

Fiscal Year
2025

UNITED STATES DEPARTMENT OF THE NAVY AGENCY FINANCIAL REPORT






From Seabed to Space: Delivering Strength and Power for Peace



Fiscal Year 2025

1. An F/A-18F and F/A-18E Super Hornet fly over an aircraft carrier. (U.S. Navy photo by Mass Communication Specialist 2nd Class Maxwell Orlosky)
2. Marines operate an amphibious assault vehicle during surf transit training. (Photo by Marine Corps Cpl. Juan Torres)
3. Aviation ordnancemen transport ordnance on an aircraft carrier. (U.S. Navy photo)
4. A Damage Controlman Fireman connects hoses aboard a guided-missile destroyer. (U.S. Navy photo by Mass Communication Specialist 3rd Class Trevor Hale)
5. Sailors launch a radar sphere on a flight deck while conducting routine. (U.S. Navy photo by Petty Officer 1st Class Donavan K. Patubo)
6. Conducting emergency scuba training. (U.S. Navy photo by Lisa Ferdinando, Navy)
7. Returning to a Naval Station. (U.S. Navy photo by Petty Officer 2nd Class Marlin Dominguez)
8. Marines participate in a small boat raid. (Photo by Marine Corps Lance Cpl. Erica Padgett)
9. Marines drive an ultra-light tactical vehicle during a live-fire training. (Photo by Marine Corps Cpl. Malia Sparks)
10. An attack submarine prepares to conduct sea trials after departing a Naval Shipyard. (U.S. Navy photo by Branden Bourque)



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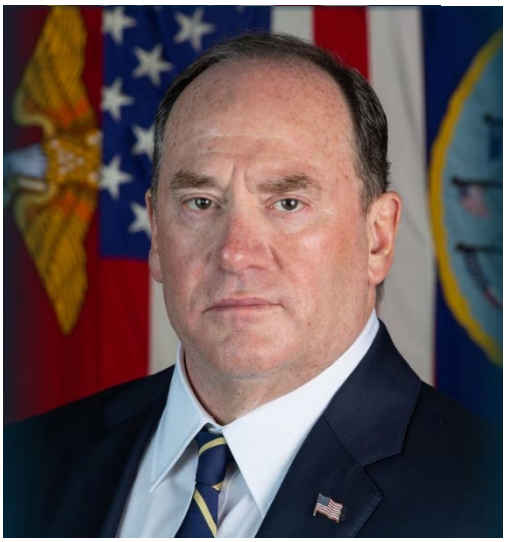
MESSAGE FROM THE SECRETARY OF THE NAVY

UNITED STATES DEPARTMENT OF THE NAVY AGENCY FINANCIAL REPORT

Sailing away after receiving fuel in the Atlantic Ocean. (U.S. Navy photo by Chief Petty Officer Timothy M. Black)



I am pleased to present the Fiscal Year (FY) 2025 Agency Financial Report (AFR) for the Department of the Navy (DON). This report provides Congress and the American public with financial transparency and demonstrates our commitment to responsible stewardship of the resources entrusted to us. Across the Department, we continue to advance my priority of readiness by: Strengthening Shipbuilding and the Maritime Industrial Base; Fostering an Adaptive, Accountable, and Innovative Warfighting Culture; and Improving the Health, Welfare, and Training of Our People. These priorities are essential to ensure our Navy and Marine Corps remain the world's most formidable maritime force – ready, responsive, and resilient.

America's security begins with a fleet that is built to last. **Strengthening shipbuilding and the maritime industrial base** is foundational to preserving our maritime advantage and maintaining our position as the most powerful naval force in the world. In FY 2025, the DON made significant investments in ship construction and sustainment, including continued procurement of Columbia-class ballistic missile submarines, Virginia-class fast attack submarines, and Arleigh Burke-class destroyers. We expanded workforce pipelines, stabilized procurement timelines, and targeted supplier support – reinforcing our maritime industrial base to meet current and future operational demands.

A winning force demands a culture anchored in accountability and warfighting excellence. **Fostering an adaptive, accountable, and innovative warfighting culture** requires investment in our people, by modernizing education and training, and instilling a sense of mission ownership at every level. In FY 2025, the DON delivered a pay raise to all service members and significantly increased housing allowances. From the deckplates to staff headquarters, we are promoting a culture that reflects the highest standards of integrity, initiative, and performance.

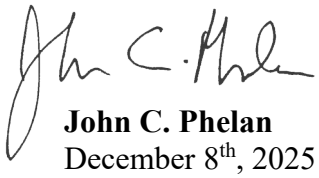
Our people are the foundation of our maritime strength. **Improving the health, welfare, and training of our people** and their families is central to maintaining a resilient force**.** In FY 2025, the DON expanded access to health services, strengthened mental health resources, and invested in quality-of-life improvements for Sailors, Marines, and their families. Modernized training through digital platforms, updated curricula, and access to leadership development ensures our Sailors and Marines are prepared for an increasingly complex and contested environment.

As the maritime domain continues to evolve, we remain laser-focused on maintaining our operational readiness, strengthening partnerships, and forward-looking investments. The DON will continue to safeguard and uphold American interests globally while strengthening financial accountability and internal controls by FY 2028. This is not just a financial goal, it is a reflection of our broader commitment to operational excellence and responsible resource management, ensuring a Navy and Marine Corps that are always ready, responsive and resilient.

We are executing to that end with precision. We are currently conducting and validating full physical inventory counts and proper accounting of our inventory in coordination with our auditors – and are on path to achieve first clean opinion for the DON Working Capital Fund for FY 2026. This year, we completed the most technologically demanding construction accounting review in our history, including full assessments of NAVAIR (Aircraft), NAVSEA (Vessels) and will complete NAVFAC (Real Property) construction activities and establish full accountability of slow-moving inventory items by the end of FY 2026. By the close of FY 2027, we will establish beginning balances and complete physical inventory counts for all remaining Balance Sheet line items. This deliberate two-track strategy: validating beginning balances while executing current-year testing is the most efficient and sustainable path forward for full auditability.

We have already identified and recorded our mission critical assets, including parts and munitions, supported by reconciled inventory and controls necessary to sustain accountability.

Each milestone is to measurable outcomes, eliminating unsupported transactions, stabilizing system migrations and implementing complementary controls with our service providers. **These efforts will ensure that when FY 2028 arrives, our financial statements will not only meet the audit standard, but they will stand as benchmark for transparency, discipline, and stewardship across the Department of War.**



John C. Phelan
December 8th, 2025



MANAGEMENT'S DISCUSSION AND ANALYSIS

Sailors aboard a guided-missile destroyer heave a line during a replenishment-at-sea. (U.S. Navy photo by Jasmin L. Aquino)



Marine Corps aircraft fly above an amphibious assault ship during operations in the Atlantic Ocean. (U.S. Navy photo by Chief Petty Officer Ruben Reed)

ABOUT THIS REPORT

The purpose of the Agency Financial Report (AFR) is to outline how the Department of the Navy (DON) has used Federal resources by highlighting accomplishments representing the financial position. The DON's financial position includes, but is not limited to, financial statements, notes to the financial statements, and the Report of Independent Auditors. This AFR is divided into three primary sections that provide high-level performance and management results for United States Navy (USN) General Fund (GF).

1. "Management's Discussion and Analysis (MD&A) (Unaudited)" provides a high-level overview of USN GF, including DON mission, and organization; USN GF overall performance related to its strategic goals and primary objectives; financial analysis; and management's assurance on internal controls.

2. "Financial Section (Unaudited)" contains the USN GF audit reports, management's response to the audit reports, financial statements and the accompanying notes, as well as required supplementary information (RSI).

3. "Other Information (Unaudited)" details USN GF compliance with, and commitment to, specific regulations. It includes the management and performance challenges; summary of financial statement audit and management assurances; payment integrity information; and financial reporting-related legislation.

When used in this document, "DON" applies to the USN GF and is not intended to discuss items presented in the United States Marine Corps (USMC) GF AFR.

This report satisfies the reporting requirements contained in the following laws and regulations:

- Chief Financial Officers (CFO) Act of 1990
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Federal Financial Management Improvement Act of 1996 (FFMIA)
- Government Performance and Results Act of 1993 (GPRA)
- GPRA Modernization Act of 2010
- Government Management Reform Act of 1994 (GMRA)
- Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- OMB Circular A-136, *Financial Reporting Requirements*
- Reports Consolidation Act of 2000

Consistent with Executive Order 14347, the enclosed report will intermittently reference the Department of "Defense," reflecting applicable terminology in the report's statutory basis.

Mission and Organization

President John Adams signed a Congressional Act on April 30, 1798, establishing the formation of the DON. In 1834, the USMC was incorporated into the DON. The DON remained its own standalone Department until the establishment of the *National Security Act of 1947.* To learn more about the DON, visit https://www.navy.mil/About/.



A Navy EA-18G Growler fires flares during a mission. (Photo by Air Force Staff Sgt. Gerald R. Willis)

MISSION

To recruit, train, equip, and organize to deliver combat-ready Naval forces to win conflicts and wars, while maintaining security and deterrence through sustained forward presence.

VISION

Sailors, Marines, and Navy Civilians operate as a unified team, driven by core values, prioritizing health, readiness, capability, leadership, forward presence, maritime advantage, and global partnerships for nation security.

Performance Goals, Objectives, and Results

The DON provides a globally responsive, expeditionary force that is designed and prepared to deliver combat-ready naval forces to protect sea lanes, respond to crises, deter aggression, and, if necessary, fight and win through a sustained forward-moving naval presence. The DON operates forward every day, where and when it matters, all while preparing for tomorrow's challenges. The clear and transparent strategy set out by the Secretary of the Navy (SECNAV) establishes three guiding principles and related strategic objectives:

SECNAV Priority #1: Strengthening Shipbuilding and the Maritime Industrial Base	**SECNAV Priority #2:** Fostering an Adaptive, Accountable, and Innovative Warfighting Culture	**SECNAV Priority #3:** Improving the Health, Welfare, and Training of Our People
STRATEGIC OBJECTIVES • Procurement • Readiness • Naval Diplomacy	**STRATEGIC OBJECTIVES** • Better Business Practices	**STRATEGIC OBJECTIVES** • Military Recruiting and Retention • Personnel Support

SECNAV priorities, which serve as an interconnected framework for ongoing evolution, support the overall direction for the Department. Selected performance goals, objectives, and results are presented below.

SECNAV PRIORITY 1: STRENGTHENING SHIPBUILDING AND THE MARITIME INDUSTRIAL BASE

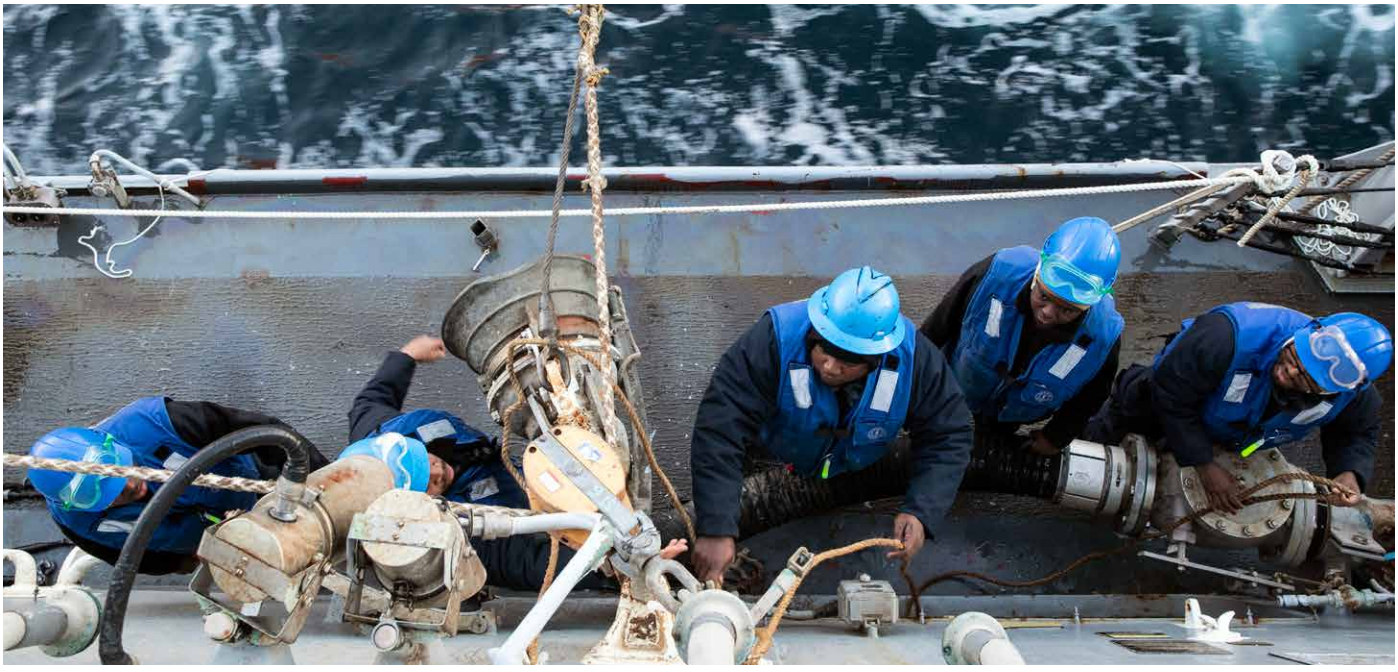
To secure maritime superiority, the DON is accelerating efforts to expand domestic shipbuilding capacity, modernize public and private shipyards, strengthen supply chains, and address workforce shortages in the maritime industrial base. These actions aim to deliver a robust, sustainable fleet to meet national defense needs.

PRIORITY 1: STRENGTHENING SHIPBUILDING AND THE MARITIME INDUSTRIAL BASE	
PERFORMANCE GOALS & OBJECTIVES	**RESULTS**
PROCUREMENT	
SHIPBUILDING: To compete and win, the United States needs a balanced naval force, capable of striking targets from all domains. DON will continue prioritizing building a capable and lethal naval force.	• The DON successfully added one Virginia Class Submarine and two Littoral Combat Ships (LCS) to the Fleet during the FY, further strengthening undersea dominance and expanding surface warfare capacity in support of a balanced and ready naval force. • Additionally, two support ships were delivered, funding was provided for one Nimitz Class Nuclear Powered Aircraft Carrier, and construction efforts from prior years were completed to strengthen the maritime industrial base. • Office of Naval Research (ONR) developed cutting-edge capabilities and rapid prototyping to address emerging operational challenges and inform future naval platforms, particularly with key technologies for the Next Generation Attack Submarine SSN(X).

PRIORITY 1: STRENGTHENING SHIPBUILDING AND THE MARITIME INDUSTRIAL BASE	
PERFORMANCE GOALS & OBJECTIVES	**RESULTS**
AVIATION: DON to invest in a diverse fleet including fixed-wing, rotary-wing and unmanned aircraft that enhance multiple warfighting capabilities to ensure air superiority over its adversaries.	• The DON successfully added thirty-nine additional combat aircraft, including thirty-five fifth generation stealthy F-35s and four King Stallion helicopters (CH-53K), the only heavy-lifting maritime helicopter in the world. • The DON also added seven Trainer Aircraft, all of them are Multi-Engine Training Systems (METS). METS modernizes multi-engine aircraft training for accession into multiple platforms.
WEAPONS: DON will continue to build up critical munitions inventories while increasing line capacity through facilitation.	• The DON invested in ballistics and other missiles to strengthen Fleet defense capabilities, resulting in the procurement of 102 standard missiles - the Fleet's primary air defense weapon carried onboard Aegis cruisers and destroyers. • The DON further enhanced Fleet defense by procuring 374 Evolved Sea Sparrow Missiles, which provides crucial defense battlespace and firepower against the fast, low-altitude, highly maneuverable Anti-Ship Cruise Missile, Anti-Ship Ballistic Missiles, Surface, and asymmetrical threats.
BATTLE FORCE SHIP ASSESSMENT AND REQUIREMENT (BFSAR): To compete and win in an era of peer military competition, the DON needs a balanced naval force capable of striking targets in all domains.	• The BFSAR report outlines force composition across surface combatants, aircraft carriers, amphibious ships, submarines, logistics and support ships as well as unmanned vessels.
READINESS	
SHIPYARD INFRASTRUCTURE OPTIMIZATION PROGRAM (SIOP): To achieve the operational readiness needed to support the demands of our nuclear fleet, the Naval Enterprise must be able to deliver aircraft carriers and submarines from depot maintenance periods on time.	• The DON is expanding shipyard capacity, modernizing equipment, and updating facilities to meet current standards. Efforts are underway to improve utilities, configuration, and worker quality of life, while also ensuring that shipyards can support the demands of carrier and submarine maintenance. The final development plan for Pearl Harbor Naval Shipyard has been approved, and implementation across all shipyards is scheduled to be completed in early 2026.
SHIP OPERATIONS AND MAINTENANCE: Ensure Fleet readiness through mission funded programs supporting training, development, and sustainment.	• The DON is ensuring training and deployment requirements are fully supported to maintain Fleet readiness. It is investing in critical maintenance for support ships and sustaining regular deployment cycles with a target of maintaining fifty-eight underway days per quarter for deployed forces. • Additionally, efforts are accelerating the return of submarines and ships to operational status through both public and private shipyards. Investments continue in public shipyard initiatives, Maritime and Submarine Industrial Bases, Virginia-class materials, and workforce development.



PRIORITY 1: STRENGTHENING SHIPBUILDING AND THE MARITIME INDUSTRIAL BASE	
PERFORMANCE GOALS & OBJECTIVES	**RESULTS**
FLIGHT OPERATIONS AND MAINTENANCE: Ensures mission ready aircraft through sustained training, deployment, and maintenance.	• The DON executed 875,000 Navy and USMC flying hours to support Fleet preparation and execution of operational requirements. Additionally, Aircraft Depot Maintenance (ADM) efforts enhanced readiness by completing works on 342 airframes and 941 engines, ensuring updated requirements were met while maintaining acceptable strategic risk. These accomplishments directly increased the number of mission-capable aircraft available to the Fleet.
NAVAL DIPLOMACY	
AUKUS: Is an opportunity to strengthen deterrence in the Indo-Pacific.	• The DON is increasing submarine production to meet U.S. requirements in the Indo-Pacific and realize AUKUS Pillar I.
INTERNAL U.S. PARTNERS: Other federal agencies and commercial partners are key to maritime operations, logistics, maintenance, research and development (R&D), and production to support the DON warfighters.	• The DON has invested in submarine projects for supplier development, shipyard infrastructure, strategic outsourcing, workforce development, technology opportunities, and government opportunities.
INTERNATIONAL COOPERATION: DON will keep International Cooperation to promote peace and be prepared to win any naval warfare battle. Specifically, DON will continue to work with America's strategic partners.	• The DON conducted various operations and exercises such as operation SEA DRAGON. Operation SEA DRAGON is a multilateral exercise focused on anti-submarine warfare training, that culminates in over 270 hours of in-flight training provided to the U.S. and International partners. Another major operation is SEACAT, a multilateral exercise among twenty-one Indo-Pacific partners.



Sailors and NASA engineers release a crew module test article during a recovery test in the Pacific Ocean. (U.S. Navy photo by Petty Officer 2nd Class Evan Diaz)

SECNAV PRIORITY 2: FOSTERING AN ADAPTIVE, ACCOUNTABLE AND WARFIGHTING CULTURE

The DON continues to strengthen accountability and readiness by improving how information is managed, protected, and applied across the enterprise. These efforts enhance the reliability and performance of supporting operations, ensuring that the naval mission is backed by capable, responsive, and well-aligned internal practices. The initiatives and results that follow reflect ongoing progress in building a more effective and resilient organization.

PRIORITY 2: FOSTERING AN ADAPTIVE, ACCOUNTABLE AND WARFIGHTING CULTURE	
PERFORMANCE GOALS & OBJECTIVES	**RESULTS**
BETTER BUSINESS PRACTICES	
MODERNIZING OUR INFORMATION TECHNOLOGY (IT) INFRASTRUCTURE: Strategic imperative for the DON, ensuring that this essential backbone of our maritime power stays secure, survivable, and capable of securely delivering the information needed anywhere at the speed of relevance to maintain decision advantage.	• The DON has successfully completed its final migrations to Navy ERP, achieving the goal of a single, integrated platform across the enterprise and improving operational efficiency, accuracy, and accountability. This transformation streamlines operations, reduces redundancies, allows for cost savings by reducing the maintenance costs associated with legacy systems, and provides real-time visibility into critical resources, enabling faster and more informed decisions at every level. • The DON has advanced IT modernization by consolidating legacy networks, reducing technical debt, and adopting agile practices like Development, Security, and Operations (DevSecOps). Operation Cattle Drive has divested obsolete business systems, enhancing cybersecurity and cloud integration. These efforts, in alignment with FY 2025 budget priorities, establish a secure, agile, and digitally evolving infrastructure for maritime decision advantage. • The DON has upgraded its IT ecosystem, enabling a secure digital work environment with seamless data access across devices, matching industry-leading performance. The DON also modernized our IT using commercial 5G services and products.
CYBER SECURITY: DON can have the strongest Fleet in the world, but if our networks are not protected, DON is one cyberattack away from losing its edge.	• The DON is developing flexible, cost-effective, and robust security solutions that use commercial and government-furnished hardware and software, both of which can be tailored to any platform and in any operating environment. • The DON is enhancing infrastructure security through zero-trust architecture implementations, including new standards for operational technology in weapons systems and platforms, and partnerships for resilient naval networks.
CYBERSPACE: The naval services must secure our enterprise networks, weapon systems, platforms, and critical infrastructure to enable mission assurance.	• The DON is bolstering cyber defenses afloat by deploying zero-trust security solutions, including Naval Identity Services (NIS) for secure identity management, Office 365 E5 licensing for protected collaboration, and Microsoft Defender for Endpoint (MDE) for real-time threat detection. Initiatives like More Situational Awareness for Industrial Control Systems (MOSAICS) enhance situational awareness for shipboard systems.

SECNAV PRIORITY 3: IMPROVING THE HEALTH, WELFARE AND TRAINING OF OUR PEOPLE

The DON is committed to cultivating a forward-leaning, accountable warfighting culture that emphasizes innovation, leadership, and agility. Concurrently, we continue to prioritize the quality of life, retention, and professional development of our military and civilian personnel.

PRIORITY 3: IMPROVING THE HEALTH, WELFARE AND TRAINING OF OUR PEOPLE	
PERFORMANCE GOALS & OBJECTIVES	**RESULTS**
MILITARY RECRUITING AND RETENTION	
MILITARY AND CIVILIAN PERSONNEL: DON will continue having the best sailors and most talented civilian workforce in the world by hiring and keeping the required number of military and civilian personnel.	• The DON surpassed its FY 2025 recruiting goal, bringing in approximately 3,500 more than the target. The DON also achieved 100% manning in key recruiting areas and maintained a strong civilian workforce. Civilian personnel, such as accountants, auditors, and engineers provide support to the military personnel and most of them are direct hire.
PERSONNEL SUPPORT	
EDUCATION: DON will modernize and continue to provide high quality education programs to the military by spending required funding in FY 2025.	• The DON is also investing in the Financial Management (FM) community by offering training curriculums designed to enhance the FM workforce. The FM Academy offers several curriculums including Back-to-Basics, End-to-End FM, and Navy Command Business Office Masterclass to equip both new FM professionals and FM careerists. • Programs are being advanced to expand higher education opportunities for active-duty personnel and to strengthen officer development through Reserve Officers Training Corps (ROTC) training at colleges and universities. Tuition assistance continues to provide pathways for Sailors to pursue academic goals, while ROTC remains focused on preparing future Navy officers.
ASSAULT PREVENTION AND RESPONSE: DON will continue to fund and provide assault prevention and response programs to the military.	• Efforts are ongoing to strengthen prevention and response programs across the Navy and Marine Corps. These programs include continuous training, employee development, and access to resources such as Human Resources (HR) leadership. The DON is maintaining focus on creating a safer environment, with initiatives designed to enhance awareness, prevention, and effective response.
MENTAL HEALTH: DON will continue to fund and provide mental health and suicide prevention services to the military.	• The DON's mental health programs maintain wartime readiness and professional development of mental health specialties. It provides funding, oversight, and policy guidance to the following programs: Psychological Health, Traumatic Brain Injury, and Wounded Ill and Injured. Mental health programs decrease the likelihood of many mental health problems, including suicide, Post-Traumatic Stress Disorder, and depression which lead to lack of deployment readiness or risk to operational deployments. Mental health programs improve psychological readiness through development, aggregation, and dissemination of best practices and innovations in primary/universal, secondary/selective, and tertiary/indicated prevention of psychological injury and illness.

PRIORITY 3: IMPROVING THE HEALTH, WELFARE AND TRAINING OF OUR PEOPLE	
PERFORMANCE GOALS & OBJECTIVES	**RESULTS**
CHILD AND YOUTH PROGRAMS: DON will continue to fund and provide Child and Youth programs to the military families.	• The DON continued to strengthen Child Development Centers and Navy Childcare Facility Sustainment & Restoration Modernization programs, ensuring military families have access to the support they need for their children at key Fleet concentration areas, including Norfolk, VA and San Diego, CA.
MORALE, WELFARE, AND RECREATION: DON will continue to fund, establish, and provide morale, welfare, and recreation programs to the warfighters.	• The DON advanced Morale, Welfare, and Recreation initiatives under Base Operating Support, including the Navy Operational Fitness and Fueling System program, which provides service members with online fitness and nutrition resources to promote readiness and resilience.



A U.S. Marine Corps CH-53E Super Stallion approaches the flight deck of an amphibious transport dock ship. (U.S. Navy photo by Mass Communication Specialist 2nd Class Evan Diaz)

Significant Risks and Opportunities

The DON has identified several significant risks and opportunities related to achieving its long-term strategic objectives.

Strengthening Shipbuilding and the Maritime Industrial Base

- Risk: Neglecting to modernize ship maintenance processes poses a significant risk to fleet readiness. Persistent backlogs and long cycle times will limit ship availability, increase operational strain, and potentially jeopardize mission success.
- Opportunity and Mitigation: Strategic investments in workforce development, shipyard modernization, and advanced manufacturing technologies offer the Navy the opportunity to dramatically reduce ship maintenance backlogs and cycle times. Successfully capitalizing on this opportunity will lead to increased fleet readiness, reduced operational costs, and a more resilient naval force.

Fostering an Adaptive, Accountable and Warfighting Culture

- Risk: Failure to fully migrate to Navy ERP and maintaining disparate legacy systems will perpetuate inefficiencies, increase cybersecurity vulnerabilities, hinder data-driven decision-making, and impede the Navy's ability to achieve and sustain auditability.
- Opportunity and Mitigation: Consolidating IT systems under Navy ERP provides the Navy with a platform to improve resource management efficiency, ultimately contributing to the overall strength and effectiveness of the Department. Completing the Navy ERP migration by FY 2026 will enable advanced data analytics, improving decision-making and bolstering audit readiness, translating to millions in potential savings and reducing the burden of compliance with IT regulations and auditability.

Improving the Health, Welfare and Training of Our People

- Risk: Deferring critical facility upgrades and modernization efforts exposes the Navy to significant operational risks. Aging infrastructure can lead to equipment failures, reduced capacity, safety hazards, and increased maintenance costs, ultimately hindering the Navy's ability to project power and respond effectively to global challenges.
- Opportunity and Mitigation: Proactive investment in facility modernization presents a crucial opportunity to enhance naval capabilities and readiness. The new Jacksonville shiplift and land-level repair facility serves as a model, demonstrating how targeted infrastructure improvements can triple dry-dock capacity, accelerate repairs, and significantly increase fleet availability. Continued investment in similar projects across the enterprise can yield substantial improvements in operational effectiveness.



A pilot trains in the Joint Simulation Environment (JSE) at the Naval Air Warfare Center Aircraft Division in Patuxent River, MD. (U.S. Navy photo by Terri Thomas)

Analysis of Financial Statements

The accompanying financial statements and related disclosures represent the enduring commitment to fiscal accountability and transparency. The DON has made progress toward improving the quality and timeliness of financial information. However, the DON is currently unable to implement all elements of U.S. Generally Accepted Accounting Principles (GAAP) and OMB Circular A-136 due to limitations of financial and non-financial processes and systems feeding into the financial statements. These limitations prevented the Independent Public Accountant (IPA) from issuing an opinion on the FY 2025 DON financial statements.

The DON supports overall naval operations. Enacted appropriations comprise the majority of the DON account structure, which includes five major appropriation groups:

- Military Personnel
- Operations, Readiness and Support
- Procurement
- Research, Development, Test, and Evaluation
- Family Housing and Military Construction

Enacted appropriations flow through OMB to the Secretary of War and then to the SECNAV, where funds are allocated to administering offices and Commands. The administering offices and Commands obligate appropriations to fund operational expenses and capital investments and are required to exercise a system of effective control over financial operations.

A summary of key financial measures is presented below. The complete set of financial statements—along with the IPA's reports, accompanying footnotes, and RSI can be found in the Financial Section.

Figure 1: Summary of Key Financial Measures ($ in Billions)

Summary of General Fund Balance Sheet		2025	% of Total
Fund Balance with Treasury	$	302.8	33.6%
Inventory and Related Property, Net		90.5	10.1%
Property, Plant and Equipment, Net		503.1	55.9%
Cash, Advances, Receivables and Other Assets		3.6	0.4%
Total Assets	**$**	**900.0**	
Accounts Payable	$	10.6	18.8%
Federal employee salary, leave, and benefits		4.9	8.7%
Environmental and Disposal Liabilities		36.8	65.4%
Pensions, Advances from Others, and Other Liabilities		4.0	7.1%
Total Liabilities	**$**	**56.3**	
Unexpended Appropriations (Consolidated)	$	292.4	34.7%
Total Cumulative Results of Operations (Consolidated)		551.3	65.3%
Total Net Position	**$**	**843.7**	
Total Liabilities and Net Position	**$**	**900.0**	
Summary of General Fund Statements of Net Cost			
Total Gross Costs	$	217.7	
Total Earned Revenue (Less)		19.5	
Total Net Cost of Operations	**$**	**198.2**	
Summary of General Fund Statements of Budgetary Resources			
Unobligated Balance from Prior Year Budget Authority, Net	$	75.6	21.3%
Appropriations		269.2	75.8%
Spending Authority from Offsetting Collections		10.2	2.9%
Total Budgetary Resources	**$**	**355.0**	

Balance Sheet

As of September 30, 2025, the DON reported total assets of $900.0 billion. The largest component is Property, Plant, and Equipment, Net (PP&E, Net) totaling $503.1 billion, which accounted for 55.9% of total assets. PP&E, Net primarily reflects the DON's extensive portfolio of ships, aircraft, and real property (RP). These capital assets are critical enablers of operational readiness and global presence and underscore the long-term investments necessary to sustain maritime dominance. The second largest asset is Fund Balance with Treasury (FBWT), totaling $302.8 billion or 33.6% and represented the available funds for the DON to spend. Inventory & Related Property, Net (I&RP, Net) followed at $90.5 billion or 10.1% and reflects the value of DON's ordnance, Trident missiles, uninstalled aircraft engines (UAE), and remainder. These asset categories highlight the DON significant investments in infrastructure, operational capacity, and financial liquidity in support of its mission.

The DON reported total liabilities of $56.3 billion as of September 30, 2025. The largest portion totaling $36.8 billion, or 65.4% was attributed to Environmental and Disposal Liabilities (E&DL), reflecting long-term cleanup and restoration obligations due to the DON's assets. Accounts Payable (AP), including both intergovernmental and other than intragovernmental balances, totaled $10.6 billion or 18.8%. Federal Employee salary, leave, and benefits liabilities accounted for $4.9 billion or 8.7%, while all other liabilities collectively amounted to $4.0 billion or 7.1%. These liabilities reflect actual or estimated payments the DON will make in the future for business that has occurred as of September 30, 2025.

The net position totaled $843.7 billion, consisting of two key components. Unexpended Appropriations (Consolidated) amounted to $292.4 billion or 34.7%, while Cumulative Results of Operations (Consolidated) totaled $551.3 billion or 65.3%. The sum of total liabilities and net position equals total assets, reflecting a balanced and stable financial posture.

Statement of Net Cost

For the FY ending September 30, 2025, the DON reported a total gross cost of $217.7 billion across the five major appropriation groups. Earned revenue totaled $19.5 billion, resulting in a net cost of operations of $198.2 billion. These net costs not only reflected the operational demands of maintaining a forward deployed, combat-ready naval force, but also demonstrated how the DON strategically allocates resources to mission driven outcomes.

Generally, the differences between net costs reflected in the Statement of Net Cost (SNC) and net outlays reported in the Statement of Budgetary Resources (SBR) arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the FY; changes to the balances of various assets and accrued liabilities; and the depreciation expense on PP&E, Net. See Note 20, "Reconciliation of Net Cost to Net Outlays," in the Financial Section for additional information.

Statement of Budgetary Resources

As of September 30, 2025, the DON reported total budgetary resources of $355.0 billion. Of this amount, $269.2 billion or 75.8% was derived from current-year appropriations. Additional budgetary resources included $75.6 billion or 21.3% in unobligated balances brought forward from prior years and $10.2 billion or 2.9% in spending authority from offsetting collections.

LIMITATIONS OF THE FINANCIAL STATEMENTS

Principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with U.S. GAAP and the formats prescribed by OMB Circular A-136, except where indicated in Note 1, "Basis of Presentation and Accounting." Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Analysis Of Systems, Controls, and Legal Compliance

The DON's Senior Accountable Officials (SAOs) and Commanders bear the responsibility for ensuring the integrity of systems, controls, and compliance with relevant laws and regulations. This responsibility is grounded in adherence to key frameworks such as the FFMIA, FMFIA, and OMB Circular A-123. These frameworks provide the foundation for the DON's risk management and internal control activities

To meet these requirements, the DON has implemented the Integrated Risk Management (IRM) Program. This program is designed to support the production of timely, reliable, and accessible operational and financial information; the establishment of effective and efficient internal controls; and the proactive management of risks impacting the DON's most critical strategic objectives. To effectively manage risk and ensure compliance, the program is structured around three key components: Internal Controls Over Operations (ICOR-O), Internal Controls Over Financial Reporting (ICOR-F), and Financial Systems (FS). Each of these components plays a critical role in strengthening the DON's ability to produce reliable financial and operational information, mitigate risks, and maintain adherence to legal and regulatory requirements.

The DON continues to refine its internal control activities, focusing on the integration of business processes, systems, and financial reporting. These efforts aim to reduce errors, ensure compliance, and prevent any potential misstatements that could jeopardize adherence to laws and regulations.

INTERNAL CONTROLS OVER OPERATIONS *(FMFIA SECTION 2)*

The IPA's report does not include a detailed assessment of deficiencies, including material weaknesses (MWs), for ICOR-O. However, DON management is required, under OMB Circular A-123, to report MWs in ICOR-O when submitting the annual Statement of Assurance (SOA). The DON's assurance regarding ICOR-O is based on its own comprehensive internal control assessment, which includes procedures like testing key controls and reviewing documentation to determine the effectiveness of the internal control environment, considering any MW changes occurring during the current year (CY).

Based on the results of the assessment, the DON can provide reasonable assurance, with the exception of two (2) MWs and one (1) Significant Deficiency (SD) identified below, that ICOR-O was operating effectively as of September 30, 2025.

Table 1: Uncorrected ICOR-O MWs and SDs

Uncorrected ICOR-O Material Weaknesses and Significant Deficiencies			
Internal Control Reporting Category	**Title of MWs and/or SD**	**First Year Reported**	**Targeted Correction Date**
Comptroller and Resource Management	Ship Depot Maintenance (MW)	FY 2016	Sep. 2026
IT – Business System Modernization	Complex Information Technology Environment (MW)	FY 2018	Sep. 2026
Personnel and Organizational Management	Military Payroll (SD)	FY 2016	Sep. 2028

Each of the identified MWs and SDs have distinct ongoing remediation initiatives. Note that the section below does not provide the details for every MW and/or SD listed. Significant accomplishments for FY 2025 include:

Ship Depot Maintenance: Long-standing control weaknesses in depot maintenance planning, budgeting, and execution have historically led to missed schedules and budgets in both ship and aviation maintenance. To address these issues, FY 2025 saw significant improvements, including new processes to enhance execution tracking and resource alignment, aiming to improve efficiency and reduce cost overruns. For Ship Depot Maintenance, a comprehensive policy and enhanced modeling were implemented to standardize processes, improve project tracking, and better align resource allocation, ultimately striving for improved budget execution and vessel readiness.

Complex IT Environment: The DON is actively implementing key governance structures, such as the Business Mission Area (BMA) framework, and driving system consolidation through Operation Cattle Drive, which has already retired 23 systems and is focused on streamlining General Ledgers. While these efforts are crucial steps in the right direction, the DON's complex business IT environment still presents significant challenges at a systemic level. There is a need for top-down controls and an enterprise-wide strategy for managing financially relevant systems, to ensure redundancy is eliminated across functional areas, the accounting systems adhere to standards, and data standards and inter-operability are consistent. Addressing this will require broad modernization strategies for LOG IT and HRM functional areas, to drive efficiency, improve data integrity, and enhance overall financial accountability.

INTERNAL CONTROLS OVER REPORTING - FINANCIAL (FINANCIAL REPORTING AND FINANCIAL SYSTEMS)

To accomplish its financial reporting goals, the DON applies an integrated approach to assess its business process areas (i.e., business process, related IT systems, and Shared Service Providers). As a result of this assessment, the DON identified the below MWs and SDs related to ICOR-F. To remediate, the DON concentrates resources and management attention on priority areas. This allows the DON to achieve a more focused and efficient approach to correcting findings and improving the reliability of its financial information. As a result, the DON expects to reduce MWs, increase the accuracy of financial disclosures, and, ultimately, achieve an unmodified audit opinion.

Table 2: Uncorrected ICOR-F MWs and SDs

Uncorrected ICOR-F (Financial Reporting & IT Systems) MWs and SD			
Internal Control Reporting Category	**Title of MWs and/or SD**	**First Year Reported**	**Targeted Correction Date**
Budget to Report	Accounts Payable (MW)	FY 2017	Aug. 2026
Multiple	Budgetary Execution (MW)	FY 2012	Sep. 2027
Budget to Report	Financial Reporting (MW)	FY 2017	Sep. 2027
Plan to Stock	Inventory (MW)	FY 2005	Sep. 2026
Acquire-to-Retire	OM&S – Remainder (MW)	FY 2005	Sep. 2027
Acquire-to-Retire	OM&S – Ordnance (MW)	FY 2005	Sep. 2028
Personnel and Organizational Management	Oversight and Monitoring (SD)	FY 2016	Sep. 2027
Acquire-to-Retire	PP&E Construction in Progress (MW)	FY 2006	Sep. 2026
Acquire-to-Retire	GE – Remainder (MW)	FY 2007	Sep. 2027
Acquire-to-Retire	Real Property (SD)	FY 2020	Sep. 2027
Property Management	Property in the Possession of Contractors (MW)	FY 2018	Sep. 2028
Multiple	Revenue and Unfilled Customer Orders (MW)	FY 2009	Sep. 2027
Interface Controls	Information Technology Operations (MW)	FY 2016	Sep. 2027
Configuration Management	Configuration Management (MW)	FY 2015	Sep. 2027
Information Systems	Access Controls/Segregation of Duties (MW)	FY 2014	Sep. 2027

Each of the identified MWs and SDs have distinct ongoing remediation initiatives. Note that the section below does not provide the details for every MW and/or SD listed. Significant accomplishments for FY 2025 include:

Information Systems Configuration Management: The DON implemented effective automated configuration management controls via AWS CloudWatch for Ordnance Information System (OIS) and Splunk for Commercial Asset Visibility - Organic

Repairs Module (CAV-ORM) to generate and review change populations for unauthorized changes made in the production environment. In FY 2025, the DON successfully remediated and closed 26 IT Notice of Findings and Remediation (NFRs) related to the Configuration Management MW. An additional 8 NFRs are currently under IPA review for closure, which will further strengthen compliance and enhance internal controls.

Information Technology Operations: The DON completed analysis through coordination with system and business process owners to assess and document financially significant interfaces across twelve audit relevant systems. The DON closed 11 IT NFRs related to the Interface Controls MW. An additional 5 NFRs remain under IPA review closure, supporting ongoing efforts to improve compliance and reinforce internal controls.

Information Access Controls/Segregation of Duties: The DON completed integration of 10 additional audit-relevant systems to the NIS Identity Credential & Access Management (ICAM) enterprise service:

1. Standard Labor Data Collection and Distribution Application (SLDCADA),
2. Navy Marine Corps Intranet (NMCI) Enterprise Service Tools (NEST),
3. Decision Knowledge Programming for Logistics Analysis and Technical Evaluation Performance Summary Record (DECKPLATE-PSR),
4. Corrective Maintenance & Logistics System (CMLS),
5. Litigation Case Tracking Module (LCTM),
6. Normalization of Data (NORM),
7. Centralized and Integrated Reporting for the Comprehensive Utilities Information Tracking Systems (CIRCUITS),
8. Storage Retrieval Automated Tracking Integrated System (STRATIS),
9. JAG Enterprise Cloud Environnent (JECE), and
10. Marine Online-Marine Resource Order Writing Service (MOL-MROWS).

The DON also completed the FY 2025 enterprise-wide User Access Recertification for seven systems and more than 135,000 user identities.

1. Navy Enterprise Resource Planning (ERP),
2. CAV-ORM,
3. Procurement Business Intelligence Service (PBIS),
4. Global Combat Support System -Marine Corps (GCSS-MC),
5. Naval Air Systems Command (NAVAIR) Depot Maintenance System-Time and Attendance (NDMS-TAA),
6. Navy Maritime Maintenance Enterprise Solution (NMMES), and
7. eRetrograde Management System (eRMS).



The Navy documented three cross-application risk register analyses covering the Civilian Pay (CIVPAY), UAE, and Funds Receipt and Distribution (FRD) business processes, establishing a framework for the Navy to address cross-application Segregation of Duties (SOD) risks and map system roles to Office of the Undersecretary of Defense (OUSD) functional IDs. In total, 15 systems, 151 unique business functions, and 117 potential SOD conflicts were assessed, resulting in the identification of 73 risks classified as true conflicts. In FY 2025, 50 IT NFRs related to the Access Controls and SOD MW were remediated and closed, with an additional 12 NFRs currently under IPA review for closure.

Property in the Possession of Contractors: The DON is focusing its Government Furnished Property (GFP) remediation efforts on three specific property business processes – Operating Materials and Supplies (OM&S) Trident, OM&S Ordnance, and Working Capital Fund (WCF) Inventory, which captures the majority of known GFP. Specific accomplishments include:

- The DON continued to coordinate with leaders from the top five corporations holding its GFP to strengthen reporting and improve visibility into targeted business processes.
- The DON implemented an artificial intelligence (AI) tool to identify GFP at contractor sites and detect record management discrepancies, facilitating more effective remediation.
- The DON coordinated with its two largest Ordnance (OM&S) contractors to directly confirm to the IPA all Navy OM&S ordnance in their possession, supporting the IPA's audit of asset existence and completeness.

OM&S Ordnance: To strengthen the financial reporting of OM&S Ordnance, the DON aligned its accounting practices with United States Standard General Ledger (USSGL) guidance and implemented a line-by-line data reconciliation with the Army's system. New monitoring and physical inventory controls ensure the timely resolution of system issues and support the assertion of asset existence and completeness. Additionally, management review controls and valuation guidance are being implemented, demonstrating a commitment to enhanced compliance, improved accountability, and better management of ordnance assets.

OM&S – Remainder and GE – Remainder (E&C): The Navy has made significant progress in enhancing the management and valuation of OM&S – Remainder (OM&S-R) and General Equipment – Remainder (GE-R) to ensure improved completeness and accuracy. For both processes, the Navy developed a plan for IPA existence and completeness testing in Q4 FY 2025, coordinating with the IPA and program offices to schedule site visits for preliminary book-to-floor (existence) and limited floor-to-book (completeness) testing. This initial testing has provided valuable insights into the accuracy of self-reported data and the overall inventory management process.

To further strengthen internal controls, the Navy implemented additional management processes and procedures in alignment with SECNAVINST 5200.44A and OPNAVINST 4440.26C CH-1. These updates better define OM&S-R material classification, reinforce accountable official responsibilities, validate inventory baseline and sustainment requirements, and codify personnel training. In addition, complementary user entity controls were identified for potential implementation to address internal control gaps, particularly concerning Navy OM&S-R materials held by the Defense Logistics Agency (DLA).

PP&E Construction in Progress (CIP): Each of the processes outlined below describes significant accomplishments in the DON valuation methods, aimed at achieving improved completeness and accuracy. These efforts not only strengthen the integrity of internal controls but also set the foundation for a substantive audit. By continuously refining these processes, the DON ensures that its financial and operational data is reliable and compliant, positioning the organization for greater transparency and accountability in its audit outcomes.

- **Real Property (Valuation):** Successfully migrated RP CIP and in-service RP assets into Navy ERP system. Commenced execution of RP CIP business transactions in Navy ERP including: Establishing CIP projects, accumulating CIP transactions (through monthly CIP settlement), and relieving CIP and recording assets placed into service. Additionally, with the successful migration to

Navy ERP, RP balances are now reported via trial balances and the use of on-top manual adjustments to record these balances has been stopped. Lastly, the Navy successfully completed its redesign and documentation of key RP CIP controls that reflect the Navy ERP environment.

- **Vessels (Valuation):** Reassessed the Vessels CIP transaction universe and corrected underlying transactions as needed to support an accurate CIP balance. Developed and implemented multiple controls for the Naval Sea Systems Command (NAVSEA) Shipbuilding Program Offices to set up accurate financial reporting in addition to new management monitoring controls performed by the NAVSEA Comptroller to validate and ensure the CIP balance remains materially accurate.
- **Aircraft (Valuation):** Enhanced the CIP certification control to include a quarterly reconciliation between the Common Spend Plan Tool (CSPT) and Navy ERP to demonstrate completeness and accuracy of the data used as part of this review. Developed Jupiter dashboards for the CIP analytic tool to eliminate the possibility of manual errors and automate this process, enabling performance of the analytic for every Aircraft lot every quarter. Established new CIP analytic thresholds by business line item (BLI) to narrow those lots needing Program Manager, Air (PMA) review because of over/under-execution. Updated the CIP certification review template to ensure action items are tracked and closed out timely. Refined AP accrual estimates for Aircraft CIP to more accurately capture work performed but not yet invoiced.
- **General Equipment – Remainder (Valuation):** Developed a data-driven approach to analyze the GE-R population and support IPA audit of Small Boats, Service Crafts, and LCACS (Small Boats) within the GE-Remainder asset segment as this population is 76.0% of the GE-R value (Small Boats $3.5 billion vs GE-R – excluding small boats $1.1 billion).

ENTITY-LEVEL CONTROL ASSESSMENT

The DON IRM Program Office conducts an annual Entity-Level Control (ELC) Assessment to evaluate the DON's adherence to OMB Circular A-123, *GAO Standards for Internal Control in the Federal Government* (the Green Book), and *GAO Framework for Managing Fraud Risks in Federal Programs*. For FY 2025, the DON expanded the scope of its assessment to determine not only if ELCs were designed and operating effectively but how they were being implemented at lower levels of the organization. The DON performed Tests of Design and Tests of Operating Effectiveness on its ELCs. The testing confirmed that the DON appropriately designed ELCs in various areas, indicating further maturity in its implementation. The FY 2025 results also emphasize that there are areas for improvement, of which SAOs are implementing corrective action.



Mounted binoculars on a guided-missile destroyer show a view of the USNS John Lewis. (U.S. Navy photo by Petty Officer 2nd Class Timothy Meyer)

FY 2025 DIGITAL TRANSFORMATION INITIATIVES

The DON is accelerating digital transformation by decommissioning legacy systems through Operation Cattle Drive, modernizing existing systems, and deploying enterprise services. The DON successfully migrated open and active contracts (except IDIQ contracts) from SPS-Naval Facilities Engineering Systems Command (NAVFAC) to ePS. Additionally, the DON successfully completed migration of CAV-ORM, eRMS, Internet Navy Facilities Assets Data Store (iNFADS), NDMS-MAXIMO, and Support Equipment Management System-Support Equipment Resource Management Information (SEMS-SERMIS) to the cloud.

FRAUD ASSESSMENT

The DON continues to mature its Fraud Risk Management (FRM) program. In FY 2025, as part of the FRM Program, the DON conducted an enterprise-wide Fraud Risk Assessment (FRA) to identify mitigating internal controls and assess residual risk across nine high-priority fraud risk areas: Payroll, Beneficiary Payments, Grants, Procurement/ Opaque Contractor Ownership, Asset Safeguards, IT and Security, Purchase Cards, Travel Cards, and Fleet Cards. In addition, the DON assessed the status and effectiveness of the enterprise's fraud control environment through the completion of the annual GAO FRM Framework assessment.

The assessment identified that six (IT & Security, Asset Safeguards, Payroll, Purchase Cards, Fleet Cards, and Grants) of nine evaluated fraud risk areas currently exceed the Department's established fraud risk tolerance thresholds, underscoring the need for ongoing monitoring and targeted mitigation. For areas where weaknesses were identified, remediation is actively led by designated SAO's and program offices, with oversight from senior management and governance bodies such as the Senior Assessment Team (SAT) and the Senior Management Council (SMC). These coordinated efforts ensure timely resolution of issues and that appropriate resources are allocated to support corrective actions and strengthen the Department's fraud risk posture.

Despite elevated risks in certain areas, the DON maintains an integrated fraud risk control environment that is assessed annually as part of the DON IRM Program. This environment is supported by key components including fraud risk management guidance, consistent messaging from leadership, formal assessments, established policies and procedures, and clearly defined roles and responsibilities. While the Fraud Risk Management Framework continues to evolve, it already reflects the core elements of an established program and aligns with the GAO's Fraud Risk Framework leading practices, Commit, Assess, Design & Implement, and Evaluate & Adapt, ensuring fraud risk is actively managed and embedded within the Department's broader internal control structure.

ANTI-DEFICIENCY ACT

The Anti-Deficiency Act (ADA) establishes stringent regulations governing the financial practices of Federal agencies. The ADA provides that Federal agencies may not obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations; accept voluntary services on behalf of the Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation.

There were no ADA violations that have been discovered/identified during FY 2025.

THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

September 30, 2025

MEMORANDUM FOR SECRETARY OF WAR

SUBJECT: Fiscal Year 2025 Statement of Assurance Required Under the Federal Managers Financial Integrity Act of 1982

As Secretary of the Navy, I recognize the importance of managing the Department of the Navy's (DON) risk and internal control environment in compliance with the Federal Managers' Financial Integrity Act of 1982 and Federal Financial Management Improvement Act of 1996. The DON conducted its Fiscal Year 2025 risk and internal control assessment in accordance with the Office of Management and Budget Circular Number A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and Government Accountability Office Publication GAO-14-704G, "Standards for Internal Control in the Federal Government". The results reported in this memorandum apply to the Navy General Fund (GF), United States Marine Corps GF, and DON Working Capital Fund. The aggregated results of the assessment of internal controls over reporting in the required areas of compliance as of September 30, 2025 are as follows:

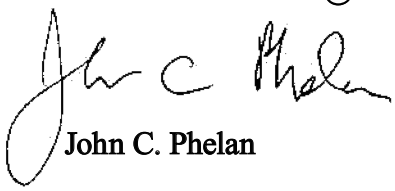
- **Operations:** The DON can provide reasonable assurance that internal controls over reporting for operations are operating effectively except for 2 material weaknesses (MWs) and 1 significant deficiency (SD).
- **Financial Reporting:** The DON is unable to provide reasonable assurance that internal controls over financial reporting (including internal and external financial reporting activities) are operating effectively due to 14 MWs and 2 SDs.
- **Financial Systems:** The DON is unable to provide reasonable assurance that internal controls over financial systems are operating effectively due to 6 non-conformances.
- **Entity Level Controls (ELCs):** The DON can provide reasonable assurance that ELCs, including fraud controls, are designed effectively except for 1 MW and 1 SD.

Additionally, the DON did not identify or report any Anti-Deficiency Act violations during its assessment of its systems of internal controls.

The DON is committed to strengthening its risk management practices, improving the effectiveness of its financial reporting and accelerating corrective actions to support the Department's goal of achieving clean audit opinion by December 2028. As the DON works toward these objectives, it must structure its internal control environment to support the strengthening of our shipbuilding and Maritime Industrial Base, incubate an adaptive and accountable warfighting culture and enhance the health and welfare of our Sailors, Marines and their families. To do so, we will leverage our Senior Management Council to

communicate these priorities down to the deckplate level, drive accountability and reinforce a culture of excellence that is consistent with the Navy's core values of honor, courage and commitment.

My point of contact for questions regarding the Statement of Assurance is Ms. Mobola Kadiri who may be reached via email at mobola.a.kadiri.civ@us.navy.mil.



John C. Phelan

DEPARTMENT OF THE NAVY
Material Weaknesses and Significant Deficiencies

Area	Title		Targeted Remediation Date	MW/ SD Deficiency Ownership		
				Navy GF	USMC GF[1]	DON WCF
ICOR-O	Ship Depot Maintenance		Sep. 2026	MW		
	Complex IT Environment		Sep. 2026	MW		MW
	Military Payroll		Sep. 2028	SD		
ICOR-FR	Accounts Payable		Aug. 2026	MW		MW
	Budgetary Execution		Sep. 2027	MW		MW
			Sep. 2028		MW	
	Financial Reporting		Sep. 2027	MW		MW
	Inventory		Sep. 2026			MW
	Inventory and Related Property: Operating Materials and Supplies	Existence & Completeness, Valuation	Sep. 2027		MW	
		Remainder	Sep. 2027	MW		
		Ordnance	Sep. 2028	MW		
	Oversight and Monitoring		Sep. 2027	SD		SD
			Sep. 2028		MW	
	Property Plant and Equipment	Existence & Completeness, Valuation	Sep. 2027		MW	
		Construction in Progress*	Sep. 2026	MW		
		General Equipment Remainder	Sep. 2027	MW		MW
		Real Property	Sep. 2027	SD		SD
	Property in the Possession of Contractors		Sep. 2028	MW		
	Revenue and Unfilled Customer Orders		Sep. 2027	MW		MW
ICOR-FS	Information Technology Operations		Sep. 2026		MW	
			Sep. 2027	MW		MW
	Configuration Management		Sep. 2027	MW		MW
			Sep. 2026		MW	
	Access Controls / Segregation of Duties		Sep. 2027	MW		MW
			Sep. 2028		MW	

*Significant progress made within Property Plant & Equipment Construction in Progress (CIP) (Vessels and Aircraft make up over 90% of the CIP balance and are on track for downgrade in 2025)


DEPARTMENT OF THE NAVY
UNITED STATES OF AMERICA



Reenlisting an Officer at Naval Support Activity Souda Bay, Greece.
(U.S. Navy photo by Petty Officer 2nd Class Andrew Eder)

FINANCIAL SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am honored to lead the best financial management (FM) team in the Department of War (DoW) in service to our Sailors, Marines, their families, and the American people. The Department of the Navy (DON) continues to advance its commitment to financial stewardship, transparency, and accountability. The Fiscal Year (FY) 2025 Agency Financial Report (AFR) demonstrates our ongoing efforts to enhance financial management practices, strengthen internal controls, and support the readiness and resilience of our naval forces.

In FY 2025, the DON completed its seven-year commitment to transition all commands to a single system. The Navy Enterprise Resource Planning (ERP) system has been deployed to over 91,000 users across 19 Navy systems commands, facilitating more than half of the DON's total obligation authority. We recognize that achieving financial accountability is an ongoing journey. Continuous improvement, leveraging lessons learned, and adopting best practices are essential to enhancing financial management capabilities.

The DON is prioritizing remediation of deficiencies in financial reporting of Aircraft and Vessels Construction in Progress (CIP), Ordnance and Working Capital Fund (WCF) Inventory. Additionally, the DON has accelerated its efforts for the WCF to achieve an unmodified opinion by FY 2026. Our FM community will continue to deliver on SECNAV priorities of shipbuilding and a culture of accountability that achieve President Trump's mandate of peace through strength. The DON is aligning financial execution with SECNAV's focus areas: 1) Enhance our highly skilled and engaged FM workforce to support DON's mission; 2) Standardize DON business processes and strengthen internal controls to improve accountability; 3) Optimize stewardship and trust in the DON's budget process; 4) Consolidate DON financial systems and enhance cybersecurity controls to improve data integrity; 5) Leverage data analytics to improve DON financial operations.

Investments in shipyard optimization, modernized logistics infrastructure, and maintenance enables the DON to strengthen shipbuilding and the maritime industrial base. Improvements to supply chain resilience, industrial base performance, contracting speed, and the timely, cost-effective delivery of critical platforms increases accountability to foster an adaptive and innovative warfighting culture.

The FY 2025 AFR reflects the DON's unwavering dedication to financial integrity and operational readiness. The DON will continue to uphold the highest standards of fiscal responsibility in service to the Nation.

Alaleh A. Jenkins
Performing the Duties of the
Assistant Secretary of the Navy
(Financial Management and Comptroller)
December 8th, 2025

UNITED STATES NAVY GENERAL FUND

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

December 8, 2025

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

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Navy General Fund Financial Statements and Related Notes for FY 2025
(Project No. D2025-D000FS-0059.000, Report No. DODIG-2026-029)

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

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

EY's separate report, "Report of Independent Auditors on Internal Controls Over Financial Reporting Based on an Engagement to Audit the Financial Statements

Performed in Accordance with Government Auditing Standards," discusses six material weaknesses related to the U.S. Navy General Fund's internal controls over financial reporting.*

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

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the U.S. Navy General Fund FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the U.S. Navy General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached December 8, 2025 reports and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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

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Shape the future
with confidence

Report of Independent Auditors

The Secretary of the United States Department of the Navy and the
Inspector General of the Department of War

Report on the Audit of the Financial Statements

Disclaimer of Opinion

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

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

Basis for Disclaimer of Opinion

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

Departures from U.S. Generally Accepted Accounting Principles

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



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Required Supplementary Information

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 8, 2025 on our consideration of the Navy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Navy's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Navy's internal control over financial reporting and compliance.

Ernst & Young LLP

December 8, 2025

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

The Secretary of the United States Department of the Navy and the
Inspector General of the Department of War

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the General Fund of the United States Navy (the Navy), which comprise the consolidated balance sheet as of September 30, 2025, the related consolidated statements of net cost and changes in net position, the combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements"), and our report dated December 8, 2025, expressed a disclaimer of opinion thereon that included a *Departures from U.S. Generally Accepted Accounting Principles* section regarding the Navy not having implemented certain accounting standards for the federal government. The effect of these matters on the Navy's financial statements as of and for the year ended September 30, 2025, is not currently determinable by the Navy and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion on the financial statements.

Report on Internal Control Over Financial Reporting

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



A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described below as items I through VI that we consider to be material weaknesses.

I. Financial Reporting and Controls

The Navy has a fundamental responsibility to develop and maintain an effective internal control system, which provides reasonable assurance that significant weaknesses in the design or operation of internal control that could adversely affect the Navy's ability to meet its objectives, including reliability of financial reporting and compliance with applicable laws and regulations, would be prevented or detected in a timely manner. As outlined in the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government (September 2014)* Green Book, "internal control is recognized as an integral part of the processes management uses to achieve its objectives rather than a separate system within an entity. In this sense, internal control is built into the entity as a part of the organizational structure to help managers achieve the entity's objectives on an ongoing basis." While the Navy has increased the use of controls over financial reporting in recent years, it is not yet an integrated part of the Navy's daily operations.

Establishing comprehensive financial reporting and entity-level controls (ELCs) is a primary step in developing and operating an effective system of internal control. Financial reporting controls encompass all aspects of the Navy's ability to produce reliable financial statements, accompanying notes, and related disclosures. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level, and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement.



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The FMFIA requires executive branch agencies to establish internal control in accordance with the GAO Green Book. These standards require that executive branch agencies follow specific internal control principles. Internal control weaknesses can lead to misstatements on the Navy's financial statements and have led to significant delays in year-end reporting. The Navy has not fully implemented ELCs or adequate controls in its end-to-end financial reporting process, including complementary user entity controls (CUECs). The Navy has not fully implemented monitoring controls over its financial reporting service provider, specifically for processing of journal entries and trading partner eliminations.

The Navy has made significant progress in developing an oversight and monitoring program to perform enterprise-wide risk assessment, internal control testing and monitoring, and System and Organization Controls (SOC) report evaluation. However, the effectiveness of the oversight and monitoring program is limited by the maturity of the control environment at the business process level. Most business processes lack up-to-date documented policies, procedures, and controls to guide stakeholders at all levels of the activity. Without established policies and procedures, controls at the business process level often are designed and implemented without sufficient knowledge and understanding of the end-to-end process, key IT systems impacting the account including those used to generate information produced by the entity, accounting impacts, and specific risks of the process. This lack of knowledge leads to spending time and resources designing and executing controls that may not prevent or detect errors appropriately.

The Navy lacks the organizational infrastructure to achieve and maintain compliance with existing Federal Accounting Standards Advisory Board (FASAB) standards or to respond to newly implemented standards as that core competency has not been established in all key business processes, where applicable. Additionally, there is no formal process to evaluate new programs or transactions for accounting impacts, especially those programs and transactions initiated at the budget submitting office (BSO) level. Per the Green Book, "internal control is a dynamic, iterative and integrated process in which components impact the design, implementation, and operating effectiveness of each other." Without the ability to appropriately identify and adapt to changes in standards as well as the Navy's own operating environment, including new programs or changes in technology, the Navy is at risk of errors in both financial reporting as well as compliance-related matters.

The Navy needs a workforce, across BSOs, trained on internal controls and accounting. The Navy has identified this knowledge gap and issued guidance to prioritize hiring of accounting professionals and provide supplemental accounting training for existing personnel. While the Navy has expanded use of automated bots to execute financially impactful tasks and support operations, the loss of key accounting personnel inhibited the development of internal controls. Additionally, the Navy does not have formal processes for succession or contingency planning, resulting in failed



control execution or stalled control development in areas where key personnel left the organization.

The failures to properly design, implement, and operate multiple controls in the financial reporting process increase the risk of errors going undetected and, therefore, may cause material misstatements of the Navy's financial statements. The severity of a deficiency does not depend on whether a misstatement occurred but on whether there is a reasonable possibility that the Navy's controls will fail to prevent or detect and correct a misstatement of an account balance or a disclosure.

EY recommends that the Navy consider the following corrective actions to address the conditions described above:

The Navy continues to set the tone at top that internal controls are imperative to the Navy's daily operations. While there has been a shift in support of internal controls at the BSO level, this message needs to continue to be supported at the lower echelons; it is essential to cultivate a thoughtful, robust, and dynamic internal controls system that is integrated into daily operations. Internal controls should be embedded within the organizational structure to support managers in consistently achieving the Navy's objectives regarding operations, reporting, and compliance. This includes addressing all five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

As a part of improving the overall Control Environment, the Navy should execute on the plan to increase the number of accounting professionals in financial reporting roles, including those that have a background in internal controls. The Navy should continue to prioritize the integration of automation into daily operations, while ensuring that bots are effectively designed to meet control objectives and outputs are continuously monitored by government personnel. The Navy should also incorporate contingency planning into all control documentation. Additionally, the Navy should include succession planning for all key remediation and oversight activities. This will help ensure that those reviewing the information included in the financial reporting process is in line with accounting standards as well as the Navy's current business environment.

As a part of improving the overall Risk Assessment process, the Navy should complete the documentation of the end-to-end process for the entire lifecycle of all significant business processes, including those processes not directly referenced in this report. Process documentation should include all key controls, process owners, data interfaces, and applicable federal regulations. Additionally, it should include a complete list of all input documents, applicable systems, and system-generated reports used in execution of the process. This is more than just a documentation exercise, but a complete and comprehensive refresh on understanding the processes and documenting the critical path of transactions. By examining the entire process, the Navy can

identify specific areas where risk may occur, and it can focus on potential impact to those risks. Finalizing these types of procedures will help inform and drive an effective risk assessment across all key accounts.

As a part of improving Control Activities, the Navy should design and implement a robust suite of controls over the end-to-end financial reporting process. This includes the implementation of the expected CUECs identified in relevant SOC 1 reports. The Navy should design controls to assess the completeness and accuracy of the information contained in system-generated reports. In the design of these controls, the Navy needs to address any system-related issues, particularly the absence of effective IT general controls, which could affect the quality of information produced by these systems. This will help the Navy evaluate the reliability of the reports and data from its systems. The Navy should focus on documenting control activities through policies and procedures. Having adequate policies and procedures also helps with contingency planning, allowing others to understand the baseline position and requirements.

As a part of improving Information and Communication, the Navy should continue to enhance centralized review procedures from FMO to ensure relevant and quality information is produced and maintained across the Navy. While the BSOs have detailed knowledge of operations and processes, there are accounting and control decisions that are inconsistent across individual BSOs for processes which operate in the same system, in a similar manner. Having additional FMO oversight and input into those decisions will help with the overall control environment.

As part of improving Monitoring activities, the Navy should continue to execute its Internal Risk Management (IRM) program and enhance the ongoing monitoring over the operating effectiveness of the financial reporting controls. As the other components of internal control become effective, the Navy's IRM program will become more effective as well. In addition, the Navy should continue to evaluate and enhance processes that rely on the work of service providers to ensure there is adequate review of the transactions posted on behalf of the Navy.

II. Inventory and Related Property: Operating Materials and Supplies

The Inventory and Related Property (I&RP) line item, with a net book value of $90.5 billion, consists of Operating Materials and Supplies (OM&S) – Ordnance, OM&S – Uninstalled Aircraft Engines, OM&S – Trident Missiles, OM&S – Remainder, and OM&S In-development. OM&S consists of tangible personal property to be consumed in normal operations but excludes (a) goods that have been acquired for use in constructing Real Property or in assembling equipment to be used by the entity, (b) stockpile materials, and (c) inventory. The Navy lacks adequate policies, procedures, and controls over the lifecycle of recording I&RP. This prevents the Navy from substantiating the reported balances on the financial statements and footnotes. The combination of these deficiencies results in a material weakness.



In accordance with FMFIA, management is responsible for establishing effective controls over and accountability of property and other assets, including the completeness and accuracy of all financially relevant data. While the Navy has improved the vendor confirmation process, the Navy continues to place undue reliance on the reporting of third-party service providers for accountability of OM&S assets, most notably placing reliance on vendor system outputs without effective monitoring controls in place to substantiate balances. The Navy is unable to produce a complete asset listing for Ordnance or OM&S-R. In addition, it does not have adequate controls over financial reporting for Ordnance or over physical inventories to validate the existence and completeness of the OM&S asset population. The Navy has not finalized accounting policies for key aspects of the account (e.g., OM&S In-development, purchases method, held for repair assets). The Navy is not in compliance with Statement of Federal Financial Accounting Standards (SFFAS) 48 as it has not asserted to opening balances in accordance with the standard.

EY recommends that the Navy consider the following corrective actions to address the conditions described above:

The Navy should design and implement controls to ensure the timely and accurate recording of OM&S transaction activity. The Navy should design and implement third-party monitoring controls to gain comfort over the reported OM&S balances, timeliness of recorded transactions, and relevance of the data to the reporting period. The Navy should produce complete and accurate asset listings that tie to the financial statement footnotes. Additionally, the Navy should design and implement policies and procedures to ensure consistent application of internal controls across OM&S and formalize and document the rationale to support key accounting positions, most notably the determination of OM&S end users. This is a vital step in determining the appropriate classification and financial reporting of the OM&S-R population. Last, the Navy should make an unreserved assertion over the OM&S balances in accordance with SFFAS 48 and establish operations in the SFFAS-3 go-forward environment.

III. General Property, Plant and Equipment

The Navy's General Property, Plant and Equipment (GPP&E) line item, with a net book value of $503.1 billion, consists of Real Property (buildings, structures, utilities), Vessels, Aircraft, Software, Remainder (items not specifically identified in another GPP&E category), and Construction-in-Progress. The Navy has made significant progress on Aircraft CIP and Vessels CIP controls. For the GPP&E line item, the Navy lacks adequate policies, procedures, and controls over the lifecycle of recording GPP&E as a whole. This prevents the Navy from substantiating the reported balances on the financial statements and notes. The combination of these deficiencies results in a material weakness.



In accordance with FMFIA, management is responsible for establishing effective controls over and accountability of property and other assets, including the completeness and accuracy of all financially relevant data. The Navy lacks adequate policies, procedures, and controls for GPP&E. The Navy has not finalized accounting policies for key aspects of the account (e.g., capitalization, indirect costs/overhead, leases, internal-use software, status of force agreements, defense cooperation agreements, and land). The Navy does not have an effective risk assessment in place to identify common risks across BSOs. These risks include, but are not limited to, timely addition and disposal of PP&E, accurate recording of GPP&E at the correct amounts, accurate calculation of depreciation, cutoff, complete reconciliation of subledgers to the trial balance, proper setup of Work Breakdown Structures, accruals, and appropriate classification of transactions as capital or noncapital. For similar processes, different BSOs have varying levels of controls, and, in some cases, no controls, in place to address key risks in the GPP&E process. In addition, the Navy does not have adequate controls to monitor or report government furnished or contractor acquired property held by contractors. Finally, the Navy is not in compliance with SFFAS 50 as it has not asserted to opening balances under the standard.

EY recommends that the Navy consider the following corrective actions to address the conditions described above:

The Navy should evaluate the current end-to-end business process activities and ensure consistent risks and controls are identified across the various components of GPP&E and multiple BSOs. The Navy should consider developing and implementing consistent baseline controls that are needed to address similar risks in ERP. The Navy should revisit the current process documentation to ensure it is relevant, comprehensive, and understandable to respond to key risks in the process. The Navy needs to ensure that capitalization policies and decisions are complete, in accordance with FASAB accounting standards, and consistent with other components of GPP&E. In addition, the Navy needs to ensure effective controls are implemented over government furnished and contractor acquired property. Last, the Navy should make an unreserved assertion over the GPP&E balances in accordance with SFFAS 50 and establish operations in the SFFAS-6 go-forward environment.

IV. Budget Execution and Monitoring

The Navy's budget consists of more than $269.2 billion in FY25 appropriations. The budget, as well as the execution and monitoring of that budget, provides a framework for allocating resources and measuring financial performance. The budget serves as the financial plan guiding receipt of appropriated funds through the outlay and reporting of those funds. Lack of adequate policies, procedures, internal controls, and related supporting documentation over the Budget Execution process prevents the Navy from substantiating reported balances on the Statement of Budgetary



Resources (SBR) and related notes. The combination of these deficiencies results in a material weakness.

In accordance with FMFIA, management is responsible for establishing effective controls which provide reasonable assurance that budgetary transactions are properly recorded and accounted for to permit the preparation of reliable financial statements. The Navy lacks controls to ensure the timely and accurate posting of undelivered orders and unfilled customer orders. The policies in place are not designed to ensure that stakeholders prepare and retain sufficient supporting documentation to support budget execution transactions.

The lack of effective controls in the budget execution process increases both the volume of dormant transactions and the likelihood of material misstatements persisting within the SBR and related notes.

EY recommends that the Navy consider the following corrective actions to address the conditions described above:

The Navy should identify key systems and/or interfaces and document a complete list of all inputs, application controls, and system-generated reports used within the budget execution process. Once identified, the Navy should increase communication among the key stakeholders to ensure consistent and complete documentation is readily available for each BSO and provided as part of all documentation requests for the budget execution process. Additionally, the Navy should fully implement controls to ensure that obligations, upward and downward adjustments, and unfilled customer orders are timely and accurately recorded.

V. Expenses and Revenue

The Navy's expense process consists of activities necessary to disburse funds to Navy vendors and other entitled recipients as well as record related accounts payable balances; Gross Costs totaled $217.7 billion in FY25. The revenue process consists of collecting funds for services rendered; this totaled $19.5 billion in FY25. The Navy lacks adequate policies, procedures, internal controls, and related supporting documentation over these processes, preventing it from substantiating reported balances for accounts payable on the Balance Sheet, and expense and revenue on the Statement of Net Cost. The combination of these deficiencies results in a material weakness.

In accordance with FMFIA, management is responsible for establishing effective controls which provide reasonable assurance that accounts payable, expense, and revenue are properly recorded and accounted for to permit the preparation of reliable financial statements. In these processes, the Navy lacks a method to ensure consistency across the enterprise for both transactions related to the expenditure and revenue processes. The Navy operates at the individual BSO level and does

not have adequate centralized monitoring in place to ensure that baseline requirements for a standardized control environment are addressed in either the procurement or fulfillment processes. This includes documenting consistent controls needed for an ERP environment. BSOs continue to execute processes and controls developed for their legacy environments and have not fully adapted to the new ERP system by changing processes or controls to respond to process risks.

The Navy lacks controls to ensure the timely and accurate posting of expense and revenue, receipt and acceptance of goods and services, and the effective research and clearance of unmatched transactions. The policies in place are not designed to ensure that stakeholders prepare and retain sufficient supporting documentation to support transactions. The Navy has developed an AP accrual process, but it is not consistently applied across the organization. Additionally, the Navy has not developed controls over the review of the accrual, to include completeness, accuracy, and reliability of data used to develop key assumptions. The lack of effective controls in the revenue and expense processes increases the volume of both unsupported transactions and transactions posted in improper periods.

EY recommends that the Navy consider the following corrective actions to address the conditions described above:

The Navy should evaluate the current end-to-end business process activities and ensure consistent risks and controls are identified across the various BSOs and processes. The Navy should design and implement consistent baseline controls to address similar risks in ERP when establishing and executing contractual agreements. The Navy should revisit the current process documentation to ensure it is relevant, comprehensive, and understandable to respond to key risks in the process.

The Navy should evaluate current standard contracts to determine whether required information and key clauses are included for proper financial reporting. This includes, but is not limited to, using a standard set of clauses that require contractors to validate completeness and accuracy of lists of government-owned assets in the possession of contractors, at least quarterly; require contractors to have more consistent communication with the government; require contractors to perform periodic physical inventories over assets and perform research on missing items; and ensure that contracts structured as “services contracts” are not also procuring physical goods that cannot be appropriately receipted into ERP due to inconsistency with contract terms.

In addition to evaluating consistency in process execution, the Navy should design and implement effective controls over all aspects of the expense process to ensure timely posting of expenses and AP, documented receipt and acceptance of goods and services prior to payment, and identification and correction of unmatched transactions. The Navy should also design and implement policies, procedures, and effective controls over revenues and unfilled customer orders. Last, the Navy should implement an AP accrual methodology for all impacted business processes, to include



central oversight and monitoring of execution and a control to address completeness, accuracy, and reliability of data used to develop key assumptions.

VI. Information Systems

Our assessment of the information technology (IT) controls and the computing environment focused on a subset of financially significant information systems that included general ledger systems, feeder systems, and operational systems. The deficiencies in these information systems are primarily at the design level of the application layer; however, additional deficiencies were identified through assessments performed over operating effectiveness, internal control programs, and the design of controls in additional layers such as database, operating system, and network. Additionally, in FY25, the Naval Identity Services Identify, Credential, and Access Management solution was assessed over Navy ERP and Program Budget Information System to address the risks related to access management. Based on our assessment of the implementation, deficiencies were identified. We reviewed each finding individually and in the aggregate, and determined the Navy lacks adequate controls in the Access and Segregation of Duties (SoD), Configuration Management, and IT Operations domains. The combination of these deficiencies results in a material weakness.

Access controls, when properly implemented, validate critical systems' assets are safeguarded and logical access to sensitive computer programs and data is only granted to authorized and appropriate users. The Navy lacks controls for the complete and accurate system-generated population of users or evidence to support the population of users, to include level of access granted (i.e., privileges). Consistent identification of financially significant transactions and resources is not performed and/or lacks financial integration and approval. Initial access provisioning, modification, and removal of access are not performed in accordance with defined requirements and timelines, or with sufficient detail to verify access granted was commensurate with access approved and required for the users' business responsibilities. Access recertification/periodic user access reviews are not performed to consistently evaluate both the need for access and the level of access provisioned. Additionally, the Navy lacks adequate processes for the logging and monitoring of user activities, and users with access to systems or shared accounts to verify that no inappropriate activities occur. Deficiencies in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or disclosed.

SoD controls provide an organizational structure to prevent individual users from being provisioned a combination of roles or permissions that have the capability to perform incompatible activities. The Navy lacks controls over cross-application SoD analysis across key financial systems to determine whether any SoD conflicts exist. Matrices outlining SoD conflicts, or equivalent documentation identifying access roles and permissions requiring separation, are not

sufficiently documented, inclusive of all functional roles, and/or not mapped effectively to the system access associated with the functional roles. Additionally, the Navy lacks the ability to prevent the assignment of conflicting roles during the access provisioning process. Deficiencies in such controls increase the risk of users performing inappropriate or unauthorized activities using their incompatible access permissions.

Effective configuration management controls allow the Navy to verify only authorized configuration changes and software programs are placed into the production environment through establishing and maintaining baseline configurations and monitoring changes to these configurations. The Navy lacks controls for complete and accurate system-generated population of changes made to the production environment; logging and monitoring controls to identify unintentional or unauthorized changes; segregated access to the development and production environments; and the consistent review, approval, and documentation of changes made to information systems. Deficiencies in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

IT operations controls provide support for the reliability of various aspects of operating the IT environment related to the complete and accurate processing of transactions and the protection of information used in that processing. The Navy lacks controls for complete and accurate populations of interfaces, either systematically generated or systematically validated. Reconciliations between source and target systems to validate the completeness and accuracy of financial data processing are not consistently implemented, and the Navy lacks effective controls over the tracking and remediation of identified errors in interface or job processing. Deficiencies in such controls increase the risk that issues with programs that are not scheduled correctly or do not process to completion may not be addressed, or may be addressed inappropriately, which may result in the loss of financially relevant data or the ability to accurately process that data.

EY recommends that the Navy consider the following corrective actions to address the conditions described above:

For the deficiencies identified in the areas of access and SoD, the Navy should systematically generate a complete and accurate population of users with access to financially significant systems; identify and document the completeness and accuracy of financially significant transactions and resources; confirm initial access provisioning, modification, and removal of access are performed in accordance with defined requirements and timelines, and with sufficient detail to verify access granted with access approved and required for the users' business responsibilities; and consistently review the ongoing need for users' access through periodic user access reviews/access recertification. Furthermore, the Navy should evaluate cross-application SoD to identify potential conflicts for users accessing multiple systems, and segregate conflicting roles. In those limited instances where conflicting roles are required or unavoidable, document and approve the business

rationale for the conflict and monitor the activity of users with conflicting roles. In addition, the Navy should establish and consistently follow processes and controls related to user account management and SoD, including the entire lifecycle from access provisioning to recertification, modification of access, inactivity restrictions, and termination procedures.

For the deficiencies identified in configuration management, the Navy should systematically generate a complete and accurate population of configuration changes, validate and approve changes made to the application and database layers, and segregate access between the development and production environments. Furthermore, the Navy should apply controls over the restrictions in access to source code, database, and code migration tools, or require a valid business rationale be documented for users requiring access, and monitor the activities of those accessing source code, database, and code migration tools. Additionally, the Navy should only migrate authorized and approved changes into the production environment.

For the deficiencies identified in IT operation controls, the Navy should identify and document complete and accurate listings of system interfaces, whether systematically generated or systematically validated, and document complete interface policies outlining the requirements of each interface. The Navy should also validate the information received from source systems is complete, accurate, and consistently received through automated interface reconciliations. Additionally, the Navy should log and monitor interface processing and job activities to allow for timely remediation of processing errors and identification of unauthorized changes to interfaces and job schedulers.

Last, the Navy should continue focusing on the implementation of a robust internal control environment and information security program that is designed and operating effectively to produce the intended results and mitigate key financial audit risks. Consequently, an integrated, prioritized, risk-driven effort is necessary to remediate deficiencies in the IT material weakness related to information system controls.

The Navy's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Navy's response to the findings identified in our engagement and described previously and in the accompanying letter dated December 8, 2025. The Navy's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and accordingly, we express no opinion on the response.

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Purpose of This Report

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2025 on our tests of the Navy's compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Navy's compliance.

Ernst & Young LLP

December 8, 2025

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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the United States Department of the Navy and the
Inspector General of the Department of War

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of the Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the General Fund of the United States Navy (the Navy), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements"), and our report dated December 8, 2025 expressed a disclaimer of opinion thereon that included a Departure from U.S. Generally Accepted Accounting Principles section regarding the Navy not having implemented certain accounting standards for the federal government. The effect of these matters on the Navy's financial statements as of and for the year ended September 30, 2025, is not currently determinable by the Navy and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of the Navy's compliance with certain provisions of laws, regulations, contracts and grant agreements as well as requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02 as well as an instance of noncompliance in which the Navy's financial management systems did not substantially comply with Section 803(a) requirements of FFMIA and which is described below.



Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 8, 2025, includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

FFMIA

Under FFMIA, we are required to report whether the Navy's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance related to FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the Navy's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards, or the USSGL.

(a) Federal financial management system requirements

As referenced in the Fiscal Year (FY) 2025 Department of Navy Statement of Assurance, the Navy identified that financial management systems do not substantially meet the requirements of FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix D.

EY also identified this material weakness as part of the Information Systems material weakness, contained in the Report on Internal Control Over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with access controls, segregation of duties, configuration management, and IT operations. These financial system deficiencies prevent the Navy from being compliant with federal financial management system requirements and inhibit the Navy's ability to prepare complete and accurate financial reporting.

(b) Noncompliance with applicable federal accounting standards

As referenced in Note 1 to the financial statements, the Navy identified that the design of financial and nonfinancial systems does not allow it to comply with applicable federal



accounting standards, including not being able to collect or record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, and those findings are included in our Report on Internal Control Over Financial Reporting.

(c) Noncompliance with USSGL posting logic at the transaction level

EY identified noncompliance with USSGL posting logic during our testing, and those findings are included in our Report on Internal Control Over Financial Reporting.

FMFIA

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the entity's system of internal control, and prepare related reports. The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (commonly referred to as the GAO Green Book), issued under the authority of FMFIA, establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. To determine whether an entity's internal control system is effective, the Green Book requires management to assess the design, implementation, and operating effectiveness of the five components of the entity's internal control system.

In FY25, management continued implementing a formal internal control evaluation program to monitor the Navy's underlying internal control system; however, components of the internal control system, including entity-level controls and key business process controls, have not been effectively designed or fully implemented. This prevents management from fully evaluating those processes and the Navy from substantially complying with FMFIA and the related GAO Green Book requirements.

The Navy's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Navy's response to the findings identified in our engagement and described previously and in the accompanying letter dated December 8, 2025. The Navy's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and accordingly, we express no opinion on the response.

Shape the future
with confidence

Purpose of This Report

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2025 on our consideration of the Navy's internal control over financial reporting (internal control). The purpose of that report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Navy's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Navy's internal control.

Ernst & Young LLP

December 8, 2025

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

7000
ASN FM&C
December 8, 2025

Mr. James Harvey
Ernst & Young, LLP
1775 Tysons Boulevard
Tysons, VA 22102

Dear Mr. Harvey

We reviewed the U.S. Navy General Fund Audit Report prepared by Ernst & Young, LLP, for the Fiscal Year (FY) 2025 audit of the U.S. Navy General Fund and appreciate the recommendations to improve our financial operations. The Navy acknowledges and concurs with material weaknesses and the disclaimer of the opinion.

During the FY 2025 audit, the Navy General Fund significantly improved its Aircraft and Vessels Construction in Progress (CIP) material weaknesses and sustained prior year downgrades. In FY 2026, we will continue to implement our audit roadmap remediation strategy, focusing on areas critical to Navy General Fund auditability, including:

a. Sustain previously remediated controls.

b. Continue improving internal controls over financial operations, including oversight of activity-level accounting and control over accounting adjustments.

c. Improve cybersecurity of audit relevant systems by safeguarding and controlling access to our IT systems and infrastructure.

d. Continue to evidence accountability for Navy-held GF Ordnance in support of our warfighter, implement the methodology to value Ordnance, and improve effectiveness of third-party oversight procedures.

e. Develop accounting treatments of OM&S-Remainder and GE-Remainder, including the baseline valuation methodologies.

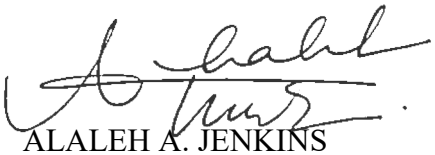
f. Implement deemed cost for Real Property CIP projects.

g. Sustain and continue to refine the Accounts Payable accrual methodology.

7000
ASN FM&C
December 8, 2025

We are building on our successes and fostering a culture that encourages innovation, solves problems, and achieves results to get the most out of every dollar entrusted to us to support readiness.

Sincerely,



ALALEH A. JENKINS
Performing the Duties of the
Assistant Secretary of the Navy
(Financial Management and Comptroller)

General Fund Principal Statements

The FY 2025 principal statements and related notes are presented in the format prescribed by OMB Circular A-136, except as otherwise disclosed. The statements and related notes summarize financial information for individual funds and accounts within the DON for the FY ended September 30, 2025.

The following section is comprised of the principal statements and related notes:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Related Notes
- Required Supplementary Information



US NAVY GENERAL FUND

CONSOLIDATED BALANCE SHEET

As of September 30, 2025

($ in Thousands)

		UNAUDITED 2025
ASSETS:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$	302,799,555
Accounts Receivable, Net (Note 5)		269,653
Advances and Prepayments		1,802,717
Other Assets (Note 9)		717,581
TOTAL INTRAGOVERNMENTAL ASSETS		**305,589,506**
Other than Intragovernmental Assets:		
Cash and Other Monetary Assets (Note 4)		176,241
Accounts Receivable, Net (Note 5)		216,042
Inventory and Related Property, Net (Note 6)		90,500,509
Property, Plant and Equipment, Net (Note 7)		503,086,297
Advances and Prepayments		369,434
Other Assets (Note 9)		24,476
TOTAL OTHER THAN INTRAGOVERNMENTAL ASSETS		**594,372,999**
TOTAL ASSETS	**$**	**899,962,505**
STEWARDSHIP PP&E (Note 8)		
LIABILITIES:		
Intragovernmental Liabilities:		
Accounts Payable	$	2,249,070
Advances from Others and Deferred Revenue		39,363
Other Liabilities (Note 13)		1,307,740
TOTAL INTRAGOVERNMENTAL LIABILITIES		**3,596,173**
Other than Intragovernmental Liabilities:		
Accounts Payable		8,302,133
Federal employee salary, leave, and benefits Payable (Note 11)		4,870,843
Pensions, post-employment, and veterans benefits Payable (Note 11)		1,024,020
Environmental and Disposal Liabilities (Note 12)		36,800,537
Advances from Others and Deferred Revenue		1,342,347
Other Liabilities (Note 13)		335,509
TOTAL OTHER THAN INTRAGOVERNMENTAL LIABILITIES		**52,675,389**
TOTAL LIABILITIES	**$**	**56,271,562**
COMMITMENTS AND CONTINGENCIES (Note 15)		
NET POSITION:		
Unexpended Appropriations:		
Unexpended appropriations - Funds from other than Dedicated Collections	$	292,384,814
TOTAL UNEXPENDED APPROPRIATIONS (CONSOLIDATED)		**292,384,814**
Cumulative Results of Operations:		
Cumulative results of operations - Funds from Dedicated Collections (Note 16)		43,363
Cumulative results of operations - Funds from other than Dedicated Collections		551,262,766
TOTAL CUMULATIVE RESULTS OF OPERATION (CONSOLIDATED)		**551,306,129**
TOTAL NET POSITION	**$**	**843,690,943**
TOTAL LIABILITIES AND NET POSITION	**$**	**899,962,505**

The accompanying notes are an integral part of these statements.

US NAVY GENERAL FUND

CONSOLIDATED STATEMENT OF NET COST

For the Fiscal Year Ended September 30, 2025

($ in Thousands)

		UNAUDITED 2025
GROSS PROGRAM COSTS: (Note 17)		
Gross Costs:		
Military Personnel	$	44,230,620
Operations, Readiness & Support		87,187,481
Procurement		62,626,023
Research, Development, Test & Evaluation		22,564,813
Family Housing & Military Construction		1,060,366
(Less: Earned Revenue)		**(19,459,638)**
NET COST OF OPERATIONS	**$**	**198,209,665**

The accompanying notes are an integral part of these statements.

US NAVY GENERAL FUND

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Fiscal Year Ended September 30, 2025

($ in Thousands)

UNAUDITED 2025

	Funds From Dedicated Collections (Note 16)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ -	$ 233,564,404	$ -	$ 233,564,404
Appropriations Received	-	266,594,708	-	266,594,708
Appropriations transferred in/out		4,636,734	-	4,636,734
Other Adjustments	-	(2,721,157)	-	(2,721,157)
Appropriations Used	-	(209,689,875)	-	(209,689,875)
NET CHANGE IN UNEXPENDED APPROPRIATIONS	**-**	**58,820,410**	**-**	**58,820,410**
TOTAL UNEXPENDED APPROPRIATIONS	**$ -**	**$ 292,384,814**	**$ -**	**$ 292,384,814**
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ 47,030	$ 526,492,617	$ -	$ 526,539,647
Corrections of Errors	-	14,050,495	-	14,050,495
Beginning Balances, as Adjusted	47,030	540,543,112	-	540,590,142
Other Adjustments	-	312,195	-	312,195
Appropriations Used	-	209,689,875	-	209,689,875
Non-exchange Revenue (Note 23)	-	17,730	-	17,730
Donations and Forfeitures of Cash and Cash Equivalents	28,162	-	-	28,162
Transfers In/Out without Reimbursement	-	(88,112)	-	(88,112)
Imputed Financing	-	1,787,369	-	1,787,369
Other	-	(2,821,567)	-	(2,821,567)
Net Cost of Operations	31,829	198,177,836	-	198,209,665
NET CHANGE IN CUMULATIVE RESULTS OF OPERATION	**(3,667)**	**10,719,654**	**-**	**10,715,987**
TOTAL CUMULATIVE RESULTS OF OPERATION	**$ 43,363**	**$ 551,262,766**	**$ -**	**$ 551,306,129**
NET POSITION	**$ 43,363**	**$ 843,647,580**	**$ -**	**$ 843,690,943**

The accompanying notes are an integral part of these statements.

US NAVY GENERAL FUND

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Fiscal Year Ended September 30, 2025

($ in Thousands)

		UNAUDITED 2025
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory) (Note 18)	$	75,606,609
Appropriations (discretionary and mandatory)		269,237,226
Spending Authority From Offsetting collections (discretionary and mandatory)		10,225,037
TOTAL BUDGETARY RESOURCES	**$**	**355,068,872**
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (total)	$	263,508,706
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts		49,748,249
Exempt from Apportionment, Unexpired Accounts		53,219
Unapportioned, Unexpired Accounts		37,535,647
UNEXPIRED UNOBLIGATED BALANCE, END OF YEAR		**87,337,115**
Expired Unobligated Balance, End of Year		4,223,051
UNOBLIGATED BALANCE, END OF YEAR (TOTAL)		**91,560,166**
TOTAL STATUS OF BUDGETARY RESOURCES	**$**	**355,068,872**
OUTLAYS, NET, AND DISBURSEMENTS, NET (Note 20)		
Outlays, Net (total) (discretionary and mandatory)	$	211,642,568
Distributed Offsetting Receipts (-)		(266,394)
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	**$**	**211,376,174**

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The DON is a complex organizational entity comprised of subordinate organizations, as well as other entities, which are administratively aligned to the DON mission, but funding for those operations is provided by external reporting entities.

For financial reporting purposes, the DON is organized into two reporting entities: the USN GF and the DON WCF. Each reporting entity has a separate set of financial statements and related disclosures. For FY 2025, the DON WCF received an exemption and will not produce an AFR. This section of the AFR specifically applies to the USN GF, as a result, it does not disclose information related to the DON WCF.

Refer to the MD&A Section – "Mission and Organization" *for additional information.*

The DON has relationships with Non-appropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs) that meet certain control elements regarding risk of loss or expectation of benefits. However, the DON does not meet enough control elements to consider them consolidating entities.

Refer to Note 22, "Disclosure Entities and Related Parties" *for additional information.*

Some of the assets and liabilities reported by the entity may be eliminated for 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 that they are for a component of the U.S. Government, a sovereign entity.

B. Basis of Presentation

The financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary results of DON operations, as required by the CFO Act of 1990, as amended, and expanded by the GMRA of 1994 and other applicable legislation. The financial statements account for all resources for which the DON is responsible, unless otherwise noted.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

To the extent possible, the financial statements have been prepared from the accounting records of the DON in accordance with the formats prescribed by OMB Circular A-136, and with U.S. GAAP for Federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The DON is unable to fully comply with all elements of U.S. GAAP and OMB Circular A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The DON 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 U.S. GAAP. The DON continues to implement process and system improvements addressing these limitations.

C. Basis of Accounting

The DON's financial statements are compiled from the underlying financial data and trial balances of the components. The DON presents the Balance Sheet (BS), SNC, and Statement of Changes in Net Position (SCNP) on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The SBR is presented on a combined basis, which is the summation of the consolidation entities therefore, intradepartmental activity has not been eliminated.

DON 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, except where indicated in Note 1.T and 1.U. 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 DON is continuing to evaluate the effects of adopting the accounting standards below and other authoritative guidance issued by FASAB.

Departures from U.S. GAAP

The DON is not in full compliance with the following authoritative accounting guidance:

- *Statement of Federal Financial Accounting Standards* (SFFAS) 1, *Accounting for Selected Assets and Liabilities*
- SFFAS 3, *Accounting for Inventory and Related Property*
- SFFAS 6, *Accounting for Property, Plant, and Equipment*
- SFFAS 10, *Accounting for Internal Use Software*
- SFFAS 29, *Heritage Assets and Stewardship Land*
- SFFAS 42, *Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29, and 32*
- SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*
- SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*
- SFFAS 54, *Leases*
- SFFAS 59, *Accounting and Reporting of Government Land*
- Treasury Financial Experience *(TFX)*
- FFMIA of 1996

Certain disclosures related to the DoD Component Reporting Entity are not presented, including those required by the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012; Section 3 of the OMB Memorandum M-12-12, "Promoting Efficient Spending to Support Agency Operations"; and the OMB Management Procedures Memorandum 2016-04, " Grants Oversight and New Efficiency Act Reporting of Unclosed Grant and Cooperative Agreement Awards for Which the Period of Performance Has Expired More Than Two Years." These disclosures are presented in the DoD AFR on behalf of the DON.

D. Appropriations and Funds

The DON receives appropriated and non-appropriated funds (NAF) to include general, revolving, trust, special deposit funds, and funds from dedicated collections. The DON uses these funds to execute its missions and then report resource usage.

General Funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, R&D, procurement, family housing, and military construction.

Revolving Fund accounts are funds authorized by specific provisions of law, financed by a corpus through an appropriation or a transfer, to perform a continuing cycle of operations through the sales of goods and services without FY limitations. The National Defense Sealift Fund (NDSF) is the DON's only revolving fund. This unique fund receives annual appropriations expiring after five years and the revenues generated from the sales of goods and services do not expire.

Trust Fund accounts have receipts and expenditures of funds held in trust by the government for specific purposes or for carrying out programs in accordance with the terms of the DON, trust agreement, or statute.

Special Fund accounts are used to record receipts reserved for a specific purpose, such as funds from dedicated collections.

Deposit Fund accounts are used to record monies held temporarily, where the DON is acting as an agent or a custodian for funds awaiting distribution to the appropriate government or public entity. These deposit funds are not DON funds, and as such, are not available for the DON's operations.

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the federal government by an other than intragovernmental source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the federal government's general revenues.

Refer to Note 16, "Funds from Dedicated Collections" *for additional information.*

E. Accounting for Intragovernmental Activities

Intragovernmental transactions are business activities conducted between two different Federal entities. Transactions with the public are transactions in which either the buyer or the seller of the goods or services is an other than intragovernmental entity. The DON cannot accurately identify intragovernmental transactions (e.g., revenues, expenses, accounts receivable, AP, and non-expenditure transfers) by customer to properly eliminate intra-entity and trading partner activity and balances from the financial statements. The DON's systems do not completely track buyer and seller data at the transaction level; thereby increasing the risk that eliminating entries have not been accurately recorded. Generally, seller entities within the DON provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with the DON's seller-side balances, then eliminated. The DON continues to implement process and system improvements to address these limitations that will enable the DON to correctly report, reconcile, and eliminate intragovernmental balances.

The DON reconciles balances of investments in Federal securities, borrowings from the Treasury and the Federal Financing Bank, Federal Employees' Compensation Act (FECA) transactions with the Department of Labor (DOL), and benefit program transactions with Office of Personnel Management (OPM).

F. Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that the DON has authority to use for its operations. Non-entity assets are those held by the DON 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 DON combines its entity and non-entity assets on the BSs and discloses its non-entity assets in the notes.

Refer to Note 2, "Non-Entity Assets" *for additional information.*

G. Fund Balance with Treasury

FBWT includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. The DON's monetary resources are maintained in Treasury accounts. The DON generally does not maintain cash in commercial bank accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), DON , other military departments, and Department of State financial service centers process the majority of the DON's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports for the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The disbursing station monthly reports are consolidated at the disbursing office level for financial reporting purposes. This is Non-Treasury Disbursing Office (NTDO) processing. In addition to NTDO processing, the DON in partnership with DFAS, utilizes Treasury Disbursing Office (TDO) for vendor payments. TDO is the process of utilizing Treasury as a service provider to process disbursements, thereby eliminating the requirements for disbursing stations to prepare monthly reports for Treasury to report fund balance activity. Implementation of TDO results in the DON having a blended disbursing environment, where both NTDO and TDO processes support the generation of disbursement transactions affecting fund balance.

In addition, DFAS and the U.S. Army Corps of Engineers (USACE) Finance Center submit reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account. On a monthly basis, the DON's FBWT is reviewed and adjusted at the Department level within the DoD's Defense Departmental Reporting System-Budgetary (DDRS-B). FBWT variances identified after the general ledger systems have closed each month are addressed through adjustments entered during the financial reporting process in DDRS to record undistributed disbursements and collections. These adjustments, if required, help to ensure the DON's financial statements agree with the Treasury accounts.

Refer to Note 3, "Fund Balance with Treasury" *for additional information.*

H. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the DON 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 purchased and non-purchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

Cash and foreign currency are classified as "entity assets". 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.

The DON conducts a portion of its operations overseas with business conducted in foreign currency. The primary source of the amounts is reported in the Disbursing Officers Statement of Accountability. The DON reports gains and losses from foreign currency transactions in the Gains and Deficiencies on Exchange Transactions account for the following GF appropriations: 1) operations and maintenance; 2) military personnel; 3) military construction; 4) family housing operation and maintenance; and 5) family housing construction. The DON accounts for foreign currency fluctuations related to other appropriations by adjusting the original obligation amount at the time of payment. The DON does not separately identify currency fluctuation transactions.

Refer to Note 4, "Cash and Other Monetary Assets" *for additional information.*

I. Accounts Receivable, Net

Accounts Receivable, inclusive of claims receivable and refunds receivable, consists of amounts owed to the DON by other Federal agencies and the public. Gross receivables must be reduced to net realizable value (NRV) by an allowance for doubtful accounts (AFDA). FASAB Technical Bulletin (TB) 2020-1 clarifies that SFFAS 1 standards, including recognition of losses, apply to receivables from intragovernmental and non-intragovernmental entities.

Losses on receivables (i.e. AFDA) are recognized when it is more likely than not that the receivables will not be totally collected. The methodology used to estimate AFDA is a group analysis based on age and customer, leveraging historical payments to estimate potential losses. AR balances are grouped into federal and nonfederal populations and summarized into aging categories ranging from 0 days to 2 years old. Using historical data, the DON tracks each individual AR balance over time to establish baseline expectations for uncollectability within each age group. These average uncollectability rates are then applied to the AR balance in each age group at the end of a quarter to determine the current AFDA estimate.

Currently, the methodology is only implemented for Budget Submitting Offices (BSOs) reporting out of Navy ERP. In FY 2025, the DON does not evaluate AFDA for the three BSOs still reporting out of NSABRS.

Refer to Note 5, "Accounts Receivable, Net" *for additional information.*

J. Inventory and Related Property

The DON does not maintain inventory for sale. Due to long standing business processes and financial system deficiencies, the DON is unable to make an unreserved assertion for OM&S opening balances. The DON primarily accounts for OM&S-R using the consumption method of accounting, with the purchases method of accounting used on an approved exception basis. The DON implemented deemed cost valuation for OM&S-Tridents (OM&S-T) in accordance with SFFAS 48 using estimated historical cost as of FY 2022. Review and remeasurement of the initial deemed cost amounts for OM&S-T will continue until the go-forward valuation methodology is fully established.

The DON is in the process of transitioning to valuing UAE and OM&S-T in accordance with SFFAS 3. The DON values OM&S assets held for use, held in reserve for future use, and OM&S in development using multiple valuation methods: weighted average cost (WAC), moving average cost (MAC), historical cost (HC), estimated historical cost (EHC), standard cost (SC), replacement price (RP), specific identification (SI), and latest acquisition cost (LAC). Excess, Obsolete and Unserviceable (EOU) OM&S should be valued at NRV. Adjustments for repair costs under the allowance method are made to UAE and beginning in FY 2025 to Ordnance; valuation adjustments pertaining to repair costs are not currently calculated for OM&S-T, or OM&S-R. OM&S materials held for repair are reported under held in reserve for future use.

Refer to Note 6, "Inventory and Related Property, Net" *for additional information.*

K. Property, Plant, and Equipment, Net (PP&E)

PP&E assets are those used by the DON in supporting its mission and primarily consist of RP and General Equipment (GE). PP&E assets are capitalized in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds capitalization thresholds. The DON is not compliant with U.S. GAAP for capitalization of all PP&E. The DON capitalizes improvements to existing PP&E if the improvement equals or exceeds the DON's capitalization threshold, extends

the useful life of the underlying asset, or increases asset size, efficiency, or capacity. The DON depreciates all depreciable PP&E on a straight-line basis. Land, CIP, and IUS In Development are non-depreciating assets.

The DON records PP&E transferred from another DoD Component or Federal agency at the current value of the asset on the transferring entity's general ledger, net of any accumulated depreciation at the time of transfer. If the DON cannot reasonably ascertain the net book value, the cost of the asset shall be its fair market value at the time of transfer. The DON records PP&E acquired through an exchange between the DON and a non-Federal entity at the fair value of the PP&E at the time of exchange.

Due to long standing business process and financial system deficiencies, the DON is unable to make an unreserved assertion for PP&E opening balances and continues to implement go-forward U.S. GAAP-compliant processes. The DON uses alternative valuation methods under SFFAS 50 to value assets placed in service through FY 2025 as described below.

1.K.1 Real Property
The DON reports all RP assets within the jurisdiction of the DON installations in its financial statements because it is the designated installation host. This includes RP on DON installations funded and used by other DoD organizations. The DON does not report assets on its installations that were funded and are exclusively used by a non-DoD entity. The DON uses a $1.0 million capitalization threshold for all its RP.

The DON values its buildings, structures, and linear structures (including utilities) at Plant Replacement Valuation (PRV). The PRV valuation methodology, calculated using the latest Unified Facilities Criteria (UFC) DoD Facility Pricing Guide, is applied to, and then deflated (discounted) to the year of acquisition. All active RP assets placed in service prior to October 1, 2024 were valued using PRV and any RP asset placed into service after October 1, 2024 are recorded at estimated historical cost under SFFAS 50. The DON defines capital improvements to RP as costs that 1) extend the useful life (e.g., major restoration or reconstruction of facilities damaged by a natural disaster), 2) increase/enhance capacity (e.g., roof of a warehouse is raised to increase cubic feet) and 3) increase size (e.g., addition, expansion, or extension of a building).

In accordance with SFFAS 50, the DON has elected to exclude its land and land rights from the PP&E opening balance and has disclosed total acres of land. Future land and land rights will be expensed.

1.K.2 General Equipment
The DON categorizes GE by major acquisition-based segments: vessels, aircraft, and GE-R. Vessels include nuclear, conventional and support ships and submarines with the prefix United States Ship (USS) and United States Naval Ship (USNS). Aircraft include active fixed wing and rotary wing aircraft including unmanned systems intended for use by the DON. GE-R includes all other capitalized assets not specifically identified, such as operations support equipment, small boats and service craft, and maintenance support equipment. GE acquired as constructed assets accumulates as CIP until such time as the asset is placed in service, at which time the balance is transferred to the relevant GE account. The DON uses a $1.0 million capitalization threshold for GE assets.

Vessels
The DON reports all ships (including those operated by the Military Sealift Command [MSC]) and submarines. In accordance with SFFAS 50, the DON valued baseline assets by establishing deemed costs using appropriations, contracts supported by invoices and costs of similar assets for ships and submarines. In FY 2025, the DON revalued 4 vessels delivered in FY 2025 using alternative valuation methods under SFFAS 50. The revaluation had an overall financial impact that resulted in an increase to Equipment by $1.4 billion and an increase to Accumulated Depreciation of $47.0 million. Capital improvements to vessels are defined as costs that either 1) extend the useful life, or 2) enlarge or improve the capacity. Enlarging or improving the capacity of a vessel does not just refer to the vessel's holding capacity, but rather its capacity to provide benefits to the DON.

The DON receives funding under the Shipbuilding and Conversion, Navy (SCN) appropriation for investments in the Maritime Industrial Base (MIB), the Submarine Industrial Base (SIB) and Surface Combatant Industrial Base (SCIB) programs. MIB, SIB, and SCIB funds are used to support several crucial industrial base capabilities including Supplier Development, Shipyard Infrastructure & Increased Production Rates, Strategic Outsourcing and Workforce Development. These industrial base capabilities play a major role in the entire lifecycle of a Navy vessel, including maintenance, modernization, and repair, and not merely new vessel construction. The DON has evaluated the purpose and outcomes of the funding and determined that it is not reasonable or feasible to assign these costs to specific PP&E assets and capitalize them. Thus, costs associated with

MIB, SIB, and SCIB funds are expensed in the period they are incurred. In FY 2025, the DON spent approximately $2.8 billion for MIB, SIB, and SCIB activities.

Aircraft
The DON reports all aircraft (including aircraft that are operated by USMC). For in-service aircraft delivered in FY 2024 and prior, the DON revalued these aircraft using a budget-based approach compliant with SFFAS 50. Beginning in FY 2025, aircraft placed into service are valued using the SFFAS 6-compliant gross obligation method. The DON defines capital improvements to aircraft as costs that 1) increase/enhance capacity (e.g. increasing power of engines or payloads) 2) increase the useful life by 2 or more years (i.e., service life extension programs [SLEPs]) and 3) increase or modify mission capability (e.g. changing the mission from cargo transportation to personnel transportation).

GE-Remainder
The DON reports GE-R assets including support equipment, small boats, and service craft. The DON values GE-R assets based on historical cost or the cost of select similar assets at the time of acquisition. The DON has not fully implemented SFFAS 50 or SFFAS 6 with respect to GE-R. The DON continues to remediate PP&E and has not yet defined capital improvements for GE-R.

The DON also provides Government property to contractors to complete contract work. The DON owns such property and either provides it to the contractor or it is purchased directly by the contractor on behalf of the Government. The Federal Acquisition Regulation (FAR) requires the DON to maintain information on all property furnished to contractors in the DON property systems. The DON reports such property when the value of contractor-procured GE meets or exceeds the DON capitalization threshold (which applies to both assets and capital improvements). The DON is not in compliance with the FAR or Federal accounting standards and is in the process of implementing business process and system improvements to do so.

Construction in Progress
The DON currently reports assets under construction for RP, vessels, aircraft, and GE-R. The DON has not fully implemented SFFAS 50 or SFFAS 6 with respect to CIP.

1.K.3 Internal Use Software
IUS can be purchased from commercial vendors off-the-shelf, modified off-the-shelf, internally developed, or contractor-developed. IUS includes software that is: 1) used to operate programs (e.g., financial and administrative software, including that used for project management); and 2) used to produce goods and provide services (e.g., maintenance work order management). IUS does not include computer software that is integrated into and necessary to operate GE. The DON's capitalization threshold for IUS is $250 thousand. Due to ongoing remediation, the DON does not currently report accurate values related to IUS and has not yet defined capital improvements.

Refer to Note 7, "Property, Plant and Equipment, Net" *for additional information.*

L. Stewardship PP&E

The DON is a large-scale owner of historic buildings, structures, districts, historical artifacts, art, ships, sunken ships, aircraft, archeological sites, installation and stewardship land, and other cultural resources. The DON does not capture information relative to Heritage Assets separately and distinctly from normal operations due to business process and system limitations.

The DON is unable to identify, separately and distinctly, the cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets from normal operations.

Refer to Note 8, "Stewardship PP&E" *for additional information.*

M. Other Assets

Other assets include PP&E Permanently Removed but Not Yet Disposed and Investments, Net (including accrued interest) which are not reported elsewhere. Assets are permanently removed when their use has been terminated and there is documented evidence of management's decision to permanently remove the asset from service.

The DON is in the process of updating and implementing RP policy on PP&E Permanently Removed but Not Yet Disposed. As of FY 2025, RP assets that meet this classification do not have documented evidence of management's decision to

permanently remove the asset from service. Aircraft and vessels in this category are recorded at an NRV of zero unless there is an established price for the asset as evidenced by a Letter of Acceptance in connection with a foreign military sale.

The DON reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method, or another method obtaining similar results. The DON's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The DON invests in non-marketable and market-based Treasury securities, issued to Federal agencies by the Treasury's Bureau of the Fiscal Service. These securities are not traded on any financial exchange but are priced consistently with publicly traded Treasury securities. Accrued interest represents the amount of interest accrued on investment securities but not received as of the date of the financial statements.

Refer to Note 9, "Other Assets" *for additional information.*

N. Leases

DON as the Lessee

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

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

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, *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. Intragovernmental lease payments are expensed, regardless of lease term.

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

SFFAS 54 does not apply to IUS, contracts or agreements that will, more likely than not, transfer ownership to the DON or lease asset payments recorded as construction in process.

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

DON as the Lessor

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

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

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time, as specified in the contract or agreement in exchange for consideration. Intragovernmental lease payments are expensed, regardless of lease term. A lessor should recognize lease receipts, including lease-related operating costs (for example, maintenance, utilities, or taxes) received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts.

A lessor should recognize a lease receivable and unearned revenue, for leases that exceed 24 months. Any initial direct lease costs incurred by the lessor should be reported as an expense of the period. A lessor initially should measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts.

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

Refer to Note 14, "Leases" *for additional information.*

O. Liabilities

Liabilities are actual and estimated amounts to be paid as a result of transactions or events that have already occurred. Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not requiring appropriated budgetary resources include those related to deposit funds.

P. Environmental and Other Contingent Liabilities

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. Contingent liabilities are recognized when a past event or exchange transaction has occurred, and a future outflow of resources is probable and measurable. A contingency is considered probable when the future confirming event or events are more likely than not to occur, except for pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, a contingency is considered probable when the future confirming event or events are likely to occur. A contingency is disclosed in the Notes to the Financial Statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred. A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. A contingency is not recognized as a contingent liability and an expense nor disclosed in the Notes to the Financial Statements when the chance of the future event or events occurring is remote. A contingency is considered remote when the chance of the future event or events occurring is slight.

Contingent Legal Liabilities (CLL) are calculated based on a predetermined estimation methodology. In legal cases where estimated loss or reasonable loss range is not provided by legal offices, the methodology estimates liability amounts based on historical payment to claim ratio. Navy Office of Financial Operations (FMO) leverages Office of General Counsel (OGC) and Office of the Judge Advocate General (OJAG) attorney's likelihood assessment to categorize the cases for appropriate accounting treatment. The estimation methodology is based on the OGC and OJAG attorney's claim amount assessments and historical payout data applied to specific claim amounts.

Refer to Note 15, "Commitments and Contingencies" *for additional information.*

E&DL are estimates for anticipated environmental clean-up or disposal costs. The DON reports E&DL by estimating environmental clean-up (i.e., environmental restoration) or disposal costs for hazardous waste associated with future closure of PP&E assets. If the loss or reasonable loss range has no amount in the range that is a better estimate than any other amount, the minimum amount in the range is recognized in accordance with OMB Circular A-136 and SFFAS 12. Based on DoD Financial Management Regulation (FMR) and Title 40 Code of Federal Regulations, Environmental Protection Agency, Section 266.202, the DON does not report the environmental estimation and reporting of active ranges including the disposal of unexploded ordnance. The DON will recognize an environmental liability if hazardous waste is found to be migrating or has migrated off the range, or a formal decision is made to close the range.

The other accrued environmental restoration costs do not include the costs of environmental compliance, pollution prevention, conservation activities, contamination, or spills associated with current operations or treaty obligations, all of which are accounted for as part of ongoing operations.

There are Environmental Liabilities accrued in AP for work conducted but not paid, these amounts are not included in Note 12.

Refer to Note 12, "Environmental and Disposal Liabilities" *for additional information.*

Q. Accrued Leave

The DON reports unused military, compensatory, and civilian annual leave as accrued liabilities as it is earned. The balance of the liabilities for annual leave and other leave (compensatory time and credit hours), including fringe benefit costs associated with the leave, must be assessed, and as needed, adjusted to reflect all pay increases and unused leave balances at least quarterly for financial statement purposes. Any portions of the accrued leave for which funding is not available are recorded as unfunded liabilities. Sick leave for civilians is expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

R. Federal Employee and Veteran Benefits

Federal Employee and Veteran Benefits consist of FECA and other benefits, including military retirement. For financial reporting purposes, the DON's actuarial liability for worker's compensation benefits is developed by DOL and provided to the DON at the end of each FY. Military retirement is accounted for in the audited financial statements of the Military Retirement Fund. As such, the DON does not record any liabilities or obligations for pensions or healthcare retirement benefits.

S. Net Position

Net position consists of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represent the amount of budget authority that is unobligated and has not been rescinded or withdrawn, as well as amounts obligated for which a legal liability for payment has not been incurred.

Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources including appropriations, revenue, and gains, since inception. The Cumulative Results of Operations also include donations and transfers in and out of assets that were not reimbursed.

T. Revenues and Other Financing Sources

The DON recognizes revenue generated by the sales of goods and/or services and the costs incurred to provide those goods and services to other DoD entities, other federal agencies, and the public. Full-cost pricing is the DON's standard policy for services provided. The DON recognizes revenue when earned within the constraints of its current system capabilities. In many instances, revenue is recognized when bills are issued and not when revenue is earned.

The DON does not include non-monetary support provided by U.S. allies for common defense and mutual security in the amounts reported in the SNC and Note 20, "Reconciliation of Net Cost to Net Outlays." The U.S. has cost-sharing agreements with countries that have a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in port.

The DON records donations in trust funds and special funds as Donations and Forfeitures of Cash and Cash Equivalents and records the interest earned on those donated assets as non-exchange revenue. Donations and Forfeitures of Cash and Cash Equivalents and Non-exchange revenue are recognized by the DON when assets or a specifically identifiable, legally enforceable claim to another party's assets are obtained without providing value in return.

Donations and Forfeitures of Cash and Cash Equivalents and Non-exchange revenue are not considered to reduce the cost of DON operations and are therefore reported in the SCNP as financing sources. In certain instances, the DON's operating costs are paid out of funds appropriated to other Federal entities. For example, by law, certain costs of retirement programs are paid by OPM and certain legal judgments against the DON are paid from the Judgment Fund maintained by Treasury's Bureau of Fiscal Service. When costs are identifiable to the DON, directly attributable to the DON's operations, and paid by other agencies, the DON recognizes these amounts as imputed costs within the SNC and as an imputed financing source on the SCNP.

U. Recognition of Expenses

The DON uses a combination of financial transactions within its accounting system and data calls to obtain and record financial amounts, including some expenses, which results in the untimely recording of some expense activity. Current financial and non-financial feeder systems were not designed to collect and record financial information on a full accrual accounting basis. As such, the DON executes estimation accrual methodologies to estimate the related expenses at the end of each quarter.

For OM&S, operating expenses are not always recognized when the items are consumed. Efforts are underway to transition to the consumption method to properly recognize expenses. Due to system limitations, the use of OM&S in constructing capital and other long-term assets may be recognized as operating expenses. The DON is implementing process and system improvements to correct these limitations.

V. Treaties for Use of Foreign Bases

The DON has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The DON purchases capital assets overseas with appropriated funds; however, the host country keeps title to the land and capital improvements. Treaty terms generally allow the DON 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 non-retrievable capital assets. The settlement due to the U.S. or host nation is negotiated and considers the value of capital investments and may be offset by the cost of environmental cleanup.

W. Parent-Child Reporting

The DON is a party to allocation transfers with other federal agencies as a transferring "parent" entity or receiving "child" entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. Generally, all financial activity related to these allocation transfers (e.g., budgetary resources, obligations incurred, gross costs, and outlays, gross) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and OMB apportionments are derived. In instances where DON is the parent in the allocation transfer, there are amounts reported in its net cost of operations, changes in net position, and budgetary resources that reflect activity performed by another Federal entity.

The DON also receives allocation transfers from Security Assistance (SA) programs and the U.S. Forest Service. The SA programs, Foreign Military Financing Program, and the International Military Education and Training Program, meet the OMB exception for Executive Office of the President (EOP) funds, but they are reported separately from the DON's financial statements. The SA programs are executed by the DoD Components on behalf of the EOP and the Department of State. The related Security Assistance Accounts (SAA) is a significant reporting entity, and following SFFAS 47, its stand-alone financial statements are consolidated directly into the U.S. Government-wide financial statements. The U.S. Forest Service activities are also reported separately from the DON financial statements and reported to the parent. Conversely, as the parent, the DON provides allocation transfers to the Federal Highway Administration; all related activity is reported in the DON's financial statements.

Refer to Note 22, "Disclosure Entities and Related Parties" *for additional information.*

X. Use of Estimates

Preparation of the financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Significant estimates underlying the accompanying financial statements include, but are not limited to, deflated plant replacement values for RP, GE including depreciation, OM&S, environmental liabilities, payroll accruals, AP accruals, CLL, and bulk obligations. Estimates may not be reasonable or supportable, as disclosed in the notes.

Y. Fiduciary Activities

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary activities are not recognized on the entity's proprietary financial statements, but they are required to be disclosed on the schedules within the notes to the financial statements. Fiduciary activities may involve a variety of transactions including, but are not limited to, cash, investments, other assets, liabilities, inflows, and outflows.

Refer to Note 19 "Fiduciary Activities" *for additional information.*

Z. Tax Exempt Status

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

AA. Investments in Public-Private Partnerships

The DON discloses Public-Private Partnerships (P3s) in accordance with SFFAS 49 and SFFAS 63, except for investments in the MIB described in Note 1.K. The DON has not completed a P3 assessment for MIB as of FY25. The DON adopted guidance for P3s which establishes principles for disclosure. The DON considers certain partnerships as P3 arrangements, defined as risk-sharing arrangements or transactions lasting more than five years between public and private sector entities.

Refer to Note 21, "Public-Private Partnerships" *for additional information.*

Note 2. Non-Entity Assets

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Intragovernmental Assets		
Fund Balance with Treasury	$	302,199
Accounts Receivable		72
Total Intragovernmental Assets		**302,271**
Other Than Intragovernmental Assets		
Accounts Receivable		34,650
Total Other than Intragovernmental Assets		**34,650**
Total Non-Entity Assets		**336,921**
Total Entity Assets		**899,625,584**
Total Assets	**$**	**899,962,505**

Non-entity assets are not available for use in DON's normal operations. The DON 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 DON's liabilities to accurately reflect the DON's net position.

Intragovernmental Assets:

FBWT is primarily made up of amounts in the DON's non-fiduciary deposit accounts, that are not available for DON's use.

Accounts Receivable are collections from claims against other Federal entities that are not available for use in the DON's normal operations.

Other than Intragovernmental Assets:

Accounts Receivable are primarily contractor debts owed to canceled GF accounts. The balance also includes out-of-service employee debts owed to canceled GF accounts, and interest, penalty, and administrative charges for all other public debts that will be remitted to the Treasury Miscellaneous Receipts account.

Note 3. Fund Balance With Treasury

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Status of Fund Balance with Treasury		
Unobligated Balance:	$	**91,560,852**
Obligated Balance not yet Disbursed:		**215,135,893**
Non-Budgetary FBWT:		
Clearing Accounts		(15,947)
Deposit Funds		302,199
Other		(176,241)
Total Non-Budgetary FBWT		**110,011**
Non-FBWT Budgetary Accounts:		
Investments-Treasury Securities		(3,186)
Unfilled Customer Orders without Advance		(2,057,562)
Receivables and Other Accounts		(1,946,453)
Total Non-FBWT Budgetary Accounts		**(4,007,201)**
Total Fund Balance with Treasury	**$**	**302,799,555**

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. The balances reflect the budgetary authority remaining for disbursement against current and future obligations.

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

Unobligated Balances are classified as available or unavailable and represent the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances may be restricted for future use and are not apportioned for current use. The DON has not identified any such restricted balances.

Obligated Balances not yet Disbursed are funds that have been obligated for goods and services but not paid.

Non-Budgetary FBWT is made up of accounts that do not have budgetary authority but affect FBWT. This includes non-fiduciary deposit funds, budget clearing "suspense" account balances, disbursing officer funds.

Deposit fund accounts represent monies not belonging to the Federal Government, such as withheld payments, disputed funds, or funds held in a custodial capacity. The DON deposit funds primarily relate to payroll withholding for which a liability is recorded as a component of Other Liabilities. *Refer to* Note 2, "Non-Entity Assets" and Note 13, "Other Liabilities" *for additional information.*

Budget clearing (suspense) accounts represent amounts known to belong to the Federal Government but held temporarily in this account until additional information is collected for the disposition or reclassification of these amounts. The DON budget clearing accounts primarily relates to unidentified collections.

Other Non-Budgetary FBWT amounts represent disbursing officer funds (also known as Funds Held Outside Treasury). *Refer to* Note 4, "Cash and other Monetary Assets" *for additional information.*

Non-FBWT Budgetary Accounts are required to reconcile the budgetary status to non-budgetary FBWT as reported in the BS. Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not post to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations. The Non-FBWT budgetary accounts are comprised of investments in U.S. Treasury securities, unfilled customer orders without advance, and reimbursements receivable.

Other Additional Information

The DON field-level general ledger accounting systems may not include all Treasury collection and disbursement activity for reasons such as timing differences, transaction distribution errors, and disbursements made by other DoD agencies on behalf of the DON. Thus, the fund balance per DON includes undistrib uted disbursements and collections, representing the difference between disbursement and collections recorded with Treasury and those balances recorded within the DON general ledgers. The DON recorded $32 million in undistributed disbursements and -$1.2 billion in undistributed collections as of September 30, 2025. In FY 2025, the DON transferred $2.0 billion in unused funds to the Department of Treasury, Miscellaneous Receipts account from GF Treasury Account Symbols that cancelled on September 30, 2025.

Note 4. Cash and Other Monetary Assets

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Cash and Other Monetary Assets		
Cash	$	175,234
Foreign Currency		1,007
Total Cash and Other Monetary Assets	**$**	**176,241**

Cash and foreign currency are classified as "entity" assets. Amounts reported represent disbursing officer funds (also known as Funds Held Outside Treasury [FHOT]) held by a Disbursing Officer (DO), Deputy DO, or a paying agent under the responsibility of the DO, to carry out their paying, collecting, and foreign currency accommodation exchange missions.

DON requires cash in domestic or foreign currency for essential operations and contingency missions when electronic funds transfer methods are inappropriate or not available. The DON DOs are accountable to the U.S. Department of the Treasury (Treasury) for all daily and monthly reported FHOT transactions.

Refer to Note 1.H, "Cash and Other Monetary Assets," *for additional information.*

Note 5. Accounts Receivable, Net

UNAUDITED 2025

AS OF SEPTEMBER 30 ($ in Thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 270,142	$ (489)	$ 269,653
Other than Intragovernmental Receivables	289,315	(73,273)	216,042
Total Accounts Receivable	**$ 559,457**	**$ (73,762)**	**$ 485,695**

Accounts Receivable, Net are the DON's claim for payment from Federal and non-Federal sources. Claims with other Federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFX, Volume 1, Part 2, Chapter 4700.

Intragovernmental Receivables primarily are amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act and other statutory authority. Seller-side Accounts Receivable are adjusted to agree with inter-/intra-agency buyer-side's AP through the DON's elimination process when buyer- side balances are considered more reliable.

Other than Intragovernmental Receivables are balances due from individuals and organizations. Examples include Accounts Receivable for out of service debts and military housing. These balances, once collected, may be used by the collecting agency based upon the nature of Accounts Receivable.

Restitution receivables and associated payments are pursued by the courts handling those cases. The DON values the receivables based on the court documents received and posts payments received through the courts. At two years delinquent, criminal restitution receivables are considered 100% uncollectible; however, the DON is only authorized to write off or close accounts with approval from the Department of Justice.

As of September 30, 2025, the DON estimated $422,670 in accounts receivable to be collected for criminal restitution.

Refer to Note 1.I, "Accounts Receivable, Net" *for additional information.*

Note 6. Inventory and Related Property, Net

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Inventory, Net	
Operating Material and Supplies, Net	$ 90,499,182
Stockpile Material, Net	1,327
Total Inventory and Related Property, Net	**$ 90,500,509**

The DON maintains significant holdings of tangible assets categorized as I&RP, and represents all tangible assets held by the DON, intended for use in its operations, maintenance, or for strategic purposes. I&RP is comprised of the following categories:

Inventory: Consists of items held for sale to authorized customers, consumption in the production of goods for sale, or for use in providing services.

Operating Materials & Supplies (OM&S): This category includes expendable and consumable items essential for the day-to-day functioning of the DON, supporting operations, maintenance activities, and personnel sustainment. These items have a relatively short life cycle and are typically consumed or expended during normal operations.

Stockpile: Encompasses items specifically designated for strategic reserves, such as specialized munitions, rare spare parts crucial for critical systems, or certain medical supplies needed for large-scale emergencies. Stockpile assets are intended for long-term readiness for specific, high-impact scenarios.

AS OF SEPTEMBER 30 ($ in Thousands)				UNAUDITED 2025
OM&S Categories	**Gross Value**	**Revaluation Allowance**	**Net**	**Valuation Method**
Held for Use:				
Ordnance	$ 33,125,543	$ -	$ 33,125,543	MAC, WAC, RP
Uninstalled Aircraft Engines	2,874,973	-	2,874,973	LAC, HC, EHC, SI
Remainder	20,687,188	-	20,687,188	LAC, MAC
Total Held for Use	**56,687,704**	**-**	**56,687,704**	
Held in Reserve for Future Use:				
Ordnance	12,601,323	(1,377,941)	11,223,382	MAC, WAC, RP
Trident Missiles	10,800,993	-	10,800,993	SC
Uninstalled Aircraft Engines	4,704,000	(1,259,580)	3,444,420	LAC, HC, EHC, SI
Remainder	7,404,958	-	7,404,958	LAC, MAC, SC
Total Held in Reserve for Future Use	**35,511,274**	**(2,637,521)**	**32,873,753**	
In Development:				
OM&S In Development	922,906	-	922,906	LAC, MAC, HC
Total In Development	**922,906**	**-**	**922,906**	
Excess, Obsolete, and Unserviceable:				
Ordnance	3,500,180	(3,500,180)	-	NRV
Uninstalled Aircraft Engines	335,165	(320,346)	14,819	NRV
Remainder	212,565	(212,565)	-	NRV
Total Excess, Obsolete and Unserviceable	**4,047,910**	**(4,033,091)**	**14,819**	
Total OM&S	**$ 97,169,794**	**$ (6,670,612)**	**$ 90,499,182**	

Legend for Valuation Methods: *EHC = Estimated Historical Cost SC = Standard Cost LAC = Latest Acquisition Cost MAC = Moving Average Cost NRV = Net Realizable Value WAC = Weighted Average Cost SI = Specific Identification HC = Historical Cost RP = Replacement Price*

The OM&S consists of tangible personal property to be consumed in normal operations or as part of a larger asset assembly. The DON has no restrictions on the use of OM&S. The DON breaks OM&S into four segments: Ordnance, Trident Missles, UAE, and Remainder.

Ordnance (OM&S-O) includes explosives, chemicals, pyrotechnics and similar stores (e.g., bombs, ammunition, flares, smoke or napalm). Ordnance also includes full-up rounds and components of missiles, torpedoes and expendable rockets.

Trident Missiles (OM&S-T) includes production assets that fly with the Trident Missile. These assets include all-up round missiles, guidance systems and accountable production material.

Uninstalled Aircraft Engines (UAE) include mission-critical, rotatable major end items such as aircraft engines, propulsion systems, modules and reportable components, used for powering flights, but not currently installed in an aircraft.

Remainder (OM&S-R) encompasses all operational material and supplies not included within Ordnance, Trident and UAE. Examples of OM&S-R include, but are not limited to, O-rings, bolts, circuit cards, upgrade components to ships (e.g., radar consoles), periscopes and engine turbine blades.

OM&S is classified into four categories based on purpose or condition: held for use, held in reserve for future use, in development, and EOU. OM&S designation is determined based on condition codes, as defined by Volume 4, Chapter 4 of DoD 7000.14-R.

Held for Use consists of serviceable materials and supplies ready for issue as part of normal operations.

Held in Reserve for Future Use consists of OM&S stocks that may be maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations. OM&S materials held for repair are reported under held in reserve for future use.

In Development are costs incurred in developing the OM&S or the value of tangible personal property that will be consumed in normal operations upon completion of development.

Excess, Obsolete, and Unserviceable (EOU) materials include damaged assets that are more economical to dispose of than repair. Materials are defined as follows: "Excess OM&S" are operating materials and supplies stocks that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and that do not meet management's criteria to be held in reserve for future use. "Obsolete OM&S" are operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations. "Unserviceable OM&S" are operating materials and supplies that are physically damaged and cannot be consumed in operations. Per DON policy, EOU items are reported at NRV.

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AS OF SEPTEMBER 30 ($ in Thousands)	Gross Value	Revaluation Allowance	Net	Valuation Method
Stockpile Materials:				
Held in Reserve	$ 1,327	$ -	$ 1,327	MAC
Total Held in Reserve	**$ 1,327**	**$ -**	**$ 1,327**	

Legend for Valuation Methods: *MAC = Moving Average Cost*

Stockpile Materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or national emergencies. Per DON policy, held in reserve items are reported at MAC.

Note 7. PP&E, Net

AS OF SEPTEMBER 30 ($ in Thousands) **UNAUDITED 2025**

Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Building, Structures, Linear Structures	S/L	35, 40, or 45	$ 133,152,669	$ (81,614,114)	$ 51,538,555
General Equipment					
Vessels	S/L	20-50	353,386,536	(184,879,353)	168,507,183
Aircraft	S/L	15-30	221,752,654	(126,474,599)	95,278,055
Remainder	S/L	Various	19,949,066	(15,495,225)	4,453,841
Construction-in-Progress	N/A	N/A	181,805,753	-	181,805,753
Internal Use Software	S/L	2-5 or 10	47,091	(13,225)	33,866
Leasehold Improvements	S/L	Lease Term	6,530	(6,530)	-
Other	S/L	35, 40, or 45	3,388,798	(1,919,754)	1,469,044
Total PP&E, Net			**$ 913,489,097**	**$ (410,402,800)**	**$ 503,086,297**

Legend for Depreciation/Amortization Method: *N/A = Not Applicable S/L = Straight Line*

Real Property
The DON's RP consists of Buildings, Structures, and Linear Structures. The DON recognizes all RP assets (buildings, structures, linear structures) located on DON installations and all RP aligned to DON installations, including WCF and other DoD RP assets. The Navy has identified a potential overstatement to the RP construction in progress accounts due to untimely removal of competed RP construction projects. Efforts are underway to determine the full extent and magnitude of the error and record corrections.

General Equipment and Construction in Progress
Construction costs of capital GE are reported as CIP. Upon completion of the project and subsequent delivery to the end user, the balance is transferred to the GE account.

Internal Use Software
The DON's IUS balance consists of software costs.

Other
Other PP&E consists of "caretaker" RP. Caretaker RP is unoccupied, meaning it is not used for current DON program purposes. The DON provides minimal maintenance to caretaker RP, prioritizing safety and security repairs/ maintenance actions only. Caretaker property is often awaiting disposal action but can also be returned to active use.

Refer to Note 1.K, "Property, Plant and Equipment, Net (PP&E)" *for additional information.*

Leasehold Improvements
As disclosed in Note 1.C, the DON acknowledges departures from GAAP related to leases and the leasehold improvement balance is currently unsupported. Additionally, federal reporting entities are required to report a right-to-use lease asset for other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases when the entity has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement.

Refer to Note 14, "Leases" *for additional information.*

Restrictions on the Use or Convertibility of PP&E
For the DON sites within and outside of the continental United States, there are no known restrictions on the use or convertibility of PP&E.

Impaired PP&E
Partial asset impairment is not a common occurrence in the DON , as assets are either repaired to restore lost utility or removed from service. However, the DON will recognize impairments for classes of assets or locations in the case of major events, (e.g., natural disasters) or if the impairment affects an entire class of assets (e.g., technological changes or obsolescence impacting an entire type/model/series of aircraft).

Deferred Maintenance and Repair
The DON reports deferred maintenance and repair (DM&R) of its PP&E and estimated land acreage in the unaudited RSI section.

Recognition of Prior Period Adjustments

In FY 2025 NAVFAC adjusted the accumulated depreciation associated with RP assets by changing the depreciation calculation start date (moving from Facility Build Date to Placed-in-Service Date), resulting in a $13.2 billion net decrease to accumulation depreciation. This adjustment was a correction of an error and the DON recorded a Prior Period Adjustment (PPA) for the impact related to assets placed into service prior to FY 2025.

Additionally, the DON recorded a PPA for Vessels CIP totaling $880 million for the correction of asset structure configuration errors that prevented CIP from accumulating in prior years.

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
PP&E, Net - Beginning of Year	$	487,844,746
Capitalized Acquisitions		44,373,679
Dispositions		(4,588,136)
Transfer in/(out) without reimbursement		102,323
Revaluations (+/-)		(4,939,801)
Depreciation Expense		(19,706,514)
PP&E, Net - End of Year	**$**	**503,086,297**

Note 8. Stewardship PP&E

AS OF SEPTEMBER 30				UNAUDITED 2025
Heritage Asset Categories	**Beginning Balance**	**Additions**	**Deletions**	**Ending Balance**
Buildings and Structures	124	10	7	127
Museum Collection Items (Objects, Not including Fine Art)	514,185	16,444	123,739	406,890
Museum Collection Items (Objects, Fine Art)	34,495	762	480	34,777
Total Heritage Assets	**548,804**	**17,216**	**124,226**	**441,794**

The DON's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

The overall mission of the DON is to control and maintain freedom of the seas, project power beyond the sea, and influence events and advance U.S. interests across the full spectrum of military operations. The DON is a large-scale owner of historic buildings, structures, districts, historical artifacts, art, ships, sunken ships, aircraft, archeological sites, installation and stewardship land, and other cultural resources. Protection of these components of the nation's heritage assets and stewardship land is an essential part of DON's mission. The DON is committed to responsible heritage asset and cultural resources stewardship.

Heritage assets can be acquired in several ways including, but not limited to, purchase, gain by inventory, donation, and transfer from DoD or another Federal agency. The disposal of heritage assets can be done in the same manner as acquisition.

Heritage assets receive such designation, and have such designation withdrawn, through the accessioning and deaccessioning procedures for DON collections, or through evaluation in compliance with the National Historic Preservation Act. 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 DON consist of buildings, structures, archaeological sites, and museum-type collections. The DON defines these as follows:

Buildings and Structures: Buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places, including multi-use heritage assets. This also includes sunken military craft, as defined by the Sunk Military Craft Act, which are managed as heritage assets. As of September 30, 2025, there are 127 items classified as buildings and structures.

Museum-type Collection Items: Art and artifacts that have been formally accessioned into a DON collection for the purpose of display or exhibition. As of September 30, 2025, there are 441,667 museum-type collection items, consisting of 34,777 objects (fine art) and 406,890 objects (not including fine arts).

Refer to Note 1.L, "Stewardship PP&E" *for additional information.*

Information concerning DM&R and estimated land acreage is discussed in unaudited RSI.

Note 9. Other Assets

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Intragovernmental Other Assets		
Investments, Net (including accrued interest)	$	3,203
Other Assets		714,378
Total Intragovernmental Other Assets		**717,581**
Other than Intragovernmental Other Assets		
PP&E Permanently Removed but Not Yet Disposed		24,476
Total Other than Intragovernmental Other Assets		**24,476**
Total Other Assets	**$**	**742,057**

Intragovernmental Other Assets:

Investments, Net are DON Trust Fund holdings in interest-bearing securities for the Naval Academy General Gift Fund and the Navy General Gift Fund. These investments are nonmarketable, market- based Treasury securities reported at cost, net of amortized premiums and discounts. Additionally, DON Trust Funds are reported as funds from dedicated collections.

Other Assets consist of not ready for issue (NRFI) depot level repairable carcasses that were sent to the DON WCF in advance of the DON WCF fulfilling a replacement order. As of FY 2025 Q4, the DON recorded $714.0 million in accordance with the analysis performed for the DON WCF and to reciprocate their liability.

Other than Intragovernmental Other Assets:

PP&E Permanently Removed but Not Yet Disposed are assets that are permanently removed when their use has been terminated and there is documented evidence of management's decision to permanently remove the asset from service. Aircraft and vessels in this category are recorded at an NRV of zero unless there is an established price for the asset in connection with a foreign military sale.

Federal agencies as lessor are required to report a lease receivable. As disclosed in Note 1.C, the DON acknowledges departures from GAAP related to leases.

Refer to Note 14, "Leases" *for additional information.*

Note 10. Liabilities Not Covered By Budgetary Resources

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Intragovernmental Liabilities		
Other	$	1,158,421
Total Intragovernmental Liabilities		**1,158,421**
Other than Intragovernmental Liabilities		
Accounts Payable		783,129
Federal Employee Salary, Leave and Benefits Payable		3,182,844
Pension, Post-Employment, and Veterans Benefits Payable		1,023,612
Environmental and Disposal Liabilities		36,800,537
Other Liabilities		8,382
Total Other than Intragovernmental Liabilities		**41,798,504**
Total Liabilities Not Covered by Budgetary Resources		**42,956,925**
Total Liabilities Covered by Budgetary Resources		**12,976,588**
Total Liabilities Not Requiring Budgetary Resources		**338,049**
Total Liabilities	**$**	**56,271,562**

Intragovernmental Liabilities:

Other primarily consists of unfunded FECA liabilities due to the DOL, unemployment compensation due to applicable states, and NRFI carcasses that are owed to the DON WCF as part of exchange agreements. These liabilities will be funded by future years' budgetary resources. The NRFI carcasses liability is not funded until the carcass is deemed lost or not turned into the DON WCF within the allowed time period. As of FY 2025 Q4, the DON recorded $875.0 million in accordance with the analysis performed for the DON WCF and to reciprocate their receivable.

Other than Intragovernmental Liabilities:

Accounts Payable consist of AP related to appropriations that have cancelled, which if paid, will be disbursed using CY funds.

Federal Employee Salary, Leave and Benefits Payable and Pension, Post-Employment, and Veterans Benefits Payable consists of unfunded FECA actuarial liabilities not due and payable during the current FY.

Refer to Note 11, "Federal Employee and Veteran Benefits Payable," *for additional information.*

E&DL are estimates related to future events and consist of liabilities related to cleanup or disposal of active installations, and equipment and weapons programs.

Refer to Note 12, "Environmental and Disposal Liabilities," *for additional information.*

Other Liabilities include estimated legal contingent liabilities, and cancelled AP as affected by undistributed adjustments, and the disposal of excess structures that are not currently budgeted for but will become funded as future events occur. The DON continues to partner with its service provider to research and correct undistributed transactions to reduce the impact on the AP balance.

Liabilities Not Covered by Budgetary Resources require future congressional action while liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, 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 Covered by Budgetary Resources include AP amounts owed to Federal and non-Federal entities for goods and services received by the DON.

Federal agencies are required to disclose the lease liability amount not covered by budgetary resources in this note if it is material. As disclosed in Note 1.C, the DON acknowledges departures from GAAP related to leases.

Refer to Note 14, "Leases" *for additional information.*

Note 11. Federal Employee and Veteran Benefits Payable

AS OF SEPTEMBER 30 ($ in Thousands)			UNAUDITED 2025
Other Benefits	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Federal Employee Salary, Leave and Benefits Payable			
Employer Contributions and Payroll Taxes Payable	$ 61,714	$ (61,714)	$ -
Accrued Funded Payroll and Leave	1,626,285	(1,626,285)	-
Unfunded Leave	3,182,844	-	3,182,844
Total Federal Employee Salary, Leave and Benefits Payable	**4,870,843**	**(1,687,999)**	**3,182,844**
Pension, Post-Employment, and Veterans Benefits Payable			
FECA	1,023,612	-	1,023,612
Other Post-Employment Benefits Due and Payable	408	(408)	-
Total Pension, Post-Employment, and Veterans Benefits Payable	**1,024,020**	**(408)**	**1,023,612**
Total Other Benefits	**$ 5,894,863**	**$ (1,688,407)**	**$ 4,206,456**

Federal Employee and Veteran Benefits consist of FECA, unfunded annual leave, and other benefits including Medicare liabilities and Federal Insurance Contributions Act (FICA) taxes payable. Military retirement and other Federal employment benefits are accounted for in the audited financial statements of the Military Retirement Fund.

FECA amounts consist of amounts for Federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. The DON reports an actuarial liability for the FECA. FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death. FECA is administered by the Office of Workers' Compensation Programs. The obligations and liabilities for military pensions, military retirement health benefits, military Medicare-eligible retiree benefits, the Voluntary Separation Incentive Program, and the DoD Education Benefits Fund are reported at the DoD consolidated level.

Unfunded annual leave is the amount recorded for unpaid Annual Leave earned but not taken by employees that will be funded by a current or future financing source.

Actuarial Cost Method Used and Assumptions

The estimate for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a portion for incurred but not reported claims. DOL calculates the future workers' compensation liability using wage inflation factors (e.g., cost of living adjustment (COLA)) and medical inflation factors (e.g., consumer price index medical (CPIM)). The actual rates for these factors for charge back year 2024 were also used to adjust the methodology's historical payments to CY constant dollars.

To test the reliability of the model discussed above, DOL made comparisons between projected payments in the last year to actual amounts, by agency. Year-over-year changes in the liability were also examined, with any significant agency-level differences inspected in greater detail. DOL concluded that the model has been stable and has projected each agency's actual payments well.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 3.2% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.9% was assumed for year one and the years thereafter.

Other additional post-employment benefits, which can include, but not limited to, salary continuation, severance benefits, counseling, training, funded unemployment liability for Federal employees, funded FECA liability, and the current portion of veterans' disability compensation benefits.

Note 12. Environmental and Disposal Liabilities

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Accrued Environmental Restoration Liabilities:		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$	5,248,275
Active Installations - Military Munitions Response Program (MMRP)		2,017,135
Other Accrued Environmental Liabilities - Non-BRAC:		
Environmental Corrective Action		15,383
Environmental Closure Requirements		1,054,466
Asbestos		4,372,432
Base Realignment and Closure Installations:		
Installation Restoration Program		3,868,309
Military Munitions Response Program		90,074
Environmental Corrective Action/Closure Requirements		5,010
Environmental Disposal for Military Equipment / Weapons Programs:		
Nuclear Powered Military Equipment / Spent Nuclear Fuel		19,522,267
Other Weapons Systems		415,688
Total Red Hill Response:		
Tank Closure Requirements		189,555
Environmental Corrective Action		1,943
Total Environmental and Disposal Liabilities	**$**	**36,800,537**

Environmental and Disposal Liabilities

In accordance with guidance issued by FASAB, if an agency is required by Federal, state, and local statutes and regulations to clean up hazardous waste resulting from Federal operations, the amount of cleanup cost, if estimable, must be reported and/or disclosed in the financial statements.

The DON has ongoing cleanup operations and future requirements to perform cleanup of hazardous materials, from past or current environmental impacts to soil and water or remediation and disposal of hazardous material as part of or created by PP&E disposal or remediation. These impacts or future hazardous material may include, but are not limited to: landfills, burn pits, inactive ranges, unexploded ordnance, oil water separators, etc. and construction materials used in the past in buildings and operational bases, and spillage from constructing, maintaining, fueling and operating our military equipment. In addition, some of our military equipment includes hazardous material for protective (e.g. armor) or operational (e.g. nuclear reactors and fuel) purposes that requires special disposal actions when the respective equipment is retired from use. We categorize our recorded liabilities along operational and funding factors in the categories noted in the chart above.

DON assesses the likelihood of required cleanup as probable (more likely than not to occur), reasonably possible (more than remote but less than probable), or remote (slight chance of occurring). If the likelihood of required cleanup is probable and the cost can be reasonably estimated, a liability is recorded in the financial statements. If the likelihood of required cleanup is reasonably possible, the estimated cost of cleanup is disclosed in the notes to the financial statements. If the likelihood of required cleanup is remote, no liability or estimate is recorded or disclosed. The DON also reports estimated environmental clean-up or disposal costs for hazardous waste associated with future closure of PP&E assets. The statutes and regulations most applicable to environmental response, clean-up, and monitoring liabilities include: The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA); the Resource Conservation and Recovery Act (RCRA); the Nuclear Waste Policy Act (NWPA) of 1982; and applicable state and local laws.

The environmental liabilities for the DON are based on accounting estimates, which require judgment and assumptions based upon information available at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than assumed for calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters. For environmental liabilities related to closure, recognition begins on the date that the associated PP&E is placed into service, and expenses are recognized pro rata over the estimated useful life. When changes in estimates occur, the cumulative effects of the change are recognized upon the change in estimate as a gain/expense and the corresponding liability is adjusted. For environmental liabilities related to corrective action, liabilities are recognized and expensed at the time the liability is estimated and decremented in the period the work execution occurs and the funds are liquidated. Additional adjustments to the estimate are recognized in the period the estimate is reevaluated and estimated and the cumulative effects of the change are recognized upon the change in estimate as a gain/expense.

Excluded Population of PP&E from Environmental & Disposal Liabilities

The DON conducted an analysis over all other asset categories (Ordnance, OM&S Remainder, IUS, GE, etc.) and determined that these assets should not be included in the E&DL estimate. The DON determined that the environmental costs incurred at closure for GE were routine and therefore not considered a potential liability in accordance with Technical Release (TR) 11. Additionally, the DON does not report environmental liabilities for cases in which another DoD entity serves as the DoD lead agent or executive agent.

Accrued Environmental Restoration Liabilities (ERN)

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Beginning Balance	$ 6,879,836
Additions	15,388
Deletions	(378,123)
Revaluations	748,309
Ending Balance	**$ 7,265,410**

Congress annually allocates appropriations into a Defense Environmental Restoration Program (DERP) for the correction of past DoD releases of hazardous constituents including those from DON PP&E and to bring known contaminated sites into compliance with the applicable environmental and federal standards, such as CERCLA. Initially, the DoD started cleaning up contamination under the Installation Restoration Program (IRP), which addresses contamination from hazardous substance, pollutant or contaminant. Subsequently, the DoD established the Military Munitions Response Program (MMRP) to address known or suspected unexploded ordnance, discarded military munitions or munitions constituents. As of September 30, 2025, the DON estimated and reported $7.2 billion for DERP liabilities. This amount includes $5.2 billion in active installations-IRP liabilities and $2.0 billion in Active Installations-MMRP liabilities. In FY 2025, DERP realized a 6% increase in accrued environmental liabilities from FY 2024. This increase is primarily attributed to several factors to include new contamination being identified, changing land use assumptions, or new cost input data being used when developing the FY 2025 cost-to-complete estimates.

The DON manages, operates, funds and financially reports DERP projects for both the USN and the USMC. These estimates are associated with remediated activities at 290 USMC and 1,160 USN sites across 17 USMC and 119 USN installations. The USN GF records the entire financial amount associated with these sites on its financial statements.

Annually, DON assesses cost to complete (CTC) to record the liability and facilitate the funding request for actions to be taken in the succeeding year(s). The USN uses the following methods to estimate CTC: pre-negotiated contract costs, historical cost and engineering estimates. CTC estimates consider, on a current basis, all activities to be performed during remediation of IRP and MMRP sites, inclusive of program management costs. These environmental liabilities are not associated with an asset having a useful life and therefore estimated cleanup cost is recognized upon identification of the liability. In certain cases, the cleanup requirements have not been fully determined and therefore only the estimated cost of a study is included in the liability.

Base Realignment and Closure Installations (BRAC)

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Beginning Balance	$ 3,781,267
Additions	-
Deletions	(82,435)
Revaluations	264,561
Ending Balance	**$ 3,963,393**

Congress mandated the closure of some Navy installations through the BRAC Installations process. Annually, Congress allocates appropriations through the DoD to fund progress for cleanup commitments from these decommissioned Navy installations. Once an installation is closed, the DERP liabilities for these sites are transferred to the BRAC program. The DON may no longer own these assets but reports liabilities where the DON has clean-up responsibility. Any identified contamination is reported as a liability and an annual CTC is performed to record the liability and facilitate the funding request for actions to be taken in the succeeding year(s). As of September 30, 2025, the DON includes $4.0 billion for BRAC funded environmental liabilities. This amount includes $3.9 billion for IRP, $90.0 million for MMRP, and $5.0 million for compliance.

The DON manages, operates, funds, and financially reports BRAC projects for both the USN and the USMC. These amounts encompass environmental restoration liability remediation at 17 USMC and 204 USN BRAC sites across 3 USMC and 41 USN BRAC installations. The DON records the entire financial amount associated with these sites on its financial statements.

The DON tracks CTC and executes site remediation for the DON. Per FASAB TR 2, the overall site CTC must contain all costs required to bring the site to closure. Costs are based on the 'most likely' scenarios. CTC estimates consider, on a current basis, all activities to be performed during remediation of IRP and MMRP sites, inclusive of program management costs. These environmental liabilities are not associated with an asset having a useful life and therefore estimated cleanup cost is recognized upon identification of the liability. In certain cases, the cleanup requirements have not been fully determined and therefore only the estimated cost of a study is included in the liability. Preliminary Assessment/Site Inspections (PA/SI) are being completed at Navy installations where Per- and polyfluoroalkyl substances (PFAS) was used, stored or disposed. When the PA/SI identifies the need for additional investigation, cost-to-complete estimate are updated to reflect the additional work.

Environmental Disposal for Military Equipment/Weapons Programs

The DON estimates the anticipated environmental disposal cleanup costs for PP&E. The DON recognizes and records in its financial statements an environmental cleanup liability for end-of-life disposal of PP&E that is probable and measurable.

Nuclear Powered Military Equipment/Spent Nuclear Fuel (SNF)

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Beginning Balance	$ 18,661,430
Additions	860,837
Deletions	-
Ending Balance	**$ 19,522,267**

Nuclear Vessels

NAVSEA develops an estimate for DON vessels. NAVSEA's estimates are developed using parametric and engineering estimates based on historical disposal costs. The estimates include active and inactive assets, such as weapon systems and other equipment designed to carry out battlefield missions, which include nuclear- powered active and inactive ships, aircraft carriers, submarines, and SNF. As of September 30, 2025, the DON estimated and reported $19.5 billion for Nuclear Powered Military Equipment / SNF. This amount includes $13.0 billion for active commissions (Pre-97), $2.5 billion for active commissions (Post-97), $980.0 million for inactive nuclear vessels, and $3.0 billion for SNF.

The E&DL estimate related to nuclear aircraft carriers includes the cost to dispose of the carrier and any associated hazardous waste (e.g., petroleum, asbestos, lead, radiologically contaminated component). This estimate does not include the cost associated with defueling and handling of SNF as that is included in the SNF estimate. While a nuclear aircraft carrier has not been disposed of, the DON has begun its first disposal effort for one nuclear-powered aircraft carrier, the USS Enterprise (CVN 65). The DON developed the CVN 65 estimate through private enterprise and government research. Then, the DON scaled the CVN 65 estimate to both the CVN 68 and CVN 78 classes based on vessel weight, power capacity and the size of the propulsion spaces. The total estimate related to disposal of aircraft carriers is $11.1 billion as of September 30, 2025. This increased by $321.0 million from September 30, 2024 due to inflation and recognition of costs for an additional year in service for carriers.

Carrier SNF

The NWPA of 1982 established the Federal Government's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and SNF. The Act requires all owners and generators of high-level nuclear waste and SNF, including the DON, to pay their respective shares of the full cost of disposal. The DONs liability for disposal reflects its share of the estimated future costs of the disposal of its inventory of high-level waste and SNF. Cost estimates for management of the DON's high-level waste and SNF have been predicated upon assumptions as to the timing of permanent disposition. Changes in high-level waste and SNF disposition plans could cause changes to projected costs.

The DON and the Department of Energy share estimated future costs of disposing high-level radioactive waste. The portion of SNF reflected on the DON's BS represents the DON's portion of the estimated future cost based on historical cost factors, which equate to $3.0 billion.

Other Weapon Systems

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Beginning Balance	$ 405,880
Additions	17,734
Deletions	(7,629)
Ending Balance	**$ 415,688**

Conventional Vessels:
NAVSEA develops an estimate for DON vessels. NAVSEA's estimates are developed using parametric and engineering estimates based on historical disposal costs. The estimates include active and inactive assets, such as weapon systems and other equipment designed to carry out battlefield missions, which include conventional (non-nuclear) active and inactive vessels. Conventional Vessels are composed of $313.7 million in recognized costs and $189.6 million in unrecognized costs.

From FY 2024 to FY 2025, there were no significant or material modifications to the estimate, only updates to the escalation rates, population changes, and incremental liability recognition which resulted in 1.2% increases.

Aircraft:
NAVAIR develops estimates for all DON aircraft using the output of a Cost Estimation Relationship (CER) equation. This equation uses physical attributes and historical disposal data to estimate the number of hours required for disposal, multiplied by the labor rates each year to estimate the disposal liability. The estimate includes active, non-active aircraft, and heritage aircraft. Aircraft are composed of $101.2 million in recognized costs and $37.0 million in unrecognized costs.

From FY 2024 to FY 2025, the AMARG hourly rate increased by 5.2% resulting in an increase in the E&DL estimated liability amount.

Other Accrued Environmental Liabilities – Non-BRAC (OEL)

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Beginning Balance	$ 5,563,955
Additions	160,128
Deletions	(207,053)
Revaluation	(74,749)
Ending Balance	**$ 5,442,281**

Not all environmental cleanup requirements are included in the DERP or BRAC programs. OEL are estimated based on the anticipated environmental disposal cleanup costs to be funded from other sources for PP&E at the time of asset decommissioning and disposal or site remediation (i.e. corrective action/even-driven liabilities). The estimate includes cleanup costs for hazardous waste, asbestos, and petroleum residuals and lubricants, which are included within the asbestos and/or closure liability amount. This balance also includes estimated costs to remediate existing environmental damage at active DON facilities not eligible for DERP funding, which may include remediation of Low Level Radiation (LLR), within the corrective action liability amount.

The DON estimates asbestos liabilities using an average cost per square foot for facilities built before 1989. The liability includes parametric linear asbestos estimates for clean- up and disposal of below ground piping prior to 1981. Effective October 1st, 2012, TB 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, as amended, requires an estimate of both friable and non-friable asbestos-related cleanup costs; recognition of a liability and related expense for those costs that are both probable and reasonably estimable; and disclosure of information related to friable and non-friable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements. For FY 2025, The DON did not identify any probable, but not reasonably estimable, asbestos liabilities for disclosure. Additionally, the DON's asbestos estimates do not differentiate between friable and non-friable. The DON uses a parametric estimation approach based on average cost of remediation multiplied by square or linear foot, based on asset type and the asset's Place In Service Date parameters previously stated.

For closure sites and asbestos-abatement units placed in service after FY 1998, for non-asbestos closure sites, and FY 2013 for asbestos liabilities, a portion of the estimated costs is immediately recognized as an environmental liability. The un-accrued portion of such estimates is reported as unrecognized costs. The DON's unrecognized environmental cleanup cost for PP&E totaled $166.1 million. There were no corrective action sites with material contingent liability estimates during FY 2025 Q4.

From FY 2024 to FY 2025, there was a 1.2% decrease in OEL E&DL liabilities. This decrease in costs relative to the beginning balance, or a decrease of 2.2% when excluding Red Hill liability categories. Total Red Hill reported liability increased by 38.4%, driven by remediation contract modifications; these increases were the primary reason for offsetting cost reductions noted above. Multiple factors, including the disposal of closure-eligible assets and a lower method cost for non-linear asbestos, petroleum and wastewater pipeline calculations, drive the overall reduction in cost changes. The cost reductions were partly offset by accruals of newer assets, other parametric method formula increases, and master line-item updates used in manual engineering estimates. There was an increase in the Closure and Corrective action liabilities for OEL related to Red Hill costs. Red Hill Response -Tank Closure Requirements unliquidated obligations (ULO) increased by 67.2% due to the additional line

items for third-party contract obligations. Red Hill Response Environmental Corrective Action ULO decreased by 92.2% due to groundwater remediation pump and treat task order expenditures.

Emerging Sites and Contaminants

Red Hill:

AS OF SEPTEMBER 30 ($ in thousands):	UNAUDITED 2025
Beginning Balance	$ 138,329
Additions	76,154
Deletions	(22,985)
Ending Balance	**$ 191,498**

The Red Hill Underground Bulk Fuel Storage Tank Facility (the Facility) is located on the Island of Oahu, Hawaii. The Facility consists of twenty steel-lined, concrete encased fuel tanks that are built into cavities mined inside Red Hill during the period immediately preceding World War II, as well as four surge tanks and associated pipelines.

On May 6th, 2021, Red Hill operators improperly executed a fuel transfer procedure, resulting in two piping joint ruptures and a subsequent spill of ~21,000 gallons of Jet Propellant-5. Most of this fuel was transferred via sump pump into an empty fire-fighting system retention line. Approximately 1580 gallons were recovered, and a small amount was released to the environment.

On November 20th and 21st, 2021, a train car operating in the facility struck the fire-fighting system retention line, releasing much of the fuel that had been transferred into that line on May 6th. Although the DON was able to recover a portion of the fuel, fuel was released to the environment and migrated into the Red Hill well, contaminating the water supply for Joint Base Pearl Harbor Hickham (JBPHH). The Red Hill well was taken offline on November 28th, once the DON received complaints from residents about fuel smell in their homes.

On December 7th, 2021, SECNAV directed the cessation of all operations at the Red Hill Underground Storage Tanks.

On March 7th, 2022, the SECDEF directed defueling of and permanently closing the Facility.

On May 6th, 2022, the Hawaii Department of Health (DOH) issued a superseding Emergency Order laying out steps for the DON to follow in planning and execution of defueling and closure.

On June 30th, 2022, the DoD issued the "Red Hill Bulk Fuel Storage Facility, Oahu, Hawaii Defueling Plan" that outlines the process necessary to defuel the Facility by December 31, 2024. This plan was designed to meet the requirements of Directive 4 of the State of Hawaii DOH May 6, 2022, superseding Emergency Order (EO) relative to the Facility. The Defueling Plan included maintenance, repair, training, and approval requirements necessary to successfully defuel the Facility.

On July 1st, 2022, the SECDEF directed the establishment of Joint Task Force Red Hill (JTFRH). The Joint Task Force (JTF) Commander's sole responsibility was to ensure the safe and expeditious defueling of the Red Hill Bulk Fuel Storage Facility (RHBFSF) in close coordination with the State of Hawaii and federal stakeholders. On March 28, 2024, JTFRH completed the safe defueling of RHBFSF and passed responsibility for permanent decommissioning and long-term environmental remediation of RHBFSF to the Navy Closure Task Force – Red Hill (NCTF-RH).

On August 31st, 2022 the DoD issued a Report on Red Hill Response Cost Projections to inform Congress of DoD's known and projected costs to defuel and permanently close the Red Hill Bulk Fuel Storage Facility to comply with the State of Hawaii DOH order and protect the health and safety of the local population.

In December 2022, the "Red Hill Tank Closure Plan Analysis of Alternatives & Concept Design to Close In Place" was published and released to the Hawaii DOH and the U.S. Environmental Protection Agency (EPA), evidencing 4 closure alternatives and associated costs. The DOH and EPA have requested supplemental information and will approve the Closure Plan in increments as they receive that information. Once DOH and EPA approve the Closure Plan, including the tank closure alternative, the current liability will materially change to align with this Closure Plan. On June 28th, 2024, DON submitted Red Hill Tank Closure Plan Supplement 3 to the Regulatory Authorities (RAs) to provide the current status of closure efforts. The complete array of associated closure requirements and parameters for the Facility will not be known until the permanent closure plan is approved by the State of Hawaii and federal stakeholders. Identification of all remediation requirements likely will continue to evolve beyond that point.

In accordance with the OUSD (C) Memorandum "Red Hill Reporting of E&DL" dated May 9th, 2024, DON currently reports only tank closure and piping removal environmental liabilities and environmental liabilities associated with the pump and treat activities related to the response at Red Hill.

The current tank closure range is $119.0 million to $581.0 million based on a range of closure alternatives. Beginning in Q3 FY 2024, the DON transitioned to recording unliquidated obligations of closure actions including contracts instead of parametric estimates as the current environmental liability. The DON has recorded $189.6 million, based on the unliquidated obligations for the "Red Hill – Closure Liability."

The tank closure and piping removal environmental liability estimates may be subject to material adjustments once a final closure plan and methodology is approved by regulatory authorities.

The DON also recorded $1.9 million of unliquidated obligations within "Red Hill Response - Environmental Corrective Action" as a part of pump and treat activities related to response at Red Hill.

Per-and Polyfluoroalkyl Substances (PFAS)

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 DoD is only one of many users of AFFF, there is significant attention on DoD's use and the potential impact to human health and the environment. PFAS are classified as emerging chemicals of environmental concern that are subject to recently proposed and/or promulgated regulatory standards. DoD follows the existing federal cleanup law, CERCLA, and long-standing EPA regulations for all chemicals in its cleanup program, including PFAS.

On April 19th, 2024, the EPA announced that it was designating two types of PFAS, perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS), as CERCLA hazardous substances. The rule became effective on July 8, 2024.

On April 26th, 2024 the EPA published changes to the National Primary Drinking Water Regulation (NPDWR) that prescribed Maximum Contaminant Level (MCLs) for five PFAS, including PFOA and PFOS.

On September 3rd, 2024, the DoD published a memorandum describing plans to incorporate the new PFAS NPDWR into DoD's ongoing PFAS cleanups and prioritize actions to address private drinking water wells with the highest levels of PFAS resulting from DoD activities. Going forward, the DON anticipates an increase in the CTC due to additional investigation sampling efforts in groundwater and private drinking water wells to support potential long-term remedial action decisions to reduce PFAS levels based on the new MCLs. The CTC could also increase if sampling results indicate the need to implement interim action measures.

The latest PFAS-related memorandum to potentially affect CTC was published by the DoD on January 17th, 2025. This memorandum adopts new EPA Regional Screening Levels (RSLs) that must be used for ongoing PFAS investigations. Additionally, data from previously completed investigations using older RSLs with determinations of "no further action" must be re-assessed based on the updated screening levels published in the January 17th, 2025 memorandum. There is a potential for an increase in CTC if re-assessed PFAS sites are determined to require further investigation based on the new RSLs.

Nature of Estimates and the Disclosure of Additional Information

Estimating the DON's environmental cleanup liability requires making assumptions about future land use activities and is inherently uncertain. The future course of DON's environmental cleanup and disposal will depend on several fundamental technical and policy choices, many of which have not been made, mainly due to the continually evolving science and technology surrounding the nature of PFAS and potential remedial alternatives. As such, the cost and environmental implications of alternative clean-up technology and land use choices can be varied. For example, some contaminated sites and facilities could be restored to a condition suitable for unrestricted use; they could also be restored to a point where they pose no near-term health risks to surrounding communities, but contamination is essentially secured, monitored, and left in place with land use restrictions. Achieving the former condition would have a higher cost but may, or may not, be warranted or legally required. The current cost estimates reflect applicable decisions and current expectations as to the extent of cleanup and site and facility reuse, which include consideration of legal requirements and stakeholder input.

Note 13. Other Liabilities

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Intragovernmental Liabilities:		
Deposit Funds and Suspense Account Liabilities	$	34,721
Other Liabilities		
Current Liabilities		1,145,795
Non-current Liabilities		127,224
Total Intragovernmental Liabilities		**1,307,740**
Other than Intragovernmental Liabilities:		
Deposit Funds and Suspense Account Liabilities		302,199
Contract Holdbacks		178
Contingent Liabilities		25,457
Other Liabilities		7,675
Total Other than Intragovernmental Liabilities		**335,509**
Total Other Liabilities	**$**	**1,643,249**

Intragovernmental Liabilities:

Deposit Funds and Suspense Accounts are liabilities for receipts held in suspense temporarily for distribution to other government entities or held as an agent for other government entities and paid at the direction of the owner and liabilities that offset undistributed disbursements.

Other Liabilities are liabilities not recognized in any previous category and include liabilities that are immaterial to the agency. In FY 2025, this includes a liability for NRFI Carcasses.

Refer to Note 10, "Liabilities Not Covered by Budgetary Resources," *for additional information.*

Other Than Intragovernmental Liabilities:

Deposit Funds and Suspense Accounts are liabilities for receipts held in suspense temporarily for distribution to non-governmental entities (e.g., private businesses, individuals, non-profit organizations) or held as an agent for non-governmental entities and paid at the direction of the owner and liabilities that offset undistributed disbursements.

Contract Holdbacks consist of amounts withheld from payments to contractors to assure compliance with contract terms, usually expressed as a percentage in the respective contract provisions.

Contingent Liabilities include accrued contingent legal and non-legal liabilities pertaining to pending legal cases where OGC and OJAG consider an adverse decision probable and the amount of the loss measurable. If there is an adverse judgment against the Government, some of the liabilities may be payable from the Treasury Judgment Fund.

Refer to Note 15, "Commitments and Contingencies," *for additional information.*

Other Liabilities primarily consist of accruals for services, accrued liabilities for inventory owned and managed on behalf of foreign Governments, and undistributed international tariff receipts.

The amount of other current liabilities that are not covered by budgetary resources for FY 2025 is $157.3 million.

Federal reporting entities are required to report a right-to-use lease liability and unearned right-to-use lease revenue for other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases when the entity has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement. As disclosed in Note 1.C, the DON acknowledges departures from GAAP related to leases.

Refer to Note 14, "Leases" *for additional information.*

Note 14. Leases

UNAUDITED 2025

AS OF SEPTEMBER 30 ($ in Thousands)	Asset Category		Totals	
	Land and Buildings	Equipment	Federal	Non-Federal
Future Payments Due Fiscal Year				
2026	$ 221,565	$ 225	$ 140,913	$ 80,878
2027	226,078	230	143,742	82,566
2028	230,546	234	146,627	84,153
2029	235,257	239	149,571	85,925
2030	239,984	244	152,573	87,655
After 5 Years	244,852	249	155,636	89,464
Total Future Lease Payments	**$ 1,398,282**	**$ 1,421**	**$ 889,062**	**$ 510,641**

Federal agencies are required to report a right-to-use lease asset and a corresponding lease liability for material other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases when the reporting entity has the right to control access to and/or obtain economic benefits from the use of RP, equipment, or other asset. As disclosed in Note 1.C, the DON acknowledges departures from GAAP related to leases.

Refer to Note 1.N, "Leases", Note 7, "Property, Plant and Equipment, Net", Note 9, "Other Assets", *and* Note 13, "Other Liabilities" *for additional information..*

Note 15. Commitments and Contingencies

AS OF SEPTEMBER 30 ($ in Thousands)	Accrued Liabilities	UNAUDITED 2025 Estimated Range of Loss Lower End	Upper End
Legal Contingencies			
Probable	$ 25,457	$ 25,457	$ 31,100
Reasonably Possible		958,002	967,026
Other Contingencies			
Probable	$ -	$ -	$ -
Reasonably Possible		6,313	6,313

Commitments:

Commitments are preliminary actions that will ultimately result in an obligation to the U.S. Government if carried through, such as purchase requisitions, estimated travel orders, or unsigned contracts/grants. The DON is a party in many individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that result in a future outflow of expenditures. Currently, the DON does not have a systemic process by which it captures or assesses these potential contingent liabilities. Therefore, the amounts reported may not fairly present the DON's contingent liabilities.

The DON's estimate of obligations related to cancelled appropriations for which the DON has a contractual commitment for payment is $783.1 million.

Legal Contingencies:

The DON is a party to various administrative proceedings, legal actions, and claims for environmental damage, employment matters, tort damages, intellectual property, and contractual bid protests, which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. OGC and OJAG conduct reviews of litigation claims involving the DON to which the OGC and OJAG attorneys devoted substantial attention in the form of legal consultation or representation. OGC and OJAG assess the likelihood of an unfavorable outcome as follows: probable, reasonably possible, or remote.

Probable Likelihood of an Adverse Outcome:

As of September 30, 2025, the DON has an estimated potential loss of $25.5 million that is assessed as probable if adverse decisions are made against the DON. The potential loss is reported as part of the Other Liabilities on the BS. For certain claims that are paid by Treasury's Judgment Fund, which the DON does not have to reimburse, an Imputed Financing Source is recognized. However, agencies must reimburse the Judgment Fund for payments pursuant to the Contract Disputes Act and the Notification and Federal Employees Antidiscrimination and Retaliation Act of 2002.

Refer to Note 13, "Other Liabilities," *for additional information.*

Reasonably Possible Likelihood of an Adverse Outcome:

As of September 30, 2025, the DON has an estimated potential loss of $958.0 million that is assessed as reasonably possible if adverse decisions are made against the DON.

Other Contingencies:

As of September 30, 2025, the DON documented internal administrative claims (IAC) within OJAG Code 15 Admiralty and OJAG Code 15 Tort Claim Unit and assessed their financial statement impact related to Contingent Liability/Contingent Loss. IACs are analyzed by litigators to determine whether in accordance with applicable guidance they must be disclosed as threatened/unasserted litigation pursuant to the CLL reporting process. IACs that do not qualify as reportable in the CLL context may need to be disclosed as part of DON's broader CL reporting. The DON looked at OJAG Code 15 Admiralty, Code 15 Tort Claim Unit and Judgement Fund Total Annual historical payment data averaged for 5 years to determine the loss from IACs. As of September 30, 2025, the DON has a potential loss of approximately $6.3 million from administrative tort claims.

The United States and by extension the DON, is party to certain international court matters that are still undecided at the time of this report. Some of these matters, if decided against the United States and by extension the DON, may result in an outflow

of resources material to the financial statements. As of September 30, 2025, these matters are not probable, quantifiable, or certain to occur; therefore, no liability is estimated or included in this note.

Refer to Note 12, "Environmental and Disposal Liabilities," *(Emerging Sites and Contaminants: Red Hill).* In addition to the liabilities related to environmental cleanup and remediation, there are ongoing claims and lawsuits for damages related to the spill. However, as of September 30, 2025, claims vary in nature and are at different stages of litigation. No settlements have been paid. As the potential loss cannot be determined or reasonably estimated, the Navy has concluded that no liability should be recorded in the financial statements. The DON will continue to monitor the potential impact of the Red Hill lawsuits on the financial statements and notes.

Note 16. Funds From Dedicated Collections

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Balance Sheet:		
Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury	$	42,039
Investments, Net		3,203
Accounts Receivable, Net		8
Advances to others and Prepayments		39
Total Assets	**$**	**45,289**
Liabilities:		
Other than Intragovernmental Liabilities:		
Accounts Payable	$	1,926
Total Liabilities		**1,926**
Cumulative Results of Operations		43,363
Total Liabilities & Net Position	**$**	**45,289**
Statement of Net Cost:		
Gross Program Costs	$	32,078
Less: Earned Revenue		(249)
Net Program Costs		**31,829**
Net Cost of Operations	**$**	**31,829**
Statement of Changes in Net Position:		
Net Position - Beginning Balance	$	47,030
Net Cost of Operations		(31,829)
Budgetary Financing Sources Other Financing Sources		28,162
Change in Net Position		(3,667)
Net Position - End of Year	**$**	**43,363**

The DON currently has four funds from dedicated collections: Wildlife Conservation, the DON General Gift, Ship Stores Profit, and the U.S. Naval Academy General Gift fund.

The Wildlife Conservation Fund is a special fund authorized by 16 USC 670b and provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Proceeds from the sale of fishing and hunting permits are used for these programs at DON installations charging such user fees. These programs are carried out through cooperative plans agreed upon by the local representatives of the SECDEF, the Secretary of the Interior, and the appropriate agency of the state in which the installation is located.

The DON General Gift Fund is authorized by 10 USC 2601. Under this statute, the SECNAV may accept, hold, administer, and spend any gift, devise, or bequest of real or personal property, made on the condition that it be used for the benefit, or in connection with the establishment, operation, or maintenance of a school, hospital, library, museum, cemetery, or other institution under the jurisdiction of DON.

The Ships Stores Profit Fund is authorized by 10 USC 7220. Deposits to this fund are derived from profits realized through the operation of ships' stores and from gifts accepted for providing recreation, amusement, and contentment for enlisted members of the Navy and Marine Corps.

The U.S. Naval Academy General Gift Fund is authorized by 10 USC 6973. Under this statute, SECNAV may accept, hold, administer, and spend any gift, devise, or bequest of personal property, made on the condition that it be used for the benefit of, or in connection with, the United States Naval Academy, or the Naval Academy Museum, its collections, or its service.

Note 17. Suborganization Program Costs

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Military Personnel:		
Gross Costs	$	44,230,620
Less: Earned Revenues		(524,476)
Net Program Costs	**$**	**43,706,144**
Operations, Readiness, and Support:		
Gross Costs	$	87,187,481
Less: Earned Revenues		(6,520,922)
Net Program Costs	**$**	**80,666,559**
Procurement:		
Gross Costs	$	62,626,023
Less: Earned Revenues		(8,917,830)
Net Program Costs	**$**	**53,708,193**
Research, Development, Test & Evaluation:		
Gross Costs	$	22,564,813
Less: Earned Revenues		(1,493,513)
Net Program Costs	**$**	**21,071,300**
Family Housing and Military Construction:		
Gross Costs	$	1,060,366
Less: Earned Revenues		(2,002,897)
Net Program Costs	**$**	**(942,531)**
Net Cost of Operations	**$**	**198,209,665**

The SNC is the net cost of programs and organizations of the DON. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DON's current processes and systems capture costs based on appropriations groups and not major programs per GPRA, due to system and business process limitations. The DON is reviewing available data and developing a cost reporting methodology to comply with the standard.

Goods and services are received from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by DON are recognized as imputed cost in the SNC and are offset by imputed revenue in the SCNP. In accordance with SFFAS 55, *Amending Inter-entity Cost Provisions*, DON recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including employee pension, post-retirement health, and life insurance benefits; post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the FECA; and losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 18. Disclosures Related to The Statement Of Budgetary Resources

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

Net adjustments to unobligated balance brought forward, October 1 primarily includes activity related to recoveries of prior year obligations and canceled authority. Recoveries represent downward adjustments to prior year obligations. Canceled authority must be returned to the original funding source at the end of an appropriation's budget life. Other adjustments primarily consists of transfers. These transfers, totaling approximately $2.0 billion, reflect realignment of budgetary resources across appropriations to ensure unobligated balances are properly aligned with current funding authority and program requirements.

In FY 2025, the DON reported $380.2 million in prior year adjustments. These adjustments are related to clean-up of legacy Standard Accounting and Reporting System - Field Level (STARS-FL) balances that were migrated to Navy ERP and have been subsequently determined to be unsupported.

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Unobligated Balance, Brought Forward From Prior Year	$	61,869,782
Adjustments to Budgetary Resources Made During Current Year		
Recoveries		14,298,651
Canceled Authority		(2,260,816)
Prior Period Adjustments		(380,168)
Other		2,079,160
Unobligated Balance From Prior Year Budgetary Authority, Net (Discretionary and Mandatory)	**$**	**75,606,609**

B. Undelivered Orders at The End of The Year

	UNAUDITED 2025	
AS OF SEPTEMBER 30 ($ in Thousands)	Federal	Non-Federal
Undelivered Orders, Unpaid	$ 43,034,877	$ 158,857,351
Undelivered Orders, Paid	3,774,803	369,433
Total	**$ 46,809,680**	**$ 159,226,784**

The DON financial accounting systems do not assign Federal and Non-Federal attributes to undelivered orders (UDOs), whether paid or unpaid. This footnote imputes the balances of Federal and Non-Federal paid and unpaid UDOs proportional to the Federal/Non-Federal share of Advances and Prepayments and AP, respectively.

C. Permanent Indefinite Appropriations

The NDSF operates under the authority of 10 U.S. Code 2218, which provides for the construction (including design of vessels), purchase, alteration, and conversion of DoD sealift vessels; operation, maintenance, and lease or charter of DoD vessels for national defense purposes; installation and maintenance of defense features for national defense purposes on privately owned and operated vessels that are constructed in the U.S. and documented under the laws of the U.S.; R&D relating to national defense sealift; and expenses for maintaining the National Defense Reserve Fleet, including the acquisition, alteration or conversion of vessels. As of September 30, 2025 reporting, there were no transfers to NDSF from the Operation and Maintenance, Navy appropriation.

The Environmental Restoration, Navy (ERN) appropriation is a transfer account that funds environmental restoration, reduction, and recycling of hazardous waste, removal of unsafe buildings and debris, and similar purposes. Funds are available until transferred and remain available for the same purpose and same time as the appropriations to which transferred. As of September 30, 2025, reporting, there were three transfers from ERN for $343.6 million to the Operation and Maintenance, Navy appropriation. Appropriations Received on the SCNP does not agree with Appropriations Received on the SBR due to differences between proprietary and budgetary accounting concepts and reporting requirements.

D. Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the DON's unobligated balances represent trust fund receipts collected in FY 2025 exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the trust funds and are available for obligation in the future. The DON operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

E. Explanation of Differences Between The SBR And The Budget Of The U.S. Government

The SBR has been prepared to agree with the amounts shown in the Budget of the United States Government. The Budget of the United States Government containing the actual amounts for FY 2025 has not been published at the time these financial statements were prepared. The FY 2026 Budget of the United States Government with the actual FY 2024 amounts was released in June 2025. The FY 2027 Budget of the United States Government with the actual amounts for the CY (FY 2025) will be available later the OMB website at: https://www.whitehouse.gov/omb/budget/.

	Fiscal Year 2024 Actual			
AS OF SEPTEMBER 30 ($ in Millions)	Total Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Agency Outlays
Combined Statement of Budgetary Resources	$ 291,716	$ 229,847	$ (245)	$ 200,973
Reconciling Items:				
Expired Accounts not reported in the Budget	(7,605)	(4,328)	-	(32,091)
Other Funds not reported in the Budget	(4,220)	(2,729)	38	32,064
USMC APPNs in the Budget not reported in Navy SBR	38,311	34,901	-	32,289
Rounding	1			1
Budget of the U.S. Government	**$ 318,203**	**$ 257,691**	**$ (207)**	**$ 233,236**

The table above presents the FY 2024 differences between the amounts reported in the FY 2024 SBR and the actual FY 2024 amounts reported in the FY 2026 Budget of the U.S. Government for SBR lines Total Budgetary Resources; New Obligations and Upward Adjustments; Outlays, Net; and Distributed Offsetting (Receipts)/Outlays, Net.

Note 19. Fiduciary Activities

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Schedule of Fiduciary Activity		
Fiduciary Net Assets, Beginning of Year	$	2,744,341
Contributions		1,285,672
Disbursements to and on Behalf of Beneficiaries		(1,009,597)
Increase/(Decrease) in Fiduciary Net Assets		**276,075**
Fiduciary Net Assets, End of Year	**$**	**3,020,416**

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Fiduciary Net Assets		
Fiduciary Assets		
Fund Balance with Treasury	$	3,020,416
Fiduciary Liabilities		
Less: Liabilities		-
Total Fiduciary Net Assets	**$**	**3,020,416**

The DON fiduciary activity consists of funds in the Savings Deposit Program and Foreign Cooperative Agreements. Service members of the DON who are on a permanent duty assignment outside the U.S., or its territories can earn interest at a rate prescribed by the President, not to exceed 10% per year, on up to $10 thousand deposited into the program. This limitation shall not apply to deposits made on or after September 1, 1966, in the case of those members in a missing status during the Vietnam conflict, the Persian Gulf conflict, or a contingency operation.

Per 22 USC 2767, the President may enter into a cooperative project agreement with NATO or with one or more member countries of that Organization. These agreements are made to leverage share of costs, contracts and other resources where shared interests exist. The DON currently has three (3) BSOs operating within foreign cooperative agreements: NAVAIR, Naval Information Warfare Systems Command (NAVWAR), and NAVSEA.

Refer to Note 1.Y, "Fiduciary Activities," for additional information.

Note 20. Reconciliation of Net Cost to Net Outlays

UNAUDITED 2025

AS OF SEPTEMBER 30 ($ in Thousands)	Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations (SNC)	**$ 56,132,357**	**$ 142,077,308**	**$ 198,209,665**
Components of Net Cost Not Part of Net Budgetary Outlays:			
Property, plant, and equipment depreciation expense	-	(19,706,514)	(19,706,514)
Property, plant, and equipment disposals and revaluations	-	4,624,881	4,624,881
Inventory disposals and revaluations	-	516,910	516,910
Increase/(Decrease) in Assets:			
Accounts receivable, net	(996,520)	46,941	(949,579)
Securities and investments	(53)	-	(53)
Other assets	(1,609,651)	(75,032)	(1,684,683)
(Increase)/Decrease in Liabilities:			
Accounts payable	694,655	(129,430)	565,225
Environmental and disposal liabilities	-	(1,369,840)	(1,369,840)
Federal employee and veteran benefits payable	-	(34,417)	(34,417)
Other liabilities	1,657,244	1,020,175	2,677,419
Financing Sources:			
Imputed cost	(1,787,369)	-	(1,787,369)
Donated revenue	-	(28,162)	(28,162)
Total Components of net operating cost not part of the budgetary outlays	**(2,041,694)**	**(15,134,488)**	**(17,176,182)**
Components of the budget outlays that are not part of net operating cost:			
Acquisition of capital assets	-	44,373,679	44,373,679
Financing Sources:			
Transfers (in)/out without reimbursement	267,807	-	267,807
Total Components of the budget outlays that are not part of net operating cost	**267,807**	**44,373,679**	**44,641,486**
Misc Items:			
Distributed offsetting receipts	-	(266,394)	(266,394)
Custodial/Non-Exchange revenue	-	(248,504)	(248,504)
Non-Entity Activity	238,132	-	238,132
Other Temporary Timing Differences	-	(14,050,493)	(14,050,493)
Appropriated Receipts for Trust/Special Funds	-	28,464	28,464
Total Other Reconciling Items	**238,132**	**(14,536,927)**	(14,298,795)
Total Net Outlays	**$ 54,596,602**	**$ 156,779,572**	**$ 211,376,174**
Agency Outlays, Net, Statement of Budgetary Resources			**$ 211,376,174**
Reconciling Differences			**$ -**

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the Federal deficit. Financial accounting is intended to provide a picture of the Government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The Miscellaneous Reconciling Item – "Other Temporary Timing Differences" is due to prior period adjustments due to correction of error – PP&E. The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

Note 21. Public-Private Partnerships

Background

Congress established the Military Housing Privatization Initiative (MHPI) in 1996 as an alternative method to help the military improve the quality of life for its military members. By using the expertise and tools afforded to private companies, Navy military housing improvements occurred more expediently and efficiently than the traditional military construction process would allow. Title 10 United States Code U.S.C. §§ 2871-2885 codified the Secretaries of the military departments' MHPI authority, and was recently modified by the following Public Laws (P.L.):

- P.L 116-92, National Defense Authorization Act (NDAA) 2020, Title XXX - Military Housing Privatization Reform (now 10 U.S.C. §§ 2871-2894a);
- P.L. 116-283, NDAA 2021;
- P.L. 117-81, NDAA 2022;
- P.L. 117-263, NDAA 2023;
- P.L. 118-31, NDAA 2024;
- P.L. 118-159, NDAA 2025;
- One Big Beautiful Bill Act.

The SECNAV delegated MHPI authority to the NAVFAC, and authorized NAVFAC to enter into agreements with eligible entities from the private sector on behalf of the Navy. NAVFAC selected private entities through a competitive non-FAR acquisition process with the intent to demolish, construct, renovate, maintain, and operate family housing and unaccompanied housing for the Navy.

The Navy possesses the following authorities to assist in the execution of an MHPI projects: direct loans and loan guarantees (10 U.S.C. § 2873), rental guarantees (10 U.S.C. § 2876), differential lease payments (10 U.S.C. § 2877), contributions (10 U.S.C. §§ 2875, 2883), and the conveyance or leasing of land, housing, and other facilities (10 U.S.C. §§ 2875, 2878). Based on these authorities and after careful analysis and consideration, the Navy elected to enter MHPI by providing appropriated funds to the DoD MHPI program. Depending on the project construct, Navy conveyed RP assets to the selected Private Entities entering long-term leases of the underlying government owned land, and/or contributed cash to the project company Limited Liability Company's (LLCs) from the Family Housing Improvement Fund (FHIF) for family housing and from the Military Unaccompanied Housing Improvement Fund (MUHIF) for unaccompanied housing for nominal consideration, often as low as $1 dollar. Navy also used a direct loan from the DoD FHIF for one (1) family housing project, and in a few projects also built housing on private land acquired by the Project Company.

Detailed briefings and/or reports to the appropriate committees of Congress on the MHPI projects are required by 10 U.S.C. § 2878 and 2884.

The expected life of each MHPI arrangement corresponds to the duration of the ground lease (generally 50 years), which generally corresponds to the expected useful life of the housing units. The bulk of Navy arrangements will complete the initial term in the 2050-2056 timeframe. Negotiations between the Navy and the Private Entities established the duration of the ground lease based on the minimum duration required to ensure project success.

It is important to note that MHPI is not considered a Federally Financed Program, MHPI Private Entities do not receive Federal Financial Assistance, and the private military housing partnerships that manage and facilitate privatized military housing are not classified as federally financed companies. MHPI housing operations are not covered by Section 504 of the Rehabilitation Act of 1973 because the privatized military housing operations are not a "program or activity receiving Federal financial assistance" nor does it remain a "program or activity conducted by" an Executive agency.

The complete population of Navy family and unaccompanied housing MHPI arrangements is as follows:

The Navy has ten (10) MHPI family housing arrangements with twelve (12) partners under 10 U.S.C. §§ 2871-2894a authorities that continue in operation:

- Kingsville II
- San Diego (Southwest)
- New Orleans
- South Texas

- Hawaii
- Northeast
- Northwest
- Mid-Atlantic
- Midwest
- Southeast

The Navy has two (2) Military Unaccompanied Housing arrangements with two (2) partners under 10 U.S.C. §§ 2871-2894a authorities that continue in operation:

- Hampton Roads Unaccompanied Housing
- San Diego Unaccompanied Housing (Pacific Beacon)

Note: *As required by the legal agreements between the Navy and its MHPI partners, in order to protect the business sensitive information contained within those individual arrangements, the Navy has elected to aggregate the financial information herein. In cases where data from a single MHPI is presented, that information is presented without naming the specific entity involved.*

Responsibilities

The non-government managing member (also referred to as the Private Entity) is responsible for the management of the MHPI project with the goal of providing adequate housing to Navy military members choosing to reside in these facilities for rents set equal to the Basic Allowance for Housing (BAH). In the FY 2020 NDAA, Pub. L. 116-92, Title XXX - Military Housing Privatization Reform, Congress provided notional standards and definitions for adequate housing (services' condition assessments shall utilize private sector housing industry construction codes and sizing standards as a basis for assessing inventory adequacy) and initiated the process to establish tenant rights and responsibilities for all DoD MHPI housing. In general, the MHPI projects are to provide services, which include the management, maintenance, and operations of the facilities over the life of the Operating Agreement (OA). The Private Entity has sole and exclusive management and control over the MHPI entity. The Navy will not take part in the day-to-day management of the MHPI projects, however, to protect its interests in certain specific circumstances the Navy has reserved the ability to concur/approve with the managing member's decisions/ recommendations (i.e., annual operating budgets, recapitalization plans, incurring additional debt).

Funding

Contributions from the DoD MHPI program and the Private Entity typically occur at the beginning of any new project and may occur as a pre-condition of follow-on phases as addressed in the OA. During Phase I, the initial development phase, the Navy entered long term ground leases (generally 50 years) and conveyed the then existing associated RP assets (buildings, structures, facilities, and utilities) to the MHPI project, structured as an LLC or Limited Partnership (LP). The Navy contributed funds to the DoD FHIF or DoD MUHIF as privatization projects were programmed. Once the Navy funds were in the FHIF or MUHIF, the DoD MHPI program made direct cash contributions as authorized through 10 U.S.C. 2875 and government direct loans as authorized through 10 U.S.C. 2873 to the LLCs/LPs at Navy's request.

Cash contributions to MHPI project LLCs/LPs from the DoD FHIF or DoD MUHIF require Congressional notification (10 U.S.C. § 2883 (f)). There are no contractual requirements for additional federal contributions to the LLCs/LPs. The Navy has not made any in kind contributions/services or donations to the MHPI entities.

The Navy is not required to contribute resources to the MHPI project beyond the initial contribution, and any subsequent contributions required as a pre-condition to follow on phases, to the FHIF or MUHIF and has not made any such additional capital contributions, loans, or loan guarantees to the MHPI projects.

The limited cash contributions of the Navy at formation were used by the managing members to fund start-up costs and initial working capital of the MHPI projects. A substantial portion of the buildings contributed to the MHPI were demolished or substantially renovated shortly after the projects were formed. The capital necessary to construct or renovate the projects primarily came from the issuance of third-party debt collateralized solely by the projects themselves (or GDLs). Funds to support the operations of the MHPI P3s comes from the rental revenue received from the tenants. The Navy does not guarantee any debts incurred by the MHPI entity.

Military Members, as part of their compensation receive BAH. BAH is determined by Congress as the market cost of housing for each applicable geographic region as calculated under section 403 (b) (3) (A) (i) of the military pay statute in Title 37, U.S.C.

It is authorized through the NDAA and appropriated via the Defense Appropriations Act (or Continuing Resolutions) annually. If the Military Member rents an MHPI home or apartment, the associated BAH amount is considered to be an indirect third-party payment from Navy as discussed in SFFAS 49, para 24.c.i.3 and as disclosed below.

Beginning in 2018 Congress enacted several laws to make up for BAH reductions in prior years. These laws require the Navy to supplement the housing allowances of the service members residing in the facilities by making direct payments to the MHPI projects. These direct payments are described and disclosed below:

- From January 1st - December 31st 2018, Pub L. 115-91 § 603 directed that payments to the MHPI entities of 1% of the amount of the Pre-Absorption BAH calculated under section 403 (b) (3) (A) (i) of the military pay statute in Title 37, U.S.C. for the area in which the covered housing existed would be made monthly.

- From September 30th 2018 to December 31st 2019, Pub. L.115-232 § 606 directed that payments to the MHPI entities of 5% of the Pre-Absorption BAH, calculated as described above would be made monthly.

- From January 1st 2020 to December 31st 2021, Pub. L. 116-92 §§ 3036 (a), 3037 directed that payments to the MHPI entities of 2.5% of the Pre-Absorption BAH, calculated as described above, will occur monthly for all MHPI entities ("606(a)(1) payment)". Additionally, "underfunded" projects may receive an additional monthly payment ("606(a)(2) payment") at the determination of the Chief Housing Officer (CHO) of the DoD and SECNAV until Congress modifies or rescinds this direction. In effect, each Military Departments (MILDEPs) "fund" for 606(a)(2) payments will equal the total of the 2.5% monthly 606(a)(1) payments for the calendar year. (Note: *The Assistant Secretary of Defense for Sustainment promulgated interim guidance for Pub. L. 116-92 §§ 3036 (a), 3037 on June 10th 2020, stipulating that the MILDEPs were required to pay an additional 2.5% of the Pre-Absorption BAH in lieu of the requirements set forth in Pub. L. 116-92 §§ 3036, 3037. The DON has issued implementing guidance for the Navy, and the Navy began Pub. L. 116-92 §§ 3036, 3037 payments in Q4 FY 2020.*)

- From January 1st 2022 on, Pub. L. 116-283 § 2811 and Pub. L. 117-81 § 2811 directed that payments to the MHPI entities of 50% of the BAH Absorption rate calculated under section 403 (b) (3) (A) (ii) of the military pay statute in Title 37, U.S.C. for the area in which the covered housing exists, would be made monthly. Pursuant to Office of the Secretary of Defense (OSD) Final Implementation Policy released February 11th 2022, which supersedes the interim guidance described above, the MILDEPs are required to pay an additional monthly 606(a)(2) payment to projects deemed underfunded, as approved by the CHO. The CHO approved underfunded list applicable to CY 2022 was approved on June 28th 2022, however, the appropriate legal instruments required to ensure such payments comply with final OSD policy were not fully executed until Q1 of FY 2023; accordingly, all underfunded project payments applicable to CY 2022 were made in FY 2023. The underfunded list applicable to CY 2023 and CY 2024 were approved by the CHO on July 13th 2023 and June 4th 2024, respectively, and with appropriate legal instruments already in place, payments applicable to CY 2023 commenced in FY 2023 and payments applicable to CY 2024 commenced in FY 2024; the CY 2025 list was approved on May 7, 2025, therefore, 606 (a) (2) payments shown in Table 3 are payments made under CY 2022- 2025 approved lists.

Navy Transactions in support of the MHPI Program and LLCs/LPs

Table 1: The following table represents the Navy transactions in support of the MHPI Program and LLCs/LPs through the FY ending in September 30th, 2025 (Column 1), the prior FY ending in September 30th, 2024 (Column 2), and aggregate over the expected life of the P3, where estimable (Column 3).

Navy Transactions in support of the MHPI Program and LLCs/ LPs ($TYM)	FY 2025 Amount (10/1/2024 through 9/30/2025)	FY 2024 Amount (10/1/2023 through 9/30/2024)	Aggregate Expected Life amount (Including liabilities and approved but not yet executed transactions)
Navy cash transfers to DoD FHIF/MUHIF	$ -	-	360.2

Note 1: *The Navy cash transfers were amounts necessary to establish the program or correct shortfalls in commitments to have housing allowances reflect local market conditions and are not expected to be recovered by the Navy. The RP contributions similarly were fully depreciated or are expected to be fully depreciated over the life of the arrangements and are not expected to have a material book value upon their return at the end of the land lease. Accordingly, no amounts are reflected in the FY 2024 Navy GF BS for the assets transferred to the MHPI P3s.*

DoD Initial Contributions to the MHPI Programs (FHIF/MUHIF)

Table 2: The following table represents the DoD transactions in support of the MHPI Program and LLCs/LPs at new phase initiation through the FY ending in September 30th 2025 (Column 1), the prior FY ending in September 30th 2024 (Column 2), and aggregate over the expected life of the P3, where estimable (Column 3).

DoD Initial Contributions to the MHPI Programs (FHIF/MUHIF) ($TYM)	FY 2025 Amount (10/1/2024 through 9/30/2025)	FY 2024 Amount (10/1/2023 through 9/30/2024)	Aggregate Expected Life amount (Including liabilities and approved but not yet executed transactions)
Direct cash contributions	$ -	-	756.2
Real property contributions to the MHPI Project LLCs and LPs (value of Real Property Assets (RPA) conveyed, per OMB scoring documents)	$ -	-	2,470.2
Bonds Purchased	$ -	-	-
Direct loans disbursed	$ -	-	2.5

The Navy continuously assesses the housing requirements at all of its installations, and Navy may determine that an additional phase within an existing MHPI arrangement best meets the needs of the Navy members. Navy or DoD may provide cash contributions to the arrangement as determined by the pro forma analysis. Any new phase and associated cash contributions would require Congressional notification.

DoD On-Going Contributions to the MHPI Partnerships

Table 3: The following table represents the DoD transactions in support of the MHPI Program and LLCs/LPs not at new phase initiation through the FY ending in September 30th 2025 (Column 1), the prior FY ending in September 30th 2024 (Column 2), and aggregate over the expected life of the P3, where estimable (Column 3).

DoD On-Going Contributions to the MHPI Partnerships ($TYM)	FY 2025 Amount (10/1/2024 through 9/30/2025)	FY 2024 Amount (10/1/2023 through 9/30/2024)	Aggregate Expected Life amount (Including liabilities and approved but not yet executed transactions)
Navy direct payments to MHPI LLCs/LPs as required by § 603 and § 606 (a) (1) (actuals)	$ 19.3	19.4	Not Estimable
Navy direct payments to MHPI LLCs/LPs as required by § 606 (a) (2) (actuals)	$ 29.1	10.7	Not Estimable
Navy direct payments to MHPI LLCs/LPs as required by § 606 (a) (3) (actuals)	$ -	-	Not Estimable
Navy direct payments to MHPI LLCs/LPs as required by § 603 and § 606 (a) (1-3) (current liability for invoices received as of 30 September 2025 but not yet paid) (Note 2)	$ 29.8	Current liabilities are not additive year over year	Not Estimable
Indirect third-party payment of Basic Allowance for Housing (BAH) under § 403 of Title 37 from members living in privatized housing (Note 3 - 5)	$ 1,285.9	1,244.5	Not Estimable
Differential lease payments	$ -	-	-
Property, cash, bonds, and direct loans	$ -	-	-

Note 2: *Any potential future payments beyond the current liabilities reflected above are not estimable and are therefore not provided. This is due to there being no contractual requirement to make additional payments and the uncertainty associated with Congressional action in this area. Therefore, Column 4 is not estimable. The known cumulative liability as of 30 September 2025 including FY 2025 liability is $40.47M and does not include any future projections beyond current known values.*

Note 3: *The number of military family housing units upon which these estimated payments were made is 31,082 in FY 2025. The number of units of military unaccompanied housing upon which these estimated payments were made is 5,956 in FY 2025.*

Note 4: *The cumulative BAH amounts are not readily available nor supportable, therefore no estimate of the cumulative amount of BAH is provided. This disclosure requirement did not exist until FY 2019, and Navy has no way of recreating or estimating BAH payments made to individuals living in MHPI housing from program inception in FY 1996 through FY 2018. Navy will report annual BAH amounts as a part of this disclosure on a go forward basis.*

Note 5: *Navy does not estimate the future amount of BAH to be paid to MHPI entities. This is due to the uncertainties associated with the number of members residing in MHPI housing year over year, the paygrade mix of members residing in MHPI housing, and the potential changes in the BAH rates which occur in the annual NDAAs, and which are implemented through annual appropriations to the Navy. Further, it is a discretionary choice on the part of individual Service Members 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 Navy to any MHPI entity to ensure a minimum number of military residents in MHPI housing.*

Private Entity Initial Contributions to the MHPI Partnerships

Table 4: The following table represents the FY MHPI managing member (Private Partner) contributions in support of the MHPI Program and LLCs/LPs at new phase initiation through the FY ending in September 30th 2025 (Column 1), the prior FY ending in September 30th 2024 (Column 2), and aggregate over the expected life of the P3, where estimable (Column 3).

Private Partner Initial Contributions to the MHPI Partnerships ($TYM)	FY 2025 Amount (10/1/2024 through 9/30/2025)	FY 2024 Amount (10/1/2023 through 9/30/2024)	Aggregate Expected Life amount (Including liabilities and approved but not yet executed transactions)
Direct cash contributions	$ -	-	103.0
Real property and land contributions to the LLCs & LPs	$ -	-	0.3
Bonds issued and construction loans obtained	$ -	-	4,477.3

On a go forward basis, Navy will report bond issuance face value and initial construction loan amounts obtained at new phase initiation in table 4.

Private Partner On-Going Contributions to the MHPI Partnerships

Table 5: The following table represents the FY MHPI managing member contributions in support of the MHPI Program and LLCs/LPs not at new phase initiation through the FY ending in September 30th, 2025 (Column 1), the prior FY ending in September 30th, 2024 (Column 2), and aggregate over the expected life of the P3, where estimable (Column 3).

Private Partner On-Going Contributions to the MHPI Partnerships ($TYM)	FY 2025 Amount (10/1/2024 through 9/30/2025)	FY 2024 Amount (10/1/2023 through 9/30/2024)	Aggregate Expected Life amount (Including liabilities and approved but not yet executed transactions)
Direct cash contributions	$ -	-	-
Return of contributions to Partner	$ -	-	-
Real property and land contributions	$ -	-	-
Bonds issued and construction loans obtained	$ -	-	-
Bond / Construction Loan Payments	$ 72.7	68.4	4,477.3
Direct Loan payments	$ 0.1	0.1	2.5

There is no requirement for the Private Entities to make any additional contributions after October 1st,2024 through the end of the arrangements (approx. through 2050). However, as discussed above, Navy continuously assesses the housing requirements at all of its installations, and Navy may determine that an additional phase within an existing MHPI arrangement best meets the needs of the Navy members. Should an additional phase be executed, the Private Entities are expected to provide contributions to the arrangement as determined by the pro forma analysis. Any new phase and associated cash contributions would require Congressional notification.

The MHPI entities have not borrowed or invested capital based on the Navy's promise to pay, either implied or explicit.

MHPI LLC/LP Transactions

Table 6: The following table represents the FY transactions of the MHPI LLC/LP as reported on the books of the MHPI entity during the entity's FY and received through the FY ending in September 30th 2025 (Column 1), the prior FY ending in September 30th 2024 (Column 2), and aggregate over the expected life of the P3, where estimable (Column 3).

MHPI LLC/LP Transactions ($TYM)	FY 2025 Amount (10/1/2024 through 9/30/2025)	FY 2024 Amount (10/1/2023 through 9/30/2024)	Aggregate Expected Life amount (Including liabilities and approved but not yet executed transactions)
Value of real property assets donated to Navy from MHPI LLC/LP	$ -	-	53.7
Cash transferred to Navy from MHPI LLC/LLP	$ -	-	-

Risk of Loss and Expectation of Gain

The DoD's risk of loss is the initial cash contribution to the program; the Navy's risk is failure to deliver quality-housing services to Navy Military Personnel. The Private Entity's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI OA prescribes revenue flow "waterfall" during the life of the arrangement and upon liquidation of the arrangement. These waterfalls generally allow the Managing Member an opportunity to earn incentives and returns for economic performance after providing a set aside of capital for the maintenance of the facilities.

The Private Entities' potential risks are (1) inability to recover their initial cash contributions, (2) inability of the project to repay bonds and/or loans causing a loss or restructure of the project, and (3) loss of a long-term revenue source. The Private Entity is not entitled to the return of its capital contribution, or to be paid interest on its capital contribution other than through profits of the project.

The MHPI OAs do not explicitly identify risk of loss contingencies.

The MHPI entity cash flow is dependent on Congressional authorization and appropriation of BAH, which becomes a third-party payment for rent to the MHPI project. The Navy can influence but cannot control the authorization and appropriation process. Additionally, because of ongoing congressional review of the MHPI program, there may be changes to the relationship between the Navy and the entity based on Congressional action. If or when action is taken, the Navy will disclose any financial changes or impacts that this may pose / cause. This is potentially a remote impact that is not measurable at this time. Conversely, there is an expectation that the market-based rent to be received by the MHPI project will be sufficient to cover operating expenses, debt service, sustainment of the housing, and remuneration of the managing member and any sustainment account deposits are retained within the individual MHPI entity long-term recapitalization/operational reserve lockbox accounts for future use by the entity.

Several MHPI entities have noted a potential negative impact of the COVID pandemic on their operations. While none of the entities indicated a current impact, they did note it generated some uncertainty with respect to operations and future cash flow. Navy will continue to monitor the MHPI project for these impacts.

Risk of Termination or Non-Compliance

As noted above, Navy does bear risk in the form of non-performance in that, in some cases failure of an MHPI P3 could leave it with inadequate housing alternatives for its military members. There is no requirement in any of the arrangements for the Navy to repay loans or other obligations of the MHPI P3s. In addition to the ability to dispose of assets not subject to the land leases and the ability to refinance or seek additional debt, the arrangements allow for protections for the lenders and the Navy by allowing the removal of property managers for non-performance. As of this note, from inception to date neither the lenders nor Navy has exercised the right to request removal of property managers or other affiliated parties.

In some instances, the Navy provides utility services to the housing area operated by the LLC. The LLC is contractually and statutorily required to provide reimbursements for utility services provided by the Navy.

The Navy recognizes other risk scenarios may occur, such as Private Entity non-compliance with the MHPI agreements. To address non-compliance risk, the Navy performs reviews of compliance, a joint effort between the local military housing office, the Private Entities, MILDEP installation commands, and other ranking members of the MILDEP. These reviews can include neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the Private Entity's as well as exteriors of military housing units. Private Entity performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The GAO 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, and the NDAA 2020 Sections 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of the MHPI projects, the protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI projects.

There are no additional contractual or other risks of loss to the private entities, or any expected risks to cash flows known at this time.

Other P3s:

The Navy conducted a review of agreements which may have created a Public Private Venture (PPV) / P3. This review encompassed Special Legislative Authorities, Enhanced Use Leases, Renewable Energy Program Out-leases, Utility Energy Savings Contracts, Power Purchase Agreements, Privatized Utilities, Energy Savings Performance Contracts and Geothermal Agreements. The Navy's analysis supports that these contracts and agreements do not constitute a PPV/P3 and do not require disclosure under SFFAS 47 or SFFAS 49.

Note 22. Disclosure Entities and Related Parties

The DON has relationships which constitute control for NAFIs and FFRDCs as these entities meet the SFFAS 47 control principle regarding risk of loss or expectation of benefits.

The DON maintains long-term contractual relationships with the parent organizations of Foreign Military Financing, International Military Education and Training, Special Defense Acquisition Fund, Foreign Military Loan Liquidating Account, Military Debt Reduction Financing Account, Advances, Foreign Military Sales, SA programs, the U.S. Forest Service, and the Federal Highway Administration. The DON sponsored FFRDCs to meet research or development needs that cannot be met as effectively by existing government or contractor resources. The FFRDCs provide R&D laboratory centers to support the DON. All DON funding for FFRDCs work is provided through the Department's contract with the parent organization that operates each FFRDC. FAR Part 35.017 provides Federal policy for the establishment and use of FFRDCs.

The DON FFRDC relationships are defined through sponsoring agreement between each DON sponsoring organization and the university or private-sector nonprofit parent organization that operates each FFRDC. While the DON does not control the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the DON, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. An FFRDC may be used only for work that is within its purpose, mission, and general scope of effort, as established in the sponsoring agreement.

The DON receives significant benefits from the work of the FFRDCs, which is critical to national security. Congress restricts the amount of support that the Department may receive from DON sponsored FFRDCs through a limitation that it sets annually. This limit is based on staff years of technical effort and determines the amount that can be funded.

The DON's NAFIs are fiscal entities supported in whole or in part by NAFs. For the most part, NAFs are generated from sales and user fees. The DON's NAFIs are established by DoD policy, and are Morale, Welfare, and Recreation entities, intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitments, and retention.

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) exercises overall policy direction for oversight of DON NAF activities. Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) and CFO and DFAS, in coordination with the USD(P&R), are responsible for NAF accounting policy. DoD policy requires the DON to appoint advisory groups for NAFIs. The advisory group ensures the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to DON policy requirements for financial reporting to USD(P&R) and financial audits conducted by independent public accounting firms. However, NAFI financial activity is not included in the DON financial statements.

Refer to Note 21, "Public-Private Partnerships," *for DON's PPV/P3s that were identified for disclosure in compliance with SFFAS 47 and SFFAS 49.*

Note 23. Non-Custodial Non-Exchange Revenues

AS OF SEPTEMBER 30 ($ in Thousands)		UNAUDITED 2025
Interest on Non-Exchange Gifts and Donations	$	17,730
Total	**$**	**17,730**

The DON's special funds for Academy and General Gifts hold Treasury securities on which they receive interest. The invested balances of these funds derive predominantly from the funds' non-exchange transactions with the public (i.e., donations and gifts). These balances are not earned in exchange transactions by the entity's operations and, most fundamentally, are not produced by operations in which the entity incurs a cost. Therefore, the interest on Treasury securities is not deducted from the gross costs of these special funds or the DON in determining its net cost of operations. As a result, the derived interest revenue should not be classified as exchange revenue and instead has the same non-exchange classification as the predominant source (i.e., non-exchange donations) of the invested balances.

General Fund Required Supplementary Information

This section provides the RSI to accompany the basic financial statements as prescribed by accounting standards.

Deferred Maintenance and Repair (DM&R)

DON conducts a large quantity of RP and Equipment Maintenance and Repair that encompasses several assets across the DON. Aircraft and Ships, considered among the most high-tech in the world, constitute major categories for the DON's DM&R.

Combining Statement of Budgetary Resources

The Combining SBR combines the availability, status, and outlays of DON budgetary resources. The Statement of Disaggregated Budgetary Resources provides the Combined SBR disaggregated by DON programs for the FY ended September 30, 2025.

Land

Land is essential to carry out the DON's mission by providing space to house and train personnel, store equipment, and conduct operations.



US NAVY GENERAL FUND
Property, Plant, and Equipment

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For Fiscal Year Ended September 30, 2025
($ in Millons)

UNAUDITED 2025

PROPERTY TYPE	1. Plant Replacement Value	2. Required Work (Deferred Maintenance and Repair)	3. Percentage
Active			
Category 1: Enduring Facilities			
Navy (Less: Military Family Housing)	$ 491,129	$ 36,381	7.4%
Military Family Housing	9,789	2,457	25.1%
Inactive			
Category 3: Excess Facilities or Planned for Replacement			
Navy (Less: Military Family Housing)	$ 16,601	$ 1,275	7.7%
Military Family Housing	157	124	79.0%

Note: *In the tables above, Navy real property deferred maintenance and repair data represent both USN GF and DON WCF.*

Real Property

Description of Property Categories:

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.

Category 3 – Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including Heritage Assets.

Description of Property Types:

Building: A roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for single or multiple functions.

Structure: A facility, other than a building or linear structure, which is constructed on or in the land.

Linear Structures: A facility whose function requires that it traverse land (such as a road, rail line, pipeline, fence, pavement). Includes distribution systems that provide a common service or commodity to more than one building or structure.

The DM&R information presented relates to all Navy facilities and is not restricted to capitalized assets. The DM&R information excludes assets on Navy installations where a Defense Agency is responsible for maintenance and repair. For these assets, defense agencies are responsible for funding the condition assessment of facilities and reporting a Facility Condition Index (FCI).

M&R Policies

The DON has migrated and is utilizing the Sustainment Management System (SMS), where applicable, to perform a cyclical assessment of RP facilities and assign a FCI, which considers an asset's key life-cycle attributes such as age and material, as part of a repeatable process that involves field-level condition assessments.

M&R Prioritization

As part of the 'Targeted Facilities Investment Strategy', mission, health and safety considerations are more heavily favored than quality of life, when assigning priority to maintenance needs.

Acceptable Condition Standards

Generally, the DON considers an asset acceptable when it is in good condition with an assigned FCI of 90% or above.

Capitalization of DM&R

The DM&R information presented relates to all DoD facilities and is not restricted to capitalized assets.

Asset Exclusions

The DM&R information excludes assets on Navy installations where a Defense Agency is responsible for maintenance and repair. For these assets, defense agencies are responsible for funding the condition assessment of facilities and reporting an FCI.

AS OF SEPTEMBER 30 ($ in Thousands)	UNAUDITED 2025
Major Category*	Ending Balance
1. Aircraft	$ 386,000
2. Ships	211,508
3. Electronics and Communications Systems	-
4. Missiles	11,558
5. Ordnance Weapons and Munitions	64,938
6. All Other Items Not Identified Above	-
Total	**$ 674,004**

Note: *Unlike previous years the data for this report was not pulled from the Budget Exhibit Depot Maintenance (PB-61).The deferred maintenance amounts reported were provided by respective BSOs and/or Planning Activities.*

**Data provided is as of September 30th, 2025*

DM&R is "maintenance and repairs not performed when they should have been or were scheduled to be; therefore, are put off or delayed for a future period." The information applies to both capitalized equipment, such as ships and aircraft, and non-capitalized equipment, such as ordnance, weapons types, and targets.

Aircraft

Four sub-categories comprise aircraft deferred maintenance: airframe rework and maintenance, engine rework and maintenance, and component repair. The airframe, engine, and component repair and rework deferred maintenance calculation reflects unfunded requirements. In the year of execution, there are often changes in planned events requiring a reprioritization of the funding by the TYCOMs (Type Commanders). Unfunded events are then identified and addressed should additional funds become available. If, at the end of the 4th quarter, there are still airframes or engines/modules that remain unfunded, then they are moved to the beginning of the next FY and inducted for maintenance/repairs in the 1st quarter.

The FY 2025 deferred maintenance associated with the Aviation Logistics program is due to unfunded requirements for F-35 (AVSC contract) and CMV-22 (engine repairs and support).

The FY 2025 deferred maintenance associated with Air Systems Support programs is due to increase to software Capability Defect Packages (CDPs) corrections for Airborne Electronic Attack (AEA), Air Anti-Submarine Systems Program (AASP), EA-18G, E-6B, E-2D, F/A-18EF, Manned Reconnaissance, MDEWSSA (Multi-Spectral Defense Electronic Warfare System Support Activity), H-60, P-8A, MV-22, CH-53K, and VH (Executive Helicopter).

The FY 2025 deferred maintenance associated with the Calibration Program is due to Fleet Test, Measurement, and Diagnostic Equipment (TMDE) calibration workload and depot level Calibration Standards (CALSTD's) calibration/repair workload.

Ships

Fleet Type Commanders provide deferred ship maintenance data. Data is collected from the Current Ships' Maintenance Plan (CSMP) database, which captures maintenance actions at all levels (organizational, intermediate, depot) for active ships. Only depot level maintenance is provided in the calculation of ship deferred maintenance. This includes maintenance actions deferred from actual depot maintenance work-packages as well as maintenance deferred before inclusion in a work package due to fiscal, operational, or capacity constraints.

The FY 2025 deferred maintenance is largely driven by surface ship availabilities for both U.S. Pacific Fleet and U.S. Fleet Forces Command.

Electronics and Communications Systems

The electronics and communications equipment category consists of maintenance performed on a variety of radar, radio, and wire communications equipment. This category refers to deferred systems maintenance for active and reserve Navy assets. In part, the systems include or are associated with the Surveillance Towed-Array Sensor System (SURTASS), P-8 Beartrap, satellite subsystems, the Multi-Band Deployable Antenna, the Multi-Mode Inter/Intra Team Radio, and a variety of radio and radar sets used within the Navy. The total requirement is the planned quantity of systems and their components that require depot level maintenance in a year as determined by program managers and the operating forces. The deferred maintenance is then the difference between the validated requirements and funding received for that FY.

Missiles

Three categories are used to determine missile maintenance: cruise missiles, tactical missiles, and other. For Weapons Depot Maintenance, deferred maintenance is considered any repairs and maintenance that was scheduled and not performed or delayed to a future period. These repairs and maintenance actions can be deferred for a number of reasons, to include lack of funding, capacity at the specific depot, transportation of assets to the depot or availability of assets in general. In the year of execution, there are often changes in planned events requiring a reprioritization of the funding by the TYCOMs (Type Commanders). Unfunded events are then identified and addressed should additional funds become available. If, at the end of the 4th quarter, there are still airframes or engines/modules that remain unfunded, then they are moved to the beginning of the next FY and inducted for maintenance/repairs in the 1st quarter.

The FY 2025 Missiles deferred maintenance is associated with CMBRE, HARPOON, LRASM, Sidewinder AIM-9M, AIM-9X, AMRAAM, JAGM SLAM-ER and AARGM due to overall increased failure rates and maintenance requirements for weapon system repairs.

Ordnance Weapons and Munitions

Ordnance weapons and munitions are part of a broader category, Other Weapons Systems. This category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairable components. For Weapons Depot Maintenance, deferred maintenance is considered any repairs and maintenance that was scheduled and not performed or delayed to a future period. These repairs and maintenance actions can be deferred for a number of reasons, to include lack of funding, capacity at the specific depot, transportation of assets to the depot or availability of assets in general. In the year of execution, there are often changes in planned events requiring a reprioritization of the funding by the TYCOMs (Type Commanders). Unfunded events are then identified and addressed should additional funds become available. If, at the end of the 4th quarter, there are still airframes or engines/modules that remain unfunded, then they are moved to the beginning of the next FY and inducted for maintenance/repairs in the 1st quarter.

The FY 2025 Ordnance Weapons and Munitions deferred maintenance is associated with CAD/PAD, Countermeasures, JDAM, SDB II, BRU-61 and Guns due to overall increased failure rates and maintenance requirements for weapon system repairs.

All Other Items Not Identified Above

This category comprises deferred maintenance for software, arresting gear, lighting and surfacing equipment, and EFTM (external fuel transfer module). The deferred maintenance is the difference between the validated requirements and funding received for that FY.

US NAVY GENERAL FUND

COMBINING STATEMENT OF BUDGETARY RESOURCES

For Fiscal Year Ended September 30, 2025

($ in Thousands)

UNAUDITED 2025

	Research, Development, Test & Evaluation	Procurement	Military Personnel
BUDGETARY RESOURCES:			
Unobligated Balance from Prior Year, net (discretionary and mandatory)	$ 5,193,158	$ 53,365,866	$ 1,122,906
Appropriations (discretionary and mandatory)	29,813,303	106,704,941	44,986,047
Spending Authority from Offsetting Collections (discretionary and mandatory)	552,794	241,613	511,201
TOTAL BUDGETARY RESOURCES	**$ 35,559,255**	**$ 160,312,420**	**$ 46,620,154**
STATUS OF BUDGETARY RESOURCES:			
New Obligations and Upward Adjustments (total)	$ 26,920,735	$ 92,900,050	$ 45,234,708
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	3,476,316	37,402,378	78,070
Exempt from Apportionment, Unexpired Accounts	-	-	-
Unapportioned, Unexpired Accounts	4,788,108	29,036,137	945,387
Unexpired Unobligated Balance, End of Year	8,264,424	66,438,515	1,023,457
Expired Unobligated Balance, End of Year	374,096	973,855	361,989
Unobligated Balance, End of Year (total)	8,638,520	67,412,370	1,385,446
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 35,559,255**	**$ 160,312,420**	**$ 46,620,154**
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, Net (total) (discretionary and mandatory)	$ 24,688,833	$ 64,338,969	$ 43,604,935
Distributed Offsetting Receipts	-	-	-
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	**$ 24,688,833**	**$ 64,338,969**	**$ 43,604,935**

The accompanying notes are an integral part of these statements

UNAUDITED 2025

	Family Housing & Military Construction	Operations, Readiness & Support	Total
BUDGETARY RESOURCES:			
Unobligated Balance from Prior Year, net (discretionary and mandatory)	$ 9,950,262	$ 5,974,417	$ 75,606,609
Appropriations (discretionary and mandatory)	5,727,983	82,004,952	269,237,226
Spending Authority from Offsetting Collections (discretionary and mandatory)	3,202,628	5,716,801	10,225,037
TOTAL BUDGETARY RESOURCES	**$ 18,880,873**	**$ 93,696,170**	**$ 355,068,872**
STATUS OF BUDGETARY RESOURCES:			
New Obligations and Upward Adjustments (total)	$ 9,234,017	$ 89,219,196	$ 263,508,706
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	8,526,935	264,550	49,748,249
Exempt from Apportionment, Unexpired Accounts	-	53,219	53,219
Unapportioned, Unexpired Accounts	144,379	2,621,636	37,535,647
Unexpired Unobligated Balance, End of Year	8,671,314	2,939,405	87,337,115
Expired Unobligated Balance, End of Year	975,542	1,537,569	4,223,051
Unobligated Balance, End of Year (total)	9,646,856	4,476,974	91,560,166
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 18,880,873**	**$ 93,696,170**	**$ 355,068,872**
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, Net (total) (discretionary and mandatory)	$ 4,110,728	$ 74,899,103	$ 211,642,568
Distributed Offsetting Receipts	-	(266,394)	(266,394)
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	**$ 4,110,728**	**$ 74,632,709**	**$ 211,376,174**

The accompanying notes are an integral part of these statements

Estimated Acreage by Predominant Use – PP&E Land and Permanent Land Rights

UNAUDITED 2025

AS OF SEPTEMBER 30 (Acres in Thousands)	Commercial Use	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year	0	10	974	984
End of Prior Year/Start of Current Year	0	10	949	960
End of Current Year	**0**	**9**	**897**	**906**

The DON has interest in ~906 thousand acres of PP&E land as of September 30, 2025. Land is essential for the DON to carry out its mission by providing space to house and train personnel, store equipment, and conduct operations. PP&E land acreage is broken out into three predominant use sub-categories:

Estimated Acreage by Predominant Use – Stewardship Land and Permanent Land Rights

UNAUDITED 2025

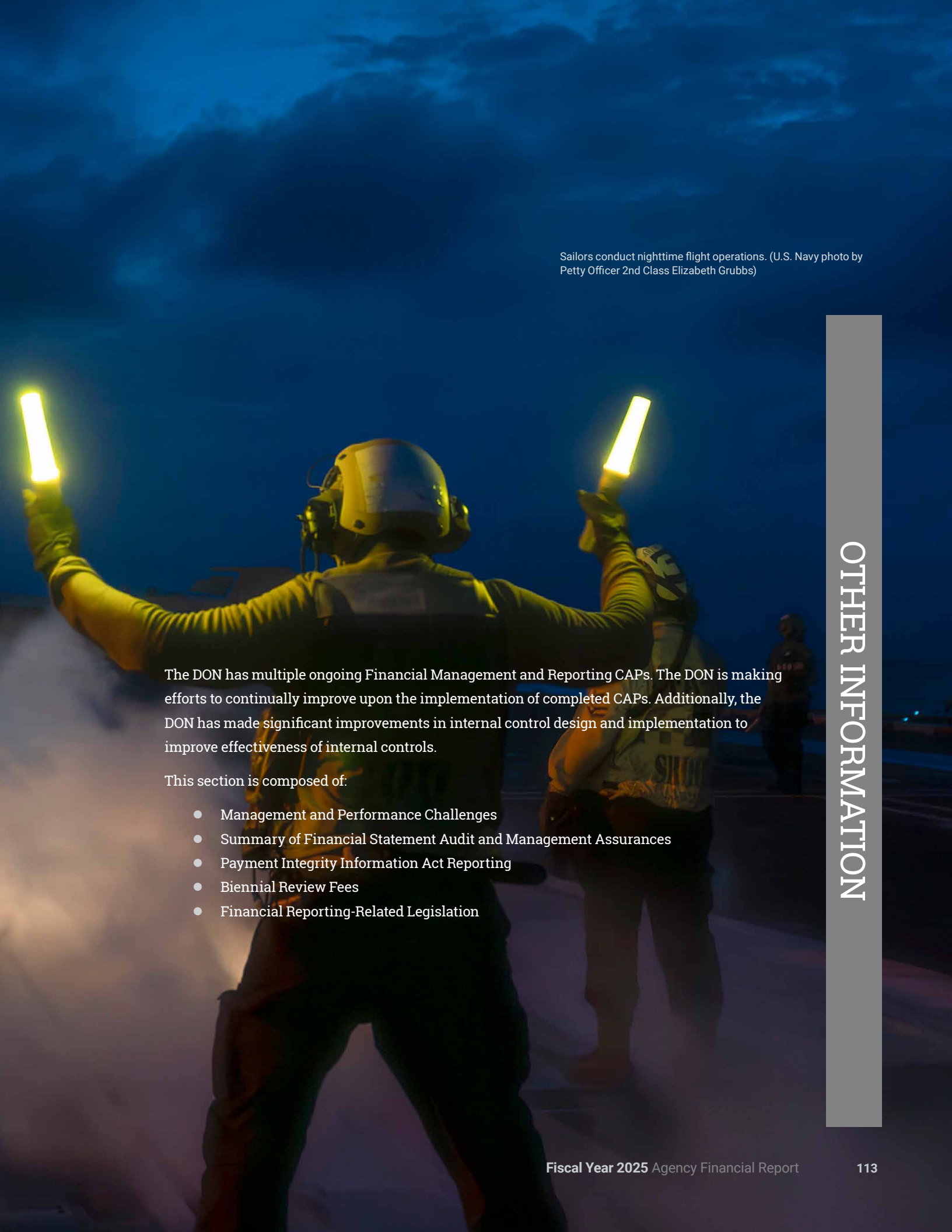
AS OF SEPTEMBER 30 (Acres in Thousands)	Commercial Use	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year	0	6	1,384	1,389
End of Prior Year/Start of Current Year	0	6	1,383	1,389
End of Current Year	**0**	**6**	**1,383**	**1,389**

The DON has interest in ~1,389 thousand acres of stewardship land as of September 30, 2025. Land is essential for the DON to carry out its mission by providing space to house and train personnel, store equipment, and conduct operations. Land acreage is broken out into three predominant use sub-categories:

Commercial use land is classified as land or land rights predominantly used to generate inflows of resources from non-federal third parties, to include leases and P3s. The DON uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the State. Generally, treaty terms allow the DON to continue use of these properties until the treaties expire. There are no other known restrictions on PP&E land. In accordance with SFFAS 59, beginning balance and prior year changes in land must be presented. While the DON continues to remediate its land accounting procedures for full note disclosure in FY 2026, the DON is currently unable to disclose permanent versus temporary land rights, land held for disposal or exchange, changes in land balances between FYs, and amounts paid during the FY to maintain land rights.

Conservation and Preservation land is classified as land or land rights predominantly used for conservation or preservation purposes, to include archeological resource sites.

Operational land is classified as land or land rights predominantly used for general or administration purposes, to include military functions preparing for the effective pursuit of war and military operations short of war conducting combat, peacekeeping, and humanitarian military operations; and supporting civilian authorities during civil emergencies



Sailors conduct nighttime flight operations. (U.S. Navy photo by Petty Officer 2nd Class Elizabeth Grubbs)

OTHER INFORMATION

The DON has multiple ongoing Financial Management and Reporting CAPs. The DON is making efforts to continually improve upon the implementation of completed CAPs. Additionally, the DON has made significant improvements in internal control design and implementation to improve effectiveness of internal controls.

This section is composed of:

- Management and Performance Challenges
- Summary of Financial Statement Audit and Management Assurances
- Payment Integrity Information Act Reporting
- Biennial Review Fees
- Financial Reporting-Related Legislation

DEPARTMENT OF THE NAVY
NAVAL INSPECTOR GENERAL
1254 9TH STREET SE
WASHINGTON NAVY YARD, DC 20374-5006

5040
Ser IG00/564
26 Nov 25

From: Naval Inspector General
To: Department of Defense Office of Inspector General

Subj: SOLICITATION OF INPUT TO THE TOP DOD MANAGEMENT CHALLENGES AND THE FISCAL YEAR 2026 DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL OVERSIGHT PLAN

Ref: (a) DoD OIG memo of 4 Feb 25

1. Per reference (a), the Office of the Naval Inspector General (NAVINSGEN) submits the following items to the Department of Defense Office of Inspector General (DoD OIG) for consideration to include in upcoming Fiscal Year 2026 DoD OIG Oversight Plan.

a. Information Technology Risks and Inefficiencies. Information Technology is a critical element of DON mission capability, and the significant delay in execution of the now bifurcated Next Generation Enterprise Network-Recompete (NGEN-R) contract into a Service Management, Integration and Transport (SMIT) and Hardware contracts has negatively impacted productivity across the entire Department of the Navy. Numerous award protests and other delays prevented Leidos from assuming the SMIT component of the NGEN-R contract until August 2021. Negotiations still continue for certain Contract Line Item Number (CLIN) oversights that further hamper productivity, and cost far in excess of previous negotiated prices due to the in extremis need for these CLINs to be made available.

b. Data Silo Impediments to Data Analysis. DoD and the Military Services are often reactive to issues that emerge instead of proactively getting in front of them. DON should be able to evaluate their vast quantities of data in combination with AI technology to identify and address emerging issues. One of the many challenges, despite the DoD Chief Data Officer's efforts to promote data sharing, is that there are still data silos within DoD and the Services that make it difficult to access relevant data to begin testing more proactive approaches.

c. Defense Health Agency Transition. Given the significance of this organizational change, the Joint Force and its components must have clear C2 and fully understand impacts to access to care, quality of care and most importantly war fighting readiness. As such, there should be clear standards to monitor and evaluate the change implementation and effectiveness.

d. Facilities Concerns. The Navy has underfunded their shore enterprise for an extended period of time, which resulted in a large percentage of their infrastructure being under-maintained, in poor or failing condition, improperly configured, and/or exceeding their service life. The Navy's underfunding facilities directly translates to significant negative impacts on mission readiness, resilience, life/health and safety, quality of life, and loss of public confidence,

creating tremendous risk for the service. The underfunding profile also presents countless single points of mission failures, further increasing risk to mission. The Office of the Naval Inspector General (NAVINSGEN), through inspections and assessments, consistently encounters the Navy's core strategic mission areas to include their air and port operations, maintenance, and training struggling to keep pace with expanding operational requirements in a steady-state environment due to facilities and infrastructure concerns. NAVINSGEN believes that elevating the situation to a contingency environment may stress Navy infrastructure to the point of mission failure or serious loss of life or property, at numerous locations. Naval Facilities Engineering Systems Command (NAVFAC) is a key shore enabler to the warfighter who provides essential facilities and infrastructure services to execute the Navy's operational mission. NAVFAC's project management capabilities have been knowingly underfunded below a Common Output Level 4 (COL 4) for several years; a funding level described as "execution of the mission at significantly reduced standards, with significant risk to customer operational requirements and with potential mission or legal implications." Sub-COL 4 reduced funding level greatly impacts NAVFAC's ability to perform effective project management throughout the Navy's facility and infrastructure lifecycle.

e. Civilian HR Processes. Across the Department of the Navy organizations report challenges with attracting, hiring, and retaining the civilian workforce. This occurs in both warfighting and support organizations at both CONUS and OCONUS locations. NAVINSGEN analysis identified the two areas of concern most closely correlated to an assessment of high risk across organizations' programs throughout the Department of the Navy to be excessive hiring timelines and recruitment & retention. These areas of concern were identified at every command and location assessed by NAVINSGEN in 2023 and 2024. Addressing these two areas of concern would greatly assist mitigation of workforce risk across the Department.

f. Counter-Unmanned Aircraft Systems. Recently, inspectors have witnessed the counter-Unmanned Aircraft System (c-UAS) as an emerging challenge. The Navy has not solved the man, train, and equip aspects of c-UAS technology and the matter requires urgent attention. The UAS threat is continuously evolving, forcing the c-UAS process to be agile and adaptive. An inexpensive UAS could wreak significant damage to the Navy, exacting a loss of property and lives, and add reputational risk to the US Government.

2. My point of contact is Ms. Karen M. Bonaby who can be reached at 202-433-6645 or via e-mail at karen.m.bonaby.civ@us.navy.mil.

M. W. BAZE

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Modified (disclaimer)
Restatement: No

Areas of Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Statement Compilation and Reporting	1	0	0	1	0
Financial Reporting and Controls	0	1	0	0	1
Government Property in the Custody of Contractors	1	0	0	1	0
Operating Materials and Supplies – Remainder	1	0	0	1	0
Operating Materials and Supplies – Ordnance	1	0	0	1	0
Operating Materials and Supplies – Valuation	1	0	0	1	0
Inventory and Related Property: Operating Materials and Supplies	0	1	0	0	1
General PP&E – General Equipment – Remainder	1	0	0	1	0
General PP&E – General Equipment – Construction in Progress	1	0	0	1	0
General PP&E	0	1	0	0	1
Expenses and Accounts Payable	1	0	0	1	0
Revenue and Unfilled Customer Orders	1	0	0	1	0
Expenses and Revenue	0	1	0	0	1
Budget Execution and Undelivered Orders	1	0	0	1	0
Budget Execution and Monitoring	0	1	0	0	1
Financial Information Systems – Access Controls/SOD	1	0	0	1	0
Financial Information Systems – Configuration Management	1	0	0	1	0
Financial Information Systems – IT Operations	1	0	0	1	0
Information Systems	0	1	0	0	1
Total Material Weaknesses	**13**	**6**	**0**	**13**	**6**

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)
Statement of Assurance: Modified Assurance

Areas of Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Accounts Payable	1	0	0	0	0	1
Budgetary Execution	1	0	0	0	0	1
Financial Reporting	1	0	0	0	0	1
Operating Materials & Supplies – Remainder	1	0	0	0	0	1
Operating Materials & Supplies – Ordnance	1	0	0	0	0	1
Property, Plant, & Equipment Valuation	1	0	0	0	0	1
General Equipment – Remainder: Existence and Completeness	1	0	0	0	0	1
Government Property in Possession of Contractors	0	1	0	0	0	1
Revenue and Unfilled Customer Orders	0	1	0	0	0	1
Traceability and Supportability of Foreign Military Sales Transactions	1	0	1	0	0	0
Procure to Pay	1	0	0	1	0	0
Order to Cash	1	0	0	1	0	0
Total Material Weaknesses	**10**	**2**	**1**	**2**	**0**	**9**

TABLE 3: SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Modified Assurance

Areas of Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Complex IT Environment	1	0	0	0	0	1
Depot Level Maintenance (Ship Depot Maintenance)	1	0	0	0	0	1
Property in the Possession of Contractors	1	0	0	0	1	0
Total Material Weaknesses	**3**	**0**	**0**	**0**	**1**	**2**

TABLE 4: SUMMARY OF MANAGEMENT ASSURANCES

Conformance with Federal Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Federal Systems conform, except for instances of non-conformance, to financial management system requirements.

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Systems Configuration Management	1	0	0	0	0	1
Information Systems Interfaces	1	0	0	0	1	0
Information Technology Operations	0	1	0	0	0	1
Information Systems Access Controls/Segregation of Duties	1	0	0	0	0	1
Total non-conformances	**3**	**1**	**0**	**0**	**0**	**3**

TABLE 5: SUMMARY OF MANAGEMENT ASSURANCES

Compliance with Section 803(a) of the FFMIA

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
2. Applicable Federal Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
3. USSGL at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted

Payment Integrity Information Act Reporting

In accordance with the Payment Integrity Information Act of 2019 (P.L. 116-117, 31 U.S.C § 3352 and § 3357) and OMB Circular A-136, DoD reports payment integrity information (i.e., improper payments) at the agency-side level in the consolidated DoD AFR. For detailed reporting on DoD payment integrity, refer to the "Other Information" section of the consolidated DoD AFR at: https://comptroller.defense.gov/ODCFO/afr/.

Biennial Review Fees

The DON completed a review in FY 2024 and identified the following programs assessing user fees for goods or services that provide special benefits. These programs receive approved apportionments for fee revenue received adhering to OMB Circular A-11 for offsetting collections and OMB Circular A-25 for the type of fee assessed. FBWT reconciliations are prepared utilizing supporting transactions recording within the Centralized Accounting Reporting System, Defense Cash Accountability System and Defense Departmental Reporting System. A similar assessment will be completed in FY 2026.

Fish and Wildlife Program assesses user fees to customers to obtain hunting & fishing licenses and other recreational fees assessed on military installations. Fees collected are dedicated receipts collected into the Treasury Special Account for supporting the program and its specific purpose. Program managers ensure fee adjustments are within defined guidelines and are used to offset the cost of military wildlife conservation efforts.

Trademarks Licensing Program has authorization to license their trademarks for use on commercial products. ONR is responsible for supervising, administering and controlling activities within or for the DON. Program managers ensure fees assessed cover the cost of sustaining the program.

Financial Reporting-Related Legislation

Significant reporting entities and components must report all agency-specific legislative provisions enacted in the prior year or CY that address agency-specific financial accounting, reporting, or auditing issues.

The DON is aware of the following relevant non-recurring, non-routine provisions:

- NDAA 2025, P.L. 118-159 https://www.congress.gov/118/plaws/publ159/PLAW-118publ159.pdf



Sailors conduct mooring operations. (U.S. Navy photo by Lt. James Cavila)

APPENDIX

Appropriations, Funds, and Accounts Included in the Principal Statements

GENERAL FUNDS

017X0380	Coastal Defense Augmentation, Navy
017 0730	Family Housing Construction, Navy and Marine Corps
017 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
017X0810	Environmental Restoration, Navy
017 1000	Medicare-Eligible Retiree Health Fund Contribution, Navy
017 1002	Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
017 1109	Procurement, Marine Corps
017 1205	Military Construction, Navy and Marine Corps
017 1235	Military Construction, Naval Reserve
017X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
017 1319	Research, Development, Test, and Evaluation, Navy
017 1405	Reserve Personnel, Navy
017X1453	Military Personnel, Navy
017 1506	Aircraft Procurement, Navy
017 1507	Weapons Procurement, Navy
017 1508	Procurement of Ammunition, Navy and Marine Corps
017 1611	Shipbuilding and Conversion, Navy
017 1612	National Sea-Based Deterrence Fund, Navy
017 1804	Operation and Maintenance, Navy
017 1806	Operation and Maintenance, Navy Reserve
017 1810	Other Procurement, Navy

REVOLVING FUNDS

017 4557	National Defense Sealift Fund, Navy

SPECIAL FUNDS

017X5095	Wildlife Conservation, etc., Military Reservations, Navy
017X5185	Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
017X5562	Ford Island Improvement Account
017X5630	DoD World War II Commemoration Fund, Navy

DEPOSIT FUNDS

017X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy (T)
017X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy (T)
017X6025	Pay of the Navy, Deposit Fund (T)
017X6026	Pay of the Marine Corps, Deposit Fund (T)
017X6133	Payment of Unclaimed Moneys, Navy
017X6228	Thrift Savings Fund, Navy
017X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
017X6502	Foreign Cooperative Projects, Navy
017X6505	Title Escrow Amounts, Navy
017X6705	Civilian Employees Allotment Account, Navy
017 6763	Gains and Deficiencies on Exchange Transactions, Navy
017X6115	Contributions, Military Dependent Care Flexible Spending Account, Navy
017X6275	Withheld State and Local Taxes, Navy
017X6276	Other Federal Payroll Withholding, Allotments, Navy
017X6500	Advances Without Orders from Non-Federal Sources, Navy
017X6501	Small Escrow Amounts, Navy
017X6950	Disbursing Officer Cash, Navy

TRUST FUNDS

017X8716	Department of the Navy General Gift Fund
017X8723	Ships Stores Profits, Navy
017X8733	United States Naval Academy General Gift Fund



Acronyms and Definitions

ADA	Anti-Deficiency Act
ADM	Aircraft Depot Maintenance
AFDA	Allowance for doubtful accounts
AFR	Agency Financial Report
AP	Accounts Payable
BAH	Basic Allowance for Housing
BFSAR	Battle Force Ship Assessment and Requirement
BLI	Business Line Item
BRAC	Base Realignment and Closure
BS	Balance Sheet
BSO	Budget Submitting Office
CAV-ORM	Commercial Asset Visibility - Organic Repairs Module
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CHO	Chief Housing Officer
CIP	Construction in Progress
CIRCUITS	Centralized and Integrated Reporting for the Comprehensive Utilities Information Tracking Systems
CIVPAY	Civilian Pay
CLL	Contingent Legal Liability
CMLS	Corrective Maintenance & Logistics System
COLA	Cost of Living Adjustment
CPIM	Consumer Price Index Medical
CSPT	Common Spend Plan Tool
CTC	Cost to Complete
CVN 65	USS Enterprise
CY	Current Year
DDRS-B	Defense Departmental Reporting System-Budgetary
DECKPLATE - PSR	Decision Knowledge Programming for Logistics Analysis and Technical Evaluation Performance Summary Record
DERP	Defense Environmental Restoration Program
DevSecOps	Development, Security, and Operations
DFAS	Defense Finance and Accounting Service
DM&R	Deferred Maintenance and Repair
DoD	Department of Defense
DOH	Department of Health
DOL	Department of Labor
DON	Department of the Navy
E&DL	Environmental and Disposal Liabilities
ELC	Entity-Level Control
EOP	Executive Office of the President
EOU	Excess, obsolete, and unserviceable
eRMSI	eRetrograde Management System
ERN	Environmental Restoration, Navy
ERP	Navy Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCI	Facility Condition Index
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
FFRDC	Federally Funded Research and Development Centers
FHIF	Family Housing Improvement Fund
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers' Financial Integrity Act
FMO	Office of Financial Operations
FMR	Financial Management Regulation
FRA	Fraud Risk Assessment
FRD	Funds Receipt and Distribution
FRM	Fraud Risk Management
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCSS-MC	Global Combat Support System – Marine Corps
GE	General Equipment
GE-R	General Equipment - Remainder
GF	General Fund
GFP	Government Furnished Property
GMRA	Government Management Reform Act
GONE	Grants Oversight and New Efficiency
GPRA	Government Performance and Results Act
HR	Human Resources
I&RP, Net	Inventory & Related Property, Net
ICAM	Identity Credential & Access Management
ICOR	Internal Controls Over Reporting
ICOR-F	Internal Controls Over Reporting - Financial
ICOR-O	Internal Controls over Reporting - Operations
iNFADS	Internet Navy Facilities Assets Data Store
IPA	Independent Public Accountant
IRM	Integrated Risk Management
IRP	Installation Restoration Program
IT	Information Technology
IUS	Internal Use Software
JECE	JAG Enterprise Cloud Environment
JTF	Joint Task Force
JTFRH	Joint Task Force Red Hill
LAC	Latest Acquisition Cost
LCTM	Litigation Case Tracking Module
LLC	Limited Liability Company
LP	Limited Partnership
MAC	Moving Average Cost
MD&A	Management's Discussion and Analysis
MDE	Microsoft Defender for Endpoint
METS	Multi-Engine Training Systems
MHPI	Military Housing Privatization Initiative
MMRP	Military Munitions Response Program
MOL - MROWS	Marine Online -Marine Resource Order Writing Service
MOSAICS	More Situational Awareness for Industrial Control Systems
MSC	Military Sealift Command
MUHIF	Military Unaccompanied Housing Improvement Fund
MW	Material Weakness

NAF	Non-appropriated Fund
NAFI	Non-appropriated Fund Instrumentality
NAVAIR	Naval Air Systems Command
NAVFAC	Naval Facilities Engineering Command
NAVSEA	Naval Sea Systems Command
NAVWAR	Naval Information Warfare Systems Command
NDAA	National Defense Authorization Act
NDMS - TAA	Naval Depot Maintenance System - Time and Attendance
NDSF	National Defense Sealift Fund
NEST	Naval Enterprise Service Tools
NFR	Notice of Findings and Remediation
NIS	Naval Identity Services
NMCI	Navy Marine Corps Intranet
NORM	Normalization of Data
NRV	Net Realizable Value
NTDO	Non-Treasury Disbursing Office
NWPA	Nuclear Waste Policy Act of 1982
OA	Operating Agreement
OGC	Office of General Counsel
OJAG	Office of the Judge Advocate General
OM&S	Operating Materials & Supplies
OM&S-O	Operating Materials & Supplies - Ordnance
OM&S-R	Operating Materials & Supplies - Remainder
OM&S-T	Operating Materials & Supplies - Tridents
OMB	Office of Management and Budget
ONR	Office of Naval Research
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Undersecretary of Defense (Comptroller)
P3	Public-Private Partnership
PA/SI	Preliminary Assessment/Site Inspections
PBIS	Procurement Business Intelligence Service
PFAS	Per-and Polyfluoroalkyl Substances
PMA	Program Manager, Air
PP&E	Property Plant & Equipment
PPV	Public Private Venture
PRV	Plant Replacement Valuation
PSR	Performance Summary Record
R&D	Research and Development
ROTC	Reserve Officers Training Corps
RP	Real Property
RSI	Required Supplementary Information
SA	Security Assistance
SAA	Security Assistance Accounts
SAO	Senior Accountable Official
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SD	Significant Deficiency
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SEMS-SERMIS	Support Equipment Management System-Support Equipment Resource Management Information
SFFAS	Statement of Federal Financial Accounting Standards
SIOP	Shipyard Infrastructure Optimization Program
SLDCADA	Standard Labor Data Collection and Distribution Application
SMC	Senior Management Council
SNC	Statement of Net Cost
SNF	Spent Nuclear Fuel
SOA	Statement of Assurance
SOD	Segregation of Duties
STRATIS	Storage Retrieval Automated Tracking Integrated System
TB	Technical Bulletin
TDO	Treasury Disbursing Office
TNC	Treasury Nominal Coupon
UAE	Uninstalled Aircraft Engines
UDO	Undelivered Orders
USACE	United States Army Corps of Engineers
U.S.C.	United States Code
USD(P&R)	Under Secretary of Defense for Personnel and Readiness
USMC	United States Marine Corps
USN	United States Navy
USNS	United States Naval Ship
USSGL	United States Standard General Ledger
WCF	Working Capital Fund



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