DEPARTMENT OF THE AIR FORCE

AGENCY FINANCIAL REPORT *FISCAL YEAR 2025*

TABLE OF CONTENTS

MESSAGE FROM THE SECRETARY OF THE AIR FORCE

21 November 2025

On behalf of our Airmen and Guardians proudly serving in the United States Air Force and Space Force, I am honored to present the Fiscal Year 2025 Agency Financial Report for the Department of the Air Force. This annual report serves as our 'report card' to Congress and the American people, providing an in-depth review of how the Department of the Air Force uses its appropriated funds to support our vital air, space, and cyber missions and achieve our audit objectives.

The Department of the Air Force is entrusted to manage billions of taxpayers' dollars every year and is expected to use those funds in the most efficient and effective ways possible. The President, Congress, and the Secretary of War have made it clear: achieving a clean audit opinion on our financial statements is not just a goal, it is a critical requirement and fundamental benchmark in maintaining public trust, driving operational excellence, improving efficiency, and increasing mission readiness. The Department of the Air Force continues to be a leader among the military departments in the pursuit of a clean audit opinion on the strength of our teams' relentless efforts to enhance our processes and modernize our systems. Audit-inspired corrective actions are improving data across platforms and enhancing decision-making as more accurate, reliable, and transparent financial information is enabling better resource allocation, effective budgeting, and strategic planning.

While we celebrate these achievements, we understand the urgency the administration is placing upon all military departments and agencies to secure a clean audit opinion that will bolster the financial reformation taking place across the government. We must move faster to eliminate our remaining material weaknesses and significant deficiencies (found in the *Analysis of Systems, Controls, and Legal Compliance* section and within the *Reports of the Independent Public Accountant*) and fulfill our obligation to deliver the results that the American public deserves.

To that end, I have directed the Department of the Air Force to intensify audit efforts to meet or beat the Congressionally mandated timeline of obtaining a clean audit opinion. Our strategy calls for a brute force effort from the total force, with every Airman and Guardian—military and civilian alike—prioritizing and executing audit-related activities that will result in fully auditable balance sheets for our Department of the Air Force General Fund and Working Capital Fund and position us for a positive audit opinion.

Operating with a clean audit opinion is more than a compliance exercise, it reflects our unwavering commitment to sound stewardship over entrusted resources, operational discipline, and accountability to the American people. I am proud of the work done by the Department of the Air Force in Fiscal Year 2025, where we yet again demonstrated our capacity to innovate and improve, and am confident that by taking aggressive and decisive action, we will continue making progress in delivering a clean audit opinion.

Troy E. Meink
Secretary of the Air Force

MANAGEMENT'S DISCUSSION AND ANALYSIS

Maj. Joshua Burress, a pilot with the USAF Demonstration Squadron, the Thunderbirds, prepares to be refueled by a KC-135 Stratotanker with the 121st Air Refueling Wing over the skies of Virgina. The Thunderbirds were traveling to the Dayton Air Show in Dayton, OH. —U.S. Air National Guard photo by Staff Sgt. Ivy Thomas

OVERVIEW

A B-1B Lancer assigned to the 34th Expeditionary Bomb Squadron, Ellsworth Air Force Base (AFB), S.D., takes off in support of Bomber Task Force 25-1 at Andersen AFB, Guam. Demonstrating cutting-edge capabilities, forward presence, and commitment to allies and partners communicates the United States' resolve in the Indo-Pacific. —USAF photo by Airman 1st Class Alec Carlberg

The Department of the Air Force (DAF) was established under the *National Security Act of 1947*, becoming one of three military departments within the Department of Defense (DoD). The DAF is comprised of the United States (U.S.) Air Force (USAF) and the U.S. Space Force (USSF). The USAF was created in 1907 as a functional component of the U.S. Army and is the fifth branch of the U.S. Armed Forces. On December 20, 2019, as part of the Fiscal Year (FY) 2020 *National Defense Authorization Act*, the USSF became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. For FY 2025, the USSF is reported as part of the DAF General Fund (GF) financial statements.

As a steward of government resources, the DAF prepares its Agency Financial Report every FY to convey its financial position and performance results to taxpayers. It demonstrates commitment to the DAF's missions, accountability, and stewardship over the resources entrusted to the DAF by members of Congress, the President of the United States, and the public. The report includes the following sections:

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section contains a narrative composed of the overview, missions, and organization of the DAF; a high-level discussion of performance goals, objectives, and results over the past FY; an analysis of the financial statements; and an analysis of systems, controls, and legal compliance. Information for the DAF GF and the DAF Working Capital Fund (WCF) are included within this section.

FINANCIAL SECTION

This section includes a message from the Chief Financial Officer, principal financial statements (Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources), associated notes, Required Supplementary Information, the Report of Independent Auditors, and the Management Response Letter. This information is presented separately for the DAF GF and the DAF WCF. The DAF GF captures core DAF administrative and operational tasks. Comparatively, the DAF WCF captures business-like acquisition and repair activities primarily funded through sales revenue, rather than Congressional appropriations.

OTHER INFORMATION SECTION

The final section is composed of the summary of the financial statement audit and management assurances, the results of the DAF's biennial review of user fees, financial reporting-related legislation, and the glossary of acronyms.

MISSION

The DAF requires the right size and mix of agile capabilities to compete, deter, and win in a more competitive and dangerous international security environment than the U.S. has encountered in generations. As part of the joint force, the combined effort across military departments, the DAF's first responsibility is to integrate air and space capabilities across domains. To ensure continued success in the increasingly complex security environment, the USAF and the USSF have respectively outlined core missions and functions to meet the DAF's mission objectives.

An HH-60G Pave Hawk assigned to the 129th Rescue Squadron, California Air National Guard (ANG), deploys countermeasure flares as an F-15D Eagle from the 144th Fighter Wing, California ANG, maneuvers overhead during a joint over-water test flight, CA. The exercise evaluated the effectiveness of countermeasures in a maritime environment and evaluated the helicopters' defensive capabilities against modern aerial threats. —USAF Courtesy photo

MISSION

Participants of the Chief Initial Mission Command Training load simulated weapons on a mock F-16 Fighting Falcon at Tyndall Air Force Base, FL. Senior leaders participated in loading weapons on the aircraft to reinforce the Mission Ready Airmen concept. —USAF photo by Airman 1st Class Zeeshan Naeem

UNITED STATES AIR FORCE

The USAF's mission statement is: *To fly, fight, and win...airpower anytime, anywhere*. To achieve that mission, the USAF has a vision: *With a Total Force of more than 689,000 personnel, Airmen work to support all aspects of airpower, which includes five core functions: air superiority; global strike; rapid global mobility; intelligence, surveillance, and reconnaissance; and command and control. Airpower also requires people and resources dedicated to unit readiness, base infrastructure, and talent management.*

The USAF consistently executes against five core functions:

AIR SUPERIORITY...*freedom from attack and the freedom to attack*

Air superiority ensures that advantages of the other USAF core missions, and the formidable capabilities of sister services, are broadly available to combatant commanders. It includes the ability to control the air, so that U.S. military forces are not concerned about being attacked, while ensuring that joint forces have the freedom to attack in the air, on the ground, and at sea. Air superiority has provided decades-long asymmetric advantages and is essential to the overall mission.

GLOBAL STRIKE...*any target, any time*

The USAF's nuclear and conventional precision strike forces can deter, credibly threaten, and effectively conduct global strikes by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases within the continental U.S. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in a single combat mission. Global strike missions include a wide range of crisis response and escalation-control options, such as providing close air support to troops at risk, interdicting enemy forces, inserting special operations forces, or targeting an adversary's vital centers. Whether employed from forward bases or enabled by in-flight refueling, a global strike derives from a wide range of systems that include bombers, missiles, special operations platforms, fighters, and other USAF aircraft.

RAPID GLOBAL MOBILITY...*delivery on demand*

American power can be projected quickly to anywhere on the face of the earth because of the USAF's ability to rapidly deploy war fighters and essential equipment at any time. Air mobility sustains operations ranging from major combat to humanitarian relief around the world. Beyond moving cargo and equipment, the USAF's rapid global mobility is linked to unprecedented survival rates because of the highly skilled aeromedical transport teams who swiftly evacuate wounded personnel back to safety. The combination of speed, range, flexibility, and responsiveness is what differentiates air mobility operations from other forms of transport and is critical to multi-modal operations contributing to a higher pace for Joint All-Domain Operations. Mobility forces also provide in-flight refueling, which is a unique USAF capability and the linchpin to joint power projection at intercontinental distances.

MISSION

INTELLIGENCE, SURVEILLANCE, AND RECONNAISSANCE...*eyes and ears on adversaries*

The USAF conducts intelligence, surveillance, and reconnaissance (ISR) missions to analyze, inform, and provide joint force commanders with the knowledge needed to achieve decision advantage. ISR helps maintain deterrence, contain crises, and achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information, the USAF ISR gives policymakers the ability to minimize uncertainty about adversaries and their capabilities. It does so by strengthening deterrence, making adversaries act more cautiously, providing intelligence that gives commanders a decision-making advantage, and delivering real-time information on which joint, interagency, and coalition operations rely on to fight effectively and win. Globally-integrated ISR allows American forces to carry out functions that were previously performed under much greater danger and at a higher cost.

COMMAND AND CONTROL...*total flexibility*

Airmen employ the USAF's other four interdependent and enduring core missions through robust, adaptable, and survivable command and control systems. The USAF provides access to reliable communications and information networks so that the joint force can operate globally at an up-tempo level of intensity. The USAF command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequaled scale and at any time, using centralized command, distributed control, and decentralized execution. The capability to deliver air power is intimately dependent on the ability to operate effectively in cyberspace. This cyberspace arena is where all core missions are conducted and is critical to the USAF's command and control systems. Providing the right information to the right person at the right time is essential to the American war fighting advantage.

Top Photo: Senior Airman Samuel Griego and Airman 1st Class Tavi Carter-Smith, 509th Maintenance Squadron aerospace propulsion journeymen, inspect an exhaust tube in a test cell at Whiteman Air Force Base, MO. USAF aerospace propulsion specialists test aircraft engines and diagnose problems, including the fuel, oil, electrical and engine airflow systems. —USAF Photo by Staff Sgt. Joshua Hastings

Bottom Photo: USAF pararescuemen assigned to the 82nd Expeditionary Rescue Squadron conduct High Altitude Low Open parachute jumps from a C-130 Hercules near Camp Lemonnier, Djibouti. The technique minimizes risk to supplies, equipment or personnel as they are airdropped from high altitudes over enemy air space. —USAF photo by Tech. Sgt. Jana Somero

MISSION

USAF Capt. Ethan Smith, Pacific Air Forces F-16 Demonstration Team commander, salutes his crew chief as he taxis out in an F-16 Fighting Falcon during the team's final flight at Misawa Air Base, Japan. Since 1995, the demonstration team has enhanced U.S. outreach efforts over a span of 30 years with approximately 400 airshows to 24.7 million audience members. —USAF photo by Tech. Sgt. Peter Reft

UNITED STATES SPACE FORCE

The USSF's mission statement is: *Secure our Nation's interests in, from, and to space.* The success of the USSF is dependent on three core functions:

SPACE SUPERIORITY...*defend against space and counterspace threats*

To protect satellites against attacks enabled by adversary satellites, the USSF needs to establish control of the space domain. To do this, the USSF must be able to assure continued use of satellites and deny adversaries use of their satellites or space-enabled space capabilities to protect the nation. Missions that support space superiority include orbital warfare, electromagnetic warfare, and space battle management.

GLOBAL MISSION OPERATIONS...*integrate joint functions across all domains on a global scale*

Through space, the U.S. and its allies can see, communicate, and navigate. Global mission operations protect U.S. forces through early warning of incoming missiles and other types of attacks. The USSF ensures global mission operations to allow the joint force to defend the air, land, and sea. Missions that support global mission operations include missile warning; satellite communications; and positioning, navigation, and timing.

ASSURED SPACE ACCESS...*deploy and sustain equipment in space*

The USSF must be able to deploy and sustain equipment in space including rocket launches and controlling and steering satellites out of harm's way. Assured access to space means that the USSF can continuously launch and conduct space operations around the clock. Missions supporting space access include launch, range, and space domain awareness.

ORGANIZATIONAL STRUCTURE

The Total Force of the DAF consists of 676,190 active duty (including enlisted and officers) Airmen and Guardians, Air National Guard (ANG), Air Force Reserve, and Civilian personnel. This unified strength enables the Total Force to execute a variety of missions with varying requirements—all while operating as one DAF.

FIGURE 1: DAF Total Force

Total	**676,190**
Active Duty Airmen and Guardians	329,104
Civilians	176,501
Air National Guard	105,120
Air Force Reserve	65,465

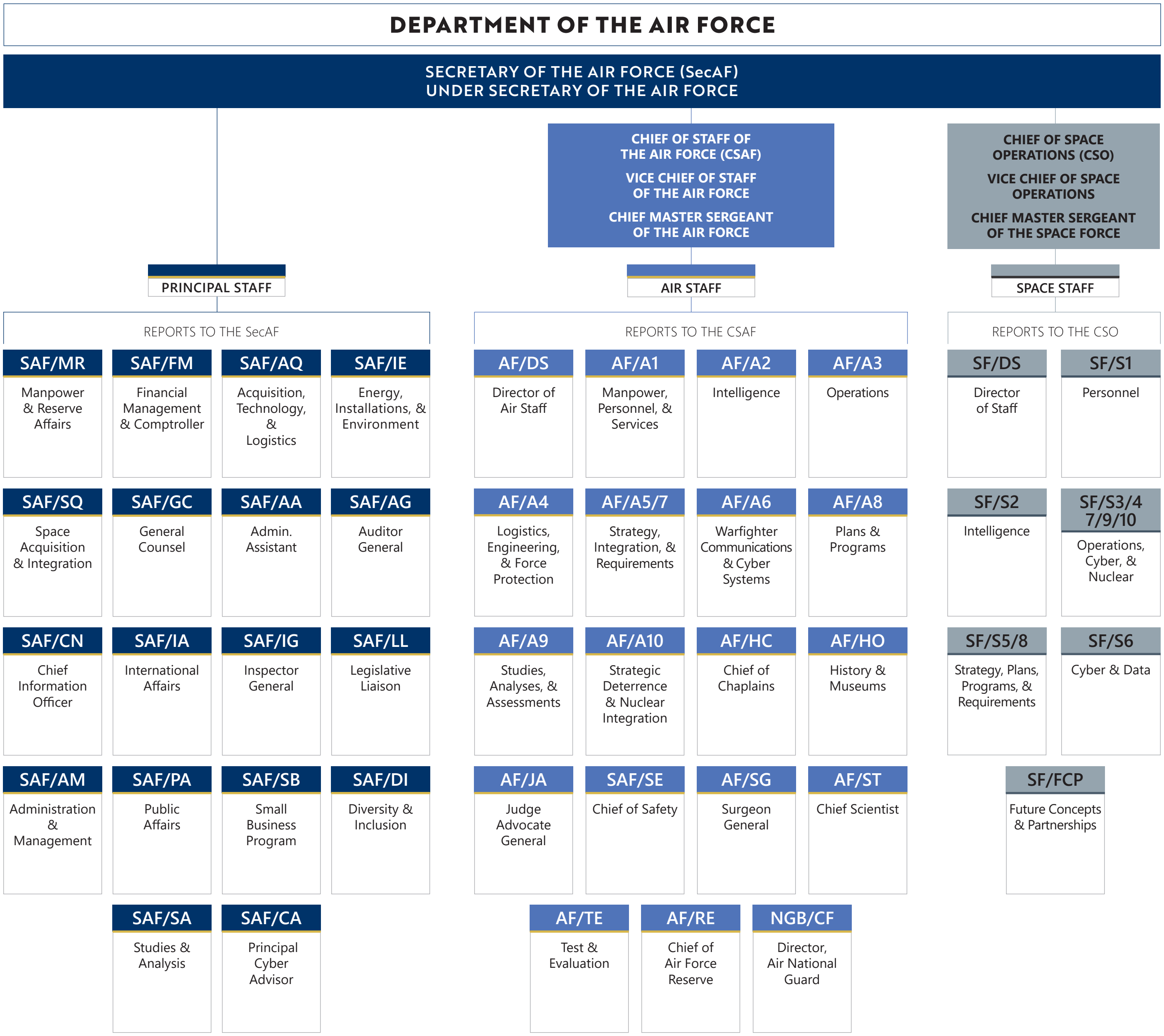
The majority of the Total Force consists of active-duty officers, enlisted Airmen, and Guardians. The reserve component is made up of the Air Force Reserve (see the *Air Force Reserve Command* in the United States Air Force Major Commands section below) and the ANG.

The ANG has both a federal and state mission. This dual mission, a provision of the U.S. Constitution, results in each guardsman holding membership in the National Guard of his or her state and in the National Guard of the U.S. The ANG's federal mission is to maintain well-trained and well-equipped units available for prompt mobilization during war and to provide assistance during national emergencies. During peacetime, the combat-ready units and support units are assigned to USAF Major Commands (MAJCOMs) to carry out missions compatible with training, mobilization readiness, humanitarian, and contingency operations. The ANG provides almost half of the DAF's tactical airlift support, combat communications functions, aeromedical evacuations, and aerial refueling. In addition, the ANG has total responsibility for air defense of the entire U.S. When the ANG units are not mobilized or under federal control, they report to the governor of their respective state, territory, or the commanding general of the District of Columbia National Guard. Under state law, the ANG provides protection of life; property; and preserves peace, order, and public safety. These missions are accomplished through emergency relief support during natural disasters, search and rescue operations, support to civil defense authorities, maintenance of vital public services, and counterdrug operations.

Civilian personnel are indispensable to the management, operation, and continuity of the DAF. Civilians serve in leadership roles throughout the DAF, around the globe, and across organizational levels. The DAF employs civilians in a full range of occupations and services providing stability with the ability to support multiple commanders over years of service. Another major component of the DAF is the Civil Air Patrol. Although not included in the Total Force count, the Civil Air Patrol is a Total Force partner and auxiliary of the DAF. The Civil Air Patrol is America's premier public service organization for carrying out emergency services and disaster relief missions nationwide. The Civil Air Patrol's vigilant citizen volunteers are there to search for and find lost individuals, provide comfort in times of disaster, and work to keep the homeland safe.

ORGANIZATIONAL STRUCTURE

FIGURE 2: Headquarters, Department of the Air Force



As of 30 September 2025

ORGANIZATIONAL STRUCTURE

FIGURE 3: USAF Command Structure

UNITED STATES AIR FORCE

SECRETARY OF THE AIR FORCE

CHIEF OF STAFF OF THE AIR FORCE

- **ACC** Air Combat Command
  - 1st Air Force *Air Forces Northern & Air Forces Space*
  - 9th Air Force *Air Forces Central*
  - 12th Air Force *Air Forces Southern*
  - 15th Air Force
  - 16th Air Force *Air Forces Cyber*
- **AETC** Air Education & Training Command
  - 2nd Air Force
  - 19th Air Force
- **AFGSC** Air Force Global Strike Command
  - 8th Air Force
  - 20th Air Force *Air Forces Strategic*
- **AFMC** Air Force Materiel Command
- **AFRC** Air Force Reserve Command
  - 4th Air Force
  - 10th Air Force
  - 22nd Air Force
- **AFSOC** Air Force Special Operations Command
- **AMC** Air Mobility Command
  - 18th Air Force *Air Forces Transport*
  - 21st Air Force
- **PACAF** Pacific Air Forces
  - 5th Air Force
  - 7th Air Force *Air Forces Korea*
  - 11th Air Force
- **USAFE AFAFRICA** Air Force Europe & Air Force Africa
  - 3rd Air Force *Air Forces Europe*

USAF MAJOR COMMANDS

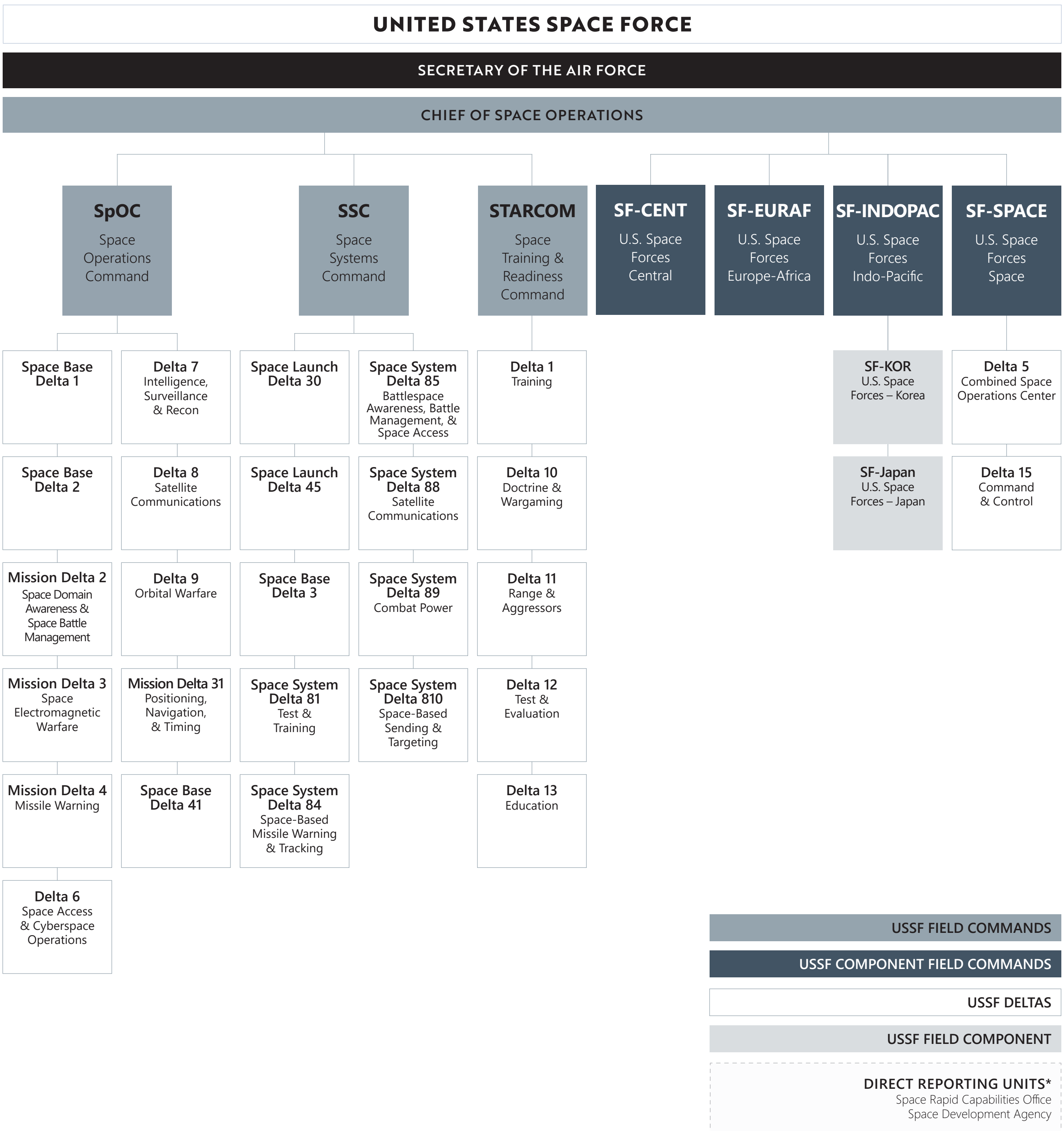
USAF NUMBERED AIR FORCES

DIRECT REPORTING UNITS*
Air Force District of Washington
Air Force Medical Command
Air Force Operational Test & Evaluation Center
United States Air Force Academy

As of 30 September 2025
** For more information on Direct Reporting Units, see pages 21-22*

ORGANIZATIONAL STRUCTURE

FIGURE 4: USSF Command Structure



As of 30 September 2025
** For more information on Direct Reporting Units, see pages 21-22*

ORGANIZATIONAL STRUCTURE

THE DEPARTMENT OF THE AIR FORCE

The DAF consists of three entities: The Office of the Secretary of the Air Force, which includes the Secretary of the Air Force (the Secretary or SecAF) and the Secretary's principal staff; the USAF, which is headed by the Chief of Staff of the Air Force (CSAF); and the USSF, which is headed by the Chief of Space Operations (CSO). The Secretary, the CSAF, and the CSO direct the DAF's mission. The Secretary has overall responsibility for the DAF under the guidance and direction of the Secretary of War.

THE SECRETARY OF THE AIR FORCE

The Secretary is appointed from civilian life by the President of the United States with the advice and consent of the Senate and reports to the Secretary of War. To assure unit preparedness and overall effectiveness of the DAF, the Secretary is responsible for—and has the authority to conduct—all affairs of the DAF. This includes training, operations, administration, logistical support and maintenance, and welfare of personnel. The Secretary's responsibilities include research and development, and any other activity prescribed by the President of the United States or the Secretary of War. The Secretary exercises authority through civilian assistants, the CSAF, and the CSO, but retains immediate supervision of activities that involve vital relationships with Congress, the Secretary of War, other governmental officials, and the public.

THE CHIEF OF STAFF OF THE AIR FORCE

The CSAF is appointed by the President of the United States with the advice and consent of the Senate and typically serves a four-year term. The CSAF serves as a member of the Joint Chiefs of Staff (JCS) and the Armed Forces Policy Council. In the JCS capacity, the CSAF is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of War. The CSAF is also the principal adviser to the Secretary regarding the USAF. The CSAF presides over the Air Staff, transmits Air Staff plans and recommendations to the Secretary, and acts as the Secretary's agent in carrying out such plans and recommendations. The CSAF is responsible for the efficiency of the USAF, the preparation of its forces for military operations, and for activities assigned to the USAF by the Secretary of War. In addition, the CSAF supervises the administration of the USAF personnel assigned to unified organizations and specified commands and supervises support of these forces assigned by the DAF as directed by the Secretary of War.

THE CHIEF OF SPACE OPERATIONS

The CSO is appointed by the President of the United States with the advice and consent of the Senate and typically serves a four-year term. The CSO serves as a member of the JCS. In the JCS capacity, the CSO is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of War. The CSO is also a principal adviser to the Secretary regarding Space Operations. The CSO presides over the USSF, transmits the USSF's plans and recommendations to the Secretary, and acts as the Secretary's agent in carrying out such plans and recommendations. The CSO is responsible for the efficiency of the USSF, the preparation of its forces for military operations, and for activities assigned to the USSF by the organizations and specified commands and also supervises support of these forces assigned by the DAF as directed by the Secretary of War.

ORGANIZATIONAL STRUCTURE

The White Horses from Hardin-Simmons University ride past a B-1B Lancer during the Wings Over West Texas Airshow at Dyess Air Force Base, TX. Representing the university's Six White Horses tradition, these equestrians showcase western heritage and school spirit through appearances at parades, rodeos, and special events across Texas. Their presence at the airshow brought a touch of local pride and history to the celebration of airpower and community. —USAF photo by Airman 1st Class Jade M. Caldwell

FIELD ORGANIZATIONS

USAF MAJCOMs, USSF Field Commands (FLDCOMs), Direct Reporting Units (DRUs), Field Operating Agencies (FOAs), and their subordinate elements constitute the field organizations that carry out the DAF's mission.

UNITED STATES AIR FORCE MAJOR COMMANDS

Currently, there are nine active MAJCOMs that are assigned specific responsibilities on a functional basis in the U.S., as well as on a geographic basis overseas. MAJCOMs accomplish USAF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. MAJCOM headquarters have a full range of functional staff, excluding functions that have been centralized elsewhere for USAF-wide execution.

Within MAJCOMs, the organizational structure has two schemes: unit and non-unit. Unit organizations are hierarchically organized by numbered air force, wing, group, squadron, and flight. Non-unit organizations are hierarchically organized by center, complex, directorate, division, branch, and section. The basic unit for generating and employing combat capability is the wing, which has always been the USAF's primary war-fighting instrument. Composite wings operate more than one kind of aircraft and may be configured as self-contained units designated for quick air intervention anywhere in the world. Other wings continue to operate a single aircraft type, ready to join air campaigns anywhere they are needed. Air-base and specialized-mission wings, such as training, intelligence, and test, also support the USAF mission. Within the wing, operations, logistics, and support groups are the cornerstones of the organization.

Finally, there are lead and component MAJCOMs. A lead MAJCOM consolidates responsibilities for a particular function in a single MAJCOM, supporting the entire USAF (as applicable). A component MAJCOM is the USAF component to a Unified Combatant Command. A MAJCOM can be both a lead MAJCOM and a component MAJCOM.

ORGANIZATIONAL STRUCTURE

Each of the existing active MAJCOMs, along with their respective mission, vision statements, and functional responsibilities, are described below.

AIR COMBAT COMMAND (ACC)

» ***Mission:*** Organizes, trains, and equips combat ready Airmen to control and exploit the Air, Cyberspace, and the Electromagnetic spectrum in support of the Joint Force

» ***Vision:*** People First – Mission Always

As the lead command for fighter; command and control; intelligence, surveillance, and reconnaissance (ISR); personnel recovery; persistent attack and reconnaissance; electromagnetic warfare; cyber warfare operations; and information warfare operations; ACC is responsible for providing combat air, space, and cyberspace power and the combat support that assures mission success to America's warfighting commands.

For more information about ACC, go to: *www.acc.af.mil*

AIR EDUCATION AND TRAINING COMMAND (AETC)

» ***Mission:*** Find, recruit, train, and educate the Airmen the nation needs

» ***Vision:*** Develop Airmen with the competencies to win the high-end competition

AETC's mission begins with the recruitment of quality men and women with the right skills, at the right time, in the right numbers to sustain the combat capability of the USAF. AETC provides basic military training, initial and advanced technical training, flight training, and professional military and degree granting professional education.

For more information about AETC, go to: *www.aetc.af.mil*

AIR FORCE GLOBAL STRIKE COMMAND (AFGSC)

» ***Mission:*** Airmen always ready to provide long-range precision strike...anytime, anywhere!

» ***Vision:*** Innovative leaders providing safe, secure, and lethal combat-ready forces for nuclear and conventional global strike...today and tomorrow!

AFGSC provides nuclear and conventional global strikes, a key component of strategic deterrence. AFGSC is responsible for the nation's three missile wings; the USAF's entire bomber force, to include B-52, B-1, and B-2 wings; the Long-Range Strike Bomber program; the USAF Nuclear Command, Control, and Communications systems; and operational and maintenance support to organizations within the nuclear enterprise.

For more information about AFGSC, go to: *www.afgsc.af.mil*

ORGANIZATIONAL STRUCTURE

AIR FORCE MATERIEL COMMAND (AFMC)

» ***Mission:*** Powering the world's greatest Air Force...We develop, deliver, support, and sustain war-winning capabilities

» ***Vision:*** One AFMC – integrated, collaborative, innovative, trusted, and empowered...indispensable to our nation, disruptive to our adversaries

AFMC delivers war-winning expeditionary capabilities to the warfighter through development and transition of technology, professional acquisition management, exacting test and evaluation, and world-class sustainment of all USAF weapon systems. From cradle to grave, AFMC provides the work force and infrastructure necessary to ensure the U.S. remains the world's most respected air force.

For more information about AFMC, go to: *www.afmc.af.mil*

AIR FORCE RESERVE COMMAND (AFRC)

» ***Mission:*** Provide combat-ready forces to fly, fight, and win

» ***Vision:*** Reserve Citizen Airmen – an agile, combat-ready force answering our nation's call...always there!

AFRC provides citizen airmen to defend the U.S. and protect its interests through aerospace power. Reservists support nuclear deterrence operations; air, space, and cyberspace superiority; command and control; global integrated ISR; global precision attacks; special operations; rapid global mobility; and personnel recovery. AFRC also performs space operations, aircraft flight testing, aerial port operations, civil engineering, security forces, military training, communications, mobility support, transportation, and service missions.

For more information about AFRC, go to: *www.afrc.af.mil*

AIR FORCE SPECIAL OPERATIONS COMMAND (AFSOC)

» ***Mission:*** Enables the joint force by delivering Special Operations Forces (SOF) Mobility; Strike; Air-to-Ground capabilities; and Intelligence, Surveillance, and Reconnaissance across the spectrum of competition and conflict

» ***Vision:*** Peerless and Professional Air Commandos. Always Ready to Answer our Nation's Call. Unconventional Airpower....Any Place, Any Time, Anywhere

AFSOC provides USAF SOF for worldwide deployment and assignment to regional unified commands. The command's SOF are comprised of highly trained, rapidly deployable Airmen, conducting global special operations missions ranging from precision application of firepower to infiltration, exfiltration, resupply and refueling of SOF operational elements.

For more information about AFSOC, go to: *www.afsoc.af.mil*

ORGANIZATIONAL STRUCTURE

Air Mobility Command (AMC)

» ***Mission:*** AMC provides unrivaled airlift, air refueling, aeromedical evacuation, global air mobility support, and global command and control to project, connect, maneuver, and sustain the Joint Force in support of national objectives. Right Effects, Right Place, Right Time!

» ***Vision:*** Unrivaled Global Reach for America tonight…Building advantages for America tomorrow

AMC is composed of a Total Force effort to execute rapid global mobility and enable global reach—the ability to respond anywhere in the world in a matter of hours. This is accomplished through AMC's four core mission areas: airlift, air refueling, air mobility support, and aeromedical evacuation.

For more information about AMC, go to: *www.amc.af.mil*

PACIFIC AIR FORCES (PACAF)

» ***Mission:*** PACAF, in coordination with other components, allies, and partners, provides United States Indo Pacific Command with continuous unrivaled air, space, and cyberspace capabilities to ensure regional stability and security.

» ***Vision:*** An agile, accurately postured, undeterred, and lethal force capable of dedicating peerless effects from cooperation to conflict

PACAF delivers rapid and precise air, space, and cyberspace capabilities to protect and defend the U.S., its territories, and its allies and partners. PACAF provides integrated air and missile warning and defense, promotes interoperability throughout the area of responsibility, maintains strategic access and freedom of movement across all domains, and is postured to respond across the full spectrum of military contingencies in order to restore regional security.

For more information about PACAF, go to: *www.pacaf.af.mil*

U.S. AIR FORCES IN EUROPE-AIR FORCES AFRICA (USAFE-AFAFRICA)

» ***Mission:*** Defend vital U.S. interests, deter aggression, and deepen relationships with Allies and partners by projecting combat-ready airpower in Europe and Africa

» ***Vision:*** Europe and Africa's airpower partner of choice – forward, agile, ready

USAFE-AFAFRICA is the air component for two DoD unified commands — United States European Command (USEUCOM) and United States Africa Command (USAFRICOM). USAFE-AFAFRICA executes the USAF's, USEUCOM's, and USAFRICOM's missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

For more information about USAFE-AFAFRICA, go to: *www.usafe.af.mil*

ORGANIZATIONAL STRUCTURE

More than 800 Airmen and Guardians assigned to Flights 643-660 march in the 737th Training Group's graduation parade, at Joint Base San Antonio-Lackland, TX. More than 800 Guardians and Airmen assigned to Flights 643-660 marched in the 737th Training Group's graduation parade for which Saltzman was the reviewing official. The ceremony is one of three USAF and USSF Basic Military Training graduation events and signifies the transition from trainee to Airman or Guardian. —USSF photo by Jonathan Mallard

UNITED STATES SPACE FORCE FIELD COMMANDS

Currently, there are three active FLDCOMs that are assigned specific responsibilities on a functional basis to accomplish USSF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. FLDCOM headquarters have a full range of functional staff, excluding functions that are centralized elsewhere for USSF-wide execution. The USSF has four Component FLDCOMs (C-FLDCOMs): U.S. Space Forces Central, U.S. Space Forces Europe Africa, U.S. Space Forces Indo-Pacific, and U.S. Space Forces Space. These C-FLDCOMs present forces to DoD combatant commands and integrate USSF with the joint force. FLDCOMs are hierarchically organized by Space Deltas, Space Base Deltas, and Squadrons. Space Deltas focus on executing complex missions to empower rapid decision-making, Space Base Deltas focus on providing installation support functions to the Space Deltas, and Squadrons provide specific operational or support capabilities.

ORGANIZATIONAL STRUCTURE

Each of the FLDCOMs, along with their respective mission, vision statements, and functional responsibilities are described below.

SPACE OPERATIONS COMMAND (SpOC)

» ***Mission:*** Protects America and our Allies in, from, and to space... now and into the future

» ***Vision:*** America's Space Warfighters—Always Ready, Always Innovative, Always Above

SpOC generates and presents combat-ready intelligence, cyber, space, and combat support forces. SpOC's main priorities are: Generating and improving combat-ready Space Forces, Sourcing and providing combat-ready forces for service and combatant command mission, Advocating for combat-ready spacepower from the future force to the fielded force, and Improving family readiness as a combat force multiplier.

For more information about SpOC, go to: *www.spoc.spaceforce.mil*

SPACE SYSTEMS COMMAND (SSC)

» ***Mission:*** Develop and field dominant space capabilities by advancing an expert workforce

» ***Vision:*** Freedom for all to use space for the common good

SSC is responsible for acquiring; delivering; developing; and fielding dominant, integrated, and resilient warfighting space capabilities. SSC's responsibility to organize, train, and equip provides the foundational acquisition capabilities necessary to protect the nation's strategic advantage in, from, and to space.

For more information about SSC, go to: *www.ssc.spaceforce.mil*

SPACE TRAINING AND READINESS COMMAND (STARCOM)

» ***Mission:*** Prepare the USSF to prevail in competition and conflict through innovative education, training, doctrine, and test

» ***Vision:*** Prepare every Guardian, Develop superior space capabilities, and Deliver warfighting solutions

STARCOM prepares combat ready USSF forces to fight and win in a contested, degraded, and operationally limited environment through the deliberate development, education, and training of space professionals; development of space warfighting doctrine, tactics, techniques, and procedures; and the test and evaluation of USSF capabilities.

For more information about STARCOM, go to: *www.starcom.spaceforce.mil*

ORGANIZATIONAL STRUCTURE

DEPARTMENT OF THE AIR FORCE DIRECT REPORTING UNITS AND FIELD OPERATING AGENCIES

DRUs have specialized and restricted missions and are directly subordinate to the Secretary and to the respective USAF/USSF Chief or his or her representative on the Air Staff or Space Staff. Currently, the USAF has four DRUs: the Air Force District of Washington, the Air Force Medical Command, the Air Force Operational Test and Evaluation Center, and the United States Air Force Academy, while the USSF has two DRUs: the Space Rapid Capabilities Office and the Space Development Agency.

AIR FORCE DISTRICT OF WASHINGTON (AFDW)

» ***Mission:*** Contingency Response, Ceremonial Honors, and Operational Support ... Across the Nation's Capital and Worldwide

» ***Vision:*** Ready Airmen, Renowned for Excellence

AFDW serves as the USAF service component for coordination purposes to the Joint Task Force (JTF) National Capital Region (NCR) and the supporting command to JTF-NCR Medical. AFDW executes USAF operations and supports joint force and Inter-Agency operations in the NCR while providing superior support to combatant commanders and USAF elements worldwide. AFDW exercises Uniform Code Military Justice authority over, and provides manpower, personnel, legal, chaplain, finance, logistics, and safety support for designated USAF activities located within the NCR, selected FOAs, and selected USAF elements.

For more information about AFDW, go to: *www.afdw.af.mil*

AIR FORCE MEDICAL COMMAND (AFMEDCOM)

» ***Mission:*** Generate medically ready forces, deploy expeditionary medics, and improve the health of all we serve – anytime, anywhere.

» ***Vision:*** To be the trusted leader in military medicine, developing resilient medics who are ready to meet the challenges of tomorrow's fight.

AFMEDCOM was created to centralize command and control of the medics responsible for delivering medical readiness, operational support, and health service logistics to America's Airmen and Guardians. AFMEDCOM plays a critical role in delivering ready medics, accelerating medical innovation, and integrating with joint and coalition forces to meet the demands of a future conflict.

For more information about AFMEDCOM, please to go: *www.airforcemedicine.af.mil*

AIR FORCE OPERATIONAL TEST AND EVALUATION CENTER (AFOTEC)

» ***Mission:*** Inform the Warfighter and Acquisition Through Operational Test

» ***Vision:*** Leader of the Test Enterprise – Accelerating Change

AFOTEC evaluates the capability of systems to meet Warfighter needs by planning, executing, and reporting independent operational assessments, tests, and evaluations. From concept development to system fielding, AFOTEC evaluates a system's overall operational mission capability under realistic conditions. AFOTEC's mission requires lock-step efforts with its acquisition partners focused on shortening the combat capability delivery timeline.

For more information about AFOTEC, go to: *www.afotec.af.mil*

ORGANIZATIONAL STRUCTURE

UNITED STATES AIR FORCE ACADEMY (USAFA)

- ***Mission:*** To forge leaders of character, motivated to a lifetime of service, and developed to lead our Air Force and Space Force as we fight and win our Nation's wars.
- ***Vision:*** To be the recognized experts for the development of Leaders of Character

The USAFA was established as a military service academy dedicated to training Airmen. With the establishment of the USSF, the USAFA is now the premier undergraduate commissioning source for both the USAF and the USSF. The USAFA provides a world-class education that combines athletics, character and leadership development, and military training to forge USAF and USSF officers who are ready to lead on day one. The USAFA utilizes a dynamic and diverse mix of civilian and military faculty to teach lessons with real-world applications that will prepare cadets to become some of our nation's greatest leaders. As a public university and a military service academy, the USAFA is leading the way into an increasingly complex future, driving advancement and innovation in air, space, and cyberspace, among countless other fields.

For more information about USAFA, go to: *www.usafa.af.mil* and *www.usafa.edu*

SPACE RAPID CAPABILITIES OFFICE (SPACE RCO)

- ***Mission:*** Deliver timely and operationally relevant space superiority and resilience capabilities to the warfighter

Space RCO was established via the FY 2018 *National Defense Authorization Act* (NDAA) with subsequent authorities defined in the FY 2019 NDAA. The Space RCO has a specialized, restricted, and unique mission; it was created in response to the National Defense Strategy calling for improvements to defense acquisition. Space RCO employs four key operating principles for going faster in space acquisition: short and narrow chain of command; early and consistent warfighter involvement; small integrated and empowered program teams; and embedded functional support: human resources, contracting, finance, information technology, and security.

For more information about Space RCO, go to: *www.spaceforce.mil*

SPACE DEVELOPMENT AGENCY (SDA)

The SDA was established on March 12, 2019, and transferred to the USSF as a DRU on October 1, 2022. Its charge is to create and sustain lethal; resilient; threat-driven; and affordable military space capabilities that provide persistent, resilient, global, low-latency surveillance to deter or defeat adversaries. SDA will quickly deliver needed space-based capabilities to the joint warfighter to support terrestrial missions through development, fielding, and operation of the Proliferated Warfighter Space Architecture. SDA capitalizes on a unique business model that values speed and lowers costs by harnessing commercial development to achieve a proliferated architecture and enhance resilience.

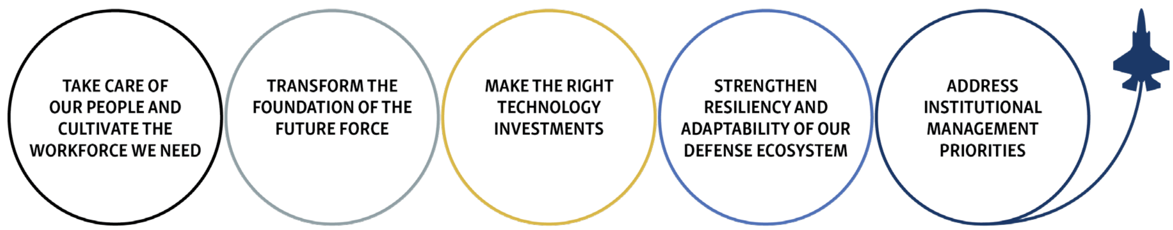
For more information about SDA, go to: *www.sda.mil*

FOAs are a subdivision of the DAF and are directly subordinate to a DAF Headquarters Functional Manager. FOAs perform field activities beyond the scope of any MAJCOM, and their activities are unique and associated with the DAF-wide mission. Currently, the DAF has more than 20 active FOAs. For more information about each of the FOAs, go to: *FOAs*

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The DAF possesses a distinctive set of competencies and capabilities to achieve its commitments of defending the homeland, deterring aggression and war across the world, and defeating our adversaries in battle if deterrence fails. The DAF operates in a global security environment that is more complex and contested than ever, shaped by intensifying strategic competition, rapid technological innovation, and emerging concepts of warfare. To stay ahead of these challenges and achieve its objectives, the DAF has focused its efforts on supporting the DoD's five strategic priorities.

FIGURE 5: DoD's Strategic Priorities



National security priorities and the DoD's strategic priorities will be advanced in three primary approaches: integrated deterrence, campaigning, and building enduring advantages. Integrated deterrence involves leveraging the DAF's combined strengths to operate seamlessly across all warfighting domains, harnessing every instrument of national power, and collaborating with an extensive network of partners to prevent attacks before they occur. Campaigning reinforces deterrence by executing well-defined strategies, synchronizing efforts with broader Departmental initiatives, and enhancing warfighting capabilities in concert with allies and partners to undermine competitors. Building enduring advantages focuses on modernizing and strengthening resilient systems; driving innovation to accelerate technological advancement; and cultivating talent by recruiting training, and investing in Airmen and Guardians—the foundation of the DAF's success. Together, these approaches will empower the DAF to develop, design, and manage a force capable of meeting the challenges posed by today's complex security environment.

NEW RECRUITS, NEW HEIGHTS

The DAF met its annual recruitment goal three months early, highlighting both the appeal of service and the effectiveness of modern recruiting strategies.

This milestone is especially significant, as the USAF has built its largest Delayed Entry Program (DEP) in a decade, with a pool of over 14,000 recruits—including a record 750 Special Warfare candidates. Leaders attribute this success to a modernized recruiting approach, expanded community outreach, and an emphasis on career development—factors that resonate with a generation seeking purpose and the opportunity to contribute to something greater than themselves.

The USSF has also made strides, partnering with the Air Force Accessions Center to establish its first dedicated recruiting squadron, ensuring a strong pipeline of future Guardians. Thanks to the dedication of approximately 2,200 recruiters operating in over 1,275 offices worldwide, both the Air Force and Space Force have seen significant increases in DEP numbers and thousands more recruits than seen in previous years. Together, these efforts position both services for continued mission success.

USAF Chief Master Sgt. Whitfield Jack, 737th Training Group senior enlisted leader, leads a formation of USAF military training instructors as part of Basic Military Training (BMT) graduation parade at Joint Base San Antonio-Lackland, TX. The ceremony is one of three graduation events for USAF and Space Force BMT and signifies the transition from trainee to Airman and Guardian. —USAF photo by Brian Boisvert

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PRIORITIES AND RELATED ACCOMPLISHMENTS

Strategic Priority #1: Take Care of Our People and Cultivate the Workforce We Need

Dedicated and selfless Airmen and Guardians are the foundation of the DAF's ability to navigate today's increasingly strategic environment. They strengthen diplomatic efforts, uphold integrated deterrence, and ensure credible responses to aggressions. Recognizing that our people are our greatest asset, the DAF is committed to building a future force with the skills and capabilities needed to succeed and excel. The DAF is making significant investments in our Airmen and Guardians by providing them with the resources and support necessary for their success. This includes maximizing opportunities for every member to reach their full potential, rethinking the structures and methods for training, and improving the quality of service and life to retain their talents. The DAF is also investing in quality-of-life initiatives—such as childcare, mental health, and overall well-being—to ensure its people can thrive. By focusing on readiness and investing in its people, the DAF will ensure its force remains agile, resilient, and fully prepared to confront the challenges of an increasingly competitive global environment.

Guardians, instructors, and guests gather during the Officer Training Course (OTC) graduation at Peterson Space Force Base, CO. The USSF has approximately 14,000 military and civilian Guardians, including nearly 5,000 uniformed officers. OTC will ultimately train more than a third of all Guardians. Approximately 60 percent of graduates will begin their first operational assignment in the Colorado Springs area. —USSF photo by Isaac Blancas

DAF Accomplishments in Support of Strategic Priority #1:

- The Air Force Medical Command (AFMEDCOM) achieved its initial operational capability on March 12, 2025. AFMEDCOM was established to reshape the DAF's operational medical capability and support to the warfighter. It will enhance readiness for Airmen, Guardians, and their families by receiving timely and quality medical care.
- The Air Force Aid Society introduced a series of bold changes aimed at better supporting the evolving needs of Airmen, Guardians, and their families including broadening its categories of financial assistance and unveiling a simplified application process that makes accessing help easier than ever. These efforts will better help service members with mental health counseling, adoption costs and childcare, immigration fees, basic household furniture, and much more.
- The DAF activated its new Air Force Accessions Center in a strategic move to streamline all pathways to Air Force and Space Force service. The new center merges the Air Force Recruiting Service at Joint Base San Antonio - Randolph with the Jeanne Holm Center at Maxwell Air Force Base, Alabama, under one organization to oversee recruitment, officer accessions, and citizen development.
- The USSF marked a historic milestone on August 28, 2025, as its first class of Guardian officers graduated from the new Officer Training Course (OTC) at Peterson Space Force Base. More than 80 officers completed the year-long program, which now serves as the service's foundational leader development course. Designed to build a multidisciplinary officer corps, OTC equips graduates to identify, plan, and synchronize effects across satellite, intelligence, cyber, and acquisitions domains.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic Priority #2: Transform the Foundation of the Future Force

The DAF acknowledges the rapidly changing and unpredictable global landscape, along with the complex challenges it brings. Sustained strategic competition requires heightened readiness and effectiveness from all aspects of the DAF. Recognizing that current systems fall short in addressing its most critical needs, the DAF is shifting toward processes that emphasize rapid experimentation, acquisition, and deployment. By integrating emerging technologies and innovative concepts, the DAF is accelerating transformation in mission support, integrated deterrence, and overall readiness. These initiatives are designed to deliver agile and effective support to warfighters and to strengthen interoperability with joint, allied, and partner teams. Through these efforts, the DAF is committed to sustaining and enhancing deterrence while making investments that secure long-term strategic advantages.

DAF Accomplishments in Support of Strategic Priority #2:

» The DAF created a new AF/A6 Deputy Chief of Staff office dedicated to warfighter communications and cyber systems, designed to address operational communications and cyber needs throughout the force. This new office separates the responsibilities for communications and cyber systems from the previous A2/A6 framework, marking one of the most significant reorganizations of the Air Staff. This change will improve readiness, resilience, and operational effectiveness by aligning resources and risk management with mission requirements.

» The USSF stood up six Space System Deltas (SYDs): 81, 84, 85, 88, 89, and 810. SYDs consolidate the design, development, and delivery of systems under a mission-focused command structure for acquisition. These new Deltas will ensure mission area analysis is continuous and improve upon mission advocacy with a singular focus on mission sets, unity of effort, and accountability.

» The USSF released its Space Warfighting framework, outlining the service's vision for achieving and maintaining space superiority while ensuring the long-term safety and sustainability of the space domain. The framework establishes a common lexicon for counterspace operations, detailing a range of responsible offensive and defensive actions Guardians may employ to maintain control of space and ensure the success of the Joint Force. Space Warfighting marks a significant step forward in solidifying the Space Force as a warfighting service and integral part of the Joint and Combined Force, highlighting the essential role of space superiority for national security.

» The DAF introduced the "One Force Design" document, a transformational framework that enables the Air Force to build force structures tailored to the complex threats of the strategic global environment. Force Design capitalizes on trends and analysis to develop the right mixture of capabilities to be employed in an integrated manner with other Services and our Allies and partners. It also allows the DAF to adapt to technological advances, shifts in the threat environment, and changes to national strategy.

» Three newly established centers under Air Education and Training Command (AETC) achieved Initial Operational Capability, marking a significant milestone in the command's efforts to reoptimize the DAF. The centers each have a unique mission in helping to find, recruit, train, educate and develop resilient, Mission Ready Airmen who will thrive in complex and contested environments.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic Priority #3: Make the Right Technology Investments

The DAF recognizes that maintaining a technological edge is essential to preserving its military advantage. Mission success depends on the DAF's ability to seek innovative solutions and seamlessly integrate new technologies across all operations. To stay ahead of strategic competitors in contested environments, the DAF continues to champion research, science, technology, engineering, and innovation. By focusing development efforts on unique capabilities and leveraging the best commercial dual-use technologies, the DAF is committed to rapidly delivering critical capabilities to the warfighter.

DAF Accomplishments in Support of Strategic Priority #3:

- The DAF and National Aeronautics and Space Administration introduced the initial operational capability of Global Hydro-Intelligence (GHI), a strategic tool designed to predict and manage water-related risks for military leaders. GHI integrates observations from various sources and uses state-of-the-art models to provide accurate, timely, and mission-critical geospatial hydrological information which helps address and forecast extreme events, respond to water-related challenges, and soften the battlespace for kinetic responses.
- The USSF, in collaboration with the United Kingdom and Australia, completed construction of the first of three sites to host Deep Space Advanced Radar Capability (DARC). DARC is a global network of advanced ground-based sensors designed to create an all-weather, global system to track very small objects in geosynchronous orbit to protect critical U.S. and allied satellite services. DARC will ensure the U.S., its allies, and partners can effectively characterize the movement of objects traveling in, from, and to space, allowing us to mitigate the risk of debris-causing events that could hold the world's space-enabled capabilities at risk.
- The USSF approved the operational acceptance of a milestone upgrade to the Ground-Based Optical Sensor System (GBOSS). Capabilities like GBOSS advance Space Domain Awareness capabilities to offer timely, relevant, and actionable understanding of the operational environment that allows military forces to plan, integrate, execute, and assess space operations. GBOSS improves on the USSF's ability to map the space operating environment for Guardians to conduct defensive and offensive operations in response to threats and close protect and defend kill chains.
- The USSF successfully launched Global Positioning System (GPS) III space vehicle to orbit. The GPS III satellite, equipped with M-code technology, provides the warfighter with a capability that is three-times more accurate, and eight-times more resistant to jamming. This effort ensures rapid delivery of modernized Precision, Navigation, and Timing capabilities to the Joint Force.
- The DAF tested a new, more versatile variant of the QUICKSINK maritime weapon, a low-cost method for neutralizing surface vessels using a modified, air-delivered munition. This innovative capability provides a rapid response to maritime threats, significantly bolstering the DAF's counter-maritime deterrence and operations. QUICKSINK underscores the DAF's commitment to rapidly demonstrating innovative concepts that strengthen U.S. power projection and maintain freedom of navigation in critical waterways.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic Priority #4: Strengthen Resiliency and Adaptability of Our Defense Ecosystem

The DAF faces increasingly complex challenges, from foreign adversaries to the impacts of climate change. To address these threats, the DAF is prioritizing resilience and adaptation of its defense ecosystem. This requires maximizing readiness; tackling climate, energy, and environmental risks; strengthening cybersecurity; and enhancing the resilience of Command, Control, and Communications (C3) systems. Collaboration with allies and partners through research, development, testing, and evaluation is also essential. To maintain its operational effectiveness in contested environments, the DAF must ensure it can produce and sustain a comprehensive range of capabilities needed to give the U.S. and its allies a competitive edge. Environmental threats, particularly those driven by climate change, represent some of the most significant and unprecedented risks to national security. The DAF must continue to mitigate these challenges to protect critical infrastructure. As reliance on cyberspace grows across civilian and military domains, defending against adversaries in this contested space is paramount. By safeguarding C3 capabilities, commanders and decision-makers can quickly assess situations and execute effective actions. Lastly, by deepening partnerships with allies, the DAF can develop advanced technologies that will deter aggression, enhance readiness, improve domain awareness, and strengthen decision-making.

DAF Accomplishments in Support of Strategic Priority #4:

» The USSF officially stood up the Space Force's first cyber range squadron, the 33rd Range Squadron (RGS). The new squadron, which falls under Space Delta 11, marks a critical milestone in advancing the USSF's ability to test, train, and prepare for cyber threats in the contested space domain. The 33rd RGS now holds tactical control of cyber operational test and training infrastructure capabilities, a system of cyber ranges that will support advanced testing; training; and interagency cooperation across air, space, and cyberspace operations.

» The DAF recently demonstrated a major leap in human-machine teaming, flying autonomous collaborative platforms (ACPs) alongside crewed fighter aircraft during a training event at Eglin Air Force Base. In contested environments, ACPs can serve as force multipliers while enabling operators to retain strategic and ethical oversight. This recent flight marked a pivotal step in their integration into air combat—reducing pilot workload while enhancing situational awareness and mission effectiveness.

» The Space Development Agency, a direct reporting unit of the USSF, successfully launched the first Proliferated Warfighting Space Architecture Tranche 1 (T1) transport layer space vehicles (SVs) from Vandenberg Space Force Base. The T1 data transport SVs will provide low-latency communication links to support the warfighter with a resilient network of integrated capabilities, including tracking of advanced missile threats, enabled by beyond-line-of-sight tactical data link from low-Earth orbit.

» The USSF supported the maiden flight for Blue Origin's New Glenn from Space Launch Complex 36 at Cape Canaveral Space Force Station. Commercial partnerships like Blue Origin significantly enhance the USSF's competitive edge in the space domain, strengthening the USSF's capacity, elevates capabilities, and fortifies the resilience of space architecture, ensuring the U.S. remains at the forefront of a rapidly evolving environment.

» The DAF released its Installation Infrastructure Action Plan (I2AP) to adapt its installations to the challenges of the complex strategic environment. The I2AP effort is designed to re-optimize installations by better aligning them with mission-critical capabilities; right-sizing vital infrastructure; and building more resiliency with tailored approaches at our installations to deliver combat power with enough speed, range, and intensity to deter our adversaries, and, if needed, win decisively.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic Priority #5: Address Institutional Management Priorities

The DAF is committed to transforming its business operations to create sustainable, institutionalized resources that support its mission. This modernization effort targets outdated practices, safeguards limited resources, and enhance the DAF's ability to anticipate and respond to emerging threats. Emphasizing performance and accountability, the DAF is fostering a culture of innovation, agility, and responsibility across all management levels. Innovative business reforms will enhance organizational flexibility, enabling the DAF to reinvest in readiness and bolster warfighting capabilities. Ongoing audit remediation will drive faster mission support through advanced analytics and greater transparency. By prioritizing standardization and simplification, the DAF aims to boost productivity, trustworthiness, security, and innovation—ultimately improving the effectiveness and efficiency of decision-making.

A Falcon 9 rocket carrying the Starlink 10-14 mission successfully launches from Space Launch Complex 40 at Cape Canaveral Space Force Station, FL. This was the 23rd flight for the Falcon 9 first stage booster supporting this mission, which previously launched Crew-5, GPS III Space Vehicle 06, Inmarsat I6-F2, CRS-28, Intelsat G-37, NG-20, TD7, and now 16 Starlink missions. —USSF photo by Gwendolyn Kurzen

DAF Accomplishments in Support of Strategic Priority #5:

» The USSF published its "Data and Artificial Intelligence FY 2025 Strategic Action Plan," providing a clear and actionable path toward becoming a more data-driven and artificial intelligence (AI)-enabled force capable of achieving the DoD's mission to deter war and, when necessary, decisively defeat adversaries. The USSF is focusing on making data more visible, accessible, understandable, rapidly adopted, linked, trustworthy, interoperable, and secure.

» The USSF implemented a pivotal new initiative aimed at strengthening its civilian workforce management called the Civilian Human Capital Evaluation and Accountability Program. The program was developed to drive continuous improvement in the workforce by leveraging data to assess and enhance the effectiveness, efficiency, and compliance of human capital programs.

» AETC launched a comprehensive initiative to enhance the data literacy of its staff, equipping them with essential skills for the digital age. It will focus on three core competencies: data management, data analysis, and data visualization.

» Air Force Materiel Command and industry partners collaborated to turn shared ambitions regarding AI into actionable strategies that deliver mission-ready, trusted capabilities across the enterprise. The workshop focused on operational outcomes and challenged participants to envision how AI can directly support their mission areas while emphasizing collaboration as a critical enabler of speed and success in the digital era.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

GOVERNANCE AND ACCOUNTABILITY

The DAF is dedicated to continuously monitoring performance and maintaining accountability for its operations and related activities through its Risk Management and Internal Control Governance Bodies. These governance bodies, comprised of senior-level executives, include the Risk Management Council (RMC), the Senior Management Council (SMC), the Executive Steering Committee (ESC) which serves as the Department's Senior Assessment Team (SAT), and the Fraud Risk Oversight Committee (FROC). The RMC establishes the Agency's enterprise risk profile, continuously assesses risks, and coordinates appropriate responses. The SMC oversees and evaluates the effectiveness of internal controls over operations while the ESC/SAT is responsible for overseeing and monitoring internal controls related to financial reporting and financial systems. The FROC oversees the DAF's fraud risk management program.

Capt. Nick Le Tourneau, F-22 Raptor Aerial Demonstration Team commander, performs an aerial maneuver during the Cocoa Beach Air Show in Cocoa Beach, FL. The demonstration team highlighted cutting-edge airpower, precision and skill, all while reinforcing public confidence in the USAF's ability to protect and defend. —USAF photo by Staff Sgt. Lauren Cobin

ANALYSIS OF FINANCIAL STATEMENTS

The accompanying financial statements and related note disclosures represent the DAF's enduring commitment to fiscal accountability and transparency. The DAF made progress toward improving the quality and timeliness of financial reporting through business transformation initiatives, financial systems enhancements, and expansion of the internal control program. However, due to continued limitations of financial and non-financial systems and management processes, the DAF is unable to implement all elements of Federal Generally Accepted Accounting Principles (GAAP) and Office of Management and Budget (OMB) Circular Number A-136, *Financial Reporting Requirements*. These limitations prevented the Independent Public Accountant from issuing an opinion on the FY 2025 DAF financial statements. The DAF is organized into two reporting entities: the DAF GF (including USSF) and the DAF WCF. Each reporting entity has a separate set of financial statements and accompanying note disclosures comprised of the following:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources

GENERAL FUND

The DAF GF supports the core missions and overall operations of the DAF. The DAF GF is financed primarily by enacted congressional appropriations in the following five major appropriation categories:

- **Military Personnel (MILPERS)**: MILPERS includes expenditures for the salaries and other compensation (housing, allowances, etc.) for active military personnel, reserve, and guard forces.
- **Operations, Readiness, and Support**: Operations, Readiness, and Support includes expenditures that provide benefits derived for a limited period of time, such as salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, and base operations support.
- **Procurement**: Procurement includes expenditures for the acquisition of items which provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- **Research, Development, Test, and Evaluation (RDT&E)**: RDT&E includes expenditures related to efforts that increase the DAF's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These efforts include all costs necessary to develop and test prototypes as well as the performance of services.
- **Family Housing and Military Construction (MILCON)**: Family Housing and MILCON includes expenditures associated with purchasing, leasing, and support services for property that house DAF Service members and their families; as well as expenditures related to planning, designing, constructing, altering, and improving the DAF's military facilities.

The DAF GF's Budgetary Resources consist primarily of funds received from two sources: appropriations from Congress for the current FY and unobligated balances from prior FYs. The DAF GF's Budgetary Resources were approximately $355.2 billion at Fiscal Year End (FYE) 2025. The FY 2025 enacted appropriations of $280.5 billion represent 79.0% of total budgetary resources. The DAF GF obligated $281.7 billion, or 79.3%, of the Total Budgetary Resources in FY 2025, and the remaining $73.6 billion, or 20.7%, of available funding remained unobligated as of the end of FY 2025.

ANALYSIS OF FINANCIAL STATEMENTS

WORKING CAPITAL FUND

The DAF WCF activities provide maintenance services, weapon system parts, and base and medical supplies in support of the DAF core functions. The DAF WCF is designed to be a self-sustaining, "business-like" activity that generates revenue from providing goods and services. It is integral to readiness and sustainability of the DAF's air and space assets and its ability to deploy forces around the globe in support of Overseas Contingency Operations and National Military Strategy requirements. Directly and indirectly, the DAF WCF activities provide warfighters the key services needed to meet mission capability requirements.

The DAF WCF's Budgetary Resources are a culmination of unobligated balances from the prior year budget authority, appropriations, contract authority, and spending authority from offsetting collections. The DAF WCF's Budgetary Resources were approximately $22.4 billion at FYE 2025. The DAF WCF's FY 2025 resources from Contract Authority and Spending Authority from offsetting collections represent $20.9 billion or approximately 93.3% of total budgetary resources. The DAF WCF obligated $20.5 billion, or 91.4%, of the Total Budgetary Resources in FY 2025, and the remaining $1.9 billion, or 8.6%, of available resources remained unobligated as of the end of FY 2025.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S. Code, § 3515(b). The statements are prepared from records of federal entities in accordance with GAAP published by the Federal Accounting Standards Advisory Board and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government. The DAF is unable to fully implement all elements of GAAP and OMB Circular A-136, due to limitations of financial and non-financial management processes and systems that support the financial statements. Additional effort toward full compliance with GAAP for the accrual method of accounting is encumbered by various system limitations and the nature of the DAF activities.

FLYING HIGH AS AIR FORCE'S NEW SECOND-IN-COMMAND

Matthew Lohmeier was confirmed by the Senate on July 24, 2025 as the 29th Under Secretary of the Air Force, becoming the Department's second highest-ranking civilian leader. In addition to previous active duty assignments as an Air Force fighter pilot and Space Force Guardian, he brings experience as a public speaker and author.

Lohmeier will be responsible for organizing, training, and equipping the Air Force and Space Force. He will also oversee more than $500 billion in assets under management for the Department and care for nearly 700,000 active duty, Guard, Reserve, and civilian Airmen and Guardians and their families.

Lohmeier will join Secretary Meink, Air Force Chief of Staff Gen. David Allvin, and Chief of Space Operations Gen. Chance Saltzman in shaping, modernizing, and positioning the Air Force and Space Force to defend the nation and its interests.

"Our Airmen and Guardians sacrifice a great deal to serve the American people," said Lohmeier. *"They deserve all of the best tools, training, and support they need to perform their missions in an increasingly complex and quickly evolving threat environment. I'm honored to work alongside Secretary Meink in service of these great men and women."*

Staff Sgt. Matthew Cerulli, 460th Security Forces Squadron military working dog (MWD) handler, carries his MWD, Mixi, during a ruck march celebrating K-9 Veterans Day at Buckley Space Force Base, CO. These dogs have played an essential role in protecting and saving lives, and K-9 Veterans Day celebrates their dedication and bravery annually. —USSF photo by Staff Sgt. Danielle McBride

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DAF's Commanders and Managers are responsible for confirming the integrity of applicable systems and controls, as well as compliance with applicable laws and regulations. A key element of this responsibility is adherence to the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA) and the *Federal Managers' Financial Integrity Act of 1982* for internal controls addressing financial and non-financial reporting, integrated financial management systems, and operations. Accessible financial information and effective internal controls increase accountability and transparency, thereby enhancing public confidence in the DAF's stewardship of public resources. The DAF continues to design and implement internal control activities to improve the integration of business processes, systems, and financial reporting to minimize the risk of errors that could lead to misstatements or noncompliance with laws and regulations.

MANAGEMENT ASSURANCES

The DAF performed its annual assessment of risks and internal controls in accordance with the Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office-25-10772, *Standards for Internal Control in the Federal Government* (the Green Book). Based on the results of this assessment, the DAF achieved the following management assurance levels as of September 30, 2025:

- Internal Controls over Reporting – assurance, except for 13 material weaknesses
- Internal Controls over Operations – assurance, except for eight material weaknesses
- Internal Controls over Financial Systems – assurance, except for two material weaknesses
- Entity Level Controls, including fraud – unable to provide assurance, due to two material weaknesses that are included in the Internal Control over Reporting material weaknesses listed above

Refer to Table 1 in the Other Information: *Summary of Financial Statement Audit and Management Assurances* section of the Agency Financial Report for the listing of material weaknesses identified by the Independent Public Accountant (IPA). In its financial statement audit, the IPA does not report on deficiencies (including material weaknesses) in internal control over operations; however, DAF management does report material weaknesses in internal control over operations. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the Statement of Assurance issuance and the date of the Auditor's Report. The DAF concurs with the material weaknesses identified by the IPA, which are consistent with those identified by DAF management after consideration for current year material weakness changes.

INTERNAL CONTROL GOVERNANCE

In FY 2025, the DAF leveraged the Risk Management Council (RMC) and Senior Management Council (SMC) to provide oversight of enterprise risk management and internal control activities over operations. RMC responsibilities focus on approving the DAF Enterprise Risk Profile and holding enterprise risk owners accountable for driving enterprise risk management efforts. Primary responsibilities of the SMC include monitoring deficiencies in internal control in accordance with OMB Circular No. A-123 and the Green Book to oversee the timely implementation of corrective actions related to operational material weaknesses and significant deficiencies. The DAF continued to leverage the Executive Steering Committee (ESC) to fulfill the role of the Senior Assessment Team (SAT) in FY 2025. In its role as the SAT, the ESC assesses the implementation progress of corrective action plans (CAPs) for financial reporting and financial systems material weaknesses and significant deficiencies. The DAF continued to leverage the Fraud Risk Oversight Committee (FROC) to provide oversight and monitoring of the effectiveness of internal controls to manage the risk of fraud. The FROC is responsible for the DAF's fraud risk assessment process, the Government Accountability Office fraud risk management framework assessment, anti-fraud activities across the program, and the DAF's fraud risk profile.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

In addition, the DAF continued implementation of the Enterprise Governance, Risk, and Compliance (eGRC) tool to streamline and automate the OMB Circular No. A-123 program. In FY 2025, eGRC served as the official repository for Risk Management and Internal Control assessments.

INTERNAL CONTROL OVER REPORTING

In FY 2025, the DAF continued to improve the quality of its business process documentation to include risks and internal controls over reporting. The DAF self-assessed key internal controls within its business processes and evaluated the results of external audits, identifying 13 total uncorrected material weaknesses, comprised of seven DAF GF and six DAF WCF material weaknesses.

The tables below include the 13 material weaknesses in internal control over reporting, along with the corresponding corrective actions.

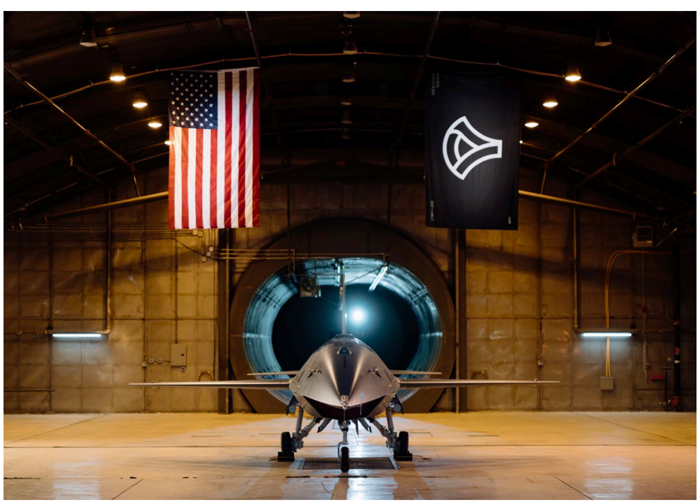
TABLE 1: Fiscal Year 2025 Material Weaknesses in Internal Control over Reporting

UNCORRECTED DAF GF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Procure-to-Pay	Accounts Payable and Expenses	Implement controls over accounts payable, contract financing payments, expenses, cash disbursement and obligation processes. Implement controls over the accounting for joint procurement programs and shared access vendor contracts.	FY 2025
Multiple	Entity Level Controls	Enhance enterprise wide leadership's integration and oversight of risks and formalize and fully implement an enterprise information technology (IT) strategy. Recruit and train a sufficient financial management workforce and accomplish external financial reporting objectives.	FY 2026
Budget-to-Report	Integration and Reconciliation of Financial Systems	Validate the completeness of transactions underlying the financial statements and record transactions in accordance with the United States Standard General Ledger (USSGL). Implement processes and controls to compensate for known Defense Enterprise Accounting and Management System (DEAMS) system design limitations.	FY 2026
Plan-to-Stock	Operating Materials and Supplies	Document and assess accounting policies, procedures, and controls for Operating Materials and Supplies (OM&S). Implement controls over financial reporting of OM&S and implement accounting processes to value and report OM&S.	FY 2026
Acquire-to-Retire	Other General Equipment	Document accounting policies, procedures, and controls for General Equipment (GE)-Other. Identify a complete population of GE-Other and implement controls over the valuation and financial reporting of GE-Other.	FY 2025
Acquire-to-Retire	Property and Materials Held by Others	Increase oversight and monitoring of OM&S managed by Army and the Defense Logistics Agency (DLA). Increase oversight and monitoring of government furnished property and contractor-acquired property and the accounting for Joint Strike Fighter spare parts and equipment.	FY 2026
Acquire-to-Retire	Real Property	Document accounting policies, procedures, and controls for Real Property and implement controls over financial reporting of Real Property. Increase oversight and monitoring of Accountable Property System of Records data. Implement procedures to identify the complete population of Real Property assets and implement procedures to monitor, value and report real property construction-in-progress.	FY 2025

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

UNCORRECTED DAF WCF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Budget-to-Report	Accounts Payable, Gross Costs, and Contract Financing Payments	Document sufficient accounting policies, procedures and controls. Implement controls over accounts payable, contract financing payments, gross costs, and cash disbursement and obligation processes.	FY 2025
Multiple	Earned Revenue	Correctly apply the percentage of completion revenue recognition method for maintenance revenue. Provide support for invoice level accounts receivable subledgers.	FY 2027
Multiple	Entity Level Controls	Enhance enterprise-wide leadership's integration and oversight of risks and accomplish external financial reporting objectives.	FY 2028
Budget-to-Report	Integration and Reconciliation of Financial Systems	Validate the completeness of transactions underlying the financial statements; increase oversight and monitoring of posting logic compliance with USSGL; maintain and provide supporting documentation in a timely manner; and fully implement a formal enterprise IT strategy.	FY 2028
Plan-to-Stock	Inventory Held by the Department of the Air Force Working Capital Fund	Implement inventory count procedures and controls. Develop sufficient policies, procedures, and controls over inventory valuation and inventory movement transactions and identify and value in-transit inventory.	FY 2025
Plan-to-Stock	Inventory Held by Others	Increase oversight of inventory managed by the DLA and increase oversight of inventory managed by contractors and other defense organizations.	FY 2026

JET SET GO: AIR FORCE'S AI-POWERED FLYERS TAKE CENTER STAGE



Ground testing is underway for the DAF's Collaborative Combat Aircraft (CCA) program, marking a significant milestone in the integration of autonomous technology into the future force.

"This phase bridges the gap between design and flight, reducing integration risks, boosting confidence, and laying the groundwork for a successful first flight and eventual fielding to the warfighter."

The Air Force has selected Beale Air Force Base, California, as the preferred site for its first CCA Aircraft Readiness Unit (ARU). The ARU will provide combat aircraft maintained in a fly-ready status and flown minimally, enabling rapid worldwide deployment at a moment's notice while requiring substantially fewer airmen to support the fleet compared to other weapons systems.

A YFQ-44A production representative test vehicle is staged in a testing chamber at Costa Mesa, CA. The DAF has begun ground testing for the Collaborative Combat Aircraft program to validate performance and readiness for future flight testing. —Courtesy photo

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

INTERNAL CONTROL OVER FINANCIAL SYSTEMS

The DAF is committed to improving financial and financial feeder IT systems across the enterprise and has established a goal of achieving a modernized, sustainable, and audit-compliant portfolio of its financial systems, including feeder systems and applications, as efficiently and cost-effectively as possible. The DAF continues to make progress toward effective internal controls, standardized business processes, integrated financial/feeder systems, and a workforce marked by human capital leading practices. Critical systems to financial reporting and control span across various business functions including, but are not limited to, acquisition (Contract Information Technology), logistics (Theater Integrated Combat Munitions System, Next Generation Information Technology, Reliability and Maintainability Information System), and financial management (DEAMS).

The DAF has 41 Defense Business Systems that are material to the DAF GF and DAF WCF financial statements. In FY 2025, these systems were substantially non-compliant with critical requirements including Federal Information Systems Control Audit Manual (FISCAM), FFMIA, and Standard Financial Information Structure. The DAF received 150 IT Notices of Findings & Recommendations as a result of the financial statement audit. Audit and compliance gaps were identified in critical IT general controls and business process application controls and with Federal Financial Management System Requirements. These deficiencies contributed to several entity level findings, including an overall material weakness for Financial Information Systems for both the DAF GF and DAF WCF.

In FY 2025, the DAF Business Mission Area continued to fully implement its Enterprise IT Strategy to simplify, secure, and modernize its portfolio of financial and financial feeder systems, as well as systems owned by third-party service providers that impact DAF financial statements. The DAF submitted 60 IT CAPs to the IPA for closure, with half pertaining to access controls, a primary Secretary of War priority. Remediating access control deficiencies helps to safeguard sensitive data from unauthorized access and misuse. In addition, the DAF continues to implement CAPs to improve the monitoring and evaluation of risks associated with third-party service providers by establishing monitoring and oversight policies, procedures, and analysis for third-party systems and processes (e.g., System and Organization Control reports, memorandums of understanding/agreements, system populations, and complementary user entity controls) in accordance with OMB Circular No. A-123. The DAF conducted internal control assessments and coordinated with the Air Force Audit Agency to begin agreed upon procedures for additional control testing. These efforts resulted in the evaluation of more than 850 FISCAM and FFMIA controls across 20 applications. Assessing non-compliant or previously unassessed controls is critical for the DAF to achieve compliance with key requirements and enable auditability of material systems.

The DAF will continue to implement enhanced cross functional governance and tools to support monitoring of compliance requirements, implementation of cybersecurity solutions (e.g., Identity, Credential, and Access Management (ICAM); Security Information and Event Monitoring, System Security and Configuration Management Database/Enterprise Integration), and retirement of legacy systems. In FY 2025 the DAF continued implementation of a multi-year roadmap to accelerate ICAM capabilities for critical Financial and Financial Feeder systems, in alignment with the Secretary of War and DAF strategic audit and cybersecurity goals. The implementation of ICAM capabilities in IT solutions will limit access to critical systems and financial data to those with a "need to know." In FY 2026, the DAF will continue assessing critical requirements, validating implemented CAPs, and onboarding financial systems to key capabilities.

The table below describes the two material weaknesses in internal control over financial systems, along with the corresponding corrective actions for the DAF GF and the DAF WCF.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

TABLE 2: Fiscal Year 2025 Material Weaknesses in Internal Control over Financial Systems

UNCORRECTED DAF GF INTERNAL CONTROL OVER FINANCIAL SYSTEMS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal IT system requirements (access controls, configuration management controls, segregation of duties, security management, and interface controls); comply with federal accounting standards; post transactions; and report in compliant formats.	FY 2026

UNCORRECTED DAF WCF INTERNAL CONTROL OVER FINANCIAL SYSTEMS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal information technology system requirements (access controls, configuration management controls, segregation of duties, security management, and interface controls); comply with federal accounting standards; post transactions; and report in compliant formats.	FY 2026

Master Sgt. Cameron Stommel of the 158th Fighter Wing (FW) returns to South Burlington, VT, after a deployment to Japan. The 158th FW was deployed to Okinawa to support the Vermont Air National Guard's (ANG) F-35A Lightning II aircraft. —U.S. ANG photo by Chief Master Sgt. Rob Trubia

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

INTERNAL CONTROL OVER OPERATIONS

In FY 2025, the DAF leveraged the SMC to identify, assess, and monitor material weaknesses over operations.

The table below describes the eight material weaknesses in internal control over operations, along with the corresponding corrective actions.

TABLE 3: Fiscal Year 2025 Material Weaknesses in Internal Control over Operations

UNCORRECTED INTERNAL CONTROL OVER OPERATIONS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Contract Administration	Contracting Officer Representatives	Confirm that a qualified Contracting Officer Representative is designated for all service contracts. Retain and execute contract oversight responsibilities and enhance existing process to further reduce improper payments.	FY 2026
Other	Criminal History Data Reporting Requirements	Further codify DAF Criminal Justice Information Cell with Initial Operating Capability to oversee all criminal data and reporting with Air Force Office of Special Investigations.	FY 2028
Information Technology - Business System Modernization	Cybersecurity of Automatic Test Systems and Equipment	Develop a new compliance tracking system.	FY 2026
Security	Cybersecurity of Network Component Purchases	Develop and document a process to confirm network component purchases are documented in the DAF accountable record upon receipt. Update the DAF Enterprise Configuration Monitoring Strategy to investigate, identify, and disseminate monitoring tools and techniques at the network component level.	FY 2024 (In Validation)
Force Readiness	Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	Reinforce training requirements and document controls.	FY 2024 (In Validation)
Security	Protection of Sensitive Information on the Network	Reinforce data encryption controls.	FY 2025
Security	Secure Internet Protocol Router Network Access Controls	Properly configure all network components and devices.	FY 2027
Information Technology - Business System Modernization	Weapon System Cyber Hygiene	Reinforce training requirements and documentation controls.	FY 2024 (In Validation)

STATEMENT OF ASSURANCE

SECRETARY OF THE AIR FORCE
WASHINGTON

MEMORANDUM FOR OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) DEPUTY CHIEF FINANCIAL OFFICER

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2025

The Department of the Air Force (DAF) conducted its annual assessment to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The OAF assessed risk and internal controls according to the Office of Management and Budget Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-25-107721, "Standards for Internal Control in the Federal Government." The review included internal controls for Security Assistance Account activities. Based on the results, the OAF can provide assurance that internal controls over reporting, integrated financial management systems, operations, and compliance are operating effectively as of September 30, 2025. Except for 23 material weaknesses and 9 significant deficiencies as reported in the "Material Weaknesses and Significant Deficiency Template."

The DAF can provide assurance that internal controls over reporting (including internal and external financial reporting) are operating effectively, except for 11 material weaknesses and three significant deficiencies. The DAF can provide assurance that internal controls over integrated financial management systems are operating effectively, except for two material weaknesses. The DAF can provide assurance that internal controls over operations, except for eight material weaknesses and six significant deficiencies. The DAF is unable to provide assurance that entity-level controls (including fraud controls) are operating effectively, due to two material weaknesses reported.

The DAF is hereby reporting that no Anti-Deficiency Act violation has been discovered/identified during our assessments of the applicable processes.

The DAF demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority.

If there are any questions regarding this Statement of Assurance for FY25, my point of contact is Mr. Mike Mason, SAF/FMFA, available by telephone (618) 741-6090 or e-mail (michael.mason.23@us.af.mil).

Troy E. Meink

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

The *Anti-Deficiency Act* (ADA) is codified in 31 U.S. Code §§ 1341(a)(1), 1342, and 1517(a).

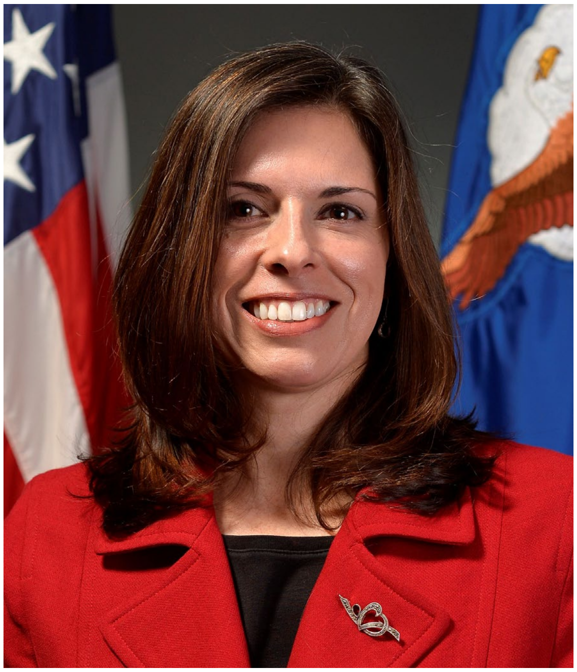
An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States. As of September 30, 2025, the DAF has one open ADA case.

USAF Airmen from the 709th Airlift Squadron and the 512th Aircraft Maintenance Squadron load a Pierce Arrow Telesquirt fire truck onto a C-5M Super Galaxy at Scott Air Force Base, IL. Weighing approximately 31,000 to 33,000 pounds without water, the fire truck's size and weight required careful coordination and precision handling during the loading process. The fire truck was donated by a Non-Governmental Organization as part of the Denton Humanitarian Assistance Program, which provides transportation of humanitarian goods to countries in need. —USAF photo by Airman 1st Class Devin Morgan

FINANCIAL SECTION

Lt. Col. Michael Ress, 309th Fighter Squadron (FS) commander, climbs into the cockpit of an F-16 Fighting Falcon to pilot the final U.S. F-16 flight out of Luke Air Force Base (AFB), AZ, delivering it to the 16th Weapons Squadron at Nellis AFB, NV. This flight concludes the divestment of the remaining U.S. F-16s, ending this chapter for the 309th FS as it prepares to transition to the F-35A Lightning II. —USAF photo by Senior Airman Katelynn Jackson

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



21 November 2025

I am honored to support Secretary Meink in presenting the Department of the Air Force's Fiscal Year 2025 Agency Financial Report, an annual report reviewing the Department's financial performance and showcasing the successes we have had in improving our processes and systems to maximize the value to American taxpayers.

The Department of the Air Force is steadfast in its commitment to achieving a clean audit opinion. As stewards of taxpayer dollars and defenders of our nation, we recognize that financial transparency, accountability, and efficient use of resources are paramount to ensuring mission readiness while maintaining public trust. I am incredibly proud of the work the Department of the Air Force has done so far and the milestones we have achieved on our audit journey. Our teams continue to set the tone across the Department of War, blazing a solutions-fueled trail that continues to lead Military Departments in audit remediation. But fighter jets do not have rearview mirrors for a reason; we must continue to keep our eyes locked on the target ahead.

Passing the audit remains a top priority for the Department of War. I echo our Senior Leaders in our obligation to achieve a clean audit opinion, and I can confidently speak for all our Airmen and Guardians that we share their unwavering commitment to deliver results. In his tone from the top memo, Secretary Meink called for a plan to accelerate achieving a clean audit opinion. The Department of the Air Force responded by collaborating across the enterprise to develop a strategy to accelerate our ability to deliver a sustainable, auditable financial ecosystem.

Our acceleration efforts will focus on the major remaining balance sheet areas standing between us and a clean bill of financial health. To speed up progress, we will leverage more audit-focused testing techniques and get more Airmen and Guardians involved in audit-related activities. We will also implement artificial intelligence/machine learning and automation solutions to enhance financial transaction traceability, improve audit remediation, and streamline processes, leveraging tools like machine learning models for pattern sensing, automated variance analysis, and artificial intelligence driven control testing. By evolving our approach and adopting emerging technologies to improve efficiencies, we will remediate these highly complex, challenging line items, increase the audibility of the Department of the Air Force General Fund's and Working Capital Fund's balance sheets, and position our Department to secure a clean audit opinion.

The Department of the Air Force continues to modernize our financial systems to improve data accuracy, enhance our ability to track and manage assets, and secure our information technology environments by onboarding systems to Identity, Credential, and Access Management solutions. These system improvements will prove pivotal to complying with federal laws and regulations and reducing the risk of financial mismanagement through more reliable and timely data, ultimately helping us sustain a clean audit opinion when we secure it.

The Department of the Air Force is embracing the challenge of accelerating an opinion and evolving our approach to deliver the results the American public deserves. We understand the importance of this goal and are committed to upholding the highest standards of financial integrity in service to our great nation.

Lara C. Sayer
Principal Deputy Assistant Secretary of the Air Force
(Financial Management and Comptroller)

DEPARTMENT OF THE AIR FORCE GENERAL FUND
(UNAUDITED)

The DAF GF principal statements and related notes summarize financial information for the DAF GF for the FY ended September 30, 2025. The USSF is reported as part of the DAF GF's financial statements. The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the *Chief Financial Officers Act of 1990*, the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

The following statements comprise the DAF GF's principal statements:

CONSOLIDATED BALANCE SHEET

» The Consolidated Balance Sheet, as of September 30, 2025, represents those resources owned or managed by the DAF GF, which are available to provide future economic benefits (assets), amounts owed by the DAF GF that will require payments from those resources or future resources (liabilities), and residual amounts retained by the DAF GF, comprising the difference (net position).

CONSOLIDATED STATEMENT OF NET COST

» The Consolidated Statement of Net Cost presents the net cost of the DAF GF's operations for the FY ended September 30, 2025. The DAF GF's net cost of operations includes the gross costs incurred by the DAF GF less any exchange revenue earned from DAF GF activities.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

» The Consolidated Statement of Changes in Net Position presents the change in the DAF GF's net position resulting from the net cost of DAF GF's operations, budgetary financing sources other than exchange revenues, and other financing sources for the FY ended September 30, 2025.

COMBINED STATEMENT OF BUDGETARY RESOURCES

» The Combined Statement of Budgetary Resources presents the budgetary resources available to the DAF GF during FY 2025, the status of these resources as of September 30, 2025, and the net outlays of budgetary resources for the FY ended September 30, 2025.

A USAF F-16 Fighting Falcon assigned to the 35th Fighter Squadron is parked on the flightline as fireworks light up the night during the Japanese-American Friendship Festival 2025 at Yokota Air Base (AB), Japan. The two-day event welcomed tens of thousands of visitors and provided an opportunity to celebrate and deepen the U.S.-Japan alliance. Through aircraft displays, cultural exchanges and live entertainment, the festival helped strengthen the enduring bonds between Yokota AB and the surrounding communities. —USAF photo by Yasuo Osakabe

DEPARTMENT OF THE AIR FORCE GENERAL FUND
CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 CONSOLIDATED** *(UNAUDITED)*
ASSETS		
Intragovernmental		
Fund Balance with Treasury (*Note 3*)	$	227,109,737
Investments (*Note 5*)		7
Accounts Receivable, Net (*Note 6*)		1,687,082
Advances and Prepayments (*Note 10*)		172,298
Total Intragovernmental	$	228,969,124
Other than Intragovernmental		
Cash and Other Monetary Assets (*Note 4*)	$	102,967
Accounts Receivable, Net (*Note 6*)		386,158
Operating Materials and Supplies, Net (*Note 8*)		73,177,045
General Property, Plant, and Equipment, Net (*Note 9*)		210,629,187
Advances and Prepayments (*Note 10*)		8,647,386
Total Other than Intragovernmental	$	292,942,743
Total Assets	$	521,911,867
Heritage Assets and Stewardship Land (*Note 9*)		
LIABILITIES		
Intragovernmental		
Accounts Payable	$	4,000,426
Advances from Others and Deferred Revenue (*Note 15*)		6,690,109
Other Liabilities (*Note 13* and *Note 15*)		1,532,291
Total Intragovernmental	$	12,222,826
Other than Intragovernmental		
Accounts Payable	$	10,990,634
Federal Employee Salary, Leave, and Benefits Payable (*Note 13*)		7,956,598
Pensions, Other Post-Employment, and Veterans Benefits Payable (*Note 13*)		853,250
Environmental and Disposal Liabilities (*Note 14*)		18,597,987
Advances from Others and Deferred Revenue (*Note 15*)		466,958
Other Liabilities (*Note 15*, *Note 16*, and *Note 17*)		2,009,500
Total Other than Intragovernmental	$	40,874,927
Total Liabilities	$	53,097,753
Commitments and Contingencies (*Note 17*)		

DEPARTMENT OF THE AIR FORCE GENERAL FUND
CONSOLIDATED BALANCE SHEET CONTINUED

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 CONSOLIDATED** *(UNAUDITED)*
NET POSITION		
Unexpended Appropriations - Funds Other than Dedicated Collections	$	209,649,352
Total Unexpended Appropriations (Consolidated)	$	209,649,352
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)		38,805
Cumulative Results of Operations - Funds Other than Dedicated Collections		259,125,957
Total Cumulative Results of Operations (Consolidated)	$	259,164,762
Total Net Position	$	468,814,114
Total Liabilities and Net Position	$	521,911,867

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED STATEMENT OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 CONSOLIDATED** *(UNAUDITED)*
Gross Program Costs	$	262,822,319
(Less: Earned Revenue)		(13,482,254)
Net Cost of Operations	$	249,340,065

The accompanying notes are an integral part of these statements. For additional information, refer to Note 19, Disclosures Related to the Statement of Net Cost.

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 CONSOLIDATED** *(UNAUDITED)*
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - Note 18)	$	181,335,641
Appropriations Received		279,975,727
Appropriations Transferred In/Out		2,509,137
Other Adjustments (+/-)		(4,523,690)
Appropriations Used		(249,647,463)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - Note 18)	$	28,313,711
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - Note 18)	$	209,649,352
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$	215,040,347
Prior Period Adjustments		
Corrections of Errors (+/-) (Note 27)	$	41,526,568
Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - Note 18)	$	256,566,915
Budgetary Financing Sources		
Other Adjustments (+/-)	$	(30,186)
Appropriations Used		249,647,463
Non-Exchange Revenue		(38,183)
Donations and Forfeitures of Cash Equivalents		1,763
Transfers In/Out without Reimbursement		351,650
Imputed Financing		1,863,936
Other		141,469
Total Budgetary Financing Sources	$	251,937,912
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - Note 18)	$	249,340,065
Net Change in Cumulative Results of Operations	$	2,597,847
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - Note 18)	$	259,164,762
Net Position	$	468,814,114

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE GENERAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 COMBINED** *(UNAUDITED)*
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$	59,883,915
Appropriations (Discretionary and Mandatory)		280,480,659
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		14,878,736
Total Budgetary Resources	$	355,243,310
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$	281,684,049
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	$	46,124,975
Exempt from Apportionment, Unexpired Accounts		10,855
Unapportioned, Unexpired Accounts		20,817,231
Unexpired Unobligated Balance, End of Year	$	66,953,061
Expired Unobligated Balance, End of Year		6,606,200
Unobligated Balance, End of Year (Total)	$	73,559,261
Total Budgetary Resources	$	355,243,310
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	$	251,149,815
Distributed Offsetting Receipts (+/-)		(297,839)
Agency Outlays, Net (Discretionary and Mandatory)	$	250,851,976

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL STATEMENTS

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

Click Each Note for Quick Access *(Online Version Only)*

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

A. REPORTING ENTITY

The DAF encompasses the DAF Headquarters, USAF Field Organizations, and USSF Field Organizations. The Secretary of the Air Force has overall responsibility for the USAF and for the USSF, under the guidance and direction of the Secretary of War.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. The DAF GF includes financial information for both the USAF and the USSF; however, separate appropriations were established to fund USSF activity. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF GF. As a result, it does not disclose information related to the DAF WCF.

Refer to the *Overview*, *Mission*, and *Organizational Structure* sections in the Management's Discussion and Analysis for further information.

As a reporting entity of the U.S. Government, some of the assets and liabilities reported by the DAF GF may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. The financial statements should be read with the realization that they are for a component of the U.S. Government.

B. BASIS OF PRESENTATION

These financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF GF, 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 accompanying financial statements account for all resources for which the DAF GF 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 the DAF GF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the Department of Defense (DoD) Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) as described by the Federal Accounting Standards Advisory Board (FASAB).

The DAF GF is unable to fully implement all elements of GAAP and OMB Circular A-136 due to the limitations of financial and non-financial management processes and systems that support the financial statements. The DAF GF derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The DAF GF continues to implement process and system improvements addressing these limitations.

C. BASIS OF ACCOUNTING

The DAF GF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DAF GF's sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections); non-financial feeder system; and accruals made for major items such as payroll expenses, Accounts Payable, and Environmental and Disposal Liabilities (E&DL).

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The DAF GF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the components; intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The DAF GF is continuing to evaluate the effects that will result from fully adopting accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected to have an impact on the DAF GF's financial statements; however, the DAF GF is currently unable to determine the full impact these pronouncements will have on its financial position, results of its operations, net position, and budgetary activity when such pronouncements are adopted.

1. Statement of Federal Financial Accounting Standards (SFFAS) 2, *Accounting for Direct Loans and Loan Guarantees*.
2. SFFAS 3, *Accounting for Inventory and Related Property*.
3. SFFAS 5, *Accounting for Liabilities of The Federal Government*.
4. SFFAS 6, *Accounting for Property, Plant, and Equipment*.
5. SFFAS 10, *Accounting for Internal Use Software*.
6. SFFAS 18, *Amendments to Accounting Standards For Direct Loans and Loan Guarantees in SFFAS 2*.
7. SFFAS 19, *Technical Amendments to Accounting Standards For Direct Loans and Loan Guarantees in SFFAS 2*.
8. SFFAS 29, *Heritage Assets and Stewardship Land.*
9. SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.
10. SFFAS 47, *Reporting Entity.*
11. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.
12. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*.
13. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and SFFAS 23, and Rescinding SFFAS 35*.
14. SFFAS 53, *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22*.
15. SFFAS 54, *Leases.*
16. SFFAS 59, *Accounting and Reporting of Government Land*.
17. SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*.
18. SFFAS 61, *Omnibus Amendments 2023: Leases-Related Topics II*.
19. SFFAS 62, *Transitional Amendment to SFFAS 54*.
20. SFFAS 63, *Omnibus Amendments 2024-1, Amending SFFAS 38, 49, and Technical Bulletin 2011-1*.
21. SFFAS 64, *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15*.
22. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*.
23. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

24. Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*.
25. Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*.
26. Technical Release 18, *Implementation Guidance for Establishing Opening Balances*.
27. Technical Release 20, *Implementation Guidance for Leases*.
28. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*.
29. Technical Release 22, *Leases Implementation Guidance Updates*.
30. Technical Release 23, *Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21*.
31. Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended*.
32. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*.
33. Interpretation 10, *Clarification of Non-Federal Non-Entity FBwT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*.

D. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

The Treasury Financial Manual, Volume 1, Part 2, Chapter 4700, *Federal Entity Reporting Requirements For The Financial Report Of The United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and Earned Revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity.

Imputed financing represents the cost paid by another federal entity on behalf of the DAF GF. In accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*, the DAF GF recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB Circular A-136, including: 1) employee pension, post-retirement health, and life insurance benefits; 2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the *Federal Employees' Compensation Act*; and 3) losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF GF's financial statements.

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

E. NON-ENTITY ASSETS

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

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

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

F. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBwT) represents the aggregate amount of the DAF GF's budget spending authority available to pay current liabilities and finance future authorized purchases. FBwT is an asset of the DAF GF and a liability of the U.S. Government GF. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the DAF GF and liabilities of the U.S. Government GF. In both cases, the amounts represent commitments by the Government to provide resources for programs, but they do not represent net assets to the Government as a whole.

When the DAF GF seeks to use FBwT or investments in Government securities to liquidate budgetary obligations, the Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, in case of a budget deficit. In addition, the DAF GF reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions in the applicable FBwT account.

The DAF GF's monetary resources of collections and disbursements are maintained in Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers currently process most of the DAF GF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The model of using the DAF GF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF GF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF GF's target end state of executing payments and collections directly between the DAF GF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF GF to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

Disbursing Officer Cash was previously recorded as a Non-Entity Asset and a liability. Under new guidance from The Office of Secretary of Defense (OSD), these funds are now Entity and recorded as a reduction to the DAF GF's FBwT as Disbursing Officer Funds.

For additional information, refer to Note 3, *Fund Balance with Treasury*, and Note 4, *Cash and Other Monetary Assets*.

G. CASH AND OTHER MONETARY ASSETS

Cash is the total of cash resources under the control of the DAF GF including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions.

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

H. INVESTMENTS

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

For additional information, refer to Note 5, *Investments, Net*.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

I. ACCOUNTS RECEIVABLE

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF GF records an allowance for Intragovernmental Receivables and an allowance for Other than Intragovernmental Receivables, based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF GF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies.

In accordance with paragraphs 44-49 of SFFAS 1, *Accounting for Selected Assets and Liabilities*, the methodology for losses due to uncollectible amounts are based on an individual account analysis and/or group analysis and is performed using the same methodology for both Intragovernmental Receivables and Other than Intragovernmental Receivables.

For additional information, refer to Note 6, *Accounts Receivable, Net*.

J. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

The FY 1996 *National Defense Authorization Act* (NDAA) contains authorities for the Military Housing Privatization Initiative (MHPI). The NDAA includes a series of authorities that allow the DAF GF to work with the private sector to build, renovate, and sustain military housing. The goals of the program are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers. The DAF GF exercised MHPI authorities including direct loans and loan guarantees, differential lease payments, equity investments, and conveyance or leasing of land and/or housing and other facilities.

The DAF GF entered into a competitive process with the private sector with a goal to provide its uniformed service members and their families access to safe, secure, quality, affordable, and well-maintained housing in a military community where they choose to live. The projects are non-Federal Acquisition Regulation (FAR) real estate transactions with project owners. The project owners obtain financing, provide required equity, develop, own, and operate the rental housing development for a period of 40 to 50 years. The expected life of each MHPI agreement corresponds to the duration of the ground lease. The duration of the ground lease was established through negotiation with the project owner and was considered to be the minimum duration required to ensure project success.

As required by SFFAS 2, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

The DAF GF has begun implementing SFFAS 49 but has not completed a full analysis of all arrangements and transactions for Public-Private Partnership criteria. Transactions and amounts for MHPI-related activity are recorded only in the DoD consolidated principal financial statements.

For additional information, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, and Note 25, *Public-Private Partnerships*.

K. OPERATING MATERIALS AND SUPPLIES, NET

Operating Materials and Supplies (OM&S) consists of tangible personal property to be consumed in normal operations, including Munitions (MUNS), Uninstalled Missile Motors (UMMs), Intercontinental Ballistic Missiles (ICBMs), Spare Engines (SE), Contractor-Inventory Control Point (C-ICP), Base Possessed (BP), Aerial Targets & Drones (AT&D), and Cruise Missiles (CM).

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

K1. Munitions

The term MUNS is inclusive of all conventional (non-nuclear) MUNS and the components that comprise these assets. Examples include the following: Aircraft Guns, Conventional Ground, Air-to-Ground, Ammunition, Explosive Ordinances, etc. Furthermore, Class V MUNS include - Ammunition of all types, bombs, explosives, mines, fuses, detonators, pyrotechnics, missiles, rockets, propellants, and associated items. MUNS purchased prior to 2016 are valued based on the Federal Logistics Information System catalogue price. MUNS purchased after 2016 are valued based on actual historical cost. Theater Integrated Combat Munitions System (TICMS) calculates Moving Average Cost (MAC) for MUNS.

K2. Uninstalled Missile Motors

UMMs are used to support the active fleet of Minuteman (MM) ICBMs (MM III Stages I-III and Propulsion System Rocket Engine) and the Rocket System Launch Program. Examples of UMMs include Peacekeeper, MM II, MM III, etc. UMMs, while it is its own Assessable Unit, fall under the Class V supply category, the same as MUNS. Additionally, UMMs were subsumed into the TICMS Accountable Property System of Record (APSR), the same APSR as MUNS. TICMS calculates MAC for UMMs.

K3. Intercontinental Ballistic Missiles

LGM-30G MM III missiles, which are long-range, solid-fuel, three-stage ICBMs that have the capability to carry single or multiple nuclear warheads. Effective Quarter (Q)3 FY 2024, the OSD published a memorandum to change the accounting treatment for all missiles, including long-range ballistic variants such as ICBMs, to be designated as OM&S for financial reporting purposes. The DAF GF prepared and recorded a prior period adjustment in Q4 FY 2024 to reclassify ICBMs from General Equipment to OM&S on the DAF GF financial Statements.

The DAF GF performed valuation for ICBMs previously using valuation methods that were: 1) reasonable historical cost estimates based on cost of similar assets at the time of acquisition; or 2) other reasonable methods, including latest acquisition cost and estimation methods based on information such as, but not limited to engineering documents or other reports reflecting amounts to be expended.

K4. Spare Engines

SEs include uninstalled or unusable aircraft and cruise missile engines owned by DAF GF. SEs are valued based on estimated historical cost. The Comprehensive Engine Maintenance System calculates MAC.

K5. Contractor-Inventory Control Point

C-ICP is defined as Government Furnished Material that is managed and held by DoD contractors. The C-ICP asset population has not been verified to confirm the asset universe nor validate whether the contractors' inventory management systems and the DAF GF's APSRs Automated Logistics Management Support System and Enterprise Logistics Management System (ELMS) have the system capability to accurately calculate MAC. The DAF GF is currently evaluating alternative valuation methods to apply to the C-ICP population to overcome challenges related to MAC and considering the revisions to the DoD FMR to allow other valuation methods recognized by SFFAS 3. The DAF GF has issued a Contract Data Requirements List requiring financial reporting on a quarterly basis. However, the DAF GF has identified that not all C-ICP Programs are submitting the required Chief Financial Officer Reports or reporting through APSRs.

K6. Base Possessed

BP includes materials that provides a direction for determining and stocking materiel requirements, cataloging, ordering, sourcing, delivering, and return/disposal of material for OM&S. The BP APSRs Integrated Logistics Supply System and Financial Inventory Account and Billing System calculate MAC.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K7. Aerial Targets and Drones

AT&D are made up of full-scale and subscale aerial targets that are used to evaluate weapon systems performance.

K8. Cruise Missiles

CM consist of AGM-86B Air-Launched Cruise Missiles and AGM-86C/D Conventional Air-Launched Cruise Missiles and were developed to increase the effectiveness of B-52H bombers.

The DAF GF accounts for OM&S by using a combination of the consumption and purchases method of accounting. The DAF GF uses the consumption method of accounting for select categories of OM&S, including MUNS, UMM, ICBMs, SE, C-ICP, and BP. The consumption method of accounting requires that OM&S be recognized and reported as assets when they are produced or purchased. The cost of goods must be removed from the applicable OM&S asset account and reported as an operating expense in the period in which the items are issued to an end user for consumption in normal operations. The DAF GF uses the purchases method of accounting for the two assessable units of Cruise Missiles and Aerial Targets/Drones. This method of accounting was adopted based on the significance analysis criteria and is an accounting method whereby OM&S are expensed when purchased.

The DAF GF has valued some of its OM&S using deemed cost methodologies as defined in SFFAS 48. However, APSRs and processes required to consistently account for historical cost for all OM&S in accordance with SFFAS 3, as applicable, are not fully in place. Therefore, the DAF GF is not making an unreserved assertion with respect to any OM&S line items in accordance with SFFAS 48.

The DAF GF has not been able to identify a complete population of programs that contain contractor managed OM&S. In addition, some contractor systems can only provide minimal OM&S accounting data that can be used to prepare the financial statements. Although some programs report transactional data, the data provided by many other programs consists of only beginning and ending balances for each of the following asset accounts: Held for Use, Excess, Obsolete, and Unserviceable (EOU), Held for Future Use, and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the DAF GF can only report the net change between prior period ending balances and the values reported as current period ending balances.

The DAF GF is responsible for identifying inventory that is EOU. Upon identification of inventory as EOU, the DAF GF must write down the value of EOU inventory to its Net Realizable Value. For additional information, refer to Note 8, *Operating Materials and Supplies, Net*.

The DAF GF's accounting system uses transaction type codes provided by Mechanization of Contract Administration Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger posting to the proper work-in-process type asset account, including OM&S In-Development. Until system modifications are made, contract financing payments, as disclosed in Note 10, *Advances and Prepayments*, are overstated and work-in-process type assets (including OM&S In-Development) are understated.

Currently, the DAF GF cannot disclose an estimated Allowance for Repair as required by SFFAS 3. The DAF GF is actively working to implement corrective actions to properly report these amounts.

The DAF GF, when applicable, will continue to adopt SFFAS 48 permitting alternative methods in establishing opening balances. For additional information, refer to Note 8, *Operating Materials and Supplies, Net*.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

L. GENERAL PROPERTY, PLANT, AND EQUIPMENT

General Property, Plant, and Equipment (PP&E) consists of Real Property, Internal Use Software (IUS), Military Equipment, and Other General Equipment (OGE). The DAF GF records General PP&E at the estimated historical cost. In FY 2018, the DAF GF applied the deemed cost alternative valuation method to the opening balance of General PP&E – Land in accordance with SFFAS 50 and wrote off its recorded General PP&E – Land value. The DAF GF reported $0.0 opening balance for General PP&E – Land in FY 2021 and will expense General PP&E – Land acquisitions in future periods.

For additional information, refer to Note 9, *General Property, Plant, and Equipment, Net*.

L1. General PP&E – Real Property

General PP&E – Real Property consists of buildings, structures, and linear structures.

The DAF GF capitalizes General PP&E – Real Property acquisitions per SFFAS 6 and DoD FMR Volume 4, Chapter 24. The capitalization threshold for General PP&E – Real Property is $1.0 million.

The DAF GF continues to validate Plant Replacement Value (PRV), Placed-in-Service Date (PISD), existence, and completeness of data within the APSR. Validation of PRV and PISD led to the continued implementation of estimated historical cost valuation using deflated PRV for existing General PP&E – Real Property assets, in accordance with SFFAS 50. In FY 2025, the DAF GF performed a re-baseline of General PP&E – Real Property balances to the deflated PRV valuation for every asset recorded in the APSR under SFFAS 50. The DAF GF, however, has not made an unreserved assertion for its General PP&E – Real Property. For DAF GF, assets will be depreciated on a straight-line basis, using its net book value and the revised remaining useful life.

The DAF GF constructs General PP&E – Real Property and works closely with other Military Departments, the USACE, Naval Facilities Engineering Systems Command (NAVFAC), foreign governments, and private sector entities for design and construction. The DAF GF has begun coordinating with all relevant stakeholders to establish consistent and repeatable processes for Construction-in-Progress (CIP). Most of the General PP&E – Real Property construction is performed and reported by USACE and NAVFAC as service providers for the DAF GF under a sub-allotment authority.

L2. General PP&E – Internal Use Software

General PP&E – IUS includes financial, administrative, and operational software, including those used for project management, and software used to produce goods and services. General PP&E – IUS may exist as a stand-alone application, or the combined software components of an information technology system. However, software that is integrated into and necessary to operate equipment rather than perform an application is not considered or treated as General PP&E – IUS.

The DAF GF capitalizes General PP&E – IUS acquisitions per SFFAS 10 and DoD FMR Volume 4, Chapter 27. The capitalization threshold for General PP&E – IUS is $250.0 thousand. This capitalization threshold applies to asset acquisitions, bulk General PP&E – IUS purchases, and qualifying modifications/improvements placed into service after September 30, 2013.

The DAF GF continues efforts to validate the General PP&E – IUS population in order to establish the complete population of General PP&E – IUS and IUS in Development.

The DAF GF is in the process of implementing processes and controls in accordance with SFFAS 10. Once these processes and controls are in place, the DAF GF intends to apply prospective capitalization, in the FY of the unreserved assertion, General PP&E – IUS as permitted by SFFAS 50.

The DAF GF has not yet made an unreserved assertion for its General PP&E – IUS.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

L3. General PP&E – Military Equipment

General PP&E – Military Equipment includes multiple asset types such as Aircraft and Modifications, Satellites, Missiles, Pods, and Mine-Resistant Ambush Protected Vehicles, and any applicable CIP activity.

The DAF GF capitalizes General PP&E – Military Equipment acquisitions per SFFAS 6 and DoD FMR Volume 4, Chapter 25. The capitalization threshold for General PP&E – Military Equipment is $1.0 million. This capitalization thresholds apply to asset acquisitions and modifications/improvements placed into service after September 30, 2013. The DAF GF depreciates all General PP&E – Military Equipment on a straight-line basis. For aircraft that have received a modification that requires an extension of the asset's useful life beyond that of the original base asset, the asset's useful life is extended and results in a prospective adjustment to the depreciation calculation. The asset will be depreciated on a straight-line basis, using its net book value and the revised remaining useful life. No extension is made if the asset is fully depreciated at the time of modification or if the modification's useful life is less than the original base asset's remaining useful life.

The DAF GF has valued its General PP&E – Military Equipment using deemed cost methodologies as defined in SFFAS 50. The DAF GF has made an unreserved assertion for General PP&E – Military Equipment in accordance with SFFAS 50 as of October 1, 2023. The DAF GF does not have a material impairment that requires a disclosure in accordance with SFFAS 44. Opening balances for General PP&E – Military Equipment were established using expenditure, acquisition, and disposal information, while subsequent procurements and capital improvements have been valued in compliance with SFFAS 6.

The DAF GF reports CIP for applicable General PP&E – Military Equipment assets under development. The methodology to estimate CIP is based on the capitalizable expenditures during the period by program and by contract. CIP is reduced based on delivered assets placed in service, which are then recorded in the APSR at actual historical cost.

L4. General PP&E – Other General Equipment

General PP&E – OGE includes assets classified as support equipment such as passenger carrying, non-mine resistant ambush protected vehicles, communications security equipment, nuclear weapons-related material, satellite ground control segments, and special tooling and special test equipment, either as equipment in the possession of the DAF GF or as Government Furnished Equipment (GFE) in the possession of contractors.

General PP&E – OGE includes assets in the possession of third parties as either GFE or Contractor Acquired Property (CAP). The DAF GF provides Government-owned General PP&E (also known as GFE) to contractors for performing work within a contract for which the DAF GF must recognize the GFE for accountability and financial reporting purposes. CAP is property acquired, fabricated, or otherwise provided by the contractor on behalf of the DAF GF for performing work within a contract and to which the Government has title. If the CAP has a useful life of at least two years and the value of CAP meets or exceeds the DAF GF's capitalization threshold, GAAP requires the CAP to be reported on the DAF GF's Balance Sheet when title passes to the DAF GF or when the General PP&E is delivered to the DAF GF.

The DAF GF continues efforts to validate the General PP&E – OGE population in order to establish or migrate asset records to fully implement the ELMS. The DAF GF can account for only a portion of its support equipment and these support equipment categories have not yet been valued using deemed cost to establish opening balances under SFFAS 50. The DAF GF will continue to implement SFFAS 50 to establish opening balances for its General PP&E – OGE.

The DAF GF capitalizes General PP&E – OGE acquisitions per SFFAS 6 and DoD FMR Volume 4, Chapter 25. The capitalization threshold for General PP&E – OGE is $1.0 million. The DAF GF applies useful lives for General PP&E – OGE as prescribed in the DoD FMR Volume 4, Chapter 25.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The DAF GF is in the process of implementing processes and controls to report General PP&E – OGE in accordance with SFFAS 6. Therefore, the DAF GF has not yet made an unreserved assertion for its General PP&E – OGE balance.

M. STEWARDSHIP PROPERTY

The DAF GF maintains Heritage Assets and Stewardship Land. Heritage Assets consists of assets of historic, natural, cultural, educational, architectural, or artistic significance. Stewardship Land represents land and land rights owned by the DAF GF but not acquired for or in connection with General PP&E.

For additional information, refer to Note 9, *General Property, Plant, and Equipment, Net*.

N. ADVANCES AND PREPAYMENTS

Advances and Prepayments are amounts paid in advance of receipt of goods or services.

For additional information, refer to Note 10, *Advances and Prepayments*.

O. LEASES

DAF as the Lessee

The DAF GF, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds or other consideration. Leases are classified as either intragovernmental, short-term or a right-to-use lease asset (lease asset).

A short-term lease is a non-intragovernmental contract or agreement with a lease term of 24 months or less. Short-term lease payments are expensed when paid.

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 whereby one entity (lessor) conveys the right to control the use of General 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. Intragovernmental lease payments are expensed, regardless of lease term.

A lease asset and related liability should be recognized for non-federal contracts or agreements that exceed 24 months. The lease asset and lease liability should be recorded at the commencement of the lease using the present value of the minimum lease payments during the lease term. The discount rate for the present value calculation is either the lessor's implicit interest rate or the interest rate on marketable Treasury Securities at the inception of the lease.

As disclosed in Note 1.C., the DAF GF has not implemented and is not compliant with SFFAS 54. The complete population of leases has not been determined and the valuation cannot be supported.

DAF as the Lessor

The DAF GF as the lessor, conveys the right to control the use of General PP&E (the underlying asset) to another entity (lessee) for a period as specified in the contract or agreement in exchange for consideration. Leases are classified as either intragovernmental, short-term or a right-to-use lease asset (lease asset).

A short-term lease is a non-intragovernmental contract or agreement with a lease term of 24 months or less. Short-term lease payments are reported as revenue based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts.

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 whereby one entity (lessor) conveys the right to control the use of General PP&E (the underlying asset) to another entity (lessee) for a period of time, as specified in

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

the contract or agreement in exchange for consideration. Intragovernmental lease payments are expensed, regardless of lease term.

A lessor should recognize lease receipts, including lease-related operating costs (for example, maintenance, utilities, or taxes) received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. A lessor should recognize a lease receivable and unearned revenue, for leases that exceed 24 months. Any initial direct lease costs incurred by the lessor should be reported as an expense of the period. A lessor initially should measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts.

As disclosed in Note 1.C., the DAF GF has not implemented and is not compliant with SFFAS 54. The complete population of leases has not been determined and the valuation cannot be supported.

For additional information, refer to Note 16, *Leases*.

P. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources because of past transactions or events; however, no liability can be paid by the DAF GF without proper budget authority. Liabilities Covered by Budgetary Resources are appropriated funds for which funding is available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. For additional information, refer to Note 11, *Liabilities Not Covered by Budgetary Resources*.

Other Liabilities may be federal or non-federal. For additional information, refer to Note 15, *Other Liabilities*.

Q. ACCOUNTS PAYABLE

Accounts Payable includes amounts owed to federal and non-federal entities for goods and services received by the DAF GF.

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

E&DL are estimated future environmental remediation, cleanup, and disposal costs resulting from the use of the DAF GF's assets or operations. Consistent with SFFAS 5 and 6, an environmental liability is recognized when the event occurs or an asset is placed in service, and the remediation, cleanup, or disposal is reasonably estimable.

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

S. COMMITMENTS AND CONTINGENCIES

The DAF GF recognizes Contingent Liabilities on the Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. 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.

For additional information, refer to Note 17, *Commitments and Contingencies*.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

T. FEDERAL EMPLOYEE AND VETERANS BENEFITS

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

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

U. REVENUES AND OTHER FINANCING SOURCES

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

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

The DAF GF receives congressional appropriations as financing sources for general funds, trust funds, and special funds. The DAF GF uses these appropriations and funds to execute its missions and subsequently report on resource usage. Certain trust and special funds may be designated as Funds from Dedicated Collections. For additional information, refer to Note 18, *Funds from Dedicated Collections*.

The DAF GF recognizes revenue resulting from costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is the DAF GF's standard policy for services provided as required by OMB Circular A-25, *User Charges*.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF GF recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

The DAF GF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

V. RECOGNITION OF EXPENSES

The DAF GF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items including, but not limited to, payroll expense. Some accounts such as civilian pay, military pay, and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

W. BUDGETARY RESOURCES

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

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

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

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

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

X. TREATIES FOR USE OF FOREIGN BASES

The DAF GF has the use of land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The DAF GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the DAF GF continued use of these properties until the treaty expires. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any non-retrievable capital assets.

The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

Each year, the DAF GF sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of this act, the DAF GF has the authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

advance through the foreign military sales trust fund. Additionally, the DAF GF enters into strategic agreements with other countries to provide access to certain satellite constellations.

Y. USE OF ESTIMATES

The DAF GF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as E&DL, Contingent Legal Liabilities, accrual of capitalized costs for CIP (as incurred capitalizable costs are compared to vendor completion percentages), and actuarial liabilities related to workers' compensation.

Z. PARENT-CHILD REPORTING

The DAF GF is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the net cost of operations, changes in net position, and budgetary resources of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The DAF GF receives allocation transfers, as a child entity, for EOP (Foreign Military Sales/Military Assistance Program) meeting the OMB exception; and activities for this fund are reported in the DAF GF financial statements.

AA. FIDUCIARY ACTIVITIES

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

For additional information, refer to Note 23, *Fiduciary Activities*.

AB. TAX EXEMPT STATUS

As an entity of the Federal Government, the DAF GF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

NOTE 2 *NON-ENTITY ASSETS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
Intragovernmental Assets		
Fund Balance with Treasury	$	241,822
Total Intragovernmental Assets	$	241,822
Other than Intragovernmental Assets		
Accounts Receivable	$	115,105
Total Other than Intragovernmental Assets	$	115,105
Total Non-Entity Assets	$	356,927
Total Entity Assets	$	521,554,940
Total Assets	$	521,911,867

Non-Entity Assets are assets for which the DAF GF maintains stewardship accountability and reporting responsibility. For additional information, refer to Note 1.E., *Summary of Significant Accounting Policies – Non-Entity Assets*, Note 11, *Liabilities Not Covered by Budgetary Resources*, and Note 15, *Other Liabilities*.

INTRAGOVERNMENTAL ASSETS

Intragovernmental Fund Balance with Treasury represents amounts held in the DAF GF's nonfiduciary deposit fund accounts. Deposit funds hold monies that do not belong to the Federal Government temporarily until paid to the appropriate party.

OTHER THAN INTRAGOVERNMENTAL ASSETS

Other than Intragovernmental Accounts Receivable consists of amounts associated with multiple types of long-term agreements; cancelled year appropriations; and interest, fines, and penalties receivable. Generally, the DAF GF cannot use the proceeds from non-entity accounts receivable and must transfer them to the U.S. Treasury unless permitted by law.

NOTE 3 *FUND BALANCE WITH TREASURY*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 *(UNAUDITED)*
STATUS OF FUND BALANCE WITH TREASURY		
Unobligated Balance	$	73,559,261
Obligated Balance Not Yet Disbursed	$	158,087,932
Non-Budgetary Fund Balance with Treasury		
Clearing Accounts	$	1,695
Deposit Funds		241,822
Disbursing Officer Funds		(102,967)
Total Non-Budgetary Fund Balance with Treasury	$	140,550
Non-Fund Balance with Treasury Budgetary Accounts		
Investments in U.S. Treasury Securities	$	(7)
Unfilled Customer Orders without Cash Advances		(3,565,647)
Budgetary Receivables from Federal Sources		(1,112,352)
Total Non-Fund Balance with Treasury Budgetary Accounts	$	(4,678,006)
Total Fund Balance with Treasury	$	227,109,737

The Treasury records cash receipts and disbursements on the DAF GF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF GF Fund Balance with Treasury (FBwT) consists of appropriation accounts, revolving funds, trust accounts, special funds, and other fund types.

The Status of FBwT 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.

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

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

Non-Budgetary FBwT includes accounts without budgetary authority, such as Clearing Accounts, Deposit Funds, and Disbursing Officer Funds.

- » Clearing Accounts include activity from suspense transactions that are temporary in nature and are recorded in accordance with DoD Financial Management Regulation Volume 12, Chapter 1, *Funds*.
- » Deposit Funds primarily relate to payroll withholdings for which a liability is recorded as a component of Other Liabilities. Refer to Note 15, *Other Liabilities*.
- » Disbursing Officer Funds represent funds held outside of Treasury (FHOT). Due to a change in accounting treatment of FHOT beginning December 31, 2024, the DAF GF had a decrease of Non-Entity Asset and an increase of Entity Asset of ($103.0) million.

NOTE 3 *FUND BALANCE WITH TREASURY*

Non-FBwT Budgetary Accounts are required to reconcile the budgetary status to non-budgetary FBwT as reported in the Balance Sheet. 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. Non-FBwT Budgetary Accounts include Investments in U.S. Treasury Securities, Unfilled Customer Orders without Cash Advances, and Budgetary Receivables from Federal Sources.

- » Investments in U.S. Treasury Securities provide the DAF GF with budgetary authority and enable the DAF GF to access funds to make future benefit payments or other expenditures. The DAF GF must redeem these securities before they become part of the FBwT.
- » Unfilled Customer Orders without Cash Advances and Budgetary Receivables from Federal Sources provide budgetary resources when reimbursements are collected, not when orders are accepted or have been earned. FBwT is only increased when reimbursements are collected.

The FBwT reported in the financial statements has been adjusted to reflect the DAF GF's balance as reported by the Treasury. The difference between FBwT in the DAF GF's general ledger and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DAF GF's general ledger as a result of timing differences in posting transactions to the DAF GF's general ledger or the inability to obtain valid accounting information prior to the issuance of the financial statements. The following adjustments were necessary for the DAF GF to reconcile their general ledger to the Treasury: $101.7 million in net undistributed collections, and ($726.7) million in net undistributed disbursements as of September 30, 2025. These net amounts represent the culmination of collections and disbursements throughout the period. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF GF's general ledger.

The DAF GF had $3.6 billion of funds in cancelled appropriations that were returned to the Treasury as of September 30, 2025.

NOTE 4 *CASH AND OTHER MONETARY ASSETS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*	
Cash	$	102,967
Total Cash	$	102,967

Cash is an Entity Asset and consists of cash collected and held by disbursing officers in a custodial capacity for the Treasury or other federal entity. For additional information, refer to Note 3, *Fund Balance with Treasury*.

NOTE 5 *INVESTMENTS, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*					
	COST/ ACQUISITION VALUE	**AMORTIZED (PREMIUM) / DISCOUNT**	**INTEREST RECEIVABLE**	**INVESTMENTS, NET**	**UNREALIZED GAIN/(LOSS)**	**MARKET VALUE**
Intragovernmental						
Non-Marketable, Market-Based						
Other Funds	$ 7	$ 0	$ 0	$ 7	$ 0	$ 7
Total Non-Marketable, Market-Based	$ 7	$ 0	$ 0	$ 7	$ 0	$ 7
Total Intragovernmental Investments	$ 7	$ 0	$ 0	$ 7	$ 0	$ 7

Intragovernmental Other Funds primarily represent the DAF GF General Gift Fund investment in Treasury Securities. The value of these Non-Marketable, Market-Based Securities fluctuates in tandem with the selling price of the equivalent marketable security. For additional information, refer to Note 1.H., *Summary of Significant Accounting Policies - Investments*.

The securities were issued to funds legally authorized to invest balances with the U.S. Treasury, which includes funds from Dedicated Collections. Securities are an asset to the DAF GF and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. The cash generated is deposited in the U.S. Treasury. These assets and liabilities offset each other at a consolidated level and do not represent an asset or a liability in the Government-wide financial statements.

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

For additional information on the DAF GF General Gift Fund, refer to Note 18, *Funds from Dedicated Collections*.

NOTE 6 *ACCOUNTS RECEIVABLE, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*		
	GROSS AMOUNT DUE	**ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**	**ACCOUNTS RECEIVABLE, NET**
Intragovernmental Receivables	$ 1,706,717	$ (19,635)	$ 1,687,082
Other than Intragovernmental Receivables (From the Public)	527,234	(141,076)	386,158
Total Accounts Receivable	$ 2,233,951	$ (160,711)	$ 2,073,240

Accounts Receivable represents the DAF GF's claim for payment from other entities. Intragovernmental Receivables report amounts outstanding to be received from other federal agencies; other than intragovernmental amounts report corresponding amounts owed from all other non-federal parties. Amounts reported reflect their net realizable values. For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to Note 1.I., *Summary of Significant Accounting Policies – Accounts Receivable*.

NOTE 7 *LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES*

DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

Loans Receivable represent the aggregate sum of gross direct loans and accrued interest receivable, less allowance for subsidy cost.

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

Additionally, the DAF GF is planning to perform Government Direct Loan modifications, make a government equity investment, and/or make Differential Lease Payments for various projects:

FY 2025

The 'FY 2025' represents the current estimated year of execution for the planned restructure. Due to ongoing negotiations and required approvals it may slip to future FYs.

- **Project 1** – Shortfalls (no sustainment shortfalls over the next 10 years due to recently improve cash flows but only 1.0% mid-term reinvestment funded) driven by low historical Basic Allowance for Housing growth and higher sustainment and reinvestment needs. Prior to the future planned restructure, the DAF GF executed a direct loan modification (no DAF GF cost) in December 2024 as an interim solution to help improve project cash flows, mitigate any potential risks to future debt service payments, and allow for more funding to flow to the Reinvestment Accounts in the near-term.
- **Project 2** – Shortfalls (~$37.7 million for sustainment over the next 10 years with 0% mid-term reinvestment funded) driven by higher sustainment and reinvestment needs. Prior to the future planned restructure, the DAF GF executed a direct loan modification (no DAF GF cost) in December 2024 as an interim solution to help improve project cash flows, mitigate any potential risks to future debt service payments, and allow for more funding to flow to the Reinvestment Accounts in the near-term.

The DAF GF is currently in the early planning stages for other projects under consideration for potential modification. Due to the fluid nature of the negotiations with the project owners, these potential modifications are not being reported at this time.

For additional information on activities related to the MHPI, refer to Note 12, *Debt*, and Note 25, *Public-Private Partnerships*.

NOTE 8 *OPERATING MATERIALS AND SUPPLIES, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*		
	OPERATING MATERIALS AND SUPPLIES, GROSS	**ALLOWANCE FOR LOSS**	**OPERATING MATERIALS AND SUPPLIES, NET**
Held for Use	$ 68,569,290	N/A	$ 68,569,290
Held in Reserve for Future Use	2,074,679	N/A	2,074,679
Held for Repair	2,533,076	0	2,533,076
Total	$ 73,177,045	$ 0	$ 73,177,045

DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH OPERATING MATERIALS AND SUPPLIES ITEMS ARE ASSIGNED

Held for Use - To record the value of materials and supplies held for use in normal operations. This account is also used to record the initial acceptance of materials and supplies in transit when title has passed but the items have not been received and accepted.

Held in Reserve for Future Use - To record the value of stocks of materials and supplies maintained because they are not readily available in the market and there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.

Held for Repair - To record the value of materials and supplies that are not in usable condition but can be economically repaired. The objective is to rebuild items as an alternative and rotating source of supply. Once rebuilt, the items will be returned to Operating Materials and Supplies (OM&S) Held for Use.

Excess, Obsolete, and Unserviceable - To record the value of OM&S (serviceable or unserviceable) that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete OM&S includes stocks that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S are items that are physically damaged and cannot be consumed in operations. The DAF GF is actively working to validate if any proceeds from OM&S disposition are realizable and recognizable. To date, the DAF GF has not confirmed the proceeds received from the disposal of Excess, Obsolete, and Unserviceable (EOU) OM&S assets and, therefore, recorded a loss to report EOU OM&S $1.1 billion at the Net Realizable Value, which is currently reported as zero.

RESTRICTIONS ON THE USE OF OPERATING MATERIALS AND SUPPLIES

The DAF GF does not maintain any OM&S restricted assets.

NOTE 9 *GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Buildings, Structures, and Linear Structures	S/L	35, 40 or 45*	$ 136,581,920	$ (74,776,200)	$ 61,805,720
Leasehold Improvements	S/L	Lease Term	52,035	(26,673)	25,362
Internal Use Software	S/L	2-5 or 10	446,640	(439,627)	7,013
Internal Use Software in Development	N/A	N/A	182,305	N/A	182,305
General Equipment - Other	S/L	5, 10, or 20	18,454,465	(13,379,882)	5,074,583
General Equipment - Military Equipment					
Aircraft and Modifications		5-40**	$ 311,782,104	$ (210,062,026)	$ 101,720,078
Satellites		3-15	67,612,710	(54,777,568)	12,835,142
MRAP Vehicles		15	469,662	(467,052)	2,610
Pods		10	5,900,537	(5,496,954)	403,583
Total General Equipment - Military Equipment	S/L	3-40	385,765,013	(270,803,600)	114,961,413
Construction-In-Progress					
Aircraft and Modifications			$ 12,187,829	N/A	$ 12,187,829
Satellites			7,519,938	N/A	7,519,938
Real Property			8,865,024	N/A	8,865,024
Total Construction-In-Progress	N/A	N/A	28,572,791	N/A	28,572,791
Total General Property, Plant, and Equipment, Net			$ 570,055,169	$ (359,425,982)	$ 210,629,187

LEGEND FOR DEPRECIATION/AMORTIZATION METHOD & SERVICE LIFE:

S/L = Straight Line   N/A = Not Applicable

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

** Estimated useful service life is 5-30 years for modifications and 15-40 for aircraft.

General Property, Plant, and Equipment, Net - Summary of Activity

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*
General Property, Plant, and Equipment, Net Beginning of Year (As Restated)	$ 207,406,423
Capitalized Acquisitions	16,565,372
Dispositions	(179,834)
Transfers In/(Out) Without Reimbursement	295,858
Revaluations (+/-)*	(127,914)
Depreciation Expense	(13,330,718)
General Property, Plant, and Equipment, Net End of Year	$ 210,629,187

**Revaluations line above does not relate to Military Equipment.*

NOTE 9 *GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET*

GENERAL PROPERTY, PLANT, AND EQUIPMENT - REAL PROPERTY: BUILDINGS, STRUCTURES, AND LINEAR STRUCTURES

The DAF GF reports in its financial statements General Property, Plant, and Equipment (PP&E) - Real Property, including applicable Construction-in-Progress, within DoD installations where the DAF GF is the designated installation host. This includes General PP&E – Real Property on the DAF GF installations used and occupied by other DoD agencies. As the installation host, the DAF GF does not report assets on its installation that were funded and are exclusively used by an entity not included in the consolidated DoD financial statements. While the DAF GF is responsible and accountable for accepting, controlling, managing, and utilizing General PP&E – Real Property, the DAF GF may enter into Memoranda of Agreement with another Military Department, Washington Headquarters Services or other DoD Components, and license or permit with a non-DoD governmental agency, transferring the right to control the use of DAF GF General PP&E – Real Property to the other organization. The transfer of the right to control the use of the General PP&E – Real Property does not transfer jurisdiction and the asset remains under the jurisdiction of the DAF GF.

The DAF GF will continue to validate and correct reported values from the Accountable Property System of Record, and strengthen go-forward processes, to enable complete and accurate accounting in the general ledgers. The DAF GF will continue to improve the underlying systems and data used to support General PP&E – Real Property values reported on the DAF GF's financial statements. Interim adjustments may occur to address targeted activities while solutions that are more permanent are planned and executed to address root causes. The DAF GF identified activity in FY 2025 that required prior period adjustments (PPAs) for General PP&E – Real Property. As such, the DAF GF restated the beginning balance of Cumulative Results of Operations on the Statement of Changes in Net Position. For additional information, refer to Note 27, *Restatements*.

GENERAL PROPERTY, PLANT, AND EQUIPMENT - LEASEHOLD IMPROVEMENTS

The DAF GF has ongoing efforts to validate the General PP&E – Leasehold Improvements balance. General PP&E – Leasehold Improvements are additions, alterations, remodeling, or other changes to a leased property that either extend the useful life or enlarge or improve the capacity of existing property.

GENERAL PROPERTY, PLANT, AND EQUIPMENT - INTERNAL USE SOFTWARE

The DAF GF has two categories within its General PP&E – Internal Use Software line item, Internal Use Software and Internal Use Software in Development. For additional information, refer to Note 1.L., *Summary of Significant Accounting Policies – General Property, Plant, and Equipment*.

GENERAL PROPERTY, PLANT, AND EQUIPMENT - GENERAL EQUIPMENT

The DAF GF has two categories within its General PP&E – General Equipment line item, Military Equipment and Other General Equipment. For additional information, refer to Note 1.L., *Summary of Significant Accounting Policies – General Property, Plant, and Equipment*.

The DAF GF identified activity in FY 2025 that required PPAs for General PP&E – Other General Equipment. As such, the DAF GF restated the beginning balance of Cumulative Results of Operations on the Statement of Changes in Net Position. For additional information, refer to Note 27, *Restatements*.

GENERAL PROPERTY, PLANT, AND EQUIPMENT - RIGHT-TO-USE LEASE ASSET

The DAF GF is required to report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements, when the DAF GF has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement. The DAF GF is still implementing processes to identify and value right-to-use assets and lease liabilities.

NOTE 9 *GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET*

RESTRICTIONS ON THE USE OR CONVERTIBILITY OF GENERAL PROPERTY, PLANT, AND EQUIPMENT

There are restrictions on the DAF GF's ability to dispose of land, buildings, structures, and linear structures located outside the continental U.S. The DAF GF has use of overseas land, buildings, and structures obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the DAF GF's use and disposal of the restricted property located outside the U.S. For additional information, refer to Note 1.X., *Summary of Significant Accounting Policies – Treaties for Use of Foreign Bases*.

HERITAGE ASSETS

HERITAGE ASSETS AS OF JUNE 30, 2025
(PHYSICAL COUNT) (UNAUDITED)

HERITAGE ASSET CATEGORIES MEASUREMENT	MEASUREMENT QUANTITY	AS OF SEPTEMBER 30, 2024	ADDITIONS (+)	DELETIONS (-)	AS OF JUNE 30, 2025
Buildings, Structures, and Linear Structures	Each	6,134	1,684	(113)	7,705
Archaeological Sites	Each	2,310	118	(17)	2,411
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,501	882	(89)	136,294
Museum Collection Items (Fine Art)	Each	10,207	22	(144)	10,085

The balances for Heritage Assets are as of June 30, 2025, which represents the latest available information.

The DAF GF fully commits to the preservation of the USAF history, heritage, and traditions, and meets this commitment through its policy to preserve Heritage Assets which are items of natural, cultural, educational, architectural, or artistic significance. The DAF GF defines Heritage Assets as follows:

- **Buildings, Structures, and Linear Structures**: Buildings, Structures, and Linear Structures are listed on, or eligible for listing on, the National Register of Historic Places (NRHP) in accordance with Section 110 of the *National Historic Preservation Act* (NHPA), including multi-use Heritage Assets. Each base's civil engineering group, as part of their overall responsibility, maintains these facilities in accordance with the NHPA, and The Secretary of Interior's *Standards for The Treatment of Historic Properties*.
- **Archaeological Sites**: Sites that have been identified, evaluated, and determined eligible for listing on, or listed on, the NRHP in accordance with Section 110 of the NHPA. Archaeological site data is tracked and maintained by the Air Force Civil Engineer Center/Environmental Quality Technical Support Branch (AFCEC/CZTQ). AFCEC/CZTQ collects archaeological data during the bi-annual Environmental Management Review data call.
- **Museum Collection Items**: Items are considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

The DAF GF has become a large-scale owner of historic buildings, structures, archaeological sites, artifacts, aircraft, and other cultural resources. The determination of buildings and structures, and archaeological sites, to be listed on the NRHP is made by the appropriate base civil engineering group with concurrence by the relevant State Historic Preservation Officer or by a determination from the Keeper of the NRHP. Guidelines for determining eligibility for listing on the NRHP are located in the Code of Federal Regulations, Title 36, Part 60, Section 60.4. Each State's Historic Preservation Office assists the DAF GF with the identification, evaluation, protection, and enhancement of Heritage Assets located within the state.

The DAF GF, with minor exceptions, uses the buildings and structures in its daily activities and includes the buildings and structures on the Balance Sheet as multi-use Heritage Assets. If an asset is classified as a single-use Heritage Asset, the asset is not depreciated, nor recorded on the DAF GF's Balance Sheet. The DAF GF is

NOTE 9 *GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET*

in the process of validating assets that are recorded as a multi-use Heritage Asset as opposed to a single-use Heritage Asset. The DAF GF does not receive any Heritage Assets through donation or devise related to Buildings, Structures, and Linear Structures and Archaeological Sites.

Museum Collection Items, Objects

This represents the number of objects which meet the criteria for historical property under DAF Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the DAF GF national historical collection managed by the National Museum of the U.S. Air Force (NMUSAF), which fulfills statutory requirements delegated by the Secretary of the Air Force and is fully accredited by the American Alliance of Museums.

The objects added to the collection are a result of private donations, transfers from the DAF GF or other federal entities, and curatorial administrative actions. The withdrawals from the collection represents one item deleted due to numbering error and 88 objects that were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a Fine Art collection numbering 973 items as of June 30, 2025, representing 14 additions since October 1, 2024. This collection of original oils, drawings, sketches, and sculptures, directly support NMUSAF exhibit requirements.

The DAF Art Program holds another Fine Art collection. After a net decrease of 136 pieces, the DAF Art Program totaled 9,112 items as of June 30, 2025.

Information concerning estimated land acreage is discussed in the *Required Supplementary Information* Section.

NOTE 10 *ADVANCES AND PREPAYMENTS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 *(UNAUDITED)*
Intragovernmental		
Advances and Prepayments	$	172,298
Total Intragovernmental	$	172,298
Other Than Intragovernmental		
Outstanding Contract Financing Payments	$	8,607,722
Advances and Prepayments		39,664
Total Other Than Intragovernmental	$	8,647,386
Total Advances and Prepayments	$	8,819,684

INTRAGOVERNMENTAL ADVANCES AND PREPAYMENTS

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.

OTHER THAN INTRAGOVERNMENTAL ADVANCES AND PREPAYMENTS

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, are the DAF GF's cash disbursements to a contractor under the contract prior to the DAF GF's acceptance of goods and services.

Advances and Prepayments, excluding those classified as OCFP, are payments made in anticipation of future performance of services, receipt of goods, incurrence of expenditures, or receipt of assets.

NOTE 11 *LIABILITIES NOT COVERED BY BUDGETARY RESOURCES*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
Intragovernmental Liabilities		
Federal Employees' Compensation Act	$	180,856
Judgment Fund Liabilities		1,115,594
Other		12,047
Total Intragovernmental Liabilities	$	1,308,497
Other than Intragovernmental Liabilities		
Accounts Payable	$	1,914,706
Federal Employee Salary, Leave, and Benefits Payable		3,438,845
Pension, Post-employment, and Veterans Benefits Payable		845,283
Environmental and Disposal Liabilities		17,413,820
Other Liabilities		257,639
Total Other than Intragovernmental Liabilities	$	23,870,293
Total Liabilities Not Covered by Budgetary Resources	$	25,178,790
Total Liabilities Covered by Budgetary Resources		27,675,446
Total Liabilities Not Requiring Budgetary Resources		243,517
Total Liabilities	$	53,097,753

INTRAGOVERNMENTAL LIABILITIES

Federal Employees' Compensation Act (FECA) is comprised of the unfunded FECA liability. For additional information, refer to Note 13, *Federal Employee and Veterans Benefits Payable*.

Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable. For additional information, refer to Note 17, *Commitments and Contingencies*.

Other Liabilities is primarily comprised of unfunded employment-related liabilities.

OTHER THAN INTRAGOVERNMENTAL LIABILITIES

Accounts Payable primarily represents liabilities in cancelled appropriations which, when paid, will be disbursed using current year funds.

Federal Employee Salary, Leave, and Benefits Payable and Pension, Post-employment, and Veterans Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. These liabilities consist of the amount recorded by employer agencies for unpaid leave and the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work-related deaths, disability, or occupational disease. For additional information, refer to Note 13, *Federal Employee and Veterans Benefits Payable*.

Environmental and Disposal Liabilities represent the DAF GF's liability for existing and anticipated environmental clean-up and disposal. For additional information, refer to Note 14, *Environmental and Disposal Liabilities*.

Other Liabilities are primarily comprised of the amounts recorded for Contingent Liabilities. Contingent Liabilities that are probable and measurable will require resources funded from future year appropriations.

NOTE 11 *LIABILITIES NOT COVERED BY BUDGETARY RESOURCES*

TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES

The material amounts and sensitive areas included in Total Liabilities Not Covered by Budgetary Resources are categorized as not covered because there is no current or immediate appropriation available for liquidation. These liabilities will require resources funded from future year appropriations.

Liabilities Not Covered by Budgetary Resources require future congressional action, whereas Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs or when the liabilities are liquidated, the Treasury will finance the liquidation in the same way that it finances all other disbursements by using some combination of receipts, other inflows, or borrowing from the public (if there is a budget deficit).

TOTAL LIABILITIES NOT REQUIRING BUDGETARY RESOURCES

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

NOTE 12 *DEBT*

Debt is established when the Military Housing Privatization Initiative (MHPI), through the administrative support of the Defense Finance and Accounting Service, borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction, and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury.

Transactions and amounts related to funds borrowed by the DAF GF from the Treasury and repayment thereof are recorded only in the DoD consolidated principal financial statements.

For additional information on activities related to the MHPI, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, and Note 25, *Public-Private Partnerships*.

NOTE 13 *FEDERAL EMPLOYEE AND VETERANS BENEFITS PAYABLE*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Pensions, Other Post-Employment, and Veterans Benefits Payable			
Federal Employees' Compensation Act	$ 845,283	$ 0	$ 845,283
Other Post Employment Benefits Due and Payable	7,967	(7,967)	0
Total Pensions, Other Post-Employment, and Veterans Benefits Payable	$ 853,250	$ (7,967)	$ 845,283
Federal Employee Salary, Leave, and Benefits Payable	7,956,598	(4,517,753)	3,438,845
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	285,659	(92,755)	192,904
Total Federal Employee and Veterans Benefits Payable	$ 9,095,507	$ (4,618,475)	$ 4,477,032

FEDERAL EMPLOYEES' COMPENSATION ACT

The DAF GF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death. The actuarial liability for FECA is not covered by budgetary resources.

Actuarial Cost Method Used and Assumptions

The DAF GF's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor at the end of each FY. The estimate for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases; plus a component for incurred, but not reported claims.

OTHER FEDERAL EMPLOYMENT BENEFITS

Other post-employment benefits can include salary continuation, severance benefits, counseling, training, funded unemployment liability for federal employees, funded FECA liability, and the current portion of veterans' disability compensation benefits. These are not actuarial liabilities.

FEDERAL EMPLOYEE SALARY, LEAVE, AND BENEFITS PAYABLE

Federal Employee Salary, Leave, and Benefits Payable represents Employer Contributions and Payroll Taxes Payable, Unfunded Leave, and Accrued Funded Payroll and Leave. The DAF GF had an Unfunded Leave balance of $3.4 billion as of September 30, 2025. Accrued Funded Payroll and Leave consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2025. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken.

NOTE 13 *FEDERAL EMPLOYEE AND VETERANS BENEFITS PAYABLE*

OTHER BENEFIT-RELATED PAYABLES INCLUDED IN INTRAGOVERNMENTAL OTHER LIABILITIES ON THE BALANCE SHEET

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet includes employer contributions and payroll taxes payable, other post-employment benefits due and payable, liability for clearing accounts, unfunded FECA liability, and other unfunded employment-related liability.

For additional information, refer to Note 15, *Other Liabilities*.

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 *(UNAUDITED)*
ENVIRONMENTAL LIABILITIES—OTHER THAN INTRAGOVERNMENTAL		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program and Building Demolition and Debris Removal	$	10,400,673
Active Installations—Military Munitions Response Program		487,563
Total Accrued Environmental Restoration Liabilities	$	10,888,236
Other Accrued Environmental Liabilities – Non-Base Realignment and Closure		
Environmental Corrective Action	$	76,658
Environmental Closure Requirements		1,103,362
Asbestos		2,109,613
Total Other Accrued Environmental Liabilities – Non-Base Realignment and Closure	$	3,289,633
Base Realignment and Closure Installations		
Installation Restoration Program	$	3,420,106
Military Munitions Response Program		16,398
Environmental Corrective Action / Closure Requirements		120
Asbestos		21
Total Base Realignment and Closure Installations	$	3,436,645
Environmental Disposal for Military Equipment / Weapons Programs		
Non-Nuclear Powered Military Equipment	$	983,473
Total Environmental Disposal for Military Equipment / Weapons Programs	$	983,473
Total Environmental and Disposal Liabilities	$	18,597,987

ENVIRONMENTAL AND DISPOSAL LIABILITIES

An environmental liability is a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and post-closure costs resulting from past transactions or events. The DAF GF is required to include costs for cleaning up contamination resulting from past waste disposal practices, leaks, spills, and other past activities, which has created a public human health or environmental risk. The DAF GF is also required to include costs for performing non-routine removal of hazardous waste and other associated environmental closure and post-closure activities explicitly required by permit or other policy or law at the time of asset decommissioning.

APPLICABLE LAWS AND REGULATIONS OF CLEANUP, CLOSURE, AND/OR DISPOSAL REQUIREMENTS

The following laws and regulations affect the activities for cleanup, closure, and/or disposal requirements:

» *Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)*

» *Superfund Amendments and Reauthorization Act*

» *Clean Water Act*

» *Safe Drinking Water Act*

» *Clean Air Act*

» *Resource Conservation and Recovery Act (RCRA)*

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

- *Toxic Substances Control Act*
- *Atomic Energy Act*
- *Nuclear Waste Policy Act*
- *Low Level Radioactive Waste Policy Amendments Act*

TYPES OF ENVIRONMENTAL LIABILITIES AND DISPOSAL LIABILITIES IDENTIFIED

The DAF GF does not report environmental liabilities for cases in which another DoD entity serves as the DoD lead agent or executive agent. The following DoD entities serve as the DoD lead or executive agent and are responsible for identifying funding requirements as well as disclosing financial information regarding the progress of programs: the U.S. Army Corps of Engineers is the lead agent for Formerly Used Defense Sites at active installations, the Department of the Navy is the lead agent for nuclear-powered military equipment and spent nuclear fuel, the Department of the Army is the executive agent for the Chemical Weapons Disposal Program, and the Department of the Navy and the Defense Logistics Agency are responsible for the Red Hill Response.

The DAF GF has cleanup requirements and conducts the cleanup under the Defense Environmental Restoration Program (DERP) sites at active installations and Base Realignment and Closure (BRAC) installations. The DAF GF has additional cleanup, closure, and post-closure requirements for active installations not covered by DERP and weapon systems programs. All cleanup, closure, post-closure, and disposal efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable. If fully remediated within the current FY, environmental conditions that result from current operations and require immediate cleanup (e.g., de minimis spills or routine hazardous waste removal) are not considered environmental liabilities, and part of current operating expenses.

Accrued Environmental Restoration Liabilities

The DAF GF has estimated costs related to remedial actions eligible for DERP funding at 225 active installations. Accrued Environmental Restoration Liabilities consists of costs related to: 1) Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR); and 2) Active Installations – Military Munitions Response Program (MMRP).

As of June 30, 2025, the DAF GF estimated and reported liabilities associated with 3,054 Active Sites – IRP and BD/DR. These remedial actions may address CERCLA (e.g., hazardous substances, pollutants, and contaminants), RCRA (e.g., hazardous waste or hazardous constituents), or demolition and removal of unsafe buildings and structures at facilities or sites.

As of June 30, 2025, the DAF GF estimated and reported liabilities associated with 246 Active Sites – MMRP. These response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) may address military munitions (e.g., Unexploded Ordinance or Waste Military Munitions) or the chemical residues of munitions at locations other than operational ranges.

Other Accrued Environmental Liabilities – Non-Base Realignment and Closure

The DAF GF includes estimated cleanup, closure, and post-closure costs ineligible for DERP funding. Other Accrued Environmental Liabilities – Non-BRAC (OEL) consists of costs related to: 1) Environmental Corrective Action (ECA); 2) Environmental Closure Requirements (ECR); and 3) Asbestos.

Base Realignment and Closure Installations

The DAF GF has estimated costs related to BRAC Installations. BRAC Installations consist of costs related to: 1) 736 IRP sites; 2) 26 MMRP sites across 40 BRAC Installations; 3) ECA and ECR requirements at one BRAC installation; and 4) Asbestos requirements at one BRAC installation.

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

Congress has authorized five rounds of base closures (1988, 1991, 1993, 1995, and 2005) for a portion of DAF installations through the BRAC process. Annually, Congress allocates appropriations through the DoD to fund progress for cleanup commitments from these decommissioned DAF installations. Once an installation is closed, the DERP liabilities for these sites are transferred to the BRAC program. The DAF GF may no longer own these assets but reports liabilities where the DAF has clean-up responsibility.

Environmental Disposal for Military Equipment / Weapons Programs

Non-nuclear powered military equipment is comprised of aircraft (fixed-wing aircraft, remotely piloted aircraft, vertical take-off aircraft, landing aircraft, and helicopters), aircraft pods, satellites, and Mine-Resistant Ambush Protected (MRAP) vehicles.

As of FY 2025, the DAF GF estimated and reported liabilities associated with non-nuclear powered military equipment, specifically aircraft, pods, and MRAP vehicles.

The DAF GF determined that no future outflows of cash exist for the environmental disposal of satellites, as all satellites and their components are destroyed before reentry into the Earth's atmosphere; thus no liability is reported for FY 2025.

METHODS FOR ASSIGNING TOTAL CLEANUP, CLOSURE, AND/OR DISPOSAL COSTS TO CURRENT OPERATING PERIODS

Accrued Environmental Restoration Liabilities

Active Installations – Installation Restoration Program and Building Demolition / Debris Removal and Active Installations – Military Munitions Response Program
The DAF GF uses one or more of the following methods to estimate the Cost-to-Complete (CTC) cleanup and disposal activities: 1) pre-negotiated contract costs; 2) historical costs; 3) engineering estimates; and 4) cost estimating software [e.g., Remedial Action Cost Engineering and Requirements (RACER®)]. A valid engineering estimate is an estimate of a future cost for similar scope or a past paid cost for which existing invoices cannot be provided to back it up (e.g., monthly utility costs in a spreadsheet). It has a prior year or current year cost basis which is determined from the date on the cost reference. In addition to pre-set values included in the RACER® software, the DAF GF can add User Defined Costs (UDCs) to customize and refine estimates within RACER®. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and BD/DR, and MMRP, inclusive of program management costs. For projects with an undefined duration, the DAF GF uses a rolling 30-year period. These environmental liabilities are not associated with an asset having a useful life; thus, the total estimated cleanup, closure, and/or disposal cost is recognized upon identification of the liability. The balance for Accrued Environmental Restoration Liabilities is as of June 30, 2025, which represents the latest available information.

Other Accrued Environmental Liabilities – Non-Base Realignment and Closure

Environmental Corrective Actions
The DAF GF utilizes the same methodologies to estimate OEL – ECAs as those used for Active Installations – IRP and BD/DR and Active Installations – MMRP described above. OEL – ECA environmental liabilities are also recognized upon identification of the liability and not associated with an asset having a useful life. The balance for OEL – ECA is as of June 30, 2025, which represents the latest available information.

Environmental Closure Requirements
The DAF GF uses one or more of the following approaches to generate estimates for assets with OEL - ECR: 1) cost estimating software (e.g., RACER®); 2) historical costs; and 3) engineering estimates. Estimates leverage industry-standard unit costs and cost factors, or comparable historical project costs, bids, and expenditures. In addition to pre-set values included in the RACER® software, the DAF GF can add UDCs to customize and refine estimates within RACER®. However, reliable information required to calculate a closure or post-closure cost is not available

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

for all OEL - ECR assets identified, and thus the reported balance reflects the OEL - ECR assets that are probable and reasonably estimable given the data available as of June 30, 2025.

Asbestos
The DAF GF uses one or more of the following approaches to generate survey and abatement estimates for assets which are likely to contain Asbestos: 1) cost estimating software (e.g., RACER®); and 2) historical costs. However, reliable information required to calculate a survey and abatement cost is not available for all OEL – Asbestos assets identified. Thus, the reported balance reflects the OEL – Asbestos assets that are probable and reasonably estimable given the data available as of June 30, 2025.

Base Realignment and Closure Installations

Installation Restoration Program, Military Munitions Response Program, Environmental Corrective Action / Closure Requirements, and Asbestos
The DAF GF utilizes similar methodologies to estimate BRAC Installations related to IRPs and MMRPs as that of Active Installations - IRP and BD/DR and Active Installations - MMRP. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and MMRP, inclusive of program management costs. For projects with an undefined duration, a rolling 30-year period is used.

BRAC - ECA, BRAC - ECR, and BRAC - Asbestos liabilities are not associated with an asset having a remaining useful life; thus, the total estimated cleanup, closure, and post-closure cost is recognized upon identification of the liability. The balance for BRAC is as of June 30, 2025, which represents the latest available information.

Environmental Disposal for Military Equipment / Weapons Programs

Non-Nuclear Powered Military Equipment
The DAF GF uses one or more of the following approaches to generate estimates for Military Equipment/ Weapons Programs (MEWP) assets: 1) historical disposal labor data and estimates for the disposal of hazardous material; 2) industry-standard cost factors; or 3) comparable historical projects, bids, and expenditures.

309th Aerospace Maintenance and Regeneration Group (AMARG) historical data reports as of September 30, 2025, were not accessible for estimation. Therefore, MEWP-Non-Nuclear Powered Military Equipment aircraft estimates reflect AMARG data available as of June 30, 2025.

UNCERTAINTY REGARDING ACCOUNTING ESTIMATES USED TO CALCULATE THE REPORTED ENVIRONMENTAL LIABILITIES

The DAF GF has unrecognized portions of the estimated total environmental liabilities as of June 30, 2025, as detailed below.

The environmental liabilities for the DAF GF are based on accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if additional investigation of the environmental sites disclose contamination different than what is known at the time of the estimates.

While business rules have been developed governing the use of RACER® for estimating Accrued Environmental Restoration Liabilities, BRAC, and OEL, the DAF GF is continuing to develop a process to compare estimated environmental liabilities to subsequent actual expenditures. The actual costs to estimates comparison will support the validity of RACER®-derived estimates and drive refinements to the estimation methodology, as appropriate.

For OEL - ECA, specifically Environmental Response at Operational Ranges (EROR), Title 40 Code of Federal Regulations, *Environmental Protection Agency*, § 266.202, exempts military munitions on active and inactive military

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

ranges from the definition of hazardous waste. The Environmental Protection Agency (EPA) Regulation effectively excludes military munitions on an active military range from the definition of solid waste until a formal decision to close the range occurs or Munitions Constituents (MCs) migrate off the military range. Therefore, these military munitions do not meet the criteria of an environmental liability. The DAF GF has an on-going program to assess potential off-range migration of MCs and, as of June 30, 2025, the DAF GF has not identified off-range migration that is probable and measurable.

MATERIAL CHANGES IN TOTAL ESTIMATED CLEANUP; CLOSURE; AND POST-CLOSURE COSTS DUE TO CHANGES IN LAWS, TECHNOLOGY OR PLANS, AND THE PORTION OF THE CHANGE IN ESTIMATES THAT RELATES TO PRIOR PERIOD OPERATIONS

Estimated environmental liabilities are adjusted each year for price growth (inflation) and increases in labor rates and materials. As of September 30, 2025, there was a 12.6% increase in environmental liability estimates due to price changes, new laws, regulations, agreements with regulatory agencies, and advances in technology. The DAF GF's liability may change further due to future changes in laws, regulations, agreements with regulatory agencies, and advances in technology particularly regarding projected changes in Per- and Polyfluoroalkyl Substances (PFAS) regulation.

NATURE OF ESTIMATES AND INFORMATION REGARDING POSSIBLE CHANGES DUE TO INFLATION, TECHNOLOGY, OR APPLICABLE LAWS AND REGULATIONS

The DAF GF applied inflation factors to bring historical costs to current-year dollars for the following:

1. For Accrued Environmental Restoration Liabilities and OEL, in accordance with Air Force Manual 65-502, *Inflation*, the DAF GF utilizes inflation factors from the DAF GF raw inflation indices which are based on the OSD raw inflation rates for Operations and Maintenance.
2. For BRAC, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, *Inflation Guidance – FY 2025 President's Budget*, the DAF GF utilizes inflation factors based on OSD raw inflation rates for Military Construction.
3. For MEWP – All Up Round Intercontinental Ballistic Missiles (ICBMs), in accordance with Air Force Manual 65-502, to perform this inflation adjustment, the DAF GF used Consumer Price Index (CPI) Data from the Bureau of Labor Statistics. Specifically, the CPI values for January 1998 (the month when estimates were originated) and August 2025 (the most recent month of CPI data available) were used to develop an inflation multiplier.

Section 312 of the FY 2025 *National Defense Authorization Act* modifies Section 2700(4) of Title 10, U.S. Code and provides Air National Guard (ANG) inclusion under DERP. Beginning in FY 2025, the ANG Restoration Program will be transitioned back into the DAF Restoration Program. Refer to the *Emerging Contaminants* Section for potential impacts for emerging contaminants due to applicable laws and regulations.

UNRECOGNIZED PORTION OF ESTIMATED TOTAL CLEANUP; CLOSURE; AND POST-CLOSURE COST ASSOCIATED WITH GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF GF uses either the accretion method or the non-accretion method to calculate estimated environmental liabilities associated with General Property, Plant, and Equipment. Under the accretion method, a liability is recognized for the estimated total cleanup, closure, and post-closure cost that is attributable to the portion of the physical capacity of an asset used or that portion of the estimated useful life of an asset that has passed since the asset was placed into service. The accretion method results in an unrecognized portion of the total cleanup, closure, and post-closure costs based on the remaining useful life or capacity of the underlying asset. Under the non-accretion method, a liability is recognized for the total estimated cleanup, closure, and post-closure cost. Under both methods, the total cleanup, closure, and post-closure costs are remeasured at least annually based on current costs.

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

ESTIMATES BASED ON THE TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST (NON-ACCRETION METHOD)

Estimates associated with buildings, structures, and linear structures (i.e., Real Property) should be calculated under the accretion method based on asset inventory records maintained in the Accountable Property Systems of Record (APSRs). Real Property closure and post-closure cost estimates for OEL - ECR and OEL - Asbestos are dependent on the accuracy and completeness of the underlying APSR records, including asset attributes (e.g., useful life and placed in service dates). These APSR records are currently not considered to be accurate and complete to support using the accretion method. An analysis was performed to evaluate the difference between accreting and not accreting, which determined the difference to be not significant to the total Environmental & Disposal Liabilities (E&DL) balance. As a result, OEL - ECR and OEL - Asbestos does not use the accretion method; instead, the total estimated environmental closure and post-closure costs are recorded, even where accounting standards would require accreting based on the useful life.

Total cleanup, closure, and post-closure costs are recognized for environmental liabilities at BRAC Installations.

Total cleanup, closure, and post-closure costs are recognized for environmental liabilities associated with government-acknowledged events or government-related events for Accrued Environmental Restoration Liabilities and OEL - ECA, inclusive of Overseas Remediation, non-DERP eligible ANG sites, and EROR.

ESTIMATES BASED ON THE TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST (ACCRETION METHOD)

Cleanup, closure, and post-closure cost estimates for environmental disposal for MEWP (aircraft, Pods, MRAPs, and ICBMs) uses the accretion method. In conformance with Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, the total estimated closure cost for each of these Military Equipment asset types is adjusted by the percentage of depreciation based on the useful life of the underlying asset. The result of this calculation is the recognized portion of the total environmental disposal liability. Estimates are remeasured at least annually to reflect current prices of goods and services (i.e., labor rates).

The DAF GF may have an unrecognized portion for OEL – ECR Oil Water Separators (OWSs). The DAF GF uses the median OWS capacity of the range of data collected due to limitations of the Real Property APSR records. The median OWS capacity produced a better estimate than any other amount within the range which was $45.4 million. The high end of the OWS capacity range produced an estimate up to $195.1 million.

The DAF GF has an unrecognized portion of the estimated total cleanup, closure, and post-closure cost associated with environmental disposal for MEWP. The DAF GF uses the useful life of these underlying asset categories to determine an annual amount of the total estimated cleanup, closure, and post- closure cost to be expensed each year. The unrecognized estimated total cost, which will be expensed over the remaining useful life of the assets, is $117.8 million as of September 30, 2025.

UNRECORDED LIABILITIES FOR WHICH ESTIMATES ARE NOT MEASURABLE

The DAF GF has an unrecorded liability for a portion of OEL – ECR Water Wells. Liabilities will be reported for these OEL – ECR assets, as applicable, when sufficient data becomes available.

Refer to the *Emerging Contaminants* Section for unrecorded liabilities related to emerging contaminants.

ONGOING CORRECTIVE ACTION IMPACTS

Due to ongoing implementation of corrective action plans for existence and completeness of Real Property inventory, updates to OEL balances are expected to continue through FY 2026. Until full implementation of these programmatic changes is complete, balances will reflect only a portion of the liabilities.

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

Additionally, ongoing implementation of corrective actions plans related to verification, validation, and accreditation of the cost estimation software used to produce liabilities, retrospective reviews, and environmental cleanup costs associated with military construction are expected to continue through FY 2026. The results of these corrective action plans may impact the E&DL balance in future periods.

EMERGING CONTAMINANTS

Emerging contaminants are chemicals and materials that have pathways to enter the environment and present real or potential unacceptable human health and/or environmental risks and either: 1) do not have peer-reviewed human health standards; or 2) standards or regulations are evolving due to new science, detection capabilities, or pathways.

PFAS are a large class of man-made chemicals found in many consumer products including film aqueous film-forming foam (AFFF) historically used by the DoD to fight fires. While the DoD is only one of many users of AFFF, there is significant attention on its use and the subsequent potential impact on human health and the environment. PFAS are classified as emerging contaminants because regulatory standards are still evolving.

The EPA published a final rule for six PFAS in the Federal Register on April 26, 2024, designating perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS) hazardous substances and establishing individual Maximum Contaminant Levels of 4 parts-per-trillion (ppt) each for PFOA and PFOS, 10 ppt each for perfluorohexanesulfonic acid (PFHxS), perfluorononanoic acid (PFNA), and hexafluoropropylene oxide dimer acid (HFPO-DA) (commonly known as GenX), and a Hazard Quotient of 1.0 for a mixture of two or more of PFHxS, PFNA, HFPO-DA, and perfluorobutanesulfonic acid. As the DoD continues its investigations and the EPA and state regulatory entities continue to refine and promulgate standards, it is likely that additional costs for remediation will become probable and reasonably estimable, which could be material to the financial statements. The DAF GF is working to update cost estimates in accordance with DoD Guidance "Prioritization of Department of Defense Cleanup Actions to Implement the Federal Drinking Water Standards for Per-and Polyfluoroalkyl Substances Under the Defense Environmental Restoration Program," issued on September 3, 2024, in response to the EPA Final Rule.

The DoD's investigation work and mitigation actions are guided by CERCLA and applicable state laws. Other emerging contaminants could be identified in the future and would follow a similar process.

As of June 30, 2025, PFAS liabilities are estimated and reported through the Remedial Investigation/Feasibility Study (RI/FS), except where the RI has been completed. For instance, the RI has been completed at former Reese Air Force Base. Where the RI has not been completed, costs for post-RI/FS actions are probable; however, such costs are not yet reasonably estimable because the extent of the PFAS contamination has not been determined.

As additional data is collected and the extent of PFAS contamination is further defined, it is reasonably possible post-RI/FS costs could increase significantly. PFAS liabilities may include remediation and monitoring costs, where laboratory analytical data is available to define the minimum extent of PFAS contamination making cleanup probable and reasonably estimable.

For additional information on activities related to legal environmental and disposal loss contingencies, refer to Note 17, *Commitments and Contingencies*.

NOTE 15 *OTHER LIABILITIES*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Liabilities for Non-Entity Assets	$ 1,350	$ 129,687	$ 131,037
Other Liabilities Reported on Note 13, *Federal Employee and Veterans Benefits Payable*	184,102	101,557	285,659
Judgement Fund Liabilities	1,115,595	0	1,115,595
Total Intragovernmental Other Liabilities	$ 1,301,047	$ 231,244	$ 1,532,291
Other than Intragovernmental Other Liabilities			
Withholdings Payable	$ 4,653	$ 0	$ 4,653
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	241,822	0	241,822
Liability for Clearing Accounts	554	0	554
Contract Holdbacks	73,732	0	73,732
Contingent Liabilities	27,198	230,441	257,639
Other Liabilities with Related Budgetary Obligations	1,431,100	0	1,431,100
Total Other than Intragovernmental Other Liabilities	$ 1,779,059	$ 230,441	$ 2,009,500
Total Other Liabilities	$ 3,080,106	$ 461,685	$ 3,541,791

INTRAGOVERNMENTAL OTHER LIABILITIES

Liabilities for Non-Entity Assets represents offsetting liabilities for non-entity assets where the DAF GF is acting on behalf of another federal entity.

Other Liabilities on the Balance Sheet are not reported on a single note. Certain United States Standard General Ledger accounts on the Balance Sheet line Intragovernmental Other Liabilities are required to be reported on Note 13, *Federal Employee and Veterans Benefits Payable*, while others are reported on Note 15, *Other Liabilities*. The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on Note 13, *Federal Employee and Veterans Benefits Payable*, are aggregated and included above as the line Other Liabilities Reported on Note 13, *Federal Employee and Veterans Benefits Payable*. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Liabilities Reported on Note 13, *Federal Employee and Veterans Benefits Payable*, include Intragovernmental Deposit Funds and Suspense Accounts, *Federal Employees' Compensation Act* Reimbursement to the Department of Labor, and Employer Contribution and Payroll Taxes Payable. For additional information, refer to Note 13, *Federal Employee and Veterans Benefits Payable*.

Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable. For additional information, refer to Note 17, *Commitments and Contingencies*.

NOTE 15 *OTHER LIABILITIES*

OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

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

Liability for Non-Fiduciary Deposit Funds and Undeposited Collections represent liabilities that offset undistributed disbursements. The net amount of these may present as an overall positive or negative balance.

Liability for Clearing Accounts represent liabilities that offset receipts held in suspense temporarily for distribution to another fund or entity or for reclassification.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2025, Contract Holdbacks included contracted progress payments based on cost as defined in the Federal Acquisition Regulation.

Contingent Liabilities include Contingent Legal Liabilities. For additional information, refer to Note 17, *Commitments and Contingencies*.

Other Liabilities with Related Budgetary Obligations primarily consists of accrued estimated costs related to the construction of aircraft and satellites. The DAF GF recorded additional accruals in FY 2025 based on percentage of completion data provided by vendors.

ADVANCES FROM OTHERS AND DEFERRED REVENUE

Intragovernmental Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets the DAF GF incurs or acquires on behalf of another organization.

Other Than Intragovernmental Advances from Others and Deferred Revenue represents amounts received for goods and services to be delivered or performed in the future and reflect amounts that have yet to be earned.

NOTE 16 *LEASES*

Operating Leases for Land and Buildings (Real Property leases) include leases with Department-level agencies, state and local municipalities, private corporations, and the general public. The nature of Real Property leases spans a wide variety of mission-critical objectives based upon the needs of the DAF GF, Air National Guard or Air Reserve Bases, and Installations. Real Property leases may include leases for administrative, storage, and medical buildings on an installation, use of land acreage surrounding an installation gate and/or border, and use of various equipment and linear structures such as weather instruments, airport towers, antennas, and radar sites.

Other leases are comprised of commercial vehicle leases between the DAF GF and the general public, and include leases with dealerships and rental car companies. All leases are for one year and are renewed once funds become available.

For additional information, refer to Note 1.O., *Summary of Significant Accounting Policies – Leases*.

NOTE 17 *COMMITMENTS AND CONTINGENCIES*

LEGAL CONTINGENCIES

The DAF GF is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations and generally relate to environmental torts, equal employment opportunity matters, personnel injury, property damage, and contractual matters for which the ultimate disposition is unknown.

In the event of an unfavorable judgment against the Federal Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In some cases, the DAF GF does not have to reimburse the Judgment Fund. For non-reimbursable Judgment Fund payments, in accordance with the Federal Accounting Standards Advisory Board Interpretation of Federal Accounting Standards 2: *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* (Interpretation 2), once the Judgment Fund has paid a settlement, the contingent legal liability should no longer be reported and an imputed cost and a corresponding imputed financing source in the amount of the payment should be reported. The cumulative FY amount of non-reimbursable settlements paid by the Judgment Fund as of September 30, 2025 was $41.8 million. Reimbursement by the DAF GF to the Judgment Fund is required for cases under either the *Contracts Disputes* Act or the *Notification and Federal Employee Antidiscrimination and Retaliation Act*. Once the claim is either settled or a court judgment is assessed against the DAF and the Judgment Fund is determined to be the appropriate source for the payment of the claim, the contingent legal liability should be removed from the DAF's financial statements and an "other liability" amount is recognized in the amount to be paid by the Judgment Fund. The Judgment Fund liability as of September 30, 2025 was $1.1 billion, as reported in Other Liabilities on the Balance Sheet.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, R*ecognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. A contingent liability should be recorded for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for Contingent Legal Liabilities are included within the Contingent Liabilities amount reported in Note 15, *Other Liabilities*, Contingent Liabilities as of September 30, 2025.

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)* **ESTIMATED RANGE OF LOSS**		
	ACCRUED LIABILITIES	**LOWER END**	**UPPER END**
Contingent Legal Liabilities Probable	$ 257,639	$ 257,639	$ 481,144
Reasonably Possible	$ 0	$ 122,790	$ 190,552

As of September 30, 2025, legal claims exist for which an adverse outcome was assessed as either probable or reasonably possible but for which the estimated loss amount or the range of loss cannot be reasonably measured. Consequently, no amount has been recorded as a contingent liability for these claims. The claimed amounts for these claims evaluated as probable totaled approximately $101.0 million as of September 30, 2025; the claimed amounts for these claims evaluated as reasonably possible totaled approximately $818.4 million as of September 30, 2025. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information through the legal process of discovery, comparable cases establishing precedent or other factors is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the DAF GF's financial position or results of operations.

NOTE 17 *COMMITMENTS AND CONTINGENCIES*

As of September 30, 2025, Air Force held legal claims related to U.S. Army Corps of Engineers construction projects funded by Air Force sub-allotted funds. An adverse outcome was assessed as probable and the estimate of loss was determined to be $27.2 million, with a range of $27.2 million to $241.9 million. An adverse outcome was assessed as reasonably possible and the range of the estimate of loss was determined to be $0 to $66.3 million. These amounts are included within the table above.

OTHER CONTINGENCIES

In FY 2025, the DAF GF determined that internal administrative claims (IACs) representing claims being adjudicated within the DAF GF and not through a court, board, outside agency, or other third-party legal entity with the authority to adjudicate the rights and obligations of the parties involved, should not be included in the process to determine the Contingent Legal Liability. As of September 30, 2025, the DAF GF documented IACs within the Office of the Judge Advocate General relating to foreign claims, general torts, medical law, aviation, and environmental torts. IACs are analyzed by litigators to determine whether, in accordance with Generally Accepted Accounting Principles, they must be accrued and/or disclosed as a threatened/unasserted litigation contingent liability. The DAF GF conducted an analysis of IACs as of September 30, 2025 to estimate the potential unfavorable outcome of these claims based on the average payout of IACs for the current and two previous years. The analysis included total IAC claimed amounts of $1.0 billion outstanding as of September 30, 2025, with an estimated potential loss of $5.4 million based on the historical average payout rate. In the event of a loss, most of these claims will be paid by the Judgment Fund, and all such payments will be on a non-reimbursable basis.

In addition to the administrative claims described in the preceding paragraph, it is the DAF GF's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The DAF GF executes project agreements pursuant to the cooperative activity agreements framework with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the DAF GF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

For additional information on activities related to non-legal environmental and disposal loss contingencies, refer to Note 14, *Environmental and Disposal Liabilities*.

CONTRACTUAL OBLIGATIONS

The DAF GF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources.

COMMITMENTS

The amount of obligations related to cancelled appropriations for which the DAF GF has a contractual commitment for payment was $4.6 billion as of September 30, 2025.

NOTE 18 *FUNDS FROM DEDICATED COLLECTIONS*

Combined Balance Sheet - Funds from Dedicated Collections

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
		OTHER FUNDS
Intragovernmental Assets		
Fund Balance with Treasury	$	38,804
Investments, Net		7
Total Intragovernmental Assets	$	38,811
Other than Intragovernmental Assets		
Accounts Receivable, Net	$	2
General Property, Plant, and Equipment, Net		114
Total Other than Intragovernmental Assets	$	116
Total Assets	$	38,927
Other than Intragovernmental Liabilities		
Accounts Payable	$	119
Federal Employee Salary, Leave, and Benefits Payable		3
Total Other than Intragovernmental Liabilities	$	122
Total Liabilities	$	122
Cumulative Results of Operations	$	38,805
Total Liabilities and Net Position	$	38,927

NOTE 18 *FUNDS FROM DEDICATED COLLECTIONS*

Combined Statement of Net Cost - Funds from Dedicated Collections

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*	
	OTHER FUNDS	
Gross Program Costs	$	12,972
Less: Earned Revenue		(7,151)
Net Program Costs	$	5,821
Net Cost of Operations	$	5,821

Combined Statement of Changes in Net Position - Funds from Dedicated Collections

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*	
	OTHER FUNDS	
Beginning Balance	$	42,863
Donations and Forfeitures of Cash and Cash Equivalents		1,763
Less: Net Cost of Operations		5,821
Net Change in Cumulative Results of Operations	$	(4,058)
Net Position, End of Period	$	38,805

The DAF GF's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources, provided to the Government by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the DAF GF's general revenues. The DAF GF and other component entities are not responsible for carrying out the program financed with revenues and other financing sources that are dedicated collections.

All of the tables above are presented on a combined basis and relate solely to Funds from Dedicated Collections. For additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts, refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

Other Funds are generated from the General Gift Fund, the Wildlife Conservation Fund, and the Air Force Cadet Fund.

GENERAL GIFT FUND [10 U.S. CODE (U.S.C.) § 2601]

The DAF GF General Gift Fund accepts, holds, and administers any gift, device, or bequest of real or personal property, made on the condition that it is used for the benefit (or in connection with the establishment, maintenance, or operation) of a school, hospital, library, museum, or cemetery under the DAF GF's jurisdiction. The fund is available to such institutions or organizations subject to the terms of the gift, device, or bequest. Conditional gifts are invested in Treasury securities, and any interest earned on these securities is accumulated in the fund.

NOTE 18 *FUNDS FROM DEDICATED COLLECTIONS*

WILDLIFE CONSERVATION FUND [16 U.S.C. § 670A]

The Wildlife Conservation Fund provides for: 1) the conservation and rehabilitation of natural resources on military installations; 2) the sustainable multipurpose use of the resources which include hunting, fishing, trapping, and nonconsumptive uses; and 3) the public access to military installations to facilitate its use, subject to safety requirements and military security. The fund is available to carry out these programs and other such expenses that may be necessary for the purpose of the cited statute.

Consisting of both appropriated and non-appropriated funding, this fund gives installation commanders the authority to collect fees from the sale of hunting and fishing permits.

AIR FORCE CADET FUND [10 U.S.C. § 9459]

The Air Force Cadet Fund is maintained for the benefit of Air Force Academy cadets. Disbursements are made for the personal services of cadets such as laundry, arts, and athletics while collections are received from the same cadets at least equal to any disbursements made.

The DAF GF General Gift Fund and Wildlife Conservation Fund are trust funds. The Air Force Cadet Fund is classified as a special fund. All three funds utilize receipt and expenditure accounts in accounting for and reporting the funds.

NOTE 19 *DISCLOSURES RELATED TO THE STATEMENT OF NET COST*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
Major Programs		
Air Force Materiel Command		
Gross Cost	$	153,393,833
Less: Earned Revenue		(8,683,352)
Net Program Costs	$	144,710,481
Air Combat Command		
Gross Cost	$	19,530,737
Less: Earned Revenue		(275,999)
Net Program Costs	$	19,254,738
Air Mobility Command		
Gross Cost	$	12,639,088
Less: Earned Revenue		(119,194)
Net Program Costs	$	12,519,894
Air Education and Training Command		
Gross Cost	$	12,210,237
Less: Earned Revenue		(814,433)
Net Program Costs	$	11,395,804
Air Force District of Washington		
Gross Cost	$	11,263,643
Less: Earned Revenue		(638,050)
Net Program Costs	$	10,625,593
Air National Guard		
Gross Cost	$	9,302,257
Less: Earned Revenue		(573,924)
Net Program Costs	$	8,728,333
Space Systems Command		
Gross Cost	$	10,045,144
Less: Earned Revenue		(1,748,656)
Net Program Costs	$	8,296,488
Pacific Air Forces		
Gross Cost	$	5,651,513
Less: Earned Revenue		(102,828)
Net Program Costs	$	5,548,685
Other		
Gross Cost	$	28,785,867
Less: Earned Revenue		(525,818)
Net Program Costs	$	28,260,049
Total		
Gross Cost	$	262,822,319
Less: Earned Revenue		(13,482,254)
Net Cost of Operations	$	249,340,065

NOTE 19 *DISCLOSURES RELATED TO THE STATEMENT OF NET COST*

The Statement of Net Cost (SNC) represents the net cost of DAF GF programs and organizations 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.

The DAF GF displays the gross and net cost information using "major program" categories. The detailed breakout by major program is presented within the notes to the financial statements and does not appear on the face of the financial statements. The DAF GF categorized applicable net costs to each program and allocated the remaining costs not directly traceable or assignable to a specific program using both a service-based and a percentage allocation method. The "Other" line incorporates combined gross costs and earned revenue amounts for remaining Major Commands, Field Commands, Field Operating Agencies, Direct Reporting Units, and applicable Combatant Commands.

The DAF GF's systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and non-federal expenses. Intradepartmental revenues and expenses are then eliminated.

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the DAF GF are recognized as imputed costs in the SNC and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits and claims to be settled by the Treasury Judgment Fund; however, unreimbursed costs of goods and services other than these above are not included in the DAF GF's financial statements.

For additional information on exchange revenue pricing and loss information, refer to 1.U., *Summary of Significant Accounting Policies – Revenues and Other Financing Sources*.

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

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of $504.9 million. The SBR is presented on a combined basis in accordance with the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. This presentation differs from the SCNP, which is presented on a consolidated basis.

AS OF SEPTEMBER 30, 2025 *(UNAUDITED)*		*(AMOUNTS IN THOUSANDS)*
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Total
Appropriations, Statement of Budgetary Resources	$	280,480,659
Less: Appropriations Received, Statement of Changes in Net Position		279,975,727
Total Reconciling Amount	$	504,932
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	$	(969,161)
Items Reported in Appropriations, Statement of Budgetary Resources		
Transfers	$	1,465,179
Trust and Special Fund Receipts		8,914
Total Reconciling Amount	$	504,932

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

Transfers include the current year authority transfers in and current year authority transfers out.

Trust and Special Fund Receipts are not immediately available for obligation and are awaiting authorizing legislation and/or the satisfying of specific legal requirements are not immediately available for obligation.

NOTE 21 *DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES*

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*; intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD, OCTOBER 1

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 *(UNAUDITED)*
Unobligated Balance Brought Forward, October 1	$	52,196,770
Unobligated Balance Transferred (to)/from Other Accounts		1,196,653
Unobligated Balance Transfers Between Expired and Unexpired Accounts		(78,555)
Adjustment to Unobligated Balance Brought Forward, October 1		(1,712)
Recoveries of Prior Year Unpaid Obligations		9,832,491
Other Balances Withdrawn to Treasury		(3,585,296)
Recoveries of Prior Year Paid Obligations		323,564
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$	59,883,915

TERMS OF BORROWING AUTHORITY USED

The DAF GF utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*. For additional information related to MHPI, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, and Note 25, *Public-Private Partnerships*.

AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available borrowing authority remaining for the FY ended September 30, 2025.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 *(UNAUDITED)*
Intragovernmental		
Unpaid	$	23,530,287
Prepaid/Advanced		(112,286)
Total Intragovernmental	$	23,418,001
Other than Intragovernmental		
Unpaid	$	115,989,382
Prepaid/Advanced		8,647,386
Total Other than Intragovernmental	$	124,636,768
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	148,054,769

NOTE 21 *DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES*

PERMANENT INDEFINITE APPROPRIATIONS

Permanent indefinite appropriations are as follows (for additional information on the DAF GF General Gift Fund, the Wildlife Conservation Fund, and the Air Force Cadet Fund, refer to Note 18, *Funds from Dedicated Collections*):

- DAF GF General Gift Fund [10 U.S. Code (U.S.C.) § 2601]
- Wildlife Conservation Fund [16 U.S.C. § 670a]
- Air Force Cadet Fund [10 U.S.C. § 9459]
- Medicare-Eligible Retiree Health Fund Contribution, Air Force [10 U.S.C. § 1116]
- Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force [10 U.S.C. § 1116]
- Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force [10 U.S.C. § 1116]

The Medicare-Eligible Retiree Health Fund Contribution is maintained for the accumulation of funds, in compliance with the law, in order to finance uniformed services retiree health care programs for Medicare-eligible beneficiaries. The Secretary of the Treasury will contribute an amount into the Fund from the General Fund of the Treasury, which is certified under the Secretary of War. Amounts paid will be for the costs of all uniformed service retiree health care programs for the benefit of members or former members of a participating uniformed service who are entitled to retired or retainer pay and are Medicare eligible, and eligible dependents who are Medicare eligible. The fund receives income from the three following sources: 1) annual Treasury payment made on behalf of the Uniformed Services at the beginning of the year based on average budgeted force strengths; 2) annual payments from the Treasury to amortize the unfunded liability; and 3) investment income.

Legal limitations and time restrictions on the use of unobligated appropriation balances such as upward adjustments are provided under Public Law.

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

A portion of the DAF GF's unobligated balances represent trust fund receipts collected as of September 30, 2025 exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the trust funds and are available for obligation in the future. The DAF GF operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances. For the amount of receipts collected as of September 30, 2025, refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from FY 2024 SBR and the actual amounts from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2026 President's Budget. The Budget with the actual amounts for the current year (FY 2025) will be available at a later date at The President's Budget | The White House.

NOTE 21 *DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES*

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT				
	FY 2024 ACTUAL *(UNAUDITED)*			
AS OF SEPTEMBER 30 *(AMOUNTS IN BILLIONS)*	**BUDGETARY RESOURCES**	**NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (TOTAL)**	**DISTRIBUTED OFFSETTING RECEIPTS**	**AGENCY OUTLAYS, NET**
Combined Statement of Budgetary Resources	$ 336.7	$ 284.5	$ (0.2)	$ 242.9
Differences				
Expired accounts that are excluded from the Budget of the U.S. Government*	$ (5.7)	$ 0	$ 0	$ 0
Budget of the U.S. Government	$ 331.0	$ 284.5	$ (0.2)	$ 242.9

**The difference reported above for Budgetary Resources is due to different reporting requirements on the SBR versus the Budget.*

CONTRIBUTED CAPITAL

There was no infusion of capital received for the FY ended September 30, 2025.

NOTE 22 *INCIDENTAL CUSTODIAL COLLECTIONS*

The DAF GF collected $691.3 thousand of incidental custodial collections during the FY ended September 30, 2025, which were generated primarily from the collection of Accounts Receivable related to cancelled accounts. These funds are not available for use by the DAF GF. At the end of each FY, the accounts are closed and the balances are rendered to the Treasury.

NOTE 23 *FIDUCIARY ACTIVITIES*

Schedule of Fiduciary Activities

FOR THE FISCAL YEARS ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*	**2024** *(UNAUDITED)*
Fiduciary Net Assets, Beginning of Year	$ 4,964	$ (9,503)
Contributions	9,637	29,749
Distributions To and On Behalf of Beneficiaries	(7,948)	(15,282)
Increase/(Decrease) in Fiduciary Net Assets	$ 1,689	$ 14,467
Fiduciary Net Assets, End of Period	$ 6,653	$ 4,964

Schedule of Fiduciary Net Assets

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*	**2024** *(UNAUDITED)*
Fiduciary Assets		
Fund Balance with Treasury	$ 6,653	$ 4,964
Fiduciary Net Assets, End of Period	$ 6,653	$ 4,964

A fiduciary relationship may exist any time the DAF GF has collected, received, held, or made disposition of assets in which a non-federal individual or entity has an ownership interest that the DAF GF must uphold. The relationship is based on statute or other legal authority and the fiduciary activity must be in furtherance of that relationship.

The DAF GF's fiduciary activities consist solely of the Savings Deposit Program (SDP). SDP was authorized by 10 U.S. Code § 1035, which authorized the DAF GF to collect savings deposits on behalf of members of the uniformed services serving in a designated combat zone as an opportunity to build their financial savings.

The DAF GF is not aware of any non-valued fiduciary assets for which it has management responsibility.

NOTE 24 *RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*		
	INTRAGOVERNMENTAL	**OTHER THAN INTRAGOVERNMENTAL**	**TOTAL**
Net Cost of Operations	$ 43,197,434	$ 206,142,631	$ 249,340,065
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Property, Plant, and Equipment Depreciation Expense	$ 0	$ (13,330,718)	$ (13,330,718)
Property, Plant, and Equipment Disposals and Revaluations	0	(11,890)	(11,890)
Operating Materials and Supplies Disposals and Revaluations	0	(2,673,723)	(2,673,723)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	$ 910,296	$ 122,276	$ 1,032,572
Advances and Prepayments	(1,165,581)	3,131,822	1,966,241
(Increase)/Decrease in Liabilities:			
Accounts Payable	$ (363,507)	$ (3,616,572)	$ (3,980,079)
Environmental and Disposables Liabilities	0	(2,086,076)	(2,086,076)
Federal Employee Salary, Leave, and Benefits Payable	0	909,480	909,480
Veterans, Pensions, and Post Employment-Related Benefits	0	34,677	34,677
Advances from Others and Deferred Revenue	(2,517,741)	42,782	(2,474,959)
Other Liabilities	(370,602)	5,249,507	4,878,905
Financing Sources:			
Imputed Cost	$ (1,863,936)	$ 0	$ (1,863,936)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (5,371,071)	$ (12,228,435)	$ (17,599,506)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Acquisition of Capital Assets	$ 0	$ 16,565,372	$ 16,565,372
Acquisition of Operating Materials and Supplies	1	3,076,761	3,076,762
Financing Sources:			
Donated Revenue	$ 0	$ (1,763)	$ (1,763)
Transfers Out (In) Without Reimbursements	(277,509)	0	(277,509)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ (277,508)	$ 19,640,370	$ 19,362,862

NOTE 24 *RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
MISCELLANEOUS RECONCILING ITEMS			
Distributed Offsetting Receipts	$ (7,353)	$ (290,486)	$ (297,839)
Custodial/Non-Exchange Revenue	0	37,480	37,480
Appropriated Receipts for Trust/Special Funds	0	8,914	8,914
Total Other Reconciling Items	$ (7,353)	$ (244,092)	$ (251,445)
Total Net Outlays	$ 37,541,502	$ 213,310,474	$ 250,851,976
Budgetary Agency Outlays, Net			$ 250,851,976
Unreconciled Difference			$ 0

Budgetary and financial accounting information is used for different purposes. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the Government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of Net Outlays, presented on a budgetary basis, and the Net Cost, presented on an accrual basis, provide an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

NOTE 25 *PUBLIC-PRIVATE PARTNERSHIPS*

MILITARY HOUSING PRIVATIZATION INITIATIVE

Military Housing Privatization Initiative (MHPI) authority stems from the *National Defense Authorization Act* (NDAA) for FY 1996, Public Law 104-106 (110 Stat 186, Section 2801), as amended. Title 10 U.S. Code (U.S.C.) § 2871-2894a codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. MHPI allows the DAF GF to work with the private sector entities (Private Partners) to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in Public Private Partnerships (P3) MHPI agreements, the DAF GF benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow.

Funding

Federal funding for the MHPI agreements was provided through the DAF GF budgetary resources and/or the Treasury through Government Direct Loan (GDL) disbursements at development completion or completed phases of development; limited loan guarantees of private debt against base closure, significant deployment, or significant downsizing; direct upfront cash and non-cash equity contribution; contribution of Real Property assets, and/or through differential lease payments for a stated period of time.

At inception of an MHPI agreement, the DAF GF enters into a long-term land lease (generally 50 years), and conveys the associated Real Property assets (e.g., buildings, structures, facilities, and, in some cases, utility infrastructure) to the MHPI P3 organized as a single purpose, bankruptcy remote Limited Liability Company (LLC). The DAF MHPI program provides local family housing at 63 installations (31 projects). All of the DAF's MHPI agreements were initiated between 1998 - 2013.

The authorities under the DoD MHPI program allow for direct cash contributions, loans, or limited loan guarantees of private debt to the LLCs. Contributions to MHPI P3 partners from the DoD Family Housing Improvement Fund (FHIF) requires a statement of scored cost including the conveyance or lease as determined by the Office of Management and Budget (OMB) approval and Congressional notification [10 U.S.C. § 2884]. There are no contractual requirements for additional federal contributions to the LLCs.

As a result of Public Law 115-91 § 603, Public Law 115-232 § 606, as amended by § 3036(a) and 3037 of the FY 2020 NDAA (Public Law 116-92), the DAF GF is required to make direct payments to the MHPI entities equivalent to either 1.0%, 5.0%, or 2.5% of the Basic Allowance for Housing (BAH) amount as applicable calculated under 37 U.S.C. § 403(b)(3)(A)(i) of the military pay statute for the area in which the covered housing exists.

The DoD identified MHPI agreements as P3s requiring disclosure. P3s are risk-sharing agreements with expected lives greater than five years between public and private sector entities. The DAF GF's disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. Statement of Federal Accounting Standards (SFFAS) 49, *Public-Private Partnerships: Disclosure Requirements*, requires disclosing the nature of the DAF GF's relationship with private entities. These disclosures help achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*.

Investment Recognition

In FY 2021, the DoD issued guidance and instructions prescribing evaluation criteria and financial treatment to account for and report investments and contributions to the MHPI projects. The revised guidance provides detailed instruction on recording initial cash and non-cash asset contributions and recording yearly gains and losses as well as at the dissolution of the agreements. The policy includes Generally Accepted Accounting Principles compliant methodology to report profits and losses on the initial and on-going contributions to the investments. The DAF GF must disclose its relationships with the P3 private entities, and the DoD will recognize any gains or losses associated with the contributions to the private entity in the DoD consolidated financial statements.

NOTE 25 *PUBLIC-PRIVATE PARTNERSHIPS*

Per the Lease of Property (LOP) for each base, there are three options at lease termination to include restoration and surrender, with or without demolition of improvements or renewal of the lease.

The following table represents the aggregated contribution amounts paid to the MHPI Program and LLC and Limited Partnership (LP) Private Partners through September 30, 2025:

	2025 *(IN MILLIONS)*		**EXPECTED LIFE** *(IN MILLIONS)*	
DAF GF INITIAL CONTRIBUTIONS FROM THE MHPI PROGRAMS*	**ACTUAL AMOUNT RECEIVED**	**ACTUAL AMOUNT PAID**	**ESTIMATED AMOUNT TO BE RECEIVED OVER EXPECTED LIFE *** **	**ESTIMATED AMOUNT TO BE PAID OVER EXPECTED LIFE *** **
Direct Cash Contributions (see Note 5, *Investments, Net*)	$ 0.0	$ 0.0	$ 0.0	$ 674.9
Real Property Contributions to the MHPI Project LLCs and LPs (value of Real Property Assets Conveyed, Per OMB Scoring Documents) (See Note 5, *Investments, Net*)	$ 0.0	$ 0.0	$ 0.0	$ 2,653.8
Bonds Purchased	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Direct loans disbursed	$ 0.0	$ 0.0	$ 0.0	$ 1,938.8
DOD ON-GOING CONTRIBUTIONS TO THE DAF GF MHPI PARTNERSHIPS*				
DoD Direct Payments**	$ 0.0	$ 70.6	Not Estimable	Not Estimable
Indirect Third-Party Payment of BAH Under § 403 of Title 37 From Members Living in Privatized Housing**	$ 0.0	$ 1,128.8	Not Estimable	Not Estimable
Differential Lease Payments	$ 0.0	$ 0.4	$ 0.0	$ 18.1
Property, Cash, Bonds, and Direct Loans	$ 0.0	$ 4.4	$ 0.0	$ 62.3
PRIVATE PARTNER INITIAL CONTRIBUTIONS TO THE MHPI PARTNERSHIPS				
Direct Cash Contributions	$ 0.0	$ 0.0	$ 338.8	$ 0.0
Real Property and Land Contributions to the LLCs & LPs	$ 0.0	$ 0.0	$ 1.2	$ 0.0
Bonds Issued and Construction Loans Obtained	$ 0.0	$ 0.0	$ 5,059.9	$ 0.0
PRIVATE PARTNER ON-GOING CONTRIBUTIONS TO THE MHPI PARTNERSHIPS				
Direct Cash Contributions	$ 0.0	$ 0.0	$ 58.0	$ 0.0
Return of Contributions to Partner	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Real Property and Land Contributions	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Bonds Issued and Construction Loans Obtained	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Bonds and Direct Loans Payment	$ 0.0	$ 0.0	$ 0.0	$ 0.0

*** If the Military Member uses MHPI, the associated BAH amount is considered to be an indirect third-party payment from the DAF GF.*

**** The expected life of the P3 is the term or period for which the entity is likely to participate in the P3. Similar agreements or contracts may be combined. As provided in SFFAS 49, paragraph 24.b, the DAF GF does not estimate the future amount of BAH to be paid to MHPI entities. This is due to the uncertainties associated with the number of members residing in MHPI housing year over year, the paygrade of members residing in MHPI housing, and the potential changes in the BAH rates which occur in the annual NDAAs and are implemented through annual appropriations to the DAF GF. Further, it is a Service Member's discretionary choice to live in MHPI housing.*

Service Members may choose to spend their BAH in MHPI housing, non-MHPI housing, or purchase housing. There is no commitment or guarantee on the part of the DAF GF to any MHPI entity to ensure a minimum number of military residents in MHPI housing.

Based on certain criteria, the projects may be authorized to allow Other Eligible Tenants (OETs). OETs could be military retirees, DoD civilians, or other civilians. OETs do not provide or receive money from the project or the Government. MHPI entity's audited financial statements do not differentiate rental income by tenant military status and there is no requirement for the entity to do so. Therefore, the funding received from non-military tenants is also not estimable.

NOTE 25 *PUBLIC-PRIVATE PARTNERSHIPS*

Non-federal funding for the MHPI agreements generally included cash equity contribution(s) investment(s) on the part of the Private Partners and either bond or loan revenue obtained by the LLC for the purpose of financing the demolition/renovation/new construction of Real Property assets required to meet the end state number of housing units. The DAF GF obtained OSD and OMB approval of the end state through the scoring reports and notifications provided to Congress for the MHPI P3 agreements.

There is no requirement for the Private Partners to make any additional contributions through the end of the agreements (approx. through 2063).

The MHPI entities have not borrowed or invested capital based on any DAF GF promise to pay, either implied or explicit. The only payments contractually required from the DAF GF to the MHPI entities are the direct cash investments and direct loan disbursements required upon execution of each phase of the MHPI agreement in accordance with the Operating Agreement (OA) or forward commitment, if required. There are no other contractually required payments from the DAF GF to the MHPI entities for the remaining term of the agreements.

The DAF GF and Partner equity investments may occur at the beginning of any new equity project, as required by the LLC OA. Any new DAF GF cash investment in a MHPI P3 from the FHIF or Unaccompanied Housing Improvement Fund requires approval from the Office of the Assistant Secretary of Defense (OASD) Energy, Installations, and Environment (EI&E) and the OMB as well as congressional notification [10 U.S.C. § 2883(f)]. The DAF GF is not obligated by the OAs for equity deals to make any investments in the MHPI P3 beyond its initial investment in each deal. The DAF GF has not made any in-kind contributions/services or donations to the MHPI entities.

The DAF GF may contribute budget authority to restructure a project in financial distress through a modification of the GDL under OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Part 5, Section 185, *Federal Credit*, or by providing a government equity contribution under 10 U.S.C. § 2875. Unless the DAF GF is already part of the LLC entity that owns the project, the DAF GF would likely become a non-managing member of the LLC.

Contractual Terms Governing Incentive Fees

Performance Incentive Fees (PIFs) are paid as an incentive to the MHPI property manager for achieving a specific level of performance. The amount of the fee award depends on performance relative to criteria/ targets specified in the Performance Incentive Plan (PIP). The DAF GF housing privatization transactions generally include management fees with two pricing components: a base fee and an incentive fee. The base fee is guaranteed, but the PIF is awarded only to the extent that the property manager meets the PIP criteria. Not all projects have a PIF written into their transaction documents.

Risk

The DoD’s risk of loss is the initial cash contribution to the program, the risk of default on a GDL and the risk of a Guaranty Threshold Event under a Loan Guaranty Agreement will occur. In addition, the DAF GF risks failing to deliver on its goal to provide quality housing services to Service members. The Private Partner’s risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI lockbox agreement prescribes how funds flow through accounts (“waterfall”) and can vary from project to project. This hierarchy ensures payments to “must pay” accounts, such as operating expenses and debt, occur first with certain Project Owners’ fees at risk of delay or non-payment if insufficient cash flow is available. The waterfall is in effect a risk mitigation strategy to the LLC, should unexpected interruptions occur to the revenue stream during project operation.

The MHPI OAs and lockbox agreements do not explicitly identify risk of loss contingencies, but some projects include reserve accounts for specific circumstances, such as operating expense reserve accounts or utility reserve accounts to save funds for protection against unexpectedly high expenses.

NOTE 25 *PUBLIC-PRIVATE PARTNERSHIPS*

The four DAF GF equity deal OAs provide for orderly processes for dissolution or termination of the agreement. The OAs also provide processes through which the DAF GF can enter into successor agreements in cases where the current Private Partner is no longer a member of the MHPI agreement.

Succession or removal of a Project Owner under a debt deal structure is addressed through the project LOP or, in the case of grouped projects, through the Master Development and Management Agreement (MDMA).

The DAF GF projects with a direct loan may involve a restructure of the loan through an administrative workout under OMB Circular A-11, Part 5, Section 185, *Federal Credit*, for a troubled loan or a loan in imminent default. The cost of this type of restructure is borne by the Treasury through permanent indefinite authority. The DAF GF may also contribute budget authority to modify a direct loan to strengthen long term financial sustainment of the project under a direct loan modification. The DAF GF obtains OASD EI&E and OMB approval for direct loan modification for a project in order to strengthen its long-term sustainment.

For additional information on 10 U.S.C. § 2873 projects with sustainment challenges, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*.

The entity cash flow is dependent on congressional authorization and appropriation of BAH, which becomes a third-party payment for rent to the MHPI entity. The DAF GF can influence but cannot control the authorization and appropriation process. Additionally, as a result of ongoing congressional review of the MHPI program and the FY 2020 NDAA and subsequent NDAAs, there may be changes to the relationship between the DAF GF and the entity based on congressional action.

Changes, once fully implemented from the FY 2020 NDAA (Public Law 116-92 § 606), Section 2811 of FY 2021 NDAA (Public Law 116-283), and Section 2811 of FY 2022 NDAA (Public Law 117-81) will potentially impact the revenue stream of projects. The full impact is not measurable at this time.

If or when additional action is taken, the DAF GF will disclose any financial changes or impacts that this may pose or cause. There is potentially a remote impact, which is not measurable at this time.

Risk of Termination or Non-Compliance

The DAF GF receives and tracks monthly financial reports and monitors for events of termination or default including failure to make required capital investments, judicial dissolution, insolvency, or other significant breach of agreements without resolution.

The conditions governing the early termination, hand-back, and renewal options vary from each MHPI agreement. If a going-concern, termination, or default occurs, the DAF GF will conduct procedures to mitigate risk and to identify an entity to take over the partnership. Each MHPI OA for equity deals and LOP or MDMA provides for orderly processes for dissolution or termination of the agreement to include the sale of assets not on the DAF GF land and the reversion of Real Property assets to the DAF GF. The OAs, LOP or MDMA, as applicable, also provide processes through which the DAF GF can enter into successor agreements in cases where the current Private Partner is no longer a member of the MHPI agreement, thereby avoiding early termination of the project.

NOTE 26 *DISCLOSURE ENTITIES AND RELATED PARTIES*

Effective in FY 2018, Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, requires agencies to disclose certain information for disclosure entities and related parties. Related Party Organizations are considered related parties if: 1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions; and 2) the organizations do not meet the inclusion principles of SFFAS 47. The DAF GF has made some progress in implementing this significant standard and is in the process of completing a full impact analysis. As a result of the progress made in implementing this standard, the DAF GF is disclosing its relationship with Federally Funded Research and Development Centers (FFRDCs).

In accordance with SFFAS 47, the financial position and results of operations of FFRDCs are not reported in the DAF GF financial statements. FFRDCs are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents; however, these entities are disclosed in this Note as they have separate legal status, relative financial independence, and provide services on a market basis.

FFRDCs are independent, not-for-profit, private-sector organizations that are established and funded to meet special long-term engineering, research, development, or other analytical needs. In accordance with Federal Acquisition Regulation Part 35-017, FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency. The DAF GF maintains contractual relationships with the parent organizations that operate the FFRDCs, to meet some special long-term research or development needs that cannot be met as effectively by existing in-house or contractor resources. All DAF GF funding for FFRDCs work is provided through the DAF GF's contracts with the parent organizations that operate each FFRDC. The work performed by the FFRDCs provides benefits to the DAF GF, which supports national security.

FFRDC relationships are defined through a sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. While the DAF GF does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the DAF GF, operate in the public interest with objectivity and independence, and refrain from organizational conflicts of interest, and have full disclosure of its affairs to the sponsoring agency.

DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the amount of staff-years of technical effort that may be funded for FFRDCs. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

The DAF GF has Public-Private Partnership (P3) agreements that meet the criteria for disclosure as related parties. For disclosures related to P3 contributions, risks, and operations, refer to Note 25, *Public-Private Partnerships*.

NOTE 27 *RESTATEMENTS*

PRIOR PERIOD ADJUSTMENT

In FY 2025, the DAF GF determined that errors existed in prior year financial statements in relation to reported transactions and balances for General Property, Plant, and Equipment (PP&E) - Other General Equipment and General PP&E – Real Property requiring the following prior period adjustments (PPAs):

1. For General PP&E – Other General Equipment: Reverse the PPA journal voucher recorded for General Equipment Ground Control Station assets in the FY 2023 fourth quarter to correct the overstatement in Accumulated Depreciation. The PPA impacted the Beginning Balance of Cumulative Results of Operations on the Statement of Changes in Net Position, in the amount of $1.4 billion.
2. For General PP&E – Real Property: In FY 2025, the DAF GF performed a re-baseline of real property balances to the deflated plant replacement value (PRV) valuation for every asset recorded in the Accountable Property Systems of Record under Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. This ensured previously unrecorded asset balances or assets previously inappropriately revalued at PRV are appropriately reflected in the General Ledger. The PPA impacted the Beginning Balance of Cumulative Results of Operations on the Statement of Changes in Net Position, in the amount of $40.1 billion.

NOTE 28 *SUBSEQUENT EVENTS*

Subsequent events were evaluated from the Balance Sheet date through November 21, 2025, which is the date the financial statements were available to be issued. The DAF GF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEAR ENDED 2025 *(AMOUNTS IN THOUSANDS) (UNAUDITED)*	**RESEARCH, DEVELOPMENT, TEST & EVALUATION**	**PROCUREMENT**	**MILITARY PERSONNEL**
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 14,484,465	$ 30,317,010	$ 1,027,632
Appropriations (Discretionary and Mandatory)	67,078,132	70,626,351	50,426,137
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	7,387,609	1,793,928	663,676
Total Budgetary Resources	$ 88,950,206	$ 102,737,289	$ 52,117,445
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	$ 75,916,401	$ 61,467,560	$ 50,421,872
Unobligated Balance, End of Year			
Apportioned, Unexpired Accounts	$ 10,345,280	$ 28,463,960	$ 113,373
Unapportioned, Unexpired Accounts	2,141,958	11,196,150	1,041,999
Unexpired Unobligated Balance, End of Year	$ 12,487,238	$ 39,660,110	$ 1,155,372
Expired Unobligated Balance, End of Year	546,567	1,609,619	540,201
Unobligated Balance, End of Year (Total)	$ 13,033,805	$ 41,269,729	$ 1,695,573
Total Budgetary Resources	$ 88,950,206	$ 102,737,289	$ 52,117,445
OUTLAYS, NET			
Outlays, Net (Total) (Discretionary and Mandatory)	$ 63,241,628	$ 55,003,136	$ 49,224,034
Distributed Offsetting Receipts (+/-)	0	0	0
Agency Outlays, Net (Discretionary and Mandatory)	$ 63,241,628	$ 55,003,136	$ 49,224,034

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEAR ENDED 2025 *(AMOUNTS IN THOUSANDS) (UNAUDITED)*	FAMILY HOUSING & MILITARY CONSTRUCTION	OPERATIONS, READINESS, & SUPPORT	2025 COMBINED
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 6,765,735	$ 7,289,073	$ 59,883,915
Appropriations (Discretionary and Mandatory)	4,841,230	87,508,809	280,480,659
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	0	5,033,523	14,878,736
Total Budgetary Resources	$ 11,606,965	$ 99,831,405	$ 355,243,310
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	$ 2,717,740	$ 91,160,476	$ 281,684,049
Unobligated Balance, End of Year			
Apportioned, Unexpired Accounts	$ 6,632,945	$ 569,417	$ 46,124,975
Exempt from Apportionment, Unexpired Accounts	0	10,855	10,855
Unapportioned, Unexpired Accounts	1,312,085	5,125,039	20,817,231
Unexpired Unobligated Balance, End of Year	$ 7,945,030	$ 5,705,311	$ 66,953,061
Expired Unobligated Balance, End of Year	944,195	2,965,618	6,606,200
Unobligated Balance, End of Year (Total)	$ 8,889,225	$ 8,670,929	$ 73,559,261
Total Budgetary Resources	$ 11,606,965	$ 99,831,405	$ 355,243,310
OUTLAYS, NET			
Outlays, Net (Total) (Discretionary and Mandatory)	$ 4,019,927	$ 79,661,090	$ 251,149,815
Distributed Offsetting Receipts (+/-)	0	(297,839)	(297,839)
Agency Outlays, Net (Discretionary and Mandatory)	$ 4,019,927	$ 79,363,251	$ 250,851,976

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR *(IN MILLIONS OF DOLLARS)*	**2025** *(UNAUDITED)**		
	PLANT REPLACEMENT VALUE	**REQUIRED WORK** *(DEFERRED MAINTENANCE & REPAIR)*	**PERCENTAGE** *(REQUIRED WORK/PLANT REPLACEMENT VALUE)*
ACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	$ 599,084	$ 50,723	8.5%
Category Buildings, Structures, and Linear Structures (Enduring Facilities) - Including Military Housing	$ 9,090	$ 2,014	22.2%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$ 100,246	$ 3,996	4.0%
Category Buildings, Structures, and Linear Structures (Heritage Assets) - Including Military Housing	$ 287	$ 81	28.2%
INACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 4,561	$ 640	14.0%
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement) - Including Military Housing	N/A	N/A	N/A

GENERAL OVERVIEW/POLICY

The balances for Real Property Deferred Maintenance and Repairs (DM&R) are as of June 30, 2025, which represents the latest available information.

The DAF GF Real Property DM&R, consistent with Statement of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29 and 32*, is defined as facility maintenance and repairs that were not performed when they should have been or were scheduled to be performed and were delayed or rescheduled to a future period.

The DAF GF policy is to accomplish essential facility maintenance and repair to keep Real Property assets in a functional and safe condition so they can be used for their designated purpose. Maintenance and repairs include preventive maintenance; corrective maintenance; replacement of Real Property parts, systems, or components; and other activities needed to preserve or maintain the asset to a safe and working condition. These requirements are assessed on an annual basis for probability of asset failure and potential consequential risk to mission.

MAINTENANCE AND REPAIR POLICIES AND PROCEDURES

Department of the Air Force Instruction (DAFI) 32-1020, *Planning and Programming Built Infrastructure Projects*, provides policy guidance for the planning and programming of Real Property maintenance, repair, and construction projects for Facility Sustainment, Restoration, and Modernization funding. DAFI 32-1001, *Civil Engineer Operations,* provides further details about maintenance and inspection processes and responsibilities.

The DAF GF prioritizes, executes, and tracks maintenance and repair work in accordance with DAFI 32-1001 and DAFI 32-1020. The general work priorities and types in DAFI 32-1001 are used by the Base Civil Engineer to manage the maintenance and repair task workload and are summarized below:

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

WORK PRIORITIES	
WORK PRIORITY	**WORK TYPE**
1	Emergency Work
2A	Preventative Maintenance and Physical Plant Operations
2B	Contingency Projects
3A (High)	Scheduled Sustainment Work (Corrective Maintenance)
3B (Medium)	Scheduled Sustainment Work (Corrective Maintenance)
3C (Low)	Scheduled Sustainment Work (Corrective Maintenance)
4A	Scheduled Enhancement Work
4B	All Other Enhancement Work

The DAF GF organizations at all levels are responsible for employing a sustainable, resilient, asset management approach for maintenance and repairs. The Air Force Civil Engineer Center assists installations for the identification and justification of facility maintenance and repair projects.

The DAF GF considers multiple interconnected factors as it determines acceptable Real Property asset condition standards. Depending on the assessed assets, factors include:

- The designed intent of the infrastructure asset;
- The infrastructure asset's criticality to the DAF GF mission;
- The asset management activity portfolio into which a given infrastructure asset falls: Facilities, Utilities, Transportation Network, or Natural Infrastructure, etc.;
- Technical Subject Matter Experts (SMEs) determine standardized engineering characteristics, single or multi-disciplinary, that are then assessed to determine and report the condition of given assets. Local and staff-level SMEs apply engineering judgment to these factors and derive recommended maintenance and repair tasks and projects necessary for a given asset to gain and/or maintain the condition required to support the DAF's GF's mission.

REPORTING PROCESS

The DAF GF reported DM&R includes both capitalized and non-capitalized Real Property, as well as General and Stewardship Assets, and both active and inactive assets.

When the DM&R report is required, Real Property inventory data is pulled from the Accountable Property System of Record (APSR), Next Generation Information Technology. This real property data is combined with data from Sustainment Management Systems (e.g., BUILDER and PAVER) and subsequent analysis is performed using this aggregated data, or other Life Cycle Forecast data as applicable, along with input from functional SMEs to obtain a DM&R value for each reportable asset.

Not all assets recorded in the APSR are used in the DM&R calculations; therefore, they are not reported as part of the DM&R. The DAF GF uses Financial Reporting Organization and Interest Type coding in the APSR to determine the population of facilities for which it calculates a DM&R value. These criteria are used instead of Sustainment Organization and Sustainment Fund codes due to known APSRs data shortcomings in sustainment coding. As APSR data is updated to accurately reflect new host installation reporting guidance and to more accurately identify and code sustaining organizations, this process will be refined to provide increased precision in the DAF GF DM&R reporting.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR AS OF JUNE 30, 2025
(IN MILLIONS OF DOLLARS) (UNAUDITED)

MAJOR CATEGORIES	PB-61 AMOUNTS	ADJUSTMENTS	TOTAL
Aircraft	$ 15,568.5	$ (15,269.1)	$ 299.4
Automotive Equipment	$ 10.7	$ (10.7)	$ 0.0
Combat Vehicles	$ 4.0	$ (4.0)	$ 0.0
Construction Equipment	$ 0.0	$ 0.0	$ 0.0
Electronics and Communications Systems	$ 1,942.5	$ (1,940.6)	$ 1.9
Missiles	$ 901.2	$ (898.7)	$ 2.5
Ships	$ 0.0	$ 0.0	$ 0.0
Ordnance Weapons and Munitions	$ 111.8	$ (111.8)	$ 0.0
General Purpose Equipment	$ 188.6	$ (188.6)	$ 0.0
All Other Items Not Identified to Above Categories	$ 37.9	$ (37.9)	$ 0.0
Total	$ 18,765.2	$ (18,461.4)	$ 303.8

DEFERRED MAINTENANCE AND REPAIRS FOR FY 2025

The balances for Equipment Deferred Maintenance and Repairs (DM&R) are as of June 30, 2025, which represents the latest available information.

Weapon System Sustainment (WSS) is a very diverse portfolio encompassing 100 weapon systems throughout the world and supports 11 Mission Panels. Weapon systems consist of fly (fixed-wing and rotary wing) and non-fly systems. Fly systems are maintained in accordance with airworthiness standards, and all weapon systems are sustained to perform assigned mission via the most economical means. Most requirements within WSS are considered Capitalized General Property, Plant, and Equipment.

DEFINING AND IMPLEMENTING MAINTENANCE AND REPAIR POLICIES IN PRACTICE

DM&R are permitted under Statements of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29, and 32*, categorizing different Basis of Estimate methodologies outlining maintenance and repair requirement determination. For example, Programmed Depot Maintenance is a calendar driven interval developed by the Operational Safety, Suitability and Effectiveness authority for the weapon system. WSS maintenance and repair requirements development includes approved Force Structure changes. Maintenance and repair requirements include published changes to support Program Objective Memorandum (POM) development and execution plan changes for the upcoming execution year. Published changes reflect the most current requirement and funded customer order for planned material and labor to support organic depot workload. WSS mid-year execution review publishes guidance for program office personnel to reduce maintenance and repair requirements for the execution year unless deferred to another year. If the aforementioned action drives deferred maintenance and repair, the requirement remains unfunded. Depending on the FY, the maintenance and repair requirement is deferred, one of two follow-on actions will occur. First, if depot capacity is available the following execution year, the deferral is added as a Requirement Change Request. Second, if no additional depot capacity exists the following year, the deferral is added during the normal scheduled requirements development to support the next POM cycle.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

RANKING AND PRIORITIZING MAINTENANCE AND REPAIR ACTIVITIES

The program office collaborates with the lead command and prioritizes maintenance and repair requirements during the requirements development phase. POM and Execution Plan development includes risk-based methodology determination and acceptable operational risk. Execution year changes encompass emerging requirements and real-world events and drive maintenance and repair review and reprioritization during the execution year. Mid-year execution review allows programs to adjust requirements to what will be executed by the end-of-year unless the requirement defers to the following year.

FACTORS CONSIDERED IN SETTING ACCEPTABLE CONDITION

WSS entity defines acceptable conditions using Life Cycle costing.

LAND

The balances for Land Required Supplementary Information (RSI) are as of June 30, 2025, which represents the latest available information.

The DAF GF maintains General Property, Plant, and Equipment (PP&E) Land and Stewardship Land. Beginning in FY 2022, Statement of Federal Financial Accounting Standard (SFFAS) 59, *Accounting and Reporting of Government Land*, requires the disclosure of General PP&E – Land and Stewardship Land as RSI. The DAF GF has ongoing efforts to validate the data available within the related Accountable Property Systems of Record which currently limits the DAF GF's reporting capabilities. The DAF GF will continue to improve its process of reporting General PP&E – Land and Stewardship Land in accordance with the disclosure requirements outlined by SFFAS 59 in future years.

General PP&E – Land is land and land rights (such as easements) acquired or in combination with General PP&E, and land acquired with the intent to construct General PP&E. Stewardship Land represents land rights owned by the Federal Government, but not acquired for, or in combination with, items of General PP&E. All DAF GF Stewardship Land is in acceptable condition, based on designated use. The DAF GF is unable to identify quantities of Stewardship Land obtained through donation or devise due to the DAF GF's financial and non-financial management processes and systems.

Pursuant to SFFAS 59, paragraphs 4 and 5, temporary land rights are excluded from RSI – Land. Based on information available from the Federal Real Property Council, *2025 Guidance for Real Property Inventory Reporting*, the DAF GF classified its reported General PP&E – Land and Stewardship Land by predominant use category as summarized in the table below.

ESTIMATED ACREAGE BY PREDOMINANT USE
(ACREAGE IN THOUSANDS) (UNAUDITED)

	COMMERCIAL	CONSERVATION AND PRESERVATION	OPERATIONAL	TOTAL ESTIMATED ACREAGE
As of June 30, 2025	0	471	8,154	8,625
HELD FOR DISPOSAL OR EXCHANGE				
As of June 30, 2025	0	0	0	0

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

November 21, 2025

MEMORANDUM FOR UNDER SECRETARY OF WAR (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOW
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Transmittal of the Independent Auditor's Reports on the Department of the Air Force General Fund Financial Statements and Related Notes for FY 2025. (Project No. D2025-D000FT-0051.000, Report No. DODIG-2026-018)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Department of the Air Force (DAF) General Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2025. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025, Volume 2, June 2024, and Volume 3, August 2025. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF General Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF General Fund FY 2025 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*," discusses eight material weaknesses related to the DAF General Fund's internal controls over financial reporting.[*]

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*," discusses two instances of noncompliance with provisions of laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DAF General Fund did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF General Fund FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DAF General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 21, 2025 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

Lorin T. Venable

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

Attachments:
As stated

[*] A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

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Report of Independent Auditors

The Secretary of the Air Force and the
Inspector General of the Department of Defense

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements").

We do not express an opinion on the accompanying financial statements of the DAF GF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF GF's financial statements as of and for the year ended September 30, 2025.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, the DAF GF has not implemented certain accounting standards for the federal government. The effect of these matters on the DAF GF's financial statements as of and for the year ended September 30, 2025 is not currently determinable by the DAF GF and could be material.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

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fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DAF GF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DAF GF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, 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 the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 21, 2025 on our consideration of the DAF GF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance

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with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting and compliance.

Ernst & Young LLP

November 21, 2025

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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements") and our report dated November 21, 2025 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters on the DAF GF's financial statements as of and for the year ended September 30, 2025 is not currently determinable by the DAF GF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF GF's internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below and in more detail in

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Appendix A Items I. through X., we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described below and in Appendix A as Items I. through VIII. to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described below and in Appendix A as Items IX. to X. to be significant deficiencies.

<u>Material Weaknesses</u>

I. Entity Level Controls (ELCs) – Establishing ELCs is a primary step in operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. The lack of sufficient attention to these matters will hinder the entity's ability to achieve and sustain an audit opinion, as well as remediate existing material weaknesses.

During our procedures, we identified the following deficiencies related to the DAF GF's control environment, risk assessment, control activities, information and communication and monitoring components:

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed
- Enterprise information technology (IT) strategy has not been fully and consistently implemented
- Lack of sufficient and/or sufficiently trained resources
- Additional emphasis needed to meet external financial reporting objectives

II. Integration and Reconciliation of Financial Systems

To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF GF has a complex systems environment consisting of many non-integrated systems that use non-standard and non-compliant data structures. The systems environment is

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composed of legacy mainframe, standalone systems and micro-applications, along with its newer general ledger, Defense Enterprise Accounting and Management System (DEAMS). These systems are not integrated and require numerous manual workarounds. The lack of a fully integrated system prevents the DAF GF's management from obtaining timely, complete, accurate and reliable information to make effective business decisions. The DAF GF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

- Inability to validate the existence and completeness of transactions underlying the financial statements
- Transactions not recorded in accordance with the United States Standard General Ledger (USSGL)
- Insufficient processes and controls to evaluate and monitor the DEAMS universe of transactions

III. Financial Information Systems – Our assessment of the DAF GF's IT controls and the computing environment identified deficiencies, which collectively constitute a material weakness in the design and operation of information systems controls over financial data.

We identified the lack of sufficient controls in the following areas:

- Security management
- Access controls
- Segregation of duties
- Configuration management
- Business process

IV. Accounts Payable (AP), Accruals and Expenses – AP and accruals represent the amount owed to third parties by the DAF GF for goods and services received. Expenses are incurred and recognized when the DAF GF obtains goods and services from the public or other federal entities. The DAF GF lacks sufficient policies, procedures and internal controls for the procure to pay process.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Account-level review and reconciliation processes are not fully designed and implemented
- Lack of adequate controls over year-end cutoff

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V. Other General Equipment (OGE) and Internal Use Software (IUS) – OGE includes equipment such as support equipment, ground stations, labs, special tooling, special test equipment, and general equipment held by others which are either stock listed or non-stock listed assets. IUS includes commercial off-the-shelf software (COTS), developed software, and software in development for use in administrative, operational and financial purposes. The DAF GF has not developed sufficient controls to identify, value and report all OGE and IUS.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Inability to identify a complete and accurate population of OGE and IUS
- Insufficient controls over the valuation of OGE and IUS
- Insufficient controls over financial reporting of OGE and IUS

VI. Operating Materials and Supplies (OM&S) – The majority of OM&S is comprised of munitions, missiles, spare engines, uninstalled missile motors, OM&S held by others and other weapon system spare parts. The lack of sufficient accounting policies, procedures and internal controls prevents the DAF GF from substantiating the reported balance on the financial statements and the disclosures, including reconciliation to the underlying accountability systems.

We identified the following:

- Lack of sufficient documentation and assessment of accounting policies, procedures and controls
- Insufficient controls over financial reporting of OM&S
- Lack of sufficient accounting processes to value and report OM&S

VII. Property and Materials Held by Others – The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of efforts. Generally, the inventory held by others is reported as OM&S and equipment is reported as OGE in the financial statements. We found that in many of these instances the DAF GF is heavily reliant upon the other party to provide activity and balances related to those materials.

We identified the following:

- Insufficient oversight and monitoring of the accounting for OM&S managed by Army and the Defense Logistics Agency (DLA)
- Insufficient oversight and monitoring of the accounting for government furnished property and contractor-acquired property
- Insufficient accounting and reporting of the DAF GF share of F-35 Joint Strike Fighter (JSF) assets

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VIII. Real Property – Real Property includes land, buildings, structures and linear structures. In FY25, the DAF GF made notable progress to validate buildings and structures at active installations, which represents a significant portion of the real property asset population. The DAF GF has also continued to design certain key financial reporting controls. As many of these efforts remain in progress, further remediation of the resulting identified weaknesses is needed.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient controls over financial reporting of real property
- Further procedures are needed to identify and value the complete population of real property assets
- Insufficient procedures in place to monitor, value and report the complete population of real property construction-in-progress (CIP)

Significant Deficiencies

IX. Environmental and Disposal Liabilities (E&DL) – E&DL includes the estimated costs associated with clean-up or disposal of military equipment/weapon programs, base realignment and closure, environmental restoration and other environmental liabilities. The DAF GF has not fully designed and implemented internal controls to assess the completeness and accuracy of the entity's recorded liability estimates.

We identified the following:

- Continued refinement over documentation of accounting policies, procedures and controls is needed
- Insufficient procedures in place to financially report all E&DL
- Lack of sufficient processes to compare actual contract costs to recorded estimates

X. Reimbursable Programs – The DAF GF does not have sufficient controls in place to ensure that reimbursable costs are being properly billed to customers in accordance with their reimbursable agreements/customer orders.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient controls over financial reporting of reimbursable agreements
- Lack of sufficient reviews over reimbursable activity

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DAF GF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 21, 2025. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2025 on our tests of the DAF GF's compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's compliance.

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November 21, 2025

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Appendix A

Material Weaknesses

I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing Entity Level Controls (ELCs) is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The DAF GF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), Fraud Risk Oversight Committee (FROC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

In addition, organizations must integrate its efforts to meet the requirements of the FMFIA of 1982 with the Enterprise Risk Management and Fraud Risk Management requirements to improve effectiveness and accountability, instead of considering internal control as an isolated management tool. Thus, internal control should be an integral part of the entire cycle of planning, budgeting, management, reporting, accounting, and auditing. It must support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

The DAF GF has cross-cutting financial, IT, and operational risks that impact the entity's ability to achieve and sustain an audit opinion, as well as an effective internal control environment. Although the DAF has started to develop an integrated prioritization for evaluating and remediating these risks (in concert with its roadmap towards becoming auditable), limitations on time and resources creates further disparities in achieving those objectives. Without immediate action and sufficient attention to these matters, the DAF GF will be challenged to achieve auditability and remediate existing material weaknesses timely.

During our procedures, we identified the following deficiencies that aggregated into this material weakness:

(a) Enhanced integration and oversight of risks by enterprise-wide leadership is needed

The Deputy Assistant Secretary for Financial Operations (SAF/FMF) and Deputy Assistant Secretary for Business Systems and Technology (SAF/FMI CIO) has the primary responsibility for the DAF GF's financial statement audit readiness and compliance; however, efforts supporting

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financial statement audit and audit remediation requires inputs from the entire organization, including major commands (MAJCOMs), field commands (FIELDCOMs) and Headquarters Air and Space Force organizations. Continued improvements in financial management capabilities, whether by redesigned business processes, modernized IT systems, or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

We identified the following conditions that indicate a lack of consistent integration and oversight across the DAF GF to sufficiently address financial reporting issues and risks:

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—The DAF GF's governance activities continue to mature as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or fully documented, how the DAF GF's enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. As a result, service providers, functional communities, Secretary of the Air Force, Financial Management and Comptroller (SAF/FM), and IT may be developing separate and disconnected remediation efforts that may not necessarily be tied to the risks of material misstatements. Additionally, Enterprise leadership is not fully integrated in the evaluation of risks (i.e. detect and correct approach versus designing a preventative measure to get it right the first time) and in determining the best course of action for the entity as a whole. This often has led to significant and time-consuming efforts on the back end to correct for data anomalies instead of analyses being executed up-front. Furthermore, the DAF GF's Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.
- **Insufficient communication and assessment of the financial statement impact resulting from ongoing operations**—For example, while the DAF GF has begun assessing the impact of the United States Space Force (USSF) on the entity's financial statements and internal control over financial reporting, there still is significant effort in identifying appropriate separation of responsibilities and sufficient oversight of accounting considerations. Also, the organization has not fully assessed how certain non-financial data in mixed systems (e.g., logistics systems) impacts the financial statements.

(b) Enterprise IT strategy has not been fully and consistently implemented

In accordance with the Government Accountability Office (GAO) Green Book, management should design general control activities over information technology to mitigate risks to acceptable levels. Attributes that contribute to the design, implementation, and operating effectiveness of this principle include, response to risks, design of the entity's information technology, and design of appropriate types of general control activities.

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Noting this guidance related to addressing relevant IT risks, we identified the following conditions that indicate a lack of a formalized and fully implemented enterprise IT strategy that impacts internal controls over financial reporting:

- **Inconsistently implemented policy and related procedures to manage auditability through the lifecycle of financially relevant systems across acquisition, deployment, sustainment, and sunset** — Functional requirements and acquisition planning documents provided to Milestone Decision Authorities (MDA) for approval to proceed into acquisition or deployment do not consistently include evaluation of financial impact nor formally document auditability compliance reviews. MDAs are not required to assert compliance with audit requirements before proceeding into acquisition or deployment. Auditability compliance assessments and validation documentation are not systematically required and do not include cross functional or independent assessments against audit compliance requirements.
- **For financially relevant systems deployed, the DAF GF has not fully implemented the Financial Management Overlay to monitor compliance and effectiveness of audit relevant controls** — Due to this deficiency, financially relevant systems in deployment or sustainment do not sufficiently validate Financial Management Overlay controls in accordance with audit standards to mitigate cybersecurity risks.
- **Although the DAF GF has an enterprise strategy and roadmap outlining the target future state for financially relevant systems, it continues to manage its portfolio of systems within siloed functional organizations** — This insufficiently supports application rationalization, system consolidation and modernization. The DAF GF continues to make progress in this area, but a strategy and associated roadmap supported by cross functional enterprise architecture and progress against migration plans is not consistently documented or monitored to support process improvements or oversight of financially relevant systems.

(c) Lack of sufficient and/or sufficiently trained resources

The ability to develop, implement and execute effective internal control over financial reporting is dependent on the entity hiring, training and retaining sufficient qualified resources in key roles to understand and direct the control activities related to financial reporting across the organization. Further, in an organization of this size and complexity, succession and contingency plans for key roles help the entity achieve its objectives. Consequentially, there are severe impacts to the DAF GF's current audit roadmap and completion dates for corrective actions when there is a lack of sufficient and/or sufficiently trained resources to address identified internal control deficiencies. In addition, limitations in IT systems delay the remediation of internal control deficiencies because of manual workarounds, further stressing the entity's resource capacity.

Accordingly, the following conditions indicate a need for enhanced focus on the Green Book requirement to demonstrate a commitment to recruiting, developing, and retaining competent individuals:

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- There are not sufficient succession or contingency plans to mitigate the impact of retirements or other unexpected departures. For example, throughout the organization there are a number of unfilled roles or individuals transitioning into new areas.
- Lack of sufficiently defined competencies, roles, responsibilities and expectations for key roles in support of Financial Improvement and Audit Remediation (FIAR) objectives, which includes the financial management (FM) community, as well as other organizations (e.g., logistics, IT, acquisitions) that are also critical to FIAR efforts.
- Challenges in receiving appropriate and timely supporting documentation across multiple assessable units.

As a result, the lack of sufficient attention to these resource constraints will hinder the entity's ability to achieve and sustain auditability and remediate existing and future material weaknesses.

(d) Additional emphasis needed to meet external financial reporting objectives

While the DAF GF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF GF's financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

Lack of assessment, monitoring and effective implementation of recent accounting guidance

As the DAF GF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. While the DAF GF Financial Reporting Policy Group (FRPG) has initiated preliminary analyses of applicable entity-wide standards (e.g., Statement of Federal Financial Accounting Standards (SFFAS) 47, SFFAS 49), the DAF GF has not fully established a process to effectively assess, monitor and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The impact on the financial statement amounts is not currently determinable by the DAF GF and could be material.

Enhanced financial statement review procedures are needed

The DAF GF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Inability to fully understand and explain major changes in balances or activity.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as the lack of complete and accurate disclosures.

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The DAF GF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans and annual results of the DAF GF.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed:
    - Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
    - Refocus the execution for risk identification and communication within the organization to a primary focus on the most critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.) that have risks of material misstatements.
    - Continue to develop mechanisms to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
    - Enhance formal lines of communication about ongoing operational activities that impact the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.
- Enterprise IT strategy has not been fully and consistently implemented:
    - Implement policy and procedures to define detailed auditability requirements throughout the system lifecycle during acquisition, deployment, sustainment and sunset.
        - Require MDAs to document and assert financial impact and compliance reviews for systems in acquisition and deployment.
        - Fully implement the Financial Management Overlay and require Financial Management validation in the DAF Risk Management Framework (RMF) process for systems in sustainment.
    - Further refine the future state strategy and roadmap for the financially relevant portfolio to guide system modernization and cross portfolio system consolidation. Updates should include enterprise architecture, detailed migration and modernization plans with critical milestones, and concept of operations and governance to oversee progress.
- Lack of sufficient and/or sufficiently trained resources:
    - Continue to develop and enhance core and specialized training to further enhance competencies in internal control concepts and accounting topics.
    - Assess the impact on the resources needed to support manual workarounds against the additional investment that may be necessary to address any IT system limitations

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causing such manual activities. Align these considerations to the organization's IT strategic vision and priorities impacting internal control over financial reporting.
  - Clarify the competencies, roles, responsibilities and expectations of key roles and responsibilities in relation to internal control over financial reporting.
  - Develop appropriate succession and contingency plans for key roles.
  - Evaluate whether current policies ensure proper documentation is readily available to support financial transactions. This includes evaluating the policies and procedures in place for management to request and obtain appropriate and timely audit evidence from the source points of contact (e.g., base level personnel, Defense Finance and Accounting Service, etc.)
- Additional emphasis needed to meet external financial reporting objectives:
  - Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
  - Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
  - Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.

II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources and provides timely access to better data for decision-making purposes.

Although the DAF GF is progressing towards modernized financial systems, the entity's system environment continues to include legacy, modernized and in-transition systems (waiting to be modernized/decommissioned). This leads to a complex and decentralized IT environment. This environment consists of the DAF GF's legacy general ledger system, General Accounting and Finance System-Reengineered (GAFS-R), DEAMS, several systems migrated to the Cloud environment (through Cloud One), systems integrated with solutions such as Identify, Credential, and Access Management (ICAM), Security Information and Event Management (SIEM) and others. While the DAF GF is prioritizing investment on more modernized IT systems, the DAF GF needs to fully evaluate and mitigate the impact of known deficiencies as long as significant financial statement activity flows through its legacy environment.

As the DAF GF continues to transition to modern systems, it is critical that the entity does not just replicate its existing environment and internal control processes with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based, IT and financial management), redesign processes and implement financial management overlay controls as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF GF will continue to experience many of the similar challenges discussed within this report which

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will further inhibit the entity's ability to produce timely and auditable financial statements and remediate existing material weaknesses.

The following deficiencies aggregated into this material weakness:

(a) Inability to validate the existence and completeness of transactions underlying the financial statements

The DAF GF's system environment, which includes a mix of legacy systems and more modernized systems, relies on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. This limits the entity's ability to fully validate beginning and ending balances as well as financial activity. The lack of integration prevents information/data from processing without significant manual intervention. Additionally, many of the DAF GF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses.

Lack of sufficient or accurate data elements to enable effective data transfer and reconciliation

The DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and General Accounting & Finance System Base Level (GAFS-BL) or GAFS-R. The DAF GF's data does not always contain sufficient or accurate data elements to enable effective data transfer. If an incoming transaction does not contain the necessary data elements, or there are other issues with the transaction, the transaction may not post in the general ledger. These transactions are suspended pending further review and analysis. While the DAF GF, in working with Defense Finance and Accounting Service (DFAS), has created a variety of reconciliations to research and address these errors, these errors are not always resolved in a timely manner. The DAF GF has not fully assessed the impact of unreconciled activity in period-end financial statements.

Similar to the legacy environment, the DAF GF has not fully designed and implemented sufficient controls for the timely resolution of errors during data transfer between feeder systems and DEAMS. The DAF GF has not fully assessed whether a period-end adjustment to reflect the value of unresolved potential errors that should have been posted to DEAMS.

Inability to rely on completeness and accuracy of data utilized in key financial controls

In FY25, the DAF GF increased its efforts to ingest source system data impacting the financial statements to Advanced Analytics (ADVANA). The DAF GF uses ADVANA to assist with its universe of transactions validation efforts, including the development of subledger to general ledger and feeder system reconciliations rather than querying data from individual source systems. The processes surrounding these reconciliations remain in progress as the DAF GF is unable to sufficiently verify the complete and accurate ingestion of information into ADVANA as well as

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the data subsequently processed through automated scripts. This results in the inability to rely on the data used in the execution of critical reconciliations performed by management. Continued efforts to design and implement effective controls are needed for the reconciliations to be operational across the universe of transactions.

While the DAF GF is transitioning to ADVANA to assist with its universe of transaction validation efforts, control activities performed across the entity may still rely on query and analysis tools external to ADVANA. For example, the DAF GF continues to utilize the Commander's Resource Integration System (CRIS), which provides a set of queries, analyses, and reporting tools used by base-level and financial oversight personnel to access data from multiple legacy systems, including GAFS-BL. While the DAF GF has started migrating the ingestion of GAFS-BL and GAFS-R data into ADVANA , control owners may continue to utilize CRIS to query GAFS-BL transactions in the execution of key financial control activities throughout business processes impacting the financial statements. Management is still developing its organizational approach to support completeness of the financial statements and corresponding procedures performed by control owners.

Inability to accurately categorize or identify all relevant transactions

The DAF GF has continued efforts to develop the quantitative drilldown (QDD), a custom report that will be utilized to provide additional detail on transactions across the entity within GAFS-R and DEAMS. The QDD for each of the general ledgers is intended to extract and categorize data into the applicable category and/or business process, identify and aggregate transactions with no net impact to the financial statements and support traceability of the transactions to the applicable source system. While the DAF GF has developed business rules to categorize certain transactions, these rules are neither complete nor accurate for processes and there is a large population of uncategorized transactions in both GAFS-R and DEAMS. As a result, the DAF GF lacks sufficient controls to consistently and accurately categorize or identify relevant transactions within each of its financial reporting systems.

Inability to support JVs or other manual workarounds

Journal vouchers (JVs)—Due to the lack of a fully integrated system, the DAF GF records a significant volume of JVs to account for ongoing activity as well as address errors in processing. Some of these JVs are not adequately supported (e.g., trading partner adjustments) or mapped to the Treasury Financial Manual (TFM). Many recurring JVs rely on a one-time review with business process owners through an executed memorandum of understanding (MOU) with minimal recurring reviews to support completeness and accuracy of the amounts recorded. Additionally, the significant use of manual JVs or on-the-top adjustments that are booked at a summary level present a higher risk of inaccurate, incomplete, or incorrect JVs that may lead to a potential misstatement of the financial statements, inhibit the auditability of the amounts being recorded and impact further management analysis. While management continues efforts to trace

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the full population of JVs to business processes responsible for oversight, this analysis is incomplete and does not currently incorporate an entity-wide mechanism to monitor the appropriateness of JVs impacting amounts reported to the financial statements.

(b) Transactions not recorded in accordance with the USSGL

The DAF GF has limited manual controls to configure the posting logic in its general ledgers to be compliant with the USSGL or sufficient controls to link business events to the correct posting logic. Not all transactions in GAFS-R or DEAMS posting logic are appropriately mapped to validate their compliance with the TFM. As a result, transactions are not always recorded appropriately.

(c) Insufficient processes and controls to evaluate and monitor the DEAMS universe of transactions

As discussed above, DEAMS is currently one of the DAF GF's two general ledgers along with GAFS-R. The DAF GF is scheduled to "sunset" GAFS-R in future fiscal periods. While DEAMS has the capability to be an enterprise resource planning system, we identified several systems and related business processes that are not currently integrated with or sufficiently identifiable within DEAMS. Despite certain manual workaround or reconciliations being developed, the DAF GF does not have sufficient controls in place to compensate for known impacts to the DEAMS universe of transactions.

For example, additional manual workarounds or reconciliations have resulted from:

- Insufficient review and validation of posting logic rules as established in DEAMS resulting in valid transactions not reporting to the financial statements.
- Lack of unique and appropriate data element fields and need for manual data entry for specific fields within DEAMS.
- Lack of preventative controls to mitigate the risk of erroneous entries and related reversals from entering the universe of transactions further preventing the entity's ability to categorize all transactions.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Inability to validate the completeness of transactions underlying the financial statements:
    - Continue to implement and develop feeder system reconciliation processes for the identified systems to support completeness of the financial statements, including validation of beginning and ending balances, as well as financial activity. Leverage

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current established methodologies and identification of applicable feeder systems to complete reconciliations to GAFS-BL or GAFS-R for both existence and completeness validation.

- Ensure that variances identified in any universe of transactions reconciliation are investigated and remediated on a timely basis. Evaluate whether changes can be made to the existing business processes to prevent future variances.
- Establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.
- Perform an analysis of the period-end reconciling items that documents the appropriate adjustments for any unrecorded transactions. If an adjustment cannot be determined, or if the DAF GF management decides to not make an adjustment, the DAF GF should document the impact of not recording an adjustment, including an assessment of the impact of these unrecorded transactions on the financial statements.
- Continue efforts to develop interoperability across the financial and financial feeder systems and further refine the QDD at a sufficiently precise level of detail to accurately classify, categorize, and identify transactions within DEAMS and GAFS-R. These efforts should continue incorporating input from key stakeholders and business process leads.
- Continue to address other applicable findings related to GAFS-R system environment and related transaction quality based on the materiality of transactions still processed by the system by developing a solution that supports the interoperability of financial and financial feeder systems at the detailed transaction level.
- Develop and implement procedures to validate and evidence the completeness and accuracy of information utilized within ADVANA, relative to the corresponding source system, to perform financial reconciliations. In instances users rely on data sets queried outside of or external to the data ingested to ADVANA, the DAF GF should either have users transition to ADVANA for their procedures or implement appropriate compensating controls to support completeness of the data utilized in the reconciliation.
- Consider performing an entity-wide analysis over DEAMS and GAFS-R JVs to evaluate if additional centralized oversight is needed to monitor whether JVs are being used for the intended purposes as stated within the entity's policy and are appropriately reviewed and approved. Perform root cause analysis of JVs that have a significant impact to the financial statements and are not tied to a specific business process.
- Evaluate formalizing a process to ensure sufficient monitoring and oversight related to transactions primarily handled by DFAS.
- Consider implementing system changes to DEAMS to post transactions through the normal course of business whenever possible. As part of this process, where applicable, the DAF GF should identify areas where systematic JVs can be utilized in instances where manual JVs are recorded.

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- Transactions not recorded in accordance with the USSGL:
    - Perform an analysis to determine the impact on financial statements of noncompliant posting or other system logic within GAFS-R.
    - Improve monitoring over GAFS-R and DEAMS, including establishment of posting logic data validation procedures, to identify and correct accounting that does not comply with the TFM and take corrective actions.
- Insufficient processes and controls to evaluate and monitor the DEAMS universe of transactions:
    - In collaboration with all interested parties, analyze the limitations described above and other known instances:
        - Determine whether additional system changes or revised processes may be necessary to facilitate more automated and integrated solutions. Consider the long-term requirements for resources and funding that is necessary to effectively implement any additional changes.
    - As the DAF moves towards decommissioning GAFS-R and other legacy systems, and related business processes transition to DEAMS, continue to consider the impact on the design and functionality of DEAMS and ongoing integration with incremental feeder systems.
    - Assess the increased usage of additional system edit checks and/or controls to prevent processing errors rather than relying primarily on detective controls.
    - Evaluate, design, and implement the relevant compensating controls to address risks identified.

III. FINANCIAL INFORMATION SYSTEMS

Information System (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- Security management
- Access controls
- Segregation of duties
- Configuration management
- Business process

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF GF's financial statements, financial reporting, IT environment, and financial applications.

The DAF GF continues to make progress in remediating prior year IT findings. For example, program and functional management across DAF resolved prior-year control deficiencies related to capturing production populations of software and direct data changes for monitoring, implementing periodic user access review controls, and identifying as well as enforcing restrictions to segregations of duties conflicts.

As the DAF GF continues to modernize IT applications, their infrastructure, and supporting tools, it is critical to integrate information system controls (including the financial management overlay controls) as well as cross functional requirements during the implementation to prevent any weaknesses in the DAF GF's IT controls environment post implementation. With modernization, ownership of internal controls is shared amongst different stakeholders (Cloud One, ICAM, System Project Management Office (PMO) and others). The DAF leadership should assess and clearly outline specific roles and responsibilities of each stakeholder through clearly defined policies and procedures, and applicable Service Level Agreements (SLAs). In addition, investments in enterprise-wide systems (for example, Enterprise Resource Planning (ERP) systems) should be aligned with the DAF enterprise strategy and roadmap to avoid overlap/redundancies with competing systems (performing the same tasks as the ERPs) for short term goals/success. This will prevent siloed portfolio of systems within functional organizations and further promote an ecosystem of integrated systems aligned with financial audit roadmap and a streamlined process for addressing systems related deficiencies.

The DAF GF also needs to evaluate the impact of existing IT deficiencies on future material weakness mitigation efforts. For example, deficiencies related to access controls, segregation of duties, configuration management etc., have been identified as new financially relevant applications go live. In recent years, the DAF has implemented new applications impacting the assessable units (AUs), but management has not consistently considered establishing controls, such as routine user access reviews and segregation of duties enforcement. DAF management has also migrated several financially relevant systems to cloud infrastructure, however, high risk control gaps have been identified related to the access controls and configuration management of these cloud environments.

While the DAF has remediated many audit findings across various IT control areas for fiscal year 2025 (FY25), the vast majority of the DAF GF's in-scope financial applications had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties and configuration management control domains.

Ineffective IT general controls will continue to impact any of the DAF GF's material weakness mitigation plans in future years. For example, the lack of adequate IT general controls around both large and micro-applications, ad-hoc reporting tools used for reconciliation of financially significant data, etc., increases the organization's risks related to its ability to validate the completeness and accuracy of data utilized in the execution of its financial control activities. In

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addition, insufficient controls for ensuring completeness and accuracy of information produced by the entity also threaten management's efforts to address material weaknesses. These control findings relate to incomplete data used for internal management review controls related to access, change management and segregation of duties as well as inaccurate data used for financial reporting and reconciliations.

(a) Security management

The security management (SM) category provides the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Information security management programs provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning and communicating responsibilities, and monitoring the adequacy of the entity's IS controls.

We identified the following:

- Plans of action milestones (POA&Ms) for open vulnerabilities are not actively being managed through completion.
- For applications that have IT processes, such as infrastructure hosting, managed by a service organization (e.g., Defense Information Systems Agency (DISA), Amazon Web Services (AWS), etc.), (1) System and Organization Control (SOC) reports are not being properly reviewed for impacts of SOC findings as well as applicability of complementary user entity controls (CUECs), or (2) in the absence of a SOC report, management is not obtaining sufficient evidence from third parties to evidence the effectiveness of their controls that are relevant to the DAF information systems.
- Lack of a fully implemented enterprise IT strategy; there is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.

(b) Access controls

The access controls (AC) category limits access, or detects inappropriate access, to information resources (i.e., data and information technology), thereby protecting these resources against unauthorized modification, intentional or unintentional loss, impairment, and disclosure. Logical access controls require users to authenticate themselves and limit the files and other resources that authenticated users can access and the actions that they can execute.

We identified the following:

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.

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- Access requests and authorized approvals are not being properly documented prior to provisioning.
- Periodic reviews of access, including privileged user access, were not performed appropriately.
- Procedures for monitoring and auditing financially relevant user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- The completeness and accuracy of system and manually generated reports used for access and activity review controls are not being validated by management responsible for reviewing these reports.
- Password and other security settings are not properly configured based on management policies and/or best practice.
- The entity was not able to provide a complete and accurate listing of contractor and personnel terminations.
- Modifications to application roles are not being sufficiently logged or monitored.

(c) Segregation of duties (SoD)

The segregation of duties (SD) category relates to the policies, procedures, and an organizational structure for managing who can control key aspects of computer-related operations and thereby prevent unauthorized actions or unauthorized access to assets or records. Segregation of duties involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective segregation of duties is achieved by splitting responsibilities between two or more individuals or organizational units. In addition, dividing duties this way diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other.

We identified the following:

- Policies and procedures have not been implemented to identify and document potential SoD conflicts within the applications and enforce restriction of SoD conflicts.
- For some application program management offices (PMOs) that have established a SoD matrix, the SoD matrix is not inclusive of all active application roles/permissions.
- Conflicting roles that were deemed necessary or required for business needs were not documented, assessed, formally approved with a waiver, and monitored for usage on a regular basis.

(d) Configuration management

The configuration management (CM) category relates to identifying and managing security features for all hardware, software, and firmware components of an information system at a given

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point and systematically controlling changes to that configuration during the system's life cycle. Configuration management controls that are designed and implemented effectively prevent unauthorized or untested changes to the information system and provide reasonable assurance that systems are securely configured and operated as intended. In addition, configuration management controls that are designed and implemented effectively provide reasonable assurance that software programs and changes to software programs go through a formal, documented systems development process that identifies all changes to the baseline configuration. To reasonably assure that changes to information systems are necessary, work as intended, and do not result in the loss of data or program integrity, such changes are authorized, documented, tested, and independently reviewed.

We identified the following:

- Lack of segregation of duties throughout the change management process, in which developers were granted inappropriate access that allows them to make changes directly in production environments without appropriate compensating controls.
- Changes to the application, infrastructure or key support tools are not properly documented, tested, reviewed and approved prior to production implementation.
- Changes are not properly validated after production implementation to verify the changes instituted are consistent with what was approved by management.
- Code and configuration changes to production environments are not being monitored to verify appropriateness.
- Direct changes to data in production are not monitored and/or are made without required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports used for change monitoring controls are not being verified by management responsible for reviewing these reports.

(e) Business process

The business process (BP) controls category relates to the structure, policies, and procedures for the input, processing, storage, retrieval, and output of data that operate over individual transactions; activities across business processes; and events between business process applications, their components, and other systems.
We identified the following:

- Lack of procedures to monitor the successful completion of business process/IT jobs.
- Interface files are not protected from unauthorized access and modification.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of data transmissions (interfaces).

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- Appropriate procedures for interface error identification and correction are not in place or are not being consistently performed.

Recommendations:

The DAF GF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate the DAF GF's IT modernization plan and timelines as part of this prioritization effort.

Best practices learned from successful remediation of CAPs should be shared across the organization and implemented for relevant CAPs for other applications especially during system modernization efforts. This will aid in the prevention of similar findings occurring across the enterprise.

The DAF GF should establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.

The DAF GF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management, and interface procedures to include:

- Security management:
    - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
    - Review applicable SOC reports and associated CUEC implementation. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.
    - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financially relevant system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
- Access controls /segregation of duties:
    - Implement procedures to document (1) requests of access specific to system roles and permissions, (2) authorized justifications for access, and (3) appropriate approvals for said access.
    - Develop, document and implement procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures. Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
    - Implement monitoring and review controls for users with elevated access privileges.
    - Document policies to define procedures required to investigate activities of unauthorized users identified during periodic user access reviews. For example,

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establish look-back procedures that involve review of audit logs to detect and remediate the activities of the unauthorized user.
    - Perform procedures to gain comfort over the completeness and accuracy of reports utilized in periodic user access reviews. For example, review and retain the parameters of the script utilized.
    - Configure application, infrastructure and supporting tool key security settings in accordance with organizational requirements and best practices. Further, periodically monitor these settings to validate continued appropriateness.
    - Establish sufficient logging mechanisms for changes to applications roles so that a complete audit trail of role modifications can be captured. Further, monitor changes to roles and evaluate whether such changes are supported by management authorization.
- Configuration management:
    - Implement segregation of duties within the configuration/change management process, in which developers should not have access to migrate changes to production. Appropriate risk assessment and compensatory controls should be in place for system operational purpose, if needed.
    - Document and retain adequate evidence of change requests, testing (if applicable), and approvals. This includes, but is not limited to, changes to application code, application configurations, data content from within the database, key reports, interfaces, job scheduling, and patches.
    - Monitor the application, database(s), and operating system(s) for potentially unauthorized changes.
    - Implement controls verifying the completeness and accuracy of management reports used for monitoring changes.
- Business process:
    - Establish and implement procedures to sufficiently monitor job schedule processing and to address errors that prevent jobs from completing successfully.
    - Restrict access to interface files and interface processing programs to authorized users and monitor these users' access for continued appropriateness.
    - Implement reconciliations and/or stronger systematic checks for completeness and accuracy of interface file processing.
    - Develop, document and implement procedures for performing interface error handling and correction.
- Data completeness and accuracy – applicable to all control areas:
    - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.
    - Develop and implement controls to maintain the integrity, completeness and accuracy of data throughout the system modernization cycle.

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IV. ACCOUNTS PAYABLE, ACCRUALS AND EXPENSES

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The DAF GF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as AP, advances and prepayments, accrued expenses and related liabilities, expenses, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP). Additionally, unique accounting considerations, such as use of joint procurement programs and shared access vendor contracts, have not been appropriately incorporated in the risk assessment and control environment.

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF GF's process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers (e.g., DFAS, Defense Contract Management Agency (DCMA)), timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

(b) Account-level review and reconciliation processes are not fully designed and implemented

The DAF GF lacks sufficient oversight and monitoring controls to detect and correct conditions that could lead to misstatements in the financial statements. As discussed in the "Integration and Reconciliation of Financial Systems" material weakness, controls have not been fully implemented to reconcile balances in relevant feeder systems to the financial statements, partly resulting from limitations in accessing all relevant data in key accounting systems, including Wide Area Workflow (WAWF) and Contracting Information Technology (CON-IT). Additionally, while the DAF GF is in the process of developing data analyses to facilitate efforts to review and support relevant financial statement line items, these efforts are not complete. As a result of these challenges, the DAF GF has not fully designed relevant account reconciliations, account rollforwards, or other analyses for accounts such as advances and prepayments, accounts payable

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and accrued expenses. Therefore, the entity is also unable to execute sufficient oversight and monitoring procedures over conditions such as:

- Transactions recorded in the incorrect period (refer to section (c) for further discussion)
- Dormant obligations or stale payables
- Untimely recording of obligations
- Unmatched disbursements

The lack of or inadequate controls over the various procure-to-pay processes has had a downstream impact on other areas, particularly FBwT and Military Equipment, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root causes that also indicate the need for enhanced preventative controls or other system changes that may be necessary to better support budget execution and monitoring.

(c) Lack of adequate controls over year-end cutoff

Cutoff procedures are critical near the end of a reporting period to confirm whether transactions are recorded in the appropriate period. The DAF GF lacks sufficient controls to address the risk of material misstatement due to cutoff. More specifically, the DAF GF has not designed and implemented sufficient processes to assess whether accruals are needed for goods and services that have been received but have not been formally invoiced or paid for during the current reporting period. The DAF GF largely relies on DFAS processes to identify expenses incurred and not paid as of year-end in MOCAS, and these balances may not include all goods and services that have been received by the DAF during the period. While the DAF GF has also developed processes to record accruals as part of the entity's quarterly procedures over military equipment based on asset progress at quarter-end as confirmed with contractors, these efforts have not been sufficiently linked to the DAF's procure-to-pay processes. During cutoff testing performed in FY25, the DAF was unable to support whether appropriate accruals had been made for a significant amount of our sample selections.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Identify the risks that are posed to the financial statement line items, relevant assertions and general ledger accounts for these cycles. Based on the risks, the DAF GF should perform the following:
    - Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within the DAF GF and third parties) responsible for assessing the risks.

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- Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate DAF GF monitoring controls over the procedures and controls performed by the third-party service organizations on behalf of the DAF.

- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.
- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts (e.g., accounts payable, advances and prepayments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELDCOM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.
- Implement the following due to insufficient controls over the accounting for joint procurement programs and shared access vendor contracts:
    - The DAF GF should identify a complete and accurate population of all joint procurement programs and shared access vendor contracts.
    - The DAF GF should implement monitoring procedures over recorded disbursements and collections to validate they represent transactions incurred by the DAF GF and are recorded in accordance with US Generally Accepted Accounting Principles (GAAP).
- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period-end accruals, including retrospective reviews and analysis as appropriate.

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V. OTHER GENERAL EQUIPMENT AND INTERNAL USE SOFTWARE

OGE includes material equipment such as support equipment, ground stations, labs, special tooling, special test equipment, and general equipment held by others (e.g., contractors) which are either stock listed or non-stock listed assets. IUS includes COTS, developed software, and software in development for use in administrative, operational and financial purposes.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and relevant controls for OGE and IUS are not accurately and/or sufficiently assessed and documented. The DAF GF's PCMs lacks policies and procedures to sufficiently identify the material financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (e.g., Enterprise Logistics Management System (ELMS), and insufficient oversight and monitoring of service providers and contractors, as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. For example, the OGE PCMs do not sufficiently assess the DAF GF's accounting policies related to valuation, including useful lives, bulk purchases, capital improvements, construction-in-progress, and impairment.

(b) Inability to identify a complete and accurate population of OGE and IUS

The DAF GF is still in the process of identifying a complete and accurate population of OGE and IUS. This includes, but is not limited to, known assets that are not currently reported in the ELMS, such as certain ground stations and labs. Additionally, there are known uncorrected ELMS data issues, which impact financially reported balances, including reporting assets below the DAF GF's capitalization threshold as well as errors impacting the calculation of accumulated depreciation.

(c) Insufficient controls over the valuation of OGE and IUS

The DAF GF is currently unable to identify, analyze and report values for each sub-asset class comprising of OGE and IUS. Additionally, the DAF GF has not fully developed or implemented the accounting and valuation methodologies set forth in SFFAS 6, *Accounting for Property, Plant, and Equipment* (SFFAS 6) and SFFAS 10, *Accounting for Internal Use Software* (SFFAS 10).

The DAF has designed a process to report stock listed OGE in accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment* (SFFAS 50), however, has not been able to implement this approach due to ongoing population completeness

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efforts. For the non-stock listed OGE assets and IUS assets, the DAF has not fully developed a plan to revalue the DAF's beginning balances in accordance with SFFAS 50.

(d) Insufficient controls over the financial reporting of OGE and IUS

Due to the significant population and data quality issues reported above, the DAF GF is still in the process of designing and implementing controls to reconcile the balances being reported for OGE in the Accountable Property System of Record (APSR) to the financial statements. The identified variances between the APSR and the financial statements have not been fully investigated and resolved. The DAF also has not designed and implemented controls to assess the reasonableness of quarterly activity. Similarly, as the entity is still in the process of determining the IUS population, controls have not been designed and implemented to reconcile balances between the APSR and the financial statements.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Identify the risks of material misstatement for OGE and IUS assets and document the process flow that generates those risks and the corresponding relevant controls that address those risks to adequately account and report the financial statement line item.
- Develop an understanding of the major procurement process and lifecycle processes for OGE and IUS.
- Continue efforts to identify the complete population of all non-stock listed OGE and IUS assets and corresponding validation efforts over the asset data being entered into the APSR.
- Develop and implement sufficient controls and policies to consistently recognize, measure, value, and disclose equipment and software in accordance with SFFAS 6 and SFFAS 10, for:
    - New acquisitions and transfers in accordance with SFFAS 6 and 10
    - Assets that are construction in progress and software in development
    - Asset records for capital improvements and enhancements
    - Bulk purchases
    - Impairment
- Update the values for stock listed OGE assets within the APSR in accordance with SFFAS 50 and make the unreserved assertion.
- Continue to develop and implement a plan to value and support the value of non-stock listed OGE and IUS assets in accordance SFFAS 50 and make the unreserved assertion.
- Continue to develop the rollforward and reconciliation processes to monitor asset balance and activity period-over-period to validate whether amounts reported in the APSR agree to the amounts reported in the financial statements. Identify and resolve unusual activity and balances.

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VI. OPERATING MATERIALS AND SUPPLIES

The majority of OM&S is comprised of munitions, missiles, spare engines, uninstalled missile motors, OM&S held by others and other weapon system spare parts.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation and assessment of accounting policies, procedures and controls

The complete end-to-end process flows, procedures and key controls for portions of the OM&S process are not accurately and/or sufficiently assessed and documented. The DAF GF's PCMs lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers and contractors, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., procure to pay).

The DAF GF's controls to ensure assets are completely and accurately recorded in the APSRs are not effectively designed to achieve financial reporting objectives. The following examples highlight the importance of coordination between the financial management and others in the functional community regarding the accounting/financial reporting impact of financial and non-financial data maintained by others:

- The DAF GF has not fully identified, assessed and responded to the financial statement risks associated with its OM&S systems . For example, there is not a documented assessment of how the DAF GF implemented the Defense Logistics Management Standards (DLMS) for recording logistics transactions to align with respective financial transactions required within the TFM. Accordingly, the DAF GF should determine impacts and/or necessary updates to the Theater Integrated Combat Munitions System (TICMS) APSR or the Munitions financial reporting process. The DAF GF has not fully implemented its assessment of the following in accordance with relevant accounting standards, including:
    - Appropriateness of posting logic used to generate reports for financial reporting
    - Alignment of condition codes to USSGL accounts
    - Alignment of logistics supply categories to USSGL accounts
- The DAF GF lacks a centralized review and monitoring control over all physical inventory counts to ensure completeness, accuracy and timely completion. The DAF GF's physical inventory policy addresses general asset safeguarding but does not respond to the risk of

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material misstatements to the financial statements at year-end as it does not contain rollforward procedures from the last physical inventory count to the year-end.

(b) Insufficient controls over financial reporting of OM&S

Controls have not been fully developed and implemented to reconcile asset balances being reported for OM&S in its APSRs to the general ledger, including the investigation and resolution of identified variances on a timely basis. The DAF GF also does not have sufficient controls to ensure that all OM&S as required is being recorded in the financial statements.

Additionally, the DAF GF does not perform reconciliations between OM&S proprietary and corresponding budgetary transactions.

(c) Lack of sufficient accounting processes to value and report OM&S

The DAF GF has not implemented nor applied the costing and valuation methodologies set forth in SFFAS 3, *Accounting for Inventory and Related Property* (SFFAS 3), or SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (SFFAS 48). The DAF GF has not demonstrated a systemic capability to integrate OM&S actual historical costs, including purchase, production and transportation costs, and calculate the value of the assets in accordance with SFFAS 3 across its acquisition, logistical and financial (both general ledger and payment) systems. The DAF GF also lacks policies and procedures for the proper valuation of excess, obsolete, and unserviceable OM&S and repair allowances. The DAF GF has begun to assess the applicability of utilizing the purchases method of accounting for certain of its GF OM&S based on its interpretation of the criteria set forth in SFFAS 3.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Identify, assess and respond to the financial statement risks associated with its OM&S systems. Specifically, the DAF GF should analyze and document APSR systems' logic to validate TFM compliance for logistics transactions that result in financial transactions.
- Use the established criteria, as well as policies and procedures, to implement and record OM&S based on the proper alignment of Logistic Supply Condition Codes and Logistic Supply Categories to the USSGL accounts impacting financial reporting.
- Document end-to-end process flows including the documentation of controls, applications and related business processes that are aligned to the flow of financial information from initiation to reporting. This flow should contain an accurate and complete population of events that result in financial transactions and include all relevant applications and interfaces between systems. This effort requires enhanced coordination between financial and logistics stakeholders to

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identify, assess and respond to the impact of logistics transactions on information used for financial reporting.

- Continue to develop and implement APSR to GL reconciliations, including identifying, documenting, and performing corrective actions for historical activity and Journal Vouchers resulting in variances between APSRs and the GL.
- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.
- Evaluate OM&S processes to determine appropriate actions needed for implementing valuation at historical cost or any method approximating historical cost (e.g., standard cost or latest acquisition cost) and report those values on the entity's financial statements in accordance with SFFAS 3.
    - Complete the efforts to value and account for the OM&S under SFFAS 3. This plan should include the systemic components and controls necessary to properly integrate from an internal control over financial reporting perspective and reconcile the acquisition, logistics, and financial (general ledger and payment) system transactions to the general ledger and financial statements.
- Complete any open efforts for beginning balance valuation in accordance with SFFAS 48 and any related implementation guidance and for SFFAS 3 valuation ensure that purchase, production and transportation costs are accumulated and supporting documentation is available and retained.
- Institute review and monitoring controls to ensure physical inventory counts are monitored for completeness, accuracy and timely completion. Furthermore, implement and document alternative procedures to rollforward the periodic physical inventory counts to year end.

VII. PROPERTY AND MATERIALS HELD BY OTHERS

The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of efforts. Generally, this inventory held by others is reported as OM&S and the equipment is reported as OGE in the financial statements.

The following deficiencies aggregated into this material weakness:

(a) Insufficient oversight and monitoring of the accounting for OM&S managed by Army

The Army performs munitions inventory management services for approximately a third of the entity's total munitions. The DAF GF utilizes TICMS, which provides for the DAF GF to receive transactional-level quantity updates from Army's Logistics Modernization Program (LMP) system via a standardized DLMS interface. TICMS has the capability to detect mismatches in inventory quantity for a given stock number at a Department of Defense Activity Address Code (DoDAAC) level via a live Inventory Mismatch Report. However, the DAF GF has not fully developed controls around the evaluation and resolution of the variances identified through this reconciliation

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process between TICMS and LMP. In addition, the DAF GF has not developed a comprehensive asset level reconciliation process for all National Stock Number and DoDAACs between TICMS and LMP.

The DAF GF has not fully evaluated and documented its assessment of controls performed by Army on the DAF GF's internal control over financial reporting and the completeness and accuracy of financial transactions processed by Army on its behalf.

(b) Insufficient oversight and monitoring of the accounting for OM&S managed by DLA

Also included in OM&S are supplies managed by the DLA. The DAF GF relies on the DLA to report inventory quantities on hand at period end through the Distribution Standard System application. The DAF GF does not have sufficient policies or procedures in place to perform reconciliations for assets managed by DLA and reported by the DAF GF. When there are discrepancies, the DAF GF adjusts their inventory counts to the amounts reported by DLA without reconciliation or explanation of variances.

The DAF GF has not fully evaluated and documented its assessment of controls performed by DLA on the DAF GF's internal control over financial reporting and the completeness and accuracy of financial transactions processed by DLA on its behalf.

(c) Insufficient oversight and monitoring of the accounting for Government Furnished Property and contractor-acquired property

Government furnished property (GFP) in the custody of contractors includes government furnished equipment (GFE) and contractor-acquired property. GFE is included within OGE and contractor-acquired property can either be OM&S or OGE. The DAF GF lacks policies and procedures to sufficiently maintain accountability for, and to financially report, property in the custody of contractors. The DAF GF is unable to provide a complete listing of GFE and contractor-acquired property and has not developed or implemented controls for the recording and monitoring of these assets. While the Defense Contract Audit Agency (DCAA) is currently performing procedures to test the existence and completeness of contractor-reported GFE across the military departments at selected contractors, these procedures have not yet been completed, and the DAF GF is in the process of reconciling these amounts to entity records.

Additionally, the DAF GF lacks sufficient oversight and monitoring controls over contactor inventory control points (C-ICP). C-ICP represents the portion of DAF GF-owned OM&S assets that are maintained at commercial entity locations for wholesale distribution. The DAF GF has not developed sufficient policies and internal controls to identify, validate and financially report all C-ICP programs and is unable to determine the materiality of C-ICP programs currently not reporting. At a program level, the DAF GF has not developed oversight and monitoring controls to evaluate and assess contractor executed procedures that have a financial impact, such as

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recording new receipts, beginning balances, valuation calculations, updating condition codes and performing periodic physical inventory counts.

(d) Insufficient accounting and reporting of the DAF GF share of F-35 Joint Strike Fighter assets

The JSF program is a joint, multinational acquisition program intended to develop and field a family of next-generation strike fighter aircraft for the DAF GF, Navy and Marine Corps, as well as other international partners and foreign military sales customers. As one of the program participants, the DAF GF contributes a percentage of annual procurement costs to the global pool of assets, including spares and equipment. The DAF GF currently does not report an asset on the balance sheet to represent this future benefit. Office of the Under Secretary of War (OUSW) and the JSF Program Office, in coordination with the DAF and other program participants, have not yet defined and implemented a process to account for the shared pool of assets in accordance with GAAP.

Recommendations:
EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Improve oversight of OM&S managed by Army and DLA:
  - Munitions
    - Continue to design and implement oversight and monitoring controls, specifically over munitions balances posted by service providers, including end-to-end process flow, controls and third-party monitoring controls impacting internal control over financial reporting to validate the completeness and accuracy of balances posted.
    - Design and implement comprehensive asset level reconciliation controls for all NSNs and DoDAACs between Army LMP and TICMS.
  - Supplies
    - Design and implement internal controls related to the review of DLA Managed Inventory balances. These should include oversight and monitoring controls to assess the completeness and accuracy of information reported.
    - Develop a process to routinely monitor variances between DLA and the DAF GF and determine a resolution.
    - Evaluate and document its assessment of controls performed by DLA and all DLA functions material to the DAF GF's internal control environment. In addition, develop third party monitoring controls in response to service organization risks.
- Improve oversight and monitoring of GFP and contractor-acquired property:
  - Complete actions to obtain complete populations of property held by contractors.

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  - Develop sufficient oversight and monitoring controls to effectively monitor contractors, including the development of reconciliations between the DAF GF and contractor records. In addition, these oversight and monitoring controls should be designed to evaluate and assess contractor executed procedures that have a financial impact and are important to internal control over financial reporting, such as recording new receipts, beginning balances, valuation calculations, updating condition codes and performing periodic physical inventory counts.
- Insufficient accounting and reporting of the DAF GF share of F-35 JSF assets:
  - Continue to work with the JSF Program office to develop and implement policies and procedures to properly account for, monitor and report its share of JSF assets. As part of this process, additional considerations should include, but are not limited to the following:
    - Validation of the completeness and accuracy of any data utilized to support the analysis.
    - Further understanding of the underlying JSF agreements and the nature of how DAF GF contributed funds are utilized in support of the program (e.g., differentiation of DAF GF disbursements for continued access to the pool vs. one-time sunk costs, evaluation of any time lapses or other contractual considerations).
    - Assessment of what portion of the DAF GF contributed amounts have been executed and transferred to DAF GF through an asset being installed/consumed into an F-35 Aircraft. This should be utilized to appropriately reflect the remaining asset resulting from DAF GF's ongoing funding/participation in the JSF program.

VIII. REAL PROPERTY

Real Property (RP) consists of land, buildings, structures and linear structures. RP asset information and activity (e.g., acquisitions, transfers and disposals) are recorded within the APSR, Next Generation Information Technology (NexGen-IT), by the installation Real Property Office (RPO) as well as other applicable organizations.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures, and key controls for portions of the RP process are not accurately and/or sufficiently assessed and documented. The DAF GF's PCM lacks policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of third parties, as well as the lack of sufficiently designed

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and executed controls over the completeness and accuracy of data used in execution of key controls.

(b) Insufficient controls over financial reporting of real property

Lack of fully designed and implemented controls to rollforward RP activity and reconcile to the financial statements

Controls have not been fully designed and implemented to reconcile RP balances and activity in the APSR to the financial statements. During FY25, the DAF GF designed a quarterly rollforward with the intent to validate that assets reported in the APSR agrees to the financial statements, identify any anomalous activity/balances, and support other financial reporting objectives. While the DAF GF has continued to make progress in FY25, significant remediation efforts to transfer historical general ledger balances to DEAMS and complete a baseline revaluation of the APSR population, inhibited the entity from completing the rollforward and reconciliation of RP activity and balances to the financial statements, including the resolution of variances, prior to the finalization of year-end financial reporting.

Lack of fully designed and implemented controls to review and monitoring APSR data

The DAF GF has continued to develop its NexGen-IT data quality dashboard to review and track changes made to the APSR on a periodic basis. RP assets have various characteristics recorded in NexGen-IT based upon the nature and category of the asset. Although some data elements are non-financial in nature, much of this information has an impact on the DAF GF's ability to implement SFFAS 50. SFFAS 50 allows for the Plant Replacement Value (PRV) to be used as a starting point for establishing estimated historical cost, which is one of the established alternative valuation methods under the standard. In order to arrive at estimated historical cost, an adjustment for the difference in age between the existing asset and a replacement asset is calculated utilizing the assets placed in service date (i.e., Deflated PRV (DPRV)). Installations are responsible for verifying that the key supporting documents (KSDs) in conjunction with the physical observation of the asset support the data elements impacting DPRV (e.g., category code, unit of measure, placed in service date).

Although Secretary of the Air Force, Financial Management, Mission Critical Assets (SAF/FMFM) has made progress in designing a detect and correct control over key inputs and anomalous activity within NexGen-IT, other key remediation efforts, as outlined above, inhibited the entity from sufficiently designing and implementing the control in the current year. Additionally further control design and implementation of oversight and monitoring at functional organizations, system levels, and individual installations is needed to increase the entity's ability to research and remediate flagged activities in a timely manner, as well as prevent changes requiring subsequent correction by SAF/FMFM.

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(c) Further procedures are needed to identify and value the complete population of real property assets

While the DAF GF has implemented a methodology to value RP assets in accordance with SFFAS 50 as discussed above, efforts to validate the accuracy of key data elements and overall completeness of the population in order for the entity to make an unreserved assertion and establish opening balances remains in progress. EY identified the following:

- Although significant progress was made in FY25 over buildings and structures at active DAF installations, the DAF GF is continuing remediation efforts to validate key inputs and any resulting required changes to the APSR for these assets.
- While the DAF GF has initiated efforts to validate assets at Air National Guard (ANG) and Air Force Reserve Command (AFRC) locations, the entity has not yet completed its assessment as to whether the APSR contains a complete and accurate population of assets at these locations.
- The DAF GF has not completed its assessment as to whether its APSR contains a complete and accurate population of linear structures.
- Under SFFAS 50, entities have an option to exclude land and land rights from the general property, plant and equipment balance and instead disclose specific acreage information. The DAF GF has not completed its acreage reconciliation efforts as controls have not yet been fully implemented across all installations.

(d) Insufficient procedures in place to monitor, value and report the complete population of real property CIP

The DAF GF military construction (MILCON) of RP assets is accomplished through either projects sub-allotted to a construction agent (CA) or those projects executed in-house. The two CAs used by the DAF GF to manage the majority of DAF CIP projects are U.S. Army Corps of Engineers (USACE) and the Naval Facilities Engineering Systems Command (NAVFAC). During the construction phase of the project, the CAs track and report incurred construction costs directly into the DAF GF financial statements through a remote work area (RWA) within Defense Departmental Reporting System – Budgetary (DDRS-B).

While the DAF GF has begun designing a mechanism to assess the completeness of the CIP population comprised of projects from the three sources, the entity has not yet fully designed and implemented reconciliations utilizing reliable data sources to validate the complete population. While the DAF GF has made progress in designing preliminary reviews over the valuation of CIP activity in accordance with SFFAS 6, including efforts pertaining to USACE CIP which represents the majority of DAF GF CIP, these efforts are not complete.

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The lack of sufficient controls over CIP prevents full implementation of SFFAS 6 which inhibits the DAF GF's ability to make an unreserved assertion that its balances comply with SFFAS 6 prospectively and SFFAS 50, retrospectively.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Identify the risks of material misstatement for RP assets and document the process flow of transactions that generate those risks and the corresponding relevant controls that address those risks to adequately account for and report the financial statement line item.
- Continue to enhance the existing rollforward/reconciliation process and related controls to more effectively monitor asset balances and activity period-over-period to validate whether assets reported in APSR agree to the amounts reported in the financial statements. Identify and resolve anomalous activity, variances and balances.
- As the accurate computation of PRV is dependent on APSR data, the DAF GF should monitor the completeness and accuracy of Real Property asset data and key inputs within the APSR by:
    - Defining roles and responsibilities of the applicable stakeholders for the execution of the Data Quality Dashboard (DQD) control including procedures to document and evidence to assess flagged activity in a timely manner
    - Validate that updates/corrections to key inputs within the APSR are made in a timely manner
    - Define the appropriate mechanisms to design and implement preventative controls to ensure timely and accurate entry of NexGen-IT asset records as well as the assessment of system functionality impacts
- Complete ongoing remediation procedures in conjunction with efforts to implement SFFAS 50 through the following:
    - Ongoing validation of key inputs and any resulting required changes to the APSR for buildings and structures at active DAF installations (e.g., found on base assets, installation utilization initiatives, other remaining installation efforts).
    - Continue efforts to complete validation procedures at ANG and AFRC installations and maintain ongoing oversight of E&C and valuation remediation procedures, including those performed by Air Force Audit Agency (AFAA).
    - Develop procedures and internal controls at the installation level to effectively establish and subsequently monitor the use of various technology and data sources to aid in the identification and reconciliation of underground linear structure assets.
    - Ensure the appropriate tools and models are developed to assist in the accurate measurement of land acreage. Consider the impacts, if any, presented by SFFAS 59, *Accounting and Reporting of Government Land,* that relate to the accounting treatment of land.

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- Continue efforts to design and implement controls to validate the completeness of CIP projects to validate that all CIP activity is captured and reconciled.
- Continue to design and implement the appropriate monitoring and oversight controls to verify the accuracy of DAF executed CIP costs, as well as CIP amounts reported by the CAs, in accordance with SFFAS 6.

Significant Deficiencies

IX. ENVIRONMENTAL AND DISPOSAL LIABILITIES

(a) Continued refinement over documentation of accounting policies, procedures and controls is needed

The complete end-to-end processes, procedures, and key controls for portions of the E&DL process are not accurately and/or fully documented. For example, the DAF GF has not designed and implemented sufficient controls for the review of established estimation methodologies, inputs including those from third parties, and assumptions that are used in the determination of a portion of the liability.

(b) Insufficient procedures in place to financially report all E&DL

The DAF GF estimates E&DL related to the restoration and other environmental clean-up efforts of real property assets. Restoration Account (ERA) Liabilities represent the future costs associated with identifying, investigating, remediating, and monitoring environmental contaminations within the United States, including program management costs. Other Environmental Liabilities (OEL) is comprised of: Environmental Corrective Action (ECA), Environmental Closure Requirements (ECR) and Asbestos. Restoration and OEL estimates are triggered by two different activities: asset-driven or event-driven. ECR and Asbestos fall under asset-driven liabilities which are reported under OEL within the financial statements. Asset-driven liabilities are based on the characteristics of a particular real property asset and, therefore, are heavily dependent on information from the real property APSR to determine the completeness of the population for which a liability needs to be determined. As discussed in the real property material weakness above, the DAF GF's APSR may not capture all real property assets and/or the accurate data elements needed to support E&DL estimates. For event-driven liabilities, the DAF currently lacks a sufficient control process to support a complete population of Restoration sites that require an environmental liability. As a result, the associated E&DL may not consider a complete population of the associated liability.

The DAF GF has not demonstrated that effective controls are implemented by SAF/FMFM oversight to review and monitor the reasonableness of E&DL amounts recorded on the financial statements in accordance with the appliable standards. Instead, the process relies heavily on individual E&DL components to review, validate data, and interpret financial reporting

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requirements even though the components may lack sufficient financial reporting expertise. This results in an increased risk that reported amounts and disclosures may be incomplete, inaccurate or non-compliant.

(c) Lack of sufficient processes to compare actual contract costs to recorded estimates

The DAF GF often utilizes the Remedial Action Cost Engineering and Requirements (RACER) software to forecast costs for contaminated sites or assets including Base Realignment and Closure (BRAC), Restoration and OEL that require investigation, disposal and/or clean-up. RACER is a third-party software operated and maintained by AECOM Technical Services, Inc. (AECOM) through a contract with USACE. AECOM is tasked with maintaining and updating the multiple different databases that RACER stores including, but not limited to, technology/assembly costs, per diem rates, area cost factors, and inflation rates.

The RACER Verification, Validation, and Accreditation (VV&A) process is performed on a periodic basis to review the estimation model's functionality, logic, and suitability that impact the estimation of clean-up activities for various environmental sites. This process involves the review and input of the various Department of War (DoW) users in addition to the DAF GF. While progress continues to be made to formalize certain policies and procedures around the verification process, the DAF GF has not sufficiently designed and/or implemented controls to fully assess the validation portion of the VV&A process over the effectiveness and suitability of RACER when compared to actual clean-up costs. The DAF also has not sufficiently performed a service organization risk assessment or implemented the appropriate monitoring and oversight controls, which may impact the completeness and accuracy of RACER data and assumptions used to estimate clean-up activities within DAF GF's E&DL balance.

The DAF GF has not completed the design and/or implementation of a process to compare and assess actual costs to recorded estimates for reasonableness in a timely manner to support current year financial reporting objectives across the E&DL balance. While the DAF GF continued to evaluate alternative strategies for OEL, made progress in designing a Restoration retrospective review process, and implemented a retrospective review of RACER generated BRAC estimates, further analysis and evaluation and documentation of key factors are necessary given the complexity and unique nature of the applicable populations. These factors include, but are not limited to, the underlying population, related technologies, estimation methodologies (e.g., RACER, Historical, and pre-negotiated), applicable sample sizes and precision used, and procedures to make timely adjustments to the current year estimated liability, when necessary.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

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- Establish the appropriate controls to prevent or detect and correctly identify risks of misstatement across all components of ECR and Asbestos on a timely basis.
- Design and implement appropriate controls to review, validate and evaluate the applicability of third-party data used in the DAF's calculation of the Asbestos liability.
- Develop and refine processes and controls to accumulate sufficient and reliable internal data to support the identification of all applicable sites and development of the related Restoration E&DL estimate, where applicable.
- Monitor the ongoing remedial actions taken to validate the completeness and accuracy of real property APSR data. As RP remedial actions are focused on validating the population and data elements impacting PRV, further actions may be necessary to validate the detailed records utilized to calculate OEL.
- Implement standardized procedures and centralized oversight to ensure E&DL amounts are accurately reviewed, validated, and reported in compliance with applicable standards. Additional training and monitoring should be established to mitigate the risk of incomplete, inaccurate, or non-compliant financial reporting.
- Continue to enhance the VV&A process to ensure validation activities are performed to verify that RACER produced estimates are accurate and suitable for continued used in estimating the environmental liability. The DAF should design sufficient controls over the service organization and IT environment risks when using RACER, which could include the requesting an execution of a SOC report and DAF implementation of CUECs.
- Continue to further evaluate and analyze contract cost information to effectively develop and implement a complete process to compare actual contract costs to E&DL estimates as computed by RACER or any other cost estimation software or methodology. Perform such analysis so that it is representative of the population and performed in a timely manner to make adjustments to the current year estimated liability, when necessary.

X. REIMBURSABLE PROGRAMS

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the reimbursable grantor and acceptor processes are not sufficiently assessed and documented. The DAF GF's PCMs or other controls documentation lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of service providers (i.e., DFAS), as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls. Control documentation also does not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT).

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(b) Insufficient controls over financial reporting of reimbursable agreements

The DAF GF matches current-year reimbursable authority received from customer orders to the corresponding obligations incurred for that order. The DAF GF performs balancing at various times during the year and forces reconciling balances using journal vouchers, potentially resulting in the overstatement of obligations. If these amounts are not in balance at year-end, the DAF may force reconcile the variances if the funds are not returned to the customer or de-obligated prior to the end of the fiscal year. There is a lack of supporting documentation and unique identifiers for these balancing transactions.

The DAF GF also does not have sufficient procedures in place to ensure that transactions associated with intra-DAF GF reimbursable agreements are appropriately eliminated from the financial statements.

(c) Lack of sufficient reviews over reimbursable activity

We identified several instances that indicate a lack of sufficient review, including:

- Lack of organization-wide controls to monitor and review reimbursable transactions occurring at the base level, including the consistency in execution of those processes.
- Reimbursable billing process and controls in the Job Order Cost Accounting System II (JOCAS) are not regularly reviewed against updated DoW guidance. This could lead to the DAF GF either over- or under-charging a customer depending on whether the costs are reimbursable.
- Lack of timely identification and accruals of aged reimbursable orders.
- Insufficient documentation to verify goods and services are received, services provided, or costs incurred by vendor on behalf of third-party customers.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Lack of sufficient documentation of accounting policies, procedures and controls:
    - Identify the risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise obligations, receipt and acceptance, disbursements, billings, revenue recognition, and collections within the Reimbursable Budget Authority and Execution (RBAE) Grantor and Acceptor cycles. Based on the risks, the DAF GF should perform the following:
        - Document the process flow of transactions, including the IT systems, that generate those risks and the process owners responsible for assessing the risks.

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        - Identify and document the corresponding key controls that address those risks to adequately account and report the financial statement line item, including the cross-cutting controls that are shared with other areas (e.g., FBwT).
    - Develop an adequate understanding of the processes and relevant controls performed and implemented by service organizations and the scope of any related SOC reports. Implement appropriate monitoring and oversight controls, including necessary CUECs and Complementary Subservice Organization Controls (CSOCs).
- Insufficient controls over financial reporting of reimbursable agreements:
    - Evaluate the causes for why unfilled customer orders and obligations created to fulfill those orders are not in balance. Depending on the causes identified, policies and procedures may need to be updated to remove the need to force balance customer orders and obligations throughout the life of the transaction or clarify the need for customer orders to obligations balancing entries to comply with GAAP.
        - Assess system and process methodologies to determine root cause as to why existing obligations are unable to be tied to the customer order.
        - Review overall environment of forced balancing transactions and impact to the financial statements.
        - Minimize time lags between the disbursement of funding to meet the contractual obligations and the billing/collection from the customer.
        - Return funding to the customer promptly if the DAF GF knows the funding will not be fully utilized.
        - Properly record reimbursable obligations initially as reimbursable budget authority rather than direct budget authority, to prevent reclassifying later.
    - Develop policies and procedures to eliminate intra-fund transactions as appropriate.
- Lack of sufficient reviews over reimbursable activity:
    - Develop management review controls that adequately monitor activity occurring at the base level to evidence controls are consistently executed across the DAF GF as part of both RBAE processes. Identify, design, and document any additional controls that should be in place for all processes required to comply with relevant accounting standards including financial statement line items and notes to the financial statements.
    - Enhance the current process to determine stale balances are being monitored and ensure customers are billed and collected from in a timely manner.
    - Design and implement appropriate accruals to accrue, either by modifying existing accruals (if applicable) or by developing their own accruals, for A/R and Revenue based on work performed, billings subsequent to period end, etc.
    - Develop or update policies to sufficiently support whether goods provided, or services performed, satisfy the criteria of the order and include evidence of receipt and acceptance for the expenses incurred.

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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements") and our report dated November 21, 2025 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters on the DAF GF's financial statements as of and for the year ended September 30, 2025 is not currently determinable by the DAF GF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of the DAF GF's compliance with certain provisions of laws, regulations, contracts and grant agreements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, as well as instances of noncompliance in which the DAF GF's financial management systems did not substantially comply with the Section 803(a) requirements of FFMIA and which are described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

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Our Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 21, 2025 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

<u>FFMIA</u>

Under FFMIA, we are required to report whether the DAF GF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DAF GF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2025 DAF GF Statement of Assurance, the DAF GF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or Appendix D to OMB Circular A-123 – *Management of Financial Management Systems – Risk and Compliance*.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF GF from being compliant with federal financial management system requirements and inhibit the DAF GF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2025 DAF GF Statement of Assurance and Note 1 to the financial statements, the DAF GF identified that the financial systems and financial portions of mixed systems do not allow the DAF GF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

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(c) Noncompliance with USSGL posting logic at the transaction level

As referenced in the FY 2025 DAF GF Statement of Assurance, the DAF GF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF GF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF GF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF GF provided the FY 2025 Statement of Assurance and as reported in the Report of Independent Auditors on Internal Control over Financial Reporting certain aspects related to entity level controls have not been fully identified, implemented, or operating effectively. Based on the evidence received, EY assessed that the DAF GF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF GF has not fully evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

DAF GF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 21, 2025. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2025 on our consideration of the DAF GF's internal control over financial reporting (internal control). The purpose of that report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control.

Ernst + Young LLP

November 21, 2025

OFFICE OF THE ASSISTANT SECRETARY

SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

21 November 2025

Mr. Timothy Winder
Partner, Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force reviewed the Independent Auditor Report prepared for the Fiscal Year 2025 General Fund financial statements. We acknowledge and concur with your issuance of a disclaimer of opinion and appreciate the insights and actionable feedback you have provided regarding the audit findings included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*. The Department of the Air Force is committed to continuing efforts to remediate deficiencies to meet our obligation to the American people of delivering a clean audit opinion.

Over the past eight audit cycles, the Department of the Air Force has made significant progress against our audit objectives, which has translated into meaningful process and system improvements. Key audit wins like balancing our checkbook with Treasury and fully accounting for and valuing our aircraft and satellites have propelled our General Fund to have the most audit-ready balance sheet among the Military Departments. However, we understand the Congressionally mandated timeline to achieve a clean audit opinion is quickly approaching and some of our most highly complex line items stand between us and an unmodified opinion.

To meet Secretary Meink's goal of accelerating progress, the Department of the Air Force developed an acceleration plan that focuses on four General Fund focus areas: Real Property, Operating Materials and Supplies, Other General Equipment, and Accounts Payable and Expenses. This plan requires the Department to focus its efforts and prioritize activities that are essential to securing a clean audit opinion. Remediating these focus areas will make a significant portion of our General Fund balance sheet auditable.

While immediate focus is on building balance sheet audit-readiness, the Department of the Air Force understands our systems and the data within will ultimately help us sustain a clean audit opinion. As such, the Department continues to enhance our information technology environment and reduce cyber security risks by onboarding our systems to modernized information technology capabilities. The Department of the Air Force continues to track on implementing Identity, Credential, and Access

Management, Security Information and Event Management, and Configuration Management Database solutions for identified financial and financial management systems. Successful onboarding will enhance our risk posture, safeguard our data, and help us address our Information Technology Notices of Findings and Recommendations.

We are confident in our path forward and are full throttle on our accelerated approach to secure a clean audit opinion in time that will enable the Department of Defense to uphold its obligation to defend taxpayer dollars. Your partnership is both appreciated and essential for us to achieve our accelerated audit goals.

Sincerely,

Lara C. Sayer
Principal Deputy Assistant Secretary of the Air Force
(Financial Management and Comptroller)

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND *(UNAUDITED)*

The DAF WCF principal statements and related notes summarize financial information for the DAF WCF for the FY ended September 30, 2025. The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the *Chief Financial Officers Act of 1990*, the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

The following statements comprise the DAF WCF's principal statements:

CONSOLIDATED BALANCE SHEET

The Consolidated Balance Sheet, as of September 30, 2025, represents those resources owned or managed by the DAF WCF, which are available to provide future economic benefits (assets), amounts owed by the DAF WCF that will require payments from those resources or future resources (liabilities), and residual amounts retained by the DAF WCF, comprising the difference (net position).

CONSOLIDATED STATEMENT OF NET COST

The Consolidated Statement of Net Cost presents the net cost of the DAF WCF's operations for the FY ended September 30, 2025. The DAF WCF's net cost of operations includes the gross costs incurred by the DAF WCF less any exchange revenue earned from DAF WCF activities.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

The Consolidated Statement of Changes in Net Position presents the change in the DAF WCF's net position resulting from the net cost of DAF WCF's operations, budgetary financing sources other than exchange revenues, and other financing sources for the FY ended September 30, 2025.

COMBINED STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources presents the budgetary resources available to the DAF WCF during FY 2025, the status of these resources as of September 30, 2025, and the net outlays of budgetary resources for the FY ended September 30, 2025.

A USSF Guardian with the 527th Space Aggressor Squadron (SAS) unrolls cables during exercise Resolute Space 2025 at Maui, HI. The 527th SAS replicated adversary electromagnetic tactics, techniques, and procedures during Resolute Space 2025 to challenge exercise participants in contested conditions. —USSF photo by Senior Airman William Pugh

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND
CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 CONSOLIDATED *(UNAUDITED)*
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$	2,624,149
Accounts Receivable, Net (Note 3)		1,086,000
Total Intragovernmental	$	3,710,149
Other than Intragovernmental		
Accounts Receivable, Net (Note 3)	$	2,615
Inventory and Related Property, Net (Note 4)		40,367,471
General Property, Plant, and Equipment, Net (Note 5)		1,129,726
Advances and Prepayments (Note 6)		563,429
Other Assets (Note 6)		2
Total Other than Intragovernmental	$	42,063,243
Total Assets	$	45,773,392
LIABILITIES		
Intragovernmental		
Accounts Payable	$	133,818
Other Liabilities (Note 9)		56,985
Total Intragovernmental	$	190,803
Other than Intragovernmental		
Accounts Payable	$	513,408
Federal Employee Salary, Leave, and Benefits Payable (Note 8)		322,665
Pensions, Other Post-Employment, and Veterans Benefits Payable (Note 8)		171,436
Advances from Others and Deferred Revenue (Note 9)		198,775
Other Liabilities (Note 9)		45,290
Total Other than Intragovernmental	$	1,251,574
Total Liabilities	$	1,442,377
NET POSITION		
Unexpended Appropriations - Funds Other than Dedicated Collections	$	74,131
Total Unexpended Appropriations (Consolidated)	$	74,131
Cumulative Results of Operations - Funds Other than Dedicated Collections	$	44,256,884
Total Cumulative Results of Operations (Consolidated)	$	44,256,884
Total Net Position	$	44,331,015
Total Liabilities and Net Position	$	45,773,392

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED STATEMENT OF NET COST

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025 CONSOLIDATED** *(UNAUDITED)*
Gross Program Costs	$ 20,735,424
(Less: Earned Revenue)	(15,352,199)
Net Cost of Operations	$ 5,383,225

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 CONSOLIDATED** *(UNAUDITED)*
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$	41,365
Appropriations Transferred In/Out		86,874
Appropriations Used		(54,108)
Net Change in Unexpended Appropriations	$	32,766
Total Unexpended Appropriations, Ending Balance	$	74,131
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$	42,929,106
Budgetary Financing Sources		
Other Adjustments (+/-)	$	6,202,232
Appropriations Used		54,108
Transfers In/Out without Reimbursement		(12,360)
Imputed Financing		467,025
Other		(2)
Total Budgetary Financing Sources	$	6,711,003
Net Cost of Operations (+/-)		5,383,225
Net Change in Cumulative Results of Operations	$	1,327,778
Cumulative Results of Operations, Ending	$	44,256,884
Net Position	$	44,331,015

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

COMBINED STATEMENT OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025 COMBINED** *(UNAUDITED)*
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 13)	$	1,421,925
Appropriations (Discretionary and Mandatory)		86,874
Contract Authority (Discretionary and Mandatory)		11,917,724
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		8,962,537
Total Budgetary Resources	$	22,389,060
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$	20,459,020
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	$	1,930,040
Unexpired Unobligated Balance, End of Year	$	1,930,040
Unobligated Balance, End of Year (Total)	$	1,930,040
Total Budgetary Resources	$	22,389,060
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	$	(270,787)
Agency Outlays, Net (Discretionary and Mandatory)	$	(270,787)

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL STATEMENTS

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

Click Each Note for Quick Access *(Online Version Only)*

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

A. REPORTING ENTITY

The DAF encompasses the DAF Headquarters and USAF Field Organizations. The Secretary of the Air Force has overall responsibility for the USAF under the guidance and direction of the Secretary of War.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF WCF. As a result, it does not disclose information related to the DAF GF.

For additional information, refer to the *Overview, Mission,* and *Organizational Structure* sections in the Management's Discussion and Analysis.

As a reporting entity of the U.S. Government, some of the assets and liabilities reported by the DAF WCF may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The stock and industrial revolving fund accounts were created by the *National Security Act of 1947*, as amended in 1949 and codified in 10 U.S. Code § 2208. The revolving funds were established to more effectively control the cost of work performed by the DoD. The DoD began operating under the revolving fund concept on July 1, 1951.

The DAF WCF operations consist of two major activity groups: Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group - Retail (SMAG-R). All the DAF WCF CSAG and SMAG-R activities establish rates based on full cost recovery. If an operating loss or gain is incurred, the activity will make the appropriate adjustment in following years' prices to recoup the loss or return the gain to their customers.

The mission of CSAG is supply management of reparable and consumable items and maintenance activities. Supply Division activities of CSAG are authorized to procure and manage reparable and consumable items for which the DAF WCF is the Inventory Control Point. The Supply Division manages items that are generally related to weapon systems and ground support and include both depot level and non-depot level reparables.

Maintenance Division activities of CSAG are authorized to perform: 1) overhaul, conversion, reclamation, progressive maintenance, modernization, software development, storage, modification, and repair of aircraft, missiles, engines, accessories, components, and equipment; 2) the manufacture of parts and assemblies required to support the foregoing; and 3) the furnishing of other authorized services or products for the DAF and other DoD and non-DoD agencies. As directed by the Air Force Materiel Command or higher authority, the Maintenance Division may furnish the above-mentioned products or services to agencies of other departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law.

The SMAG-R consists of three business divisions: General Support Division (GSD), Medical-Dental Division, and Air Force Academy Division. GSD procures and manages consumable supply items related to maintenance, the Flying Hour Program, and installation functions. Most of these items are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental Division manages medical materiel storage, distribution, and the War Reserve Materiel inventory, supporting both combatant commands and the Department of State. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies, and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

B. BASIS OF PRESENTATION

These financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF WCF 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 accompanying financial statements account for all resources for which the DAF WCF is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. To the extent possible, the financial statements have been prepared from the accounting records of the DAF WCF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation, and in accordance with Federal Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The DAF WCF is unable to fully implement all elements of GAAP and OMB Circular A-136 due to the limitations of financial and non-financial management processes and systems that support the financial statements. The DAF WCF derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The DAF WCF continues to implement process and system improvements to address these limitations.

C. BASIS OF ACCOUNTING

The DAF WCF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DAF WCF's sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections), non-financial feeder systems, and accruals made for major items such as flying hours revenue, payroll expenses, and Accounts Payable.

The DAF WCF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the components; intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The DAF WCF is continuing to evaluate the effects that will result from fully adopting accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected to have an impact on the DAF WCF's financial statements; however, the DAF WCF is currently unable to determine the full impact these pronouncements will have on its financial position, results of its operations, net position, and budgetary activity when such pronouncements are adopted.

1. Statement of Federal Financial Accounting Standards (SFFAS) 3, *Accounting for Inventory and Related Property*.
2. SFFAS 47, *Reporting Entity*.
3. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.
4. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

5. SFFAS 55, *Amending Inter-entity Cost Provisions*.
6. SFFAS 64, *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15*.
7. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*.
8. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*.
9. Technical Release 18, *Implementation Guidance for Establishing Opening Balances*.
10. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*.
11. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*.

D. ACCOUNTING FOR INTRAGOVERNMENTAL AND INTERGOVERNMENTAL ACTIVITIES

The Treasury Financial Manual, Volume 1, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and Earned Revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF WCF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and expenses.

Imputed financing represents the cost paid by another federal entity on behalf of the DAF WCF. Once SFFAS 55 is fully implemented, the DAF WCF will recognize the general nature of imputed costs only for business-type activities and other costs specifically required by OMB Circular A-136, including: 1) employee pension, post-retirement health, and life insurance benefits; 2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the *Federal Employees' Compensation Act*; and 3) losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF WCF's financial statements.

For additional information, refer to Note 11, *Disclosures Related to the Statement of Net Cost*, and Note 12, *Disclosures Related to the Statement of Changes in Net Position*.

E. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury (FBwT) represents the aggregate amount of the DAF WCF available budget spending authority available to pay current liabilities and finance future authorized purchases. FBwT is an asset of the DAF WCF and a liability of the U.S. Government GF. The amounts represent commitments by the U.S. Government to provide resources for programs, but they do not represent assets to the U.S. Government as a whole.

When the DAF WCF seeks to use FBwT to liquidate budgetary obligations, the Treasury will finance the disbursements in the same way it finances all other disbursements using some combination of receipts, other inflows, and borrowing from the public, in cases of a budget deficit. In addition, the DAF WCF reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBwT account.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The DAF WCF's monetary resources of collections and disbursements are maintained in a Treasury account. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments, and the Department of State's financial service centers currently process most of the DAF WCF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The model of using the DAF WCF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF WCF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF WCF's target end state of executing payments and collections directly between the DAF WCF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF WCF to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

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

F. ACCOUNTS RECEIVABLE

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF WCF records an allowance for Intragovernmental Receivables and an allowance for Other than Intragovernmental Receivables. The allowance is based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF WCF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies.

In accordance with paragraphs 44-49 of SFFAS 1, *Accounting for Selected Assets and Liabilities*, the methodology for losses due to uncollectible amounts are based on an individual account analysis and/or group analysis and is performed using the same methodology for both Intragovernmental Receivables and Other than Intragovernmental Receivables.

For additional information, refer to Note 3, *Accounts Receivable, Net*.

G. INVENTORIES AND RELATED PROPERTY

The DAF WCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as aircraft, missiles, engines, accessories, components, medical, dental, and support equipment. Items commonly used in, and available from, the commercial sector are not managed in the DAF WCF's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF WCF holds materiel based on military need and support for contingencies.

Inventory Held for Sale includes consumable spares and repair parts, as well as reparable items owned and managed by the DAF WCF. This inventory is retained to support military or national contingencies. The DAF WCF values its resale inventory using the Moving Average Cost (MAC) flow assumption.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. As the DAF WCF often relies on weapon systems and machinery no longer in production, the DAF WCF supports a process that encourages the repair and rebuilding of certain items and accounts for Held for Repair items using the direct method. This repair cycle is essential to maintaining readiness to defend the nation. Under the direct method, Held for Repair items (carcasses) are valued at Latest Acquisition Cost less the estimated Latest Repair Cost.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Inventory Work-In-Process balances include: 1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; 2) the value of finished products or completed services that are yet to be placed in service; and 3) depot maintenance work with associated costs incurred in the delivery of maintenance services.

Operating Materials and Supplies (OM&S) includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems. OM&S Held for Use is valued using MAC. The DAF WCF uses the consumption method of accounting for OM&S.

The DAF WCF recognizes Excess, Obsolete, and Unserviceable Inventory and OM&S at a net realizable value of zero.

The DAF WCF, when applicable, will adopt SFFAS 48 permitting alternative methods in establishing opening balances.

For additional information, refer to Note 4, *Inventory and Related Property, Net*.

H. GENERAL PROPERTY, PLANT, AND EQUIPMENT

General Property, Plant, and Equipment (PP&E) assets are those assets that are used by the DAF WCF in supporting its mission and consist of General Equipment (GE), and Internal Use Software (IUS). General PP&E are capitalized in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DAF WCFs capitalization threshold. The DAF WCF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DAF WCF depreciates all depreciable General PP&E on a straight-line basis over the estimated useful life of the asset. General PP&E – Construction-in-Progress, and General PP&E – IUS in Development are nondepreciating assets.

The DAF WCF's capitalization threshold for General PP&E is $250.0 thousand.

The DAF WCF has established the opening balances for General PP&E as of October 1, 2024 as allowed by the SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35. As such, the DAF WCF is making an unreserved assertion that its GPP&E balances are presented fairly in accordance with U.S. GAAP. The DAF WCF used the estimated historical cost method to establish opening balances.

General PP&E – General Equipment procurements and capital improvements are valued at historical costs in accordance with SFFAS 6, and the depreciation periods are 10 years based on original useful life.

General PP&E – IUS can be purchased from commercial vendors off-the-shelf, modified off-the-shelf, internally developed, or contractor-developed. IUS includes software that is: 1) used to operate programs (e.g., financial and administrative software, including that used for project management); and 2) used to produce goods and provide services (e.g., maintenance work order management). General PP&E – IUS does not include computer software that is integrated into and necessary to operate General PP&E – GE.

SFFAS 50 Beginning Balance Methodology Application

The DAF WCF established opening balances as of October 1, 2024 using the prospective capitalization methodology in compliance with SFFAS 50. For the prospective capitalization, the DAF WCF elected to exclude internal use software in service from the opening balance, but included amounts related to internal use software in development at the opening balance date.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

SFFAS 10 Current Valuation Methodology

The DAF WCF has only recognized General PP&E – IUS In Development, and it is recorded and reported in accordance with SFFAS 10. The useful life will be determined during the planning phase of the asset's development based on the length of time it is expected to have economic benefit or service potential to the DAF WCF.

For additional information, refer to Note 5, *General Property, Plant, and Equipment, Net*.

I. OTHER ASSETS

The DAF WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF WCF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are authorized disbursements to a contractor prior to acceptance of supplies or services by the Government.

Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or stage of completion. Contract financing payments should not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, refer to Note 6, *Other Assets*.

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 the DAF WCF without proper budget authority. Liabilities Covered by Budgetary Resources are liabilities for which funding will otherwise be available to pay amounts when due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, refer to Note 7, *Liabilities Not Covered by Budgetary Resources*, and Note 8, *Federal Employee and Veterans Benefits Payable*.

Other liabilities may be Intragovernmental or Other than Intragovernmental. For additional information, refer to Note 9, *Other Liabilities*.

K. ACCOUNTS PAYABLE

Accounts Payable includes amounts owed to federal and non-federal entities for goods and services received by the DAF WCF.

L. COMMITMENTS AND CONTINGENCIES

The DAF WCF recognizes contingent liabilities on the Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. 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.

For additional information, refer to Note 10, *Commitments and Contingencies*.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

M. FEDERAL EMPLOYEE AND VETERANS BENEFITS

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

For additional information, refer to Note 8, *Federal Employee and Veterans Benefits Payable*, and Note 11, *Disclosures Related to the Statement of Net Cost*.

N. REVENUES AND OTHER FINANCING SOURCES

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

The DAF WCF conducts business-like activities and receives funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. This 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 execute its missions or to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

The primary sources of revenue recorded within the DAF WCF result from the following activities: 1) The sale of repair services such as (a) the repair of aircraft, missiles, engines, accessories, components, and equipment, and (b) the remanufacture of parts and assemblies required to support the foregoing; and 2) Inventory issued to the Flying Hour Program. Instead of recognizing revenue based on the sale price of a spare part, revenue is recognized on a rate charged for a flying hour; and 3) The sale of reparable (including both depot level and non-depot level reparables) and consumable items that are generally related to medical supplies, medical equipment, weapon systems, and ground support.

The CSAG Maintenance Division recognizes revenue according to the percentage of completion method. The CSAG Supply and SMAG-R Divisions recognize revenue based on flying hours executed and the sale of inventory items. Full-cost pricing is the DAF WCF's standard policy for services provided as required by OMB Circular A-25, *User Charges*.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF WCF recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

The DAF WCF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in Note 15, *Reconciliation of Net Cost to Net Budgetary Outlays*. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

O. RECOGNITION OF EXPENSES

The DAF WCF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, Accounts Payable, and unbilled revenue. Some accounts such as civilian pay and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

The DoD has issued guidance under which DoD Components may, under certain circumstances, expense OM&S using the purchase method of accounting rather than the consumption method. The DAF WCF uses the consumption method to recognize expense for OM&S. OM&S are expensed when consumed.

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:

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

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

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

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

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Q. USE OF ESTIMATES

The DAF WCF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts.

Actual results could differ materially from the estimated amounts. Significant estimates include such items as percentage of completion revenue recognition for maintenance services, flying hour revenue, and actuarial liabilities related to workers' compensation. CSAG Maintenance recognizes revenue using the percentage of completion method. Estimated total costs are not evaluated and/or changed during the life of the project. The End Item Sales Price (EISP) is used as the total amount of cost that can be used in the revenue calculation. If actual total costs of the project ever reach the EISP, revenue stops being recorded; however, costs will continue to be recorded until the project is financially closed. Management monitors open projects where total incurred costs exceeded the total amount of recognized revenue.

R. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

Each year, the DAF WCF sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of this Act, the DAF WCF has the authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

S. TAX EXEMPT STATUS

As an entity of the Federal Government, the DAF WCF is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

NOTE 2 *FUND BALANCE WITH TREASURY*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
STATUS OF FUND BALANCE WITH TREASURY		
Unobligated Balance	$	1,930,040
Obligated Balance Not Yet Disbursed	$	14,488,165
Non-Fund Balance with Treasury Budgetary Accounts		
Unfilled Customer Orders without Cash Advances	$	(6,220,565)
Unfunded Contract Authority		(6,333,280)
Budgetary Receivables from Federal Sources		(1,240,211)
Total Non-Fund Balance with Treasury Budgetary Accounts	$	(13,794,056)
Total Fund Balance with Treasury	$	2,624,149

The Treasury records cash receipts and disbursements on the DAF WCF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF WCF's Fund Balance with Treasury (FBwT) consists of appropriation accounts and revolving funds.

The Status of FBwT 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.

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

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

Non-FBwT Budgetary Accounts include Unfilled Customer Orders without Advance, Contract Authority, and Receivables and Other. Non-FBwT Budgetary Accounts are required to reconcile the budgetary status to non-budgetary FBwT as reported in the Balance Sheet. Non-FBwT Budgetary Accounts create budgetary authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations. FBwT increases only after the customer payments for services or goods rendered have been collected.

The FBwT reported in the financial statements was adjusted to reflect the DAF WCF's balance as reported by the Treasury. The difference between FBwT in the DAF WCF's general ledger and FBwT reflected in the Treasury accounts is attributable to transactions that were not posted to the individual detailed accounts in the DAF WCF's general ledger as a result of timing differences in posting transactions to the DAF WCF's general ledger or the inability to obtain valid accounting information, prior to the issuance of the financial statements. The following adjustments were necessary for the DAF WCF to reconcile their general ledger to the Treasury: $158.3 million in undistributed disbursements, and $4.4 million in undistributed collections as of September 30, 2025. These net amounts represent the culmination of collections and disbursements throughout the period. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF WCF's general ledger. As of September 30, 2025, the DAF WCF assessed disbursements in-transit to be immaterial.

NOTE 3 *ACCOUNTS RECEIVABLE, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*		
	GROSS AMOUNT DUE	**ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**	**ACCOUNTS RECEIVABLE, NET**
Intragovernmental Receivables	$ 1,088,889	$ (2,889)	$ 1,086,000
Other than Intragovernmental Receivables (From the Public)	3,109	(494)	2,615
Total Accounts Receivable	$ 1,091,998	$ (3,383)	$ 1,088,615

Accounts Receivable represents the DAF WCF's claim for payment from federal and non-federal entities.

For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to Note 1.F., *Summary of Significant Accounting Policies – Accounts Receivable*.

NOTE 4 *INVENTORY AND RELATED PROPERTY, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2025 *(UNAUDITED)*
Inventory, Net	$	40,224,360
Operating Materials and Supplies, Net		143,111
Total Inventory and Related Property, Net	$	40,367,471

Inventory, Net

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*					
		INVENTORY, GROSS		ALLOWANCE FOR LOSS		INVENTORY, NET
Held for Sale	$	19,375,481	$	0	$	19,375,481
Held for Repair		19,304,057		0		19,304,057
Work-In-Process		1,544,822		0		1,544,822
Excess, Obsolete, and Unserviceable		723,164		(723,164)		0
Total	$	40,947,524	$	(723,164)	$	40,224,360

GENERAL COMPOSITION OF INVENTORY

Inventory includes weapon system consumable and reparable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, to be consumed in the production of goods for sale, or in the provision of services for a fee.

RESTRICTIONS ON THE USE, SALE, OR DISPOSITION OF INVENTORY

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel (WRM).

WRM is mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of War guidance and Joint Staff scenarios for committed forces. The WRM is only to be available for transfer without reimbursement when its issuance has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, WRM may be sold.

DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH INVENTORY IS ASSIGNED

The DAF WCF assigns inventory items to a category based on asset type and condition.

Held for Sale includes all materiel available for issuance.

Held for Repair represents unserviceable (but reparable) items that are more economical to repair than to procure. Held for Repair items are recorded utilizing the direct method.

Work-in-Process is the term used to describe products that are being repaired, but are not yet complete, and consists of the costs of direct materials, direct labor, and applied indirect costs pertaining to the item.

Excess, Obsolete, and Unserviceable (EOU) includes inventory that exceeds the amount expected to be used; inventory that is no longer required due to changes in technology, laws, customs, or operations; and damaged inventory that is more economical to dispose of than to repair.

NOTE 4 *INVENTORY AND RELATED PROPERTY, NET*

The EOU Inventory represents the amount of EOU inventory that has been written off, but the DAF WCF still retains ownership of. Additionally, the DAF WCF recognizes EOU Inventory at a net realizable value of zero.

RESTRICTIONS ON THE USE, SALE, OR DISPOSITION OF OPERATING MATERIALS AND SUPPLIES

There are no restrictions on the use, sale, or disposition of Operating Materials and Supplies.

Operating Materials and Supplies, Net

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*		
	OPERATING MATERIALS AND SUPPLIES, GROSS VALUE	ALLOWANCE FOR LOSS	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	$ 143,111	$ 0	$ 143,111
Total	$ 143,111	$ 0	$ 143,111

NOTE 5 *GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Internal Use Software In Development	N/A	N/A	$ 146,188	N/A	$ 146,188
General Equipment	S/L	10	2,980,055	(2,284,202)	695,853
Construction-in-Progress	N/A	N/A	287,685	N/A	287,685
Total General Property, Plant, and Equipment, Net			$ 3,413,928	$ (2,284,202)	$ 1,129,726

LEGEND FOR DEPRECIATION/AMORTIZATION METHOD & SERVICE LIFE:
S/L = Straight Line, N/A = Not Applicable

General Property, Plant, and Equipment, Net - Summary of Activity

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*
General Property, Plant, and Equipment, Net Beginning of Year	$ 1,077,636
Capitalized Acquisitions	222,587
Dispositions	(2,061)
Transfers In/(Out) Without Reimbursement	(13,973)
Revaluations (+/-)	(8,233)
Depreciation Expense	(146,230)
General Property, Plant, and Equipment, Net End of Year	$ 1,129,726

DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH GENERAL PROPERTY, PLANT, AND EQUIPMENT IS ASSIGNED

General Property, Plant, And Equipment (PP&E) – Internal Use Software (IUS) includes the actual development and acquisitions of information systems as well as major modifications that meet the capitalization threshold. The DAF WCF's General PP&E – IUS balance consists of software in-development costs.

General PP&E – General Equipment consists of Automated Data Processing Equipment and Telecommunications Equipment, Test and Inspection Equipment, and Weapon System Sustainment.

General PP&E – Construction-In-Progress are costs to bring an item to a form and location suitable for its intended use. This includes any assembly or integration costs and the cost of any other parts and materials used in the assembly of component items into a final system. Once final assembly and integration is complete, the asset is delivered for use and reported as General Equipment.

NOTE 5 *GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET*

RESTRICTIONS ON THE USE, SALE, OR DISPOSITION OF GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF WCF does not have any restrictions on the use or convertibility of General PP&E, nor does the DAF WCF have a material impairment that requires a disclosure in accordance with Statement of Federal Financial Accounting Standards 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

For additional information, refer to Note 1.H., *Summary of Significant Accounting Policies - General Property, Plant, and Equipment*, for the capitalization threshold.

NOTE 6 *OTHER ASSETS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
Other Than Intragovernmental Other Assets		
Outstanding Contract Financing Payments	$	563,185
Advances and Prepayments		244
Other Assets		2
Subtotal	$	563,431
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"		(563,429)
Total Other Assets	$	2

Outstanding Contract Financing Payments (OCFP) are a separate classification of Advances and Prepayments.

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 OCFP.

Other Assets is primarily comprised of the Consolidated Sustainment Activity Group's labor costs that have been recorded in the Time and Attendance logistical system, but have not yet updated the appropriate labor account in the accounting system.

For additional information, refer to Note 1.I., *Significant Accounting Policies – Other Assets*.

NOTE 7 *LIABILITIES NOT COVERED BY BUDGETARY RESOURCES*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
Intragovernmental Liabilities		
Federal Employees' Compensation Act	$	36,594
Total Intragovernmental Liabilities	$	36,954
Other than Intragovernmental Liabilities		
Pension, Post-Employment, and Veterans Benefits Payable	$	171,436
Total Other than Intragovernmental Liabilities	$	171,436
Total Liabilities Not Covered by Budgetary Resources	$	208,030
Total Liabilities Covered by Budgetary Resources	$	1,234,347
Total Liabilities	$	1,442,377

Liabilities Not Covered by Budgetary Resources require future congressional action, whereas Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs or when the liabilities are liquidated, the Treasury will finance the liquidation in the same way that it finances all other disbursements by using some combination of receipts, other inflows, or borrowing from the public (if there is a budget deficit).

The $36.6 million in Other Intragovernmental Liabilities is comprised of the portion of the total DAF *Federal Employees' Compensation Act* (FECA) liability allocated to the DAF WCF for known claims.

Pension, Post-Employment, and Veterans Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. These liabilities consist of the amount recorded by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work-related deaths, disability, or occupational disease.

For additional information and disclosures, refer to Note 8, *Federal Employee and Veterans Benefits Payable*.

NOTE 8 *FEDERAL EMPLOYEE AND VETERANS BENEFITS PAYABLE*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*		
	LIABILITIES	**(ASSETS AVAILABLE TO PAY BENEFITS)**	**UNFUNDED LIABILITIES**
Pensions, Other Post-Employment, and Veterans Benefits Payable			
Federal Employees' Compensation Act	$ 171,436	$ 0	$ 171,436
Total Pensions, Other Post-Employment, and Veterans Benefits Payable	$ 171,436	$ 0	$ 171,436
Federal Employee Salary, Leave, and Benefits Payable	322,665	(322,665)	0
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	56,985	(20,391)	36,594
Total Federal Employee and Veterans Benefits Payable	$ 551,086	$ (343,056)	$ 208,030

FEDERAL EMPLOYEES' COMPENSATION ACT

The DAF WCF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). The FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. The FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death. The actuarial liability for FECA is not covered by budgetary resources.

Actuarial Cost Methods Used and Assumptions

The DAF WCF's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor (DOL) at the end of each FY. The estimate for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred, but not reported claims.

FEDERAL EMPLOYEE SALARY, LEAVE, AND BENEFITS PAYABLE

Federal Employee Salary, Leave, and Benefits Payable includes life and other insurance programs and accrued annual leave. The DAF WCF's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (OPM). The DAF WCF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer contributions are submitted to OPM. OPM administers insurance benefit programs available for coverage to the DAF WCF's eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary.

The portion of the total DAF civilian accrued leave liability allocated to the DAF WCF includes amounts for accrued annual leave, restored annual leave, credit hours, compensatory hours, and frozen annual leave.

OTHER BENEFIT-RELATED PAYABLES INCLUDED IN INTRAGOVERNMENTAL OTHER LIABILITIES ON THE BALANCE SHEET

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet include FECA Reimbursement to the DOL and Intragovernmental Employer Contribution and Payroll Taxes Payable.

For additional information, refer to Note 9, *Other Liabilities*.

NOTE 9 *OTHER LIABILITIES*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2025** *(UNAUDITED)*		
	CURRENT LIABILITIES	**NON-CURRENT LIABILITIES**	**TOTAL**
Intragovernmental Other Liabilities			
Other Liabilities Reported on *Note 8, Federal Employee and Veterans Benefits Payable*	$ 36,388	$ 20,597	$ 56,985
Total Intragovernmental Other Liabilities	$ 36,388	$ 20,597	$ 56,985
Other than Intragovernmental Other Liabilities			
Other Liabilities with Related Budgetary Obligations	$ 45,290	$ 0	$ 45,290
Total Other than Intragovernmental Other Liabilities	$ 45,290	$ 0	$ 45,290
Total Other Liabilities	$ 81,678	$ 20,597	$ 102,275

INTRAGOVERNMENTAL OTHER LIABILITIES

Other Liabilities on the Balance Sheet are not reported on a single footnote. Certain United States Standard General Ledger on the Balance Sheet line Intragovernmental Other Liabilities are required to be reported on Note 8, *Federal Employee and Veterans Benefits Payable*, while others are reported on this Note 9, *Other Liabilities*. The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on Note 8, *Federal Employee and Veterans Benefits Payable*, are aggregated and also included as Other Liabilities reported on Note 8, *Federal Employee and Veterans Benefits Payable*. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Liabilities reported on Note 8, *Federal Employee and Veterans Benefits Payable*, include *Federal Employees' Compensation Act* Reimbursement to the Department of Labor and Intragovernmental Employer Contribution and Payroll Taxes Payable. For additional information, refer to Note 8, *Federal Employee and Veterans Benefits Payable*.

OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

Contract Holdbacks are amounts withheld from contractors for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation.

Other Liabilities with Related Budgetary Obligations primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group Supply, which offset inventory owned and managed on behalf of foreign governments under a Cooperative Logistics Supply Support Agreement.

OTHER THAN INTRAGOVERNMENTAL ADVANCES FROM OTHERS AND DEFERRED REVENUE

Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets the DAF WCF incurs or acquires on behalf of another organization.

NOTE 10 *COMMITMENTS AND CONTINGENCIES*

LEGAL CONTINGENCIES

The DAF WCF is a party in various administrative proceedings and legal actions related to claims for equal employment opportunity matters and contractual bid protests. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government,* as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The DAF WCF's Office of the General Counsel considers the possibility of the DAF WCF sustaining any losses on these legal actions to be remote.

OTHER CONTINGENCIES

The DAF WCF is a party to numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution that may result in a future outflow of budgetary resources.

It is the DAF WCF's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The DAF WCF executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the DAF WCF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

NOTE 11 *DISCLOSURES RELATED TO STATEMENT OF NET COST*

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2025** *(UNAUDITED)*
Operations, Readiness, & Support		
Gross Cost	$	20,735,424
Less: Earned Revenue		(15,352,199)
Total Net Cost	$	5,383,225

The three primary sources of revenue for the DAF WCF are from the sale of repair services, revenue from the Flying Hour Program, and the sale of reparable and consumable items. For the period ended September 30, 2025, consolidated revenue for each revenue stream was $6.5 billion, $5.4 billion, and $1.1 billion, respectively. The remaining $2.4 billion was associated to gains.

For additional information refer to Note 1.N., *Summary of Significant Accounting Policies - Revenue and Other Financing Sources*.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the DAF WCF supported by appropriations, contract authority, and reimbursable authority. 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. The DAF WCF's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by the Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts,* as amended by SFFAS 55*, Amending Inter-Entity Cost Provisions*.

Intragovernmental costs and revenue relate to transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

Many of the DAF WCF's systems do not track intragovernmental transactions by customer at the transaction level. Expenses were adjusted by reclassifying amounts between federal and non-federal expenses.

The DAF WCF records transactions on an accrual basis. The DAF WCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information and historical data are made as required by Federal Generally Accepted Accounting Principles. These estimates reverse as actual costs or revenues are recorded.

NOTE 12 DISCLOSURES RELATED TO THE CHANGES IN NET POSITION

Effective in FY 2019, the Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions* and DoD Financial Management Regulation, Volume 4, Chapter 24, Section 2.4.5, *Inter-Entity Costs*, directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements. This election is permitted under SFFAS 55; however, as a business-type activity, the DAF WCF is also required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

There are no Appropriations Received recorded on the Statement of Changes in Net Position (SCNP). The $86.9 million in appropriations recorded in the DAF WCF were transferred from the Defense WCF, and are included in the Appropriation line item on the Statement of Budgetary Resources; however, they are reported as Appropriations Transferred In/Out, and not as Appropriations Received on the SCNP.

Other Adjustments on the SCNP is the credit value given to a customer for the return of a carcass on an exchange sale associated with Inventory and Related Property.

NOTE 13 *DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES*

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*; intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments as of September 30, 2025 to the budgetary resources available at the beginning of the year, and there are no legal arrangements affecting the use of unobligated balances.

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*
Unobligated Balance Brought Forward, October 1	$ 1,421,925
Recoveries of Prior Year Unpaid Obligations	6,684
Unobligated Balance of Contract Authority Withdrawn	(6,684)
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 1,421,925

AVAILABLE CONTRACT AUTHORITY, END OF PERIOD

Contract Authority is apportioned budget authority which can be legally obligated. Contract Authority, however, is not funded and is apportioned and allocated without a supporting Treasury cash balance. Consequently, Contract Authority must always be replaced or liquidated by subsequent or other budgetary resources with cash. The DAF WCF replaces contract authority with Spending Authority from Offsetting Collections.

Unless otherwise specified by statute, Contract Authority is apportioned to the DAF WCF for the current FY of the Apportionment only as DoD's Contract Authority is indefinite and closes for new obligations if not used within the FY it is apportioned. As such, there is no available contract authority remaining for the FY ended September 30, 2025.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*
Intragovernmental	
Unpaid	$ 2,740,597
Total Intragovernmental	$ 2,740,597
Other than Intragovernmental	
Unpaid	$ 10,514,697
Prepaid/Advanced	563,429
Total Other than Intragovernmental	$ 11,078,126
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 13,818,723

NOTE 13 *DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES*

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from the FY 2024 SBR and the actual amounts from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2026 President's Budget. The Budget with the actual amounts of the current year (FY 2025) will be available at a later date at The President's Budget | The White House.

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

AS OF SEPTEMBER 30 *(AMOUNTS IN MILLIONS)*	**2024** *(UNAUDITED)*			
	BUDGETARY RESOURCES	**NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)**	**DISTRIBUTED OFFSETTING RECEIPTS**	**AGENCY OUTLAYS, NET**
Combined Statement of Budgetary Resources	$ 20,527	$ 19,105	$ 0	$ (1,094)
Adjustments				
U.S. Transportation Command Statement of Budgetary Resources*	$ 9,782	$ 9,895	$ 0	$ (42)
Combined DAF WCF and U.S. Transportation Command	$ 30,309	$ 29,000	$ 0	$ (1,136)
Budget of the U.S. Government	$ 30,309	$ 29,000	$ 0	$ (1,136)

**United States Transportation Command's (USTRANSCOM) financial results are not consolidated within the DAF WCF's financial results; however, the DAF WCF is required to report USTRANSCOM in the DAF WCF's Budget of the U.S. Government.*

CONTRIBUTED CAPITAL

There was no infusion of capital received for the FY ended September 30, 2025.

NOTE 14 DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The DAF WCF collected $87.9 thousand of incidental custodial revenues through September 30, 2025, which were generated primarily from non-entity interest, penalties, and administrative fees collected for out-of-service debts. These funds are not available for use by the DAF WCF. At the end of each FY, the accounts are closed and the balances rendered to the Treasury.

NOTE 15 *RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS*

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2025 *(UNAUDITED)*		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$ (10,490,574)	$ 15,873,799	$ 5,383,225
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Property, Plant, and Equipment Depreciation Expense	$ 0	$ (146,230)	$ (146,230)
Property, Plant, and Equipment Disposals and Revaluations	0	(24,267)	(24,267)
Cost of Goods Sold	(31,043)	(14,916,997)	(14,948,040)
Inventory Disposals and Revaluations	0	(1,470,772)	(1,470,772)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	$ 53,619	$ (596)	$ 53,023
Advances and Prepayments	0	7,705	7,705
Other Assets	0	(188)	(188)
(Increase)/Decrease in Liabilities:			
Accounts Payable	$ 89,212	$ (12,228)	$ 76,984
Federal Employee Salary, Leave, and Benefits Payable	0	(40,616)	(40,616)
Veterans, Pensions, and Post Employment-Related Benefits	0	5,988	5,988
Advances from Others and Deferred Revenue	0	2,698	2,698
Other Liabilities	57,952	(1,131)	56,821
Financing Sources:			
Imputed Cost	$ (467,025)	$ 0	$ (467,025)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (297,285)	$ (16,596,634)	$ (16,893,919)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Acquisition of Capital Assets	$ 0	$ 222,587	$ 222,587
Acquisition of Inventory	3,468,160	7,797,230	11,265,390
Financing Sources:			
Transfers Out (In) Without Reimbursements	$ 12,360	$ 0	$ 12,360
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ 3,480,520	$ 8,019,817	$ 11,500,337
Total Net Outlays	$ (7,307,339)	$ 7,296,982	$ (10,357)
Budgetary Agency Outlays, Net			$ (270,787)
Unreconciled Difference			$ 260,430

NOTE 15 *RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS*

Budgetary and financial accounting information is used for different purposes. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the Government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of Net Outlays, presented on a budgetary basis, and the Net Cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The table above illustrates the reconciliation of key differences between Net Cost and Net Outlays. The unreconciled difference of $260.4 million as of September 30, 2025 can be primarily attributed to the legacy system environment in which the DAF WCF continues to operate in. The legacy systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Generally Accepted Accounting Principles. Initial analysis has found that the DAF WCF does not record all inventory purchases appropriately in the 8803/8801 accounts and are also recording both Net Outlay and non-Net Outlay transactions within the same account which causes additional variances. The DAF WCF continues to implement process and system improvements to address these limitations causing the reconciling difference.

NOTE 16 *PUBLIC-PRIVATE PARTNERSHIPS*

Effective in FY 2019, the Statement of Federal Accounting Standards 49, *Public-Private Partnerships: Disclosure Requirements*, requires agencies to disclosure certain information for Public-Private Partnerships (P3s). The DAF WCF continues to evaluate arrangements and transactions for P3 criteria to determine the complete population requiring disclosure under this significant standard, but has not completed a full analysis of all arrangements as of September 30, 2025.

NOTE 17 *DISCLOSURE ENTITIES AND RELATED PARTIES*

Effective in FY 2018, the Statement of Federal Financial Accounting Standards 47, *Reporting Entity*, requires agencies to disclose certain information for disclosure entities and related parties. The DAF WCF is still in the early stages of implementing this significant standard and completing a full impact analysis. When the DAF WCF fully implements this new standard, the DAF WCF will provide a thorough disclosure for Disclosure Entities and Related Parties.

NOTE 18 *SUBSEQUENT EVENTS*

Subsequent events were evaluated from the Balance Sheet date through November 21, 2025, which is the date the financial statements were available to be issued. The DAF WCF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

FOR THE FISCAL YEARS ENDED 2025 *(AMOUNTS IN THOUSANDS) (UNAUDITED)*	**OPERATIONS, READINESS & SUPPORT**	**2025 COMBINED**
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (*Note 13*)	$ 1,421,925	$ 1,421,925
Appropriations (Discretionary and Mandatory)	86,874	86,874
Contract Authority (Discretionary and Mandatory)	11,917,724	11,917,724
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	8,962,537	8,962,537
Total Budgetary Resources	$ 22,389,060	$ 22,389,060
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$ 20,459,020	$ 20,459,020
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	$ 1,930,040	$ 1,930,040
Unexpired Unobligated Balance, End of Year	$ 1,930,040	$ 1,930,040
Unobligated Balance, End of Year (Total)	$ 1,930,040	$ 1,930,040
Total Budgetary Resources	$ 22,389,060	$ 22,389,060
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	$ (270,787)	$ (270,787)
Agency Outlays, Net (Discretionary and Mandatory)	$ (270,787)	$ (270,787)

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

November 21, 2025

MEMORANDUM FOR UNDER SECRETARY OF WAR (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOW
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Transmittal of the Independent Auditor's Reports on the Department of the Air Force Working Capital Fund Financial Statements and Related Notes for FY 2025
(Project No. D2025-D000FT-0052.000, Report No. DODIG-2026-019)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Department of the Air Force (DAF) Working Capital Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2025. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF Working Capital Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025, Volume 2, June 2024, and Volume 3, August 2025. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF Working Capital Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF Working Capital Fund Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements

Performed in Accordance with Government Auditing Standards," discusses seven material weaknesses related to the DAF Working Capital Fund's internal controls over financial reporting.*

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with Government Auditing Standards," discusses two instances of noncompliance with provisions of laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DAF Working Capital Fund did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF Working Capital Fund FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DAF Working Capital Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 21, 2025 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

Lorin T. Venable

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

Attachments:
As stated

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

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Report of Independent Auditors

The Secretary of the Air Force and the
Inspector General of the Department of Defense

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements").

We do not express an opinion on the accompanying financial statements of the DAF WCF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF WCF's financial statements as of and for the year ended September 30, 2025.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, the DAF WCF has not implemented certain accounting standards for the federal government. The effect of these matters on the DAF WCF's financial statements as of and for the year ended September 30, 2025 is not currently determinable by the DAF WCF and could be material.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

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fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DAF WCF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DAF WCF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, 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 the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 21, 2025 on our consideration of the DAF WCF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control over financial reporting and compliance.

Ernst & Young LLP

November 21, 2025

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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements") and our report dated November 21, 2025 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters on the DAF WCF's financial statements as of and for the year ended September 30, 2025 is not currently determinable by the DAF WCF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF WCF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF WCF's internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

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. A *material weakness* is a deficiency, or a

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described below and in more detail in *Appendix A as Items I. through VII.* that we consider to be material weaknesses.

<u>Material Weaknesses</u>

I. Entity Level Controls (ELCs) - Establishing ELCs is a primary step in operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. The lack of sufficient attention to these matters will hinder the entity's ability to achieve and sustain an audit opinion, as well as remediate existing material weaknesses.

During our procedures, we identified the following deficiencies related to the DAF WCF's control environment, risk assessment, control activities, information and communication and monitoring components:

- Enhanced integration and oversight of risks by enterprise leadership is needed
- Additional emphasis needed to meet external financial reporting objectives

II. Integration and Reconciliation of Financial Systems- To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF WCF has a complex systems environment consisting of many non-integrated systems that use non-standard data and requires numerous manual workarounds. The lack of an integrated system prevents management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF WCF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

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- Inability to validate the completeness of transactions underlying the financial statements
- Lack of monitoring over posting logic compliance with the United States Standard General Ledger (USSGL)
- Inability to maintain and/or provide supporting documentation in a timely manner
- Enterprise IT strategy has not been fully and consistently implemented

III. Financial Information Systems– Our assessment of the DAF WCF's IT controls and the computing environment identified deficiencies, which collectively constitute a material weakness in the design and operation of information systems controls over financial data.

We identified the lack of sufficient controls in the following areas:

- Security management
- Access controls
- Segregation of duties
- Configuration management
- Business process

IV. Inventory Held by the DAF WCF – Inventory is a component of Inventory and Related Property, Net within the consolidated balance sheet. The balance includes supplies and spare parts at bases and maintenance depots, as well as parts awaiting or undergoing repair for reuse. The value of individual assets is determined based on their condition. Serviceable assets are valued based upon moving average cost while assets held for repair are valued at the same value as a serviceable asset, less the estimated repair costs.

We identified the following:

- Lack of sufficient inventory count procedures and controls
- Lack of sufficient policies, procedures and controls over inventory valuation
- Lack of sufficient policies, procedures and controls over inventory movement transactions
- Inability to identify and value in-transit inventory

V. Inventory Held by Others – The DAF WCF has shared service arrangements with other defense organizations and commercial contractors to hold or repair inventory and equipment to avoid duplication of efforts. We found that in many of these instances the DAF WCF is heavily reliant upon the other party to report activity and balances related to those materials and to maintain effective internal controls over quantities.

We identified the following:

- Insufficient oversight of inventory managed by the Defense Logistics Agency (DLA)

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- Insufficient oversight and monitoring of inventory managed by prime contractors and Inter-Service Depot Maintenance (ISDM) Agents

VI. Accounts Payable (AP), Gross Costs, and Advances and Prepayments– AP represents the amount owed to third parties by the DAF WCF for goods and services received. Gross Costs are incurred and recognized when the DAF WCF obtains goods and services from the public or other federal entities. Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets. The DAF WCF lacks sufficient policies, procedures and internal controls for the procure to pay process.

We identified the following:
- Lack of sufficient documentation of accounting policies, procedures and controls
- Inadequate controls over accounts payable, advances and prepayments, gross costs, cash disbursement and obligation processes

VII. Earned Revenue and Accounts Receivable – The DAF WCF recognizes revenue and related accounts receivable balances for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF recognizes "Flying Hours" revenue based upon the flying hours executed. The DAF WCF's policy is to recognize supply revenue for inventory sold based on the delivery of the inventory items.

We identified the following:
- Incorrect application of the percentage of completion revenue recognition method for maintenance revenue
- Inability to support invoice level accounts receivable subledgers

DAF WCF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 21, 2025. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and accordingly, we express no opinion on the response.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2025 on our tests of the DAF WCF compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's compliance.

Ernst + Young LLP

November 21, 2025

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Appendix A

Material Weaknesses

I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing ELCs is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level, and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The DAF WCF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), Fraud Risk Oversight Committee (FROC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

In addition, organizations must integrate its efforts to meet the requirements of the FMFIA of 1982 with the Enterprise Risk Management and Fraud Risk Management requirements to improve effectiveness and accountability, instead of considering internal control as an isolated management tool. Thus, internal control should be an integral part of the entire cycle of planning, budgeting, management, reporting, accounting, and auditing. It must support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

The DAF WCF has cross-cutting financial, IT, and operational risks that impacts the entity's ability to achieve and sustain an audit opinion, as well as an effective internal control environment. Although the DAF WCF has started to develop an integrated prioritization for evaluating and remediating these risks (in concert with its roadmap towards becoming auditable), Without immediate action and sufficient attention to these matters, the DAF WCF will be challenged to achieve auditability and remediate existing material weaknesses timely.

During our procedures, we identified the following deficiencies that aggregated into this material weakness:

(a) Enhanced integration and oversight of risks by enterprise leadership is needed

The Deputy Assistant Secretary for Financial Operations (SAF/FMF) and Deputy Assistant Secretary for Business Systems and Technology (SAF/FM CIO) has the overall responsibility for the DAF WCF's financial statement audit readiness and compliance, while Air Force Materiel Command (AFMC) has functional responsibility for audit readiness for the DAF WCF; however, efforts supporting financial statement audit and audit remediation requires inputs from the entire organization, including major commands (MAJCOMs), field commands (FLDCOM) and Headquarters Air Force organizations. Continued improvements in financial management capabilities, whether by redesigned business processes, modernized IT systems, or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

We identified the following conditions that indicate a lack of consistent integration and oversight across the DAF to sufficiently address financial reporting issues and risks:

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—The DAF WCF governance activities continue to mature as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or fully documented, how DAF WCF's enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. As a result, service providers, functional communities, AFMC Financial Management (FM), and IT may be developing separate and disconnected remediation efforts that may not necessarily be tied to the risks of material misstatements. Additionally, Enterprise leadership is not fully integrated in the evaluation of risks (i.e. detect and correct approach versus designing a preventative measure to get it right the first time) and in determining the best course of action for the entity as a whole. This often has led to significant and time-consuming efforts on the back end to correct for data anomalies or other errors that should have been executed appropriately up front by the responsible organizations communities in accordance with existing DAF WCF policies and operational requirements. Furthermore, the DAF WCF's Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.

(b) Additional emphasis needed to meet external financial reporting objectives

While the DAF WCF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF WCF's financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

Lack of assessment, monitoring and effective implementation of recent accounting guidance

As the DAF WCF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. While the DAF WCF Financial Reporting Policy Group (FRPG) has initiated preliminary analyses of applicable entity-wide standards (e.g., SFFAS 47 and SFFAS 49), the DAF WCF has not fully established a process to effectively assess, monitor and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The impact on the financial statement amounts involved is not currently determinable by the DAF WCF and could be material.

Enhanced financial statement review procedures are needed

The DAF WCF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as:
    - Lack of complete and accurate disclosures.
    - Continued enhancement of the DAF WCF Accounting Oversight & Data Analysis branch is needed to ensure sufficient controls and procedures related to financial statement analytical reviews and oversight.

The DAF WCF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans, and annual results of the DAF WCF.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to enhanced integration and oversight of risks by enterprise leadership is needed

- Enhance the existing risk assessment of the DAF WCF Internal Control Program and verify that all risks are identified, assessed, and concluded upon annually.
- Enhance ongoing reviews of areas AU level testing to ensure disclosures are complete, accurate and compliant with OMB Circular A-123 and Government Accountability Office (GAO) Green Book guidance.
- Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
- Refocus the execution for risk identification and communication within the organization to a primary focus on the most critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.) that have risks of material misstatement.

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- Continue to develop mechanisms to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
- Enhance formal lines of communication about ongoing operational activities that impact the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.

Related to additional emphasis needed to meet external financial reporting objectives

- Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
- Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
- Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.
- Design and implement control activities which identify accounting estimates and monitor the appropriateness of the method, model, and assumptions utilized to determine the estimates.
- Design and implement control activities to perform and monitor balance sheet account reconciliations.
- Enhance internal control procedures related to financial statement analytical reviews.
- Enhance procedures related to Journal Voucher oversight.

II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity’s ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity’s resources, and provides timely access to better data for decision-making purposes.

While the DAF WCF is prioritizing investment in, and deployment of more modernized IT systems, such as Maintenance Repair and Overhaul (MRO), migrating financially significant systems to the Cloud environment (through Cloud One), implementing systems integrated with solutions such as Identify, Credential, and Access Management (ICAM), Security Information and Event Management (SIEM) and others, the DAF WCF needs to fully evaluate and mitigate the impact of known deficiencies as long as significant financial statement activity flows through its legacy environment. As the DAF WCF continues to transition to modern systems, it is critical that the entity does not just replicate its existing environment and internal control processes just with newer, yet still non-integrated, systems.

Instead, the entity needs to continue to define its requirements (mission-based, IT, and financial management), redesign processes and implement financial management overlay controls as

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appropriate to take advantage of the benefits of system integration. In addition, investments in enterprise-wide systems (for example, Enterprise Resource Planning (ERP) systems) should be aligned with the DAF enterprise strategy and roadmap to avoid overlap/redundancies with competing systems (performing the same tasks as the ERPs) for short term goals/success. This will prevent siloed portfolio of systems within functional organizations and further promote an ecosystem of integrated systems aligned with financial audit roadmap and a streamlined process for addressing many of the similar challenges discussed within this report and further enable the entity's ability to produce timely and auditable financial statements.

The following deficiencies aggregated into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF WCF currently does not have a complete understanding of its universe of transactions. This assessment is critical for management to understand and document the mapping of the internal processes, flow of data, and controls performed to ensure output data is complete and accurate. Additionally, many of the DAF WCF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses given current system or resource limitations. The next significant step in the evolution of the DAF WCF's financial control environment needs to be the inclusion of a multi-layer analysis, review, repair, and remediation cycle. The DAF WCF will need to implement and operate a sustainable and auditable business environment through enhanced integration and innovation capabilities deployed in a targeted and coordinated manner. During our procedures, we identified the following:

- Accountable Property System of Record (APSR) reconciliations are reconciliations that occur in order to assert that feeder files reconcile completely and accurately to the corporate general ledger (GAFS-R). There are 18 APSR reconciliations completed through the DAF WCF's Universe of Transactions (UoT) process. The APSR reconciliations include, but are not limited to, reconciling the Integrated Logistics System-Supply (ILS-S), Defense Medical Logistics Standard Support (DMLSS), and Financial Inventory Accounting and Billing System (FIABS) to Standard Material Accounting System (SMAS), along with reconciling SMAS and the Defense Industrial Financial Management System (DIFMS) and the Aerospace Maintenance and Regeneration Group (AMARG) Business System (ABS), to GAFS-R. While progress has been made, the DAF WCF lacks certain aspects of an effective control environment related to the UoT reconciliation process, including control activities to identify, investigate and remediate variances timely identified by the reconciliations.
- The Unadjusted Trial Balance to Adjusted Trial Balance (UTB to ATB) reconciliation is designed to reconcile the feeder systems to the financial statements and provide reasonable assurance that these trial balances are complete and accurate. The DAF WCF currently performs a UTB to ATB reconciliation at the summary trial balance level and identifies journal vouchers (JVs) which explain the variance. The DAF WCF was unable to provide a sufficient UTB to ATB reconciliation as it was unable to identify JVs which impacted the reconciliation within the Defense Departmental Reporting System – Budgetary (DDRS-B). Further, the DAF

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WCF was unable to identify prior year adjustments within GAFS-R beginning balances which impacted the reconciliation. As a result, the DAF WCF is unable to accurately reconcile all balances.

- The Financial Statement Reconciliation process is a summary reconciliation that extracts raw data from the DAF WCF systems and separates the financial statement line-item data by Assessable Unit in order to reconcile the DAF WCF UoT to the financial statements. The DAF WCF currently has not identified key controls over the Financial Statement Reconciliation process it is performing, including control activities to identify, investigate and remediate variances identified in the reconciliation.
- A reconciliation was performed by the DAF WCF between the data from the various inventory feeder systems and the data which ultimately flows to FIABS. As a result of this reconciliation, the DAF WCF identified that there are quantity differences between FIABS and the identified feeder systems. While some progress has been made, the DAF WCF has not fully determined the underlying cause of the differences nor how to resolve them. Further, the DAF WCF has not applied dollar values to all of the quantity differences to fully assess their financial statement impact.

Additionally, intragovernmental transactions result from business activities conducted between two federal government entities, called trading partners. Accounting differences occur in government-wide financial reporting when trading partners record differing amounts for transactions that should eliminate or net to zero. Trading partners must reconcile and resolve these differences on a routine basis. Through September 30, 2025, the Department of War (DoW) reporting entity making sales or providing services ("seller-side") was the basis for reporting most of the DAF WCF's intra-DoW balances. No reconciliations were performed at the agreement or document level for the trading partner adjustments. Trading partner adjustments are recorded in the Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) as top-side adjustments and are identified as unsupported by DFAS.

The above examples demonstrate the complexity of the system environment and the need for a robust understanding of the flow of data to the financial statements. As a result, the DAF WCF was unable to support whether the transactions recorded in the financial statements were complete and accurate.

(b) Lack of monitoring over posting logic compliance with the USSGL

The DAF WCF and its service provider, DFAS, do not currently have a review process in place to ensure that the USSGL mappings automatically applied by system posting logic are compliant with the Treasury Financial Manual (TFM). Throughout the course of the year, transactions from supply base level systems (FIABS, ILS-S, and DMLSS) flow from the subledgers to the general ledger (SMAS) and then to the corporate general ledger (GAFS-R). Maintenance transactions flow from the general ledger (DIFMS) to the corporate general ledger (GAFS-R). Posting logic applications take transactions at the subledger level and properly classify them into general ledger

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accounts (i.e., USSGL). FIABS, ILS-S, DMLSS, SMAS, and DIFMS all apply posting logic. This mapping allows transactions to properly post and ultimately impact the intended financial statement line item.

(c) Inability to maintain and/or provide supporting documentation in a timely manner

Further progress is needed by the DAF WCF and its external parties to provide complete documentation, in a timely manner, to support the financial statement audit. During our current year testing, we identified the following:

- Improper management and retention of supporting documentation (i.e., support agreement, customer order/acceptance, customer voucher, shipping documentation, vendor invoice, and evidence of review control execution).
- Lack of consistent implementation of documentation standards for maintaining complete records.
- Inability to provide supporting documentation to auditors in a consistent and timely manner.
- Inability to provide transactional data that reconciles to the summarized trial balance amounts that comprise the beginning budgetary and proprietary financial statement balances. Currently, there are no policies or procedures to mitigate this system weakness. Further, no documentation is maintained from prior periods to support beginning balances.

The DAF WCF's inability to provide adequate support for accounting transactions and control execution, increases the risk of a misstatement that could impact the financial statements. Furthermore, without such supporting documentation and proper audit trail, there is an increased risk of deficiencies in internal control over financial reporting and noncompliance with applicable laws and regulations.

(d) Enterprise IT strategy has not been fully and consistently implemented

In accordance with the GAO Green Book, management should design general control activities over information technology to mitigate risks to achieving the entity's objectives to acceptable levels. Attributes that contribute to the design, implementation, and operating effectiveness of this principle include, response to risks, design of the entity's information technology, and design of appropriateness types of general control activities.

Noting this guidance related to addressing relevant IT risks, we identified the following conditions that indicate a lack of a formalized and fully implemented enterprise IT strategy that impacts internal controls over financial reporting:

- **Inconsistently implemented policy and related procedures to manage auditability through the lifecycle of financially relevant systems across acquisition, deployment, sustainment, and sunset.** — Functional requirements and acquisition planning documents

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provided to Milestone Decision Authorities (MDA) for approval to proceed into acquisition or deployment do not consistently include evaluation of financial impact nor formally document auditability compliance reviews. MDAs are not required to assert compliance with audit requirements before proceeding into acquisition or deployment. Auditability compliance assessments and validation documentation are not systematically required and do not include cross functional or independent assessments against audit compliance requirements.

- **For financial relevant systems deployed, the DAF has not fully implemented the Financial Management Overlay to monitor compliance and effectiveness of audit relevant controls.** — Due to this deficiency, financially relevant systems in deployment or sustainment do not sufficiently validate Financial Management Overlay controls in accordance with audit standards to mitigate cybersecurity risks.
- **Although the DAF has an enterprise strategy and roadmap outlining the target future state for financially relevant systems, it continues to manage its portfolio of systems within siloed functional organizations.** — This insufficiently supports application rationalization, system consolidation and modernization. The DAF continues to make progress in this area, but a strategy and associated roadmap supported by cross functional enterprise architecture and progress against migration plans is not consistently documented or monitored to support process improvements or oversight of financially relevant systems.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to inability to validate the completeness of transactions underlying the financial statements

- Develop/enhance the process to perform a quarterly detail level UTB to ATB reconciliation using the full detail data sets, including appropriate identification of JVs, to ensure the completeness and accuracy of the data as it flows from the general ledger to the financial statements.
- Design effective UoT control activities which prevent or detect the identified risks of material misstatement.
- Design effective Financial Statement Reconciliation control activities which prevent or detect the identified risks of material misstatement.
- Investigate and determine the cause of the inventory quantity variances within FIABS resulting from the lack of identified feeder system quantities. In addition, the DAF WCF should implement effective feeder system data reconciliation procedures and controls to support the beginning balance of inventory within FIABS and ensure all balances in FIABS are reconciled to an identified feeder system on an ongoing basis.

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- Implement document level reconciliations with the DAF WCF's trading partners and develop a process for resolving differences at the document level.

Related to lack of monitoring over posting logic compliance with the USSGL

- Ensure mapping of SMAS, FIABS, ILS-S, DMLSS, and DIFMS posting logic rules to TFM entries.
- For any new SMAS, FIABS, ILS-S, DMLSS, or DIFMS posting logic rules, develop policies and procedures to review new posting logic rules for TFM compliance prior to implementation.

Related to inability to maintain and/or provide supporting documentation in a timely manner

- Address the ability for the DAF WCF and DFAS to access and provide supporting documentation for significant transactions.
- Update the DAF WCF's policies and procedures to ensure its internal controls provide adequate support for material amounts on the consolidated financial statements pertaining to beginning budgetary and proprietary financial statement balances.

Related to enterprise IT strategy has not been fully and consistently implemented

- Implement policy and procedures to define detailed auditability requirements throughout the system lifecycle during acquisition, deployment, sustainment and sunset.
    - Require MDAs to document and assert financial impact and compliance reviews for systems in acquisition and deployment.
    - Fully implement the Financial Management Overlay and require Financial Management validation in the DAF RMF process for systems in sustainment.
        - For those systems that have already gone live, the Corrective Action Plans (CAPs) should be aligned with the FM overlay controls as part of the specific system ATO package.
- Further refine the future state strategy and roadmap for the financial and financial feeder portfolio to guide system modernization and cross portfolio system consolidation. Updates should include enterprise architecture, detailed migration and modernization plans with critical milestones, and concept of operations and governance to oversee progress.

III. FINANCIAL INFORMATION SYSTEMS

Information System (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

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- Security Management
- Access Controls
- Segregation of Duties
- Configuration Management
- Business Process

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF WCF's financial statements, financial reporting, IT environment, and financial applications.

The DAF WCF continues to make progress in remediating prior year IT findings. For example, program and functional management across the DAF resolved prior-year control deficiencies related to capturing production populations of direct data changes, having formal processes to retain supporting authorization documentation through the lifecycle of a data change, and monitoring data changes made in production.

As the DAF WCF continues to modernize IT applications, their infrastructure, and supporting tools, it is critical to integrate information system controls (including the financial management overlay controls) as well as cross functional requirements during the implementation to prevent any weaknesses in the DAF WCF's IT controls environment post implementation. With modernization, ownership of internal controls is shared amongst different stakeholders (Cloud One, SailPoint ICAM, System Project Management Office (PMO) and others). The DAF leadership should assess and clearly outline specific roles and responsibilities of each stakeholder through clearly defined policies and procedures, and applicable Service Level Agreements (SLAs). In addition, investments in enterprise-wide systems (for example, Enterprise Resource Planning (ERP) systems) should be aligned with the DAF enterprise strategy and roadmap to avoid overlap/redundancies with competing systems (performing the same tasks as the ERPs) for short term goals/success. This will prevent siloed portfolio of systems within functional organizations and further promote an ecosystem of integrated systems aligned with financial audit roadmap and a streamlined process for addressing systems related deficiencies.

The DAF WCF also needs to evaluate the impact of existing IT deficiencies on future material weakness mitigation efforts. For example, deficiencies related to access controls, segregation of duties, configuration management etc., have been identified as new financially relevant applications go live. In recent years, the DAF WCF has implemented new applications impacting the assessable units (AUs) but management has not considered establishing controls, such as consistent user access reviews and segregation of duties enforcement, for these applications. DAF WCF management has also migrated several financially relevant systems to cloud infrastructure, however, high risk control gaps have been identified related to the access controls and configuration management of these cloud environments.

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While the DAF WCF has remediated many audit findings across various IT control areas for fiscal year 2025 (FY25), a majority of the DAF WCF's in-scope financial applications continued to have ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties and configuration management control domains.

Ineffective IT general controls will continue to impact any of the DAF WCF's material weakness mitigation plans in future years. For example, the lack of adequate IT general controls around both large and micro-applications, ad-hoc reporting tools used for reconciliation of financially significant data, etc., increases the organization's risks related to its ability to validate the completeness and accuracy of data utilized in the execution of its financial control activities. In addition, insufficient controls for ensuring completeness and accuracy of information produced by the entity also threaten management's efforts to address material weaknesses. These control findings relate to incomplete data used for internal management review controls related to access, change management and segregation of duties as well as inaccurate data used for financial reporting and reconciliations.

(a) Security Management

The security management (SM) category provides the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Information security management programs provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning and communicating responsibilities, and monitoring the adequacy of the entity's Information System (IS) controls.

We identified the following:

- Plans of action milestones (POA&Ms) for open vulnerabilities are not actively being managed through completion.
- For applications that have IT processes, such as infrastructure hosting, managed by a service organization (e.g., DISA, AWS, etc.), (1) Service Organization Control (SOC) reports are not being properly reviewed for impacts of SOC findings as well as applicability of Complementary User Entity Controls (CUECs), or (2) in the absence of a SOC report, management is not obtaining sufficient evidence from third parties to evidence the effectiveness of their controls that are relevant to the DAF information systems.
- Lack of a fully implemented enterprise IT strategy; there is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.

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(b) Access Controls

The access controls (AC) category, limits access or detects inappropriate access to information resources (i.e., data and information technology), thereby protecting these resources against unauthorized modification, intentional or unintentional loss, impairment, and disclosure. Logical access controls require users to authenticate themselves and limit the files and other resources that authenticated users can access and the actions that they can execute.

We identified the following:

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Access requests and authorized approvals are not being properly documented prior to provisioning.
- Periodic reviews of access, including privileged user access, were not performed appropriately.
- Procedures for monitoring and auditing financially relevant user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- The completeness and accuracy of system and manually generated reports used for access and activity review controls are not being validated by management responsible for reviewing these reports.
- Password and other security settings are not properly configured based on management policies and/or best practice.
- The entity was not able to provide a complete and accurate listing of contractor and personnel terminations.
- Modifications to application roles are not being sufficiently logged or monitored.

(c) Segregation of Duties (SoD)

The segregation of duties (SD) category relates to the policies, procedures, and an organizational structure for managing who can control key aspects of computer-related operations and thereby prevent unauthorized actions or unauthorized access to assets or records. Segregation of duties involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective segregation of duties is achieved by splitting responsibilities between two or more individuals or organizational units. In addition, dividing duties this way diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other.

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We identified the following:

- Policies and procedures have not been implemented to identify and document potential SoD conflicts within the applications and enforce restriction of SoD conflicts.
- For some application program management offices (PMOs) that have established an SoD matrix, the SoD matrix is not inclusive of all active application roles/permissions.
- Conflicting roles that were deemed necessary or required for a business need were not documented, assessed, formally approved with a waiver, and monitored for usage on a regular basis.

(d) Configuration Management

The configuration management (CM) category relates to identifying and managing security features for all hardware, software, and firmware components of an information system at a given point and systematically controlling changes to that configuration during the system's life cycle. Configuration management controls that are designed and implemented effectively prevent unauthorized or untested changes to the information system and provide reasonable assurance that systems are securely configured and operated as intended. In addition, configuration management controls that are designed and implemented effectively provide reasonable assurance that software programs and changes to software programs go through a formal, documented systems development process that identifies all changes to the baseline configuration. To reasonably assure that changes to information systems are necessary, work as intended, and do not result in the loss of data or program integrity, such changes are authorized, documented, tested, and independently reviewed.

We identified the following:

- Lack of segregation of duties throughout the change management process, in which developers were granted inappropriate access that allows them to make changes directly in production environments without appropriate compensating controls.
- Changes to the application, infrastructure or key support tools are not properly documented, tested, reviewed and approved prior to production implementation.
- Changes are not properly validated after production implementation to verify the changes instituted are consistent with what was approved by management.
- Code and configuration changes to production environments are not being monitored to verify appropriateness.
- Direct changes to data in production are not monitored and/or are made without required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports used for change monitoring controls are not being verified by management responsible for reviewing these reports.

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(e) Business Process

The business process (BP) controls category relates to the structure, policies, and procedures for the input, processing, storage, retrieval, and output of data that operate over individual transactions; activities across business processes; and events between business process applications, their components, and other systems.

We identified the following:

- Lack of procedures to monitor the successful completion of business process/IT jobs.
- Interface files are not protected from unauthorized access and modification.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of data transmissions (interfaces).
- Appropriate procedures for interface error identification and correction are not in place or are not being consistently performed.

Recommendations:

The DAF WCF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate the DAF WCF's IT modernization plan and timelines as part of this prioritization effort.

Best practices learned from successful remediation of CAPs should be shared across the organization and implemented for relevant CAPs for other applications especially during system modernization efforts. This will aid in the prevention of similar findings occurring across the enterprise.

The DAF WCF should establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.

The DAF WCF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management, and interface procedures to include:

- Security Management:
    - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
    - Review applicable SOC reports and associated CUEC implementation. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.

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  - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financially relevant system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
- Access controls /segregation of duties:
  - Implement procedures to document (1) requests of access specific to system roles and permissions, (2) authorized justifications for access, and (3) appropriate approvals for said access.
  - Develop, document and implement procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures. Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
  - Implement monitoring and review controls for users with elevated access privileges.
  - Document policies to define procedures required to investigate activities of unauthorized users identified during periodic user access reviews. For example, establish look-back procedures that involve review of audit logs to detect and remediate the activities of the unauthorized user.
  - Perform procedures to gain comfort over the completeness and accuracy of reports utilized in periodic user access reviews. For example, review and retain the parameters of the script utilized.
  - Configure application, infrastructure and supporting tool key security settings in accordance with organizational requirements and best practices. Further, periodically monitor these settings to validate continued appropriateness.
  - Establish sufficient logging mechanisms for changes to applications roles so that a complete audit trail of role modifications can be captured. Further, monitor changes to roles and evaluate whether such changes are supported by management authorization.
- Configuration management:
  - Implement segregation of duties within the configuration/change management process, in which developers should not have access to migrate changes to production. Appropriate risk assessment and compensatory controls should be in place for system operational purpose, if needed.
  - Document and retain adequate evidence of change requests, testing (if applicable), and approvals. This includes, but is not limited to, changes to application code, application configurations, data content from within the database, key reports, interfaces, job scheduling, and patches.
  - Monitor the application, database(s), and operating system(s) for potentially unauthorized changes.
  - Implement controls verifying the completeness and accuracy of management reports used for monitoring changes.
- Business process:

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  - Establish and implement procedures to sufficiently monitor job schedule processing and to address errors that prevent jobs from completing successfully.
  - Restrict access to interface files and interface processing programs to authorized users and monitor these users' access for continued appropriateness.
  - Implement reconciliations and/or stronger systematic checks for completeness and accuracy of interface file processing.
  - Develop, document and implement procedures for performing interface error handling and correction.
- Data completeness and accuracy – applicable to all control areas:
  - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.
  - Develop and implement controls to maintain the integrity, completeness and accuracy of data throughout the system modernization cycle.

IV. INVENTORY HELD BY THE DAF WCF

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient inventory count procedures and controls

Inventory held by the DAF WCF is primarily categorized as Depot inventory, Base Possessed inventory, and Medical Dental Division (MDD) inventory. Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements.

- The DAF WCF has implemented and executed upon a formal policy and SOP for cycle count procedures for organic maintenance inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.
- The procedures and controls performed over inventory cycle counts, oversight and monitoring, and compensating controls related to Depot inventory, Base Possessed inventory, and MDD inventory are not operating effectively to prevent and or detect and correct a material misstatement in the financial statements.

(b) Lack of sufficient policies, procedures and controls over inventory valuation

In general, inventory is valued at either an assigned value based on moving average cost (MAC) or, in the instance an asset is being repaired, assigned a carcass value by the DAF WCF. For these assets, once the repair is complete, the cost of the repair shall be capitalized along with the carcass value in the inventory account in order to bring the asset to serviceable value.

MAC calculation process, including assets held for repair

The DAF WCF uses the MAC process to value the majority of its inventory. MAC is an approved historical cost valuation methodology for inventory in accordance with SFFAS 3 *Accounting for Inventory and Related Property* (SFFAS 3). The MAC calculates historical cost based upon an average of the on-hand quantity of an item's historical procurement prices. MAC values inventory on a perpetual basis; as a receipt of property is inducted, ILS-S or FIABS automatically computes MAC. MAC is additionally calculated upon the receipt of an asset back from the repair cycle, with the associated repair costs capitalized into the asset. The calculation of MAC is a heavily automated process that requires interactions amongst groups of systems and interfaces within the DAF WCF system environment. The DAF WCF does not have the appropriate controls or procedures in place for reviewing changes or transactions related to the MAC calculation process, leading to an increased risk of inaccurate valuation of inventory.

During our procedures, we had the following observations related to the MAC calculation process:

- Currently there is a lack of periodic reviews of data inputs for local purchases in ILS-S and FIABS, as well as local purchases by DLA. The data entry is completed manually and no secondary review of these transactions or sample audit of these transactions occurs.
- The DAF WCF does not currently have formal documentation in the form of a process narrative or other document which identifies new controls over Inventory Held for Repair Valuation (LAC calculation, LRC calculation, and MAC recalculation process through the repair process) subsequent to the adoption of the Direct Method of accounting for Inventory Held for Repair.
- While the DAF WCF is currently in process of developing a subledger to report the balances of the WIP inventory account, the DAF WCF has not identified controls over the WIP inventory process.
- Lack of a sufficient and effective control monitoring program for the valuation of Organic Depot Maintenance inventory

(c) Lack of sufficient policies, procedures and controls over inventory movement transactions

The DAF WCF did not consistently execute internal controls to ensure inventory movements (inductions, issuances, or disposals) were completely and accurately reflected within the supply systems. Additionally, the complete end-to-end processes, procedures, and key controls for portions of the inventory movement processes are not accurately and/or fully documented.

- The procedures and controls performed over inventory movement of Depot inventory are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements.

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- Of the controls that are sufficiently designed, the procedures and controls performed over inventory movement of Depot inventory are not operating effectively to prevent and or detect and correct a material misstatement in the financial statements.
- The DAF WCF personnel utilize degraded operations procedures to record inventory movements when ILS-S is not online. Degraded operations transactions are manually recorded within a log and then manually transferred into ILS-S once it is back online. The DAF WCF does not assess materiality of such transactions recorded at or near year-end.
- The DAF WCF currently does not have detailed accounting policy interpretations and definitions for the Excess and Obsolete categorizations of inventory as identified in Statement of Federal Financial Accounting Standards (SFFAS) 3.

(d) Inability to identify and value in-transit inventory

As inventory is moved between the DAF WCF locations, those in-transit items are removed from the supply systems upon shipment and re-recorded in the supply systems upon reaching their destination. While progress has been made in producing preliminary in-transit subledgers, the DAF WCF remains unable to appropriately identify a complete and accurate population of both quantities and values of in-transit inventory at the transaction level. The balance of in-transit inventory recorded in the financial statements was primarily determined by an aging-based estimation methodology which lacks appropriate precision. This likely causes misstatements in inventory balances. During our procedures, we had the following observations related to inventory-in transit:

- The DAF WCF has initially developed an in-transit subledger for SCS. However, the results of our prior SCS testing resulted in inaccurate inclusion of transactions within the in-transit subledgers.
- The DAF WCF has initially developed an in-transit subledger for ILS-S. However, appropriate subledger generation oversight, monitoring, viability testing and reconciliation to the general ledger has not yet been designed nor implemented.
- The DAF WCF has initially developed an in-transit subledger for DMLSS. However, appropriate subledger generation oversight, monitoring, viability testing and reconciliation to the general ledger has not yet been designed nor implemented.
- The DAF WCF has not designed, implemented, or documented within an existing process cycle memorandum (PCM) appropriate oversight and monitoring controls over SCS and DMLSS in-transit inventory.
- The DAF WCF identified various data paths through which SCS in-transit inventory transactions are created and subsequently cleared. However, the DAF WCF has not currently identified the automated controls by which in-transit records are created and subsequently cleared from the in-transit subledgers in a PCM. Additionally, the DAF has not identified in a PCM or implemented a review control that ensures data paths that lack an interface and the

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transactions within that data path are manually reviewed in order to overcome the lack of an existing interface.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to inventory count procedures and controls

- Design effective control activities which prevent or detect the identified risks of material misstatement for the organic maintenance cycle count program.
- Consistently execute the designed control activities.
- Maintain sufficient evidence of the design and execution of the identified control activities.

Related to inventory valuation – MAC, including assets held for repair

- Implement controls representing periodic reviews or samples audits of transaction for data inputs of local purchases in ILS-S and FIABS.
- Design effective control activities which prevent or detect the identified risks of material misstatement.
- Maintain sufficient evidence of the design and execution of the identified control activities.
- Create a WIP subledger and identify associated control processes to monitor the completeness and accuracy of balances recorded in the WIP GLAC

Related to inventory movement

- Design control activities which prevent or detect the identified risks of material misstatement for Depot inventory movements.
- Consistently execute the designed control activities.
- Maintain sufficient evidence of the design and execution of identified control activities.
- Establish a policy in writing that interprets the SFFAS 3 definition of Excess and Obsolete inventory as it relates to the accounting for inventory transactions under the DAF WCF's operational procedures.

Related to in-transit inventory

- Design, identify and execute periodic oversight and monitoring controls over in-transit inventory for SCS, ILS-S, and DMLSS.
- Identify and implement key SCS application and interface controls within either a new or existing PCM for each data path.

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- Identify and implement manual SCS review controls within a PCM for each data path in which an interface does not exist.

V. INVENTORY HELD BY OTHERS

A significant portion of the DAF WCF inventory balances are held by others, including DLA, prime contractors, and ISDM agents.

The following deficiencies aggregate into this material weakness:

(a) Insufficient oversight of inventory managed by DLA

We identified that the DAF WCF does not have sufficient controls in place to ensure balances being recorded through the DLA DSS system are complete and accurate. DLA DSS is a feeder system which flows into the DAF WCF inventory subledger. The DAF relies on DLA to report inventory quantities on hand at period end through DLA DSS. The DAF WCF's current policy is to adjust the inventory records to the quantities reported by DLA. This policy can result in discrepancies in inventory quantities when compared to the DAF WCF records of DLA managed inventory items. The DAF WCF is currently not performing an analysis to determine the appropriateness of changes recorded as a result of DLA's balances compared to the DAF WCF records.

DLA is a material service provider to the DAF WCF. The DAF WCF has not assessed all DLA functions to determine which risks of material misstatement and internal controls are material to DAF WCF's internal control over financial reporting. Further, the DAF WCF has not implemented controls specific to its review of the DLA Service Owned Inventory in DLA Custody (SOIDC) SOC report. Specifically, the DAF WCF has not evaluated the complementary user entity controls (CUECs) identified in the current DLA SOIDC SOC report and mapped relevant CUECs to DAF WCF internal controls. The DAF WCF also has not considered the impact of deficiencies identified in the DLA SOIDC SOC report on its internal control over financial reporting.

(b) Insufficient oversight and monitoring of inventory managed by prime contractors and ISDM agents

Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements. The DAF WCF utilizes multiple third parties to hold and repair inventory in order to avoid duplication of efforts. In reporting inventory balances held at third party locations, the DAF WCF is responsible to ensure the completeness and accuracy of the information being reported on its financial statement and related footnotes. EY identified multiple conditions precluding the DAF WCF from effectively executing oversight of assets held by prime contractors and other defense agents on behalf of the DAF WCF.

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A reconciliation was performed by the DAF WCF between the quantity data from various inventory feeder systems impacting prime contractor and ISDM agent inventory and the data which ultimately flows to the FIABS inventory subledger. As a result of this reconciliation, the DAF WCF identified that there are quantity differences and potential duplicate records between the inventory subledger and the identified feeder systems. We identified the following conditions regarding the reconciliation:

- While progress has been made in determining and resolving the underlying causes of the quantity differences within the reconciliation, all material differences have not been resolved.
- Material interfaces between the feeder systems and the inventory subledger have not been identified and validated for completeness and accuracy.
- Dollar values have not been applied to all quantity differences to assess their complete financial statement impact.
- Controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation have not been established.
- A standard operating procedure and ongoing internal controls pertaining to the reconciliation have not been developed.

During the performance of inventory observation procedures, we identified multiple instances where location data within the DAF WCF's inventory subledger did not match the asset's physical location. Additionally, as a result of these observations, inventory quantity differences were identified between the DAF WCF inventory feeder system and contractor systems, as well as differences between contractor systems and on-hand quantities. Without accurate tracking of the inventory held by third parties on the DAF WCF's behalf, management is unable to assess the completeness, existence, and accuracy of inventory balances in other organizations' custody.

Additionally, we identified certain assets that were recorded within the inventory subledger as on-hand with contractors that had already been physically shipped back to the DAF WCF, causing the assets to be double counted in prior years. At the time, the DAF WCF identified the population of assets within this scenario and worked to correct the transactions prior to year-end, however, no effective internal controls currently exist to address this circumstance should it arise again. The DAF WCF determined that there is not one, single root cause creating the hanging shipments, and further evaluation must be performed to help pinpoint the underlying driver for the transactions not being processes correctly.

We additionally determined that the DAF WCF has not fully identified the material aspects of the process, risks of material misstatement, DAF WCF controls, and contractor or other defense organization controls within its process narratives pertaining to inventory managed by contractors or other defense organizations.

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Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to the insufficient oversight of inventory managed by DLA

- Evaluate the most effective approach to ensure the controls being performed by the DAF WCF and the DLA impacting the DLA managed inventory process are designed and operated effectively to prevent and/or detect material misstatements:
    - Evaluate the existing DLA SOIDC SOC-1 report to ensure the report is scoped for the specific risks associated to the functions the DLA performs on behalf of the DAF WCF.
    - Evaluate the CUECs identified within the current DLA SOIDC SOC report to determine whether all CUECs are relevant to the DAF WCF's processes and use of the DLA.
    - Evaluate which process narratives are required to be updated for the identified CUECs from the DLA SOIDC SOC-1 report based on the underlying nature of the identified CUEC.
    - Map the CUECs, as identified within the DLA SOIDC SOC-1 report, to the DAF WCF process narratives to ensure the DAF WCF control environment is responsive to the risks related to the use of the DLA.
    - Design, implement, and maintain evidence for internal control activities performed by the DAF WCF related to the DLA managed inventory process which prevent or detect misstatements.

Related to the insufficient oversight and monitoring of inventory managed by prime contractors and ISDM agents

- Pertaining to the reconciliation of various inventory feeder systems impacting prime contractor and other ISDM agent inventory and the data which ultimately flows to the inventory subledger:
    - Establish controls and procedures to document the underlying drivers of identified variances, the process by which those variances were investigated, and the eventual resolution of identified variances including appropriate retention of supporting evidence.
    - Identify and validate the completeness and accuracy of interfaces between the feeder systems and the inventory subledger.
    - Apply dollar values to all identified quantity differences in the reconciliation in order to assess their materiality.
    - Establish controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation.

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- Effectively design and operate controls related to the contractor managed and ISDM agent managed inventory processes in order to prevent or detect material misstatements. In determining the extent of control procedures required, the assessment should continuously consider the materiality of the balance of inventory and transaction volume pertaining to each contractor or ISDM agent.
- Implement periodic review controls over contractor managed inventory to include locational data completeness and accuracy.
- Perform periodic reconciliation of inventories reported by contractors and ISDM agent to the DAF WCF inventory subledger. Investigate and resolve reconciling items in a timely manner.
- Perform monthly confirmations (i.e. monthly production reports) with prime contractors and ISDM agents and compare the local on hand inventory balance per the prime contractor and ISDM agent's system to D035A and resolve any discrepancies.

VI. ACCOUNTS PAYABLE, GROSS COSTS AND ADVANCES AND PREPAYMENTS

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The DAF WCF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), advances and prepayments, gross costs, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP).

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF WCF's process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls The PCMs also do not reference or incorporate cross-cutting controls and

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processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

(b) Inadequate controls over AP, advances & prepayments, gross costs, cash disbursement and obligation processes

The DAF WCF lacks sufficient oversight and monitoring controls to detect and correct conditions that could lead to misstatements in the financial statements. As discussed in the "Integration and Reconciliation of Financial Systems" material weakness, controls have not been fully implemented to reconcile balances in relevant feeder systems to the financial statements, the entity is unable to categorize data from its universe of transactions into applicable categories or relevant business processes and the entity's posting logic in key financial systems is not always in accordance with the TFM. As a result of these challenges, the DAF WCF has not fully designed relevant account reconciliations (e.g., accounts payable, advances and prepayments), account rollforwards, or other analyses. Therefore, the entity is also unable to execute sufficient oversight and monitoring procedures over conditions such as:

- Transactions recorded in the incorrect period
- Dormant obligations or stale payables
- Untimely recording of obligations
- Unmatched disbursements

The lack of or inadequate controls over AP, advances and prepayments, gross costs, cash disbursement and obligations processes have had a downstream impact on other processes, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root causes that also indicate the need for enhanced preventative controls at the installation level or other system changes that may be necessary to better support budget execution and monitoring.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

- Identify the risks that are posed to the financial statement line items, relevant assertions, general ledger accounts for these cycles. Based on the risks, DAF WCF should perform the following:
    - Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within DAF WCF and third-parties) responsible for assessing the risks.
    - Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the

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appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate DAF WCF monitoring controls over the procedures and controls performed by the third-party service organizations.

- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.
- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts such as: accounts payable, advances and prepayments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELDCOM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.
- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period end accruals, including retrospective reviews and analysis as appropriate.

VII. EARNED REVENUE AND ACCOUNTS RECEIVABLE

While the DAF WCF has made progress in remediating deficiencies related to management's procedures in executing internal controls for to the Flying Hours Revenue and Supply Revenue processes, the underlying information systems used in executing these processes have existing deficiencies in the design and operation that will need to be remediated in order for the process to be determined to be effective. The following deficiencies aggregate into this material weakness:

(a) Incorrect application of the percentage of completion revenue recognition method for maintenance revenue

The DAF WCF recognizes revenue for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF is incorrectly applying the percentage of completion calculation per SFFAS 7, *Accounting for Revenue and Other Financing*

Sources. Currently, the DAF WCF does not have a system in place to routinely monitor and update total estimated costs of a project, and therefore, is recognizing revenue as a percentage of the initial estimated costs of the project rather than actual costs. By not identifying and monitoring projects where the total cost incurred will exceed (or not meet) the amount of costs initially estimated, the DAF WCF is incorrectly matching revenues to expenses in the reporting period.

(b) Inability to support invoice level accounts receivable subledgers

We identified that the DAF WCF is unable to provide an accounts receivable subsidiary ledger at the invoice level which reconciles to the general ledger.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

- Develop policies and procedures to properly apply the percent of completion guidance as outlined in SFFAS 7.
- Implement a process to continually estimate and document the total cost of the maintenance project throughout the life of the maintenance project.
- Update the maintenance revenue recognition calculation to include a calculation for a proportionate amount of estimated losses each period.
- Develop sufficient controls to reconcile and monitor the accounts receivable subsidiary ledger at the invoice level to the general ledger.

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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements") and our report dated November 21, 2025 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters on the DAF WCF's financial statements as of and for the year ended September 30, 2025, is not currently determinable by the DAF WCF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of the DAF WCF's compliance with certain provisions of laws, regulations, contracts and grant agreements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, as well as instances of noncompliance in which the DAF WCF's financial management systems did not substantially comply with the Section 803(a) requirements of FFMIA and which are described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

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Our Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 21, 2025 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

<u>FFMIA</u>

Under FFMIA, we are required to report whether the DAF WCF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DAF WCF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2025 DAF WCF Statement of Assurance, the DAF WCF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or Appendix D to OMB Circular A-123 – *Management of Financial Management Systems – Risk and Compliance*.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF WCF from being compliant with federal financial management system requirements and inhibit the DAF WCF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2025 DAF WCF Statement of Assurance and Note 1 to the financial statements, the DAF WCF identified that the financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

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(c) Noncompliance with USSGL posting logic at the transaction level

As referenced in the FY 2025 DAF WCF Statement of Assurance, the DAF WCF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF WCF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF WCF provided the FY 2025 Statement of Assurance and as reported in the Report of Independent Auditors on Internal Control over Financial Reporting certain aspects related to entity level controls have not been fully identified, implemented, or operating effectively. Based on the evidence received, EY assessed that the DAF WCF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF WCF has not fully evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

DAF WCF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 21, 2025. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2025, on our consideration of the DAF WCF's internal control over financial reporting (internal control). The purpose of that report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control.

Ernst + Young LLP

November 21, 2025

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

21 November 2025

Mr. Timothy Winder
Partner, Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force has reviewed the Independent Auditor Report prepared for the Fiscal Year 2025 Working Capital Fund financial statements and both acknowledges and concurs with your issuance of a disclaimer of opinion. Your partnership continues to prove invaluable as we work to leverage your feedback and recommendations to address audit findings, which are highlighted in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*. The Department of the Air Force remains committed to improving our financial practices and business systems to fulfill our obligation to American taxpayers to secure and sustain an unmodified 'clean' audit opinion.

At the close of our eighth financial statement audit cycle, the Department of the Air Force continues to make headway against our audit objectives and drive real change across the enterprise by finding and fixing our deficiencies. Included in those improvements is the development and implementation of key oversight controls that have strengthened our Fund Balance with Treasury process as well as automating several manual processes that have increased efficiency and improved data completeness and accuracy. Those achievements led to the Working Capital Fund fully closing our Fund Balance with Treasury material weakness in Fiscal Year 2024 and advancing the auditability of its balance sheet.

While we celebrate these and other achievements, we fully appreciate the scope of challenges that lay ahead and recognize that the Congressional deadline to achieve a clean audit opinion is fast approaching. To speed up progress, the Department has developed an acceleration plan for the Working Capital Fund which focuses on remediating financial statement line-items that are critical to improving auditability: Earned Revenue & Expense and Inventory. Inventory, which represents the largest component on the Working Capital Fund balance sheet, has a complex volume of associated financial and accounting transactions. Our teams are pursuing alternative valuation methods and leveraging internal support and expertise from the Air Force Audit Agency to fuel progress. Remediating these Inventory challenges as well as the Earned Revenue & Expense material weakness will catapult the Working Capital Fund financial statements to be auditable.

The Department of the Air Force Working Capital Fund is also continuing to bring modernized information technology to its workforce through new system implementations. We are forging ahead with the Maintenance, Repair, and Overhaul system, which, once fully deployed, will lay the foundation for a standard enterprise system that will enable the Air Force Sustainment Center to reduce flow days, increase on-time delivery, and improve aircraft availability resulting in increased support to the warfighter while providing increased auditability and financial reporting integrity. Ultimately, this new system will reduce the number of interfaces to allow the workforce to spend more time focusing on data analytics and less time remediating system issues.

The annual audit remains a catalyst for positive change, boosting mission readiness, while transforming and streamlining how we operate. The pursuit to obtain and maintain a clean audit opinion has fueled the Department of the Air Force to enhance accountability over assets and improve data from auditable financial management information technology systems to better communicate our readiness posture. Thank you for your continued partnership; your guidance and recommendations are essential tools as we accelerate our audit journey to a clean opinion.

Sincerely,

Lara C. Sayer
Principal Deputy Assistant Secretary of the Air Force
(Financial Management and Comptroller)

OTHER INFORMATION

X-37B Mission 8 launches from Kennedy Space Center pad 39A, FL. The X-37B is a dynamic and responsive spacecraft responsible for conducting a range of tests and experiments that expedite the development of critical next-generation technologies and operational concepts for reusable space capabilities. —Photo courtesy of SpaceX

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The DAF management has a fiduciary responsibility to develop and maintain effective internal controls to ensure that its federal resources are used effectively, and its programs operate efficiently to achieve the mission. Managers throughout the DAF are accountable for ensuring effective internal controls in their areas of responsibility.

Table 1 lists the 15 material weaknesses identified by the independent public accountant (IPA) during the DAF's financial statement audit.

TABLE 1: Fiscal Year 2025 Summary of Financial Statement Audit

AUDIT OPINION: DISCLAIMERS OF OPINION (DAF GF & DAF WCF)							
RESTATEMENT: YES *(DAF GF)*, NO *(DAF WCF)*							
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE	DAF GF	DAF WCF
Accounts Payable, Accruals, and Expenses*	1				1	1	
Accounts Payable, Gross Costs, and Advances and Prepayments*	1				1		1
Earned Revenue and Accounts Receivable	1				1		1
Entity Level Controls	2				2	1	1
Financial Information Systems	2				2	1	1
Integration and Reconciliation of Financial Systems	2				2	1	1
Inventory Held by DAF WCF	1				1		1
Inventory Held by Others	1				1		1
Operating Materials and Supplies	1				1	1	
Other General Equipment and Internal Use Software*	1				1	1	
Property and Materials Held by Others	1				1	1	
Real Property	1				1	1	
Total Material Weaknesses	15	0	0	0	15	8	7

These material weaknesses were renamed in FY 2025.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required, DAF management establishes and assesses internal control over financial reporting, operations, and financial management systems. Management-identified weaknesses are determined by assessing internal controls, as required by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), the *Federal Financial Management Improvement Act of 1996* (FFMIA), and Office of Management and Budget Circular Number A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Assessments of internal controls fall into one of the following categories:

- » FMFIA Section 2, *Effectiveness of Internal Control over Financial Reporting,*
- » FMFIA Section 2, *Effectiveness of Internal Control over Operations*, or
- » FMFIA Section 4, *Compliance with Federal Financial Management Systems Requirements*.

Table 2 provides those areas where material weaknesses were identified by the DAF in the above categories and where remediation work continues. In addition, it includes the status of compliance with Section 803(A) of the FFMIA. DAF Management believes that the listing of the DAF-identified material weaknesses encompasses all material weaknesses also identified by the IPA for internal control over reporting and internal control over financial systems. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the issuance of the Statement of Assurance and the date of the Auditor's Report. These timing differences do not change the conclusions reached by both the DAF and the IPA.

TABLE 2: Fiscal Year 2025 Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING *(FMFIA Section 2)*						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Accounts Payable and Expenses (formerly 'Accounts Payable, Expenses, and Accounting for Contract Financing Payments') (DAF GF)	1					1
Entity Level Controls (DAF GF)	1					1
Integration and Reconciliation of Financial Systems (DAF GF)	1					1
Military Equipment (DAF GF)	1		(1)			0
Operating Materials and Supplies (DAF GF)	1					1
Other General Equipment (DAF GF)	1					1
Property and Materials Held by Others (DAF GF)	1					1
Real Property (DAF GF)	1					1
Accounts Payable, Gross Costs, and Contract Financing Payments (DAF WCF)	1					1
Earned Revenue (formerly 'Earned Revenue and Accounts Receivable') (DAF WCF)	1					1
Entity Level Controls (DAF WCF)	1					1
Fund Balance with Treasury (DAF WCF)	1		(1)			0
Integration and Reconciliation of Financial Systems (DAF WCF)	1					1
Inventory Held by the Department of the Air Force Working Capital Fund (DAF WCF)	1					1
Inventory Held by Others (DAF WCF)	1					1
Total Material Weaknesses	**15**	**0**	**(2)**	**0**	**0**	**13**

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS *(FMFIA Section 2)*						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Civil Engineer Control Systems Cyber Hygiene	1		(1)			0
Contracting Officer Representatives	1					1
Criminal History Data Reporting Requirements	1					1
Cybersecurity of Automatic Test Systems and Equipment	1					1
Cybersecurity of Network Component Purchases	1					1
Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	1					1
Protection of Sensitive Information on the Network	1					1
Special Access Programs Report #1	1		(1)*			0
Secure Internet Protocol Router Network Access Controls	1					1
Weapon System Cyber Hygiene	1					1
Total Material Weaknesses	10	0	(2)	0	0	8

** Resolved in this instance represents material weaknesses that were downgraded to a significant deficiency in the current year.*

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS *(FMFIA Section 4)*						
STATEMENT OF ASSURANCE: FEDERAL SYSTEMS DO NOT CONFORM TO FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS						
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Information Systems (DAF GF)	1					1
Financial Information Systems (DAF WCF)	1					1
Total Non-Conformances	2	0	0	0	0	2

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT		
	AGENCY	AUDITOR
Federal Financial Management System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
Applicable Federal Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
United States Standard General Ledger at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted

BIENNIAL REVIEW OF USER FEES

The *Chief Financial Officers Act of 1990* and the Office of Management and Budget Circular A-25, *User Charges*, requires biennial reviews of agency fees and other charges imposed by the agency for services or special benefits derived from federal activities beyond those received by the general public. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. The DAF performed a review of user fees in FY 2024 and identified immaterial adjustments to account for changes in market conditions. The DAF will conduct the next review in FY 2026.

Cadet First Class Garrett Hake, USAF Academy Wings of Blue parachute team member lands prior to the annual Founder's Day Parade at Stillman Field in Colorado Springs, CO. The demonstration team travels across the country to airshows, sporting events and other venues to represent the Air Force in precision parachuting. —USAF photo by Dylan Smith

FINANCIAL REPORTING-RELATED LEGISLATION

The Office of Management and Budget A-136, *Financial Reporting Requirements*, require agencies to report any significant agency-specific legislative provisions enacted in the prior or current year that address financial accounting, reporting, or auditing issues and that affected its ability to prepare its Agency Financial Report. The following Public Laws and Executive Orders apply:

National Defense Authorization Act for Fiscal Year 2024, Pub. L. 118-31 & *Servicemember Quality of Life Improvement and National Defense Authorization Act for Fiscal Year 2025, Pub. L. 118-159*
The *National Defense Authorization Act* is an annual Act that authorizes funding levels and provides authorities for the U.S. military and other critical defense priorities.

Making emergency supplemental appropriations for the fiscal year ending September 30, 2024 and for other purposes, Pub. L. 118-50
This act provides supplemental emergency appropriations for FY 2024 to Federal Agencies to respond to the situations in Israel, Ukraine, and for assistance to U.S. allies in the Indo-Pacific region.

Federal Agency Performance Act of 2024, Pub. L. 118-190
This act addresses federal agency performance and accountability requirements, specifically establishing requirements regarding strategic reviews of federal agencies' performance goals.

One Big Beautiful Bill Act, Pub. L. 119-21
This Act is a reconciliation bill that addresses spending for various agencies and programs throughout the federal government.

Protecting America's Bank Account Against Fraud, Waste, and Abuse, Exec. Order No. 14249
This Executive Order centralizes and standardizes federal payment processes under the Treasury, enhances pre-payment verification to prevent fraud, consolidates financial systems, reduces fragmented disbursing authorities, and increases transparency and accountability in the management of federal funds.

Flags and shovels are displayed prior to the Space Campus groundbreaking ceremony within the U.S. Central Command area of responsibility. The USSF continues to play a critical role in regional and global operations, committed forces maintain 24/7 operations to ensure the safety and sustainability of space and protect our way of life. —USAF photo by Senior Airman Violette Hosack

GLOSSARY OF ACRONYMS

AB	Air Base
ACC	Air Combat Command
ACP	Autonomous Collaborative Platforms
ADA	Anti-Deficiency Act
AETC	Air Education and Training Command
AFB	Air Force Base
AFCEC/CZTQ	Air Force Civil Engineer Center/Environmental Quality Technical Support Branch
AFDW	Air Force District of Washington
AFFF	Aqueous Film-Forming Foam
AFGSC	Air Force Global Strike Command
AFMC	Air Force Materiel Command
AFMEDCOM	Air Force Medical Command
AFOTEC	Air Force Operational Test and Evaluation Center
AFRC	Air Force Reserve Command
AFSOC	Air Force Special Operations Command
AI	Artificial Intelligence
AMARG	Aerospace Maintenance and Regeneration Group
AMC	Air Mobility Command
ANG	Air National Guard
APSR	Accountable Property System of Record
ARU	Aircraft Readiness Unit
AT&D	Aerial Targets & Drones
BAH	Basic Allowance for Housing

GLOSSARY OF ACRONYMS

BD/DR	Building Demolition and Debris Removal
BMT	Basic Military Training
BP	Base Possessed
BRAC	Base Realignment and Closure
C3	Command, Control, and Communications
CAP	Corrective Action Plan
CAP	Contractor Acquired Property
CCA	Collaborative Combat Aircraft
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
C-FLDCOM	Component Field Command
C-ICP	Contractor-Inventory Control Point
CIP	Construction-in-Progress
CM	Cruise Missiles
CPI	Consumer Price Index
CSAF	Chief of Staff of the Air Force
CSAG	Consolidated Sustainment Activity Group
CSO	Chief of Space Operations
CTC	Cost-to-Complete
DAF	Department of the Air Force
DAF GF	Department of the Air Force General Fund
DAF WCF	Department of the Air Force Working Capital Fund
DAFI	Department of the Air Force Instruction
DARC	Deep Space Advanced Radar Capability

GLOSSARY OF ACRONYMS

DEAMS	Defense Enterprise Accounting and Management System
DEP	Delayed Entry Program
DERP	Defense Environmental Restoration Program
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repairs
DoD	Department of Defense
DOL	Department of Labor
DRU	Direct Reporting Unit
E&DL	Environmental and Disposal Liabilities
ECA	Environmental Corrective Action
ECR	Environmental Closure Requirements
eGRC	Enterprise Governance, Risk, and Compliance
EI&E	Energy, Installations, and Environment
EISP	End Item Sales Price
ELMS	Enterprise Logistics Management System
EOP	Executive Office of the President
EOU	Excess, Obsolete, Unserviceable
EPA	Environmental Protection Agency
EROR	Environmental Response at Operational Ranges
ESC	Executive Steering Committee
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury

GLOSSARY OF ACRONYMS

FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Centers
FHIF	Family Housing Improvement Fund
FHOT	Funds Held Outside of Treasury
FISCAM	Federal Information Systems Control Audit Manual
FLDCOM	Field Command
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FOA	Field Operating Agency
FROC	Fraud Risk Oversight Committee
FS	Fighter Squadron
FW	Fighter Wing
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GBOSS	Ground-Based Optical Sensor System
GDL	Government Direct Loan
GE	General Equipment
GFE	Government-Furnished Equipment
GHI	Global Hydro-Intelligence
G-Invoicing	Government Invoicing

GLOSSARY OF ACRONYMS

GPS	Global Positioning System
GSD	General Support Division
HFPO-DA	Hexafluoropropylene Oxide Dimer Acid
I2AP	Installation Infrastructure Action Plan
IAC	Internal Administrative Claim
ICAM	Identity, Credential, and Access Management
ICBM	Intercontinental Ballistic Missile
IPA	Independent Public Accountant
IRP	Installation Restoration Program
ISR	Intelligence, Surveillance, and Reconnaissance
IT	Information Technology
IUS	Internal Use Software
JCS	Joint Chiefs of Staff
JTF	Joint Task Force
LLC	Limited Liability Company
LOP	Lease of Property
LP	Limited Partnership
MAC	Moving Average Cost
MAJCOM	Major Command
MC	Munitions Constituent
MDMA	Master Development and Management Agreement
MEWP	Military Equipment/Weapons Program
MHPI	Military Housing Privatization Initiative

GLOSSARY OF ACRONYMS

MILCON	Military Construction
MILPERS	Military Personnel
MM	Minuteman
MMRP	Military Munitions Response Program
MOCAS	Mechanization of Contract Administration Services
MRAP	Mine-Resistant Ambush Protected
MUNS	Munitions
MWD	Military Working Dog
NASA	National Aeronautics and Space Administration
NAVFAC	Naval Facilities Engineering Systems Command
NCR	National Capital Region
NDAA	National Defense Authorization Act
NHPA	National Historic Preservation Act
NMUSAF	National Museum of the United States Air Force
No.	Number
NRHP	National Register of Historic Places
NTDO	Non-Treasury Disbursing Office
OA	Operating Agreement
OASD	Office of the Assistant Secretary of Defense
OCFP	Outstanding Contract Financing Payments
OEL	Other Environmental Liabilities
OET	Other Eligible Tenants
OGE	Other General Equipment

GLOSSARY OF ACRONYMS

OM&S	Operating Materials & Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of Secretary of Defense
OTC	Officer Training Course
OWS	Oil Water Separator
P3	Public-Private Partnership
PACAF	Pacific Air Forces
PFAS	Per- and Polyfluoroalkyl Substances
PFHxS	Perfluorohexanesulfonic Acid
PFNA	Perfluorononanoic Acid
PFOA	Perfluorooctanoic Acid
PFOS	Perfluorooctanesulfonic Acid
PIF	Performance Incentive Fee
PIP	Performance Incentive Plan
PISD	Placed in Service Date
POM	Program Objective Memorandum
PP&E	Property, Plant, & Equipment
PPA	Prior Period Adjustment
PPT	Parts-Per-Trillion
PRV	Plant Replacement Value
Q	Quarter
RACER	Remedial Action Cost Engineering and Requirements

GLOSSARY OF ACRONYMS

RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
RGS	Range Squadron
RI/FS	Remedial Investigation/Feasibility Study
RMC	Risk Management Council
RSI	Required Supplementary Information
SAS	Space Aggressor Squadron
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDA	Space Development Agency
SDP	Savings Deposit Program
SE	Spare Engines
SecAF	Secretary of the Air Force
SFFAS	Statement of Federal Financial Accounting Standard
SMAG-R	Supply Management Activity Group - Retail
SMC	Senior Management Council
SME	Subject Matter Experts
SNC	Statement of Net Cost
SOF	Special Operations Forces
Space RCO	Space Rapid Capabilities Office
SpOC	Space Operations Command
SSC	Space Systems Command

GLOSSARY OF ACRONYMS

STARCOM	Space Training and Readiness Command
SV	Space Vehicle
SYD	Space System Deltas
T1	Tranche 1
TDO	Treasury Disbursing Office
TICMS	Theater Integrated Combat Munitions System
TNC	Treasury Nominal Coupon
U.S.	United States
U.S.C.	United States Code
UDC	User Defined Costs
UMM	Uninstalled Missile Motors
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USAFA	United States Air Force Academy
USAFE-AFAFRICA	United States Air Forces in Europe – Air Forces Africa
USAFRICOM	United States Africa Command
USEUCOM	United States European Command
USSF	United States Space Force
USSGL	United States Standard General Ledger
USTRANSCOM	United States Transportation Command
WRM	War Reserve Material
WSS	Weapon System Sustainment

Gen. Kevin B. Schneider, Pacific Air Forces (PACAF) commander, pilots the lead F-22 Raptor during a mission off the coast of O'ahu, HI. PACAF provides ready and lethal forces to ensure stability and security in the Indo-Pacific. —USAF photo by Tech. Sgt. Emerson Nuñez

FRONT COVER

Top to Bottom:
National Aeronautics and Space Administration (NASA) astronaut and USSF Guardian Col. Nick Hague, Expedition 72 flight engineer, conducts a six-hour spacewalk in support of science experiments and maintenance on the International Space Station. Hague launched aboard the SpaceX Dragon spacecraft, as part of NASA's Crew-9 mission. His flight marked a significant moment in the history of the USSF, 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, FL. Hague returned to Earth. —USAF photo courtesy of NASA

USAF Academy Parachute Team "Wings of Blue" cadets begin to space out to unfurl the American flag to perform a 13-fold procedure during the Wings Over Wyoming Air Show at F.E. Warren Air Force Base (AFB), WY. As part of the air show, the cadets demonstrate elite parachuting skills while embodying the USAF's core values through discipline, precision, and service to the public. —USAF photo by Staff Sgt. Michael A. Richmond

BACK COVER

A plume of exhaust flames out of the back of a F-22 Raptor as it performs an aerial demonstration during Aviation Nation 2025 at Nellis AFB, NV. Aviation Nation is an airshow held at Nellis AFB showcasing the pride, precision, and capabilities of the USAF through aerial demonstrations and static displays. The F-22 Raptor demonstrated its unmatched agility and air dominance as part of the USAF's efforts to inspire, recruit, and connect with the public. —USAF photo by Staff Sgt. Lauren Cobin

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