



# DEFENSE SECURITY COOPERATION AGENCY

*Security Through Global Partnerships*



## SECURITY ASSISTANCE ACCOUNTS

**2025**  
FISCAL YEAR  
AGENCY  
FINANCIAL  
REPORT

U.S. Marines conduct rigid-hull inflatable boat training operations while underway in the Caribbean Sea. Photo by Sgt. Nathan Mitchell



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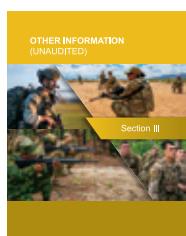
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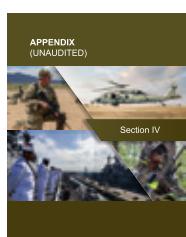
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A U.S. Navy MH-60 Sea Hawk delivers a pallet of supplies to the San Antonio-class amphibious transport dock ship USS San Antonio during a replenishment-at-sea in the Caribbean Sea. Photo by Sgt. Nathan Mitchell

# Preface



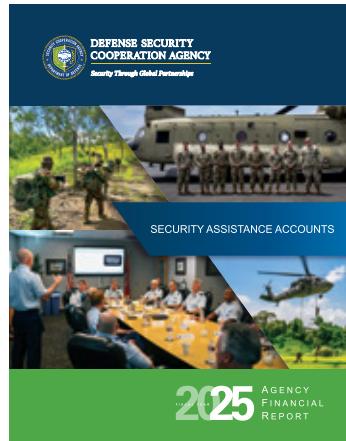
The Security Assistance Accounts (SAA) Agency Financial Report (AFR) provides financial and performance information for the fiscal year (FY) beginning October 1, 2024, and ending on September 30, 2025. Unless otherwise designated, each reference to a year indicates a fiscal year—e.g., “2025” refers to FY 2025. The AFR demonstrates the security assistance (SA) community’s commitment to its mission and accountability to Congress, the President, and the public.

This report follows the Department of Defense designation as presented in the Department’s AFR. We may use the Department of War designation in other, non-statutory communications, as allowed by Executive Order 14347.

A U.S. Air Force F-15EX Eagle II flies over the Gulf of America. Photo by Staff Sgt. Blake Wiles

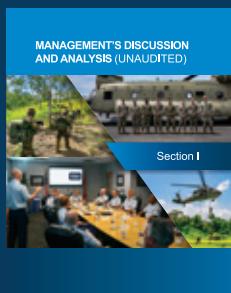
This report satisfies the reporting requirements contained in the following legislation:

- **Federal Managers’ Financial Integrity Act of 1982 (FMFIA):** FMFIA (31 U.S.C. § 113) requires ongoing evaluations and reports of the adequacy on internal accounting and administrative controls. It also mandates that financial management systems comply with federal financial management systems requirements.
- **Chief Financial Officers Act of 1990, as amended:** This act (31 U.S.C. § 901 et seq.) established the position of Chief Financial Officer (CFO). It requires audited financial statements for each major executive agency and designates the Director of the Office of Management and Budget (OMB) to prescribe the form and content of those financial statements.
- **Federal Financial Management Improvement Act of 1996 (FFMIA):** FFMIA (31 U.S.C. § 3512 et seq.) requires financial statement audits to assess the compliance of an agency’s financial management systems with Federal requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL).
- **Reports Consolidation Act of 2000:** This act (31 U.S.C. § 1113) permits agencies to consolidate certain statutorily required reports into a single annual report and contains certain information requirements for the consolidated report.



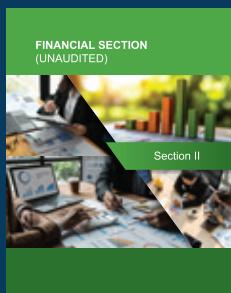
# How This Report Is Organized

The Defense Security Cooperation Agency (DSCA) acts as the steward of the SAA, providing mission information and financial management oversight. The AFR begins with a message from the DSCA Director. This introduction is followed by three main sections.



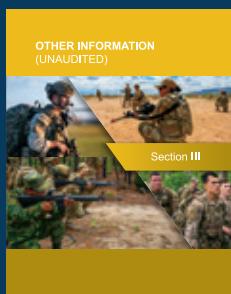
## Section I **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Section I provides an overview of the SAA performance and financial information. It introduces the mission of the DSCA, includes a brief history, and identifies the SAA's stakeholders. This section also highlights the SAA's financial results and includes management's assurances regarding internal controls.



## Section II **FINANCIAL SECTION**

Section II opens with a message from the CFO. This section provides a detailed overview of the SAA's financial status and includes the audit transmittal letter from the Department of Defense Inspector General (DoDIG), the independent auditor's report, as well as the financial statements and accompanying notes. This section also contains the Required Supplementary Information (RSI), which presents a Combining Statement of Budgetary Resources (SBR) by major fund.



## Section III **OTHER INFORMATION**

Section III provides a summary of financial statement audit and management assurances, as well as management challenges pertaining to the SAA.



# Message from the Director

## Defense Security Cooperation Agency

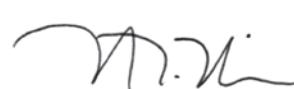
**O**n behalf of the Defense Security Cooperation Agency (DSCA), I am pleased to present the Fiscal Year (FY) 2025 Security Assistance Accounts (SAA) Agency Financial Report. This report provides the American public, Congress, and SAA stakeholders—including the Office of Management and Budget, the U.S. Department of the Treasury, the U.S. Department of State (DoS), and multiple Department of War (DoW) agencies with a comprehensive overview of SAA financial activities. It underscores our commitment to responsible financial stewardship and transparency in managing resources that advance U.S. national security objectives.

This report is published during a time of significant global challenges. Security Assistance programs are actively countering Russian aggression, drug cartels, and supporting allies and partner nations engaged in conflicts with violent extremist organizations across the globe. We accomplished this in tandem with transformative reforms that enhance the overall processes pursuant to the President's Executive Order on *"Reforming Foreign Defense Sales to Improve Speed and Accountability."*

DSCA remains steadfast in its mission to strengthen alliances and build enduring partnerships by delivering security cooperation solutions that address the needs of our partners. Through strategic collaboration across the U.S. government—from individual program offices to policymakers within the DoW and the DoS—we continue to pursue excellence in every aspect of our mission.

While DSCA received a disclaimer of opinion for FY 2025, we remain resolute in our commitment to achieve a clean audit opinion. To this end, DSCA is actively enhancing financial management practices, leveraging technology to strengthen internal controls, and implementing audit remediation strategies. We are working collaboratively with stakeholders to address and implement new or improved processes designed to mitigate material weaknesses. A complete description of these material weaknesses is available within the Management's Discussion and Analysis section and within the Independent Auditors' Report. These findings and recommendations provide valuable insights and opportunities to improve our financial reporting processes and data, ensuring we remain accountable to the American people and our partners worldwide. As we look to the future, DSCA will continue to adapt and innovate to meet the evolving demands of the global security environment. By fostering trust, collaboration, and transparency, we are building upon and strengthening enduring partnerships that advance peace, stability, burdensharing, and shared objectives.



  
Michael F. Miller | Director  
Defense Security Cooperation Agency



DSCA Director Mike Miller signing a \$4 billion FMF guaranteed loan to finance partner nation's U.S. defense acquisitions.

Photo by Eleanor Brown

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)



## Section I

## Security Assistance Accounts Overview

The security cooperation (SC) comprises activities undertaken by the Department of Defense (DoD) to encourage and empower international partners to work with the United States to achieve strategic objectives. SC encompasses a combination of legal authorities, annual appropriations, organizations, and initiatives from within the DoD, the Department of State (DoS), or the Executive Office of the President (EOP). As a subset of SC, SA encompasses a group of programs, authorized by law (22 U.S.C. Chapter 39, "Arms Export Control," and 22 U.S.C. Chapter 2, "Foreign Assistance"), through which the DoD or commercial contractors provide defense articles, services, and training to support U.S. national security policies and objectives.

Table 1 provides an overview of the SAA as well as a detailed description of the funding type associated with each account. This information is also contained within *Note 1, Summary of Significant Accounting Policies*.

**TABLE 1: SAA FUNDING OVERVIEW**

Accounts	Description	Funding Type
<b>International Military Education and Training (IMET):</b> 11 1081 11 X 1081	IMET is used to record the receipt and use of appropriated grant funds for the training of selected foreign military and related civilian personnel worldwide.	General Fund
<b>Foreign Military Financing (FMF) Program Account:</b> 11 1082 11 X 1082	The FMF Program Account is used to record the receipt and use of appropriated grant funds to finance U.S. defense sales to selected allies and partner nations, primarily through the Foreign Military Sales (FMS) program. The fund also includes appropriated administrative funds used to cover the DSCA costs of operating the FMF program.	General Fund
<b>FMF Direct Loan Program Account:</b> 11 X 1085	The FMF Direct Loan Program Account is used to record the appropriation that subsidizes the estimated long-term cost to the United States government (USG) of post-FY-1991 FMF Direct Loan obligations.	General Fund/ Subsidy Program
<b>Special Defense Acquisition Fund (SDAF):</b> 11 4116 11 X 4116	SDAF is used to facilitate the delivery of materiel in advance of normal procurement lead times, enhancing readiness by reducing the need to divert assets from U.S. forces when partners have urgent requirements that cannot otherwise be satisfied. The SDAF operates as a financially independent, revolving fund. The primary source of funding to grow or capitalize the SDAF is the monetary collections received from the sale and transfer of FMS-procured defense articles and services to foreign governments and international organizations where funds are identified as excess. In accordance with Section 51(b) of the Arms Export Control Act of 1976 (AECA), as amended, the fund may be capitalized with monies authorized and appropriated or otherwise made available for the purposes of the SDAF for charges on export sales by the USG and its contractors.	Revolving Fund

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Accounts	Description	Funding Type
Foreign Military Loan Liquidating Account (FMLLA): 11 X 4121	The FMLLA is used to record the receipt and use of appropriated funds to finance credit sales under 22 U.S.C. § 2763 and credit sales guarantees for pre-FY-1992 loan obligations under 22 U.S.C. § 2764.	Revolving/ Liquidating Fund
FMF Direct Loan Financing Account: 11 X 4122	The FMF Direct Loan Financing Account receives the payments for the subsidy cost from the program account 11 (FY) 1085, includes all other cash flows to and from the USG resulting from post-FY-1991 foreign military direct loans. This appropriation is for new loans with original disbursement dates on or after October 1, 1991.	Revolving/ Financing Fund
Military Debt Reduction Financing Account: 11 X 4174	The Military Debt Reduction Financing Account is used to record the rescheduling of loans and to collect loan repayments on those loans rescheduled from 11X4121.	Revolving/ Financing Fund
Security Assistance and International Programs (SAIP), Deposit Account: 11 X 6147	SAIP is used to record collections from foreign governments to reimburse the DoD for goods and services not acquired through the FMS program.	Deposit Account
Advances, Foreign Military Sales (FMS), Funds Appropriated to the President: 11 X 8242	<p>The FMS Trust Fund is used for payments received from purchasers and disbursements made against implemented FMS cases. This fund is cited directly on contracts for the procurement of defense articles and/or services for the purchaser. Alternatively, the fund is used to reimburse DoD component appropriations for deliveries from DoD stocks or services performed by DoD employees. DSCA manages the FMS Trust Fund and is responsible for the solvency of each purchaser's FMS Trust Fund account.</p> <p>The FMS Trust Fund also includes the following three accessorial accounts used to execute the FMS program:</p>	Non-Revolving Trust Fund
	<ul style="list-style-type: none"> <li>● <b>FMS Administrative Surcharge Account:</b> Generates funds via a surcharge applied to FMS cases to cover the costs of operating the FMS program, including civilian employee salaries, facilities, and information systems.</li> <li>● <b>Contract Administration Services (CAS) Cost Clearing Account:</b> Generates funds via a surcharge applied to FMS cases used to cover the costs of quality assurance and inspection, contract management, contract audits, and overseas contract management.</li> <li>● <b>Transportation Surcharge:</b> Used to cover the cost to the United States of transporting purchaser materiel using the Defense Transportation System (DTS) or a bill of lading.</li> </ul>	

## SAA Legal Authorities

SAA authorizations and the appropriations that fund SA activities are primarily established under Title 22 of the U.S. Code:

1. The Foreign Assistance Act of 1961 (FAA), as amended, was enacted to advance U.S. foreign policy, security, and general welfare by supporting global economic and social development as well as internal and external security in addition to other purposes.
2. The AECA, as amended, modifies the FAA to authorize the export of defense articles and services to foreign countries and international organizations (22 U.S.C. § 2751 *et seq.*).
3. Congress also appropriates annual SA funding under the Foreign Operations, Export Financing, and Related Programs Appropriations Act each fiscal year.

Each year, the President's budget submission includes a request for SA appropriations. Legislative amendments may also be requested for congressional authorization and appropriation. Congress then reviews these requests, authorizes and appropriates funds, and enacts any necessary legislative amendments to implement SA programs. Appropriations may also be requested to reimburse the DoD for equipment provided through Military Assistance Program drawdowns.

## DSCA Mission

DSCA leads the SC enterprise to provide policy, legal, financial, legislative, programmatic, and weapons system expertise to interagency stakeholders across the United States. DSCA's vision is to lead the SC enterprise in delivering effective, enduring, and timely solutions. The agency serves as the source for SC expertise and innovation for our defense and foreign policy stakeholders, ensuring the United States remains the global partner of choice.

The DSCA mission is to advance U.S. defense and foreign policy interests by building the capacity of foreign partners. This support encourages and enables allies and partner nations to respond to shared challenges. These programs build relationships with foreign countries and international organizations that promote U.S. interests, develop allied and partner capabilities for self-defense and coalition participation in overseas contingency operations, and promote peacetime and contingency access for U.S. forces. DSCA fulfills its responsibilities for SC in concert with the Department of State (DoS), Military Departments (MILDEPs), other USG organizations, U.S. industry, and non-governmental organizations.

Collectively, the SC community provides financial and technical assistance; supplies defense articles and services via nationally funded cases; issues financing for defense articles and services, including training, that are provided through the FMS program; and delivers training funded under IMET authorities.

## Organizational Structure

While DSCA manages the SAA, the DoS retains overall responsibility for the ongoing supervision and strategic direction of SA programs. DSCA directly manages the SAA, MILDEPs, and applicable DoD agencies—collectively known as the Implementing Agencies (IAs)—to execute most SAA funds.

Each MILDEP Secretary advises the Secretary of Defense (SecDef) on SA matters pertaining to their respective department and performs the following key activities in support of the SC mission:

- Provides information on pricing, sourcing, availability, and lead times for requested defense articles to support the development and execution of FMS cases;
- Sells and delivers defense articles and services to eligible foreign countries and international organizations; and
- Conducts training for foreign military and civilian personnel.

The following MILDEP offices lead their respective departments as IAs in support of the SC mission:

- **Department of the Air Force:** Office of the Deputy Under Secretary of the Air Force for International Affairs
- **Department of the Army:** Office of the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation
- **Department of the Navy (including the U.S. Marine Corps and U.S. Coast Guard):** Navy International Programs Office

The Defense Finance and Accounting Service (DFAS) provides accounting, billing, disbursing, and collection services for the SAA. DFAS also prepares the SAA financial statements on behalf of DSCA. The roles and responsibilities for these financial and accounting services are outlined in a mission work agreement between DSCA and DFAS.

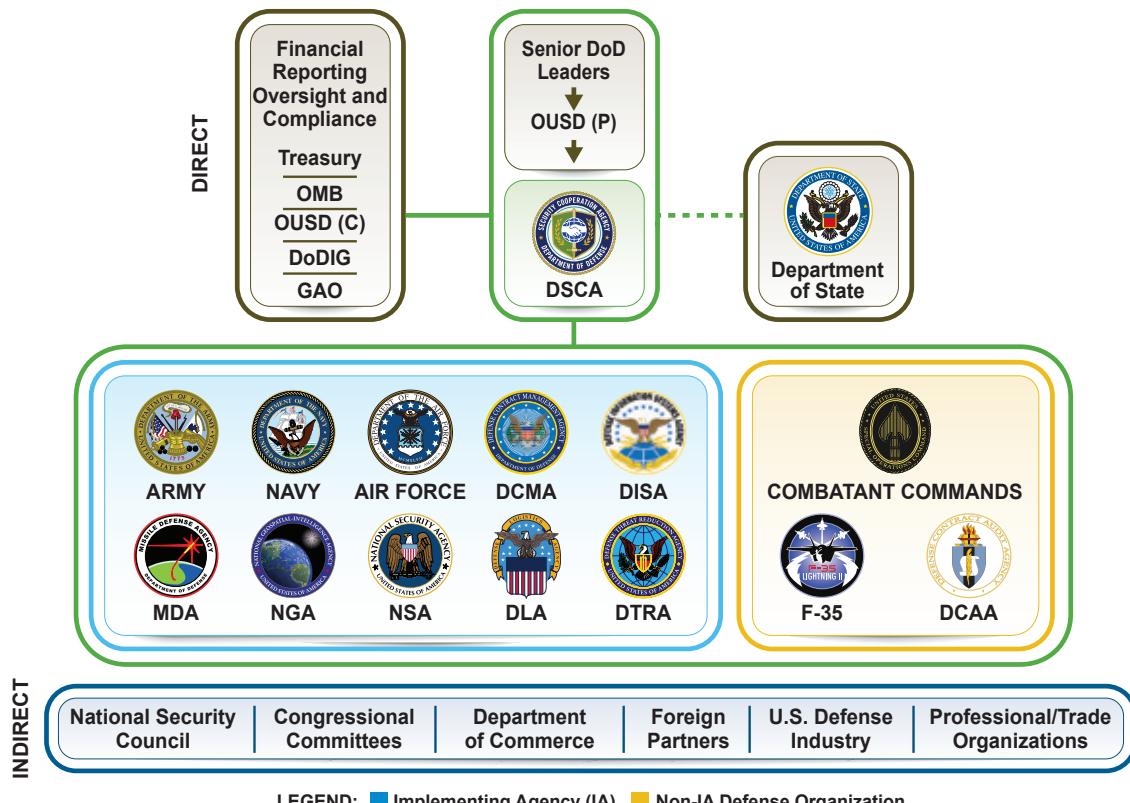


A U.S. Air Force officer completes a virtual-reality flight simulation exercise in the Iron Eagle Lab at Wright-Patterson Air Force Base, Ohio. Photo by Richard Eldridge

## SAA Stakeholders

Figure 1 depicts the relationships among the SAA stakeholders.

FIGURE 1: SAA STAKEHOLDERS



## Responsibilities and Relationships

Congress has a keen interest in the sale and transfer of defense articles and services to foreign countries and international organizations. Congress authorizes and appropriates funds for the portions of SA financed by the USG and provides contract authority to SA stakeholders. While Executive Branch agencies such as OMB, and the United States Department of the Treasury (hereafter referred to as "Treasury") have responsibilities related to SA, the principal legislated responsibilities, apart from those of the President, are assigned to the DoS and the DoD.



## DEPARTMENT OF STATE (DoS)

Pursuant to the FAA (22 U.S.C. § 2151 et seq.), the AECA (22 U.S.C. § 2751 et seq.) and Executive Order 13637 ("Establishing an Arms Export Control Reform Task Force," March 8, 2013), the Secretary of State is responsible for the continuous supervision and overall direction of SA programs. This responsibility determines if and when to launch a program or sale for a specific country or activity, as well as establishing its size and scope. Additionally, it involves determining budget requests and allocating funds for military assistance, including IMET. The DoS reviews and approves:

- Export license requests for direct commercial sales of items on the United States Munitions List of the International Traffic in Arms Regulations (ITAR) (22 CFR Parts 120-130); and
- Third-party transfers of exported defense articles and services (22 U.S.C. § 2753(a)(2)).

Additionally, the DoS performs the following functions:

- Verifies FAA, section 502B (22 U.S.C. 2304) eligibility and obtains the assurances from recipient countries and organizations required by FAA, section 505 (22 U.S.C. 2314) prior to most grant transfers of defense articles;
- Prepares the Mission Strategic Resource Plan;
- Reviews and submits the Congressional Budget Justification to Congress, which includes an annual estimate of total sales and licensed commercial exports expected for each foreign nation as required by AECA 25(a)(2) (22 U.S.C. 2765(a)(2)); and
- Reviews and submits the annual arms sales proposal (Javits Report) as required by AECA Section 25(a)(1).



## DEPARTMENT OF DEFENSE (DoD)

The Secretary of Defense establishes military requirements and implements programs to transfer defense articles and services to eligible foreign countries and international organizations (22 U.S.C. § 2751 et seq., "Arms Export Control Act"). Within the DoD, the principal responsible agencies for the SC are DSCA, the Joint Staff, security cooperation organizations (SCOs), and the MILDEPs. The Office of the Under Secretary of Defense for Policy (OUSD(P)) serves as the principal staff assistant and advisor to the Secretary of Defense on SC matters.

In that capacity, OUSD(P):

- Develops and coordinates DoD guidance which disseminates the SecDef's SC goals and priorities;
- Articulates the SecDef's SC goals, policies, and priorities to other USG agencies to help shape national security objectives and enable greater unity of effort;
- Oversees the direction and administration of DoD-wide policy guidance for the execution of SA and additional DoD SC programs; and
- Represents the SecDef's interests in SC matters and serves as the DoD point of contact and representative for the SC.



## DEFENSE SECURITY COOPERATION AGENCY (DSCA)

DSCA directs, administers, and provides guidance to the DoD components and DoD representatives to U.S. missions, for the execution of DoD SC programs for which DSCA has responsibility (DoD Directive 5105.65, as amended).

The Director of DSCA is responsible for the execution and administration of all SC programs and activities of the DoD involving the provision of defense articles, military training, and other defense-related services by grant, loan, cash sale, or lease (10 U.S.C. § 382(b)).

In coordination with the OUSD(P) and the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)), as appropriate, DSCA performs the following functions:

- Ensures that the interests of the SecDef and OUSD(P) are represented in SA matters;
- Identifies requirements, criteria, and procedures for the selection and training of personnel engaged in DoD SC programs over which DSCA has responsibility; and
- Communicates directly with the heads of the DoD components on SC matters over which DSCA has responsibility.

DSCA also supports the development of technology security, foreign disclosures, sales policies and procedures for defense information, technology, and systems. Furthermore, DSCA jointly establishes appropriate agreements and procedures with the Director of the Defense Intelligence Agency (DIA), and with the combatant commands (CCMDs) for senior defense officials (SDOs) and defense attachés to provide guidance in accordance with applicable laws and regulations.

Furthermore, DSCA performs the following functions:

- In coordination with the Chairman of the Joint Chiefs of Staff, approves joint manpower programs involving the establishment of new SCOs or changes in manpower authorizations or organizational structure;
- Along with the Director of the DIA, jointly approves changes to the grade or MILDEP affiliation of the senior defense officials or defense attachés;
- Reports to the Under Secretary of Defense for Personnel and Readiness in the Defense Readiness Reporting System the readiness of personnel for SA activities in DoD SC programs over which DSCA has responsibility; and
- Acts as the executive agent for the DoD Regional Centers for Security Studies.

Finally, authorities conferred on the SecDef by the FAA and AECA pertaining to SA and authorities under those acts delegated by the President to the SecDef are re-delegated through the OUSD(P) to the Director of DSCA.

## Implementing Agencies (IAs)

Other agencies prepare and execute FMS cases and other SA sources, such as FMS Administrative Surcharge, FMF, and SDAF, as applicable. In coordination with the OUSD(P), IAs serve as advisors to the SecDef on all SC matters affecting or related to their respective support to the combatant commanders (CCDRs). IAs also perform the following functions:

- Provide recommendations to the SecDef to ensure the successful conduct of SC programs;
- Conduct military education, training, and sales of defense articles and defense services to eligible foreign countries and international organizations in accordance with policies and criteria established by the OUSD(P) and the Director of DSCA;

- Provide the technical information and data, upon request, on weapons systems, tactics, doctrine, training, capabilities, logistic support, price, source, availability, and lead time for developing and reviewing SC programs;
- Maintain appropriate records and furnish prescribed reports as requested;
- Ensure conformance with technology transfer, classified military information release, and disclosure policies for their respective areas of responsibility while conducting SC activities; and
- Assist the OUSD(A&S) and the Director of DSCA, as requested, in government-to-government or interdepartmental discussions or negotiations involving the SC.



## DEFENSE CONTRACT MANAGEMENT AGENCY (DCMA)

DCMA performs contract administration and management, quality assurance, product acceptance, and other acquisition services when assigned delegation for the DoD, other federal agencies, and foreign partners as authorized in support of the SC. DCMA also serves as a Contingency CAS force provider to the military service responsible for executing the mission. DCMA prepares FMS cases for services in support of foreign partners' direct commercial sales procurements. DCMA operates under the authority, direction, and control of the OUSD(A&S), through the Assistant Secretary of Defense for Acquisition.



## DEFENSE INFORMATION SYSTEMS AGENCY (DISA)

DISA is a combat support agency that equips our nation's warfighters with the information technology and telecommunication resources required to stay connected, fight, and win, on land, at sea, in the air, in space, and in cyberspace—anywhere, at any time, against any adversary. DISA's international programs provides products and services such as interoperability testing, software licensing, and technical support to allies, coalition partners, and selected foreign nations, as determined to be in the national interest of the United States.



## DEFENSE LOGISTICS AGENCY (DLA)

The Director of DLA advises the SecDef on all SC matters impacting DLA and acts for the SecDef when responsibility has been delegated. DLA acts as an IA by preparing, executing, and closing FMS cases for cataloging at the DLA Logistics Information Services, and for sales of excess defense articles at DLA Disposition Services. Additionally, DLA coordinates on MILDEP FMS cases exclusively for medical equipment and supplies (except for U.S. Army cases prepared by the U.S. Army Medical Materiel Agency), clothing and textiles, subsistence, and bulk petroleum. As the item managers for consumable stock-funded secondary items, DLA supply centers work with the MILDEPs to fill requisitions, process supply discrepancy reports, and close cases when supply is complete.



## DEFENSE THREAT REDUCTION AGENCY (DTRA)

DTRA provides cross-cutting solutions to enable the DoD, the USG, and international partners to deter strategic attacks against the United States and its allies; prevent, reduce, and counter weapons of mass destruction (WMD) and emerging threats; and prevail against WMD-armed adversaries in crisis and conflict.



**U.S. Army Brigadier General Allen J. Pepper listens to a question after delivering the keynote address for the NAITA FMS Industry Day summit.**

Photo by Kristen Pittman



## THE MILITARY DEPARTMENTS (MILDEPS)

In coordination with the OUSD(P), the MILDEPs develop campaign support plans, as appropriate; serve as IAs to conduct SC programs and activities; and complete campaign support plan assessments contributing to CCMD campaign plans, as appropriate. Additionally, the MILDEPs perform the following functions:

- Serve as advisors to the SecDef on all SC matters affecting or related to their respective department's support to the CCDRs;
- Provide recommendations to the SecDef to ensure the successful conduct of SC programs;
- Conduct international armaments cooperation with eligible, friendly foreign countries and international organizations in accordance with policies and criteria established by the OUSD(A&S);
- Conduct military education, training, and sales of defense articles and services to eligible foreign countries and international organizations in accordance with policies and criteria established by the OUSD(P) and the Director of DSCA;
- Provide technical information and data, upon request, on weapons systems, tactics, doctrine, training, capabilities, logistic support, price, source, availability, and lead time for developing and reviewing SC programs;
- Maintain appropriate records and furnish prescribed reports as requested;
- Provide qualified military and civilian personnel to carry out SC assignments according to approved tables of distribution and other authorizations, directives, and requests;
- Ensure conformance with technology transfer, classified military information release, and disclosure policies for their respective areas of responsibility while conducting SC activities; and
- Assist OUSD(A&S) and the Director of DSCA, as requested, in government-to-government or interdepartmental discussions or negotiations involving SC.



## MISSILE DEFENSE AGENCY (MDA)

MDA is a research, development, and acquisition agency within the DoD. Its workforce includes government civilians, military service members, and contractor personnel in multiple locations across the United States. MDA develops, tests, and fields an integrated missile defense system (MDS). The agency works closely with the CCDRs, who rely on the system to accomplish its mission to develop and deploy a layered MDS to defend the United States as well as its deployed forces, allies, and friends from missile attacks in all phases of flight.



## NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY (NGA)

NGA delivers world-class geospatial intelligence that provides a decisive advantage to policymakers, military service members, intelligence professionals, and first responders. NGA is a unique combination of intelligence agency and combat support agency. It is the world leader in timely, relevant, accurate and actionable geospatial intelligence. NGA enables the U.S. intelligence community and the DoD to fulfill the President's national security priorities to protect the nation. NGA also anticipates its partners' future needs and advances the geospatial intelligence discipline to meet them.



## NATIONAL SECURITY AGENCY (NSA)

NSA leads the USG in cryptology that encompasses both signals intelligence insights and cybersecurity products and services. The agency enables computer network operations to gain a decisive advantage for the nation and its allies. The NSA is part of the DoD, serving as a combat support agency. To support military customers, the NSA has deployed personnel to all major military commands and locations around the globe where there is a U.S. military presence. NSA analysts, linguists, engineers, and other personnel deploy to hostile areas to provide actionable signals intelligence and cybersecurity support to warfighters on the front lines.

## Non-IA Defense Organizations



## COMBATANT COMMANDS (CCMDS)

The CCMDS develop campaign plans to conduct SC programs and activities; complete campaign plan and campaign support plan assessments, as appropriate; provide appropriate assistance as requested by the OUSD(P) or the Director of DSCA; and supervise the SCOs in matters related to execution of the Guidance for Employment of the Force, including the provision of necessary technical assistance and administrative support to the SCOs.



## DEFENSE CONTRACT AUDIT AGENCY (DCAA)

DCAA performs all necessary contract auditing for the DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all the DoD components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts, including contracts that support FMS cases.



## F-35 PROGRAM

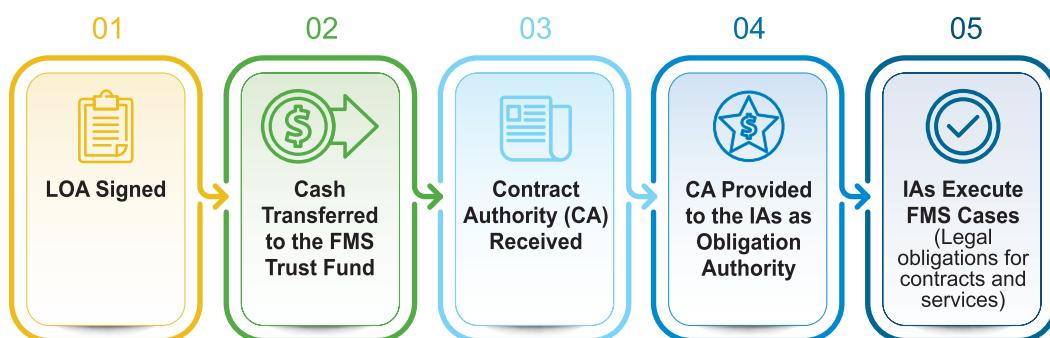
Previously referred to as the Joint Strike Fighter (JSF) program, the F-35 program is the DoD's focal point for defining affordable, next-generation strike aircraft weapon systems for the Navy, Air Force, Marines, and our allies. The focus of the program is affordability—reducing the development cost, production cost, and cost of ownership of the JSF family of aircraft.

## Execution of SAA Fund Types

### FMS Case Funding

Figure 2 illustrates a high-level overview of the general FMS case process, beginning with the signing of the Letter of Offer and Acceptance (LOA) and continuing through to disbursement and outlays. When the LOA is signed by both the partner nation and the USG, funds are deposited into the FMS Trust Fund in accordance with the payment schedule outlined in the LOA. For certain countries, funds can also be deposited into the Federal Reserve Bank (FRB) or commercial bank accounts. Once the LOA has been signed and the initial deposit has been made, the FMS Case is implemented, and contract authority for the full case value is granted. Obligational authority is then provided to the IAs on FMS cases.

FIGURE 2: GENERAL FMS CASE FLOW



### FMS Administrative Funding

The legal authority to collect the FMS Administrative Surcharge is granted by section 43(b) of the AECA, which states, "(b) Administrative expenses incurred by any department or agency of the USG (including any mission or group) in carrying out functions under this Act which are primarily for the benefit of any foreign country shall be fully reimbursed from amounts received for sales under sections 21 and 22."

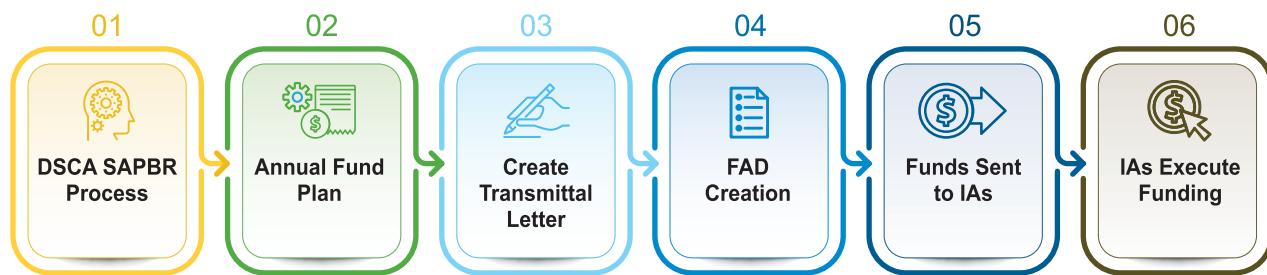
Figure 3 presents a high-level, end-to-end summary of the FMS Administrative budget review process and the overarching flow of funds. This begins with the Security Assistance Program Budget Review (SAPBR), which serves as the formal justification process for a program and budget increase or decrease from the prior year. This upward or downward adjustment occurs in the form of an Approved Fiscal Guidance request. Throughout the SAPBR, DSCA reviews baseline funded programs, considers prior year execution, and determines the appropriate level of funding for the upcoming budget year. After final funding levels for each IA are established in coordination with DSCA leadership, OMB, and DoS, DSCA issues the Annual Funding Plan (AFP), which communicates the approved funding amounts to each IA for that budget year.

During the execution year, funds are disseminated by DSCA to the IAs, informed by the promulgated AFP. Internally, DSCA creates and signs a transmittal letter identifying where funds are allocated. This signals the creation of the Funds Authorization Document (FAD) which serves as the vehicle to distribute funding (cash) to the IAs. FADs are issued on a quarterly basis and are informed by execution performance against IA spend plans which are balanced to the AFP. A FAD distributes funds from DSCA to the respective IA, allowing them to execute their approved budgets.

Additional accessorial surcharges include:

- A CAS surcharge, which funds four basic elements: quality assurance and inspection, contract management, contract audit, and overseas contract management.
- A transportation surcharge, which covers the cost to the United States of transporting purchaser materials using the DTS or a Bill of Lading.

FIGURE 3: FMS ADMIN FUND FLOW



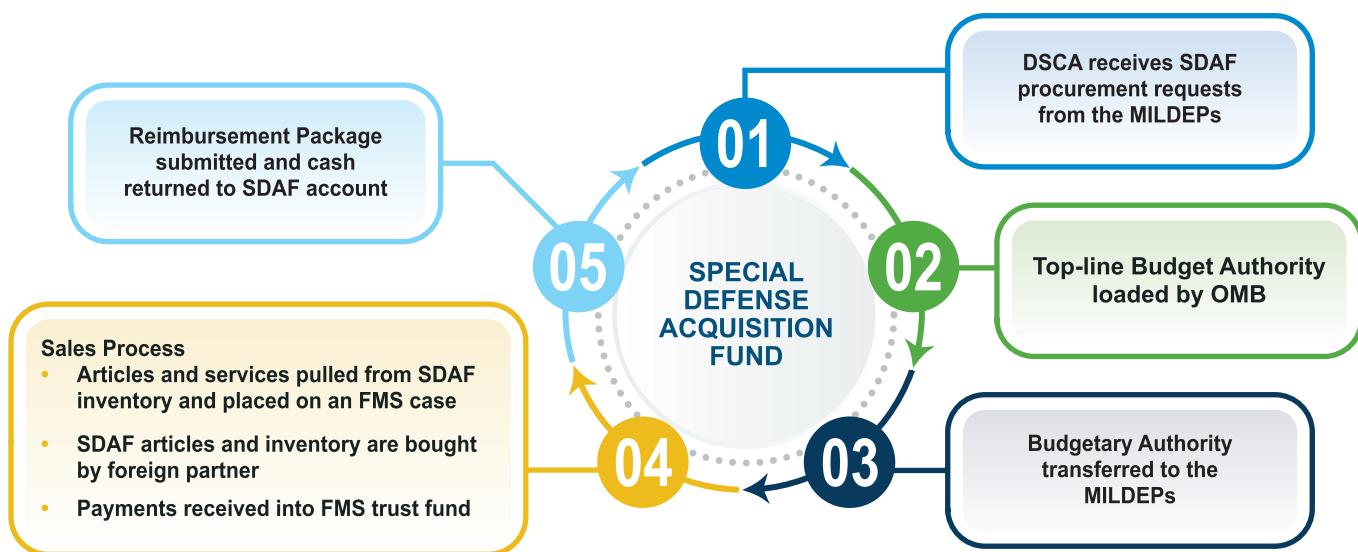
## Special Defense Acquisition Fund

SDAF operates as a revolving fund, separate from other accounts, to finance the acquisition of defense articles and services in anticipation of transfer to eligible foreign countries and international organizations (22 U.S.C. § 2795(b)). This provides the DoD with the flexibility required to plan for anticipated foreign procurements of U.S. defense materiel. By enabling the advance purchase of military equipment to meet projected needs, the SDAF permits the U.S. to proactively respond within the defense export environment. The objective of SDAF is to procure high-demand, long lead-time defense equipment in anticipation of future sales to be conducted on a government-to-government basis through the FMS program. These acquisitions result in accelerated deliveries once FMS cases are signed. The availability of SDAF assets reduces pressure on the DoD to meet urgent requirements through withdrawals from U.S. inventories or through diversions from production.

The statutory authority for SDAF is section 51 of the AECA (22 U.S.C. § 2795), while 10 U.S.C. Section 114(c) establishes a ceiling on the size of the Fund. Although SDAF authorization dates back before the 1980s, it was inactive for a number of years. In FY 2024, Congress approved the obligation limit of \$900 million for SDAF, pursuant to Section 7035(b)(4) of the Further Consolidated Appropriations Act, 2024 (Public Law 118-47) which also granted a three-year obligation authority for the account.

Figure 4 outlines the SDAF process, beginning with the MILDEPs submitting SDAF procurement requests to DSCA. The DoD, in consultation with the DoS, determines the optimal use of funds through a jointly chaired board called the SDAF Procurement Board. Once the Procurement Board selects the top proposals, budgetary authority is provided through the Foreign Operations and Consolidated Appropriations Act. During the sales process, articles and services are pulled from the SDAF inventory and placed on an FMS case also known as an LOA. All LOAs and SDAF sales are executed through the FMS system. This process requires that all articles/services be directly procured from the SDAF inventory, once requested by a foreign partner. Upon delivery of SDAF articles to the foreign partner, payment is received into the FMS Trust Fund. Finally, a reimbursement package is submitted to replenish cash back into the SDAF account to maintain the revolving nature of the account.

FIGURE 4: SDAF FUND FLOW

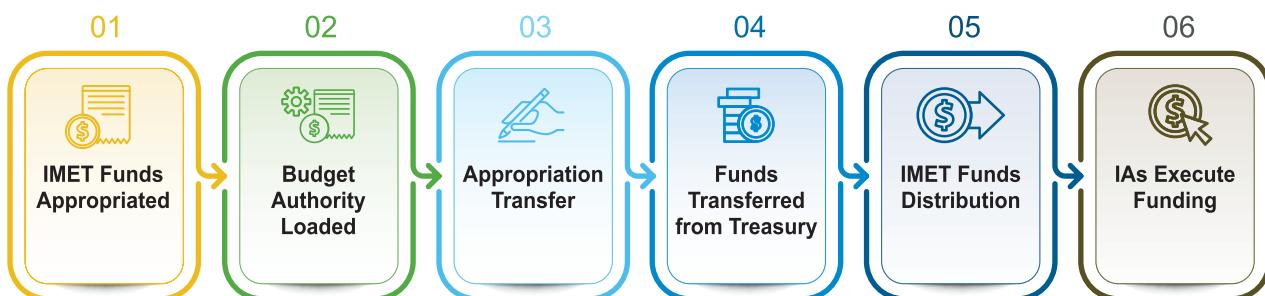


## International Military Education and Training Funding

The IMET program is a DoS program, jointly managed by the DSCA and the DoS, that funds military education and training courses for international military and related civilian personnel of foreign countries, as authorized by 22 U.S.C. § 2395 (Section 635 of the FAA). As a vital element of the SC, IMET supports regional stability and defense capabilities by offering professional military, technical, and specialized instruction. Most IMET courses are provided at U.S. military schoolhouses, giving international students exposure to U.S. culture, military peers, practices, standards, and professionalism.

As depicted in Figure 5, the IMET funding process begins with the DoS receiving an IMET appropriation. A transmittal letter is then consolidated with training requirement submissions from all three MILDEPs to determine which training events will be funded. Once this decision is made, the transmittal letter is approved, and the Treasury completes a non-expenditure transfer. DSCA then generates a funding authorization document and distributes the designated funds to the respective MILDEPs. The MILDEPs can then use the funds to carry out the approved training activities outlined in their previously submitted documents.

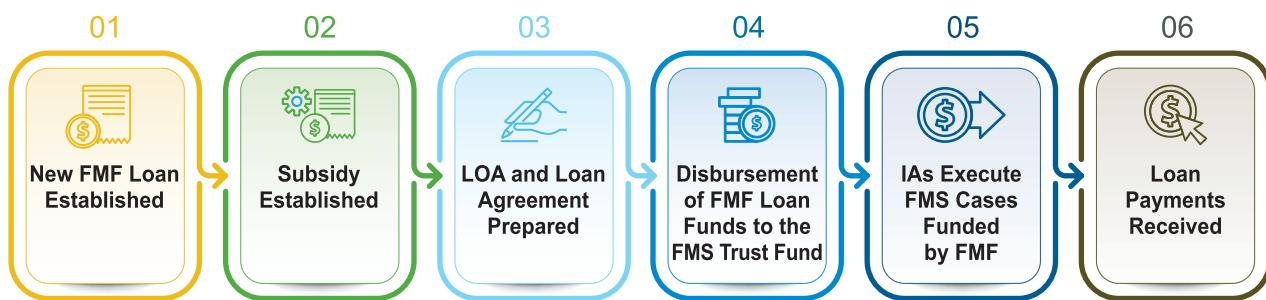
FIGURE 5: IMET FUND FLOW



## Foreign Military Financing Direct Loan Funding

The FMF Direct Loan Financing account was established to provide subsidies that support the disbursements of FMF funds for approved procurements and for subsequent loan collections (22 U.S.C. § 2763 et seq.). The FMF Direct Loan process begins with the appropriation of funds for FMF direct loans. The DoS then approves and allocates funds for the FMF Direct Loan program, and OMB establishes the subsidy rate. The FMF Direct Loan Financing account subsidizes the estimated long-term cost to the USG. This subsidy covers the risk of defaults and the difference in interest rates that the country pays on its loans and the interest the government must pay on Treasury borrowings. When FMS cases funded by an FMF Direct Loan are accepted, an LOA is prepared to support the case, and the Treasury disburses funds into the FMS Trust Fund. IAs can execute these cases once the funds have been disbursed into the FMS Trust Fund. Figure 6 illustrates the complete FMF Direct Loan fund flow.

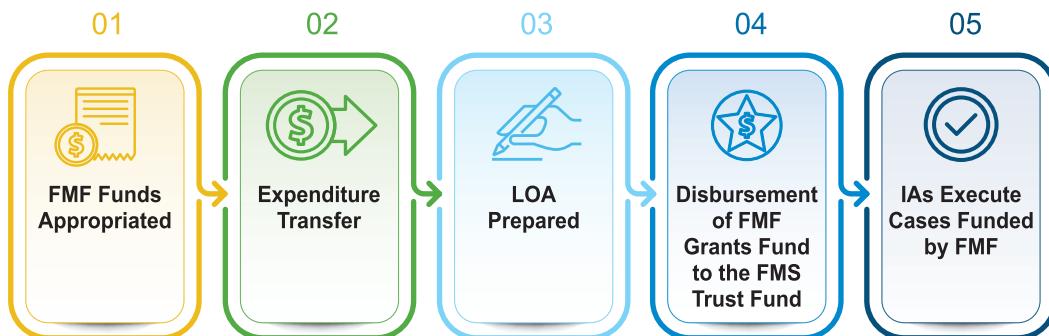
FIGURE 6: FMF DIRECT LOAN FUND FLOW



## Foreign Military Financing Program (Grants) Funding

The FMF Grants process begins when Congress appropriates FMF funds in the Foreign Operations Appropriations to the DoS, which allocates funds for eligible partner nations. Similar to the FMF Direct Loan process, an LOA is prepared for FMS cases being funded by an FMF Grant. A funds transfer will then occur to disburse FMF Grant funds to the FMS Trust Fund, allowing IAs to execute cases. See Figure 7 for the FMF Grants fund flow.

FIGURE 7: FMF GRANTS FUND FLOW





An F-35B Lightning II executes a vertical landing during sea trials.

Photo by Darin Russell

## Changes in Building Partner Capacity (BPC) Case Financial Management

BPC programs, funded by U.S. Government appropriations, encompass SC and assistance activities aimed at building the capacity of partner nation security forces (10 U.S.C. § 333). These programs provide defense articles and services to the MILDEPs and other USG agencies under the Economy Act (31 U.S.C. § 1535), enhancing their capabilities in counterterrorism, counter-drug, and counterinsurgency operations. BPC programs support U.S. military and stability operations, multilateral peace initiatives, and other strategic objectives.

Historically, DoD and DoS appropriated funds were made available to DSCA and deposited into the FMS Trust Fund to fund BPC cases and were executed through the existing FMS infrastructure, leveraging Security Assistance systems and cases developed by the MILDEPs. To resolve several audit issues, and at the request of the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) to discontinue transferring BPC funds into the FMS Trust Fund, DSCA and the MILDEPs have been working on implementing a long-term solution to decouple BPC funds from the FMS Trust Fund since 2023. This initiative culminated in the new solution going live in FY 2025, and as a result, no newly appropriated BPC funds, effective October 1, 2024, were deposited into the FMS Trust Fund. Previously deposited BPC funds will remain in place until they are either used, returned, or canceled, prior to their expiration. The Defense Agencies Initiative now serves as the primary financial system for funds management.

Starting with FY 2025 appropriations, funds were provided directly to the MILDEPs via a FAD generated and sent through the Enterprise Funds Distribution system and loaded into their general ledger (GL) and accounting systems. DSCA and the MILDEPs have completed modifications and updates to their GL/accounting and logistics systems required to support these operational changes. Lastly, to enhance financial execution visibility and automate the reporting process, various dashboards were built in Advana (OUSD(C)'s data analytics solution) to enable improved status of funds monitoring and tracking of materiel deliveries.

As the deployment continues, DSCA remains committed to finding ways to automate manual processes and streamline operations. By leveraging advanced technologies and data analytics, DSCA aims to enhance efficiency, reduce administrative burdens, and ensure timely and accurate financial and logistical support for BPC programs.

## Performance Summary and Highlights

DSCA's Strategic Plan aligns key tenets of the National Security Strategy and the National Defense Strategy with the Agency's Strategic Goals. This enables a direct linkage between national security guidance and DSCA measurable objectives and action. This demonstrates DSCA's critical role in implementing national security and defense strategy.

DSCA's values-based approach, including human rights, rule of law, civilian harm mitigation, and women, peace, and security initiatives, distinguishes the United States from our strategic competitors.

DSCA will continue to identify and implement SC enterprise improvements with an emphasis on cost, schedule, and performance. DSCA will ensure that authorities and policies are implemented and updated to facilitate all aspects of Security Cooperation. Finally, DSCA will empower the SC workforce by ensuring they have the training and tools to excel as SC professionals.

In service of, and in alignment with enduring national defense strategic goals, in April 2021, DSCA developed its 2025 Strategic Plan, which contained five strategic goals. These five strategic goals begin with a focus on external SC stakeholders to enable decision-making that is mutually beneficial for the U.S., DSCA, and the partner nation.

**Strategic Goal 1:** *Align and integrate department SC activities to influence partner capability development and acquisition decisions to mutual benefit.*

**Strategic Goal 2:** *Standardize and lead SC program planning such that activities and resources are prioritized, aligned, and executed within a structured, full-spectrum approach focused on developing capabilities.*

**Strategic Goal 3:** *Improve the effectiveness and efficiency of the SC enterprise's business operations.*

**Strategic Goal 4:** *Improve our ability to strengthen alliances and attract new partners by obtaining and refining authorities and policies.*

**Strategic Goal 5:** *Develop a diverse, certified, adaptable, and resilient SC workforce to meet shared U.S. and international security challenges.*

In FY 2025, DSCA continued to focus on the existing objectives outlined within the Strategic Plan. These objectives are designed to reflect an incremental approach to codify the ways that DSCA and the SC community meet current and future demands to support reporting progression on fulfilling the strategic goals.

## Analysis of Financial Statements

The principal financial statements include the Consolidated Balance Sheet, Consolidated Statement of Net Cost (SNC), Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources. Due to limitations of SAA financial management processes and systems, all elements of U.S. Generally Accepted Accounting Principles (GAAP) and OMB Circular No. A-136 may not have been fully implemented. Building on the prior SAA audit findings, DSCA is developing corrective action plans (CAPs) specifically designed to address and remediate the identified financial management issues.

One of the SAA's greatest financial management challenges is the disparate system and stakeholder environment used to process its transactions. SAA transactions are executed across multiple general ledger accounting systems, each of which may have its own business rules and posting logic. Because of these differences, there may be inconsistent application of accounting principles across the SAA. DSCA management has several efforts underway to address the root causes of these disparate environments. To increase auditability and provide transactional detail support for financial statement lines, DSCA is using Advana, the DoD's platform for advanced analytics, as a key tool to ingest and standardize data from across the SAA environment to create a universe of transactions. In FY 2025, DSCA initiated a comprehensive historical data remediation effort to standardize data across IAs, thereby reducing reconciliation differences. DSCA will collaborate with IA Management in FY 2026 to further standardize accounting data through system modernization and posting logic implementation.

In response to ongoing SAA Information Technology (IT) challenges, DSCA is proactively remediating identified IT control gaps and managing dependencies on other DoD systems with IT findings that impact the SAA audit. DSCA management is collaborating across the DoD components to align system modernization efforts. This collaboration effort allows the SAA to consolidate IT risk mitigation efforts, to reduce redundancies for IT supporting SAA financial transactions, and to ensure legacy SC systems are compliant with the appropriate financial and IT requirements, such as FFMIA, FMFIA, Federal Information Security Modernization Act, OMB policies and guidance, and standards and guidance issued by the National Institute of Standards and Technology. Additionally, DSCA management will continue to leverage the DoD community to streamline service provider monitoring and oversight and to provide overarching guidance to minimize risks and negative impacts to the enterprise.

Lastly, DSCA management recognizes SAA's inaccurate accounting for Inventory and Related Property (I&RP) and Property, Plant, and Equipment (PP&E) as a major financial challenge. In FY 2025, DSCA implemented automated processes in Advana to reclassify applicable expense and revenue transactions as inventory and costs of goods sold (COGS) on behalf of the Army and the Air Force to record inventory and revenue for the FMS Trust Fund for the first time ever. DSCA continues to develop and execute corrective actions to address all policy and system dependencies related to the recording and monitoring of I&RP and PP&E.

As certain accounts and financial statement line items are interrelated, business events can influence multiple line items simultaneously. The significant balances affecting SAA's key measures are provided in Table 2 on the following page.

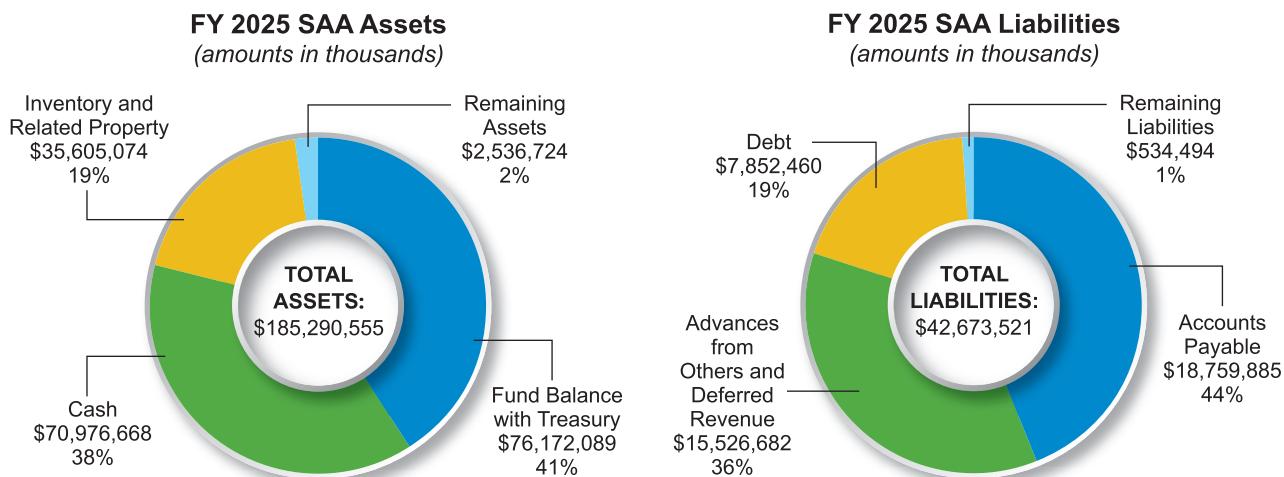
**TABLE 2: KEY FINANCIAL STATEMENT MEASURES**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Cost</b>	
Gross Program Cost	\$ (25,052,951)
Less Earned Revenue	(259,018,639)
<b>Net Cost of Operations</b>	<b>\$ (284,071,590)</b>
<b>Assets:</b>	
Fund Balance with Treasury	\$ 76,172,089
Cash	70,976,668
Inventory and Related Property	35,605,074
Remaining Assets	2,536,724
<b>Total Assets</b>	<b>\$ 185,290,555</b>
<b>Liabilities:</b>	
Accounts Payable	\$ 18,759,885
Advances from Other and Deferred Revenue	15,526,682
Debt	7,852,460
Remaining Liabilities	534,494
<b>Total Liabilities</b>	<b>\$ 42,673,521</b>
<b>Net Position (Assets minus Liabilities)</b>	<b>\$ 142,617,034</b>

Analyses of the significant financial statement line items presented in the Key Financial Statement Measures table are shown on the following page.



U.S. Marines offload from CH-53K King Stallion helicopters during UNITAS 2025 aboard the San Antonio-class amphibious transport dock ship USS Arlington, off the coast of North Carolina. Photo by Lance Cpl. Orlanys Diaz Figueroa



## Financial Position

The SAA is undertaking an intensive audit remediation initiative to address historical balances, which includes recognizing inventory and revenue for the first time and adjusting legacy Fund Balance with Treasury (FBwT) balances. As a result of this cleanup, the SAA reported a positive Net Position, the difference between Total Assets of \$185.3 billion and Total Liabilities of \$42.7 billion, for a total of \$142.6 billion for FY 2025. Remediation efforts will extend into FY 2026 as further data cleanup is performed. The SAA's largest asset balance is FBwT at \$76.2 billion, or 41% of Total Assets. The SAA's largest liability balance is Accounts Payable at \$18.8 billion, or 44% of Total Liabilities.

The Net Cost of Operations represents the gross cost incurred by the SAA to conduct its operations, less earned revenue. The SAA is reporting an abnormal Net Cost of Operations of \$(284.1) billion for FY 2025. This is driven by an abnormal gross costs for the FMS Trust fund of \$(25.7) billion and earned revenue of \$259 billion, both of which were attributed to the FBwT and Inventory cleanup efforts. Remediation activities will continue into the next fiscal year as additional cleanup is conducted. The SAA's largest gross cost component originates from the FMS Trust Fund, which accounts for the receipt and use of funds held in trust by the USG to support designated purposes or programs, in compliance with relevant laws, regulations, and agreements.

The Combined Statement of Budgetary Resources presents the SAA's total budgetary resources, their status for the year ended September 30, 2025, and the relationship between the budgetary resources and the outlays made against them. Per federal statutes and related regulations, obligations may be incurred, and payments made, only to the extent that budgetary resources are available to cover such items. The SAA's Total Budgetary Resources totaled \$407.6 billion for FY 2025. The SAA's largest component of budgetary resources was the Unobligated Balance from Prior Year Budget Authority, Net, at \$292.9 billion, or 71% of Total Budgetary Resources. The Contract Authority, \$98.6 billion, or 24% of Total Budgetary Resources, was the second largest component. In FY 2025, DSCA finalized posting logic for the accounting of Contract Authority, Budget Authority, and Obligation Authority. DSCA will coordinate with IA Management in FY 2026 for the implementation of posting logic in IA accounting systems.

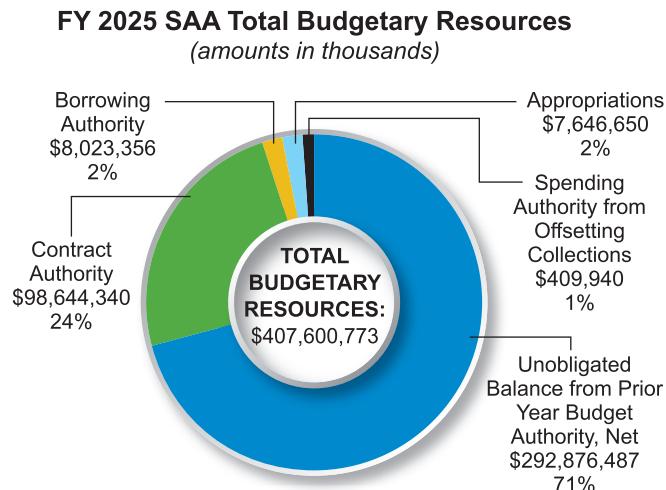


Table 3 describes the types of budget authority for each of SAA's funds. Most accounts are funded solely through appropriations, with a few accounts funded through contract authority, borrowing from Treasury, or through offsetting collections.

**TABLE 3: SAA BUDGET AUTHORITY BREAKDOWN**

FORM OF BUDGET AUTHORITY	FUND	CHARACTERISTICS
Appropriation	IMET – 1081 FMF Program – 1082 FMF Direct Loan – 1085 FMS Admin – 8242	An allocated amount of resources authorized by Congress in the annual appropriations act and provided to agencies via Treasury warrants.
Contract Authority	FMS Trust Fund – 8242	Permits agencies to incur obligations in advance of an appropriation, offsetting collections, or receipts that enable you to make outlays to liquidate the obligations.
Borrowing Authority	FMF Financing – 4122 Military Debt Reduction – 4174	Permits agencies to incur obligations and authorizes agencies to borrow funds to liquidate the obligations. Usually, the law authorizing the borrowing specifies that you must borrow from Treasury, but in a few cases, it authorizes borrowing directly from the public.
Spending Authority from Offsetting Collections	SDAF – 4116 FMF Liquidating – 4121	Usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, to incur obligations, and to make payments using offsetting collections.

## Analysis of Systems, Controls, and Legal Compliance

On behalf of the SAA, DSCA is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA. DSCA conducted its assessment of risk and internal controls 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*. These requirements promote the production of reliable, timely, and accurate financial information through efficient and effective internal controls, with objectives to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the FFMIA.

The evaluation of internal controls extends to every responsibility and activity undertaken by DSCA and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. However, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

### FMFIA and OMB Circular No. A-123 Compliance – Reporting

DSCA conducted its assessment of the effectiveness of internal controls over financial reporting, in accordance with OMB Circular No. A-123. Based on the results of the assessment, DSCA is unable to provide assurance that internal controls over financial reporting for the SAA are operating effectively as of September 30, 2025, due to twelve self-identified material weaknesses in the following areas:

1. Lack of Adequate Fund Balance with Treasury Reconciliation
2. Incomplete Universe of Transactions
3. Lack of Supportable Beginning Balances
4. Lack of Adequate Controls over Property, Plant, and Equipment (PP&E)
5. Unsupported Accounting Adjustments
6. Inadequate Support for Intragovernmental Transactions and Eliminations
7. Lack of Adequate Policies and Procedures on Inventory and Related Property
8. Lack of Adequate Policies and Procedures on Accounts Payable
9. Lack of Adequate Policies and Procedures on Accounting Practices for Revenue Earned
10. Lack of Adequate Policies and Procedures on Supportable Gross Costs
11. Lack of Supportable Budgetary Resources
12. Incomplete Accounting for Case Activity in the General Ledger

## **FMFIA and OMB Circular No. A-123 Compliance – Systems**

Also, in accordance with OMB Circular No. A-123, DSCA conducted its assessment of the effectiveness of internal controls over financial systems, per OMB Circular No. A-123. Based on the assessment results, DSCA was unable to provide assurance that internal controls over financial systems for the SAA are operating effectively as of September 30, 2025, due to five self-identified material weaknesses in the following areas:

1. Lack of Adequate Entity Level Controls
2. Lack of Adequate Oversight of Third-Party Service Providers
3. Lack of Adequate Configuration Management Controls
4. Lack of Adequate Access Controls over SAA Information Systems
5. Lack of Adequate Policies and Procedures Governing Segregation of Duties Across SAA Systems

DSCA is engaging with the SC community to remediate these weaknesses by devising and implementing CAPs to strengthen internal controls over financial reporting and systems. The SC community remains committed to financial excellence and improving its ability to provide accurate and reliable financial and managerial information to support reporting objectives.

A full list of material weaknesses over Financial Reporting and Financial Systems identified by both Management and the Independent Public Accountant (IPA) can be found in the Other Information Section of the AFR.

## **Legal Compliance**

The Anti-Deficiency Act (ADA), codified in 31 U.S. Code §§ 1341(a)(1), 1342, and 1517(a), stipulates that federal agencies may not:

- Obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations;
- Accept voluntary services on behalf of the government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or
- Obligate, authorize, or expend funds that exceed an apportionment or amount permitted by regulation prescribed for the administrative control of an appropriation.

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

DSCA is reporting that no ADA violations have been identified during our assessments of the applicable processes.

**Annual Statement of Assurance**

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**DEFENSE SECURITY COOPERATION AGENCY**  
 2800 DEFENSE PENTAGON  
 WASHINGTON, D.C. 20301-2800

OCT 30 2025

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

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

As Director of the Defense Security Cooperation Agency (DSCA), I recognize DSCA 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 of 1982 (FMFIA). DSCA conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." The DSCA internal control environment supports two sets of financial statements: those for Title 10 Department of Defense (DoD)-appropriated funds and those for Title 22 Security Assistance Accounts (SAA) funds. Therefore, DSCA's internal review included an evaluation of internal controls over both types of funding.

DSCA conducted its assessment in accordance with the "Internal Control Evaluation" guidance within OMB Circular No. A-123 Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments." Based on the results of the assessment, DSCA provides reasonable assurance that internal controls over its Title 10 DoD -appropriated funds operations and compliance mechanisms are operating effectively as of September 30, 2025. DSCA is unable to provide assurance that internal controls over the Title 22 SAA operations and compliance mechanisms are operating effectively as of September 30, 2025. DSCA is executing corrective actions to address coordination, verification, and monitoring of Title 22 SAA practices.

DSCA 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, "Internal Control over Reporting." DSCA also conducted a review of the effectiveness of the internal controls over the integrated financial management systems in accordance with the FMFIA and OMB Circular No. A-123 Appendix D, "Compliance with the FMFIA."

Based on the results of these assessments, DSCA is unable to provide assurance that internal controls over reporting (including internal and external reporting) and compliance, as well as internal controls over the integrated financial management systems for the Title 10 DoD-appropriated funds, are operating effectively as of September 30, 2025, due to four material

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weaknesses assigned to the Defense Finance and Accounting Service (DFAS), as identified in the System and Organization Controls (SOC) Report over Financial Reporting:

- Defense Department Reporting System (DDRS) Adjustments
- Trading Partner and Eliminations
- Defense Agencies Initiative (DAI) Field Accounting
- Quarterly Line of Accounting (LOA) & Annual General Ledger Account Code (GLAC) Crosswalk Review

DSCA recognizes that the material weaknesses are the responsibility of DFAS to remediate. To demonstrate proactive oversight, DSCA is documenting the matter as a self-identified material weakness. DSCA will continue to engage with DFAS in support of its remediation efforts.

DSCA is unable to provide assurance that the internal controls over reporting (including internal and external reporting) and compliance, as well as internal controls over the integrated financial management systems for the Title 22 SAA, are operating effectively as of September 30, 2025, due to the following material weakness areas identified in the SAA Financial Statement audit:

- Fund Balance with Treasury Reconciliations
- Incomplete Universe of Transactions
- Supportable Beginning Balances
- Adequate Controls over Property, Plant, and Equipment
- Unsupported Accounting Adjustments
- Intragovernmental Transactions and Eliminations
- Inventory and Related Property
- Accounts Payable
- Revenue Earned
- Gross Costs
- Budgetary Resources
- Accounting for Case Activity in the General Ledger
- Adequate Entity Level Controls
- Adequate Oversight of Service Providers
- Configuration Management
- Access Controls
- Segregation of Duties

DSCA continues to engage with the Title 22 SAA community to remediate weaknesses by devising and implementing corrective action plans (CAPs) to strengthen internal controls over financial reporting and systems. The Title 22 SAA community remains committed to financial excellence and improving its ability to provide accurate and reliable financial and managerial information to support reporting objectives.

DSCA management continues to work cross-functionally with other DoD entities to consolidate information technology risk mitigation efforts and reduce redundancies that support

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Title 22 SAA financial transactions. Furthermore, DSCA management will continue to leverage the DoD community to streamline service provider oversight and guidance to minimize risk and negative impacts to the enterprise.

DSCA assessed 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, DSCA provides reasonable assurance that entity-level controls, including fraud controls, are operating effectively relating to the Title 10 DoD-appropriated funds activities as of September 30, 2025.

This internal review also included an evaluation of the internal controls around Agency SAA activities. DSCA is unable to provide assurance that entity-level controls, including fraud controls, are operating effectively relating to the Title 22 SAA activities as of September 30, 2025. DSCA has an active CAP to address coordination, verification, and monitoring of SAA practices.

DSCA is hereby reporting that no Anti-Deficiency Act (ADA) violations have been identified during our assessments of the Agency's internal control processes.

DSCA demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority (PDA).

If there are any questions regarding this Statement of Assurance for fiscal year 2025, my point of contact is Mr. Christian Isham, who can be reached by phone at (703) 692-6759 and by email at [christian.a.isham2.civ@mail.mil](mailto:christian.a.isham2.civ@mail.mil).



Michael F. Miller  
Director

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## Forward-Looking Information

The SAA serves a critical component for enabling partner nations to acquire U.S. defense equipment, services, and training. Through these transactions, allies and partner nations can responsibly manage their sovereign defense capabilities and contribute to regional and global security burden-sharing. Understanding the multitude of factors that influence how the SAA operates is critical for mitigating risks and achieving its performance and financial objectives.

### Global Military Inventories

Conflicts, including Russia's war with Ukraine, the Israel-Hamas war, and Middle Eastern hostilities with Iran and Iranian proxies, continue to deplete the U.S. and allied military inventory levels. Based on current conflict trajectories, recapitalization of Europe and Middle East partners' military stocks and the buildup of Indo-Pacific partner inventories are projected to drive demand higher. Actual demand will be determined by conflict duration, intensity, and resolution timelines, while the defense industrial base (DIB) and DoD acquisition system strive to accelerate procurement schedules to meet both U.S. and international demand.

### Ally and Partner Burden-Sharing

U.S. policy emphasizes allied and partner nation burden-sharing for regional defense responsibilities. This approach aims to protect the American homeland and engage with allies and partners who will responsibly defend and protect their sovereign nations and lead in regional defense. Burden-sharing will result in increased demand for FMS and procurement of U.S. weapons systems for ally and partner sovereign use and as donor-funded, or donor-transferred materiel, training, and services provided to other allies, partner nations, or benefiting countries.

### The U.S. Defense Industrial Base

The U.S. DIB's and the Department's strong foundational capability, underpinned by technological superiority, well-established processes and governance structures, and industrial partnerships, can be leveraged to meet growing international security demands, contingent upon adequate production lead times and continued technological advantages. Key risk factors that could impact future performance include supply chain vulnerabilities, skilled workforce availability, erosion of acquisition process discipline, theft of intellectual property and/or critical military information, and competitive pressure from alternative suppliers. Strategic investments in innovation, process improvement, and global collaboration will contribute to ensure that the U.S. remains a leader in supporting international security and defense cooperation.

### Workforce Constraints

Both the FMS community and the DIB are expected to continue to face challenges in recruiting and retaining skilled personnel, particularly in fields such as cybersecurity, artificial intelligence, and advanced manufacturing. Workforce shortages could limit the ability to scale production and support international demand.

### Strategic Outlook

To adapt to these multifaceted challenges, the FMS environment will streamline acquisition processes, invest in workforce development, enhance supply chain resilience, and fostering deeper collaboration with allies and partner nations. Strategic foresight and proactive measures will be critical to ensuring the continued success of FMS programs in promoting international stability.

## Limitations of the Financial Statements

The financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.



A Panamanian soldier (left) and a U.S. soldier (right) overlook Panama City during PANAMAX-Alpha Phase I in Panama City. Photo by Staff Sgt. Sadie Colbert



A U.S. Air Force F-16D Fighting Falcon flies over the Gulf of America.

Photo by Staff Sgt. Jacob Stephens

# FINANCIAL SECTION (UNAUDITED)

## Section II



# Message from the Chief Financial Officer

It is with gratitude that I join Director Miller in presenting the Fiscal Year (FY) 2025 Agency Financial Report (AFR) for the Security Assistance Accounts (SAA). This report provides a comprehensive overview of our financial and operational performance, offering transparency into SAA's activities as we support the Defense Security Cooperation Agency's (DSCA) mission to advance U.S. national security, defense, and foreign policy interests alongside our global allies and partners.

In FY 2025, the SAA continued to be consolidated into the Government-wide financial statements and underwent a standalone financial statement audit designated by the Department of War (DoW). While this audit resulted in a disclaimer of opinion, we view it as a valuable opportunity to focus on targeted improvements and develop strategies that will strengthen the Security Cooperation (SC) community moving forward. During this fiscal year, we successfully closed over 300 distinct Corrective Action Plan milestones across multiple Notices of Findings and Recommendations (NFRs) and closed 12 NFRs issued by the auditors.



DSCA is leveraging innovative technologies on our journey to a clean audit opinion, and in FY 2025 we initiated several ambitious initiatives using Advana, the DoW's enterprise-wide data analytics and Artificial Intelligence platform. These initiatives include developing a pilot Foreign Military Sales (FMS) case to general ledger reconciliation tool that aggregates historical accounting, case management and logistics data from multiple systems to identify discrepancies and improve data accuracy. We are leveraging this same case management and logistics data to record FMS inventory balances in the SAA financial statements for the first time while longer-term system implementations are underway across the community.

DSCA also implemented decoupling Building Partner Capacity funds from the FMS Trust Fund. This significant milestone, achieved after years of collaboration with the SC community, allows appropriated funds to be transferred directly to the Implementing Agencies and integrated into their respective accounting systems. This change enhanced transparency, oversight, and reporting of Congressionally appropriated resources while maintaining alignment with the DoW financial statements.

I extend my sincere gratitude to all stakeholders who contributed to the SAA audit and the development of this AFR. Your collaboration and dedication have been instrumental in driving progress and innovation across the SC community. I am confident that through continued partnership, strategic innovation, and shared commitment to excellence, we will achieve an unmodified audit opinion in the near future.

*Brian T. Watford*

Brian T. Watford | Acting Chief Financial Officer  
Defense Security Cooperation Agency

# Report of Independent Auditors



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

November 7, 2025

MEMORANDUM FOR UNDER SECRETARY OF WAR (COMPTROLLER)/  
 CHIEF FINANCIAL OFFICER, DOW  
 DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY

SUBJECT: Transmittal of the Independent Auditor's Report on the Defense Security  
 Cooperation Agency Security Assistance Accounts Financial Statements and  
 Related Notes for FY 2025  
 (Project No. D2025-D000FP-0050.000, Report No. DODIG-2026-007)

We contracted with the independent public accounting firm of Sikich CPA, LLC (Sikich) to audit the Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) Financial Statements and related notes as of and for the fiscal year ended September 30, 2025. The contract required Sikich 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 DSCA SAA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Sikich 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. Sikich's Independent Auditor's Report is attached.

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

Sikich's report discusses 18 material weaknesses related to the DSCA SAA's internal controls over financial reporting.\*

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\* 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.

Sikich's report also discusses two instances of noncompliance with provisions of laws and regulations, contracts, and grant agreements. Specifically, Sikich's report describes instances in which the DSCA SAA did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed Sikich's report and related documentation and discussed them with Sikich'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 DSCA SAA's 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 DSCA SAA's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Sikich did not comply, in all material respects, with GAGAS. Sikich is responsible for the attached November 7, 2025 report and the conclusions expressed within the report.

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

Attachment:

As stated



333 John Carlyle Street, Suite 500  
Alexandria, VA 22314  
703.836.6701

[SIKICH.COM](http://SIKICH.COM)

#### INDEPENDENT AUDITORS' REPORT

Director, Defense Security Cooperation Agency (DSCA)

In our engagement to audit the fiscal year (FY) 2025 DSCA Security Assistance Accounts (SAA) financial statements, we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found 18 material weaknesses and 5 significant deficiencies in internal control over financial reporting as of September 30, 2025.
- Found noncompliance with:
  - The Federal Financial Management Improvement Act of 1996 (FFMIA); and
  - 31 U.S.C. § 3512(c) and (d), commonly referred to as the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

The following sections contain:

1. Our report on the DSCA SAA financial statements and required supplementary information included with the financial statements.
2. Other reporting required by *Government Auditing Standards*, which is our report on the DSCA SAA's (a) internal control over financial reporting and (b) compliance and other matters. This section also includes a summary of DSCA's comments on our report.

#### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

##### Disclaimer of Opinion

We were engaged to audit the accompanying DSCA SAA financial statements, which comprise the consolidated balance sheet as of September 30, 2025; the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the FY then ended; and the related notes to the financial statements (collectively, the basic financial statements).

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

##### Basis for Disclaimer of Opinion

Management did not provide a complete draft of the Agency Financial Report (AFR) prior to the date of our audit report. In addition, management did not provide sufficient appropriate audit evidence to support the amounts in the consolidated financial statements due to insufficient processes, controls, and records to support transactions and account balances. As a result of

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these matters, we were unable to determine whether any adjustments might have been necessary related to the FY 2025 balances reported on the accompanying DSCA SAA financial statements.

#### **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 from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements*, require that the Management's Discussion and Analysis (MD&A) and other required supplementary information be presented to supplement the basic financial statements. Such required supplementary information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Because of the significance of the matters described in the Basis for Disclaimer of Opinion subsection, we did not perform any procedures related to required supplementary information, including the MD&A; accordingly, we do not express an opinion or provide any assurance on the required supplementary information.

#### **Other Matter – Hyperlinked Data**

Management has elected to include hyperlinks to information on websites outside the Annual Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the financial statements or supplementary information required by FASAB. The information on these websites has not been subjected to our auditing procedures, and accordingly, we do not express an opinion or provide any assurance on it.

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#### OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

#### Report on Internal Control over Financial Reporting and on Compliance and Other Matters

##### ***Internal Control over Financial Reporting***

In connection with our engagement to audit the DSCA SAA FY 2025 financial statements, upon which we disclaimed an opinion because of the matters described above, we attempted to consider the DSCA SAA's internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DSCA SAA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DSCA SAA's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives broadly defined by the criteria established under FFMIA.

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; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Appendix A, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over financial reporting* 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the first 18 deficiencies described in Appendix A to be material weaknesses.

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

##### ***Inherent Limitations of Internal Control over Financial Reporting***

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

##### ***Compliance and Other Matters***

In connection with our engagement to audit the DSCA SAA FY 2025 financial statements, we performed tests of the DSCA SAA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. Our tests included testing whether the DSCA and Implementing Agencies' (IA) financial management systems that process security assistance (SA) transactions substantially comply with the requirements of FFMIA. These requirements are: (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the U.S. Government Standard

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General Ledger at the transaction level. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in Appendix B. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

**DSCA's Comments**

DSCA's comments on our report are included in Appendix C. We did not audit DSCA's comments, and accordingly, we express no opinion on the comments. DSCA concurs with most of our findings. Below we provide our response to those findings with which DSCA non-concurs.

- DSCA non-concurs with our finding related to the transfer of Title 10 Building Partner Capacity (BPC) budget authorities to the Title 22 Foreign Military Sales (FMS) Trust Fund as described in Material Weakness 14. DSCA asserts that starting in FY 2031, the BPC budget authorities will no longer impact the SAA financial statements, rendering additional analysis unnecessary. In taking this position, DSCA has overlooked the fact that the transfer of Title 10 budget authorities to the Title 22 FMS Trust Fund is against the purpose of the FMS Trust Fund as stipulated in the Arms Export Control Act (specifically 22 U.S.C. § 2761 and § 2762), and in noncompliance with the Economy Act (31 U.S.C. § 1535). The SAA financial statements include material balances and activities resulting from the transfer to and execution of Title 10 BPC budget authorities in the FMS Trust Fund. These material balances and activities, coupled with not performing analysis to determine the impact on the SAA financial statements, contribute to a scope limitation with respect to testing the SAA financial statements. If DSCA chooses to not identify, quantify and remove these balances and activities reported on the SAA financial statements, DSCA will not meet the statutory mandate to achieve an unmodified audit opinion on its financial statements by FY 2028, as required by the FY 2024 National Defense Authorization Act.
- DSCA non-concurs with our assessment that deficiencies in its financial reporting process, as described in Material Weakness 18, constitute a material weakness. We reported certain of these deficiencies as a significant deficiency in our FY 2024 Independent Auditors' Report. Since DSCA does not prepare its AFR timely, demonstrated by not providing a complete draft of the AFR prior to the date of our audit report, and does not perform a complete reconciliation of note disclosures to check if all amounts disclosed in the notes are complete and accurate and presented in accordance with OMB Circular No. A-136, there is a reasonable possibility that a material misstatement of the SAA financial statements will not be prevented, or detected and corrected, on a timely basis. Consequently, these deficiencies constitute a material weakness.

Related to internal controls over IA business processes, DSCA's comments state that our recommendations do not accurately reflect that SA is implemented on the backbone of existing Department of War (DoW) infrastructure with SA-unique equities addressed as needed. This response indicates that DSCA does not believe it has a shared responsibility for internal controls over IA business processes. In Appendix A and Appendix B of our report, we provide conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to address the 18 material weaknesses, 5 significant deficiencies, and 2 instances of noncompliance with provisions of laws and regulations. Our recommendations include coordination amongst DSCA, IAs, and the Defense Finance and Accounting Service because effective resolution of these matters requires shared responsibility, accountability, and oversight across all entities involved in SA.

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***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the “Other Reporting Required by *Government Auditing Standards*” section of our report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This other reporting is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this other reporting is not suitable for any other purpose.

*Sikich CPA LLC*

Alexandria, VA  
November 7, 2025

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## APPENDIX A: MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

During our engagement to audit the fiscal year (FY) 2025 Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) financial statements, we identified deficiencies in internal control over financial reporting. These deficiencies constitute 18 material weaknesses and 5 significant deficiencies, as described in this appendix. These results are consistent with the Department of War (DoW) agency-wide deficiencies. DSCA management was aware of many of these deficiencies and had already begun implementing corrective action plans (CAPs). For brevity and clarity, we do not provide all the details related to specific programs, systems, or account balances in this Appendix. We provided those details separately to DSCA management and other stakeholders through Notices of Findings and Recommendations.

### MATERIAL WEAKNESS 1: BEGINNING BALANCES (REPEAT)

**Condition:** Material beginning balances in general ledger (GL) accounts that comprise the balance sheets and the statements of budgetary resources are not supported by transaction-level detail populations (i.e., GL amounts in the Advana system and non-GL amounts in the Defense Departmental Reporting System–Budgetary [DDRS-B]) or by DDRS-B journal vouchers (JVs) as of September 30, 2024, which establish the beginning balances for FY 2025.

**Criteria:**

- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*

**Cause:** DSCA has not fully implemented CAPs to reconcile financial statement line-item balances to supporting transaction-level detail populations. Furthermore:

- Systems do not always contain sufficient historical data to support material beginning balance GL accounts.
- The data in the systems are not always sufficient to support material beginning balances in GL accounts at the transaction level. For example, the data may be at a summary level or may not always contain certain data elements, such as the document number.
- DSCA has material unsupported adjusting entries that impact material beginning balances.

**Effect:** The total unsupported amount of the material beginning balances is greater than materiality for the financial statements taken as a whole and contributes to a scope limitation with respect to testing the related FY 2025 beginning balances. Furthermore, the DSCA SAA is not compliant with FMFIA requirements.

**Recommendations:** We recommend that:

- DSCA, in coordination with the Defense Finance and Accounting Service (DFAS), review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, DSCA, in coordination with the Office of the Under Secretary of War (Comptroller), DFAS, system owners, and Implementing Agencies (IAs), update its existing related CAP to include corrective action milestones designed to further address the causes

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of the conditions reported in this material weakness, with a focus on determining the extent to which DSCA can support material beginning balances with sufficient transaction-level detail.

**MATERIAL WEAKNESS 2: UNIVERSE OF TRANSACTIONS (REPEAT)**

**Condition:** SAA financial data in the transaction-level detail populations from the Advana system are inconsistent and incomplete. Specifically:

- DSCA self-identified material variances between GL amounts in the Advana system and related data in the DDRS-B unadjusted trial balance.
- Transactions do not always include required data elements, or the data elements are inconsistent or inaccurate across source systems. Data elements that are incomplete, inconsistent, or inaccurate include, for example, unique transaction identifiers, funding centers, and source systems.
- Populations contain debit and credit activity that was unable to be summarized at a document level to reflect final amounts recorded in the DDRS-B unadjusted trial balance.
- The Advana system does not include financial transactions for proprietary GL accounts from the Management Information System for International Logistics (MISIL).

**Criteria:**

- Federal Financial Management Improvement Act of 1996 (FFMIA)
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- Department of Defense (DoD) Financial Management Regulation (FMR), Volume 6A, Chapter 2, *Financial Reports, Roles and Responsibilities*

**Cause:** The DSCA SAA financial statements are comprised of balances, activities, and disclosures pertaining to DSCA and 12 IAs, which collectively operate 14 GL systems and dozens of feeder systems. Many of the systems in use were not designed to record and report activity in a manner that would allow for compliance with the Standard Financial Information Structure (SFIS) and for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The information systems' (IS') noncompliance with SFIS, compounded by the legacy nature of the IS in use, has created a complex financial reporting environment, resulting in financial data that are incomplete and inconsistent.

**Effect:** Lack of quality information may prevent DSCA from making informed decisions and evaluating SAA programs and activities' performance in achieving key objectives and addressing risks, including objectives and risks related to financial reporting.

Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements and the Treasury Financial Manual (TFM) U.S. Government Standard General Ledger (USSGL) at the transaction level, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

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- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- Prepare a new CAP that considers how common corrective actions can address the causes of the conditions reported in both this material weakness and Material Weakness 1.
- Develop a detailed understanding of financial data across SAA programs and activities, including all GL systems and material non-financial systems.
- Based on this understanding, develop logic for each material GL account that can be applied to produce, on a repeatable basis, reliable populations that support trial balance amounts.
- Perform internal validation to assess the reliability of populations and refine the developed logic, as needed, based on the results of testing.
- Coordinate with system owners for all GL systems and material non-financial systems to develop and implement standardized data practices. Data practices should include full SFIS compliance and complete and consistent use of financial transaction data elements across systems.
- Modernize or replace material legacy GL systems and material legacy non-financial systems to achieve full SFIS compliance and consistent data practices.

#### **MATERIAL WEAKNESS 3: ENTITY-LEVEL CONTROLS (REPEAT)**

**Condition:** DSCA has designed and implemented entity-level controls (ELCs) through its Risk Management and Internal Control (RMIC) program. However, the majority of the SAA's financial activity is performed by IAs in separate and distinct control environments that are outside the scope of the DSCA RMIC program. DSCA does not have a process in place for overseeing, coordinating, and monitoring IA RMIC activities to help ensure that it achieves the SAA's financial reporting objectives.

Furthermore, DSCA, in coordination with the IAs and DFAS, is reviewing the scope of materially relevant IS supporting the DSCA SAA financial statements.

#### **Criteria:**

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD FMR, Volume 1, Chapter 3, *Federal Financial Management Improvement Act Compliance*
- DoD Instruction 5010.40, *Managers' Internal Control Program Procedures*

**Cause:** DSCA has not fully implemented corrective actions to assess the entire SAA control environment and to implement SAA-wide monitoring controls. Because previous Office of the Secretary of War guidance did not direct DoW components to include the SAA ELCs in their annual Statements of Assurance (SOAs), DoW does not have a policy to direct how each IA

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sustains its RMIC program. DoW is currently undergoing an effort to align RMIC processes and procedures pertaining to the SAA.

Regarding IS, DSCA, in coordination with the IAs and DFAS, has not yet completed its review of the scope of materially relevant IS supporting the DSCA SAA financial statements.

**Effect:** Without effective oversight, coordination, and monitoring by DSCA, the decentralized SAA control environment increases the risk that DSCA, in coordination with the IAs and service providers, will not identify and respond to relevant financial reporting risks in an effective manner. As a result, management may not identify and disclose all material weaknesses in internal control within its SOA in accordance with FFMIA. Further, missing or ineffective monitoring controls impede management's ability to detect and correct misstatements in the DSCA SAA financial records during the normal course of business.

Regarding IS, DSCA, in coordination with the IAs, may not:

- Identify and consider (1) material business processes and IAs within its audit readiness strategy, and (2) the IS that process the transactions reported on the DSCA SAA financial statements.
- Design appropriate IS control activities to achieve objectives and respond to risks.

**Recommendations:** We recommend that DSCA, in coordination with the IAs:

- Review its existing CAP related to ELCs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update its existing CAP related to ELCs to include additional corrective action milestones for designing and implementing effective ELCs across SAA programs.
- Continue its progress in reviewing the scope of materially relevant IS supporting the DSCA SAA financial statements.

#### **MATERIAL WEAKNESS 4: ACCOUNTS PAYABLE (REPEAT)**

**Condition:** DSCA, in coordination with the IAs and DFAS, does not record an accounts payable (AP) accrual to report liabilities in the accounting period in which the SAA incurred the liabilities.

#### **Criteria:**

- FFMIA
- Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*
- DoD FMR, Volume 4, Chapter 9, *Accounts Payable*

**Cause:** DSCA does not have policies and procedures in place that prescribe an overall AP accrual methodology and monitoring process across the SAA programs and IAs.

**Effect:** DSCA may be unable to prevent material misstatement of AP and related expenses reported in the DSCA SAA financial statements. DSCA, in coordination with the IAs and DFAS,

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cannot assert to the accuracy and completeness of reported AP on the SAA balance sheet, expenses on the statement of net cost, and related obligation activity on the statement of budgetary resources. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on developing policies and procedures for recording an AP accrual to help ensure that DSCA reports liabilities in the accounting period in which the SAA incurred the liabilities, consistent with the accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB).

#### **MATERIAL WEAKNESS 5: BUDGETARY RESOURCES (REPEAT)**

**Condition:** According to DSCA management, DSCA, in coordination with the IAs and DFAS, does not consistently recognize, measure, record, and report contract authority and contract authority liquidated from security assistance (SA) activities in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, and the requirements of FFMIA and FMFIA.

Also, for certain transactions that we tested in our nonstatistical selection of new obligations, one IA was unable to provide sufficient supporting documentation by the established due date.

Furthermore:

- SAA either lacks or has ineffective internal controls to help ensure the completeness and accuracy of obligations.
- SAA is using posting logic that is not in accordance with the TFM USSGL guidance when de-obligating funds for invalid prior-year obligations.
- DFAS, on behalf of DSCA, erroneously recorded two JVs in DDRS-B with no supporting transaction-level detail as supported JVs.
- DSCA, in coordination with DFAS, did not record general ledger account code (GLAC) 411900, *Other Appropriations Realized* (Appropriations), under the American Relief Act (Public Law 118-158) as of first quarter FY 2025.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1

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- SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-123, Appendix D, *Management of Financial Management Systems – Risk and Compliance*
- OMB Circular No. A-11
- SAA Foreign Military Sales (FMS) Posting Logic published by TFM Bulletin No. 2024-06
- USSGL Part 1, Section II, *Accounts and Definitions*
- DoD FMR, Volume 1, Chapter 3, and Volume 3, Chapter 8, *Standards for Recording and Reviewing Commitments and Obligations*; Volume 6A, Chapter 2

**Cause:** According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not yet implemented policies and procedures requiring appropriate accounting and reporting practices for contract authority and contract authority liquidated from SA activities across the SAA.

Regarding transactions that we tested in our nonstatistical selection of new obligations, one IA does not have an effective process in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation to support recorded transactions by the established due date.

Regarding the completeness and accuracy of obligations, SA activities does not have internal control policies and procedures that prescribe controls to help ensure obligations are recorded completely, timely, and accurately.

Regarding posting logic, the Defense Agencies Initiative (DAI) and MISIL are not configured to de-obligate funds related to obligations recorded in prior years using the TFM USSGL posting logic.

Regarding erroneously recorded JVs, there is a lack of proper training provided to personnel involved in SAA JV preparation and approval processes; therefore, DFAS does not always accurately classify a JV as either supported or unsupported in accordance with DoD FMR Volume 6A, Chapter 2.

Regarding not recording Appropriations, under the American Relief Act, DSCA, in coordination with DFAS and the IAs, has not yet developed and implemented policies and procedures requiring comprehensive reconciliation and reporting of Appropriations.

**Effect:** The DSCA SAA financial statements may be materially misstated and DSCA may fail to detect and correct these misstatements. Specifically:

- New obligations may not have been completely, timely, and accurately recorded, and those recorded may not have occurred.
- Upward and downward adjustments related to obligations recorded in prior years are not reported for the SAA.

Additionally, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards and the USSGL at the transaction level, and with FFMIA requirements.

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**Recommendations:** Regarding contract authority and contract authority liquidated, we recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on developing and implementing policies and procedures to consistently recognize, measure, record, and report contract authority and contract authority liquidated from SA activities in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, OMB Circular No. A-11, and the requirements of FFMA and FMFIA.

Regarding sufficient documentation, we recommend that the applicable IA:

- Analyze the nature and type of new obligation transactions and determine the related assessable unit (e.g., contract/vendor pay, reimbursable work orders, travel).
- For each significant type of transaction within each assessable unit, identify the key supporting documentation that substantiates the recorded transaction. In determining whether key supporting documentation substantiates the recorded transaction, consider whether the documentation evidences (1) the recorded transaction actually occurred (existence/occurrence assertion), (2) the period in which the transaction occurred (existence/occurrence and completeness assertions), (3) the amount of the recorded transaction (accuracy/valuation/allocation assertion), and (4) the recorded transaction pertains to the SAA (rights/obligation assertion).
- Document the key supporting documentation that substantiates each significant type of transaction within each assessable unit in the form of a matrix.
- Provide training on the matrix to business process owners such that the business process owners use the matrix to identify, accumulate, and retain supporting documentation for new obligation transactions.
- For each significant type of transaction within each assessable unit, perform periodic testing of selected transactions to evaluate whether business process owners are able to readily provide sufficient supporting documentation of new obligation transactions in response to audit requests.
- Update its existing CAP or prepare new CAP(s) to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness.

Regarding the completeness and accuracy of obligations, we recommend that applicable IAs, in coordination with DSCA:

- Develop new or update existing internal control policies and procedures to prescribe controls to monitor and help ensure obligations are recorded completely, timely, and accurately.
  - In determining the specific documentation to evidence performance of the relevant key control, consider the extent to which the documentation will

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facilitate: (1) validating that the key control is consistently performed, and (2) monitoring the internal control system through ongoing monitoring and separate evaluations.

- Design and implement the controls that were prescribed in the new or updated policies and procedures.

Regarding posting logic, we recommend that DSCA and the applicable IAs, in coordination with applicable Program Management Offices and DFAS:

- Determine the extent to which it is feasible to design and implement system posting logic changes to allow for the identification and recording of upward and downward adjustments at a transaction level.
- If material to the SAA financial statements, develop a methodology to identify, quantify, and record period-end adjusting JVs to account for downward adjustments at a summary level.

Regarding erroneously recorded JVs, we recommend that DSCA and DFAS:

- Provide personnel involved in SAA JV preparation and approval with the necessary training to accurately classify JVs in accordance with policies and procedures and to accurately record economic events in accordance with the updated FMS posting logic.

Regarding not recording Appropriations, under the American Relief Act, we recommend that:

- DSCA, in coordination with DFAS and the IAs, develop and implement policies and procedures to perform comprehensive reconciliation of Appropriations laws, including continuing resolutions, Treasury Warrants, and Apportionments, and report Appropriations completely and accurately to the SAA financial statements.

#### **MATERIAL WEAKNESS 6: EARNED REVENUE (REPEAT)**

**Condition:** DSCA, in coordination with the IAs and DFAS, does not consistently recognize, measure, record, and report revenue earned from SA activities, including deferred revenue and advances and prepayments, in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA and FMFIA.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 7
- OMB Circular No. A-123, Appendix D
- DoD FMR, Volume 4, Chapter 16, *Revenue, Other Financing Sources, Gains and Losses*

**Cause:** According to DSCA management, DSCA, in coordination with DFAS and the IAs, has not yet implemented policies and procedures requiring appropriate accounting and reporting

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practices for revenue earned, including deferred revenue and advances and prepayments, from SA activities across the SAA.

**Effect:** The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs:

- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on developing and implementing policies and procedures to consistently recognize, measure, record, and report revenue earned from SA activities, including deferred revenue and advances and prepayments, in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA and FMFIA.

#### **MATERIAL WEAKNESS 7: FUND BALANCE WITH TREASURY (REPEAT)**

**Condition:** DFAS, on behalf of DSCA, uses Advana to perform a Fund Balance with Treasury (FBWT) reconciliation for all parent and child Treasury Account Symbols (TAS) that have SAA balances from FY 2024 to present. However, there are material unreconciled amounts, including undistributed transactions, and the Advana FBWT Reconciliation Tool does not include historical data prior to FY 2024.

Additionally, DSCA lacks internal controls to help ensure that SAA transactions in the Statement of Differences (SoD) and held in suspense accounts are identified and reported, and that transactions in the SoD and held in suspense accounts do not represent unreported SAA transactions.

**Criteria:**

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- TFM, Volume I, Part 2, Chapter 5100, *Fund Balance with Treasury Accounts*
- DoD FMR, Volume 4, Chapter 2, *Accounting for Cash and Fund Balances with Treasury*

**Cause:** DSCA, in coordination with DFAS and the IAs, has not fully implemented corrective actions to perform FBWT reconciliations for all parent and child TAS that have SAA balances. As a result, DSCA, in coordination with DFAS and the IAs, does not have an effective process to reconcile amounts identified through the FBWT reconciliation timely, as required by the FMR. DSCA does not have policies or procedures prescribing internal control activities to assess and monitor financial reporting risks to the SAA financial statements from SoD and DoW suspense account transactions.

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**Effect:** DSCA may be unable to prevent material misstatement of FBWT reported in the DSCA SAA financial statements. DSCA, in coordination with the IAs and DFAS, cannot assert to the accuracy and completeness of reported FBWT and other line items affected by collections and disbursements on the DSCA SAA financial statements. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

**Recommendations:** Regarding monthly FBWT reconciliations, we recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP(s) and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- Update existing CAP(s) or prepare new CAP(s) to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on:
  - Improving the processes to clear undistributed transactions timely, as required by the FMR.
  - Determining whether policy updates are needed to further establish the requirement to research, resolve, and accurately record undistributed transactions in the general ledger accounting systems within the required period of time.

Regarding SoD and suspense account transactions, we recommend that:

- DFAS update its procedures pertaining to the SoD and suspense accounts to support SAA financial reporting.
- DSCA update its procedures to prescribe internal control activities that require:
  - Periodically assessing completeness risk to the SAA financial statements based on DFAS materiality assessments and estimation analyses for the SoD and suspense accounts. Include both transactions attributed by DFAS to SAA and transactions DFAS is unable to attribute to a reporting entity.
  - Recording accounting adjustments to recognize the SAA SoD and transactions held in suspense accounts that are not already recognized in SAA financial systems.
  - Coordinating with DFAS to timely research and resolve the SAA SoD and transactions held in suspense accounts, to include providing assistance with supporting documentation for corrections.
  - Monitoring the effectiveness of DFAS materiality assessments and estimation analyses to identify and mitigate completeness risk to the SAA financial statements. Coordinate with DFAS to update its procedures or implement DSCA compensating controls, as needed.
  - Assessing the root cause for why SAA transactions are in the SoD and held in suspense accounts, if any, and implementing remedial action to prevent future use of suspense accounts for SAA transactions.



#### **MATERIAL WEAKNESS 8: GENERAL PROPERTY, PLANT, AND EQUIPMENT (REPEAT)**

**Condition:** According to DSCA management, DSCA, in coordination with the IAs and DFAS, does not recognize, value, record, and report General Property, Plant & Equipment (PP&E) procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and FFMIA requirements.

**Criteria:**

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 6, *Accounting for Property, Plant, and Equipment*
- SFFAS 10, *Accounting for Internal Use Software*
- OMB Circular No. A-123, Appendix D
- DoD FMR, Volume 4, Chapter 25, *General Equipment*, and Chapter 27, *Internal Use Software*

**Cause:** According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not yet developed and implemented policies and procedures requiring appropriate accounting and reporting practices for General PP&E procured with SA funds across the SAA. Although in FY 2021 DSCA, in coordination with the IAs, began evaluating potential sources of General PP&E applicable to the DSCA SAA financial statements, DSCA is still in the process of determining the proper financial reporting for SAA General PP&E.

**Effect:** The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on recognizing, valuing, recording, and reporting General PP&E procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA.

#### **MATERIAL WEAKNESS 9: INVENTORY & RELATED PROPERTY (REPEAT)**

**Condition:** According to DSCA management, DSCA, in coordination with the IAs and DFAS, does not recognize, value, record, and report Inventory & Related Property (I&RP) procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA and FMFIA. Although DSCA, in coordination with the U.S. Army, U.S. Navy, and U.S. Air Force, began reporting certain defense articles procured through the Special Defense Acquisition Fund (SDAF) as I&RP in the

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DSCA SAA financial statements in FY 2019, this is the only fund for which the SAA currently reports I&RP.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 3, *Accounting for Inventory and Related Property*
- OMB Circular No. A-123, Appendix D
- DoD FMR, Volume 4, Chapter 4, *Inventory and Related Property*

**Cause:** According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not yet implemented policies and procedures that require appropriate accounting and reporting practices for I&RP procured with SA funds across the SAA.

**Effect:** The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on recognizing, valuing, recording, and reporting I&RP procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, FFMIA, and FMFIA requirements.

**MATERIAL WEAKNESS 10: INTRAGOVERNMENTAL TRANSACTIONS AND ELIMINATIONS (REPEAT)**

**Condition:** DSCA, in coordination with the IAs, does not always perform receipt and acceptance procedures for intragovernmental transactions.

Additionally, in the G-Invoicing environment, DSCA does not perform a documented dispute review in support of receipt and acceptance for invoices classified as "Freight-on-Board (FOB) Source."

Furthermore, for certain transactions in our nonstatistical selection of new obligations and operating expenses (i.e., gross costs), the federal or non-federal indicator field in Advana was populated as "NA" for "not applicable"; four transactions were incorrectly recorded as non-federal transactions.

**Criteria:**

- FFMIA

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- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1
- SFFAS 7
- OMB Circular No. A-136, *Financial Reporting Requirements*
- TFM Volume I, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of The United States Government*
- USSGL Part 1, Section II
- DoD FMR, Volume 6B, Chapter 13, *Adjustments, Eliminations, and Reconciliation Requirements for Intragovernmental Balances*; Volume 11A, *Reimbursable Operations Policy*
- U.S. Department of the Treasury's (Treasury's) G-Invoicing System and Organization Controls (SOC) 1 Report

**Cause:** DoW is in the process of enhancing its systems with the SFIS needed to enable it to correctly report, reconcile, and eliminate intragovernmental balances. DoW is also implementing the G-Invoicing platform as a long-term solution to manage intragovernmental buy/sell transactions.

Regarding receipt and acceptance for invoices classified as "FOB Source" in the G-Invoicing environment, according to DSCA management, the Treasury's G-Invoicing guidance was not clear that additional supporting documentation is required for "FOB Source" transactions.

Regarding the federal or non-federal indicator, the IAs do not have sufficient internal control activities in place to help ensure that they use the correct federal or non-federal indicator for recorded transactions. Additionally, the federal or non-federal indicator field in Advana is set to "NA," either because the field is not required to be populated in the system that is ingested into Advana or because the field in which the federal or non-federal indicator is populated is not ingested into Advana.

**Effect:** Absent reliable data sufficient to identify and match intragovernmental transactions, DSCA may be unable to help ensure that intragovernmental eliminations reported in the DSCA SAA financial statements are complete and accurate. Additionally, DSCA and the IAs are unable to help ensure that amounts due from federal entities represent intragovernmental transactions and are reported separately from amounts owed to the public in the DSCA SAA financial statements and related notes.

Absent processes to perform receipt and acceptance procedures for intragovernmental transactions, DSCA and the IAs do not have assurance that trading partners provided goods, services, or both before receiving reimbursement from the SAA and may be unable to demonstrate that the resulting expended authority transactions occurred and were properly recorded in the DSCA SAA financial statements.

Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level, and with FMFIA requirements.

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**Recommendations:** We recommend that DSCA, in coordination with the IAs:

- Assess financial management systems used across SAA programs and activities that do not completely and accurately incorporate trading partner information for intragovernmental transactions.
- Work with system owners, where needed, to require the inclusion of trading partner information within financial management systems.
- Assess existing policies and procedures and update them as necessary to help ensure that DSCA and the IAs record trading partner information completely and accurately in the financial management systems.
- Assess existing policies and procedures and update them as necessary to help ensure that DSCA and the IAs apply processes for trading partner coordination and reconciliations, as well as for the review and approval of adjustments and eliminations, consistently and accurately across SAA programs and activities.
- Review its existing CAPs related to intragovernmental transactions and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on implementing the G-Invoicing platform as a long-term solution to manage intragovernmental buy/sell transactions.
- Identify, design, and implement control activities to help ensure that the correct federal or non-federal indicator is used for recorded transactions.
- Include key controls in its procedural guidance related to receipt and acceptance for invoices classified in G-Invoicing as "FOB Source."

**MATERIAL WEAKNESS 11: UNSUPPORTED ACCOUNTING ADJUSTMENTS (REPEAT)**

**Condition:** DSCA, in coordination with the IAs and DFAS, recorded material unsupported JVs within DDRS-B.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*
- DoD FMR, Volume 6A, Chapter 2

**Cause:** As noted in Material Weakness 2, the DSCA SAA financial statements are comprised of balances, activities, and disclosures pertaining to DSCA and 12 IAs, which collectively operate 14 GL systems and dozens of feeder systems. Many of the systems in use were not designed to record and report activity in a manner that would allow for the preparation of financial statements in accordance with GAAP. The abundance of IS, compounded by the legacy nature

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of the IS in use, has created a complex financial reporting environment, necessitating a large volume of JVs to prepare financial statements. Specific reasons for unsupported JVs include:

- Balances that do not pass Government-wide Treasury Account Symbol (GTAS) edit checks, resulting in what are known as forced balancing entries.
- Differences between balances and activity interfaced to DDRS from source systems and balances and activity reported from the Treasury's Central Accounting Reporting System (CARS), resulting in forced balancing entries.
- The accounting systems' inability to capture trading partner information at the transaction level, resulting in adjustments to agree recorded balances to seller-side activity.
- Systemic beginning balance JVs to bring forward and summarize JV amounts from prior years.
- Balances from source GL systems that have invalid USSGL information.

**Effect:** The DSCA SAA financial statements may be materially misstated. Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Analyze unsupported JVs affecting the DSCA SAA financial statements to determine the nature of the adjustments.
- Use the results of this analysis to develop a remediation plan. The remediation plan should include updating accounting processes to record financial balances and activity completely and accurately in source GL systems to reduce the number of JVs. In instances in which reducing JVs is not feasible or practical, the remediation plan should include identifying missing support and implementing requirements to properly support the JVs.
- Based on the remediation plan, update, implement, or both, policies and procedures and Memoranda of Understanding for changes to accounting practices or JV requirements.

#### **MATERIAL WEAKNESS 12: OVERSIGHT OF SERVICE PROVIDERS (REPEAT)**

**Condition:** DSCA has not established DSCA-specific entity-wide policies and procedures related to third-party service provider monitoring. Furthermore, DSCA has not established DSCA-specific entity-wide policies and procedures and formalized processes related to the implementation of Complementary User Entity Controls (CUECs) specified in SOC reports for third-party service providers.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 5, *Security and Privacy Controls for Information Systems and Organizations*
- DoD Instruction 8500.01, *Cybersecurity*

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**Cause:** DSCA followed federal and DoW guidance rather than developing and implementing DSCA-specific entity-wide policies and procedures for third-party service providers and implementation of CUECs.

**Effect:** The absence of DSCA-specific entity-wide policies, procedures, and processes for third-party service providers and CUECs may prevent DSCA management from standardizing its oversight for third-party service providers and the DSCA SAA's system of internal control.

Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs:

- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness.

#### **MATERIAL WEAKNESS 13: GROSS COSTS (REPEAT)**

**Condition:** The SAA does not always record operating expense (i.e., gross costs) accounting transactions (including the related delivered orders, unpaid and AP) when the economic event (i.e., delivery of goods or services) occurs. This condition is evidenced by:

- Certain transactions that we tested in our nonstatistical selection of operating expenses for which the SAA recorded the transactions in the current FY, although the economic event occurred in a prior FY.
- Operating expense accounting transactions that are recorded in two GL systems when the disbursement transaction is interfaced to these systems, rather than when the economic event occurred.

Furthermore:

- IAs were unable to provide sufficient supporting documentation by the established due date for certain transactions that we selected in our nonstatistical selection of operating expenses (i.e., gross costs).
- DFAS, on behalf of DSCA, recorded three JVs in DDRS-B that had no supporting transaction-level detail (i.e., were unsupported) as supported JVs.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1
- SFFAS 7

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- OMB Circular No. A-11
- SAA FMS Posting Logic published by TFM Bulletin No. 2024-06
- USSGL Part 1, Section II
- DoD FMR Volume 4, Chapter 9, *Accounts Payable*
- DoD FMR Volume 6A, Chapter 2

**Cause:** The SAA does not have sufficient internal control activities to help ensure operating expense accounting transactions are recorded timely and in the correct FY.

The SAA has not yet developed and implemented policies and procedures requiring appropriate accounting practices related to FMS case activity for recording operating expense accounting transactions (including the related delivered orders, unpaid and AP) when the economic event occurs.

The military departments do not have an effective process to identify, accumulate, retain, and provide sufficient supporting documentation for selected recorded transactions in GL account 610000 by the established due date.

Regarding JVs, due to the lack of proper training provided to personnel involved in the SAA JV preparation and approval processes, DFAS does not always accurately classify a JV as either supported or unsupported in accordance with DoD FMR Volume 6A, Chapter 2.

**Effect:** Gross costs may not have been completely and accurately recorded. The DSCA SAA financial statements may be materially misstated and may not be reliable. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards and the USSGL at the transaction level, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Update existing CAPs or prepare new CAPs to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on identifying, designing, and implementing control activities to help ensure operating expense accounting transactions are recorded timely and in the correct FY.
- Develop and implement policies and procedures requiring appropriate accounting practices related to FMS case activity for recording operating expense accounting transactions (including the related delivered orders, unpaid and AP) when the economic event occurs.
- Provide personnel involved in SAA JV preparation and approval with the necessary training to accurately classify JVs in accordance with policies and procedures and to accurately record economic events in accordance with the updated FMS posting logic.

We recommend that the military departments:

- Analyze the nature and type of gross costs transactions and determine the related assessable unit (e.g., contract/vendor pay, reimbursable work orders, travel).
- For each significant type of transaction within each assessable unit, identify the key supporting documentation that substantiates the recorded transaction. In determining

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whether key supporting documentation substantiates the recorded transaction, consider whether the documentation evidences (1) the recorded transaction actually occurred (existence/occurrence assertion), (2) the period in which the transaction occurred (existence/occurrence and completeness assertions), (3) the amount of the recorded transaction (accuracy/valuation/allocation assertion), and (4) the recorded transaction pertains to the SAA (rights/obligation assertion).

- Document the key supporting documentation that substantiates each significant type of transaction within each assessable unit in the form of a matrix.
- Provide training on the matrix to business process owners such that the business process owners are using the matrix to identify, accumulate, and retain supporting documentation of the SAA's recorded gross cost transactions.
- For each significant type of transaction within each assessable unit, perform periodic testing of selected transactions to evaluate whether business process owners are able to readily provide sufficient supporting documentation of the SAA's recorded gross cost transactions in response to audit requests.

#### **MATERIAL WEAKNESS 14: ACCOUNTING FOR CASE ACTIVITY IN THE GL (REPEAT)**

**Condition:** DSCA and the IAs do not always account for FMS and Foreign Military Financing (FMF) case activity completely or accurately. For example, DSCA does not accurately report FMS purchaser funds held in National Funds Investment Accounts (NFIAFs) in accordance with SFFAS 1 and the SAA FMS Posting Logic published by TFM Bulletin No. 2024-06. Specifically, DSCA reports all FMS purchaser funds held in NFIAFs as Funds Held Outside of Treasury - Budgetary. Additionally, DSCA is working to identify the appropriate Federal Reserve Bank (FRB) data sources that break out Treasury bills at cost and par value for each account.

In addition, DSCA and the IAs do not always completely or accurately account for case activity. In summary, DSCA and the IAs:

- Do not always record economic events in the GL systems, or they record the events but do not always properly classify the events in accordance with the USSGL.
- Are unable to substantiate the account balances recorded in the GL systems, and the GL systems include abnormal account balances.
- Cannot always provide GL transaction history for cases.

Also, DSCA has transferred Title 10 budget authorities appropriated for Building Partner Capacity (BPC) programs (herein referred to as Title 10 BPC budget authorities) to the Title 22 FMS Trust Fund. DSCA, in coordination with the IAs and DFAS, has executed Title 10 BPC budget authorities in the FMS Trust Fund, which is against the purpose of the FMS Trust Fund as stipulated in the Arms Export Control Act (specifically, 22 U.S.C. §2761 and §2762), and in noncompliance with the Economy Act (31 U.S.C. §1535).

As of July 31, 2025, the amount of Title 10 BPC budget authorities that has been transferred to the FMS Trust Fund but not yet been disbursed is approximately \$18.8 billion.

**Criteria:**

- FFMIA

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- FMFIA
- 22 U.S.C. § 2761, *Sales from stocks*
- 22 U.S.C. § 2762, *Procurement for cash sales*
- 31 U.S.C. §1535, *Agency agreements* (commonly referred to as the "Economy Act")
- 10 U.S.C. §333, *Foreign security forces: authority to build capacity*
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1
- SFFAS 47
- SAA FMS Posting Logic published by TFM Bulletin No. 2024-06
- DSCA Office of General Counsel (OGC) legal opinion, July 2023

**Cause:** DFAS has not fully implemented SAA accounting practices for FMS partner funds held in NFIAs. DSCA is currently working to identify the correct account classification (i.e., cash or investment) to report investment purchases by the FRB or Commercial Bank Account (CBA) using foreign partner funds and to ensure accurate reporting of investments on the SAA financial statements. Additionally, DSCA has been delayed in identifying the specific data sets needed for accurate reporting of invested funds due to current limitations in FRB in locating and isolating data.

Regarding accounting for case activity in the GL systems:

- DSCA, in coordination with the IAs and DFAS, has not fully implemented the approved posting logic to record the accounting events related to case activities in accordance with the USSGL and FFMIA.
- DSCA's policies pertaining to case reconciliation and closure do not require personnel to review the appropriateness of recorded balances across all GL system accounts.
- IAs are unable to provide a complete USSGL transaction history and reliable GL account balances for selected cases due to a lack of historical GL system data.
- IAs are unable to complete case reconciliations and closures in a timely manner due to backlogs in case closures caused by staffing shortages combined with missing information, high transaction volumes, and complex transactions.

Regarding Title 10 BPC budget authorities, DSCA has transferred Title 10 BPC budget authorities to the FMS Trust Fund to leverage the existing FMS process and infrastructure to procure authorized defense articles and defense services, as well as track and report BPC case execution to support DoW security objectives.

**Effect:** Cash and Investments pertaining to purchaser funds may not be properly classified and presented in the DSCA SAA financial statements.

Absent a complete and accurate record of accounting events pertaining to case activity in the GL systems, DSCA may be unable to reasonably ensure that balances reported in the DSCA SAA financial statements are complete and accurate. Improperly recorded balances may result in material misstatement of the DSCA SAA financial statements.

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Also, DSCA SAA financial statements include material balances and activities resulting from the transfer to and execution of Title 10 BPC budget authorities in the FMS Trust Fund. These material balances and activities, coupled with not performing analysis to determine the impact on the SAA financial statements, contribute to a scope limitation with respect to testing the DSCA SAA financial statements.

Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA:

- Continue to implement procedures, in coordination with DFAS, to require reporting of investment purchase by the FRB or CBA using foreign partner funds in accordance with the newly established SAA accounting practices.
- Perform a retrospective analysis to identify, research, and resolve open or abnormal balances recorded across all GL system accounts for closed cases.
- Update its policies regarding case reconciliation and closure processes to require a comprehensive review of the completeness and accuracy of account balances across all GL accounts and timely remediation of any variances.
- Perform a comprehensive assessment of the underlying reasons for delays in the reconciliation and closure of cases, then develop and implement a CAP to resolve these delays. The CAP should consider the quantity and qualifications of human resources, the availability of complete and reliable information, and any opportunities to streamline or simplify the reconciliation and closure of complex transactions.
- Perform analysis to identify, quantify, and remove balances and activities reported on the SAA financial statements resulting from the transfer to and execution of Title 10 BPC budget authorities in the FMS Trust Fund.

**MATERIAL WEAKNESS 15: ACCESS CONTROLS (REPEAT)**

**Condition:** DSCA, IAs, or both have not designed or implemented effective access controls over certain IS. Specifically, DSCA, IAs, or both have not:

- Generated a complete user listing.
- Completed adequate account recertifications.
- Performed effective reviews of user access authorization forms.
- Conducted reviews and investigations of audit logs and taken remediation actions.
- Disabled inactive users in accordance with policies.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- NIST SP 800-53, Revision 5

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**Cause:** DSCA, IAs, or both do not have effective processes or did not follow existing processes in place for generating a complete user listing, conducting account recertifications, reviewing and processing user access request forms, monitoring audit logs, and monitoring inactive users.

**Effect:** Lack of a complete user listing, as well as the absence of access control and monitoring procedures being performed and the lack of proper validation of access rights, increases the risk of inappropriate and unauthorized access to systems. These deficiencies may also impact the accuracy and reliability of data reported on the SAA's financial statements. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, IAs, or both:

- Review existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- Design and implement effective processes for generating a complete user listing, conducting account recertifications, reviewing and processing user access request forms, monitoring audit logs, and monitoring the disablement of inactive users.

#### MATERIAL WEAKNESS 16: SEGREGATION OF DUTIES (REPEAT)

**Condition:** DSCA has not developed a segregation of duties matrix and management did not consider segregation of duty conflicts across SAA systems when granting users access to SAA applications.

**Criteria:**

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- NIST SP 800-53, Revision 5

**Cause:** Management has not defined its sensitive activities or transactions and has not identified incompatible duties and responsibilities. In addition, DSCA has not considered the risks of segregation of duties across DSCA and IA systems.

**Effect:** The absence of effective policies and procedures surrounding segregation of duties increases the risk that fraud, waste, or abuse may occur without detection. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs:

- Review existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- Develop, document, and implement procedures for incorporating segregation of duties into the account provisioning process across SAA systems.

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**MATERIAL WEAKNESS 17: CONFIGURATION MANAGEMENT (REPEAT)**

**Condition:** DSCA, IAs, or both have not designed or implemented effective configuration management controls over certain IS. Specifically, DSCA, IAs, or both have not:

- Enforced logical access restrictions with respect to change management duties.
- Enforced that changes are documented, tested, and approved.
- Developed or implemented mechanisms to monitor the production baseline for unauthorized changes on a periodic basis.
- Updated configuration management procedures to be reflective of current operating conditions.

**Criteria:**

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- NIST SP 800-53, Revision 5

**Cause:** DSCA, IAs, or both do not have effective processes or did not follow the existing processes in place for restricting change management access; ensuring that changes are documented, tested, and approved; and monitoring production baselines to identify unauthorized changes.

**Effect:** Without up-to-date change management policies and procedures, proper control of configurable items and configuration management duties, and periodic monitoring of production baselines, management cannot ensure all changes in the production environment are authorized.

The above deficiencies may impact the accuracy and reliability of data reported on the SAA's financial statements. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, and with FMFIA requirements.

**Recommendation:** DSCA, IAs, or both should design, implement, or both, effective processes, to include restricting change management access; ensuring changes are documented, tested, and approved; and monitoring production baselines to identify unauthorized changes.

**MATERIAL WEAKNESS 18: FINANCIAL REPORTING (REPEAT, CHANGED FROM SIGNIFICANT DEFICIENCY)**

**Condition:** The DSCA SAA did not fully implement all elements of OMB Circular No. A-136 and GAAP in its FY 2025 Agency Financial Report (AFR).

Additionally, DSCA does not prepare its AFR timely and does not perform complete reconciliation of note disclosures to check if all amounts disclosed in the notes are complete and accurate and presented in accordance with OMB Circular No. A-136.

**Criteria:**

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- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-136

**Cause:** DSCA did not fully implement all elements of OMB Circular No. A-136 and GAAP due to limitations in its financial management processes, financial systems, and non-financial systems and processes that support the financial statements. DSCA is currently performing remediation efforts to correct these matters.

Also, DSCA has not developed and implemented policies and procedures to require the timely preparation of the AFR and performance of reconciliation of note disclosures.

**Effect:** The DSCA SAA's FY 2025 AFR did not contain all elements prescribed by OMB Circular No. A-136 and GAAP. Therefore, DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards, and with FMFIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Assess the root cause for each instance of noncompliance and develop CAPs to address the issues identified.
- Develop and implement policies and procedures to require performing the reconciliation of note disclosures.

#### **SIGNIFICANT DEFICIENCY 1: CONTINGENT LIABILITIES (REPEAT)**

**Condition:** DSCA has not effectively designed and implemented internal control activities to help ensure that actual and contingent legal liabilities are presented completely and accurately in the DSCA SAA financial statements. Specifically, DSCA has not formally designed and implemented internal controls to identify and monitor legal liabilities across the SAA, assess these liabilities for recognition or disclosure, and report these liabilities in the DSCA SAA financial statements and note disclosures in accordance with federal accounting standards.

DSCA has also not effectively implemented internal control activities to identify and monitor contingent liabilities across the SAA.

#### **Criteria:**

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD FMR, Volume 4, Chapter 12, *Other Liabilities*

**Cause:** DSCA does not have policies and procedures in place that prescribe internal control activities designed to help ensure that DSCA presents actual and contingent legal liabilities completely and accurately in the DSCA SAA financial statements.

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DSCA did not effectively implement standard operating procedures that prescribe internal control activities to identify and monitor contingent liabilities across the SAA that should be reported in the SAA financial statements.

**Effect:** DSCA may not be able to prevent material misstatement of actual or contingent legal liabilities and related expenses reported in the DSCA SAA financial statements and related notes.

Without adequate implementation of internal control activities to identify and monitor contingent liabilities across the SAA, DSCA may not be able to prevent material misstatement of actual or contingent liabilities and related expenses reported in the SAA financial statements and related notes. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

**Recommendations:** Regarding the actual and contingent legal liabilities, we recommend that DSCA, in coordination with the DSCA OGC and the IAs:

- Develop policies and procedures that require DSCA, the OGC, and the IAs to implement internal control activities designed to help ensure that DSCA identifies, assesses, and reports actual and contingent legal liabilities in the DSCA SAA financial statements.

Regarding the other contingent liabilities, we recommend that DSCA, in coordination with the IAs:

- Implement internal control activities, as designed, to ensure DSCA reports contingent liabilities completely and accurately in the SAA financial statements.
- Update policies and procedures to document the basis for the conclusion of each assessment performed to identify and monitor reportable contingent liabilities.

#### **SIGNIFICANT DEFICIENCY 2: ENVIRONMENTAL AND DISPOSAL LIABILITIES (REPEAT)**

**Condition:** DSCA has not developed and implemented policies and procedures that prescribe internal control activities designed to identify and assess whether environmental and disposal liabilities pertain to the DSCA SAA financial statements and should be reported on the DSCA SAA financial statements in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*.

**Criteria:**

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD FMR, Volume 4, Chapter 13, *Environmental and Disposal Liabilities*

**Cause:** DSCA has not fully implemented its existing CAP to identify and report SAA PP&E balances across the SAA and the IAs, as discussed in Material Weakness 8. Until DSCA validates the completeness of the PP&E balances, it will be unable to establish requirements for assessing and reporting environmental and disposal liabilities associated with SAA PP&E.

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**Effect:** DSCA may be unable to prevent material misstatement of environmental and disposal liabilities reported in the DSCA SAA financial statements and related notes. Additionally, the DSCA SAA is not compliant with FFMIA requirements.

**Recommendations:** We recommend that DSCA, in coordination with the IAs and DFAS:

- Continue its efforts to implement its existing CAP related to PP&E.
- Develop policies and procedures that require DSCA and the IAs to implement internal control activities designed to identify, assess, and report environmental and disposal liabilities in the DSCA SAA financial statements.

#### **SIGNIFICANT DEFICIENCY 3: SECURITY MANAGEMENT (REPEAT)**

**Condition:** DSCA has not ensured that it performs annual risk assessments of SAA applications.

**Criteria:**

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- NIST SP 800-53, Revision 5

**Cause:** DSCA does not involve financial specialists as part of its system control assessments.

**Effect:** Without a process in place to help ensure that it completes its annual control assessments in an effective manner, DSCA may be unable to identify internal control weaknesses and mitigate them to an acceptable level, or to help prevent future control deficiencies or material weaknesses from occurring. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements.

**Recommendations:** We recommend that DSCA review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this significant deficiency.

#### **SIGNIFICANT DEFICIENCY 4: REPORTING ENTITY (REPEAT)**

**Condition:** DSCA has not effectively designed and implemented internal control activities to periodically identify, assess, and report related parties, disclosure entities, and public-private partnerships in the DSCA SAA financial statements and related notes in accordance with federal accounting standards.

**Criteria:**

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 47, *Reporting Entity*
- SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

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- OMB Circular No. A-123

**Cause:** DSCA does not have policies or procedures in place that prescribe internal control activities designed to periodically identify and assess related parties, disclosure entities, and public-private partnerships and to help ensure that it properly reports these items in the DSCA SAA financial statements and related notes.

**Effect:** There is a risk that the DSCA SAA financial statements may be materially misstated, and the related notes may be missing required disclosures. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

**Recommendations:** We recommend that DSCA:

- Develop policies and procedures prescribing internal control activities across the SAA designed to periodically identify and assess related parties, disclosure entities, and public-private partnerships. Additionally, develop policies and procedures to help ensure that it properly reports these items in the DSCA SAA financial statements.
- Coordinate with the IAs to help ensure that they effectively implement DSCA's policies and procedures prescribing internal control activities.

#### **SIGNIFICANT DEFICIENCY 5: TREATIES AND OTHER INTERNATIONAL AGREEMENTS (REPEAT)**

**Condition:** DSCA has not effectively implemented internal control activities to identify treaties and other international agreements across SAA programs that should be reported in the SAA financial statements.

**Criteria:**

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD Instruction 5530.03, *International Agreements*

**Cause:** DSCA did not deem it necessary to document the basis for the conclusion of the assessment performed to identify and assess treaties and other international agreements related to SAA for which the related liabilities and note disclosures should be reported in the SAA financial statements.

**Effect:** Absent supporting documentation for internal control activities, DSCA cannot provide reasonable assurance that its internal controls over operations, reporting, and compliance are operating effectively. Specifically, treaties and other international agreements could be omitted from the SAA financial statements. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

**Recommendations:** We recommend that DSCA:

- Formally document the basis for the conclusion of each assessment performed to identify treaties and other international agreements that could result in liabilities from SAA programs that should be reported in the SAA financial statements.

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## APPENDIX B: NONCOMPLIANCE AND OTHER MATTERS

During our engagement to audit the fiscal year (FY) 2025 Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) financial statements, we identified instances of noncompliance, as described in this Appendix.

### FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (REPEAT)

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the DSCA SAA financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level. During FY 2025, we identified instances in which the DSCA SAA financial management systems did not substantially comply with each of the three elements required by FFMIA Section 803(a).

#### 1. Federal Financial Management Systems Requirements

We identified instances of noncompliance with federal financial management systems requirements, as communicated in Appendix A under Material Weaknesses 2, 10, 11, 12, 14, 15, 16, and 17 and under Significant Deficiency 3. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with federal financial management systems requirements as part of Appendix A.

#### 2. Federal Accounting Standards

We identified instances of noncompliance with federal accounting standards, as communicated in Appendix A under Material Weaknesses 4, 5, 6, 8, 9, 10, 11, 13, 14, and 18. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with federal accounting standards as part of Appendix A.

#### 3. USSGL at the Transaction Level

We identified instances of noncompliance with the USSGL at the transaction level, as communicated in Appendix A under Material Weaknesses 2, 5, 10, 11, 13, and 14. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with the USSGL at the transaction level as part of Appendix A.

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (REPEAT)

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the head of each executive agency to establish internal accounting and administrative controls that reasonably ensure that (a) obligations and costs comply with applicable law; (b) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (c) revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

In its FY 2025 Statement of Assurance, as required under FMFIA, DSCA reported that it is unable to provide assurance that the internal controls over reporting (including internal and

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external reporting) and compliance, as well as internal controls over the integrated financial management systems, for the Title 22 SAA are operating effectively as of September 30, 2025.

Because each of the material weaknesses and significant deficiencies described in Appendix A represents deficiencies in internal control, they also represent instances of noncompliance with FMFIA. We have provided conditions, criteria, causes, effects, and specific recommendations to help ensure FMFIA compliance as part of Appendix A.

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## APPENDIX C: DSCA COMMENTS



**DEFENSE SECURITY COOPERATION AGENCY**  
**2800 DEFENSE PENTAGON**  
**WASHINGTON, D.C. 20301-2800**

November 7, 2025

Ms. Melinda J. DeCorte, Engagement Principal  
 Sikich CPA LLC  
 333 John Carlyle Street, Suite 500  
 Alexandria, Virginia 22314

Dear Ms. DeCorte,

The Defense Security Cooperation Agency (DSCA), in coordination with the broader security assistance (SA) community, has reviewed the Independent Public Accountants Report on Fiscal Year (FY) 2025 Security Assistance Accounts (SAA) financial statements and related notes. Although DSCA acknowledges and concurs with the majority of the auditor's findings, certain conclusions presented in the report as documented in our detailed feedback during the draft NFR review process, do not accurately represent DSCA's financial management and internal controls.

DSCA non-concurs with the recommendation to analyze and remove balances and activities related to Title 10 Building Partner Capacity (BPC) budget authorities from the SAA financial statements. The transfer of Title 10 funds to the FMS Trust Fund was designed to leverage existing infrastructure for efficient procurement, tracking, and reporting, with funds segregated into sub-accounts to ensure transparency and compliance. BPC appropriations remaining in the FMS Trust Fund are set to cancel by FY 2030, and starting in FY 2031, they will no longer impact the SAA financial statements, rendering additional analysis unnecessary. Retroactively removing these funds from the FMS Trust Fund would be both time-consuming and costly, as the funds are already in execution. Modifying requisitions and contracts would significantly delay the delivery of items to partner nations, potentially causing political implications. Additionally, DSCA implemented the BPC Long Term Solution in FY25, which improves financial practices by providing Title 10 funds directly to implementing agencies (IAs), reducing risks and enhancing accountability.

DSCA also non-concurs with the material weakness regarding non-compliance with Generally Accepted Accounting Principles (GAAP) as outlined in the Financial Reporting NFR. While DSCA acknowledges areas of non-compliance with GAAP identified through the GAO Financial Audit Manual (FAM) Checklist, these issues are already addressed in existing SAA Audit NFRs and are being actively remediated through established Corrective Action Plans (CAPs). Furthermore, DSCA conducts extensive reconciliation and validation procedures to ensure financial statement footnotes comply with OMB A-136. We do not agree that DSCA does not prepare the SAA AFR timely. We prepare our AFR in alignment with OMB A-136 and Treasury timelines by November 15, and we also follow the DoD-wide financial reporting schedule and timelines for publishing the SAA AFR. This includes leveraging the Department

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of War (DoW)-Wide Footnote crosswalk within the Defense Departmental Reporting System (DDRS)-AFS system, which standardizes reporting across all DoW Components.

On the matter of internal controls over IA business processes, DSCA provides policy guidance and oversight for FMS financial and program management, but IAs must leverage the distinct control environments built within the DoW official systems of record.

Recommendations suggesting DSCA's involvement in creating internal controls for IA-specific findings does not accurately reflect that security assistance is implemented on the backbone of existing DoW infrastructure with SA-unique equities addressed as needed. For example, DSCA established the Security Assistance Management Manual to provide DoW-wide guidance on security assistance programs, while the Financial Management Regulation (FMR), developed by the Office of the Under Secretary of War, Comptroller (OUSW(C)), establishes financial management policies for the entire DoW and provides guidance for a wide range of activities involving federal funds that the IAs are expected to follow. The FMR also includes a section addressing security assistance-specific processes. DSCA monitors IA compliance with SAA Entity-Level Controls through existing Statement of Assurance submissions reported annually to OUSW(C) by the IAs, ensuring alignment with established policies and standards.

Nevertheless, our aim is to ensure the SAA achieves an unmodified audit opinion through diligent and sustained corrective actions. To this end, DSCA is pleased to report the closure of twelve prior-year audit findings and measurable progress in addressing our most critical material weaknesses. In FY 2025, the SA Community made substantial progress in reducing Fund Balance with Treasury Undistributed Balances through a review of historical collections and disbursements, reduced unsupported Beginning Balances between 10 General Ledgers and the DDRS, and initiated the recording of inventory and recognition of revenue in the FMS Trust Fund for the first time ever for Army and Air Force cases. DSCA remains steadfast in our commitment to collaborating with the Defense Finance and Accounting Service, OUSW, IAs, and other security cooperation stakeholders to proactively address audit concerns, drive meaningful improvements, and advance the Secretary of War audit remediation priorities.

DSCA values the professionalism and constructive engagement demonstrated by Sikich throughout the audit process and looks forward to our continued partnership in strengthening the accuracy, transparency, and reliability of the SAA financial statements.

A handwritten signature in black ink that reads "Brian T. Watford".

Brian T. Watford  
Acting, Chief Operating Officer and  
Chief Financial Officer

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U.S. Army critical care flight paramedics practice medical procedures in a field while a UH-60 Blackhawk flies by as part of a medical evaluation at Wheeler Army Airfield, Hawaii.

Photo by Sgt. Olivia Cowart

# Financial Statements

**SECURITY ASSISTANCE ACCOUNTS**  
**CONSOLIDATED BALANCE SHEET (Unaudited)**  
As of September 30, 2025  
(amounts in thousands)

	Note	2025
<b>Assets</b>		2
Intragovernmental:		
Fund Balance with Treasury	3	\$ 76,172,089
Advances and Prepayments	10	36,192
Total Intragovernmental		\$ 76,208,281
Other than Intragovernmental:		
Cash	4	70,976,668
Accounts Receivable, Net	6	6,591
Loans Receivable, Net	7	2,493,941
Inventory and Related Property, Net	8	35,605,074
Total Other than Intragovernmental		\$ 109,082,274
<b>Total Assets</b>		<b>\$ 185,290,555</b>
<b>Stewardship Property, Plant, &amp; Equipment</b>		9
<b>Liabilities</b>		11
Intragovernmental:		
Accounts Payable		\$ 1,117,389
Debt	12	7,852,460
Advances from Others and Deferred Revenue		161,392
Other Liabilities	15	476,470
Total Intragovernmental		\$ 9,607,711
Other than Intragovernmental:		
Accounts Payable		17,642,496
Federal Employee Salary, Leave, and Benefits Payable	13	35,533
Advances from Others and Deferred Revenue		15,365,290
Other Liabilities	15	22,491
Total Other than Intragovernmental		\$ 33,065,810
<b>Total Liabilities</b>		<b>\$ 42,673,521</b>
<b>Commitments and Contingencies</b>		17
<b>Net Position</b>		
Unexpended Appropriations - Funds from Other than Dedicated Collections		\$ 12,140,926
Total Unexpended Appropriations (Consolidated)		\$ 12,140,926
Cumulative Results of Operations - Funds from Other than Dedicated Collections		130,476,108
Total Cumulative Results of Operations (Consolidated)		\$ 130,476,108
<b>Total Net Position</b>		<b>\$ 142,617,034</b>
<b>Total Liabilities and Net Position</b>		<b>\$ 185,290,555</b>

The accompanying notes are an integral part of these statements.

**SECURITY ASSISTANCE ACCOUNTS**  
**CONSOLIDATED STATEMENT OF NET COST (Unaudited)**  
For the Year Ended September 30, 2025  
(amounts in thousands)

	Note	2025
<b>Gross Program Cost</b>	<b>18</b>	
Foreign Military Sales Trust Fund		\$ (25,707,356)
Foreign Military Financing Direct Loan (Program and Financing) Accounts		293,985
Special Defense Acquisition Fund		137,233
International Military Education and Training		103,929
Foreign Military Financing Program Account		64,290
Foreign Military Loan Liquidating Account		54,571
Military Debt Reduction Financing Account		397
<b>Total Gross Program Cost</b>		<b>\$ (25,052,951)</b>
Less: Earned Revenue		(259,018,639)
<b>Net Cost of Operations</b>		<b>\$ (284,071,590)</b>

The accompanying notes are an integral part of these statements.

**SECURITY ASSISTANCE ACCOUNTS**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (Unaudited)**  
For the Year Ended September 30, 2025  
(amounts in thousands)

	<b>2025</b>
<b>Unexpended Appropriations</b>	
Beginning Balances	\$ 13,331,944
Appropriations Received	5,977,549
Appropriations Transferred In/Out	(5,817)
Other Adjustments (+/-)	(58,359)
Appropriations Used	(7,104,391)
Net Change in Unexpended Appropriations	\$ (1,191,018)
<b>Total Unexpended Appropriations</b>	<b>\$ 12,140,926</b>
<b>Cumulative Results of Operations</b>	
Beginning Balances	\$ (171,928,401)
Appropriations Used	7,104,391
Non-exchange Revenue	11,043,487
Donations and Forfeitures of Cash and Cash Equivalents	364,507
Transfers-In/Out without Reimbursement (+/-)	(12,845)
Other	(166,621)
Net Cost of Operations (+/-)	(284,071,590)
Net Change in Cumulative Results of Operations	\$ 302,404,509
<b>Total Cumulative Results of Operations</b>	<b>\$ 130,476,108</b>
<b>Net Position</b>	<b>\$ 142,617,034</b>

The accompanying notes are an integral part of these statements.

**SECURITY ASSISTANCE ACCOUNTS**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES (Unaudited)**  
For the Year Ended September 30, 2025  
(amounts in thousands)

			<b>2025</b>			
				<b>Note</b>	<b>Budgetary</b>	<b>Non-Budgetary Credit Reform Financing Account</b>
<b>Budgetary Resources</b>						
Unobligated Balance From Prior Year Budget Authority, Net (Discretionary and Mandatory)		19	\$ 292,826,251		\$ 50,236	
Appropriations (Discretionary and Mandatory)			7,646,650			–
Borrowing Authority (Discretionary and Mandatory)			–		8,023,356	
Contract Authority (Discretionary and Mandatory)			98,644,340			–
Spending Authority from Offsetting Collections (Discretionary and Mandatory)			81,401		328,539	
<b>Total Budgetary Resources</b>			<b>\$ 399,198,642</b>		<b>\$ 8,402,131</b>	
<b>Status of Budgetary Resources</b>						
New Obligations and Upward Adjustments (Total)			\$ 108,661,731		\$ 8,388,073	
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts			202,648,912			–
Unapportioned, Unexpired Accounts			87,762,060		14,058	
Unexpired Unobligated Balance, End of Year			\$ 290,410,972		\$ 14,058	
Expired Unobligated Balance, End of Year			125,939			–
Unobligated Balance, End of Year (Total)			\$ 290,536,911		\$ 14,058	
<b>Total Budgetary Resources</b>			<b>\$ 399,198,642</b>		<b>\$ 8,402,131</b>	
<b>Outlays, Net and Disbursements, Net</b>						
Outlays, Net (Total) (Discretionary and Mandatory)			\$ 57,917,911			
Distributed Offsetting Receipts (-)			(64,039,317)			
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>			<b>\$ (6,121,406)</b>			
<b>Disbursements, Net (Total) (Mandatory)</b>			<b>\$ 2,424,259</b>			

The accompanying notes are an integral part of these statements.

# Notes to the Financial Statements

## 1

NOTE 1

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. REPORTING ENTITY

The SAA is a group of programs authorized under Title 22 authorities, by which the United States provides defense articles, military education and training, and other defense-related services by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives. These security assistance programs are subject to the continuous supervision and general direction of the Secretary of State to best serve U.S. foreign policy interests.

Although the SAA has not been consolidated into the FY 2025 DoD financial statements, the Department recently concluded that the SAA should be a consolidation entity within the DoD Agency-Wide consolidated financial statements. The SAA will be consolidated into the DoD financial statements in future years.

The SAA has evaluated its relationships and activities in accordance with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*, and SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. Based on this assessment, the SAA determined that it does not have any disclosure entities, related parties, or public-private partnerships that would require disclosure in the financial statements.

### B. MISSION OF THE REPORTING ENTITY

The mission of the reporting entity is to lead, direct, and manage SC programs and resources to support U.S. national security objectives. These programs build relationships with foreign countries and international organizations that promote the U.S. interests, develop allied and partner capacities for self-defense and coalition participation in overseas contingency operations, and promote peacetime and contingency access for U.S. forces.

### C. BASIS OF PRESENTATION

These financial statements have been prepared to report the financial position and results of operations of the SAA, which include analysis of the FMS Trust Fund and several other accounts that are identified in the President's Budget Request and appropriated through the DoS, Foreign Operations, and Related Programs Appropriations Act. These accounts include those that contain USG funds appropriated for Title 22 security assistance and funds deposited by foreign countries and international organizations, or by other entities for the use of foreign countries and international organizations. See Note 1.D, *Appropriations and Funds*, for a list of these accounts. The FMS Trust Fund and other accounts for funds appropriated for security assistance are managed by DSCA on behalf of the DoD in accordance with the authority delegated from the EOP, the requirements of the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, and other applicable laws and regulations.

The financial statements were prepared from accounting records that are maintained by the IAs, consisting of the MILDEPs, Other Defense Organizations, and DFAS in accordance with Federal U.S. GAAP promulgated by the Federal Accounting Standards Advisory Board (FASAB); the OMB Circular No. A-136, *Financial Reporting Requirements*; and the DoD Financial Management Regulation (FMR), to the extent possible.

SFFAS No. 56, *Classified Activities*, 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. The accompanying financial statement information encompasses all SAA activities unless otherwise noted. Information relating to classified programs and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

#### **D. APPROPRIATION AND FUNDS**

The FMS Trust Fund is a Treasury account (Treasury Account Symbol (TAS) 8242), which contains deposits from FMS foreign country and international organization customers, as well as funds transferred into the account from USG appropriations, for use in carrying out specific programs in accordance with AECA (22 U.S.C. § 2751 et seq.), the FAA (22 U.S.C. § 2151 et seq.), and other legal authorities. The monies in the FMS Trust Fund are subject to Treasury account system controls from the date of receipt to the date of expenditure or refund. At the country or customer level, there are distinct subsidiary accounts used by DoD through DSCA and DFAS to account for each FMS customer's deposits, other collections or deposits, payments of bills, refunds, and adjustments. At the Treasury level, the corpus of the FMS Trust Fund represents the total aggregation of balances (receipts minus disbursements) for all activities and programs.

The SAA is a group of Treasury accounts, authorized under Title 22 authorities, that the DoD uses to execute the SA programs for which DoD has responsibility. DSCA is responsible for the management of the SAA.

These accounts collectively referred to as the "Security Assistance Accounts," which are granted to the EOP pursuant to the AECA, as amended are:

- International Military Education and Training (TAS 1081)
- Foreign Military Financing Program Account (TAS 1082)
- Foreign Military Financing, Direct Loan Program Account (TAS 1085)
- Special Defense Acquisition Fund (TAS 4116)
- Foreign Military Loan Liquidating Account (TAS 4121)
- Foreign Military Financing, Direct Loan Financing Account (TAS 4122)
- Military Debt Reduction Financing Account (TAS 4174)
- Security Assistance and International Programs, Deposit Account (TAS 6147)
- Foreign Military Sales Trust Fund (TAS 8242)

The SAA uses these appropriations and funds to execute its mission and subsequently reports on resource usage.

The FMS Trust Fund accounts for receipts and expenditures of funds held in trust by the USG for use in carrying out specific purposes or programs in accordance with applicable laws, regulations, and agreements. Pursuant to the Federal Credit Reform Act of 1990 (FCRA), certain General Fund Receipt Accounts associated with loan accounts are consolidated into SAA financial statements for reporting purposes.

The SAA is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in Treasury

as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

Generally, all financial activity related to these allocation transfers is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. Transfers from the Executive Office of the President, for which the SAA is the receiving entity, is an exception to this rule. Per OMB guidance, the SAA reports all activity related to these allocation transfers in its financial statements.

## **E. BASIS OF ACCOUNTING**

The legacy financial management systems used by IAs to execute SAA activities are not fully compliant with full accrual accounting requirements. Many of the IA's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of U.S. GAAP guidance. These legacy systems were not designed to collect and record financial information on a full accrual accounting basis as required by U.S. GAAP.

The SAA's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the IAs. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated SAA level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The SAA, with the IAs, is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. One such action is the current revision of accounting systems to record transactions based on the USSGL. Until all IAs systems and related processes can collect and report financial information as required by U.S. GAAP, there will be instances when the reported financial data is based on budgetary transactions data from nonfinancial feeder systems.

## **F. REVENUES AND OTHER FINANCING SOURCES**

As authorized by the Foreign Appropriations Act and AECA, payments for the sales of defense articles and services are deposited into the FMS Trust Fund. FMF appropriations provided on an annual or multiyear basis for security assistance are a financing source and are transferred into the FMS Trust Fund or deposited into the accounts for funds appropriated for security assistance. Pricing for defense articles and services, including training, is established to recover costs as required by the AECA, the FAA, and OMB Circular No. A-25, *User Charges*. The SAA recognizes revenue when earned within the constraints of current system capabilities.

The SAA participates in assistance in-kind agreements in its overseas presence. The assistance in kind provided in support of SC programs includes the use of facilities and personnel (guards and drivers) at a small number of SC offices worldwide.

The SAA collects payments from foreign customers in advance of delivery of goods or services and records unearned revenue accordingly. Revenue is considered earned once goods or services have been provided to the foreign partner.

## **G. RECOGNITION OF EXPENSES**

U.S. GAAP requires the recognition of operating expenses in the period incurred. However, the current financial and nonfinancial feeder systems used by the SAA were not designed to collect and record transactions on an accrual basis, making full compliance with this requirement challenging. As a result, estimates are made for major items such as payroll expenses, accounts payable, and unbilled revenue. The SAA continues to implement process and system improvements to remediate these limitations.

## **H. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES**

The reporting entity is a component of the USG. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because assets and liabilities of another USG entity offset them. These financial statements should be read with the realization that they are for a component of the USG, a sovereign entity. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, the SAA cannot accurately identify most of its intragovernmental transactions because IA systems do not track buyer and seller data needed to match related transactions. The DoD is enhancing systems and a standard financial information structure, incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

TFM Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. The funds within the SAA are unable to fully reconcile intragovernmental transactions with all federal agencies; however, the SAA can reconcile balances pertaining to borrowing from Treasury and the Federal Employees' Compensation Act (FECA) transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the costs paid on behalf of the FMS Trust Fund by the Office of Personnel Management for employee pension, post-retirement health, and life insurance benefits; and the Department of Labor for post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under FECA.

## **I. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS**

To best serve U.S. foreign policy interests worldwide, funds within the SAA are used to transact defense articles and services with foreign governments and international organizations. These signed agreements between the United States, and foreign governments and international organizations form the basis for the use of such funds.

## **J. FUNDS WITH THE TREASURY**

For monetary financial resources maintained in Treasury accounts, the disbursing offices of DFAS, the MILDEPs, the U.S. Army Corps of Engineers (USACE), and the DoS financial service centers process most SAA cash collections, disbursements, and adjustments. Each disbursing station prepares monthly reports that provide information to Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. Treasury records this information to the applicable FBwT account. On a monthly basis, the FBwT for the SAA is reviewed and adjusted as required to agree with Treasury accounts. For additional information, see *Note 3, Fund Balance with Treasury*.

## **K. CASH**

Cash comprises the total cash resources under the control of the SAA including coin, paper currency, and negotiable instruments that are held for deposit in banks or other financial institutions. These balances are classified as entity cash and are restricted.

The SAA monies are held in the FRB and approved commercial bank accounts established by the United States for foreign countries and transferred to the FMS Trust Fund account to be disbursed for FMS purposes.

The FMS Trust Fund only accepts U.S. dollars for payment of defense articles and services per DSCA 5105.38-M Security Assistance Management Manual; Chapter 9, *Financial Policies and Procedures*. For additional information, see *Note 4, Cash*.

## **L. ACCOUNTS RECEIVABLE**

The SAA accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. Gross receivables must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities* and Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*. For additional information, see *Note 6, Accounts Receivable, Net*.

## **M. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES**

FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees. As required by SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

Direct loans and loan guarantees are authorized by sections 23 and 24 of the AECA, Public Law 90-629, as amended; section 503(a) of the FAA; and other specific legislation. These loans and guarantees help friendly foreign countries and international organizations to purchase U.S. defense articles and services. For additional information, see *Note 7, Loans Receivable, Net and Loan Guarantee Liabilities*.

## **N. INVENTORIES AND RELATED PROPERTY**

The SAA maintains inventories in the SDAF until they are placed on an FMS case. For the FMS Trust Fund, the defense articles are provided to FMS customers by the USG or the contractor pursuant to a contract with the USG. Defense articles sold from the DoD, or the U.S. Coast Guard are assets of the providing component until title is transferred to foreign customer. As DSCA continues to assess this data, reporting and accounting treatments may change in future periods. For additional information, see *Note 8, Inventory and Related Property, Net*.

## O. ADVANCES AND PREPAYMENTS

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all IAs have implemented this policy primarily due to system limitations. For additional information, see *Note 10, Advances and Prepayments*.

## P. LEASES

The SAA does not report leases and currently is not able to reliably estimate the value of intragovernmental leases.

## Q. COMMITMENTS AND CONTINGENCIES

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty regarding a possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The SAA recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The SAA risk of loss contingencies arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes. For additional information, see *Note 17, Commitments and Contingencies*.

## R. ACCRUED LEAVE

For personnel compensation and benefits, the primary issue is usually the timing of the obligation and not the amount. The amount is prescribed by laws governing the civil service and the uniformed service is determined by well-established personnel procedures. Regarding the timing of the obligation, these amounts are generally recorded as obligations when earned during the reporting pay period, with the following exception:

*Annual leave, when it becomes due and payable as terminal leave or is taken in lieu of a lump sum payment, is an exception because annual leave is normally unfunded.*

The balance of the liabilities for annual leave and other leave (compensatory time and credit hours), including associated fringe benefit costs, must be assessed, and as needed, adjusted to reflect all pay increases and unused leave balances at least quarterly for financial statement purposes.

The FMS Trust Fund reports liabilities for accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as it is taken. These liabilities are based on current pay rates.

**S. NET POSITION**

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent both the amounts of budget authority that are unobligated and have not been rescinded or withdrawn, and the amounts obligated for which legal liabilities for payments have not been incurred. Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include donations and transfers of assets, both in and out, that were not reimbursed.

**T. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by Treasury. Supported disbursements and collections may be evidenced by the availability of corroborating documentation generally supporting the summary level adjustment made to accounts payable and receivable. Unsupported disbursements and collections lack sufficient supporting documentation for the transactions. However, both supported and unsupported adjustments may have been made to the SAA trial balances prior to validating the underlying transactions.

Due to material weaknesses identified in current accounting and financial feeder systems, the SAA is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable/receivable during the preparation of accounting reports.

As a result, the SAA allocates supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

## 2 | NOTE 2 NON-ENTITY ASSETS

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Intragovernmental Assets</b>	
Fund Balance with Treasury	\$ 20,743
<b>Total Intragovernmental Assets</b>	\$ 20,743
<b>Other than Intragovernmental Assets</b>	
Loans Receivable	\$ 433,457
<b>Total Other than Intragovernmental Assets</b>	\$ 433,457
<b>Total Non-Entity Assets</b>	\$ 454,200
<b>Total Entity Assets</b>	\$ 184,836,355
<b>Total Assets</b>	\$ 185,290,555

Non-entity assets are assets for which the SAA maintains stewardship accountability and reporting responsibility, that are not available for SAA operations.

## 3 | NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Unobligated Balance</b>	\$ 290,629,637
<b>Obligated Balance Not Yet Disbursed</b>	139,474,372
<b>Non-Budgetary FBwT</b>	
Deposit Funds	\$ 20,743
Funds Held Outside of Treasury	(70,976,668)
<b>Total Non-Budgetary FBwT</b>	\$ (70,955,925)
<b>Non-FBwT Budgetary Accounts</b>	
Unfilled Customer Orders without Advance	\$ (101,303)
Contract Authority	(274,874,689)
Borrowing Authority	(8,000,000)
Receivables and Other	(3)
<b>Total Non-FBwT Budgetary Accounts</b>	\$ (282,975,995)
<b>Total FBwT</b>	\$ 76,172,089

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance is not apportioned for current use because it is temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public laws establishing the funds. Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid. Deposit Funds represent SAA funds without budgetary authority.

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

The FBwT reported in the financial statements has been adjusted to reflect the SAA's balance as reported by Treasury. The difference between FBwT in the SAA's general ledgers and FBwT reflected in Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD components' general ledgers because of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research has been completed to obtain accurate key transactional elements, these transactions will be recorded in the appropriate detailed accounts within the IA's general ledger systems and flow into the SAA financial statements.

In FY 2025, DSCA initiated a historical data cleanup effort, focused on FBwT, to standardize historical data across IAs and reduce reconciliation differences. This effort involved reconciling and recording historical collections and disbursement balances in the IA accounting systems, with the goal of reducing the undistributed balance—the difference between balances reported in the SAA accounting systems and Treasury. Remediation efforts for SAA FBwT will continue into FY 2026.

## 4 | NOTE 4 CASH

AS OF SEPTEMBER 30 (amounts in thousands)	2025
Cash	\$ 70,976,668
<b>Total Cash</b>	<b>\$ 70,976,668</b>

The Cash balance as of September 30, 2025 includes advance deposits from foreign nations and organizations in the FRB and commercial bank accounts which have not been transferred to the FMS Trust Fund.

## 5 | NOTE 5 INVESTMENTS, NET

The SAA did not report Investments and Related Interest as of September 30, 2025. However, DSCA is continuing ongoing audit remediation efforts to determine if investments should be reported in the SAA financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

## 6 | NOTE 6 ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (amounts in thousands)	2025		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Non-Federal Receivables (From the Public)	\$ 6,641	\$ (50)	\$ 6,591
<b>Total Accounts Receivable</b>	<b>\$ 6,641</b>	<b>\$ (50)</b>	<b>\$ 6,591</b>

Accounts Receivable represent the FMS Trust Fund claims for payment from other entities. Allowances for uncollectible accounts are based on an estimation methodology using 3 years of historical collection data and is calculated on consolidated receivable balances.

## 7 | NOTE 7 LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

### DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

The SAA operates the following direct loan programs:

AECA authorizes funds to be appropriated to the President for financing the sales of defense articles and defense services to eligible foreign countries. Each loan is reviewed in the light of the purchasing country's financial condition, its need for credit, U.S. economic or military assistance programs in the country and region, and other proposed arms purchases by the country. The President delegates to the Secretary of Defense the authority to issue and guarantee loans through the designated administering agency, DSCA. The loans are issued to friendly, less economically developed countries. Pursuant to the authority contained in the Act, the following four funds are reported in the SAA Financial Statements:

- FMLLA for pre-1992 loans;
- Foreign Military Financing Direct Loan Program Account (FMFDLPA) for post-1991 loans;
- Foreign Military Financing Direct Loan Financing Account (FMFDLFA) for post-1991 loans; and
- Military Debt Reduction Financing Account (MDRFA) for reducing loan receivables for eligible countries.

The FMLLA is a liquidating account including all assets, liabilities, and equities for loan balances recorded prior to FY 1992. No new loan disbursements are made from this account. Certain collections made into this account are made available for default claim payments. The FCRA provides permanent indefinite authority to cover obligations for default payments in the event the funds in the liquidating account are otherwise insufficient.

The FMFDLPA is a program account established pursuant to the FCRA to provide the funds necessary for the subsidy element of loans. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the FMFDLFA to make required loan disbursements for approved FMS or commercial sales.

The FMFDLFA is a financing account used to make disbursements of Foreign Military Loan funds for approved procurements and for subsequent collections for the loans after September 30, 1991. The account uses permanent borrowing authority from Treasury combined with transfers of appropriated funds from FMFDLPA to make the required disbursements to loan recipient country borrowers for approved procurements. Receipts of debt service collections from borrowers are used to repay borrowings from Treasury.

The MDRFA is a financing account established for the debt relief of certain countries as established by Public Law 103-87. The MDRFA buys the portfolio of loans from the FMLLA, thus transferring the loans from the FMLLA account to the MDRFA account. The Paris Club negotiates debt forgiveness with Highly Indebted Poor Countries (HIPC). The Paris Club has 22 member countries that negotiate rescheduling or refinancing of debt for HIPC. The Paris Club provides debt reduction initially on payments coming due over a specific period corresponding to the length of an International Monetary Fund (IMF) supported economic reform program.

Reduction is then staged, with each successive stage contingent upon debtor country compliance with its IMF-support program. Under Naples Terms, stock of debt reduction is provided after 3 years of good performance with respect to IMF reform programs and payments to Paris Club creditors. The United States incurs the budget cost of the eventual stock of debt reduction when it agrees to the initial "maturities" reduction of payments coming due, since bilateral agreements commit us to stock reduction once the Paris Club agrees to provide them.

The FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees. The SAA loans are reported at the present value basis for post-credit reform loans and under the allowance-for-loss method for pre-credit reform of the following projected cash flows: (1) loan disbursements, (2) repayments of principal, and (3) payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

## SUMMARY OF DIRECT LOANS

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Loans Receivable, Net</b>	
<b>Direct Loans</b>	
Foreign Military Loan Liquidating Account	\$ 13,568
Foreign Military Financing Direct Loan Financing Account	2,480,373
<b>Total Direct Loans</b>	\$ 2,493,941
<b>Total Direct Loans Receivable, Net</b>	\$ 2,493,941

**DIRECT LOANS OBLIGATED**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)</b>	
<b>Foreign Military Loan Liquidating Account</b>	
Loans Receivable, Gross	
	\$ 162,917
Interest and Fees Receivable	1,979,094
Present Value Allowance/Allowance for Loan Losses	(2,128,443)
<b>    Direct Loans, Net</b>	<b>\$ 13,568</b>
<b>Direct Loans Obligated Post-1991</b>	
<b>Foreign Military Financing Direct Loan Financing Account</b>	
Loans Receivable, Gross	\$ 2,487,103
Interest Receivable	13,646
Allowance for Subsidy Cost (Present Value)	(20,376)
<b>    Direct Loans, Net</b>	<b>\$ 2,480,373</b>

The SAA bills countries semi-annually for loan repayments. Applying terms of the loans with the countries, accrued interest receivable is calculated using the simple interest method.

The allowance for credit subsidy account for the FMFDLFA account is calculated taking into consideration three transactions: (1) transfers of subsidy from the program account to the financing account (the subsidy is the difference between the expected cash outlays from the USG and the present value of the expected collections); (2) interest payments from Treasury to the financing fund; and (3) upward adjustments due to re-estimates as Treasury borrowing rates change over time from the loan repayment rate and an increase in estimated defaults on the loan.

**TOTAL AMOUNT OF DIRECT LOANS DISBURSED POST-1991**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Direct Loans Programs</b>	
Foreign Military Financing Direct Loan Financing Account	
	\$ 2,474,767
<b>    Total</b>	<b>\$ 2,474,767</b>

**SUBSIDY EXPENSE FOR DIRECT LOAN BY PROGRAM****SUBSIDY EXPENSE FOR NEW DIRECT LOANS DISBURSED**

AS OF SEPTEMBER 30 (amounts in thousands)	2025		
	Interest Differential	Defaults	Total
<b>Direct Loans Programs</b>			
Foreign Military Financing Direct Loan Financing Account	\$ (5,397)	\$ 74,256	\$ 68,859
<b>Total</b>	<b>\$ (5,397)</b>	<b>\$ 74,256</b>	<b>\$ 68,859</b>

**DIRECT LOAN MODIFICATIONS AND REESTIMATES**

AS OF SEPTEMBER 30 (amounts in thousands)	2025			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
<b>Direct Loans Programs</b>				
Foreign Military Financing Direct Loan Financing Account	\$ –	\$ 15,816	\$ (97,478)	\$ (81,662)
Military Debt Reduction Financing Account	41,583	–	(209)	(209)
<b>Total</b>	<b>\$ 41,583</b>	<b>\$ 15,816</b>	<b>\$ (97,687)</b>	<b>\$ (81,871)</b>

**TOTAL DIRECT LOAN SUBSIDY EXPENSE**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Direct Loans Programs</b>	
Foreign Military Financing Direct Loan Financing Account	\$ (12,803)
Military Debt Reduction Financing Account	41,374
<b>Total</b>	<b>\$ 28,571</b>

**BUDGET SUBSIDY RATES FOR DIRECT LOANS BY PROGRAM FOR THE CURRENT YEAR**

<b>AS OF SEPTEMBER 30</b>	<b>2025</b>				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
<b>Direct Loans Programs</b>					
Foreign Military Financing Direct Loan Financing Account	(2.65%)	2.65%	0.00%	0.00%	0.00%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

**SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)**

<b>AS OF SEPTEMBER 30</b> (amounts in thousands)	<b>2025</b>	
<b>Beginning Balance of the Subsidy Cost Allowance</b>	\$	48,571
Add Subsidy expense for direct loans disbursed during the reporting years		68,859
<b>Adjustments</b>		
Loan Modification		41,583
Loans Written Off		(38,637)
Subsidy Allowance Amortization		(18,166)
Other		37
<b>Ending Balance of the Subsidy Cost Allowance before Reestimates</b>	\$	102,247
Total Subsidy Reestimates		(81,871)
<b>Ending Balance of the Subsidy Cost Allowance</b>	\$	20,376

**LOAN GUARANTEES**

The SAA has obligated \$8 billion in 100% guaranteed loans that will be financed by the Federal Financing Bank. No disbursement has been made as of September 30, 2025.

**ADMINISTRATIVE EXPENSES**

The FMF Loan program administrative expenses were paid through a common appropriation that included other FMF activity not specific to credit programs. Amounts were insignificant.

**CHANGE IN LOANS RECEIVABLE, NET**

Below is a summary table showing the change in net Loans Receivable as of September 30, 2025.

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Beginning Balance of Loans Receivable, Net</b>	\$ 33,049
Add Loan Disbursements	2,474,767
Less Principal and Interest Payments Received	(27,943)
Add Interest Accruals	79,410
Less Loans Written Off	(38,637)
Less Interest Revenue on Uninvested Funds	(271,856)
Add Interest Expense on Entity Borrowings	307,395
Less Subsidy Expense	(68,859)
Less Upward Reestimates	(637)
Add Downward Reestimates	82,508
Other Increase/(Decrease) to the Subsidy Allowance	(18,166)
Other Changes	(2,555)
Allowance for Loan and Interest Loss Adjustments	(61,462)
Other Non-cash Reconciling Items	6,927
<b>Ending Balance of Loans Receivable, Net</b>	\$ 2,493,941

**8****NOTE 8****INVENTORY AND RELATED PROPERTY, NET**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
Inventory, Net	\$ 35,605,074
<b>Total Inventory and Related Property, Net</b>	<b>\$ 35,605,074</b>

As of September 30, 2025, the SAA reported \$35.6 billion in Inventory. This balance is comprised of inventory reported in the SDAF and FMS Trust Fund activity from the Army and the Air Force. DSCA is continuing ongoing efforts to report additional inventory from other IAs in the SAA financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatments may change in future periods.

**INVENTORY, NET****INVENTORY CATEGORIES**

AS OF SEPTEMBER 30 (amounts in thousands)	2025	Valuation Method
Held for Sale	\$ 35,599,593	LAC, HC
Work-in-Process	5,481	LAC, HC
<b>Total</b>	<b>\$ 35,605,074</b>	

LEGEND FOR VALUATION METHODS: LAC = Latest Acquisition Cost, adjusted for holding gains and losses

HC = Historical Cost

**GENERAL COMPOSITION OF INVENTORY**

Inventory is tangible personal property such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. The SAA assigns inventory items to a category based on asset type or condition.

**INVENTORY RESTRICTIONS**

There are no known restrictions on inventory.

**OPERATING MATERIEL AND SUPPLIES, NET**

The SAA did not report Operating Materiel and Supplies as of September 30, 2025.

**STOCKPILE MATERIEL, NET**

The SAA did not report Stockpile Materiel as of September 30, 2025.

**9**

NOTE 9

**STEWARDSHIP PROPERTY, PLANT, & EQUIPMENT (PP&E)**

The SAA currently does not report general PP&E, stewardship PP&E, or heritage assets. However, DSCA is continuing ongoing audit remediation efforts to determine if PP&E should be reported in the SAA financial statements and related footnotes. Therefore, the reporting and accounting treatment is subject to change in future periods as DSCA continues its data assessment.

**10**

NOTE 10

**ADVANCES AND PREPAYMENTS**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
<b>Intragovernmental Assets</b>	
Advances and Prepayments	\$ 36,192
<b>Total Advances and Prepayments</b>	<b>\$ 36,192</b>

**11****NOTE 11****LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

AS OF SEPTEMBER 30 (amounts in thousands)	2025
Federal Employee Benefits Payable	\$ 659
Other Liabilities	1,737
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 2,396</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 42,216,925</b>
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>\$ 454,200</b>
<b>Total Liabilities</b>	<b>\$ 42,673,521</b>

**OTHER THAN INTRAGOVERNMENTAL LIABILITIES**

Federal Employee and Veteran Benefits Payable consist of various employee actuarial liabilities not due and payable during the current fiscal year.

Budgetary resources include: (1) new budget authority; (2) unobligated balances of budgetary resources at the beginning of the year; or net transfers of prior-year balances during the year; (3) spending authority from offsetting collections; and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, budgetary resources cover liabilities if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without any contingencies needing to be met first.

Liabilities Not Covered by Budgetary Resources require congressional action before budgetary resources can be provided. Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs, when these liabilities are liquidated, Treasury will finance the liquidation. Liabilities Not Requiring Budgetary Resources have not required budgetary resources in the past and will not require them in the future.

## 12 | NOTE 12 DEBT

AS OF SEPTEMBER 30 (amounts in thousands)	2025		
	Beginning Balance	Net Borrowing/ (Repayment)	Ending Balance
<b>Source of Debt (Intragovernmental)</b>			
Debt owed to Treasury other than the Federal Financing Bank	\$ 1,985,944	\$ 5,866,516	\$ 7,852,460
<b>Total Debt</b>	<b>\$ 1,985,944</b>	<b>\$ 5,866,516</b>	<b>\$ 7,852,460</b>

The FCRA provides financing accounts with indefinite authority to borrow from Treasury to fund disbursements of loans made to sovereign nations for security assistance. This debt to Treasury is reflected in the FMFDLFA.

The FCRA governs all direct loan obligations and loan guarantee commitments made after FY 1991. Beginning in 1992, based on the FCRA, the security assistance program began borrowing these funds from Treasury.

## 13 | NOTE 13 FEDERAL EMPLOYEE BENEFITS PAYABLE

AS OF SEPTEMBER 30 (amounts in thousands)	2025		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
<b>Other Benefits</b>			
Federal Employee Salary, Leave and Benefits Payable	\$ 35,533	\$ (34,874)	\$ 659
<b>Total Federal Employee Benefits Payable</b>	<b>\$ 35,533</b>	<b>\$ (34,874)</b>	<b>\$ 659</b>

## 14 | NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

The SAA did not report Environmental and Disposal Liabilities as of September 30, 2025. DSCA is continuing ongoing audit remediation efforts to determine whether there are Environmental and Disposal Liabilities that should be reported in the financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

# 15 | NOTE 15

## OTHER LIABILITIES

AS OF SEPTEMBER 30 (amounts in thousands)	2025			Total
	Current Liability	Non-Current Liability		
<b>Intragovernmental</b>				
Liabilities for Non-Entity Assets	\$ 43,013	\$ 433,457	\$ 476,470	
<b>Total Intragovernmental</b>	<b>\$ 43,013</b>	<b>\$ 433,457</b>	<b>\$ 476,470</b>	
<b>Other than Intragovernmental</b>				
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	\$ 20,743	\$ –	\$ 20,743	
Other Liabilities without Related Budgetary Obligations	11	1,726	1,737	
Other Liabilities with Related Budgetary Obligations	11	–	11	
<b>Total Other than Intragovernmental</b>	<b>\$ 20,765</b>	<b>\$ 1,726</b>	<b>\$ 22,491</b>	
<b>Total Other Liabilities</b>	<b>\$ 63,778</b>	<b>\$ 435,183</b>	<b>\$ 498,961</b>	

### INTRAGOVERNMENTAL OTHER LIABILITIES

Liabilities for Non-Entity Assets represent offsetting amounts, primarily non-entity receivables that, upon collection, will be remitted to Treasury. See additional information in Note 2, *Non-Entity Assets*.

### OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

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

### OTHER THAN INTRAGOVERNMENTAL

Nonfederal Advances from Others relates to contracts authorizing progress payments based on cost, as defined in the Federal Acquisition Regulation. In accordance with contract terms, specific rights to the contractors' work vest with the USG when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The SAA is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability that the contractors will complete their efforts and deliver satisfactory products and because the amount of potential future payments is estimable, the SAA has recognized a liability for estimated future payments, which are conditional pending delivery and government acceptance.

## 16 | NOTE 16 LEASES

The SAA did not report intragovernmental or short-term leases, as defined in SFFAS No. 54, *Leases*, as of September 30, 2025, and did not report either capital or operating leases as of September 30, 2025. DSCA is continuing ongoing audit remediation efforts to adopt SFFAS 54 standards and to determine if leases exist that should be reported in the SAA's financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

## 17 | NOTE 17 COMMITMENTS AND CONTINGENCIES

The SAA is a party in various administrative proceedings and legal actions that may ultimately result in settlements or decisions adverse to the Federal government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The DSCA Office of General Counsel (OGC) reviews legal actions involving the SAA that are threatened or asserted against DSCA and consults with IAs concerning their respective legal actions involving the SAA.

As of September 30, 2025, DSCA OGC identified a contract dispute where an adverse outcome was not deemed probable but only reasonably possible, as such, this estimated range of loss was disclosed below.

AS OF SEPTEMBER 30 (amounts in thousands)	2025		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
<b>Legal Contingent Liabilities</b>			
Reasonably Possible	\$ -	\$ -	\$ 44,358

No non-legal contingent liabilities were identified as of September 30, 2025.

SAA discloses gross costs and revenue by program group.

#### COSTS AND EXCHANGE REVENUE BY PROGRAM

YEAR ENDED SEPTEMBER 30 (amounts in thousands)	2025
<b>Foreign Military Sales Trust Fund</b>	
Gross Cost	\$ (25,707,356)
Less: Earned Revenue	(258,710,715)
<b>Net Program Costs</b>	<b>\$ (284,418,071)</b>
<b>Foreign Military Financing Program Account</b>	
Gross Cost	\$ 64,290
Less: Earned Revenue	(13)
<b>Net Program Costs</b>	<b>\$ 64,277</b>
<b>Special Defense Acquisition Fund</b>	
Gross Cost	\$ 137,233
Less: Earned Revenue	(139)
<b>Net Program Costs</b>	<b>\$ 137,094</b>
<b>International Military Education and Training</b>	
Gross Cost	\$ 103,929
Less: Earned Revenue	(167)
<b>Net Program Costs</b>	<b>\$ 103,762</b>
<b>Military Debt Reduction Financing Account</b>	
Gross Cost	\$ 397
Less: Earned Revenue	(397)
<b>Net Program Costs</b>	<b>\$ -</b>
<b>Foreign Military Financing Direct Loan (Program and Financing) Accounts</b>	
Gross Cost	\$ 293,985
Less: Earned Revenue	(306,998)
<b>Net Program Costs</b>	<b>\$ (13,013)</b>
<b>Foreign Military Loan Liquidating Account</b>	
Gross Cost	\$ 54,571
Less: Earned Revenue	(210)
<b>Net Program Costs</b>	<b>\$ 54,361</b>
<b>Consolidated</b>	
Gross Cost	\$ (25,052,951)
Less: Earned Revenue	(259,018,639)
<b>Net Cost of Operations</b>	<b>\$ (284,071,590)</b>

**19****NOTE 19****DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES****NET ADJUSTMENTS TO UNOBLIGATED BALANCE BROUGHT FORWARD, OCTOBER 1**

YEAR ENDED SEPTEMBER 30 (amounts in thousands)	2025
<b>Unobligated Balance Brought Forward, October 1</b>	\$ 288,687,377
Unobligated Balance Transferred (to)/from Other Accounts	(196,774)
Unobligated Balance Transfers between Expired and Unexpired Accounts	194,991
Recoveries of Prior Year Unpaid Obligations	4,178,144
Unobligated Balances Applied to Repay Debt	(40,983)
Other Balances Withdrawn to Treasury	(58,357)
Recoveries of Prior Year Paid Obligations	112,089
<b>Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)</b>	<b>\$ 292,876,487</b>

**TERMS OF BORROWING AUTHORITY USED**

The SAA uses borrowing authority for the FMF Initiatives. Borrowing authority is used in compliance with OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for additional information related to FMF.

**UNDELIVERED ORDERS AT THE END OF THE PERIOD**

YEAR ENDED SEPTEMBER 30 (amounts in thousands)	2025
<b>Intragovernmental:</b>	
Unpaid	\$ 8,873,410
Prepaid/Advanced	36,192
<b>Total Intragovernmental</b>	<b>\$ 8,909,602</b>
<b>Other than Intragovernmental:</b>	
Unpaid	\$ 110,437,650
<b>Total Other than Intragovernmental</b>	<b>\$ 110,437,650</b>
<b>Total Budgetary Resources Obligated for Undelivered Orders, End of the Period</b>	<b>\$ 119,347,252</b>

For purposes of the above table, the breakout of total Budgetary Resources Obligated for Undelivered Unpaid Orders at September 30, 2025, is estimated allocations between Intragovernmental and Other than Intragovernmental.

## PERMANENT INDEFINITE APPROPRIATIONS

The SAA has permanent indefinite appropriations available for costs incurred under the credit reform programs. These appropriations covers subsidy re-estimates in the program account and insufficient funds in the liquidating account.

These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years.

## LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

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

## EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE USG

The FY 2027 Budget of the United States Government (President's Budget), which presents the actual amounts for the year ended September 30, 2025, has not been published as of the issue date of these financial statements. The FY 2027 Budget of the United States Government will be published on a later date at [www.whitehouse.gov/omb/budget](http://www.whitehouse.gov/omb/budget).

YEAR ENDED SEPTEMBER 30 (amounts in millions)	2024			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Outlays, Net (SBR)
<b>Combined Statement of Budgetary Resources</b>	\$ 367,378	\$ 78,691	\$ (52,079)	\$ 60,371
<b>Differences:</b>				
Expired Accounts that Are Excluded from the Budget of the U.S. Government	\$ (331)	\$ (169)	\$ –	\$ –
Net Disbursements from Credit Financing Accounts (Loan Accounts 4122 and 4174)	\$ –	\$ –	\$ –	\$ (504)
Other	\$ 14	\$ 5	\$ 52,079	\$ 7
<b>Budget of the U.S. Government</b>	<b>\$ 367,061</b>	<b>\$ 78,527</b>	<b>\$ –</b>	<b>\$ 59,874</b>

The difference reported above for Budgetary Resources, New Obligations and Upward Adjustments, and Net Outlays is due to different reporting requirements between the SBR versus the Budget. The difference reported for Distributed Offsetting Receipts are collections attributed to receipts in the FMS and SDAF programs. Distributed Offsetting Receipts are collections attributed to receipts in the FMS and SDAF programs. Distributed Offsetting Receipts are funds that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts and other amounts.

## 20

NOTE 20  
RECONCILIATION OF NET COST TO NET OUTLAYS  
(BUDGET TO ACCRUAL RECONCILIATION)

YEAR ENDED SEPTEMBER 30 (amounts in thousands)	2025			Total	
	Other than Intragovernmental		Intragovernmental		
	Intragovernmental	Other than Intragovernmental			
<b>Net Cost of Operations</b>	\$ (1,668,639)	\$ (282,402,951)	\$ (284,071,590)		
<b>Components of Net Operating Cost Not Part of the Budgetary Outlays</b>					
Costs of Goods Sold	\$ —	\$ (172,407,890)	\$ (172,407,890)		
Adjustments to Prior Year Credit					
Reform Re-estimates Accrual	42,376		—	42,376	
<b>Increase/(Decrease) in Assets Not Affecting Budgetary Outlays</b>					
Accounts Receivable, Net	(4,000)	26,759	22,759		
Loans Receivable, Net (Non-FCRA)	—	(5,742)	(5,742)		
Advances and Prepayments	25,108	(1,937,024)	(1,911,916)		
Other Assets	—	(61,734,164)	(61,734,164)		
<b>(Increase)/Decrease in Liabilities Not Affecting Budgetary Outlays</b>					
Accounts Payable	538,134	(935,532)	(397,398)		
Federal Employee Salary, Leave, and Benefits Payable	—	31,526	31,526		
Advances From Others and Deferred Revenue	57,140	210,511,817	210,568,957		
Other Liabilities	—	46,130,084	46,130,084		
<b>Total Components of Net Operating Cost Not Part of the Budgetary Outlays</b>	\$ 658,758	\$ 19,679,834	\$ 20,338,592		
<b>Components of the Budgetary Outlays Not Part of Net Operating Cost</b>					
Acquisition of Inventory	\$ —	\$ 16,000	\$ 16,000		
<b>Financing Sources</b>					
Donated Revenue	\$ —	\$ (364,507)	\$ (364,507)		
<b>Total Components of the Budgetary Outlays Not Part of Net Operating Cost</b>	\$ —	\$ (348,507)	\$ (348,507)		
<b>Miscellaneous Items</b>					
Distributed Offsetting Receipts	\$ —	\$ (64,039,317)	\$ (64,039,317)		
Custodial/Non-exchange Revenue	—	(11,043,487)	(11,043,487)		
Non-entity Activity	39,494	—	39,494		
Appropriated Receipts for Trust/Special Funds	—	1,650,061	1,650,061		
<b>Total Other Reconciling Items</b>	\$ 39,494	\$ (73,432,743)	\$ (73,393,249)		
<b>Total Net Outlays</b>	\$ (970,387)	\$ (336,504,367)	\$ (337,474,754)		
<b>Budgetary Agency Outlays, Net</b>			\$ (6,121,406)		
<b>Unreconciled Difference</b>			\$ (331,353,348)		

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the SAA's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the SBR. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the SAA's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the SAA. Outlays are payments to liquidate an obligation, other than the repayment to Treasury of debt principal.

The unreconciled difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the SNC and the SBR. Additionally, the SAA's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is ongoing to resolve the unreconciled difference.

## 21

### NOTE 21 RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

The SAA financial statements are consolidated into the Financial Report of the USG.

To prepare the Financial Report, Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Changes in Net Position. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements.

This note shows the SAA's FY 2025 financial statements and the SAA's FY 2025 reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items. A copy of the 2024 USG Financial Report can be found at [www.fiscal.treasury.gov/reports-statements/](http://www.fiscal.treasury.gov/reports-statements/) and a copy of the 2025 USG Financial Report will be published by the Bureau of Fiscal Service upon its release.

FY 2025 SAA STATEMENT OF NET COST (amounts in thousands)		LINE ITEMS USED TO PREPARE FY 2025 GOVERNMENT-WIDE STATEMENT OF NET COST					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total	Reclassified Financial Statement Line
<b>Gross Costs</b>						<b>Non-Federal Costs</b>	
Gross Costs	\$ (34,860,712)	\$ –	\$ –	\$ (34,860,712)	\$ –	\$ (34,860,712)	Non-Federal Gross Cost
<b>Gross Costs</b>	<b>\$ (34,860,712)</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ (34,860,712)</b>	<b>\$ –</b>	<b>\$ (34,860,712)</b>	<b>Total Non-Federal Gross Cost</b>
<b>Gross Costs</b>						<b>Intragovernmental Costs</b>	
Gross Costs	\$ 9,487,990	\$ –	\$ –	\$ 9,487,990	\$ –	\$ 9,487,990	Buy/Sell Cost
Gross Costs	307,395	–	–	307,395	–	307,395	Borrowing and Other Interest Expense
Gross Costs	12,376	–	–	12,376	–	12,376	Other Expenses (Without Reciprocals)
<b>Gross Costs</b>	<b>\$ 9,807,761</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 9,807,761</b>	<b>\$ –</b>	<b>\$ 9,807,761</b>	<b>Total Intragovernmental Costs</b>
<b>Total Gross Costs</b>	<b>\$ (25,052,951)</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ (25,052,951)</b>	<b>\$ –</b>	<b>\$ (25,052,951)</b>	<b>Total Reclassified Gross Costs</b>
<b>Earned Revenue</b>						<b>Non-Federal Earned Revenue</b>	
Earned Revenue	\$(247,542,239)	\$ –	\$ –	\$(247,542,239)	\$ –	\$(247,542,239)	Non-Federal Earned Revenue
<b>Earned Revenue</b>	<b>\$(247,542,239)</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$(247,542,239)</b>	<b>\$ –</b>	<b>\$(247,542,239)</b>	<b>Intragovernmental Revenue</b>
Earned Revenue	\$(11,204,544)	\$ –	\$ –	\$(11,204,544)	\$ –	\$(11,204,544)	Buy/Sell Revenue (Exchange)
Earned Revenue	(271,856)	–	–	(271,856)	–	(271,856)	Borrowing and Other Interest Revenue (Exchange)
<b>Earned Revenue</b>	<b>\$(11,476,400)</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$(11,476,400)</b>	<b>\$ –</b>	<b>\$(11,476,400)</b>	<b>Total Intragovernmental Earned Revenue</b>
<b>Total Earned Revenue</b>	<b>\$(259,018,639)</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$(259,018,639)</b>	<b>\$ –</b>	<b>\$(259,018,639)</b>	<b>Total Reclassified Earned Revenue</b>
<b>Net Cost of Operations</b>	<b>\$(284,071,590)</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$(284,071,590)</b>	<b>\$ –</b>	<b>\$(284,071,590)</b>	<b>Net Cost of Operations</b>

FY 2025 SAA STATEMENT OF CHANGES IN NET POSITION (amounts in thousands)		LINE ITEMS USED TO PREPARE FY 2025 GOVERNMENT-WIDE STATEMENT OF CHANGES IN NET POSITION						
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total	Reclassified Financial Statement Line	
<b>Beginning Balances</b>	<b>\$ (158,596,457)</b>	\$ –	\$ –	\$ (158,596,457)	\$ –	\$ (158,596,457)	<b>Net position, beginning of period</b>	
<b>Net Position, Beginning of Period - Adjusted</b>	<b>\$ (158,596,457)</b>	\$ –	\$ –	\$ (158,596,457)	\$ –	\$ (158,596,457)	<b>Net Position, Beginning of Period - Adjusted</b>	
<b>Non-Federal Non-Exchange Revenue</b>							<b>Non-Federal Non-exchange Revenue</b>	
Non-Exchange Revenue	11,043,487	–	–	11,043,487	–	11,043,487	Other taxes and receipts	
Donations and Forfeitures of Cash and Cash Equivalents	364,507	–	–	364,507	–	364,507	Other taxes and receipts	
Other (+/-)	(79,443)	–	–	(79,443)	–	(79,443)	Other taxes and receipts	
<b>Total Non-Federal Non-Exchange Revenue</b>	<b>\$ 11,328,551</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 11,328,551</b>	<b>\$ –</b>	<b>\$ 11,328,551</b>	<b>Total non-federal non-exchange revenue</b>	
<b>Financing Sources</b>							<b>Financing Sources</b>	
Appropriations Received	\$ 5,977,549	\$ –	\$ –	\$ 5,977,549	\$ –	\$ 5,977,549	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)	
Other Adjustments (+/-)	(58,359)	–	–	(58,359)	–	(58,359)	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)	
Appropriations Used	(7,104,391)	–	–	(7,104,391)	–	(7,104,391)	Appropriations used (RC 39)	
Appropriations Used	7,104,391	–	–	7,104,391	–	7,104,391	Appropriations expended (RC 38)	
Appropriations Transferred-In/Out (+/-)	10,184,980	–	–	10,184,980	–	10,184,980	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)	
Appropriations Transferred-In/Out (+/-)	(10,190,797)	–	–	(10,190,797)	–	(10,190,797)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08)	

(continued on next page)

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FY 2025 SAA STATEMENT OF CHANGES IN NET POSITION (amounts in thousands)		LINE ITEMS USED TO PREPARE FY 2025 GOVERNMENT-WIDE STATEMENT OF CHANGES IN NET POSITION					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total	Reclassified Financial Statement Line
Transfers-In/Out without Reimbursement (+/-)	106,590	–	–	106,590	–	106,590	Expenditure transfers-in of financing sources (RC 09)
Transfers-In/Out without Reimbursement (+/-)	(106,590)	–	–	(106,590)	–	(106,590)	Expenditure transfers-out of financing sources (RC 09)
Transfers-In/Out without Reimbursement (+/-)	(12,845)	–	–	(12,845)	–	(12,845)	Non-expenditure transfers-out of financing sources - capital transfers (RC 11)
Transfers-In/Out without Reimbursement (+/-)	82,506	–	–	82,506	–	82,506	Transfers-in without reimbursement (RC 18)
Transfers-In/Out without Reimbursement (+/-)	(82,506)	–	–	(82,506)	–	(82,506)	Transfers-out without reimbursement (RC 18)
Other (+/-)	(39,494)	–	–	(39,494)	–	(39,494)	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government
Other (+/-)	(47,684)	–	–	(47,684)	–	(47,684)	Other non-budgetary financing sources for debt accruals/ amortization (RC 37)
<b>Total Financing Sources</b>	\$ 5,813,350	\$ –	\$ –	\$ 5,813,350	\$ –	\$ 5,813,350	<b>Total Financing Sources</b>
Net Cost of Operations (+/-)	\$ (284,071,590)	\$ –	\$ –	\$ (284,071,590)	\$ –	\$ (284,071,590)	Net Cost of Operations
<b>Net Position, End of Period</b>	<b>\$ 142,617,034</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 142,617,034</b>	<b>\$ –</b>	<b>\$ 142,617,034</b>	<b>Net Position, End of Period</b>

# Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES						
BUDGETARY FOR THE YEAR ENDED SEPTEMBER 30, 2025 (amounts in thousands)	FMS Trust Fund	FMF Program Account	SDAF	IMET	FMFDLPA/ FMLLA	Total
<b>Budgetary Resources</b>						
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 288,912,093	\$ 3,645,650	\$ 213,116	\$ 55,392	\$ -	\$ 292,826,251
Appropriations (Discretionary and Mandatory)	1,673,136	5,854,362	-	119,152	-	7,646,650
Contract Authority (Discretionary and Mandatory)	98,644,340	-	-	-	-	98,644,340
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	-	81,401	-	-	81,401
<b>Total Budgetary Resources</b>	<b>\$389,229,569</b>	<b>\$ 9,500,012</b>	<b>\$ 294,517</b>	<b>\$ 174,544</b>	<b>\$ -</b>	<b>\$ 399,198,642</b>
<b>Status of Budgetary Resources</b>						
New Obligations and Upward Adjustments (Total)	\$ 101,814,714	\$ 6,560,654	\$ 164,524	\$ 121,839	\$ -	\$ 108,661,731
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	\$ 202,633,359	\$ -	\$ 15,121	\$ 432	\$ -	\$ 202,648,912
Unapportioned, Unexpired Accounts	84,781,496	2,864,085	95,752	20,727	-	87,762,060
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$287,414,855</b>	<b>\$ 2,864,085</b>	<b>\$ 110,873</b>	<b>\$ 21,159</b>	<b>\$ -</b>	<b>\$ 290,410,972</b>
Expired Unobligated Balance, End of Year	-	75,273	19,120	31,546	-	125,939
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$287,414,855</b>	<b>\$ 2,939,358</b>	<b>\$ 129,993</b>	<b>\$ 52,705</b>	<b>\$ -</b>	<b>\$ 290,536,911</b>
<b>Total Budgetary Resources</b>	<b>\$389,229,569</b>	<b>\$ 9,500,012</b>	<b>\$ 294,517</b>	<b>\$ 174,544</b>	<b>\$ -</b>	<b>\$ 399,198,642</b>
<b>Outlays, Net</b>						
Outlays, Net (Total)						
(Discretionary and Mandatory)	\$ 50,826,325	\$ 6,900,484	\$ 31,416	\$ 103,670	\$ 56,016	\$ 57,917,911
Distributed Offsetting Receipts (-)	(64,039,317)	-	-	-	-	(64,039,317)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ (13,212,992)</b>	<b>\$ 6,900,484</b>	<b>\$ 31,416</b>	<b>\$ 103,670</b>	<b>\$ 56,016</b>	<b>\$ (6,121,406)</b>

COMBINING STATEMENT OF BUDGETARY RESOURCES				
NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2025 (amounts in thousands)	FMFDLFA	MDRFA	Total	
<b>Non-Budgetary Resources</b>				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 50,236	\$ —	\$ 50,236	
Borrowing Authority (Discretionary and Mandatory)	8,023,356	—	8,023,356	
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	286,950	41,589	328,539	
<b>Total Budgetary Resources</b>	<b>\$8,360,542</b>	<b>\$ 41,589</b>	<b>\$ 8,402,131</b>	
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments (Total)	\$ 8,346,693	\$ 41,380	\$ 8,388,073	
Unobligated Balance, End of Year				
Unapportioned, Unexpired Accounts	13,849	209	14,058	
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 13,849</b>	<b>\$ 209</b>	<b>\$ 14,058</b>	
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 13,849</b>	<b>\$ 209</b>	<b>\$ 14,058</b>	
<b>Total Budgetary Resources</b>	<b>\$8,360,542</b>	<b>\$ 41,589</b>	<b>\$ 8,402,131</b>	
<b>Disbursements, Net</b>				
<b>Disbursements, Net (Total) (Mandatory)</b>	<b>\$2,465,450</b>	<b>\$ (41,191)</b>	<b>\$ 2,424,259</b>	



**U.S. Army Soldiers conduct an Avenger live fire exercise at Fort Bragg, North Carolina. Photo by Spc. Yadira Rosales**

# OTHER INFORMATION (UNAUDITED)

## Section III



## Summary of Financial Statement Audit and Management Assurances

DSCA management has a fiduciary responsibility to develop and maintain effective internal controls to provide assurance that its resources are used effectively, and its programs operate efficiently to achieve the mission. Managers throughout the SC community are accountable for ensuring effective internal controls within their areas of responsibility.

Table 4 lists the material weaknesses identified by the IPA during the SAA financial statement audit.

**TABLE 4. SUMMARY OF FINANCIAL STATEMENT AUDIT**

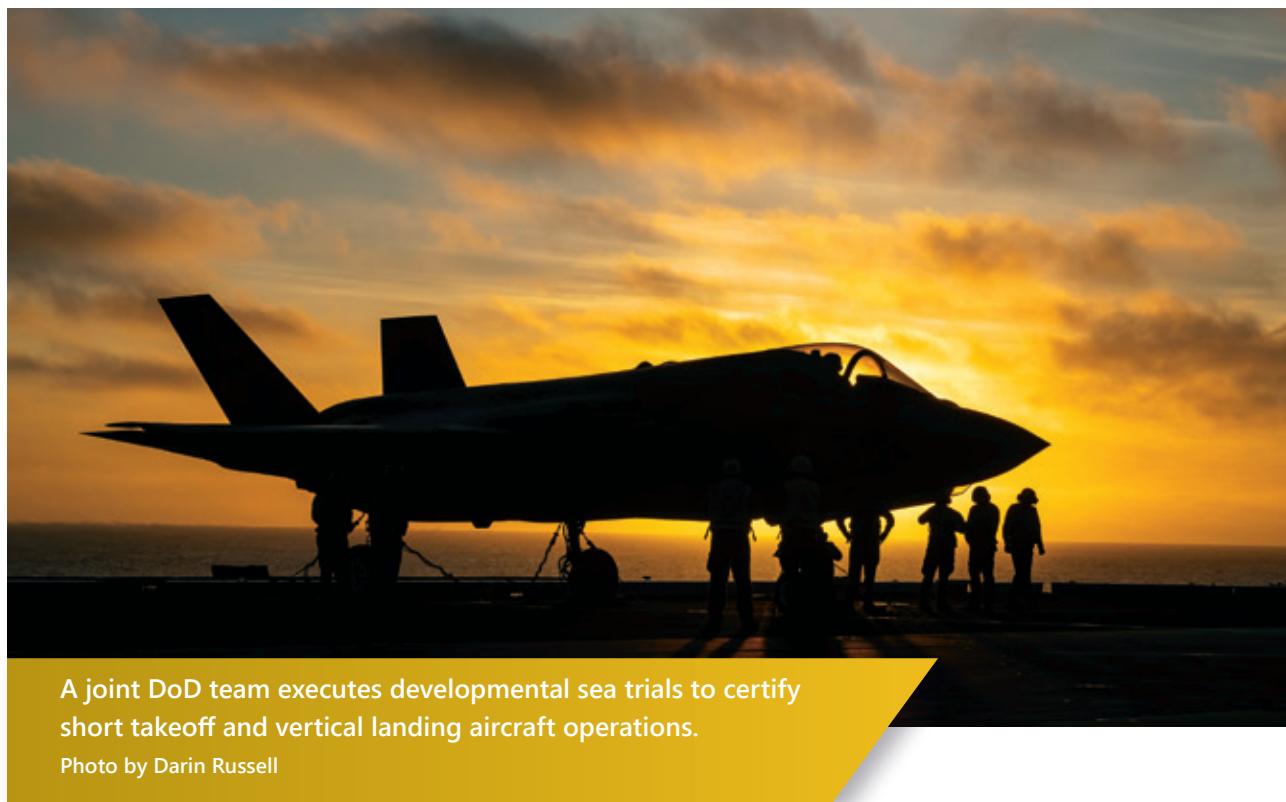
Audit Opinion: Disclaimer of Opinion					
Restatement: No					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Access Controls	1	0	0	0	1
Accounting for Case Activity in the GL	1	0	0	0	1
Accounts Payable	1	0	0	0	1
Beginning Balances	1	0	0	0	1
Budgetary Resources	1	0	0	0	1
Configuration Management	1	0	0	0	1
Earned Revenue	1	0	0	0	1
Entity Level Controls	1	0	0	0	1
Financial Reporting	0	1	0	0	1
Fund Balance with Treasury	1	0	0	0	1
General Property, Plant, and Equipment	1	0	0	0	1
Gross Costs	1	0	0	0	1
Intragovernmental Transactions and Eliminations	1	0	0	0	1
Inventory & Related Property	1	0	0	0	1
Oversight of Service Providers	1	0	0	0	1
Segregation of Duties	1	0	0	0	1
Universe of Transactions	1	0	0	0	1
Unsupported Accounting Adjustments	1	0	0	0	1
Total Material Weaknesses	17	1	0	0	18

Management-identified material weaknesses are determined by assessing internal controls, as required by the *Federal Manager's Financial Integrity Act of 1982* (FMFIA), the *Federal Financial Management Improvement Act of 1996* (FFMIA), and OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Assessment of internal controls falls into one of the following categories:

- FMFIA Section 2, *Effectiveness of Internal Control over Financial Reporting*,
- FMFIA Section 2, *Effectiveness of Internal Control over Operations*, or
- FMFIA Section 4, *Conformance with Federal Financial Management Systems Requirements*.

DSCA will continue to address the findings identified by the IPA by executing the audit firm's recommendations and implementing CAPs through active collaboration with the DFAS, the OUSD(C), IAs, and other SC stakeholders. DSCA remains committed to remediating deficiencies and material weaknesses as outlined in the report and looks to secure an unmodified opinion as expeditiously as possible, subsequent to its Title 10 counterparts. Implementing and closing CAPs as soon as possible is a top objective of SC leadership and is aligned with the Secretary of Defense's audit remediation priorities.

Table 5 outlines where material weaknesses were identified by DSCA in the categories above and where remediation work continues. In addition, it includes the status of compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DSCA.



A joint DoD team executes developmental sea trials to certify short takeoff and vertical landing aircraft operations.

Photo by Darin Russell

**TABLE 5. SUMMARY OF MANAGEMENT ASSURANCES**

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance: No Assurance						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Inadequate Financial Statement Compilation and Reporting, including Incomplete Universe of Transactions and Supportable Beginning Balances	1	0	0	0	1	0
Inadequate Support for Intragovernmental Transactions and Eliminations	0	1	0	0	0	1
Incomplete Accounting for Case Activity in the General Ledger	0	1	0	0	0	1
Incomplete Universe of Transactions	0	1	0	0	0	1
Lack of Adequate Controls and Documentation over SAA Business Processes	1	0	0	0	1	0
Lack of Adequate Controls over Property, Plant, and Equipment (PP&E)	0	1	0	0	0	1
Lack of Adequate Controls over Property, Plant, and Equipment and Inventory	1	0	0	0	1	0
Lack of Adequate Controls Supporting Materially Relevant Information Systems	1	0	0	0	1	0
Lack of Adequate Fund Balance with Treasury Reconciliation	1	0	0	0	0	1
Lack of Adequate Policies and Procedures on Accounts Payable	0	1	0	0	0	1
Lack of Adequate Policies and Procedures on Inventory and Related Property	0	1	0	0	0	1
Lack of Adequate Policies and Procedures on Supportable Gross Costs	0	1	0	0	0	1
Lack of Policies and Procedures on Reporting Practices for Revenue Earned	1	0	0	0	0	1
Lack of Supportable Beginning Balances	0	1	0	0	0	1
Lack of Supportable Budgetary Resources	0	1	0	0	0	1
Unsupported Accounting Adjustments	0	1	0	0	0	1
Total Material Weaknesses	6	10	0	0	4	12

**Effectiveness of Internal Control over Operations (FMFIA Section 2)****Statement of Assurance: No Assurance****Conformance with Federal Financial Management System Requirements (FMFIA Section 4)****Statement of Assurance: Federal Systems Do Not Conform to Financial Management System Requirements**

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Lack of Adequate Access Controls over SAA Information Systems	1	0	0	0	0	1
Lack of Adequate Configuration Management Controls	0	1	0	0	0	1
Lack of Adequate Entity Level Controls	0	1	0	0	0	1
Lack of Adequate Oversight of Third-Party Service Providers	1	0	0	0	0	1
Lack of Adequate Policies and Procedures Governing Segregation of Duties Across SAA Systems	1	0	0	0	0	1
Total Non-Conformances	3	2	0	0	0	5

**Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)**

	Agency	Auditor
Federal Financial Management System Requirements	Lack of Substantial Compliance Noted	Lack of Substantial Compliance Noted
Applicable Federal Accounting Standards	Lack of Substantial Compliance Noted	Lack of Substantial Compliance Noted
United States Standard General Ledger at Transaction Level	Lack of Substantial Compliance Noted	Lack of Substantial Compliance Noted



**U.S. Marine Corps personnel watch as partner nation marines fire the M249 squad automatic weapon as part of UNITAS 2025 taking place on Marine Corps Base Camp Lejeune, North Carolina. Photo by Lance Cpl. Payton Goodrich**

## **DEFINITION OF TERMS**

**Beginning Balance:** The beginning balance, which reflects weaknesses first identified in prior fiscal years, must agree with the ending balance from the prior year.

**New:** The total number of material weakness/non-conformances identified during the current fiscal year.

**Resolved:** The total number of material weaknesses/non-conformances that dropped below the level of materiality in the current year.

**Consolidated:** The combining of two or more findings.

**Reassessed:** The removal of any finding not attributable to corrective actions (e.g. management has re-evaluated and determined that a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading).

**Ending Balance:** The year-end balance, which reflects both new and previously identified material weaknesses that remain as of fiscal year end, that will be the beginning balance next year.

## Management Challenges

As required by the *Reports Consolidation Act of 2000*, the Office of the Inspector General (OIG) must prepare an annual statement that summarizes what it considers to be the most serious management and performance challenges facing the Agency and provide a brief assessment of progress made to address these identified challenges.

DSCA does not have its own OIG. Therefore, the DoD OIG refers SAA Management to the DoD OIG's *FY 2025 Top DoD Management Challenges* report which identified six challenges related to the DoD mission and its execution. The SAA relies on DoD systems, employees, and infrastructure to complete its mission; consequently, all DoD management challenges and associated responses will impact the SAA's performance..

From the DoDIG report, the FY 2025 Top DoD Management Challenges are:

1. Increasing Military Readiness
2. Strengthening the Capabilities and Capacities of Allies and Partners
3. Protecting Defense Critical Infrastructure
4. Improving Financial Management
5. Improving Quality of Life for Military Families
6. Building the Future Force

The FY 2025 Top Management Challenges Report can be found here:

<https://www.dodig.mil/Reports/Article/3965830>



U.S. Marine Corps members secure pallet restraints on a shipment of critical defense articles bound for U.S. allies and partner nations.

Photo by Senior Airman Carl Good



The USS Thomas Hudner conducts drills while underway for UNITAS 2025. Photo by Petty Officer 1st Class Hannah Mohr

# APPENDIX (UNAUDITED)



## Section IV

## Glossary of Acronyms

<b>ADA</b>	Anti-Deficiency Act
<b>AECA</b>	Arms Export Control Act
<b>AFP</b>	Annual Funding Plan
<b>AFR</b>	Agency Financial Report
<b>BPC</b>	Building Partner Capacity
<b>CA</b>	Contract Authority
<b>CAPs</b>	Corrective Action Plans
<b>CAS</b>	Contract Administration Services
<b>CCDRs</b>	Combatant Commanders
<b>CCMDs</b>	Combatant Commands
<b>CFO</b>	Chief Financial Officer
<b>COGS</b>	Costs of Goods Sold
<b>DAI</b>	Defense Agencies Initiative
<b>DCAA</b>	Defense Contract Audit Agency
<b>DCMA</b>	Defense Contract Management Agency
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DIA</b>	Defense Intelligence Agency
<b>DIB</b>	Defense Industrial Base
<b>DISA</b>	Defense Information Systems Agency
<b>DLA</b>	Defense Logistics Agency
<b>DoD</b>	Department of Defense
<b>DoDIG</b>	Department of Defense Inspector General
<b>DoS</b>	Department of State
<b>DoW</b>	Department of War
<b>DSCA</b>	Defense Security Cooperation Agency
<b>DTRA</b>	Defense Threat Reduction Agency
<b>DTS</b>	Defense Transportation System
<b>EOP</b>	Executive Office of the President
<b>FAA</b>	Foreign Assistance Act
<b>FAD</b>	Funds Authorization Document

<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FBwT</b>	Fund Balance with Treasury
<b>FCRA</b>	Federal Credit Reform Act
<b>FECA</b>	Federal Employees' Compensation Act
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FMF</b>	Foreign Military Financing
<b>FMFDLFA</b>	Foreign Military Financing Direct Loan Financing Accounts
<b>FMFDLPA</b>	Foreign Military Financing Direct Loan Program Accounts
<b>FMFIA</b>	Federal Managers' Financial Integrity Act
<b>FMLLA</b>	Foreign Military Loan Liquidating Account
<b>FMR</b>	Financial Management Regulation
<b>FMS</b>	Foreign Military Sales
<b>FRB</b>	Federal Reserve Bank
<b>FY</b>	Fiscal Year
<b>GAO</b>	Government Accountability Office
<b>GL</b>	General Ledger
<b>HC</b>	Historical Cost
<b>HIPC</b>	Highly Indebted Poor Countries
<b>IA</b>	Implementing Agency
<b>IMET</b>	International Military Education and Training
<b>IMF</b>	International Monetary Fund
<b>IPA</b>	Independent Public Accountant
<b>IT</b>	Information Technology
<b>I&amp;RP</b>	Inventory and Related Property
<b>JSF</b>	Joint Strike Fighter
<b>LAC</b>	Latest Acquisition Cost
<b>LOA</b>	Letter of Offer and Acceptance
<b>MDA</b>	Missile Defense Agency
<b>MDRFA</b>	Military Debt Reduction Financing Account
<b>MDS</b>	Missile Defense System
<b>MILDEPs</b>	Military Departments
<b>NAITA</b>	North Alabama International Trade Association
<b>NGA</b>	National Geospatial – Intelligence Agency

<b>NSA</b>	National Security Agency
<b>OGC</b>	Office of General Counsel
<b>OIG</b>	Office of the Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OUSD(A&amp;S)</b>	Office of the Under Secretary of Defense-Acquisition and Sustainment
<b>OUSD(C)</b>	Office of the Under Secretary of Defense, Comptroller
<b>OUSD(P)</b>	Office of the Under Secretary of Defense-Policy
<b>PP&amp;E</b>	Property, Plant, and Equipment
<b>RSI</b>	Required Supplementary Information
<b>SA</b>	Security Assistance
<b>SAIP</b>	Security Assistance and International Programs
<b>SAPBR</b>	Security Assistance Program Budget Review
<b>SBR</b>	Statements of Budgetary Resources
<b>SC</b>	Security Cooperation
<b>SCOs</b>	Security Cooperation Organizations
<b>SDAF</b>	Special Defense Acquisition Fund
<b>SDOs</b>	Senior Defense Officials
<b>SecDef</b>	Secretary of Defense
<b>SFFAS</b>	Statement of Federal Financial Accounting Standard
<b>SNC</b>	Statement of Net Cost
<b>TAS</b>	Treasury Account Symbol
<b>TFM</b>	Treasury Financial Manual
<b>USACE</b>	U.S. Army Corps of Engineers
<b>USG</b>	United States Government
<b>U.S. GAAP</b>	United States Generally Accepted Accounting Principles
<b>USSGL</b>	United States Standard General Ledger
<b>WMDs</b>	Weapons of Mass Destruction

## Acknowledgements

Thank you for your interest in the Security Assistance Accounts and its Fiscal Year 2025 Agency Financial Report. This report reflects the hard work and collective dedication of many employees within DSCA and across the SC community. We extend our sincere thanks and appreciation to each of these individuals for their invaluable contributions.

We are interested in your feedback.  
Please send your comments, suggestions, or requests to:  
[dsca.ncr.obo.mbx.saa-afr@mail.mil](mailto:dsca.ncr.obo.mbx.saa-afr@mail.mil)

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# Photo Captions and Credits for Covers and Section Dividers

## Front Cover & Page 7 (Section I Divider):

**Top Left:** Papua New Guinea Defense Forces perform a training provided by the U.S. Army's Security Assistance Training Management organization. Photo by courtesy of U.S. Army

**Top Right:** Members assigned to the Joint Security Cooperation Group-Panama pose for a photo. Photo by Senior Airman Julia Lebens

**Bottom Left:** U.S. Air Force briefs Foreign Military Sales program updates to Hellenic Air Force Officials. Photo by Airman 1st Class Reagan Hardy

**Bottom Right:** Special Forces fast-rope down a Blackhawk in a joint exercise. Photo by Staff Sgt. Sadie Colbert

## Page 39 (Section II Divider):

**Top Left:** stock photography

**Top Right:** stock photography

**Bottom Left:** stock photography

**Bottom Right:** stock photography

## Page 115 (Section III Divider):

**Top Left:** A U.S. Air Force Airman rucks during the Prepared Jester exercise at Moody Air Force Base, Georgia. Photo by Senior Airman Leonid Soubbotine

**Top Right:** U.S. Air Force Airmen participate in dismounted tactical movement training during Exercise Magpie 25-2 at Fort Bliss, Texas. Photo by Airman 1st Class Samantha Thorn

**Bottom Left:** Soldiers from multiple nations attend field training exercises conducted by National Guard units. Photo by Sgt. James Vaughan

**Bottom Right:** U.S. Air Force Airmen take part in a ruck march at Moody Air Force Base, Georgia. Photo by Airman 1st Class Rachel Howell

## Page 123 (Appendix Divider):

**Top Left:** U.S. Air Force Airmen participate in dismounted tactical movement training during Exercise Magpie 25-2 at Fort Bliss, Texas.

Photo by Airman 1st Class Samantha Thorn

**Top Right:** U.S. Navy Vice Admiral Daniel Cheever visited Guam military leaders while touring the Indo-Pacific to strengthen fleet readiness, enhance morale, retention, and promote the importance of joint force cooperation. Photo by William Busby

**Bottom Left:** Sailors assigned to the amphibious assault ship USS America man the rails as the ship transits to its new homeport at Naval Base San Diego, marking the end of its six-year forward deployment to Sasebo, Japan and the U.S. 7th Fleet area of operations. Photo by Seaman Nicholas Douglass

**Bottom Right:** A U.S. Marine Corps rifleman prepares to set security during a patrolling exercise at Marine Corps Base Quantico, Virginia.

Photo by Cpl. Christopher Prelle

## Back Cover:

**Top Left:** U.S. Marines operate an M252 81mm mortar system during a live-fire range with Spanish marines with Infantería de Marina as part of UNITAS 2025 taking place on Marine Corps Base Camp Lejeune, North Carolina. Photo by Lance Cpl. Jack Labrador

**Top Right:** A 2-ship formation of U.S. Air Force aircraft, consisting of an A-10C Thunderbolt II and F-16D Fighting Falcon, flies over the Gulf of America. Photo by Staff Sgt. Thomas Barley

**Bottom Left:** The amphibious assault ship USS America arrived at its new homeport of Naval Base San Diego, marking the end of its six-year forward deployment to Sasebo, Japan and the U.S. 7th Fleet area of operations.

Photo by 2nd Class Aja Bleu Campbell

**Bottom Right:** Panamanian soldiers sit in a CH-47 Chinook during PANAMAX-Alpha Phase I at Panama Pacidco International Airport, Panama.

Photo by Staff Sgt. Sadie Colbert

The 85th Fighter Group trains Foreign Military Sales partners.

Photo by Jennifer Gerhardt





# DEFENSE SECURITY COOPERATION AGENCY

*Security Through Global Partnerships*

