



DEFENSE LOGISTICS AGENCY

THE NATION'S LOGISTICS COMBAT SUPPORT AGENCY



FY2025 AGENCY FINANCIAL REPORT

NATIONAL DEFENSE STOCKPILE TRANSACTION
FUND



DLA

FISCAL YEAR

2025

AGENCY FINANCIAL REPORT

— NATIONAL DEFENSE STOCKPILE — TRANSACTION FUND

The Defense Logistics Agency (DLA) Headquarters

The Defense Logistics Agency (DLA) headquarters, also known as the Andrew T. McNamara Headquarters Complex, at Fort Belvoir, Virginia. The headquarters contains numerous offices responsible for supporting the overall agency. DLA provides supplies to the military services and supports their acquisition and storage of repair parts, and acquisition of weapons, fuel, and other materials. The agency also disposes of excess or unusable equipment through various programs. ▼ 8725 John J. Kingman Road Fort Belvoir, VA 22060-6221

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To meet the demands of today's transformative era characterized by the contested logistics environment, DLA must transform its ability to fulfill its responsibilities to our Nation's warfighters.

”

WARFIGHTERS ALWAYS



NATIONAL DEFENSE STOCKPILE TRANSACTION FUND



DLA

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MESSAGE FROM THE DIRECTOR

On behalf of the Defense Logistics Agency (DLA), I am honored to present the Fiscal Year (FY) 2025 Agency Financial Report (AFR) for the National Defense Stockpile Transaction Fund (NDSTF). We take immense pride in having earned our second consecutive unmodified ("clean") audit opinion. This significant accomplishment reflects DLA's unwavering dedication to accountability, transparency, and responsible stewardship of taxpayer resources. DLA operates within a dynamic and increasingly contested global environment, where the efforts of the Military Services, Combatant Commands, and DLA are challenged by adversaries across all domains and at all levels of war.

To effectively support the Services and Combatant Commands in this transformative era, DLA has recalibrated its strategic approach, adapting to the evolving warfighting concepts, doctrine, training, and equipment of our armed forces. This recalibration focuses on transforming DLA's capabilities, strengthening strategic partnerships, and implementing more resilient supply chain solutions, all with a singular focus on enhancing our combat support mission. DLA remains steadfast in its commitment to continuously improve its capabilities and capacity to deliver agile, adaptive, and resilient logistics support across the full spectrum of conflict, thereby serving as an indispensable component of the warfighting team.

In FY 2025, DLA's operational impact has been guided by our DLA Strategic Plan 2025–2030, "DLA Transforms: A Call to Action," which has helped us stay laser-focused on how we deliver logistics in a contested, dynamic battlespace. Focused on People, Precision, Posture, and Partnerships, its framework is designed

not just to guide us, but to transform us. It reminds us that transformation starts with our people, is driven by precision in execution, requires strategic posture across the globe, and is sustained through strong partnerships. Key to the "Precision" imperative are our efforts to achieve audit goals, establish effective internal controls, and enhance accountability.

Our ninth annual audit revealed notable improvements in our data analytics and Information Technology systems, indicating continued progress toward achieving a favorable audit opinion. This progress is supported by our commitment to lead in innovation, digital interoperability, and cutting-edge technology, all resting on a strong financial foundation and precise financial management practices.

As Director, I am privileged to serve alongside the extraordinary men and women of the DLA team, whose unwavering commitment strengthens our support to Warfighters and fortifies our nation's defense. This report reaffirms our pledge to excellence in resource stewardship—driven by efficiency, accountability, and transparency. I extend my deepest thanks to all whose dedication and collaboration continue to propel our mission forward and elevate the standard of military logistics. **WARFIGHTER ALWAYS!**



Mark T. Simerly,
LTG, USA
Director



Demilitarizing Military Equipment

Navy Petty Officer Second Class Jacob Guiao demonstrates cutting techniques to his instructor at the DLA Cutting Capabilities Course, held in Battle Creek, Michigan

Photo by: Jeff Landenberger

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND



DLA

FISCAL YEAR

2025

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am honored to collaborate with the Director in presenting the FY 2025 AFR and highlighting a significant achievement: the NDSTF attaining an unmodified audit opinion for the second consecutive year. This accomplishment serves as a testament to DLA's dedication to sound financial management and transparent reporting. This achievement was the direct result of a robust partnership cultivated among key stakeholders within the financial community, including our dedicated accounting professionals, service providers at the Defense Finance and Accounting Service, expert Strategic Materials Management team, and DLA's highly skilled Information Technology specialists. This AFR provides critical insights into DLA's laser focus on National Security Strategy to acquire and maintain strategic materials to defend and secure our Nation. Presidential and Congressional support to increase strategic material funding reflects the importance in providing optimum resources to the Warfighter. The achievements, and ongoing challenges, reflect our steadfast commitment to delivering value, efficiency, and robust financial stewardship across all programs.

DLA's enterprise-wide initiatives strategically enhance financial operations, optimize systems, and strengthen risk management to improve value for the Warfighters and partners. DLA remains committed to upgrading systems, remediating key audit findings, and strengthening data and controls. The upcoming transitions to the Systems, Applications and Products in Data Processing, Suite Fourth Generation for the High-Performance Analytic Appliance, and Government Invoicing are foundational shifts enabling proactive data management, streamlined operations, and strengthened financial accountability. These pivotal initiatives represent more

than mere system upgrades; they are transformative shifts in how we proactively manage data, strategically streamline operations, and rigorously strengthen financial accountability across the enterprise.

In the DLA operational environment, we are dedicated to leveraging advanced data analytics, robust internal controls, and streamlined business processes to elevate the quality, accuracy, and timeliness of financial reporting. A core strategic priority is the continuous enhancement of financial management capabilities through the strategic integration of Artificial Intelligence (AI). This strategic integration will enable us to proactively identify and mitigate risks, effectively overcome challenges, and implement targeted corrective actions to remediate material weaknesses. Our overarching vision is to deliver world-class fiscal stewardship and strategically optimized resource allocation to significantly enhance Warfighter readiness and lethality. We are committed to providing reliable, well-supported budget requests and producing consistently auditable financial statements, thereby demonstrating our unwavering commitment to the responsible management of American taxpayer funds and ensuring Financial Global Logistics Excellence. WARFIGHTER ALWAYS!

A handwritten signature in black ink that reads "Susan Goodyear".

Susan Goodyear,
Director, DLA Finance
Chief Financial Officer



DLA Land and Maritime



A Historic Moment

DLA and the Defense Finance Accounting Service (DFAS) Columbus leadership proudly display the official letter confirming an unmodified audit opinion for the National Defense Stockpile Transaction Fund in FY 2024. For the first time since 1988, the fund achieved an unmodified audit opinion, marking a major milestone in transparency and trust across the Defense Logistics Agency.

"This success is critical to DLA's mission to support the warfighter and the nation. We can now say with confidence that we have an accurate count of the nation's defense stockpile items, know the value of the inventory, and can assure the public the financial balances are accurate and properly recorded."

- Susan Goodyear, DLA CFO

Left to right: Maria Resto-Gonzalez, Director, DLA Enterprise Accounting; Army Lt. Gen. Mark Simerly, USA, Director, DLA; Felecia Parker, Director, DLA Financial Reporting; and Stacy M. Son, Deputy Site Director, DFAS Columbus
Photo by: DLA Public Affairs

FY



25

AGENCY FINANCIAL REPORT

NATIONAL DEFENSE STOCKPILE
TRANSACTION FUND

SECTION

1

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECTION 1

SECTION 1

Management's Discussion and Analysis

In this section:

- 3 Mission and Organizational Structure**
- 7 Key Performance Results**
- 10 Analysis of Financial Statements and Stewardship Information**
- 15 Analysis of Systems, Controls and Legal Compliance**



MISSION AND ORGANIZATIONAL STRUCTURE



Note: The DLA acknowledges the recent Executive Order 14347, which directed the renaming of the Department of Defense (DoD) to the Department of War. DLA is also committed to ensuring compliance with all applicable legal requirements, and accordingly, throughout this report DLA will adhere to the established legal principle that statutory references to the Department of Defense and its components shall remain controlling until amended by law.

Mission

The DLA's mission is to drive and sustain Warfighter readiness by delivering unmatched global support as the Nation's Logistics Combat Support Agency. DLA supports DoD objectives and missions with involvement in the full range of military operations from participation with multinational forces engaged in large-scale combat operations, weapons and spare provisions, peacekeeping efforts, and emergency support to humanitarian assistance.

DLA Strategic Materials (SM) is responsible for the operation and oversight of the National Defense Stockpile (NDS) to decrease and preclude dependence upon foreign sources or single points of failure for strategic materials in times of national emergency.

HISTORY of DLA

1961

1965

1977

1986

1988

The Defense Supply Agency (DSA) is established.



Active combat units deploy to Vietnam. By 1969, more than 500,000 U.S. troops were in the country.



DSA is redesignated the Defense Logistics Agency in recognition of its broadened mission responsibilities.



The Goldwater-Nichols Reorganization Act designates DLA a combat support Agency.



DLA assumes management of the nation's strategic stockpile from the General Services Administration and Federal Emergency Management Agency. Headquarters (HQ) and Defense Fuel Supply personnel learn that they will be moving from Cameron Station to Fort Belvoir.

2020-25

2014-15

2012

2005

1993

DLA supports efforts to combat the coronavirus by providing personal protective equipment and ventilators to the American people through the Federal Emergency Management Agency (FEMA) and Department of Health and Human Services (HHS). It also acts as a purveyor of information, feeds naval crews on lockdown, reutilizes life-saving equipment, and delivers vaccines to the military's overseas locations.

DLA helps West Africa combat the Ebola virus by providing goods and services in Operation United Assistance.



DLA delivers more than 6.2 million meals, 172,500 blankets, and 14 million gallons of fuel to areas affected by Hurricane Sandy.



DLA provides support in the wake of Hurricane Katrina.



DLA forms integrated business units for supply management, distribution, and contract management, reducing the number of organizations reporting directly to the DLA director from 42 to 6.



Gameplan for Distribution

Defense Logistics Agency Distribution Europe employees gather for an overview of the warehouse management system "soft go live" procedures at the distribution center located in Germersheim, Germany. **Photo by: DoD**

Organizational Chart

Below is DLA's organizational chart.

Appendix A contains further explanation of the Staff Directors and Field Activity Commanders (J/D) Codes.



Figure 1: DLA Organizational Chart

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

DLA SM Directorates

Directorate of Strategic Planning and Market Research:

This Directorate conducts market research and provides marketing advice to the Administrator, DLA SM, for the sale and acquisition of strategic and critical materials; assists in developing the overall sales and acquisition strategies for the materials; and provides economic analyses and forecasts for S&C materials. In addition, Strategic Planning offers outreach to the military services as it relates to S&C materials' acquisitions and disposals. It also serves as the principal DLA representative and overall strategic materials production and applications subject matter expert to the military services, other DoD offices, other Federal agencies, and industry representatives. The Market Research division solicits, receives, and evaluates quotes for the disposal of excess materials held in the NDS. Additionally, sales contract award and administration are

managed by the Market Research division.

Directorate of Material Management: This Directorate functions as the principal adviser to the Administrator, DLA SM, in the development and administration of all aspects of the NDS materials management and environment, safety, and health programs. Material Management is responsible for receipt, storage, maintenance, packaging, shipping, disposal procedures, and related programs and processes. It provides and manages all NDS storages, assigned DLA SM facilities, and personnel within the United States. This Directorate acts as liaison between DLA SM and local communities on NDS issues. In addition, Material Management is responsible for the development and implementation of policies and procedures for the DLA SM environmental management, and occupational health and safety programs.



A Clean Audit

DLA Director, Army Lt. Gen. Mark Simerly and Felecia Parker, Director of DLA Financial Reporting proudly display the official letter confirming an unmodified audit opinion for the National Defense Stockpile Transaction Fund. **Photo By:** DLA Public Affairs

KEY PERFORMANCE RESULTS

Agency Strategic Goals

The DLA released its new Strategic Plan 2025-2030, *“DLA Transforms: A Call to Action”*. The DLA highlights five DLA values, six operating principles, and more importantly, four transformation imperatives for the next five fiscal years that will help achieve the Agency's mission. A copy of DLA's Strategic Plan 2025-2030, *“DLA Transforms: A Call to Action”* is available at <https://www.dla.mil/Info/Strategic-Plan/>.

In the Strategic Plan, DLA laid out four transformation imperatives and nineteen objectives. The Agency will work to achieve corresponding key results in the next five years. Some of these objectives and results are reflected in the DLA FY 2024 Annual Report (published in February of 2025).

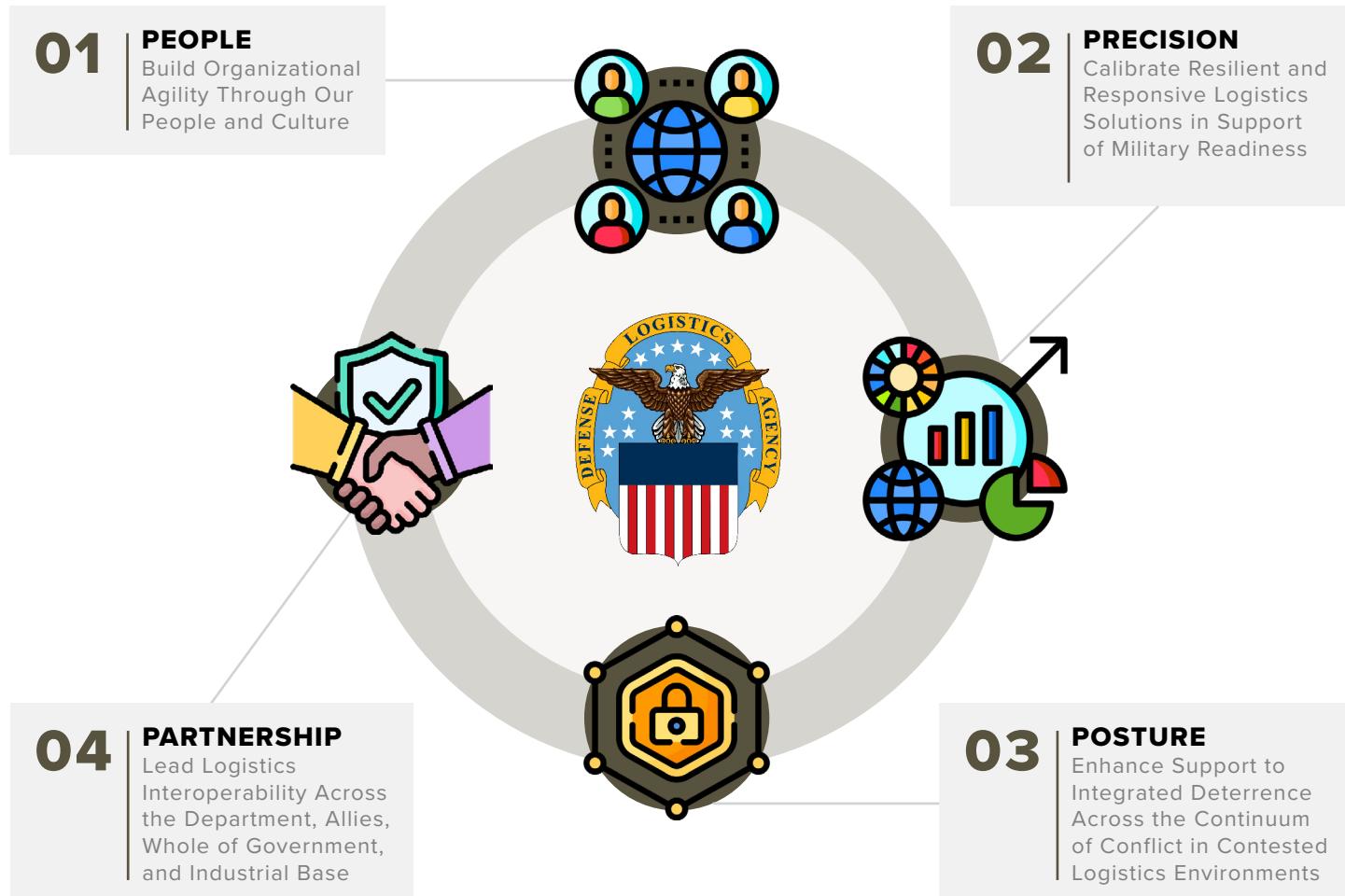


Figure 2: Transformation Imperatives

Key Results

The Strategic and Critical Materials Stock Piling Act (50 U.S.C. §98, et seq.) (the Act) defines the purpose of the NDS program, authorizes stockpile operations, defines stockpile management, establishes the NDSTF and its operations. DLA SM administers the NDS on behalf of the Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) who acts for the Secretary of War in the performance of the functions of the National Defense Stockpile Manager.

The Act provides authority for a public competitive sales program. The sale of NDS material requires legislative disposal authority along with an Annual Materials Plan (AMP). The AMP outlines the proposed maximum amount of material which may be acquired or disposed of in a given fiscal year. The DLA SM creates an Annual Sales Plan (ASP) to support the revenue projection as set forth in the Program Budget Review process. The ASP contains a mix of material, supported by the AMP believed to generate the anticipated collections authorized. Designated line items of Inventory are made “available for sale” based on the ASP. These are the Inventory items used to support sales offerings and generate revenue. Congress typically provides disposal authority via the National Defense Authorization Act (NDAA). The quantity of material authorized for disposal is always defined, but there may not always be a defined period of performance. All material sales are conducted according to DLA SM’s established Stockpile Sales Program. All the contracts signed during the year are typically completed within the fiscal year. All NDS stocks undergo comprehensive analyses and study, and evaluation of needs against a stringent set of criteria. The results of these analyses are critical for the authorization by Congress to acquire new materials and deem some current stocks excess.

As of September 30, 2025, \$40.3 million in revenue was recognized in relation to sales. Auction, as a competitive sales procedure, was introduced in FY 2025. Registered customers were able to preview the items at the depot prior to the sales offering. Both auction events had multiple bidders and successfully sold all

of the offered material. These results are relative to the information presented in the FY 2025 AMP and ASP.

These results were achieved with combined Budgetary Resources totaling \$2.4 billion, which includes \$43.6 million in Spending Authority from Offsetting Collections. Of the total Budgetary Resources, NDSTF obligated \$113.8 million. The gross costs for DLA SM as presented on the NDSTF Statement of Net Cost (SNC) were \$73.5 million.



Strategic Materials

DLA Strategic Materials is the leading U.S. agency for the analysis, planning, procurement and management of materials critical to national security. We serve our clients through a unique combination of technical expertise, global/geopolitical material supply analysis, and management & tracking of a broad range of existing & future critical materials. **Photo By:** Courtesy of Unsplash

Significant Opportunities and Risks

The DoD faces numerous challenges ranging from strategic competition and aggression from other nations and the threat of terrorism to the concern of securing funding necessary to accomplish the mission. These threats directly affect DLA's mission and goals. As the Nation's Combat Logistics Support Agency, DLA monitors these external threats to ensure readiness and support of the Warfighter. These challenges present several risks, but also opportunities. DLA continuously reviews its strategy to meet global mission requirements, as prescribed by the DoD.

The changes in the 2025-2030 Strategic Plan reflect DLA's commitment to continuous improvement and responsiveness to adapt to the evolving needs of our stakeholders. The vision presented in the Strategic Plan enhances DLA's ability to fulfill its mission and achieve long-term goals. DLA initiated a process of updating its performance reporting framework and key performance results to align financial reports with the revised strategic objectives in FY 2025, in compliance with Federal Accounting Standards Advisory Board (FASAB) SFFAS 64, *Statement of Standards for Management's Discussion and Analysis*, which requires Federal Agencies to comply in FY 2026, with an early implementation option for FY 2025.

Within the context of external threats to economic stability, national security, and Warfighter readiness, DLA's Enterprise Risk Management (ERM) program proactively takes a strategically aligned, risk-based approach to protecting our ability to achieve stated mission goals and objectives. Leveraging ERM as a strategic capability, DLA is continuing to mature in its ability to identify the threats and opportunities associated with uncertainty and to build priority-based, data-driven responses that appropriately align with DLA's Risk Appetite and Risk Tolerance levels. As part of its risk management efforts, DLA has published a Fraud Risk Management (FRM) Strategy, signed by the DLA Chief of Staff. The strategy is a five-year roadmap on how to design and sustain an effective FRM program which includes a fraud frame-

work for protecting DLA's assets and resources, and how to protect DLA's assets and resources from fraud which can negatively impact DLA's ability to support the warfighter and strategic goals. ERM takes an integrated, strategic, approach to supporting DLA's mission while managing risks by providing a prioritized listing of agency-wide risks in an annual Risk Profile. Employing a rigorous approach, DLA coordinates across the enterprise to establish the annual Risk Profile as part of the Statement of Assurance deliverables DLA transmits to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) annually. Since the publication of the strategy, DLA ERM Program Management Office (PMO) has been working towards executing it in the most efficient manner focusing on different areas every year. Each year has brought multiple successes. For FY 2025, ERM PMO reported nine Enterprise level risks on the FY 2025 Risk Profile. These risks were identified as having a material impact to DoD. Of these risks, five (1-5) were Enterprise Risks and four (6-9) were Fraud Risks:

1. Industrial Base Vulnerabilities
2. Supply Chain Security
3. Resource Constraints Affecting Material Readiness
4. Loss of Critical Technology Capability
5. DLA WCF Audit Opinion Progress
6. Asset Safeguards Fraud Risk
7. Procurement Fraud Risk
8. Payroll Fraud Risk
9. Card Program Fraud Risk

The DLA is continuing to work around the clock to secure and defend the Agency's critical operational data network and business systems by applying key security principles and ensure readiness for current and future cyber threats that must be countered in a sustained effort. These security principles include:

- Operations-level situational awareness
- Layered perimeter defenses
- Least privilege for access to data and Information Technology (IT) capabilities
- Physical or logical segmentation of networks, services, and applications

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

This analysis presents a summary of DLA NDSTF's financial position and results of operations and addresses major changes and related activity in the amounts of assets, liabilities, net position, cost, revenue, budgetary resources, and obligations.

FINANCIAL POSITION AND FINANCIAL CONDITION

Overview Financial Position

The principal financial statements of DLA NDSTF include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources. These principal financial statements and accompanying notes are included in the Financial Section of this AFR.

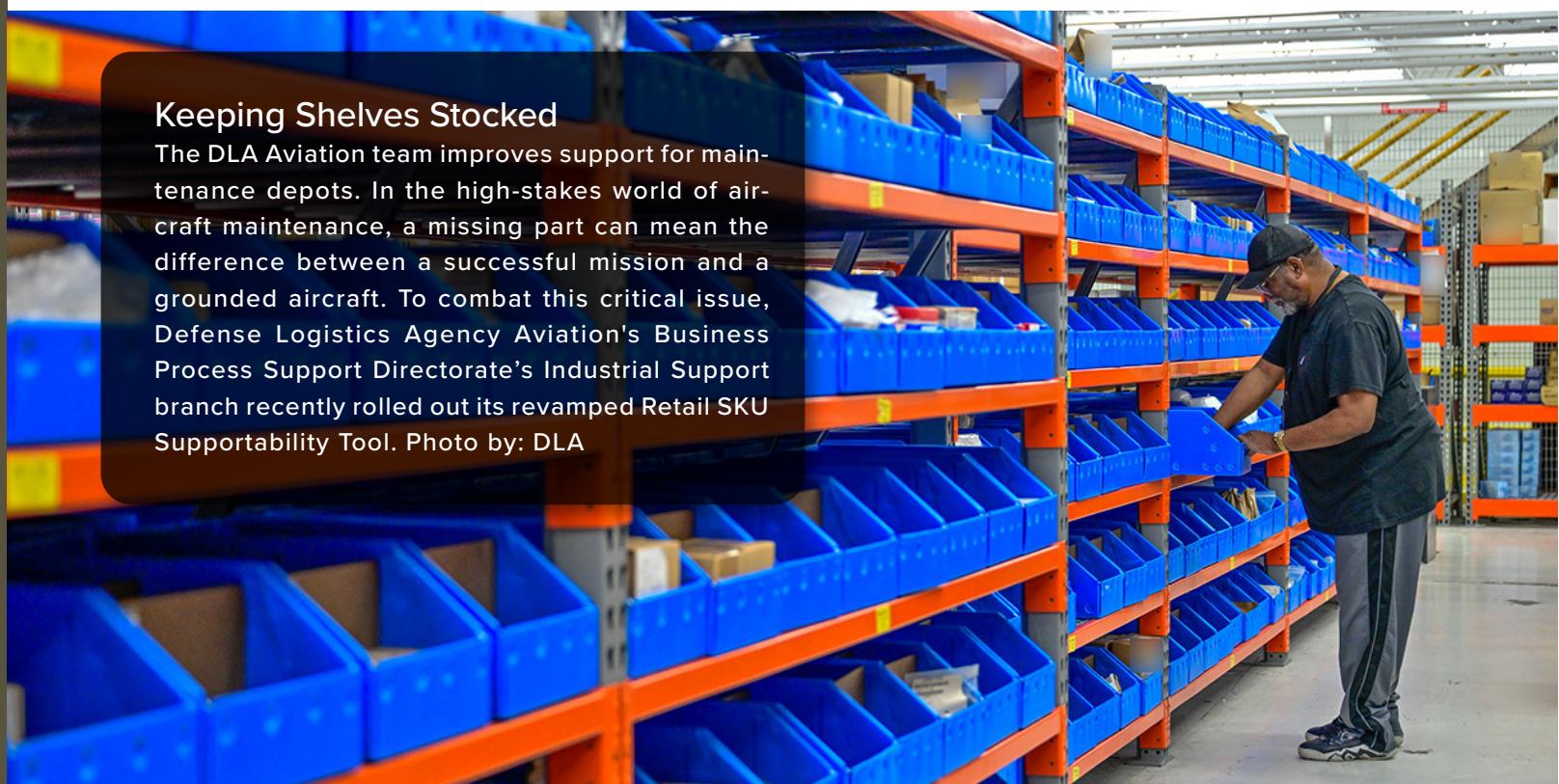
Preparing DLA NDSTF financial statements is a vital component of sound financial management and is intended to provide accurate, accountable, and reliable financial information that is useful for assessing performance, allocating resources, and for targeting areas for future programmatic emphasis. DLA NDSTF's management is

responsible for the integrity and objectivity of the financial information presented in the statements. DLA NDSTF is dedicated in its pursuit of financial management excellence.

A summary of DLA NDSTF's changes in key financial measures for FY 2025 is presented in the following Summary of Budgetary Resources table (Figure 3). The table represents the assets on hand to pay liabilities and the corresponding net position. The net cost of operations is the gross costs of executing DLA NDSTF programs, less earned revenue. The Financial Performance section also includes an analysis of the significant financial statement line items presented in the FY 2025 Financial Performance Summary table (Figure 4).

Keeping Shelves Stocked

The DLA Aviation team improves support for maintenance depots. In the high-stakes world of aircraft maintenance, a missing part can mean the difference between a successful mission and a grounded aircraft. To combat this critical issue, Defense Logistics Agency Aviation's Business Process Support Directorate's Industrial Support branch recently rolled out its revamped Retail SKU Supportability Tool. Photo by: DLA



Budgetary Resources

The DLA NDSTF total budgetary resources status at the end of the fiscal year are represented in the table below. These resources represent the total amount that DLA NDSTF had available to spend for FY 2025, in accordance with Federal statutes and related reg-

ulations. DLA NDSTF obligations may be incurred, and payments made only to the extent that budgetary resources are available to cover such items. In FY 2025, DLA NDSTF reported \$2.4 billion in total budgetary resources (see Figure 3):

Summary of Budgetary Resources		
As of and for the Year Ended September 30, 2025 (dollars in millions)		
Unobligated Balances, from Prior Year Budget Authority	\$	322.2
Appropriations Received		2,057.6
Spending Authority from Offsetting Collections		43.6
TOTAL BUDGETARY RESOURCES	\$	2,423.4

Figure 3: Summary of Budgetary Resources

Appropriations Received made up the majority of NDSTF budgetary resources for FY 2025 with a balance of approximately \$2.1 billion.

Unobligated Balances from prior Year Budget Authority carried NDSTF's second biggest balance in budgetary resources in the amount of \$322.2 million. This balance reflects the funding available but not obligated from prior FYs.

Spending Authority from Offsetting Collections represented \$43.6 million of NDSTF's budgetary resources. This amount mainly comes from NDSTF's collections from sales authorized by Congress, through the yearly ASP.

Financial Performance

FY 2025 Financial Performance Summary

As of and for the Year Ended September 30, 2025 (dollars in millions)

Condensed Principal Financial Statements

Financial Condition

Fund Balance with Treasury	\$	2,489.3
Inventory and Related Property, Net		476.0
General Plant, Property and Equipment		0.3
Advances and Prepayments		3.7
TOTAL ASSETS	\$	2,969.3

Accounts Payable	\$	8.7
Other Liabilities		0.3
Environmental and Disposal Liabilities		11.7
Federal Employee Benefits Payables		2.6
TOTAL LIABILITIES	\$	23.3

TOTAL NET POSITION (ASSET LESS LIABILITIES)	\$	2,946.0
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TOTAL LIABILITIES AND NET POSITION	\$	2,969.3
Total Gross Cost	\$	73.5
Less: Total Earned Revenue		(40.3)
NET COST OF OPERATIONS	\$	33.2

Figure 4: FY 2025 Financial Performance Summary

The Fund Balance with Treasury (FBwT) had a balance of \$2.5 billion as of September 30, 2025. This balance reflects the receipt of a \$2.0 billion appropriation, authorized under Public Law 119-21, the Big Beautiful Bill Act, H.R. 1-46. This appropriation underscores a commitment to bolstering national security and economic resilience by enhancing the United States' strategic stockpile of critical minerals.

Inventory and Related Property had a balance of

\$476.0 million as of September 30, 2025. The activity represents \$5.3 million in Stockpile Materials held for Sale and \$470.7 million of Stockpile Materials held in Reserve.

Environmental and Disposal Liabilities (E&DL) had a balance of \$11.7 million, as of September 30, 2025. This balance primarily reflects costs related to estimated restoration program costs.

Advances and Prepayments had a balance of \$3.7 million as of September 30, 2025. This balance is attributable to incurred facility and processing costs for Germanium material. These costs are anticipated to be received and capitalized in FY 2026.

Accounts Payable (Federal and Non-Federal) had a balance of \$8.7 million as of September 30, 2025. This balance reflects SM's acquisition activities for FY 2025.

Net Cost of Operations totaled \$33.2 million as of September 30, 2025. During FY 2025, the NDSTF incurred \$73.5 million in gross costs, primarily driven by operating expenses and costs of goods sold. Earned Revenue totaled \$40.3 million, representing proceeds from the sale of materials authorized for disposal during the fiscal year.



NDSTF Leadership Presented with an Unmodified Audit Opinion

Left to right: Army Lt. Gen. Mark Simerly, DLA Director; Ms. Emma Mikolaitis, Branch Chief; Ms. Karen Opie-Toler, Finance Accounting Officer; Eric Mata, Administrator of Strategic Materials; and Airforce Master Sgt. Alvin R. Dyer. **Photo by:** DLA Installation Management

Limitations of the Financial Statements

The DLA NDSTF principal financial statements¹ and accompanying notes are prepared to report the financial position and results of operations of DLA NDSTF as required by the CFO Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and 31 U.S.C. § 3515(b). The statements are prepared from the books and records of DLA NDSTF in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and the formats prescribed by the Office of Management and Budget (OMB). The reports used to monitor and control budgetary resources are prepared from the same records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

ciples (GAAP) and the formats prescribed by the Office of Management and Budget (OMB). The reports used to monitor and control budgetary resources are prepared from the same records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

1 Refer to the Financial Section Introduction for definition of principal financial statements.



The Highest of Standards

U.S. Marine Corps (USMC) Lance Cpl. Diego Resendez, an automotive maintenance technician with I Marine Expeditionary Force Support Battalion, I MEF Information Group, I MEF, inspects tactical vehicle equipment on Marine Corps Base Camp Pendleton, California, on Aug. 6, 2025. The inspection ensures the equipment is complete, safe to operate, and capable of performing its primary combat function during future operations. **Photo by:** U.S. Marine Corps Cpl. Joseph Helms

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DLA management is tasked with establishing, maintaining, and assessing internal controls. Their goal is to provide reasonable assurance that the objectives outlined in OMB Circular A-123, regarding Management's Responsibility for ERM and Internal Control, are met. They must also adhere to the requirements of the Federal Managers' Financial Integrity Act (FM-FIA), documented in 31 U.S. Code 3512, Sections 2 and 4. Additionally, they must ensure compliance with the Federal Financial Management Improvement Act (FF-MIA), Public Law 104-208. All these efforts must align

with the standards set forth in the U.S. Government Accountability Office (GAO) Green Book, which details the Standards for Internal Control in the Federal Government.

The DLA Management Assurances Memorandum is prepared for DLA WCF and NDSTF. The appendices referenced within the annual Statement of Assurance (SOA) below are OMB Circular A-123 appendices and are not included in the DLA NDSTF AFR.



Global Support

Members of the Defense Logistics Agency Distribution Korea workforce tie down cargo, packed with vital materials in support of Ulchi Freedom Shield 25, a crucial exercise in the Republic of Korea that enhances the combined, joint, all-domain, and interagency operating in a contested logistics environment.

Photo by: DoD

Management Assurances



**DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221**

MEMORANDUM FOR UNDERSECRETARY OF DEFENSE(COMPTROLLER) (OUSD(C))
DEPUTY CHIEF FINANCIAL OFFICER (DCFO)

SUBJECT: Management's Responsibility for Enterprise Risk Management and Internal Control

As Director of the Defense Logistics Agency (DLA), I recognize DLA is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DLA conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2025.

DLA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The Summary of Management's Approach to Internal Control Evaluation provides specific information on how DLA conducted this assessment. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over operations and compliance are operating effectively as of September 30, 2025.

DLA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The Summary of Management's Approach to Internal Control Evaluation provides specific information on how DLA conducted this assessment. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over reporting (both internal and external reporting) and compliance are operating effectively as of September 30, 2025.

DLA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The Summary of Management's Approach to Internal Control Evaluation provides specific information on how DLA conducted this assessment. Based on the results of the assessment, DLA is unable to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA) of 1996, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2025.

DLA has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, DLA is unable to provide assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2025.

DLA continues to make progress towards implementing an effective OMB A-123 Program, with significant progress made by documenting business process narratives for our end-to-end assessable units that are relevant to internal controls over financial reporting. Many of these assessable units have developed a Risk and Control Matrix workbook with key controls identified.

There is one known ADA violation for the DLA National Defense Stockpile Transaction Fund (NDSTF) (Case 23-01) identified in September 2023. OGC concluded in the Legal Advance Decision Memorandum that the information contained in the report of investigation proves by a preponderance of the evidence that DLA violated the ADA by obligating and expending funds in excess of an apportionment. Based upon the case, J8 implemented an annual internal control on 2 October 2023. DLA is currently proceeding through the disciplinary action process.

DLA is hereby reporting that a potential ADA violation was discovered during our assessments of the applicable processes for the Working Capital Fund, General Fund and NDSTF. DLA is performing an investigation and will report any deficiencies as appropriate.

If there are any questions regarding this Statement of Assurance for FY 2025, my point of contact for this action is Mr. Erich Gabris, Chief Risk Officer. He can be reached at (571) 431-9621 or via email at Erich.Gabris@dla.mil.



MARK T. SIMERLY
LTG, USA
DIRECTOR

Summary of Internal Control

The objectives of the system of internal control of DLA are to provide reasonable assurance of:

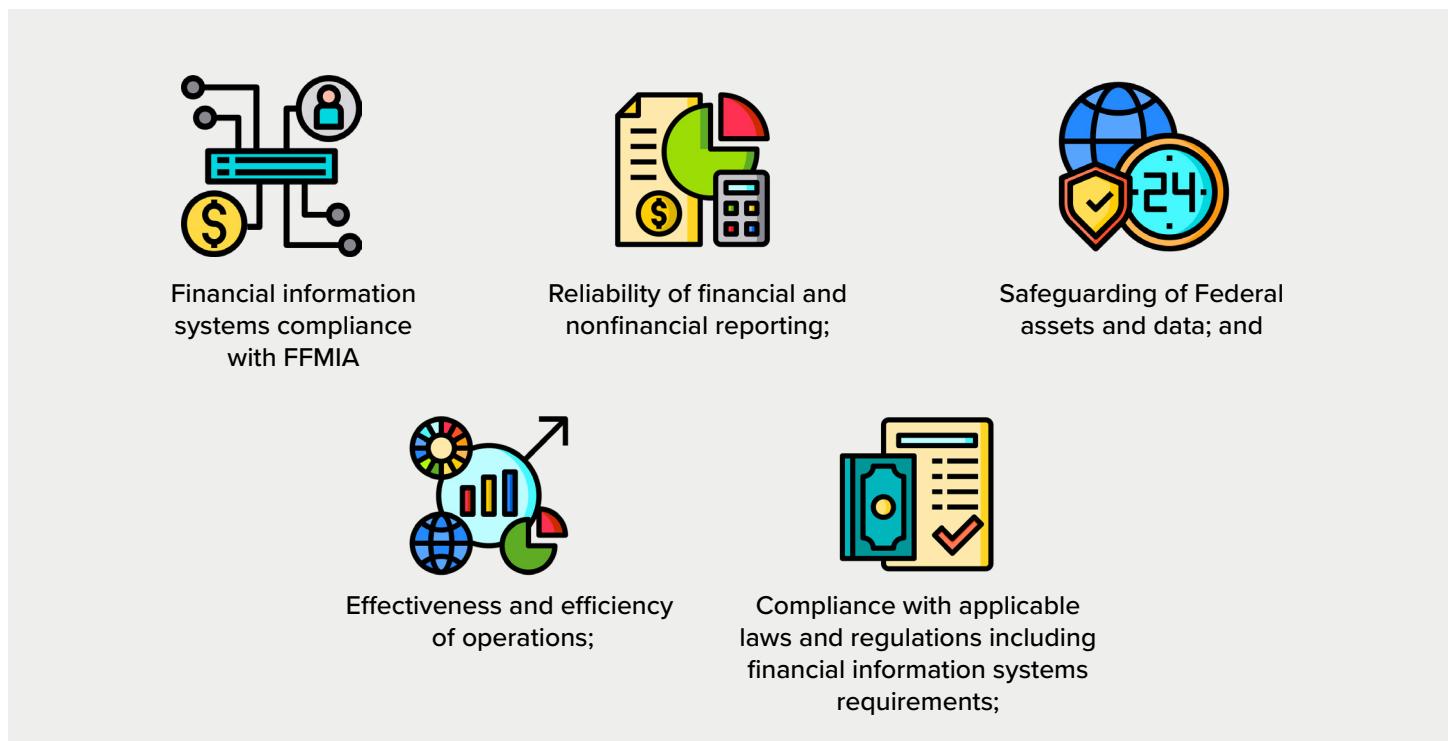


Figure 5: Summary of Internal Control

The scope of management's evaluation relates to DLA's controls over its financial reporting, financial management systems, and business operations, using instruction from the annual DoD FY 2025 SOA Execution Handbook. The SOA Execution Handbook provides current year DoD requirements to help DLA finalize a comprehensive set of submissions in accordance with OMB Circular A-123 and on how to foster a strong internal control environment with a focus on the objective of maintaining an unmodified audit opinion.

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), the objectives of DLA's system of internal control are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;

- Compliance with applicable laws and regulations, including financial information system requirements;
- Safeguarding of Federal assets and data;
- Financial information systems compliance with the FFMA.

Federal Managers' Financial Integrity Act

The DLA management evaluated the agency's system of internal control in effect during the current fiscal year according to the guidance prescribed in the GAO Green Book and OMB Circular A-123.

The DLA's evaluation of internal controls spans all responsibilities and activities, including those of its services providers, administrative and operational controls, and financial reporting. In the GAO Green Book "reasonable assurance" is defined as "a high degree of, but not absolute, confidence." Reasonable assurance

considers the costs versus benefits of internal controls, recognizing that while they mitigate risks, errors or irregularities may still occur due to inherent limitations, such as resource constraints and external factors. The perpetual evolution of conditions and compliance requirements also impacts the adequacy of controls.

DLA considered the five (5) components and seventeen (17) principles defined by GAO to conclude its determination of statement of no assurance. Based on the standards, DLA Organizations identified deficiencies and gaps in each of the five (5) standards of internal control:

- **Control Environment:** DLA continues to work on building a robust Control Environment with adequately documented policies and procedures to help ensure DLA's Control Activities are designed, implemented, and operating effectively.
- **Risk Assessment:** DLA continues to evaluate the risks, including fraud risks, facing the entity as it seeks to achieve its objectives and provides the basis for developing appropriate risk responses.
- **Control Activities:** The DLA continued initiatives aligned with Secretary of War directives to document ten end-to-end business process narratives (BPNs) that adequately explain existing processes, including controls, and test the related system and business process design and execution controls. The DLA implemented a framework correlating key controls from DoD-wide BPNs with DLA specific processes, facilitating stakeholder identification and ongoing status monitoring of key controls.
- **Information and Communication:** The DLA continues to work on improving data quality and the reliability of external communication and DLA's audited financial statements. Additionally, as additional capabilities are brought into the Governance, Risk, and Compliance (GRC) system, DLA will be better able to automate Risk Management Internal Control (RMIC) activities, provide consistent reporting, and enable mat-

uration of the internal control environment that is the source of a material weakness at DLA.

- **Monitoring:** The ERM PMO, in coordination with all stakeholders, continue to revise Corrective Action Plans (CAP) to address external and internal environmental changes impacting DLA's risk landscape. The revisions better captured the ERM PMO role from both an oversight and monitoring perspective, highlighting each DLA organization's responsibility to implement and execute the RMIC program within their respective areas of responsibility for all end-to-end processes.

In FY 2025, DLA Organizations conducted a self-evaluation of their internal control environment. In that self-evaluation, 10 of 13 DLA Organizations reported their internal control environments continue to need improvements. Though DLA has made improvements in the identification and self-assessment of internal controls, particularly those related to financial reporting in end-to-end business processes, there remains significant deficiencies in some of the major processes.

Taken together, the consolidation of DLA Organization's Internal Control self-evaluations and a holistic assessment of DLA-wide, DLA is unable to provide reasonable assurance over its system of internal control, primarily based on the factors described above.

The DLA's Summary of Financial Statement Audit and Management Assurances for the SOA package and audit related material weaknesses are presented in the OI section of this report.

Federal Financial Management Improvement Act

FFMIA was enacted to advance Federal financial management by ensuring that Federal financial management systems can routinely provide reliable financial information uniformly across the Federal government following OMB Circular A-123 Appendix D, Management

of Financial Management Systems – Risk and Compliance. The FFMIA requires agencies to establish and maintain financial management systems that substantially comply with the following three FFMIA Section 803(a) requirements:

- Federal Financial Management System Requirements (FFMSRs)
- Federal Accounting Standards
- U.S. Standard General Ledger (USSGL) at the transaction level

OMB Circular A-123, Appendix D provides the compliance determination framework to evaluate compliance with the FFMIA requirements. The FFMIA compliance determination framework includes a series of Federal financial management goals applicable across all Federal Agencies and associated compliance indicators that assist the Agency head in determining whether the Agency has substantially complied with the requirements of FFMIA.

The DLA leveraged the OMB Circular A-123, Appendix D compliance determination framework to determine DLA's current level of compliance with FFMIA and the additional actions necessary to reach full compliance. The Agency identified that there exist high-risk factors associated with all three FFMIA Section 803(a) requirements. The risks are described as follows:

FFMSRs:

High-risk factors include material weaknesses reported in FY 2025 in areas that corresponded to FFMSRs.

Federal Accounting Standards²:

High-risk factors include material weaknesses reported in FY 2025 in areas that related to compliance with Federal accounting standards.

USSGL at the Transaction Level:

High-risk factors include material weaknesses reported in FY 2025 in areas that related to implementation of the USSGL at the transaction level.

The DLA is actively engaged in several initiatives to

bring its financial management systems into compliance with Federal standards. The agency is currently in the design, build and test phase of transitioning its core financial management system, Enterprise Business System (EBS) SAP Resource Planning Central Component (ECC) 6.0, to EBS SAP S/4HANA within SAP's Secure HANA Cloud platform.

The agency is currently engaged in data validation, security role and user acceptance testing (UAT), which are crucial steps for ensuring the quality and functionality within the new system these efforts include several business transformation and process reengineering steps. The current plan is to "Go Live" in February 2026, with DLA Finance and DLA Information Operations leading the effort. The Business Transformation Study (BTS) completed in FY 2022 identified reengineering opportunities to streamline processes, reduce customization, and enhance standardization.

The DLA is also implementing system changes to comply with the US Treasury's G-invoicing requirements. This system solution is scheduled for a phased deployment through FY 2027. These initiatives reflect DLA's commitment to modernizing its financial systems and optimizing operational effectiveness through advanced technology and process improvements.

For FY 2025, the following table (Figure 6) summarizes the status of unresolved deficiencies associated with each of the FFMIA Section 803(a) requirements and remediation activities that are planned or underway, target dates, and offices responsible for bringing systems into compliance.

2 Refer to the Notes to the Principal Financial Statements; Note 1.C, *Departures from U.S. GAAP*.

FFMIA Section 803(a) Requirement	Remediation Activities	Target Date	Responsible Offices
Federal Financial Management System Requirements	The DLA will continue to develop and document policies, procedures, and controls in order to comply with standards, laws, and regulations that promote reliable financial reporting and effective and efficient operations.	FY 2026 - FY 2028	<ul style="list-style-type: none"> • Finance • Information Operations • Acquisition • Logistics Operations
FASAB	The DLA will continue to perform a root cause analysis to identify underlying issues as well as develop and document policies, procedures, and controls to maintain accounting data to permit reporting in accordance with U.S. GAAP as established by the FASAB.	FY 2026 - FY 2028	<ul style="list-style-type: none"> • Finance • Information Operations • Acquisition • Logistics Operations
USSGL at the Transaction Level	To reduce the material risks of procedural and posting logic deficiencies and achieve compliance with applicable accounting regulations, DLA will identify non-compliant areas with a financial impact in processes across the enterprise. This approach will include creating and updating policies and procedures and internal controls, as well as requesting the implementation of system changes to address underlying errors in the systemic posting logic.	FY 2026 - FY 2028	<ul style="list-style-type: none"> • Finance • Information Operations • Acquisition • Logistics Operations

Figure 6: Summary Status of Unresolved FFMIA Section 803(a) Requirements and Remediation Activities

Compliance with Laws and Regulations

Anti-Deficiency Act

The Anti-Deficiency Act (ADA) Title 31 U.S.C. §1341, prohibits Federal employees from obligating funds in excess of an appropriation or before funds are available, or from accepting voluntary services. As required by the Financial Management Reuglations (FMR), DLA notifies all appropriate authorities of any potential ADA violations.

In FY 2025 the Office of the Under Secretary of Defense (OUSD) General Counsel determined that a violation of the ADA occurred within the Defense Logistics Agency in FY 2023 (Case 23-01). DLA has since implemented enhanced Internal Controls (IC) to prevent recurrence. Additionally, DLA has identified a potential ADA violation and is in the process of conducting a preliminary investigation.

Digital Accountability and Transparency Act of 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) enhances Federal spending transparency by making expenditure data publicly accessible on [USASpending.gov](https://www.usaspending.gov). The Act mandates government-wide data standards for Federal reporting, enabling effective tracking of spending.

While the DoD is responsible for the overall DATA Act reporting, DLA plays a crucial role in ensuring the accuracy and completeness of the data DLA provides to DoD. The DLA adheres to the DoD's Data Quality Plan (DQP), and during FY 2025, DLA continued implementation of its Enterprise Data Management Data Quality Plan. This plan defines standards, requirements, and specifications for data quality controls within EBS across the data lifecycle. The DLA conducts quarterly evaluations of financial and award transactions from the general ledger, assessing adherence to DoD-defined data standards, ensuring that the information DLA provides to DoD is reliable and accurate. Through these efforts, DLA is committed to supporting DoD's DATA Act compliance.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act (DCIA) of 1996 requires Federal Agencies to refer legally enforceable, past due, non-tax debts to the Secretary of the Treasury after 180 days. Section 5 of the DATA Act amended the DCIA of 1996 to reduce the time period to 120 days.

Accordingly, at the end of each fiscal quarter, DFAS prepares the Treasury Report on Receivables (TROR) to notify the Secretary of the Treasury of receivables due from the public aged more than 120 days.

On behalf of DLA, DFAS reports all instances of delinquent debts over 120 days to the Secretary of Treasury in compliance with the DCIA. The DLA receives a Payment Recapture Recovery Report from DFAS on a quarterly basis. This spreadsheet provides recovery actions undertaken by DCDS to recover improper payments and vendor debt and includes reason for debt, whether for overpayment or due to contract default, what was recovered, what was the disposition of funds recovered, and the aging of funds not recovered. For FY 2025, DLA noted no instances of noncompliance with the DCIA of 1996.

Prompt Payment Act, 31 U.S.C. 3901–3907

In 1982, Congress enacted the Prompt Payment Act (PPA) to require Federal Agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date.

The DLA's entitlement system is configured to calculate and pay interest, and incurs penalties, interest, and administrative fees when payments are not made in a timely manner.

Government Charge Card Abuse Prevention Act of 2012

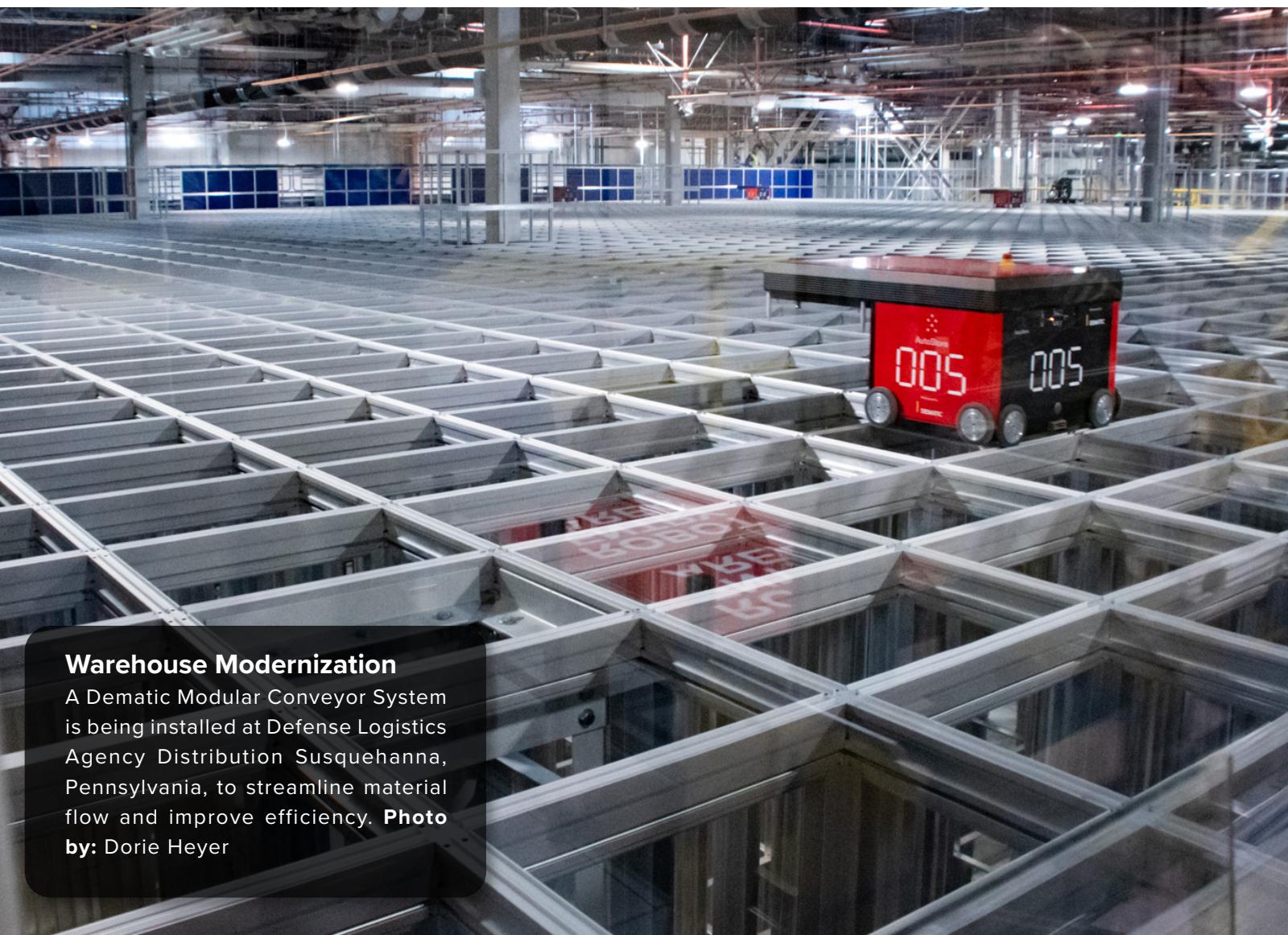
The Charge Card Abuse Prevention Act (Charge Card Act) mandates agencies to implement safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Further-

more, the Charge Card Act requires reporting of purchase card violations and periodic risk assessments by the Inspector General. The DLA is unable to provide assurance over compliance with the Charge Card Act and employs multiple processes to detect fraudulent purchases using the DoD-mandated Insight on Demand (IOD) system for analyzing high-risk transactions.

The DLA has established processes for transaction and compliance reviews by Approving/Billing Officials (A/BOs), Agency/Organization Program Coordinators (A/OPCs), and Component Program Managers (CPMs), with audits conducted by Major Subordinate Commands (MSC) teams. Transactions are reviewed daily, monthly, semi-annually, and annually, with corrective actions such as account suspensions, counseling, re-training, and increased oversight.

Management reviews and approves all purchase requests for adequacy and completeness before transactions are made. A/BOs approve payments and review all cardholder purchases, while A/OPCs conduct monthly transaction reviews, enforce corrective actions, and report results to CPMs. A/OPCs ensure compliance through daily reviews of flagged IOD cases and semi-annual reports, and CPMs conduct annual comprehensive program reviews.

In FY 2025, no instances of fraud were identified.



Warehouse Modernization

A Dematic Modular Conveyor System is being installed at Defense Logistics Agency Distribution Susquehanna, Pennsylvania, to streamline material flow and improve efficiency. **Photo by:** Dorie Heyer

Fort Lee Partnership

Dave Landry, a DLA commodity logistics specialist, places potentially hazardous materials under an X-ray fluorescent spectrometer — a machine that shoots a beam of energy into the material, then reads the light signals bouncing back, to detect potentially hazardous materials and precious metals within the object July 29, 2025. **Photo by:** Ericka Gillespie



FY



25

AGENCY FINANCIAL REPORT

NATIONAL DEFENSE STOCKPILE
TRANSACTION FUND

SECTION 2

FINANCIAL SECTION

SECTION 2

SECTION 2

Financial Section

In this section:

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- 59 Balance Sheet
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- 62 Combined Statement of Budgetary Resources
- 63 Notes to the Principal Financial Statements



Strategic Support

Machinist Mate 1st Class Simplice Azangban, left, and Marine Machinery Mechanic Dylan Scranton overhaul a trash compactor at Trident Refit Facility, Bangor (TRFB). TRFB Supports the nation's strategic deterrence mission by repairing, incrementally overhauling, and modernizing Pacific Fleet strategic ballistic missile submarines during refits. **Photo by:** U.S. Navy Mass Communication Specialist 2nd Class Sarah Christoph

AUDIT REPORTS



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

January 23, 2026

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Logistics
 Agency National Defense Stockpile Transaction Fund Financial Statements
 and Related Notes for FY 2025
 (Project No. D2025-D000FE-0067.000, Report No. DODIG-2026-046)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund (Transaction 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 DLA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025, Volume 2, June 2024, and Volume 3, August 2025. EY's Independent Auditor's Reports are attached.

EY's audit resulted in an unmodified opinion. EY concluded that the Transaction Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2025, were presented fairly, in all material respects, and in accordance with Generally Accepted Accounting Principles.

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

* 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.

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

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 DLA Transaction 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 DLA'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 in which EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached January 23, 2026 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, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:

As stated



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ey.com

Report of Independent Auditors

The Director of the Defense Logistics Agency and the
Inspector General of the Department of Defense

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Defense Stockpile Transaction Fund of the Defense Logistics Agency (DLA NDSTF), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost and changes in net position and statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DLA NDSTF at September 30, 2025, and the results of its net cost of operations, its changes in net position and its budgetary resources for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), 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 (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and the provisions of OMB Bulletin No. 24-02 are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DLA NDSTF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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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 objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DLA NDSTF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.



- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the DLA NDSTF's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Message from the Director, Message from the CFO, Summary of Financial Statement Audit and Management Assurances, Management Challenges, Payment Integrity, and Financial Reporting Related Legislation but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 23, 2026, on our consideration of the DLA NDSTF'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 DLA NDSTF'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 DLA NDSTF's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 23, 2026



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

The Director of the Defense Logistics Agency and the
Inspector General of the Department of Defense

We have audited, 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 National Defense Stockpile Transaction Fund of the Defense Logistics Agency (hereafter referred to as the DLA NDSTF), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost and changes in net position and statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”), and our report dated January 23, 2026 expressed an unmodified opinion thereon.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DLA NDSTF’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 DLA NDSTF’s internal control. Accordingly, we do not express an opinion on the effectiveness of DLA NDSTF’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, such as those controls relevant to preparing performance information and ensuring efficient operations.

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



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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described below and in Appendix A to be material weaknesses.

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

DLA NDSTF's Material Weaknesses

We identified the following matters involving internal control over financial reporting and its operation that we consider to be material weaknesses, as defined above:

- I. Inventory – Inventory is comprised of strategic and critical materials that can be used in times of national emergencies, including ores, metals, and minerals. DLA NDSTF did not have adequate policies, procedures and internal controls related to validating the perpetual inventory systems by performing periodic physical counts, recording inventory transactions, including all capitalizable purchase costs, in the appropriate period, and accounting for the appropriations used to purchase inventory. The combination of these deficiencies in aggregate results in a material weakness in internal control related to inventory. The matters identified related to inventory are further described in Appendix A.
- II. Accounts Payable (AP) and Expense – AP represents the amount owed to third parties by DLA NDSTF for goods and services received. Expenses are incurred and recognized when DLA NDSTF receives goods and services from the public or other federal entities. DLA NDSTF lacked adequate controls to record obligations and adjustments to other budgetary accounts timely, accrue for liabilities incurred but not paid, and record expense transactions in the period they were incurred. Furthermore, DLA NDSTF lacked adequate policies, procedures and controls related to AP adjustments recorded to properly classify negative payable balances, capitalized costs and the recognition of inter-entity cost. The combination of these deficiencies in aggregate results in a material weakness in internal control related to AP and expense. The matters identified related to AP and expense are further described in Appendix A.



- III. Financial Reporting – Financial reporting encompasses all aspects of operations affecting DLA NDSTF's ability to produce reliable financial statements and disclosures in accordance with U.S. generally accepted accounting principles (GAAP). DLA NDSTF's financial statement preparation process lacked sufficient controls to review and identify inaccurate balances within the financial statements and incomplete or inaccurate footnote disclosures. In addition, DLA NDSTF did not have controls to review and approve transactions recorded with elevated access privileges. The combination of these deficiencies in aggregate results in a material weakness in internal control related to financial reporting. The matters identified related to financial reporting are further described in Appendix A.
- IV. Oversight and Monitoring – Oversight and monitoring relates to DLA NDSTF's lack of establishment and implementation of a sufficient enterprise-wide control environment as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management Internal Control*. DLA NDSTF did not have an effective OMB Circular A-123 program, which impacted DLA NDSTF's ability to appropriately identify and address significant risks for all key business processes. DLA NDSTF did not implement appropriate internal controls, including the documentation of policies and procedures that describe DLA NDSTF's environment related to end-to-end business processes, monitoring of service providers, systems, risks, controls and remediation of audit findings. In addition, DLA NDSTF did not perform a proper review of data/reports used in the execution of key controls. The combination of these deficiencies in aggregate results in a material weakness in internal control related to oversight and monitoring. The matters identified related to oversight and monitoring are further described in Appendix A.
- V. Information Systems – Our assessment of DLA NDSTF's information technology (IT) controls and the computing environment identified deficiencies which, collectively, constitute a material weakness in the design and operation of information systems controls over financial data. Based on our review, we identified five areas of deficiency which, when aggregated, result in a material weakness. The deficiencies relate to the following five areas:
 - Access controls
 - Configuration management
 - Segregation of duties controls
 - Security management/Governance over implementation of security controls
 - IT operations controls

The matters identified related to information systems are further described in Appendix A.



DLA NDSTF's Significant Deficiencies

We identified the following matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies, as defined above:

- I. Revenue – Revenue is earned when DLA NDSTF sells goods to the public. DLA NDSTF lacked adequate policies, procedures and controls to ensure that revenue and cost of goods sold are recorded in accordance with U.S. GAAP. The matters identified related to revenue are further described in Appendix B.
- II. Environmental Liabilities (EL) – ELs are comprised of cleanup costs associated with the restoration of sites on real property that DLA NDSTF manages. Within DLA NDSTF's process to estimate ELs, DLA NDSTF did not perform sufficient procedures to assess the completeness and accuracy of data and reports used in the execution of key controls. The matters identified related to EL are further described in Appendix B.
- III. Fund Balance with Treasury (FBwT) – FBwT represents the aggregate amount of funds in DLA NDSTF's account with U.S. Treasury. DLA NDSTF did not document the procedures performed to reconcile FBwT, including procedures to assess the completeness and accuracy of the source data used to reconcile collection and disbursement activity from the general ledger to U.S. Treasury. DLA NDSTF lacked adequate policies, procedures, and controls to identify differences between the DLA NDSTF collections and disbursements recorded by U.S. Treasury source systems and the U.S. Treasury Central Accounting Reporting System (CARS) and evaluate whether transactions recorded in the general ledger reconcile to U.S. Treasury. The matters identified related to FBwT are further described in Appendix B.

DLA NDSTF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DLA NDSTF's response to the findings identified in our audit and described in the accompanying Management's Response to Audit Reports dated January 23, 2026. DLA NDSTF's response was not subjected to the other auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.



Purpose of This Report

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2026 on our tests of DLA NDSTF'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 DLA NDSTF's compliance.

A handwritten signature of the firm's name, 'Ernst & Young LLP', in black ink.

January 23, 2026

Appendix A – Material Weaknesses**I. Inventory**

The DLA NDSTF's inventory is comprised of strategic and critical materials that can be used in times of national emergencies, including ores, metals, and minerals. DLA NDSTF's controls and processes did not exist or were not operating in several significant areas, specifically:

A. Lack of or Inadequate Policies, Procedures and Controls Over Inventory Processes.

DLA NDSTF lacked or did not have adequate policies, procedures and controls, including the design of controls, over the following:

- **Physical Inventory Counts.** DLA NDSTF has not designed and documented internal controls over physical inventory counts to ensure that variances identified during counts are properly evaluated, which includes assessing the impact of the variances identified to the uncounted inventory items. Variance thresholds were established only by using the weight discrepancies without considering the monetary impact and therefore weight discrepancies below the variance threshold with financially material impacts may not be adjusted for.
- **Inventory Recorded Accurately and in the Appropriate Period.** DLA did not have policies and procedures in place to record transactions in the period that they occurred or to accrue for transactions that occurred but were not posted at period-end. In addition, DLA does not have policies and procedures in place to review that transactions were recorded accurately in the appropriate period.
- **Inventory Capitalization.** DLA NDSTF has not formalized its inventory capitalization policy and has not designed, documented and consistently implemented procedures and internal controls to ensure that all appropriate purchase costs incurred in acquiring inventory are identified and capitalized in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*.
- **Appropriations Used for Inventory Purchases.** DLA NDSTF lacked policies, procedures and controls to properly account for the amount of appropriations used to purchase inventory received during the fiscal year, in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. Lack of or Inadequate Policies, Procedures and Controls Over Inventory Processes.

- **Physical Inventory Counts.** Design and implement controls over physical inventory counts. The controls should be designed to review adjustments recorded for completeness and accuracy and to assess the monetary impact of variances, individually and in the aggregate across the entire inventory balance.

- **Inventory Recorded Accurately and in the Appropriate Period.** Design and implement policies and procedures, including controls, to process and post transactions to the correct period in the general ledger and that an accrual is recorded at period-end for transactions that should be posted to reflect recording in the proper period but have not been resolved and to review that transactions are recorded accurately in the appropriate period.
- **Inventory Capitalization.** Ensure that all costs to bring inventory to its current condition and location are properly capitalized and that inventory received from federal entities without reimbursement is properly valued in accordance with U.S. GAAP.
- **Appropriations Used for Inventory Purchases.** Design and implement policies and procedures, including controls, to identify business events that drive recognition of appropriations used and reconcile the business events to the activity within the account.

II. Accounts Payable and Expenses

Accounts Payable (AP) consists of amounts owed to vendors. Expenses are incurred and recognized when DLA NDSTF obtains goods and services from the public or other federal entities. Undelivered Orders (UDOs) represent the amount of goods and/or services ordered which have not been received. AP, expenses and UDOs fall within the scope of DLA NDSTF's procure to pay process. DLA NDSTF's controls and processes did not exist or were not operating in several significant areas, specifically:

A. Lack of or Inadequate Policies, Procedures and Controls Over UDOs, AP, Expense and Cash Disbursement Processes. DLA NDSTF lacked or did not have adequate controls, including the design of controls, over the following:

- **UDOs.** DLA NDSTF lacked controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDOs accurately and timely; and controls to review that purchase order information was recorded accurately and in the proper period.
- **Expenses, AP and Cash Disbursements.** DLA NDSTF had inadequate controls to ensure that transactions, including accounts payable, expenses, and cash disbursements, are recorded accurately, timely and in the proper period, are appropriately accrued for, and reviewed prior to payment.
- **AP Adjustments.** DLA NDSTF lacked policies, procedures and controls to appropriately document their accounting methodology to reclassify negative payables balances from AP and to detect that all adjustments were completed accurately.
- **Operating Expense Adjustments.** DLA NDSTF lacked controls to ensure that capitalizable costs that were improperly recorded as operating expenses were corrected and accurately presented in the financial statements.
- **Inter-Entity Costs.** DLA NDSTF lacked policies, procedures and controls to evaluate whether the cost of inter-entity support services it recognized reasonably represented the actual costs incurred, in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. Lack of or Inadequate Controls Over UDOs, AP, Expenses and Cash Disbursement Processes.

- **UDOs.** Design and implement controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDOs accurately and timely; controls to review and close invalid UDOs in a timely manner; and controls to validate that the purchase order information is recorded accurately in order to record the obligation in the correct period.
- **Expense, AP and Cash Disbursements.** Design and implement controls to record expenses accurately and when goods and services are received; controls to post goods receipts in a timely manner; and controls to review invoices prior to payment.
- **AP Adjustments.** Design and implement policies, procedures and controls to ensure that the analysis and review of negative payable adjustments are appropriate, complete and accurate.
- **Operating Expense Adjustments.** Design and implement controls to ensure that costs are appropriately capitalized or expensed for proper presentation in the financial statements.
- **Inter-Entity Costs.** Design and implement controls to evaluate whether the amount of inter-entity costs recognized reasonably represent actual costs allocable to DLA NDSTF or if an adjustment is needed to account for differences between billed and actual costs.

III. Financial Reporting

Financial reporting encompasses all aspects of operations affecting DLA NDSTF's ability to produce reliable financial statements and disclosures. This process starts with establishing an effective governance structure to identify and assess risk and continues with developing a control environment that is effective and efficient to manage identified risks. In accordance with FFMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. However, deficiencies existed in DLA NDSTF's processes related to the accumulation and presentation of their financial position and results of operations.

A. Lack of or Inadequate Documentation of Financial Reporting and Budgetary Policies, Procedures, and Controls. DLA NDSTF did not document the end-to-end process related to financial reporting and funds management.

- **Financial Reporting.** The documentation did not include the processes to review and reconcile system generated reversals of prior year Journal Vouchers (JV) which impact opening balances.
- **Funds Management.** The documentation did not sufficiently include a description of the process to record budget authority or transfers received.

B. Lack of Controls Over Compliance with the TFM United States Standard General Ledger (USSGL). DLA NDSTF did not have controls to configure the general ledger posting logic to be compliant with the USSGL and apply TFM updates timely, nor did DLA NDSTF have controls to link business events to the correct posting logic. As a result, transactions were not recorded appropriately. For example, DLA NDSTF inappropriately used a general ledger account (negative payables) to track payments made without goods received and inappropriately combined entries to record the movement of budgetary funds through the apportionment and allotment process, which should be recorded separately. In addition, the posting logic for various inventory transactions, such as goods being sold and returned into inventory, did not meet the corresponding TFM business events.

C. Lack of or Inadequate Controls Over Financial Reporting Processes. DLA NDSTF lacked or did not have adequate controls, including the design of controls, over the following:

- **Budgetary Resources.** DLA NDSTF did not have adequately designed controls, including monitoring of budgetary processes performed by the Office of the Under Secretary of Defense – Comptroller (OUSD(C)), to prevent or detect obligations incurred prior to or in excess of available budgetary resources.
- **Contingent Liabilities.** Controls that were implemented were not adequately designed as they did not include sufficient procedures to verify the data used to assess contingent liabilities were complete and accurate.
- **Financial Statement Close Process.** DLA NDSTF did not have adequately designed controls around the annual close and reconciliation processes, such as the following: the monthly or quarterly reconciliation between the unadjusted trial balance (UTB) and the adjusted trial balance (ATB) was not performed sufficiently and timely and did not consider system generated JVs and abnormal balances; the information used in the reconciliation of UTB to ATB was not complete and accurate; and the review of the procedures performed during the financial statement close process was not adequate.
- **Budgetary to Proprietary Tie Points.** DLA NDSTF did not have adequately designed controls around the tie-point reconciliation process. DLA NDSTF did not have procedures to assess the completeness or accuracy of reports or data used in the execution of its key control activities within the reconciliation process.
- **Monthly or Quarterly JV Adjustments.** DLA NDSTF did not have controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA NDSTF and DFAS for completeness, accuracy and validity. As a result, a comprehensive listing of adjustments made was not maintained to allow DLA NDSTF to determine the appropriateness of each JV adjustment, including those recorded by their service provider.
- **Financial Statement Review Process.** The level of review of the financial statements and footnote disclosures was insufficient to detect and correct misstatements in the financial statements and related disclosures. DLA NDSTF lacked documentation to support the review of the completeness and accuracy of the data utilized to support the footnote disclosures and supporting schedules of the Agency Financial Report (AFR).
- **Transactions Recorded Using Elevated Privileges.** DLA NDSTF did not have controls to review and approve transactions recorded with elevated access privileges.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. Lack of or Inadequate Documentation of Financial Reporting and Budgetary Policies, Procedures, and Controls.

- **Financial Reporting.** Document the financial reporting process, to accurately reflect all aspects of the end-to-end process, including processes and controls performed to reconcile prior year activity to opening balances.
- **Funds Management.** Document the funds management process and controls to accurately reflect all aspects of the end-to-end budget to execute process, including process and controls performed by DLA NDSTF and service providers.

B. Lack of Controls over Compliance with the TFM United States Standard General Ledger (USSGL). Design and implement controls that: configure posting logic in the general ledger to be compliant with the USSGL; apply TFM updates in a timely manner; link business events to the correct posting logic; and post transactions as intended.**C. Lack of or Inadequate Controls over Financial Reporting Processes.**

- **Budgetary Resources.** Design and implement controls to ensure budgetary resources are appropriately apportioned in order to prevent and detect obligations from being incurred against appropriations that have not been apportioned from OMB.
- **Contingent Liabilities.** Enhance control activities to verify the completeness and accuracy around system generated reports used in the execution of controls to identify, estimate, record and disclose contingent liabilities in the financial statements.
- **Financial Statement Close Process.** Develop and implement controls around the annual close and reconciliation process, which includes a complete, accurate and timely reconciliation of the UTB to the ATB.
- **Budgetary to Proprietary Tie Points.** Design and implement controls to review the completeness and accuracy of the data used in the budgetary to proprietary tie point reconciliation process.
- **Monthly or Quarterly JV Adjustments.** Design and implement controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA NDSTF and DFAS for completeness, accuracy and validity prior to posting.
- **Financial Statement Review Process.** Design and implement controls to sufficiently review the quarterly and annual financial statements and footnote disclosures; to detect and correct misstatements; and to review that the financial statements are complete and accurate.
- **Transactions Recorded Using Elevated Privileges.** Design and implement controls to review and approve transactions recorded with elevated access privileges to assess for completeness, accuracy and validity. The review and approval should be performed by authorized individuals such as financial management.

IV. Oversight and Monitoring

Oversight and monitoring relate to DLA NDSTF's lack of establishment and implementation of a sufficient enterprise-wide control environment as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management Internal Control*.

- A. Lack of or Inadequate Documentation Around the OMB A-123 Program.** DLA NDSTF did not document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including their OMB A-123 program. Specifically, DLA NDSTF had not performed and documented a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters, such as the complexity of programs, accounting estimates, and extent of manual processes; a complete and accurate population of its assessable units, business processes and relevant controls that are responsive to and mitigate risks, including fraud risks; and an assessment and plan for timely remediation of audit findings.
- B. Lack of or Inadequate Controls Around System Generated Reports.** DLA NDSTF lacked or did not have adequate controls to verify the accuracy and completeness of system generated reports required in the execution of controls.
- C. Insufficient Oversight and Monitoring of Third-Party Service Providers.** Service organizations undergo examinations of internal controls over systems and processes supporting their customers. The results of these examinations are documented in System and Organization Controls 1 (SOC 1) reports and include the independent service auditor's report, the service organization's management assertions and identified Complementary User Entity Controls (CUECs) that users of the service organization (e.g., DLA NDSTF) should have in place to supplement the service organization's internal controls. DLA NDSTF did not perform sufficient oversight and monitoring of SOC 1 reports and did not sufficiently design, implement or monitor CUECs over its service providers.

Recommendations

Consider the following corrective actions related to the conditions described above:

- A. Lack of or Inadequate Documentation Around the OMB A-123 Program.** Document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including the OMB A-123 program. Perform and document a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters. Document a complete and accurate population of its assessable units and business processes. Identify and assess the risks in each business process and design and implement relevant controls that are responsive to and mitigate these risks, including fraud risks. Perform an assessment of audit findings and establish and execute the plan to remediate the audit findings timely.

B. **Lack of or Inadequate Controls Around System Generated Reports.** Design and implement controls to verify the accuracy and completeness around system generated reports used in the execution of controls. For example, the procedures should include footing system generated reports; performing a tie-out of system generated reports to the general ledger; verifying that the parameters used to generate the reports or data are appropriate; and selecting a sample of transactions or balances in the report and validating that the transactions are accurate.

C. **Insufficient Oversight and Monitoring of Third-Party Service Providers.** Design and implement controls around the SOC 1 review process and validate that CUECs are properly identified, designed and operating effectively.

V. Information Systems

Information systems controls are a critical component of the federal government's operations to manage the integrity, confidentiality and reliability of its programs and activities and assist with reducing the risk of errors, fraud or other illegal acts. Information management security, access controls, segregation of duties, configuration management, and Information Technology (IT) operations controls are fundamental to the integrity of financial data and can help manage risks such as unauthorized access, changes to critical data, and prevent compromised data. The nature, size and complexity of DLA NDSTF's operations require DLA NDSTF to administer its programs under a decentralized business model by using numerous geographically dispersed operating locations and complex, extensive information systems.

Control deficiencies in the design and operation of financially significant information systems continue to occur in the information systems environment controls. The deficiencies relate to the following areas:

- Access controls
- Configuration management controls
- Segregation of duties controls
- Security management/Governance over implementation of security controls
- IT operations controls

Access Controls

Access controls include those related to protecting system boundaries, user identification and authentication, authorization, protecting sensitive system resources, audit and monitoring, and physical security. When properly implemented, access controls can help ensure that critical systems assets are physically safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified access control weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment and financial applications. Absent or ineffective

preventative controls and compensating detective controls expose financial systems and financial data to inappropriate access, unauthorized inputs and inaccurate entries, resulting in significant risk to the financial statements.

The identified access control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- External user accounts were not disabled or terminated in a timely manner, as inactivity configuration thresholds were not aligned with enterprise policy requirements.
- Sufficient evidence to verify the completeness and accuracy of listings used in user access reviews, terminations, and activity audit logging was not retained.
- Investigative, remediation, and activity monitoring actions for users identified as having inappropriate or unauthorized access during user access reviews were not performed in accordance with defined requirements and procedures.
- Audit logs were not consistently monitored or supported with sufficient documentation to demonstrate that reviews were performed appropriately, and logs capture complete and accurate information.
- User account creation dates are not captured or available.

Configuration Management Controls

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. By implementing configuration management controls, DLA NDSTF can ensure that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified configuration management and change control weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls expose financial systems and financial data to unexpected impact from changes, inappropriate or unauthorized changes, and application errors in production.

The identified change control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- Evidence supporting that changes were formally reviewed, tested, and approved prior to migration to production was not consistently retained.
- Changes to background job configurations were not consistently routed through defined change management and monitoring processes.
- Program changes and production environments were not monitored and inspected for unauthorized or inappropriate changes.

Segregation of Duties Controls

An effective control environment guards against a particular user having incompatible functions within a system. Segregation of duties controls provide policies, procedures and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations and, thereby, conducting unauthorized actions or gaining unauthorized access to financial management information systems.

The identified segregation of duties and conflicting role weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls around segregation of duties allows users to circumvent processes and automated controls in place, obtain unnecessary or elevated access, and impact the integrity of financial data.

The identified weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- A cross-application SoD analysis was not performed to determine whether conflicting roles exist across multiple applications supporting integrated business processes. Additionally, cross application SoD are not considered when provisioning user access.
- SoD conflicts are not consistently reviewed before access is provisioned to users or access is recertified.

Security Management / Governance Over Implementation of Security Controls

An entity-wide information security management and internal control program is the foundation of a security control structure to address security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

The identified security management and governance weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls around internal controls and governance compound data integrity risk by not monitoring third parties and not remediating known gaps timely.

The identified security management control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- SOC 1 reports were not monitored and reviewed to sufficiently assess:
 - Each business process that is dependent on the use of a service provider
 - Performance of each internal control(s) performed by the service provider

- In the absence of an overarching internal control program that complies with OMB Circular A-123, management's internal control procedures did not identify all financially significant risks, establish and implement controls, track known risk exposure, and remediate control gaps.
- Plan of Actions and Milestones (POA&Ms) were not created and tracked as a result of vulnerabilities identified through Assured Compliance Assessment Solution (ACAS) scanning.
- Risk Management Framework (RMF) controls were not assessed in accordance with established policy.

IT Operations Controls

Effective IT operations controls support 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. IT operations involve computer job management tasks related to scheduling and running jobs (programs), monitoring the successful completion of those jobs, and detecting and addressing job failures timely. Relevant jobs may accept, process, and move data from one IT application to another via system interfaces for inclusion in financial reporting. IT administrators may also utilize programs or software that supports maintenance of the IT environment or data, including tasks responsible for backing up financially relevant programs and data.

The identified IT operations weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls around IT operations increases the risk that issues with programs that are not scheduled correctly or don't process to completion, may not be addressed, or may be addressed inappropriately, and hardware or software issues will result in the loss of financially relevant data or the ability to accurately process that data.

The identified IT operations control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- The complete number of unsuccessful backups was not reported, resulting in incomplete monitoring of backup operations.
- System and hardware listings required for weekly validation and comparison to daily backup reports were not retained.

Recommendations

Implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management procedures and IT operations to include:

Access Controls

- Design and consistently implement procedures to disable or terminate external user accounts in accordance with enterprise policy and configured inactivity thresholds.

- Retain sufficient evidence to verify the completeness and accuracy of listings used in user access reviews, terminations, and activity audit logging.
- Design and consistently implement procedures to investigate, remediate, and monitor users identified as having inappropriate or unauthorized access during user access reviews.
- Enhance audit log monitoring procedures to ensure reviews are performed in accordance with defined criteria and supported by sufficient documentation, and validate that logs captured for review are complete and accurate.
- Implement processes or system configurations to capture and retain user account information, including account creation dates, to support evidence of user provisioning and access management activities.

Configuration Management Controls

- Enforce change control documentation requirements to ensure evidence of testing, peer review, and approval is completed prior to production implementation.
- Integrate background job configuration changes into the standard change management life cycle.
- Establish monitoring and inspection processes for program changes and production environments to detect, investigate, and document any unauthorized or inappropriate changes in a timely manner.

Segregation of Duties Controls

- Evaluate cross-application SoD to identify potential conflicts for users accessing multiple applications that support integrated business processes, and consider SoD conflicts when provisioning access.
- Consistently review segregation of duties conflicts prior to provisioning access and implement monitoring procedures to detect and remediate conflicts.

Security Management/Governance Over Implementation of Security Controls

- Design and implement procedures to monitor and review SOC 1 reports to sufficiently access:
 - Each business process dependent on a service provider, and
 - Performance of each inter control performed by a service provider.
- Establish an overarching internal control program in compliance with OMB Circular A-123 to identify all financially significant risks, establish and implement controls, track known risk exposure, and remediate control gaps.
- Design and implement procedures to create and track Plans of Action and Milestones (POA&Ms) for vulnerabilities identified through Assured Compliance Assessment Solution (ACAS) scanning.
- Ensure that RMF controls are assessed consistently in accordance with established policy, including documented evidence of evaluation, findings, and any follow-up actions taken.

IT Operations Controls

- Design and consistently implement procedures to report the complete number of unsuccessful backups and ensure management oversight.
- Retain system and hardware listings required for weekly validation and comparison to daily backup reports, ensuring that validations are performed and monitored.

Appendix B – Significant Deficiencies**I. Revenue**

Revenue is earned when DLA NDSTF sells goods to the public. The amounts of these transactions make it critical for DLA NDSTF to properly record and reconcile these transactions. However, DLA NDSTF lacked adequate policies, procedures and controls to ensure that revenue and cost of goods sold are recorded in accordance with U.S. GAAP.

A. Inadequately Designed Policies, Procedures and Controls Over Sales Processes. DLA NDSTF did not have adequately designed internal controls over sales processes to ensure revenue is properly recorded under SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, which impacted the revenue and gross cost accounts on the statement of net cost.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. Inadequately Designed Policies, Procedures and Controls Over Sales Processes. Design and implement controls over sales processes. The controls should be designed to consider the appropriate relevant facts to determine that revenue and costs of goods sold are properly recorded and presented in the financial statements in accordance with SFFAS No. 7.

II. Environmental Liabilities

ELs are comprised of cleanup costs associated with the restoration of sites on real property that DLA NDSTF manages. However, we identified the following deficiency in internal controls, which we consider to be a significant deficiency.

A. Inadequately Designed Controls Over Information Used in the Estimation Process. DLA NDSTF does not have procedures to assess the completeness or accuracy of reports or data used in the execution of its key control activities. As a result, DLA NDSTF was unable to demonstrate that control activities were operating effectively.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. Inadequate Controls Over Information Used in the Estimation Process. Design and implement formalized controls that adequately address the risks of using incomplete or inaccurate data used in the process of estimating ELs.

III. Fund Balance with Treasury

Fund Balance with Treasury (FBwT) represents the aggregate amount of funds in DLA NDSTF's account with U.S. Treasury. Treasury's Financial Manual (TFM) Chapter 5100, Section 5125 requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations. However, deficiencies existed related to DLA NDSTF's process to record and reconcile transactions involving FBwT.

A. Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures, and Controls. DLA NDSTF did not document the end-to-end process to account for, monitor, and report FBwT and related transactions.

- **Policies and Procedures.** DLA NDSTF did not completely and accurately document the processes and controls implemented to reconcile FBwT, including those related to the review and resolution of Statement of Differences (SOD) transactions and other reconciling items.
- **System Generated Reports.** DLA NDSTF did not document the procedures performed to assess the completeness and accuracy of source information used to execute the FBwT reconciliation.

B. Inadequate Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury Source Systems. DLA NDSTF did not have adequate controls to timely identify, review, and record collections and disbursements reported in U.S. Treasury source systems that were not recorded in the U.S. Treasury Central Accounting Reporting System (CARS).

Recommendations

Consider the following corrective actions related to the conditions described above:

A. Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures, and Controls.

- **Policies and Procedures.** Regularly update process cycle documentation to reflect the end-to-end process for FBwT and describe the processes and controls that are implemented. The documentation should include the process to research and resolve differences between U.S. Treasury, disbursing system records, and accounting system records on a timely basis.
- **System Generated Reports.** Document the procedures performed to assess the completeness and accuracy of source information used to execute the FBwT reconciliation.

B. Inadequate Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury Source Systems. Design and implement procedures to completely and accurately reconcile FBwT, including demonstrating that all differences between U.S. Treasury source systems and U.S. Treasury CARS are appropriately identified, reviewed, and recorded to the general ledger timely and accurately.



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

The Director of the Defense Logistics Agency and the
Inspector General of the Department of Defense

We have audited, 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 National Defense Stockpile Transaction Fund of the Defense Logistics Agency (hereafter referred to as the DLA NDSTF), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost and changes in net position and statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”), and our report dated January 23, 2026, expressed an unmodified opinion.

Report on Compliance and Other Matters

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

FFMIA

Under FFMIA, we are required to report whether the DLA NDSTF’s financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the



transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DLA NDSTF'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

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

(b) Noncompliance with applicable federal accounting standards

EY identified noncompliance with federal accounting standards during our testing, which was 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, which was included in our Report on Internal Control Over Financial Reporting.

In addition, as referenced in the FY 2025 DLA Management Assurances Letter and in *Summary of Financial Statement Audit and Management Assurances* within the Other Information section of the FY 2025 DLA NDSTF Agency Financial Report, DLA self-identified that their financial management systems do not allow for the DLA to substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

FMFIA

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 if 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.

DLA has not implemented a formal internal control program that would allow it to substantially comply with FMFIA and the related GAO Green Book requirements, leading to inadequate control environment, risk assessment and monitoring processes.

Anti-Deficiency Act (ADA)

The Anti-Deficiency Act (ADA) Title 31 U.S.C. Section 1341 prohibits federal employees from obligating funds in excess of an appropriation or before funds are available, and from accepting unauthorized voluntary services. As required by Federal Law (OMB A-11 Section 120), an apportionment is an OMB-approved plan to use budgetary resources that is legally binding. Any obligations and expenditures (disbursements) that exceed an apportionment are a violation of, and are subject to reporting under, the ADA.

During FY 2023, DLA NDSTF identified a potential ADA violation related to obligations incurred against a multi-year appropriation prior to OMB apportionment. DLA NDSTF concluded their formal investigation in FY 2024. In FY 2025, the Office of the Under Secretary of Defense (OUSD) Office of General Counsel finalized their determination and concluded that DLA NDSTF violated the ADA by obligating and exceeding funds in excess of apportionment.

In FY 2025, EY identified an additional potential instance of noncompliance with the ADA during our testing. This matter is under formal investigation to determine if violations occurred.

DLA NDSTF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DLA NDSTF's response to the findings identified in our audit and described in the accompanying Management's Response to the Audit Reports dated January 23, 2026. DLA NDSTF's response was not subjected to the other auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.



Purpose of This Report

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2026 on our consideration of DLA NDSTF'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 over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of DLA NDSTF's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DLA NDSTF's internal control.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 23, 2026

MANAGEMENT'S RESPONSE TO AUDIT REPORTS



DEFENSE LOGISTICS AGENCY HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

January 23, 2026

**MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL**

**SUBJECT: Fiscal Year 2025 Financial Statement Audit – National Defense Stockpile
Transaction Fund (NDSTF)**

We formally acknowledge the Independent Auditor Reports prepared by Ernst & Young, LLP, concerning the FY2025 financial statements and disclosures of the Defense Logistics Agency's National Defense Stockpile Transaction Fund (NDSTF). We concur with the favorable overall assessment and reaffirm our commitment to resolving any findings that require attention.

We thank Ernst & Young LLP for their professional and diligent partnership during the audit process. The resulting unmodified opinion is a clear validation of our Agency's deep commitment to fiscal integrity. This achievement provides a strong foundation as we continue to advance our mission and uphold our established standards of excellence.

Susan J. Goodyear
SUSAN J. GOODYEAR
Director, DLA Finance
Chief Financial Officer

INTRODUCTION TO THE DLA NDSTF PRINCIPAL FINANCIAL STATEMENTS

The DLA NDSTF principal financial statements and the accompanying notes (financial statements) included in this report are prepared pursuant to the requirements of the CFO Act of 1990 (Pub. L. 101-576) and expanded by GMRA (Pub. L. 103-356) and other applicable legislation. Other reporting requirements include the OMB Circular A-136, as amended. The responsibility for the

integrity of the financial information included in these financial statements rests with the management of DLA NDSTF. The Independent Public Accountant (IPA) was engaged to perform the audit of DLA NDSTF's financial statements and provided an unmodified opinion. The Audit Report, and Management's Response to the Audit Report, accompany the financial statements.

The DLA NDSTF financial statements consist of the following:

The Balance Sheet presents those resources owned or managed by DLA NDSTF that represent future economic benefits (assets), amounts owed by DLA NDSTF that will require payments from those resources or future resources (liabilities), and residual amounts retained by DLA NDSTF comprising the difference (net position) as of September 30, 2025.

The Statement of Net Cost presents the net cost of DLA NDSTF operations for the year ended September 30, 2025. DLA NDSTF's net cost of operations is the gross cost incurred by DLA NDSTF activities, less any exchange revenue earned and inter-entity eliminations from DLA NDSTF activities.

The Statement of Changes in Net Position presents the change in DLA NDSTF's net position resulting from the net cost of DLA NDSTF's operations, budgetary financing sources, and other financing sources for the year ended September 30, 2025.

The Statement of Budgetary Resources presents how and in what amounts budgetary resources were made available to DLA NDSTF, the status of these resources, and the net outlays of budgetary resources for the year ended September 30, 2025.

The Notes to the Principal Financial Statements provide detail and clarification for amounts in the principal financial statements.



Humvees on the Battlefield

The Humvee B-kit - a heated, non-egress, transparent armored windshield accessory kit. Defense Logistics Agency Land and Maritime's 'Mighty Land' team has been immersed in challenging yet critical work over the past year, developing strategic acquisition and logistics solutions for the B-kit, which provides ground troops an added layer of protection. **Photo by:** DoD

Balance Sheet

As of September 30, 2025 (dollars in thousands)

		FY 2025
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)		\$ 2,489,269
Total Intragovernmental		2,489,269
Other than Intragovernmental		
Accounts Receivable		22
Inventory and Related Property, Net (Note 3)		476,027
General Property, Plant, and Equipment, Net (Note 4)		336
Advances and Prepayments		3,646
Total Other than Intragovernmental		480,031
TOTAL ASSETS		\$ 2,969,300
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable		\$ 1,130
Other Liabilities (Note 6)		250
Total Intragovernmental Liabilities		1,380
Other than Intragovernmental		
Accounts Payable		7,548
Environmental and Disposal Liabilities (Note 7)		11,744
Federal Employee Salary, Leave, and Benefits Payable (Note 6)		976
Pension and Post-Employment Benefits Payable (Note 6)		1,584
Advances from Others and Deferred Revenue		2
Total Other than Intragovernmental Liabilities		21,854
TOTAL LIABILITIES		\$ 23,234
NET POSITION		
Unexpended Appropriations - Funds from Other than Dedicated Collections		\$ 2,163,081
Cumulative Results of Operations - Funds from Other than Dedicated Collections		782,985
TOTAL NET POSITION		2,946,066
TOTAL LIABILITIES AND NET POSITION		\$ 2,969,300

The accompanying notes are an integral part of these statements.

Statement of Net Cost

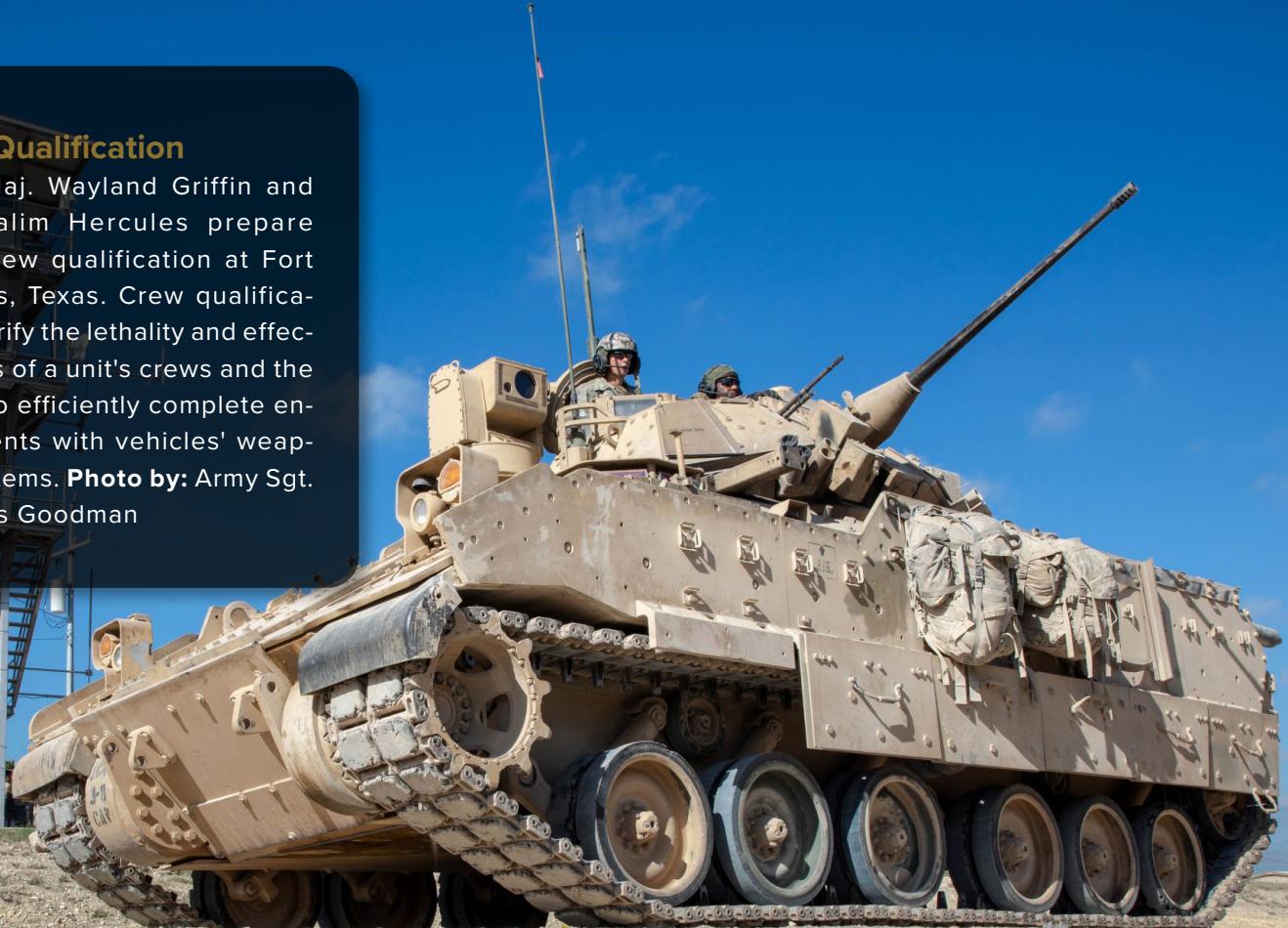
For the Year Ended September 30, 2025 (dollars in thousands)

		FY 2025
Strategic Materials Operations, Readiness & Support		
Gross Cost		\$ 73,527
Less: Earned Revenue		(40,344)
Net Cost		33,183
NET COST OF OPERATIONS		\$ 33,183

The accompanying notes are an integral part of these statements.

Crew Qualification

Army Maj. Wayland Griffin and Spc. Salim Hercules prepare for a crew qualification at Fort Cavazos, Texas. Crew qualifications verify the lethality and effectiveness of a unit's crews and the ability to efficiently complete engagements with vehicles' weapons systems. **Photo by:** Army Sgt. Nicholas Goodman



Statement of Changes in Net Position

For the Year Ended September 30, 2025 (dollars in thousands)

FY 2025

Unexpended Appropriations

Beginning Balance	\$	175,760
Appropriations Received		2,057,629
Appropriations Used		(70,308)
Net Change in Unexpended Appropriations		1,987,321
Total Unexpended Appropriations	\$	2,163,081

Cumulative Results of Operations

Beginning Balance	\$	744,734
Appropriations Used		70,308
Imputed Financing		1,126
Net Cost of Operations	\$	33,183
Net Change in Cumulative Results of Operations		38,251
Total Cumulative Results of Operations		782,985
TOTAL NET POSITION	\$	2,946,066

The accompanying notes are an integral part of these statements.



Nuclear Asset Inspection

Air Force 1st Lt. Alexander Hansen, 742nd Missile Squadron mission lead, right, and 2nd Lt. Elizabeth Jordan, 742nd MS missileer, go through an inspection at Minot Air Force Base, North Dakota, Jan. 15, 2019. Logistics support for nuclear assets is provided by the Defense Logistics Agency. **Photo by:** Air Force Senior Airman Jonathan McElderry.

Statement of Budgetary Resources

For the Year Ended September 30, 2025 (dollars in thousands)

FY 2025

BUDGETARY RESOURCES

Unobligated Balance from Prior Year Budget Authority, Net (Note 9)	\$	322,184
Appropriations		2,057,629
Spending Authority from Offsetting Collections		43,560
TOTAL BUDGETARY RESOURCES	\$	2,423,373

STATUS OF BUDGETARY RESOURCES

New Obligations and Upward Adjustments	\$	113,795
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts		309,560
Unapportioned, Unexpired Accounts		2,000,000
Unexpired Unobligated Balance, End of Year		2,309,560
Expired Unobligated Balance, End of Year		18
Total Unobligated Balance, End of Year		2,309,578
TOTAL BUDGETARY RESOURCES	\$	2,423,373

OUTLAYS, NET

Outlays, Net	\$	108,623
AGENCY OUTLAYS, NET	\$	108,623

The accompanying notes are an integral part of these statements.



NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

Created in 1961, DLA is a component of the DoD and reports to the OUSD for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. The DLA provides material and services to components of DoD (including the U.S. Army, Navy, Air Force, Marine Corps and Space Force), other Federal agencies, and non-federal entities. The DLA accomplishes its mission and goals through the operations of the DLA WCF, DLA GF, and DLA NDSTF.

Initially authorized by Strategic and Critical (S&C) Materials Stock Piling Act (50 U.S.C. §98, et seq.) (the Act), the National Defense Stockpile is a physical reserve of definite quantities of S&C materials, owned by the U.S. Government, authorized for use during times of National Emergencies. Executive Order 12626 issued February 25, 1988, designated the Secretary of Defense as the NDS Manager. The Secretary of Defense delegated the management responsibilities to the OUSD for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. The operational activities of the NDS are delegated to the Director of DLA.

The DLA SM program is a distinct revolving fund which operates under the Act. Under the Act, critical materials are stockpiled in the interest of National Defense. The NDS Manager administers the acquisition, storage, management, and disposal of the stockpile. The NDAA authorized the NDS Manager to acquire materials determined to be strategic and critical to meet defense, industrial, and essential civilian needs of the U.S. The legislation further provided authority to dispose of certain materials, with proceeds deposited in the fund to finance future stockpile operating costs and procurement of replenishment materials.

These financial statements and accompanying notes herein only refer to the activities of the component

reporting entity, DLA NDSTF. A reporting entity is an organization that issues its own financial statements because either there is a statutory or administrative requirement to prepare financial statements, or they choose to prepare one. A consolidation entity is an organization that should be consolidated in the financial statements of a reporting entity. Disclosure entities are not consolidation entities, but information about the entity is needed for accountability purposes and to meet the federal financial reporting objectives. Related parties are individuals or entities where an existing relationship provides either DLA NDSTF or the other party the ability to exercise significant influence over the other party's policy decisions. There are no consolidation entities that DLA NDSTF includes in its financial statements. Additionally, no disclosure entities or related parties have been identified by DLA NDSTF.

The DLA NDSTF is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for 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.

B. Basis of Presentation and Accounting

The DLA NDSTF fiscal year ends September 30. The accompanying financial statements account for all resources for which DLA NDSTF is responsible. These financial statements present the financial position, results of operations, changes in net position, and budgetary resources of DLA NDSTF, as required by the CFO Act of 1990, expanded by the GMRA of 1994, and other applicable legislation. The financial statements are prepared from the books and records of DLA NDSTF, in accordance with U.S. GAAP, promulgated by FASAB³, and presented in the format prescribed by OMB Circular A-136 and in the following paragraphs.

The DLA NDSTF financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred. Budgetary accounting is based on concepts set forth by OMB Circular A-11, Preparation, Submission, and Execution of the Budget, as amended, which provides instructions on budget execution. Budgetary accounting is designed to recognize the budgetary resources and the related status of those budgetary resources, including the obligation and outlay of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction.

Statement of Net Cost: The Statement of Net Cost presents the net cost of operations to provide an overview of DLA NDSTF's financial performance over the fiscal year. The Statement of Net Cost accumulates costs and revenues for one responsibility segment, the Strategic Materials (SM) program. The SM program fulfills DLA NDSTF's mission and operational objectives by decreasing and precluding dependence on foreign sources or single points of failure for strategic materials during times of national emergency. The Statement of Net Cost is prepared using the accrual basis of accounting.

Statement of Budgetary Resources: The Statement of Budgetary Resources incorporates Federal budgetary accounting concepts, designed to control, monitor, and report on funds made available to Federal Agencies by law. The Statement of Budgetary Resources help ensure compliance with legal requirements and provide transparency regarding the usage of budgetary resources. The Statement of Budgetary Resources present the following key components for the fiscal year:

1. Budgetary Resources: Total Budgetary Resources⁴ available for the fiscal year, which include unobligated balances of resources from prior years and new budgetary authority. DLA NDSTF new budgetary authority primarily consists of appropriations⁵ and spending authority from offsetting collections⁶.

2. Status of Budgetary Resources: Reports availability of budgetary resources categorized into obligated⁷ and unobligated⁸ amounts.

3. Outlays, Net: Comprised of Outlays⁹ less Offsetting Receipts¹⁰ (cash transactions).

3 FASAB is the official body for setting accounting standards of the U.S. Government.

4 Per OMB Circular A-11, Section 20, "Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years."

5 Per OMB Circular A-11, Section 20, "Appropriation means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority."

6 Per OMB Circular A-11, Section 20, "Spending authority from offsetting collections is a type of budget authority that permits obligations and outlays to be financed by offsetting collections."

7 Per OMB Circular A-11, Section 20, "Obligated amount means a legally binding agreement that will result in outlays, immediately or in the future."

8 Per OMB Circular A-11, Section 20, "Unobligated amount means the cumulative amount of budget authority that remains available for obligation under law in unexpired accounts."

9 Per OMB Circular A-11, Section 20, "Outlay means a payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions. Outlays are the measure of Government spending."

10 Per OMB Circular A-11, Section 20, "Offsetting receipts mean payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts."

Intragovernmental and Other than Intragovernmental Transactions: Statement of Federal Financial Accounting Standards (*SFFAS 1*), Accounting for Selected Assets and Liabilities, distinguishes between Intragovernmental and Other than Intragovernmental assets and liabilities. Intragovernmental assets and liabilities arise from transactions among Federal entities. Intragovernmental assets are claims other Federal entities owe to DLA NDSTF. Intragovernmental liabilities

are claims DLA NDSTF owes to other Federal entities, whereas Other than Intragovernmental assets and liabilities arise from transactions with non-federal entities. The term "non-federal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government. Other than Intragovernmental assets are claims of DLA NDSTF against non-federal entities. Other than Intragovernmental liabilities are amounts that DLA NDSTF owes to non-federal entities.

Defense Logistics

Did you know the first DLA employees involved in the Gulf War were already in the theater when the conflict began? Technicians from the then-Defense Industrial Plant Equipment Center (DIPEC) were on the ground in the Persian Gulf, conducting ship repairs as the war broke out. **Photo by: DoD**



The DLA NDSTF engages in transactions with other DoD and Federal entities that generate intragovernmental balances. The DLA NDSTF assigns Federal and Non-Federal attributes to Intragovernmental and Other than Intragovernmental transactions based on trading partner information.

Classified Activities: 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.

Use of Estimates: The DLA NDSTF management has made certain estimates and assumptions when reporting assets, liabilities, expenses, and related disclosures in the notes. The DLA NDSTF's estimates are based on historical experience, current events, and other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. Significant estimates reported in the financial statements include: (1) environmental and disposal liabilities and (2) Federal Employee Compensation Act (FECA) actuarial liability as of the date of these financial statements.

C. Public-Private Partnerships (P3)

SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, defines public-private partnerships as "risk sharing arrangements or transactions with expected lives greater than five years between public and private sector entities". The DLA NDSTF performed an assessment of agreements with private entities and reviewed the terms of the arrangements against risk sharing and other criteria for financial statement disclosure as provided in the standard. The DLA NDSTF determined there are no public-private partnerships that meet the criteria for disclosure in FY 2025.

D. Appropriations and Funding Sources

The DLA NDSTF receives annual apportionments of spending authority from offsetting collections from OUSD based on expected sales of materials that have been deemed excess to the needs of the stockpile. The proceeds from the sale of materials are DLA NDSTF's

major source of authority used to fund operations. The funds in the revolving fund do not expire but remain available for the NDS subject to Congressional and OUSD approval as part of the annual apportionment process.

In FY 2025 DLA NDSTF received appropriations via Public Law 119-4, *Full-Year Continuing Appropriations and Extensions Act*, totaling \$57.6 million, allocated for activities mandated by the Strategic and Critical Material Stock Piling Act (50 U.S.C. §98, et seq.). Of this amount, \$50.0 million is available until September 30, 2027, and a direct permanent indefinite appropriation of \$7.6 million is available without fiscal year limitation.

Furthermore, the NDSTF's resources were significantly enhanced by a \$2.0 billion appropriation authorized under Public Law 119-21, the One Big Beautiful Bill Act. This supplemental funding designated for the NDSTF is available until September 30, 2029, and is intended to strengthen national security by improving the U.S. strategic stockpile of critical minerals. As of September 30, 2025, DLA has received appropriations of \$2.06 billion.

(Refer to Note 2, *Fund Balance with Treasury* and Note 9, *Statement of Budgetary Resources*.)

E. Fund Balance with Treasury

The DLA NDSTF does not maintain cash in a commercial bank, but rather in the U.S. Treasury. DLA NDSTF's FBwT is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. The disbursing offices of DFAS, the U.S. Army Corps of Engineers, General Service Administration (GSA), and the Department of State's financial service centers process DLA NDSTF's cash collections, disbursements, and adjustments.

The DLA NDSTF is the only Agency using Treasury Account Symbol (TAS) 97 4555, the NDSTF, which allows DLA to identify the transactions belonging to this fund. On a monthly basis, DLA NDSTF reconciles FBwT in the general ledger accounts to the balance in the

Treasury's accounts to identify temporary differences due to timing and to correct discrepancies. The adjustments represent the undistributed disbursements and collections amounts that have been reported to Treasury but have not yet been posted to DLA NDSTF's general ledger.

The DLA NDSTF's accounting service provider, DFAS, uses U.S. Treasury suspense accounts to hold transactions temporarily prior to identifying the correct appropriation. Suspense account items represent the amounts that are reported to U.S. Treasury at the Treasury Index (TI) Level (TI-17, TI-21, TI-57, TI-97), but have not yet been classified to a DLA NDSTF TAS. The transactions in suspense accounts include unidentified collections, disbursements, and Intragovernmental Pay-

ment and Collection transactions at month end. DFAS researches suspense transactions in each TI to post them against the appropriate line of accounting.

U.S. Treasury also compares DoD's FBwT reported by DFAS with comparable data submitted by financial institutions and U.S. Treasury Regional Financial Centers and notifies DoD of differences in collection and disbursement data on the Statement of Differences (SOD) report. DFAS reviews the SOD report to research and resolve differences.

(Refer to Note 2, *Fund Balance with Treasury.*)



Precious Extracts

Eric Deal of DLA Strategic Materials checks out a lens from Anniston Army Depot, Alabama. Germanium will be extracted from the lens and stockpiled until needed. **Photo by:** Nutan Chada

F. Accounts Receivable

Accounts Receivable represents amounts due to DLA NDSTF from non-federal sources. DLA's accounts receivable arise from sales of stockpile materials.

The DLA NDSTF customers remit payments in advance before material is shipped. There are instances when, the material delivered to the customer is in excess of the amount paid for in advance by the customer. When this occurs, DLA NDSTF establishes an accounts receivable for the amount of material delivered in excess of the advance payment received. These amounts and risk of uncollected receivables are minimal and historically are collected within 30-60 days; therefore, DLA NDSTF does not establish an allowance for doubtful accounts.

G. Inventory and Related Property, Net

The DLA NDSTF's Inventory and Related Property, Net includes stockpile materials, which are categorized as:

Stockpile Materials Held for Sale: Stockpile materials held for sale is comprised of materials deemed to be excess and have been identified for disposal based on the ASP.

Stockpile Materials Held in Reserve: Stockpile materials held in reserve for future use is comprised of S&C materials held due to statutory requirements for use in National Defense, conservation, or National Emergencies. The S&C materials are not held with the intent of selling in the ordinary course of business.

Inventory and Related Property, Net is valued on the basis of historical cost in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. They are recorded as assets when acquired and expenses when sold. Upon sale, the cost of those goods are removed from inventory.

(Refer to Note 3, *Inventory and Related Property, Net*.)



Personal Protective Equipment

Brian Davidson, DLA course instructor dons personal protective equipment before guiding a student through the hands on portion of the the Cutting Capabilities Course, held in Battle Creek, Michigan.

Photo by: Jeff Landenberger

H. General Property, Plant and Equipment, Net

The DLA NDSTF's Property, Plant, and Equipment (PP&E) consists of general equipment used for general operations. DLA NDSTF uses the Straight-Line (S/L) method to calculate and record depreciation expense. The S/L method is based on the acquisition cost and expensed over the asset's useful life in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*.

Capitalization Threshold: The DLA NDSTF's General PP&E assets are recorded at the historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the \$250,000 capitalization threshold.

The DLA NDSTF also capitalizes improvements added to existing General PP&E assets if the improvements equal or exceed the capitalization threshold, extend the useful life, or increase the size, efficiency, or capacity of the asset.

(Refer to Note 4, *General Property, Plant, and Equipment, Net*.)

I. Leases

Lease contracts or agreements occurring within a consolidation entity or between two or more consolidation entities, 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 are classified as intragovernmental leases. All lease agreements held by DLA NDSTF are classified as intragovernmental leases.

As the lessee, DLA NDSTF recognizes lease payments, including lease-related operating costs (e.g., maintenance, utilities, taxes, etc.) paid to the lessor, as expenses based on the payment provisions of the contract or agreement and standards for recognition of accounts payable and other related amounts.

The DLA NDSTF does not have right-to-use lease assets or lease liabilities for non-intragovernmental, non-

short-term contracts or agreements, where DLA NDSTF has the right to obtain and control access to economic benefits or services from an underlying PP&E asset for a period of time in exchange for consideration under the terms of the contract or agreement as of September 30, 2025.

In addition, per SFFAS 62, *Transitional Amendment to SFFAS 54*, for contracts and agreements that contain both non-lease and lease component(s), that are primarily attributable to non-lease components, a reporting entity may elect to account for such contracts or agreements as non-lease contracts or agreements in their entirety for the remaining term. The DLA NDSTF elected the transitional accommodation for those Vendor/Contractor Management of Inventory contracts that meet this criteria existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2024. The DLA NDSTF applied the provisions of SFFAS 54, *Leases*, to lease components of new or modified contracts or agreements meeting the "embedded leases" eligibility criteria after the accommodation period beginning October 1, 2024.

(Refer to Note 8, *Leases*.)

J. Advances and Prepayments

Advances represent cash outlays to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Prepayments represent payments made by a federal entity to cover certain periodic expenses before those expenses are incurred.

When advances are permitted by law, legislative action, or presidential authorization, DLA records advances or prepayments in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. DLA recognizes advance payments made for stockpile materials before the goods are provided by the contractor.

K. Commitments and Contingencies

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Liti-*

gation, DLA NDSTF evaluates all contingent liabilities based on three criteria: probable, reasonably possible, and remote. The DLA NDSTF recognizes contingent liabilities in DLA NDSTF's Balance Sheet and Statement of Net Cost when the loss is determined to be probable and reasonably estimable. The DLA NDSTF discloses those contingencies that are reasonably possible. DLA NDSTF does not disclose or record contingent liabilities when the loss is considered remote.

If the estimated liability is within a range, and a specific amount within that range is a better estimate than any other amount, that amount is recorded. If no amount within the range is a better estimate than another, the minimum amount in the range is recorded, and both the range and a description of the nature of the contingency are disclosed.

Environmental Contingencies: The DLA NDSTF has developed a process to identify, estimate, and record contingent E&DL. DLA NDSTF does not estimate a potential range of loss in this process. Where DLA NDSTF is aware of probable and measurable future outflow of resources due to a past event or exchange transaction, the appropriate program categories are reported in Note 7, *Environmental and Disposal Liabilities*.

Legal Contingencies: For legal contingencies where DLA Counsel is unable to express an opinion regarding the likely outcome of the case and an estimate of the potential legal liability cannot be made, the total amount claimed against the government is classified as "Reasonably Possible" and disclosed if available. Cases for which legal counsel determines an adverse outcome is reasonably possible and the possible financial outflow is measurable are not recorded as liabilities but disclosed as "Reasonably Possible" for financial reporting purposes.

In the event of an adverse judgment against the Government, some legal contingent liabilities may be payable from the U.S. Treasury.

As of September 30, 2025, DLA NDSTF was not a par-

ty to any administrative proceedings or legal actions. Consequently, no matters have been identified as probable, reasonably possible, or remote for financial reporting purposes.

Commitments: The DLA NDSTF does not have obligations related to canceled appropriations for contractual commitments.

As no legal contingencies or commitments have been identified for reporting and environmental contingencies are separately disclosed in Note 7, *Environmental and Disposal Liabilities*, as of September 30, 2025, a separate Commitments and Contingencies note is not presented in this report.

(Refer to Note 1.Q., *Revenue and Other Financing Sources* related to Imputed Financing and Imputed Cost, Note 5, *Liabilities Not Covered by Budgetary Resources*, and Note 7, *Environmental and Disposal Liabilities*.)

L. Liabilities

Liabilities represent probable and measurable future outflows of resources as a result of past transactions or events and are recognized when incurred, regardless of whether there are budgetary resources available to pay the liabilities. However, liabilities cannot be liquidated without legislation providing resources and legal authority.

(Refer to Note 5, *Liabilities Not Covered by Budgetary Resources*.)

Liabilities Covered and Not Covered by Budgetary Resources: Liabilities covered by budgetary resources include liabilities incurred that are covered by realized budgetary resources as of the Balance Sheet date. Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, 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 and other inflows.

(Refer to Note 5, *Liabilities Not Covered by Budgetary Resources.*)

Current and Noncurrent Liabilities: The DLA NDSTF discloses its other liabilities between current and noncurrent liabilities in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. The current liabilities represent liabilities that DLA NDSTF expects to be paid within a year of the Balance Sheet date. Noncurrent liabilities represent liabilities that DLA NDSTF does not expect to be paid within a year of the Balance Sheet date.

Accounts Payable: Accounts Payable include amounts owed but not yet paid to Intragovernmental and Other than Intragovernmental entities for goods and services received by DLA NDSTF. DLA NDSTF estimates and records accruals when services are performed, or goods are received. The DLA NDSTF also accrues liabilities incurred at month-end but not yet recorded using data from Third Party Payment Systems and estimates of costs incurred when goods or services received but not invoiced.

Advances from Others and Deferred Revenue: Advances from Others and Deferred Revenue

are cash received in advance of goods or services that have not been fully rendered.

M. Environmental and Disposal Liabilities

E&DL are a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

The DLA NDSTF is responsible for accurate reporting of E&DL and expenses for the real property and/or equipment that it records and reports in its financial statements as assets, regardless of ownership by any Federal Agency. The DLA NDSTF identifies and estimates accrued E&DL through its annual Cost-to-Complete (CTC) process. The DLA NDSTF's accrued E&DL comprises of environmental cleanup costs associated with restoration of environmental sites on real property that it does not own but has received budget authority to execute and manage. These environmental sites may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, clean closure of assets, and post-closure costs related to the Agency's operations that result in hazardous waste.

(Refer to Note 7, *Environmental and Disposal Liabilities.*)



Supply and Demand

U.S. Air Force Senior Airman Anthony Zambrana Perez, 325th Medical Support Squadron medical logistician, inspects a package at Tyndall Air Force Base, Florida. Medical logisticians like Zambrana Perez ensure all necessary materials are readily available for the 325th Medical Group as well as prepares for mass casualty events by ensuring stockpiles of emergency medical equipment are ready to go at a moment's notice. **Photo by:** U.S. Air Force Senior Airman Anabel Del Valle

N. Federal Employee Benefits Payable

Payroll and Annual Leave Accruals: Accrued payroll consists of salaries, wages, and other compensation earned by employees, but not yet disbursed as of the Balance Sheet date. The DLA NDSTF accrues the cost of unused annual leave, including restored leave, compensatory time, and credit hours as earned and reduces the accrual when leave is taken. The payroll and annual leave accrual liability is accrued based on the latest pay period data for reporting purposes.

(Refer to Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*.)

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

The first element, accrued FECA liability, is based on actual future payments for claims paid by DOL but not yet reimbursed by DLA NDSTF. The DLA NDSTF reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a one to two-year period between payment by DOL and reimbursement to DOL by DLA NDSTF. As a result, DLA NDSTF recognizes an Intragovernmental Other Liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by DLA NDSTF.

The second element, actuarial FECA liability, is the estimated liability for future payments and is recorded as an Other than Intragovernmental Other Post-Employment Benefits Payable liability, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, using an actuarial method that considers historical ben-

efit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. The methodology for billable projected liabilities includes, among other things:

(1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims that were estimated using historical incurred benefit liabilities and payments.

(Refer to Note 5, *Liabilities Not Covered by Budgetary Resources*, and Note 6, *Federal Employee Benefits and Related Other Liabilities*.)

O. Pension Benefits

Based on the effective Federal government start date, DLA NDSTF's civilian employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employee Retirement System (FERS), a defined benefit plan and contribution plan. The employee pension benefit is managed at the OUSD level. The measurement of the service cost requires the use of an actuarial cost method and assumptions. The Office of Personnel Management (OPM) administers these benefits and provides the factors that DLA NDSTF applies to calculate and recognize imputed costs, as reported in its Statements of Net Cost, and a corresponding imputed financing in the Statements of Changes in Net Position. The DLA NDSTF is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM is responsible for and reports these amounts.

(Refer to Note 1.Q., *Revenue and Other Financing Sources related to Imputed Financing and Imputed Cost*.)

P. Net Position

Net position is the residual difference between assets and liabilities and consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations:

Unexpended ap-

propriations are the portion of the appropriations represented by undelivered orders and unobligated balances.

Cumulative Results of Operations: Cumulative results of operations consist of the net difference since inception between: (1) expenses and losses; (2) revenue and gains; and (3) other financing sources.

Q. Revenue and Other Financing Sources

Exchange and Non-exchange Revenue: The DLA NDSTF classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises when DLA NDSTF sells the materials that have been deemed excess to the needs of the stockpile. The proceeds from the sale of materials are DLA NDSTF's major financing source and are used to fund SM operations. In addition, materials are offered for sale on the open market and are awarded through competitive bidding.

Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange revenue is considered to impact the cost of operations and is reported in the Statement of Changes in Net Position as a financing source. For the period ended September 30, 2025, DLA NDSTF does not have activity related to non-exchange revenue.

Other Financing Sources: Other financing sources, other than exchange and non-exchange revenue, include additional inflows of resources that increase results of operations during the reporting period. DLA NDSTF's other financing sources come from appropriations received and recognized as financing sources when used.

Imputed Financing and Imputed Cost: In certain cases, DLA NDSTF receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by DLA NDSTF are recognized as imputed costs in the Statement of Net Cost and are offset by imputed financing in the Statement of Changes in Net Position. The DLA NDSTF recognizes the following imputed cost and related imputed financing in accordance with SFFAS 55, *Amending Inter-Entity Costs Provisions*: (1) employee benefits administered by the OPM (i.e., retirement, health, life insurance benefits); and (2) claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in the financial statements.

(Refer to Note 1.K., *Commitments and Contingencies*, and Note 1.O., *Pension Benefits*.)

R. Expenses

Expenses are recognized when there are outflows, usage of assets, or the incurrence of liabilities from activities related to DLA NDSTF's program and mission objectives. Cost of Goods Sold are recorded in the period when the associated revenues are generated to properly reflect the costs of operations.

(Refer to Note 1.B., *Basis of Presentation and Accounting*.)

Note 2: Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2025, consist of the following (dollars in thousands):

FY 2025		
Status of Fund Balance with Treasury		
Unobligated Balance	\$	2,335,663
Obligated Balances Not Yet Disbursed		153,606
Total Fund Balance with Treasury	\$	<u>2,489,269</u>

Status of Fund Balance with Treasury presents the budgetary and proprietary resources that constitute DLA NDSTF FBwT. It consists of unobligated and obligated balances. Unobligated and obligated balances differ from the related amounts reported in the Statements of Budgetary Resources because budgetary balances are supported by amounts other than FBwT.

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

Obligated Balances Not Yet Disbursed includes funds that have been obligated for goods and services not received and those received but not paid.

Non-budgetary FBwT consists of FBwT in unavailable receipt accounts and clearing accounts that do not have budgetary authority and non-budgetary FBwT such as non-fiduciary deposit funds. As of September 30, 2025, DLA NDSTF does not have a balance for non-budgetary FBwT.

Other Information includes the following table summarizing the undistributed collections and disbursements between U.S. Treasury and DLA NDSTF as of September 30, 2025.

FY 2025 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)			
Transaction Type	Treasury Balance based on CARS	DLA NDSTF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	\$40,341	\$40,341	-
Disbursements	\$148,964	\$152,172	\$(3,208)

Note 3: Inventory and Related Property, Net

Inventory and Related Property, Net as of September 30, 2025, include stockpile materials and consist of the following (dollars in thousands):

	Valuation Method	FY 2025
Inventory and Related Property, Net		
Stockpile Materials Held for Sale	HC	\$ 5,296
Stockpile Materials Held in Reserve	HC	470,731
Total Inventory and Related Property, Net		\$ 476,027

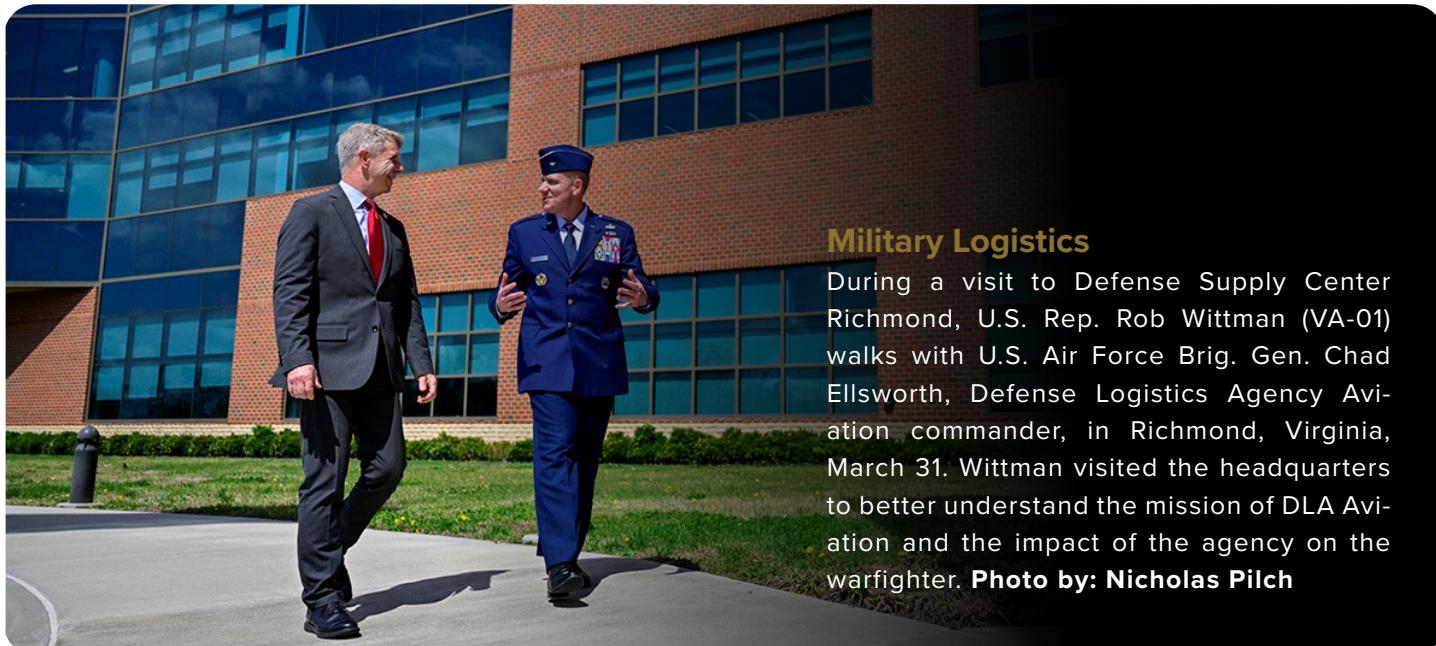
HC = Historical Cost¹¹

Stockpile Materials Held for Sale is comprised of materials deemed to be excess and have been identified for disposal based on the ASP. The Stockpile Materials Held for Sale in FY 2025 include ores, metals, and minerals. As of September 30, 2025, the Stockpile Materials Held for Sale fair value is \$9.2 million. As of September 30, 2025, the difference between the estimated selling price and the carrying amount of the Stockpile Materials Held for Sale is \$3.9 million.

Stockpile Materials Held in Reserve consist of a variety of industrial commodities including base and minor metals, ferrous and non-ferrous ores, metal powders and mercury.

Based on the Mercury Export Ban Act that was signed into law on October 14, 2008, Federal Agencies are prohibited from conveying, selling, or distributing metallic mercury that is under their control or jurisdiction. This includes Stockpiles held by DoD. Beginning January 1, 2013, U.S. Federal Agencies are prohibited from the export of metallic mercury.

¹¹ The DoD cost flow assumption policy for Inventory and Related Property is Moving Average Cost (MAC); DLA NDSTF, due to the nature of its operations, does not rely upon its cost flow assumption to determine Historical Cost as all inventory is specifically identifiable.



Note 4: General Property, Plant and Equipment, Net

General Property, Plant and Equipment, Net as of September 30, 2025, consist of the following (dollars in thousands)

	FY 2025		
	Acquisition Value	Accumulated Depreciation	Net Book Value
Major Asset Class:			
General Equipment	\$ 2,564	\$ (2,228)	\$ 336
Total General Property, Plant and Equipment, Net	\$ 2,564	\$ (2,228)	\$ 336

The table below discloses activity for General Property, Plant and Equipment, Net as of September 30, 2025 (dollars in thousands)

	FY 2025	
General Property, Plant and Equipment, Net - Beginning Balances	\$ 130	
Capitalized Acquisitions		341
Depreciation Expense		(135)
General Property, Plant and Equipment, Net - Ending Balances	\$ 336	

Note 5: Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025
Intragovernmental Liabilities	
Other Liabilities - Benefits Contributions Payable	\$ 188
Total Intragovernmental Liabilities	188
 Other than Intragovernmental Liabilities	
Environmental and Disposal Liabilities	11,395
Federal Employee Salary, Leave, and Benefits Payable	793
Pensions and Other Post-Employment Benefits Payable	1,584
Total Other than Intragovernmental Liabilities	13,772
Total Liabilities Not Covered by Budgetary Resources	13,960
Total Liabilities Covered by Budgetary Resources	9,274
Total Liabilities	\$ 23,234

Of the \$14.0 million Total Liabilities Not Covered by Budgetary Resources in FY 2025, \$1.2 million are current liabilities. This total consists of \$0.2 million for Environmental and Disposal Liabilities, \$0.2 million for Other Liabilities - Benefits Contributions Payable, and \$0.8 million for Federal Employee Salary, Leave, and Benefits Payable.

Other Liabilities - Benefits Contributions Payable (Intragovernmental) include the accrued FECA liability paid by DOL but not yet reimbursed by DLA NDSTF.

Environmental and Disposal Liabilities (Other than Intragovernmental) consist of probable and reasonably estimable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. For the year ended,

September 30, 2025, the total liabilities covered by budgetary resources for environmental and disposal liabilities consist of \$0.4 million.

Federal Employee Salary, Leave, and Benefits Payable (Other than Intragovernmental) is primarily comprised of the unfunded annual leave earned by civilian employees but not yet paid. Unfunded annual leave includes restored leave, compensatory time, and credit hours as earned.

Pensions and Other Post-Employment Benefits Payable (Other than Intragovernmental) is comprised of the current year FECA actuarial liability based on DOL records.

(Refer to Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*; and Note 7, *Environmental and Disposal Liabilities*.)

Note 6: Federal Employee Benefits Payable and Related Other Liabilities

Federal Employee Benefits Payable and Related Other Liabilities as of September 30, 2025, consist of the following (dollars in thousands):

					FY 2025
		Liabilities	Less: Funded Liabilities	Unfunded Liabilities	
Intragovernmental Other Liabilities					
Employer Contributions and Payroll Taxes Payable		\$ 62	\$ (62)	\$ -	-
Unfunded FECA Liability		188	-	188	
Total Intragovernmental Other Liabilities		<u>\$ 250</u>	<u>\$ (62)</u>	<u>\$ 188</u>	
Other than Intragovernmental Federal Employee Benefits Payable					
Accrued Unfunded Annual Leave		\$ 793	\$ -	\$ 793	
Employer Contributions and Payroll Taxes Payable		41	(41)	-	-
Accrued Funded Payroll and Leave		142	(142)	-	-
Total Other than Intragovernmental Federal Employee Benefits Payable		<u>\$ 976</u>	<u>\$ (183)</u>	<u>\$ 793</u>	
Pension and Other Post-Employment Benefits Payable					
Actuarial FECA Liability		\$ 1,584	\$ -	\$ 1,584	
Total Pension and Other Post-Employment Benefits Payable		<u>\$ 1,584</u>	<u>\$ -</u>	<u>\$ 1,584</u>	

Employer Contributions and Payroll Taxes Payable are the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Unfunded FECA Liability (Intragovernmental) includes the accrued FECA liability paid by DOL but not yet reimbursed by DLA NDSTF.

Accrued Funded Payroll and Benefits (Other than Intragovernmental) include salaries, wages, and other compensation earned by employees but not yet disbursed.

Accrued Unfunded Annual Leave (Other than Intragovernmental) includes restored leave, compensatory time, and credit hours as earned.

Actuarial FECA Liability (Other than Intragovernmental) are workers' compensation benefits developed by the DOL's Office of Workers' Compensation Programs and provided to DLA NDSTF at the end of each FY. The liability includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of Living Adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits.

(Refer to Note 5, *Liabilities Not Covered by Budgetary Resources*.)

Note 7: Environmental and Disposal Liabilities

E&DL as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025
Environmental and Disposal Liabilities	
Environmental Corrective Action	\$ 11,744
Total Environmental and Disposal Liabilities	\$ 11,744

The DLA NDSTF E&DL are comprised of two primary elements: (1) existing obligations supporting DLA NDSTF environmental restoration programs, and (2) the CTC which includes anticipated future costs necessary to complete environmental restoration requirements at DLA SM environmental restoration sites.

In FY 2025, DLA SM utilized the Remedial Action Cost Engineering and Requirements (RACER) software to generate the NDSTF E&DL CTC estimates of anticipated future costs for sites with environmental corrective action costs.

As of September 30, 2025, the total NDSTF E&DL consists of \$11.7 million.

Per DoD policy and FASAB guidance, specifically DoD 7000.14-R FMR Volume 4 Chapter 13 – Environmental and Disposal Liabilities (June 2024), FASAB Interpretation of Federal Financial Accounting Standards 9, Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SF-FAS 6, Military Departments are responsible for reporting the entirety of E&DL associated with real property located on their installations for Environmental Closure Requirements and Asbestos E&DL. Accordingly, as of September 30, 2025, DLA NDSTF has no reportable Environmental Closure Requirements E&DL.

Types of Environmental and Disposal Liabilities: The DLA NDSTF is responsible for the recognition, measurement, reporting, and disclosure of Non-Base Realignment and Closure (BRAC) E&DL and Environmental Disposal for General Equipment (GE). Non-BRAC E&DL are specifically related to past and current installation

restoration activities and operations. All cleanup and disposal actions are done in coordination with regulatory agencies, other responsible parties, and current property owners.

The DLA NDSTF reportable E&DL is under Other Accrued E&DL – Non-BRAC and includes the following line item:

Environmental Corrective Action: Includes E&DL associated with the cleanup sites not eligible for Defense Environmental Restoration Program (DERP) funding, typically conducted under the Resource Conservation and Recovery Act (RCRA) or other Federal or state statutes and regulations.

The DLA assessed its real property and GE inventories and does not currently have reportable NDSTF E&DL for Environmental Closure, Asbestos, and GE.

Applicable Laws and Regulations for Cleanup Requirements: The DLA NDSTF is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other prior activities, which may have created a public health or environmental risk. The DLA NDSTF is required to comply with the following laws and regulations for corrective action where applicable: The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); the Superfund Amendments and Reauthorization Act (SARA); RCRA; and other applicable Federal, State, and local laws and regulations. Required cleanup may at times extend beyond DLA Strategic Materials operational site boundaries onto adjacent property or onto other sites where DLA Strategic Materials is named as a responsi-

ble party by a regulatory agency. DLA NDSTF reports Environmental Corrective Action E&DL in accordance with FASAB SFFAS 5: *Accounting for Liabilities of the Federal Government* and Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonable Estimable for Environmental Liabilities in the Federal Government*.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods: To estimate future environmental costs, the DLA NDSTF utilizes a combination of historical or pre-negotiated contract costs, proposal costs, engineering estimates, and in the absence of other detailed information, parametric estimates created using the RACER software. Any historical costs used in the creation of the estimates for DLA NDSTF E&DL are adjusted for inflation and reported in current year dollars. The RACER Steering Committee ensures that the RACER software is verified, validated, and accredited in accordance with DoD Instruction (DoDI) 5000.61 – *DoD Modeling and Simulation Verification, Validation, and Accreditation*. The DoD is working with the RACER Steering Committee and stakeholders to identify improvements to RACER functionality, auditability, and documentation.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations: The DLA E&DL Site Identification (ID) process tracks environmental events such as spills and releases in an Environmental Event Repository and evaluates each event annually for NDSTF E&DL to determine the annual CTC inventory. DLA NDSTF CTC estimates are created annually for all projected requirements and are finalized and approved by July. The estimates are then reevaluated through a Roll Forward review to identify any material changes to previously approved estimates to ensure accuracy as of the financial reporting date of September 30. Processes are conducted in accordance with DLA ELM SOPs and the DoD 7000.14-R FMR Volume 4, Chapter 13 – *Environmental and Disposal Liabilities* (June 2024).

CTC estimates revised through Roll Forward, as appli-

cable, and prior year obligations are reported in the balance as of September 30. As of the reporting date, no material changes in the total estimated cleanup costs were identified through the Roll Forward review due to changes in laws, technology, or plans.

Uncertainty Regarding the Accounting Estimates

Used to Calculate the Reported E&DL: The stated total NDSTF E&DL includes prior year obligations and the CTC estimates of future costs necessary to complete requirements. The DLA NDSTF has instituted extensive controls to ensure that these estimates are accurate and reproducible. The cost estimates produced through the ELM process are considered accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. Actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation or closure activities to a different degree than anticipated when calculating the estimates. NDSTF E&DL can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

The DLA NDSTF utilizes a formalized Site ID process to identify, track, and evaluate environmental events where the potential for an out-year E&DL exists but it is not probable and measurable. These environmental events will be re-evaluated in the following fiscal year to determine if any changes have taken place and sufficient information/data is available to create an estimate of future costs that would be included in the NDSTF E&DL balance.

Unrecognized Costs: The DLA NDSTF has no unrecognized cost as there are no reportable Asset-related Environmental Closure Requirements, Asbestos, and GE related E&DL laws and regulations. The DLA NDSTF reports Environmental Corrective Action E&DL in accordance with FASAB SFFAS 5: *Accounting for Liabilities of the Federal Government* and Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonable Estimable for Environmental Liabilities in the Federal Government*.

(Refer to Note 1.M., *Environmental and Disposal Liabilities.*)

Note 8: Leases

Intragovernmental leases as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025
Major Assets Class	
Buildings, Structures, Facilities	\$ 913
Land	108
Total Annual Lease Expense	\$ 1,021

SM holds 13 occupancy agreements with the GSA for real property, including buildings, office space, warehouse storage facilities, and garages. Billing is based on the amount of space occupied by SM. These occupancy agreements have a duration of 10 years and can be terminated based on the availability of funds or with a four-month notice.

Additionally, SM has a 5-year lease with the US Army Corps of Engineers (USACE) for land, which can be terminated with a 30-day notice.

(Refer to Note 1.I., *Leases.*)

Note 9: Statement of Budgetary Resources

Unobligated Balance Brought Forward, October 1: There was a \$6.0 million adjustment during the current year to reduce the amount available for obligation impacting the unobligated balance brought forward, October 1. Components of the amount reported as “Unobligated Balance from Prior Year Budget Authority, Net” are disclosed in the table below. Other ad-

justments consist of recoveries of prior year obligated balances. The following table displays a reconciliation between the prior year’s unobligated balance, end of year amount to the current year’s unobligated balance from prior year budget authority, net amount (dollars in thousands):

FY 2025		
Reconciliation of PY Ending Unobligated Balances of CY Beginning Unobligated Balances Statement of Budgetary Resources (SBR)		
Unobligated balance brought forward, October 1	\$	322,323
Adjustment of unobligated balance brought forward, October 1		(6,046)
Recoveries of prior year unpaid obligations		5,907
Unobligated balance, Total	\$	322,184

Undelivered Orders (UDOs): For the year ended September 30, 2025 consist of the following (dollars in thousands):

FY 2025		
Intragovernmental Undelivered Orders		
Unpaid	\$	6,207
Paid		447
Total Intragovernmental Undelivered Orders	\$	6,654
Other than Intragovernmental Undelivered Orders		
Unpaid		138,478
Paid		3,199
Total Other than Intragovernmental Undelivered Orders	\$	141,677
Total Undelivered Orders	\$	148,331

UDOs represent the amount of goods and/or services ordered to perform DLA NDSTF's mission objectives that have not been received. Unpaid UDOs represent obligations for goods and services that have not been received or paid, whereas paid UDOs represent obligations for goods and services that have been paid for in advance of receipt.

Legal Arrangements Affecting the Use of Unobligated Balances: Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Spending

authority from offsetting collections and appropriations are apportioned on an annual basis.

Per the Bipartisan Budget Act of 2015, unobligated balances in fund symbols associated with the DLA NDSTF revolving fund are subject to temporary annual reductions due to sequestration until FY 2025. These reductions are intended to help decrease the federal budget deficit, and the funds will become available again in a subsequent fiscal year. Unobligated balances in unexpired appropriated fund symbols are available in the next FY for new obligations unless specific restrictions have been placed on those funds by law. The Expired unobligated balance for the year ended September 30, 2025 is \$18.1 thousand and is only available for adjustments to existing obligations.

Spending authority from offsetting collections do not

expire. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Amounts in expired fund symbols are unavailable for new obligations but may be used to adjust previously established obligations.

Explanation of Differences Between the SBR and the Budget of the U.S. Government: The FY 2024 Combined Statements of Budgetary Resources are reconciled to the President's Budget that was published in June 2025. Budgetary resources, new obligations and upward adjustments, and net outlays are reconciled to the Departmental balances as published in the Appendix to the Budget; distributed offsetting receipts is reconciled to the Departmental balances in the Federal Budget by Agency and Account section of the Analytical Perspectives Volume of the President's Budget (dollars in millions).

	Total Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 561	\$ 239	-	\$ 90
Difference	-	-	-	1
Budget of the U.S. Government	\$ 561	\$ 239	-	\$ 89

The FY 2025 SBR will be reconciled to the President's Budget in the FY 2026 AFR. The Budget with the actual amounts for the current year will be available at a later date at [President's Budget | The White House](#)¹².

12 The notes to the financial statements include URL references to certain websites. The information contained on those websites is not part of the financial statement presentation.

Note 10: Reconciliation of Net Cost to Net Outlays

Reconciliation of Net Cost to Net Outlays for the year ended September 30, 2025, consist of the following (dollars in thousands):

				FY 2025
	Intragovernmental	Other than Intragovernmental		Total
NET COST	\$	21,599	\$	11,584
Components of Net Cost That are Not Part of Net Outlays				\$ 33,183
General Property, Plant, and Equipment Depreciation Expense	-	(135)		(135)
Cost of Goods Sold	-	(23,581)		(23,581)
Net Gains/(Losses)	-	13		13
Increase/(Decrease) in Assets:				
Accounts Receivable, Net	-	(811)		(811)
Advances and Prepayments	-	2,389		2,389
(Increase)/Decrease in Liabilities:				
Accounts Payable	(199)	12,943		12,744
Environmental and Disposal Liabilities	-	1,705		1,705
Federal Employee Salary, Leave, and Benefits Payable	-	(118)		(118)
Pensions and Other Post-Employment Benefits Payable	-	220		220
Advances from Others and Deferred Revenue	-	(2)		(2)
Other Liabilities	(12)	-		(12)
Financing Sources:				
Imputed Financing	(1,126)	-		(1,126)
Total Components of Net Cost That are Not Part of Net Outlays	(1,337)	(7,377)		(8,714)
Components of Net Outlays That are Not Part of Net Cost				
Acquisition of Capital Assets	-	341		341
Acquisition of Inventory	-	83,813		83,813
Total Components of Net Outlays That are Not Part of Net Cost	-	84,154		84,154
NET OUTLAYS	\$	20,262	\$	88,361
Outlays, Net, Statements of Budgetary Resources				108,623

The Net Cost to Net Outlays Reconciliation schedule clarifies the relationship between the Net Cost (reported in the Statements of Net Cost) to the Net Outlays (reported in the Statements of Budgetary Resources). Examples of the reconciling items identified are:

Components of Net Cost Not Part of Budgetary Outlays:

Includes proprietary accounts that are the result of allocating assets to expenses over more than one reporting period, the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and costs financed by other entities (imputed inter-entity costs).

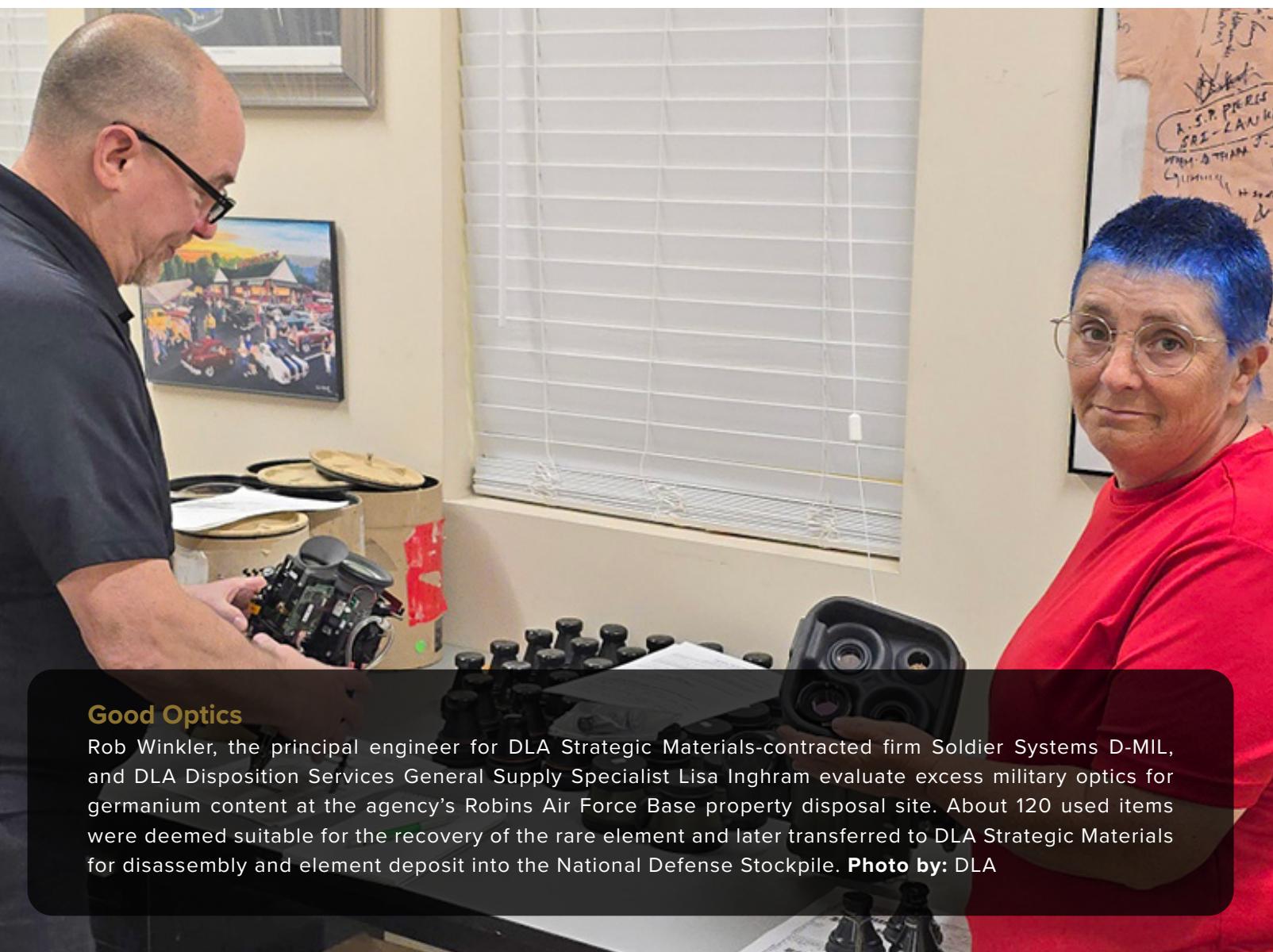
Components of Net Outlays That are Not Part of Net Cost:

Includes amounts provided in the current report-

ing period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the Balance Sheet.

Miscellaneous Items: Includes custodial/non-exchange revenue, non-entity activity, and other temporary timing differences.

For FY 2025, the key reconciling balances between the net cost and net outlays for DLA NDSTF include (1) Acquisition of Inventory was related to purchases of stockpile material (2) Cost of Goods Sold, related to stockpile material (3) Accounts Payable increases primarily attributed to vendor liabilities related to acquisitions of stockpile materials.





Strengthened Attack

An AH-64D Apache Longbow helicopter, assigned to the 1-3rd Attack Battalion, 12th Combat Aviation Brigade, arrives at Lielvarde Military Airfield in Latvia. Military aircraft like Apache helicopters use technologies containing the critical material germanium, which is being recycled domestically through a DLA program. **Photo by:** Army Staff Sgt. Thomas Mort

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SECTION 3

OTHER INFORMATION

SECTION 3

SECTION 3

Other Information

In this section:

- 89 Summary of Financial Statement Audit and Management Assurances**
- 93 Management Challenges**
- 95 Payment Integrity**



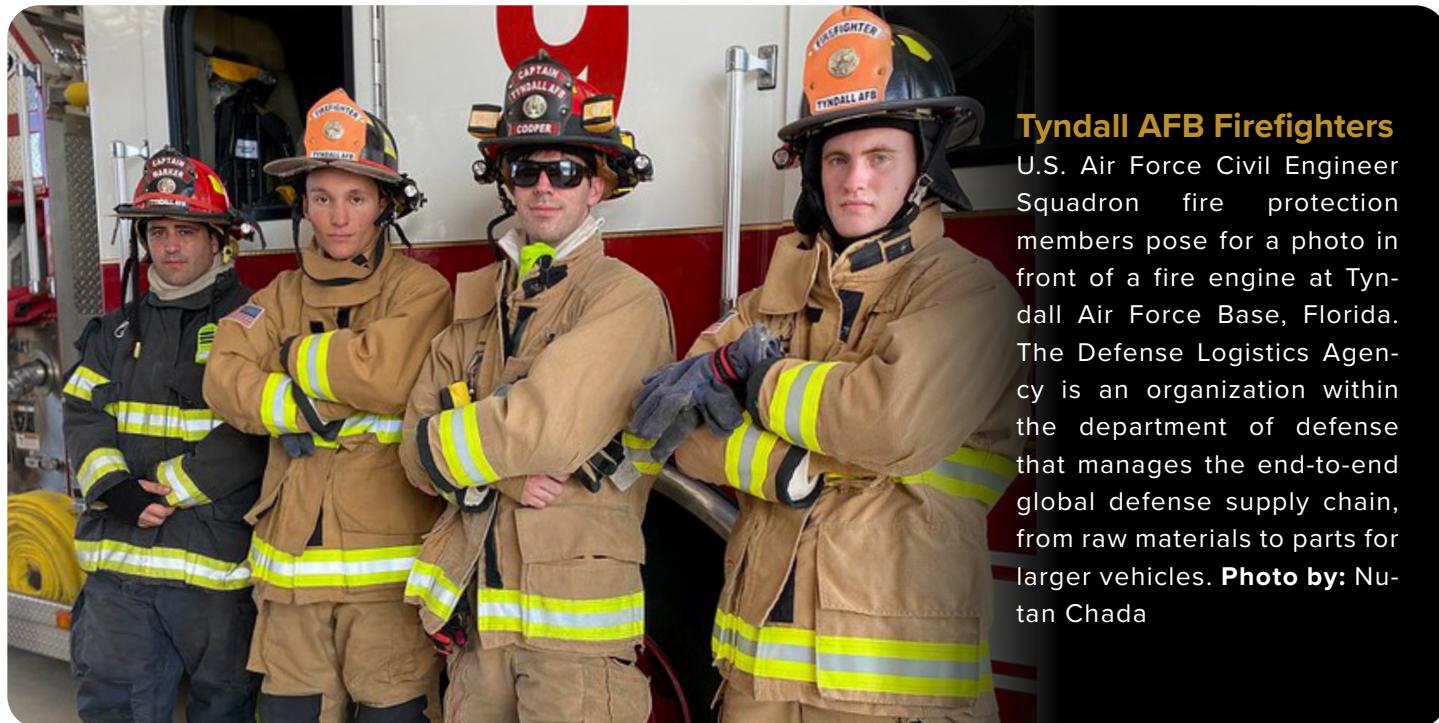
SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The FY 2025 DLA NDSTF audit report reflects 5 material weaknesses. Table 1 below provides a summary of the DLA NDSTF financial statement audit results for FY 2025.

Although the material weaknesses overall are not resolved, DLA is continuing to implement the processes and controls detailed in the CAPs to fully resolve the audit findings.

Table 1: FY 2025 DLA NDSTF Summary of the Financial Statement Audit

Audit Opinion	Unmodified				
	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Inventory	1	-	-	-	1
Accounts Payable and Expenses	1	-	-	-	1
Financial Reporting	1	-	-	-	1
Oversight and Monitoring	1	-	-	-	1
Information Systems	1	-	-	-	1
Total Material Weaknesses	5	-	-	-	5



The DLA SOA package only includes self-identified material weaknesses and significant deficiencies for internal DoD reporting. DLA continues to make improvements and monitor the NDSTF financial statement audit findings separately. DLA did not self-identify any material weaknesses in the area of Internal Controls over Operations (ICOR-O) in FY 2025. DLA NDSTF has 9 material weaknesses (5 related to Internal Controls over Financial Reporting (ICOFR) and 4

related to Internal Controls over Financial Systems (ICOFS) identified by the IPA.

The DLA Remediation and Process Improvement Branch continues to separately track the NDSTF financial statement audit findings and CAPs and report these to the Under Secretary of War (Comptroller) (ODCFO).

Table 2 summarizes DLA's FY 2025 material weaknesses associated with DLA.

Table 2a: Summary of Management Assurances

NDSTF Effectiveness of Internal Controls over Financial Reporting (FMFIA § 2)

Statement of Assurance	No Assurance						
	Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Oversight and Monitoring	1	-	-	-	-	-	1
Financial Reporting	1	-	-	-	-	-	1
Fund Balance with Treasury	1	-	-	-	-	-	1
Plan-to-Stock: Inventory	1	-	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	-	1
Total Material Weaknesses	5	-	-	-	-	-	5



Fire It Up

From aircraft parts to innovative logistics solutions, DLA Aviation keeps the U.S. Marine Corps mission-ready by providing the vital parts and services needed to maintain their aircraft.

Photo by: DLA

Table 2b: Summary of Management Assurances**DLA Conformance with Federal Financial Management System Requirements (FFMIA § 4)**

Statement of Assurance	Federal Systems do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Security Management	1	-	-	-	-	1
Access Controls	1	-	-	-	-	1
Segregation of Duties	1	-	-	-	-	1
Configuration Management	1	-	-	-	-	1
Total Non-Conformances	4	-	-	-	-	4

Based on DLA management's analysis of relevant FFMIA compliance indicators available at the time of this report, DLA identified a lack of compliance associat-

ed with all three FFMIA Section 803(a) requirements across all funds summarized in the table below.

Table 2c: Summary of Management Assurances**Compliance with Section 803(a) of the FFMIA**

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

MANAGEMENT CHALLENGES



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September 09, 2025

MEMORANDUM FOR LTG MARK SIMERLY, DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Major Management and Performance Challenges Facing the Defense Logistics Agency

The military logistics Defense Industrial base is undergoing rapid transformation due to technological advancements, shifting economic conditions, regulatory complexities, and geopolitical volatility. As a key national component, the Defense Logistics Agency (DLA) must recognize and prepare for these emerging challenges. This memo outlines critical management challenges facing DLA in the near future and suggests actionable strategies to mitigate risk and sustain long-term operational resilience.

Key areas of concern include:

- Workforce management (in a digital and automated environment)
- Cybersecurity threats and data integrity
- Global supply chain disruptions and geopolitical tensions
- Customer expectations and technological integration

These topics deal with operational, financial, or managerial improvements to the operations of DLA to address accountability, auditability, and inherent risks affecting operational support to the Warfighter. Addressing these areas proactively will require focused investment, leadership commitment, and a strategic shift in our organizational culture.

Workforce management

The integration of automation, robotics, and AI into logistics operations presents significant talent management challenges. While automation can streamline operations, it also necessitates reskilling and upskilling employees to work alongside new technologies. Simultaneously, attracting and retaining tech-savvy talent in a highly competitive market requires a modernized approach to workforce development. Specific challenges include:

- Skill gaps and training needs for existing employees.
- High turnover rates and difficulty attracting young professionals.
- Resistance to change and adoption of new systems.

To address these challenges, OIG suggests DLA management:

- Update and continue to refine a comprehensive workforce development program.
- Expand partnership with colleges/universities and Industry for talent pipelines.
- Mature a culture of innovation and continuous learning.

Cybersecurity threats and data integrity

As our operations become increasingly digitized, cybersecurity has emerged as a critical threat vector. From planning systems to order fulfillment and customer data platforms and payment systems, our digital infrastructure is a high-value target for cyberattacks. GAO has also included cybersecurity on its annual list of high-risk areas. Specific challenges include:

- Protection of sensitive business and customer data.
- Securing interconnected logistics systems (including AI autonomy).
- Growing regulatory scrutiny over data privacy.

To address these challenges, the Agency should consider the following actions:

- Conduct a full cybersecurity audit and implement advanced threat detection tools.
- Reinvigorate employee cybersecurity training programs.
- Appoint a senior official responsible for overseeing data integrity and data acumen initiatives.

Global supply chain disruptions and geopolitical tensions

The past few years have exposed the fragility of global supply chains, with disruptions from pandemics, natural disasters, and geopolitical events significantly affecting delivery timelines and costs. Specific challenges include:

- Dependency on single-source suppliers or vulnerable regions.
- Limited visibility across extended supply chains.
- Rising transportation and fuel costs.

To address these challenges, OIG suggests DLA management:

- Diversify supplier base and assess geographic risk exposure (with Services as ESA).
- Invest in end-to-end supply chain visibility solutions.
- Explore nearshoring opportunities to reduce transit risk.

Customer expectations and technological integration

The modern customer demands speed, transparency, and seamless experiences. To remain competitive, we must leverage technology not only for internal efficiency but also to enhance the customer journey. Specific challenges include:

- Fragmented digital platforms which lead to inefficiencies.
- Limited real-time tracking and predictive delivery capabilities.
- Growing expectations for personalization and transparency.

To address these challenges, OIG suggests DLA management:

- Invest in an integrated digital logistics platform.
- Expand real-time tracking and analytics capabilities.
- Leverage AI for demand forecasting and route optimization.

In conclusion, to effectively manage the complex threats facing the logistics industry, we must take a forward-looking, strategic approach rooted in adaptability and innovation. By investing in our workforce, securing our digital infrastructure, strengthening our supply chain resilience, and aligning to customer and regulatory expectations, we can position our Agency as a resilient leader in a dynamic market.

Please contact Ms. Tamonic Denegall, Acting Deputy Inspector General for Internal Audit, if you would like to further discuss the risks present in this memorandum. Ms. Denegall can be reached at 571-767-6282 or Tamonic.Denegall@dla.mil.

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DAVID J. OPATZ
Inspector General

PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA) (Pub. L. 116-117), requires Agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments (IPs), estimate the amount of IPs annually, and submit those estimates to Congress.

OMB Circular A-123, Appendix C defines an IP as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes duplicate payments, any payment made to an ineligible recipient, any payment for an ineligible good or service, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. DoD 7000.14-R FMR, Volume 4, Chapter 14, Improper Payments, instructs DoD components that entitle (i.e., process or compute)

payment to conduct risk assessments of their payment processes and random post-payment reviews to estimate IPs. As DLA's Service Provider, DFAS entitles payments and provides the results of post-payment reviews to the OUSD(C) Accounting & Finance Policy Directorate (A&FP) on behalf of its customers.

In accordance with OMB Circular A-136 Section II.4.5 and PIIA, each Executive Branch Agency must complete the Annual Data Call issued by OMB and provide a link to PaymentAccuracy.gov in their AFR or Performance and Accountability Reports (PARs) to fulfill reporting requirements. In addition, each Executive Branch Agency should report on the actions taken in their AFR or PAR. For detailed reporting on DoD payment integrity, refer to the OI section of the consolidated DoD AFR at: <https://comptroller.defense.gov/odcfo/afr/>. The OUSD(C) A&FP compiles the Department-wide results annually as part of DoD's AFR.

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APPENDIX

APPENDIX A:
DLA HQ Program Support Structure
Roles and Responsibilities

APPENDIX B:
Abbreviations & Acronyms

ACKNOWLEDGEMENTS

APPENDIX



APPENDIX A:

DLA HQ Program Support Structure, Roles and Responsibilities

The following are DLA Enterprise-wide DLA HQ Program Support Structures:

DLA Human Resources provides the full range of human resource services to include Operational, Human Performance, Talent Management, Performance Management, Labor Relations and Human Resources Policy for the DLA workforce. DLA Human Resources recruits, hires, trains, and sustains a mission-ready workforce for DLA and Human Resources customers, using world-class policies, processes, programs, and tools.

DLA Logistics Operations is responsible for the end-to-end Supply Chain Management (SCM) of DLA's supply chains, providing logistics and material process management policy, guidance, and oversight. DLA Logistics Operations integrates strategic, operational, and tactical perspectives, as well as commands and controls functions for contingency operations and logistics supply chain planning. DLA Logistics Operations maximizes the readiness and logistics combat power by leveraging enterprise solutions to support DLA's global customer base.

DLA Information Operations as DLA's knowledge broker, provides comprehensive, best practice IT support to the DoD/DLA Logistics Business Community, resulting in customer support; efficient and economical computing; data management; electronic business; telecommunication services; key management; and secure voice systems for DoD, DLA, and geographically separated operating locations. The Director of Information Operations serves as DLA's CIO. DLA Information Operations also manages DLA's R&D IT program.

DLA Acquisition is responsible for planning, organizing, directing, and managing the procurement and contract administration functions for DLA acquisition in support of both internal operations and other supported activities. The Director of DLA Acquisition also

serves as the Agency's Component Acquisition Executive. DLA Acquisition provides oversight of DLA Contracting Services Office.

DLA Finance is responsible for obtaining and allocating resources; analyzing execution; and providing fiscal guidance and advice to support the Agency, its business areas, and its MSCs in accomplishing DLA's mission. DLA Finance prepares the AFRs and guides DLA in its Audit Remediation efforts. The Director of Finance also serves as DLA's CFO.

DLA Joint Reserve Force provides DLA with trained, ready, and available reservists from the Army, Air Force, Navy, and Marine Corps for worldwide contingency operations and support of ongoing operations, surge requirements, and logistics planning.

DLA Office Of Small Business Programs (DB) provides small business advocacy and promotes small business utilization to strengthen the competency, capability, and commitment of the industrial base that fulfills DLA's mission as the Nation's Combat Logistics Support Agency. DLA Office of Small Business Programs is responsible for implementation of the Procurement Technical Assistance Program to expand the number of businesses capable of participating in contracts with DoD, other Federal Agencies, state and local governments, and government prime contractors.

DLA General Counsel (DG) delivers professional, candid, and independent legal advice and services to DLA.

DLA Command Chaplain (DH) serves as the program manager for religious support logistics. This office provides the DLA Director and the staff a clear picture of workforce morale as affected by religion, ensuring the free exercise of religion to support the Warfighter and the employees in the workplace at DLA.

DLA Installation Management (DM) provides enterprise-wide Agency policy, program, and worldwide operational support in environmental management; safety and occupational health; installation management; public safety; forms and policy management; and morale, welfare, and recreation for DLA.

DLA Equal Employment Opportunity provides DLA senior leadership, staff, and subordinate commands enterprise-wide respondent and subject matter expertise on all Equal Employment Opportunity Compliance oversight.

DLA Public Affairs (DP) provides public affairs support, communication strategy development, and engagement guidance to DLA senior leadership, staff, and subordinate commands. The DLA Public Affairs office develops and administers internal news and information; manages DLA social media and public engagement policies; and develops programs that communicate DLA's role as a Combat Support Agency that adds value to the Defense Department, military services, Combatant Command (CCMDs) and the American people.

DLA Transformation (DT) directorate synchronizes strategy, policy, and process to support the Warfighter, strengthen alliances and drive innovation. DT manages DLA's strategic plan, executive governance forums, and the Agency-wide deployment of Enterprise Process Management, Continuous Process Improvement, Enterprise Organizational Alignment, and Enterprise Policy Management programs.

DLA Office Of The Inspector General (OIG) coordinates and synchronizes GAO and Department of Defense Office of Inspector General (DoDIG) audits with all DLA components; tracking, monitoring, and assessing the implementation of audit corrective actions and communicating completion results. They sustain strategic engagement with the Defense Counsel on Integrity and Efficiency and their subcommittees, as well as relationships with DoDIG Criminal Investigative Services, Military Criminal Investigation Services, and other Law Enforcement Agencies. DLA OIG also conducts administrative investigations and crime vulnerability assessments that align with Agency risks and strategic goals. The DLA OIG internal audit plan is derived from DLA's ERM efforts, and also encompasses external audit projects derived from GAO's high-risk list.



APPENDIX B: Abbreviations & Acronyms

A&FP	Accounting & Finance Policy Directorate	ERM	Enterprise Risk Management
A/BO	Approving/Billing Officials	FASAB	Federal Accounting Standards Advisory Board
A/OPC	Agency/Organization Program Coordinators	FBwT	Fund Balance with Treasury
ADA	Anti-Deficiency Act	FECA	Federal Employees' Compensation Act
AFR	Agency Financial Report	FEMA	Federal Emergency Management Agency
AMP	Annual Materials Plan	FERS	Federal Employee Retirement System
ASP	Annual Sales Plan	FFMIA	Federal Financial Management Improvement Act
BRAC	Base Realignment and Closure	FFMSR	Federal Financial Management System Requirements
BTS	Business Transformation Study	FMFIA	Federal Managers' Financial Integrity Act
CAPs	Corrective Action Plans	FMR	Financial Management Regulations
CARS	Central Accounting and Reporting System	FY	Fiscal Year
CCMD	Combatant Command	GAAP	Generally Accepted Accounting Principles
CERCLA	Comprehensive Environmental Response, Compensation, & Liability Act	GAO	Government Accountability Office
CFO	Chief Financial Officers	GE	General Equipment
Charge Card Act	Charge Card Abuse Prevention Act	GMRA	Government Management Reform Act
COLA	Cost of Living Adjustments	GR	Governance, Risk, and Compliance
CPM	Component Program Manager	GSA	General Services Administration
CSRS	Civil Service Retirement System	HHS	Health and Human Services
CTC	Cost To Complete	HQ	Headquarter
DATA Act	Digital Accountability and Transparency Act of 2014	IC	Internal Controls
DCDS	DFAS Contract Debt System	ICOFS	Internal Controls Over Financial Systems
DCIA	Debt Collection Improvement Act	ICOFR	Internal Controls over Financial Reporting
DERP	Defense Environmental Restoration Program	ICOR-O	Internal Controls over Operations
DFAS	Defense Finance and Accounting Service	ID	Identification
DIPEC	Defense Industrial Plant Equipment Center	IOD	Insight on Demand
DLA	Defense Logistics Agency	IPA	Independent Public Accountant
DoD	Department of Defense	IPs	Improper Payments
DODI	Department of Defense Instruction	IT	Information Technology
DOL	Department of Labor	MAC	Moving Average Cost
DQP	Data Quality Plan	MSC	Major Subordinate Command
DSA	Defense Supply Agency	NDAA	The National Defense Authorization Act
E&DL	Envicronmental and Disposal Liability	NDS	National Defense Stockpile
EBS	Enterprise Business System	NFR	Notice of Findings and Recommendations
ECC	Resource Planning Central Component	ODCFO	Office of the Deputy Chief Financial Officer

OIG	Office of the Inspector General	UoT	Universe of Transactions
OMB	Office of Management and Budget	USACE	U.S. Army Corps of Engineers
OPM	Office of Personnel Management	USD(A&S)	Under Secretary of Defense for Acquisition and Sustainment
OUSD	Office of the Under Secretary of Defense	USMC	United States Marine Corps
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)	USSGL	U.S. Standard General Ledger
P3	Public-Private Partnerships	WCF	Working Capital Fund
PAR	Performance and Accountability Report		
PMO	Program Management Office		
PP&E	General Property, Plant, and Equipment		
PPA	Prompt Payment Act		
PPE	Personal Protective Equipment		
RACER	Remedial Action Cost Engineering and Requirements		
RCRA	Resource Conservation and Recovery Act		
RMIC	Risk Management Internal Control		
S&C	Strategic and Critical		
S/L	Straight Line		
SAP	Systems Applications and Product		
SARA	Superfund Amendments and Reauthorization Act		
SCM	Supply Chain Management		
SFFAS	Statement of Federal Financial Accounting Standards		
SM	Strategic Materials		
SMS	Sustainment Management System		
SNS	Strategic National Stockpile		
SOA	Statement of Assurance		
SOD	Statement of Differences		
SRM	Sustainment, Restoration and Maintenance		
TAS	Treasury Account Symbol		
TDD	Treasury Direct Disbursing		
TFM	Treasury Financial Manual		
TI	Treasury Index		
TRFB	Trident Refit Facility, Bangor		
TROR	Treasury Report on Receivables		
U.S.	United States		
U.S.C.	United States Code		
UCO	Unfilled Customer Orders		
UDO	Undelivered Orders		

ACKNOWLEDGMENTS

This AFR was prepared with the talents, energies and dedication of the Defense Logistics Agency workforce and our contract partners. A special note of appreciation is extended to the many diligent employees in the Financial Reporting Division within the Office of the Chief Financial Officer for your time and efforts in preparing the AFR.

We offer our sincerest thanks and acknowledgement to the DLA Director, Senior Executive Leaders, and their respective staff for their commitment to improve financial accountability and transparency, while executing the primary mission of Sustaining the Warfighter.

Icon + Image Credits



Icon design:

Freepik (Special Lineal Color), **Catkuro** via Freepik | **Gregor Cresnar** via **Noun Project**



Images courtesy of **Department of Defense** and **Defense Logistics Agency**

FEMA Support

Global Distribution Expeditionary Contract personnel at the Marengo Warehouse Distribution Center move cases of meals ready to eat to trailer as part of the Defense Logistics Agency's support to Federal Emergency Management Agency's response to Hurricane Helene. DLA is moving cases of MREs from storage facilities in Marengo, Indiana and Albany, Georgia to support the FEMA request for 21 million meals for those affected by the Category 4 storm and future storms that could soon impact the southeastern United States. **Photo by:** Thomas Zimmerman





TRAP Training

Marine Corps CH-53E Super Stallion helicopters participate in a tactical recovery of aircraft and personnel training exercise near Creech Air Force Base. **Photo by:** Marine Corps Lance Cpl. Jackson Rush



WARFIGHTERS ALWAYS

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