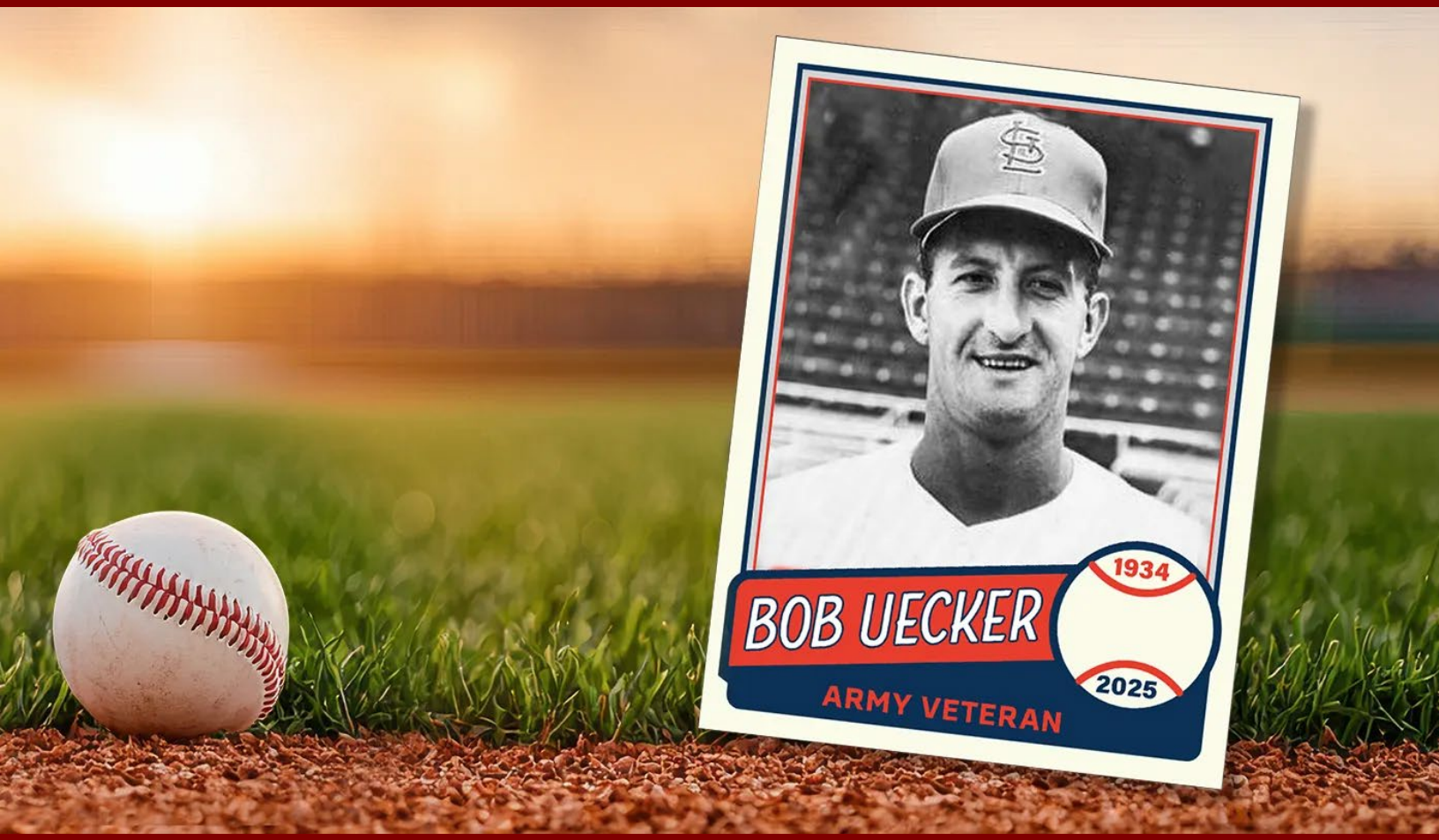

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Remembering Army Veteran Bob Uecker

Bob Uecker was born in January 1934 in Milwaukee, Wisconsin, to a Swiss immigrant father, Gus, and mother, Mary, from Michigan. The eldest of three, Uecker spent his youth playing baseball and cheering for the hometown Milwaukee Brewers, then of the “American Association.”

Little is known of Uecker’s military service, but after leaving high school, he enlisted in the Army in 1954 and spent the next 2 years playing baseball at Fort Leonard Wood in Missouri and Fort Belvoir in Virginia. When his enlistment ended, the aspiring catcher signed with Major League Baseball’s (MLB) then-named Milwaukee Braves.

The future broadcast Hall of Famer was not known for his in-game skill—behind the plate or at it. One of his many stories was about a scout coming to the family home, saying he would take Uecker for $3,000. Uecker said his father replied, “This family doesn’t have that kind of money.”

After several years in the minor leagues, Uecker played for four MLB teams from 1962 to 1967—winning a World Championship with the St. Louis Cardinals as a backup catcher in 1964.

After the 1967 season in which he led the National League in passed balls and catcher errors, and with a career .200 batting average and -1.0 career wins above replacement statistic, Uecker retired. Bud Selig, a Milwaukee native and future MLB commissioner, who was the then-owner of the Brewers, hired Uecker as a scout.

“The worst scout in baseball history,” Selig said of Uecker in September 2021. “My instinct told me he could be a hell of an announcer.”

Selig was right.

Beginning in 1971, Uecker would spend the next 54 years calling games for his beloved Brewers. “Mr. Baseball,” Johnny Carson nicknamed him, after scores of appearances on the comedian’s late night “Tonight Show,” would also go on to film TV commercials, host “Saturday Night Live,” and star in the TV comedy, “Mr. Belvedere.” Outside of Milwaukee, Uecker was perhaps best known for his role as the lovably intoxicated exaggeration-of-himself broadcaster Harry Doyle, in the 1989 baseball comedy “Major League.”

Uecker was enshrined in the National Sportscasters and Sportswriters Association Hall of Fame, the National Radio Hall of Fame, the celebrity wing of the World Wrestling Entertainment Hall of Fame, and as the 2003 Ford C. Frick Award recipient by the National Baseball Hall of Fame and Museum.

Uecker, 90, died at his home in Wisconsin on January 16, 2025. We honor his service.

MISSION & ORGANIZATION

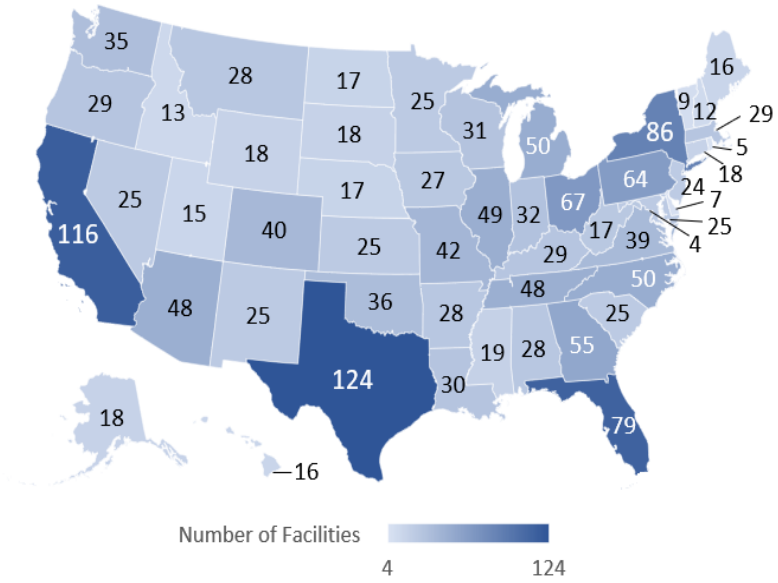
"To fulfill President Lincoln's promise to care for those who have served in our Nation's military and for their families, caregivers, and survivors."

VA's mission statement is adapted from President Lincoln's immortal words, delivered in his second inaugural address. We care for Veterans, their families, and survivors—men and women who have responded when their Nation needed help. VA's mission is clear-cut, direct, and historically significant. It is a mission that every employee is proud to fulfill.

For more information on VA's history, visit the VA History Summary.

As reflected in the Statement of Net Cost (SNC), VA comprises three administrations responsible for delivering services to Veterans—Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and the National Cemetery Administration (NCA)—and Staff Offices that support the Department, categorized on the SNC as Indirect Administrative.

Indirect Administrative programs support Department operations not directly attributable to VHA, VBA, or NCA, including human resources, Chief Financial Officer (CFO) and Chief Information Officer (CIO) operations, OIG investigations, and the Board of Veterans' Appeals (Board). For more information on VA's organizational structure, visit VA's Administrations and Offices webpage.



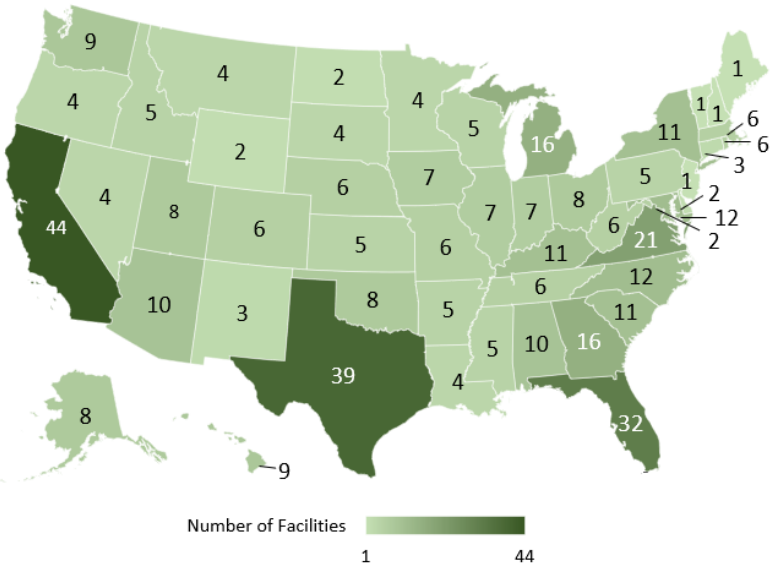
The U.S. heat map shows the number of VHA facilities including all medical centers, clinics, and Vet Centers in each U.S. state. Additional VHA facilities can be found in Puerto Rico, Virgin Islands, American Samoa Islands, the Philippines, and Mariana Islands.

VHA provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VHA also advances medical research and development in ways that support Veterans' needs by pursuing research in areas that most directly address the diseases and conditions that affect Veterans. VHA has 1,776 health care facilities including VA medical centers (VAMC) and outpatient sites.

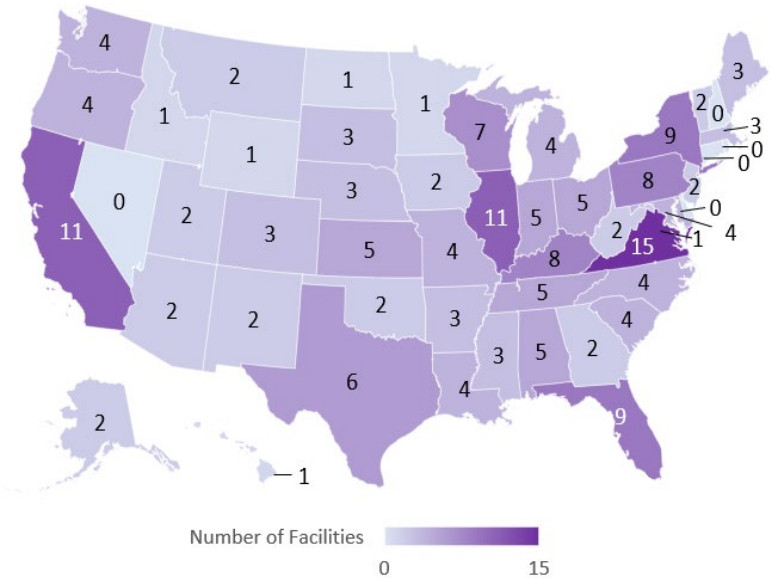
Social Media Links:

VBA provides various benefits to Veterans and their families. These benefits include military-to-civilian transition assistance services, disability compensation, pension, fiduciary services, educational opportunities, Veteran Readiness, and Employment (VR&E) services, home loan guarantee, and life insurance. VBA has 433 facilities in the United States (U.S.), Guam, Puerto Rico, and the Philippines.

Social Media Links:



The U.S. heat map shows the number of VBA facilities in each U.S. state including all regional offices, readiness, and pre-discharge sites. Additional VBA facilities can be found in Guam, Puerto Rico, and the Philippines.



The U.S. heat map shows the number of NCA facilities including national cemeteries, solider lots, and monument sites, in each U.S. state and the District of Columbia. Two additional NCA facilities can be found in Puerto Rico.

NCA provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, headstones and markers, Presidential Memorial Certificates, outer burial receptacles, commemorative plaques and urn, burial flags, and medallions. VA runs 157 national cemeteries and 35 soldiers' lots and monument sites in the United States and Puerto Rico. NCA also awards cemetery grants to state and tribal Veterans' cemeteries.

Social Media Links:

Note: The increase in facilities at VHA and VBA compared to prior year is reflective of a change in the methodology for counting facilities. For example, a single campus may have multiple facilities, which are counted separately.

KEY PERFORMANCE RESULTS & ASSOCIATED COSTS

STRATEGIC GOALS

The Government Performance and Results Act Modernization Act (GPRAMA) requires CFO Act agencies to develop long-term strategic plans that detail the agency's goals, strategies, and objectives. VA updates the Strategic Plan every 4 years, approximately 1 year after a new Presidential term begins, to accurately reflect the priorities of the new administration. The new Strategic Plan is currently under development and will be published to VA's Plans, Budget, Finances, and Performance webpage once complete.

VA's current strategic goals are presented below. VA tracks performance metrics against these strategic goals and presents annual results in the APP&R, which shows how VA measures and monitors its activities against the long-range plan. This AFR will cover a high-level summary of VA's performance results. Detailed performance information can be found in VA's APP&R.

	**GOAL 1: Improve access and health outcomes for Veterans.**
	**GOAL 2: Transform benefits processing and service delivery.**
	**GOAL 3: Strengthen oversight, accountability, performance management, and workforce optimization.**
	**GOAL 4: Modernize VA systems and enhance Veteran-centric service delivery.**
	**GOAL 5: Ensure fiscal responsibility and align with administration priorities.**

KEY PERFORMANCE HIGHLIGHTS

VA's financial statements reflect the resources required or used to accomplish the Department's goals and objectives. This section links the Department's activities to achieve those goals with the financial impact to assets, liabilities, program costs, and budgetary resources from the Balance Sheet, SNC, and Statement of Budgetary Resources (SBR). To mirror the components of the SNC, performance at each administration (VHA, VBA, and NCA), plus the indirect administrative programs, are discussed.

VETERANS HEALTH ADMINISTRATION

Activities performed by VHA help VA to achieve objectives for Strategic Goals 1, 3, 4, and 5. For FY 2025, total VHA budgetary resources were $187.8 billion and total gross costs were $165.5 billion for activities related to providing a broad range of primary care, specialized care, and related medical and social support services.

The Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022 (PACT Act) expands VA health care and benefits for Veterans exposed to

burn pits, Agent Orange, and other toxic substances, and represents one of VHA's most significant performance priorities. As part of the PACT Act, Congress authorized the Cost of War Toxic Exposures Fund (TEF) to ensure there are additional resources available to cover PACT Act expanded benefits eligibility without impacting other requirements of Veteran medical care, benefit delivery, and other related programs. In FY 2025, VA received $30.5 billion in TEF funding, which has helped VA meet the performance metrics discussed below.

Toxic Exposure Screenings: All Veterans enrolled in VA health care can receive a toxic exposure screening to identify and document any potential exposures to toxins during military service. These screenings provide exposure-informed care, support long-term health plans, and connect Veterans with follow-up resources. They also help Veterans and their health care providers determine whether Veterans have a presumptive condition, enabling them quicker access to deserved disability benefits. In FY 2025, VHA aimed to provide at least 6 million enrollees with a toxic exposure screening. As of September 30, 2025, VHA exceeded that target by providing over 6.3 million screenings.

Airborne Hazards & Open Burn Pit Registry (Burn Pit Registry) Exams: The Burn Pit Registry is a critical tool that is advancing research through combining Veteran and Service member data. The registry enables VA to identify and research health challenges of Veterans and Service members who were exposed to airborne hazards and burn pits during their military service. Over time, the knowledge gained through this research will be used to fuel advancements in treatments, provide more precise predictive medicine, inform decisions related to presumptive conditions, and deliver targeted proactive and preventative care. In FY 2025, VHA aimed to complete at least 95% of requested Legacy Burn Pit Registry exams. As of September 30, 2025, VHA exceeded that target by completing 100% of requested exams.

VETERANS BENEFITS ADMINISTRATION

Activities performed by VBA help VA to achieve objectives for Strategic Goals 2, 3, and 5. For FY 2025, total VBA budgetary resources were $298.0 billion and total gross costs were $226.1 billion for activities related to providing various benefits to Veterans and their families.

One of VBA's primary functions is to process education, pension, disability compensation, and survivor claims and appeals with a focus on timeliness and quality. VA develops an actuarial estimate to determine the future obligation to fund compensation payments over the next 100 years. In FY 2025, VBA's disability compensation program liability was estimated at $7.3 trillion. Increases in the disability compensation liability are attributable to changes in legislation that expand Veteran benefits (for example, the PACT Act) and revised experience studies. For more information, see pages 14-16, and Note 13.

For FY 2025, VBA's total budget authority for General Operating Expenses, which helps to process benefit claims, was $13.3 billion, while costs related to the General Operating Expenses were $9.6 billion.

Claims Inventory: The claims inventory includes disability compensation and pension claims that normally require a rating decision. Commonly known as the rating bundle, it includes claims for Disability Compensation, dependency and indemnity compensation for survivors and Veterans' pension benefits, including both original and supplemental claims.

Once VA decides a claim, then it is no longer in the claims inventory. If a Veteran appeals a benefits decision, the appealed claim is tracked separately. When claims in the inventory exceed 125 days, they are considered "backlogged."

In FY 2025, VA processed benefit claims faster than ever before, resulting in a reduction of over 350,000 claims in the inventory. VA's improved efficiency is evidenced by VA processing its one millionth Veteran benefits claim on February 20, 2025, the earliest in VA history and nearly 2 weeks faster than the previous all-time record despite receiving 10% more claims than prior year. VA also broke the record for most claims completed in a single year in August 2025 and completed over 3 million claims in total in FY 2025, exceeding last year's record by over 19%.

Claims Backlog: The claims backlog also decreased by more than 100,000 claims in FY 2025 due to the improved pace in processing. VBA continues to achieve single day processing milestones—VA processed more than 10,000 Veteran claims per day on 233 days during FY 2025 and also broke the record for most claims processed in a single day on May 29, 2025, with 15,364 claims processed.

To further reduce the backlog, VA continues to invest in continuous learning for all claims processors and makes technological improvements to ensure that Veterans, family members, caregivers, and survivors receive the benefits they have earned and deserve as quickly and accurately as possible.

NATIONAL CEMETERY ADMINISTRATION

Activities performed by NCA help VA to achieve objectives for Strategic Goals 3 and 5. For FY 2025, total NCA budgetary resources were $614 million and total gross costs were $642 million for activities related to burial services, construction projects, and operations at VA's 157 national cemeteries and 35 soldiers' lots and monument sites. Total gross costs include depreciation expense, which allocates the cost of general Property, Plant, and Equipment (PP&E) across its useful life and does not require budgetary resources.

Cemetery Construction: One of NCA's most significant performance metrics is the number of annual interments in national cemeteries, which helps NCA track anticipated growth requirements and plan for potential construction projects or expansions. In FY 2025, VA received $155 million in major construction budgetary resources and $276 million in minor construction budgetary resources for cemetery expansion and improvement projects, advance planning, and design funds and land acquisition.

In FY 2025, major construction resources were used for a gravesite development project at Tahoma National Cemetery, serving the greater Puget Sound area of Washington, and a gravesite expansion project at Jefferson Barracks National Cemetery, serving Northeastern Missouri and Southwestern Illinois. Minor construction resources were used for additional gravesite expansion projects and for emergency repairs resulting from hurricanes, tornadoes, and other significant weather events.

INDIRECT ADMINISTRATIVE PROGRAMS

Indirect administrative activities help VA to achieve objectives for Strategic Goals 3, 4, and 5. For FY 2025, total indirect administrative budgetary resources were $7.5 billion and total gross costs were $4.1 billion for activities to support Department operations not directly attributable to VHA, VBA, or NCA, including human resources, CFO and CIO operations, investigations, and Board programs.

Integrated Financial and Acquisition Management System (iFAMS): The iFAMS implementation, which falls under the oversight of the CFO's office, supports VA's goal to deliver integrated, interoperable, secure and state-of-the art systems, ultimately improving the delivery of benefits, care, and services. For more information on progress related to the iFAMS implementation, refer to page 20.

Veterans' Appeals: One of the most critical functions under indirect administration relates to the Veterans' appeals process managed by the Board, which decides appeals from VHA, VBA, NCA, and Office of General Counsel (OGC). The Board's mission is to conduct hearings and decide appeals in a timely manner on behalf of the Secretary. In FY 2025, the Board's budgetary resources totaled $319 million and gross costs were $303 million, which enabled the Board to hold 19,891 hearings while adjudicating 123,962 appeals, which is a 7% increase over the previous record of 116,192 decisions issued in FY 2024. This marks the third consecutive year in which a new decision record was set.

Additionally, significant progress was made to reduce the number of pending appeals and decrease the wait times in the Veterans Appeals Improvement and Modernization Act (AMA) Direct and Evidence Dockets. At the end of FY 2025, the Average Days Pending (ADP) for Veterans and Dependents Appeals in the Evidence Docket was 410 days, 140 days less than the 550-day goal. Even better, the ADP for Veterans and Dependents Appeals in the Direct Docket was 249 days—116 days faster than the 365-day goal.

Veterans' Appeals Terms to Know

Direct Docket: The fastest way to receive a decision when a Veteran or appellant believes everything needed to approve their claim is already in the file. The Board will not consider any new evidence, and the Veterans Law Judge (VLJ) will decide their case based on the evidence in the record at the time of the decision they are appealing.

Evidence Docket: Some Veterans know they want or need to add additional evidence into their file before consideration by a VLJ. In that case, the Evidence Docket allows for additional evidence to be submitted by the Veteran or their representative within 90 days of appealing to the Board.

ANALYSIS OF THE FINANCIAL STATEMENTS

BALANCE SHEET

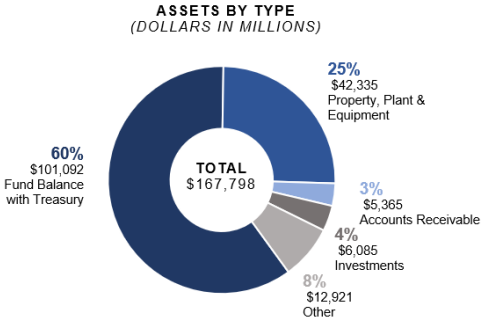
The Balance Sheet provides a snapshot of the Department's financial position and comprises assets, liabilities, and net position. The following table shows VA's key asset and liability components.

Balance Sheet Key Components

(dollars in millions)	**2025**
Assets	
Fund Balance with Treasury (FBWT)	$101,092
Property, Plant, & Equipment (PP&E), Net	42,335
Accounts Receivable, Net	5,365
Investments, Net	6,085
Other	12,921
Total Assets	$167,798
Liabilities	
Veterans Benefits and Actuarial FECA* Liability	$7,572,977
Accounts Payable	21,575
Loan Guarantee Liabilities	10,450
Federal Employee, Salary, Leave, and Benefits Payable	5,399
Other	17,156
Total Liabilities	7,627,557
Total Net Position	(7,459,759)
Total Liabilities and Net Position	$167,798

**Federal Employees' Compensation Act (FECA)*

ASSETS



Assets represent items owned by the Department that have probable economic benefits. The graphic at left depicts the composition of VA's total asset balance. As of September 30, 2025, the largest asset was Fund Balance with Treasury (FBWT) at $101.1 billion. FBWT represents VA's right to draw funds from the U.S. Department of Treasury (Treasury) for allowable expenditures. For more information, refer to Note 3.

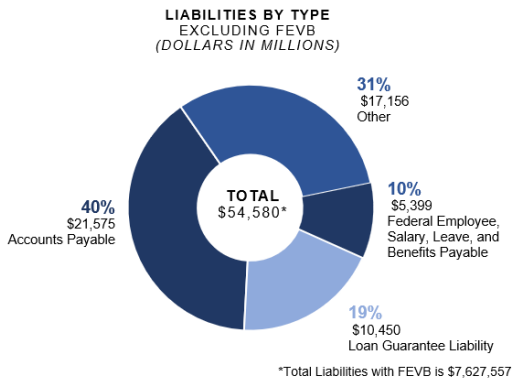
The second largest asset was PP&E at $42.3 billion, which is primarily composed of buildings, structures, equipment, and internal use software (IUS). In FY 2025, PP&E increased due to the capitalization of expenditures for IUS and IUS in development for the Electronic Health Record Modernization (EHRM) program. For more information, refer to Note 9 and Note 23.

The other category includes Loans Receivable, Advances and Prepayments, Cash, and Inventory and Related Property totaling $12.9 billion. Increases to the other category compared to prior year were driven by Loans Receivable. In FY 2025, Loans Receivable increased due to the Veterans Affairs Servicing Purchase (VASP) program, under which VA purchased Veterans' loans from mortgage lenders to provide more affordable monthly mortgage payments. The VASP program is no longer accepting new entrants as of May 2025.

LIABILITIES

Liabilities represent probable future outflows or other sacrifices of resources as a result of past transactions or events. As of September 30, 2025, the largest liability was the Veterans Benefits and Actuarial FECA Liability at $7.6 trillion, which primarily includes VA's future cost to provide disability compensation, education, Veteran Readiness and Employment (VR&E), and burial benefits. For more information, refer to Note 13.

VA also provides eligible wartime Veterans and/or their dependents with pension benefits if the Veteran died, is over age 65 or is totally disabled, based on annual eligibility reviews. The Pension Program is not accounted for as a "Federal employee pension plan" under Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; therefore, a future liability for pension benefits is not recorded due to differences between its eligibility conditions and those of Federal employee pensions. The present value of the projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2025, was $126.7 billion.



The composition of the remaining liability balance is illustrated in the graphic at left. The Department's second largest liability was Accounts Payable at $21.6 billion, which includes compensation and pension payments that have not yet been disbursed.

The Loan Guarantee Liability of $10.5 billion represents VA's future estimated obligation, projected over 30 years, based on the present value of expected cashflows for the loan guarantee programs. In FY 2025, the Loan Guarantee Liability increased primarily due to the termination of the VASP program, which resulted in a modification subsidy cost of $2.1 billion. For more information, refer to Note 7.

The other category, presented in the Balance Sheet Key Components table on page 12, includes Debt, Environmental and Disposal Liabilities, and Other Liabilities totaling $17.2 billion.

NET COST OF OPERATIONS

Net cost of operations is the cost incurred less any exchange revenue earned. The SNC is designed to show net cost separately for VHA, VBA, NCA, and indirect administrative costs. At September 30, 2025, the total net cost of operations for the Department was $529.6 billion.

PROGRAM NET COST

At September 30, 2025, VHA's net cost was $160.2 billion. Significant contributors toward VHA costs included expansion of medical services to align with the implementation of the PACT Act under the TEF. The TEF funds health care delivery associated with environmental hazards, as well as medical research relating to exposure to environmental hazards.

At September 30, 2025, VBA's net cost (excluding actuarial) was $225.0 billion. VBA's primary cost driver is compensation payments to Veterans and their beneficiaries. VBA issued nearly

4.4 million more payments in FY 2025 compared to prior year and continued to process claims with improved timeliness and accuracy, which resulted in approximately 7 million active beneficiaries at the end of FY 2025.

ACTUARIAL COST & (GAIN)/LOSS

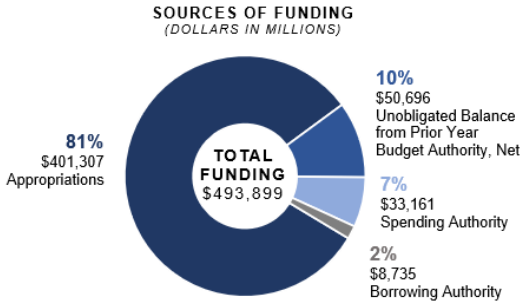
VA provides Disability Compensation, Burial, Education, and VR&E benefits to eligible Veterans and beneficiaries. The liability for future benefit payments is calculated using an actuarial model (see Note 13). On a periodic basis, the liability is adjusted for changes in assumptions, which results in the recognition of actuarial cost and/or a (gain)/loss. The actuarial cost and (gain)/loss are composed of the elements below. At September 30, 2025, the Veterans Benefits Actuarial Cost was $184.6 billion. Changes in Actuarial Assumptions resulted in a gain of $44.2 billion.

Actuarial Cost	• Interest on Liability Expense • Changes in Experience (Veteran counts) • Prior Service Cost • Less Amounts Paid	**(Gain) / Loss**	• Discount Rate • Cost of Living Adjustments (COLA) • Other Assumptions

BUDGETARY RESOURCES

The SBR provides information on the sources and status of funding available to the Department. The primary sources of VA funding are appropriations from Congress and the Unobligated Balance from Prior Year Budget Authority. VA expends a substantial amount of its budgetary resources on Medical Service and Care, Compensation, Pension, Burial, Education, and VR&E benefits for Veterans, their beneficiaries, and dependents.

The graphic below depicts the composition of VA's sources of funding from the SBR. As of September 30, 2025, appropriations were VA's largest source of funding at $401.3 billion, or 81%, of total resources. Annual increases in budgetary resources from appropriations support the following:



- The expansion of community care programs for health care provided to Veterans at non-VA medical facilities;
- Medical services provided at VA medical facilities resulting from an increase in the number of services provided to Veterans;
- The delivery of Veterans' health care associated with the PACT Act; and
- Compensation benefits to cover increases to Veteran and survivor caseloads and a higher average degree of disability for Veterans.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements are prepared to report the financial position, financial condition, and results of operations of the entity, consistent with the requirements of 31 U.S.C. § 3515 (b). The statements are prepared from records of the entity in accordance with Federal generally accepted accounting principles (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.

VA'S COMPENSATION BENEFITS LIABILITY

Understanding a Complex Balance

VA's largest accounting balance is the disability compensation benefits liability at $7.3 trillion. This unfunded liability represents VA's projected future costs to fund compensation payments over the next 100 years. Although the liability is unfunded, VA's obligation for compensation payments is probable because of existing laws and a well-established practice of caring for America's Veterans. It is also measurable through actuarial methods and sufficient historical data on Veterans. VA funds the current year costs of compensation through its annual appropriations.

The compensation benefits liability is an actuarial estimate calculated as the present value of projected benefit payments to the following beneficiary types:

Current Benefit Recipients



Veterans and survivors currently receiving benefit payments.

Future Benefit Recipients



Current Veterans – those who are expected to begin receiving benefit payments in the future (and their survivors).



Future Veterans – an estimate of active-duty Service members who have gained eligibility as of the valuation date* and will become future beneficiaries (and their survivors).

*The valuation date represents VA's fiscal year-end, which is September 30.

Technical Terms to Know

Liability* A probable future outflow or other sacrifice of resources as a result of past transactions or events. A liability must meet two conditions:

- Probable – more likely than not to occur; and
- Measurable – reasonably estimable.

Actuarial Relating to the practice of applying probability and statistics to develop estimates for matters that involve uncertainty. Actuarial estimates generally satisfy the liability condition related to measurability.

* Per FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*



DID YOU KNOW?

VA issued American Civil War era benefits payments as recently as 2020 when the last beneficiary passed away, 155 years after the end of the war. The beneficiary was the daughter of a soldier who fought first for the Confederacy and later for the Union during his service in the Civil War.

To fully understand the magnitude of the compensation liability balance, it is also important to understand the potential length of time for which VA makes compensation benefit payments attributed to each conflict. Derived from VA's Annual Benefits Report, the following table presents the total number of Veterans and beneficiaries by conflict who received compensation benefits as of September 30, 2024. The FY 2025 Annual Benefits Report is expected to be available in February 2026.

Since compensation benefits begin for a Veteran and continue through their survivors, the benefit projection period is 100 years to capture all significant liabilities for each benefit recipient. In FY 2024, about 6.5 million Veterans and Veterans' survivors received Disability Compensation payments. Through actuarial methods, future beneficiaries are projected based on existing demographic data maintained by VA and other Federal entities such as the Department of Defense.

Compensation Benefit Recipients as of September 30, 2024

Conflict	Veterans	Surviving spouse, children, or parents
Wars of the 1800s*	-	2
World War I 1917 - 1918	-	62
World War II 1941 - 1946	8,024	19,713
Korean Conflict 1950 - 1955	50,508	24,220
Vietnam Era 1961 - 1975	1,403,881	368,098
Gulf War Era 1990 - Present	3,678,404	58,133
Peacetime (Other)	852,150	49,222
Total	**5,992,967**	**519,450**

*Wars of the 1800s include the Spanish-American War and the Mexican Border Period.

COMPUTATION INPUTS

When computing the liability, VA actuaries make assumptions about the future. These assumptions and other inputs work together to provide a reasonable estimate of the future compensation payable. There are three primary classifications of actuarial assumptions: economic, demographic, and regulatory, described as follows.



ECONOMIC ASSUMPTIONS include rate adjustments that are impacted by economic conditions. Rates are updated annually and derived from national averages.

- **Discount Rate** – The discount rate converts future years' benefit payments (nominal) to a current year basis as of the financial statement date. The discount rate has an inverse relationship to the actuarial liability. For example, the higher the discount rate, the lower the actuarial liability, all other things being equal.
- **COLA Rate** – The COLA is derived from the amount of money required to maintain a standard of living (for example, housing, food, clothing, utilities, taxes, and health care). COLA is generally derived from changes in the previous year's consumer price index, which measures the overall price change in goods and services over time. COLA is factored into the actuarial liability so that payments for Disability Compensation keep pace with inflation.



DEMOGRAPHIC ASSUMPTIONS include population data and experience rates related to beneficiaries currently receiving or expected to receive compensation. The data is updated annually or as needed based on experience. Examples include:

- **Total Beneficiary Counts** – The number of Veterans and dependents receiving payment in each projection year.
- **Disability Ratings** – Ratings assigned based on the expected severity of a Veteran's service-connected disability. The higher the disability rating, the higher the compensation payment.
- **Mortality Rates** – Mortality rates are applied to all Veterans and survivors in each projection year.



REGULATORY ASSUMPTION examples include administrative, judicial, or legislative changes that result in changes to compensation benefit eligibility and amount. Internal VA policies, court rulings and new laws all play a role in the compensation benefits liability estimate. For example, these changes may result in an expansion of the total number of presumptive conditions. A service-connected presumptive condition is a disability that VA presumes was caused by military service. If a presumptive condition is diagnosed in a Veteran, they can be awarded Disability Compensation benefits.

MANAGEMENT ASSURANCES

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

January 16, 2026

The United States Department of Veterans Affairs (VA or the Department) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) section 2 and section 4. VA conducted its assessment of risks and internal controls in accordance with the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the assessment results, VA can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2025, except for the following reported material weaknesses:

- Information Technology Internal Controls.
- Internal Use Software.

The Department noted noncompliance with the following:

- FMFIA section 2 and section 4.
- Federal Financial Management Improvement Act (FFMIA).

FFMIA requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. VA assessed its Financial Management System (FMS) to determine conformance with FFMIA. FMS substantially complies with Federal accounting standards. However, it does not comply with Federal financial management system requirements and the USSGL at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FFMIA.

Sincerely,

(/s/) Douglas A. Collins

SUMMARY OF MATERIAL WEAKNESSES

(1) **Information Technology (IT) Internal Controls**: VA maintains a material weakness in its Agency-wide Access Management, Contingency Planning, Security Management, and Configuration Management Program. VA established both operational and procedural capabilities to evaluate, prioritize, plan, and execute actions designed to mitigate or close the material weakness conditions. These new capabilities are focused on emphasizing personal accountability for designated subject matter experts to address and eliminate each finding. VA adopted the Objectives and Key Results management framework to manage these activities. VA continues to pursue a prioritized set of actions designed to improve or mature the overall cybersecurity state of the environment to address the material weakness, such as building effective, practical, and compliant cybersecurity capabilities into all new VA IT initiatives, which include the Presumptive Benefits for War Fighters Exposed to Burn Pits and Other Toxins Act of 2021 (PACT Act) and Electronic Health Record Modernization. Estimated completion date: FY 2027.

(2) **Internal Use Software (IUS):** VA did not design or implement effective controls to identify, track, and accumulate IUS costs to support proper accounting classification and financial reporting requirements. To correct the accounting error, VA performed an analysis of expenses to identify costs that should be recorded as a capital asset, which resulted in a $4.6B adjustment to prior and current year balances. VA will ensure internal control activities are designed and implemented to properly track and record costs associated with all IUS in-development projects. Estimated completion date: FY 2027.

SUMMARY OF MATERIAL NONCOMPLIANCE

(1) **Federal Managers' Financial Integrity Act of 1982 (FMFIA) section 2 and section 4:** VA is developing robust Corrective Action Plans (CAP) to remediate historic material weaknesses and material noncompliance to ensure fulfillment of FMFIA's requirement to remediate audit findings timely. VA is implementing a new accounting system, the Integrated Financial and Acquisition Management System (iFAMS), to replace the Financial Management System (FMS) to comply with FMFIA section 4. Refer to the Federal Financial Management Improvement Act (FFMIA) section for details. VA will test iFAMS system functionality and modified controls as it is incrementally deployed. Estimated completion date: FY 2028.

(2) **FFMIA:** VA assessed FMS to determine conformance with FFMIA and FMFIA section 4, in accordance with OMB Circular A-123, Appendix D. Based on the results, although FMS substantially complies with Federal accounting standards, FMS does not substantially comply with Federal financial management system requirements and application of the USSGL at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FFMIA. VA is undergoing a multi-year rollout of a new accounting system, iFAMS, to replace FMS. iFAMS is designed to be compliant with FFMIA. Estimated completion date: FY 2028.

SUMMARY OF INTERNAL CONTROLS ASSESSMENT

VA's Office of Business Oversight (OBO) oversees the internal control program and assists VA's major organizations (reporting entities) in completing an internal controls assessment to support their annual statements of assurance. OBO developed an Internal Controls Assessment Tool for evaluating each of the 17 principles in the Government Accountability Office Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into the following 5 components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In FY 2025, VA assessed the following three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2025, the Department required all Administrations and major Staff Offices to complete an internal controls assessment, identifying how the reporting entity met the control objectives for each Green Book principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, Administration or Staff Office management, in accordance with OMB Circular A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a statement of assurance based on the results of its internal controls assessment. The statement of assurance provides an informed judgment of the overall adequacy and effectiveness of the reporting entity's internal controls. OBO analyzed internal controls assessment submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the assessments.

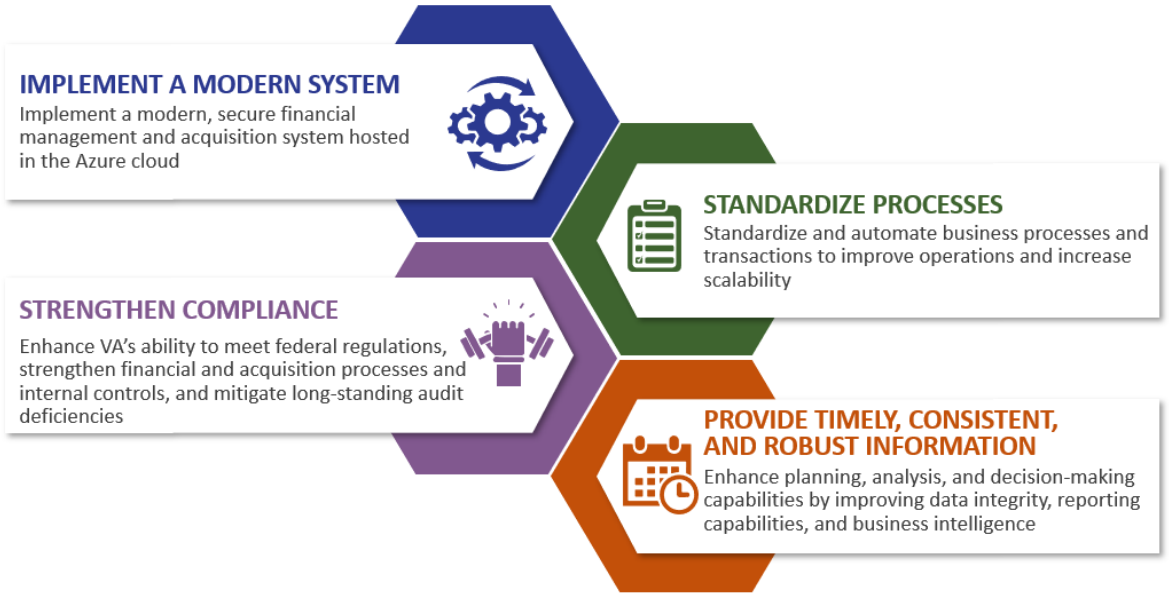
In FY 2025, OBO conducted OMB Circular A-123, Appendix A, tests of design and tests of effectiveness over specified business processes and key controls. OBO focused its efforts on developing business process narratives and testing at an enterprise level, documenting actual operations, and identifying key financial controls or gaps in the design of controls.

FINANCIAL SYSTEMS FRAMEWORK

VA'S FINANCIAL AND ACQUISITION MANAGEMENT SYSTEMS STRATEGY AND GOALS

VA's Financial Management Business Transformation (FMBT) program is increasing the transparency, accuracy, timeliness, and reliability of financial and acquisition information, resulting in improved fiscal accountability to American taxpayers and improving services to those who serve Veterans. FMBT is managed by the Financial Management Business Transformation Service (FMBTS), which is under VA's Office of Management (OM).

The FMBT Program Goals are as follows:



CURRENT STATE TO FUTURE STATE

VA's existing financial and acquisition management systems consist of the core Financial Management System (FMS) and the core acquisition system, known as the Electronic Contract Management System (eCMS), along with several interfacing systems. The legacy FMS is over 35 years old and does not comply with Federal financial regulations and mandates, including the Digital Accountability and Transparency Act of 2024 or the FFMIA.

The scope of the FMBT program is focused on migrating VA from FMS and eCMS to a commercial off-the-shelf cloud solution, configured for VA as iFAMS and hosted in the VA Azure cloud. This involves:

- Migrating to a financial and acquisition management solution compliant with Federal regulations;
- Replacing the financial management functionality of Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System (IFCAP) and Centralized Automated Accounting Transaction System (CAATS) and the procurement functionality of eCMS;
- Implementing a new business intelligence solution and data warehouse for financial reporting; and
- Interfacing iFAMS with designated VA systems.

iFAMS DEPLOYMENT APPROACH, STATUS, AND TIMELINE

iFAMS is being deployed in a phased approach through a series of implementation "waves." Each completed system delivery, or go-live, represents the point of transition of one or more VA organizations from their legacy systems to iFAMS. FMBT deliberately structured the overall iFAMS implementation timeline to deliver the new system to the smaller and less complicated administrations and staff offices first, thus allowing program personnel to gain experience and identify key lessons learned that will ease future implementations.

As of September 2025, FMBT has achieved eight successful deployments of iFAMS—two of which were completed in FY 2025—encompassing numerous offices and sub-offices and approximately 3,890 users across the enterprise. This number decreased from the prior fiscal year due to employee departures from VA. The deployments include NCA, several offices within VBA, VHA Station 134 (Offices of Finance and Healthcare Transformation), and several major staff offices, including OM; Office of Information and Technology (OIT); OIG; Office of Acquisition, Logistics, and Construction (OALC); and Office of Construction and Facilities Management: Major Construction. The recent implementation at Station 134 is the first delivery of iFAMS to VHA—VA's largest and most complex administration—representing a significant milestone in the mission to implement a single, integrated financial and acquisition solution across the Department.

Looking ahead, FMBT continues to build capabilities to support future VHA implementation efforts; the program will continue deploying iFAMS in a phased approach across VA until enterprise-wide implementation is achieved. iFAMS will have approximately 125,000 users across VA once fully deployed, and it will be the financial and acquisition system of record for the Department, bringing VA into compliance with the requirements of the FFMIA.

While the iFAMS implementation timeline is still under review and awaiting final approval, VA remains committed to implementing iFAMS within 36 months.

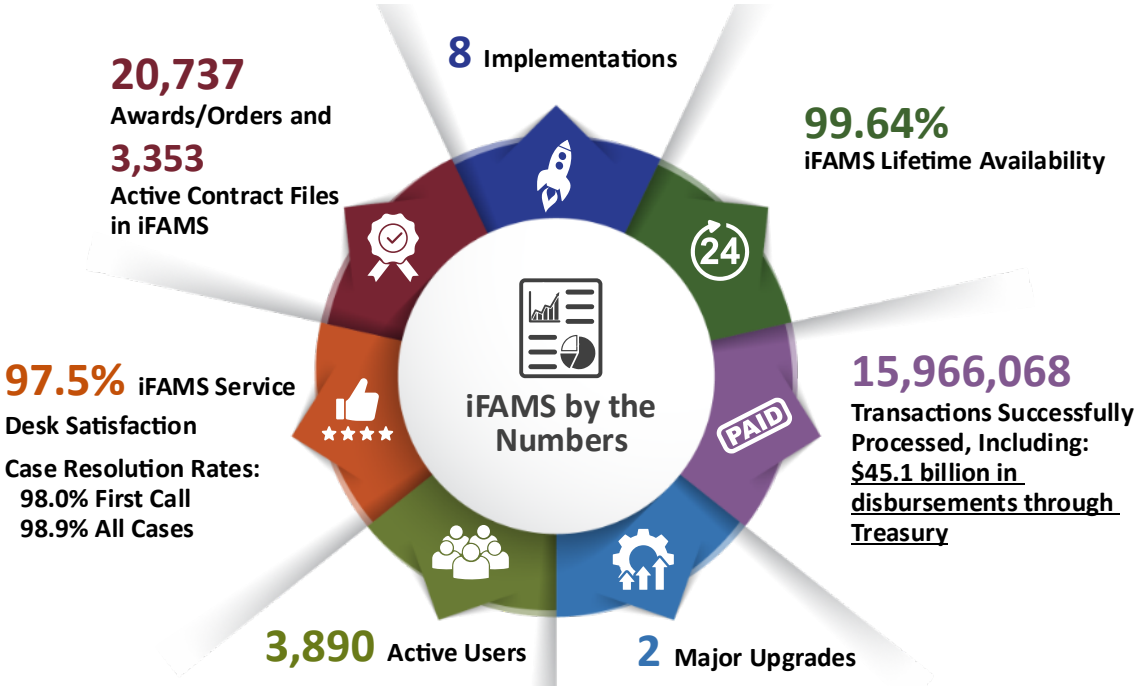
PROGRAM RISKS

As would be expected in any modernization initiative with the size and complexity of FMBT, the program faces many risks and challenges. Foremost among them is the overall resistance to change at VA; approximately 125,000 VA employees are expected to use iFAMS in some capacity once it is fully implemented, so promoting stakeholder engagement and gaining user buy-in is critical for ensuring the successful adoption of the system. To that end, FMBT carries out robust engagement activities at multiple levels across VA's administrations and staff offices. Funding and personnel needs are closely monitored, and the program communicates resource requirements to the appropriate entities as soon as possible.

In addition, FMBT has a dedicated Risk Management Team that proactively identifies, logs, and monitors risks for the program. All risks are assigned probability and impact ratings that allow for logical prioritization. By fostering a culture of risk awareness, encouraging dynamic mitigation strategies, and applying an effective risk governance process, the team ensures FMBT is not caught off guard by risk impacts.

iFAMS BY THE NUMBERS

The following graphic presents key statistics on iFAMS as of September 30, 2025.



DID YOU KNOW?

From August 25–29, 2025, VA hosted the 18th annual National Veterans Summer Sports Clinic (NVSSC) in San Diego, California. Nearly 150 recently injured Veterans were welcomed at the opening ceremony at Petco Park, ready to take on adaptive sports like cycling, surfing, sailing, kayaking, and fitness.

The clinic provides early intervention to promote health, independence, and community. For many, it's a life-changing experience. "I went from hopelessness to happiness in one wave," said Coast Guard Veteran Gary Jezierski after learning to surf on the beaches of La Jolla. The clinic is about more than just sports; it's about building camaraderie and discovering new strengths. "Being part of a team feels good," shared Army Veteran Stella Zu after a cycling session. That sentiment was echoed on Mission Bay, where Navy Veteran Peggy Elzie found connection while learning to sail, saying, "I found family here." For first-time participants like Air Force Veteran Kevin Figueroa, the week was a source of renewed drive. "I'm going back home motivated," he said.

The skills honed at the NVSSC can even propel an athlete to the Paralympic Games, and many Veterans who have participated in VA adaptive sports have gone on to compete. As the clinic concluded, it celebrated the resilience of its athletes and the dedication of the volunteers, coaches, and sponsors who made it possible.

For more information, visit the NVSSC website.



