





FINANCIAL SECTION

(UNAUDITED)

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

66 Message from the Under Secretary of Defense (Comptroller)/Chief Financial Officer

69 Independent Auditor's Report

127 Principal Financial Statements

133 Notes to the Financial Statements

246 Required Supplementary Information

Previous Page:

Marine Corps Cpl. Gerald Wells III, a member of the Silent Drill Platoon, conducts a rifle inspection during a flyover of the Navy's Blue Angels C-130 Super Hercules aircraft, nicknamed "Fat Albert," at Marine Corps Air Station, Yuma, Ariz., Feb. 13, 2024. (Photo by Marine Corps Lance Cpl. Chloe McAfee)

Left:

U.S. Marine Corps F-35B Lightning II aircraft attached to Marine Fighter Attack Squadron (VMFA) 225, 15th Marine Expeditionary Unit, land on the flight deck of the amphibious assault ship USS Boxer (LHD 4) in the Pacific Ocean April 1, 2024. Elements of the 15th MEU are currently embarked aboard the Boxer Amphibious Ready Group conducting routine operations in U.S. 3rd Fleet. (Photo by Marine Corps photo by Cpl. Amelia Kang)



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

November 15, 2024

The Department of Defense (DoD) made significant progress in reforming its financial management practices, modernizing its financial management systems, and strengthening the integrity and transparency of financial reporting in fiscal year (FY) 2024. Secretary of Defense Lloyd Austin III and I are proud to present the Department of Defense Agency Financial Report Fiscal Year 2024, providing a comprehensive look at our successes, challenges, and the efforts undertaken to enhance our financial management excellence.

Recent audit results underscore the importance of highly-visible and consistent leadership and accountability—the tone from the top. Secretary Austin and Deputy Secretary of Defense Kathleen Hicks have issued calls to action that demand Department-wide, cross functional commitment from the Secretaries of the Army, Navy, and Air Force; Principal Staff Assistants; and Defense Agency heads to address the root causes of the Department’s material weaknesses. The U.S. Marine Corps’ first unmodified financial statement audit opinion was the result of hard work by the Marines and the consistent and continual engagement by Marine Corps leaders at the highest level. We expect this same commitment from the leaders of the other Military Services.

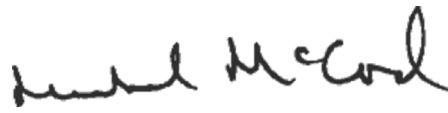
Last year’s audit progress continued into FY 2024. This year, the Department closed the DoD-Wide Contingent Legal Liabilities material weakness. Across the Department, reporting entities have closed or downgraded 19 material weaknesses in FY 2024, a clear measure of audit progress, including multiple Components downgrading their Fund Balance with Treasury material weaknesses.

The Department assesses the value of achieving and sustaining audit progress across five areas: Workforce Modernization, Business Operations, Quality Decision-Making, Reliable Networks, and Enhanced Public Confidence. The Department measures the audit investment in these areas and the progress made against them. DoD leaders at all levels are committed to achieving an unmodified audit opinion on the Department’s financial statements by December 31, 2028, as mandated by the National Defense Authorization Act for Fiscal Year 2024. An unmodified audit opinion is an indicator of our primary financial management goal—sound financial management stewardship. To accomplish this, the Department is:

- Cultivating a skilled and inspired financial management workforce adaptable to modern technology, closing essential skill gaps, supporting our people, and enabling the mission.
- Investing in cutting-edge technology—like bots, machine learning, and generative artificial intelligence—that advance financial management transformation and increase the integrity of financial results through a simplified and optimized end-to-end business environment.

- Focusing DoD's audit strategy and resources on addressing the critical root-causes of scope-limiting material weaknesses that are impeding a Department-wide unmodified audit opinion.
- Assessing and tracking the systems impacting financial reporting through an integrated Enterprise Financial Management IT Systems Roadmap, laying a foundation for continued success and a simplified and optimized end-to-end business environment.
- Uniting military and civilian leaders and stakeholders across the Department in establishing expectations and increasing accountability for DoD's financial management and audit priorities.

The support of Congress, federal and industry partners, the audit community, and our military and civilian personnel is critical to continuing our audit progress. Thank you to all our stakeholders for your commitment to our shared goal of financial management excellence within the Department.

A handwritten signature in black ink, appearing to read "Michael McCord". The signature is fluid and cursive, with the first name "Michael" and last name "McCord" clearly distinguishable.

Michael McCord

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

November 15, 2024

MEMORANDUM FOR SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Reports on the DoD FY 2024 and FY 2023
Financial Statements (Project No. D2024-D000FV-0065.000,
Report No. DODIG-2025-040)

We are providing the subject Independent Auditor's Reports to be published in the DoD FY 2024 Agency Financial Report. Our reports are issued to accompany the DoD Agency-Wide Financial Statements as of and for the fiscal years ended September 30, 2024, and September 30, 2023, and should not be disseminated separately from these financial statements.

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

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

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

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

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

Our audit resulted in a disclaimer of opinion. We were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we did not express an opinion on the financial statements.

The Report on Internal Control over Financial Reporting includes a description of 28 material weaknesses and 2 significant deficiencies related to the DoD's internal controls over financial reporting.² This report provides transparency into the areas in which the DoD should improve its financial management and ultimately obtain an opinion on its financial statements. The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements includes a description of six instances of noncompliance or potential noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements.

Sound financial management is the responsibility of management at every level in the DoD. While sound financial management is necessary to produce reliable financial statements, it also provides operational value by producing better information for decision making and ensuring the careful stewardship of taxpayer dollars. Without effective internal controls, the DoD risks not having accurate and reliable information related to key areas that affect operational readiness, such as financial management systems, inventory, equipment, and available funds. We appreciate the cooperation and assistance received during the audit. My team and I look forward to continuing our work in this critically important area.



Robert P. Storch
Inspector General

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



OFFICE OF INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

4800 MARK CENTER DRIVE

ALEXANDRIA, VIRGINIA 22350-1500

November 15, 2024

Report on the Financial Statements

Disclaimer of Opinion

The DoD Agency-Wide Financial Statements include the Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures in the DoD Agency Financial Report. These statements are referred to as the financial statements in this report. We were engaged to audit the financial statements as of and for the fiscal years ended September 30, 2024, and September 30, 2023, as required by the Chief Financial Officers Act of 1990.¹

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

Basis for Disclaimer of Opinion

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

- Department of the Army General Fund
- Department of the Army Working Capital Fund

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

² A DoD Component is a Military Department, Defense agency, or DoD field activity, such as the Defense Logistics Agency, a Combatant Command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

As of the date of this audit report, the Agency Financial Reports for the U.S. Marine Corps and Defense Logistics Agency Stockpile Transaction Fund have not been published. As a result, we were unable to confirm accuracy or consider amounts or disclosures directly attributed to the U.S. Marine Corps and Defense Logistics Agency Stockpile Transaction Fund within the Agency Financial Report.

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

The DoD reporting entities that received disclaimers of opinion on their financial statements, when combined, account for at least 44 percent of the DoD's total assets and at least 68 percent of the DoD's total budgetary resources. These combined balances are material to the Agency-Wide Financial Statements.

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

- The Security Assistance Accounts, a subset of Security Cooperation, are U.S. Treasury accounts that DoD personnel use to execute the DoD's security assistance programs. However, DoD management did not report Security Assistance Accounts financial activity within the Agency-Wide Financial Statements, as required by Office of Management and Budget (OMB) Circular No. A-136 and Statement of Federal Financial Accounting Standards (SFFAS)

No. 47.³ This omission resulted in a material misstatement on the Agency-Wide Financial Statements, which is reported in the Security Assistance Accounts material weakness identified within our Report on Internal Control over Financial Reporting.

- The Joint Strike Fighter Program is a multiservice, multinational acquisition that develops and fields F-35 fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, DoD management did not account for, manage, or report Joint Strike Fighter Program government property, which is composed of Global Spares Pool assets, in the Agency-Wide Financial Statements, as required by OMB Circular No. A-136 and SFFAS No. 6.⁴ This omission resulted in a material misstatement in the DoD's assets on the Agency-Wide Financial Statements. Because the DoD is unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Joint Strike Fighter Program government property, we could not quantify the material misstatement in the DoD's assets on the Agency-Wide Financial Statements, which is reported in the Joint Strike Fighter Program material weakness identified within our Report on Internal Control over Financial Reporting.

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

Other Matters

DoD management referenced information on websites or other forms of interactive data within the Agency Financial Report. This information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Accounting Board. As a result, this information was not subjected to our audit procedures. Accordingly, we do not express an opinion or provide any assurance on the websites, data, or information referred to on these websites, or other forms of interactive data included in the Agency Financial Report.

³ OMB Circular No. A-136, "Financial Reporting Requirements," May 2024.

Federal Accounting Standards Advisory Board, "Handbook of Federal Accounting Standards and Other Pronouncements" (Handbook), SFFAS No. 47, "Reporting Entity," December 2014.

⁴ Federal Accounting Standards Advisory Board Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995.

Management's Responsibility for the Agency Financial Report

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

Auditor's Responsibility for the Agency Financial Report

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

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

Required Supplementary Information

The OMB mandates that the Required Supplementary Information, which includes the Management's Discussion and Analysis, be presented in the Agency Financial Report to supplement the financial statements. The Required Supplementary Information is the responsibility of management and, although not a part of the financial statements, it is required by the OMB and Federal Accounting Standards Advisory Board, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply

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

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

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

certain limited procedures to the Required Supplementary Information in accordance with GAGAS because of the matters described in the previous “Basis for Disclaimer of Opinion” section.⁶ Accordingly, we do not express an opinion or provide any assurance on this information.

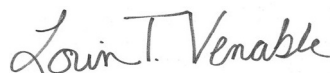
Other Reporting Required by Government Auditing Standards

In accordance with GAGAS and OMB Bulletin No. 24-02, we also issued reports dated November 15, 2024, on our consideration of the DoD’s internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing; it is not to provide an opinion on the effectiveness of the DoD’s internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 24-02 and should be considered in assessing the results of our audit.

Agency Comments

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. Its personnel did not provide formal comments.

FOR THE INSPECTOR GENERAL:



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

⁶ As of the date of this audit report, the Agency Financial Reports for the U.S. Marine Corps and Defense Logistics Agency Stockpile Transaction Fund have not been published. As a result, we were unable to confirm accuracy or consider amounts or disclosures directly attributed to the U.S. Marine Corps and Defense Logistics Agency Stockpile Transaction Fund within the Agency Financial Report.



OFFICE OF INSPECTOR GENERAL

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

November 15, 2024

Report on Internal Control over Financial Reporting

We were engaged to audit the DoD Agency-Wide Financial Statements in accordance with generally accepted government auditing standards; Office of Management and Budget (OMB) Bulletin No. 24-02; and the Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency (CIGIE), "Financial Audit Manual (FAM)."¹ The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2024, and September 30, 2023. Our Report on the Financial Statements, dated November 15, 2024, 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 were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for: (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud, abuse, or error; and (2) evaluating the effectiveness of internal control over financial reporting based on criteria established under the "Federal Managers' Financial Integrity Act of 1982."²

The recommendations included in this report have been previously communicated to DoD and DoD Component management through notices of findings and recommendations provided by the auditors to address identified findings. Additionally, the recommendations included in this report are addressed to DoD management as a

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

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

GAO/CIGIE, "Financial Audit Manual," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024.

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

whole, including functional areas such as the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO); Office of the DoD Chief Information Officer; and Office of the Under Secretary of Defense for Acquisition and Sustainment.

Auditor's Responsibilities

Generally accepted government auditing standards and OMB guidance require auditors to report on an entity's internal control over financial reporting. In connection with our audit of the financial statements, we considered the DoD's internal control over financial reporting when we designed audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the DoD's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing performance information and ensuring efficient operations. Additionally, we performed audit procedures at the Agency-Wide level and considered the results of the DoD reporting entities' audits to identify material weaknesses and significant deficiencies in internal control over financial reporting.³ Based on the scope and limitations of our work and the effects of these limitations noted throughout this audit report, we did not design our internal control work to identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that we did not identify.

Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner. Descriptions of the 28 material weaknesses we identified through our audit and our recommendations to address them are as follows.

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

1. Financial Management Systems Modernization

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires the DoD implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (the general ledger) at the transaction level.⁴ The DoD uses thousands of systems, hundreds of which are relevant to internal controls over financial reporting. Many of these systems used to report data in the DoD Component and Agency-Wide Financial Statements did not comply with the FFMIA. The DoD has acknowledged its noncompliance with the FFMIA since FY 2001.

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

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

These conditions occurred because DoD management did not:

- have modernization plans for financial management system that were aggressive enough to ensure the timely remediation of its FFMIA noncompliance, and the plans did not fully use the DoD's enterprise resource planning systems;⁵
- accurately define criteria used to identify legacy systems;⁶ or
- coordinate with DoD Components to fully understand business processes and identify all financial management systems that were relevant to internal controls over financial reporting.

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

⁴ Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

⁵ A modern enterprise resource planning system is a system that is capable of running all of the core business processes, such as finance, human resources, supply chain, contracting, and procurement, in one integrated system.

⁶ The Office of the DoD Chief Information Officer defines a legacy system as a system scheduled to be retired in the next 3 years, regardless of how outdated it may be.

Recommendations

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

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

2. Configuration Management

The GAO, "Federal Information System Controls Audit Manual," states that configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle.⁷ Configuration management controls are designed and implemented to prevent unauthorized or untested changes to critical information system resources and provide reasonable assurance that systems are securely configured and operated as intended. In addition, configuration management controls are designed and implemented to provide reasonable assurance that software programs and changes to software

⁷ GAO-09-232G, "Federal Information System Controls Audit Manual," February 2009.

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

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

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

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

As a result of the lack of proper configuration management controls, the DoD increased the risk of unauthorized or inappropriate changes to the financial management systems, which may impact data reliability. Therefore, configuration management control

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

weaknesses increase the risks of financial management systems and applications not functioning as intended or reporting data that is incomplete or inaccurate in the Agency Financial Statements.

Recommendations

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

- develop and implement controls to confirm that each financial management system has a comprehensive set of configuration management policies, procedures, and processes to include enforcement of physical and logical configuration access restrictions, that allow for system owners to achieve their objectives, address risks, and support the internal control environment;
- review and provide feedback for improving DoD Component configuration management policies and procedures, once implemented; and
- resolve previously issued configuration management deficiencies within DoD financial management systems.

3. Security Management

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

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

- develop, document, and periodically review security policies and procedures; or
- develop and update plans of actions and milestones across their systems with identified weaknesses and vulnerabilities.

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of security management policies, procedures, and processes over the DoD's financial management systems affecting the Agency-Wide Financial Statements.

As a result, DoD and its Components may not be able to rely on the confidentiality, integrity, and availability of data without proper security management controls. Therefore, DoD management may not be able to rely on the data within those systems or verify the legitimacy of data, users, applications, and systems. The lack of security management controls increased the risk of security incidents that affect DoD financial management systems.

Recommendations

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

- develop and implement processes to confirm that each financial management system has a comprehensive set of security management policies, plans, and procedures that allow system owners to achieve their objectives, address risks, and support the internal control environment;
- review and provide feedback for improving DoD Component security management policies and procedures, once implemented; and
- resolve previously issued security management deficiencies within DoD financial management systems.

4. Access Controls

The GAO, "Federal Information System Controls Audit Manual," states that access controls provide reasonable assurance that access to computer resources such as data, equipment, and facilities is reasonable and restricted to authorized authenticated individuals. Access controls limit or detect inappropriate access to computer resources,

protecting them from unauthorized modification, loss, and disclosure. NIST SP 800-53 provides a framework, required by OMB Circular No. A-130, for the DoD to establish policies and procedures to identify and address risks related to access controls.⁹

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

- establish, periodically review, or update access control policies and procedures for access provisioning;¹⁰
- properly review user access before providing additional system access or monitor user access to determine whether such access remained necessary for a user's job function;
- develop formal policies that outline requirements for identifying security events and processes, maintaining systems that can generate all applicable event logs, and maintaining a consistent frequency of management's review of security events; or
- remove user access from terminated and separated employees with access to financially significant systems in a consistent, timely manner.

These conditions occurred because DoD management did not:

- coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that include sufficient access controls over the financial management systems affecting the Agency-Wide Financial Statements; or
- fully implement a uniform and reliable off-boarding process, such as the Identity, Credential, and Access Management solution, for terminated and separated employees across DoD Components.¹¹

As a result, the DoD risks users being able to gain or retain unauthorized, excessive, or otherwise inappropriate access to DoD financial management systems. In addition, without proper event logging and review, the DoD risked being unable to promptly

⁹ OMB Circular No. A-130, "Managing Information as a Strategic Resource," July 2016.

¹⁰ Access provisioning refers to a set of activities performed in creating user accounts and granting permissions.

¹¹ The Identity, Credential, and Access Management solution is key for achieving DoD goals such as secure information sharing, cloud migration, and financial management audit findings remediation.

detect, investigate, and address unauthorized activities or errors in its financial management systems. Together, these risks increased the likelihood that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

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

- develop and implement processes to ensure financial management systems have comprehensive access control policies and procedures;
- review and provide feedback for improving DoD Component access control policies, plans, and procedures, once implemented;
- develop and implement event logging capabilities for systems that do not currently have it, to ensure financial management systems can generate event logs;
- establish, implement, and monitor a baseline frequency of how often user accounts in financial management systems should be reviewed;
- create a DoD organizationally defined time period for revoking a terminated or separated user's access in order to help facilitate a timely and uniform removal process, at the Component level; and
- monitor the continued implementation of the Identity, Credential, and Access Management solution.

5. Segregation of Duties

NIST SP 800-53 states that Segregation of Duties (SoD) addresses the potential for abuse of authorized privileges and helps to reduce the risk of malicious activity without collusion. NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to SoD. Additionally, the GAO/CIGIE FAM states that SoD includes policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations and, thereby, preventing unauthorized actions or unauthorized access to assets or records. SoD involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective SoD 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.

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

- identify and document SoD at an organizational level;
- define system access authorizations to align with segregated duties;
- define and document types of user accounts and account privilege;
- ensure system owners adhered to the least privilege principle within DoD Component financial management systems;¹² or
- review accounts at an organizationally defined frequency for compliance with account management requirements.

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that include sufficient SoD controls over the DoD and its Component financial management systems that affect the Agency-Wide Financial Statements.

As a result, DoD financial management system users may have had inappropriate access to critical systems and may have been able to implement changes affecting the DoD financial management systems without proper SoD controls. This increased the risk of security incidents within the systems. Additionally, users with the ability to perform functions outside of their job responsibilities or incompatible duties without proper monitoring increased the risk of inaccurate, invalid, or unauthorized transactions being processed. Without adhering to the least privilege principle, system users may obtain unauthorized access to data, negatively affecting the confidentiality and integrity of DoD financial management systems.

¹² Least privilege is the principle that a security architecture should be designed so that each entity is granted the minimum system resources and authorizations needed to perform its function.

Recommendations

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

- develop and implement processes to ensure financial management systems have comprehensive sets of SoD policies, plans, and procedures that allow for system owners to achieve their objectives, address risks, and support the internal control environment;
- review and provide feedback for improving DoD Component SoD policies and procedures, once implemented; and
- resolve previously issued SoD deficiencies within DoD financial management systems.

6. Interface Controls

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

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

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

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

As a result, DoD management is unable to validate the completeness and accuracy of data exchanged without proper interface controls. Additionally, DoD management's inability to promptly detect, investigate, and address errors in DoD financial management systems negatively impacted the DoD's ability to determine whether significant edits and validations were operating as intended. Therefore, this increased the risk that the financial management systems reported data that is incomplete or inaccurate in the Agency-Wide Financial Statements.

Recommendations

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

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

7. Universe of Transactions

OMB Bulletin No. 24-02 states that internal control over financial reporting includes ensuring transactions are properly recorded, processed, and summarized to allow for reliable financial statements preparation. In addition, the DoD Financial Management Regulation (FMR) states that DoD Components must maintain internal controls to ensure the data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.¹³

¹³ DoD Regulation 7000.14-R, DoD FMR, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

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

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

These conditions occurred because the DoD did not:

- have internal controls, policies, and procedures in place to maintain a complete universe of transactions (UoT) to support material line items within the Agency-Wide Financial Statements; or
- ensure the controls, policies, and procedures in place at the DoD Component level were consistently implemented.

In addition, DoD Components relied on outdated systems that were not compliant with the FFMIA; specifically, DoD Components' accounting systems did not capture transaction-level trading partner information required for eliminating transactions occurring between DoD Components in the Agency-Wide Financial Statements.

As a result of the lack of a UoT, the DoD and its Components were unable to verify the completeness and accuracy of data reported in their respective financial statements; therefore, this increased the risk that the balances in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- establish and implement a DoD-wide plan to ensure the availability of a complete UoT that supports material line items within the Agency-Wide Financial Statements;

- include in the DoD-wide plan a strategy to ensure DoD Components develop and implement internal controls to confirm the accuracy and completeness of data reported on their financial statements; and
- coordinate with the DoD Components to design or enhance controls within the existing systems for preparation, recording, and review of general ledger transactions to ensure DoD Components' systems can provide a complete UoT to support their financial statement balances.

8. Security Assistance Accounts

OMB Circular No. A-136 states that management is responsible for providing complete and reliable information.¹⁴ The Federal Accounting Standards Advisory Board (FASAB), "Handbook of Federal Accounting Standards and Other Pronouncements" (FASAB Handbook), Statement of Federal Financial Accounting Standards (SFFAS) No. 47 assists the DoD in determining which entities it should disclose and report in the Agency-Wide Financial Statements.¹⁵ According to SFFAS No. 47, the DoD is responsible for reporting all entities that it is accountable for, including all entities administratively assigned to the DoD. The Security Assistance Accounts, a subset of Security Cooperation, are U.S. Treasury accounts that DoD personnel use to execute the DoD's security assistance programs. DoD management directs, administers, and provides DoD-wide guidance to the DoD Components and DoD representatives to U.S. missions abroad for the execution of DoD security assistance and security cooperation programs. Therefore, these accounts are administratively assigned to the DoD.

Through our audit procedures, we identified that the DoD did not report Security Assistance Accounts financial activity in the FY 2024 Agency-Wide Financial Statements, as required by OMB Circular No. A-136 and SFFAS No. 47. During FY 2024, the DoD, reassessed its reporting of the Security Assistance Accounts financial activity in response to prior-year findings and agreed that the Security Assistance Accounts should be included in the Agency-Wide Financial Statements. However, the DoD did not consolidate this financial activity in the FY 2024 Agency-Wide Financial Statements, and separate financial statements were issued for the Security Assistance Accounts.¹⁶

¹⁴ OMB Circular No. A-136, "Financial Reporting Requirements," May 2024.

¹⁵ FASAB Handbook, SFFAS No. 47, "Reporting Entity," December 2014.

¹⁶ On June 21, 2024, the Deputy Chief Financial Officer issued memorandum, "Consolidation of the Security Assistance Accounts into the DoD-Wide Consolidated Financial Statements," which directs the consolidation of all financial accounting transactions related to the Security Assistance Accounts into the DoD Agency-Wide Financial Statements in an effort to improve the DoD's financial accountability. However, DoD management is still working towards consolidating the Security Assistance Accounts, and therefore it was not completed in FY 2024.

The Security Assistance Accounts reported \$134.5 billion in assets within their FY 2024 Financial Statements. As a result, the omission of this financial activity from the FY 2024 Agency-Wide Financial Statements created a material misstatement.¹⁷ The omission of this material activity from the Agency-Wide Financial Statements will continue to impede the DoD's ability to achieve an unmodified audit opinion.

Recommendations

We recommended that DoD management consolidate the Security Assistance Accounts financial activity in the Agency-Wide Financial Statements.

9. Fund Balance with Treasury

As of September 30, 2024, the DoD reported a Fund Balance with Treasury (FBWT) balance of \$855.5 billion. SFFAS No. 1 defines FBWT as the aggregate amount of funds in the DoD's accounts with the U.S. Treasury for which the DoD is authorized to make expenditures and pay liabilities.¹⁸ SFFAS No. 1 and the "Treasury Financial Manual" (TFM) require the DoD to reconcile its FBWT and explain any discrepancies between balances reported by the DoD and the Treasury to ensure the integrity and accuracy of the DoD and Government-Wide Financial Statements.¹⁹ Additionally, the DoD FMR requires DoD Components to record and reconcile all FBWT transactions within their accounting system within 60 days.²⁰

Through our audit procedures, we identified that the DoD did not perform a complete and accurate FBWT reconciliation. This occurred for the following reasons.

- Some of the Military Service reporting entities, along with the Defense Finance and Accounting Service (DFAS), did not promptly resolve the variances resulting from the FBWT reconciliation. For example, some of the Military Service reporting entities and DFAS did not:
 - design the FBWT reconciliation to be completed in a timely manner and before the issuance of the financial statements; or

¹⁷ Although these FY 2024 Security Assistance Accounts financial statements are under audit, the auditor expressed a disclaimer of opinion. Therefore, these Security Assistance Accounts amounts may be materially misstated. Additionally, the FY 2024 Security Assistance Accounts are currently reported as a part of the Governmentwide Financial Statements.

¹⁸ FASAB Handbook, SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

¹⁹ TFM, volume 1, part 2, chapter 5100, "Fund Balance with Treasury."

²⁰ DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 2, "Accounting for Cash and Fund Balances with Treasury."

- fully record in a timely manner the adjustments for the variances identified from the FBWT reconciliation.
- The Cash Management Report reconciliation process was not sufficient to produce a complete and accurate reconciliation between Other Defense Organizations' (ODOs) general ledgers and the U.S. Treasury balances.²¹ For example, the:
 - ODOs and DFAS did not implement sufficient internal control processes to ensure that transactions recorded as reconciling items and unidentified variances within the Cash Management Report were reconciled in a timely manner and recorded in the correct ODO Financial Statements;²²
 - ODOs did not have a unique Treasury Index, but rather they shared Treasury Index 97, which made it difficult to identify individual FBWT transactions to an ODO; and
 - controls on the data imported into Advancing Analytics, which were used to reconcile what was reported in the Cash Management Report to what was reported in the ODOs' general ledgers during the FBWT reconciliation, were ineffective.

As a result, the lack of effective reconciliation processes over some of the Military Service reporting entities and ODOs' FBWT increased the risk that the FBWT balance in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- establish monitoring activities and procedures to ensure that the Military Service reporting entities are reconciling and resolving the variances resulting from the FBWT reconciliation in a timely manner and in accordance with SFFAS No. 1, the TFM, and the DoD FMR; and

²¹ The Cash Management Report is a DFAS-prepared reconciliation tool that provides ODOs the ability to reconcile their accounting data to U.S. Treasury information at the limit level by fiscal year and appropriation. The Cash Management report also allows individual ODOs to verify that their funding, collections, and disbursements are properly recorded.

²² Reconciling items and unidentified variances are transactions in which the ODO owner of the transactions has not been identified at the time of reporting. These transactions are not reported on the financial statements of any specific ODO; rather, they are reported within the Cash Management Report and included in the Agency-Wide Financial Statements.

- establish monitoring activities and procedures to ensure that DFAS and the ODOs are performing a complete and accurate FBWT reconciliation, including the use of Advancing Analytics, within the Cash Management Report for the ODOs in accordance with SFFAS No. 1, the TFM, and the DoD FMR.

10. Inventory and Stockpile Materials

As of September 30, 2024, the DoD reported an Inventory and Stockpile Materials balance of \$134.7 billion.²³ SFFAS No. 3 requires the DoD to value its inventory and stockpile material on the basis of historical cost or on a basis that reasonably approximates historical cost.²⁴ SFFAS No. 48 amends SFFAS No. 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of inventory and stockpile material.²⁵

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

- account for inventory and stockpile material according to SFFAS No. 3, or an alternative valuation method allowable by SFFAS No. 48;
- substantiate the existence, completeness, and valuation of inventory and stockpile materials reported on the Balance Sheet; or
- monitor the inventory counts to ensure inventory and stockpile material activity were reported accurately.

These conditions occurred because the DoD did not:

- design its control environment and business processes to:
 - consistently and accurately report values of inventory and stockpile materials in accordance with SFFAS No. 3; and
 - disclose an unreserved assertion for opening balances in accordance with SFFAS No. 48; or

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

²⁴ FASAB Handbook, SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

²⁵ FASAB Handbook, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

- have internal controls, policies, or procedures to maintain key supporting documentation to substantiate the existence, completeness, and valuation of the DoD's inventory.

As a result, the DoD was unable to support a material portion of its Inventory and Stockpile Materials balance; therefore, this increased the risk that the Inventory and Stockpile Materials balance reported in the Inventory and Related Property line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommend that DoD management establish and implement DoD-wide policies and procedures to confirm that the DoD Components accurately and consistently report the value, disclose assertions, and maintain support for Inventory and Stockpile Materials in accordance with Statement of Federal Financial Accounting Standards No. 3 and No. 48.

11. Operating Materials and Supplies

As of September 30, 2024, the DoD reported an Operating Materials and Supplies (OM&S) balance of \$234 billion.²⁶ SFFAS No. 3 requires the DoD to value OM&S at historical cost or on a basis that reasonably approximates historical cost. SFFAS No. 48 amends SFFAS No. 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. Furthermore, SFFAS No. 3 requires that OM&S be categorized as: (1) held for use; (2) held in reserve for future use; or (3) excess, obsolete, and unserviceable (EOU). Excess OM&S are assets that exceeds the amount expected to be used in normal operations and does not meet management's criteria to be held in reserve for future use. Obsolete OM&S are assets that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S are assets that are physically damaged and cannot be consumed in operations. SFFAS No. 3 also states that EOU OM&S should be valued at its estimated net realizable value.²⁷

²⁶ Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line item on the Balance Sheet.

²⁷ Net Realizable Value is the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding, and disposal.

Through our audit procedures, we identified the following deficiencies related to the DoD's accounting and reporting of OM&S. Specifically, the DoD and its Components did not ensure they could:

- account for OM&S in accordance with SFFAS No. 3 or accurately use the alternative valuation method allowable by SFFAS No. 48;
- substantiate the existence and completeness of the OM&S assets reported on financial statements; or
- support the accuracy of EOU OM&S balances reported on financial statements.

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

- establish controls to successfully implement OM&S guidance related to SFFAS No. 3 and SFFAS No. 48;
- use accountable property systems of record to accurately and completely record OM&S activity; or
- have controls to properly record and report EOU OM&S material.

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

Recommendations

We recommended that DoD management:

- develop policies and procedures to ensure DoD Components follow SFFAS No. 48 standards related to the alternative valuation method for opening balances and ensure DoD Components have the ability to comply with SFFAS No. 3 standards once the alternative valuation method has been implemented;
- ensure DoD Components use accountable property systems of record, or other appropriate systems, that have the ability to accurately account for OM&S activity in accordance with SFFAS No. 3 and No. 48; and
- develop procedures and controls to ensure DoD Components can accurately identify EOU OM&S and properly record the material at its net realizable value.

12. General Property, Plant, and Equipment

As of September 30, 2024, the DoD reported a General Equipment and Internal Use Software balance of \$452.1 billion.²⁸ SFFAS No. 6 requires the DoD to value its General Property, Plant, and Equipment (PP&E) on the basis of historical cost or on a basis that reasonably approximates historical cost.²⁹ SFFAS No. 10 requires the DoD to value internally developed software on the basis of historical cost or on a basis that reasonably approximates historical cost.³⁰ SFFAS No. 50 amends both SFFAS No. 6 and No. 10 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the DoD makes an unreserved assertion that its financial statements are presented in accordance with generally accepted accounting principles.³¹

Through our audit procedures, we identified that DoD Components were unable to:

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

These conditions occurred because the DoD did not:

- have properly designed or implemented controls to maintain key supporting documentation; or
- have a control environment and business processes that consistently and accurately established the historical acquisition cost of General PP&E in

²⁸ General Equipment, Internal Use Software, and Real Property are all reported in the General PP&E line item on the Balance Sheet.

²⁹ FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995, as amended.

³⁰ FASAB Handbook, SFFAS No. 10, "Accounting for Internal Use Software," October 1998, as amended.

³¹ FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

accordance with SFFAS No. 6 and No. 10 or the one-time alternative valuation method allowed under SFFAS No. 50.

As a result, the DoD did not accurately report and value the General PP&E amounts reported in the Agency-Wide Financial Statements; therefore, this increased the risk that the General PP&E balance in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement a DoD-wide process to confirm that DoD Components appropriately and consistently adopt SFFAS No. 6 and No. 10 historical cost reporting requirements and follow SFFAS No. 50.

13. Real Property

As of September 30, 2024, the DoD reported a Real Property balance of \$395.4 billion.³² The DoD FMR states that real property assets consist of buildings, structures, facilities, land, land rights, construction-in-progress, assets under capital lease, and leasehold improvements.³³ The DoD FMR requires DoD reporting entities to properly recognize, account for, and report real property on the appropriate financial statements. Furthermore, the DoD FMR requires that DoD reporting entities ensure real property activity is supported, and the accountable property systems of record that account for real property can be reconciled to the DoD reporting entities' financial statements.

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

- support real property balances reported on their financial statements, or
- substantiate the existence and completeness of their real property assets.

These conditions occurred because the DoD did not have internal controls, policies, procedures, or supporting documentation to substantiate the existence, completeness, valuation, presentation, and disclosure of real property assets.

³² General Equipment, Internal Use Software, and Real Property are all reported in the General PP&E line item on the Balance Sheet.

³³ DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 24, "Real Property."

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

Recommendation

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

14. Government Property in the Possession of Contractors

According to the Federal Acquisition Regulation, government property is all property owned or leased by the Government, including material and property the Government furnished to contractors for performance of a contract.³⁴ The DoD is required to: (1) recognize and account for government-furnished materials in accordance with SFFAS No. 3 and SFFAS No. 48, and (2) recognize and account for government-furnished property in accordance with SFFAS No. 6 and No. 50.

Through our audit procedures, we identified that:

- DoD Components were unable to reconcile the Government Property in the Possession of Contractor balances reported on their financial statements to an accountable property system of record; and
- the DoD was unable to substantiate the existence, completeness, valuation, presentation, and disclosure of Government Property in Possession of Contractors reported on the consolidated balance sheet.

These conditions occurred because DoD Components:

- did not have the policies, procedures, and internal controls in place to consistently and accurately report Government Property in the Possession of Contractors in accordance with SFFAS No. 3, No. 48, No. 6, and No. 50, or properly report balances on their financial statements; and

³⁴ Federal Acquisition Regulation Part 45, "Government Property."

- relied on contractors to account for government-furnished material and property and did not have the policies, procedures, and internal controls in place to provide effective oversight of the contractors that managed material and property on the Government's behalf.

As a result, the DoD was unable to accurately record and report Government Property in the Possession of Contractors balances on its financial statements; therefore, this increased the risk that the Agency-Wide Financial Statements may be incomplete and could be materially misstated.

Recommendations

We recommended that DoD management:

- establish and implement DoD-wide policies and procedures for measuring and reporting Government Property in Possession of Contractors within an accountable property system of record to confirm that DoD Components appropriately and consistently account for Government Property in Possession of Contractors in accordance with SFFAS No. 3, No. 48, No. 6, and No. 50; and
- incorporate standard inventory management policies, procedures, and metrics into all DoD contracts and develop procedures to ensure the policies and procedures are implemented consistently across all contractor-managed warehouses.

15. Joint Strike Fighter Program

The Joint Strike Fighter Program, which has an estimated total life-cycle cost of \$2 trillion, is a multiservice, multinational acquisition that develops and fields the F-35 strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners.³⁵ OMB Circular No. A-136 states that management is responsible for providing complete and reliable information, including the disposition of its assets.³⁶ SFFAS No. 3 and No. 6 require property and equipment to be reported in the Balance Sheet and the Statement of Net Cost (SNC).

³⁵ Life-cycle cost includes the costs of Acquisition, such as Research, Development, Test, and Evaluation; Procurement; Military Construction; and the costs of Operating and Support/Disposal.

³⁶ OMB Circular No. A-136, "Financial Reporting Requirements," May 2024.

Through our audit procedures, we determined that the DoD did not account for, manage, or report Joint Strike Fighter Program government property, which is composed of Global Spares Pool assets, or accurately record this property in an accountable property system of record. The DoD was unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Joint Strike Fighter Program government property; and did not report Joint Strike Fighter Program government property assets on its financial statements as of September 30, 2024. This occurred because DoD officials did not use contracting mechanisms to request financial data to support the valuation of government property or implement procedures to account for and manage government property in accordance with SFFAS No. 3 and No. 6.

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

Recommendation

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

16. Accounts Payable

As of September 30, 2024, the DoD reported Accounts Payable balance of \$46 billion. SFFAS No. 1 defines Accounts Payable as amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rents.³⁷ Furthermore, SFFAS No. 1 states that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. In addition, the DoD FMR states that DoD Components must maintain internal controls to ensure data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.³⁸

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

- have sufficient documentation to support the existence of its Accounts Payable balances; or

³⁷ FASAB, SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

³⁸ DoD Regulation 7000.14-R, DoD FMR, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

- record unpaid expense transactions appropriately and accurately in the period in which the transactions occurred.

These conditions occurred because the DoD did not:

- develop and implement internal controls to ensure accurate Accounts Payable amounts were included in its financial statements and that DoD Components effectively implemented accounting standards; or
- follow SFFAS and DoD policy when reporting Accounts Payable balances on its financial statements. Specifically, DoD Component management did not maintain supporting documentation or ensure they recorded Accounts Payable liabilities in the appropriate accounting period for the receipt of goods or services ordered as required by SFFAS No. 1 and the DoD FMR.

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

Recommendation

We recommended that DoD management establish and implement a DoD-wide action plan to ensure that accurate Accounts Payable amounts are included in the financial statements and that DoD Components are appropriately and consistently implementing SFFAS No. 1 and the DoD FMR.

17. Environmental and Disposal Liabilities

As of September 30, 2024, the DoD reported an Environmental and Disposal Liabilities (E&DL) balance of \$101.1 billion. SFFAS No. 5 defines a liability as a probable future outflow or other sacrifice of resources resulting from past transactions or events.³⁹ Furthermore, Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.⁴⁰ SFFAS No. 6 defines cleanup costs associated with the closure or shutdown of General PP&E as the costs of removing, containing, or disposing hazardous waste.⁴¹ Additionally, the DoD FMR

³⁹ FASAB Handbook, SFFAS No.5, "Accounting for Liabilities of the Federal Government," December 1995.

⁴⁰ Federal Financial Accounting and Auditing Technical Release 2, March 1998.

⁴¹ FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995.

requires environmental liability estimates to include all environmental liability sites in the site universe and further states that environmental liability estimates “must include all asset-driven cleanup, closure, and/or disposal costs.”⁴²

Through our audit procedures, we identified that the DoD:

- did not include all cleanup, closure, or disposal costs within its E&DL line item; and
- could not provide supporting records to demonstrate the completeness of the lists of environmental sites for all DoD Components.

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

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

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

Recommendation

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

⁴² DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 13, “Environmental and Disposal Liabilities.”

18. Leases

On April 17, 2018, the FASAB issued SFFAS No. 54, which revised the financial reporting standards for Federal lease accounting.⁴³ SFFAS No. 54 provided a new set of lease accounting standards to recognize Federal lease activities in financial reports and note disclosures. The FASAB deferred the original effective date to reporting periods beginning after September 30, 2023 (the effective date). On September 25, 2020, the OUSD(C)/CFO released a memorandum to the DoD Components establishing the financial reporting policy for implementing SFFAS No. 54 by the effective date.⁴⁴

Through our audit procedures, we determined that the DoD and its Components were not in compliance with SFFAS No. 54. Specifically, 10 of 17 DoD Components we reviewed did not:

- create and implement SFFAS No. 54 policies and procedures;
- identify all leases and intragovernmental leases;
- determine whether leases were significant to the reporting entity; or
- recognize and disclose lease activity in accordance with SFFAS No. 54.⁴⁵

This condition occurred because the OUSD(C)/CFO directed the DoD Components to comply with SFFAS No. 54, but never ensured that the DoD Components were taking action to implement the requirements of SFFAS No. 54.

As a result, the FY 2024 Agency-Wide Financial Statements and disclosures in the financial statements are not compliant with SFFAS No. 54; therefore, the FY 2024 Agency-Wide Financial Statements may be materially misstated.

⁴³ FASAB Handbook, SFFAS No.54, "Leases," April 2018.

⁴⁴ Office of the Under Secretary of Defense memorandum, "Implementation of Statement of Federal Financial Accounting Standards 54, Leases (FPM 20-03)," September 25, 2020.

⁴⁵ We considered 17 DoD Component to be significant based on certain Component criteria compared to our DoD Agency-Wide audit materiality thresholds. For the remaining seven DoD Components, the Components were either partially compliant or in progress, or SFFAS No. 54 was not applicable.

Recommendations

We recommended that DoD management:

- establish, implement, and monitor a process to oversee the DoD Components' implementation and reporting under SFFAS No. 54. DoD Management should regularly communicate expectations to the DoD Components upon establishing these processes and until implementation is complete; and
- oversee the DoD Components' implementation of SFFAS No. 54 to ensure they properly report their lease activity on their financial statements.

19. Beginning Balances

SFFAS defines beginning balances as account balances that exist at the beginning of the reporting period. Beginning balances are based on the closing balances of the prior period and reflect the effects of transactions and accounting policies applied in prior periods.⁴⁶

Through our audit procedures on the Agency-Wide Financial Statements, and the procedures of the independent public accounting firms (IPAs) conducting audits of DoD Components' FY 2024 financial statements, we determined that the DoD and its Components did not have complete and accurate populations at the transaction level for beginning balances for the financial statements.

This occurred because the DoD Components had system limitations and did not maintain sufficient and appropriate detailed transactions and historical data to support beginning balances on their financial statements.

As a result of unsupported beginning balances, auditors could not confirm the completeness and accuracy of the amounts reported on the financial statements; therefore, this increased the risk that the financial statements will be materially misstated.

⁴⁶ FASAB Handbook, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

Recommendation:

We recommended that DoD management establish and implement a DoD-wide procedure to monitor, report, and ensure DoD Components establish complete and accurate beginning balances, have reliable systems, and maintain supporting documentation in accordance with the DoD FMR.

20. Unsupported Accounting Adjustments

The GAO, “Standards for Internal Control in the Federal Government,” (Green Book) sets the standards for an effective internal control system for Federal agencies. The Green Book requires the DoD to promptly and accurately record transactions.⁴⁷ Additionally, the DoD FMR states that DoD Components must ensure all adjustments are researched and traceable to supporting documents as instructed in the TFM.⁴⁸ Supporting documentation is necessary to provide an audit trail.

Through our audit procedures, we identified that the DoD did not provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting systems and the general ledger systems. DoD Components recorded accounting adjustments that did not have supporting documentation and proper approval. In the last two quarters of FY 2024, the DoD recorded more than 500 unsupported adjustments totaling more than \$245 billion.

These conditions occurred because:

- DoD processes did not provide the required information to support all journal vouchers;
- DoD management did not design and implement an effective system of internal controls to ensure that adjustments were adequately reviewed and approved at the appropriate levels;
- not all DoD personnel were knowledgeable about the process to provide documentation during the FY 2024 Agency-Wide Financial Statement Audit; and

⁴⁷ GAO-14-704G, “Standards for Internal Control in the Federal Government,” September 2024.

⁴⁸ DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 2, “Accounting for Cash and Fund Balances with Treasury.”

- controls were not effective to ensure that adjustments recorded in accounting systems were supported by sufficient documentation to provide an audit trail to source transactions, or that the adjustments were valid, complete, accurate, and supporting documentation was provided in a timely manner.

As a result, there is a risk that controls are not operating effectively to prevent, detect, and correct material misstatements; therefore, there is increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- research and correct the underlying problems that result in DoD categorizing journal vouchers as unsupported, because of a lack of sufficient documentation;
- review and implement guidance and provide training to provide reasonable assurance that journal vouchers are approved at the appropriate levels;
- provide training to personnel for the proper procedures for submitting supporting documentation for journal vouchers under audit; and
- establish effective control procedures to provide reasonable assurance that manual and system-generated adjustments contain sufficient supporting documentation to ensure that adjustments are valid, complete, and accurately recorded in applicable reporting, accounting, and general ledger systems, including an audit trail to the source documentation that required the adjustment.

21. Intragovernmental Transactions and Intradepartmental Eliminations

The TFM explains that intragovernmental transactions result from business activities conducted between two Government entities, such as the DoD and Department of State. These entities conducting business are called trading partners. The TFM further defines intradepartmental transactions as those occurring between two trading partners within the same entity; for example, transactions between the Army General Fund and the Defense Logistics Agency Working Capital Fund, which are both DoD reporting entities. The DoD is required to report intragovernmental balances on its financial statements and eliminate intradepartmental balances from its financial statements. In addition, the Treasury eliminates DoD-identified intragovernmental balances from the

Government-Wide Financial Statements. For proper eliminations to occur, it is essential that the DoD captures accurate trading partner data for intragovernmental and intradepartmental transactions.

Through our audit procedures, we identified that the DoD:

- did not record or report all necessary trading partner data, in multiple DoD reporting entities, at the transaction level in accordance with TFM requirements; and
- did not include proper documentation when recording journal voucher adjustments to match trading partner records.

These conditions occurred because the DoD did not have effective controls to:

- properly capture trading partner information at the transaction level or produce the data necessary to reconcile corresponding buyer and seller transactions; or
- always obtain transaction-level support to reconcile trading partner transactions that did not match.

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

Recommendations

We recommended that DoD management:

- determine whether each DoD reporting entity is able to obtain, from source accounting systems or the G-Invoicing system, the level of support necessary to reconcile trading partner differences in accordance with guidance;⁴⁹
- identify all DoD reporting entity accounting systems that do not capture the necessary trading partner information at the transaction level;

⁴⁹ G-Invoicing is a Treasury initiative that is being implemented Government-Wide, and while not an accounting system, it will be a central repository to support the accounting of Buy/Sell transaction events that offers a data exchange platform for Federal entities to communicate with one another.

- monitor the implementation of the G-Invoicing system to ensure that the DoD will be able to provide UoT-level details for DoD intragovernmental balances and intradepartmental elimination entries; and
- implement controls to ensure that adjustments and journal vouchers related to the reconciliation of trading partner data are supported by transaction-level details.

22. Gross Costs

As of September 30, 2024, the DoD reported a Gross Costs balance of \$1.1 trillion. SFFAS No. 4 states that the DoD should report the full costs of outputs in financial reports and that reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.⁵⁰ Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 states that the DoD should provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the SNC.⁵¹ SFFAC No. 2 also states that the SNC should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. Additionally, OMB Circular No. A-136 states that the SNC should show the net cost of operations as a whole and by “major” programs as defined by the entity. If required, supporting schedules should be disclosed in the notes and displayed by suborganizations and corresponding programs.

Through our audit procedures, we determined that the DoD did not present Gross Costs by major program in the related Note 19, “Disclosures Related to the Statement of Net Cost.” In addition, DoD Components did not comply with generally accepted accounting principles and did not have sufficient support for transactions related to Gross Costs. Specifically, DoD Components did not:

- have adequate controls over Gross Costs processes to reconcile accounts;
- validate that subledger systems agree to the amounts reported in the financial statements;
- accurately record Gross Costs transactions, including operating expenses and disbursements;

⁵⁰ FASAB Handbook, SFFAS No. 4, “Managerial Cost Accounting Standards and Concepts,” July 1995, as amended.

⁵¹ FASAB Handbook, SFFAC No. 2, “Entity and Display,” June 1995.

- record transactions in a timely manner in the correct accounting period or fiscal year;
- have sufficient processes in place to identify, calculate, record, and report other imputed costs; or
- provide sufficient evidence to support the existence, completeness, and accuracy of Gross Costs.

These conditions occurred because the DoD did not:

- have a procedure in place to ensure that costs were accounted for by major programs in Note 19, "Disclosures Related to the Statement of Net Cost;" or
- perform adequate oversight and coordination with its Components to ensure the development and implementation of policies and procedures to properly account for and support transactions for Gross Costs amounts included in the Agency-Wide Financial Statements.

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

Recommendations

We recommend that DoD management:

- develop and implement procedures to ensure that costs are accounted for by major program in Note 19, "Disclosures Related to the Statement of Net Cost";
- develop and implement a DoD-wide action plan to assess, oversee, and ensure DoD Components implement effective internal controls for recording Gross Costs; and
- develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, accuracy, and timeliness of recorded transactions and balances to support the SNC.

23. Earned Revenue

As of September 30, 2024, the DoD reported an Earned Revenue balance of \$168.6 billion. SFFAS No. 7 states that Earned Revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.⁵² Matching revenue with cost in a uniform manner is essential in evaluating agency performance and setting prices. In addition, SFFAS No. 7 requires Earned Revenue to be reported by major program in the SNC.

Through our audit procedures, we identified that:

- the DoD did not:
 - accurately record transactions related to Earned Revenue; or
 - report Earned Revenue by major program in the related Note 19, “Disclosures Related to the Statement of Net Cost”; and
- DoD Components did not:
 - fully design, implement, and document controls over revenue;
 - recognize in the appropriate period earned revenue from services provided and goods sold for transactions in accordance with generally accepted accounting principles;
 - sufficiently assess risks and develop processes and controls over revenue from goods sold; or
 - have adequate policies, procedures, internal controls, and supporting documentation to substantiate the reported balances on the financial statements and notes.

These conditions occurred because the DoD did not:

- have adequate procedures or internal controls to record transactions related to Earned Revenue in accordance with generally accepted accounting principles;

⁵² FASAB Handbook, SFFAS No. 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,” May 1996, as amended.

- have a procedure in place to ensure Earned Revenue was accounted for by major programs in Note 19, "Disclosures Related to the Statement of Net Cost;"
- adequately coordinate with the DoD Components to ensure that they developed and implemented policies, procedures, and controls to properly account for and timely record transactions pertaining to Earned Revenue; or
- properly oversee the implementation of those policies, procedures, and controls related to earned revenue at the DoD Component level for amounts consolidated into the Agency-Wide Financial Statements.

As a result, DoD management did not fully comply with SNC presentation requirements. Without adequate controls to account for, report, and support Earned Revenue, DoD management did not have reliable financial information to effectively assess the financial performance of the DoD's major programs. Therefore, the potential exists that controls could fail to prevent or detect and correct material misstatements in the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management:

- develop and implement internal controls and follow revised policies and procedures to ensure Earned Revenue is accounted for by major program in the SNC related note and
- coordinate with DoD Components to:
 - develop and implement a DoD-Wide action plan to assess, oversee, and ensure that the DoD Components implement effective internal controls to record revenue in a timely manner and produce the Earned Revenue line item on the SNC;
 - design, document, and implement processes and controls over the timely recording of related transactions based on a thorough risk assessment that identifies and analyzes risk points relevant to the revenue processes, including procedures for revenue accruals and management review controls; and

- develop, implement, and monitor controls to ensure that supporting documentation for revenue transactions is consistently maintained and readily available for inspections.

24. Reconciliation of Net Cost of Operations to Outlays

SFFAS No. 7 requires the DoD to reconcile its budgetary and proprietary data. Additionally, OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements.

Through our audit procedures, we identified that:

- DoD Components were unable to support adjustments made to reconcile budgetary and proprietary data on the Component financial statements; and
- The DoD's Note 24, "Reconciliation of Net Cost to Net Outlays," did not comply with OMB Circular No. A-136. Specifically, the DoD reported in the note a \$676.6 million reconciling difference between the budgetary and proprietary accounts that it could not support.

These conditions occurred because:

- DoD Component management lacked effective internal controls to research, resolve, and reconcile the variances between the budgetary and proprietary data throughout the reporting period for the "Reconciliation of Net Cost to Net Outlays" Note to the Component financial statements; and
- DoD management did not ensure DoD Components adequately implemented procedures for preparing complete, accurate, and consistent financial statement and note disclosures throughout the DoD.

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

Recommendations

We recommended that DoD management ensure that DoD Components:

- provide documentation to confirm variances between budgetary and proprietary data are researched and resolved throughout the reporting period

in accordance with SFFAS No. 7, and documentation is maintained to explain these variances; and

- implement DoD-wide procedures to ensure that the DoD financial statement note disclosures are complete, accurate, consistent, and comply with the requirements in OMB Circular No. A-136.

25. Budgetary Resources

SFFAS No. 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources (SBR). The statement presents total budgetary resources available to the DoD during the period, and the status and outlays of those resources. The DoD FMR requires DoD to use budget execution guidance published in OMB Circular No. A-11 and to format the SBR according to the Standard Form 133 (SF 133), Report of Budget Execution and Budgetary Resources, and Standard Form 132 (SF 132), Apportionment and Reapportionment Schedule.⁵³ OMB Circular No. A-123 describes management responsibilities in establishing and operating an effective system of internal control, correcting internal control deficiencies, and meeting corrective action plan requirements.⁵⁴

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

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

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

- The DoD did not have adequate procedures to transfer funds to the Foreign Military Sales Trust Fund. As a result, the DoD reported supplemental funding it

⁵³ DoD Regulation 7000.14-R, DoD FMR, volume 6B, chapter 7, "Statement of Budgetary Resources."

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

⁵⁴ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

received during FY 2023 as disbursed, but did not receive any goods or services in exchange for these funds.

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

As a result, the lack of controls over budgetary resources increased the risk that the DoD and its Components may not be able to accurately determine and monitor total budgetary resources available and the status of those resources during the reporting period. The inability to monitor the status of budgetary resources created the potential for violations of the Antideficiency Act and increased the risk that the Agency-Wide SBR may be materially misstated.

Recommendations

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

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

26. Service Organizations

The Green Book states that management may engage service organizations to perform certain operational processes for the entity. However, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. If the processes provided by a service organization are significant to a user entity's internal control objectives, then the

user entity is responsible for establishing controls that complement the service organization's controls. Service organizations perform critical activities across the DoD, such as inventory management and financial services. For example, DFAS is a service organization that provides accounting services to the DoD and its Components.

Through our audit procedures, we identified that the DoD did not adequately monitor the use of service organizations or the design and implementation of complementary user entity controls (CUECs) to ensure compliance with the Green Book and prevent control failures.⁵⁵ Specifically, the DoD Components did not:

- fully document, implement, test, and monitor their CUECs;
- provide corrective action plans sufficient to remediate service organization notices of findings and recommendations; or
- consider the impact of service organizations within the DoD's existing internal control environment.

In addition, auditors issued qualified or adverse opinions in 10 of the 27 DoD System and Organization Controls reports conducted in FY 2024, which means the auditors concluded that service organizations did not properly design or operate a portion of their controls.⁵⁶

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

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

⁵⁵ CUECs are controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities, and are necessary to achieve the control objectives stated in management's description of the service organization's systems.

⁵⁶ The DoD typically manages the risks of Service Organizations through Service Organization Controls reports. These reports discuss the description and suitability of the design and operating effectiveness of those controls.

Recommendations

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

- review and provide feedback for implementing DoD Component policies and procedures to improve the process of identifying, documenting, and testing relevant CUECs;
- develop and implement processes to ensure DoD Components have completed a comprehensive evaluation of the System and Organization Controls reports to identify the relevant service organizations and developed comprehensive business process documentation to identify relevant CUECs; and
- review and provide feedback on corrective action plans and risk acceptance documentation to remediate service organization notices of findings and recommendations.

27. Component Entity-Level Controls

The “Federal Managers’ Financial Integrity Act of 1982” requires the DoD to establish internal control, and the Green Book defines the standards for internal control in the U.S. Government. The Green Book states that internal control is a process used by management to help an entity achieve its objectives. The Green Book also states that the five components of internal control—Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring—must be designed, implemented, and operating together for an internal control system to be effective.

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

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

These conditions occurred because:

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

The DoD's ineffective design and implementation of Component Entity-Level controls increased the risk of ineffective internal controls and misstatement of DoD Component financial reporting. As a result, there was an increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

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

28. DoD-Wide Oversight and Monitoring

The "Federal Managers' Financial Integrity Act of 1982" establishes management's responsibility for producing reliable financial reports and ensuring financial transactions are recorded in accordance with generally accepted accounting principles. OMB Circular No. A-123 requires DoD management to establish and integrate internal controls into the DoD's operations and to continuously monitor, assess, and improve the effectiveness of those internal controls. The DoD FMR states that DoD management is responsible for directing, managing, and providing policy guidance and oversight of

DoD financial management activities, including establishing financial management policies for DoD Components and ensuring compliance throughout the DoD with applicable accounting policies and standards.⁵⁷

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

- DoD management lacked sufficient processes and documentation for reporting financial data included in the DoD Component Level Accounts, a DoD consolidation entity.
- FY 2023 Component-level data included in the Agency-Wide Financial Statements did not consistently match the data in the audited FY 2023 Financial Statements for a DoD Component.
- Adjustments made to transfer financial data from one DoD Component to another were not made by both Components.

These conditions occurred because DoD management did not:

- design effective internal controls to ensure complete and accurate reporting of financial data within the DoD Component Level Accounts;
- enforce the DoD's policy memorandum, "DoD Component Agency Financial Report Requirement;"⁵⁸
- have adequate internal controls over DoD Component adjustments made after the Agency-Wide Financial Statements were issued; or
- have adequate controls to oversee and monitor transfers between DoD Components to ensure both the transferring and receiving Components make the appropriate adjustments.

As a result, the lack of controls over financial reporting led to misstatements on the Agency-Wide Financial Statements and increased the risk that the Agency-Wide Financial Statements and the Government-Wide Financial Statements may be materially

⁵⁷ DoD Regulation 7000.14-R, DoD FMR, volume 1, chapter 1.

⁵⁸ The "DoD Component Agency Financial Report Requirement" memorandum requires DoD Components to ensure that the data in their Agency Financial Reports matches the data reported in the Defense Departmental Reporting System – Audited Financial Statements and the Governmentwide Treasury Account Symbol Adjusted Trial Balance System

misstated. In addition, when a DoD Component audit is completed after the Agency-Wide Financial Statements are issued, the DoD OIG cannot use it to form its opinion on the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management:

- develop, document, and implement adequate internal controls over the DoD Component Level Accounts consolidation entity;
- enforce the policy memorandum, “DoD Component Agency Financial Report Requirement;”
- require that all adjustments to DoD Component financial statements occur within the Defense Departmental Reporting System–Audited Financial Statements;
- implement oversight and monitoring controls to ensure the proper adjustments are made to the Financial Statements of both DoD Components when transfers between DoD Components occur; and
- require that all DoD Component audits be completed prior to finalizing the Agency-Wide Financial Statements.

Identified Significant Deficiencies

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

1. Risk Management Framework

The “Federal Information Security Modernization Act of 2014” requires the DoD to provide adequate controls over information security considering the risk of not having those controls in place.⁵⁹ The Risk Management Framework (RMF) provides a disciplined, structured, and flexible process for managing security risk. The RMF

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

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

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

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

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

As a result, DoD Components may not have all the information necessary to assess risks and may not be able to resolve deficiencies that impact internal control over financial reporting without implementing an RMF. The lack of RMF controls impacted the completeness and accuracy of financial reporting, which increased the risk that the Agency-Wide Financial Statements may be misstated.

Recommendations

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

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

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

2. Accounts Receivable

As of September 30, 2024, the DoD reported a non-Federal Accounts Receivable balance of \$15.1 billion.⁶¹ SFFAS No. 1 requires the DoD to recognize a receivable when the DoD establishes a claim to cash or other assets against other entities, based on either legal provisions, such as a payment due date, or goods or services provided. The DoD FMR states that a receivable must be established when payment is not received in advance or at the time revenue is recognized.⁶² In addition, receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to the DoD, that is, in the applicable accounting system during the month the receivables occur. DoD Components must maintain accounting records for receivables so that all transactions affecting the receivables are included in the reporting period of occurrence. Furthermore, the Green Book requires management to design the entity's information system to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks.

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

- were unable to provide an Accounts Receivable subsidiary ledger at the invoice level that reconciles to the general ledger, and
- did not properly record or report aging Accounts Receivable transactions.

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

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

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

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

- As a result, DoD management's inability to provide adequate documentation to show the completeness, existence, or validity of non-Federal Accounts Receivable balances created a significant risk that balances presented in the Agency-Wide Financial Statements may be misstated.

Recommendation

We recommended that DoD management improve its oversight of non-Federal Accounts Receivable balances by ensuring DoD Components have detailed transactions to support balances, have and regularly review aging reports, and are appropriately and consistently implementing SFFAS No. 1 and the DoD FMR.

Recommendations

The recommendations included in this report have been previously communicated to DoD and DoD Component management through notices of findings and recommendations provided by the auditors to address the reported material weaknesses and significant deficiencies.

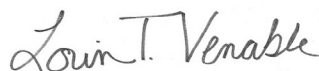
Agency Comments

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. Its personnel provided informal comments that we incorporated, as appropriate.

Purpose of This Report

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

FOR THE INSPECTOR GENERAL:



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



OFFICE OF INSPECTOR GENERAL
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November 15, 2024

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

We were engaged to audit the DoD Agency-Wide Financial Statements in accordance with generally accepted government auditing standards (GAGAS); the Office of Management and Budget (OMB) Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."¹ The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2024, and September 30, 2023. Our Report on the Financial Statements, dated November 15, 2024, disclaims an opinion on the financial statements because we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

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

Auditor's Responsibilities

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

¹ Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021.
OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.
Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024.

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

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

Identified Instances of Noncompliance or Potential Noncompliance

The Antideficiency Act. The Antideficiency Act (ADA) prohibits the DoD and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds.⁴ It states that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, the DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. The ADA specifies that if a DoD officer or employee violates the ADA, the Chief Financial Officer must immediately report to the President and Congress all relevant facts and provide a statement of actions taken in response to the ADA violation. The DoD Financial Management Regulation, volume 14, chapter 3, requires the DoD to complete formal investigations of suspected ADA violations within 15 months.⁵ The DoD reported one ADA violation, totaling \$1.4 million, in FY 2024. Additionally, the DoD identified 10 ongoing ADA investigations as of September 30, 2024, and had 1 case open for more than 15 months.

We also identified an instance where a DoD policy and business process could result in an ADA violation. Specifically, the DoD's use of Discontinued Research Packages (DRP) to write off suspense account and cash management report transactions that lack supporting documentation allows for potential violations of the purpose statute, *bona*

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

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

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

fide needs rule, or both. The Government Accountability Office (GAO), “Principles of Federal Appropriations Law,” states that there are three elements, purpose, time, and amount, that must be present for an obligation of expenditure to be legal.⁶ The first element, known as the purpose statute, states that appropriations shall only be used for objects for which the appropriations were made. The second element, known as the *bona fide* needs rule, says that appropriated funds can only be used for legitimate needs that arise during the period of availability for those funds. The Discontinued Research Package process may allow transactions to be applied to incorrect appropriations, applied to the wrong period, or both, which could result in ADA violations.

Federal Financial Management Improvement Act of 1996. The FFMIA requires the DoD to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas of FFMIA noncompliance, OMB Circular No. A-136 requires the DoD to identify remediation activities that are planned or underway, describe target dates, and identify offices responsible for bringing systems into compliance.⁷ DoD management identified many systems relevant to internal controls over financial reporting that were noncompliant with the FFMIA; accordingly, we determined that the DoD and its Components did not substantially comply with the FFMIA. In addition, DoD management plans for becoming FFMIA compliant did not include an accurate determination of whether systems would be retired and replaced or modernized and did not include estimated timelines and costs.

The Federal Managers’ Financial Integrity Act of 1982. The Federal Managers’ Financial Integrity Act of 1982 (FMFIA) requires DoD management to perform evaluations and report on the adequacy of DoD systems of internal accounting and administrative control.⁸ OMB Circular No. A-123, which implements the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with provisions of applicable laws and regulations.⁹ We identified DoD Components that did not substantially comply with the FMFIA. For example, DoD Components did not perform a complete risk assessment to define all compliance objectives, identify all risks and information, define risk tolerances, analyze risks,

⁶ GAO, “Principles of Federal Appropriations Law,” chapter 3, “Availability of Appropriations: Purpose,” Fourth Edition, 2017 (The Red Book).

⁷ OMB Circular No. A-136, “Financial Reporting Requirements,” May 2024.

⁸ Public Law 97-255, “Federal Managers’ Financial Integrity Act of 1982,” September 1982.

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

and respond to risks identified. In addition, DoD Components did not monitor the design and effectiveness of its FMFIA internal control assessment program or implement corrective actions in a timely manner. We also reported multiple material weaknesses related to FMFIA noncompliance in our Report on Internal Control over Financial Reporting.

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

The Debt Collection Improvement Act. The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires the DoD to report to the Treasury any nontax debts or claims owed to the U.S. Government that are delinquent for over 120 days.¹² We identified one DoD Component that may be noncompliant with the Debt Collection Improvement Act. Specifically, the DoD Component showed an inability to sufficiently support the validity of recorded debts, which limited the extent of audit procedures that could be performed over Debt Collection Improvement Act requirements.

The Prompt Payment Act. The Prompt Payment Act states that the head of an agency will owe an interest penalty if the agency does not pay for delivered property or services by established payment dates.¹³ It also states that the head of an agency must pay this interest penalty out of amounts made available to carry out the program

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

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

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

¹³ Public Law 97-177, "Prompt Payment Act," May 1982.

for which the penalty occurred. We identified one DoD Component that may be noncompliant with the Prompt Payment Act. Specifically, the DoD Component did not pay interest from the appropriate Treasury Account Symbol.

Recommendations

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

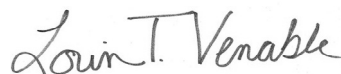
Agency Comments

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. We did receive comments on the draft report that we incorporated, as appropriate.

Purpose of this Report

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

FOR THE INSPECTOR GENERAL:



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

PRINCIPAL FINANCIAL STATEMENTS

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

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

1

CONSOLIDATED BALANCE SHEETS

Presents the Department's financial position as of September 30, 2024, and September 30, 2023. Assets reflect the economic benefits controlled by the Department, Liabilities reflect probable future outflows or other sacrifices of resources as a result of past transactions or events, and Net Position reflects the residual amounts.

2

CONSOLIDATED STATEMENTS OF NET COST

Presents the Net Cost of the Department's operations by major program for the years ended September 30, 2024, and September 30, 2023. The Department's Net Cost of Operations is equal to the gross cost incurred net of exchange revenue earned and gains/losses from actuarial assumption changes for Military Retirement Benefits.

3

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

Presents the change in the Department's Net Position that resulted from the Net Cost of Operations, Budgetary Financing Sources, and Other Financing Sources for the years ended September 30, 2024, and September 30, 2023.

4

COMBINED STATEMENTS OF BUDGETARY RESOURCES

Presents information about the Budgetary Resources available to the Department, the year-end status of the resources, and the outlays of resources for the years ended September 30, 2024, and September 30, 2023. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are reflected in the amounts reported on the statement.

Department of Defense Consolidated Balance Sheets

As of September 30, 2024 and 2023 (dollar in millions)	2024 (Unaudited)	Restated 2023 (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 855,534.9	\$ 768,075.7
Investments (Note 5)	2,011,194.6	1,799,411.8
Accounts Receivable, Net (Note 6)	3,496.7	2,454.6
Other Assets (Note 10)	1,641.5	1,341.2
Total Intragovernmental Assets	2,871,867.7	2,571,283.3
Total Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	802.9	868.0
Accounts Receivable, Net (Note 6)	15,144.4	12,263.5
Loans Receivable, Net (Note 7)	1,988.3	1,933.3
Inventory and Related Property, Net (Note 8)	368,617.9	347,971.1
General and Right-to-Use Property, Plant and Equipment, Net (Note 9)	849,462.5	840,764.5
Advances and Prepayments (Note 10)	6,201.9	10,372.7
Investments (Note 5)	9,573.5	9,451.5
Other Assets (Note 10)	1,980.2	23.2
Total Other than Intragovernmental:	1,253,771.6	1,223,647.8
Total Assets	4,125,639.3	3,794,931.1
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	4,919.9	4,174.8
Debt (Note 12)	1,998.7	1,910.1
Advances from Others and Deferred Revenue (Note 15)	3,474.9	4,440.1
Other Liabilities (Notes 13 and 15)	11,337.6	8,286.1
Total Intragovernmental Liabilities	21,731.1	18,811.1
Other Than Intragovernmental:		
Accounts Payable	40,922.6	42,249.6
Federal Employee Salary, Leave, and Benefits Payable (Note 13)	27,603.9	21,189.3
Veterans, Pensions, and Post Employment-Related Benefits (Note 13)	4,117,922.3	3,746,978.4
Environmental and Disposal Liabilities (Note 14)	101,059.0	93,792.2
Loan Guarantee Liabilities (Note 7)	24.4	27.5
Advances from Others and Deferred Revenue (Note 15)	7,149.7	6,844.4
Other Liabilities (Notes 15, 16, and 17)	17,603.3	20,363.9
Total Other Than Intragovernmental:	4,312,285.2	3,931,445.3
Total Liabilities	4,334,016.3	3,950,256.4

Department of Defense Consolidated Balance Sheets

As of September 30, 2024 and 2023 <i>(dollar in millions)</i>	2024 <i>(Unaudited)</i>	Restated 2023 <i>(Unaudited)</i>
Commitments and Contingencies (Note 17)		
Net Position (Consolidated Totals)		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	0.0	0.0
Unexpended Appropriations - Funds Other Than Dedicated Collections	753,246.1	667,707.9
Total Unexpended Appropriations (Consolidated)	<u>753,246.1</u>	<u>667,707.9</u>
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	13,967.6	14,198.1
Cumulative Results of Operations - Funds Other Than Dedicated Collections	(975,590.7)	(837,231.3)
Total Cumulative Results of Operations (Consolidated)	<u>(961,623.1)</u>	<u>(823,033.2)</u>
Total Net Position	<u>(208,377.0)</u>	<u>(155,325.3)</u>
Total Liabilities and Net Position	<u>\$ 4,125,639.3</u>	<u>\$ 3,794,931.1</u>

The accompanying notes are an integral part of these statements.

Department of Defense Consolidated Statements of Net Cost

As of September 30, 2024 and 2023 (dollar in millions)	2024 (Unaudited)	Restated 2023 (Unaudited)
Program Costs (Note 19)		
Department of the Air Force		
Gross Costs	\$ 246,965.8	\$ 230,840.8
Less: Earned Revenue	(11,928.8)	(10,523.4)
Net Program Cost	<u>235,037.0</u>	<u>220,317.4</u>
Department of the Army		
Gross Costs	221,694.2	200,841.3
Less: Earned Revenue	(23,547.4)	(25,263.1)
Net Program Cost	<u>198,146.8</u>	<u>175,578.2</u>
Department of the Navy		
Gross Costs	216,448.2	205,078.7
Less: Earned Revenue	(29,180.8)	(27,922.2)
Net Program Cost	<u>187,267.4</u>	<u>177,156.5</u>
Civil Works		
Gross Costs	17,555.4	14,329.6
Less: Earned Revenue	(4,929.3)	(3,094.6)
Net Program Cost	<u>12,626.1</u>	<u>11,235.0</u>
Support Activities		
Gross Costs	242,055.2	196,627.9
Less: Earned Revenue	(35,826.0)	(34,977.1)
Net Program Cost	<u>206,229.2</u>	<u>161,650.8</u>
Military Retirement Fund		
Gross Costs	165,554.0	166,450.8
Less: Earned Revenue	(63,225.0)	(55,884.6)
Net Program Cost	<u>102,329.0</u>	<u>110,566.2</u>
Net Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	941,635.5	856,504.1
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits (Note 13)	236,766.8	89,344.5
Net Program Costs Including Assumption Changes	<u>1,178,402.3</u>	<u>945,848.6</u>
Costs Not Assigned to Programs	-	-
(Less: Earned Revenues) Not Attributed to Programs	-	-
Net Cost of Operations	<u>\$ 1,178,402.3</u>	<u>\$ 945,848.6</u>

The accompanying notes are an integral part of these statements.

Department of Defense Consolidated Statements of Changes in Net Position

For Years Ended September 30, 2024 and 2023 (dollar in millions)	2024 (Unaudited)	Restated 2023 (Unaudited)
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections of \$0.0 in FY 2024 and \$0.0 in FY 2023 - See Note 18)	\$ 667,707.9	\$ 612,867.3
Prior Period Adjustments:		
Corrections of Errors	-	(183.5)
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of \$0.0 in FY 2024 and \$0.0 in FY 2023 - See Note 18)	667,707.9	612,683.8
Appropriations Received	1,102,516.2	1,003,941.7
Appropriations Transferred In/Out	123.0	(2,833.7)
Other Adjustments (+/-)	(16,345.2)	(13,621.4)
Appropriations Used	(1,000,755.8)	(932,462.5)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections of \$0.0 in FY 2024 and \$0.0 in FY 2023 - See Note 18)	85,538.2	55,024.1
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections of \$0.0 in FY 2024 and \$0.0 in FY 2023 - See Note 18)	753,246.1	667,707.9
Cumulative Results of Operations		
Beginning Balance	(823,033.2)	(835,302.6)
Prior Period Adjustments:		
Changes in Accounting Principles (+/-) (Note 28)	19,726.3	(928.9)
Corrections of Errors (+/-) (Note 28)	-	18,263.9
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of \$14,198.1 in FY 2024 and \$14,314.4 in FY 2023 - See Note 18)	(803,306.9)	(817,967.6)
Other Adjustments (+/-)	7,030.7	(7.5)
Appropriations Used	1,000,755.8	932,462.5
Nonexchange Revenue (Note 20)	3,206.8	3,105.5
Donations and Forfeitures of Cash and Cash Equivalents	75.4	133.5
Transfers In/Out Without Reimbursement	155.3	(2,368.6)
Donations and Forfeitures of Property	-	16.8
Imputed Financing	10,158.1	7,758.5
Other (+/-)	(1,296.0)	(317.7)
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of \$113.8 in FY 2024 and \$508.8 in FY 2023 - See Note 18)	1,178,402.3	945,848.6
Net Change in Cumulative Results of Operations Dedicated Collections of \$(230.5) in FY 2024 and \$(116.3) in FY 2023 - See Note 18)	(158,316.2)	(5,065.6)
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections of \$13,967.6 in FY 2024 and \$14,198.1 in FY 2023 - See Note 18)	(961,623.1)	(823,033.2)
Net Position	\$ (208,377.0)	\$ (155,325.3)

The accompanying notes are an integral part of these statements.

Department of Defense Combined Statements of Budgetary Resources

For Years Ended September 30, 2024 and 2023 (dollar in millions)	2024 (Unaudited)		Restated 2023 (Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	\$ 288,416.4	\$ 31.8	\$ 273,311.6	\$ 38.5
Appropriations (Discretionary and Mandatory)	1,194,214.1	-	1,093,647.1	-
Borrowing Authority (Discretionary and Mandatory)	-	152.1	-	151.1
Contract Authority (Discretionary and Mandatory)	90,652.4	-	90,653.1	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	140,002.9	65.1	135,790.6	60.7
Total Budgetary Resources	<u>1,713,285.8</u>	<u>249.0</u>	<u>1,593,402.4</u>	<u>250.3</u>
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	1,425,539.2	220.8	1,361,445.0	218.5
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	257,128.0	-	202,249.1	-
Exempt from Apportionment, Unexpired Accounts	3,964.1	-	4,029.0	-
Unapportioned, Unexpired Accounts	1,597.9	28.2	1,113.4	31.8
Unexpired Unobligated Balance, End of Year	<u>262,690.0</u>	<u>28.2</u>	<u>207,391.5</u>	<u>31.8</u>
Expired Unobligated Balance, End of Year	25,056.6	-	24,565.9	-
Unobligated Balance, End of Year (Total)	<u>287,746.6</u>	<u>28.2</u>	<u>231,957.4</u>	<u>31.8</u>
Total Budgetary Resources	<u>1,713,285.8</u>	<u>249.0</u>	<u>1,593,402.4</u>	<u>250.3</u>
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	1,087,208.6	-	1,003,304.1	-
Distributed Offsetting Receipts (-)	(183,410.2)	-	(150,745.2)	-
Agency Outlays, Net (Discretionary and Mandatory)	<u>\$ 903,798.4</u>	<u>\$ -</u>	<u>\$ 852,558.9</u>	<u>\$ -</u>
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	<u>\$ -</u>	<u>\$ 92.2</u>	<u>\$ -</u>	<u>\$ 319.7</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE DISCLOSURES RELATED TO THE BALANCE SHEET

NOTE 2. NON-ENTITY ASSETS

NOTE 3. FUND BALANCE WITH TREASURY

NOTE 4. CASH AND OTHER MONETARY ASSET

NOTE 5. INVESTMENTS

NOTE 6. ACCOUNTS RECEIVABLE, NET

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

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

NOTE 10. OTHER ASSETS

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

NOTE 12. DEBT

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

NOTE 15. OTHER LIABILITIES

NOTE 16. LEASES

NOTE 17. COMMITMENTS AND CONTINGENCIES

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

OTHER STATEMENTS

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

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

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

NOTE DISCLOSURES NOT PERTAINING TO A SPECIFIC STATEMENT

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

NOTE 23. FIDUCIARY ACTIVITIES

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

NOTE 26. DISCLOSURE ENTITIES AND RELATES PARTIES

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

NOTE 28. RESTATEMENTS

NOTE 29. SUBSEQUENT EVENTS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Mission of the Reporting Entity

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

C. Basis of Presentation

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

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

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

D. Basis of Accounting

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

The Department presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the consolidation

entities therefore, intradepartmental activity has not been eliminated. DoD financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

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

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

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

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

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

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

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

4. [SFFAS 53](#), *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.
5. [SFFAS 54](#), *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under [SFFAS 58](#), *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption is not permitted. For additional information, see [SFFAS 60](#), *Omnibus Amendments 2021: Leases-Related Topics* [Technical Release 20](#), *Implementation Guidance for Leases*, and [Technical Bulletin 2023-1](#), *Intragovernmental Leasehold Reimbursable Work Agreements*.
6. [SFFAS 57](#), *Omnibus Amendments*: Issued September 27, 2019; Effective dates vary based on the paragraph number.
7. [SFFAS 59](#), *Accounting and Reporting of Government Land*: Issued September 30, 2021; Effective dates vary based on the paragraph number.

8. [Interpretation 9](#), *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019.
9. [Technical Bulletin 2020-1](#), *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.

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

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

After the FY 2023 DoD Agency Financial Report was issued, a DoD Component's audit resulted in adjustments that were not reflected in the FY 2023 DoD Agency-Wide Financial Statements. This caused immaterial misstatements in FY 2023 on the DoD Agency-Wide Comparative Financial Statements as of and for the years ended September 31, 2023, and 2024. The DoD Component adjustments were recorded in FY 2024. As DoD Components obtain audit extensions and continue working toward achieving an unmodified audit opinion on their financial statements, audit-required adjustments may continue.

E. Accounting for Intragovernmental and Intergovernmental Activities

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

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

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

F. Non-Entity Assets

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

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

G. Fund Balance with Treasury

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

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

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

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

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

H. Cash and Other Monetary Assets

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

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

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

I. Investments

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

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

J. Accounts Receivable

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

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

K. Loans Receivable, Net and Loan Guarantee Liabilities

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

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

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

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

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

L. Inventories and Related Property

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

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

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

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

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

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

M. General Property, Plant and Equipment

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

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

DoD Entity	Capitalization Threshold
Department of the Navy General Fund (General Equipment and Real Property)	\$1 million
Department of the Air Force General Fund (General Equipment and Real Property)	\$1 million
Office of the Director of National Intelligence (ODNI) DoD Members only	\$1 million
USACE Civil Works General PP&E assets, other than buildings and structures related to hydropower projects	\$25 thousand
USACE Civil Works buildings and structures related to hydropower projects	Capitalized regardless of cost

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

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

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

For additional information, see Note 9, *General PP&E, Net*.

N. Other Assets

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

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

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

O. Leases

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

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

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

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

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

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

P. Liabilities

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

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

Q. Environmental and Disposal Liabilities

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

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

R. Other Liabilities

Other Liabilities includes:

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

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

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

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

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

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

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

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

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

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where the Department is acting on behalf of another federal entity.

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

S. Commitments and Contingencies

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

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

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

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

T. Federal Employee and Veteran Benefits

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

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

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

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

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

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

U. Revenues and Other Financing Sources

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

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

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

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

Working capital funds (WCF) conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions flowing through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable

basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

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

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

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

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

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

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

V. Recognition of Expenses

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

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

W. Budgetary Resources

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

The following budgetary terms are commonly used:

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.

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

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

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

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

X. Treaties for Use of Foreign Bases

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

Y. Use of Estimates

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

Z. Parent-Child Reporting

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

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

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

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

AA. Transactions with Foreign Governments and International Organizations

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

AB. Fiduciary Activities

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

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

AC. Tax Exempt Status

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

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

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2023 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2024 presentation. The mapping of U.S. Standard General Ledger ([USSGL](#)) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, [Section V](#). The footnotes affected by the modified presentation are Note 13, *Federal Employee and Veteran Benefits Payable*, Note 15, *Other Liabilities*, and Note 24, *Reconciliation of Net Cost to Net Outlays*.

Effective in FY 2024, the presentation of the Statement of Net Cost has changed to align with the Department's new definition of major programs. Office of Management and Budget [Circular No. A-136](#) states that the Statements of Net Cost must present the net cost of operations by an agency's defined major programs. As such, the Department updated their major programs. See Note 19, *Disclosures Related to the Statement of Net Cost* for further information.

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NOTE 2. NON-ENTITY ASSETS

The Department has stewardship accountability and reporting responsibility for non-entity assets. Non-entity assets consist of assets belonging to other entities but are offset by the Department's liabilities to accurately reflect DoD's net position. Refer to Note 11, *Liabilities Not Covered by Budgetary Resources* for information regarding related liabilities.

Table 2. Non-Entity Assets

As of September 30 (dollar in millions)	2024	Restated 2023
Intragovernmental Assets		
Fund Balance with Treasury	\$ 2,247.6	\$ 3,512.0
Accounts Receivable	0.3	1.3
Total Intragovernmental Assets	2,247.9	3,513.3
Non-Federal Assets		
Cash and Other Monetary Assets	710.4	798.3
Accounts Receivable	7,252.7	4,461.7
Total Non-Federal Assets	7,963.1	5,260.0
Total Non-Entity Assets	10,211.0	8,773.3
Total Entity Assets	4,115,428.3	3,786,157.8
Total Assets	\$ 4,125,639.3	\$ 3,794,931.1

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023, resulting in a misstatement. In FY 2023, adjustments were made to correct these differences, and the net effect to this Note at the end of FY 2024 was less than \$147.6 million.

Restatements

The Department corrected a \$13.7 billion understatement of FY 2023 Entity Assets. Other Assets was primarily overstated due to contract financing payments that should have been expensed in prior years Inventory and Related Property, Net was understated due to operating materials and supplies that were expensed rather than being reported as inventory. Additionally, stockpile materials were understated due to duplicate accounting entries, missing accruals, and the incorrect reversal of adjustments. General and Right-to-Use Property, Plant, and Equipment, Net was understated due to a variety of factors; General and military equipment balances were incorrectly recorded in the legacy Accountable Property System of Record. Additionally, insufficient updates of Construction-In-Progress balances due to multiple accounting system migrations. This was partially offset by an overstatement of Internal Use Software for assets placed into service and not expensed. Additionally, Construction-in-Progress was overstated due to assets revalued and deemed closed and double counted due to incorrect posting logic. Investments was understated due to baseline contributions from prior years not recorded in the accounting system. Advances and Prepayments Other Than Intragovernmental was overstated due to incorrect posting logic of progress payments. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental Assets

Fund Balance with Treasury (FBWT) consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the Treasury General Fund.

Non-Federal Assets

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges. See Note 1.H., *Significant Accounting Policies, Cash and Other Monetary Assets* and Note 4, *Cash and Other Monetary Assets*, for further information.

Accounts Receivable consists of amounts associated with multiple types of long-term agreements such as easements, sales of hydroelectric power, recreational development, and water storage agreements; canceled year appropriations; and interest, fines, and penalties receivables; and receivables recognized from adjustments related to noncompliance with Cost Accounting Standard requirements. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

NOTE 3. FUND BALANCE WITH TREASURY

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

Table 3. Status of Fund Balance with Treasury

As of September 30 <i>(dollar in millions)</i>	2024	Restated 2023
Unobligated Balance		
Available	\$ 261,092.3	\$ 206,277.9
Unavailable	1,912,565.7	1,699,142.3
Total Unobligated Balance	<u>2,173,658.0</u>	<u>1,905,420.2</u>
Obligated Balance Not Yet Disbursed	722,263.2	675,057.3
Non-Budgetary FBWT		
Clearing accounts	190.9	56.3
Deposit funds	2,205.5	3,556.2
Non-entity and other	148.8	152.9
Total Non-Budgetary FBWT	<u>2,545.2</u>	<u>3,765.4</u>
Non-FBWT Budgetary Accounts		
Investments-Treasury Securities	(1,895,734.9)	(1,676,781.5)
Unfilled Customer Orders without Advance	(99,513.1)	(96,402.7)
Contract Authority	(30,476.3)	(28,092.9)
Borrowing Authority	(186.9)	(186.9)
Receivables and Other	(17,020.3)	(14,703.2)
Total Non-FBWT Budgetary Accounts	<u>(2,042,931.5)</u>	<u>(1,816,167.2)</u>
Total FBWT	<u>\$ 855,534.9</u>	<u>\$ 768,075.7</u>

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023 column, resulting in a misstatement. In FY 2024, adjustments were made to correct these differences, and the net effect to this Note at the end of FY 2024 was less than \$1.0 thousand.

Restatements

The Department's activity on Note 3 was revised due to a restatement; however, the net change on the Note 3 total was zero. Additionally, the total FBWT did not change. The related restatements understated FY 2023 Total Budgetary Resources due to invalid orders. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

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.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of funds invested in Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public laws establishing the funds.

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 deposit funds, unavailable receipt accounts, clearing accounts, and Non-Entity FBWT.

Non-FBWT Budgetary accounts create budgetary authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budgetary authority, such as appropriations. The Non-FBWT Budgetary accounts are comprised of investments in U.S. Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

Treasury securities provide the Department with budgetary authority and enables the Department to access funds to make future benefit payments or other expenditures. The Department must redeem these securities before they become part of the FBWT.

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

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

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

NOTE 4. CASH AND OTHER MONETARY ASSETS

Table 4. Cash and Other Monetary Assets

As of September 30 <i>(dollar in millions)</i>	2024	2023
Cash	\$ 569.2	\$ 525.8
Foreign Currency	233.7	342.2
Total Cash and Foreign Currency	\$ 802.9	\$ 868.0

The majority of cash and all foreign currency is classified as non-entity (i.e., cash that a reporting entity collects and holds in a custodial capacity for the U.S. Treasury or other Federal entity) and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

These amounts are held outside of Treasury, in local deposit accounts, or cash, under the custodial responsibility of the disbursing officer and are not directly associated with an appropriation. A Disbursing Officer Cash offsetting liability to Treasury is reported on Note 15, *Other Liabilities*.

In FY 2024 and FY 2023, cash includes unrestricted entity assets of \$92.1 million and \$69.8 million, respectively, comprised of undeposited collections.

The Department has seized assets of \$189 thousand and \$147 thousand in FY 2024 and 2023, respectively. These assets were seized in investigations related to waste, fraud, abuse, and corruption in the department. When assets are seized, the Department is the custodian until they are returned to the Treasury. In FY 2024, \$13 thousand of the seized assets were disposed of or returned to the Treasury.

NOTE 5. INVESTMENTS

Table 5A. Intragovernmental Investments

As of September 30 (dollar in millions)	2024						
	Cost	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
Intragovernmental Securities							
Non-Marketable, Market-Based							
Military							
Retirement Fund	\$ 1,656,104.2	Eff. Int.	\$ (59,276.9)	\$ 7,602.4	\$ 1,604,429.7	\$ (163,534.0)	\$ 1,440,895.7
Medicare Eligible Retiree Health Care Fund	414,633.7	Eff. Int.	(23,335.9)	3,036.0	394,333.8	(22,075.2)	372,258.6
U.S. Army Corps of Engineers	10,318.4	Eff. Int.	111.4	18.1	10,447.9	(9.5)	10,438.4
Other Funds	1,976.8	Eff. Int.	1.5	4.9	1,983.2	(29.2)	1,954.0
Total Non-Marketable, Market-Based	2,083,033.1		(82,499.9)	10,661.4	2,011,194.6	(185,647.9)	1,825,546.7
Total Intragovernmental Investments	\$ 2,083,033.1		\$ (82,499.9)	\$ 10,661.4	\$ 2,011,194.6	\$ (185,647.9)	\$ 1,825,546.7

Legend for Amortization Methods: Eff. Int. = Effective Interest Method

As of September 30 (dollar in millions)	2023						
	Cost	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
Intragovernmental Securities							
Non-Marketable, Market-Based							
Military							
Retirement Fund	\$ 1,465,785.7	Eff. Int.	\$ (55,627.3)	\$ 6,923.4	\$ 1,417,081.8	\$ (263,939.9)	\$ 1,153,141.9
Medicare Eligible Retiree Health Care Fund	388,312.9	Eff. Int.	(21,839.7)	2,882.5	369,355.7	(44,588.5)	324,767.2
U.S. Army Corps of Engineers	10,527.2	Eff. Int.	113.9	18.0	10,659.1	(34.3)	10,624.8
Other Funds	2,329.4	Eff. Int.	(21.6)	7.4	2,315.2	(81.5)	2,233.7
Total Non-Marketable, Market-Based	1,866,955.2		(77,374.7)	9,831.3	1,799,411.8	(308,644.2)	1,490,767.6
Total Intragovernmental Investments	\$ 1,866,955.2		\$ (77,374.7)	\$ 9,831.3	\$ 1,799,411.8	\$ (308,644.2)	\$ 1,490,767.6

Legend for Amortization Methods: Eff. Int. = Effective Interest Method

Other Disclosures – Intragovernmental Securities

The Department invests primarily in non-marketable, market-based Treasury securities (See Note 1.I *Significant Accounting Policies, Investments*). The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The Treasury securities were issued to trust and special funds legally authorized to invest funds with Treasury, including Treasury securities held by a fund from dedicated collections, which are an asset to the Department and a liability to the Treasury (See Note 18. *Funds From Dedicated Collections*). The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

The Military Retirement Fund's (MRF) and Medicare-Eligible Retiree Health Care Fund's (MERHCF) investing goals are to maintain expected average maturity of future investments of approximately 20 years depending on the market and performance of the portfolio. The types of investments purchased and related maturity dates are selected to meet the projected timing of funds obligation to pay future benefits. The investments consist of the following for MRF and MERHCF:

- Zero Coupon Bonds: These bonds do not pay interest, but instead are bought at a larger initial discount. These bonds will mature between August 15, 2033, and August 15, 2035.
- Bonds: Bonds pay interest between 1.875% and 7.625%. The maturity dates for bonds held are between November 15, 2024, and February 15, 2053.
- Notes: MRF and MERHCF do not have any Note Security Investments for the end of Fiscal Year (FY) 2024. All Notes have matured.
- Treasury Inflation-Protected Security (TIPS): TIPS pay interest between 0.125% and 3.875%. TIPS also pay inflation compensation, so the security maintains its original purchase power over the life of the security. This amount varies with the rate of inflation. The maturity dates for TIPS are between January 15, 2025, and February 15, 2053.
- One Day: MRF and MERHCF invest in One Day securities daily. The interest paid by these securities is determined by the Treasury daily.

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of \$10.0 billion and \$10.3 billion for FY 2024 and FY 2023, respectively, in the Harbor Maintenance Trust Fund.

Other Funds consists primarily of \$1.0 billion and \$1.3 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund for FY 2024 and FY 2023, respectively, and \$758.1 million and \$860.5 million in investments of the DoD Education Benefits Trust Fund for FY 2024 and FY 2023 respectively.

Table 5B. Other than Intragovernmental Investments

As of September 30 <i>(dollar in millions)</i>	2024	2023
Beginning Balance	\$ 9,451.5	\$ 11,419.6
Other:		
Gains (Losses) upon dissolution of joint ventures	-	(6.5)
Other	122.0	(1,961.6)
Ending Balance	\$ 9,573.5	\$ 9,451.5

Restatement

The Department corrected a \$57.9 million understatement of the FY 2023 Beginning Balance of Investments due to baseline contributions from prior years not recorded in the accounting system. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures – Other than Intragovernmental Investments

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

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

NOTE 6. ACCOUNTS RECEIVABLE, NET

Table 6. Accounts Receivable, Net

As of September 30 (dollar in millions)	2024		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 3,592.5	\$ (95.8)	\$ 3,496.7
Non-Federal Receivables (From the Public)	16,494.6	(1,350.2)	15,144.4
Total Accounts Receivable	\$ 20,087.1	\$ (1,446.0)	\$ 18,641.1

As of September 30 (dollar in millions)	2023		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 2,753.1	\$ (298.5)	\$ 2,454.6
Non-Federal Receivables (From the Public)	13,143.3	(879.8)	12,263.5
Total Accounts Receivable	\$ 15,896.4	\$ (1,178.3)	\$ 14,718.1

Other Disclosures

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, [Chapter 4700](#). Allowances for uncollectible accounts due from the public are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history.

Federal Accounting Standards Advisory Board issued [Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables](#), which clarified previously issued guidance, [SFFAS 1, Accounting for Selected Assets and Liabilities](#). An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. The methodology for calculating the intragovernmental allowance is consistent with the methodology for public receivables.

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

In accordance with SFFAS 1, the Department reported receivables of \$5.6 billion in FY 2024 based on contractually asserted claims against vendors. The \$5.6 billion receivable includes principal, interest, and penalties. These claims are due to various issues, including contractor non-compliance with governmental cost accounting standards, contractor overpayments, and accruals for debts.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

Military Housing Privatization Initiative (MHPI)

The Department operates both direct loan and loan guarantee programs. The programs are authorized by the [National Defense Authorization Act \(NDAA\) for FY 1996](#), which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing, and the [NDAA for FY 2005](#), which provides the permanent authority. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage Government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

The [Federal Credit Reform Act \(FCRA\) of 1990](#) governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991. There were no credit program activities subject to the FCRA identified in FY 2024 or FY 2023.

MHPI Loan Modification

Since inception of the program, no direct loan project has ever defaulted on its obligations to MHPI. The Department recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review is performed every 2 to 3 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 Department is planning to perform Government Direct Loan (GDL) modifications and/or make a Government Equity Investment for various projects in the future FYs.

The Department has other projects under consideration for potential modifications in the future which are in the early planning stages and discussions are ongoing with Project Owners. Discussions include, but are not limited to, the nature of planning, budgeting, and negotiations. If plans solidify, these projects will be added to this note in the future.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, [Executive Order \(EO\) 13922](#) issued on May 14, 2020, authorizes the Chief Executive Officer of the U.S. International Development Finance Corporation ([DFC](#)) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and financially report the government direct loans. This delegation of authority applied for the two-year period ending March 27, 2022, during which time the requirements described in section 302(c)(1) of the Defense Production Act (DPA) ([50 U.S.C. 4532\(c\)\(1\)](#)) were waived pursuant to Title III of Division B of the [CARES Act](#). The EO delegates DPA loan authority for purchases and commitments to purchase, and takes additional actions to create, maintain, protect, and expand the domestic industrial base capabilities, including supply chains within the United States and its territories needed to respond to the COVID-19 outbreak.

Under this authority, a Finance Agreement was signed with a borrower in March of 2023. The projects under the Finance Agreement include the acquisition of and design, architecture, engineering, mechanical, electrical, and plumbing work, and completion of certain interior improvements and systems for facilities to enable the development and manufacture of biologics, vaccines, and nucleic acid pharmaceutical products. The first disbursement related to the DPA activity of \$246.0 million occurred in August 2023.

Table 7A. Summary of Direct Loan and Loan Guarantees

As of September 30 <i>(dollar in millions)</i>	2024	2023
Loans Receivable, net		
Direct Loans		
Military Housing Privatization Initiative	\$ 1,720.1	\$ 1,665.1
Defense Production Act - CARES Act	268.2	\$268.2
Total Direct Loan	1,988.3	1,933.3
Total Default Loan Guarantees	-	-
Total Loans Receivable, Net	\$ 1,988.3	\$ 1,933.3

As of September 30 <i>(dollar in millions)</i>	2024	2023
Loan Guarantee Liabilities		
Military Housing Privatization Initiative	\$ 24.4	\$ 27.5
Total Loan Guarantee Liabilities	\$ 24.4	\$ 27.5

Loans Receivable

Direct loans are reported at the net present value of the following projected cash flows:

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

Table 7B. Direct Loans Obligated

As of September 30 <i>(dollar in millions)</i>	2024	2023
Direct Loans Obligated Post - 1991:		
Military Housing Privatization Initiative		
Loans Receivable, Gross	\$ 1,702.8	\$ 1,751.4
Allowance for Subsidy Cost (Present Value)	17.3	(86.3)
Direct Loans, Net	1,720.1	1,665.1
Defense Production Act - CARES Act		
Loans Receivable, Gross	246.0	246.0
Allowance for Subsidy Cost (Present Value)	22.2	22.2
Direct Loans, Net	268.2	268.2
Total Direct Loans Receivable, Net		
Loans Receivable, Gross	1,948.8	1,997.4
Allowance for Subsidy Cost (Present Value)	39.5	(64.1)
Direct Loans, Net	\$ 1,988.3	\$ 1,933.3

Total Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans. Interest is calculated using the interest earned method.

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

As of September 30 <i>(dollar in millions)</i>	2024	2023
Direct Loan Program		
Military Housing Privatization Initiative	-	\$ 30.1
Defense Production Act - CARES Act	-	\$ 246.0
Total	\$ -	\$ 276.1

As of September 30, 2024 there were no direct loan disbursements. The \$30.1 million disbursement made in 2023 was the sixth distribution of the six scheduled distributions under an existing direct loan project. See Table 7D for the related subsidy expense for new direct loans disbursed and further discussion of subsidy expense on Table 7E.

Table 7D. Subsidy Expense for Direct Loan by Program**Table 7D.1. Subsidy Expense for New Direct Loans Disbursed**

As of September 30 (dollar in millions)	2024				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ -	\$ -	\$ -	\$ -	\$ -
Defense Production Act - CARES Act	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ -	\$ -

As of September 30 (dollar in millions)	2023				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	\$ 3.7	\$ 4.1	\$ -	\$ -	\$ 7.8
Defense Production Act - CARES Act	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 3.7	\$ 4.1	\$ -	\$ -	\$ 7.8

Table 7D.2. Direct Loan Modifications and Reestimates

As of September 30 (dollar in millions)	2024			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (39.6)	\$ (62.8)	\$ (102.4)
Defense Production Act - CARES Act	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ (39.6)	\$ (62.8)	\$ (102.4)

As of September 30 (dollar in millions)	2023			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (10.1)	\$ (16.1)	\$ (26.2)
Defense Production Act - CARES Act	\$ -	\$ 0.1	\$ 2.8	\$ 2.9
Total	\$ -	\$ (10.0)	\$ (13.3)	\$ (23.3)

Table 7D.3. Total Direct Loan Subsidy Expense

As of September 30 <i>(dollar in millions)</i>	2024	2023
Military Housing Privatization Initiative	\$ (102.4)	\$ (18.4)
Defense Production Act - CARES Act	\$ -	\$ 2.9
Total	\$ (102.4)	\$ (15.5)

There were no subsidy expenses for new direct loans in FY 2024. The \$7.8 million subsidy expense for FY 2023 is related to the sixth scheduled loan distribution under an existing direct loan project.

See the MHPI Loan Modification section at the beginning of this Note for additional information related to direct loan modifications.

Table 7E. Budget Subsidy Rates for Direct Loans by Program for the Current Year's Cohorts

As of September 30 <i>(dollar in millions)</i>	2024				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%
Defense Production Act - CARES Act	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2024, and one new loan agreement in FY 2023; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

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

The rates in Table 7E cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from the current year (when applicable) and prior-year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

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

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

As of September 30 (dollar in millions)	2024	2023
Beginning Balance of the Subsidy Cost Allowance	\$ 64.1	\$ 99.1
Add total subsidy expense for direct loans disbursed during the reporting years show in Table 7D.1 and 7D.2	-	7.8
Adjustments:		
Subsidy Allowance Amortization	(1.2)	0.4
Other	-	(19.9)
Ending Balance of the Subsidy Cost Allowance before Reestimates	62.9	87.4
Add or subtract total subsidy reestimates as shown in Table 7D.3 and 7D.4	(102.4)	(23.3)
Ending Balance of the Subsidy Cost Allowance	\$ (39.5)	\$ 64.1

The \$19.9 million adjustment in FY 2023 is an aggregated total of \$24.8 million for a negative subsidy payment related to the DPA loan disbursement and \$4.9 million of capitalized deferred interest related to an existing MHPI loan project.

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

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

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

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

There were no defaulted loan guarantees in FY 2024 or FY 2023.

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

In estimating default costs, the following risk factors are considered: (a) loan performance experience; (b) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (c) financial and other relevant characteristics of borrowers; (d) the value of collateral to the loan balance; (e) changes in recoverable value of collateral; and (f) newly developed events that would affect the performance of the loan. Improvements in methods to re-estimate defaults are also considered.

Table 7H. Guaranteed Loans Outstanding

Table 7H.1. Guaranteed Loans Outstanding

As of September 30 (dollar in millions)	2024		2023	
	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	\$ 793.3	\$ 793.3	\$ 804.3	\$ 804.3
Total	\$ 793.3	\$ 793.3	\$ 804.3	\$ 804.3

Table 7H.2. New Guaranteed Loans Disbursed

There were no new guaranteed loan disbursed in FY 2024 or FY 2023

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

As of September 30 (dollar in millions)	2024	2023
Liability for Post-FY1991 (Present Value):		
Military Housing Privatization Initiative	\$ 24.4	\$ 27.5
Total Loan Guarantee Liabilities for Loan Guarantees	\$ 24.4	\$ 27.5

Table 7J. Subsidy Expense for Loan Guarantees by Program

Table 7J.1. Subsidy Expense for New Loan Guarantees

There were no subsidy expenses for new loan guarantees in FY 2024 or FY 2023

Table 7J.2. Modification and Reestimates

As of September 30 (dollar in millions)	2024			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (1.1)	\$ (2.7)	\$ (3.8)

As of September 30 (dollar in millions)	2023			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	\$ -	\$ (1.2)	\$ (3.1)	\$ (4.3)

Table 7J.3. Total Loan Guarantee Subsidy Expense

As of September 30 (dollar in millions)	2024	2023
Military Housing Privatization Initiative	\$ (3.8)	\$ (4.3)

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

As of September 30	2024				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2024; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes re-estimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior-year agreements.

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

As of September 30 <i>(dollar in millions)</i>	2024	2023
Beginning Balance of the Loan Guarantee Liabilities	\$ 27.5	\$ 31.0
Add interest expense on entity borrowings	0.7	0.8
Less downward reestimates	(3.8)	(4.3)
Ending Balance of the Loan Guarantee Liabilities	\$ 24.4	\$ 27.5

Administrative Expenses

Administrative Expenses are limited to separately identified expenses in support of the direct loan program and the loan guarantee program.

Table 7M. Schedule for Reconciling Loans Receivable

As of September 30 <i>(dollar in millions)</i>	2024	2023
Beginning Balance of the Loans Receivable, Net	\$ 1,933.3	\$ 1,653.5
Add Loan Disbursements	-	276.1
Less Principal and Interest Payments Received	(124.9)	(98.2)
Add Interest Accruals	76.3	62.1
Less Subsidy Expense	-	(7.8)
Add negative subsidy payments	-	24.8
Less upward reestimates	(53.8)	(2.9)
Add downward reestimates	156.2	26.1
Other increase/(decrease) to the subsidy allowance	1.2	(0.4)
Other changes to the loan modifications	-	-
Allowance for loan and interest loss adjustments	-	-
Other non-cash reconciling items	-	-
Ending Balance of Loans Receivable, Net	\$ 1,988.3	\$ 1,933.3

The above table relates to the Direct Loans Receivable on Tables 7A through 7F.

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Table 8A. Inventory and Related Property, Net

As of September 30 (dollar in millions)	2024	Restated 2023
Inventory, Net	\$ 134,260.1	\$ 119,663.9
Operating Materials & Supplies, Net	233,949.3	227,640.0
Stockpile Materiel, Net	408.5	667.2
Total Inventory and Related Property, Net	\$ 368,617.9	\$ 347,971.1

Restatements

The Department corrected a \$6.8 billion understatement of FY 2023 Operating Materiel & Supplies (OM&S), Net due to OM&S that were expensed rather than capitalized. Additionally, the Department corrected a \$4.1 million understatement of FY 2023 Stockpile Materiel due to duplicate accounting entries, missing accruals, and the incorrect reversal of adjustments. See Note 28, *Restatements*, for a summary of all restatements for further information.

Inventory, Net

Table 8B. Inventory Categories

As of September 30 (dollar in millions)	2024			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	\$ 78,602.0	\$ (1.8)	\$ 78,600.2	LAC, MAC
Held in Reserve for Future Sale	1,558.0	-	1,558.0	LAC, MAC
Held for Repair	49,551.9	(2.1)	49,549.8	LAC, MAC
Raw Materials	1,598.0	-	1,598.0	LAC, MAC
Work-in-Process	2,954.1	-	2,954.1	LAC, MAC, SP
Excess, Obsolete and Unserviceable	1,148.2	(1,148.2)	-	NRV
Total	\$ 135,412.2	\$ (1,152.1)	\$ 134,260.1	

As of September 30 (dollar in millions)	2023			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	\$ 76,502.8	\$ (60.4)	\$ 76,442.4	LAC, MAC
Held in Reserve for Future Sale	970.1	-	970.1	LAC, MAC
Held for Repair	46,390.2	(7,386.8)	39,003.4	LAC, MAC
Raw Materials	1,563.3	-	1,563.3	LAC, MAC
Work-in-Process	1,684.7	-	1,684.7	LAC, MAC, SP
Excess, Obsolete and Unserviceable	824.2	(824.2)	-	NRV
Total	\$ 127,935.3	\$ (8,271.4)	\$ 119,663.9	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost, adjusted for holding gains and losses | NRV = Net Realizable Value

SP = Standard Price | MAC = Moving Average Cost

General Composition of Inventory

Inventory is tangible personal property that is held for sale. Examples include raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns types of inventory to a category based on condition: held for sale, held in reserve for future sale, held for repair, raw materiel, work-in-process, and excess, obsolete, and unserviceable.

Inventory Restrictions

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with [DoD Instruction 3110.06](#) with a recorded value of \$3.8 billion in FY 2024 (\$4.4 billion in FY 2023), consist of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces.
- Defense Commissary Agency inventory with a recorded value of \$403.3 million in FY 2024 (\$382.2 million in FY 2023), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons.
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of \$155.9 million in FY 2024 (\$126.2 million in FY 2023).
- There are no known restrictions on inventory disposition related to environmental or other liabilities.

Operating, Materiels and Supplies, Net

Table 8C. OM&S Categories

As of September 30 (dollar in millions)	2024				Valuation Method
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net		
Held for Use	\$ 174,376.0	\$ -	\$ 174,376.0		Note 1
Held in Reserve for Future Use	24,581.8	-	24,581.8		Note 1
Held for Repair	29,570.7	(1,208.0)	28,362.7		Note 1
In Development	6,570.2	-	6,570.2		Note 1
Excess, Obsolete and Unserviceable	239.4	(180.8)	58.6		NRV
Total	\$ 235,338.1	\$ (1,388.8)	\$ 233,949.3		

As of September 30 (dollar in millions)	Restated 2023				Valuation Method
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net		
Held for Use	\$ 169,243.9	\$ -	\$ 169,243.9		Note 1
Held in Reserve for Future Use	23,826.2	-	23,826.2		Note 1
Held for Repair	29,415.7	(1,139.2)	28,276.5		Note 1
In Development	6,288.7	-	6,288.7		Note 1
Excess, Obsolete and Unserviceable	554.5	(549.8)	4.7		NRV
Total	\$ 229,329.0	\$ (1,689.0)	\$ 227,640.0		

Legend for Valuation Methods:

Note 1: Direct Method, Historical Cost, Moving Average Cost, Replacement Price, Standard Price, and Latest Acquisition Cost

NRV = Net Realizable Value

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023, resulting in a misstatement. In FY 2024, adjustments were made to correct these differences, and the net effect to OM&S at the end of FY 2024 was \$59.5 million.

Restatements

The Department corrected a \$6.8 billion understatement of FY 2023 OM&S, Net due to OM&S that were expensed rather than capitalized. See Note 28, *Restatements*, for a summary of all restatements for further information.

General Composition of OM&S

OM&S consists of tangible personal property to be consumed in normal operations, including spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns types of OM&S to a category based on condition: held for use, held in reserve for future use, held for repair, in development, and excess, obsolete, and unserviceable.

OM&S Restrictions

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

For excess, obsolete, and unserviceable (EOU) OM&S, in addition to the amounts reported in Table 8C:

- The Department of the Army has determined their estimated NRV to be \$0 but disclosed a gross value of \$14.1 billion and \$32.2 billion in FY 2024 and FY 2023, respectively. The Army confirms this assessment on an annual basis before any NRV considerations for reporting EOU within its financial statements. The items classified as OM&S EOU are the result of accumulation over many fiscal year periods.
- The Department of the Navy disclosed \$2.5 billion and \$1.1 billion in FY 2024 and FY 2023, respectively.

*Stockpile Materiel, Net***Table 8D. Stockpile Materiel Categories**

As of September 30 (dollar in millions)	2024				Valuation Method
	Stockpile Materiel, Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net		
Held for Sale	\$ 5.5	\$ -	\$ 5.5		MAC, HC
Held in Reserve for Future Sale	403.0	-	403.0		MAC, HC
Total	\$ 408.5	\$ -	\$ 408.5		

As of September 30 (dollar in millions)	2023				Valuation Method
	Stockpile Materiel, Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net		
Held for Sale	\$ 15.1	\$ -	\$ 15.1		MAC, HC
Held in Reserve for Future Sale	652.1	-	652.1		MAC, HC
Total	\$ 667.2	\$ -	\$ 667.2		

Legend for Valuation Methods:
MAC = Moving Average Cost
HC = Historical Cost

Restatements

The Department corrected a \$4.1 million understatement of FY 2023 Stockpile Materiel due to duplicate accounting entries, missing accruals, and the incorrect reversal of adjustments. See Note 28, *Restatements*, for a summary of all restatements for further information.

General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies.

- The Defense Logistics Agency's (DLA) National Defense Stockpile Transaction Fund reported stockpile materiel for FY 2024 and FY 2023 with a net value of \$402.5 million and \$388.8 million, respectively.
- The Defense Health Programs (DHP) reported stockpile materiel with a net value of \$0 for FY 2024 and \$268.4 million for FY 2023.
- The Department of Navy reported stockpile materiel with a net value of \$6.0 million for FY 2024 and \$10.0 million for FY 2023.

The DHP and Navy's stockpile materiel includes medicine, vaccines and other biological products, medical devices and other supplies. Vaccines in stockpile materials does not include the COVID-19 vaccine.

Stockpile Materiel Restrictions

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

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale. Stockpile materiel held for sale includes ores, metals, and alloys authorized for sale. For additional information on Defense Logistics Agency's mission related to the National Defense Stockpile, please see: [DLA Strategic Materials](#).

NOTE 9. GENERAL PP&E, NET

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

As of September 30 (dollar in millions)	2024				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	\$ 9,141.4	N/A	\$ 9,141.4
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	436,793.2	(266,923.9)	169,869.3
Leasehold Improvements	S/L	Lease Term	847.9	(526.8)	321.1
Software	S/L	2 - 5 or 10	17,116.2	(8,474.4)	8,641.8
General Equipment	S/L	Various	1,192,755.1	(749,257.2)	443,497.9
Assets Under Capital Lease	S/L	Lease Term	-	-	-
Right-to-Use Lease Asset	S/L	Lease Term	1,563.1	(421.1)	1,142.0
Construction in Progress	N/A	N/A	216,087.5	N/A	216,087.5
Other	N/A	N/A	3,107.0	(2,345.5)	761.5
Total General and Right-to-Use PP&E			\$ 1,877,411.4	\$ (1,027,948.9)	\$ 849,462.5

As of September 30 (dollar in millions)	Restated 2023				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	\$ 9,135.7	N/A	\$ 9,135.7
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	397,254.7	(236,396.8)	160,857.9
Leasehold Improvements	S/L	Lease Term	802.3	(459.3)	343.0
Software	S/L	2 - 5 or 10	15,642.6	(7,541.8)	8,100.8
General Equipment	S/L	Various	1,218,115.5	(750,370.8)	467,744.7
Assets Under Capital Lease	S/L	Lease Term	336.1	(274.0)	62.1
Construction in Progress	N/A	N/A	194,209.0	N/A	194,209.0
Other	N/A	N/A	2,251.6	(1,940.3)	311.3
Total General and Right-to-Use PP&E			\$ 1,837,747.5	\$ (996,983.0)	\$ 840,764.5

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

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

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

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023, resulting in a misstatement. In FY 2024, adjustments were made to correct these differences, and the net effect to this Note at the end of FY 2024 was less than \$207.1 million.

Restatements

The Department corrected an \$8.8 billion understatement of FY 2023 General PP&E, Net due to a variety of factors including General and military equipment balances incorrectly recorded in the legacy Accountable Property System of Record. Additionally, there were insufficient updates of Construction-in-Progress balances due to multiple accounting system migrations. This was partially offset by an overstatement of Internal Use Software for assets placed into service and not expensed. Additionally, Construction-in-Progress was overstated due to assets revalued and deemed closed, and double counted due to incorrect posting logic. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

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

The Department uses several cost methodologies to provide General and Right-to-Use PP&E values for financial statement reporting purposes. The FASAB issued SFFAS 50, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD consolidation entities used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD consolidation entities are excluded from General and Right-to-Use PP&E opening balances in FY 2024, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 22.8 million and 23.5 million in FY 2024 and FY 2023, respectively.

The Department worked towards implementing [SFFAS 54](#) in FY 2024. Leased assets are no longer presented as *Assets Under Capital Lease* in table 9A. Leased assets are now reported as *Right-to-Use Lease Assets*. These include assets for which the Department is the lessee. Where the Department is the lessor, those assets are reported on Note 10, *Other Assets*. See Note 10 and Note 16, *Leases*, for additional information.

Table 9B. Heritage Assets

For the period ended September 30 (physical count)	2024			
	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	27,999	1,366	(2,650)	26,715
Archaeological Sites	14,750	85	(101)	14,734
Museum Collection Items (Objects, Not Including Fine Art)	1,394,638	53,770	(16,178)	1,432,230
Museum Collection Items (Objects, Fine Art)	57,114	871	(836)	57,149

Heritage Assets and Stewardship Land

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

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

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

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

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

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

Table 9C. Stewardship Land

For the period ended September 30 (acres in thousands)		2024			
Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	9,490	31	(47)	9,474
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	1,384	-	(1)	1,383
9140	Public Land	6	-	-	6
Total Stewardship Land		10,880	31	(48)	10,863

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

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

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

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

All Other Land consists of Licensed and Permitted Land, Land Easement, In-Leased Land, and Foreign Land. These categories are not considered Stewardship Land.

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

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

Table 9D. General and Right-to-Use PP&E, Net Summary of Activity

As of September 30 <i>(dollar in millions)</i>			2024	Restated 2023
General and Right-to-Use PP&E, Net beginning of year unadjusted	\$	840,764.5	\$	830,317.0
Effects of implementation of SFFAS 54		-		-
Balance beginning of year, adjusted	\$	840,764.5	\$	830,317.0
Capitalized acquisitions		85,594.5		86,707.7
Right-to-use lease assets, CY activity		615.7		-
CY Amortization of right-to-use lease assets		(150.4)		-
Dispositions		(2,542.6)		(5,233.3)
Transfer in/(out) without reimbursement		162.4		(2,230.2)
Revaluations(+/-)		(8,076.2)		(4,993.9)
Depreciation expense		(53,078.2)		(55,327.8)
Donations		-		16.8
Other(+/-)		(13,827.2)		(8,491.8)
General and Right-to-Use PP&E, Net end of year	\$	849,462.5	\$	840,764.5

Summary of Activity

To support the [Financial Report of the United States Government](#) compilation process for General and Right-to-Use PP&E, Net activity for the current and prior years are provided in Table 9D.

NOTE 10. OTHER ASSETS

Table 10. Other Assets

As of September 30 <i>(dollar in millions)</i>	2024	Restated 2023
Intragovernmental		
Advances and Prepayments	\$ 1,518.2	\$ 1,217.9
Other Assets	123.3	123.3
Total Intragovernmental	1,641.5	1,341.2
Other than Intragovernmental		
Outstanding Contract Financing Payments	6,408.9	10,032.6
Advances and Prepayments	(207.0)	340.1
Other Assets	1,980.2	23.2
Subtotal	8,182.1	10,395.9
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(6,201.9)	(10,372.7)
Net Other than Intragovernmental	1,980.2	23.2
Total Other Assets	\$ 3,621.7	\$ 1,364.4

Restatements

The Department corrected a \$1.8 billion overstatement of FY 2023 Outstanding Contract Financing Payments, Other Than Intragovernmental due to contract financing payments that should have been expensed in prior years. The Department also corrected a \$109.5 million overstatement of FY 2023 Other Assets, Intragovernmental due to federal advances being estimated and not expensed based on actual work completed. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental

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

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of \$123.3 million in FY 2024 and FY 2023), held by the Department of Energy. In accordance with the [Department of Defense Appropriations Act of 1993](#), these assets are maintained as a [Strategic Petroleum Reserve](#) for national defense purposes.

Other than Intragovernmental

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

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

In FY 2024 and FY 2023, Other Assets (Other than Intragovernmental) consists primarily of General and Right-to-Use PP&E that was permanently removed from service but not yet disposed.

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NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 (dollar in millions)	2024	Restated 2023
Intragovernmental Liabilities		
Accounts payable	\$ 59.6	\$ 1.9
Other	2,343.7	2,292.0
Total Intragovernmental Liabilities	2,403.3	2,293.9
Other than Intragovernmental Liabilities		
Accounts payable	6,239.1	4,286.6
Federal employee and veteran benefits payable	2,252,718.4	2,098,669.4
Environmental and disposal liabilities	97,745.0	89,394.4
Other liabilities	5,587.3	5,047.8
Total Other than Intragovernmental Liabilities	2,362,289.8	2,197,398.2
Total Liabilities Not Covered by Budgetary Resources	2,364,693.1	2,199,692.1
Total Liabilities Covered by Budgetary Resources	1,960,211.3	1,742,643.9
Total Liabilities Not Requiring Budgetary Resources	9,111.9	7,920.4
Total Liabilities	\$ 4,334,016.3	\$ 3,950,256.4

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023 column, resulting in a misstatement. In FY 2024, adjustments were made to correct these differences, and the net effect to this Note at the end of FY 2024 was \$206.0 million.

Restatement

The Department corrected a \$1.7 billion overstatement of FY 2023 Total Liabilities Covered by Budgetary Resources due to an error in recording disbursement transactions in the prior year. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental Liabilities

The accounts payable consists primarily of amounts for subsidy payable to financing accounts for both undisbursed direct loans and undisbursed guaranteed loans.

Other Liabilities consists of Judgment Fund liabilities under the [Contract Disputes Act of 1978](#), for which there is not a related budgetary obligation. The Judgment Fund pays court judgments and compromise settlements of lawsuits against the government. Losses in litigation proceedings may be paid from the Treasury Judgment Fund. It also consists of unfunded liabilities for the [Federal Employee Compensation Act](#). See Note 1R, *Other Liabilities*, for additional information.

Other than Intragovernmental Liabilities

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

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year (FY). In FY 2024 and FY 2023, these liabilities primarily consisted of \$1.3 trillion in pension liabilities. Additionally, these liabilities consisted of \$926.5 billion and \$780.8 billion in health benefit liabilities in FY 2024 and FY 2023, respectively. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details.

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

Other Liabilities consists primarily of unfunded non-environmental disposal of conventional munitions, scholarships for contracted Cadets, and contingent legal liabilities. See Note 17, *Commitments and Contingencies* for additional details.

Total Liabilities

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

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

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

The Department reports right-to-use lease assets and corresponding lease liabilities for material, non-intragovernmental long-term contracts for which it has the right to control access to and/or obtain economic benefits from the use of the real property, equipment, or other assets. The Department had \$540.4 million of uncovered lease liabilities in FY 2024.

NOTE 12. DEBT

Table 12. Debt

As of September 30 (dollar in millions)	2024		
	Beginning Balance	Net Borrowing	Ending Balance
Source of Debt (Intragovernmental)			
Debt owed to:			
Treasury other than the Federal			
Financing Bank	\$ 1,910.1	\$ 88.6	\$ 1,998.7
Total Debt	<u>\$ 1,910.1</u>	<u>\$ 88.6</u>	<u>\$ 1,998.7</u>

As of September 30 (dollar in millions)	2023		
	Beginning Balance	Net Borrowing	Ending Balance
Source of Debt (Intragovernmental)			
Debt owed to:			
Treasury other than the Federal			
Financing Bank	\$ 1,597.7	\$ 312.4	\$ 1,910.1
Total Debt	<u>\$ 1,597.7</u>	<u>\$ 312.4</u>	<u>\$ 1,910.1</u>

The Department's debt consists of principal amounts due to the Treasury when borrowing funds from the Treasury for the Military Housing Privatization Initiative (MHPI). Debt is established when MHPI borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction, and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for more information pertaining to the MHPI direct loan program.

In FY 2023, the Department entered into a Finance Agreement pursuant to the terms of the Defense Production Act with National Resilience, Inc. When the private sector repays the loans, DPA returns the funds to the Treasury. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for more information pertaining to the DPA direct loan program.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

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

Table 13A. Federal Employee and Veteran Benefits Liability

As of September 30 (dollar in millions)	2024		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	\$ 2,808,441.4	\$ (1,503,013.8)	1,305,427.6
Military Pre Medicare-Eligible Retiree Health Benefits	361,667.8	-	361,667.8
Military Medicare-Eligible Retiree Health Benefits	933,144.8	(368,278.5)	564,866.3
Total Pension and Health Benefits	4,103,254.0	(1,871,292.3)	2,231,961.7
Other Benefits			
FECA	4,704.5	-	4,704.5
Voluntary Separation Incentive Programs	59.5	(35.8)	23.7
DoD Education Benefits Fund	443.6	(443.6)	-
Other	37,064.6	(21,036.1)	16,028.5
Total Other Benefits	42,272.2	(21,515.5)	20,756.7
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	4,145,526.2	(1,892,807.8)	2,252,718.4
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,943.2	(963.4)	979.8
Total Federal Employee and Veteran Benefits Payable	\$ 4,147,469.4	\$ (1,893,771.2)	\$ 2,253,698.2

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$1.8 trillion

As of September 30 (dollar in millions)	2023		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	\$ 2,616,041.0	\$ (1,318,609.1)	\$ 1,297,431.9
Military Pre Medicare-Eligible Retiree Health Benefits	315,587.4	-	315,587.4
Military Medicare-Eligible Retiree Health Benefits	806,804.8	(341,549.4)	465,255.4
Total Pension and Health Benefits	3,738,433.2	(1,660,158.5)	2,078,274.7
Other Benefits			
FECA	4,827.5	-	4,827.5
Voluntary Separation Incentive Programs	82.4	(42.4)	40.0
DoD Education Benefits Fund	442.0	(442.0)	-
Other	24,382.6	(8,855.4)	15,527.2
Total Other Benefits	29,734.5	(9,339.8)	20,394.7
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	3,768,167.7	(1,669,498.3)	2,098,669.4
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,664.8	(694.2)	970.6
Total Federal Employee and Veteran Benefits Payable	\$ 3,769,832.5	\$ (1,670,192.5)	\$ 2,099,640.0

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$1.5 trillion

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

As of September 30 (dollar in millions)	2024				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	\$ 2,616,041.0	\$ 315,587.4	\$ 806,804.8	\$ 524.4	\$ 3,738,957.6
Plus Expense:					
Normal Cost	68,524.8	15,767.2	21,544.6	48.8	105,885.4
Interest Cost	75,732.4	9,435.9	23,837.2	12.5	109,018.0
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	20,856.4	(3,850.6)	(1,141.3)	50.7	15,915.2
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	165,113.6	21,352.5	44,240.5	112.0	230,818.6
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	37,834.0	65,951.3	-	103,785.3
Changes in Assumptions Other Than Trend	105,038.1	(1,061.5)	28,993.1	11.8	132,981.5
Losses (Gains) from Actuarial Assumption Changes	105,038.1	36,772.5	94,944.4	11.8	236,766.8
Total Expenses	270,151.7	58,125.0	139,184.9	123.8	467,585.4
Less: Benefit Outlays	77,751.3	12,044.6	12,844.9	145.1	102,785.9
Total Changes in Actuarial Liability	192,400.4	46,080.4	126,340.0	(21.3)	364,799.5
Ending Actuarial Liability	\$ 2,808,441.4	\$ 361,667.8	\$ 933,144.8	\$ 503.1	\$ 4,103,757.1

As of September 30 (dollar in millions)	2023				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	\$ 2,513,153.0	\$ 295,085.6	\$ 747,145.4	\$ 674.8	\$ 3,556,058.8
Plus Expense:					
Normal Cost	62,651.9	14,522.7	19,128.2	38.6	96,341.4
Interest Cost	70,205.6	8,810.3	22,045.6	14.5	101,076.0
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	33,255.5	(8,985.5)	(29,690.3)	11.3	(5,409.0)
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	166,113.0	14,347.5	11,483.5	64.4	192,008.4
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	20,987.0	81,015.3	-	102,002.3
Changes in Assumptions Other Than Trend	11,128.6	(3,142.6)	(20,594.3)	(49.5)	(12,657.8)
Losses (Gains) from Actuarial Assumption Changes	11,128.6	17,844.4	60,421.0	(49.5)	89,344.5
Total Expenses	177,241.6	32,191.9	71,904.5	14.9	281,352.9
Less: Benefit Outlays	74,353.6	11,690.1	12,245.1	165.3	98,454.1
Total Changes in Actuarial Liability	102,888.0	20,501.8	59,659.4	(150.4)	182,898.8
Ending Actuarial Liability	\$ 2,616,041.0	\$ 315,587.4	\$ 806,804.8	\$ 524.4	\$ 3,738,957.6

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

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund (MRF) is a non-revolving trust fund. Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

The MRF is authorized by the [NDAA for FY 2021](#) to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer defined benefit plan. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (BRS) is the retirement benefit provision that merges aspects of both a defined benefit annuity with a defined contribution account through the Thrift Savings Plan (TSP). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution. In addition, the [NDAA for FY 2021, §§ 8224-8225](#) required the U.S. Coast Guard (USCG) be covered by the MRF for funding purposes no later than the beginning of FY 2023. The USCG actuarial liability was first reflected on the Department's financial statements as of September 30, 2022.

Information Related to Military Retirement Fund Benefit Liabilities

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

The increase in the FY 2024 actuarial liability results from updated actuarial assumptions and experience. The updated long-term economic assumptions under SFFAS No. 33 are as follows, comparing FY 2024 to FY 2023: 3.0% discount rate compared to 2.9% last year; 2.8% COLA compared to 2.6% last year; 2.8% across-the-board salary increase compared to 2.6% last year. There is a \$45.9 billion loss due to these newly adopted SFFAS No. 33 long-term economic assumptions. There are also updated non-economic assumptions. Updated non-economic actuarial assumptions led to a \$59.1 billion loss. The total effect of the updated actuarial assumptions is an increase in the September 30, 2024, actuarial liability of \$105.0 billion. The experience loss of \$20.9 billion reflects economic experience being different from that assumed, as well as the new census data on which the September 30, 2024, actuarial liability is based.

(Note that this year's increase in actuarial liability due to updated actuarial assumptions (\$105.0 billion) is much larger in comparison with last year's (\$11.1 billion). This is because this year's updates to economic and noneconomic assumptions both resulted in losses, whereas last year's loss due to economic assumption updates was largely offset by a gain due to noneconomic assumption updates.)

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

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

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

Information Related to MRF's Actuarial Cost Method

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

Assumptions listed in Table 13C are used by the OACT to calculate the FY 2024 actuarial liability.

Table 13C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)	Salary	Interest
FY 2024	3.2% (actual)	5.2% (actual)	N/A
FY 2025	2.5% (estimated)	4.5% (estimated)	3.0%
Long Term	2.8%	2.8%	3.0%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market value of investments in non-marketable, market-based securities: \$1.4 trillion
Assumed Interest Rate: 3.0%

Chapter 74 of Title 10, United States Code (U.S.C.), requires the Board approve the methods and assumptions used to (1) compute actuarial costs and liabilities for funding purposes, (2) amortize the initial unfunded liability, and (3) amortize all actuarial gains and losses. The Board is a Federal Advisory Committee appointed by the Secretary of Defense.

Information Related to MRF's Revenues

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, [Public Law 108-136](#) requires a Treasury contribution for the normal cost amount of the concurrent receipt provisions under Sections 1413a and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

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

Military Retirement Health Benefits (MRHB)

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

Assumptions listed in Table 13D were used to calculate the 'rolled-forward' FY 2024 actuarial liability.

Table 13D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2023 - FY 2024	Ultimate Rate FY 2048
Non-Medicare Inpatient (Direct Care)	6.09%	4.80%
Non-Medicare Outpatient (Direct Care)	5.04%	4.80%
Non-Medicare Prescriptions (Direct Care)	6.88%	4.80%
Non-Medicare Inpatient (Purchased Care)	6.09%	4.80%
Non-Medicare Outpatient (Purchased Care)	5.03%	4.80%
Non-Medicare Prescriptions (Purchased Care)	8.74%	4.80%
U.S. Family Health Plan (USFHP) (Purchased Care)	6.40%	4.80%
<i>Actuarial Cost Method Used: Aggregate Entry-Age Normal Method</i>		
<i>Assumed Interest Rate: 3.0%</i>		

For the FY 2024 financial statement valuation, a single equivalent medical cost trend rate of 5.1% was used to calculate the total retiree health benefits liability. The total retiree health benefits liability includes MRHB and Medicare-Eligible Retiree Health Care Fund liabilities.

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

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

Assumptions listed in Table 13E were used to calculate the FY 2024 actuarial liability. In general, the rates below show that retirees and their dependents are still catching up on medical services delayed during the COVID-19 pandemic and are utilizing drugs for new purposes.

Table 13E. Actuarial Assumptions for MERHCF Liability

MERHCF Benefits Medical Trend	FY 2023 - FY 2024	Ultimate Rate FY 2048
Medicare Inpatient (Direct Care)	6.60%	4.80%
Medicare Outpatient (Direct Care)	6.08%	4.80%
Medicare Prescriptions (Direct Care)	7.35%	4.80%
Medicare Inpatient (Purchased Care)	6.60%	4.80%
Medicare Outpatient (Purchased Care)	5.57%	4.80%
Medicare Prescriptions (Purchased Care)	9.81%	4.80%
Medicare USFHP (Purchased Care)	5.94%	4.80%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market value of investments in non-marketable, market-based securities: \$372.3 billion
Assumed Interest Rate: 3.0%

The FY 2024 MERHCF liability includes Medicare liabilities for all Uniformed Services. The \$933.1 billion liability includes \$909.4 billion for the Department, \$21.0 billion for the Coast Guard, \$2.6 billion for the Public Health Service, and \$0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2023 \$806.8 billion liability included \$786.5 billion for the Department, \$18.0 billion for the Coast Guard, \$2.2 billion for the Public Health Service, and \$0.1 billion for NOAA.

The FY 2024 normal cost contributions from each of the Uniformed Services were \$10.5 billion from the Department, \$265.3 million from the Coast Guard, \$36.3 million from the Public Health Service, and \$2.2 million from NOAA. The FY 2023 contributions from each of the Uniformed Services were \$9.7 billion from the Department, \$251.9 million from the Coast Guard, \$33.7 million from the Public Health Service, and \$2.0 million from NOAA.

For the FY 2024 financial statement valuation, a single equivalent medical cost trend rate of 5.1% was used to calculate the total retiree health benefits liability. The total retiree health benefits liability includes MRHB and MERHCF liabilities.

Other Benefits

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual payments have been discounted to present value that is based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues ([TNC Yield Curve](#)) which reflects the average duration of income payments and medical payments. An interest rate for wage benefits of 2.648% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.399% was assumed for year one and years thereafter.

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

Table 13F. Actuarial Assumptions for FECA Liability

CBY	COLA	CPIM
2025	4.27%	2.55%
2026	4.42%	2.85%
2027	4.17%	3.21%
2028	3.17%	3.37%
2029	2.57%	3.98%

Voluntary Separation Incentive (VSI) Program

The [VSI Program](#) was established by [NDAA for FYs 1992 and 1993](#) to reduce the size of the armed forces while avoiding serious skill and grade imbalances, which would degrade the readiness of future forces. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 2.0% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest costs.

The market value of investments in non-marketable, market-based securities is \$36.1 million for FY 2024 and \$42.3 million for FY 2023.

DoD Education Benefits Fund (EBF)

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

The market value of investments in non-marketable, market-based securities for FY 2024 is \$736.4 million and \$801.6 million for FY 2023.

Other Federal Employment Benefits

In FY 2024, Other Federal Employment Benefits primarily consists of unfunded annual leave of \$13.7 billion and health insurance claims on behalf of military employees and veterans, including costs incurred but not yet recorded, of \$2.9 billion. In FY 2023, Other Federal Employment Benefits primarily consists of unfunded annual leave of \$13.4 billion and health insurance claims on behalf of military employees and veterans, including costs incurred but not yet recorded, of \$2.7 billion.

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

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

Life Insurance Liabilities and Other Civilian Insurance Programs

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

Other Military Insurance Programs

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

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

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

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

The total amount of Insurance Premium collections was \$991.4 million in FY 2024 and \$957.7 million for FY 2023. The benefit cost for FY 2024 correlate to the premium collections reported.

For Calendar Year 2024 Monthly Premium Rates are established on an annual basis in accordance with [Title 10, U.S.C. Sections 1076d, 1076e, 1078a](#), and [1110b](#) along with [Title 32, Code of Federal Regulations, part 199.20, 24, 25](#) and [26](#), as enacted by [FY 2017 Section 701 of NDAA; Public Law 114 328](#). The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP's Agency Financial Report at the link previously noted.

Unfunded actuarial liabilities (\$361.7 billion and \$315.6 billion for FY 2024 and FY 2023, respectively) related to MHS are reported in Table 13A where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits. The estimated MHS liability for incurred-but-not-reported (IBNR) medical claims (\$2.2 billion and \$2.0 billion in FY 2024 and FY 2023, respectively) is included on Table 13A, Other Benefits, Other.

Liability for Unpaid Insurance Claims

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

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

Table 13G. Liability for Unpaid Insurance Claims

As of September 30 <i>(dollar in millions)</i>	2024	2023
Beginning Balance	\$ 2,383.5	\$ 2,436.9
Claims Expense	17,728.7	16,750.8
Claims Adjustment Expense	(34.5)	(26.4)
Payments to Settle Claims	(17,418.7)	(16,775.9)
Recoveries and Other Adjustments	2.5	(1.8)
Ending Balance	\$ 2,661.5	\$ 2,383.6

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Table 14. Environmental and Disposal Liabilities

As of September 30 (dollar in millions)	2024	2023
Environmental Liabilities - Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 18,250.0	\$ 16,694.0
Active Installations - Military Munitions Response Program (MMRP)	4,214.1	3,998.7
Formerly Used Defense Sites - IRP and BD/DR	4,080.0	3,536.0
Formerly Used Defense Sites - MMRP	12,012.2	10,564.5
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	5,767.8	5,558.5
Environmental Closure Requirements	3,549.4	3,030.9
Asbestos	10,832.5	10,980.0
Non-Military Equipment	4.9	6.0
Other	3,200.8	2,660.4
Base Realignment and Closure Installations		
IRP	8,277.2	6,797.4
MMRP	1,316.0	1,081.8
Environmental Corrective Action/Closure Requirements	363.7	471.7
Asbestos	7.2	10.5
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	24,879.4	23,037.0
Non-Nuclear Powered Military Equipment	779.8	742.2
Other Weapon Systems	405.9	388.4
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency (CMA)	1,718.7	1,815.5
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	1,259.8	2,244.7
Red Hill Response		
Community Spill	1.3	3.2
Tank Closure Requirements	113.4	144.8
Environmental Corrective Action	24.9	26.0
Total Environmental and Disposal Liabilities	\$ 101,059.0	\$ 93,792.2

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023, resulting in a misstatement. In FY 2024, adjustments were made to correct these differences, and the net effect to this Note at the end of FY 2024 was less than \$855.0 thousand.

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

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

Environmental and Disposal Liabilities Involving Multiple Component Entities

There are instances when the DoD entity that recognizes General and Right-to-Use PP&E during its useful life differs from the entity that will eventually be responsible for the future outflow of resources required for cleanup when the General and Right-to-Use PP&E is removed from service. [FASAB Interpretation 2](#), Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 and SFFAS 6, clarifies during the General and Right-to-Use PP&E's useful life the entity owning the General and Right-to-Use PP&E must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General and Right-to-Use PP&E on its Balance Sheet. When the General and Right-to-Use PP&E is transferred to the designated entity responsible by law, statute, or policy for cleanup, the General and Right-to-Use PP&E and the associated liability must be de-recognized by the entity that recognized them during the useful life. The General and Right-to-Use PP&E then must be recognized by the entity responsible for clean-up and liquidating the liability. The entity recording the environmental and disposal liabilities must have sufficient supporting documentation to establish its responsibility for the liability.

Sources for Cleanup Requirements

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

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

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

The [Low Level Radioactive Waste Policy Amendments Act of 1985](#), as amended, authorizes and encourages states to enter into compacts for safe and efficient management of low-level radioactive wastes.

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

Methods for Assigning Total Cleanup Costs to Current Operating Periods

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

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

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

The unrecognized portion of the estimated total cleanup costs associated with disposal of General and Right-to-Use PP&E was \$5.2 billion as of September 30, 2024, and \$4.7 billion as of September 30, 2023.

Nature and Possible Changes in Estimated Cleanup Costs

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

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

Uncertainty Regarding Accounting Estimates

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

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

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

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

Emerging Contaminants

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

PFAS are a large class of chemicals found in many consumer products, as well as in a certain firefighting foam called aqueous film forming foam (AFFF). While the Department is only one of the many users of AFFF, there is significant attention on the Department's use and the subsequent potential impact to human health and the environment. The Department follows the existing federal cleanup law CERCLA and long-standing Environmental Protection Agency regulations for all chemicals in its cleanup program, including PFAS. As the Department continues PFAS site investigations and additional regulatory standards are developed and put in place, the PFAS related environmental and disposal liability amounts are likely to increase over time.

As of FY 2024, the Department reported PFAS related environmental and disposal liability amounts through the Remedial Investigation/ Feasibility Study (RI/FS) phase for most PFAS sites. The Department concluded that costs after the RI/FS phase are not yet reasonably estimable because the extent of the PFAS release has not been determined.

Red Hill Bulk Fuel Storage Facility

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

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

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

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

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

In FY 2024, the Department reports \$113.4 million under "Red Hill Response - Tank Closure Requirements", based on the standard parametric closure approach. The current year liability amount is based on the isolation of the impacted Red Hill asset closure population and associated liability. In addition, the Department reports \$24.9 million under "Red Hill Response - Environmental Corrective Action" as part of pump and treat activities related to response at Red Hill and \$1.3 million under "Red Hill Response - Community Spill".

Asbestos-Related Cleanup Costs

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. Both CERCLA and RCRA address asbestos cleanup, but there is no legal requirement to test for asbestos or to remove and remediate non-friable asbestos before renovation or disposal. In accordance with [FASAB Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs](#), the Department environmental and disposal liabilities include estimated cleanup costs related to friable and non-friable asbestos. The Department estimate asbestos cleanup costs based on historic cost factors applied to facility square footage in the real property inventory. Based on the inherent uncertainties associated with asbestos environmental cleanup, the estimated cost will be updated as more relevant data becomes available. The Department does not have either an unrecognized portion of the estimated total asbestos-related cleanup costs nor asbestos-related cleanup costs that are deemed to be probable but not estimable for FY 2024.

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

NOTE 15. OTHER LIABILITIES

Table 15A. Other Liabilities

As of September 30 (dollar in millions)	2024		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	\$ 714.2	\$ -	\$ 714.2
Liabilities for Non-entity Assets	88.3	7,227.9	7,316.2
Other Liabilities	1,364.0	-	1,364.0
Subtotal	2,166.5	7,227.9	9,394.4
Other Liabilities reported on Note 13, <i>Federal Employee and Veteran Benefits Payable</i>	1,405.2	538.0	1,943.2
Total Intragovernmental	3,571.7	7,765.9	11,337.6
Other than Intragovernmental			
Accrued Funded Payroll and Leave	-	-	-
Withholdings Payable	647.2	-	647.2
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	2,241.2	-	2,241.2
Liability for Clearing Accounts	-	-	-
Contract Holdbacks	530.3	1,413.3	1,943.6
Contingent Liabilities	378.4	1,599.0	1,977.4
Benefits Due and Payable	1.3	-	1.3
Other Liabilities without Related Budgetary Obligations	155.1	2,943.9	3,099.0
Other Liabilities with Related Budgetary Obligations	6,509.2	-	6,509.2
Right-to-Use Lease Liability	581.3	501.6	1,082.9
Unearned Right-to-Use Lease Revenue	101.5	-	101.5
Total Other than Intragovernmental	11,145.5	6,457.8	17,603.3
Total Other Liabilities	\$ 14,717.2	\$ 14,223.7	\$ 28,940.9

As of September 30 (dollar in millions)	2023		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	\$ 805.2	\$ -	\$ 805.2
Liabilities for Non-entity Assets	83.8	4,411.2	4,495.0
Other Liabilities	1,321.1	-	1,321.1
Subtotal	2,210.1	4,411.2	6,621.3
Other Liabilities reported on Note 13, <i>Federal Employee and Veteran Benefits Payable</i>	1,139.2	525.6	1,664.8
Total Intragovernmental	3,349.3	4,936.8	8,286.1
Other than Intragovernmental			
Accrued Funded Payroll and Leave	-	-	-
Withholdings Payable	661.5	-	661.5
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	3,661.4	-	3,661.4
Liability for Clearing Accounts	(0.2)	-	(0.2)
Contract Holdbacks	506.4	1,264.2	1,770.6
Contingent Liabilities	580.5	1,550.6	2,131.1
Benefits Due and Payable	1.4	-	1.4
Other Liabilities without Related Budgetary Obligations	302.5	2,714.8	3,017.3
Other Liabilities with Related Budgetary Obligations	9,144.4	(23.6)	9,120.8
Total Other than Intragovernmental	14,857.9	5,506.0	20,363.9
Total Other Liabilities	\$ 18,207.2	\$ 10,442.8	\$ 28,650.0

Intragovernmental Other Liabilities

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash. See Note 4, *Cash and Other Monetary Assets*, for additional information.

Liabilities for Non-entity Assets represent offsetting liabilities for non-entity assets primarily non-entity receivables that, upon collection, will be remitted to Treasury.

Other Liabilities primarily consists of Judgement Fund liabilities under the [Contract Disputes Act of 1978](#), for which there is not a related budgetary obligation. The Judgment Fund pays court judgments and compromise settlements of lawsuits against the government. Losses in litigation proceedings may be paid from the Treasury Judgment Fund.

"Intragovernmental Other Liabilities" on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information in Note 1.AD, *Significant Accounting Policies*). Certain USSGLs on the Balance Sheet line "Intragovernmental Other Liabilities" are required to be reported on Note 13, *Federal Employee and Veteran Benefits Payable*, while others are reported on this note. The amounts from the Balance Sheet "Intragovernmental Other Liabilities" reported on Note 13 are aggregated and also included above as Other Liabilities Reported on Note 13. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Than Intragovernmental Other Liabilities

Liability for non-fiduciary deposit funds and undeposited collections represents liabilities offsetting undeposited collections and collections deposited in nonfiduciary deposit funds that do not belong to the federal government.

The Department is working towards implementing [SFFAS 54](#), in FY2024. To capture new lease liability activity, the lines Right-to-use lease liability and Unearned right-to-use lease revenue were added to table 15A.

Liability for clearing accounts represent liabilities that offset receipts held in suspense temporarily for distribution to another fund or entity or for reclassification. The net amount may present as an overall position or negative balance.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. In FY 2024 and FY 2023 contract holdbacks include \$1.6 billion and \$1.5 billion, respectively, for contracts authorization progress payments based on cost as defined in the [Federal Acquisition Regulation \(FAR\)](#).

Contingent Liabilities for FY 2024 and FY 2023 include legal contingent liabilities. See Note 17, *Commitments and Contingencies*.

Other Liabilities without Related Budgetary Obligations consist primarily of accrued liabilities for conventional munitions noncurrent liability, non-environmental disposal liabilities and other future funded expense, liabilities for Reserve Officer Training Corps contracts, and estimated costs for services provided.

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

**Table 15B. Advances from Others and Deferred Revenue
(reported separately from Other Liabilities on the Balance Sheet)**

As of September 30 (dollar in millions)	2024		2023	
Intragovernmental	\$	3,474.9	\$	4,440.1
Other than Intragovernmental	\$	7,149.7	\$	6,844.4

Intragovernmental

Advances from Others and Deferred Revenue represents liabilities for collections received to cover future expenses or acquisition of assets the Department 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

Entity as Lessee – Intragovernmental Leases

The Department is the lessee in numerous intragovernmental leases with various lease terms. These leases are related primarily to land and buildings, equipment, and vehicles.

Entity as Lessee – Right-to-Use Leases

The Department is the lessee in right-to-use leases primarily related to land and buildings used for administration and office space. Additionally, the Department has equipment related to indefeasible right of use agreements, allowing the Department access to portions of undersea fiber optic cables.

Entity as Lessor – Intragovernmental Leases

The Department is the lessor in numerous intragovernmental leases with various lease terms. These leases are in large part for office space, vehicles, and telecommunication services.

Entity as Lessor – Right-to-Use Leases

The Department is the lessor in numerous right-to-use leases with various lease terms. These leases are related primarily to agreements with companies to run restaurants, cell towers, and other businesses on installations.

Other Disclosures:

In FY 2024, the tables are not displayed due to Components have not fully implemented SFFAS 54 and the data would not be accurately presented. The Department continues to work towards SFFAS 54 compliance.

The Department reports right-to-use lease assets and corresponding lease liabilities for material, non-intragovernmental long-term contracts for which it has the right to control access to and/or obtain economic benefits from the use of the real property, equipment, or other asset. Please refer to Note 9 *General and Right-to-Use PP&E, Net*, Note 10 *Other Assets*, and Note 15 *Other Liabilities* for additional information related to the Department's lease assets and liabilities.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the [Treasury Judgment Fund](#). In most cases, the Department does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the [Contracts Disputes Act](#) or the [No FEAR Act](#).

In accordance with [SFFAS 5, Accounting for Liabilities of the Federal Government](#), as amended by [SFFAS 12, Recognition of Contingent Liabilities Arising from Litigation](#), an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The below amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

The Department of Defense is subject to certain international court matters that are still undecided for potential loss at the time of this disclosure. As such, it may result in material legal contingent liabilities to the Department of Defense financial statements if the case matters are decided against the Department.

Table 17. Summary of Legal Contingent Liabilities

As of September 30 (dollar in millions)	2024					
	Accrued Liabilities		Estimated Range of Loss			
			Lower End		Upper End	
Legal Contingent Liabilities						
Probable	\$	1,876.7	\$	1,686.9	\$	8,628.6
Reasonably Possible		-	\$	1,288.0	\$	73,801.7

As of September 30 (dollar in millions)	2023					
	Accrued Liabilities		Estimated Range of Loss			
			Lower End		Upper End	
Legal Contingent Liabilities						
Probable	\$	2,012.1	\$	1,522.1	\$	3,567.6
Reasonably Possible		-	\$	391.2	\$	34,397.8

As of September 30, 2024, legal claims exist for which the amount claimed, and the potential range of loss cannot be reasonably determined. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

Environmental Contingencies

The Department continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs. See Note 14, *Environmental and Disposal Liabilities*, for additional information.

Other Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Contingencies considered both measurable and probable in the amount of \$100.7 million and \$119.0 million have been accrued for FY 2024 and FY 2023, respectively. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the Department's financial statements pursuant to legal authority and appropriated funds none are contingent. All legally binding agreements to which the Department enters, must first be approved by the Department of State, pursuant to [Circular 175](#), prior to negotiation and prior to conclusion.

Commitments

The Department has the following obligations as of FY 2024 and FY 2023:

- Cancelled appropriations for which it has a contractual commitment for payment (\$6.2 billion and \$4.3 billion, respectively)
- Contractual arrangements related to loan guarantees (\$768.8 million and \$831.8 million, respectively)
- See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for the face value of outstanding principal of guaranteed loans net of the liability recognized at Net Present Value.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS
Table 18A. Balance Sheet – Funds from Dedicated Collections

	2024						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
As of September 30 <i>(dollar in millions)</i>							
Intragovernmental Assets							
Fund Balance with Treasury Investments, Net	\$ 192.4	\$ 2,932.6	\$ 2,307.3	\$ 1,193.2	\$ 6,625.5	\$ -	\$ 6,625.5
Accounts Receivable, Net	10,329.9	-	1,170.6	16.0	11,516.5	-	11,516.5
	3,136.5	-	-	9.2	3,145.7	(2,394.5)	751.2
Total Intragovernmental Assets	13,658.8	2,932.6	3,477.9	1,218.4	21,287.7	(2,394.5)	18,893.2
Other than Intragovernmental Assets							
Cash and Other Monetary Assets	-	-	-	4.1	4.1	-	4.1
Accounts Receivable, Net	-	59.3	-	2.6	61.9	-	61.9
General and right-to-use property, plant and equipment, net	119.5	274.5	-	127.1	521.1	-	521.1
Advances and Prepayments	-	-	-	1.2	1.2	-	1.2
Total Other than Intragovernmental Assets	119.5	333.8	-	135.0	588.3	-	588.3
Total Assets	13,778.3	3,266.4	3,477.9	1,353.4	21,876.0	(2,394.5)	19,481.5
Intragovernmental Liabilities							
Accounts Payable	4,805.7	1.2	5.8	16.6	4,829.3	(2,394.5)	2,434.8
Advances from Others and Deferred Revenue	-	-	-	-	-	-	-
Other Liabilities:	6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities	4,811.7	14.1	5.8	18.9	4,850.5	(2,394.5)	2,456.0
Other than Intragovernmental Liabilities							
Accounts Payable	0.1	72.8	-	87.8	160.7	-	160.7
Other Liabilities:							
Advances from Others and Deferred Revenue	-	2,889.6	-	-	2,889.6	-	2,889.6
Other	-	7.6	-	-	7.6	-	7.6
Total Other Liabilities	-	2,897.2	-	-	2,897.2	-	2,897.2
Total Other than Intragovernmental Liabilities	0.1	2,970.0	-	87.8	3,057.9	-	3,057.9
Total Liabilities	4,811.8	2,984.1	5.8	106.7	7,908.4	(2,394.5)	5,513.9
Cumulative Results of Operations	8,966.5	282.3	3,472.1	1,246.7	13,967.6	-	13,967.6
Total Liabilities and Net Position	\$ 13,778.3	\$ 3,266.4	\$ 3,477.9	\$ 1,353.4	\$ 21,876.0	\$ (2,394.5)	\$ 19,481.5

		2023						
As of September 30 <i>(dollar in millions)</i>		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental Assets								
Fund Balance with Treasury Investments, Net	\$	203.2	2,842.5	2,112.6	\$ 1,150.3	\$ 6,308.6	\$ -	\$ 6,308.6
Accounts Receivable, Net		10,540.3	-	1,393.3	16.1	11,949.7	-	11,949.7
		2,790.8	-	-	3.0	2,793.8	(2,217.2)	576.6
Total Intragovernmental Assets		13,534.3	2,842.5	3,505.9	1,169.4	21,052.1	(2,217.2)	18,834.9
Other than Intragovernmental Assets								
Cash and Other Monetary Assets		-	-	-	3.1	3.1	-	3.1
Accounts Receivable, Net		-	61.2	-	4.5	65.7	-	65.7
General Property, Plant and Equipment, Net		121.4	240.5	-	157.0	518.9	-	518.9
Advances and Prepayments		-	-	-	0.2	0.2	-	0.2
Total Other than Intragovernmental Assets		121.4	301.7	-	164.8	587.9	-	587.9
Total Assets		13,655.7	3,144.2	3,505.9	1,334.2	21,640.0	(2,217.2)	19,422.8
Intragovernmental Liabilities								
Accounts Payable		4,435.2	0.8	3.2	16.5	4,455.7	(2,217.2)	2,238.5
Advances from Others and Deferred Revenue		-	-	-	1.4	1.4	-	1.4
Other Liabilities		6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities		4,441.2	13.7	3.2	20.2	4,478.3	(2,217.2)	2,261.1
Other than Intragovernmental Liabilities								
Accounts Payable		0.1	47.5	-	87.5	135.1	-	135.1
Other Liabilities:								
Advances from Others and Deferred Revenue		-	2,819.9	-	-	2,819.9	-	2,819.9
Other		-	8.6	-	-	8.6	-	8.6
Total Other Liabilities		-	2,828.5	-	-	2,828.5	-	2,828.5
Total Other than Intragovernmental Liabilities		0.1	2,876.0	-	87.5	2,963.6	-	2,963.6
Total Liabilities		4,441.3	2,889.7	3.2	107.7	7,441.9	(2,217.2)	5,224.7
Cumulative Results of Operations		9,214.4	254.5	3,502.7	1,226.5	14,198.1	-	14,198.1
Total Liabilities and Net Position	\$	13,655.7	\$ 3,144.2	\$ 3,505.9	\$ 1,334.2	\$ 21,640.0	\$ (2,217.2)	\$ 19,422.8

Table 18B. Statement of Net Cost – Funds from Dedicated Collections

	2024						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
For the period ended September 30 (dollar in millions)							
Gross Program Costs	\$ 60.2	\$ 556.5	\$ 1,397.1	\$ 415.4	\$2,429.2	\$ -	\$ 2,429.2
Less: Earned Revenues	-	(657.4)	(1,366.5)	(291.5)	\$(2,315.4)	-	(2,315.4)
Net Program Costs	60.2	(100.9)	30.6	123.9	113.8	-	113.8
Net Cost of Operations	\$ 60.2	\$ (100.9)	\$ 30.6	\$ 123.9	\$ 113.8	\$ -	\$ 113.8
2023							
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
For the period ended September 30 (dollar in millions)							
Gross Program Costs	\$ 63.7	\$ 342.9	\$ 1,241.9	\$ 417.0	\$ 2,065.5	\$ -	\$ 2,065.5
Less: Earned Revenues	-	(428.5)	(867.9)	(260.3)	(1,556.7)	-	(1,556.7)
Net Program Costs	63.7	(85.6)	374.0	156.7	508.8	-	508.8
Net Cost of Operations	\$ 63.7	\$ (85.6)	\$ 374.0	\$ 156.7	\$ 508.8	\$ -	\$ 508.8

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Table 18C. Statement of Changes in Net Position – Funds from Dedicated Collections

	2024						Total Funds from Dedicated Collections (Consolidated)
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	
For the period ended September 30 (dollar in millions)							
Cumulative Results of Operations							
Beginning Balance	\$ 9,214.4	\$ 254.5	\$ 3,502.7	\$ 1,226.5	\$ 14,198.1	\$ -	\$ 14,198.1
Prior Period Adjustments:							
Changes in accounting principles (+/-)	-	-	-	-	-	-	-
Changes in errors (+/-)	-	-	-	-	-	-	-
Beginning Balance, as adjusted	9,214.4	254.5	3,502.7	1,226.5	14,198.1	-	14,198.1
Other than Intragovernmental Nonexchange revenue							
Miscellaneous taxes and receipts	-	-	-	3.0	3.0	-	3.0
Total Other than Intragovernmental Nonexchange revenue	-	-	-	3.0	3.0	-	3.0
Intragovernmental Nonexchange revenue	2,701.2	-	-	14.3	2,715.5	-	2,715.5
Donations and forfeitures of cash and cash equivalents	-	-	-	73.3	73.3	-	73.3
Transfers-in/out without reimbursement (+/-)	(2,888.9)	(77.5)	-	(57.1)	(3,023.5)	-	(3,023.5)
Imputed financing	-	4.4	-	24.5	28.9	-	28.9
Other	-	-	-	86.1	86.1	-	86.1
Less: Net Cost of Operations	60.2	(100.9)	30.6	123.9	113.8	-	113.8
Net Change in Cumulative Results of Operations	(247.9)	27.8	(30.6)	20.2	(230.5)	-	(230.5)
Net Position, End of Period	\$ 8,966.5	\$ 282.3	\$ 3,472.1	\$ 1,246.7	\$ 13,967.6	\$ -	\$ 13,967.6

		2023					
For the period ended September 30 <i>(dollar in millions)</i>		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations							
	Beginning Balance	\$ 9,336.7	\$ 245.2	\$ 3,535.8	\$ 1,196.7	\$ 14,314.4	\$ 14,314.4
Prior Period Adjustments:							
	Changes in accounting principles (+/-)	-	-	-	-	-	-
	Changes in errors (+/-)	-	-	-	-	-	-
	Beginning Balance, as adjusted	9,336.7	245.2	3,535.8	1,196.7	14,314.4	14,314.4
Other than Intragovernmental Nonexchange revenue							
	Miscellaneous taxes and receipts	-	-	340.9	18.0	358.9	358.9
Total Other than Intragovernmental Nonexchange revenue		-	-	340.9	18.0	358.9	358.9
Intragovernmental Nonexchange revenue		2,382.9	-	-	13.0	2,395.9	2,395.9
Donations and forfeitures of cash and cash equivalents		-	-	-	132.5	132.5	132.5
Transfers-in/out without reimbursement (+/-)		(2,441.5)	(80.9)	-	(61.7)	(2,584.1)	(2,584.1)
Donations and forfeitures of property		-	-	-	-	-	-
Imputed financing		-	4.6	-	24.5	29.1	29.1
Other		-	-	-	60.2	60.2	60.2
Less: Net Cost of Operations		63.7	(85.6)	374.0	156.7	508.8	508.8
Net Change in Cumulative Results of Operations		(122.3)	9.3	(33.1)	29.8	(116.3)	(116.3)
Net Position, End of Period		\$ 9,214.4	\$ 254.5	\$ 3,502.7	\$ 1,226.5	\$ 14,198.1	\$ 14,198.1

Restatement

For Other Funds from Dedicated Collections, the Department corrected a \$152.3 thousand understatement of FY 2023 Accounts Payable, Other Than Intragovernmental and Gross Program Costs due to expenses not recorded in the general ledger system. See Note 28, *Restatements*, for a summary of all restatements and further information.

Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections

Harbor Maintenance and Related Funds

Harbor Maintenance Trust Fund ([26 U.S.C. §9505](#)) – The [Water Resources Development Act of 1986](#) covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of related administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Collections on behalf of USACE from the Department of Homeland Security, Customs and Border Protection, are made into the Trust Fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movement of cargo between domestic ports. Treasury manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund ([16 U.S.C. §3951-3956](#)), Coastal Wetlands Planning, Protection, and Restoration Act as part of [Public Law 101-646](#) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of “no net loss of wetlands” in coastal Louisiana. USACE is also responsible for allocating funds among the members of the Louisiana Coastal Wetlands Conservation and Restoration Task Force. Federal contributions of dedicated collections are established at 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund, a trust with collections from excise taxes on fishing equipment, motorboat and small engine fuels, import duties, and interest.

Inland Waterways Trust Fund ([26 U.S.C. §9506](#)) – Collections from excise taxes on fuel used in commercial transportation on inland waterways are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The collections are required to be transferred to the General Fund for execution. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds

Rivers and Harbors Contributed and Advance Funds ([33 U.S.C. §701h](#), [702f](#), and [703](#)) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, and enlargement of river channels in the course of flood control and river and harbor maintenance.

Burden Sharing and Other Relocation Activities

Burden Sharing ([Public Law 104-106](#) and [10 U.S.C. § 2350j](#)) – Burden sharing and other cooperative activities involving allies and NATO for the acceptance of cash contributions from any country or regional organization designated for purposes of [10 U.S.C. § 2350j](#) by the Secretary of Defense, in consultation with the Secretary of State for the following:

- Compensation for local national employees
- Military construction projects
- Supplies and services

Support for Relocation to Activities ([10 U.S.C. § 2350k](#)) – Includes the realignment of military installations and the relocation of military personnel. This includes military construction, military family housing, unaccompanied housing, general facilities constructions for military forces, and utilities improvements. Contributions accepted from other nations related to the relocation must be used for payments of costs incurred in connection with the relocation.

Mutually Beneficial Activities ([Public Law 114-92](#) and [10 U.S.C. § 2350j](#)) – Accounts established for the acceptance of cash contributions from the government of Kuwait for the purpose of paying for the costs of construction (including military

construction not otherwise authorized by law), maintenance, and repair projects mutually beneficial to the Department and Kuwait military forces.

Contributions accepted for the above activities must be available only for the payment of the related costs.

Other Funds

Other Funds from Dedicated Collections have been aggregated in accordance with [SFFAS 43](#). The following are the primary Other Funds, and are not an exhaustive list.

Special Recreation Use Fees ([16 U.S.C. §6812\(e\)\(1\)](#)) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs that are under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The fees cover operation and maintenance of recreational sites and camping facilities.

Hydraulic Mining in California, Debris ([33 U.S.C. §683](#)) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Federal Regulatory Commission ([FERC](#)). USACE collects taxes and expends the taxes under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 ([33 U.S.C. §701c 3](#)) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the county where the property is located or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters ([16 U.S.C. §803\(f\)](#) and [810](#)) – The FERC assesses charges against licensees directly benefiting when a reservoir or other improvement is constructed by the United States. Proceeds arising from licenses, except those established by the FERC for administrative reimbursement or other limited situations, are paid to the Treasury from which specific allocations are made. From the specific allocations, a portion of the license fees is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) ([33 U.S.C. §2326](#)) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary of the Army determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund ([10 U.S.C. §2685](#)) – Surcharges on sales of commissary goods and services finance construction and improvements to the defense commissary facilities. Revenue is generated through a five percent surcharge applied to each sale. These funds finance construction, repair, improvement, and maintenance, including related environmental evaluation and construction costs, of the physical infrastructure of commissary stores and central product processing facilities of the defense commissary system.

Proceeds from the Sale of Land, Natick land Conveyance, Army ([Public Law 115-91 Sec 2844](#)) – The Secretary of the Army may sell and convey all right, title, and interest of the United States in and to parcels of real property, consisting of approximately 98 acres and improvements thereon, located in the vicinity of Hudson, Wayland, and Needham, Massachusetts, that are the sites of military family housing supporting military personnel assigned to the United States (U.S.) Army Natick Soldier Systems Center.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Table 19. Costs and Exchange Revenue by Appropriation Category

As of September 30 (dollar in millions)	2024	Restated 2023
Military Retirement Benefits		
Gross Cost	\$ 204,385.7	\$ 172,946.2
Less: Earned Revenue	(80,380.7)	(72,193.2)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	199,982.6	71,549.6
Net Program Costs	323,987.6	172,302.6
Civil Works		
Gross Cost	17,555.4	14,329.6
Less: Earned Revenue	(4,929.3)	(3,094.6)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	12,626.1	11,235.0
Military Personnel		
Gross Cost	165,232.6	175,329.3
Less: Earned Revenue	(950.9)	(1,267.2)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	164,281.7	174,062.1
Operations, Readiness & Support		
Gross Cost	389,262.6	331,417.5
Less: Earned Revenue	(46,126.3)	(38,435.9)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	36,784.2	17,794.9
Net Program Costs	379,920.5	310,776.5
Procurement		
Gross Cost	169,973.4	149,450.4
Less: Earned Revenue	(19,783.1)	(8,576.0)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	150,190.3	140,874.4
Research, Development, Test & Evaluation		
Gross Cost	145,405.7	149,102.1
Less: Earned Revenue	(10,051.6)	(26,629.3)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	135,354.1	122,472.8
Family Housing & Military Construction		
Gross Cost	18,457.4	21,594.0
Less: Earned Revenue	(6,415.4)	(7,468.8)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	12,042.0	14,125.2

As of September 30 (dollar in millions)	2024	Restated 2023
Consolidated		
Gross Cost	1,110,272.8	1,014,169.1
Less: Earned Revenue	(168,637.3)	(157,665.0)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	236,766.8	89,344.5
Total Net Cost	\$ 1,178,402.3	\$ 945,848.6

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023 Statement of Net Cost, resulting in two misstatements. Gross Costs and Earned Revenue were overstated by \$2 billion each. In FY 2024, adjustments were made to correct these differences, and the net effect to this Note at the end of FY 2024 was less than \$11.3 million.

Restatements

The Department corrected a \$1.5 billion understatement of the FY 2023 Net Cost of Operations due to inventory that was expensed upon acquisition rather than capitalized, duplicate accounting entries, missing accruals, incorrect reversal of adjustments, federal advances being estimated and not expensed based on work completed, incorrect posting logic for progress payments and an error in recording disbursement transactions. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

Effective in FY 2024, the presentation of the Statement of Net Cost has changed to align with the Department's new definition of major programs. Office of Management and Budget [Circular No. A-136](#) states that the Statements of Net Cost must present the net cost of operations by an agency's defined major programs. As such, the Department defines the DoD Agency-Wide major programs as follows:

- Department of Air Force: Fly, Fight, and Win Airpower. This major program includes the United States Air Force General Fund and Working Capital Fund, and the United States Space Force General Fund;
- Department of Army: Deploy, Fight, and Sustain Land Dominance. This major program includes the Department of the Army General Fund and Working Capital Fund;
- Department of Navy: Deliver Combat Ready Naval Forces to Win Conflicts and Wars. This major program includes the Navy General Fund, the Department of the Navy Working Capital Fund, and United States Marines Corps General Fund;
- Civil Works: Facilitate Commercial Navigation, Flood/Storm Damage Restoration, and Ecosystem Restoration. This major program includes U.S. Army Corps of Engineers Civil Works programs;
- Support Activities: Support and prepare DoD Combat Forces. This major program includes Other Defense Organizations with Treasury Index 97 except for the Military Retirement Funds (MRF) and activities under the Military Departments with Treasury Index 97; and
- Military Retirement Fund: Support Retired Military Personnel.

The Statement of Net Cost provides gross and net cost information related to the amount of output, or outcome, for a given program administered by a responsible consolidation entity. The Department is in the process of reviewing available data and developing a cost reporting methodology required by [SFFAS 4](#), *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by [SFFAS 55](#), *Amending Inter-Entity Cost Provisions*.

The Department also continues to review the available data and applicability of [SFFAS 7](#), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, for disclosures related to the pricing of goods and services provided to the public or another Federal entity. Please see Note 1.E., *Significant Accounting Policies, Accounting for Intragovernmental and Intergovernmental Activities*, for further information related to intra-entity and inter-entity activities.

The Department's military retirement and postemployment costs are reported in accordance with [SFFAS 33](#), *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the Statement of Net Cost. See Note 13, *Federal Employee and Veteran Benefits Payable* for additional information.

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

Unexpended Appropriations – Prior Period Adjustments

The Department recorded a prior period adjustment under [SFFAS 21](#), that decreased the 2024 beginning balance by \$164.8 million due to an error in recording disbursement transactions in the prior year and reclassification of outlays previously posted to advances that have been moved to expenses.

Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under [SFFAS 21](#), [SFFAS 48](#) and [SFFAS 50](#), that decreased the FY 2024 beginning balance from (\$838.6) billion to (\$823.0) billion, a difference of \$15.6 billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles. In FY 2023, the Department recorded prior period adjustments under [SFFAS 21](#), [SFFAS 48](#), and [SFFAS 50](#), that increased the FY 2023 beginning balance from (\$839.7) billion to (\$835.3) billion, a difference of \$4.4 billion.

DoD Components have been electing to change their accounting principles. FASAB issued SFFAS 48 and SFFAS 50, which permitted alternative methods in establishing opening balances and were effective for periods beginning after September 30, 2016. In FY 2024, there were adjustments of \$19.7 billion related to changes in accounting principles. In FY 2023, there were adjustments of \$928.9 million related changes in accounting principle.

Restatements

In addition to the prior period adjustments to Cumulative Results of Operations, the Department restated its Statement of Changes in Net Position as of September 30, 2024 to correct errors in

- Other Assets was overstated by \$109.5 million due to federal advances being estimated and not expensed based on actual work completed.
- Inventory and Related Property, Net was understated by \$6,834.6 million due to operating materials and supplies that were expensed rather than being reported as inventory. Additionally, stockpile materials were understated due to duplicate accounting entries, missing accruals, and the incorrect reversal of adjustments.
- General and Right-to-Use Property, Plant, and Equipment, Net was understated by \$8,769.1 million due to general and military equipment balances that had improper reversal of journal vouchers, timing issues of reporting transactions, increases in useful life of assets, Construction in Progress (CIP) expenses that should have been capitalized in prior periods, revaluation of vessels from the application of [SFFAS 50](#), and Real Property adjustments due to the application of replacement values as a deemed cost methodology.
- Investments was understated by \$57.9 million due to baseline contributions from prior years not recorded in the accounting system.
- Advances and Prepayments Other Than Intragovernmental was overstated by \$1,834.0 million due to contract financing payments that should have been expensed in prior years.
- Accounts Payable was overstated by \$1,728.5 million due to prior year errors in recording disbursement transactions and calculating the Accounts Payable accrual.
- Appropriations Used was overstated by \$18.7 million due to errors in recording disbursement transactions and calculating the accounts payable accrual in the prior year, federal advances being estimated and not expensed based on actual work completed, and incorrect posting logic of progress payments.
- Transfers in/out without reimbursement was overstated by \$1,107.3 million due to transfers of military equipment that was incorrectly valued in the accounting system.
- Net Cost of Operations was understated by \$1,526.5 million due to inventory that were expensed rather than being reported as inventory, duplicate accounting entries, missing accruals, incorrect reversal of adjustments, federal advances being estimated and not expensed based on work completed, incorrect posting logic for progress payments and an error in recording disbursement transactions.

- Total Budgetary Resources was understated by \$68.3 million due to invalid undelivered orders. Refer to table below for lines on the Statement of Budgetary Resources that had corrections due to the removal of the invalid undelivered orders.

See Note 28, *Restatements* for a summary of all restatements for further information.

Reconciliation Differences

Statement of Budgetary Resources to the Statement of Changes in Net Position

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by \$91.7 billion in FY 2024 and \$89.7 million in FY 2023. A reconciliation of these amounts is presented in Table 20A.

Table 20A. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30 (dollar in billions)	2024	2023
Appropriations, Statement of Budgetary Resources	\$1,194.2	\$1,093.6
Permanent and Temporary Reductions	217.1	171.5
Trust and Special Fund Receipts	(308.2)	(260.5)
Miscellaneous items	(0.6)	(0.7)
Total Reconciling Difference	(91.7)	(89.7)
Appropriations Received, Statement of Changes in Net Position	\$ 1,102.5	\$ 1,003.9

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

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

Miscellaneous Items primarily include the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

Non-custodial Nonexchange Revenue

The U.S. Army Corps of Engineers (USACE) reported the majority of the Department's non-custodial nonexchange revenue for FY 2024. The USACE recognizes non-custodial nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. The USACE reported the following non-custodial nonexchange revenue:

- Trust Funds - interest earned on investments, excise taxes and custom duties
- General Fund Receipt Accounts – miscellaneous receipts, penalties and interest
- Special Fund Receipt Accounts – taxes, receipts, licenses, and fees

For the majority of the non-custodial nonexchange revenue recognized in FY 2024, USACE is not the collecting entity, but receives trust fund revenues from Treasury which is recorded in accordance with applicable law.

Other Disclosures

See Note 18, *Funds from Dedicated Collections*, for disclosures related to the parenthetical presentation of funds from dedicated collections on Statement of Changes in Net Position.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with OMB [Circular No. A-136](#); thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other financial statements, which are presented on a consolidated basis.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Table 21A. Reconciliation of Prior Year Unobligated Balance EOY to Current Year's Unobligated Balance from Prior Year Budget Authority, Net

As of September 30 (dollar in millions)	2024
Unobligated Balance: Brought forward, Oct 1	\$ 231,893.0
Transferred to other accounts	(7,613.5)
Transferred from other accounts	7,575.8
Transfers between expired and unexpired accounts	-
Adjustment to start of year balances brought forward, October 1	114.1
Recoveries of prior year unpaid obligations	74,532.0
Borrowing authority withdrawn	-
Contract authority withdrawn	(8,930.2)
Other balances withdrawn to Treasury	(11,714.7)
Refunds and recoveries temporary precluded obligations (special or trust)	-
Recoveries of prior year paid obligations	2,432.7
Adjustment for change in allocation (general fund portion)	(159.0)
Adjustment for change in allocation (offsetting collection/collected portion)	159.0
Adjustment for change in allocation (offsetting collection/receivable portion)	-
Adjustment for change in allocation (trust fund portion)	159.0
Anticipated recoveries of prior year unpaid and paid obligations	-
Anticipated adjustment for change in allocation (general fund portion)	-
Unobligated balance from prior year budget authority, net	\$ 288,448.2

The Department had adjustments to the balance brought forward, October 1 of \$114.1 million. This includes \$84.7 million in prior period adjustments to obligated undelivered orders, unobligated balances, and undistributed reimbursements, \$29.8 million in adjustments to resolve remaining balances after a system migration to switch to One Fund/One Trial Balance System, (\$814.1) thousand for an adjustment to contract authority, and \$440.5 thousand in backdated revenue collections. See Note 28, *Restatements*, for a summary of all restatements and further information.

Terms of Borrowing Authority Used

Borrowing authority is budget authority enacted by law to permit obligations and disbursements against amounts borrowed for a specific purpose. The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB [Circular No. A-129](#). See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for additional information related to MHPI.

Available Borrowing/Contract Authority, End of Period

Table 21B. Available Borrowing / Contract Authority

As of September 30 (dollar in billions)	2024	Restated 2023
Available Borrowing and Contract Authority at End of the Period	\$ -	\$ -

Undelivered Orders at the End of the Period

Unpaid undelivered orders exist when goods or services have been obligated but have not been paid or received. Prepaid or advanced undelivered orders exist when goods or services have been obligated and paid but the goods or services have not been received.

Table 21C. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30 (dollar in millions)	2024	Restated 2023
Intragovernmental		
Unpaid	\$ 129,213.2	\$ 113,316.9
Prepaid / Advanced	9,295.3	3,412.9
Total Intragovernmental	138,508.5	116,729.8
Other than Intragovernmental		
Unpaid	512,100.1	486,599.3
Prepaid / Advanced	6,201.9	13,737.7
Total Other than Intragovernmental	518,302.0	500,337.0
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 656,810.5	\$ 617,066.8

For purposes of the above table, the breakout of the total Budgetary Resources Obligated for Undelivered Unpaid Orders at the End of the Period are estimated allocations by DoD Components between Intragovernmental and Other than Intragovernmental.

In FY 2023, DoD Component adjustments were made after the FY 2023 DoD Agency Financial Report was issued and were not reflected in the FY 2023 column, resulting in a misstatement. In FY 2024, adjustments were made to correct these differences, and the net effect to Budgetary Resources Obligated for Undelivered Orders at the end of FY 2024 was \$267.9 million.

Restatements

The Department corrected the Statement of Budgetary Resources to remove invalid undelivered orders. Table 21C Intragovernmental decreased by \$2.0 billion, and Other than Intragovernmental decreased by \$102.1 million. See Note 28, Restatements, for a summary of all restatements and further information.

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the Department's unobligated balances represent trust fund receipts collected in the fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by public law. The receipts, however, are assets of the funds and are available for obligation in the future.

Explanation of Differences between the SBR and the Budget of the U.S. Government

Table 21D. Explanation of Differences between the SBR and the Budget of the U.S. Government

<i>(dollar in billions)</i>	Fiscal Year 2023 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	\$ 1,593.6	\$ 1,361.7	\$ 150.7	\$ 1,003.6
Expired Accounts	(56.7)	(32.2)	-	-
Non-Budgetary DOR	0.0	0.0	0.1	-
Other	0.0	0.0	0.1	-
Budget of the U.S. Government	<u>\$ 1,536.9</u>	<u>\$ 1,329.5</u>	<u>\$ 150.9</u>	<u>\$ 1,003.6</u>

Other Disclosures

In compliance with OMB guidance, \$215.1 billion of FY 2024 and \$178.1 billion of FY 2023 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds, within the Appropriations (discretionary and mandatory) line. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received no additional funding in FY 2024 or FY 2023 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of \$25.1 billion, which is 1.5 percent of total budget authority. The Department strives to obligate, as close as prudently possible, to the total available budget authority before it expires. Its internal controls and systemic administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the [Antideficiency Act](#). The enormous number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge or high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by [31.U.S.C. §1553](#).

Permanent Indefinite Appropriations

Permanent indefinite appropriations are provided through public law authorizing the Department to retain certain receipts. These appropriations do not specify amounts but are dependent upon the amount of receipts collected. Permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

In fiscal years 2024 and 2023, the Department collected \$3.8 million and \$49.0 million, respectively, of incidental custodial revenues generated primarily from fines, penalties, and forfeitures of unclaimed money and property. These funds are not available for use by the Department; they are relinquished to the U.S. Treasury at the end of the fiscal year.

NOTE 23. FIDUCIARY ACTIVITIES

Table 23A. Schedule of Fiduciary Activities

As of September 30 (dollar in millions)	2024		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	\$ 2,130.6	\$ 30.2	\$ 2,160.8
Contributions	1,519.5	98.7	1,618.2
Investment Earnings	-	-	-
Distributions To and On Behalf Of Beneficiaries	(912.2)	(102.5)	(1,014.7)
Increase / (Decrease) in Fiduciary Net Assets	607.3	(3.8)	603.5
Fiduciary Net Assets, End of Period	\$ 2,737.9	\$ 26.4	\$ 2,764.3

As of September 30 (dollar in millions)	2023		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	\$ 1,778.9	\$ 26.1	\$ 1,805.0
Contributions	1,024.8	52.0	1,076.8
Investment Earnings	-	0.5	0.5
Distributions To and On Behalf Of Beneficiaries	(673.1)	(48.4)	(721.5)
Increase / (Decrease) in Fiduciary Net Assets	351.7	4.1	355.8
Fiduciary Net Assets, End of Period	\$ 2,130.6	\$ 30.2	\$ 2,160.8

Table 23B. Schedule of Fiduciary Net Assets

As of September 30 (dollar in millions)	2024		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	\$ 2,737.9	\$ 26.4	\$ 2,764.3
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	<u>\$ 2,737.9</u>	<u>\$ 26.4</u>	<u>\$ 2,764.3</u>

As of September 30 (dollar in millions)	2023		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	\$ 2,130.6	\$ 30.2	\$ 2,160.8
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	<u>\$ 2,130.6</u>	<u>\$ 30.2</u>	<u>\$ 2,160.8</u>

Fiduciary activities exist when the Department has collected, received, managed, protected, accounted for, invested or disposed of assets on behalf of non-Federal entities or individuals which have ownership interest that the government must uphold. Fiduciary assets are not recognized on the Balance Sheet or on Note 3, *Fund Balance with Treasury*, in accordance with [SFFAS 31](#).

Foreign Cooperative Projects

In an effort to leverage share of costs, contracts, and other resources where shared interests exist, the President may enter into a cooperative project agreement with the North Atlantic Treaty Organization or with one or more of its member countries authorized by [22 U.S.C. §2767](#). The Navy recognizes this activity as fiduciary through an established deposit fund which allows it to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority.

The Foreign Cooperative Projects fiduciary assets increased by \$607.3 million due to deposits from foreign partner countries in support of Navy cooperative projects, primarily for hardware acquisition and sustainment contracts to be awarded in Fiscal Year 2025.

Savings Deposit Program (SDP)

[Public Law 89 538](#) authorized the Department, through the SDP, to collect voluntary contributions up to \$10,000 per deployment, per member of the Armed Forces serving in designated areas. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as separate funds (one for each of the four military services). Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member through direct deposit by the Department. Funds in excess of \$10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.

NOTE 24. RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

Table 24. Reconciliation of Net Cost of Operations to Net Outlays

As of September 30 (dollar in millions)	2024		
	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost (Revenue) reported on Statement of Net Cost	\$ (31,077.4)	\$ 1,209,479.7	\$ 1,178,402.3
Components of Net Cost Not Part of Net Budgetary Outlays			
Property, plant, and equipment depreciation expense	-	(53,078.2)	(53,078.2)
Property, plant, and equipment disposals and revaluations	-	(24,283.6)	(24,283.6)
Lessee Lease Amortization	-	(150.4)	(150.4)
Gains/Losses on lease cancellations	-	-	-
Gains on changes from lease modifications	-	-	-
Cost of goods sold	-	(63,640.1)	(63,640.1)
Inventory disposals and revaluations	-	5,913.3	5,913.3
Applied overhead/cost capitalization offset			
a. Inventory and related property	-	12,419.7	12,419.7
b. Property, plant, and equipment	-	62,350.1	62,350.1
Gains/Losses on all other investments	(5.5)	122.0	116.5
Other gains/losses on all other investments	-	-	-
Increase/(Decrease) in Assets Not Affecting Budgetary Outlays			
Accounts receivable, net	(13,210.2)	2,880.1	(10,330.1)
Loans receivable, net (non-FCRA)	-	-	-
Securities and investments	(7,170.5)	-	(7,170.5)
Advances and Prepayments	-	(6,004.8)	(6,004.8)
Other assets	(5,311.1)	1,979.8	(3,331.3)
(Increase)/Decrease in liabilities Not Affecting Budgetary Outlays			
Accounts payable	12,747.7	1,327.0	14,074.7
Debt	-	-	-
Loans guarantee liability (Non-FCRA)/Loans Payable	-	3.1	3.1
Lessee Lease Liability	-	(467.2)	(467.2)
Environmental and disposal liabilities	-	(7,266.8)	(7,266.8)
Federal employee salary, leave, and benefits payable	-	(6,414.7)	(6,414.7)
Veterans, pensions, and post employment-related benefits	-	(370,943.9)	(370,943.9)
Advances from Others and Deferred Revenue	6,536.2	(305.3)	6,230.9
Other liabilities	613.2	2,486.6	3,099.8

As of September 30 (dollar in millions)	2024		
	Intragovernmental	Other than Intragovernmental	Total
Financing Sources:			
Imputed Cost	(10,158.1)	-	(10,158.1)
Total Components of the Net Operating Cost Not Part of the Budgetary Outlays	(15,958.3)	(443,073.3)	(459,031.6)
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	110.1	23,134.3	23,244.4
Acquisition of inventory	146.3	59,591.7	59,738.0
Acquisition of other assets	-	-	-
Financing sources			
Donated revenue	-	(75.4)	(75.4)
Transfers out (in) without reimbursements	(145.5)	-	(145.5)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	110.9	82,650.6	82,761.5
Miscellaneous Items			
Distributed offsetting receipts (SBR 4200)	(179,938.8)	(3,471.4)	(183,410.2)
Recognition of right-to-use lease assets	-	-	-
Custodial/Non-exchange revenue	(2,474.3)	(2,687.4)	(5,161.7)
Non-Entity Activity	1,219.8	-	1,219.8
Other Temporary Timing Differences	109.4	(19,835.7)	(19,726.3)
Appropriated Receipts for Trust/Special Funds	-	308,068.0	308,068.0
Total Other Reconciling Items	(181,083.9)	282,073.5	100,989.6
Total Net Outlays (Calculated Total)	\$ (228,008.7)	\$ 1,131,130.5	\$ 903,121.8
Budgetary Agency Outlays, Net (SBR 4210)			\$ 903,798.4
Unreconciled Difference			\$ (676.6)

Table 24. Reconciliation of the Net Cost of Operations to Net Budgetary Outlays

As of September 30 (dollar in millions)	Restated 2023		
	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost (Revenue) reported on Statement of Net Cost	\$ (32,644.1)	\$ 978,492.7	\$ 945,848.6
Components of Net Cost Not Part of Net Budgetary Outlays			
Property, plant, and equipment depreciation expense	-	(55,327.8)	(55,327.8)
Property, plant, and equipment disposals and revaluations	-	(17,887.5)	(17,887.5)
Lessee Lease Amortization	-	-	-
Gains/Losses on lease cancellations	-	-	-
Gains on changes from lease modifications	-	-	-
Cost of goods sold	-	(59,266.7)	(59,266.7)
Inventory disposals and revaluations	-	(12,256.2)	(12,256.2)
Applied overhead/cost capitalization offset			
a. Inventory and related property	-	14,976.9	14,976.9
b. Property, plant, and equipment	-	58,710.6	58,710.6
Gains/Losses on all other investments	-	(1,968.1)	(1,968.1)
Other gains/losses on all other investments	-	-	-
Increase/(Decrease) in Assets Not Affecting Budgetary Outlays			
Accounts receivable, net	(11,971.0)	3,105.4	(8,865.6)
Loans receivable, net (non-FCRA)	-	-	-
Securities and investments	(6,281.0)	-	(6,281.0)
Advances and Prepayments	-	(3,791.8)	(3,791.8)
Other assets	(3,815.0)	19.7	(3,795.3)
(Increase)/Decrease in liabilities Not Affecting Budgetary Outlays			
Accounts payable	10,796.8	(4,874.2)	5,922.6
Debt	-	-	-
Loans guarantee liability (Non-FCRA)/Loans Payable	-	3.5	3.5
Lessee Lease Liability	-	-	-
Environmental and disposal liabilities	-	(3,236.6)	(3,236.6)
Federal employee salary, leave, and benefits payable	0.1	1,150.9	1,151.0
Veterans, pensions, and post employment-related benefits	-	(182,883.2)	(182,883.2)
Advances from Others and Deferred Revenue	3,764.1	(650.1)	3,114.0
Other liabilities	(3.4)	(7,422.4)	(7,425.8)

As of September 30 (dollar in millions)	Restated 2023		
	Intragovernmental	Other than Intragovernmental	Total
Financing Sources:			
Imputed Cost	(7,758.5)	-	(7,758.5)
Total Components of the Net Operating Cost Not Part of the Budgetary Outlays	(15,267.9)	(271,597.6)	(286,865.5)
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	20.6	27,907.9	27,928.5
Acquisition of inventory	180.3	59,588.9	59,769.2
Acquisition of other assets	-	-	-
Financing sources			
Donated revenue	-	(133.6)	(133.6)
Transfers out (in) without reimbursements	2,433.4	-	2,433.4
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	2,634.3	87,363.2	89,997.5
Miscellaneous Items			
Distributed offsetting receipts (SBR 4200)	(148,076.4)	(2,668.8)	(150,745.2)
Recognition of right-to-use lease assets	-	-	-
Custodial/Non-exchange revenue	(2,276.9)	(1,550.4)	(3,827.3)
Non-Entity Activity	922.9	-	922.9
Other Temporary Timing Differences	74.6	854.3	928.9
Appropriated Receipts for Trust/Special Funds	-	260,310.8	260,310.8
Total Other Reconciling Items	(149,355.8)	256,945.9	107,590.1
Total Net Outlays (Calculated Total)	\$ (194,633.5)	\$ 1,051,204.2	\$ 856,570.7
Budgetary Agency Outlays, Net (SBR 4210)			\$ 852,558.9
Unreconciled Difference			\$ 4,011.8

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Department's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial (proprietary) accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Department's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the Department. Outlays are payments to liquidate an obligation, excluding the repayment to the Treasury of debt principal.

Presentational Changes for Fiscal Year (FY) 2023

The FY 2023 reconciliation conforms to presentational changes resulting from the Department's continual effort to reconcile the Net Cost of Operations with Net Budgetary Outlays. The presentation is revised from the prior year's presentation in consideration of updated [Treasury financial guidance](#) to the extent possible.

Due to this change in presentation, the unreconciled difference was understated by \$2.1 billion in FY 2023. This update revises the methodology and provides additional disclosures related to changes in Investments, Property, Plant, and Equipment, and Inventory and Related Property. It provides more detail of certain line items to align to changes to the Balance Sheet. (See Note 1AD, *Summary of Significant Accounting Policies* for additional information). Finally, new reconciling items have been added for non-exchange revenue, non-entity activity, and lease activity. (See Note 16, *Leases* for additional information.)

Other Disclosures

The reconciliation illustrates key items between Net Operating Cost and Budgetary Agency Outlays, which includes three sections.

- Components of Net Cost Not Part of Net Budgetary Outlays primarily consist of a \$370.9 billion increase in veterans, pensions, and post employment-related benefits payable related to changes in actuarial assumptions, plan amendments, and increased interest costs. See Note 13, *Federal Employee and Veteran Benefits Payable*, for additional information.
- Components of Net Budgetary Outlays Not Part of Net Cost primarily consist of \$83.0 billion in acquisitions of capitalized assets, inventory, and related property.
- Other Reconciling Items primarily consist of \$308.1 billion appropriated to trust and special funds. This is offset with a \$151.5 billion contribution from the Treasury to the Military Retirement Fund (MRF) to cover the normal cost amount for combat-related disability and qualifying service-connected disability benefits under [10 United States Code 1413a and 1414](#) in addition to the unfunded liability amortization payment. See Note 13, *Federal Employee and Veteran Benefits Payable*, for additional information related to MRF's revenues.

Unreconciled Difference

The Unreconciled Difference is primarily due to accounting for the acquisitions of and changes in capitalized assets, inventory, and related property. The Department is actively participating in Government-wide working groups led by Treasury in an effort to resolve.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

The Department of Defense (Department) identified Military Housing Privatization Initiative (MHPI) agreements as Public-Private Partnerships (P3) requiring disclosure. P3s are risk-sharing agreements or transactions with expected lives greater than five years between public and private sector entities. They can be extremely complex agreements which transfer or share various forms of risk among the P3 partners and may involve government assets. Disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. [SFFAS 49 Public-Private Partnerships](#), requires disclosing the nature of DoDs relationship with private entities. These disclosures help achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts ([SFFAC 1, Objectives of Federal Financial Reporting](#)).

Overview

The MHPI was authorized in the National Defense Authorization Act (NDAA) for Fiscal Year 1996, [Public Law 104-106](#) (110 Stat 186, Section 2801), as amended (codified in [10 U.S.C. §§ 2871-2894a](#)), and consists of legislative authorities that facilitate public private real estate transactions between the Military Departments and private sector developers/property managers for the provision of family housing, unaccompanied housing, and temporary lodging (i.e., transient housing) in support of military members and their dependents in the United States (U.S.) and its territories. The MHPI allows the Military Departments to leverage private sector expertise and funding to improve the quality of installation housing in the U.S. much faster than the Military Departments could have done through traditional military construction and ongoing operation and maintenance funding.

The MHPI Projects are competitively selected single purpose entities established as Limited Liability Companies (LLCs) or Limited Partnerships (LPs), and generally are structured based on the MHPI authorities. The Military Departments typically entered into long-term (typically 50-year) ground leases which included a nominal consideration from the MHPI Project, typically \$100 or less and often as low as one dollar. The Military Departments conveyed existing government housing units to the MHPI Projects. In return, the MHPI Projects assumed responsibility for operation, maintenance, sustainment, demolition, and recapitalization of the housing during the lease term, in accordance with the MHPI authorities as defined in Title 10.

Private sector developers (i.e., MHPI companies) serve as the MHPI Projects' managing members ensuring performance objectives are met over the life of the project ground lease. The Military Department is a member (non-managing) of the MHPI Project Company if there was a Government equity investment to the project, but typically is not a member of the Project Company if there was no Government equity investment to the project. No MHPI Projects have explicit or implied occupancy or performance (Government) guarantees. Neither the private MHPI companies operating the MHPI Projects, the projects themselves, nor the projects' service providers (e.g., property managers) are DoD or Military Department contractors for MHPI housing (or lodging).

The main role of the Military Departments is to monitor the MHPI Projects to ensure adherence to the terms of the project documents, as well as applicable legal and regulatory requirements. Additionally, the Military Departments monitor MHPI Projects to ensure project financial performance can sustain quality housing over the life of the ground lease. To this end, Military Departments monitor housing occupancy and resident satisfaction, as well as revenue, operating expenses, operating budgets, and the overall financial health of each MHPI Project. Depending on the particular structure of a given project, Military Departments may also have approval authority for project budgets, certain major project expenditures, changes in property management companies, or other key project oversight decisions.

There are a small number of projects that include a mix of Government-owned (installation) land leased to the MHPI Project and MHPI Project-owned land, and in rare instances, the MHPI Project provides all of the land for MHPI housing, in which case there is no ground lease. Military Departments also convey the associated real property assets (e.g. buildings, structures, and facilities; and, occasionally, including utilities) to the MHPI Project LLC or LP. The contractual terms and termination clauses vary by agreement.

Funding and Contributions

Under the MHPI authorities, and with the Office of the Secretary of Defense (OSD) and the Office of Management and Budget (OMB) approval and OMB budget scoring, the Military Departments may provide contributions to the MHPI Project LLC or LP through¹:

- **Investments** ([§2875](#)) - Provision of cash and transfer of real property ownership (land, housing units, and other facilities) to an MHPI Project. In return, the DoD receives a portion of that project's profits and losses (up to and not exceeding the monetary contribution at the end of the project ground lease or at the time that the project is terminated and sold).
- **Direct Loans (DL)** ([§2873](#)) - Government loans to an MHPI Project if the loan proceeds are to be used to acquire or construct housing units for use by a military family or unaccompanied housing, including transient housing, with the expectation of future repayment to the Treasury.²
- **Loan Guarantees** ([§2873](#))² - Government guarantee of private loans as the Secretary of the Military Department considers appropriate to protect the interests of the U.S.
- **Differential Lease Payments** ([§2877](#)) - Provision of monthly payments to a project above the rental amount paid by the military personnel.

See Note 7, *Loan Receivable, Net and Loan Guarantee Liabilities*.

Any cash equity investment or funds transfer to the Treasury to cover the cost of proposed MHPI Project use of federal credit requires that the funds first be transferred to the Department's Family Housing Improvement Fund (FHIF) or Military Unaccompanied Housing Improvement Fund (MUHIF), as appropriate, with prerequisite congressional notification. [10 U.S.C. § 2883](#) also requires providing a justification to Congress for the transfer of authorized and appropriated amounts (e.g., Army General Fund, Treasury Index 21 Family Housing Construction Funds) to the Department's FHIF or MUHIF (e.g., Other Defense Organizations, Treasury Index 97) for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease (recognizing the potential for a ground lease extension that may be discussed in the ground lease). The project ground lease and/or associated legal agreements are established through negotiations between the Military Department and the MHPI Project LLC and/or LP. Should monies exist in excess of the required reserves securing or repaying the debt, the required reserves for maintenance of the facilities, and/or the contractual incentive payments to the managing Partner, the excess would be returned to the Military Department's FHIF or MUHIF account (as appropriate) at entity dissolution. The Military Departments are not required, or authorized, to contribute resources to the MHPI Project beyond any amounts approved by OMB and notified and/or authorized by Congress. If the MHPI Project entity is sold, any net sales proceeds due to the Military Department are deposited in the FHIF or MUHIF, as appropriate; such project proceeds/funds cannot be utilized by the Military Department for any other MHPI Project contribution/purpose or other Military Department use until such time that the funds are authorized and appropriated by Congress (otherwise the funds would be an unauthorized augmentation of the appropriations).

¹ The MHPI authorities include Rental Guarantees under 10 U.S.C. [§ 2876](#); however, the Military Departments have not proposed or used the §2876 authority for any MHPI Project, and have no plans to provide rental guarantees for any future MHPI Projects.

² Direct loans and loan guarantees are forms of federal credit, the use of which is covered by [OMB Circular A-129](#), "Policies for Federal Credit Programs and Non-Tax Receivables."

Investment Recognition

In FY 2020, the Department adopted Financial Accounting Standards Board Accounting Standards Codification 323 Investments – Equity Method and Joint Ventures to evaluate and account for its investments in LLC and LP Private Partnerships engaged in MHPI Projects. This treatment was chosen in the absence of specific FASAB accounting standards for the MHPI financial arrangement. Since FY 2021, the Department published a revised GAAP-compliant DoD policy which refined the guidance and instructions prescribing evaluation criteria and financial treatment to account for and report investments and contributions to the MHPI Projects. The revised guidance provided detailed instruction on recording initial cash and non-cash asset contributions and recording gains and losses annually and at the dissolution of the agreements. The policy was fully implemented in FY 2024.

The following table represents the aggregated contribution amounts paid to the MHPI Program and LLC and LP Private Partners through September 30, 2024. In FY 2024, the Department standardized the definition of the line items, and each Military Department adjusted their FY 2023 amounts, as reflected, based on the corrected information. This change will ensure accurate and consistent reporting across all Military Departments and, consequently, in the Agency-Wide Financial Statements.

**Military Housing Privatization Initiative (MHPI)
Table 25. Cumulative Contributions as of September 30**

	2024		2023		Expected Life	
	Actual Amount Received	Actual Amount Paid	Actual Amount Received	Actual Amount Paid	Estimated Amount to be Received Over Expected Life***	Estimated Amount to be Paid Over Expected Life***
As of September 30 <i>(dollar in millions)</i>						
DoD Initial Contributions to the MHPI Programs (FHIF/MUHIF)*						
Direct cash contributions (See Note 5 - Investments, Net)	\$ -	\$ 37.1	\$ -	\$ -	\$ -	\$ 4,532.9
Real property contributions to the MHPI project LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB Scoring Documents) (see Note 5, Investments, Net)	-	83.7	-	-	-	8,284.6
Bonds Purchased	-	-	-	-	-	-
Direct loans disbursed	-	-	-	30.1	-	1,931.9
DoD On-Going Contributions to the DoD MHPI Partnerships						
DoD direct payments**	-	225.8	-	221.8	Not Estimable	Not Estimable
Indirect third-party payment of Basic Allowance for Housing (BAH) under § 403 of Title 37 from members living in privatized housing**	-	4,773.3	-	4,425.1	Not Estimable	Not Estimable
Differential lease payments	-	-	-	-	-	16.5
Property, cash, bonds, and direct loans	-	35.6	-	-	-	241.5
Private Partner Initial Contributions to the MHPI Partnerships						
Direct cash contributions	-	-	1.6	-	665.1	-
Real property contributions to the LLCs and LPs	-	-	-	-	1.5	-
Bonds issued and construction loan obtained	495.0	-	-	-	20,142.7	-

As of September 30
(dollar in millions)

2024

2023

Expected Life

	Actual Amount Received	Actual Amount Paid	Actual Amount Received	Actual Amount Paid	Estimated Amount to be Received Over Expected Life***	Estimated Amount to be Paid Over Expected Life***
Private Partner On-Going Contributions to the MHPI Partnerships						
Direct cash contributions	-	-	58.0	-	72.3	-
Return of contributions to Partner	-	-	-	-	-	167.0
Real property and land contributions	-	-	-	-	-	-
Bonds issued and construction loans obtained	-	-	-	-	-	-
Bonds and direct loans payment	-	234.5	-	194.2	-	15,063.2

* The DoD cash and real property contributions in the table above are currently reported in the DoD's consolidated financial statements. See Note 5, Investments; Net. DoD published the Financial Management Regulation Volume 4, Chapter 7: "Investments and other Assets" in October 2022 to assist Military Departments in analyzing variances to Note 5.

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

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

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

Based on certain criteria, the projects may be authorized to allow Other Eligible Tenants (OETs). OETs could be military retirees, DoD civilians, or other non-DoD affiliated civilians. OETs do not provide or receive money from the project or the Government. 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.

BAH History

The 2015 NDAA included a change to the BAH Program that allowed DoD to reintroduce an out-of-pocket component (member cost-sharing) not to exceed 1% of national average housing costs by grade. The cost-sharing element is administered by OUSD (Personnel & Readiness) using an absorption rate, which is computed to ensure members of a similar pay grade/dependency status pay the same amount out-of-pocket regardless of their location. The 2016 NDAA expanded the out-of-pocket amount by 1% each year until it reached 5% in 2019.

The enactment of [Public Law 115-91 § 603](#), required the Military Departments to make monthly direct payments to the MHPI Project LLC or LP (lessors) of 1% of the Pre-Absorption BAH amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under the military pay statute in [37 U.S.C. § 403\(b\)\(3\)\(A\)\(i\)](#) for the area in which the covered housing existed.

From September 1, 2018 through December 31, 2019, [Public Law 115-232 § 606](#) required the Military Departments to make monthly direct payments to the lessor of 5% of the Pre-Absorption BAH. From January 1, 2020 to December 31, 2021, [Public Law 116-92 §§ 3036 and 3037](#) required the Military Departments to make monthly direct payments to the lessor of 2.5% of BAH. Furthermore, monthly underfunded projects may receive up to an additional 2.5% of BAH at the determination of the DoD Chief Housing Officer and Secretaries of the Military Departments. From January 1, 2022 until Congress modifies or rescinds this direction, [Public Law 117-81 § 2811](#) directs that payments to the lessor of 50% of the BAH Absorption Rate calculated in accordance with the military pay statute in 37 U.S.C. § 403(b)(3)(A)(ii) for covered housing would be made monthly.

Risk

MHPI Project entity potential risks include loss of cash and non-cash contributions, inability to recover returns on investment, and default under the ground lease. The MHPI Company that may have contributed equity to the MHPI Project is not entitled to the return of its capital contribution nor to be paid interest on its capital contribution, the details of which are specified in the project legal agreements. The Military Departments' potential risks, depending on the terms of the MHPI Project ground lease and associated legal agreements and initial contributions, include loss of the initial cash and non-cash contributions, default by the MHPI Project LLC or LP on a DL guarantee threshold event (e.g., the need to request additional funds above the initial threshold amount triggered under a loan guarantee agreement), the need to provide direct management support and/or financial contribution to the project if the MHPI Project fails to comply with contractual terms (any financial contribution would require OSD and OMB approval and congressional notification), and failure to ensure adequate, affordable installation housing to meet the requirements of military personnel. If unpredicted events occur, such as natural disasters and severe weather events, the Military Departments and OSD will work with OMB to restructure the MHPI Project to ensure its long-term financial viability. For example, the project's insurance provider might contest the amount of damage incurred delaying insurance payment, resulting in the need for project financial restructure such as more favorable terms for the project's DL (if it has one), or the contribution of additional Government equity should such a contribution be warranted and approved by OSD and OMB.

To mitigate financial risk, each MHPI Project has a legal agreement that prescribes accrual accounting (revenue flow) to include liquidation of the agreement. This financial tool is used to track revenue, expenses, cash flow, and operating metrics. The revenue flow generally allows the MHPI Project an opportunity to earn incentives and returns for MHPI Project economic performance after providing capital for the maintenance of the facilities. Cash and non-cash assets in excess of required reserves are returned to the FHIF or MUHIF at agreement liquidation. Detailed reports to the appropriate committees of Congress on the MHPI Projects are required by [10 U.S.C. § 2884](#) for each project, conveyance, or lease proposed as a part of the annual budget submission and as an annual report concerning the status of oversight and accountability. Additionally, the [House Report 116-63](#), Pages 23-24, accompanying [H.R. 2745](#), the DoD Appropriations Bill, 2020, directs the Service Secretaries to submit a report to the congressional defense committees detailing how the Services monitor privatized facilities at a national level and any planned upgrades to this system to improve transparency.

The MHPI agreements do not explicitly identify risk of loss contingencies, although some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds to protect against unexpectedly high expenses. The Department's overall risk associated with these agreements are the total

initial investment (funding and net book value of assets at the time of transfer), plus the Government loan guarantees of private debt (if applicable) associated with the MHPI agreements.

The Department recognizes other risk scenarios may occur, such as MHPI Project non-compliance with the MHPI Project ground lease and/or associated legal agreements or risk of loan modifications. To address non-compliance risk, the Department performs compliance reviews which is a joint effort between the Military Department local housing office, installation command, and other ranking members with the MHPI Project, such as the MHPI Company that is the MHPI Project's managing member. These reviews can include exteriors and interiors of privatized housing units and neighborhood tours to view ancillary project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the MHPI Project LLC or LP.

MHPI Project performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The Government Accountability Office Report, [GAO-20-280T](#), *Preliminary Observations on DoD's Oversight of the Condition of Privatized Military Housing*, provides information about the Department's governance activities. The [NDAA for 2020](#) §§ 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of MHPI Projects, protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI Projects, although many of these requirements only apply to new or renewed MHPI Projects, or projects that voluntarily agree to comply.

To address the risk of DL modifications or restructures, which may be necessary to ensure the sustainability of affected projects that utilize federal credit, a sustainment review is required to be performed every two to three years, outlining the future needs of a project. This review occurs even when the projects may not be at risk of imminent loan default. On an annual basis, the Military Departments are required to re-forecast projected cash flows to assess each project's sustainability risk. For projects that utilize federal credit (DL or Limited Loan Guarantees), if the assessment identifies a funding shortfall or ongoing concern for the project, the Military Department will work with OSD to pursue OMB approval to modify the DL and/or restructure the terms of the agreement to help ensure long term viability of the project. OMB must approve all loan modifications before the applicable Military Department and MHPI Project LLC or LP can begin to restructure the loan.

Other Disclosures

The Military Departments continue to provide MHPI details within their Agency Financial Report (AFR), for example description of contractual terms, significant events, inherent risks, and gains or losses associated with contributions to the MHPI Military Department project Military Department LLC or LP. Military Departments are also assessing their MHPI agreements in an effort to provide actual and estimated amounts received and paid over the expected life of the agreements. As main contributors of P3 activity, please refer to Department of the Army, Department of the Navy (including the Marine Corps), and Department of the Air Force AFRs.

See Note 5, *Investments, Net* for DoD's consolidated cash and real property contributions.

Other Potential P3 Arrangements

All DoD Components continue to assess agreements using criteria from SFFAS 49 to determine if there are additional P3s to disclose. The Department will report these agreements as soon as these assessments are complete.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

Disclosure Entities

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with [SFFAS 47, Reporting Entity](#), the financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents; however, these entities are disclosed in this Note as their risk and rewards and assets (available for use) and liabilities (to be settled in the future) are limited. The quantitative amounts of the Department's appropriated funding support for NAFIs and FFRDCs are fiscal year 2023 balances reported one year in arrears.

Nonappropriated Fund Instrumentalities

NAFIs are entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to provide morale, welfare, and recreation programs to enhance the quality of life of DoD personnel. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of [10 U.S.C.](#) The Department requires Components to assign organizational responsibility for NAIFI administration, management, and control. A NAIFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

1. Military Morale, Welfare, and Recreational ([MWR](#)) Programs,
2. Armed Services Exchange Programs,
3. Civilian MWR Programs,
4. Lodging Program Supplemental Mission Funds,
5. Supplemental Mission Funds, and
6. Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) establishes policy and provides oversight of DoD NAIFI activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) and the Defense Finance and Accounting Service (DFAS), in coordination with the USD(P&R) and General Counsel, provide guidance on accounting policies for use in the preparation of financial statements for their annual audit. DoD Components appoint advisory groups to ensure that each NAIFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present very limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

Federally Funded Research and Development Centers

The DoD-sponsored FFRDCs are independent, not-for-profit, private-sector organizations that are established and funded to meet special long-term engineering, research, development, or other analytical needs. In accordance with [FAR Part 35-017](#), FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency. The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing in-house or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. There are three categories of FFRDCs:

1. Research and Development Laboratories,
2. Systems Engineering and Integration Centers, and
3. Study and Analysis Centers.

FFRDC relationships are defined through a sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the FFRDC is required to conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, be free from organizational conflicts of interest, and have full disclosure of its affairs to the sponsoring agency.

The Department does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding for FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional funding controls on staff-years, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

Related Parties

Pursuant to SFFAS 47 reporting disclosure requirements, related parties are considered related if: (1) one party to an established relationship, has the ability to exercise significant influence over the other party in making policy decisions and (2) the relationship is of such significance that it would be misleading to exclude information about it. While the Department identified Public Private Partnerships (P3s) as related parties in prior years, the Department performed assessments of P3s and determined that these partnerships and relationships do not meet the criteria to be reported as related parties, because they meet the inclusion principles defined in SFFAS 47: a) In the Budget, b) Majority Ownership Interest, c) Control with Risk of Loss or Expectation of Benefit. The Department's Military Housing Privatization Initiative P3s meet the criteria for disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships* for additional disclosure details and information.

Changes in Fiscal Year 2024

The list of DoD disclosure entities and a related party is reviewed and updated annually. In accordance with SFFAS 47, both qualitative and quantitative assessments have been completed, and the DoD has determined to include the following Defense Health Program disclosure entities:

1. Defensive Institute for Medical Operations,
2. DoD Acquisition Workforce Development Fund,
3. DoD-VA Health Care Sharing Incentive Fund,
4. Fisher House Foundation,
5. Global Health Programs,
6. Global HIV/AIDS Initiative,
7. James Lovell Federal Health Center, and
one related party:
 1. Henry M. Jackson Foundation for the Advancement of Military Medicine.
See the [Defense Health Program Agency Financial Report](#), Note 21 for more information.

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

The DoD has a significant role and works closely with the U.S. Department of State in the execution of the activities of the Security Assistance Accounts (SAA), which are budgeted and reported pursuant to [Title 22, United States Code, Foreign Relations and Intercourse](#) under the purview of Congress. The DoD leverages its financial and acquisition systems to facilitate the acquisition of U.S. weapon systems by foreign countries. Based on the contract terms included in the agreements with each foreign country acquiring assets utilizing the Foreign Military Sales Trust Fund, there is minimal financial risk to the DoD or the U.S. Government resulting from the transactions entered into.

The SAA is a significant consolidation entity, and, in accordance with [SFFAS 47, Reporting Entity](#), its standalone financial statements are consolidated directly into the U.S. Government-wide financial statements. Although the SAA has not been consolidated into the fiscal year 2024 or 2023 DoD financial statements, the Department recently concluded that the SAA should be a consolidation entity within the DoD Agency-Wide consolidated financial statements. The SAA will be consolidated into the DoD financial statements in future years. See the [SAA Agency Financial Report](#) for additional information.

NOTE 28. RESTATEMENTS

In addition to the consolidated audit on the DoD-wide financial statements, twenty-eight Components within the Department underwent independent standalone audits in FY 2024. These Components include the Components with the highest asset values, as well as those deemed by management to be special-focus. While striving to maintain or moving closer to achieving an unmodified audit opinion, Components may uncover accounting errors related to a prior fiscal year. [SFFAS 21 Reporting Corrections of Errors and Changes in Accounting Principles](#) requires a restatement of the prior year presented when material errors are discovered in the prior period financial statements. In FY 2024, some Components restated the prior year presentation, in certain cases even when the amounts were individually immaterial, as opposed to including the effects of a prior year error in the current year activity.

The Department restated its financial statements as of September 30, 2024 for the following. The net effects of the restatements on each financial statement line affected are included in the Table 28B.

- Other Assets was overstated due to federal advances being estimated and not expensed based on actual work completed.
- Inventory and Related Property, Net was understated due to operating materials and supplies that were expensed rather than being reported as inventory. Additionally, stockpile materials were understated due to duplicate accounting entries, missing accruals, and the incorrect reversal of adjustments.
- General and Right-to-Use Property, Plant, and Equipment, Net was understated due to a variety of factors including General and military equipment balances incorrectly recorded in the legacy Accountable Property System of Record. Additionally, there were insufficient updates of Construction-in-Progress balances due to multiple accounting system migrations. This was partially offset by an overstatement of Internal Use Software for assets placed into service and not expensed. Additionally, Construction-in-Progress was overstated due to assets revalued and deemed closed, and double counted due to incorrect posting logic.
- Investments was understated due to baseline contributions from prior years not recorded in the accounting system.
- Advances and Prepayments Other Than Intragovernmental was overstated due to contract financing payments that should have been expensed in prior years.
- Accounts Payable was overstated due to prior year errors in recording disbursement transactions and calculating the Accounts Payable accrual.
- Appropriations Used was overstated due to errors in recording disbursement transactions and calculating the accounts payable accrual in the prior year, federal advances being estimated and not expensed based on actual work completed, and incorrect posting logic of progress payments.
- Transfers in/out without reimbursement was overstated due to transfers of military equipment that was incorrectly valued in the accounting system.
- Net Cost of Operations was understated due to inventory that were expensed rather than being reported as inventory, duplicate accounting entries, missing accruals, incorrect reversal of adjustments, federal advances being estimated and not expensed based on work completed, incorrect posting logic for progress payments and an error in recording disbursement transactions.
- Total Budgetary Resources was understated due to invalid undelivered orders. Refer to table below for lines on the Statement of Budgetary Resources that had corrections due to the removal of the invalid undelivered orders.

The following notes were restated: Note 2, *Non-Entity Assets*, Note 3, *Fund Balance with Treasury*, Note 5, *Investments, Net*, Note 8, *Inventory and Related Property, Net*, Note 9, *General PP&E, Net*, Note 10, *Other Assets*, Note 11, *Liabilities Not Covered by Budgetary Resources*, Note 18, *Funds from Dedicated Collections*, Note 19, *Disclosures Related to the Statement of Net Cost*, Note 20, *Disclosures Related to the Statement of Changes in Net Position*, Note 21, *Disclosures Related to the Statement of Budgetary Resources*, and Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*.

Table 28A. Effect on FY 2024 Beginning Cumulative Results of Operations

<i>(dollar in millions)</i>	Prior to Restatements	Effect of Restatements	After Restatements
FY 2024 Net Position			
Unexpended Appropriations - Other Funds	753,410.9	(164.8)	753,246.1
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	13,967.8	(0.2)	13,967.6
Cumulative Results of Operations - Other Funds	(991,202.3)	15,611.6	(975,590.7)
Total Net Position	(223,823.6)	15,446.6	(208,377.0)

Table 28B. Effect on FY 2024 Comparative Balances

<i>(dollar in millions)</i>	Per FY 2023 Statements	Effect of FY 2024 Restatements	After Restatements
FY 2024 Balance Sheet			
Other Assets	1,450.7	(109.5)	1,341.2
Total Intragovernmental	2,571,392.8	(109.5)	2,571,283.3
Inventory and Related Property, Net	341,136.5	6,834.6	347,971.1
General and Right-to-Use Property, Plant, and Equipment, Net	831,995.4	8,769.1	840,764.5
Advances and Prepayments	12,206.7	(1,834.0)	10,372.7
Investments	9,393.6	57.9	9,451.5
Total Other Than Intragovernmental	1,209,820.2	13,827.6	1,223,647.8
Total Assets	3,781,213.0	13,718.1	3,794,931.1
Accounts Payable	43,978.1	(1,728.5)	42,249.6
Total Liabilities	3,951,984.9	(1,728.5)	3,950,256.4
Unexpended Appropriations - Funds Other than Dedicated Collections	667,872.7	(164.8)	667,707.9
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	14,198.3	(0.2)	14,198.1
Cumulative Results of Operations - Funds Other than Dedicated Collections	(852,842.9)	15,611.6	(837,231.3)
Total Cumulative Results of Operations (Consolidated)	(838,644.6)	15,611.4	(823,033.2)
Total Net Position	(170,771.9)	15,446.6	(155,325.3)
FY 2024 Statement of Changes in Net Position			
Prior Period Adjustments, Correction of errors	0.0	(183.5)	(183.5)
Beginning balances, as adjusted	612,867.3	(183.5)	612,683.8
Appropriations used	(932,481.2)	18.7	(932,462.5)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	55,005.4	18.7	55,024.1
Total Unexpended Appropriation, Ending Balance (Includes Funds from Dedicated Collections - See Note 18)	667,872.7	(164.8)	667,707.9
Cumulative Results of Operations - Prior Period Adjustments - Corrections of Errors	0.0	18,263.9	18,263.9
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	(836,231.5)	18,263.9	(817,967.6)
Appropriations used	932,481.2	(18.7)	932,462.5

<i>(dollar in millions)</i>	Per FY 2023 Statements	Effect of FY 2024 Restatements	After Restatements
Transfers in/out without reimbursement	(1,261.3)	(1,107.3)	(2,368.6)
Net Cost of Operations	944,322.1	1,526.5	945,848.6
Net Change in Cumulative Results of Operations	(2,413.1)	(2,652.5)	(5,065.6)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	(838,644.6)	15,611.4	(823,033.2)
Net Position	(170,771.9)	15,446.6	(155,325.3)
FY 2024 Statement of Budgetary Resources			
1071 Unobligated balance from prior year budget authority	273,243.3	68.3	273,311.6
1910 Total Budgetary Resources	1,593,334.1	68.3	1,593,402.4
2190 New obligations and upward adjustments	1,361,472.9	(27.9)	1,361,445.0
2204 Apportioned, unexpired accounts	202,221.2	27.9	202,249.1
2412 Unexpired unobligated balance	207,363.6	27.9	207,391.5
2413 Expired unobligated balance	24,497.6	68.3	24,565.9
2490 Unobligated balance	231,861.2	96.2	231,957.4
2500 Total Budgetary Resources	1,593,334.1	68.3	1,593,402.4
FY 2024 Statement of Net Cost			
Department of Air Force Gross Costs	230,084.9	755.9	230,840.8
Department of Navy Gross Costs	202,684.5	2,394.2	205,078.7
Support Activities Gross Costs	198,251.5	(1,623.6)	196,627.9
Support Activities Less: Earned Revenue	(34,971.6)	(5.5)	(34,977.1)
Net Cost before Losses/(Gains) from Actuarial Assumption	854,977.6	1,526.5	856,504.1
Net Program Cost Including Assumption Changes	944,322.1	1,526.5	945,848.6
Net Cost of Operations	944,322.1	1,526.5	945,848.6

NOTE 29. SUBSEQUENT EVENTS

After the issuance of the DoD Agency-Wide Financial Statements in the DoD Agency Financial Report on November 15, 2023, the U. S. Marine Corps audited financial statements were issued on February 22, 2024. As a result, adjustments were made that were not reflected in the FY 2023 DoD Agency-Wide Financial Statements, resulting in misstatements.

The fiscal year 2024 financial statements and related notes of the DoD Components listed below were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Components. The expected timeframe for these events is December 2024 and February 2025.

- DoD Office of the Inspector General (December 2024)
- U.S. Marine Corps (February 2025)
- Defense Logistics Agency, National Defense Stockpile Transaction Fund (February 2025)

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

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government ([Financial Report](#)). The FY 2024 FR will be published by The Bureau of Fiscal Service upon its release.

To prepare the Financial Report, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements.

The following tables display the relationship between the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

- Dedicated Collections Combined represents all transactions that involve Funds from Dedicated Collections prior to the elimination of any intra-DoD transactions.
- Dedicated Collections Eliminations reflects identified transactions between the Department's Dedicated Collections.
- All Other Amounts (with Eliminations) includes funds other than Dedicated Collections, presented net of their eliminations.
- Eliminations between Dedicated and All Other reflects intra-DoD transactions between Funds from Dedicated Collections and other funds.

Non-Federal transactions are with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Restatements

In addition to the prior period adjustments to Cumulative Results of Operations, the Department restated its Statement of Changes in Net Position as of September 30, 2024 to correct errors in:

- Other Assets was overstated by \$109.5 million due to federal advances being estimated and not expensed based on actual work completed.
- Inventory and Related Property, Net was understated by \$6,834.6 million due to operating materials and supplies that were expensed rather than being reported as inventory. Additionally, stockpile materials were understated due to duplicate accounting entries, missing accruals, and the incorrect reversal of adjustments.
- General and Right-to-Use Property, Plant, and Equipment, Net was understated by \$8,769.1 million due to general and military equipment balances that had improper reversal of journal vouchers, timing issues of reporting transactions, increases in useful life of assets, Construction in Progress (CIP) expenses that should have been capitalized in prior periods, revaluation of vessels from the application of SFFAS 50, and Real Property adjustments due to the application of replacement values as a deemed cost methodology.
- Investments was understated by \$57.9 million due to baseline contributions from prior years not recorded in the accounting system.
- Advances and Prepayments Other Than Intragovernmental was overstated by \$1,834.0 million due to contract financing payments that should have been expensed in prior years.

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

- Accounts Payable was overstated by \$1,728.5 million due to prior year errors in recording disbursement transactions and calculating the Accounts Payable accrual.
- Appropriations Used was overstated by \$18.7 million due to errors in recording disbursement transactions and calculating the accounts payable accrual in the prior year, federal advances being estimated and not expensed based on actual work completed, and incorrect posting logic of progress payments.
- Transfers in/out without reimbursement was overstated by \$1,107.3 million due to transfers of military equipment that was incorrectly valued in the accounting system.
- Net Cost of Operations was understated by \$1,526.5 million due to inventory that were expensed rather than being reported as inventory, duplicate accounting entries, missing accruals, incorrect reversal of adjustments, federal advances being estimated and not expensed based on work completed, incorrect posting logic for progress payments and an error in recording disbursement transactions.
- Total Budgetary Resources was understated by \$68.3 million due to invalid undelivered orders. Refer to table below for lines on the Statement of Budgetary Resources that had corrections due to the removal of the invalid undelivered orders.

See Note 28, *Restatements* for a summary of all restatements for further information.

Table 30A. Statement of Net Cost

FY 2024 DoD Statement of Net Cost		Line Items Used to Prepare FY 2024 Government-wide Statement of Net Cost					
Financial Statement Line ¹ (dollar in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Gross Costs							Gross Cost
Gross Costs	\$ 1,039,935.8	\$ 2,127.7	\$ 1,037,808.1			\$ 1,039,935.8	Non-federal gross cost
Losses/(Gains) from Actuarial Assumption Changes	236,766.8		236,766.8			236,766.8	Gains/losses from changes in actuarial assumptions
Total Non-Federal Gross Cost	\$ 1,276,702.6					\$ 1,276,702.6	Total Non-Federal Gross Cost
Federal Gross Cost							Federal Gross Cost
Gross Costs	21,111.8	20.4	21,091.4			21,111.8	Benefit program costs (RC 26)
Gross Costs	10,157.9	4.3	10,178.1	(24.5)		10,157.9	Imputed costs (RC 25)
Gross Costs	34,267.2	246.3	34,220.9	(200.0)		34,267.2	Buy/sell cost (RC24)
Gross Costs	256.4		256.4			256.4	Purchase of assets (RC 24)
Gross Costs	68.5		68.5			68.5	Borrowing and other interest expense (RC05)
Gross Costs	4,726.1	5.9	4,720.2			4,726.1	Other expenses (w/o reciprocals) (RC 29)
Total Federal Gross Costs	\$ 70,587.9					\$ 70,587.9	Total Federal Gross Costs
Total Gross Costs	\$ 1,347,290.5					\$ 1,347,290.5	Total Gross Costs
Earned Revenue							Earned Revenue
(Less: Earned Revenue)	(67,223.7)	(2,255.4)	(64,968.3)			(67,223.7)	Non-federal earned revenue
Federal Earned Revenue							Federal Earned Revenue
(Less: Earned Revenue)	(1,001.9)		(1,001.9)			(1,001.9)	Benefit program revenue (exchange) (RC 26)
(Less: Earned Revenue)	(20,946.4)		(21,146.4)	200.0		(20,946.4)	Buy/sell revenue (exchange) (RC 24)
Gross Costs	(256.4)		(256.4)			(256.4)	Purchase of assets offset (RC 24)
(Less: Earned Revenue)	(79,456.9)	(60.0)	(79,396.9)			(79,456.9)	Federal securities interest revenue including associated gains and losses (exchange) (RC 03)
(Less: Earned Revenue)	(2.9)		(2.9)			(2.9)	Borrowing and other interest revenue (exchange) (RC 05)
Total Federal Earned Revenue	\$ (101,664.5)					\$ (101,664.5)	Total Federal Earned Revenue
Department Total Earned Revenue	\$ (168,888.2)					\$ (168,888.2)	Department Total Earned Revenue
Net Cost of Operations	\$ 1,178,402.3					\$ 1,178,402.3	Net Cost of Operations

¹ The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements. However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost.

Gross Cost ²	\$ 1,110,272.8
Less: Earned Revenue ²	(168,637.3)
Losses/(Gains) from Actuarial Assumption Changes	236,766.8
	\$ 1,178,402.3

² The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements. The repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost. Gross Cost associated with Federal Securities Interest Revenue has been included in Federal Earned Revenue above to align with the reclassified statements. The impact of this difference was \$5.5 million in FY 2024.

Table 30B. Statement of Changes in Net Position

FY 2024 DoD Statement of Changes in Net Position	Line Items Used to Prepare FY 2024 Government-wide Statement of Changes in Net Position								
	Financial Statement Line ² (dollar in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line	
Beginning Balances (Includes Funds from Dedicated Collections)	\$	(155,325.3)	\$14,198.1		\$	(169,523.4)	\$	(155,325.3)	Net Position, Beginning of Period
Non-Federal Prior-Period Adjustments									Non-Federal Prior-Period Adjustments
Changes in accounting principles (+/-)		19,726.3			19,726.3			19,726.3	Changes in accounting principles
Federal Prior-Period Adjustments									Federal Prior-Period Adjustments
Beginning Balances (Includes Funds from Dedicated)		18.7		18.7				18.7	Prior period adjustments to unexpended appropriations - federal (RC 31)
Beginning Balances		(18.7)		(18.7)				(18.7)	Prior period adjustments to expended appropriations - federal (RC 32)
Net Position, Beginning of Period - Adjusted	\$	(135,599.0)					\$	(135,599.0)	Net Position, Beginning of Period - Adjusted
Non-Federal Non-Exchange Revenue									Non-Federal Non-Exchange Revenue
Miscellaneous taxes and receipts		488.1	3.0	485.1				488.1	Other taxes and receipts
Donations and forfeitures of cash and cash equivalents		75.4	73.3	2.1				75.4	Other taxes and receipts
Donations and forfeitures of property		-		-				-	Other taxes and receipts
Other		2,561.0	86.1	2,474.9				2,561.0	Other taxes and receipts
Total Non-Federal Non-Exchange Revenue	\$	3,124.5					\$	3,124.5	Total Non-Federal Non-Exchange Revenue
Federal Non-Exchange Revenue									Federal Non-Exchange Revenue
Non-exchange revenue (Note 20)		599.0	595.8	3.2				599.0	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03)
Non-exchange revenue (Note 20)		106.6	106.6					106.6	Other Taxes and Receipts (RC 45)
Non-exchange revenue (Note 20)		1,905.4	1,905.4					1,905.4	Collections Transferred to a TAS Other than the GF of the USG (RC 15)
Non-exchange revenue (Note 20)		107.7	107.7					107.7	Accruals for the Entity Amounts to be Collected in a TAS Other Than the GF of the USG - Nonexchange (RC 16)
Total federal non-exchange revenue	\$	2,718.7					\$	2,718.7	Total Federal Non-Exchange Revenue

FY 2024 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2024 Government-wide Statement of Changes in Net Position					
Financial Statement Line ² (dollar in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Financing sources							Financing sources
Appropriations received	1,086,171.0			1,086,171.0		1,086,171.0	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
Appropriations used	(1,000,755.8)			(1,000,755.8)		(1,000,755.8)	Appropriations used (RC 39)
Appropriations used	1,000,755.8			1,000,755.8		1,000,755.8	Appropriations expended (RC 38)
Transfers-in/out without reimbursement	-	102.1	(102.1)			-	Appropriation of unavailable special or trust fund receipts transfers-in (RC 07)
Transfers-in/out without reimbursement	-	(102.1)	102.1			-	Appropriation of unavailable special or trust fund receipts transfers-out (RC 07)
Transfers-in/out without reimbursement	716.8	3,035.0	(2,950.4)	700.2	(68.0)	716.8	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(469.7)	(3,061.9)	2,950.4	(426.2)	68.0	(469.7)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	0.1	(0.3)		2,930.1	(2,929.7)	0.1	Expenditure transfers-in of financing sources (RC 09)
Transfers-in/out without reimbursement	(159.8)	(2,930.0)		(159.5)	2,929.7	(159.8)	Expenditure transfers-out of financing sources (RC 09)
Transfers-in/out without reimbursement	(2.2)			(2.2)		(2.2)	Non-expenditure transfers-in of financing sources - capital transfers (RC 11)
Transfers-in/out without reimbursement	(1.9)			(1.9)		(1.9)	Non-expenditure transfers-out of financing sources - capital transfers (RC 11)
Other adjustments (+/-)	211.7			211.7		211.7	Revenue and other financing sources - cancellations (RC 36)
Other	6,819.0			6,819.0		6,819.0	Other Financing sources with budgetary impact (RC 29)
Transfers in/out without reimbursement	(6,378.5)	79.7	(65.8)	(6,309.8)	(82.6)	(6,378.5)	Transfers-in without reimbursement (RC 18)
Transfers in/out without reimbursement	6,573.4	(146.0)	65.8	6,571.0	82.6	6,573.4	Transfers-out without reimbursement (RC 18)
Imputed financing	10,158.1	28.9		10,153.7	(24.5)	10,158.1	Imputed financing sources (RC 25)
Other	(1,235.6)			(1,235.6)		(1,235.6)	Non-entirety collections transferred to the GF of the USG (RC 44)
Other	(2,621.3)			(2,621.3)		(2,621.3)	Accrual for non-entirety amounts to be collected and transferred to the GF of the USG (RC 48)
Total Financing Sources	\$ 1,099,781.1			\$ 1,099,781.1		\$ 1,099,781.1	Total Financing Sources
Net Cost of Operations (+/-)	\$ (1,178,402.3)			\$ (1,178,402.3)		\$ (1,178,402.3)	Net Cost of Operations (+/-)
Net Position, End of Period	\$ (208,377.0)			\$ (208,377.0)		\$ (208,377.0)	Net Position, End of Period

² Basis of presentation - Note 30 and Note 18, Funds from Dedicated Collections: The compilation underlying the presentation of Note 30 is based on each program being either as a dedicated collection or a non-dedicated collection. If a program is designated as a dedicated collection, all of the program's activity is treated as such, and vice versa. In contrast, Note 18 uses the program designation and also uses the trial balance Fund Type attribute of 9, a system-designation for dedicated collection amounts. Note 18 is presented on a combined basis (without eliminations).

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

Real Property Deferred Maintenance and Repairs

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, [Standardizing Facility Condition Assessments](#). The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- **Category 1:** Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- **Category 2:** Buildings, Structures, and Linear Structures that are Heritage Assets; and
- **Category 3:** Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

**Table RSI-1. Real Property Deferred Maintenance and Repairs
(excluding Military Family Housing)**

As of September 30 (dollar in millions)	2024		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 2,004,430.1	\$ 212,135.3	11%
Category 2	151,436.6	24,210.0	16%
Category 3	75,977.4	23,084.8	30%
Total	<u>\$ 2,231,844.1</u>	<u>\$ 259,430.1</u>	12%

As of September 30 (dollar in millions)	2023		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 1,611,799.7	\$ 151,812.0	9%
Category 2	137,672.5	18,723.9	14%
Category 3	64,972.1	10,634.0	16%
Total	<u>\$ 1,814,444.3</u>	<u>\$ 181,169.9</u>	10%

Table RSI-2. Real Property Deferred Maintenance and Repairs (Military Family Housing only)

As of September 30 (dollar in millions)	2024		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 32,719.0	\$ 7,251.0	22%
Category 2	541.0	208.0	38%
Category 3	725.0	289.0	40%
Total	\$ 33,985.0	\$ 7,748.0	23%

As of September 30 (dollar in millions)	2023		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	\$ 28,895.0	\$ 7,139.0	25%
Category 2	1,053.0	319.0	30%
Category 3	947.0	345.0	36%
Total	\$ 30,895.0	\$ 7,803.0	25%

Significant Changes in Real Property Deferred Maintenance and Repairs (Excluding Military Family Housing)

As of the end of FY 2024, the Department estimates facility maintenance cost of more than \$259.4 billion for facilities with replacement cost of \$2.2 trillion. The totals include \$5.2 billion in civil works related maintenance needs under the USACE with a replacement cost of more than \$227.0 billion.

Maintenance and Repair Policies

The Department continues migrating to the Sustainment Management System (SMS), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

Equipment Deferred Maintenance and Repairs

Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 <i>(dollar in millions)</i>	2024	2023
Major Categories		
Aircraft	\$ 1,518.0	\$ 1,610.0
Automotive Equipment	374.8	855.7
Combat Vehicles	356.1	21.1
Construction Equipment	-	67.0
Electronics and Communications Systems	214.4	633.6
Missiles	225.8	221.5
Ships	174.9	166.2
Ordnance Weapons and Munitions	290.7	855.0
Other Items Not Identified Above	404.3	727.4
Total	\$ 3,559.0	\$ 5,157.5

Maintenance and Repair Policies

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

Significant Changes in Deferred Maintenance and Repair

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems decreased by \$1.6 billion during FY 2024. The decrease was primarily driven by revised airframe and engine workloads.

**Table RSI-4. Estimated Acreage by Predominate Use -
General PP&E Land and Permanent Land Rights**

As of September 30, 2024 <i>(acres in thousands)</i>	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year	2	241	23,256	23,499
End of Prior Year/Start of Current Year*	2	248	24,028	24,278
End of Current Year	20	248	24,632	24,900
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	-	-
<p><i>*The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. During FY 2024, Components continued to report consolidated estimated acreage for General PP&E land and Stewardship Land. As the data and processes for reporting continue to improve, the Department will update the predominant use of its Land accordingly based on information available.</i></p>				

Table RSI-5. Estimated Acreage by Predominate Use - Stewardship Land and Permanent Land Rights

As of September 30, 2024 <i>(acres in thousands)</i>	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year*	-	512	10,335	10,847
End of Prior Year/Start of Current Year*	-	442	10,426	10,868
End of Current Year	-	464	10,386	10,850
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	-	-

**The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. During FY 2024, Components continued to report consolidated estimated acreage for General PP&E land and Stewardship Land. As the data and processes for reporting continue to improve, the Department will update the predominant use of its Land accordingly based on information available.*

Table RSI-6. Combining Statement of Budgetary Resources (Budgetary)

	2024							Combined
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	
As of September 30 <i>(dollar in millions)</i>								
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	\$ 7,062.4	\$ 82,298.2	\$ 35,998.4	\$ 27,758.6	\$ -	\$ 50,461.0	\$ 84,837.8	\$ 288,416.4
Appropriations (Discretionary and Mandatory)	176,449.4	199,269.7	151,713.8	16,998.7	90,363.8	10,599.8	548,818.9	1,194,214.1
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	90,652.4	90,652.4
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,526.5	5,279.1	15,282.3	7,796.6	-	19,650.4	90,468.0	140,002.9
Total Budgetary Resources	185,038.3	286,847.0	202,994.5	52,553.9	90,363.8	80,711.2	814,777.1	1,713,285.8
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	183,670.4	\$ 177,054.8	\$ 167,919.6	\$ 23,118.4	\$ 90,363.8	\$ 34,001.0	\$ 749,411.2	\$ 1,425,539.2
Unobligated Balance, End of Year:								
Appropriated, Unexpired Accounts	158.1	105,993.2	32,618.3	26,942.0	-	46,701.8	44,714.6	257,128.0
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-	3,964.1	3,964.1
Unapportioned, Unexpired Accounts	-	2.6	433.1	111.0	-	-	1,051.2	1,597.9
Unexpired Unobligated Balance, End of Year	158.1	105,995.8	33,051.4	27,053.0	-	46,701.8	49,729.9	262,690.0
Expired Unobligated Balance, End of Year	1,209.8	3,796.4	2,023.5	2,382.5	-	8.4	15,636.0	25,056.6
Unobligated Balance, End of Year (Total)	1,367.9	109,792.2	35,074.9	29,435.5	-	46,710.2	65,365.9	287,746.6
Total Budgetary Resources	185,038.3	\$ 286,847.0	\$ 202,994.5	\$ 52,553.9	\$ 90,363.8	\$ 80,711.2	\$ 814,777.1	\$ 1,713,285.8
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	172,071.1	151,178.6	140,849.3	11,827.0	84,446.2	12,273.6	514,562.8	1,087,208.6
Distributed Offsetting Receipts (-)	-	-	-	-	(179,752.5)	(929.0)	(2,728.7)	(183,410.2)
Agency Outlays, Net (Discretionary and Mandatory)	\$ 172,071.1	\$ 151,178.6	\$ 140,849.3	\$ 11,827.0	\$ (95,306.3)	\$ 11,344.6	\$ 511,834.1	\$ 903,798.4

		Restated 2023							
		Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
As of September 30 (dollar in millions)									
Budgetary Resources									
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)									
	\$	9,304.9	\$ 84,325.9	\$ 35,874.7	\$ 25,445.9	\$ 60.0	\$ 48,486.6	\$ 69,813.6	\$ 273,311.6
Appropriations (Discretionary and Mandatory)									
		174,209.8	176,076.1	143,612.1	16,999.3	86,384.9	11,842.5	484,522.4	1,093,647.1
Contract Authority (Discretionary and Mandatory)									
		-	-	-	-	-	-	90,653.1	90,653.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)									
		744.8	2,961.4	13,516.3	8,556.6	-	20,457.5	89,554.0	135,790.6
	\$	184,259.5	\$ 263,363.4	\$ 193,003.1	\$ 51,001.8	\$ 86,444.9	\$ 80,786.6	\$ 734,543.1	\$ 1,593,402.4
Total Budgetary Resources									
Status of Budgetary Resources									
New Obligations and Upward Adjustments (Total)									
		182,486.9	\$ 188,561.2	\$161,825.4	\$ 26,668.9	\$ 86,444.9	\$ 30,957.9	\$ 684,499.8	\$ 1,361,445.0
Unobligated Balance, End of Year:									
		318.0	71,188.9	29,136.1	22,144.3	-	49,819.5	29,642.3	202,249.1
Exempt from Apportionment, Unexpired Accounts									
		-	-	-	-	-	-	4,029.0	4,029.0
Unapportioned, Unexpired Accounts									
		-	0.1	11.2	110.9	-	-	991.2	1,113.4
Unexpired Unobligated Balance, End of Year									
		318.0	71,189.0	29,147.3	22,255.2	-	49,819.5	34,662.5	207,391.5
Expired Unobligated Balance, End of Year									
		1,454.6	3,613.2	2,030.4	2,077.7	-	9.2	15,380.8	24,565.9
Unobligated Balance, End of Year (Total)									
		1,772.6	74,802.2	31,177.7	24,332.9	-	49,828.7	50,043.3	231,957.4
	\$	184,259.5	\$ 263,363.4	\$ 193,003.1	\$ 51,001.8	\$ 86,444.9	\$ 80,786.6	\$ 734,543.1	\$ 1,593,402.4
Total Budgetary Resources									
Outlays, Net									
Outlays, Net (Total) (Discretionary and Mandatory)									
		173,285.6	\$ 141,176.6	\$ 124,413.4	\$ 10,040.3	\$ 86,247.4	\$ 8,865.5	\$ 459,275.3	\$ 1,003,304.1
Distributed Offsetting Receipts (-)									
		-	-	-	-	(148,159.5)	(1,060.0)	(1,525.7)	(150,745.2)
	\$	173,285.6	\$ 141,176.6	\$ 124,413.4	\$ 10,040.3	\$ (61,912.1)	\$ 7,805.5	\$ 457,749.6	\$ 852,558.9
Agency Outlays, Net (Discretionary and Mandatory)									

**Table RSI-7. Combining Statement of Budgetary Resources
(Non-Budgetary Credit Reform Financing Account)**

As of September 30 (dollar in millions)	2024		Restated 2023	
	Operations, Readiness & Support	Combined	Operations, Readiness & Support	Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 31.8	\$ 31.8	\$ 38.5	\$ 38.5
Borrowing Authority (Discretionary and Mandatory)	152.1	152.1	151.1	151.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	65.1	65.1	60.7	60.7
Total Budgetary Resources	249.0	249.0	250.3	250.3
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	220.8	220.8	218.5	218.5
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	28.2	28.2	31.8	31.8
Unexpired Unobligated Balance, End of Year	28.2	28.2	31.8	31.8
Unobligated Balance, End of Year (Total)	28.2	28.2	31.8	31.8
Total Budgetary Resources	249.0	249.0	250.3	250.3
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	92.2	92.2	319.7	319.7
Disbursements, Net (Total) (Mandatory)	\$ 92.2	\$ 92.2	\$ 319.7	\$ 319.7

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