standards to record costs to current and future operating periods, when applicable. The Department expensed cleanup costs for General and Right-to-Use PP&E placed into service before October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the life that has passed since the General and Right-to-Use PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the General and Right-to-Use PP&E.

For General and Right-to-Use PP&E placed into service after September 30, 1997, the Department expenses associated Environmental cleanup costs using two methods – (1) physical capacity usage of the General and Right-to-Use PP&E or (2) systematically recognized over the use life.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General and Right-to-Use PP&E was \$4.8 billion as of September 30, 2025.

Nature and Possible Changes in Estimated Cleanup Costs

Environmental and disposal liabilities change over time because of laws and regulation updates, technology advances, inflation or deflation factors and disposal plan revisions.

The Department revises estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Uncertainty Regarding Accounting Estimates

The accounting estimates used to calculate the reported environmental and disposal liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

Emerging Contaminants

Per and Polyfluoroalkyl Substances (PFAS) are classified as emerging contaminants because they do not have established regulatory standards, but evolving science has identified potential risks to humans and regulatory standards are under consideration.

PFAS are a large class of chemicals found in many consumer products, as well as in a certain firefighting foam called aqueous film forming foam (AFFF). While the Department is only one of the many users of AFFF, there is significant attention on the Department's use and the subsequent potential impact to human health and the environment.

The Department follows the existing federal cleanup law CERCLA and long-standing Environmental Protection Agency regulations for all chemicals in its cleanup program, including PFAS. As the Department continues PFAS site investigations and additional regulatory standards are developed and put in place, the PFAS related environmental and disposal liability amounts are likely to increase over time.

As of FY 2025, the Department reported PFAS related environmental and disposal liability amounts through the Remedial Investigation/ Feasibility Study (RI/FS) phase for most PFAS sites. The Department concluded that costs after the RI/FS phase are not yet reasonably estimable because the extent of the PFAS release has not been determined.

Red Hill Bulk Fuel Storage Facility

The Red Hill Fuel Storage Facility (Red Hill) is located on the Island of Oahu, Hawaii, and consists of twenty underground steel-lined tanks encased in concrete and built into cavities. In May 2021, approximately 21,000 gallons of fuel was released during a fuel transfer when two piping joints ruptured. Most of the fuel was collected into an empty retention line. An environmental liability was not estimated during FY 2021 since the fuel release was unknown.

In November 2021, the retention line was struck by a vehicle operating in the facility causing the fuel to release outside of Red Hill. The fuel migrated into the drinking water supply to Joint Base Pearl Harbor Hickam.

In May 2022, the Hawaii Department of Health (DOH) issued an Emergency Order for the twenty underground storage tanks (UST) to close in accordance with Hawaii environmental regulations.

The Department issued “Department of Defense Report on Red Hill Response Cost Projections” dated August 31, 2022 (Cost Projection Report) to inform Congress of the Department’s projected costs to defuel and permanently close the Red Hill Bulk Fuel Storage Facility to comply with the Hawaii State Department of Health order. In the report, the Department estimated projected costs total \$2.0 billion through FY 2027. The Cost Projection Report was developed in a short time frame for budgetary purposes. Therefore, most of the projected costs were not estimated based on specific site information that will be gained from the fuel investigation and response, and do not meet federal accounting standards for estimates. As such, not all costs were reasonably estimable in FY 2022.

In December 2022, the Department of Navy published and released the [*“Red Hill Tank Closure Plan Analysis of Alternatives & Concept Design to Close In Place”*](#) outlining 4 closure alternatives and associated costs. Once Hawaii DOH and EPA approve the Closure Plan, including the tank closure alternative, the current liability will materially change to align with this Closure Plan.

In FY 2025, The Department reports \$189.6 million under “Red Hill Response - Tank Closure Requirements”, based on the standard parametric closure approach. The current year liability amount is based on the isolation of the impacted Red Hill asset closure population and associated liability. In addition, the Department reports \$1.9 million under “Red Hill Response – Environmental Corrective Action” as part of pump and treat activities related to response at Red Hill and \$6.5 thousand under “Red Hill Response – Community Spill”.

Asbestos-Related Cleanup Costs

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. Both CERCLA and RCRA address asbestos cleanup, but there is no legal requirement to test for asbestos or to remove and remediate non-friable asbestos before renovation or disposal. In accordance with [*FASAB Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs*](#), the Department environmental and disposal liabilities include estimated cleanup costs related to friable and non-friable asbestos. The Department estimates asbestos cleanup costs are based on historic cost factors applied to facility square footage in the real property inventory. Based on the inherent uncertainties associated with asbestos environmental cleanup, the estimated cost will be updated as more relevant data becomes available. The Department does not have either an unrecognized portion of the estimated total asbestos-related cleanup costs nor asbestos-related cleanup costs that are deemed to be probable but not estimable for FY 2025.



Please see Note 17, *Commitments and Contingencies* for additional information.

NOTE 15. OTHER LIABILITIES

Table 15. Other Liabilities

2025

As of September 30 (Dollars in millions)	Current Liability	Non-Current Liability	Total
Intragovernmental Liabilities			
Disbursing Officer Cash	\$ -	\$ -	\$ -
Liabilities for Non-entity Assets	134.9	7,709.2	7,844.1
Other Liabilities reported on Note 13, <i>Federal Employee and Veteran Benefits Payable</i>	947.5	524.0	1,471.5
Other Liabilities	1,892.9	-	1,892.9
Total Intragovernmental	2,975.3	8,233.2	11,208.5
Other than Intragovernmental Liabilities			
Withholdings Payable	600.6	-	600.6
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	2,346.6	-	2,346.6
Liability for Clearing Accounts	0.6	-	0.6
Contract Holdbacks	378.8	-	378.8
Contingent Liabilities	758.0	1,307.8	2,065.8
Benefits Due and Payable	0.7	-	0.7
Lease Liability	855.2	677.2	1,532.4
Unearned Lease Revenue	99.3	-	99.3
Other Liabilities without Related Budgetary Obligations	328.5	2,783.9	3,112.4
Other Liabilities with Related Budgetary Obligations	1,487.9	-	1,487.9
Total Other than Intragovernmental	6,856.2	4,768.9	11,625.1
Total Other Liabilities	\$ 9,831.5	\$ 13,002.1	\$ 22,833.6

Intragovernmental Other Liabilities

Liabilities for Non-entity Assets represent offsetting liabilities for assets held by but not available to the Department. These assets primarily consist of accounts receivable which, upon collection, will be remitted to the U.S. Treasury.

Intragovernmental Other Liabilities on the Balance Sheet are not reported on a single footnote. Certain liabilities are required to be reported on Note 13, *Federal Employee and Veterans Benefits Payable*, while others are reported on this note. The amounts reported on Note 13 are included in the table above in order to reconcile the table to the Balance Sheet.

Other Intragovernmental Liabilities on this note primarily consist of Judgement Fund liabilities under the [Contract Disputes Act of 1978](#). The Judgment Fund pays court judgments and compromise settlements of lawsuits against the Government. Losses in litigation proceedings related to contract disputes are paid from the Judgement Fund but are required to be reimbursed by the Department.



Other Than Intragovernmental Other Liabilities

Withholdings Payable represent the amount withheld from employees' salaries for taxes, employee benefit contributions, and wage garnishments.

Liabilities for Nonfiduciary Deposit funds and Undeposited Collections represents liabilities offsetting undeposited collections and collections deposited in nonfiduciary deposit funds that do not belong to the Federal Government.

Liabilities for Clearing Accounts represent liabilities that offset unidentifiable collections that belong to the Federal Government and that are awaiting disposition or reclassification to another fund or entity.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. These withheld funds serve as an incentive for the satisfactory completion of contractual obligations as defined within the agreement and applicable regulations, such as the [Federal Acquisition Regulation](#).

Contingent Liabilities are used to record the amount of liabilities recognized as a result of past events or transactions in which a future outflow or other sacrifice of resources is both probable and measurable. These include legal contingencies. See Note 17, *Commitments and Contingencies*, for additional information.

Benefits Due and Payable represent [Voluntary Separation Incentive Payments](#) owed to former employees.

Lease Liabilities represent the present value of lease payments required to be paid to a lessor for the lease term. Unearned lessor revenue represents revenue from leases where the Department is the lessor and earnings were collected in advance of the term of the lease. See Note 16, *Leases*, for additional information.

Lease Liabilities in Table 15 do not reconcile to the principal amounts reported on Table 16A, *Entity as Lessee - Future Payments Right-to-Use Leases*. The tables are presented to provide the best available information. The data in the tables are not a comprehensive representation as the Department continues to implement [SFFAS 54](#), *Leases*, across all Components.

Other Liabilities without Related Budgetary Obligations consist primarily of accrued liabilities for conventional munitions, non-environmental disposal liabilities, liabilities for Reserve Officers' Training Corps contracts, and estimated costs for services provided.

Other Liabilities with Related Budgetary Obligations consist primarily of estimated costs for goods and services provided; accrued liabilities for inventory owned and managed on behalf of foreign governments; and international tariff receipts.

Advances from Others and Deferred Revenue

Advances from Others and Deferred Revenue represent payments received for activities not yet performed, representing unearned revenue. The \$7.0 billion intragovernmental balance primarily consists of payments from the Department of Commerce under Section 103 of the [CHIPS Act of 2022](#), and from the Department of Veterans Affairs for construction of medical facilities. The \$7.2 billion Other Than Intragovernmental balance is primarily attributable to amounts received from non-federal sponsors as part of cost-sharing agreements for construction of water resources projects, and other collections received from public to cover future reimbursable expenses

NOTE 16. LEASES

The tables are presented to provide the best available information as of FY 2025. The data in the tables are not a comprehensive representation as the DoD continues to implement [SFFAS 54](#) across all Components.

Entity as Lessee – Intragovernmental Leases

The Department is the lessee in numerous intragovernmental leases with various lease terms. These include \$21.8 million for land buildings primarily used as office space, storage facilities and housing, \$2.0 million for equipment primarily related to weather instruments and office equipment like printers and copiers, \$1.0 million in other leases primarily for vehicle fleets.



Note 16A. Entity as Lessee - Future Payments Right-to-Use Leases

2025

As of September 30 (Dollars in millions)	Asset Category											
	Principal			Interest			Total					
	Land and Buildings	Equipment	Other	Total	Land and Buildings	Equipment	Other	Total	Land and Buildings	Equipment	Other	Total
2026	\$ 184.3	\$ 1.7	\$ 170.4	\$ 356.4	\$ 38.7	\$ -	\$ 20.0	\$ 58.7	\$ 223.0	\$ 1.7	\$ 190.4	\$ 415.1
2027	429.9	2.1	110.4	542.4	28.2	-	14.5	42.7	458.1	2.1	124.9	585.1
2028	385.4	2.0	102.0	489.4	17.0	-	10.3	27.3	402.4	2.0	112.3	516.7
2029	307.8	2.0	65.9	375.7	8.7	-	6.8	15.5	316.5	2.0	72.7	391.2
2030	258.5	1.9	56.2	316.6	4.6	-	4.4	9.0	263.1	1.9	60.6	325.6
2031 - 2035	253.4	1.9	79.2	334.5	13.3	-	3.0	16.3	266.7	1.9	82.2	350.8
2036 and After	393.6	0.4	1.8	395.8	6.7	-	-	6.7	400.3	0.4	1.8	402.5
Total	\$ 2,212.9	\$ 12.0	\$ 585.9	\$ 2,810.8	\$ 117.2	\$ -	\$ 59.0	\$ 176.2	\$ 2,330.1	\$ 12.0	\$ 644.9	\$ 2,987.0

The Department is the lessee in right-to-use leases primarily related to land and buildings used for administration and housing and office equipment as well as equipment related exclusive rights allowing access to transoceanic undersea fiber optic cables. In total the Department had \$3.0 billion in lease assets, and \$581.6 million in accumulated amortization on these lease assets.

Note 16B. Entity as Lessor - Future Payments Intragovernmental Leases					
2025					
As of September 30 (Dollars in millions)	Asset Category				
	Land and Buildings	Equipment	Other	Total	
Intragovernmental					
Fiscal Year					
2026	\$ 1.3	\$ -	\$ 71.8	\$	73.1
2027	0.9	-	51.6		52.5
2028	1.0	-	46.5		47.5
2029	0.8	-	42.7		43.5
2030	-	-	35.8		35.8
2031 - 2035	-	-	41.4		41.4
2036 and After	-	-	-		-
Total Intragovernmental					
Future Lease Payments	4.0	-	289.8		293.8

The Department is the lessor in numerous intragovernmental leases with various lease terms. These leases are primarily for administration, recreational use, restaurants, other businesses, and telecommunication services.



Note 16C. Entity as Lessor - Future Payments Right-to-Use Leases												
As of September 30 (Dollars in millions)	2025											
	Asset Category											
	Principal			Interest			Total					
	Land and Buildings	Equipment	Other	Total	Land and Buildings	Equipment	Other	Total	Land and Buildings	Equipment	Other	Total
2026	\$ 12.2	\$ -	\$ 100.2	\$ 112.4	\$ 4.7	\$ -	\$ -	\$ 4.7	\$ 16.9	\$ -	\$ 100.2	\$ 117.1
2027	231.9	-	111.5	343.4	4.4	-	-	4.4	236.3	-	111.5	347.8
2028	16.8	-	102.8	119.6	4.0	-	-	4.0	20.8	-	102.8	123.6
2029	15.3	-	105.2	120.5	3.7	-	-	3.7	19.0	-	105.2	124.2
2030	15.2	-	107.5	122.7	3.5	-	-	3.5	18.7	-	107.5	126.2
2031 - 2035	5.0	-	-	5.0	14.2	-	-	14.2	19.2	-	-	19.2
2036 and After	86.4	-	-	86.4	8.8	-	-	8.8	95.2	-	-	95.2
Total	\$ 382.8	\$ -	\$ 527.2	\$ 910.0	\$ 43.3	\$ -	\$ -	\$ 43.3	\$ 426.1	\$ -	\$ 527.2	\$ 953.3
Total Lease Receivable, Gross: \$ 99.3												
Total Allowance for Loss on Lease Receivable: -												
Total Lease Receivable, Net: \$ 99.3												

The Department is the lessor in numerous right-to-use leases with various lease terms. These include \$953.3 million in leases primarily related to agreements with companies to run restaurants, cell towers, and other businesses on installations. These leases include \$1.2 million of recognized revenue.

Other Disclosures

The Department reports right-to-use lease assets and corresponding lease liabilities for material, non-intragovernmental long-term contracts for which it has the right to control access to and/or obtain economic benefits from the use of the real property, equipment, or other assets. Please refer to Note 9 *General and Right-to-Use PP&E, Net*, Note 10 *Other Assets* and Note 15 *Other Liabilities* for additional information related to the Department's lease assets and liabilities.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations; generally, relating to environmental damage, equal opportunity, and contractual matters. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the [Treasury Judgment Fund](#). In most cases, the Department does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the [Contracts Disputes Act](#) or the [No FEAR Act](#).

In accordance with [SFFAS 5](#), *Accounting for Liabilities of the Federal Government*, as amended by [SFFAS 12](#), *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The below amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

The Department of Defense is subject to certain international court matters that are still undecided for potential loss at the time of this disclosure. As such, it may result in material legal contingent liabilities to the Department of Defense financial statements if the case matters are decided against the Department.

Table 17. Summary of Legal Contingent Liabilities

As of September 30 (Dollars in millions)	2025			
	Accrued Liabilities	Estimated Range of Loss		
		Lower End	Upper End	
Legal Contingent Liabilities				
Probable	\$ 1,707.6	\$ 1,212.4	\$ 7,708.4	
Reasonably Possible	-	\$ 1,332.4	\$ 52,084.6	

As of September 30, 2025, legal claims exist for which the amount claimed, and the potential range of loss cannot be reasonably determined. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the resolution of the proceedings, actions, and claims will materially affect the Department's financial position or results of operation.

Environmental Contingencies

The Department discloses information about environmental and disposal liabilities in accordance with [SFFAS 5](#) *Accounting for Liabilities of the Federal Government*, [SFFAS 6](#) *Accounting for Property, Plant, and Equipment*, and FASAB Technical Release 2 Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government. See FASAB Interpretation 9 for guidance on cleanup cost liabilities involving multiple component entities. Also, the Department continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs in accordance with Technical Bulletin 2006-1 *Recognition and Measurement of Asbestos-Related Cleanup Costs*. See Note 14, *Environmental and Disposal Liabilities*, for additional information.



Other Contingencies

The Department is a party to numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Pending/threatening litigation and unasserted claims, administrative or judicial proceedings, lawsuits, and/or other legal actions filed against a federal entity that could ultimately result in settlements or decisions adverse to the federal government should be reported in this account. Contingencies considered both measurable and probable in the amount of \$358.1 million have been accrued for FY 2025. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the Department's financial statements pursuant to legal authority and appropriated funds none are contingent. All legally binding agreements to which the Department enters, must first be approved by the Department of State, pursuant to [Circular 175](#), prior to negotiation and prior to conclusion.

Commitments

The Department has the following obligations as of FY 2025:

- Canceled appropriations for which it has a contractual commitment for payment of \$7.4 billion.
- Contractual arrangements related to loan guarantees \$759.3 million.
- See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for the face value of outstanding principal of guaranteed loans net of the liability recognized at Net Present Value.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

Table 18A. Balance Sheet – Funds from Dedicated Collections

2025

As of September 30 (Dollars in millions)	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental Assets							
Fund Balance with Treasury	\$ 138.3	\$ 2,872.8	\$ 2,341.0	\$ 1,235.8	6,587.9	\$ -	\$ 6,587.9
Investments, Net	10,542.7	-	689.6	15.3	11,247.6	-	11,247.6
Accounts Receivable, Net	3,772.6	-	-	9.1	3,781.7	(2,989.0)	792.7
Total Intragovernmental Assets	14,453.6	2,872.8	3,030.6	1,260.2	21,617.2	(2,989.0)	18,628.2
Other than Intragovernmental Assets							
Cash and Other Monetary Assets	-	-	194.3	3.8	198.1	-	198.1
Accounts Receivable, Net	-	59.3	-	2.8	62.1	-	62.1
General and Right-to-Use Property, Plant and Equipment, Net	46.6	340.6	-	130.1	517.3	-	517.3
Advances and Prepayments	-	-	-	0.3	0.3	-	0.3
Total Other than Intragovernmental Assets	46.6	399.9	194.3	137.0	777.8	-	777.8
Total Assets	14,500.2	3,272.7	3,224.9	1,397.2	22,395.0	(2,989.0)	19,406.0
Intragovernmental Liabilities							
Accounts Payable	5,978.1	-	8.2	19.1	6,005.4	(2,989.0)	3,016.4
Advances from others and deferred revenue	-	-	-	-	-	-	-
Other Liabilities	6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities	5,984.1	12.9	8.2	21.4	6,026.6	(2,989.0)	3,037.6
Other than Intragovernmental Liabilities							
Accounts Payable	0.1	156.8	-	72.7	229.6	-	229.6
Advances from Others and Deferred Revenue	-	2,839.5	-	-	2,839.5	-	2,839.5
Other	-	11.1	-	6.7	17.8	-	17.8
Total Other than Intragovernmental Liabilities	0.1	3,007.4	-	79.4	3,086.9	-	3,086.9
Total Liabilities	5,984.2	3,020.3	8.2	100.8	9,113.5	(2,989.0)	6,124.5
Cumulative Results of Operations	8,516.0	252.4	3,216.7	1,296.4	13,281.5	-	13,281.5
Total Liabilities and Net Position	\$ 14,500.2	\$ 3,272.7	\$ 3,224.9	\$ 1,397.2	\$ 22,395.0	\$ (2,989.0)	\$ 19,406.0



Table 18B. Statement of Net Cost – Funds from Dedicated Collections

2025

For the period ended September 30
(Dollars in millions)

	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross Program Costs	\$ 49.7	\$ 574.1	\$ 1,460.7	\$ 425.8	\$ 2,510.3	\$ -	\$ 2,510.3
Less: Earned Revenues	-	(658.0)	(1,205.3)	(299.1)	\$ (2,162.4)	-	(2,162.4)
Net Program Costs	49.7	(83.9)	255.4	126.7	347.9	-	347.9
Net Cost of Operations	\$ 49.7	\$ (83.9)	\$ 255.4	\$ 126.7	\$ 347.9	\$ -	\$ 347.9

Table 18C. Statement of Changes in Net Position – Funds from Dedicated Collections

2025

For the period ended September 30
(Dollars in millions)

	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations							
Beginning Balance	\$ 8,966.5	\$ 282.3	\$ 3,472.1	\$ 1,246.7	\$ 13,967.6	\$ -	\$ 13,967.6
Prior Period Adjustments:							
Changes in accounting principles (+/-)	-	-	-	-	-	-	-
Corrections of errors (+/-)	-	-	-	-	-	-	-
Beginning Balance, as adjusted	8,966.5	282.3	3,472.1	1,246.7	13,967.6	-	13,967.6
Other than Intragovernmental Nonexchange revenue	-	-	-	12.0	12.0	-	12.0
Miscellaneous taxes and receipts	-	-	-	12.0	12.0	-	12.0
Total Other than Intragovernmental Nonexchange revenue	-	-	-	12.0	12.0	-	12.0
Intragovernmental Nonexchange revenue	2,440.5	-	-	9.5	2,450.0	-	2,450.0
Donations and forfeitures of cash and cash equivalents	-	-	-	86.7	86.7	-	86.7
Transfers-in/out without reimbursement (+/-)	(2,841.3)	(120.4)	-	(67.7)	(3,029.4)	-	(3,029.4)
Imputed financing	-	6.6	-	23.2	29.8	-	29.8
Other	-	-	-	112.7	112.7	-	112.7
Less: Net Cost of Operations	49.7	(83.9)	255.4	126.7	347.9	-	347.9
Net Change in Cumulative Results of Operations	(450.5)	(29.9)	(255.4)	49.7	(686.1)	-	(686.1)
Net Position, End of Period	\$ 8,516.0	\$ 252.4	\$ 3,216.7	\$ 1,296.4	\$ 13,281.5	\$ -	\$ 13,281.5



Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections

Harbor Maintenance and Related Funds

Harbor Maintenance Trust Fund ([26 U.S.C. §9505](#)) – [The Water Resources Development Act of 1986](#) covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of related administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Collections on behalf of USACE from the Department of Homeland Security, Customs and Border Protection, are made into the Trust Fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movement of cargo between domestic ports. Treasury manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund ([16 U.S.C. §3951-3957](#)), Coastal Wetlands Planning, Protection, and Restoration Act as part of [Public Law 101-646](#) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of “no net loss of wetlands” in coastal Louisiana. USACE is also responsible for allocating funds among the members of the Louisiana Coastal Wetlands Conservation and Restoration Task Force. Federal contributions of dedicated collections are established at 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund, a trust with collections from excise taxes on fishing equipment, motorboat and small engine fuels, import duties, and interest.

Inland Waterways Trust Fund ([26 U.S.C. §9506](#)) – Collections from excise taxes on fuel used in commercial transportation on inland waterways are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The collections are required to be transferred to the General Fund for execution. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds

Rivers and Harbors Contributed and Advance Funds ([33 U.S.C. §701h](#), [702f](#), and [703](#)) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, and enlargement of river channels in the course of flood control and river and harbor maintenance.

Burden Sharing and Other Relocation Activities

Burden Sharing ([Public Law 104-106](#) and [10 U.S.C. § 2350j](#)) – Burden sharing and other cooperative activities involving allies and NATO for the acceptance of cash contributions from any country or regional organization designated for purposes of 10 U.S.C. § 2350j by the Secretary of Defense, in consultation with the Secretary of State for the following:

- Compensation for local national employees
- Military construction projects
- Supplies and services

Support for Relocation to Activities ([10 U.S.C. § 2350k](#)) – Includes the realignment of military installations and the relocation of military personnel. This includes military construction, military family housing, unaccompanied housing, general facilities constructions for military forces, and utilities improvements. Contributions accepted from other nations related to the relocation must be used for payments of costs incurred in connection with the relocation.

Mutually Beneficial Activities ([Public Law 114-92](#) and [10 U.S.C. § 2350j](#)) – Accounts established for the acceptance of cash contributions from the government of Kuwait for the purpose of paying for the costs of construction (including military construction not otherwise authorized by law), maintenance, and repair projects mutually beneficial to the Department and Kuwait military forces.

Contributions accepted for the above activities must be available only for the payment of the related costs.

Other Funds

Other Funds from Dedicated Collections have been aggregated in accordance with [SFFAS 43](#). The following are the primary Other Funds, and are not an exhaustive list.

Special Recreation Use Fees ([16 U.S.C. §6812\(e\)\(1\)](#)) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs that are under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The fees cover operation and maintenance of recreational sites and camping facilities.

Hydraulic Mining in California, Debris ([33 U.S.C. §683](#)) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Federal Energy Regulatory Commission ([FERC](#)). USACE collects taxes and expends the taxes under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 ([33 U.S.C. §701c 3](#)) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the county where the property is located or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters ([16 U.S.C. §803\(f\)](#) and [810](#)) – The FERC assesses charges against licensees directly benefiting when a reservoir or other improvement is constructed by the United States. Proceeds arising from licenses, except those established by the FERC for administrative reimbursement or other limited situations, are paid to the Treasury from which specific allocations are made. From the specific allocations, a portion of the license fees is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) ([33 U.S.C. §2326](#)) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary of the Army determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund ([10 U.S.C. §2685](#)) – Surcharges on sales of commissary goods and services finance construction and improvements to the defense commissary facilities. Revenue is generated through a five percent surcharge applied to each sale. These funds finance construction, repair, improvement, and maintenance, including related environmental evaluation and construction costs, of the physical infrastructure of commissary stores and central product processing facilities of the defense commissary system.

Proceeds from the Sale of Land, Natick Land Conveyance, Army ([Public Law 115-91 Sec 2844](#)) – The Secretary of the Army may sell and convey all right, title, and interest of the United States in and to parcels of real property, consisting of approximately 98 acres and improvements thereon, located in the vicinity of Hudson, Wayland, and Needham, Massachusetts, that are the sites of military family housing supporting military personnel assigned to the U.S. Army Natick Soldier Systems Center.



NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Suborganization Program Net Costs

Table 19. Supporting Schedule by Suborganization	
As of September 30 (Dollars in millions)	2025
 Department of the Air Force	
Air Force General Fund	
Gross Cost	\$ 262,822.6
Less: Earned Revenue	(13,482.5)
Air Force Working Capital Fund	
Gross Cost	20,735.4
Less: Earned Revenue	(15,352.2)
Eliminations	(21,146.1)
Net Program Costs	<u>233,577.2</u>
 Department of the Army	
Army General Fund	
Gross Cost	222,232.2
Less: Earned Revenue	(67,863.2)
Army Working Capital Fund	
Gross Cost	15,316.3
Less: Earned Revenue	(15,145.7)
Eliminations	(16,259.8)
Net Program Costs	<u>138,279.8</u>
 Department of the Navy	
Navy General Fund	
Gross Cost	217,669.3
Less: Earned Revenue	(19,459.6)
Navy Working Capital Fund	
Gross Cost	48,710.1
Less: Earned Revenue	(47,326.8)
U.S. Marine General Fund	
Gross Cost	34,733.2
Less: Earned Revenue	(752.5)
Eliminations	(26,374.0)
Net Program Costs	<u>207,199.7</u>

Table 19. Supporting Schedule by Suborganization

As of September 30 (Dollars in millions)		2025
	Civil Works	
	Gross Cost	20,922.1
	Less: Earned Revenue	(8,914.6)
	Eliminations	1,090.9
	Net Program Costs	13,098.4
	Support Activities	
	Standalone Other Defense Organizations	
	Gross Cost	405,610.2
	Less: Earned Revenue	(105,993.3)
	Consolidated Other Defense Organizations	
	Gross Cost	77,202.9
	Less: Earned Revenue	(5,888.2)
	Eliminations	(137,455.0)
	Net Program Costs	233,476.6
	Military Retirement Fund	
	Gross Cost	164,462.5
	Less: Earned Revenue	(269,434.9)
	Eliminations	200,036.4
	Net Program Costs	95,064.0
	Consolidated	
	Gross Cost	1,490,416.8
	Less: Earned Revenue	(569,613.5)
	Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	241,960.1
	Eliminations	(107.6)
	Total Net Cost	\$ 1,162,655.8



Supporting Schedule by Suborganization

Given the Departments' organizational complexity, the accompanying table provides a detailed breakout of net cost information by suborganization. This presentation enhances transparency by aligning each suborganization's net cost with its respective funding sources and operational purpose.

Other Disclosures

The Department presents the Statement of Net Cost in accordance with Office of Management and Budget [Circular A-136](#), which requires agencies to report the net cost of operations by defined major programs. These programs reflect the Department's strategic missions and provide a clear view of how resources are allocated and performance is measured. The DoD Agency-Wide major programs are defined in the Management's Discussion and Analysis.

The Department's military retirement and postemployment costs are reported in accordance with [SFFAS 33](#), *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the Statement of Net Cost. See Note 13, *Federal Employee and Veteran Benefits Payable* for additional information.

Exchange Revenues

The Department continues to review the available data and applicability of [SFFAS 7](#), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, for disclosures related to the pricing of goods and services provided to the public or another Federal entity. This includes consideration of pricing policies that differ from full cost or market price, transactions governed by law or executive order, intragovernmental exchanges below full cost, and any probable and measurable contract losses. Please see Note 1.E., *Significant Accounting Policies, Accounting for Intragovernmental and Intergovernmental Activities*, for further information related to intra-entity and inter-entity activities.

Inter-Entity Costs

Goods and services are received from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the SNC and are offset by imputed revenue in the Statement of Changes in Net Position (SCNP). In accordance with [SFFAS 55](#), *Amending Inter-Entity Cost Provisions*, the Department recognizes the general nature of imputed costs only for business-type activities, employee benefits, and losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Unexpended Appropriations – Prior Period Adjustments

The Department recorded prior period adjustments due to correction of errors under [SFFAS 21](#), that increased the beginning balances, as adjusted by \$3.3 million due to errors in recording stockpile materiel.

Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under [SFFAS 21](#), [SFFAS 48](#) and [SFFAS 50](#), that decreased the FY 2025 beginning balances as adjusted from (\$961.6) billion to (\$887.3) billion, a difference of \$74.3 billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles.

The Department recorded prior period adjustments due to correction of errors totaling \$55.5 billion related to General PP&E, Inventory, Accounts Payable and Advances and Prepayments. Changes were primarily due to assets that were not properly capitalized upon acquisition, depreciation revaluation, and incorrect accruals. For additional details, refer to Note 2, *Non-entity Assets*, Note 8, *Inventory and Related Property, Net*, Note 9, *General and Right-to-Use PP&E, Net*, Note 10, *Other Assets*, and Note 11, *Liabilities Not Covered by Budgetary Resources*.

Components have elected to change their accounting principles under SFFAS 48 and SFFAS 50 which permit alternative methods in establishing opening balances. In FY 2025, the Department recorded \$18.8 billion in adjustments primarily related to inventory and General PP&E revaluation. For additional details, refer to Note 8, *Inventory and Related Property, Net*, and Note 9, *General and Right-to-Use PP&E, Net*.

Reconciliation Differences

Statement of Budgetary Resources to the Statement of Changes in Net Position

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by \$95.6 billion in FY 2025. A reconciliation of these amounts is presented in Table 20.

Table 20. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30 (Dollars in billions)	2025
Appropriations, Statement of Budgetary Resources	\$ 1,312.1
Permanent and Temporary Reductions	218.8
Trust and Special Fund Receipts	(313.8)
Miscellaneous items	(0.6)
Total Reconciling Difference	(95.6)
Appropriations Received, Statement of Changes in Net Position	\$ 1,216.5

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority that has been permanently or temporarily reduced by enacted legislation.

Trust and Special Fund Receipts that are awaiting authorizing legislation, or the satisfying of specific legal requirements are not immediately available for obligation.



Miscellaneous Items primarily include the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

Non-custodial Nonexchange Revenue

The Department recognizes non-custodial nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. The U.S. Army Corps of Engineers (USACE) reported the majority of the Department's non-custodial nonexchange revenue for FY 2025. The USACE reported the following non-custodial nonexchange revenue:

- Trust Funds – interest earned on investments, excise taxes and custom duties
- General Fund Receipt Accounts – criminal restitution including court ordered fines and penalties awarded to the Department, miscellaneous receipts, penalties and interest
- Special Fund Receipt Accounts – taxes, receipts, licenses, and fees

For the majority of the non-custodial nonexchange revenue recognized in FY 2025, the Department is not the collecting entity, but receives trust fund revenues from Treasury which is recorded in accordance with applicable law.

Other Disclosures

See Note 18, *Funds from Dedicated Collections*, for disclosures related to the parenthetical presentation of funds from dedicated collections on Statement of Changes in Net Position.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with Office of Management and Budget (OMB) [Circular No. A 136](#); thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other financial statements, which are presented on a consolidated basis.

Table 21A. Net Adjustments to Unobligated Balance Brought Forward, October 1

As of September 30 (Dollars in millions)	2025
Unobligated Balance: Brought forward, Oct 1	\$ 287,775.2
Unobligated balance transferred (to)/from other accounts	(19.1)
Unobligated balance transfers between expired and unexpired accounts	-
Adjustment to unobligated balance brought forward, October 1	1,273.1
Recoveries of prior year unpaid obligations	66,377.5
Unobligated balance of contract authority withdrawn	(7,485.8)
Adjustment for change in allocation of trust fund limitation or foreign exchange valuation	-
Other balances withdrawn to Treasury	(14,089.4)
Other balances not available	-
Refunds and recoveries temporarily precluded from obligation (special and trust funds)	-
Recoveries of prior year paid obligations	1,865.0
Sequester (previously unavailable) for withdrawal	-
Adjustment for change in allocation (general fund portion)	(49.6)
Adjustment for change in allocation (offsetting collection/collected portion)	49.6
Adjustment for change in allocation (offsetting collection/receivable portion)	-
Adjustment for change in allocation (trust fund portion)	49.6
Anticipated recoveries of prior year unpaid and paid obligations	-
Anticipated adjustment for change in allocation (general fund portion)	-
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 335,746.1

Other Disclosures

The Department's available unobligated budgetary resources increased \$48.0 billion over the balance brought forward on October 1. This is primarily due to cancellations of obligations incurred in prior years that were not outlayed and expired unobligated authority that was withdrawn to Treasury.

The Department had adjustments to the unobligated balance brought forward, October 1, of \$1.3 billion in order to establish accurate beginning balances.

Terms of Borrowing Authority Used

Borrowing authority is budget authority that permits the Department to incur obligations and make payments for specified purposes from the proceeds of borrowed funds. The Department utilizes borrowing authority for the Military Housing Privatization Initiative, the Defense Production Act, and Defense Strategic Capital Credit Program. Borrowing authority is used in compliance with OMB [Circular No. A-129](#). See Note 12, *Debt*, for additional information.



Table 21B. Available Borrowing / Contract Authority

As of September 30 (Dollars in millions)	2025
Available Borrowing and Contract Authority at	
End of the Period	\$ -

Borrowing authority permits obligations and outlays to be financed by borrowing from the U.S. Treasury. Any unused borrowing authority remaining at the end of a Fiscal Year (FY) must be reapportioned in a subsequent FY.

Contract authority permits the Department to incur obligations in advance of appropriations, offsetting collections, or receipts. Unless otherwise specified by statute, contract authority is available for obligation only within the FY for which the authority is provided.

Table 21C. Undelivered Orders

As of September 30 (Dollars in millions)	2025
Intragovernmental	
Unpaid	\$ 173,047.5
Prepaid / Advanced	6,270.8
Total Intragovernmental	<u>179,318.3</u>
Other Than Intragovernmental	
Unpaid	511,120.6
Prepaid / Advanced	9,842.1
Total Other Than Intragovernmental	<u>520,962.7</u>
Budgetary Resources Obligated for Undelivered	
Orders at the End of the Period	\$ 700,281.0

Other Disclosures

Undelivered unpaid orders exist when goods or services have been ordered but have not been received or paid for. The allocation between intragovernmental and other than intragovernmental is estimated by the Department.

Prepaid and advanced undelivered orders exist when goods or services have been ordered and paid for, but the goods or services have not been received.

Permanent Indefinite Appropriations

Permanent indefinite appropriations are provided through public law authorizing the Department to retain certain receipts. These appropriations do not specify amounts but are dependent upon the amount of receipts collected.

Permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; (5) upkeep of libraries and museums; and (6) subsidy re-estimates in support of credit reform programs.

Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances may be applied only to the objects for which the appropriations were made. Additionally, unobligated balances in fixed-term appropriations are only available for payment of obligations incurred during the period of availability, or to complete contracts made within that period. The Department is not aware of any legal arrangements further restricting its unobligated balances.

Table 21D. Differences between the SBR and the Budget of the U.S. Government

For the year ended September 30 (Dollars in millions)	Fiscal Year 2024 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	\$ 1,713,534.8	\$ 1,425,760.0	\$ 183,410.2	\$ 1,087,300.8
Expired Accounts ¹	(67,961.1)	(42,904.4)	-	-
Other	12.3	2.4	21.8	(4.8)
Budget of the U.S. Government	<u>\$ 1,645,586.0</u>	<u>\$ 1,382,858.0</u>	<u>\$ 183,432.0</u>	<u>\$ 1,087,296.0</u>

¹SBR contains expired account balances to capture the effect of any adjustments, while the Budget of the U.S. Government does not reflect adjustments made to expired accounts due to its focus on current and proposed funding.

Table 21D presents a reconciliation between the Department's FY 2024 SBR and the actual amounts reported in the FY 2026 Budget of the U.S. Government (also known as the President's Budget). The FY 2027 President's Budget will display the FY 2025 actual amounts and will be available at a later date at <https://www.whitehouse.gov/omb/budget>.

Contributed Capital

The Department did not receive any capital infusions in FY 2025.

Other Disclosures

\$225.7 billion of FY 2025 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds within the Appropriations (discretionary and mandatory) line. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received no additional funding in FY 2025 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects unobligated expired appropriations of \$26.9 billion, which is 1 percent of total budget authority. The Department strives to obligate, as close as prudently possible, to the total available budget authority before it expires. Its internal controls and systemic administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of [31 U.S.C §1341](#), commonly known as the Antideficiency Act. The large number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge or high-risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by [31.U.S.C. §1553](#).



NOTE 22. INCIDENTAL CUSTODIAL COLLECTIONS

In fiscal year 2025, the Department collected \$15.8 million of incidental custodial revenues generated primarily from fines, penalties, and forfeitures of unclaimed money and property. These funds are not available for use by the Department; they are relinquished to the U.S. Treasury at the end of the fiscal year.

NOTE 23. FIDUCIARY ACTIVITIES

Table 23A. Schedule of Fiduciary Activities

2025			
As of September 30 (Dollars in millions)	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	\$ 2,737.9	\$ 26.4	\$ 2,764.3
Contributions	1,285.0	28.7	1,313.7
Distributions To and On Behalf Of Beneficiaries	(1,006.5)	(33.5)	(1,040.0)
Increase / (Decrease) in Fiduciary Net Assets	278.5	(4.8)	273.7
Fiduciary Net Assets, End of Period	\$ 3,016.4	\$ 21.6	\$ 3,038.0

2024			
As of September 30 (Dollar in millions)	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	\$ 2,130.6	\$ 30.2	\$ 2,160.8
Contributions	1,519.5	98.7	1,618.2
Distributions To and On Behalf Of Beneficiaries	(912.2)	(102.5)	(1,014.7)
Increase / (Decrease) in Fiduciary Net Assets	607.3	(3.8)	603.5
Fiduciary Net Assets, End of Period	\$ 2,737.9	\$ 26.4	\$ 2,764.3

Table 23B. Schedule of Fiduciary Net Assets

2025			
As of September 30 (Dollars in millions)	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	\$ 3,016.4	\$ 21.6	\$ 3,038.0
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	\$ 3,016.4	\$ 21.6	\$ 3,038.0

2024			
As of September 30 (Dollars in millions)	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	\$ 2,737.9	\$ 26.4	\$ 2,764.3
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	\$ 2,737.9	\$ 26.4	\$ 2,764.3



Fiduciary activities exist when the Department has collected, received, managed, protected, accounted for, invested or disposed of assets on behalf of non-Federal entities or individuals that have ownership interest that the government must uphold. Fiduciary assets are not recognized on the Balance Sheet or on Note 3, *Fund Balance with Treasury*, in accordance with [SFFAS 31](#), *Accounting for Fiduciary Activities*.

The Department manages five fiduciary funds—one for foreign cooperative projects (FCP), and four savings deposit program (SDP) funds.

Foreign Cooperative Projects

In an effort to leverage share of costs, contracts, and other resources where shared interests exist, the President may enter into a cooperative project agreement with the North Atlantic Treaty Organization or with one or more of its member countries authorized by [22 U.S.C. §2767](#). The Navy recognizes this activity as fiduciary through an established deposit fund which allows it to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority.

FCP fiduciary assets increased by \$278.5 million in FY 2025 due to increased deposits from foreign partner countries, primarily for hardware acquisition and sustainment contracts. Additionally, the Navy transitioned additional programs into the FCP fund in FY 2025 that had been previously executed with operation and maintenance funding.

Savings Deposit Program

[Public Law 89 538](#) authorizes the Department, through the SDP, to collect voluntary contributions up to \$10,000 per deployment, per member of the Armed Forces serving in designated areas. These contributions and earned interest (10% per year, paid quarterly) are deposited in the U.S. Treasury on behalf of the members. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, after 120 days if a request is not made, the funds are returned to the member through direct deposit by the Department. Funds in excess of \$10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

Table 24. Reconciliation of the Net Cost of Operations to Net Budgetary Outlays

2025			
As of September 30 (Dollars in millions)	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost (Revenue) reported on Statement of Net Cost	\$ (32,514.8)	\$ 1,195,170.6	\$ 1,162,655.8
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation expense	-	(51,079.7)	(51,079.7)
Property, plant, and equipment disposals and revaluations	-	98,187.6	98,187.6
Lessee Lease Amortization	-	(223.6)	(223.6)
Gains/Losses on lease cancellations	-	0.1	0.1
Gains on changes from lease modifications	-	-	-
Cost of goods sold	-	(63,536.2)	(63,536.2)
Inventory and related property disposals and revaluations	-	5,314.0	5,314.0
Applied overhead/cost capitalization offset			
a. Inventory and related property	-	-	-
b. Property, plant, and equipment	-	-	-
Gains/Losses on all other investments	-	582.1	582.1
Other gains/losses on all other investments	-	-	-
Increase/(decrease) in Assets Not Affecting Budgetary Outlays:			
Accounts receivable, net	(14,298.9)	432.2	(13,866.7)
Loans receivable, net (non-FCRA)	-	-	-
Securities and investments	3,414.6	-	3,414.6
Advances and Prepayments	(8,008.9)	3,640.2	(4,368.7)
Other assets	(20.2)	1,000.4	980.2
(Increase)/Decrease in Liabilities Not Affecting Budgetary Outlays:			
Accounts payable	13,704.9	(3,958.8)	9,746.1
Debt	-	-	-
Loans guarantee liability (Non-FCRA)/Loans Payable	-	2.2	2.2
Lessee Lease Liability	-	(81.2)	(81.2)
Environmental and disposal liabilities	-	(6,924.6)	(6,924.6)
Benefits due and payable	-	0.6	0.6
Federal employee salary, leave, and benefits payable	-	1,111.7	1,111.7
Veterans, pensions, and post employment-related benefits	-	(387,826.0)	(387,826.0)
Advances from Others and Deferred Revenue	4,272.1	(33.2)	4,238.9
Other liabilities	(31.3)	6,536.5	6,505.2
Financing Sources:			
Imputed Cost	(12,732.7)	-	(12,732.7)
Total Components of the Net Operating Cost Not Part of the Budgetary Outlays	(13,700.4)	(396,855.7)	(410,556.1)



Table 24. Reconciliation of the Net Cost of Operations to Net Budgetary Outlays

2025			
As of September 30 (Dollars in millions)	Intragovernmental	Other than Intragovernmental	Total
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	85.1	86,205.6	86,290.7
Acquisition of inventory and related property	212.7	71,499.4	71,712.1
Acquisition of investments	-	400.0	400.0
Financing sources:			
Donated revenue	-	(1,153.0)	(1,153.0)
Transfers out (in) without reimbursements	(230.4)	-	(230.4)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	67.4	156,952.0	157,019.4
Miscellaneous Items			
Distributed offsetting receipts	(186,319.1)	(3,347.0)	(189,666.1)
Recognition of right-to-use lease assets		-	-
Custodial/Non-exchange revenue	(2,344.2)	(2,175.9)	(4,520.1)
Non-Entity Activity	1,241.3		1,241.3
Other Temporary Timing Differences	-	(74,290.6)	(74,290.6)
Appropriated Receipts for Trust/Special Funds	-	313,620.3	313,620.3
Total Other Reconciling Items	(187,422.0)	233,806.8	46,384.8
Total Net Outlays (Calculated Total)	\$ (233,569.8)	\$ 1,189,073.7	\$ 955,503.9
Budgetary Agency Outlays, Net (SBR 4210)			\$ 956,843.7
Unreconciled Difference			\$ (1,339.8)

Budgetary and financial accounting are complementary, but there are inherent differences in the timing and types of information recorded during the reporting period. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. See Note 1.D, *Basis of Accounting*, for additional information.

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis in Table 24 illustrates this reconciliation by listing the key differences between net cost and net outlays.

- Components of net cost that are not part of net outlays primarily consist of a \$244.7 billion increase in actuarial pension liabilities and a \$142.1 billion increase in actuarial health insurance liabilities. See Note 13, *Federal Employee and Veterans Benefits Payable*, for additional information.
- Components of net outlays that are not part of net cost primarily consist of \$158.0 billion in acquisitions of capitalized assets, inventory, and related property.
- Miscellaneous Items primarily consist of \$265.9 billion appropriated to the Military Retirement Fund (MRF). This is offset with a \$154.4 billion contribution from the U.S. Treasury to MRF to cover the normal cost amount for combat-related disability and qualifying service-connected disability benefits under [10 U.S. Code 1413a and 1414](#) in addition to the unfunded liability amortization payment. See Note 13 for additional information related to MRF's revenues.

Other Temporary Timing Differences represent prior period adjustments (PPAs) due to corrections of errors and changes in accounting principles. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for a summary of all PPAs and further information.

Outlays are payments to liquidate obligations, excluding the repayment of debt principal. Non-cash outlays are outlays that are recognized without a concurrent cash disbursement. The Department had \$51.1 million non-cash outlays related to the change in allowance for subsidy cost on direct loans. See Note 7, Table 7F, *Schedule for Reconciling Subsidy Cost Allowance Balances*, for additional information.

Unreconciled Difference

The unreconciled difference is primarily due to accounting for the acquisitions of and changes in capitalized assets, inventory, and related property. The Department is actively participating in Governmentwide working groups led by the U.S. Treasury in an effort to resolve.



NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

The Department identified Military Housing Privatization Initiative (MHPI) agreements as Public-Private Partnerships (P3s) requiring disclosure. P3s are risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. They can be extremely complex agreements which transfer or share various forms of risk among the P3 partners and may involve government assets. Disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. [SFFAS 49 Public-Private Partnerships](#), requires disclosing the nature of the Department's relationship with private entities. These disclosures help achieve the operating performance and budgetary integrity objectives outlined in [SFFAC 1, Objectives of Federal Financial Reporting](#).

Overview

The MHPI was authorized in the [National Defense Authorization Act \(NDAA\) for FY 1996](#), and consists of legislative authorities that facilitate public private real estate transactions between the Military Departments and private sector developers/property managers for the provision of family housing, unaccompanied housing, and temporary lodging (i.e., transient housing) in support of military members and their dependents in the U.S. and its territories. The MHPI allows the Military Departments to leverage private sector expertise and funding to improve the quality of installation housing in the U.S. much faster than the Military Departments could have done through traditional military construction and ongoing operation and maintenance funding.

The MHPI Projects are competitively selected single-purpose entities established as Limited Liability Companies (LLCs) or Limited Partnerships (LPs), and generally are structured based on the MHPI authorities. The Military Departments enter into long-term (typically 50-year) ground leases that include a nominal consideration from the MHPI Project. The Military Departments convey existing government housing units to the MHPI Projects. In return, the MHPI Projects assume responsibility for operation, maintenance, sustainment, demolition, and recapitalization of the housing during the lease term, in accordance with the MHPI authorities as defined in Title 10 U.S.C.

Private sector developers (i.e., MHPI companies) serve as the MHPI Projects' managing members ensuring performance objectives are met over the life of the project ground lease. The Military Department is a non-managing member of the MHPI Project Company if there was a Government equity investment to the project, but typically is not a member of the Project Company if there was no Government equity investment to the project. No MHPI Projects have explicit or implied occupancy or performance (Government) guarantees. Neither the private MHPI companies operating the MHPI Projects, the projects themselves, nor the projects' service providers (e.g., property managers) are Department contractors for MHPI housing (or lodging).

The main role of the Military Departments is to monitor the MHPI Projects to ensure adherence to the terms of the project documents, as well as applicable legal and regulatory requirements. Additionally, the Military Departments monitor MHPI Projects to ensure project financial performance can sustain quality housing over the life of the ground lease. To this end, Military Departments monitor housing occupancy and resident satisfaction, as well as revenue, operating expenses, operating budgets, and the overall financial health of each MHPI Project. Depending on the structure of a given project, Military Departments may also have approval authority for project budgets, certain major project expenditures, changes in property management companies, or other key project oversight decisions.

There are a small number of projects that include a mix of Government-owned (installation) land leased to the MHPI Project and MHPI Project-owned land, and in rare instances, the MHPI Project provides all of the land for MHPI housing, in which case there is no ground lease. Military Departments also convey the associated real property assets (e.g., buildings, structures, and facilities, and utilities) to the MHPI Project LLC or LP. The contractual terms and termination clauses vary by agreement.

Funding and Contributions

Under the MHPI authorities, and with OSD and the Office of Management and Budget (OMB) approval and OMB budget scoring, the Military Departments may provide contributions to the MHPI Project LLC or LP through¹:

- **Investments** ([§2875](#)) - Provision of cash and transfer of real property ownership (land, housing units, and other facilities) to an MHPI Project. In return, the Department receives a portion of that project's profits and losses (up to and not exceeding the monetary contribution at the end of the project ground lease, the time that the project is terminated and sold, or in accordance with the project business agreements).
- **Direct Loans (DL)** ([§2873](#)) - Government loans to an MHPI Project if the loan proceeds are to be used to acquire or construct housing units for use as military family or unaccompanied housing, including transient housing, with the expectation of future repayment to the U.S. Treasury.²
- **Loan Guarantees (LG)** ([§2873](#))² - Government guarantee of private loans as the Secretary of the Military Department considers appropriate to protect the interests of the United States.
- **Differential Lease Payments** ([§2877](#)) - Provision of monthly payments to a project above the rental amount paid by the military personnel.

See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities* for additional information.

Any cash equity investment or transfer of funds originating from the military construction accounts to the U.S. Treasury to cover the cost of proposed MHPI Project use of federal credit requires that the funds first be transferred to the Department's Family Housing Improvement Fund (FHIF) or Military Unaccompanied Housing Improvement Fund (MUHIF), as appropriate, with prerequisite congressional notification. [10 U.S.C. § 2883](#) also requires providing a justification to Congress for the transfer of authorized and appropriated amounts (e.g., Army General Fund, Treasury Index 21 Family Housing Construction Funds) to the Department's FHIF or MUHIF (e.g., Other Defense Organizations, Treasury Index 97) for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease (recognizing the potential for a ground lease extension that may be discussed in the ground lease). The project ground lease and/or associated legal agreements are established through negotiations between the Military Department and the MHPI Project LLC and/or LP. Should monies exist in excess of the required reserves securing or repaying the debt, the required reserves for maintenance of the facilities, and/or the contractual incentive payments to the managing Partner, the excess would be returned to the Military Department's FHIF or MUHIF account (as appropriate) at entity dissolution. The Military Departments are not required, or authorized, to contribute resources to the MHPI Project beyond any amounts approved by OMB and notified and/or authorized by Congress. If the MHPI Project entity is sold, any net sales proceeds due to the Military Department are deposited in the FHIF or MUHIF, as appropriate; such project proceeds/funds cannot be utilized by the Military Department for any other MHPI Project contribution/purpose or other Military Department use until such time that the funds are authorized and appropriated by Congress. Otherwise the funds would be an unauthorized augmentation of the appropriations.

¹ The MHPI authorities include Rental Guarantees under 10 U.S.C. [§ 2876](#); however, the Military Departments have not proposed or used the §2876 authority for any MHPI Project, and have no plans to provide rental guarantees for any future MHPI Projects.

² Direct loans and loan guarantees are forms of federal credit, the use of which is covered by [OMB Circular A-129](#), *Policies for Federal Credit Programs and Non-Tax Receivables*.



Investment Recognition

In FY 2020, the Department adopted Financial Accounting Standards Board *Accounting Standards Codification 323 Investments – Equity Method and Joint Ventures* to evaluate and account for its investments in LLC and LP Private Partnerships engaged in MHPI Projects. This treatment was chosen in the absence of specific Federal Accounting Standards Advisory Board accounting standards for the MHPI financial arrangement. Since FY 2021, the Department published a revised GAAP-compliant policy which refined the guidance and instructions prescribing evaluation criteria and financial treatment to account for and report investments and contributions to the MHPI Projects. The revised guidance provided detailed instruction on recording initial cash and non-cash asset contributions and recording gains and losses annually and at the dissolution of the agreements. The policy was fully implemented in FY 2024.

The following table (**next page**) represents the aggregated contribution amounts paid to the MHPI Program and LLC and LP Private Partners through September 30, 2025.

Military Housing Privatization Initiative (MHPI)
Table 25. Cumulative Contributions

As of September 30 (Dollars in millions)	2025		Expected Life	
	Actual Amount Received	Actual Amount Paid	Estimated Amount to be Received Over Expected Life****	Estimated Amount to be Paid Over Expected Life****
DoD Initial Contributions to the MHPI Programs (FHIF/MUHIF)*				
Direct Cash Contributions (see Note 5, <i>Investments, Net</i>)	\$ -	\$ -	\$ -	\$ 4,582.9
Real property contributions to the MHPI Project LLCs and LPs (value of Real Property Assets (RPA) conveyed, per OMB scoring documents) (see Note 5, <i>Investments, Net</i>)	-	-	-	8,274.4
Bonds Purchased	-	-	-	-
Direct loans disbursed	-	-	-	1,970.7
DoD On-Going Contributions to the MHPI Partnerships				
DoD direct payments**	-	264.1	Not Estimable	Not Estimable
Indirect third-party payment of Basic Allowance for Housing (BAH) under § 403 of Title 37	-	-	-	-
from members living in privatized housing***	-	4,947.3	Not Estimable	Not Estimable
Differential lease payments	-	0.4	-	-
Property, cash, bonds, and direct loans	-	104.4	-	183.6
Private Partner Initial Contributions to the MHPI Partnerships				
Direct cash contributions	-	-	650.8	-
Real property contributions to the LLCs and LPs	-	-	1.5	-
Bonds issued and construction loan obtained	793.8	-	20,886.3	-
Private Partner On-Going Contributions to the MHPI Partnerships				
Direct cash contributions	-	-	71.5	-
Return of contributions to Partner	-	-	-	167.0
Real property and land contributions	-	-	-	-
Bonds issued and construction loans obtained	-	-	-	-
Bonds and direct loans payment	-	574.3	-	15,848.0

* The Department's cash and real property contributions in the table above are currently reported in the Department's consolidated financial statements. See Note 5, *Investments, Net* and the Financial Management Regulation Volume 4, Chapter 7: "Investments and other Assets."

** The Department makes direct payments to MHPI LLCs/LPs as required by Public Law 115-232 §606 (a)(1-3), as amended.

*** If the Service member uses their BAH to pay rent to an MHPI project, the associated BAH amount is an indirect third-party payment from the Military Departments.

**** The expected life of the P3 is the term or period for which the entity is likely to participate in the P3. Similar agreements or contracts may be combined. As provided in SFFAS 49, paragraph 24.b, Military Departments do not estimate the future amount of BAH to be paid to MHPI entities. This is due to the uncertainties associated with the number of members residing in MHPI housing year over year, the pay grades of members residing in MHPI housing, and the potential changes in the BAH rates that occur in the annual NDAs and are implemented through annual appropriations to the Military Departments. Further, it is a Service member's discretionary choice to live in MHPI housing.

Service members may choose to spend their BAH in MHPI housing, non-MHPI housing, or purchase housing. There is no commitment or guarantee on the part of the Military Departments to any MHPI entity to ensure a minimum number of military residents in MHPI housing.

Based on certain criteria, the projects may be authorized to allow Other Eligible Tenants (OETs). OETs could be military retirees, DoD civilians, or other non-DoD affiliated civilians. OETs do not provide or receive money from the project or the Government. An MHPI entity is not required to differentiate rental income by tenant military status in its audited financial statements. Therefore, the funding received from non-military tenants is also not estimable.



BAH History

BAH provides uniformed service members equitable housing compensation based on housing costs in local civilian housing markets within the 50 U.S. states when government quarters are not provided.

From January 1, 2022 until Congress modifies or rescinds this direction, [Public Law 117-81 § 2811](#) amended Public Law 115-232 § 606 to direct that payments to the lessor of 50% of the BAH Absorption Rate calculated in accordance with the military pay statute in 37 U.S.C. § 403(b)(3)(A)(ii) for covered housing would be made monthly. Additionally, lessors of underfunded projects may receive additional monthly payments from the remaining 50% pool of funds of the BAH Absorption Rate at the determination of the Department's Chief Housing Officer in coordination with the Secretaries of the Military Departments.

Risk

MHPI Project entity potential risks include loss of cash and non-cash contributions, inability to recover returns on investment, and default under the ground lease. The MHPI Company that may have contributed equity to the MHPI Project is not entitled to the return of its capital contribution nor to be paid interest on its capital contribution, the details of which are specified in the project legal agreements. The Military Departments' potential risks, depending on the terms of the MHPI Project ground lease and associated legal agreements and initial contributions, include loss of the initial cash and non-cash contributions, default by the MHPI Project LLC or LP on a DL, the occurrence of an LG threshold event against established criteria related to, downsizing of a military installation, prolonged deployment, or base closure that would trigger the MHPI Project to file a guaranteed claim, the need to provide direct management support and/or financial contribution to the project if the MHPI Project fails to comply with contractual terms (any financial contribution would require OSD and OMB approval and Congressional notification), and failure to ensure adequate, affordable installation housing to meet the requirements of military personnel. If unpredicted events occur, such as natural disasters and severe weather events, the Military Departments and OSD will work with OMB to restructure the MHPI Project to ensure its long-term financial viability. For example, the project's insurance provider might contest the amount of damage incurred and the size of the claims payment due, resulting in delayed insurance payments and the request for financial restructure to obtain more favorable terms for the project's DL (if it has one), or the contribution of additional Government equity should such a contribution be warranted and approved by OSD and OMB.

To mitigate financial risk, each MHPI Project has a legal agreement that prescribes accrual accounting (revenue flow) to include liquidation of the agreement. This financial tool is used to track revenue, expenses, cash flow, and operating metrics. The revenue flow generally allows the MHPI Project an opportunity to earn incentives and returns for MHPI Project economic performance after providing capital for the maintenance of the facilities. Cash and non-cash assets in excess of required reserves are returned to the FHIF or MUHIF at agreement liquidation. Detailed briefings and/or reports to the appropriate committees of Congress on the MHPI Projects are required by [10 U.S.C. § 2878](#) and [10 U.S.C. § 2884](#) for each project, conveyance, or lease proposed as a part of the annual budget submission and as an annual report concerning the status of oversight and accountability. Additionally, the [House Report 116-63](#), Pages 23-24, accompanying [H.R. 2745](#), the DoD Appropriations Bill, 2020, directs the Service Secretaries to submit a report to the congressional defense committees detailing how the Services monitor privatized facilities at a national level and any planned upgrades to this system to improve transparency.

The MHPI agreements do not explicitly identify risk of loss contingencies, although some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds to protect against unexpectedly high expenses. The Department's overall risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer), plus the Government loan guarantees of private debt (if applicable) associated with the MHPI agreements.

The Department recognizes other risk scenarios may occur, such as MHPI Project non-compliance with the MHPI Project ground lease and/or associated legal agreements or risk of loan modifications. To address non-compliance risk, the Department performs compliance reviews which is a joint effort between the Military Department local housing office, installation command, and other ranking members with the MHPI Project, such as the MHPI Company that is the MHPI Project's managing member. These reviews can include exteriors and interiors of privatized housing units and

neighborhood tours to view ancillary project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the MHPI Project LLC or LP.

MHPI Project performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The Government Accountability Office Report, [GAO-20-280T](#), *Preliminary Observations on DoD's Oversight of the Condition of Privatized Military Housing*, provides information about the Department's governance activities. [Public Law 116-92](#) §§ 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of MHPI Projects, protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI Projects, although many of these requirements only apply to new or renewed MHPI Projects, or projects that voluntarily agree to comply.

To address the risk of DL or LG modifications or restructures, which may be necessary to ensure the sustainability of affected projects that utilize federal credit, a sustainment review is required to be performed every two to three years, outlining the future needs of a project. This review occurs even when the projects may not be at risk of imminent loan default. On an annual basis, the Military Departments are required to re-forecast projected cash flows to assess each project's sustainability risk. For projects that utilize federal credit (DL or LG), if the assessment identifies a funding shortfall or ongoing concern for the project, the Military Department will work with OSD to pursue OMB approval to modify the DL or LG and/or restructure the terms of the agreement to help ensure long term viability of the project. OMB must approve all loan modifications before the applicable Military Department and MHPI Project LLC or LP can begin to restructure the loan.

Other Disclosures

The Military Departments continue to provide MHPI details within their Agency Financial Report (AFR), for example, description of contractual terms, significant events, inherent risks, and gains or losses associated with contributions to the MHPI Military Department project Military Department LLC or LP. Military Departments also assess their MHPI agreements to provide actual and estimated amounts received and paid over the expected life of the agreements. As main contributors of P3 activity, please refer to Department of the Army, Department of the Navy, U.S. Marine Corps, and Department of the Air Force AFRs.

In FY 2025, the Department entered into definitive agreements establishing a P3 with MP 10X Development, LLC. The agreements included a \$400.0 million equity investment by the Department in newly authorized and issued Series A preferred stock, a commitment for up to \$350.0 million in additional funding in the form of additional Series A preferred stock, a commitment for a \$150.0 million loan to support expansion of heavy rare earth separation to be extended by the Department within 30 days following the closing, subject to certain mutually agreed extensions, a 10-year price floor commitment by Department for Neodymium Praseodymium (NdPr) products, a 10-year offtake agreement for the purchase by the Department of magnet production from the 10X facility, and a warrant issued by the company to the Department. Additional information will be presented in FY 2026.

See Note 5, *Investments, Net* for the Department's consolidated cash and real property contributions.

Other Potential P3 Arrangements

All DoD Components continue to assess agreements using criteria from SFFAS 49 to determine if there are additional P3s to disclose. To date, the assessments have not uncovered any new P3 arrangements.



NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

Disclosure Entities

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with [Statements of Federal Financial Accounting Standards \(SFFAS\) 47, Reporting Entity](#), the financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents. The NAFI's and FFRDC's risks and rewards and assets (available for use) and liabilities (to be settled in the future) are limited.

Nonappropriated Fund Instrumentalities

NAFIs are entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to provide morale, welfare, and recreation programs to enhance the quality of life of DoD personnel. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by [Title 10, Section 2492 of U.S. Code](#). The Department requires Components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

1. Military Morale, Welfare, and Recreational ([MWR](#)) Programs,
2. Armed Services Exchange Programs,
3. Civilian MWR Programs,
4. Lodging Program Supplemental Mission Funds,
5. Supplemental Mission Funds, and
6. Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) establishes policy and provides oversight of DoD NAFI activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service, in coordination with the USD(P&R) and the Office of General Counsel, provide guidance on accounting policies for use in the preparation of financial statements for their annual audit. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial statement audits conducted by independent public accounting firms.

NAFIs present limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

Federally Funded Research and Development Centers

The DoD-sponsored FFRDCs are independent, not-for-profit, private-sector organizations that are established and funded to meet special long-term engineering, research, development, or other analytical needs. In accordance with [FAR Part 35-017](#), FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency. The Department maintains contractual relationships with the parent organizations of DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing in-house or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. There are three categories of FFRDCs:

1. Research and Development Laboratories,
2. Systems Engineering and Integration Centers, and
3. Study and Analysis Centers.

FFRDC relationships are defined through a sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the FFRDC is required to conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, be free from organizational conflicts of interest, and have full disclosure of its affairs to the sponsoring agency.

The Department does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding for FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional funding controls on staff-years, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

Public Private Partnerships (P3s)

The Military Housing Privatization Initiative P3s meet the criteria for disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships* for additional information.

Related Parties

Pursuant to SFFAS 47 reporting disclosure requirements, related parties are considered related if: (1) one party to an established relationship, has the ability to exercise significant influence over the other party in making policy decisions and (2) the relationship is of such significance that it would be misleading to exclude information about it.

The list of DoD Consolidation Entities, Disclosure entities and related parties is reviewed and updated annually. Based on the qualified and quantified assessments in accordance with SFFAS 47, the Department determined there are no related parties to disclose.



NOTE 27. SECURITY ASSISTANCE ACCOUNTS

The Department has a significant role, and works closely with the U.S. Department of State in the execution of the activities of the Security Assistance Accounts (SAA), which are budgeted and reported in [Title 22, U.S.C.](#) under the purview of the Foreign Relations Committees in Congress. SAA is a significant reporting entity, and in accordance with [SFFAS 47, Reporting Entity](#), its stand-alone financial statements are consolidated directly into the U.S. Governmentwide financial statements. See the [SAA Agency Financial Report](#) for additional information.

The Department leverages its financial and acquisition systems to facilitate the acquisition of U.S. weapon systems by foreign countries. Based on the contract terms included in the agreements with each foreign country acquiring assets utilizing the Foreign Military Sales Trust Fund, there is minimal financial risk to the Department or the U.S. Government.

NOTE 28. RESTATEMENTS

In addition to the consolidated audit on the DoD-wide financial statements, twenty-six Components within the Department underwent independent standalone audits in FY 2025. These Components include the Components with the highest asset values, as well as those deemed by management to be special-focus. While striving to maintain or move closer to achieving an unmodified audit opinion, Components may uncover accounting errors related to a prior fiscal year. In accordance with [SFFAS 21](#) *Reporting Corrections of Errors and Changes in Accounting Principles*, and given the Department's adoption of a single-year presentation as directed by [OMB Circular A-136](#), the cumulative effect of correcting such errors will be reported as an adjustment to the beginning balances within the Statement of Changes in Net Position. Please refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position* for adjustments affecting beginning balances resulting from corrections of errors from prior year and changes in accounting principles.



NOTE 29. SUBSEQUENT EVENTS

As of the date of this report, there are no subsequent events to report. However, FY 2025 financial statements and related notes of the DoD Components listed below were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Components. The expected timeframe for these events is December 2025 and February 2026.

- Office of Inspector General (December 2025)
- U.S. Marine Corps (February 2026)
- Defense Logistics Agency, National Defense Stockpile Transaction Fund (February 2026)

NOTE 30. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government ([FR](#)). The FY 2025 FR will be published by The Bureau of Fiscal Service upon its release.

To prepare the FR, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The following tables display the relationship between the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

- Dedicated Collections Combined represents all transactions that involve Funds from Dedicated Collections prior to the elimination of any intra-DoD transactions.
- Dedicated Collections Eliminations reflects identified transactions between the Department's Dedicated Collections.
- All Other Amounts (with Eliminations) includes funds other than Dedicated Collections, presented net of their eliminations.
- Eliminations between Dedicated and All Other reflects intra-DoD transactions between Funds from Dedicated Collections and other funds.

Non-Federal transactions are with individuals, businesses, non-profit entities, and State, local, and foreign governments.

The Department recorded prior period adjustments (PPAs) due to correction of errors totaling \$55.5 billion related to operating materiel and supplies (OM&S); general property, plant, and equipment (PP&E); advances and prepayments; and accounts payable. Changes were primarily due to assets that were not properly capitalized upon acquisition, depreciation revaluation, and incorrect accruals.

Components have elected to change their accounting principles under SFFAS 48, *Opening Balances for Inventory, OM&S, and Stockpile Materials*, and SFFAS 50, *Establishing Opening Balances for General PP&E*. The Department recorded \$18.8 billion in adjustments, primarily related to inventory and general PP&E revaluation.

See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for a summary of all PPAs and further information.



Table 30A. Statement of Net Cost

FY 2025 DoD Statement of Net Cost		Line Items Used to Prepare FY 2025 Government-wide Statement of Net Cost			
Financial Statement Line ^{1,2} (Dollars in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	Other than Dedicated Collections (with Eliminations)	Eliminations Between Dedicated and Other than Dedicated
					Total
					Reclassified Financial Statement Line
Gross Costs					Gross Costs
Gross Costs	\$ 1,073,157.2	\$ 2,202.8		\$ 1,070,954.4	\$ 1,073,157.2
Total Non-Federal Gross Cost	\$ 1,073,157.2				\$ 1,073,157.2
Federal Gross Cost					Federal Gross Cost
Gross Costs	21,477.5	22.8		21,454.7	21,477.5
Gross Costs	12,732.7	6.6		12,749.3	(23.2)
Gross Costs	38,716.0	248.4		38,667.4	(199.8)
Gross Costs	297.8			297.8	297.8
Gross Costs	72.6			72.6	72.6
Gross Costs	5,863.0	6.5		5,856.5	5,863.0
Total Federal Gross Costs	\$ 79,159.6				\$ 79,159.6
Total Gross Costs	\$ 1,152,316.8				\$ 1,152,316.8
Earned Revenue					Earned Revenue
(Less: Earned Revenue)	(119,969.9)	(2,124.4)		(117,845.5)	(119,969.9)
Federal Earned Revenue					Federal Earned Revenue
(Less: Earned Revenue)	(999.2)			(999.2)	(999.2)
(Less: Earned Revenue)	(23,719.2)			(23,919.0)	199.8
Gross Costs	(297.8)			(297.8)	(297.8)
(Less: Earned Revenue)	(86,626.3)	(38.0)		(86,588.3)	(86,626.3)
(Less: Earned Revenue)	(8.7)			(8.7)	(8.7)
Total Federal Earned Revenue	\$ (111,651.2)				\$ (111,651.2)
Department Total Earned Revenue	\$ (231,621.1)				\$ (231,621.1)
Losses/(Gains) from Actuarial Assumptions Changes	\$ 241,960.1			241,960.1	\$ 241,960.1
Net Cost of Operations	\$ 1,162,655.8				Net Cost of Operations
1. The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements. However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost:					
Gross Cost	\$ 1,152,019.0				
Less: Earned Revenue	\$ (231,323.3)				
Losses/(Gains) from Actuarial Assumptions Changes	241,960.1				
	\$ 1,162,655.8				
2 Basis of Presentation - Note 30 and Note 18, Funds from Dedicated Collections: The compilation underlying the presentation of Note 30 is based on each program being designed either as a dedicated collection or a non-dedicated collection. If a program is designed as a dedicated collection, all of the program's activity is treated as such, and vice versa. In contrast, Note 18 uses the program designation and also uses the trial balance Fund Type attribute of 9*, a system-designation for dedicated collection amounts.					

Table 30B. Statement of Changes in Net Position

Financial Statement Line (Dollars in millions)	Line Items Used to Prepare FY 2025 Government-wide Statement of Changes in Net Position					Reclassified Financial Statement Line
	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	Other than Dedicated Collections (with Eliminations)	Eliminations Between Dedicated and Other than Dedicated	
Beginning Balances (Includes Funds from Dedicated Collections)	\$ (208,377.0)	\$ 13,967.6		\$ (222,344.6)		\$ (208,377.0) Net Position, Beginning of Period
Non-Federal Prior-Period Adjustments						Non-Federal Prior-Period Adjustments
Changes in accounting principles (+/-)	18,827.5			18,827.5		18,827.5 Changes in accounting principles
Corrections of errors (+/-)	13,933.8			13,933.8		13,933.8 Corrections of errors - non-federal
Corrections of errors (+/-)	41,529.3			41,529.3		41,529.3 Corrections of errors - Years Preceding the Prior Year - Non -Federal
Federal Prior-Period Adjustments						Federal Prior-Period Adjustments
Corrections of errors (+/-)	3.3			3.3		3.3 Prior period adjustments to unexpended appropriations - federal (RC 31)
Corrections of errors (+/-)	(3.3)			(3.3)		(3.3) Prior period adjustments to expended appropriations - federal (RC 32)
Net Position, Beginning of Period - Adjusted	\$ (134,086.4)					Net Position, Beginning of Period - Adjusted \$ (134,086.4)
Non-Federal Non-Exchange Revenue						Non-Federal Non-Exchange Revenue
Miscellaneous taxes and receipts	996.0	12.0		984.0		996.0 Other taxes and receipts
Donations and forfeitures of cash and cash equivalents	1,153.0	86.7		1,066.3		1,153.0 Other taxes and receipts
Donations and forfeitures of property	2.8			2.8		2.8 Other taxes and receipts
Other	(1,400.4)	112.7		(1,513.1)		(1,400.4) Other taxes and receipts
Total Non-Federal Non-Exchange Revenue	\$ 751.4					\$ 751.4 Total Non-Federal Non-Exchange Revenue
Federal Non-Exchange Revenue						Federal Non-Exchange Revenue
Non-exchange revenue (Note 20)	491.5	488.0		3.5		491.5 Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03)
Non-exchange revenue (Note 20)	107.9	107.9				107.9 Other Taxes and Receipts (RC 45)
Non-exchange revenue (Note 20)	1,878.5	1,878.5				1,878.5 Collections Transferred to a TAS Other than the GF of the USG (RC 15)
Non-exchange revenue (Note 20)	(24.4)	(24.4)				(24.4) Accruals for the Entity Amounts to be Collected in a TAS Other Than the GF of the USG - Nonexchange (RC 16)
Total federal non-exchange revenue	\$ 2,453.5					\$ 2,453.5 Total Federal Non-Exchange Revenue



Table 30B. Statement of Changes in Net Position

FY 2025 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2025 Government-wide Statement of Changes in Net Position				
Financial Statement Line (Dollars in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	Other than Dedicated Collections (with Eliminations)	Eliminations Between Dedicated Other than Dedicated	Reclassified Financial Statement Line
Financing sources						
Appropriations received	1,198,624.9			1,198,624.9		Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
Appropriations used	(1,045,175.6)			(1,045,175.6)		Appropriations used (RC 39)
Appropriations used	1,045,175.6			1,045,175.6		Appropriations expended (RC 38)
Transfers-in/out without reimbursement	-	104.1		(104.1)		Appropriation of unavailable special or trust fund receipts transfers-in (RC 07)
Transfers-in/out without reimbursement		(104.1)		104.1		Appropriation of unavailable special or trust fund receipts transfers-in (RC 07)
Transfers-in/out without reimbursement	928.7	2,974.2	(2,880.1)	902.2	(67.6)	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(572.0)	(2,991.3)	2,880.1	(528.4)	67.6	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(0.1)	-		2,820.5	(2,820.6)	Expenditure transfers-in of financing sources (RC 09)
Transfers-in/out without reimbursement	(158.6)	(2,820.6)		(158.6)	2,820.6	Expenditure transfers-out of financing sources (RC 09)
Transfers-in/out without reimbursement	-			-		Non-expenditure transfers-out of financing sources - capital transfers (RC 11)
Other adjustments (+/-)	295.1			295.1		Revenue and other financing sources - cancellations (RC 36)
Other adjustments (+/-)	6,202.2			6,202.2		Other financing sources with budgetary impact (RC 29)
Transfers in/out without reimbursement	22,307.4	37.1	(35.9)	22,500.3	(194.1)	Transfers-in without reimbursement (RC 18)
Transfers in/out without reimbursement	(22,021.6)	(228.8)	35.9	(22,022.8)	194.1	Transfers-in without reimbursement (RC 18)
Imputed financing	12,732.7	29.8		12,726.1	(23.2)	Imputed financing sources (RC 25)
Other	(1,262.8)			(1,262.8)		Non-entity collections transferred to the GF of the USG (RC 44)
Other	(963.8)			(963.8)		Accrual for non-entity amounts to be collected and transferred to the GF of the USG (RC 48)
Total Financing Sources	\$ 1,216,112.1					Total Financing Sources
Net Cost of Operations (+/-)	\$ (1,162,655.8)					Net Cost of Operations (+/-)
Net Position, End of Period	\$ (77,425.2)					Net Position, End of Period

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, [Standardizing Facility Condition Assessments](#). The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- **Category 1:** Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- **Category 2:** Buildings, Structures, and Linear Structures that are Heritage Assets; and
- **Category 3:** Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.



**Table RSI-1. Real Property Deferred Maintenance and Repairs
(excluding Military Family Housing)**

2025			
As of September 30 <i>(Dollars in millions)</i>	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 2,189,345.3	\$ 236,808.8	11%
Category 2	203,640.7	24,844.5	12%
Category 3	60,947.5	16,729.0	27%
Total	<u>\$ 2,453,933.5</u>	<u>\$ 278,382.3</u>	11%

**Table RSI-2. Real Property Deferred Maintenance and Repairs
(Military Family Housing only)**

As of September 30 (Dollars in millions)	2025		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 30,856.0	\$ 6,471.0	21%
Category 2	528.0	154.0	29%
Category 3	827.0	351.0	42%
Total	\$ 32,211.0	\$ 6,976.0	22%

Significant Changes in Real Property Deferred Maintenance and Repairs (Excluding Military Family Housing)

As of the end of FY 2025, the Department estimates facility maintenance cost of more than \$278.4 billion for facilities with replacement cost of \$2.5 trillion. The totals include \$11.0 billion in civil works related maintenance needs under the USACE with a replacement cost of more than \$227.0 billion.

Maintenance and Repair Policies

The Department continues migrating to the Sustainment Management System (SMS), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.



Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 (Dollars in millions)		2025
Major Categories		
Aircraft	\$	933.1
Automotive Equipment		373.0
Combat Vehicles		267.0
Construction Equipment		-
Electronics and Communications Systems		101.2
Missiles		113.0
Ships		213.4
Ordnance Weapons and Munitions		338.7
Other Items Not Identified Above		140.9
Total	\$	2,480.3

Maintenance and Repair Policies

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from canceled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

Significant Changes in Deferred Maintenance and Repair

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems decreased by \$1.1 billion during FY 2025. The decrease was primarily driven by the Department of the Navy's maintenance related to Aircraft and Missiles, as well as the Department of the Army's maintenance related to Aircraft and Other assets.

**Table RSI-4. Estimated Acreage by Predominate Use -
General PP&E Land and Permanent Land Rights**

As of September 30 (Acres in thousands)	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year	2	248	24,028	24,278
End of Prior Year/Start of Current Year*	20	248	24,632	24,900
End of Current Year	-	260	25,628	25,889
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	1	1

* The Department has prioritized data cleansing for land in support of SFFAS 59, Accounting and Reporting of Government Land, to report the predominant use. During FY 2025, Components continued to report consolidated estimated acreage for General PP&E land and permanent land rights. As the data and processes for reporting continue to improve, the Department will update the predominant use of its land accordingly based on information available.



**Table RSI-5. Estimated Acreage by Predominate Use -
Stewardship Land and Permanent Land Rights**

As of September 30 (Acres in thousands)	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year*	-	442	10,426	10,868
End of Prior Year/Start of Current Year*	-	470	10,380	10,850
End of Current Year	-	477	10,812	11,289
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	-	-
* The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. During FY 2025, Components continued to report consolidated estimated acreage for stewardship land. As the data and processes for reporting continue to improve, the Department will update the predominant use of its land accordingly based on information available.				

Table RSI-6. Combining Statement of Budgetary Resources (Budgetary)

2025

As of September 30
(Dollars in millions)

	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory) (Note 21)	\$ 5,411.8	\$ 131,889.8	\$ 40,861.7	\$ 30,446.7	\$ -	\$ 47,675.8	\$ 79,432.1	\$ 335,717.9
Appropriations (Discretionary and Mandatory)	189,388.4	216,935.5	177,917.0	17,697.7	93,623.2	10,935.1	609,622.3	1,316,119.2
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	97,330.5	97,330.5
Spending Authority from Offsetting Collections								
(Discretionary and Mandatory)	1,840.3	5,080.9	15,583.5	8,845.2	-	23,594.2	96,088.4	151,032.5
Total Budgetary Resources	196,640.5	353,906.2	234,362.2	56,989.6	93,623.2	82,205.1	882,473.3	1,900,200.1
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	\$ 191,054.4	\$ 213,495.2	\$ 170,039.1	\$ 22,627.8	\$ 93,623.2	\$ 35,302.7	\$ 760,682.3	\$ 1,486,824.7
Unobligated Balance, End of Year:								-
Apportioned, Unexpired Accounts	272.9	92,309.7	40,637.2	29,807.4	-	46,895.2	26,915.3	236,837.7
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-	3,964.8	3,964.8
Unapportioned, Unexpired Accounts	3,872.1	44,025.2	20,903.2	1,509.7	-	-	75,319.6	145,629.8
Unexpired Unobligated Balance, End of Year	4,145.0	136,334.9	61,540.4	31,317.1	-	46,895.2	106,199.7	386,432.3
Expired Unobligated Balance, End of Year	1,441.1	4,076.1	2,782.7	3,044.7	-	7.2	15,591.3	26,943.1
Unobligated Balance, End of Year (Total)	5,586.1	140,411.0	64,323.1	34,361.8	-	46,902.4	121,791.0	413,375.4
Total Budgetary Resources	196,640.5	\$ 353,906.2	\$ 234,362.2	\$ 56,989.6	\$ 93,623.2	\$ 82,205.1	\$ 882,473.3	\$ 1,900,200.1
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	183,940.1	160,697.3	144,606.9	12,952.5	93,417.4	12,930.2	537,965.4	1,146,509.8
Distributed Offsetting Receipts (-)	-	-	-	-	(186,318.3)	(805.5)	(2,542.3)	(189,666.1)
Agency Outlays, Net (Discretionary and Mandatory)	\$ 183,940.1	\$ 160,697.3	\$ 144,606.9	\$ 12,952.5	\$ (92,900.9)	\$ 12,124.7	\$ 535,423.1	\$ 956,843.7



**Table RSI-7. Combining Statement of Budgetary Resources
(Non-Budgetary Credit Reform Financing Account)**

As of September 30 (Dollars in millions)	2025	
	Operations, Readiness & Support	Combined
Non-Budgetary Resources:		
Unobligated Balance from Prior Year Budget		
Authority, Net (Discretionary and Mandatory)	\$ 28.2	\$ 28.2
Appropriations (Discretionary and Mandatory)	\$ 0.2	\$ 0.2
Borrowing Authority (Discretionary and Mandatory)	165.4	165.4
Spending Authority from Offsetting Collections (discretionary and mandatory)	95.9	95.9
Total Budgetary Resources	289.7	289.7
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	264.7	264.7
Unobligated Balance, End of Year:		
Unapportioned, Unexpired Accounts	25.0	25.0
Unexpired Unobligated Balance, End of Year	25.0	25.0
Unobligated Balance, End of Year (Total)	25.0	25.0
Total Budgetary Resources	289.7	289.7
Disbursements, Net		
Disbursements, Net (Mandatory)	47.6	47.6
Disbursements, Net (Mandatory)	\$ 47.6	\$ 47.6