
Defense Contract Audit Agency

Financial Statements
and Independent
Auditor's Report

For the Years Ended
September 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

**TO THE DIRECTOR
DEFENSE CONTRACT AUDIT AGENCY**

Report on the Financial Statements

We have audited the accompanying Consolidated Balance Sheet of the Defense Contract Audit Agency (DCAA) as of September 30, 2017 and 2016, and the related Statement of Net Cost, Changes in Net Position and Combined Statement of Budgetary Resources for the year then ended (hereinafter referred to as financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Defense Contract Audit Agency as of September 30, 2017 and 2016, and its net

costs, changes in net position and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

Other Matters

Opinion on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, the financial statements of DCAA as of September 30, 2017, and our report thereon, dated November 7, 2017, expressed an unmodified opinion on those financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that DCAA's financial statements as of and for the years ended September 30, 2017 and 2016, present fairly in all material respects, in conformity with U.S. generally accepted accounting principles.

As stated in our opinion on internal control over financial reporting, we concluded that DCAA had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations.

We found no material conflicts with DCAA's 2017 report on management controls prepared as required by the Federal Managers' Financial Integrity Act (FMFIA).

The following sections discuss our opinion on DCAA's financial statements, our consideration of DCAA's internal control over financial reporting, our tests of DCAA's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

The information in the Management's Discussion and Analysis and Required Supplementary Information is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles, OMB Circular A-136 (Revised), *Financial Reporting Requirements*, DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements," and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

Internal Control over Financial Reporting

In planning and performing our audit, we considered DCAA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives as broadly defined in the FMFIA, such as those controls relevant to ensuring efficient operations. Since DCAA's financial recording and reporting, including compilation of its financial statements, are performed by the Defense Finance and

Accounting Service (DFAS), our consideration of internal control included those aspects of DFAS' internal controls that were relevant to DCAA.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur undetected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In our fiscal year 2017 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance with Laws and Regulations

DCAA's management is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether DCAA's financial statements are free of material misstatements, we performed tests of management's compliance with certain laws and regulations, noncompliance with which could have a direct and material effect in the determination of financial statement amounts, and other particular laws and regulations specified in OMB Bulletin 17-03. Since DCAA's financial recording and reporting, including the issuance of financial statements, are performed by DFAS, we considered DFAS' compliance with laws and regulations relevant to work performed by DFAS on behalf of DCAA.

Our tests of compliance with selected provisions of laws and regulations for fiscal year 2017 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

As part of obtaining reasonable assurance about whether DCAA's fiscal year 2017 financial statements are free of material misstatement, we performed tests of DCAA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 17-03. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to DCAA.

This report is intended solely for the information and use of DCAA's management, the Department of Defense, the Department of Defense Office of Inspector General, OMB, the Governmental Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Davis & Associates, PLLC

Columbia, Maryland
November 7, 2017

PRINCIPAL FINANCIAL STATEMENTS

Department of Defense
Defense Contract Audit Agency
CONSOLIDATED BALANCE SHEET
(Amounts in Thousands)
As of September 30,

	<u>2017</u>	<u>2016</u>
Assets (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 144,949	\$ 95,286
Accounts Receivable (Note 5)	<u>5,106</u>	<u>3,840</u>
Total Intragovernmental Assets	\$ 150,055	\$ 99,126
Accounts Receivable, net (Note 5)	\$ 170	\$ 198
General Property, Plant and Equipment, net (Note 6)	-	-
Other Assets (Note 2)	<u>108</u>	<u>2,578</u>
Total Assets	<u>\$ 150,333</u>	<u>\$ 101,902</u>
Liabilities (Note 7)		
Intragovernmental		
Accounts payable (Note 7)	\$ 6,886	\$ 2,196
Other Liabilities (Note 8)	<u>7,480</u>	<u>7,542</u>
Total Intragovernmental Liabilities	\$ 14,366	\$ 9,738
Accounts Payable (Note 7)	\$ 5,488	\$ 4,292
Other Federal Employment Benefits (Note 7)	17,538	18,383
Other Liabilities (Note 8)	<u>55,163</u>	<u>54,151</u>
Total Liabilities	<u>\$ 92,555</u>	<u>\$ 86,564</u>
Net Position:		
Unexpended Appropriations	\$ 99,406	\$ 57,400
Cumulative Results of Operations	<u>(41,628)</u>	<u>(42,062)</u>
Total Net Position	<u>\$ 57,778</u>	<u>\$ 15,338</u>
Total Liabilities and Net Position	<u>\$ 150,333</u>	<u>\$ 101,902</u>

The accompanying notes to the financial statements are an integral part of this statement

Department of Defense
 Defense Contract Audit Agency
 CONSOLIDATED STATEMENT OF NET COST
 (Amounts in Thousands)
 As of September 30,

	2017	2016
Program Costs:		
Gross Costs	\$ <u>635,243</u>	\$ <u>632,863</u>
(Less: Earned Revenue)	<u>(32,278)</u>	<u>(26,914)</u>
Net Program Costs	602,965	605,949
Net Cost of Operations	\$ <u><u>602,965</u></u>	\$ <u><u>605,949</u></u>

The accompanying notes to the financial statements are an integral part of this statement

Department of Defense
 Defense Contract Audit Agency
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 (Amounts in Thousands)
 As of September 30,

	2017	2016
Cumulative Results of Operations:		
Beginning Balances	\$ (42,062)	\$ (62,312)
Beginning Balances, as adjusted	(42,062)	(62,312)
Budgetary Financing Sources:		
Appropriations used	580,828	577,008
Nonexchange revenue	1	1
Transfers-in/out without reimbursement	-	20,000
Other Financing Sources:		
Imputed Financing from costs absorbed by others	22,570	29,189
Other	-	1
Total Financing Sources	603,399	626,199
Net Cost of Operations	602,965	605,949
Net Change	434	20,250
Cumulative Results of Operations	\$ (41,628)	\$ (42,062)
 Unexpended Appropriations:		
Beginning Balances	\$ 57,400	\$ 68,570
Beginning Balances, as adjusted	57,400	68,570
Budgetary Financing Sources:		
Appropriations received	630,493	571,504
Appropriations transferred - in/out	-	-
Other Adjustments (rescissions, etc.)	(7,659)	(5,666)
Appropriations used	(580,828)	(577,008)
Total Budgetary Financing Sources	42,006	(11,170)
Unexpended Appropriations	99,406	57,400
Net Position	\$ 57,778	\$ 15,338

Department of Defense
Defense Contract Audit Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
(Amounts in Thousands)
As of September 30,

	2017	2016
Budgetary Resources:		
Unobligated balance, brought forward, October 1, as adjusted	\$ 29,258	\$ 24,124
Recoveries of prior year unpaid obligations	9,920	8,420
Other changes in unobligated balance	(7,659)	14,335
Unobligated balance from prior year budget authority, net	31,519	46,879
Appropriations (discretionary and mandatory)	630,493	571,504
Spending Authority from offsetting collections	32,279	26,914
Total Budgetary Resources	\$ 694,291	\$ 645,297
Status of Budgetary Resources:		
Obligations incurred	\$ 654,867	\$ 616,038
Unobligated balances, end of year		
Apportioned	8,198	3,101
Unapportioned	31,226	26,158
Total unobligated balance, end of year	39,424	29,259
Total Budgetary Resources:	\$ 694,291	\$ 645,297
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1 (gross)	\$ 69,868	\$ 67,229
Less: Uncollected customer payments from Federal sources brought forward, October 1	(3,840)	(5,903)
Obligated balance start of year (net), before adjustments	66,028	61,326
Obligated balance start of year (net), as adjusted	66,028	61,326
Obligations incurred	654,867	616,038
Outlays (gross)	(604,184)	(604,980)
Change in uncollected customer payments from Federal sources	(1,265)	2,063
Recoveries of prior year unpaid obligations	(9,920)	(6,420)
Obligated balance, end of year		
Unpaid obligations, end of year (gross)	110,630	69,867
Less: Uncollected customer payments from Federal sources	(5,105)	(3,840)
Obligated balance, net, end of period	\$ 105,525	\$ 66,027
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	\$ 662,771	\$ 598,718
Actual offsetting collections (discretionary and mandatory)	(31,013)	(28,976)
Change to uncollected customer payments from Federal sources (discretionary and mandatory)	(1,265)	2,063
Budget Authority, net (discretionary and mandatory)	630,493	571,805
Outlays, gross (discretionary and mandatory)	604,184	604,980
Actual offsetting collections (discretionary and mandatory)	(31,013)	(28,976)
Outlays, net (discretionary and mandatory)	573,171	576,004
Agency Outlays, net (discretionary and mandatory)	\$ 573,171	\$ 576,004

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Defense Contract Audit Agency (DCAA) is an agency of the U.S. Department of Defense (DoD). Before the establishment of DCAA, various branches of the U.S. Military had their own audit functions. There was recognition of the need for uniformity. Created in 1965 by the Secretary of Defense Robert S. McNamara, DCAA was established to provide standardized contract audit services as well as accounting and financial advisory services to the DoD contracting officers and other customers. DCAA's primary customers are contracting officers in the Military Services.

B. Organization and Structure of DCAA

DCAA is organized into four major components - The Director's Office, Four Regions including Field Detachments, Four Corporate Audit Directorates, and the Headquarters:

- The Director's Office
- Regions:
 - Eastern Region
 - Central Region
 - Western Region
 - Field Detachment
- Corporate Audit Directorates:
 - Northrup Grumman
 - Boeing and Honeywell
 - Raytheon, General Dynamics and BAE Systems
 - Lockheed Martin
- Headquarters:
 - Fort Belvoir, Virginia

The Headquarters houses the offices of the Director; Deputy Director; General Counsel; Chief of Staff; Inspector General; and the following Assistant Directors:

- Operations
- Human Capital & Resource Management
- Policy and Plans
- Integrity and Quality Assurance

The staff is responsible for the overall management of DCAA's operations, development, and implementation of policy and the allocation, management, and accounting for the Agency's resources. The Field Detachment is responsible for audits of contracts related to sensitive compartmentalized information and special access programs. Each Regional Office and the Field Detachment houses a Regional Director; Deputy Regional Director; Regional Audit Managers; Regional Special Programs Manager; and Regional Resources Manager. The Regions direct and administer the audit mission for the particular geographic region. The region manages the personnel and other resources assigned there.

C. Basis of Accounting and Presentation

The financial statements have been prepared to report the financial position, net cost, changes in net position and budgetary resources as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other applicable legislation. These financial statements have been prepared from the books and records of DCAA in accordance with generally accepted accounting principles (GAAP) and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. Currently, DCAA is unable to implement fully all elements of GAAP and the OMB Circular A-133, due to limitations of its financial and nonfinancial management processes and systems that support the financial statements. DCAA derives reported values and information for major asset and liability categories, largely from nonfinancial systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with US GAAP. DCAA continues to implement improvements in its processes and systems to address these limitations. DCAA's management makes certain estimates and assumptions in order to prepare the financial statements in accordance with GAAP that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. DCAA has presented comparative FY 2017 financial statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and Statement of Budgetary Resources. Throughout the financial statements and notes, certain assets, liabilities, earned revenue and costs have been classified as intragovernmental.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual based transaction. DCAA's financial management systems are unable to meet all of the requirements for full accrual accounting. Transactions are recorded using financial (accrual) and budgetary bases of accounting. Financial accounting supports accrual accounting and financial reporting by accounting for assets, liabilities, net position, revenues and expenses to show actual financial position and net cost of operations. Until all of the financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, DCAA's financial data will be derived from budgetary and proprietary transactions from nonfinancial feeder systems and accruals made for major items such as payroll expenses, accounts payable and Federal Compensation Act Liability.

D. Accounting for Intragovernmental Activities

Throughout the financial statements and notes, certain assets, liabilities, earned revenue and costs have been classified as intragovernmental, which is defined as exchange transactions made between two reporting entities within the Federal government. The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policies Guide" and Treasury Financial Manual Part 2 – Chapter 4700 "Agency Reporting Requirements for the Financial Report of the United States Government" – provide guidance for reporting and reconciling intragovernmental balances. While DCAA is unable to fully reconcile intragovernmental transactions with all of its non-DoD Federal Agencies, DCAA is able to reconcile balances pertaining to

Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

E. Fund Balance with Treasury

DoD maintains all cash accounts with the U.S. Department of Treasury (hereafter, Treasury). Treasury processes cash receipts and disbursements on behalf of DoD and DoD's accounting records are reconciled with those of Treasury on a monthly basis. DCAA receives its spending authorizations as allotments from DoD appropriations. DoD reconciles Fund Balance with Treasury at the agency-wide level. As such, what is presented on DCAA's balance sheet is not reconcilable with account balances maintained by Treasury.

F. Accounts Receivable

Accounts receivable consists of amounts owed to DCAA by other Federal Agencies and the public. As presented in the Balance Sheet, accounts receivable includes three categories: accounts, claims and refunds receivable from other federal entities and the public. Federal accounts receivable arise generally from the provision of services to other Federal agencies, and, with the exception of occasional billing disputes, are considered to be fully collectible. DCAA does not recognize an allowance for estimated uncollectible amounts from other Federal agencies. Claims against Federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual. DCAA establishes an allowance for uncollectible accounts due from the public by determining the established percentage of debts based on the age of the receivable.

G. General Property, Plant and Equipment

General purpose property, plant and equipment (hereafter, PP&E) consists of buildings, structures and facilities used for general operations; capital leases and leasehold improvements. DCAA's PP&E threshold is \$100 thousand except for real property, which is \$20,000. DCAA does not have any real property and is using the capitalization threshold of \$100 thousand for all General PP&E. General PP&E assets are capitalized at historical acquisition costs when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD's capitalization threshold. DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the DoD capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. DoD depreciates all General PP&E, other than land, on a straight-line basis.

H. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of the prepayment and recognized as expenditures/operating expenses when the related goods and services are delivered/rendered.

I. Lease Agreements

FASAB guidance on leases is covered in SFFAS No. 5, *Accounting for Liabilities of the Federal Government* and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. Capital leases are leases that transfer substantially all of the benefits and risks of ownership to the lessee. If a lease meets one or more of the following criteria – it is classified as a capital lease: 1) the lease transfers ownership of the property to the lessee by the end of the lease term; 2) the lease contains an option to purchase the leased property at a

bargain price; 3) the lease term is equal to or greater than 75 percent of the estimated economic life of the leased property; and 4) the present value of rental and other minimum lease payments, excluding the portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property. DCAA does not have any capital leases. Leases that do not meet the criteria for capital leases are classified as operating leases and recorded as expenses as payments are made over the lease term. DCAA has operating leases on office space that expire at various times. The lease terms depend upon the individual contracts and locations.

J. Other Assets

Other assets represent payments of salary and travel advances made to civilian employees to defray anticipated business expenses while on official travel.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by DCAA as the result of a transaction or event that has already occurred. No liability can be paid by DCAA without an appropriation of funds. Liabilities for which an appropriation has not been enacted are therefore disclosed as liabilities not covered by budgetary resources or unfunded liabilities. The liquidation of liabilities not covered by budgetary or other resources is dependent on future appropriations or other funding.

Accrued Leave

Civilian annual leave, compensatory time and credit hours are accrued as earned and the unfunded liability for the accrued amounts is reduced as leave is taken. The balance for these unfunded liabilities on September 30, 2017 reflects current pay rates for the leave that is earned but not taken. Sick and other types of non-vested leave are expensed as taken.

Contingent Liabilities

Contingent Liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty, because they depend on the outcome of future events as defined by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. The uncertainty will be resolved when one or more future events occur or fail to occur. DCAA recognizes contingent liabilities on an annual basis when the liability is probable and reasonably estimable. DCAA discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met and when the outcome likelihood of future events is more than remote.

L. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include the amount of unobligated allotments which have not been rescinded or withdrawn and amounts obligated but for which liabilities for payments had not been incurred at the end of the year. Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains).

M. Unexpended Obligations

DCAA obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not delivered. Unexpended obligations include both obligations for which goods and services have been

delivered (title passed) and a liability is recognized, and obligations for which no delivery has occurred and no liability is recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources and is referred to as “Total, unpaid obligated balance, net, end of period”.

N. Revenues and other Financing Sources

Congress appropriates the majority of DCAA’s operating funds from the general receipts of the Treasury. These funds are made available to DCAA for a specified time period (one or more fiscal years) or until expended. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of services to other Federal agencies on a reimbursable basis. Appropriations are reflected as a financing source entitled “Appropriations Used” on the Statement of Changes in Net Position once goods or services have been received. Appropriations are reported as apportioned on the Statement of Budgetary Resources when authorized by legislation. DCAA recognizes revenue as a result of costs incurred or services performed on behalf of other Federal agencies and the public. Full cost pricing is DCAA’s standard policy for services provided as required by the OMB Circular A-25, Transmittal Memorandum #1, *User Charges*. Under the reimbursable order process, DCAA recognizes revenue when earned.

O. Recognition of Expenses

For financial statement purposes, DoD requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on a full accrual accounting basis. Accruals are made for major items such as payroll expenses, accounts payable and unbilled revenue.

P. Management’s Use of Estimates

DCAA, in conformity with GAAP, has made certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. Actual results could differ from these estimates.

NOTE 2 ASSETS

Assets of DCAA include entity assets and nonentity assets. Entity assets are those available for use by DCAA. Nonentity assets are held by DCAA but are not available for use in its operations. Entity assets include accounts receivable, general PP&E, and other assets and balances with Treasury comprised of appropriated funds and cash collected for reimbursable audit work.

As of September 30, (Amounts in thousands)	2017			2016
	Nonentity	Entity	Total	Total
Intragovernmental Assets:				
Fund Balance with Treasury	\$ -	\$ 144,949	\$ 144,949	\$ 95,286
Accounts Receivable	-	5,106	5,106	3,840
Total Intragovernmental	\$ -	\$ 150,055	\$ 150,055	\$ 99,126
Nonfederal Assets:				
Accounts Receivable, Net	\$ -	\$ 170	\$ 170	\$ 198
General PP&E, Net	-	-	-	-
Other Assets	-	108	108	2,578
Total Nonfederal Assets	\$ -	\$ 278	\$ 278	\$ 2,776
Total Assets	\$ -	\$ 150,333	\$ 150,333	\$ 101,902

NOTE 3 FUND BALANCE WITH TREASURY

The United States Treasury performs cash management activities for Federal agencies. Treasury maintains and reports fund balances at the Treasury Index appropriation level. DCAA is included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, Treasury does not separately report an amount for DCAA. Instead, the entire DCAA Fund Balance with Treasury amount of \$144.9 million is reflected as a reconciling amount.

As of September 30, (Amounts in thousands)	2017	2016
Fund Balance:		
Appropriated Funds	\$ 144,949	\$ 95,286
Total Fund Balance	\$ 144,949	\$ 95,286
Fund Balance Per Treasury Versus Agency:		
Fund Balance per Treasury	\$ -	\$ -
Fund Balance per DCAA	144,949	95,286
Reconciling Amount	\$ (144,949)	\$ (95,286)

NOTE 4 STATUS OF FUND BALANCE WITH TREASURY

The “Status of the Fund Balance with Treasury” may be classified as unobligated available, unobligated unavailable and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance also includes amounts appropriated in prior fiscal years, which are not available to fund new obligations. The obligated but not yet disbursed balance represents amounts designated for payment of goods and services ordered but not yet received; or goods and services received, but for which payment has not yet been made.

Non-Fund Balance with Treasury Budgetary Accounts reduce the Status of Fund Balance with Treasury, such as unfilled orders without advance from customers. The amount shown as non-Fund Balance with Treasury Budgetary Accounts on the chart below, \$5.1 million, represents reimbursement earned but not collected on September 30, 2017.

As of September 30, (Amounts in thousands)	<u>2017</u>	<u>2016</u>
Unobligated Balance:		
Available	\$ 8,198	\$ 3,101
Unavailable	31,226	26,158
Obligated Balance not yet Disbursed	\$ 110,630	\$ 69,867
Non FBWT Budgetary Accounts	\$ (5,105)	\$ (3,840)
Total	\$ <u>144,949</u>	\$ <u>95,286</u>

NOTE 5 ACCOUNTS RECEIVABLE

As of September 30, (Amounts in thousands)	<u>2017</u>			<u>2016</u>
	<u>Gross Amount Due</u>	<u>Allowance for Estimated Uncollectibles</u>	<u>Accounts Receivable Net</u>	<u>Accounts Receivable Net</u>
Intragovernmental Receivables	\$ 5,106	\$ N/A	\$ 5,106	\$ 3,840
Nonfederal Receivables (From Public)	<u>179</u>	<u>(9)</u>	<u>170</u>	<u>198</u>
Total Accounts Receivable	\$ <u>5,285</u>	\$ <u>(9)</u>	\$ <u>5,276</u>	\$ <u>4,038</u>

NOTE 6 GENERAL PROPERTY PLANT AND EQUIPMENT

As of September 30, (Amounts in thousands)	<u>2017</u>			<u>2016</u>
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Prior FY Net Book Value</u>
General Equipment	\$ 124	\$ (124)	\$ -	\$ -
Total General PP&E	\$ <u>124</u>	\$ <u>(124)</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 7 LIABILITIES ANALYSIS

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which Congressional action is needed before budgetary resources can be provided.

As of September 30,	2017			2016	
(Amounts in thousands)	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	Total	
Intragovernmental Liabilities					
Accounts Payable	\$ 6,886	\$ -	\$ 6,886	\$	2,196
Other	3,384	4,096	7,480		7,542
Total Intragovernmental Liabilities	\$ 10,270	\$ 4,096	\$ 14,366	\$	9,738
Nonfederal Liabilities					
Accounts Payable	\$ 5,488	\$ -	\$ 5,488	\$	4,292
Other Federal					
Employment Benefits	-	17,538	17,538		18,382
Other Liabilities	16,583	38,580	55,163		54,151
Total Nonfederal Liabilities	22,071	56,118	78,189		76,825
Total Liabilities	\$ 32,341	\$ 60,214	\$ 92,555	\$	86,563

Federal Employee Compensation Act (FECA)

The Federal Employees' Compensation Act (FECA), 5 USC Chapter 81, provides compensation benefits to Federal employees for work-related injuries or illnesses and to their surviving dependents if a work-related injury or illness results in the employee's death. The FECA is administered by the Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP). The 12 OWCP district offices adjudicate the claims and pay benefits, and the costs of those benefits are charged back to the employing agency. The actuarial liability for workers' compensation benefits is developed by DOL and is provided to DCAA at the end of each fiscal year. The liability includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined by using historical benefit payment patterns to predict future payments. Cost-of Living adjustments and medical inflation factors are also included in the calculation of projected future benefits. Consistent with past practice and as allowed under U.S. generally accepted accounting principles, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

To provide more specifically for the effects of inflation on the liability for future worker's compensation benefits, wage inflation factors (cost of living allowance or COLA) and medical inflation factors (consumer price index-medical or CPI-Med) are applied to the calculation of projected future benefits. These factors are also used to adjust the historical payments to current year constant dollars. The liability is determined assuming an annual payment at mid-year.

NOTE 7 LIABILITIES ANALYSIS – (continued)

The compensation COLA and the CPI-Med used in the model’s calculation of estimates were as follows:

<u>FY</u>	<u>COLA</u>	<u>CPI-Med</u>
2018	1.33%	3.09%
2019	1.43%	3.39%
2020+	1.65%	3.69%

The medical inflation rates presented represent an average of published quarterly rates covering the benefit payment fiscal year. The compensation factors presented are the blended rates used by the model rather than the published 2017, FECA-COLA factor from which the blended rates are derived.

NOTE 8 OTHER LIABILITIES

As of September 30, (Amounts in thousands)	2017			2016
	<u>Current Liability</u>	<u>Noncurrent Liability</u>	<u>Total</u>	<u>Total</u>
Intragovernmental Assets:				
FECA Reimbursement to the Department of Labor	\$ 1,877	\$ 2,085	\$ 3,962	\$ 4,157
Judgement Fund Liabilities	55	-	55	141
Custodial Liabilities	79	-	79	-
Other Liabilities	<u>3,384</u>	<u>-</u>	<u>3,384</u>	<u>3,244</u>
Total Intragovernmental Other Liabilities	<u>5,395</u>	<u>2,085</u>	<u>7,480</u>	<u>7,542</u>
Nonfederal				
Accrued Funded Payroll and Benefits	\$ 16,583	\$ -	\$ 16,583	\$ 16,031
Accrued Unfunded Annual Leave	38,579	-	38,579	38,120
Total Nonfederal Other Liabilities	<u>55,162</u>	<u>-</u>	<u>55,162</u>	<u>54,151</u>
Total Other Liabilities	<u>\$ 60,557</u>	<u>\$ 2,085</u>	<u>\$ 62,642</u>	<u>\$ 61,693</u>

NOTE 9 STATEMENT OF NET COST

The Statement of Net Cost reports DCAA's gross and net costs by its two major service areas - forward pricing and incurred cost audits and other work. The presentation of the two major product lines correlates to DCAA's performance standards and stretch goals as set forth in DCAA Director's Performance Plan with the DoD Comptroller.

As of September 30, (Amounts in thousands)	<u>2017</u>	<u>2016</u>
Intragovernmental Costs	\$ 192,758	\$ 188,623
Public Costs	<u>441,670</u>	<u>442,425</u>
Total Costs	\$ <u>634,428</u>	\$ <u>631,048</u>
Intragovernmental Earned Revenue	\$ (32,278)	\$ (26,914)
Public Earned Revenue	<u>-</u>	<u>-</u>
Total Earned Revenue	\$ <u>(32,278)</u>	\$ <u>(26,914)</u>
Net Cost of Operations	\$ <u>602,150</u>	\$ <u>604,134</u>

The intent of the Statement of Net Cost is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenue are exchange transactions made between the reporting entity and a nonfederal entity. DCAA is able to compare its trading partners within the Department of Defense and disclose any material differences identified. The amounts presented on the Statement of Net Cost are based on budgetary obligations, accruals, and collection and disbursement transactions. The information presented also includes data from non-financial feeder systems to capture payroll expenses.

NOTE 10 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into U.S. generally accepted accounting principles for the Federal Government.

The Statement of Budgetary Resources is prepared at the DoD Component level and is a summarization of the individual appropriation account level SF 133s. In May 2012 - new guidance was issued regarding the format of the Statement of Budgetary Resources.

The net amount of budgetary resources obligated for undelivered orders as of September 30, 2017 and 2016 is (\$31.8) and (\$3.7) million, respectively.

Other disclosures

Intra-entity transactions have not been eliminated because the statements are presented as combined.

NOTE 11 RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30, (Amounts in thousands)	2017	2016
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$ 654,866	\$ 616,038
Less: Spending authority from offsetting collections and recoveries	(42,198)	(35,333)
Net Obligations	\$ 612,668	\$ 580,705
Other Resources		
Imputed financing from costs absorbed by others	\$ 22,569	\$ 29,188
Net other resources used to finance activities	\$ 22,569	\$ 29,188
Total Resources used to finance activities	\$ 635,237	\$ 609,893
Resources Used to Finance Items not Part of the Net Cost of Operations		
Cost of Operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided:		
Undelivered Orders	\$ (31,840)	\$ (3,695)
Unfilled Customer Orders	-	-
Resources that fund expenses recognized in prior periods	(1,038)	(1,481)
Other resources or adjustments	1	-
Total resources used to finance items not part of the Net Cost of Operations	(32,877)	(5,176)
Total resources used to finance Net Cost of Operations	\$ 602,360	\$ 604,717
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Increase in annual leave liability	\$ 459	\$ -
Increase in exchange revenue	43	-
Other	\$ 39	\$ 1,277
Total components of the Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 541	\$ 1,277
Components not Requiring Generating Resources		
Other	\$ 63	\$ (46)
Total components not Requiring Generating Resources	63	(46)
Net Cost of Operations	\$ 602,964	\$ 605,948

Due to DoD financial system limitations, DCAA's budgetary data is not in agreement with proprietary expenses. These differences between budgetary and proprietary data are a previously identified deficiency for DoD. The schedule lines are presented as combined instead of consolidated due to intra-agency budgetary transactions not being eliminated:

NOTE 11 RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET – (continued)

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

NOTE 12 LEASES

The DCAA leases real property under operating leases. These leases expire in various years. Minimum rental payments under operating leases having remaining terms in excess of one year as of September 30, 2017 for each of the next 5 years in aggregate are as follows (amounts in thousands):

Year Ended September 30	Operating Lease Amounts
2018	\$ 19,480
2019	17,907
2020	16,039
2021	14,376
2022	13,001
2023 and thereafter	44,054
<u>Total Minimum Lease Payments</u>	<u>\$ 124,857</u>

Amounts reported as of September 30, 2017 for operating lease future payments represent amounts gathered from lease occupancy agreements.

NOTE 13 EVALUATION OF SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through November 7, 2017, the date on which the financial statements are available to be issued.