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# Defense Contract Audit Agency

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Financial  
Statements and  
Independent  
Auditor's Report

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For the Years Ended  
September 30, 2023, and  
2022

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**INDEPENDENT AUDITOR'S REPORT**

**TO THE DIRECTOR  
DEFENSE CONTRACT AUDIT AGENCY**

In our audits of the fiscal years 2023 and 2022 financial statements of the Defense Contract Audit Agency (DCAA), we found

- DCAA's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;<sup>1</sup> and
- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)<sup>2</sup> and other information included with the financial statements; (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

**Report on the Financial Statements**

Opinion

In accordance with standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, we have audited DCAA's financial statements. DCAA's financial statements comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. In our opinion, DCAA's financial statements present fairly, in all material respects, DCAA's financial position as of September 30, 2023, and 2022, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

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<sup>1</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

<sup>2</sup>The RSI consists of the Management's Discussion and Analysis and the Combined Statement of Budgetary Resources, which are included with the financial statements.

### Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DCAA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

DCAA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in DCAA's agency financial report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit 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 DCAA's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

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

#### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by 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 FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance

#### Other Information

DCAA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in DCAA's agency financial report. The other information comprises the information included in the agency's financial report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

#### **Report on Internal Control over Financial Reporting**

In connection with our audits of DCAA's financial statements, we considered DCAA's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

#### Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies<sup>3</sup> or to express an opinion on the effectiveness of DCAA's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in

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<sup>3</sup>A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

#### Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to DCAA's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

#### Responsibilities of Management for Internal Control over Financial Reporting

DCAA management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of DCAA's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered DCAA's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DCAA's internal control over financial reporting. Accordingly, we do not express an opinion on DCAA's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. 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 preparing performance information and ensuring efficient operations.

#### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

#### Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of DCAA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of DCAA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

#### **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

In connection with our audits of DCAA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

#### Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 that would be reportable under U.S. generally accepted government auditing standards. In addition, our tests of compliance with the FFMIA Section 803(a) requirements 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. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to DCAA. Accordingly, we do not express such an opinion.

#### Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

#### Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

DCAA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to DCAA.

#### Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to DCAA that have a direct effect on the determination of material amounts and disclosures in DCAA's financial statements, including whether DCAA's financial management systems comply substantially with the FFMIA Section 803(a) requirements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DCAA. We caution that noncompliance may occur and not be detected by these tests.

#### Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

*Davis & Associates*

Columbia, Maryland  
October 31, 2023

## PRINCIPAL FINANCIAL STATEMENTS



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

	<b>2023 Consolidated</b>	<b>2022 Consolidated</b>
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 102,688	\$ 78,352
Accounts Receivable, Net (Note 6)	3,897	7,965
<b>Total Intragovernmental</b>	<b>\$ 106,585</b>	<b>\$ 86,317</b>
<b>Other Than Intragovernmental:</b>		
Accounts Receivable, Net (Note 6)	48	171
Advances and Prepayments (Note 10)	40	1
<b>Total Other Than Intragovernmental</b>	<b>88</b>	<b>172</b>
<b>Total Assets</b>	<b>\$ 106,673</b>	<b>\$ 86,489</b>
<b>Stewardship PP&amp;E (Note 9)</b>		
<b>Liabilities (Note 11)</b>		
<b>Intragovernmental:</b>		
Accounts Payable	\$ 1,386	\$ 764
Other Liabilities (Notes 13 and 15)	6,370	5,678
<b>Total Intragovernmental</b>	<b>\$ 7,756</b>	<b>\$ 6,442</b>
<b>Other Than Intragovernmental:</b>		
Accounts Payable	\$ 519	\$ 2,246
Federal Employee and Veteran Benefits Payable (Note 13)	64,793	58,196
Other Liabilities (Notes 15, 16 and 17)	8,229	5,881
<b>Total Other Than Intragovernmental</b>	<b>73,541</b>	<b>66,323</b>
<b>Total Liabilities</b>	<b>\$ 81,297</b>	<b>\$ 72,765</b>
<b>Commitments and Contingencies (Note 17)</b>		
<b>Net Position:</b>		
Unexpended Appropriations - Funds Other than Dedicated Collections	92,402	73,692
<b>Total Unexpended Appropriations (Consolidated)</b>	92,402	73,692
Cumulative Results of Operations - Funds Other than Dedicated Collections	(67,026)	(59,968)
<b>Total Cumulative Results of Operations (Consolidated)</b>	<b>\$ (67,026)</b>	<b>\$ (59,968)</b>
<b>Total Net Position</b>	<b>\$ 25,376</b>	<b>\$ 13,724</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 106,673</b>	<b>\$ 86,489</b>

*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,

	2023 Consolidated	2022 Consolidated
<b>Program Costs (Note 19)</b>		
Gross Costs	\$ 709,951	\$ 649,666
(Less: Earned Revenue)	(28,510)	(23,786)
Net Program Costs before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	681,441	625,880
Net Program Costs Including Assumption Changes	681,441	625,880
<b>Net Cost of Operations</b>	\$ 681,441	\$ 625,880

*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,

	<u>2023 Consolidated</u>	<u>2022 Consolidated</u>
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	\$ 73,692	\$ 60,952
Prior Period Adjustments:		
Beginning Balances, as adjusted	73,692	60,952
Appropriations received	651,218	611,273
Appropriations transferred in/out	0	(4,000)
Other adjustments (+/-)	(1,996)	(11,446)
Appropriations used	(630,512)	(583,087)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	18,710	12,740
<b>Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - See Note 18)</b>	<b>92,402</b>	<b>73,692</b>
Beginning Balances	(59,968)	(55,277)
Prior Period Adjustments:		
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	(59,968)	(55,277)
Other adjustments (+/-)	0	7,375
Appropriations used	630,512	583,087
Transfers in/out without reimbursement	0	90
Imputed financing	43,872	30,636
Other	(1)	1
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	681,441	625,880
Net Change in Cumulative Results of Operations	(7,058)	(4,691)
<b>Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - See Note 18)</b>	<b>(67,026)</b>	<b>(59,968)</b>
<b>Net Position</b>	<b>\$ 25,376</b>	<b>\$ 13,724</b>

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

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

	2023 Combined	2022 Combined
<b>Budgetary Resources:</b>		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	\$ 44,401	\$ 60,619
Appropriations (discretionary and mandatory)	651,218	611,273
Spending Authority from offsetting collections (discretionary and mandatory)	28,606	24,337
Total Budgetary Resources	\$ 724,225	\$ 696,229
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total)	\$ 707,757	\$ 686,052
Unobligated balance, end of year:		
Apportioned, unexpired accounts	6,178	1,855
Unexpired unobligated balance, end of year	6,178	1,855
Expired unobligated balance, end of year	10,290	8,322
Unobligated balance, end of year (total)	16,468	10,177
Total Budgetary Resources	\$ 724,225	\$ 696,229
<b>Outlays, Net:</b>		
Outlays, net (total) (discretionary and mandatory)	624,885	616,212
Agency Outlays, net (discretionary and mandatory)	\$ 624,885	\$ 616,212

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

## NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

### NOTE 1 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. Mission of the Reporting Entity**

Together with acquisition partners, DCAA increases warfighter capabilities by delivering high-quality audits and financial services to achieve fair and reasonable prices that protect taxpayer dollars. 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 DoD contracting officers and other customers. DCAA's primary customers are contracting officers in the Military Services.

**1.C. Basis of Presentation**

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. DCAA has presented comparative FY 2023 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.

**1.D. Classified Information**

DCAA's systems and procedures are designed to prevent the disclosure of classified information.

**1.E. Basis of Accounting**

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

## **NOTE 1      SIGNIFICANT ACCOUNTING POLICIES – (continued)**

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.F. 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.G. 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 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.H. 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.

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**1.I. Cash and Other Monetary Assets**

This is not applicable to DCAA.

**1.J. Investments**

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

**1.K. 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.L. Loans Receivable, Net and Loan Guarantee Liabilities**

DCAA does not have any loans receivable or loan guarantee liabilities.

**1.M. Inventory and Related Property**

DCAA does not have any inventory or related property.

**1.N. 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.O. Other Assets**

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



## NOTE 1      SIGNIFICANT ACCOUNTING POLICIES – (continued)

### **1.P. 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.Q. 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.

### **1.R. Environmental and Disposable Liabilities**

DCAA does not have any environmental or disposal liabilities.

### **1.S. Other Liabilities**

Other liabilities include personnel-related costs. 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, 2023, 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.T. Commitments and Contingencies**

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. 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.

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**1.U. Federal Employee and Veteran Benefits Payable**

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*.

**1.V. 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.W. 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.X. Budgetary Resources**

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.

**1.Y. Treaties for Use of Foreign Bases**

This is not applicable to DCAA.

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**1.Z. 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.A(a). Parent-Child Reporting**

This is not applicable to DCAA.

**1.A(b). Transactions with Foreign Governments and International Organizations**

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

**1.A(c). Fiduciary Activities**

This is not applicable to DCAA.

**1.A(d). Tax Exempt Status**

The federal government is exempt from all income taxes by any governing body whether it is a federal, state, commonwealth, or foreign government.

**NOTE 2      NON-ENTITY 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.

<b>As of September 30, (Amounts in thousands)</b>	<b>2023</b>			<b>2022</b>
	<b>Nonentity</b>	<b>Entity</b>	<b>Total</b>	<b>Total</b>
<b>Intragovernmental Assets:</b>				
Fund Balance with Treasury	\$ -	\$ 102,688	\$ 102,688	\$ 78,351
Accounts Receivable	-	3,897	3,897	7,966
Total Intragovernmental	\$ -	\$ 106,585	\$ 106,585	\$ 86,317
<b>Nonfederal Assets:</b>				
Accounts Receivable, Net	\$ 63	\$ (15)	\$ 48	\$ 171
General PP&E, Net	-	-	-	-
Other Assets	-	40	40	1
Total Nonfederal Assets	\$ 63	\$ 25	\$ 88	\$ 172
<b>Total Assets</b>	<b>\$ 63</b>	<b>\$ 106,610</b>	<b>\$ 106,673</b>	<b>\$ 86,489</b>

**Non-federal Assets**

- Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment and collection.
- Accounts Receivable consists of amounts associated with canceled year appropriations and with interest, fines and penalties receivable due on debt. Generally, DCAA cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law.

**NOTE 3 FUND BALANCE WITH TREASURY**

<b>As of September 30,</b> (Amounts in thousands)	<u>2023</u>	<u>2022</u>
<b>Unobligated Balance:</b>		
Available	\$ 6,178	\$ 1,855
Unavailable	10,290	8,321
<b>Total Unobligated Balance</b>	<b>\$ 16,468</b>	<b>\$ 10,176</b>
<b>Obligated Balance not yet Disbursed</b>	<b>\$ 91,041</b>	<b>\$ 76,814</b>
<b>Non-FBWT Budgetary Accounts</b>		
Unfilled Customer Orders without advance	\$ (549)	\$ (649)
Receivables and Other	(4,272)	(7,990)
<b>Total Non-FBWT</b>	<b>\$ (4,821)</b>	<b>\$ (8,639)</b>
<b>Budgetary Accounts</b>	<b>\$ (4,821)</b>	<b>\$ (8,639)</b>
<b>Total FBWT</b>	<b>\$ 102,688</b>	<b>\$ 78,351</b>

The United States Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include Defense Contract Audit Agency (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 \$286.2 million is reflected as a reconciling amount.

Status of Fund Balance with Treasury

The Treasury records cash receipts and disbursements on the DCAA’s behalf; funds are available only for the purposes for which the funds were appropriated. The DCAA’s Fund Balances with Treasury consists of appropriation accounts, general funds, and research development funds.

The Status of Fund Balance with Treasury (FBWT), as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance represents amounts that are not apportioned for obligation by law during the current fiscal year and consists primarily of funds invested in U.S. Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use.

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.

**NOTE 3 FUND BALANCE WITH TREASURY – (continued)**

Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as accounts receivable and unfilled orders without advance from customers. This category reduces budgetary resources.

Treasury securities provide the DCAA with budgetary authority and enables the DCAA to access funds to make future benefit payments or other expenditures. The DCAA must redeem these securities before they become part of the FBWT.

Reimbursable Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

The FBWT reported in the financial statements has been adjusted to reflect the DCAA’s balance as reported by Treasury. The difference between FBWT in the DCAA’s general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DCAA’s general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DCAA’s general ledger accounts.

**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**

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, (Amounts in thousands)	2023			2022
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable Net	Accounts Receivable Net
Intragovernmental Receivables	\$ 3,897	\$ N/A	\$ 3,897	\$ 7,965
Nonfederal Receivables (From Public)	48	-	48	171
<b>Total Accounts Receivable</b>	<b>\$ 3,945</b>	<b>\$ -</b>	<b>\$ 3,945</b>	<b>\$ 8,136</b>

Gross receivables, including federal receivables, must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1 and Technical Bulletin 2020-1, Loss Allowance for

NOTE 6      ACCOUNTS RECEIVABLE, NET – (continued)

Intragovernmental Receivables. Loss allowance recognition for intragovernmental receivables does not alter the statutory requirements for the debtor agency to make the payment or for the collecting agency to seek and obtain payment. Entities should document their policies regarding allowances and criteria for assessing collectability.

Accounts receivable represent the DCAA's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For the intragovernmental allowance was calculated using the same methodology as for public receivables. The DCAA's developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables.

Intragovernmental receivables represent that receivables between Defense Contract Audit Agency (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      LOAN RECEIVABLE, NET AND LOAN GUARANTEE 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 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**

<b>As of September 30,</b> (Amounts in thousands)	<u>2023</u>	<u>2022</u>
<b>Non-federal Other Assets</b>		
Advances and Prepayments	40	1
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(40)	(1)
<b>Total Other Assets</b>	<u>\$ -</u>	<u>\$ -</u>

**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.

<b>As of September 30,</b> (Amounts in thousands)	<u>2023</u>	<u>2022</u>		
	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>	<b>Total</b>
<b>Intragovernmental Liabilities</b>				
Other	\$ -	\$ 4,312	\$ 4,312	\$ 3,685
Total Intragovernmental Liabilities	\$ -	\$ 4,312	\$ 4,312	\$ 3,685
<b>Nonfederal Liabilities</b>				
Accounts Payable	\$ -	\$ 1,763	\$ 1,763	\$ 1,763
Other Federal				
Employment Benefits	-	61,796	61,796	55,293
Other Liabilities	13,425	-	13,425	12,024
Total Nonfederal Liabilities	13,425	63,559	76,984	69,080
<b>Total Liabilities</b>	<u>\$ 13,425</u>	<u>\$ 67,871</u>	<u>\$ 81,297</u>	<u>\$ 72,765</u>

Intragovernmental Liabilities - Other: DCAA reported \$4.3 million in intragovernmental liabilities not covered by budgetary resources as of September 30, 2023. This is the unfunded portion of the Federal Employee's Compensation Act liability.



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

Nonfederal Liabilities - Other Liabilities: DCAA reported \$13 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, 2023. These liabilities are related to a future event and therefore, are not covered by budgetary resources.

Military Retirement and Other Federal Employment Benefits: 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 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE**

As of September 30,	2023			2022
(Amounts in thousands)	Liabilities	Assets Available to Pay Benefits	Unfunded Liability	Total
<b>Other Benefits</b>				
FECA	\$ 22,396	\$ -	\$ 22,396	\$ 15,735
Other	42,397	(2,997)	39,400	39,558
Total Other Benefits	<u>64,793</u>	<u>(2,997)</u>	<u>61,796</u>	<u>55,293</u>
<b>Federal Employee and Veteran Benefits Payable (presented separately on Balance Sheet)</b>				
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	6,354	(2,058)	4,296	3,669
<b>Total Federal Employee and Veteran Benefits Payable</b>	<u>\$ 71,147</u>	<u>\$ (5,055)</u>	<u>\$ 66,092</u>	<u>\$ 58,962</u>

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method  
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits.

**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,**

(Amounts in thousands)

	2023			2022
	Current Liability	Noncurrent Liability	Total	Total
<b>Intragovernmental Assets:</b>				
Liabilities for Non-entity Assets	\$ 15	\$ -	\$ 15	\$ 15
Subtotal	15	-	15	15
Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	3,765	2,590	6,355	5,663
Total Intragovernmental	\$ 3,780	\$ 2,590	\$ 6,370	\$ 5,678
Other than Intragovernmental				
Accrued Funded Payroll and Benefits	\$ 8,229	\$ -	\$ 8,229	\$ 5,881
Total Other than Intragovernmental	\$ 8,229	\$ -	\$ 8,229	\$ 5,881
<b>Total Other Liabilities</b>	<b>\$ 12,009</b>	<b>\$ 2,590</b>	<b>\$ 14,599</b>	<b>\$ 11,559</b>

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 2022 (if applicable) and 2023 and unbilled amounts for both incurred and estimated accrual amounts are included.

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 the 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. The 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**

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, 2023, 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
2024	\$ 19,070
2025	19,067
2026	18,253
2027	17,127
2028	17,252
<u>2029 and thereafter</u>	<u>64,164</u>
<u>Total Minimum Lease Payments</u>	<u>\$ 154,933</u>

Amounts reported as of September 30, 2023, 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, 2023.

**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>2023</u>	<u>2022</u>
Gross Costs	\$ <u>709,951</u>	\$ <u>649,666</u>
Less: Earned Revenue	\$ <u>(28,510)</u>	\$ <u>(23,786)</u>
Total Net Cost	\$ <u>681,441</u>	\$ <u>625,880</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

**NOTE 19 GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST – continued**

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.

<b>As of September 30,</b> (Amounts in thousands)	<u>2023</u>	<u>2022</u>
Budgetary Resources Obligated for Undelivered Orders		
Intragovernmental:		
Unpaid	\$ 0	\$ 3,591
Total Intragovernmental	\$ 0	\$ 3,591
Non-Federal		
Unpaid	\$ 77,241	\$ 61,176
Prepaid/Advanced	40	1
Total Resources used to finance activities	\$ <u>77,281</u>	\$ <u>61,177</u>
<b>Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	<b>\$ 77,281</b>	<b>\$ 64,768</b>

The Statement of Budgetary Resources is prepared at the DoD Component level and is a summarization of the individual appropriation account level SF 133s.

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)	2023			2022
	Intra- governmental	With the public	Total	Total
<b>Net Cost of Operations</b>	\$ 174,497	\$ 506,944	\$ 681,441	\$ 625,880
<b>Component of Net Cost That are Not Part of Net Outlays:</b>				
Property, plant, and equipment depreciation	-	-	-	-
Increase/(decrease) in assets:				
Accounts Receivable	\$ (3,717)	\$ (122)	\$ (3,839)	\$ (3,082)
Other Assets	-	39	39	1
( Increase)/decrease in assets:				
Accounts payable	(975)	1,728	753	(2,416)
Federal employee and veteran benefits payable	-	(6,597)	(6,597)	12,481
Other liabilities	(691)	(2,348)	(3,039)	14,074
Other financing sources:				
Imputed cost	(43,872)	-	(43,872)	(30,636)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	\$ (49,255)	\$ (7,300)	\$ (56,555)	\$ (9,578)
<b>Miscellaneous Reconciling Items</b>				
Other	-	-	-	(90)
<b>Total Other Reconciling Items</b>	\$ -	\$ -	\$ -	\$ (90)
<b>Net Outlays</b>	\$ <b>125,242</b>	\$ <b>499,644</b>	\$ <b>624,886</b>	\$ <b>616,212</b>
<b>Agency Outlays, Net, Statement of Budgetary Resources</b>				\$ <b>624,886</b>
<b>Unreconciled Difference</b>				\$ <b>-</b>

**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 SECURITY ASSISTANCE ACCOUNTS**

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 COVID-19 ACTIVITY**

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 30 SUBSEQUENT EVENTS**

The Agency has evaluated subsequent events through October 31, 2023, the date on which the financial statements are available to be issued.

**NOTE 31 RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT  
COMPILATION PROCESS**

This Note is reported at the DoD Agency-Wide level only. DoD Components do not report this Note. Therefore, this note is not applicable to DCAA's financial statements.