



DEFENSE FINANCE AND ACCOUNTING SERVICE WORKING CAPITAL FUND

2018 AGENCY FINANCIAL REPORT

STRENGTH IN NUMBERS



INTEGRITY - SERVICE - INNOVATION

ABOUT THIS DOCUMENT

Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2018 Agency Financial Report (AFR). This report provides high-level financial information for the FY related to our mission and stewardship of resources.

The purpose of the DFAS FY 2018 AFR is to inform the President, Congress, and the American people about how DFAS used Federal resources entrusted to the Agency to reliably deliver world-class accounting and finance services to the Department of Defense (DoD).

The AFR highlights our activities, accomplishments, progress and financial analysis for the FY. It contains our Financial Statement Audit Report along with management's assurances on internal controls.

This report is prepared in compliance with Office of Management and Budget's (OMB) Circular No. A-136, Financial Reporting Requirements. The AFR is available online at www.dfas.mil.

HOW THIS REPORT IS ORGANIZED

DFAS' AFR is organized into three sections to provide all stakeholders with clear insight into the Agency's fiscal activities over the past year.

SECTION I

Management's Discussion and Analysis (Unaudited)

This section provides a high-level overview of our organizational structure and mission; selected accomplishments; analysis of financial performance; and management's assurances on systems, legal compliance, and controls.



SECTION II

Financials

This section begins with a letter from our Chief Financial Officer and includes our Agency's independently audited financial statements and notes, along with the related Independent Auditor's Report.



SECTION III

Other Information

This section contains additional information such as a glossary of acronyms and abbreviations and index of pictures.





The Under Secretary of Defense (Comptroller) and Chief Financial Officer David L. Norquist (right) and Director, Force Structure, Resources and Assessment for the Joint Staff, Army Lt. Gen. Anthony R. Ierardi, brief the press on the President's Fiscal Year 2019 Defense Budget at the Pentagon in Washington, D.C., Feb. 12, 2018. (DoD photo by Army Sgt. Amber I. Smith)

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Message from the Director



It is my honor to share the DFAS FY 2018 Agency Financial Report with you. Far more than just a presentation of our financial statements, this report is a snapshot of our dedication to proudly serving America's heroes each and every day.

In that effort, we completed the second year of our five-year strategy with four strategic priorities of People, Audit Steadiness, Business Environment Modernization (BEM) and Agency Operational Health (AOH). During this past year, we aligned our efforts with the National Defense Strategy of increasing lethality, strengthening alliances and partnerships, and driving reform in DoD business practices as we worked toward our strategic goals. This defined focus is a key reason we are a recognized leader in financial management.

For our People priority, we implemented plans and training to address identified skillset gaps for Audit Command Language and Oracle as well as established an Agency Standardization and Efficiencies Committee to bolster collaboration.

In the area of Audit Steadiness, I am proud to say we assisted in the first DoD-wide consolidated financial statement audit, which encompassed more than \$2.7 trillion in assets and \$276 billion in inventory as well as all DoD components and agencies.

Our reform efforts continued with BEM as we achieved our systems retirement target, retiring three additional systems this year, for a total of eight systems since this five-year strategy began. This led to us exceeding our retired systems cost savings target by 10.3%, saving 58.3%. We also made great strides toward data standardization, bringing four systems into the Standard Financial Information Structure. Also, last year, DFAS led a collaborative effort to implement the new Blended Retirement System for current military personnel, which was a significant modernization of retirement benefits.

Finally, for AOH, we enhanced customer partnerships while implementing solutions that addressed key financial management challenges and reduced billing rates. This included a 14% increase in the automated posting rate for Defense Logistics Agency collections. This automation improved efficiency by decreasing manual postings and ultimately eliminating rework to post collections. Additionally, DFAS partnered with the Defense Security Cooperation Agency to close 1,392 Foreign Military Sales cases in FY 2018, a 60% increase from 2017, while managing over \$500 billion dollars in funds.

As we enter FY 2019, we are committed to accomplishing even more as we build upon a proven record of success. I am truly honored to lead the dedicated DFAS employees who support the men and women of our armed forces and the Nation every day.



A handwritten signature in dark ink that reads "Teresa McKay". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

TERESA MCKAY
Director

SECTION I

Management's Discussion and Analysis (Unaudited)

TOPICS COVERED

DFAS at a Glance

Introduction

Empowering Our Workforce

Process Improvements and Data Analytics

Excellence in Technology

Audit Support

Management Assurances

Compliance and Regulation

Financial Discussion and Analysis





DFAS at a Glance



OUR AGENCY

The DoD established DFAS in 1991 to provide finance and accounting services for DoD components during times of peace and conflict.

Today, we support military and civilian customers throughout the world. Our mission emphasizes the importance of DFAS' leadership role in standardizing and improving finance and accounting activities across the federal government.

DFAS pays all DoD military personnel, retirees and annuitants and pays the civilians for all of DoD and additional federal customers. DFAS is also a shared services provider, supporting electronic government initiatives in partnership with customers such as the Executive Office of the President, the Department of Energy, the Department of Veterans Affairs, the Department of Health and Human Services, and the U.S. Agency for Global Media.

In 1995, DoD established DFAS as a defense agency Regional Service Center for Human Resources (HR) operations to provide overhead efficiencies for Defense Agencies and Office of the Secretary of Defense components. DFAS currently provides HR services for seven defense agency customers.

Financed as a working capital fund, rather than being funded through direct appropriations, DFAS bills its customers for the costs required to provide services. The Agency sets annual billing rates for services two years in advance based on anticipated customer workload and estimated costs calculated to offset any prior year gains or losses.

DFAS' operations are subject to oversight by the DoD as well as the executive and legislative branches of the federal government. DFAS has consistently managed resources with a forward-looking focus on anticipated customer workload and efficiently achieving its required financial operating results.

We have always focused on the goal of providing services at the best value for our customers, delivering maximum benefit through our continuous search for innovation, resource savings, efficiencies, and enhanced business practices and controls.



WHO WE ARE



We are the world's largest finance and accounting operation.

OUR VISION



To be a recognized leader in financial management by consistently delivering first-class service and products.

OUR MISSION



Lead our customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information.

OUR CORE VALUES

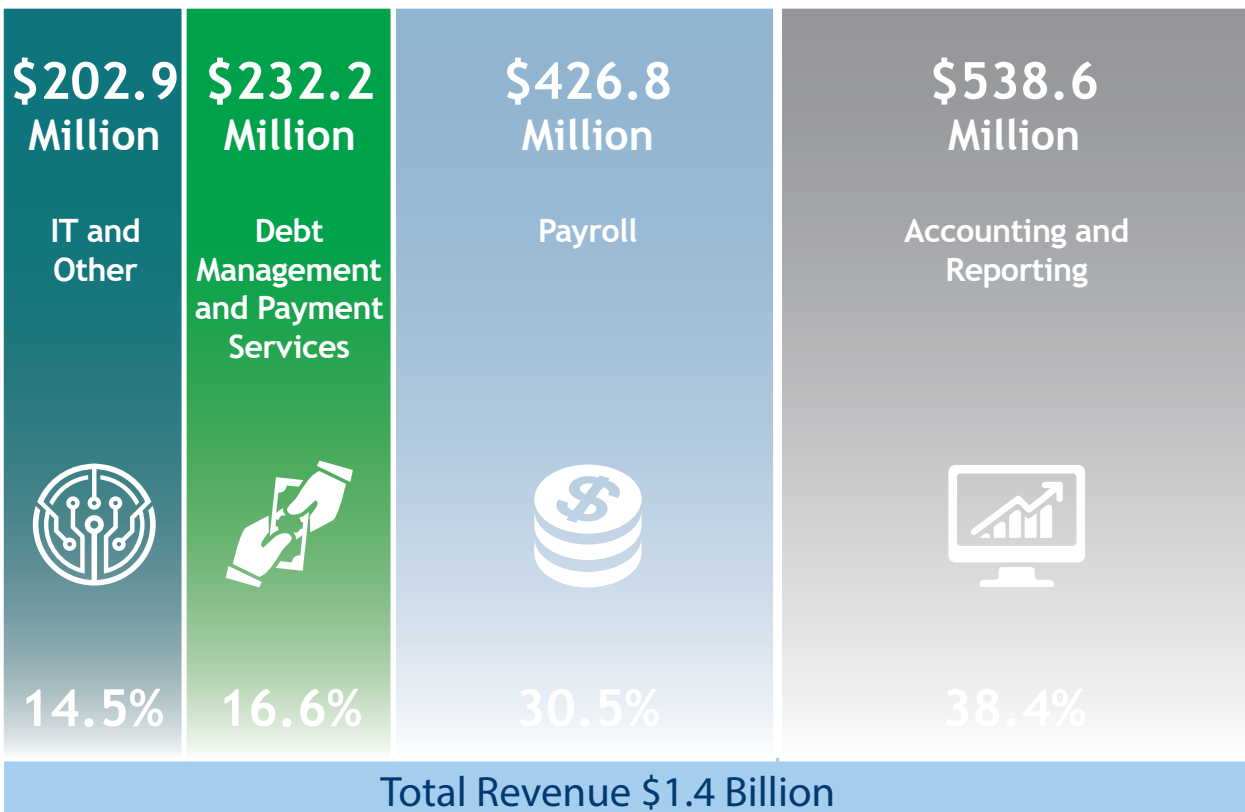


Integrity:
Doing what is right

Service:
Remain a trusted financial partner

Innovation:
Creating better ways to do business

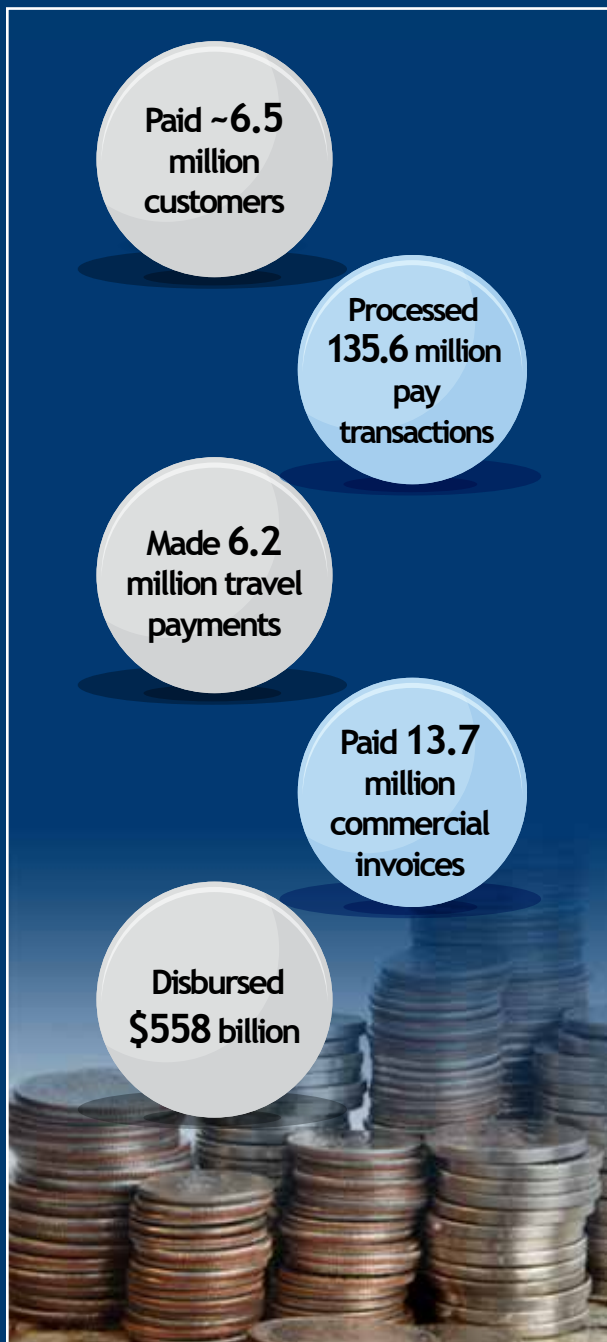
OUR REVENUE STREAMS



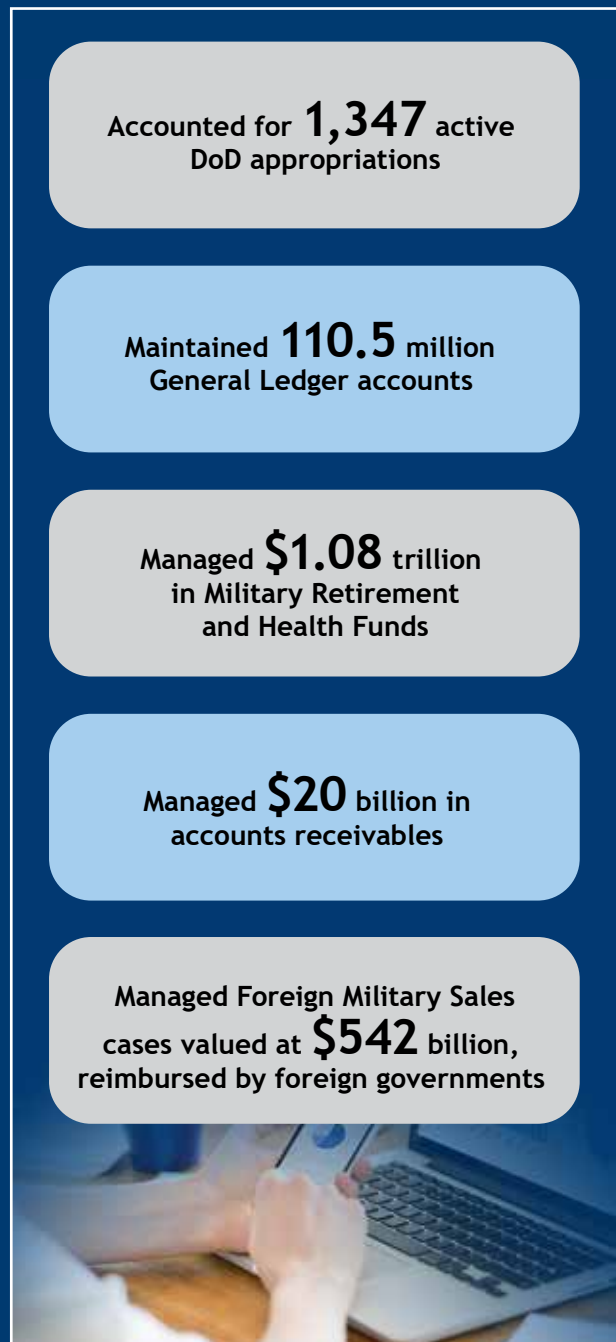
WHAT WE DO

DFAS is responsible for the consolidation, standardization and integration of finance and accounting data requirements, functions, procedures and many information systems within the DoD, while ensuring their proper relationship with other DoD functional areas such as budget, personnel, logistics and acquisition.

PAY PEOPLE AND VENDORS



ACCOUNTING SERVICES



OUR CUSTOMERS

**All DoD military personnel, retirees, annuitants
and civilian personnel**



Major DoD contractors and vendors

Customers outside the DoD:

Executive Office of the President

Department of Energy

Department of Veterans Affairs

Department of Health & Human Services

Department of State

U.S. Agency for Global Media

Foreign partners



Career

- Career Development Programs
- Job Interest Alignment
- Stability of Federal Employment
- Cross-Training/Rotational Opportunities
- On-The-Job and Classroom Training
- Tuition Assistance
- Certification Reimbursement



Compensation

- Competitive Compensation
- Defined Pension Plan
- Thrift Savings Plan (TSP) (similar to 401K)
- Flexible Spending Accounts
- Health/Dental/Vision Insurance

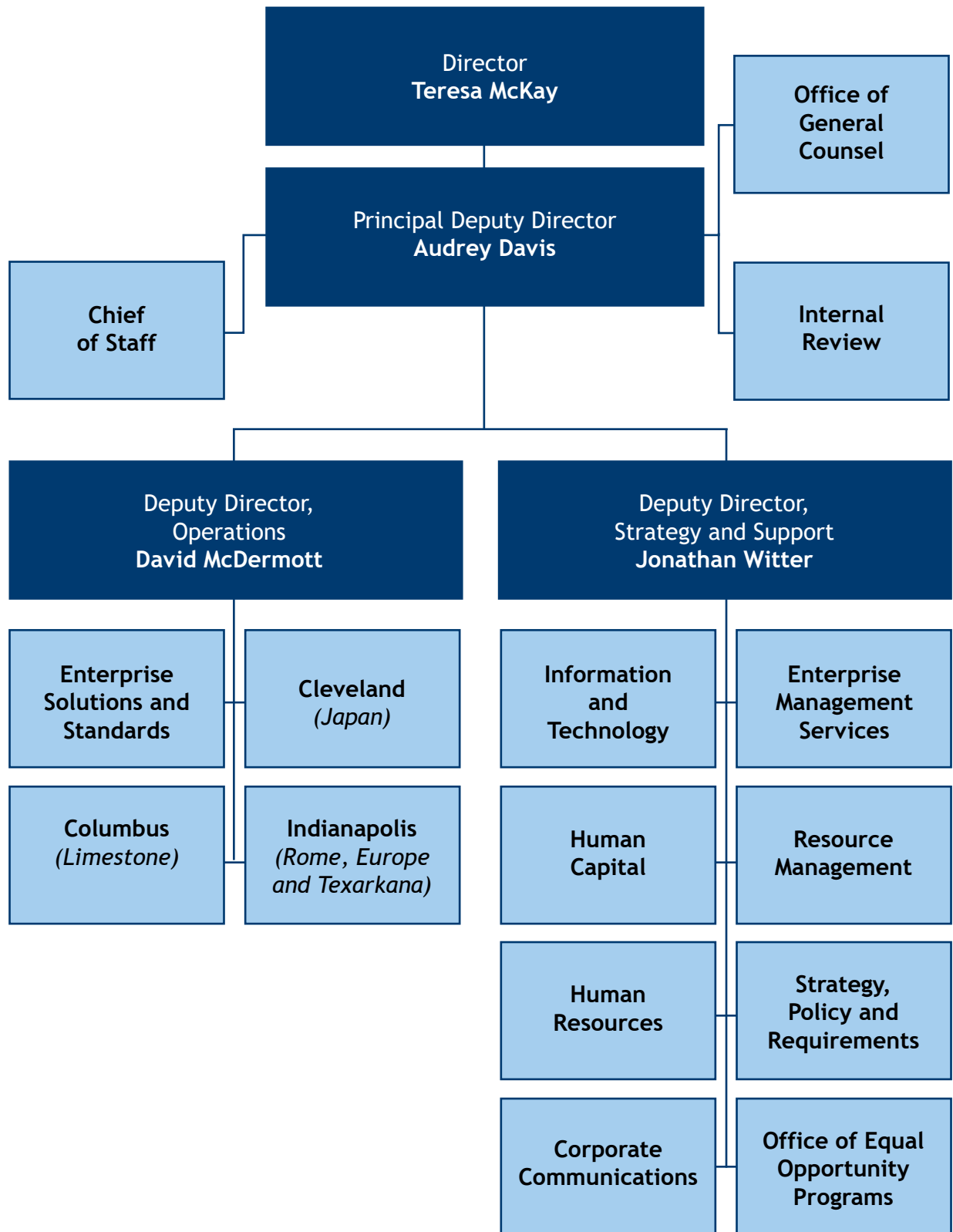


Work-Life Balance

- Flexible Work Schedules
- Annual Leave (13 days progressing to 26 days/year)
- Sick Leave (13 days/year)
- Telework Opportunities
- Family and Medical Leave
- 10 Holidays/year
- Employee Assistance Programs



ORGANIZATIONAL STRUCTURE



EXECUTIVE BOARDS

BOARD OF DIRECTORS

Approves DFAS' strategy, oversees the budget formulation and execution, approves recommendations from the Enterprise Business Council, and acts as the Agency's Internal Audit Committee

Members: Director, chair; Principal Deputy Director; Deputy Director, Operations; and Deputy Director, Strategy and Support

STRATEGIC COUNCIL

Evaluates content and structure of the DFAS strategy, corporate operational dashboard, and other Agency priorities to successfully execute strategy

Members: Director, chair; Principal Deputy Director; Deputy Director, Operations; Deputy Director, Strategy and Support; and DFAS senior executives and key GS-15s

ENTERPRISE BUSINESS COUNCIL

Serves as the DFAS governance body chartered to fulfill a number of statutory/regulatory requirements, and provides a forum for discussion and vetting of business case analyses or other fact-based analyses and requirements for enterprise-wide programs

Members: Principal Deputy Director, chair; and appointed members

OUR LOCATIONS

We operate at eight stateside locations and in Europe and Japan.





Teresa McKay, DFAS Director (far left) and Greg Schmalfeldt, DFAS Indianapolis, Site Director, (far right) pose with Leaders in Motion graduates Aug. 27, 2018. DFAS developed the program to professionally grow employees to meet the challenges of the Agency's evolving mission, vision and goals. (DoD photo by Eileen Hernandez)

Our focus in FY 2018 has been the ongoing reform of the way we manage the resources for which we have been entrusted. This begins with effective financial stewardship that taxpayers expect from all government agencies. The DoD will continue its plan to achieve full auditability of all its operations, financial processes, systems and tools to improve costs. As the accounting service provider for the Department, DFAS plays a critical role in achieving these objectives.

PEOPLE, PROCESSES AND TECHNOLOGY

In order to successfully support the Department's financial management reform objectives of simplifying and standardizing processes, developing and enforcing enterprise data standards, and utilizing fewer and better integrated systems, DFAS looked to three major areas: People, Processes and Technology.

The Department's success with the budget, the audit and implementing reform relies heavily on the skillset and experience of the financial management workforce. Developing and sustaining a professional workforce is the foundation for meeting each of these challenges. As the world's largest finance and accounting organization, DFAS must operate in an ever-changing, complex and often demanding environment. Our employees are the foundation to complete our mission objectives. Through talent acquisition, development and collaboration, DFAS achieves our goal of having our

people with the right skills, in the right place, at the right time. It is critical to equip our employees with the skillsets needed for in-depth data analytics and the ability to partner with all levels of the Department to develop best practices and solutions to enhance effectiveness and efficiencies.

The accuracy of the information contained in the financial statements is critical to the Department's ability to develop a viable defense budget and make important financial decisions. This is why DFAS is focused on reducing manual inputs by automating processes, understanding issues that impact our customers, eliminating rework and leveraging data analytic tools.

People with the *right skills*, in the *right place*, at the *right time*



During FY 2018, DFAS successfully implemented data standards required by the Digital Accountability and Transparency Act (DATA) which establishes a government-wide language for financial data. Standard Financial Information Structure (SFIS)/Standard Line of Accounting (SLOA) policies seek the enhancement of DoD system interoperability by creating standard data elements in financial, accounting and reporting systems, allowing for data to transfer from system to system without manual intervention or the use of external microapplications.

Technology is another critical objective to ensure that data can be reported timely and accurately. This requires modernizing our systems, reducing manual manipulation and safeguarding our information from those who may choose to do us harm. Reducing our legacy systems and investing in modern systems reduces costs and enhances auditability. This provides increasingly reliable data for senior leaders to make faster, more effective decisions.

Lastly, in FY 2018, DFAS supported the DoD-wide financial statement audit. This audit will provide a baseline of the current financial management status for Congress and taxpayers. It will take time and a diligent effort to implement the corrective actions necessary to achieve a clean opinion on the DoD-wide financials. However, DFAS, as the accounting service provider, is engaged in the implementation of the appropriate controls needed for the Department to achieve success.



Members of the Department of Defense's Executive Leadership Development Program (ELDP) Cohort 2018 ride in a light medium tactical vehicle during a training exercise. ELDP combines hands-on military training to foster a deeper understanding and appreciation of the mission of the Warfighter and the national security environment. (Courtesy Photo)

DFAS' most important asset and the foundation for all we achieve is our employees. In order to support our employees to do their jobs more efficiently, DFAS must push innovation, keep up with changing technologies by providing access to improved tools and training, and cultivate a culture of collaboration.

ACHIEVING DOMINANT CAPABILITIES

DFAS continues to attract, retain and develop a diverse, talented professional workforce. During FY 2018, DFAS infused a talent base with over 1,400 external hires, including 1.5% with targeted disabilities. DFAS also supported veteran employment, resulting in a 26% selection rate of veteran applicants, and 57% of these applicants are Veteran's Administration certified as 30% or more disabled. DFAS strives to target certain positions for employees with disabilities. DFAS also exceeds the DoD disability hiring target with 17% of our workforce consisting of employees with disabilities.

In order to cultivate and retain leaders for the future, DFAS championed a Succession Program for GS 13–15 positions, which resulted in an overall 56.3% participation rate for eligible personnel. The program affords employees with an assessment of their leadership skillsets, training needs, and career intentions. The program offers enhanced leadership opportunities along with additional executive leadership development training for participants. DFAS has also fostered new talent by providing rotational opportunities for 578 employees in developmental assignments.

For DFAS, it is imperative that we continue to build, train, and strengthen our employees' knowledge and skills in order to drive effectiveness and efficiencies for ourselves and our customers. By encouraging and supporting our employees to seek additional training, it makes them more aware of new processes, updated technologies, and provides them with the appropriate skillsets regardless of position or experience level within DFAS. To accomplish this, our accountants and finance professionals achieved a 99.7% success rate for the initial DoD Financial Management Certification and 100% on Continuing Education Training (CET) re-certifications. DFAS also improved the Information Technology (IT) certification process that ensured 90.5% of our IT professionals' achieved Security+ and Certified Authorization Professional cybersecurity certifications, which is an increase of 16% from FY 2017.

DFAS also trained over 150 Green and Black Belt process improvement professionals. These Lean Six Sigma specialists completed 107 projects resulting in a savings of \$1.8 million for the Agency.

In an effort to meet the evolving requirements of our customers and provide real time data

analytics, the Agency addressed these expectations with the introduction of improved systems and employee training. This led to the implementation of Oracle and Audit Command Language (ACL) system training. DFAS also launched the ACL Community of Practice, hosted an ACL summit and launched multiple ACL projects to increase efficiencies throughout the Agency, saving thousands of labor hours.

CULTURE OF COLLABORATION

During FY 2018, DFAS sent nearly 500 professionals to support the Warfighter throughout the world. Civilian personnel were sent as part of the DoD Expeditionary Civilian (DoD-EC) deployment program to support operations in volatile, war-torn countries. In addition, DFAS employees provided worldwide support to 423 medically evacuated Wounded Warriors, processing 97.9% of claims within 72 hours.

DFAS is also a leader in support of civilian humanitarian efforts. When Hurricanes Harvey, Irma and Maria hit the United States, Puerto Rico and the tropical islands, we took action. DFAS personnel partnered with Federal Emergency Management Agency (FEMA), U.S. Department of Treasury



Certificate Of Training

21,201 CET's awarded

37,584 courses completed
(live and online)

(Treasury) and the military services to provide volunteers, disburse cash, and process over 10,000 evacuation travel claims. This collaboration with Treasury also encompassed the processing of 10,551 debt suspensions for 5,415 soldiers impacted by the hurricanes, totaling \$30 million.

Closer to home, DFAS supported the Office of Personnel Management's (OPM) retirement surge by sending a team of employees to work on-site for six weeks to aid in the processing of more than 25,000 claims. DFAS also partnered with Internal Revenue Service (IRS) and Office of Under Secretary of Defense (OUSD) Personnel and Readiness division to identify veterans entitled to over \$220 million in refunds. This was a result of the implementation of the Combat Injured Veterans Tax Fairness Act of 2016.

Overall, DFAS' robust investment in our people has resulted in broadening the breadth and depth of our personnel to have the skillsets needed for in-depth analytics and the ability to partner with all levels of the Department and other external customers such as OPM, FEMA, IRS and the Treasury. We have the "right skills, in the right place, at the right time" to continue our commitment of providing first-class services to all of our customers.

CERTIFICATIONS

Accounting Professionals

- **Certified Public Accountants**
- **Certified Management Accountants**
- **Certified Financial Managers**
- **Certified Government Financial Managers**
- **Certified Defense Financial Managers**
- **Certified Internal Auditors**
- **Certified Fraud Examiners**
- **Certified Information Systems Auditors**

Information Technology

- **Security +**
- **A+**
- **Network +**
- **Linux+**
- **Oracle Certified**
- **Microsoft Certified**
- **SAP Certified**
- **IBM Certified**

Other

- **Project Management Professionals**
- **Professional in Human Resources**
- **Society for Human Resource Management - Certified Professionals**
- **Lean Six Sigma Black Belts**
- **Lean Six Sigma Green Belts**



“ We’ve made ***tremendous strides*** in equipping our accountants and our financial analysts with tools to be able to get into the data that they have access to, ***improve*** their processes and ***deliver capabilities*** our customers have been asking for in a lot shorter time. **”**

Audrey Davis
Principal Deputy Director



DFAS Columbus Mechanization of Contract Administration Services (MOCAS) team. From left to right, Glen Bell, MOCAS Prevalidation Technician, Trudi Richardson, MOCAS Prevalidation Lead - Retired, Mary Newman, ESS AP Financial Systems Specialist, Staci Roark, MOCAS Prevalidation Technician, Kathy Sponseller, MOCAS Prevalidation Supervisory Technician and Emilee McLarnan, Contract Pay Operations Director.

DFAS continually strives to improve our processes, controls, and data to deliver the highest quality accounting reports, in-depth analysis, and management of DoD financial matters.

The Agency is leading the way to achieve full auditability of all DoD's budgetary and proprietary accounts, in support of the DoD-wide financial statement audit and financial management reform.


IMPROVING FINANCIAL PROCESSES

Financial processes directly affect customer service and satisfaction, which includes timely reporting and promptly responding to customer requests. DFAS has had many successes this year in improving the financial process that we perform on behalf of our customers, which ultimately aids in maximizing our talents, resources and operations. Our improved processes and effectively executing resources led us to efficiently manage our planned spending dollars this fiscal year.

DFAS made several improvements to its pay processes. For example, the Agency collaborated with Germany's Foreign Forces Payroll Office, as well as other foreign customers, to develop procedures for returning over \$450,000 of excess funds collected for German Flat Taxes. This was an important step in ensuring our Foreign Nationals are being paid appropriately and assures effective collaboration and communication with foreign government pay offices confirming the proper payroll deductions. In addition, DFAS expanded their Retroactive Pay Processing, enabling automated payments to those

customers where retroactive compensation was owed to them. Automating these payments for select civilian pay customers from 26 to 52 pay periods, enabled system generated retroactive pay processing, which subsequently reduced manual calculations and produced a realized annual net savings of \$261,000.

The Agency also made significant system changes to improve financial processes. One of these changes was a collaborative effort with Defense Information Systems Agency (DISA) Human Resources, resulting in an enhanced award submission process. Consequently, this joint venture improved upload capabilities, increased data reliability, and reduced errors. DFAS saved approximately \$1 million in contractor support costs by migrating from the contractor-hosted mainframe to a DISA-hosted support system. Another example was the modernization of our ERP system with SFIS implementation. The DoD SFIS seeks to enhance computerized systems to seamlessly connect and communicate with each other by creating standard data elements in financial, accounting, and reporting systems.



Saved approximately
\$1 million in contractor
support costs

IMPROVING INTERNAL CONTROLS

Strong internal controls ensure the reliability and integrity of financial information, as well as compliance with existing laws and regulations. These controls promote efficient and effective operations, assist in monitoring and measuring resources, and support management to accomplish their goals and objectives.



Tested **1,427** business
processes which are
96% effective

DFAS tested 1,427 business processes with 2,229 documented key controls. Those controls were 96% effective as reported within the Managers' Internal Control Program (MICP). This means auditors can place greater reliance on our internal controls which may result in reduced sampling and fewer walkthroughs.

We also implemented (SFIS) requirements for four systems in 2018 which include Computerized Accounts Payable System for Windows (CAPS-W), eBiz general ledger, Integrated Automated Travel System (IATS), and Trust Fund Reporting System (TFRS). These implementations furthered SFIS compliance in the accounting, entitlement, travel and ad-hoc reporting core business areas for DFAS.

REDUCING UNSUPPORTED JOURNAL VOUCHERS

Supporting the DoD-wide audit and today's ever-changing audit environment, demands that DFAS assist with reducing the number of journal vouchers (JVs) used by the Department and provide adequately supported documentation for all transactions affecting general ledger accounts. As such, DFAS eliminated all field-level unsupported Defense Departmental Reporting System–Budgetary (DDRS-B) JVs from 81 totaling \$93 million from October 2016 to zero by December 2017. We also collaborated with our customers to improve processes to reduce JV's. For example, we assisted Defense Agencies Initiative (DAI) customers to diminish the volume of JVs by 51 totaling \$1.2 billion.

Similarly, DFAS led efforts across several fiscal years to decrease Army JVs that were not fully substantiated, resulting in a 75% reduction. This accomplishment included systemic migration for reporting Property, Plant and Equipment from DDRS to General Fund Enterprise Business System (GFEBS), Army's general ledger system, which resulted in 31 fully supported JVs for \$242 billion. Overall during FY 2018, DFAS successfully reduced the unsupported JV counts by 30.5% and dollar amounts by 71.5% from FY 2017.

DATA ANALYTICS

By standardizing data through SFIS and becoming more effective and efficient with our processes, we can provide better data analytics for decision making. DFAS now has the ability to examine large and varied data sets, often referred to as "big data", to identify new information such as patterns, unknown correlations, and customer needs that help us and our customers' make more informed decisions. In FY 2018, DFAS invested in training our accountants on utilizing ACL and had success with several projects. One way we are reforming how we do business is to drive more DoD efficiencies through data analytics with Mechanization of Contract Administration Services (MOCAS). By using ACL to mine the data we already have at our fingertips, we have been able to drive change throughout the Department. For example, data analytics helped us to decrease FY 2018 MOCAS canceled funds by \$450 million as compared to FY 2017 balances. A decrease in canceled funds balances means more dollars were utilized prior to year-end to cover mission needs. Without this new technology, these funds would have been canceled and no longer be available to be utilized by DoD for payment purposes.



DFAS effectively managed its current resources within the existing **\$1.4 billion** budget limitations, executing **98.5%** of its planned spending dollars

“ All of these great technological advances started with an idea to make our lives easier and **more efficient**. I want you to be **inspired** to **think differently** and leverage industry to make the DoD more efficient. **”**

Pamela Franceschi
Director, DFAS Columbus





Pamela Adams, Information Technology Specialist on the Agile Transformation Team, teaches a new Agile boot camp team Agile and Scrum principles. Participants attended a three day boot camp course beginning Oct. 24, 2018. The training is designed to infuse Agile into the Agency and provide participants with an introduction to Agile culture.

'Excellence in Technology' is one of those slightly ambiguous phrases with many different interpretations, but in our current operating environment, it refers to information effectiveness and the reform of technology in financial management. This generally involves three broad dimensions: supporting the technology needs of our customers, systems integration and securing this technology.

SUPPORT THE TECHNOLOGY NEEDS OF THE CUSTOMER

DFAS' customers crave connection and convenience, and a tech-linked world serves both of those goals. An integral part of the DFAS 2017-2021 strategy is the Business Environment Modernization (BEM) mission. In FY 2018, we have continued this work to provide more engaging information sources to our customers.

The FY 2016 National Defense Authorization Act created the Blended Retirement System (BRS) which required the modernization and interfacing of several military pay systems. BRS blends the traditional legacy retirement pension with a defined contribution to the service member's Thrift Savings Plan account. This is one of the most significant changes to this retirement system since the World War II era. The legacy retirement plan only covered 19% of active and 14% of reserve military personnel. The inception of the BRS means 85% of uniformed military personnel could get retirement benefits. This system change allows eligible military personnel to opt-in electronically.

DFAS was a key participant in the implementation of BRS, which was a cross-agency effort that spanned to all branches of the military, including the Coast Guard, Office of the Secretary of Defense, Public Health Administration, National Oceanic and Atmospheric Administration, and Federal Retirement Thrift Investment Board. This collaboration led to the development, coding, testing, and certifying of updates to five major pay systems, all aimed at creating an exceptional product to support the Warfighter and the growing needs of our customers. This system went into effect January 1, 2018.

SYSTEMS INTEGRATION

With the constant infusion of new technology and the automation of daily processes, DFAS had a need to increase the effectiveness of its information technology. In FY 2018 DFAS deployed its first system to an Oracle SuperCluster environment. These technology advancements are the most efficient, most stable, and customizable systems for optimally running smaller databases and applications on a single integrated secure system.

The Oracle SuperCluster provides DFAS with a simpler information technology environment. This allows for standardized and streamlined processes which equates to reduced production times. Since moving to the SuperCluster, time spent running reports has significantly decreased. For example, an Army budgetary report now runs 75% faster and a Treasury DoD-wide report now takes 6 minutes to run, as opposed to the customary 2.5 to 4 hours. DFAS has increased the number of reports that can be produced in 5 minutes or less from 83.9% to 98.6% with the incorporation of the SuperCluster.

In FY 2018, DFAS fully implemented two Agile measures, moving from the Waterfall to Agile Methodology concepts, for software development. The Waterfall Methodology is a silo method by which each step in a process is performed separately and production is moved from team to team to be worked. This approach causes

many hours of rework and downtime while each team evaluates and tests the progress. The Agile Methodology is a collaborative cross-functional team environment where all invested parties work at all levels of the process to ensure adaptive planning, evolutionary development, early delivery, and continual improvement. This strategy encourages rapid and flexible responses to change. Using the Agile Methodology, DFAS piloted three systems in FY 2018 that achieved a reduction of 59% in their average time to deliver value and an average of 64% decrease in rework. DFAS' goal is to achieve an overall Agency reduction in each of these measures by 30% for all systems inculcating Agile methodologies.

DFAS seeks continuous improvement and will optimize SuperCluster use with three additional systems planned to transition. Likewise, DFAS will continue transition from Waterfall software development to Agile with nine additional systems starting the journey during FY 2019.

Agile Methodology

FY 2018 piloted

systems *reduced*

average time to delivery

by **59%** and rework

by **64%**

ENSURING THE SECURITY OF TECHNOLOGY

In today's connected world, everyone benefits from advanced cyber defense programs. In our continuing effort to decrease legacy systems, DFAS acknowledges that having fewer systems

reduces the cyber footprint and thus reduces the system landscape to defend. Under our BEM priority, our strategy is to retire 20 legacy systems by FY 2021. In FY 2018 DFAS retired three systems and has retired eight since FY 2017.

FY 2018 Systems Retired

International Balance of
Payment System

Cash Reconciliation System

Recertification System

Also, DFAS strives to improve our cybersecurity. We've enhanced our team to protect, detect, respond and sustain services for our customers and ourselves. This team now provides around-the-clock monitoring.

Enhanced our cybersecurity

Operational and ready
every day with 24/7
monitoring

REDACTION OF PII

Another area of focus during FY 2018 was increasing the protection of personally identifiable information (PII). PII is information that can be used to distinguish or trace an individual's identity, such as name, social security number (SSN), date and place of birth, mother's maiden name, or biometric records. DFAS is committed to modernizing our systems and processes to offer the best possible protection of our customers' PII and sensitive data. During FY 2018, DFAS decreased usage of SSNs by encrypting 27 micro-applications and removing 2 terabytes of files containing PII from shared drives. Additionally, DFAS implemented the Digital Signature Enforcement Tool (DSET) to reduce the risk of spillage of PII and sensitive information through the DFAS Outlook email system. DFAS also oversaw the redaction of all SSNs from the system that tracks Permanent Change of Station (PCS) household goods shipments.

Redaction of PII

Pursued the
redaction of all SSNs
used in third-party
pay systems

In conclusion, technical excellence means reducing costs, strengthening accountability and effectiveness and dramatically consolidating our IT networks to improve communication and fortify our systems. DFAS is standardizing processes, reducing duplication, leveraging data and improving performance.

“ During FY 2018, DFAS participated in the DoD initiative to ‘reform Business IT with a more **secure, stable, and resilient** IT capability,’ and in doing so we pursued agency efforts to enhance cybersecurity, optimize our environment, and strengthened systems operations. **”**

Aaron Gillison
Director, Information and Technology



Sandra Bryant, Deputy Director, Enterprise Audit Support (left) and Sharon Patton, Director, Enterprise Audit Execution and Support, discuss audit matters.

For the first time in history, the Department underwent a consolidated financial statement audit. The magnitude and complexity of this undertaking is enormous, as it encompasses over \$2.7 trillion in assets, \$276 billion in inventory, and involves all mission areas of the DoD in some way.

While DFAS has maintained an unmodified opinion for 19 years, the Department is just beginning the journey toward that goal. DFAS plays an integral support role in all aspects of the audit, including awarding audit contracts, sustaining multiple service provider audit reports and implementing audit training. Furthermore, DFAS provided supporting documentation to audit requests, performed walkthroughs with auditors and championed improvements as the accounting service provider.

CONTRACTING CENTER OF EXCELLENCE

To begin this process, DFAS organized a Contracting Center of Excellence for audit and audit-related contracts. This resulted in 25 contract actions valued at \$972 million; 11 Other Defense Agency exams, 3 for Audit Support, 10 Audits and 1 for Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) support contract. Additionally, DFAS' collaboration with the Department of Defense Inspector General (DoD IG) and OUSD(C) has improved the development of requirements and simplified instructions to prospective contract recipients. This results in stronger evaluation and decision documents. Utilizing our new Contracting Center of Excellence, DFAS awarded Audit Support contracts for the OUSD(C)'s Financial Improvement and Audit Remediation (FIAR) directorate.

DFAS also awarded eight contracts worth \$4.4 million for Statement on Standards for Attestation Engagements No. 18 (SSAE 18) “Clarification and Recodification” for service provider audits, and awarded three additional contracts totaling \$84.6 million for DoD component level full financial statement audits. Furthermore, coordination with OUSD(C) produced a revision of the language in audit contracts for consistency related to Notice of Findings and Recommendations (NFRs) and the reliance upon SSAE 18s by Independent Public Accountants (IPAs). This effort leads to increased efficiencies in categorizing audit discussions and corrective action plan remediation.

**Contracting Center of
Excellence awarded 25
audit-related
contracts valued at
\$972 million**



IMPROVING THE AUDIT SCORECARD

During FY 2018, DFAS championed improvements to our SSAE 18 audits, expanding coverage and reliance, and positioning DFAS to sustain four unmodified and four modified SSAE 18 audit opinions. DFAS achieved 92% on the OUSD(C) scorecard, which is a 16% improvement over last year. This scorecard average across DoD is about 70% and measures SSAE 18's usability and reliance by IPA firms. These audits allow numerous IPA firms to utilize a single audit report for internal controls surrounding processes and systems which DFAS uses for multiple components and defense agencies. This reduces overall audit costs and gains efficiencies for each IPA firm. In FY 2018, we obtained a favorable modified opinion on the new DFAS enterprise Local Area Network (eLAN) SSAE 18 assertion supporting 51 DFAS systems and a \$40 million budget.

STANDARDIZED AUDIT TRAINING

The Agency also implemented DFAS-wide audit training programs with a 94% satisfaction rate, including three workshops with 415 attendees and nine web training courses completed by over 10,000 employees. Our audit training programs are consistently shared across DoD, ensuring standard language and guidance.

AUDIT SUPPORT TO OUR CUSTOMERS

During the FY 2018 DoD-wide audit, we supported our customers' audit engagements by providing thousands of supporting documents related to audit sample requests from the IPA. Personnel worked hundreds of hours providing internal control walkthroughs and answering IPA questions on various processes.

The magnitude and scope of the DoD-wide audit required significant collaboration across the Department. DFAS was a leader in coordinating the efforts to remediate known issues and provide corrective actions for gaps identified in financial management processes.

For example, we effectively remediated 61% of the open NFRs during the fiscal year and ensured remaining corrective action plans are on schedule to meet the estimated completion dates. DFAS also developed a comprehensive universe of transactions reference guide for Defense Agencies (representing over 20% of the DoD budget), fulfilling a critical audit requirement to provide a detailed customer view of the end-to-end financial reporting process.

DFAS led DoD-wide Fund Balance with Treasury (FBwT) improvements including a 90% reduction (over \$5.6 billion) in over-aged Treasury Statement of Differences. We have sustained a 98% FBwT match rate for the defense agencies.

The Agency also oversaw the effort to validate and document Defense Departmental Reporting System (DDRS) crosswalks for over 166,500

General Fund (GF) and over 9,600 Working Capital Fund (WCF) general ledger accounts. This was to assist with the remediation of audit findings at an enterprise level. Another one of our collaborative efforts was supporting the reconciliation for more than \$290.0 billion in assets and \$38.0 billion in liabilities for FY 2018 Army GF audit.

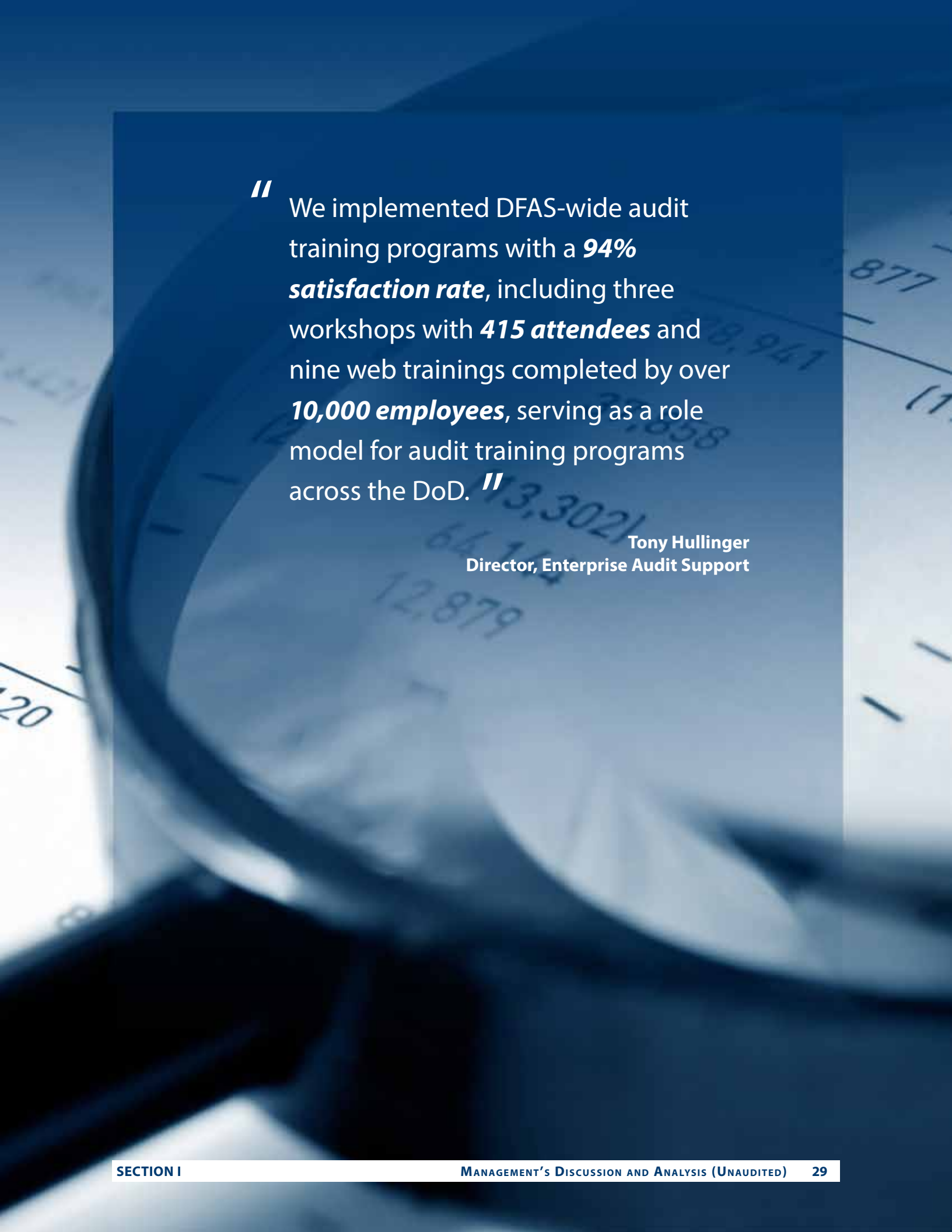
DFAS' IT department collaborated on an agency-wide gap analysis to mitigate risks and deficiencies in order to address 30 NFRs across 40 audit readiness systems. These improvement initiatives will ultimately be instrumental in achieving a successful DoD-wide audit opinion.



Provided audit support for DoD consolidated audit approximately ***\$2.7 trillion in assets*** and ***\$276 billion in inventory***



Remediated 61% of prior year NFR's related to the DoD audit

The background of the page features a blue-tinted image of a magnifying glass held over a document. The document contains various numbers, some of which are visible through the magnifying glass, including 877, 18,941, 12,879, 13,302, and 64,144. The magnifying glass is positioned diagonally across the page.

“ We implemented DFAS-wide audit training programs with a **94% satisfaction rate**, including three workshops with **415 attendees** and nine web trainings completed by over **10,000 employees**, serving as a role model for audit training programs across the DoD. **”**

Tony Hullinger
Director, Enterprise Audit Support



Management Assurances





DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: David L. Norquist, Under Secretary of Defense (Comptroller)

SUBJECT: Fiscal Year 2018 Statement of Assurance (SoA) Required Under the Federal Managers' Financial Integrity Act (FMFIA)

As the Director of the Defense Finance and Accounting Service (DFAS), I confirm DFAS has established and maintains effective internal controls to meet the objectives of the FMFIA. Our SoA provides specific information on how the assessment of internal controls was conducted in accordance with the Office of Management and Budget Circular A-123 (OMB A-123), *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, DFAS can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2018.

DFAS conducted its assessment of the effectiveness of internal controls over operations in accordance with the FMFIA and Department of Defense Instruction (DoDI) 5010.40. I am able to provide a *modified statement of assurance* that internal controls over DFAS' operations are operating effectively, with the exception of one material weakness for Financial Reporting related to the Agency's service provider operations.

DFAS conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB A-123, Appendix A. Based on this assessment, I am able to provide an *unmodified statement of assurance* that internal controls over financial reporting were operating effectively.

DFAS also conducted an internal review of the effectiveness of internal controls over financial management systems in accordance with the Federal Financial Management Improvement Act (FFMIA) and OMB A-123, Appendix D. Based on the results of this evaluation, I am able to provide an *unmodified statement of assurance* that internal controls over financial systems were effective and compliant with the requirements of FFMIA.

Teresa A. McKay
Director

Note: The assurances stated on pages 32-33 are to be read in conjunction with this memorandum.

Note: The material weakness referenced above for Financial Reporting, included DFAS WCF within its population but the resulting failures were related to DFAS in the service provider capacity to the Services and Defense Agencies. DFAS WCF has mitigating controls for the weaknesses identified.

DFAS management is responsible for compliance with existing laws and regulations related to financial reporting. DFAS did not identify any instances of non-compliance during FY 2018. The following describes specific compliance assertions and efforts taken by DFAS management to maintain compliance applicable to DFAS Financial Reporting.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

DFAS conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Based on the results of this assessment, as of June 30, 2018, the internal controls over the integrated financial management systems utilized in the compilation of the DFAS financial statements, were in compliance with OMB Circular A-123, Appendix D, Compliance With the Federal Financial Management Improvement Act of 1996.

DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT

The Digital Accountability and Transparency Act of 2014 (codified, as amended, at 31 U.S.C. 6101 note) establishes a government-wide standard for financial data and disclosure to USASpending.gov. This enables taxpayers and policy makers to track federal spending more effectively.

DFAS is compliant and completed implementation in second quarter FY 2017, prior to the DoD required due date of May 2018. DFAS has implemented adequate internal controls to mitigate the risk of non-compliance by requiring change request approvals from all entities exposed.

ANTIDEFICIENCY ACT

Section 1341, Title 31, United States Code (31 U.S.C. 1341 [1990]) limits DFAS and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, DFAS and 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.

As stated in 31 U.S.C. 1517 (2004), DFAS and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

The DFAS 7040.1-I, DFAS Financial Management Instruction, Enclosure 14, provides agency policy for investigating and reporting ADA violations. During FY 2018, DFAS had no ADA violations to report.

DEBT COLLECTION IMPROVEMENT ACT OF 1996

Public Law 104-134 Debt Collection Improvement Act of 1996 (Updated April 30, 1999) is legislation that provides an opportunity for the federal government to move toward its goal of increased electronic commerce and improved cash and debt collection management. The Act enhances debt collection government-wide and mandates the use of electronic funds transfer for federal payments, allows Federal Reserve Bank Treasury Check Offset, and provides funding for the Check Forgery Insurance Fund.

The law provides that any non-tax debt or claim owed to the United States that has been delinquent for a period of 120 days shall be turned over to the Secretary of the Treasury for appropriate action to collect or terminate collection actions on the debt or claim. Debt that is in litigation or foreclosure with a collection agency or a designated federal debt collection center, or that will be disposed of under an asset sales program, is exempt from transfer to the Secretary of the Treasury.

DFAS implemented debt management controls to meet the requirements of the DCIA, OMB Circular No. A-129, Policies For Federal Credit Programs and Non-Taxable Receivables and other laws as applicable, including:

- Treasury Offset Program Referral of debts more than 120 days delinquent;
- Write-offs of delinquent debt older than two years;
- 1099-C Reporting when closing out debts; and
- Credit Bureau Reporting of delinquent non-tax, out-of-service debts.

GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT

The Government Charge Card Abuse Prevention Act (Public Law 112-194) requires all federal agencies to establish safeguards and internal controls for government charge card programs and establish penalties for violations. DFAS is in compliance with the current requirements of PL 112-194 for both the Government Purchase Card and Government Travel Charge Card Programs.

PROMPT PAYMENT ACT

The Prompt Payment Act (codified as amended in 31 U.S.C. 3901-3907) ensures federal agencies pay vendors in a timely manner. Prompt Payment ((5 Code of Federal Regulation [CFR] 1315), formerly OMB Circular A-125, Prompt Payment) requires DFAS to pay commercial obligations within certain periods and to pay interest penalties when payments are late. In compliance with the Statute, DFAS paid \$52,122 of Prompt Payment Interest penalties during FY 2018.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ISMPROVEMENT ACT OF 2012

The Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C 3321 note) requires federal agencies to review spending to identify, prevent, and report improper payments to reduce error, waste, fraud, and abuse within federal spending. This requirement is done not by DFAS WCF but by DFAS the service provider. DFAS, the service provider, handles reporting DoD-wide for all components to include DFAS WCF.

FRAUD REDUCTION AND DATA ANALYTICS ACT OF 2015

DFAS implemented the required financial and administrative controls for the fraud risk principle in the Standards for Internal Control in the Federal Government (also known as the “GAO Green Book”) and OMB Circular A-123. DFAS implementation included: leading practices for managing fraud risk; identifying risks and vulnerabilities to fraud, including with respect to payroll, beneficiary payments, large contracts, and purchase and travel cards; and establishing strategies, procedures, and other steps to curb fraud.

AUDIT DISCLOSURES

During FY 2018, auditor-identified findings were classified as control deficiencies and did not have a material impact to the DFAS WCF.



Financial Discussion and Analysis



DFAS continues to provide financial and accounting services at the lowest cost possible. The Agency plans its revenue and expenses based primarily on the estimated amount of services our customers will require in the future. In order to assist the DoD in its budgeting process, the Agency's budgeted rates are established two fiscal years in advance. Due to forecasting future budgeted rates, fluctuations in customer demand for services have a direct and significant effect on DFAS' financial performance as a result of utilizing a predominantly labor-based expense structure.

The performance of the Agency can be measured by the Net Cost of Operations which is the difference between expenses and revenue for the year. The Net Position measures the Agency's budgetary health since inception.

Fiscal Years Ended September 30	2018	2017
Net Cost of Operations	\$ 89,435,607	\$ (3,722,981)
Net Position	\$ 342,067,490	\$ 351,142,747

SIGNIFICANT EVENTS

In order to prevent an excess above the required cash position, DFAS decreased billing rates in FY 2018. DFAS' Fund Balance with Treasury (FBwT) has reached the required levels for a working capital fund to maintain operating cash corpus for future operations. We have also implemented SFIS compliance requirements into the current general ledger software footprint as per the DoD directive to improve the interoperability between systems.

FINANCIAL STATEMENT ANALYSIS

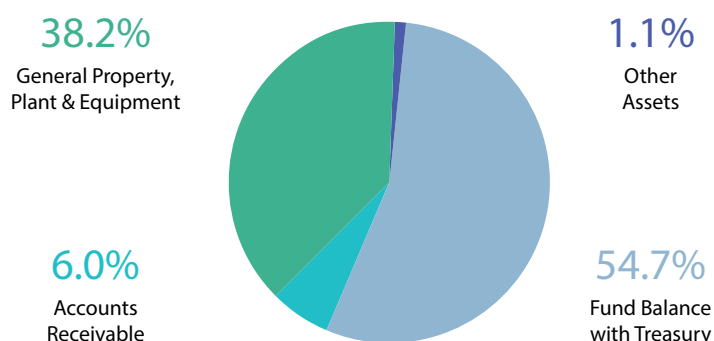
DFAS WCF continues a thorough, monthly review process and robust execution reporting to senior leadership in order to outline the status of its financial position and available budgetary resources. Consequently, DFAS leadership is armed with proprietary and budgetary information to make informed business decisions throughout the year in order to manage the DFAS WCF unobligated balance. The OUSD(C) and the Office of Management and Budget are updated quarterly during budget execution reviews. As a result, DFAS stakeholders are provided timely information regarding the current and anticipated DFAS status of budgetary resources in order to evaluate the performance of the organization.

BALANCE SHEET

The Balance Sheet reflects DFAS' financial position as of September 30, 2018, and details amounts available to provide future economic benefits (assets) owned or available for use by DFAS, compared to the amounts owed (liabilities) requiring the use of available assets, and the difference between them (net position). The table below summarizes the fluctuations in the Balance Sheets from FY 2017 to FY 2018.

As of September 30	2018	2017	Change	% Change
Assets	\$ 530,002,900	\$ 527,779,198	\$ 2,223,702	0.4%
Liabilities	187,935,410	176,636,451	11,298,959	6.4%
Net Position	\$ 342,067,490	\$ 351,142,747	\$ (9,075,257)	(2.6%)

COMPOSITION OF ASSETS

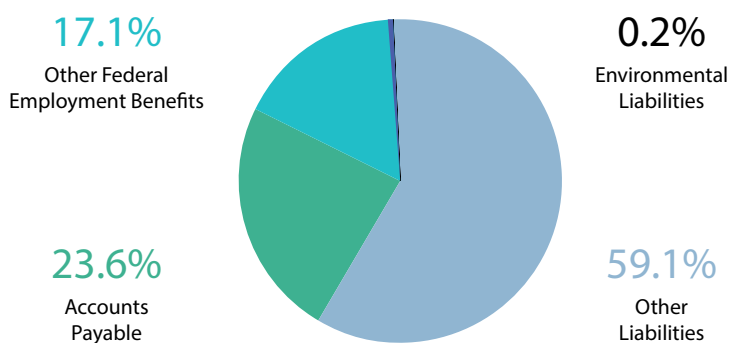


Total WCF Assets of \$530.0 million on September 30, 2018 consisted primarily of \$289.7 million in FBwT, and \$202.5 million in General Property, Plant, and Equipment (PP&E).

FBwT decreased by \$7.3 million (2.5%) due to a decrease in billing rates to our customers. General PP&E, net, decreased by \$11.2 million (5.2%).

The decrease in net book value PP&E is primarily attributable to acquisition values from FY 2018 to FY 2017 staying relatively constant; while the accumulated depreciation/ amortization increased. Thus, the primary driver for the net book value decrease for PP&E being accumulated depreciation/amortization outpacing new acquisitions.

COMPOSITION OF LIABILITIES



Total Liabilities of \$187.9 million as of September 30, 2018, consisted primarily of \$111.1 million in Other Liabilities, Accounts Payable of \$44.4 million, Other Federal Employment Benefits of \$32.2 million, and \$260,000 for Environmental Liabilities. Other Liabilities predominantly

consists of \$90.4 million for the accrual of funded payroll, benefits, and annual leave. The remaining portion is due to a \$3.3 million liability for Employer Payroll Taxes Payable and \$3.2 million for the amount of unfunded leave.

STATEMENT OF NET COST

The Statement of Net Cost presents the annual cost of operations for DFAS. The net cost of DFAS' operations equals the program's gross cost less revenue earned from external sources for services provided to the Military Services and other Defense Agencies. The table below illustrates the changes in costs and revenues.

Fiscal Years Ended September 30	2018	2017	Change	% Change
Gross Costs	\$ 1,483,173,131	\$ 1,395,882,091	\$ 87,291,040	6.3%
Less Earned Revenue	(1,393,737,524)	(1,399,605,072)	5,867,549	0.4%
Net Cost of Operations	\$ 89,435,607	\$ (3,722,981)	\$ 93,158,589	2,502.3%

During FY 2018, DFAS' average enrollment was higher than FY 2017 leading to a \$32.7 million higher payroll and employee benefits expenses. Another driver of cost increase is due to the cost factor for Federal Employee Health Benefits (FEHB) increase from \$5,412 in FY 2017 to \$7,151 in FY 2018 and Federal Employees Retirement System (FERS) service cost increased from 14.7% to 16.2% in FY 2018. This equates to an imputed cost increase of \$26.5 million in FY 2018.

STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position presents the cumulative results of operations since inception. The statement focuses on how the net cost of operations is financed as well as, other items financing the Agency's operations. The resulting financial position represents the difference between assets and liabilities as shown on the Balance Sheets. Various financing sources can increase the net position, including transfers of cash, property and imputed financing costs absorbed by other Federal agencies on DFAS' behalf. Ending Cumulative Results of Operations decreased by \$9.1 million (2.6%) primarily due to the decreased billing rates as required to ensure cash corpus reach required FBWT levels for a working capital fund and higher average employee enrollment which increased payroll and benefit expenses.

Fiscal Years Ended September 30	2018	2017	Change	% Change
Beginning Balance	\$ 351,142,747	\$ 294,077,054	\$ 57,065,694	19.4%
Total Financing Sources	80,360,350	53,342,712	27,017,638	50.6%
Less Net Cost of Operations	89,435,607	(3,722,981)	93,158,589	2,502.3%
Cumulative Results of Operations	\$ 342,067,490	\$ 351,142,747	\$ (9,075,257)	(2.6%)

STATEMENT OF BUDGETARY RESOURCES

The WCF Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2018, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting rules. As part of the Defense-wide WCF, DFAS' budgetary resources are generated by collecting funds from customers in exchange for providing accounting and financial services.

Fiscal Years Ended September 30	2018	2017	Change	% Change
Gross Outlays	\$ 1,386,180,623	\$ 1,353,506,146	\$ 32,674,477	2.4%
Less Actual Offsetting Collections	(\$1,378,849,137)	(1,420,753,392)	41,904,255	2.9%
Net Outlays	\$ 7,331,486	\$ (67,247,246)	\$ 74,578,732	(110.9%)

Gross outlays increased by \$32.7 million (2.4%) due to higher Agency average employee enrollment causing payroll and benefit expenses to increase in FY 2018.

Offsetting collections decreased by \$41.9 million (2.9%) primarily due to delays in customer funding and to reduced billing rates in FY 2018. In FY 2016 and 2017, DFAS increased customer billing rates for the purpose of building the Agency's cash corpus. Beginning in FY 2018 rates were reduced to normal levels.

Gross Costs by Category	2018	2017	Change	% Change
Payroll Expense	\$ 777,534,915	\$ 736,562,565	\$ 40,972,350	5.6%
Employee Benefits Expense	270,501,094	257,567,308	12,933,786	5.0%
Contractor Services	260,336,274	252,993,128	7,343,146	2.9%
Imputed Costs Funded by DoL	80,360,350	53,908,159	26,452,191	49.1%
Lease & Office Expenses	48,752,442	48,185,985	566,457	1.2%
Depreciation & Amortization	19,334,712	19,862,879	(528,167)	(2.7%)
Non-Recoverable Depreciation/Amortization	13,329,720	13,233,919	95,801	0.7%
Travel Expense	7,480,640	6,681,886	798,754	12.0%
Equipment Expense	3,619,977	5,662,479	(2,042,502)	(36.1%)
Miscellaneous Supplies and Materials	1,634,666	1,663,232	(28,566)	(1.7%)
PPA Interest Expense	52,122	43,054	9,068	21.1%
Losses on Disposition of Assets	0	1,426	(1,426)	(100.0%)
Bad Debts	0	(55,453)	55,453	(100.0%)
Other Expenses	236,219	(428,476)	664,695	155.1%
Total	\$ 1,483,173,131	\$ 1,395,882,091	\$ 87,291,040	6.3%

FINANCIAL STATEMENT PREFACE

Based upon timely information and a proactive approach, DFAS produces accurate and timely financial statements. These statements have been prepared to report the overall financial position and results of operations of the Agency pursuant to the requirements of Title 31, United States Code, Section 3515 (b), to include: Balance Sheets, Statements of Budgetary Resources, Statements of Net Cost, Statements of Changes in Net Position.

The financial statements and notes are prepared in accordance with federal accounting standards using generally accepted accounting principles and audited by the independent accounting firm of Williams, Adley & Company-DC, LLP.

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SECTION II

Financials

TOPICS COVERED

Message from the Chief Financial Officer

Independent Auditor's Report on the Financial Statements

Managements's Response to the Independent Auditor's Report

Comparative Financial Statements

Notes to the Financial Statements







Chief Financial Officer's Message



I am proud to present the DFAS Working Capital Fund FY 2018 financial statements as they provide not only a snapshot of our fiscal performance, but they also showcase our commitment to excellence, our customers and our strategy as we strive to be recognized as a leader in DoD financial management.

Through our focus on sound business processes and continuous monitoring of internal controls, we achieved our 19th favorable unmodified audit opinion in accordance with U.S. Generally Accepted Accounting Principles.

This year, the Office of the Secretary of Defense introduced three lines of effort, which focus the Department to build a more lethal force, strengthen alliances and attract business partners and to improve business practices and drive efficiency into processes. To ensure DFAS continues to support the Department's priorities, the Agency is focusing business reforms and efficiency efforts through the strategic priorities of People, Audit Steadiness, Business Environment Modernization (BEM) and Agency Operational Health. Through these priorities, DFAS will drive toward key audit and financial results.

The People priority identified key skill technology skill gaps in the workforce and developed action plans to close those gaps. This includes key skills needed to support the Department's audit goals through the use of Audit Command Language and Oracle based tools. Employees will be able to quickly utilize these technologies to improve business results.

The BEM priority is focused on streamlining and improving the operating environment. In FY18, DFAS reduced three additional legacy systems which streamlines the environment and reduces customer costs. In addition, we were also able to implement enhanced retroactive civilian payroll processing and finalize a plan to create a self-service reporting tool.

The DoD audit goals and DFAS' consistent efforts to improve its own audit culture launched several initiatives, such as our efforts to support the reconciliation of our customers' asset and liabilities and DoD-wide suspense account improvement, resulting in improved internal controls, standardized business processes, and proper accounting of funds.

DFAS continued to raise the bar on performance through our AOH. Through this priority we focused on partnering with customers to drive efficiencies into DoD financial management processes and challenged organizations to improve mission performance.

Moving forward, DFAS will continue to focus our efforts on providing financially sound business operations that support our customers. We intend to remain a leader in the Department by supporting the overall success of the DoD audit and a commitment to continued reform.



A handwritten signature in black ink that reads "Rebecca A. Beck". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

REBECCA BECK
Chief Financial Officer



Independent Auditor's Report on the Financial Statements





Independent Auditor's Report

Director, Defense Finance and Accounting Service
Principal Deputy Director, Defense Finance and Accounting Service
Chair, Defense Finance and Accounting Service Audit Committee

In our audits of the fiscal years 2018 and 2017 financial statements of the Working Capital Fund (WCF) of the Defense Finance and Accounting Service (DFAS), a component of the United States Department of Defense (DoD), we found:

- DFAS' WCF financial statements as of and for the fiscal years ended September 30, 2018, and 2017, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;¹ and
- no reportable noncompliance for fiscal year 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis of matter paragraph related to the new Statement of Budgetary Resources presentation and required supplementary information (RSI)² and other information included with the financial statements;³ (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments and our related evaluation.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, we have audited DFAS' WCF financial statements. DFAS' WCF financial statements comprise the balance sheets as of September 30, 2018, and 2017; the related statements of net cost, changes in

¹A material weakness is a deficiency, or 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, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

²The RSI consists of Management's Discussion and Analysis inclusive of the Financial Discussion and Analysis which are included with the financial statements.

³Other information consists of Message from the Chief Financial Officer and Other Information section.

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www.williamsadley.com

net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

DFAS management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) 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

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the DFAS' WCF financial statements present fairly, in all material respects, DFAS' WCF financial position as of September 30, 2018, and 2017, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As described in note 1b to the financial statements, OMB Circular A-136, *Financial Reporting Requirements*, required federal agencies in fiscal year 2018 to present its budgetary information in a format different than that used in fiscal year 2017. We draw attention to the newly presented information in DFAS' WCF fiscal years 2018 and 2017 Statement of Budgetary Resources (SBR) and related note 12. Our opinion on DFAS' WCF financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

DFAS' WCF other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on DFAS' WCF financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of the DFAS' WCF financial statements, we considered the DFAS' WCF internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the DFAS' WCF internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

DFAS' WCF management is responsible for 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

In planning and performing our audit of DFAS' WCF financial statements as of and for the year ended September 30, 2018, in accordance with U.S. generally accepted government auditing standards, we considered the DFAS' WCF internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DFAS' WCF internal control over financial reporting. Accordingly, we do not express an opinion on the DFAS' WCF internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, or to express an opinion on the effectiveness of the DFAS' WCF internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our 2018 audit, we identified deficiencies in the DFAS' WCF internal control over financial reporting that we do not consider to be significant deficiencies or material weaknesses. Nonetheless, these deficiencies warrant DFAS' WCF management's attention. We have communicated these matters to DFAS' WCF management and, where appropriate, have reported on them separately.

⁴A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the DFAS' WCF internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the DFAS' WCF internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

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

In connection with our audits of DFAS' WCF financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

DFAS' WCF management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to DFAS' WCF that have a direct effect on the determination of material amounts and disclosures in DFAS' WCF financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DFAS WCF.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments and Our Evaluations

In commenting on a draft of this report, DFAS management and the DFAS Audit Committee Chair provided written responses, which are presented in the *Management's Response to the Independent Auditor's Report* section of this report. We did not audit these responses and, accordingly, we express no opinion on the responses.

Williams, Adley & Company-DC, LLP
Washington, D.C.
October 29, 2018

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Management's Response to the Independent Auditor's Report





DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

November 6, 2018

Mr. Kola Isiaq
Engagement Partner
Williams, Adley and Company, LLP-DC
1030 15th Street, NW
Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

I have reviewed the draft Independent Auditor's Report dated October 30, 2018, on the Fiscal Year 2018 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. I am pleased with the results and accept this report on behalf of DFAS.

This audit opinion shows that the efforts we have implemented to date continue to produce favorable outputs and we remain audit ready, though we acknowledge that there are always enhancements that can be made in regards to our internal controls over financial reporting. We appreciate the recommendations brought forth by your staff for improvements and will work to incorporate them into our current plans.

DFAS would like to thank the Williams Adley team for the professional manner in which they conducted this audit. If there are any additional requirements needed for completion, please contact my action officer, Mr. Jason Monday at (317) 212-2674 or james.j.monday.civ@mail.mil.

Sincerely,

A handwritten signature in cursive script that reads "Teresa McKay".

Teresa A. McKay
Director

Proudly Serving America's Heroes
www.dfas.mil



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
CIVIL WORKS
108 ARMY PENTAGON
WASHINGTON DC 20310-0108

November 6, 2018

Mr. Kola Isiaq
Engagement Partner
Williams, Adley and Company, LLP-DC
1030 15th Street NW Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

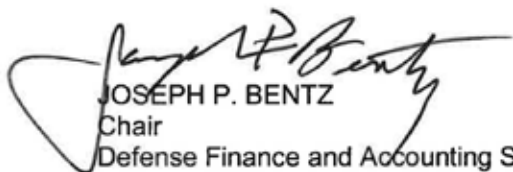
I have received and reviewed a copy of the draft Independent Auditor's Report for the Fiscal Year 2018 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. As the Chair of the Audit Committee, I personally thank you and your staff at Williams, Adley and Company for your careful and thorough review.

DFAS has been able to demonstrate consistency in maintaining an unmodified audit opinion. They are committed to continuously monitoring their processes and controls, and I have confidence that DFAS will implement additional meaningful changes to further enhance those processes and controls based on recommendations from your staff.

The working relationship between DFAS and the Williams, Adley and Company staff is sound, allowing for constructive dialogue and document submission to flow without hindrance. I believe that effective working relationship positively impacted the successful completion of the audit.

Thank you for the courtesies that were afforded by your team during this audit engagement.

Sincerely,


JOSEPH P. BENTZ
Chair
Defense Finance and Accounting Service
Financial Statement Audit Committee

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Comparative Financial Statements



BALANCE SHEETS

As of September 30	2018	2017
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 289,723,694	\$ 297,055,180
Accounts Receivable, Net (Note 3)	30,577,535	8,947,575
Other Assets (Note 4)	1,078,091	623,986
Total Intragovernmental Assets	\$ 321,379,320	\$ 306,626,741
Accounts Receivable, Net (Note 3)	\$ 1,142,725	\$ 1,270,244
General Property, Plant and Equipment, Net (Note 5)	202,531,315	213,701,342
Other Assets (Note 4)	4,949,540	6,180,871
Total Assets	\$ 530,002,900	\$ 527,779,198
Liabilities (Note 6)		
Intragovernmental		
Accounts Payable	\$ 26,156,973	\$ 19,861,852
Other Liabilities (Notes 8 & 9)	14,133,006	14,082,059
Total Intragovernmental Liabilities	\$ 40,289,979	\$ 33,943,911
Accounts Payable	\$ 18,254,852	\$ 16,632,660
Other Federal Employment Benefits (Note 10)	32,199,186	31,695,096
Environmental and Disposal Liabilities (Note 7)	260,000	260,000
Other Liabilities (Note 8 & Note 9)	96,931,393	94,104,784
Total Liabilities	\$ 187,935,410	\$ 176,636,451
Net Position		
Cumulative Results of Operations	\$ 342,067,490	\$ 351,142,747
Total Net Position	\$ 342,067,490	\$ 351,142,747
Total Liabilities and Net Position	\$ 530,002,900	\$ 527,779,198

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF NET COST

Fiscal Years Ended September 30	2018	2017
Program Costs		
Gross Costs	\$ 1,483,173,131	\$ 1,395,882,091
Less Earned Revenue	(1,393,737,524)	(1,399,605,072)
Net Cost of Operations (Note 11)	\$ 89,435,607	\$ (3,722,981)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

Fiscal Years Ended September 30	2018	2017
Cumulative Results of Operations		
Beginning Balances	\$ 351,142,747	\$ 294,077,054
Other Financing Sources:		
Transfers In/(Out) without Reimbursement	0	(565,448)
Imputed Financing Sources	80,360,350	53,908,160
Total Financing Sources	\$ 80,360,350	\$ 53,342,712
Net Cost of Operations (Note 11)	\$ 89,435,607	\$ (3,722,981)
Net Change	\$ (9,075,257)	\$ 57,065,693
Total Net Position	\$ 342,067,490	\$ 351,142,747

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF BUDGETARY RESOURCES

Fiscal Years Ended September 30	2018	2017
Budgetary Resources		
Net Unobligated Balance from Prior Year Budget Authority	\$ 293,756,510	\$ 227,160,072
Contract Authority	20,243,603	20,028,012
Spending Authority from Offsetting Collections	1,351,981,523	1,405,595,328
Total Budgetary Resources (Note 12)	\$ 1,665,981,636	\$ 1,652,783,412
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 1,415,411,553	\$ 1,375,430,266
Unobligated balance, end of year		
Apportioned, unexpired accounts	250,570,083	277,353,146
Total Budgetary Resources (Note 12)	\$ 1,665,981,636	\$ 1,652,783,412
Net Agency Outlays	\$ 7,331,486	\$ (67,247,246)

The accompanying notes are an integral part of these financial statements.

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Notes to the Financial Statements



NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

1.A. MISSION OF THE REPORTING ENTITY

The Defense Finance and Accounting Service (DFAS), a component of the Department of Defense (DoD), was established in 1991 by the Secretary of Defense to reduce the cost of DoD financial and accounting operations, and to reform financial management throughout DoD. The mission of DFAS is to lead our customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information.

Operating as a Working Capital Fund (WCF), DFAS functions similarly to a private corporation by obtaining revenue through charging customers fixed prices for its services. DFAS sets its rates annually, two years in advance, based on anticipated workload and estimated costs calculated to offset any prior year gains or losses. Unlike the private sector, DFAS has little flexibility to adjust prices in the year of execution unless coordinated with the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). DFAS operations are subject to DoD, Executive Branch, and Legislative Branch oversight. DFAS programs and initiatives are guided by the Under Secretary of Defense Comptroller and DFAS' Chief Financial Officer.

1.B. BASIS OF PRESENTATION

These financial statements have been prepared to report the financial position and results of operations of the DFAS WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DFAS WCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (US GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; and the Department of Defense (DoD), Financial Management Regulation (FMR).

With the update to OMB Circular No. A-136 in 2018, the FY 2018 and FY 2017 comparative SBR format has been significantly modified from prior year reports. These changes include the elimination of several report lines, as well as the removal of the Change in Obligated Balance section.

FASAB is the official accounting standards-setting body of the Federal Government. The accompanying financial statements account for all resources for which the DFAS WCF is responsible unless otherwise noted.

1.C. BASIS OF ACCOUNTING

DFAS presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis less the Eliminations. The Statement of Budgetary Resources is presented on a combined basis. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use Federal funds.

1.D. APPROPRIATIONS AND FUNDS

The DFAS WCF does not receive appropriations and funds as general, trust, special, or deposit funds, as it is only a working capital (revolving) fund. The DFAS WCF uses these funds to execute its missions and subsequently report on resource usage.

Working capital funds 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 that flow 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.

1.E. REVENUES AND OTHER FINANCING SOURCES

Revenue is recognized when earned and services have been rendered. Revenue is generated by sales of accounting and finance services to the DFAS customers through a reimbursable order process. The majority of services rendered by DFAS are provided to the Military Departments and other DoD agencies.

The goal of a WCF organization is to break-even over an extended period of time. In accordance with the DoD FMR, Volume 3, Chapter 19, the Accumulated Operating Results (AOR) and Net Operating Results (NOR) serve as the primary points of reference for determining the need to adjust billing rates. Working Capital Fund organizations adjust future billing rates to counter the effects the fluctuations have on the AOR. The positive and negative adjustments are normal business practices occurring when the net cost of operations is not zero. Because of the nature of a WCF, the unanticipated impacts on workload and cost fluctuations will result in profits or losses during any given year. Accumulated Operating Results is tracked from inception and requires constant routine monitoring to account for the fluctuating costs of conducting business.

1.F. RECOGNITION OF EXPENSES

For financial reporting purposes, US GAAP requires the recognition of operating expenses in the period incurred.

1.G. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Costs and revenues with the public represent transactions made between the reporting entity and a nonfed-

eral entity. The classification of revenue or cost as “intragovernmental” or “public” transactions is defined in the DoD FMR Volume 4, Chapter 1.

The Treasury Financial Manual Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government,” provides guidance for reporting and reconciling intragovernmental balances. The Defense Finance and Accounting Service is able to fully reconcile intragovernmental transactions with all federal agencies including Federal Employees’ Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Intra-entity costs and revenue represent transactions DFAS conducted with itself in the normal course of business. All intra-entity transactions have been removed, so the financial statements and footnotes present fairly not including transactions with interrelated parties.

Imputed financing represents the cost paid on behalf of DFAS by another Federal entity. The Defense Finance and Accounting Service recognizes imputed costs for (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; (3) losses in litigation proceedings; and (4) military payroll for service members assigned to DFAS.

1.H. FUNDS WITH THE U.S. TREASURY

The DFAS WCF monetary financial resources of collections and disbursements are maintained in U.S. Treasury (Treasury) accounts. The disbursing offices of DFAS process the majority of the DFAS’ cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

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

The Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DFAS, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by Treasury.

1.I. ACCOUNTS RECEIVABLE

Accounts receivable represents transactions occurring in the normal course of business by providing financial services to our customers. Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Claims receivable are transactions where DFAS has a right to cash (debt) from an outstanding customer account. Refunds receivable occur when DFAS receives a refund for a previous paid expense.

On an annual basis, DFAS reviews all outstanding nonfederal customer accounts over 360 days to estimate the allowance for uncollectible accounts. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history. In addition, significant accounts receivable balances may be reviewed individually, regardless of age.

DFAS does not recognize an allowance for estimated uncollectible amounts from other federal agencies as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.J. GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)

The WCFs capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

General PP&E is carried at historical acquisition cost plus capitalized improvements. General PP&E, including real property, are capitalized at

cost if the acquisition is \$250,000 or more. The asset must also have a useful life of two or more years. All General PP&E is depreciated based on the historical cost using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years. Normal repairs and maintenance are charged to expense as incurred.

Title 10, United States Code (U.S.C.) 2682, prohibits DoD agencies from owning real property (i.e. buildings). Therefore, DoD has implemented the recognition criteria of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," to report the financial position of its member agencies. As implemented by DoD regulations, ownership of real property is not a prerequisite to asset recognition. DoD FMR Volume 4, Chapter 6, states that legal ownership usually, but not always, is the determinant factor when determining which DoD component recognizes a particular General PP&E asset for accounting and reporting purposes in the financial statements. Asset recognition may also be based on the "Preponderance of Use" principle. This concept recognizes the DoD agency gaining the most benefit by virtue of space usage should capitalize the asset as General PP&E on their Balance Sheet.

1.K. LEASES

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable. Office space and leases entered into by DFAS are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.L. OTHER ASSETS

Other assets include advances and prepayments permitted by law, legislative action, or presidential authorization as mandated by Title 31, U.S.C 3324. The Department of Defense has imple

mented the recognition criteria of SFFAS No. 1, "Accounting for Selected Assets and Liabilities," to report advances and prepayments. As implemented by DoD FMR Volume 4, Chapter 5, payments made in advance of the receipt of goods and services should be reported as an asset. They are shown on the Balance Sheet as Other Assets. Components of advances and prepayments include travel and labor advances, tuition assistance, subscriptions, postage; as well as, approved contractual and intragovernmental prepay agreements. DFAS policy is to expense and/or properly classify assets when the related goods and services are received.

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with US GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received.

1.M. CONTINGENCIES AND OTHER LIABILITIES

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation" defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. DFAS recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. DFAS' risk of loss and resultant contingent liabilities arise from various administrative proceedings, legal actions, and potential claims.

1.N. ACCRUED LEAVE

DFAS reports liabilities for accrued compensatory and annual leave for civilians. Civilian leave is accrued as earned, and the accrued amounts are increased and decreased for actual leave taken and earned. The balances for accrued leave are adjusted monthly to reflect changes. The balances for civilian leave at the end of the fiscal year reflect current pay rates for the leave earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent budget resources are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

1.O. NET POSITION

Net Position consists of cumulative results of operations. Cumulative Results of Operations represent the net difference between expenses and losses and financing sources (including revenue and gains), since inception. Cumulative Results of Operations also include the transfer in and out of assets that were not reimbursed.

1.P. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 5100, requires agencies to reconcile their FBwT accounts on a regular and recurring basis to assure the integrity and accuracy of their financial reporting data. The DFAS WCF does not have a separate FBwT account. Instead, the Treasury maintains an account for DFAS' collection and disbursement activities.

On a monthly basis, DFAS' collections and disbursements are adjusted with undistributed collections and disbursements to agree with the Treasury. Undistributed collections and disbursements represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the source system and those reported by the Treasury.

The current year collections, disbursements, and cash transfers applicable to DFAS' operations are recorded in the financial records during the fiscal year.

1.Q. PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST-EMPLOYMENT BENEFITS

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, as stated in the SFFAS No. 5, "Accounting for Liabilities of the Federal Government." Factors used in the calculation of pension and post-retirement health and life insurance benefit expenses were provided by the Office of Personnel Management financial management letters regarding cost factors for pension and other retirement benefits expense.

The cost factor for computing the Federal Employees Health Benefits Program (FEHB) imputed cost in FY 2017 was \$5,412 and \$7,151 in FY 2018. The Federal Employees' Group Life Insurance Program (FEGLI) the cost factor was .02% in both FY 2017 and 2018. The cost factor for employees covered by Civil Service Retirement System (CSRS) was 32.8% in FY 2017 and 37.4% in FY 2018. The cost factor for the Federal Employees Retirement System (FERS) was 14.7% in FY 2017 and 16.2% in FY 2018.

DFAS civilian employees participate in the CSRS and FERS, while military personnel are covered by the Military Retirement System (MRS). Employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DFAS funds a portion of the civilian and military pensions. The funded actuarial liability and unfunded actuarial liability for the military personnel are reported in the DoD Military Retirement Fund. The actuarial liability for the military retirement health benefits is recognized in the DoD Agency-wide statements.

For employees participating in FERS, FERS-Revised Annuity Employee (FERS-RAE), and FERS-Further Revised Annuity Employees (FERS-FRAE), DFAS contributes an amount equal to 1% of the employee's basic pay to the tax deferred Thrift Savings Plan (TSP), and matches employee contributions up to an additional 4% of pay. DFAS contributions to the TSP for FY 2018 and 2017 were \$30.4 million and \$28.7 million. Employees participating in CSRS receive no matching contributions from DFAS.

1.R. INTEREST ON LATE PAYMENTS

DFAS, on occasion, incurs interest penalties on late payments. All such interest penalties are paid to the respective vendor in accordance with the guidelines mandated by the Prompt Payment Act, Public Law, 97-177, as amended.

1.S. USE OF ESTIMATES

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities, at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ materially from those estimates. Significant estimates and assumptions in these comparative financial statements require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, environmental liabilities, pension and other post-retirement benefit expenses, and the Federal Employee Compensation Act (FECA) Liability.

1.T. CONTRACT AUTHORITY

As a WCF, DFAS must recover from customers, through revenue earned, all expenses necessary to operate. DFAS purchases assets using contract authority granted by the OUSD(C) and then recovers the cost over the useful life of the asset through depreciation expense built into the billing rates. DoD FMR, Volume 11B, Chapter 3, Budgetary Resources, defines contract authority as the amount available for obligation and remains available through the end of the fiscal year. At year-end, this amount is reduced to match the amount of executed dollars through the normal year-end closing processes.

1.U. CONTRACT AUDIT BACKLOG

Most DFAS contracts are subject to review by the Defense Contract Audit Agency (DCAA) to include those contracts at the Defense Contract Management Agency (DCMA). To that end, DCMA and DFAS contracting offices are not able to render decisions on the deobligation of contracts and closure until the DCAA contract audit is

completed. DCAA has experienced a severe backlog in contracts to be audited since the early 1980's. DCAA, while serving the public interest as its primary customer, performs all necessary contract audits for the DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. The services provided by DCAA include negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. To aide in rectifying the backlog situation, Class Deviation 2012-O0013, "DCAA Policy and Procedure for Sampling

Low-Risk Incurred Cost Proposals" was issued on July 24, 2012. The intent of the proposal was to incorporate more effective oversight efforts without increasing risk to the Government. In addition, the proposal serves as a means for decreasing the backlog of incurred cost audits at DCAA. The realization of these efforts will assist with more timely cost adjustments. The extensive reviews potentially affect DFAS' financial position because of related cost adjustments from vendors.

The total cost adjustments from vendors cannot be reasonably estimated for FY 2018, but management believes the amount is immaterial.

NOTE 2: FUND BALANCE WITH TREASURY

As of September 30	2018	2017
Status of Fund Balance with Treasury		
Unobligated Balance - Available	\$ 250,570,083	\$ 277,353,147
Obligated Balance not yet Disbursed	215,638,194	202,810,626
Non-FBwT Budgetary Accounts	(176,484,583)	(183,108,593)
Total	\$ 289,723,694	\$ 297,055,180

The Treasury records cash receipts and disbursements on DFAS' behalf and are available only for the purposes for which the funds were appropriated. DFAS fund balance with treasury consists of revolving funds.

The Status of FBwT reflects the budgetary resources to support FBwT, and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations.

Obligated Balance Not Yet Disbursed represents funds that have been obligated for goods and services but not yet paid.

Non-FBwT Budgetary Accounts includes the amount of Contract Authority DFAS has not liquidated to date, and the uncollected portion of service agreements with other Federal Agencies. Contract Authority is a specific statutory authority permitting DFAS to incur and liquidate obligations in advance of receiving cash. Non-FBwT Budgetary Accounts reduce the Status of FBwT.

For 4th Quarter FY 2018 reporting, DFAS' undistributed reconciling adjustment to Treasury was \$1,277,353 for FY 2018 and \$6,638,330 for FY 2017.

NOTE 3: TOTAL ACCOUNTS RECEIVABLE, NET

As of September 30	2018		
	Gross Amount Due	Allowance	Net Accounts Receivable
Intragovernmental	\$ 30,577,535	\$ N/A	\$ 30,577,535
Nonfederal (With the Public)	14,108,374	(12,965,649)	1,142,725
Total Accounts Receivable	\$ 44,685,909	\$ (12,965,649)	\$ 31,720,260

As of September 30	2017		
	Gross Amount Due	Allowance	Net Accounts Receivable
Intragovernmental	\$ 8,947,575	\$ N/A	\$ 8,947,575
Nonfederal (With the Public)	14,235,893	(12,965,649)	1,270,244
Total Accounts Receivable	\$ 23,183,468	\$ (12,965,649)	\$ 10,217,819

Accounts receivable represent DFAS' claim for payment from other entities. DFAS only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

OTHER DISCLOSURES

An allowance for the full amount of an outstanding receivable was recognized during FY 2016. This portion of the AR balance has been referred to the Department of Justice (DoJ) for collection. The amount of the outstanding receivable balance due is \$12.9 million. The Defense Finance and Accounting Services is not allowed to write-off the debt until the DoJ provides instruction to the collectability of the receivable to the Federal Government.

NOTE 4: OTHER ASSETS

As of September 30	2018	2017
Intragovernmental Other Assets		
Advances and Prepayments	\$ 1,078,091	\$ 623,986
Total Intragovernmental Other Assets	\$ 1,078,091	\$ 623,986
Nonfederal Other Assets		
Advances and Prepayments	\$ 4,949,540	\$ 6,180,871
Total Nonfederal Other Assets	\$ 4,949,540	\$ 6,180,871
Total Other Assets	\$ 6,027,631	\$ 6,804,857

NOTE 5: GENERAL PP&E, NET

As of September 30	2018				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 or 40	\$ 122,812,710	\$ (70,575,834)	\$ 52,236,876
Leasehold Improvements	S/L	lease term	140,240,258	(97,555,860)	42,684,398
Software	S/L	2-5 or 10	576,684,588	(507,136,873)	69,547,715
General Equipment	S/L	Various	215,243,835	(190,224,299)	25,019,536
Construction-in-Progress	N/A	N/A	13,042,790	0	13,042,790
Total General PP&E			\$ 1,068,024,181	\$ (865,492,865)	\$ 202,531,315

As of September 30	2017				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 or 40	\$ 122,812,710	\$ (66,708,259)	\$ 56,104,451
Leasehold Improvements	S/L	lease term	138,594,942	(90,493,981)	48,100,961
Software	S/L	2-5 or 10	567,359,767	(496,602,328)	70,757,439
General Equipment	S/L	Various	238,859,927	(201,273,743)	37,586,184
Construction-in-Progress	N/A	N/A	1,152,307	0	1,152,307
Total General PP&E			\$ 1,068,779,653	\$ (855,078,311)	\$ 213,701,342

S/L = Straight Line N/A = Non-Applicable

OTHER DISCLOSURES

In FY 2018 a portion of the General Equipment balance was reclassified to Construction in Progress. However, the FY 2017 balances were not updated in the schedule above. The FY 2017 Acquisition Value balances should have been

listed as \$15,101,238 for Construction in Progress and \$224,910,996 for General Equipment. The FY 2017 Net Book Value balances should have been listed as \$15,101,238 for Construction in Progress and \$23,637,253 General Equipment.

NOTE 6: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2018	2017
Intragovernmental Liabilities		
Other	\$ 7,140,360	\$ 7,333,491
Total Intragovernmental Liabilities	\$ 7,140,360	\$ 7,333,491
Nonfederal Liabilities		
Other Federal Employment Benefits	\$ 32,199,186	\$ 31,695,096
Environmental and Disposal Liabilities	260,000	260,000
Other Liabilities	3,199,090	3,129,088
Total Nonfederal Liabilities	\$ 35,658,276	\$ 35,084,184
Total Liabilities Not Covered by Budgetary Resources	\$ 42,798,636	\$ 42,417,675
Total Liabilities Covered by Budgetary Resources	\$ 145,136,774	\$ 134,218,776
Total Liabilities	\$ 187,935,410	\$ 176,636,451

Intragovernmental Other Liabilities are the unfunded liabilities for Federal Employees' Compensation Act (FECA). The FECA liability represents the billed and unbilled amount owed to the Department of Labor related to employee compensation for wages lost due to a job-related injury.

Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year.

Refer to Note 7, Environmental and Disposal Liabilities for additional details and disclosures.

Nonfederal Other Liabilities consists of unfunded compensatory and credit annual leave liability. Refer to Note 10, Other Federal Employment Benefits, for additional details.

NOTE 7: ENVIRONMENTAL AND DISPOSABLE LIABILITIES

As of September 30	2018	2017
Environmental Liabilities — Nonfederal		
Other Accrued Environmental Liabilities — Non-BRAC		
Asbestos	\$ 260,000	\$ 260,000
Total Environmental Liabilities	\$ 260,000	\$ 260,000

APPLICABLE LAWS AND REGULATIONS FOR CLEANUP REQUIREMENTS

Clean up of contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk is required of DFAS. This effort is accomplished by DFAS in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. Recognition of closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations is also required of DFAS.

To clean up contamination, DFAS follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, Public Law 96-510), Superfund Amendments and Reauthorization Act of 1986 (SARA, Public Law 99-499), Resource Conservation and Recovery Act (RCRA, Public Law 94-580) or other applicable federal or state laws. The CERCLA and RCRA require DFAS to clean up contamination in coordination with regulatory agencies, current owners of property damaged by DFAS, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts DFAS at risk of incurring fines and penalties.

UNCERTAINTY REGARDING THE ACCOUNTING ESTIMATES USED TO CALCULATE THE REPORTED ENVIRONMENTAL LIABILITIES

Accounting estimates for environmental 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 the investigation of the environmental sites reveals contamination levels differing from estimate parameters.

METHODS FOR ASSIGNING TOTAL CLEANUP COSTS TO CURRENT OPERATING PERIODS

Engineering estimates and independently validated models are used by DFAS to project environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System. The models are validated by DFAS in accordance with DoD Instruction 5000.61, DoD Modeling and Simulation Verification, Validation, and Accreditation, and estimates liabilities based on data received during preliminary assessment and site investigation. Engineering estimates are primarily used by DFAS after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, DFAS complies with accounting standards to charge costs to current operating periods. Cleanup costs are expensed by DFAS for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, DFAS expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The remaining cost over the life of the assets are systematically recognized by DFAS.

For General PP&E placed into service after September 30, 1997, DFAS expenses associated environmental costs using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The full cost to clean up contamination is expensed by DFAS for Stewardship PP&E when the asset is placed into service.

In accordance with reporting requirements for asbestos, DFAS reports liabilities for buildings and facilities containing both friable and non-friable asbestos. At this time DFAS is unable to reasonably estimate an amount of the total cleanup costs related to friable and non-friable asbestos.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations.

Estimates revised by DFAS result from overlooked or previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope. Although DFAS is unaware of pending changes, environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology.

NOTE 8: OTHER LIABILITIES

As of September 30	2018		
	Current	Noncurrent	Total
Intragovernmental			
Advances from others	\$ 0	\$ 0	\$ 0
FECA Reimbursement to the Department of Labor	3,174,121	3,966,239	7,140,360
Employer Contribution and Payroll Taxes Payable	6,992,646	0	6,992,646
Total Intragovernmental Other Liabilities	\$ 10,166,767	\$ 3,966,239	\$ 14,133,006
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 90,403,327	\$ 0	\$ 90,403,327
Accrued Unfunded Annual Leave	3,199,089	0	3,199,089
Employer Contribution and Payroll Taxes Payable	3,328,977	0	3,328,977
Total Nonfederal Other Liabilities	\$ 96,931,393	\$ 0	\$ 96,931,393
Total Other Liabilities	\$ 107,098,159	\$ 3,966,239	\$ 111,064,399

As of September 30	2017		
	Current	Noncurrent	Total
Intragovernmental			
Advances from others	\$ 1,657	\$ 0	\$ 1,657
FECA Reimbursement to the Department of Labor	3,113,118	4,220,373	7,333,491
Employer Contribution and Payroll Taxes Payable	6,746,911	0	6,746,911
Total Intragovernmental Other Liabilities	\$ 9,861,686	\$ 4,220,373	\$ 14,082,059
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 87,769,038	\$ 0	\$ 87,769,038
Accrued Unfunded Annual Leave	3,129,088	0	3,129,088
Employer Contribution and Payroll Taxes Payable	3,206,658	0	3,206,658
Total Nonfederal Other Liabilities	\$ 94,104,784	\$ 0	\$ 94,104,784
Total Other Liabilities	\$ 103,966,470	\$ 4,220,373	\$ 108,186,843

NOTE 9: COMMITMENTS AND CONTINGENCIES

DFAS is not aware of any contingent liabilities for legal actions in FY 2018.

NOTE 10: OTHER FEDERAL EMPLOYMENT BENEFITS

The Department of Labor annually determines the liability for future workers' compensation benefits, or better known as Federal Employees' Compensation Act. This includes the expected liability for death, disability, medical and other estimated miscellaneous costs. Historical benefit payment patterns are used to predict the future costs after being discounted to present value using the OMB economic assumptions for 10-year U.S. Treasury notes and bonds. The DOL provides

an estimated actuarial liability for future workers' compensation benefits at the DoD Level only, and DFAS' reported FECA liability is based on the DoD Agency-wide allocation method using an average based on the last three annual chargeback bills for actual claims submitted and approved by the DOL. The allocated portion of the actuarial liability for future workers' compensation benefits for DFAS at September 30, 2018, is \$32,199,186 and \$31,695,096 in FY 2017.

NOTE 11: GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Fiscal Years Ended September 30	2018	2017
Gross Cost	\$ 1,483,173,131	\$ 1,395,882,091
Less: Earned Revenue	(1,393,737,524)	(1,399,605,072)
Total Net Cost	\$ 89,435,607	\$ (3,722,981)

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means.

The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. DFAS captures its current processes and reports accumulated costs for major programs as required by the Government Performance and Results Act. Additionally, DFAS has fully imple-

mented unit cost reporting and reports these costs by responsibility segment on a monthly basis as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

NOTE 12: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Fiscal Years Ended September 30	2018	2017
Intragovernmental Budgetary Resources Obligated for Undelivered Orders		
Unpaid	\$ 21,873,928	
Prepaid/Advanced	373,759	
Total Intragovernmental	\$ 22,247,687	
Nonfederal Budgetary Resources Obligated for Undelivered Orders		
Unpaid	\$ 48,623,534	
Prepaid/Advanced	5,653,871	
Total Nonfederal	\$ 54,277,405	
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 76,525,092	\$ 75,365,031
Available Borrowing and Contract Authority at the End of the Period	\$ 0	\$ 0

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation). The total amount of DFAS' obligations incurred, \$1,415,411,553 is classified as Reimbursable Apportionment Category B.

RECONCILIATION DIFFERENCES

Under OMB Circular A-11, Federal agencies are to report budgetary information in the Statement of Budgetary Resources (SBR) based on budget terminology, definitions and guidance issued. OMB Circular A-11 also states that the information on the SBR should be consistent with budget execution information reported in the President's Budget. Additionally, per SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," agencies are to provide a financial statement footnote disclosure to explain significant differences between amounts presented in the SBR and amounts described as actuals in the President's Budget. However, since DFAS is a compo-

nent of the DoD rather than a separate Federal agency as envisioned by OMB requirements, an analysis of information reported in both the SBR and the Report on Budget Execution and Budgetary Resources (SF-133) at September 30, 2018, is performed. There are no differences between the SBR, the SF-133 and the Budget Program and Financing Schedule.

OTHER DISCLOSURES

The FY 2017 values for Intragovernmental and Nonfederal Obligated Undelivered Orders have been left blank intentionally. These disclosures are a new OMB Circular A-136 requirement for FY 2018 only. The values for FY 2017 are not available for comparison. This disclosure will include comparative figures in the FY 2019 AFR.

Additionally, the FY 2018 and FY 2017 comparative SBR format has been significantly modified from prior year reports. These changes include the elimination of several report lines, as well as the removal of the Change in Obligated Balance section.

NOTE 13: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Fiscal Years Ended September 30	2018	2017
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 1,415,411,553	\$ 1,375,430,266
Less: Spending Authority from Offsetting Collections and Revenues	(1,387,762,944)	(1,457,413,503)
Obligations, Net of Recoveries	\$ 27,648,609	\$ (81,983,237)
Other Resources		
Transfers In/(Out) without Reimbursement	\$ 0	\$ (565,448)
Imputed Financing from Costs Absorbed by Others	80,360,350	53,908,160
Net Other Resources Used to Finance Activities	\$ 80,360,350	\$ 53,342,712
Total Resources Used to Finance Activities	\$ 108,008,959	\$ (28,640,525)
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided		
Undelivered Orders	\$ (1,160,061)	\$ 10,499,881
Unfilled Customer Orders	(29,091,797)	14,137,723
Resources that Fund Expenses Recognized in Prior Periods	(193,131)	(1,087,935)
Resources that Finance the Acquisition of Assets	(14,780,551)	(20,046,870)
Other Resources or Adjustments to Net Obligated Resources that do Not Affect Cost of Operations - Other	0	565,448
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (45,225,540)	\$ 4,068,246
Total Resources Used to Finance the Net Cost of Operations	\$ 62,783,419	\$ (24,572,279)

NOTE 13: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET, CONTINUED

Fiscal Years Ended September 30	2018	2017
Components of the Net Cost of Operations that will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Period		
Increase in Annual Leave Liability	\$ 70,001	\$ 235,625
Other	504,090	70,580
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	\$ 574,091	\$ 306,205
Components Not Requiring or Generating Resources		
Depreciation and Amortization	\$ 32,664,432	\$ 33,096,798
Revaluations of Assets or Liabilities	0	1,426
Other	(6,586,335)	(12,555,132)
Total Components of Net Cost of Operations that will Not Require or Generate Resources	\$ 26,078,097	\$ 20,543,092
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	\$ 26,652,188	\$ 20,849,297
Net Cost of Operations	\$ 89,435,607	\$ (3,722,980)

The Reconciliation of Net Cost of Operations to Budget reconciles the cost reflected on the Statement of Net Cost to the budgetary information on the Statement of Budgetary Resources. This is accomplished by aligning budgetary obligations and non-budgetary resources available with the cost of the operations.

Components Requiring or Generating Resources, Other consists of recording unfunded labor estimated accrual for FECA.

Components not Requiring or Generating Resources, Other consists primarily of recording a cost capitalization offset for the capitalization of internally developed software, the recording of bad debt expense, and recognizing salary offset services from Citibank.

NOTE 14: OPERATING LEASES

As of September 30	2018 Asset Category		
	Land and Buildings	Equipment	Total
Entity as Lessee - Intragovernmental Operating Leases			
Future Payments Due by Fiscal Year			
2019	\$ 28,756,234	\$ 1,229,281	\$ 29,985,515
2020	29,115,863	1,329,647	30,445,510
2021	29,596,247	1,365,547	30,961,794
2022	30,395,346	1,402,417	31,797,763
2023	30,603,646	1,440,282	32,043,928
After 5 Years	126,796,925	1,479,170	128,276,095
Total Future Lease Payments Due	\$ 275,264,261	\$ 8,246,344	\$ 283,510,605

As of September 30	2018 Asset Category		
	Land and Buildings	Equipment	Total
Entity as Lessee - Non-Federal Operating Leases			
Future Payments Due by Fiscal Year			
2019	\$ 165,393	\$ 0	\$ 165,393
2020	165,393	0	165,393
2021	165,393	0	165,393
2022	0	0	0
2023	0	0	0
After 5 Years	0	0	0
Total Future Lease Payments Due	\$ 496,179	\$ 0	\$ 496,179

OTHER DISCLOSURES

DFAS does not have any capitalized leases. In order to estimate the future years' payments due, DFAS used the current Consumer Price Index (CPI) rate of 2.7%.

While all DFAS' leases are cancelable, at this time all of the amounts under commitment are reasonably expected to be future expenses, and are therefore included in the above schedule.

SECTION III

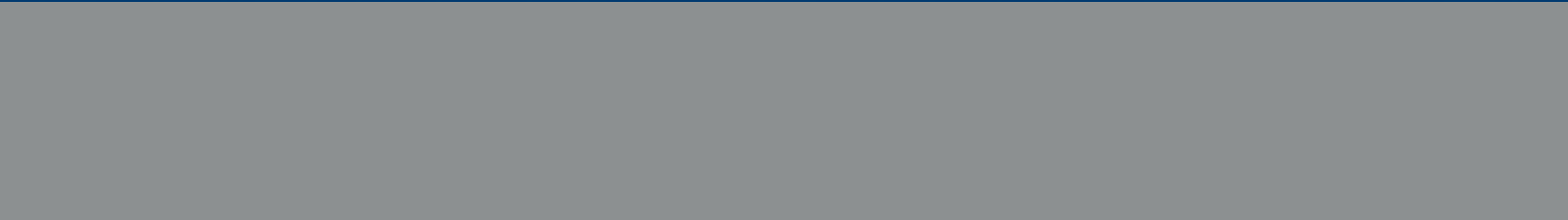
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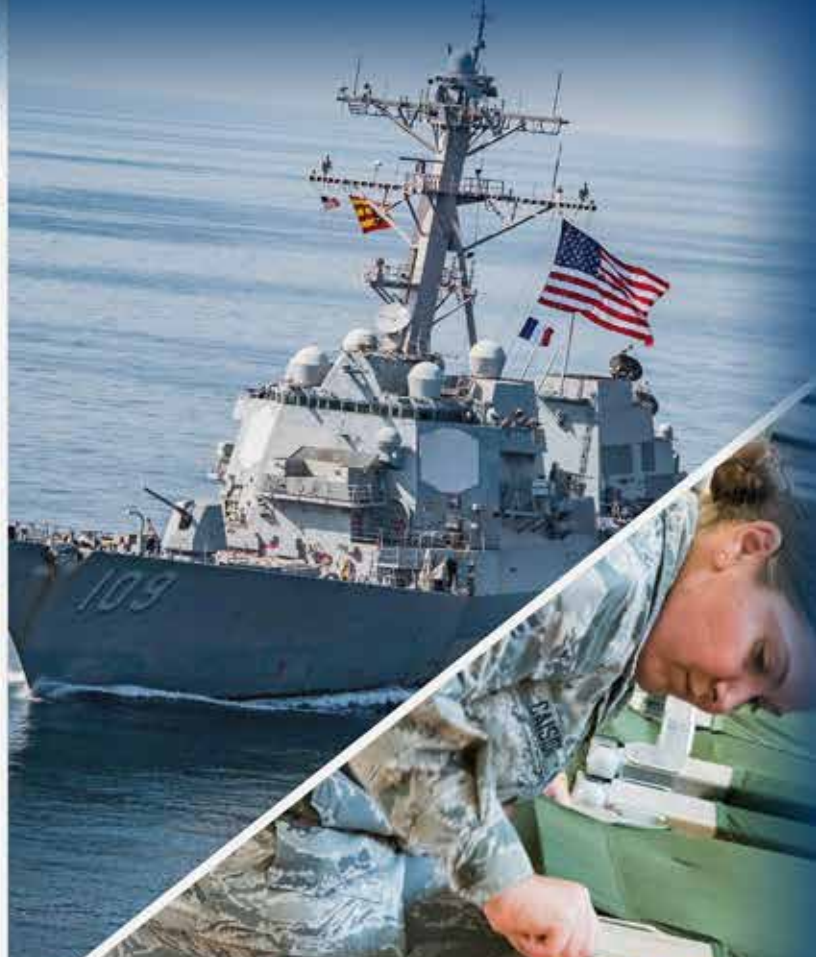
TOPICS COVERED

Glossary of Acronyms and Abbreviations

Photo Captions and Credits

Notes Pages





Glossary of Acronyms and Abbreviations



Acronym	Description
ACL	Audit Command Language
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
Agency	Defense Finance and Accounting Service
AOR	Accumulated Operating Results
BEM	Business Environment Modernization
BRS	Blended Retirement System
CAPS-W	Computerized Accounts Payable System for Windows
CERCLA	Comprehensive Environmental Response and Liability Act
CET	Continuing Education Training
CPI	Consumer Price Index
CSRS	Civil Service Retirement System
CSSP	Cyber Security Service Provider
DAI	Defense Agencies Initiative
DATA	Digital Accountability and Transparency Act
DCAA	Defense Contract Audit Agency
DCI	Debt Collection Improvement Act
DCMA	Defense Contract Management Agency
DDRS	Defense Departmental Reporting System
DDRS-B	Defense Departmental Reporting System–Budgetary
Department	Department of Defense
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DoD	Department of Defense
DoD IG	Department of Defense Inspector General
DoD-EC	DoD Expeditionary Civilian
DOL	Department of Labor
DSET	Digital Signature Enforcement Tool
DWCF	Defense Working Capital Fund
eLAN	Enterprise Local Area Network
ELDP	Executive Leadership Development Program
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employee Compensation Act

FEGLI	Federal Employees' Group Life Insurance Program
FEHB	Federal Employee Health Benefits
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FERS-FRAE	FERS-Further Revised Annuity Employees
FERS-RAE	FERS-Revised Annuity Employee
FIAR	Financial Improvement and Audit Remediation
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers Financial Integrity Act
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FY	Fiscal Year
GF	General Fund
GFEBs	General Fund Enterprise Business System
GSA	General Services Administration
HR	Human Resources
IPA	Independent Public Accountants
IRS	Internal Revenue Service
IT	Information Technology
JVs	Journal Vouchers
MD&A	Management's Discussion and Analysis
MICP	Managers' Internal Control Program
MOCAS	Mechanization of Contract Administration Services
MRS	Military Retirement System
NFR	Notice of Findings and Recommendations
NOR	Net Operating Results
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OUSD	Office of Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PCS	Permanent Change of Station
PII	Personally Identifiable Information
PP&E	Property, Plant, and Equipment
RCRA	Resource Conservation and Recovery Act
SARA	Superfund Amendments and Reauthorization Act of 1986
SA	Statement of Assurance

SBR	Statement of Budgetary Resources
SF-133	Report on Budget Execution and Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SNC	Statement of Net Cost
SSAE-18	Standards for Attestation Engagements No. 18
SSN	Social Security Number
TFM	Treasury Financial Manual
TI	Treasury Index
Treasury	U.S. Department of Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
US GAAP	U.S. Generally Accepted Accounting Principles
WCF	Working Capital Fund

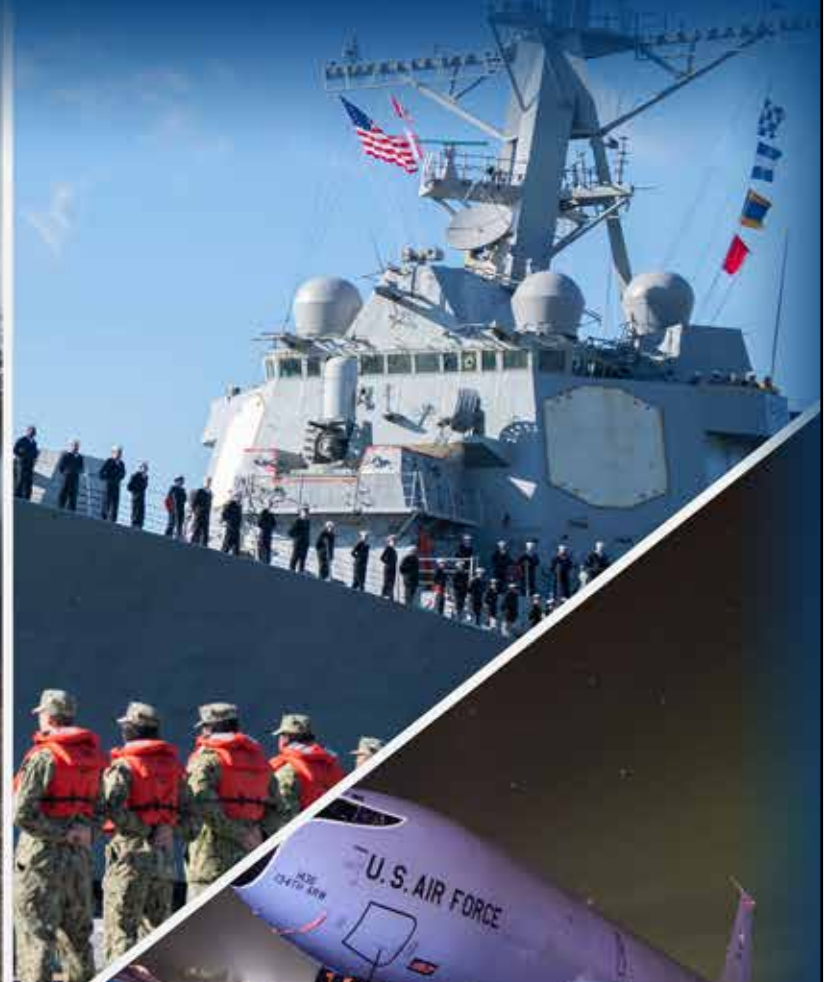
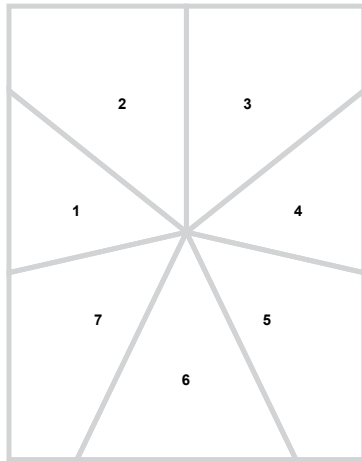


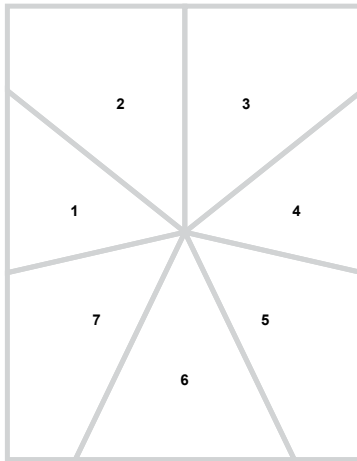
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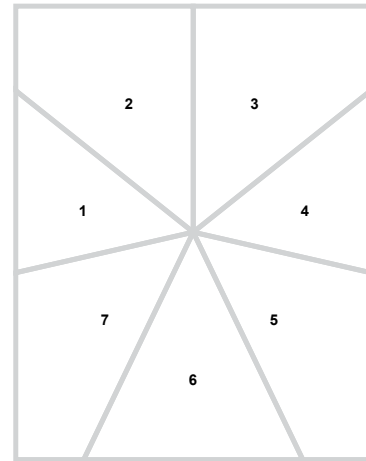
COVER

1. Soldiers from the U.S. Army Old Guard support an Army Full Honors Wreath-Laying Ceremony at the Tomb of the Unknown Soldier in honor of the 243rd birthday of the U.S. Army at Arlington National Cemetery, Arlington, Virginia, June 14, 2018. (U.S. Army photo by Elizabeth Fraser)
2. Marine Sgt. Codi Quevedo, a staff noncommissioned officer in charge for Recruiting Sub-Station Fort Collins, Recruiting Station Denver, prepare to march out on to Coors Field in the Colorado Rockies Stadium in Denver, Colorado, April 6, 2018. (U.S. Marine Corps photo by Sgt. Benjamin Pryer)
3. Navy and Marine Corps Public Health Center (NMCPHC) Executive Officer Capt. Robert Hawkins conducts a uniform inspection on the command's active duty personnel alongside Capt. Todd Wagner, commanding officer, and Master Chief Petty Officer Marsha Burmeister, Portsmouth, Virginia, Oct. 5, 2017. (U.S. Navy photo by Genevieve Williams)
4. 121st Air Refueling Wing Honor Guard performs at the Lockbourne Memorial Day Parade and following ceremony in Lockbourne, Ohio, May 28, 2018. The events honored the 75th anniversary of Lockbourne Air Force Base, which is now Rickenbacker Air National Guard Base, Ohio. (U.S. Air National Guard photo by Airman 1st Class Tiffany A. Emery)
5. Army Maj. Gen. Richard Kaiser, commander of the U.S. Army Corps of Engineers - Mississippi Valley Division, presents a retirement certificate to Army Col. Richard Pannell, former USACE - MVD deputy commander, during Pannell's retirement ceremony at the B.B. Club in Vicksburg, Mississippi, Aug. 10, 2018. (USACE photo by Jared Eastman)
6. New employee recites the oath of office during a swearing in ceremony at DFAS Headquarters. (DoD photo by Eileen Hernandez)
7. A bystander salutes during the Heroes Hunt parade in San Angelo, Texas, Dec. 7, 2017. The San Angelo community worked with Goodfellow Air Force Base service members to honor 24 wounded veterans during the Heroes Hunt parade. (U.S. Air Force photo by Senior Airman Randall Moose)



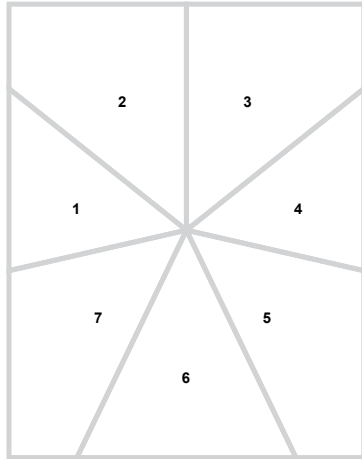
MESSAGE FROM
THE DIRECTOR

1. A U.S. Army armored element from 2nd Armored Brigade Combat Team, 1st Infantry Division, Fort Riley, Kansas, performs a strategic convoy maneuver at the Hohenfels Training Area, Germany, May 2, 2018. (U.S. Army photo by Spc. Andrew McNeil)
2. Marines with Echo Company, Battalion Landing Team, 2nd Battalion, 5th Marine Regiment, sit inside Assault Amphibious Vehicles near Ginoza Village, Okinawa, Japan, June 28, 2018. (U.S. Marine Corps photo by Gunnery Sgt. T. T. Parish)
3. Navy Ensign Joy Hamilton acts as the helicopter control officer during flight quarters aboard the guided-missile destroyer USS Forrest Sherman (DDG 98). (U.S. Navy photo by Mass Communication Specialist Seaman Raymond Maddocks)
4. Airforce Staff Sgt. Belinda S. Son, right, 514th Aeromedical Evacuation Squadron aeromedical evacuation technician, and Air Force Senior Airman Stephanie Lezcano, 45th AES aeromedical evacuation technician, strap down equipment prior to a joint training mission with the 514th AES, 45th AES and the 439th AES at Joint Base McGuire-Dix-Lakehurst, New Jersey, Oct. 5, 2018. (U.S. Air Force photo by Master Sgt. Mark C. Olsen)
5. Army Col. Lawrence N. Cannon of the 21st Theater Sustainment Command receives the certification of retirement from Army Maj. Gen. Steven A. Shapiro during the retirement ceremony at the Armstrong Club, on June 15, 2018 in Kaiserslautern, Germany. (U.S. Army photo by Oliver Sommer)
6. David McDermott, DFAS deputy director for Operations, 2nd from the right, poses with three DFAS employees, DeWayne Arnold, Joy Hughes and Heather Murnane, after their graduation from the DoD's Executive Leadership Development Program at the Pentagon June 7, 2018. (Courtesy photo)
7. Retired U.S. Marine Corps Chief Warrant Officer 4 Hershel "Woody" Williams, the last surviving Medal of Honor recipient of the Battle of Iwo Jima, salutes during his visit to the 5th Marine Regiment Vietnam War Memorial, May 29, 2018. (U.S. Marine Corps photo by Lance Cpl. Alexa M. Hernandez)



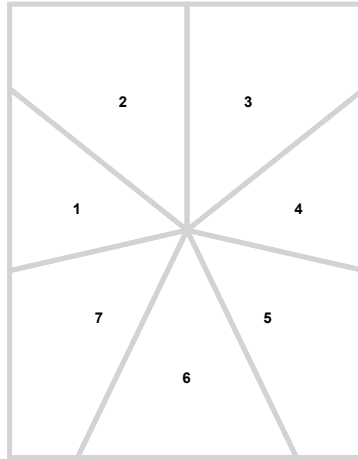
DFAS AT A
GLANCE

1. Soldier assigned to 25th Infantry Division signals his platoon during a Combined Arms Live Fire Exercise at Pohakuloa Training Area, Hawaii, May 15, 2018. (U.S. Army photo by 1st Lt. Ryan DeBooy)
2. U.S. Marine Corps Lance Cpl. Joseph Manzie, combat engineer with Marine Rotational Force Darwin, provides security during patrol sweeps at Koumac, New Caledonia, Australia, May 20, 2018. (U.S. Marine Corps photo by Cpl. Mason Roy)
3. The Nimitz-class aircraft carrier USS Harry S. Truman (CVN 75) conducts a strait transit at the Strait of Gibraltar, June 28, 2018. (U.S. Navy photo by Mass Communication Specialist 2nd Class Thomas Gooley)
4. U.S. Air Force Master Sgt. Ashby Jakober, 445th Aeromedical Staging Squadron, Wright-Patterson Air Force Base, Ohio, coordinates en-route patient movement during exercise Patriot Warrior at Young Air Assault Strip, Fort McCoy, Wisconsin, Aug. 18, 2017. (U.S. Air Force Photo by Tech. Sgt. Efrén Lopez)
5. U.S. Marine Corps Col. Gerald Graham, left, commandant of the Marine Corps Senior Fellow, Brookings Institute, presents Maj. Musa Samad, branch deputy, Information Systems Management Branch, Administration Resource Management Division, Headquarters Marine Corps, Pentagon, with a certificate of retirement during his retirement ceremony at the Clubs at Quantico, Marine Corps Base Quantico, Virginia, June 1, 2018. (U.S. Marine Corps by Sgt. Jacqueline A. Clifford)
6. Tony Hullinger, DFAS Enterprise Audit Support director, center, receives his Presidential Rank Award from the Honorable Patrick Shanahan, Deputy Secretary of Defense, and Michael L. Rhodes, the Defense Department's director of administration and management, June 20, 2018. (U.S. Army photo by Sgt. Tammy Nooner)
7. William Funchess, Korean Prisoner of War, holds a photo of Medal of Honor recipient Army chaplain Emil Kapaun on June 26, 2018. Funchess, 90, spent 1,038 days as a prisoner of war during the Korean War, and befriended Kapaun in the Pyoktong prison camp. Kapaun died in the prison camp on May 23, 1951. (Photo by Ken Scar)



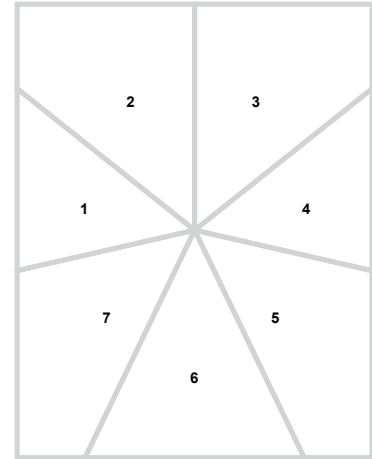
MANAGEMENT ASSURANCES

1. Soldiers with 503rd Infantry Regiment, 173rd Infantry Brigade Combat Team (Airborne), engage opposing forces in a simulated exercise during Saber Junction 18 at Hohenfels Training Area, Germany, Sept. 26, 2018. (U.S. Army photo by Cpl. Gabrielle Weaver)
2. U.S. Marines with 3rd Battalion, 7th Marine Regiment, attached to Special Purpose Marine Air-Ground Task Force, Crisis Response-Central Command, assist a simulated casualty during a tactical recovery of aircraft personnel exercise Oct. 10, 2018. Marines with SPMAGTF-CR-CC regularly conduct crisis response training to enhance mission readiness. (U.S. Marine photo by Staff Sgt. Donell Bryant)
3. The guided-missile destroyer USS Forrest Sherman (DDG 98) fires its MK 45 5-inch gun as part of a live-fire exercise. Forrest Sherman is deployed as part of the Harry S. Truman Carrier Strike Group on Oct. 31, 2018. (U.S. Navy photo by Mass Communication Specialist Seaman Raymond Maddocks)
4. Air Force Senior Airman Edwin Negron and Tech. Sgt. Charlie Hodges, C-130 crew chiefs with the Georgia Air National Guard's 165th Airlift Wing, install safety wire around insulation of a C-130H3 engine as part of scheduled maintenance Oct. 25, 2018. (U.S. Air National Guard photo by Tech. Sgt. Amber Williams)
5. Air Force Lt. Col. David Bascom retired from Otis Air National Guard Base on Nov. 3, 2018, during a ceremony held on base presided by Air Force Brig. Gen. James LeFavor. (U.S. Air National Guard photo by Senior Airman Junhao Yu)
6. DFAS Columbus celebrating National Women's Heart Health Recognition Day on Feb. 8, 2018. The "Going Red" event was organized by the health and wellness council. (Courtesy photo)
7. U.S. Marine veteran Blair McKenzie poses for a photo next to his class memorial, Marine Corps Base Quantico, Oct. 18, 2018. The service members got together for the reunion of The Basic School's first special basic class of 1950, some of whom served together in Korea. (U.S. Marine photo by Lance Cpl. Quinn Hurt)



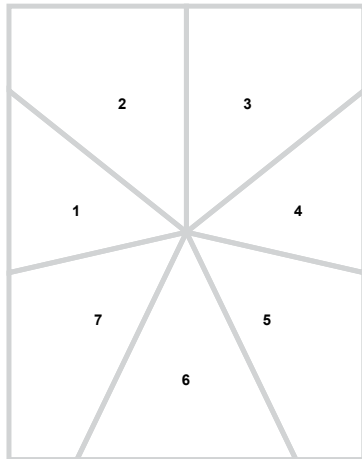
FINANCIAL DISCUSSION AND ANALYSIS

1. A U.S. Soldier assigned to 2nd Cavalry Regiment, pulls security at the 7th Army Training Command's Grafenwoehr Training Area, Germany, Oct. 17, 2018. (U.S. Army photo by Sgt. Kiara Flowers)
2. Marines Cpl. Justin Droll and Lance Cpl. Stephen Luzier, Machine Gunners, with E Company, 2nd Battalion, 2nd Marine Regiment, 2nd Marine Division, assault an enemy position during exercise Trident Juncture 18, Norway, Nov. 7, 2018. (U.S. Marine Corps Photo by Cpl. Dominic Littleton)
3. Navy Ensign Scott Stephen, center, speaks with Cmdr. Zoe Arantz, commanding officer of the Arleigh Burke-class guided-missile destroyer USS Nitze (DDG 94), during a strait transit training event on Nov. 12, 2018. (U.S. Navy photo by Seaman Nikita M. Custer)
4. Senior Airman Cole Daniel, 22nd Maintenance Squadron aircraft structural journeyman, sands a KC-135 Stratotanker lower boom skin panel Oct. 17, 2018, at McConnell Air Force Base, Kansas. (U.S. Air Force photo by Airman 1st Class Alan Ricker)
5. Former Commanding General, United States Army Tank-Automotive and Armaments Command, U.S. Army Maj. Gen. Clark W. Lemasters, Jr. receives his Certificate of Retirement from the Deputy Commanding General, Chief of Staff, Lt. Gen. Theodore D. Martin during a Department of the Army General Officer Retirement ceremony at Joint Base Myer-Henderson Hall, Virginia., Oct. 26, 2018.(U.S. Army photo by Leroy Council)
6. Greg Schmalfeldt, DFAS Indianapolis director, left, presents Sabra Humphrey, DFAS Indianapolis Accounts Payable (Vendor Pay) Customer Care Center representative, with the DFAS Customer Service Representative of the Quarter certificate at a ceremony Nov. 6, 2018. (DoD photo by Steve Lawson)
7. Medals and dog tags adorn a Vietnam veteran's uniform during the WWI centennial New York City Veterans Day Parade in New York City Nov. 11, 2018. (DoD photo by EJ Hersom)



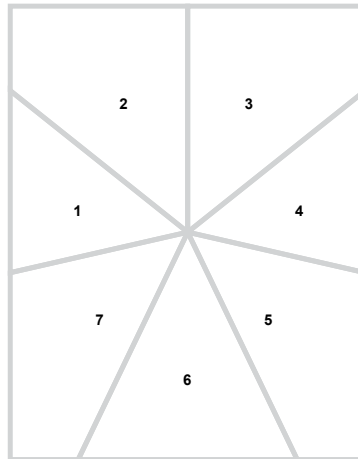
MESSAGE FROM THE CHIEF FINANCIAL OFFICER

1. Snipers from the 5th Cavalry Regiment conducted stalk training, April 19, 2018. Stalking teaches the sniper to move slowly and deliberately to approach their target under concealment. (U.S. Army photo by Maj. Carson Petry)
2. U.S. Marine Corps Gunnery Sgt. Christopher Vance, a CH-53E Super Stallion aerial observer with Marine Medium Tiltrotor Squadron 162, 26th Marine Expeditionary Unit, scans the open seas during flight operations in the U.S. 5th fleet area of operations, June 13, 2018. (U.S. Marine Corps photo by Gunnery Sgt. Eric Alabiso II)
3. Chief of Naval Operations Adm. John M. Richardson poses with Sailors after conducting an all-hands call alongside the Arleigh Burke-Class guided-missile destroyer, USS Michael Murphy, June 9, 2018. (U. S. Navy photo by Mass Communication Specialist 1st Class Kleynia R. McKnight)
4. An F-22 Raptor from the 95th Fighter Squadron retracts its landing gear during takeoff at Tyndall Air Force Base, Florida., June 14, 2018. (U.S. Air Force photo by Airman 1st Class Isaiah J. Soliz)
5. Air Force Col. James P. Ryan, retired 157th Air Refueling Wing commander, receives a Legion of Merit certificate on April 7, 2018 at Pease Air National Guard Base. (N.H. Air National Guard photo by Airman 1st Class Victoria Nelson)
6. Susan Gillison, DFAS Field Services Division director, presents a 15-years-of-service certificate to LaShawn Muex-Mabon, military pay supervisor from Camp Zama, Japan, at the at the Defense Military Pay Office workshop at DFAS Headquarters, Indianapolis, Indiana, June 11, 2018. (DoD photo by J.C. Woodring)
7. Two visitors talk at The Wall That Heals in Camden, South Carolina, May 5, 2018. The Wall That Heals is a traveling, half-scale replica of the Vietnam Veterans Memorial which is transported to communities around the United States to share the story of the Vietnam War and to provide veterans who cannot travel to Washington, D.C., an opportunity to see the memorial. (U.S. Air Force photo by Airman 1st Class Benjamin Ingold)



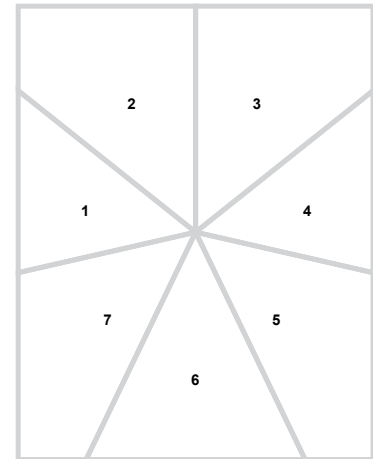
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

1. Soldiers from the Fort Carson and 4th Infantry Division Mounted Color Guard carry the colors down Bennett Avenue followed by the division band during the 87th Annual Donkey Derby Days parade in Cripple Creek, Colorado, June 23, 2018. (U.S. Army photo by Sgt. Micah Merrill)
2. U.S. Marine Lance Cpl. James McKeag, a team leader with 1st Light Armored Reconnaissance Battalion, 1st Marine Division, provides security while conducting a patrol during the Rifle Squad Competition on Marine Corps Base Camp Pendleton, California, June 27, 2018. (U.S. Marine Corps photo by Cpl. Miguel Rosales)
3. Navy divers assigned to Mobile Diving Salvage Unit (MDSU) 1 dive on the USS Arizona Memorial at Joint Base Pearl Harbor-Hickam, Hawaii, June 28, 2018. (U.S. Navy photo by Mass Communication Specialist 1st Class Arthurgwain L. Marquez)
4. Air Force Airman 1st Class Michael Enkouang-Mekanda, 336th Training Squadron regulation drill team drillmaster, requests permission to enter the field of regulation drill competition during the 81st Training Group drill down at Keesler Air Force Base, Mississippi, Nov. 3, 2017. (U.S. Air Force photo by Kemberly Groue)
5. U.S. Army Gen. David G. Perkins and his wife, Ginger Perkins, render honors during his retirement ceremony at Conmy Hall, Joint Base Myer-Henderson Hall, Virginia, March 9, 2018. (U.S. Army photo by Staff Sgt. Brandy N. Mejia)
6. Rick Davis, DFAS Internal Review director, center, poses with four DFAS employees, Christy Hall, Kristen Hershberger, Megan Bodkin and Ray Musser, after a ceremony at the DoD Executive Management Training Center in Southbridge, Massachusetts, June 15, 2018. (Courtesy photo)
7. U.S. Army World War II Veteran Robert DeVinney poses for a selfie with French school kids, June 1, 2018, at the American Cemetery and Memorial, Normandy, France. DeVinney fought in the Battle of the Bulge, the last German offensive during World War II. (U.S. Army photo by Staff Sgt. Alexander C. Henninger)



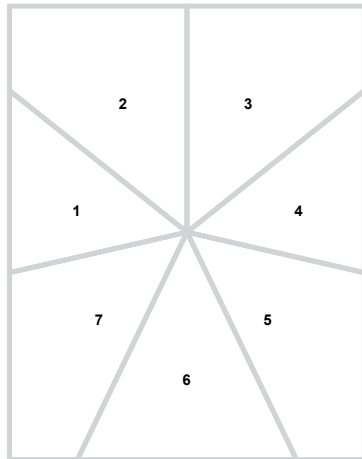
MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITOR'S REPORT

1. Soldiers from the 14th Field Artillery Regiment conduct a 72-hour joint exercise to test their capabilities and limits, June 26, 2018. (U.S. Army photo)
2. Marines with Fox Battery, Battalion Landing Team, 2nd Battalion, 5th Marines, defend a patrol route during embassy reinforcement training as part of the 31st Marine Expeditionary Unit's MEU Exercise at Camp Hansen, Okinawa, Japan, June 21, 2018. (U.S. Marine Corps photo by Lance Cpl. Kealiiholokaikaikioka De Los Santos)
3. Gunner's Mate 2nd Class Richard Cowan performs maintenance on the MK-38 25mm machine gun aboard the guided-missile destroyer USS Jason Dunham, June 29, 2018. (U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan Clay)
4. The U.S. Air Force Air Demonstration Squadron "Thunderbirds" perform at the Utah Air Show in Ogden, Utah, June 22, 2018. (U.S. Air Force Photo by Senior Airman Cory W. Bush)
5. Navy Capt. Michael E. Ray, deputy commander of Coastal Riverine Group 1 presents the fleet reserve certificate awarded as testimonial of faithful and honorable service to Command Master Chief Kevin Campbell during his retirement ceremony onboard Naval Air Station North Island, Coronado, Calif. April 13, 2018. (U.S. Navy photo by Chief Boatswain's Mate Nelson Doromal)
6. Marcus Ellison, a Defense Finance Accounting Service accountant, and Stephanie Bowie, a DFAS supervisory accountant share a laugh at the end of an ACL analytics presentation during an AASEP event, "Tech-Savvy" at DFAS Headquarters, Indianapolis, Indianapolis, March 28, 2018. (DoD photo by Eric Crosby)
7. Rear Adm. Bette Bolivar, Commander of Navy Region Southeast, speaks with a veteran during a visit to Alexander Nininger Veterans Nursing Home as part of Fleet Week Port Everglades, Pembroke Pines, Florida, May 4, 2018. Marines were given an opportunity to visit the nursing home and speak with veterans to show gratitude for their commitment and dedication to serving our nation. (U.S. Marine Corps photo by Lance Cpl. Leynard Kyle Plazo)



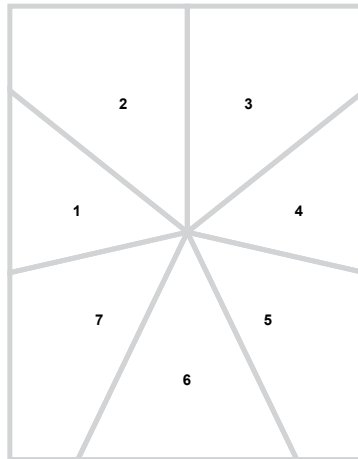
COMPARATIVE FINANCIAL STATEMENTS

1. Soldiers assigned to 2nd Infantry Brigade Combat Team, 25th Infantry Division, begin the movement phase during a combined arms live-fire exercise at Schofield Barracks, Hawaii, Aug. 9, 2018. (U.S. Army photo by 1st Lt. Ryan DeBooy)
2. U.S. Marines with Combat Service Support Company, I Marine Expeditionary Force Support Battalion, I Marine Expeditionary Force, patrol in a humvee during a field exercise at Marine Corps Base Camp Pendleton, California, Aug. 14, 2018.
3. Sailors heave on a mooring line aboard the guided-missile destroyer USS Arleigh Burke (DDG 51) as the ship arrives in Halifax, Nova Scotia, for a port visit on Sept. 7, 2018. (U.S. Navy photo by Mass Communication Specialist 2nd Class Justin Yarborough)
4. An F-15E Strike Eagle with the 4th Fighter Wing at Seymour Johnson Air Force Base, North Carolina, flies near a rainbow over the southeastern U.S. Aug. 8, 2018. The Strike Eagle had just been refueled by a KC-135 Stratotanker with the 121st Air Refueling Wing out of Ohio. (U.S. Air National Guard photo by Airman 1st Class Tiffany A. Emery)
5. Chief Aviation Boatswain's Mate (Fuel) Bryan Hay, from Evansville, Indiana, assigned to USS Gerald R. Ford's (CVN 78) engineering department, receives a Navy and Marine Corps Commendation award from Capt. Brent Gaut, Ford's executive officer, during his retirement ceremony at Naval Air Station Oceana's base chapel July 26, 2018. (U.S. Navy photo by Mass Communication Specialist 2nd Class Cat Campbell)
6. Leaders and employees from DFAS Indianapolis and U.S. Army Financial Management Command listen to the National Anthem at the beginning of the 9/11 Remembrance Ceremony outside the Maj. Gen. Emmett J. Bean Federal Center Sept. 11, 2018. (DoD photo by Eileen Hernandez)
7. French and American Soldiers unveil a plaque honoring Robert D. Maxwell, the oldest living Medal of Honor recipient, Sept. 7, 2018, in Besancon, France. (U.S. Army photo by Sgt. Benjamin Northcutt)



NOTES TO THE FINANCIAL STATEMENTS

1. A member of the Gold Demonstration Team exits the Fokker at the airshow on Joint Base Langley-Eustis, Virginia, June 12, 2018. (U.S. Army photo)
2. Marines with Marine Barracks Washington, D.C., march down Center Walk during a Friday Evening Parade at the Barracks, June 29, 2018. The guest of honor for the ceremony was the Under Secretary of the Navy, Thomas B. Modly, and the hosting official was the Assistant Commandant of the Marine Corps, Gen. Glenn M. Walters. (U.S. Marine Corps photo by Capt. Colleen McFadden)
3. International ships participating in the 2018 Rim of the Pacific exercise moor at Joint Base Pearl Harbor-Hickam, Hawaii, prior to beginning the at-sea phase of the exercise, June 29, 2018. (U.S. Navy photo by Mass Communication Specialist 2nd Class Kenneth Abbate)
4. Air Force Staff Sgt. Christopher Morris, honor guardsman, plays Taps is during a Khobar Towers Memorial Ceremony June 25, 2018, at Eglin Air Force Base, Florida. (U.S. Air Force photo by Staff Sgt. Peter Thompson)
5. Certificates, awards and the American flag are displayed before a retirement ceremony for U.S. Marine Corps Lt. Col. Michael D. Butler, artillery requirements officer, CD&I, at the Semper Fidelis Memorial Chapel, Triangle, Virginia., June 8, 2018. Butler retired after 28 years of honorable and faithful military service. (U.S. Marine Corps photo by Lance Cpl. Yasmin D. Perez)
6. Teresa McKay, DFAS director and Jana Haynie, DFAS Limestone director, congratulate the Limestone LIM associates at their graduation ceremony, Aug. 14, 2018. (DoD photo by Stephen Leighton)
7. B-29 Bomber pilot and recipient of two Distinguished Flying Crosses and two Purple Hearts, Lt. Denny Thompson, of the U.S. Army Air Corps is recognized at the Normandy American Cemetery commemorating the 74th D-Day, June 6, 2018. (U.S. Army photo by Lt. Col. John Hall)



GLOSSARY OF ACRONYMS AND ABBREVIATIONS

1. Soldiers from 1st Battalion, 151st Infantry Regiment, complete their live-fire training exercise at Joint Readiness Training Center in Fort Polk, Louisiana. This training requires soldiers to be able to move and maneuver as a team using live-fire rounds. The JRTC has an incredibly life like simulation area of operation for troops to get the best training possible. (U.S. Army photo)
2. U.S. Marines secure a landing strip after disembarking from Marine Corps CH-53E Super Stallion during air assault training at Keflavik Air Base, Iceland, Oct. 17, 2018, during Exercise Trident Juncture 18. (U.S. Navy photo by Mass Communication Specialist 2nd Class Kenneth Abbate)
3. The guided-missile destroyer USS Jason Dunham (DDG 109) flies the battle ensign and the flag of France during a three week integration of the French navy La Fayette-class frigate FS Courbet (F 712) with Task Force 55 Nov. 8, 2018. J (U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan Clay)
4. Personnel set up cots for evacuees from Hurricane Michael recently at Maxwell Air Force Base, Alabama. (U.S. Air Force photo by William Birchfield)
5. Navy Chief Electrician's Mate Charlene Parker, assigned to USS Gerald R. Ford's (CVN 78) engineering department, is presented the Navy and Marine Corps Achievement Medal certificate by Navy Capt. Brent Gaut, Ford's executive officer, during her retirement ceremony at Commander, Naval Surface Force Atlantic. Parker is retiring from the Navy after 24 years of service. (U.S. Navy photo by Mass Communication Specialist 2nd Class Cat Campbell)
6. Michelle Glenn, DMPO Fort Riley lead military pay technician accepts a DFAS coin from Teresa McKay, DFAS director, Oct. 31, 2018. (DoD photo by Floyd Devereaux)
7. U.S. military members, veterans and their families participate in the Veteran's Day Parade, Nov. 11, 2018, at Kadena Air Base, Japan. Veteran's Day Parades are celebrated across U.S. military stations both at home and abroad. (U.S. Air Force photo by Senior Airman Kristan Campbell)

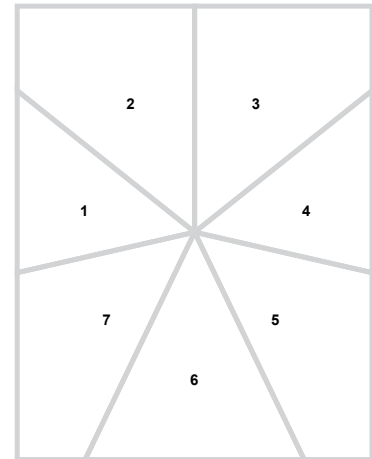


PHOTO CAPTIONS AND CREDITS

1. An infantry squad leader assigned to 155th Infantry Regiment, 155th Armored Brigade Combat Team, discusses squad movement tactics with Jordanian soldiers during small arms training, near Alexandria, Egypt, Sept. 15, 2018. The 155th ABCT is in the Arab Republic of Egypt taking part in Exercise Bright Star 18, a multilateral U.S. Central Command training exercise. (U.S. Army photo by Sgt. James Lefty Larimer)
2. U.S. Marines with Marine Rotational Force-Europe 19.1 fire rounds from a Light Armored Vehicle during Exercise Northern Screen at Setermoen, Norway, Nov. 5, 2018. The exercise increases the Marines' proficiency in cold-weather, arctic, and mountainous environments. (U.S. Marine Corps photo by Cpl. Ashley McLaughlin)
3. Sailors stand by as the Arleigh Burke-class guided-missile destroyer USS Bulkeley (DDG 84) pulls into Naval Station Norfolk, Virginia, Nov. 11, 2018. (U.S. Navy photo by Mass Communication Specialist 3rd Class Katie Cox)
4. A KC-135 Stratotanker assigned to the 134th Air Refueling Wing out of McGhee Tyson Air National Guard Base, Knoxville, Tenn., sits on the flight line under the Aurora Borealis during Exercise Trident Juncture 18 at Kallax Air Base, Sweden, Nov. 5, 2018. (U.S. Air Force photo by Staff Sgt. Jonathan Snyder)
5. Alaska Army Guard Col. Wayne Don, left, deputy chief of staff for operations, presents Alaska Air Guard Master Sgt. Ella Doak, 168th Wing, with a certificate of appreciation for service in the Armed Forces of the United States signed by President Donald Trump during her retirement ceremony in Kipnuk, Alaska, Nov. 9, 2018. (U.S. Army National Guard photo by Sgt. 1st Class Balinda O'Neal Dresel)
6. Employees from DMPO Fort Hood, Texas, pose in front of a static display helicopter before a director's walk Oct. 10, 2018. Approximately 30 employees participated in the Wear Pink Day. (DoD photo by Nathan DuBose)
7. World War I re-enactors begin the Veterans Day Parade on the centennial of World War I in New York City, Nov. 11, 2018. (Photo by EJ Hersom)

HEADQUARTERS
Indianapolis,
Indiana



COLUMBUS
Columbus,
Ohio



CLEVELAND
Cleveland,
Ohio



ROME
Rome,
New York



LIMESTONE
Limestone,
Maine



TEXARKANA
Hooks,
Texas



EUROPE
Kaiserslautern,
Germany



JAPAN
Yokota
Air Base



MARK CENTER
Alexandria,
Virginia



BRATENAH
Bratenahl,
Ohio



DEFENSE FINANCE AND ACCOUNTING SERVICE WORKING CAPITAL FUND



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