
Defense Contract Audit Agency

Financial Statements
and Independent
Auditor's Report

For the Years Ended
September 30, 2020, and 2019

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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, 2020, and 2019, and the related Statement of Net Cost, Statement of Changes in Net Position and Combined Statement of Budgetary Resources for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 19-03 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 basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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, 2020, and 2019, and its net costs, changes in net position and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136 (Revised), Financial Reporting Requirements, DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of the Department of Defense Audited Financial Statements," and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise DCAA's basic financial statements. The information other than that described in the first paragraph and the paragraph labeled Required Supplementary Information are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards and OMB Bulletin No. 19-03, we are issuing a combined report on the basic financial statements, the report on internal control over financial reporting and the report on compliance with laws, regulations, contracts, and grant agreements and other matters that are required to be reported under Government Auditing Standards. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and OMB Bulletin No. 19-03 in considering DCAA's internal control and compliance and should be read in conjunction with this report in considering the results of our audit of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements as of and for the year ended September 30, 2020 we also considered DCAA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion of the effectiveness of DCAA's internal control. Accordingly, we do not express an opinion on the effectiveness of DCAA's internal control.

We did not consider all internal controls relevant to operating objectives as broadly defined in the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether DCAA's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 19-03.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which DCAA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section 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 Agency's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

Davis & Associates

Columbia, Maryland
November 1, 2020

PRINCIPAL FINANCIAL STATEMENTS

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

	<u>2020</u>	<u>2019</u>
Assets (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 96,318	\$ 96,244
Accounts Receivable (Note 6)	<u>12,162</u>	<u>5,657</u>
Total Intragovernmental Assets	\$ 108,480	\$ 101,901
Accounts Receivable, net (Note 6)	\$ 261	\$ 202
Other Assets (Note 10)	<u>51</u>	<u>54</u>
Total Assets	<u>\$ 108,792</u>	<u>\$ 102,157</u>
 Liabilities (Note 11)		
Intragovernmental		
Accounts payable	\$ 2,686	\$ 785
Other Liabilities (Notes 15 and 17)	<u>10,533</u>	<u>10,485</u>
Total Intragovernmental Liabilities	\$ 13,219	\$ 11,270
Accounts Payable	\$ 3,520	\$ 2,363
Military Retirement and Other Federal Employment Benefits (Note 13)	23,679	24,585
Other Liabilities (Notes 15 and 17)	<u>67,784</u>	<u>58,449</u>
Total Liabilities	<u>\$ 108,202</u>	<u>\$ 96,667</u>
 Net Position:		
Unexpended Appropriations	\$ 63,082	\$ 58,140
Cumulative Results of Operations	<u>(62,492)</u>	<u>(52,650)</u>
Total Net Position	<u>\$ 590</u>	<u>\$ 5,490</u>
Total Liabilities and Net Position	<u>\$ 108,792</u>	<u>\$ 102,157</u>

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

	<u>2020</u>	<u>2019</u>
Program Costs:		
Gross Costs	\$ <u>687,164</u>	\$ <u>687,164</u>
(Less: Earned Revenue)	<u>(39,430)</u>	<u>(36,132)</u>
Net Program Costs	647,734	651,032
 Net Cost of Operations	 <u>\$ 647,734</u>	 <u>\$ 651,032</u>

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

	2020	2019
Unexpended Appropriations		
Beginning Balances (includes Funds from Dedicated Collections - See Note 18)	\$ 58,140	\$ 51,322
Beginning Balances, as adjusted	58,140	51,322
 Budgetary Financing Sources:		
Appropriations received	\$ 623,002	\$ 623,877
Appropriations transferred-in/out	-	(508)
Other adjustments (+/-)	(3,589)	(11,279)
Appropriations used	(614,471)	(605,272)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	4,942	6,818
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	\$ 63,082	\$ 58,140
 CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ (52,650)	\$ (45,055)
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	(52,650)	(45,055)
 Budgetary Financing Sources:		
Other adjustments (+/-)	(6,705)	(39)
Appropriations used	614,471	605,272
Other Financing Sources:		
Imputed financing from costs absorbed by others	29,207	38,205
Other (+/-)	1	(1)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	636,974	643,437
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	646,816	651,032
Net Change	(9,842)	(7,595)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	(62,492)	(52,650)
Net Position	\$ 590	\$ 5,490

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

	<u>2020</u>	<u>2019</u>
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	\$ 38,160	\$ 46,032
Appropriations (discretionary and mandatory)	623,002	623,369
Spending Authority from offsetting collections (discretionary and mandatory)	40,093	36,132
Total Budgetary Resources	<u>\$ 701,255</u>	<u>\$ 705,533</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 684,493	\$ 684,757
Unobligated balances, end of year:		
Apportioned, unexpired accounts	2,875	5,152
Unapportioned, unexpired accounts	945	-
Unexpired unobligated balance, end of year	3,820	5,152
Expired unobligated balance, end of year	<u>12,942</u>	<u>15,624</u>
Unobligated balance, end of year (total)	<u>16,762</u>	<u>20,776</u>
Total Budgetary Resources:	<u>\$ 701,255</u>	<u>\$ 705,533</u>
Outlays, net		
Outlays, net (discretionary and mandatory)	<u>612,635</u>	<u>600,537</u>
Agency Outlays, net (discretionary and mandatory)	<u>\$ 612,635</u>	<u>\$ 600,537</u>

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity

The Defense Contract Audit Agency (DCAA) is an agency of the U.S. Department of Defense (DoD).

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.

1.B. Basis of Presentation and Accounting

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. DCAA has presented comparative FY 2020 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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. 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.

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.

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."

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.

1.C. Mission of the Reporting Entity

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.

1.D. Use of Estimates

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. 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. Accordingly, actual results could differ from those estimates.

1.E. 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.

1.F. Revenues and Other Financing Sources

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.

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.

1.G. 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.

1.H. Transactions with Foreign Governments and International Organizations

DCAA does not provide services to foreign governments or international organizations.

1.I. Entity and Non-entity Assets

Entity assets consist of resources that DCAA has the authority to use or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets for which DCAA maintains stewardship, accountability, and responsibility to report, but are not available for DCAA operations. Entity assets

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

include accounts receivable, general PP&E, and other assets and balances with Treasury comprised of appropriated funds and cash collected for reimbursable audit work.

1.J. 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.

1.K. Cash and Other Monetary Assets

This is not applicable to DCAA.

1.L. 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.

1.M. Inventory and Related Property

DCAA does not have any inventory or related property.

1.N. Investments and Related Interest

DCAA does not have any investments in US Treasuries or Securities.

1.O. 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.

1.P. Stewardship Property, Plant and Equipment

DCAA does not have any stewardship property, plant and equipment.

1.Q. 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.

1.R. Leases

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* and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. 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.

1.S. Other Assets

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

1.T. Environmental and Other 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.

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.

1.U. 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, 2020 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.

1.V. 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).

1.W. Treaties for Use of Foreign Bases

This is not applicable to DCAA.

1.X. Funds from Dedicated Collections

This is not applicable to DCAA.

1.Y. Fiduciary Activities

This is not applicable to DCAA.

1.Z. Military Retirement and Other Federal Employment Benefits

The actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and is provided to the Department of Defense at the end of each fiscal year. Please refer to Note 17 - *Military Retirement and Other Federal Employment Benefits*.

NOTE 2 NONENTITY ASSETS

Assets of DCAA include entity assets and nonentity assets. Entity assets consist of resources that DCAA has the authority to use or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets for which DCAA maintains stewardship, accountability, and responsibility to report, but are not available for DCAA 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)	2020			2019
	Nonentity	Entity	Total	Total
Intragovernmental Assets:				
Fund Balance with Treasury	\$ -	\$ 96,318	\$ 96,318	\$ 96,244
Accounts Receivable	-	12,162	12,162	5,657
Total Intragovernmental	\$ -	\$ 108,480	\$ 108,480	\$ 101,901
Nonfederal Assets:				
Accounts Receivable, Net	\$ 63	\$ 198	\$ 261	\$ 202
General PP&E, Net	-	-	-	-
Other Assets	-	51	51	54
Total Nonfederal Assets	\$ 63	\$ 249	\$ 312	\$ 256
Total Assets	\$ 63	\$ 108,729	\$ 108,792	\$ 102,157

NOTE 3 FUND BALANCE WITH TREASURY

The United States Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include DCAA, are included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the United States Treasury does not separately report an amount for DCAA; therefore, the entire DCAA Fund Balance with Treasury (FBWT) amount of \$96.3 million is reflected as a reconciling amount.

As of September 30, (Amounts in thousands)	2020	2019
Unobligated Balance:		
Available	\$ 2,875	\$ 5,152
Unavailable	13,887	15,624
Total Unobligated Balance	\$ 16,762	\$ 20,776
Obligated Balance not yet Disbursed	\$ 92,318	\$ 81,060
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without advance	\$ (663)	\$ -
Receivables and Other	(12,099)	(5,593)
Total Non-FBWT	\$ (12,762)	\$ (5,593)
Budgetary Accounts	\$ (12,762)	\$ (5,593)
Total FBWT	\$ 96,318	\$ 96,243

Relevant Information

The Status of FBWT reflects the budgetary resources to support the FBWT.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year-end that remain available only for obligation adjustments until the account is closed.

Obligated Balance not yet disbursed represents funds that have been obligated for goods and services not received and those received but not paid.

Non-budgetary FBWT includes accounts that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

Non-FBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT, such as accounts receivable and unfilled orders without advance from customers. This category reduces the Status of FBWT. The amount shown as Non-FBWT Budgetary Accounts on the chart above, \$12 million, represents intragovernmental receivables as of September 30, 2020.

NOTE 4 CASH AND MONETARY ASSETS

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 5 INVESTMENTS AND RELATED INTEREST

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 6 ACCOUNTS RECEIVABLE, NET

As of September 30,	2020		2019	
(Amounts in thousands)	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable Net	Accounts Receivable Net
Intragovernmental Receivables	\$ 12,163	\$ N/A	\$ 12,163	\$ 5,657
Nonfederal Receivables (From Public)	260	-	260	202
Total Accounts Receivable	\$ 12,423	\$ -	\$ 12,423	\$ 5,859

Relevant Information

Intragovernmental receivables represent those receivables between DCAA and other federal agencies. DCAA performs, on a reimbursable basis, contract audit services for most of the other Federal Agencies, currently about 40 entities. The category, non-federal accounts receivable, consists of employee debts generating from their election to have their portion of Federal Employment Health Benefits paid by DCAA while in a leave without pay status. It may include debts that are delinquent. The Defense Finance and Accounting Service is performing ongoing research to reconcile repayments with outstanding balances. Once the delinquent debt

is identified, it is aged, and collection procedures are initiated. Resolution action on all delinquent accounts receivable is an ongoing process.

NOTE 7 DIRECT LOAN AND LOAN GUARANTEES, NONFEDERAL BORROWERS

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA’s financial statements.

NOTE 8 INVENTORY AND RELATED PROPERTY, NET

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA’s financial statements.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT NET

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA’s financial statements.

NOTE 10 OTHER ASSETS

As of September 30, (Amounts in thousands)	<u>2020</u>	<u>2019</u>
Non-federal Other Assets		
Advances and Prepayments	\$ <u>51</u>	\$ <u>54</u>
Total Other Assets	\$ <u><u>51</u></u>	\$ <u><u>54</u></u>

DCAA reported \$51,109 of other assets (with the public.) These other assets are comprised of travel advances, salary advances and advances of overseas allowances to DCAA employees.

NOTE 11 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities covered by budgetary resources are liabilities incurred by the reporting entity, which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided.

As of September 30, (Amounts in thousands)	2020			2019
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	Total
Intragovernmental Liabilities				
Other	\$ -	\$ 5,483	\$ 5,483	\$ 6,666
Total Intragovernmental Liabilities	\$ -	\$ 5,483	\$ 5,483	\$ 6,666
Nonfederal Liabilities				
Accounts Payable	\$ -	\$ 1,588	\$ 1,588	\$ 1,588
Other Federal				
Employment Benefits	-	23,679	23,679	24,585
Other Liabilities	33,219	44,232	77,451	63,828
Total Nonfederal Liabilities	33,219	69,499	102,718	90,001
Total Liabilities	\$ 33,219	\$ 74,982	\$ 108,201	\$ 96,667

Intragovernmental Liabilities - Other: DCAA reported \$5.5 million in intragovernmental liabilities not covered by budgetary resources as of September 30, 2020. This is the unfunded portion of the Federal Employee's Compensation Act liability.

Nonfederal Liabilities - Other Liabilities: DCAA reported \$44.2 million in nonfederal other liabilities not covered by budgetary resources. This is the unfunded liability for annual leave, compensatory time, and credit hours earned but not taken as of September 30, 2020. These liabilities are related to a future event and therefore, are not covered by budgetary resources.

Military Retirement and Other Federal Employment Benefits: DCAA reported \$23.7 million not covered by budgetary resources. These are comprised of various employee actuarial liabilities not due and payable during the current fiscal year. Refer to Note 13, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

NOTE 12 DEBT

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 13 MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30, (Amounts in thousands)	2020			2019
	Liabilities	Assets Available to Pay Benefits	Unfunded Liability	Total
Other Benefits				
FECA	\$ 23,679	\$ -	\$ 23,679	\$ 24,585
Total Other Benefits	23,679	-	23,679	24,585
Total Military Retirement and Other Federal Employment Benefits	\$ 23,679	\$ -	\$ 23,679	\$ 24,585

Federal Employee's Compensation

The actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and is provided to the Department of Defense at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL selected the Cost-of-living adjustments (COLAs) factors, Consumer price index-medical (CPIM) factors, and discount

rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years for FY 2020 and FY 2019, respectively, using averaging renders estimates that reflect historical trends over five years. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of Income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2020 and FY 2019, respectively. Interest rate assumptions utilized for FY 2020 discounting were as follows:

Discount Rates

For wage benefits: Year 1+ 4.223%
 For medical benefits: Year 2+ 4.715%

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors, COLAs, and medical inflation factors {consumer price index-medical, or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the chargeback year (CBY) 2020 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAS and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2020	N/A	N/A
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024	2.21%	3.88%

To test the reliability of the model, comparisons were made between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. The model has been stable and has projected the actual payments by agency well. The estimated actuarial liability is updated only at the end of each fiscal year.

Other Disclosures

Military retirement benefits and other employment-related actuarial liabilities - Other benefits: DCAA reported \$23.7 million in unfunded Actuarial FECA Liability as of September 30, 2020.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 15 OTHER LIABILITIES

As of September 30,	2020			2019
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
Intragovernmental Assets:				
FECA Reimbursement to the Department of Labor	\$ 3,192	\$ 2,291	\$ 5,483	\$ 6,666
Custodial Liabilities	63	-	63	63
Employer Contribution and Payroll Taxes Payable	4,987	-	4,987	3,756
Total Intragovernmental Other Liabilities	8,242	2,291	10,533	10,485
Nonfederal				
Accrued Funded Payroll and Benefits	\$ 16,110	\$ -	\$ 16,110	\$ 13,739
Accrued Unfunded Annual Leave	44,232	-	44,232	39,006
Employer Contributions	7,441	-	7,441	5,704
Total Nonfederal Other Liabilities	\$ 67,783	\$ -	\$ 67,783	\$ 58,449
Total Other Liabilities	\$ 76,025	\$ 2,291	\$ 78,316	\$ 68,934

Federal Employee's Compensation Act (FECA) Reimbursement to the Department of Labor represents liabilities due under the Federal Employee Compensation Act. Billed amounts payable in Fiscal Years 2018 (if applicable) and 2019 and unbilled amounts for both incurred and estimated accrual amounts are included. However, see Refer to Note 13, Military Retirement and Other Federal Employment Benefits, for the estimated FECA actuarial liability.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where DCAA is acting on behalf of another Federal entity.

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

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities. Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to DCAA's eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary.

The life insurance program, Federal Employee Group Life Insurance (FEGLI) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. OPM, as the administrating agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. DCAA has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM. Additional information may be found on OPM's website.

NOTE 16 LEASES

Capital Lease Liability

DCAA utilizes General Service Administration (GSA) leased office space at various locations. These leases expire in various years. Minimum rental payments under operating leases having remaining terms in excess of one year as of September 30, 2020, for each of the next five years in aggregate are as follows (amounts in thousands):

Year Ended September 30 (amounts in thousands)	Operating Lease Amounts
2021	\$ 19,824
2022	19,674
2023	18,839
2024	18,416
2025	17,227
2026 and thereafter	86,531
<u>Total Minimum Lease Payments</u>	<u>\$ 180,511</u>

Amounts reported as of September 30, 2020, for operating lease future payments represent amounts gathered from lease occupancy agreements.

NOTE 17 COMMITMENT AND CONTINGENCIES

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements. DCAA has no Commitments or Contingencies for the period ending September 30, 2020.

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 19 GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

As of September 30, (Amounts in thousands)	<u>2020</u>	<u>2019</u>
Gross Costs	\$ 686,245	\$ 687,164
Intragovernmental Earned Revenue	\$ (39,430)	\$ (36,132)
Public Earned Revenue	-	-
Total Earned Revenue	<u>\$ (39,430)</u>	<u>\$ (36,132)</u>
Net Cost of Operations	<u>\$ 646,815</u>	<u>\$ 651,032</u>

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture, and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is in

the process of reviewing available data and developing a cost reporting methodology as required in the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

Statements of Net Cost presents the annual costs of operating programs. The net cost of each specific program operation equals the program's gross costs less any earned revenue. Gross amount is comprised of personnel payroll, personnel benefits, purchase goods and services, and FECA tax.

Earned revenue are exchange transactions made between DCAA and a nonfederal entity. DCAA is able to compare its revenues with the corresponding balances of its intragovernmental trading partners. The amounts presented in the Consolidated Statement of Net Cost are based on budgetary obligations, accruals, and collection and disbursement transactions.

NOTE 20 DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 21 DISCLOSURES RELATED TO THE 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.

As of September 30, (Amounts in thousands)	<u>2020</u>	<u>2019</u>
Budgetary Resources Obligated for Undelivered Orders		
Intragovernmental:		
Unpaid	\$ 9,242	\$ 8,784
Total Intragovernmental	\$ 9,242	\$ 8,784
Non-Federal		
Unpaid	\$ 49,920	\$ 47,517
Prepaid/Advanced	51	54
Total Resources used to finance activities	\$ 49,971	\$ 47,571
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 59,213	\$ 56,355

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.

Other disclosures

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

NOTE 22 DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 23 FIDUCIARY ACTIVITIES

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 24 RECONCILIATION OF NET COST TO NET OUTLAYS

As of September 30, (Amounts in thousands)	2020			2019
	Intra- governmental	With the public	Total	Total
Net Cost of Operations	\$ 112,147	\$ 534,669	\$ 646,816	\$ 651,032
Component of Net Cost That are Not Part of Net Outlays:				
Property, plant, and equipment depreciation	\$ -	\$ -	\$ -	170
Increase/(decrease) in assets:				
Accounts Receivable	6,506	59	6,565	(7,157)
Other Assets	-	(3)	(3)	(20)
(Increase)/decrease in assets:				
Accounts Payable	(1,901)	(1,157)	(3,058)	4,770
Salaries and benefits	(1,231)	(4,109)	(5,340)	(1,810)
Unfunded FECA, Actuarial FECA	1,183	(4,321)	(3,138)	(4,853)
Other financing sources:				
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(28,897)	-	(28,897)	(37,210)
Other Imputed financing	(310)	-	(310)	(994)
Total Components of Net Cost That Are Not Part of Net Outlays	\$ (24,650)	\$ (9,531)	\$ (34,181)	\$ (47,104)
Components of Net Outlays That are Not Part of Net Cost:				
Acquisition of capital assets	\$ -	\$ -	\$ -	(3,392)
Other	-	-	-	-
Total Components of Net Outlays That Are Not Part of Net Cost	\$ -	\$ -	\$ -	\$ (3,392)
Net Outlays	\$ <u>87,497</u>	\$ <u>525,138</u>	\$ <u>612,635</u>	\$ <u>600,536</u>
Agency Outlays, Net, Statement of Budgetary Resources				\$ <u>612,635</u>
Reconciling Difference				\$ <u><u>-</u></u>

The reconciling difference line amount of \$111.14 is due to a civilian payroll refund receivable where the debt occurred in a canceled year and any refunds are then sent to the Treasury and recorded as miscellaneous receipts. The amount is not displayed on the table above because all amounts are displayed in thousands.

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 26 DISCLOSURE OF ENTITIES AND RELATED PARTIES

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 27 RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION IN THE U.S. GOVERNMENTWIDE FINANCIAL REPORT

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 28 RESTATEMENTS

Though required under *DoD 7000.14-R Financial Management Regulation Volume 6B, Chapter 10*, this note is not applicable to DCAA's financial statements.

NOTE 29 EVALUATION OF SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through November 1, 2020, the date on which the financial statements are available to be issued.