



DEFENSE FINANCE AND ACCOUNTING SERVICE



2025 AGENCY FINANCIAL REPORT



2025

ABOUT THIS DOCUMENT

Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2025 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 2025 AFR is to inform the President, Congress, and the American people about how DFAS used Federal resources entrusted to the Agency to reliably deliver first-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 <https://www.dfas.mil/pressroom/aboutdfas/>.

SECTION 1

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 2

FINANCIALS

This section includes our Agency's independently audited financial statements and notes, along with the related Independent Auditor's Report.


SECTION 3

OTHER INFORMATION

This section contains additional information such as the summary of financial statement audit and management assurances and a glossary of acronyms.

PREFACE

This Fiscal Year (FY) 2025 Agency Financial Report (AFR) refers to the Department of Defense (DoD) in accordance with statutory requirements. While mindful of the recent Executive Order 14347 and ongoing legal determinations regarding the Department's name, this report utilizes the designation "Department of Defense" because the AFR is a statutorily mandated report, all relevant legislation designates the Department as the "Department of Defense," and the funding for programs discussed herein were issued to the Department of Defense. We may use the "Department of Defense" designation in other, non-statutory communications, as allowed by the Executive Order.



Air Force A-10 Thunderbolt aircraft flying in formation over Wake Island, June 7, 2025.
(Photo taken by Air Force Senior Airman Audrey Campbell.)

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MESSAGE FROM THE DIRECTOR



Jonathan Witter



On behalf of the Defense Finance and Accounting Service (DFAS), it is my honor to share with you the Fiscal Year (FY) 2025 DFAS Agency Financial Report. Far more than just a presentation of our financial statements, it showcases our dedication to proudly serving America's heroes through our core values of integrity, service, and innovation.

At DFAS, we have an incredible opportunity to serve the most selfless customer—the American warfighter. In this document, you will learn more about key initiatives that focus on the President's mission to achieve Peace through Strength as we make progress toward the Secretary of War's priorities of Restoring Warrior Ethos, Rebuilding our Military, and Reestablishing Deterrence.

As we complete the fourth year of our five-year DFAS strategic plan, we are accelerating our mission capabilities through partnership and reaching the goals we set for ourselves in our four strategic priorities: Invest in People, Strengthen Customer Partnerships, Modernize the Business Environment, and Enhance Performance. In addition to the President and Secretary of War's priorities, our goals are carefully aligned to our customers and other Department strategy documents. By achieving our outcomes, we will realize our vision for 2026, which is to be a valued partner in financial management by consistently delivering first-class service and products.

We pride ourselves on continuing to lead in audit results, earning our 26th consecutive unmodified audit opinion on the FY 2025 DFAS Working Capital Fund financial statements. At DFAS, we believe the success of an audit fosters a culture of accountability, transparency, and continuous improvement. We continue to serve as the DoD lead for Fund Balance with Treasury (FBWT), supporting the Department's goal for an unmodified or "clean" financial statement audit opinion by December 31, 2028.

DFAS also delivers value to the Department as a shared service provider. We utilize a "solve, implement, replicate, and accelerate" strategy by finding common customer problems to create innovative, reusable solutions and apply those solutions to multiple customers. Using this approach we have replicated solutions to prevent fraud through artificial intelligence (AI), improve FBWT audit performance, and accelerate implementation of an executive order.

DFAS was created to consolidate, standardize, and integrate, and we continue to enhance our business with a focus on driving transformation and efficiencies through automation and new technologies. We modernize the business environment by leveraging technologies such as cloud computing, AI, machine learning, robotics process automation, and data analytics, to improve security, foster innovation, and adapt to customer needs while embedding risk awareness and mitigation into every task.

As we enter FY 2026, we remain dedicated to continuing our proven record of success. I take immense pride in the DFAS workforce, who have selflessly driven our agency's successes for more than 34 years. It is through our workforce's determination, along with continued investment to enhance their skillsets, that enables our agency to deliver innovative solutions at best value to our customers.

With every challenge comes opportunity. We look forward to serving our customers and partners as we remain committed to transparency and being good stewards of taxpayer dollars. Our strength is our unity.

Jonathan Witter,
Director

SECTION I

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DFAS AT A GLANCE

INTRODUCTION

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FINANCIAL DISCUSSION AND ANALYSIS



District of Columbia National Guard soldiers stand watch in support of Joint Task Force District of Columbia during the D.C. Safe and Beautiful mission in Washington, Aug. 16, 2025.

DFAS AT A GLANCE



OUR AGENCY

DFAS was established in 1991 to provide finance and accounting services for the Armed Forces.

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

DFAS supports the pay of all DoD military personnel, retirees and annuitants. In addition, DFAS pays all DoD civilians as well as other 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 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 eight components within the Department of Defense.

Financed as a working capital fund, instead of 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's operations are subject to oversight by the DoD as well as the executive and legislative branches of the Federal Government. DFAS has consistently improved its financial processes, systems, and tools to understand, manage, and lower costs directly aligned to the National Defense Strategy (NDS). These improvements include shedding outdated management practices and structures, while integrating insights from business innovation. The Agency aims to support military readiness and achieve reform through greater performance and affordability, predictive analytics, and continuous communication. We have always focused on the goal of providing services at the best value for our customers.





WHAT WE DO

DFAS is the principal Department of Defense executive for finance and accounting requirements, systems, and functions. That role includes the responsibility to direct the consolidation, standardization, and integration of finance and accounting requirements, functions, procedures, operations, and systems within the Department of Defense.

OUR VISION

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

OUR MISSION

Deliver financial excellence and quality pay services for our customers.



CORE VALUES

INTEGRITY

Doing what is right

SERVICE

Remain a trusted financial partner

INNOVATION

Creating better ways to do business

OUR CUSTOMERS

WITHIN THE DoD



ALL DoD MILITARY PERSONNEL, RETIREES,
ANNUITANTS AND CIVILIAN PERSONNEL

DEFENSE AGENCIES AND
THE OFFICE OF THE SECRETARY OF DEFENSE

MAJOR DoD CONTRACTORS AND VENDORS

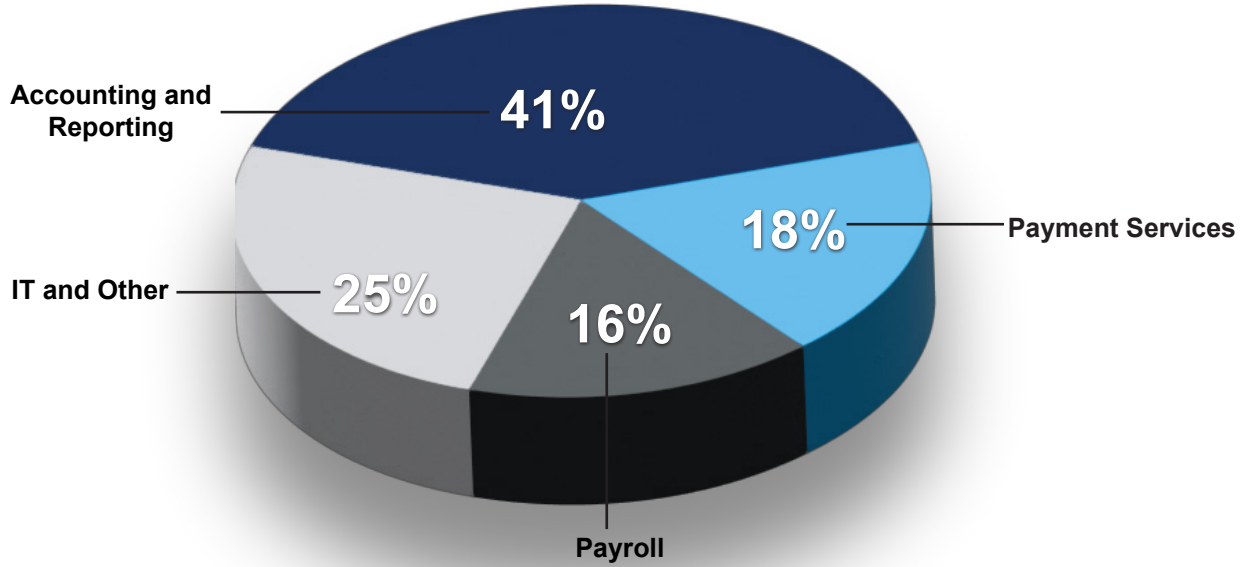
OUTSIDE OF THE DoD



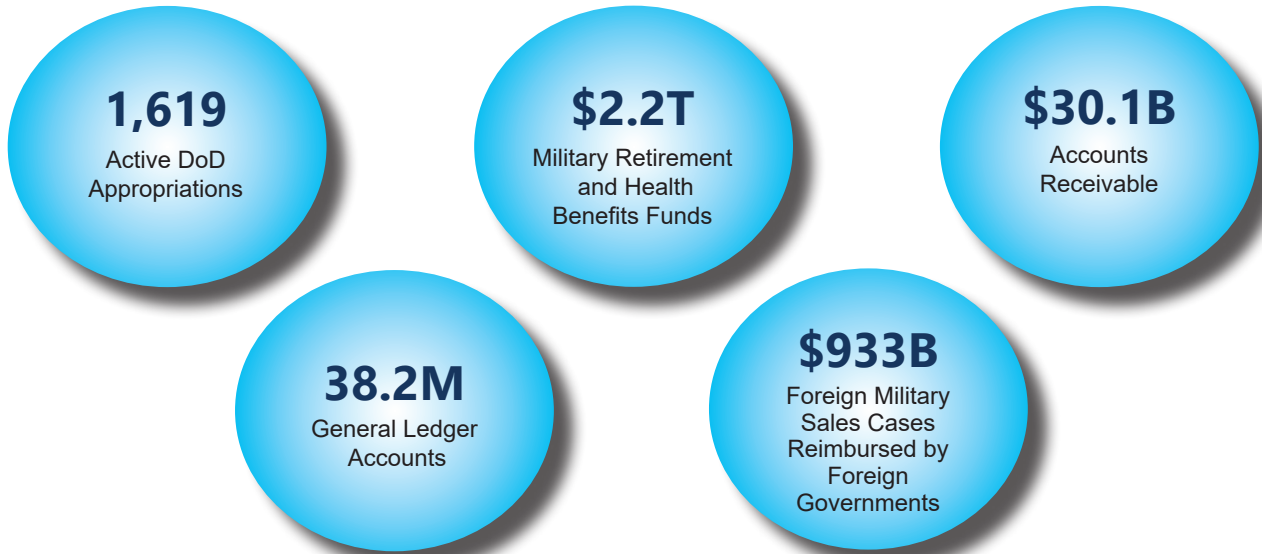
DFAS BY THE NUMBERS

NUMBER OF EMPLOYEES	9,710
DFAS WORKFORCE WITH AN ADVANCED DEGREE	21%
AVERAGE AGE OF DFAS EMPLOYEE	49
DFAS EMPLOYEES WHO ARE VETERANS	19%

OUR REVENUE STREAMS



FINANCE AND ACCOUNTING SERVICES



PAY PEOPLE AND VENDORS





Nimitz-class aircraft carrier USS George Washington (CVN 73) transits while underway in the Philippine Sea, June 15, 2025. George Washington is the U.S. Navy's premier forward-deployed aircraft carrier, a long-standing symbol of the United States' commitment to maintaining a free and open Indo-Pacific region, while operating alongside allies and partners. (U.S. Navy photo by Mass Communication Specialist 3rd Class Geoffrey L. Ottinger)



Ensign Kendall Hill provides a tour to members of the Defense Finance and Accounting Service aboard Nimitz-class aircraft carrier USS George Washington (CVN 73) while moored pier-side at Commander, Fleet Activity Yokosuka, Jan. 17, 2025. (U.S. Navy photo by Mass Communication Specialist 3rd Class Tyler Crowley)

LEADERSHIP



Left: Outgoing DFAS Director Audrey Davis thanks employees for their dedication as she delivers remarks at her retirement ceremony at the Military Women’s Memorial in Arlington County, VA, June 25, 2025. Looking on is DFAS’ new Director Jonathan Witter, who previously served as the Principal Deputy Director. (Photo by DISA)

Right: DFAS Indianapolis leadership team, along with support staff, watched Ms. Davis’ retirement ceremony via closed-circuit video feed. (Photo by DFAS Corporate Communications)

EXECUTIVE BOARDS

BOARD OF DIRECTORS

Approves DFAS’s 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, Director of Operations, and Director of Strategy and Support.

STRATEGIC COUNCIL

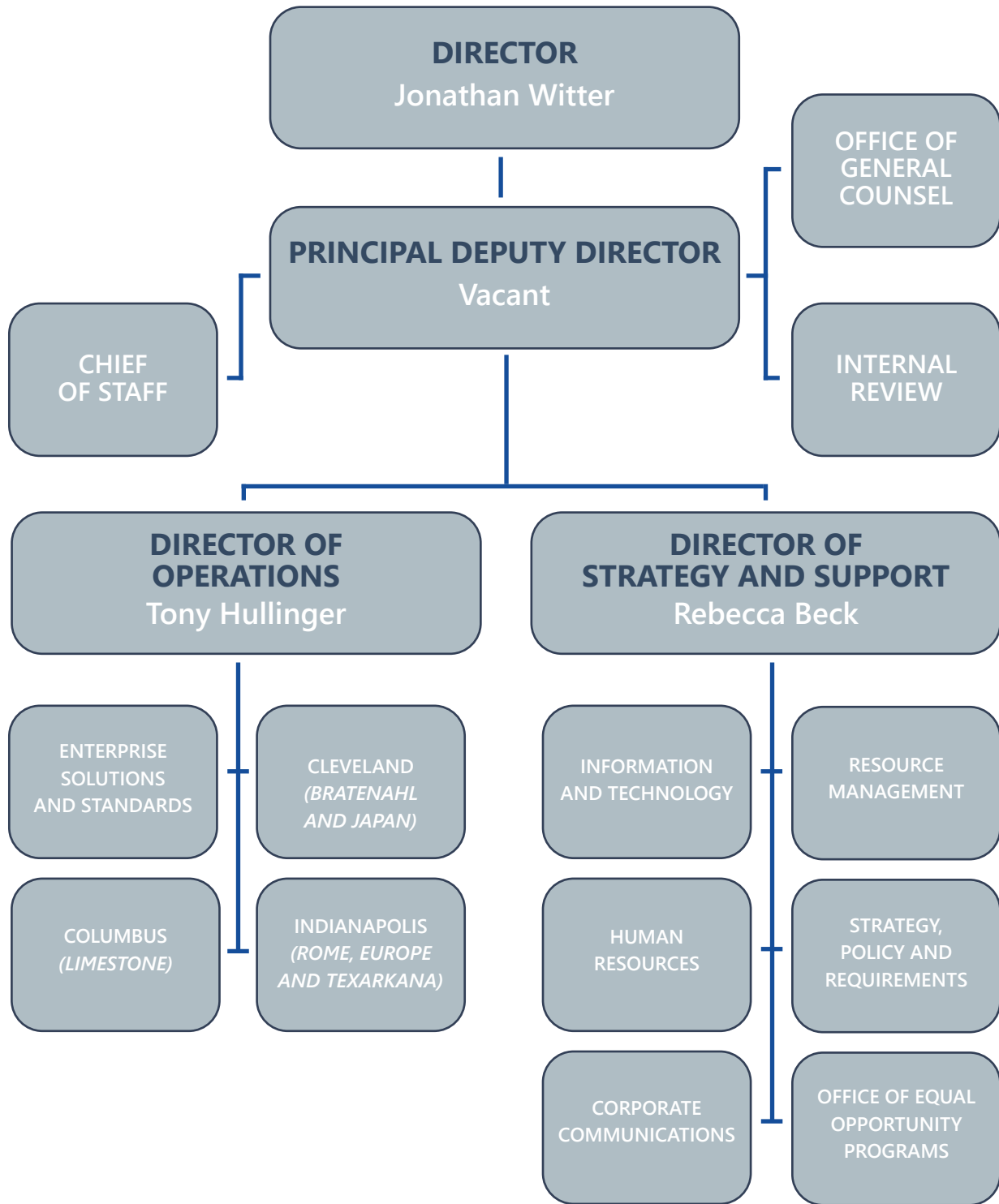
Evaluates content and structure of the DFAS strategy, corporate operational dashboard, and other Agency priorities to successfully execute strategy.

Members: Director (Chair), Principal Deputy Director, Director of Operations, Director of Strategy and Support, 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 as well as provides a forum for discussion and vetting of business case analyses or other fact-based analyses and requirements for enterprise-wide programs.

ORGANIZATIONAL CHART







DFAS leadership team at the Annual Business Refresh meetings at DFAS Columbus, OH, September 17, 2025. (Photo by Natasha Strom - Site Support)



Left: DFAS leadership team at the Annual Business Refresh meetings at DFAS Rome, NY, September 17, 2025. (Photo by Michele Rivecca, Executive Officer)



Right: Director Jonathan Witter administers the oath of office to Ms. Shirley Reed, who became the new site director at DFAS Columbus on September 22, 2025. (Photo by Natasha Strom - Site Support)

DFAS LOCATIONS



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

- Alexandria, VA
- Bratenahl, OH
- Cleveland, OH
- Columbus, OH
- Indianapolis, IN
- Limestone, ME
- Rome, NY
- Texarkana, TX



9,710 employees around the globe to support the warfighter

INTRODUCTION





DFAS Director Jonathan Witter discussing strategy with DFAS leaders at the Annual Business Refresh meetings at DFAS Indianapolis, IN, September 17, 2025. (Photo by Darrell Sydnor - DFAS Corporate Communications)



Fiscal Year (FY) 2025 marks the fourth year of DFAS's FY 2022-2026 Strategic Plan. This plan positions the Agency to best serve our DoD customer base as efficiently and effectively as possible. This year's Agency Financial Report (AFR) outlines our strategy initiatives and goals achieved in FY 2025. We also explore our accomplishments in providing quality audit services to our customers while simultaneously maintaining our own financial statement audit success.

THE DFAS STRATEGY

DFAS's five-year strategy provides a framework that helps the Agency stay focused on achieving our core mission of delivering financial excellence and quality pay services for our customers. The four pillars of our current strategy are: Invest in People, Strengthen Customer Partnerships, Modernize the Business Environment, and Enhance Performance. We discuss several success stories from FY 2025 that strengthened our workforce in these focus areas.

THE FOCUS ON AUDIT

This year marks DFAS's 26th consecutive clean audit opinion as an entity. We discuss our established business practices that help us maintain that status while also highlighting special initiatives unique to FY 2025 helping us improve known risk areas. We also outline the work we've done as a service provider to assist our customers in improving their individual audit outcomes while also advancing our progress toward a clean overall DoD audit opinion in FY 2028.

THE DFAS STRATEGY





DFAS Strategy

The Defense Finance and Accounting Service (DFAS) embraces proactive strategic planning through a comprehensive five-year roadmap. Currently, the agency is executing initiatives defined within its Fiscal Year (FY) 2022-2026 strategic plan, all meticulously designed to fulfill its core mission: to deliver financial excellence and quality pay services for our customer. This mission propels DFAS towards its vision of being a valued partner in financial management by consistently providing first-class service and products. To ensure alignment and progress, DFAS employs a well-defined strategic framework. Furthermore, annual reviews of this strategy allow for necessary adjustments in response to evolving circumstances and foster innovation, underscoring the agency's commitment to sound strategic business practices and proactive preparedness for the future.

The FY 2022-2026 Strategic Plan is anchored by four key priorities: **Invest in People, Strengthen Customer Partnerships, Modernize the Business Environment, and Enhance Performance.** Each priority is sponsored by a Priority Champion and supported by designated Outcome Leaders who oversee specific focus areas. These leaders collectively form a Strategic Council, charged with executing key initiatives and ensuring the agency meets its annual goals. This strategic emphasis yields significant benefits for both DFAS and the Department of Defense (DoD) by fostering the development of capabilities and toolsets essential for capitalizing on critical strategic opportunities. The DFAS strategy is closely aligned with the Secretary of War's priorities, and the agency's strategic achievements directly contribute to the overarching goals of the Department's Financial Management Strategy and the National Defense Strategy.

By 2026, DFAS will have.....

OUR MISSION

Deliver financial excellence and quality pay services for our customer



OUR VISION

To be a valued partner in financial management by consistently delivering first-class service and products



Invest in People

DFAS recognizes that its people are the cornerstone of strategic goal attainment and mission success, a belief directly supported by the Invest in People priority. Initiatives within this priority provide employees with opportunities to develop and refine their skills, ensuring DFAS expertise continues to meet the evolving demands of the financial management community. By empowering its personnel, DFAS secures its future strategic relevance, equipping employees with the tools necessary to thrive in a dynamic environment.



The Agency's Training Plan for Upskilling in Digital Technologies initiative delivered a comprehensive Digital Literacy mode, an environmental scan targeting technology upskilling opportunities, and a repeatable training model for targeted automation within the agency. Additionally, DFAS created a Common Business-Oriented Language (COBOL) training program and initiated the first cohort to sustain this critical skillset. To empower its workforce to self-manage growth and development, DFAS also trained employees in

targeted cyber work role code assignments utilizing the Digital University platform to comply with the Department's cyber requirements and developed continuous monitoring to sustain the program and track employees' continuing education requirements.

Integrated within this initiative, DFAS also enhanced the change management model for technology deployments. As a result, DFAS experienced the expansion and evolution of skills needed to complement advanced technology solutions, positioning the agency with a reskilled, upskilled, and informed workforce poised to meet mission requirements.

Similarly, the Upskilling Targeted Accounting and Audit Workforce initiative expanded and sustained critical skills within these domains and overall increased proficiency levels. DFAS launched an Accounting and Audit Community of Practice and developed a knowledge management plan, resulting in an operationalized framework and modernized learning environment for DFAS's financial management workforce.

Strengthen Customer Partnerships



The Strengthen Customer Partnerships priority focuses on developing and deploying innovative, customer-centric solutions to enhance efficiency and collaboration. Leveraging

DFAS's role as a shared service provider, this initiative encompasses a wide range of activities aimed at strategically optimizing its capabilities. DFAS's solutions often benefit multiple customers, enabling the Department to conserve time and resources as it progresses toward its financial management objectives. For example, DFAS is the single entity integrated into every DoD financial audit and is uniquely positioned to assist with audit acceleration.

The Analytics Capability Development and Sustainment initiative resulted in key accomplishments with significant Departmental impact. This initiative established DFAS as a leader in the Digital Talent Management space and trained a cadre of technologists in advanced analytics. In partnership with the Office of Under Secretary of Defense (Comptroller) Enterprise Financial Transformation, DFAS helps build, sustain, and improve advanced analytical products and capabilities. DFAS's efforts in the Digital Transformation space led to increased speed and delivery of products key to achieving DoD's audit goals.

Modernize the Business Environment



DFAS recognizes technology modernization as crucial for long-term relevance and value. Embracing challenges and pushing the boundaries of innovation, DFAS is committed to delivering

financial excellence and quality pay services to its customers. By leveraging innovative technologies such as cloud computing, artificial intelligence (AI), machine learning (ML), robotics process automation and data analytics, DFAS significantly enhances operational efficiency, improves security, fosters innovation and adapts to evolving customer needs and expectations, all while mitigating risks associated with outdated technology. The Strengthen Cyber Operations initiative is maturing and strengthening DFAS's technology

services to provide a modernized, compliant, and secure environment. In FY 2025, DFAS significantly strengthened system security by defining and initiating implementation of a Zero Trust architecture, a security model predicated on strict access controls. As part of this plan, DFAS leverages the premier access management solution, Identity, Credential and Access Management (ICAM). In FY 2025, DFAS onboarded ICAM Automated Account Provisioning (AAP) to six audit-relevant systems and ICAM Identity Provider (IdP) to twenty eight audit-relevant systems. These upgrades enable centralized authentication and automated workflows for account requests and renewals. In addition, DFAS initiated an agency-wide Development Security Operations (DevSecOps) roadmap to integrate security into all phases of the software development lifecycle.

The Reduce Legacy Systems (RLS) initiative streamlines and simplifies DFAS services through the continued standardization of business processes and systems. In FY 2025, DFAS retired three systems, resulting in annual savings of \$1.6M. Since 2017, DFAS has retired 28 systems to simplify and optimize the business environment, support audit readiness, and save over \$29M that can be reinvested in modern capabilities.

The Artificial Intelligence Cognitive Services Technology initiative drives the development and deployment of tools that augment both processes and personnel. Virtual desktops, web applications, and cloud-based solutions enable the seamless integration of AI/ML technologies into daily operations. DFAS AI advancements include the use of large language models (LLMs), large reasoning models (LRMs), and cloud-based solutions, to significantly enhance operational efficiency and security to reduce average handle time in our call centers, natural language processing to analyze sentiment in over 200,000 customer surveys, fraud protection utilizing advanced algorithms that have analyzed over 3.5 million transactions and flagged approximately 3,500 suspicious activities to date, and intelligent redaction systems that remove

personally identifiable information (PII) from critical documents requested by independent public accountants (IPAs). AI Computer Vision models play a crucial role in automating forms and processes, enhancing data extraction, validation, and decision support, thereby minimizing manual errors and administrative workload.

As DFAS continues to innovate, it prioritizes efforts to support the organization's goal of achieving a clean audit opinion by FY 2028. This forward-looking commitment ensures that AI will remain a key driver in advancing transparency, efficiency, and accountability in federal financial management.

Enhance Performance



The Enhance Performance priority focuses on achieving cost, schedule, and performance targets through the delivery of efficient value-added services.

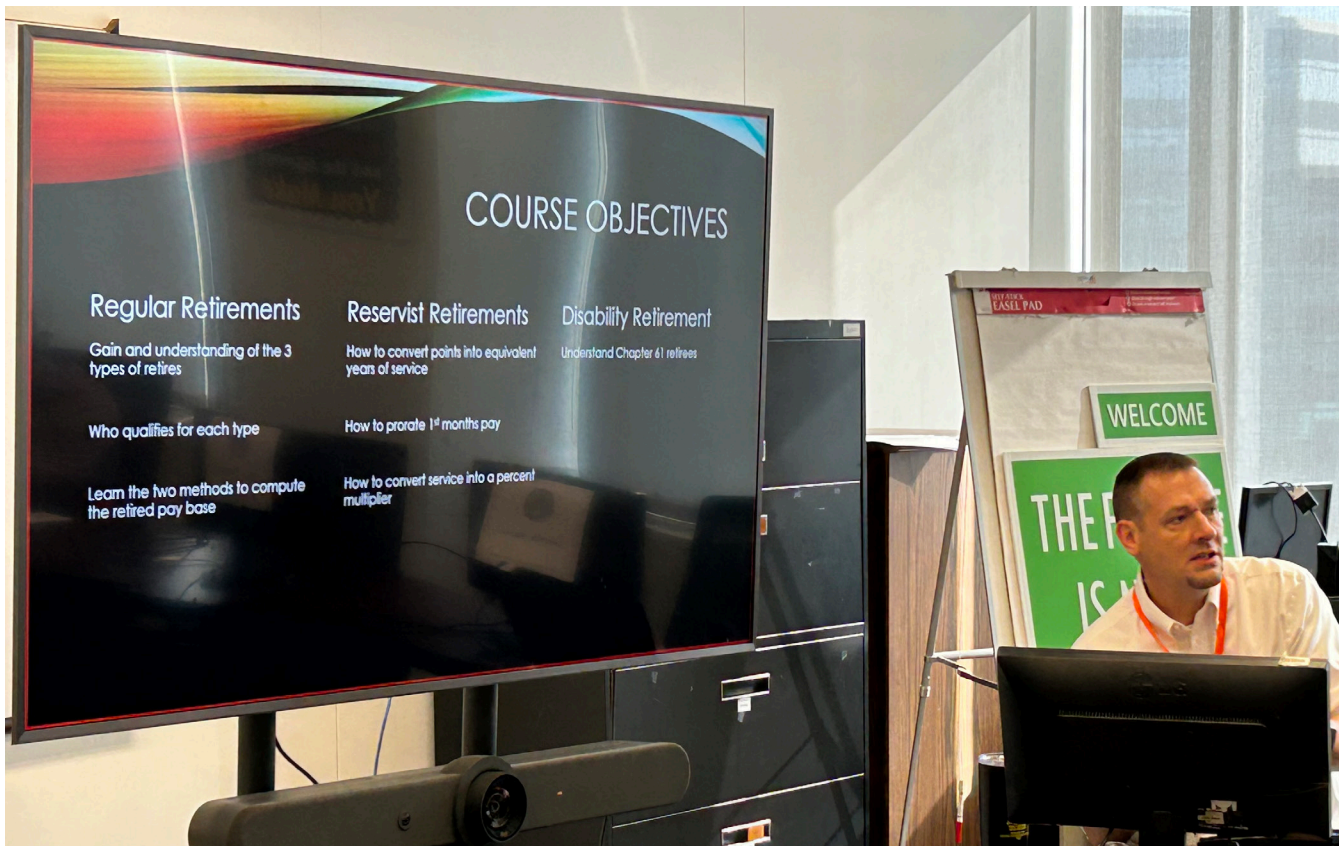
DFAS's continuous performance improvements deliver increasing value while maximizing the impact of every dollar, recognizing the importance of responsible stewardship. For example, the Advana Improper Payment Detection initiative enhances efficiency and strengthens payment controls to detect and prevent fraud. In FY 2025, this tool was expanded to the Navy ERP system, preventing 157 improper payments totaling \$19.2M and improved internal controls, which directly support audit goals.

Conclusion

DFAS leverages its formal, documented strategic plan to focus its efforts, ensuring the agency effectively executes its mission and realizes its future vision. The FY 2022-2026 Strategic Plan provides leaders with a reliable framework for achieving the agency's defined objectives. While structured, the plan also affords initiative owners the flexibility to adapt to evolving business environments throughout the five-year cycle. Now beyond the midpoint of the FY 2022-2026 cycle, DFAS's annual accomplishments demonstrate significant progress toward its overarching goals. Achieving these strategic goals enables DFAS to support key DoD efforts outlined in the Financial Management Strategy and the National Defense Strategy, while simultaneously enhancing value for its customers through collaborative partnerships across the Department.



DFAS Japan employees, with representatives from the Air Force, Army, Marine Corps, Navy, DoD Inspector General, and General Services Administration, participated in the Joint Contract Support Board hosted by the 374th Contracting Squadron at Yokota Air Base in Tokyo, Japan, May 2025. (Photo taken by MSgt. Randall C. Kylllo, 374th Contracting Squadron, US Air Force)



Retiree and Annuitant Pay Training Specialist Doug Stenger guides new employees through the onboarding process at DFAS Cleveland, July 29, 2025. (Photo taken by Sam Ameen, Corporate Communications)

THE FOCUS ON AUDIT





With the Department's goal of achieving an unmodified audit opinion by the end of 2028, all military services and defense agencies are focused on the cleanup of their individual entity controls and past audit findings. DFAS, while no exception to this rule, has a history of success that makes them uniquely postured to support the DoD in meeting this milestone from both an entity and service provider perspective.

DFAS: THE ENTITY

This year, DFAS is celebrating its 26th consecutive unmodified financial statement audit opinion. The audit of DFAS's financial statements was conducted by Williams Adley & Company; their full audit report can be found later in this document.

Continued Success

Any successful audit requires a combination of functional skill and robust communication and collaboration. DFAS has a strong commitment to both of these pillars. Our dedicated Audit Support Team ensures continuity from one year to the next, establishing and documenting precedent and agreed upon procedures that can be applied and adapted as our environment changes.

In FY 2025, DFAS hosted four comprehensive process walkthroughs as part of our internal control audit. These walkthroughs help the IPA achieve the understanding necessary to build their audit procedures and target their control testing appropriately. In total, DFAS fulfilled nearly 250 requests, including 647 samples spanning 23 unique categories. Of those 647 samples, we achieved a 10% exception rate (as compared to 15.4% in FY 2024).

Improvement Initiatives

On top of the day-to-day operations of audit management, our Audit Support Team also led multiple FY 2025 initiatives to address audit concerns identified in the FY 2024 audit and prior. The outcomes of these additional controls will help alleviate auditors' prior concerns and position us for better audit outcomes in the coming years.

The lone management comment level Notice of Findings and Recommendation (NFR) DFAS received in FY 2024 was in relation to Property, Plant, and Equipment (PP&E) management. Using a combination of floor to book, book to floor, and documentation sampling, the IPA concluded that DFAS did not have sufficient controls in place for managing physical location of in-use assets or the disposal of retired assets. While our results in these categories were improved from previous years, we still had some targeted work to do to fully clear the NFR. Our PP&E division and Audit Support Team worked in lock step to develop corrective action plans (CAPs) to address the NFR recommendations. We enhanced and developed internal policies and procedures to directly address auditor concerns and tested their effectiveness with a rigorous internal audit. This internal audit consisted of 304 book to floor physical asset samples, 86 floor to book samples, and 30 disposal samples spanning across all DFAS sites. This internal audit mimicked the testing procedures typically performed annually by the IPA, and it revealed that our CAPs were effective. As a result, we identified a 15% improvement in book to floor testing and a 50% improvement in floor to book testing when compared to FY 2024. This internal audit also allowed for us to refine our audit procedures for preparing, reviewing and demonstrating our PP&E sample testing processes and procedures. These improvements were validated by the auditor testing in FY 2025, where we experienced a PP&E exception rate improvement of 16%, reducing our exception rate from 40% to 24% with the majority of the exceptions identified to older PP&E assets that were not included in our CAPs. As a result, the auditors have communicated they will close the FY 2024 NFR, and issue a new management comment NFR with more specific recommendations related to PP&E management. DFAS will apply the proven standard processes and controls to the older PP&E assets in FY 2026 to address the expected management comment NFR.

DFAS audit success is reliant on continuous improvement, taking official and unofficial feedback from prior year audits. As an example, we self-identified Accounts Payable (AP) and Undelivered Orders (UDO) as a potential audit risk area going into FY 2025. We have had a long-standing AP and UDO internal control program, also known as Supplemental Review and Financial Document Testing. This program has been in practice for several years, and it was designed to mirror IPA sample testing. As part of this quarterly program, we sample a self-identified number of samples each reporting period. When exceptions are identified, a DFAS team works the corrective action within the accounting system and ensures proper documentation and preparedness for official audit testing. For FY 2024, auditor concerns mainly focused on controls within the tool used for tracking the AP and UDO documents. For FY 2025, we implemented new controls in a new Power Application to eliminate data inconsistencies and processing errors that resulted in exceptions in prior year audits. Based on the results, the auditors were able to rely upon controls for this process reducing the number of samples reviewed.

Another special project introduced in FY 2025 was the addition of weekly touchpoints for the entire DFAS Financial Management community. During the FY 2024 audit, we took note of document types and transaction categories that caused common audit exceptions (both in internal and external audits). We coupled this with feedback from DFAS Financial Managers to host weekly sessions, each dedicated to a specific risk area. Each session had a subject matter expert presenting best practices to an audience that ranged between 100 and 200 attendees depending on the topic. Feedback from these sessions was overwhelmingly positive, resulting in greater consistency in document processing across organizations, decreased audit exceptions, and increased employee efficiency.

DFAS: THE SERVICE PROVIDER

DFAS is dedicated to delivering first-class service and products to our customers. We understand the important financial responsibilities entrusted to us by the American taxpayer with a steadfast focus on supporting the men and women who defend our great Nation.

As a valued service provider, DFAS plays an integral role in audit by providing finance and accounting services to the Army, Navy, Air Force, Marine Corps, Space Force and all the Defense Agencies. This role includes:

- preparing process maps
- conducting walkthroughs
- documenting internal controls
- providing supporting documentation
- creating and performing reconciliations
- conducting internal audit testing
- implementing customer Corrective Action Plans (CAPs)
- addressing Notices of Findings and Recommendations (NFRs)

To understand the scope of our business, DFAS actively supports 27 financial statement audits. This includes 26 stand-alone audits and one DoD Agency-Wide Consolidated audit. In total of these audits, there were 174 NFRs from the FY 2024 audit supported by 130 DFAS owned CAPs. So far, DFAS has closed 2 NFRs from FY 2024. Our current actual FY 2024 NFR closure rate is 4% with a projected closure rate of 14%.

DFAS places a strong emphasis on auditor-client relationships to ensure continuous communication and guarantee mutual efforts toward achieving audit goals. Throughout the Agency, there are audit support teams dedicated to each customer. Their focus is to maintain relationships, ensure milestones are met, and to make certain both parties receive what they need by providing the right information within the established timeframe. These valued partnerships continue to increase efficiencies and enhance outcomes. Since the beginning of this year, our audit support offices have performed more than 1,500 auditor walk-

throughs while fulfilling more than 10,000 auditor requests with more than 84,000 pieces of key supporting documentation at a timeliness rate of 98%.

The Path to 2028

The Secretary of War reaffirmed the Department's commitment in June 2025 to achieving an unmodified ("clean") financial statement audit opinion by December 31, 2028, as mandated by the National Defense Authorization Act. This achievement is critical to demonstrating the DoD's responsible stewardship of resources, maintaining public trust, and ensuring the effective equipping of our warfighters. DFAS plays a central role in DoD's audit readiness efforts, managing 41% of DoD's SOC 1s, supporting 26 standalone audits and the Consolidated Audit. DFAS also implements critical controls, leverages technological efficiencies, and produces the DoD's financial statements. Addressing material weaknesses related to Fund Balance with Treasury (FBWT) is essential to achieving the 2028 unmodified audit opinion

Fund Balance with Treasury

In FY 2020, DFAS was designated as the DoD lead for FBWT material weakness downgrade. Since that time, DFAS has been instrumental in driving progress. Leveraging its unique position as a service provider, DFAS employs a structured approach. First, DFAS identifies common risks and findings from audits to establish DoD-wide innovative solutions. Next, DFAS establishes baselines and tracks progress against key performance indicators. DFAS also identifies solutions through data cleansing, leveraging industry partnerships, improving controls, preventing recurrence, and promoting cross-component replication. Data visualization tools and reports facilitate communication of progress, inform prioritization, support decision-making, and sustain leadership engagement. Finally, solutions are documented, and support is provided through audit walkthroughs, information requests, and testing to validate findings or inform future focus areas.

By the end of FY 2025, these efforts are projected to result in the downgrade and/or removal of all Military entity FBWT Material Weaknesses and all but two Defense Agencies (undergoing standalone audits). This represents a downgrade and/or full elimination of FBWT Material Weaknesses for 99.4% of FBWT across DoD entities undergoing standalone audits.

Risk Management and Internal Controls

To mature our Risk Management and Internal Controls (RMIC) environment, DFAS sustained and adapted additional capabilities of the Enterprise Risk Management Toolset (ERM Toolset). The ERM Toolset is used by DFAS to document, assess and test business processes, controls, system controls, FFIA assessments, internal review workflows and internally identified deficiency reports and corrective action plans. DFAS expanded utility of the ERM Toolset to strengthen its RMIC program, enabling rapid agency-wide responses for improved fraud scheme identification and assessment; ICOFR designation data retrieval for Micro-Applications, Bots, and AI software; as data source supporting RMIC Agency Operational Health metrics; and supporting the DFAS Statement of Assurance and external auditor requests via a single source.

In addition, DFAS' RMIC program in conjunction with the Senior Assessment Team (SAT) have taken a targeted action to review any deficiencies that include 'supporting documentation' within the root cause of the deficiency or corrective action. This action is intended to improve audit results and general performance of controls, by identifying areas where DFAS can make improvements that prevent deficiencies from occurring, reducing annual deficiency counts, and reducing the costs of corrective plans that otherwise may be avoidable.

Customer Audit Opinions

As a service provider, in FY 2025, DFAS assisted the Defense Information System Agency (DISA) Working Capital Fund in obtaining its 6th consecutive unmodified audit opinion. By proactively implementing corrective action plans to meet audit remediation timelines, we also provided

support to achieve unmodified audit opinions for our Defense Commissary Agency (DeCA), Defense Contract Audit Agency (DCAA), and Defense for Health Affairs – Contract Resource Management (DHP-CRM) customers. For the second consecutive year, the United States Marine Corps (USMC) received an unmodified audit opinion for the FY 2024 audit in FY 2025. Further, in FY 2025, the Defense Logistics Agency National Defense Stockpile Transaction Fund (DLA NDSTF) was issued its first unmodified audit opinion for the FY 2024 audit.

Alongside our customers, DFAS also celebrated the sustainment of the 33rd unmodified opinion for the Military Retirement Fund (MRF). Additionally, the 23rd consecutive qualified opinion for the Medicare-Eligible Retiree Health Care Fund (MERHCF) was obtained. These two trust funds make up a significant portion of the investment portfolio for the DoD.

Through all of these successes, we realize there are no small achievements, and audit is not a one-size fits all approach.

SOC 1® Reports

System and Organization Control reports, more commonly known as a SOC 1 reports, also represent significant successes of the audit. These are examinations of key processes and internal controls that are common across multiple customers. DFAS engages in Type 2 SOC 1 reports with multiple IPAs. Through the course of Type 2 examinations, the IPAs opine on both the design of DFAS controls and the operating effectiveness of those controls in the DFAS environment. The results of a SOC 1 examination can assist component auditors in gaining assurance over the control environment of DFAS services provided to our customers and reduce duplicative audit workload.

Results of DFAS SOC 1 Reports											
Assessable Unit	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	
Civilian Pay Service IPA: Williams Adley Inaugural Year: FY05	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	
Military Pay Service IPA: Ernst & Young Inaugural Year: FY13	Modified, Qualified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Modified, Qualified	Modified, Qualified	Modified, Qualified	
Standard Disbursing Service IPA: Williams Adley Inaugural Year: FY13	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	
Contract Pay Service IPA: KPMG Inaugural Year: FY14	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	
Financial Reporting Service IPA: Kearney & Co Inaugural Year: FY14	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	
Defense Cash Accountability System (DCAS) IPA: KPMG Inaugural Year: FY16	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Unmodified	Unmodified	
Vendor Pay Service IPA: Kearney & Co Inaugural Year: FY17	CAPS-W	Unmodified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Unmodified	Modified, Qualified	Unmodified	Unmodified
	DAI				Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Adverse	Unmodified	Unmodified
	One Pay				Modified, Qualified	Unmodified	Unmodified	Unmodified	Modified, Qualified	Unmodified	Unmodified
	Navy ERP								Unmodified	Unmodified	Unmodified
	IAPS				Modified, Qualified	Modified, Qualified	Unmodified	Unmodified	Modified, Qualified	Unmodified	Unmodified
	DEAMS								Modified, Qualified	Unmodified	Unmodified
	GFEBs				Modified, Qualified	Unmodified	Modified, Qualified	Unmodified	Modified, Qualified	Unmodified	Unmodified
ELAN Hosting Service IPA: KPMG			Modified, Qualified	Unmodified	Modified, Qualified	Unmodified	Modified, Qualified	Unmodified			

Figure 1—Statement on Standards for Attestation Engagements (SSAE) Number 18 Results, FY 2016-2025. Overseen by the American Institute of Certified Public Accountants (AICPA), SSAE18 governs the way organizations report on their various compliance controls.

In FY 2025, DFAS maintained nine unmodified SOC 1 opinions, including Civilian Pay, Contract Pay, Disbursing, DCAS, and Vendor Pay. This achievement maintains DFAS's FY 2024 success of just over 81% of SOC 1s achieving unmodified opinions and 100% favorable opinions. The Civilian Pay and Disbursing SOC 1 reports both received their 13th consecutive unmodified opinion, and the Contract Pay SOC 1 received its 12th consecutive unmodified opinion.

As we look toward the future, our goal is to safeguard existing unmodified opinions and upgrade qualified opinions through the implementation of additional procedures and best practices.

System Access Controls

Once again, DFAS directly supported the Department's Audit Priorities to Strengthen Internal Control Environment through the adoption of an Identity, Credential, and Access Management (ICAM) solution. DFAS continued to

make significant strides this year in completing ICAM interim milestones and on-boarding systems on the Enterprise ICAM (E-ICAM) solution, creating a more robust and efficient access control environment for our employees, and the military and civilian customers DFAS supports.

During the fiscal year, DFAS completed 147 out of 155 (95%) ICAM application interim milestones on-time, exceeding the Department's Audit Priority metric target of 90%. The ICAM application interim milestones provide a glide path to adopting the ICAM solution and ensures the system will fully benefit from E-ICAM's audit offerings. Additionally, DFAS successfully on-boarded 12 out of 12 (100%) Internal Controls over Financial – Reporting (ICOFR) systems onto ICAM on-time, exceeding SECWAR Audit Priority metric target of 90%. The benefits of on-boarding to the E-ICAM solution include, but not limited to, a DoD standard and approved System Access Authorization Request workflow process, within system segregation of duties prevention, and an approved Identity Provider (IdP).

Lastly, DFAS completed 32 out of 35 cross application segregation of duty (SOD) templates. Cross application SOD templates are a critical milestone in downgrading the DoD SOD material weakness.

In addition to implementing modernized technology improvements for system access controls, we are dedicated to improving current processes. DFAS made significant progress in reducing prior year DFAS SOC 1 Information Technology (IT) Notice of Finding and Recommendations (NFRs) and prevented repeat NFRs by a remarkable 75%, from 24 down to 6 between FY 2023 and FY 2024. Overall, DFAS IT NFRs decreased by 15% between FY23 and FY24, which is a direct result of partnership with stakeholders throughout the audit period. Further reductions upon completion of the FY 2025 audit cycle are anticipated.

Looking Ahead

As we look ahead into FY 2026 and beyond, DFAS will maintain its steadfast focus of supporting the downgrade of the DoD FBWT material weakness while driving efforts toward a clean opinion for the Department and sustaining the clean audit opinion for DFAS. We recognize that there is still much work to be done, but the dedicated workforce at DFAS has proven successful at managing evolving priorities and is committed to delivering excellence.



President of the United States Donald J. Trump administers the oath of enlistment to Soldiers from around the country who are enlisting and reenlisting in Washington, D.C., June 14, 2025. During the day, the Army presented a full, interactive display on the National Mall, transitioning to a parade showcasing the history of the Army, flyovers, and a Golden Knights parachute demonstration at the White House ellipse. The day ended with a concert and fireworks display. (U.S. Army photo by Bernardo Fuller)



War Secretary Pete Hegseth and Chairman of the Joint Chiefs of Staff Air Force Gen. Dan Caine participate in a press briefing at the Pentagon, June 22, 2025. (Photo by Navy Petty Officer 1st Class Alexander Kubitzka, DoD)

MANAGEMENT ASSURANCES





DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

MEMORANDUM FOR THE OFFICE OF THE UNDER SECRETARY OF WAR
(COMPTROLLER) (OUSW(C)) DEPUTY CHIEF FINANCIAL OFFICER (DCFO)

SUBJECT: Annual Statement of Assurance (SoA) Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2025

As the Acting Director of the Defense Finance and Accounting Service (DFAS), I recognize DFAS is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. Our SoA provides specific information on how the assessment of internal controls was conducted in accordance with the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and the Government Accountability Office (GAO) Green Book, GAO-14-704G, Standards for Internal Control in the Federal Government. Based on the results of the assessment, DFAS can provide assurance that internal controls over operations, reporting, and compliance are operating effectively, with the exception of one material weakness in Financial Reporting related to the Agency's service provider operations as of September 30, 2025.

DFAS conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around Security Assistance Accounts (SAA) activities. I am able to provide assurance that internal controls over DFAS' operations and compliance are operating effectively, with the exception of one material weakness in Financial Reporting related to the Agency's service provider operations.

DFAS conducted its assessment of the effectiveness of internal controls over reporting, including internal and external financial reporting, in accordance with OMB Circular No. A-123, Appendix A. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on this assessment, I am able to provide reasonable assurance that internal controls over reporting, including internal and external reporting, and compliance are operating effectively.

DFAS conducted an internal review of the effectiveness of internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on the results of this evaluation, I am able to provide reasonable assurance that internal controls over financial systems are in compliance with FMFIA, Section 4, Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D.

DFAS also conducted an assessment of entity level controls including fraud controls in accordance with the GAO Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. The “*Internal Control Evaluation (TAB A)*” section and the “*Assessment of Entity Level Controls (TAB B)*” section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on the results of this assessment, I am able to provide reasonable assurance that entity-level controls including fraud controls are operating effectively.

DFAS is hereby reporting that no Anti-Deficiency Act (ADA) violation has been identified during our assessments of the applicable processes. DFAS demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority.

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Jonathan Witter
Acting Director



NASA astronaut and Space Force Col. Nick Hague is helped out of a SpaceX Dragon spacecraft onboard the SpaceX recovery ship MEGAN after he, fellow astronauts Suni Williams and Butch Wilmore, and Roscosmos cosmonaut Aleksandr Gorbunov landed in the water off the coast of Tallahassee, Fla., March 18, 2025. Hague's flight marked a significant moment in the history of the Space Force, as he became the first active-duty Guardian to fly to space and one of the first humans to launch from Space Launch Complex 40 at Cape Canaveral Space Force Station, Fla. (U.S. Air Force photo courtesy of NASA by Keegan Barber)



Support teams work around a SpaceX Dragon spacecraft shortly after it landed in the water off the coast of Tallahassee, Fla., March 18, 2025. Hague's flight marked a significant moment in the history of the Space Force, as he became the first active-duty Guardian to fly to space and one of the first humans to launch from Space Launch Complex 40 at Cape Canaveral Space Force Station, Fla. He traveled 72,553,920 miles during his mission, spent 171 days in space, and completed 2,736 orbits around Earth. Hague has logged 374 days in space over his two missions. (U.S. Air Force photo courtesy of NASA by Keegan Barber)

COMPLIANCE AND REGULATIONS



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 2025. 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, 2025, 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.

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 2025, DFAS has 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 \$19,600 of Prompt Payment Interest penalties during FY 2025.

Improper Payments Elimination and Recovery Improvement 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.

Government Invoicing (GINV)

The Secretary of the Treasury mandated G-Invoicing under 31 U.S.C. 3512(b) and 3513 outline the responsibilities of the U.S. Department of the Treasury regarding financial management and reporting for the Federal government. Specifically, 31 U.S.C. 3512(b) addresses the requirements for executive agency financial management systems, while 31 U.S.C. 3513 focuses on the Secretary of the Treasury's role in financial reporting and accounting for the entire government. Treasury Financial Management Volume 1, Part 2, Chapter 4700, Appendix 8. DFAS is compliant and received the first G-Invoicing order in fiscal year 2023.

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FINANCIAL DISCUSSION AND ANALYSIS





Pamela Franceschi, Defense Finance and Accounting Services Columbus director, talks to U.S. Air Force Col. Anthony Smith, Joint Base McGuire-Dix-Lakehurst commander and 87th Air Base Wing commander, during an induction brief at JB MDL, N.J., Dec. 3, 2024. DFAS operates under three core values, integrity, service and innovation to support military service and civilian employees. (U.S. Air Force photo by Senior Airman Aidan Thompson. Note: Mrs. Franceschi retired June 27, 2025.)



All German-American Defense Finance Exchange attendees gathered outside the Duetsche Bundesbank October 25, 2024. (Photo by Hunter Creasy, DFAS Europe)

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. 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 and utilizing a predominantly labor-based expense structure, fluctuations in customer demand for services have a direct and significant effect on DFAS's financial performance.

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 Year Ended September 30	2025
Net Cost of Operations	\$ 236,952,344
Net Position	\$ 149,678,332

Financial Statement Analysis

DFAS 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 to manage the DFAS-WCF unobligated balance. The Office of the Under Secretary of Defense, (Comptroller) (OUSDC) and the Office of Management and Budget (OMB) 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 to evaluate the performance of the organization.

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:

1. Balance Sheets
2. Statements of Net Cost
3. Statements of Changes in Net Position
4. Statements of Budgetary Resources

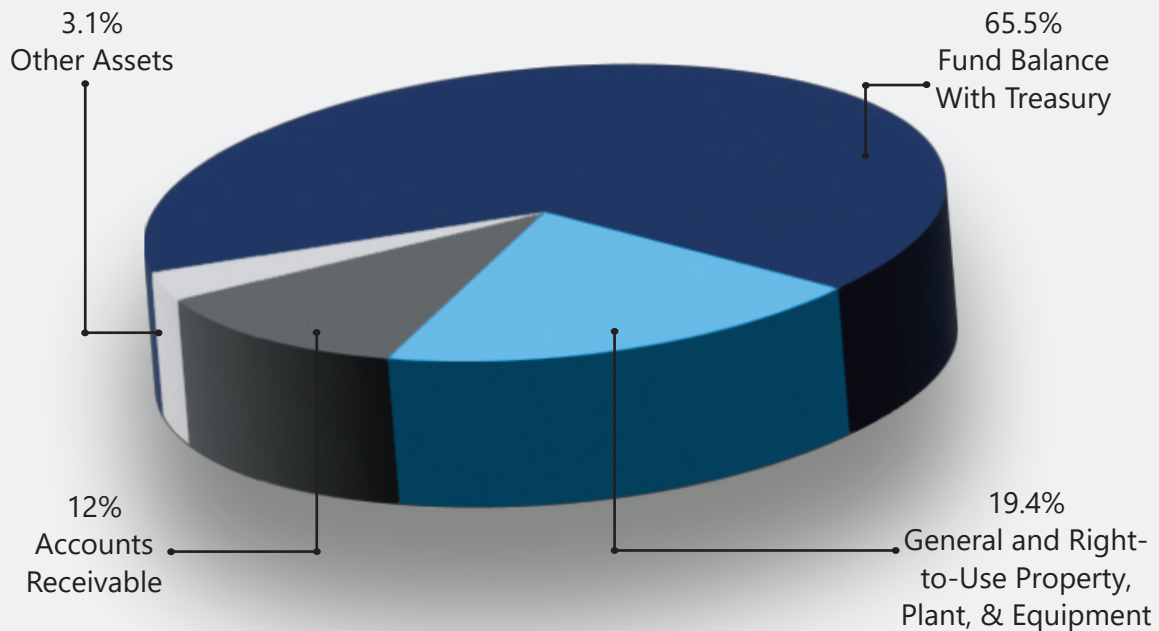
The financial statements and notes are prepared in accordance with federal accounting standards using generally accepted accounting principles and audited by our independent auditor Williams, Adley & Company-DC, LLP.

Balance Sheet

The Balance Sheet reflects DFAS's financial position as of September 30, 2025, 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 Balance Sheet as of September 30, 2025.

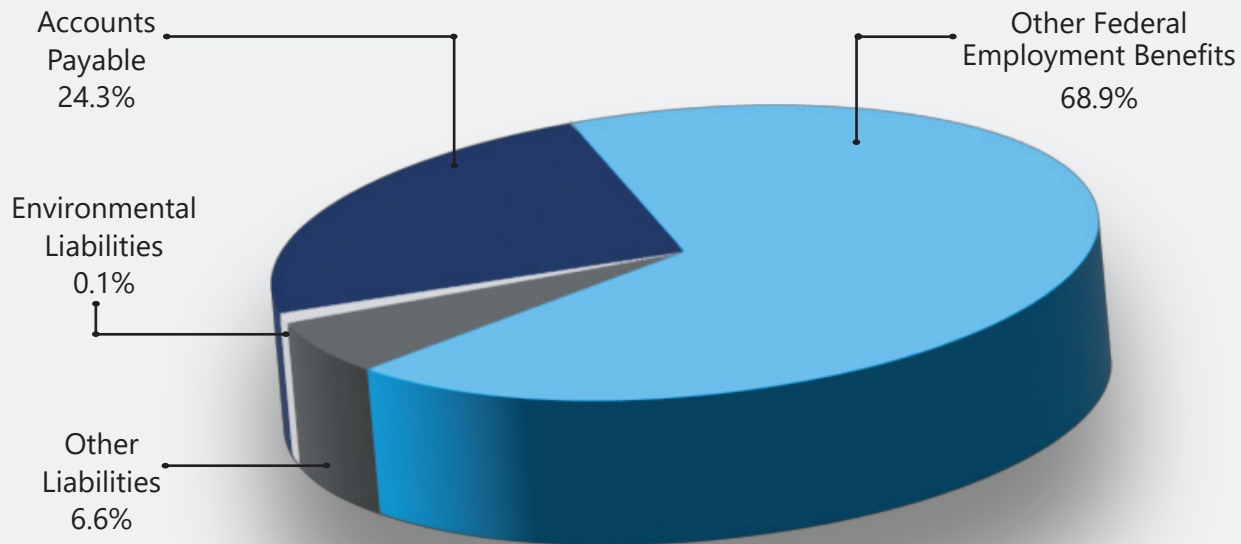
As of September 30	2025
Assets	\$ 336,469,854
Liabilities	186,791,522
Net Position	\$ 149,678,332

Composition of Assets



Total DFAS Assets of \$336.5 million on September 30, 2025, consisted primarily of \$220.5 million in Fund Balance with Treasury (FBWT), \$40.5 million in Accounts Receivable, and \$65.2 million in General and Right-to-Use Property, Plant, and Equipment (Net).

Composition of Liabilities



Total Liabilities of \$186.8 million as of September 30, 2025, primarily consists of Other Federal Employment Benefits for \$128.8 million and Accounts Payable for \$45.3 million.

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operations for DFAS. The net cost of DFAS’s 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.

As of September 30	2025
Gross Costs	\$ 1,803,899,403
Less: Earned Revenue	(1,566,947,059)
Net Cost of Operations	\$ 236,952,344

The major expenses for DFAS are primarily related to payroll and payroll benefits, which account for approximately 71.4% of the agency’s total costs. This category includes salaries for civilian DFAS employees, associated benefits such as health insurance, retirement contributions, leave, and other employee entitlements. DFAS is a labor-intensive organization focused on financial management, payroll-related expenses represent the largest portion of its budget. The remaining 28.6% of costs are typically allocated to operational expenses, technology infrastructure, facilities, and support services necessary to carry out the agency’s mission. The detailed expenses are summarized on the next page.

Statement of Net Cost, Continued

Gross Costs by Category	2025
Payroll Expense	\$ 927,281,298
Employee Benefits Expense	361,494,849
Contractor Services	211,286,858
Imputed Costs	154,318,837
Equipment Expense	114,305,133
Lease & Office Expenses	19,820,801
Depreciation & Amortization	10,777,862
Travel Expense	2,764,664
Other Expenses	(1,772,631)
Miscellaneous Supplies and Materials	976,790
Losses on Disposition of Assets	2,405,938
Other Losses	80,841
PPA Interest Expense	159,590
Bad Debt Expenses	(1,427)
Total	\$ 1,803,899,403

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's behalf.

As of September 30	2025	
Beginning Balance	\$	232,274,989
Total Financing Sources		154,355,687
Less: Net Cost of Operations		(236,952,344)
<hr/>		
Cumulative Results of Operations	\$	149,678,332

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2025, 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's budgetary resources are generated by collecting funds from customers in exchange for providing accounting and financial services.

Fiscal Year Ended September 30	2025
Gross Outlays	\$ 1,650,260,566
Less Actual Offsetting Collections	(1,652,312,221)
Net Outlays	\$ (2,051,655)

SECTION II

FINANCIALS

**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS**

**MANAGEMENT'S RESPONSE TO THE
INDEPENDENT AUDITOR'S REPORT**

SINGLE YEAR FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Soldiers assigned to Task Force Night Hawk conduct air movement operations with ground forces at Irbil Air Base, Iraq, Feb. 26, 2025. (Photo by Army Staff Sgt. Vincent Levely)



INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS





Independent Auditor's Report

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

In our audit of the fiscal year 2025 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:

- the DFAS WCF's financial statements as of and for the fiscal year ended September 30, 2025, 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 performed¹; and
- no reportable noncompliance for fiscal year 2025 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 single-year presentation, a section on required supplementary information (RSI)² and a section on required other information included with the financial statements³; (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.

Report on the Financial Statements

Opinion

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, we have audited the DFAS WCF's financial statements. The DFAS WCF's financial statements comprise the balance sheet as of September 30, 2025, the related statement of net cost, changes in net position, and budgetary resources for the fiscal year then ended; and the related

¹ A 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.

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

³ Other information consists of the Message from the Director and historical information but does not include the financial statements and our auditor's report thereon.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants/ Management Consultants

1016 16th Street, NW, Unit 400 • Washington, DC 20036 • (202) 371-1397 • Fax: (202) 371-9161

www.williamsadley.com

notes to the financial statements. In our opinion, the DFAS WCF's financial statements present fairly, in all material respects, the DFAS WCF's financial position as of September 30, 2025, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DFAS WCF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter

As discussed in Note 1 – Summary of Significant Accounting Policies to the financial statements, the DFAS WCF implemented revised financial reporting framework as required by OMB Circular A-136, Financial Reporting Requirements, for fiscal year 2025. The revised framework required a single year financial statement presentation of current fiscal year financial data, rather than comparative financial statements as presented in the prior fiscal year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

DFAS WCF management is responsible for:

- the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in the DFAS WCF's Agency Financial Report (AFR), and ensuring the consistency of that information with the audited financial statements and the RSI; and
- designing, implementing, and maintaining effective 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a

substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit 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 DFAS WCF's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

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. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it 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. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our 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

The DFAS WCF's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for the purpose of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in the DFAS WCF's AFR. The other information comprises the Message from the Director and historical information but does not include the

financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of the DFAS WCF’s financial statements, we considered the DFAS WCF’s internal control over financial reporting, consistent with our auditor’s responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies⁴ or to express an opinion on the effectiveness of the DFAS WCF’s internal control over financial reporting. Given these limitations, during our fiscal year 2025 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2025 audit, we identified a deficiency in the DFAS WCF’s internal control over financial reporting that we do not consider to be a material weakness or significant deficiency. Nonetheless, this deficiency warrants DFAS WCF management’s attention. We have communicated this matter to DFAS WCF’s management, separately, in a management letter.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to the DFAS WCF’s internal control over financial reporting in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance⁵.

Responsibilities of Management for Internal Control over Financial Reporting

The DFAS WCF management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for Internal Control over Financial Reporting

⁴ A 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.

⁵ Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, issued on July 29, 2024. According to the guidance, for those controls that have been suitably designed and implemented, the auditor should perform sufficient tests of such controls to conclude on whether the controls are operating effectively (i.e., sufficient tests of controls to support a low level of assessed control risk). OMB audit guidance does not require the auditor to express an opinion on the effectiveness of internal control.

In planning and performing our audit of the DFAS WCF's financial statements as of and for the fiscal year ended September 30, 2025, in accordance with U.S. generally accepted government auditing standards, we considered the DFAS WCF's internal control relevant to the financial statement audit 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 DFAS WCF's internal control over financial reporting. Accordingly, we do not express an opinion on the DFAS WCF's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies 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 affected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that:

- 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
- 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.

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's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the DFAS WCF's 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 the DFAS WCF's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

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 2025 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.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

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

In commenting on a draft of this report, DFAS WCF's management provided a response, which is presented in *Appendix I*. We did not audit DFAS WCF's response and, accordingly, we express no opinion on the response.

Williams, Arley & Company, DC, LLP

Washington, District of Columbia
November 7, 2025

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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 7, 2025

Mr. Kola A. 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 November 3, 2025, regarding the Fiscal Year 2025 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. I am satisfied by the outcome and accept this report on behalf of DFAS.

While I am pleased to see we received an unmodified opinion, I appreciate the suggestions and opportunities for further enhancements. Auditability is a key strategic priority for the Department of War and this result demonstrates DFAS' commitment towards that desired outcome.

Your staff's professionalism and attentiveness while conducting this audit is greatly appreciated. If there are any additional requirements needed for completion, please contact my action officer, Jason Monday, at (667) 894-2312 or james.j.monday.civ@mail.mil.

Sincerely,

A handwritten signature in black ink that reads "Jonathan Witter".

Jonathan Witter
Acting Director

Proudly Serving America's Heroes
www.dfas.mil

SINGLE YEAR FINANCIAL STATEMENTS



BALANCE SHEET

As of September 30, 2025	2025
Assets	
Intragovernmental:	
Fund Balance with Treasury (Note 2)	\$ 220,467,685
Accounts Receivable, Net (Note 3)	40,190,712
Other Assets (Note 5)	2,222,149
Total Intragovernmental	\$ 262,880,546
Other than Intragovernmental:	
Accounts Receivable, Net (Note 3)	\$ 280,507
General and Right-to-Use Property, Plant & Equipment (Note 4)	65,167,241
Other Assets (Note 5)	8,141,560
Total Other than Intragovernmental	\$ 73,589,308
Total Assets	\$ 336,469,854
Liabilities	
Intragovernmental:	
Accounts Payable	\$ 9,428,543
Other Liabilities (Note 9)	11,196,375
Total Intragovernmental	\$ 20,624,918
Other than Intragovernmental:	
Accounts Payable	\$ 35,912,414
Federal Employee Salary, Leave, & Benefits Payable (Note 7)	108,327,443
Veterans, Pensions, and Post Employment Related Payable (Note 7)	20,453,217
Environmental and Disposal Liabilities (Note 8)	248,521
Other Liabilities (Note 9)	1,225,009
Total Other than Intragovernmental	\$ 166,166,604
Total Liabilities	\$ 186,791,522
Commitments and Contingencies (Note 11)	
Net Position	
Cumulative Results of Operations - Other Funds	\$ 149,678,332
Total Net Position	\$ 149,678,332
Total Liabilities and Net Position	\$ 336,469,854

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

STATEMENT OF NET COST

Fiscal Year Ended September 30	2025
Program Costs	
Gross Costs	\$ 1,803,899,403
(Less: Earned Revenue)	(1,566,947,059)
Net Cost of Operations (Note 12)	\$ 236,952,344

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

STATEMENT OF CHANGES IN THE NET POSITION

Fiscal Year Ended September 30	2025
Cumulative Results of Operations	
Beginning Balances	\$ 232,274,989
Imputed financing	154,318,837
Other	36,850
Net Cost of Operations (Note 12)	236,952,344
	<hr/>
Net Change in Cumulative Results of Operations	\$ (82,596,657)
	<hr/>
Net Position	\$ 149,678,332
	<hr/> <hr/>

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

STATEMENT OF BUDGETARY RESOURCES

Fiscal Year Ended September 30	2025
Budgetary Resources	
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	\$ 200,356,101
Contract Authority (discretionary and mandatory)	21,378,017
Spending Authority from offsetting collections (discretionary and mandatory)	1,613,156,266
Total Budgetary Resources	<u>\$ 1,834,890,384</u>
Status of Budgetary Resources	
New obligations and upward adjustments (total)	\$ 1,704,668,271
Unobligated balance, end of year	
Apportioned, unexpired accounts	130,222,113
Unapportioned, unexpired accounts	0
Unexpired unobligated balance, end of year	<u>\$ 130,222,113</u>
Total Budgetary Resources (Note 13)	<u>\$ 1,834,890,384</u>
Outlays, Net:	
Agency Outlays, net (discretionary and mandatory)	<u>\$ (2,051,655)</u>

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

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NOTES TO THE FINANCIAL STATEMENTS



Note 1. Summary of 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) (OUSDC). 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's Chief Financial Officer.

1.B. Basis of Presentation

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

To the extent possible, the financial statements have been prepared from the accounting records of DFAS in accordance with the formats prescribed by Office of Management and Budget (OMB) Circular A 136 to include recent changes from comparative to singular year presentation, Financial Reporting Requirements, and with U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

1.C. Basis of Accounting

DFAS's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from feeder systems and accruals made for

major items such as payroll expenses, accounts payable, and environmental liabilities.

Financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

1.D. Accounting for Intragovernmental Activities

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the federal government. Costs and earned revenues with the public represent transactions made between the reporting entity and a nonfederal 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, “Federal Entity 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.E. Fund Balance with Treasury (FBWT)

DFAS’s monetary financial resources of collections and disbursements are maintained in U.S. Treasury (Treasury) accounts. The disbursing offices of DFAS process the majority of DFAS’s 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.

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. DFAS does not have a separate FBWT account. Instead, the Treasury maintains an account for DFAS's collection and disbursement activities.

On a monthly basis, DFAS's 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's operations are recorded in the financial records during the fiscal year.

For additional information, see Note 2, *Fund Balance with Treasury*.

1.F. 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 aged 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.

For additional information, see Note 3, *Accounts Receivable, Net*.

1.G. General and Right-to-Use Property, Plant, & Equipment (PP&E)

DFAS capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General and Right-to-Use PP&E (leases), whether or not they meet the definition of any other PP&E category.

General and Right-to-Use PP&E is carried at historical acquisition cost plus capitalized improvements. General PP&E, including real property, is 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. Right-to-Use PP&E, which is related to non-federal leases, are amortized over the life of the lease including the optional extension based upon policy and not estimated useful lives.

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 and Right-to-Use 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 and Right-to-Use PP&E on their Balance Sheet.

For additional information, see Note 4, *General and Right-to-Use PP&E, Net* and Note 10, *General and Right-to-Use Leases*.

1.H. 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 implemented 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 and prepayments 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, and 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 U.S. 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.

For additional information, see Note 5, *Other Assets*.

1.I. Leases

SFFAS 54 states, when a lease substantially transfers all the benefits and risks of ownership to the entity, the entity records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The entity records the asset and liability at the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor). The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The agency, as the lessee, receives the use and possession of leased property (e.g., facilities or equipment) from a lessor in exchange for payments of funds.

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, Reporting Entity whereby

one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

A right-to-use lease asset deemed "operating leases" for budgetary treatment does not substantially transfer all the benefits and risks of ownership to the Department. Leases that do not fit the requirements of right-to-use are expensed appropriately.

For additional information, see Note 10, *General and Right-to-Use Leases*.

1.J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DFAS absent proper budget authority. Liabilities covered by budgetary resources are funded by the current budget year for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example, future environmental cleanup liability, represent amounts owed in excess of available obligations.

For additional information, see Note 6, *Liabilities Not Covered by Budgetary Resources*.

1.K. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of DFAS's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service.

For additional information, see Note 8, *Environmental and Disposal Liabilities*.

1.L. Commitments and Contingencies

DFAS recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 11, Commitments and Contingencies. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

DFAS does report environmental contingencies separate from legal contingencies. The environmental contingencies are reported in Note 8, Environmental and Disposal Liabilities. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 11, *Commitments and*

Contingencies.

1.M. Federal Employee and Veteran 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 was \$11,028 in FY 2025. The Federal Employees' Group Life Insurance Program (FEGLI) the cost factor was 0.02% in FY 2025. The cost factor for employees covered by the Civil Service Retirement System (CSRS) 59.30% in FY 2025. The cost factor for the Federal Employees Retirement System (FERS) in 26.20% in FY 2025.

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 were \$39.7million for FY 2025. Employees participating in CSRS receive no matching contributions from DFAS.

1.N. 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 DFAS customers through a reimbursable order process. The majority of services rendered by DFAS are provided to the Military Departments and other DoD agencies.

DFAS 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.

The goal of a WCF organization is to breakeven 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 are tracked from inception and requires constant routine monitoring to account for the fluctuating costs of conducting business.

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.O. Recognition of Expenses

For financial reporting purposes, U.S. GAAP requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

1.P. Budgetary Resources

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

The following budgetary terms are commonly used:

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

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

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

Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account,

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

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

transactions with other Government accounts.

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

1.Q. Use of Estimates

DFAS's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates and assumptions in these 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.R. Tax Exempt Status

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

1.S. 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.T. 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.U. 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.V. 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's financial position because of related cost adjustments from vendors.

The total cost adjustments from vendors cannot be reasonably estimated for FY 2025, but management believes the amount is immaterial.

Note 2. Fund Balance with Treasury

As of September 30	2025
Status of Fund Balance with Treasury	
Unobligated Balance:	
Available	\$ 130,222,113
Unavailable	0
Subtotal	\$ 130,222,113
Obligated Balance not yet Disbursed	\$ 241,894,581
Non-FBWT Budgetary Accounts:	
Unfilled Customer Orders without	
Advance	\$ (16,957,316)
Contract Authority	(94,271,394)
Receivables and Other	(40,420,299)
Total Non-FBWT Budgetary Accounts	\$ (151,649,009)
Total FBWT	\$ 220,467,685

The Treasury records cash receipts and disbursements on DFAS's behalf. Funds are available only for the purposes for which they were received. DFAS's Fund Balance with Treasury consists of revolving funds.

The Status of Fund Balance with Treasury (FBWT), as presented in the table above, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations.

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

Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations.

Contract Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted, but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected.

Note 2. Fund Balance with Treasury, continued

Conversely, appropriations received increase FBWT upon receipt of the budget authority. Contract Authority indicates amounts that have 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.

Unfilled Customer Orders Without Advance and Receivables and Other Income Earned provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

The FBWT reported in the financial statements has been adjusted to reflect DFAS's balance as reported by Treasury. The difference between FBWT in DFAS's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in DFAS's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in DFAS's general ledger accounts.

Note 3. Accounts Receivable, Net

As of September 30	2025		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 40,190,712	\$ N/A	\$ 40,190,712
Nonfederal Receivables (From the Public)	287,978	(7,471)	280,507
Total Accounts Receivable	\$ 40,478,690	\$ (7,471)	\$ 40,471,219

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

Note 4. General and Right-to-Use PP&E, Net

As of September 30	2025				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Leasehold Improvements	S/L	Lease term	\$ 147,864,317	\$ (139,890,078)	\$ 7,974,239
Software	S/L	2-5 or 10	91,592,750	(46,045,337)	45,547,413
General Equipment	S/L	Various	34,865,602	(29,263,511)	5,602,091
Right-to-Use Lease	S/L	3.5 Years	1,200,009	0	1,200,009
Construction-in-Progress	N/A	N/A	4,843,489	N/A	4,843,489
Total General PP&E			\$ 280,366,167	\$ (215,198,926)	\$ 65,167,241

Legend for Valuation Methods:

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

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

The total cost of General and Right-to-Use Property, Plant, & Equipment (PP&E) was \$280.4 million on September 30, 2025. Such amounts include Software with a cost of \$91.6 million in 2025. Of those Software amounts, Internal Use Software in Development (IUSD) was \$18.3 million in 2025. IUSD costs are not depreciated until such software has been put in service.

DFAS does have Right-to Use leases as defined by SFFAS 54. See Note 10, *General and Right-to-Use Leases*.

Note 4. General and Right-to-Use PP&E, Net Summary of Activity

As of September 30	2025	
General PP&E, Net beginning of year	\$	60,627,336
Capitalized acquisitions		16,604,536
Dispositions		(2,405,938)
Transfers in/(out) without reimbursement		(80,840)
Right-to-Use Lease		1,200,009
Depreciations expense	\$	(10,777,862)
General PP&E, Net end of year	\$	65,167,241

The amount presented as “dispositions” in the table above consists of losses that occur when an asset with a book value is disposed of or written off.

The amount presented as “reevaluations” in the table above consists of losses that occur when there is a price adjustment for an asset that is capitalized and depreciated.

Note 5. Other Assets

As of September 30	2025
Intragovernmental	
Advances and Prepayments	\$ 2,222,149
Total Intragovernmental	\$ 2,222,149
Other than Intragovernmental	
Advances and Prepayments	\$ 8,141,560
Less: Outstanding Contract Financing Payments	(8,141,560)
Net Other than Intragovernmental	\$ 0.00
Total Other Assets	\$ 2,222,149

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

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

Note 6. Liabilities Not Covered by Budgetary Resources

As of September 30	2025
Intragovernmental Liabilities	
Other	\$ 4,442,100
Total Intragovernmental Liabilities	\$ 4,442,100
Other than Intragovernmental Liabilities	
Other Federal Employment Benefits	\$ 20,453,217
Federal Employee Salary, Leave and Benefits Payable	\$ 3,239,825
Environmental and Disposal Liabilities	\$ 248,521
Total Other than Intragovernmental Liabilities	\$ 23,941,563
Total Liabilities Not Covered by Budgetary Resources	\$ 28,408,663
Total Liabilities Covered by Budgetary Resources	\$ 158,382,859
Total Liabilities	\$ 186,791,522

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 consist of various employee actuarial liabilities not due and payable during the current fiscal year.

Refer to Note 7, *Current and Former Employee and Veterans Benefits Payable* for additional details and disclosures.

Refer to Note 8, *Environmental and Disposal Liabilities* for additional details and disclosures.

Note 7. Current and Former Employee and Veterans Benefits Payable

As of September 30	2025		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	\$ 20,453,217	\$ 0.00	\$ 20,453,217
Other	108,327,443	(105,087,617)	3,239,825
Total Other Benefits	128,780,660	(105,087,617)	23,693,042
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 128,780,660	\$ (105,087,617)	\$ 23,693,042
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	11,196,375	(6,754,275)	4,442,100
Total Other Federal Employee and Veteran Benefits Payable	\$ 139,977,035	\$ (111,841,892)	\$ 28,135,143

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits, better known as the Federal Employees' Compensation Act (FECA). 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's 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 FY 2025 was \$20,453,217. Other benefit-related payables represent the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

Note 8. Environmental and Disposal Liabilities

As of September 30	2025
Environmental Liabilities — Non-Federal	
Other Accrued Environmental Liabilities — Non-BRAC	
Asbestos	\$ 248,521
Total Environmental and Disposal Liabilities	\$ 248,521

Applicable Laws and Regulations for Cleanup Requirements

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

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 to clean up contamination. 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.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

DFAS uses engineering estimates and independently validated models 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.

Note 8. Environmental and Disposal Liabilities, continued

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

DFAS revises estimates resulting 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.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities

Accounting estimates used to calculate the reported 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 investigation of the environmental sites reveals contamination levels differing from estimate parameters.

Note 9. Other Liabilities

As of September 30	2025		
	Current	Noncurrent	Total
Intragovernmental			
Other Liabilities reported on Note 7, <i>Federal Employee and Veterans Benefits Payable</i>	\$ 8,752,235	\$ 2,444,140	\$ 11,196,375
Total Intragovernmental Other Liabilities	\$ 8,752,235	\$ 2,444,140	\$ 11,196,375
Other than Intragovernmental			
Other Liabilities	\$ 25,000	\$ 0	\$ 25,000
Right-to-use lease liability	\$ 1,200,009	\$ 0	\$ 1,200,009
Total Other than Intragovernmental	1,225,009	0	1,225,009
Total Other Liabilities	\$ 9,977,244	\$ 2,444,140	\$ 12,421,384

Note 10. Intragovernmental Leases

As of September 30	2025		
	Asset Category		
	Land and Buildings	Equipment	Total
Federal			
Fiscal Year			
2026	\$ 21,975,211	\$ 490,876	\$ 22,466,087
2027	17,518,398	505,111	18,023,509
2028	7,542,786	519,759	8,062,545
2029	5,331,888	534,833	5,866,721
2030	0	550,343	550,343
After 5 Years	0	566,303	566,303
Total Federal Future Lease Payments	\$ 52,368,283	\$ 3,167,225	\$ 55,535,508

Starting in FY 2024, federal agencies are required to report a right-to-use lease asset and a corresponding lease liability for material non-intragovernmental, non-short-term contracts when the reporting entity has the right to control access to and/or obtain economic benefits from the use of real property, equipment, or other assets. As of September 30, 2025, DFAS now has leases that fall within this category.

DFAS is the lessee on all DFAS leases, all of which are categorized as long-term, intragovernmental leases. Lease expenses are for the rental of facilities and equipment. An intragovernmental long-term lease does not substantially transfer all the benefits and risks of ownership. Payments for long-term intragovernmental leases are expensed over the lease term as they become payable. Future year projections use the Consumer Price Index.

Note 10A. Leases Future Payments Right-to-Use

As of September 30	2025		
	Asset Category		
	Principal	Interest	Total
Federal			
Fiscal Year			
2026	\$ 334,886	\$ 38,069	\$ 372,955
2027	334,886	26,344	361,231
2028	334,886	14,189	349,076
2029	195,350	2,487	197,837
2030	0	0	0
After 5 Years	0	0	0
Total Federal Future Lease Payments	\$ 1,200,009	\$ 81,090	\$ 1,281,099

On September 30, 2025, the Defense Finance and Accounting Service (DFAS) entered into a lease agreement for a warehouse facility with a lease term extending through 2029. The total present value of lease payments was determined to be approximately \$1.2 million. In accordance with the requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 54, Leases, this agreement meets the definition of a non-federal lease with a lease term exceeding 24 months. Therefore, the lease is classified as a right-to-use (RTU) lease asset and corresponding lease liability in DFAS's financial statements.

1. A Right-to-Use asset, representing DFAS's control and economic benefit of the leased property over the lease term; and
2. A corresponding lease liability, representing DFAS's obligation to make future lease payments.

DFAS used the rate of (3.61%) published by U.S. Department of Treasury to calculate the schedule of future lease payments. This rate was used to determine the allocation of each lease payment between principal and interest components over the term of the lease, in accordance with SFFAS 54 requirements for lease accounting and amortization schedules.

Note 11. Commitments and Contingencies

The Defense Finance and Accounting Services accrues contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. If applicable, DFAS would record such contingent liabilities in Note 9, *Other Liabilities*. In the event of an adverse judgement against the Government, some of the liabilities may be payable from the U. S. Treasury Judgement Fund.

DFAS is not aware of any contingent liabilities for legal actions in FY 2025.

Note 12. General Disclosures Related to the Statements of Net Cost

Fiscal Years Ended September 30	2025
Gross Cost	\$ 1,803,899,403
Less: Earned Revenue	(1,566,947,059)
Total Net Costs	\$ 236,952,344

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 implemented 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. 55, "Amending, Inter-entity Cost Provisions."

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 13A. Net Adjustments to Unobligated Balance Brought Forward, October 1

Fiscal Years Ended September 30	2025
Unobligated Balance Brought Forward October 1	\$ 147,986,189
Recoveries of Prior-year Unpaid Obligations	52,369,911

Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 200,356,101

Note 13B. Undelivered Orders

Fiscal Years Ended September 30	2025
Intragovernmental:	
Unpaid	\$ 63,851,956
Prepaid/Advanced	2,222,149
Total Intragovernmental	\$ 66,074,105

Non-Federal:	
Unpaid	\$ 20,630,188
Prepaid/Advanced	8,141,560
Total Non-federal	\$ 28,771,748

Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 94,845,853

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 component 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 (SF-133) at September 30, 2025 is performed. There are no differences between the SBR and the SF-133, Report on Budget Execution and Budgetary Resources & Budget Program and Financing Schedule.

Note 14. Reconciliation of Net Cost of Operations to Net Outlays

As of September 30	2025		
	Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations (SNC)	\$ (968,339,201)	\$ 1,205,291,545	\$ 236,952,344
Components of the Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment depreciation	\$ 0	\$ (10,777,862)	\$ (10,777,862)
Property Plant, and Equipment disposal	0	(2,486,778)	(2,486,778)
Property, Plant, and Equipment	0	0	0
Increase (decrease) in assets:			
Accounts Receivable	(83,953,627)	(1,543,012)	(85,496,639)
Advances and Prepayments	(220,233)	466,757	246,524
Other Assets	0	0	0
(Increase)/decrease in liabilities:			
Accounts Payable	8,293,778	(9,165,680)	871,902
Environmental and Disposable Liabilities	0	0	0
Federal Employee Salary, Leave and Benefits	0	(3,671,017)	(3,671,017)
Veterans, Pension, and Post employment related Benefits	0	2,980,659	2,980,659
Other Liabilities	(1,150,834)		(1,150,834)
Financing sources:			
Imputed Cost	(127,863,375)	0	(154,318,837)
Total Components of Net Cost That Are Not Part of Net Outlays	\$ (231,349,753)	\$ (24,196,667)	\$ (255,571,420)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	\$ 204,616	\$ 16,339,920	\$ 16,604,536
Financing Source: Transfers out (in) without Reimbursement	0	0	0
Total Components of Net Outlays That Are Not Part of Net Cost	\$ 204,616	\$ 16,339,921	\$ 16,604,536
Miscellaneous Items	\$ 0	(36,850)	(36,850)
Net Outlays	\$ (1,199,484,339)	\$ 1,197,432,683	\$ 2,051,655
Agency Outlays, Net, Statement of Budgetary Resources			\$ 2,051,655
Reconciling Differences			\$ 0

SECTION III

OTHER INFORMATION (UNAUDITED)

**SUMMARY OF FINANCIAL STATEMENT AUDIT
AND MANAGEMENT ASSURANCES**

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

NOTES PAGES



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Blessed

Thankful

Grateful

Military Phonetic Alphabet

A	Alpha
B	Baker
C	Charlie
D	Delta
E	Echo
F	Foxtrot
G	Golf
H	Hotel
I	India
J	Juliett
K	Kilo
L	Lima
M	Mike
N	November
O	Oscar
P	Papa
Q	Quebec
R	Romeo
S	Sierra
T	Tango
U	Uniform
V	Victor
W	Whiskey
X	X-ray
Y	Yankee
Z	Zulu

Customer Care Representative Stacey Roser at the DFAS facility in Rome, NY, October 11, 2024. (Photo by Darrell Sydnor - DFAS Corporate Communications)

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES



Table 1. Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
No Material weaknesses	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0

Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Agency's Service Provider Operations	1	0	0	0	0	1
<i>Total Weaknesses</i>	1	0	0	0	0	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Material Weaknesses	0	0	0	0	0	0
<i>Total Weaknesses</i>	0	0	0	0	0	0

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Non-Conformances	0	0	0	0	0	0
<i>Total non-conformances</i>	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

GLOSSARY OF ACRONYMS AND ABBREVIATIONS



Acronym/Abbr.	Description
ADA	Anti-Deficiency Act
Advana	Advancing Analytics
AFR	Agency Financial Report
Agency	Defense Finance and Accounting Service
AI	Artificial Intelligence
AICPA	American Institute of Certified Public Accountants
AOR	Accumulated Operating Results
AP	Accounts Payable
Bot	Robot
CAP	Corrective Action Plan
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFR	Code Federal Regulation
COBOL	Common Business-Oriented Language
CSRS	Civil Service Retirement System
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCMA	Defense Contract Management Agency
DeCA	Defense Commissary Agency
DevSecOps	DFAS Initiated an agency-wide Development Security Operations
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DLA NDSF	Defense Logistics Agency National Defense Stockpile Transition Fund
DoD	Department of Defense
DOL	Department of Labor
DTRA	Defense Threat Reduction Agency
DWCF	Defense Working Capital Fund
ERM	Enterprise Risk Management
E-ICAM	Enterprise ICAM
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FDT	Financial Document Testing
FECA	Federal Employees' Compensation Act

SECTION III: OTHER INFORMATION (UNAUDITED)

Acronym/Abbr.	Description
FEGLI	Federal Employees' Group Life Insurance
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FERS-FRAE	FERS-Further Revised Annuity Employees
FERS-RAE	FERS-Revised Annuity Employees
FFMIA	Federal Financial Management Improvement Act
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
FY	Fiscal Year
GAO	Government Accountability Office
GINV	Government Invoicing
GSA	General Services Administration
ICAM	Identity, Credential, & Access Management
ICAM-APP	Identity, Credential, & Access Management Automated Account Provisioning Internal Controls over Financial Reporting
ICOFR	Internal Controls over Financial Reporting
IPA	Independent Public Accountant
IT	Information Technology
IUSD	Internal Use Software in Development
LLM	Large Language Models
LRM	Large Reasoning Models
MERHCF	Medicare-Eligible Retiree Health Care Fund
MRF	Military Retirement Fund
MRS	Military Retirement System
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendation
NOR	Net Operating Results
OGC	Office of General Counsel
OMB	Office of Management and Budget
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PAR	Policy Audit Review
PP&E	Property, Plant, and Equipment
PPBE	Planning, Programming, Budget, and Execution

Acronym/Abbr.	Description
PII	Personally Identifiable Information
RCRA	Resource Conservation and Recovery Act
RLS	Reduce Legacy Systems
RMIC	Risk Management and Internal Controls
SAA	Security Assistance Accounts
SARA	Superfund Amendments and Reauthorization Act
SBR	Statement of Budgetary Resources
SECWAR	Secretary of War
SFFAS	Statement of Federal Financial Accounting Standards
SAT	Senior Assessment Team
SNC	Statement of Net Cost
SoA	Statement of Assurance
SOC	System and Organization Control
SOD	Statement of Differences
SSAE-18	Standards for Attestation Engagement No. 18
TFM	Treasury Financial Manual
TI	Treasury Index
Treasury	U.S. Department of Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
USMC	United States Marine Corps
U.S. SGL	U.S. Standard General Ledger
UDO	Undelivered Orders
U.S. GAAP	United States Generally Accepted Accounting Principles
WCF	Working Capital Fund

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