

**DEFENSE CONTRACT  
AUDIT AGENCY**



**FY 2005  
ANNUAL FINANCIAL STATEMENTS**

**LEONARD G. BIRNBAUM AND COMPANY, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS**

WASHINGTON OFFICE  
6285 FRANCONIA ROAD  
ALEXANDRIA, VA 22310-2510

(703) 822-7622  
FAX: (703) 822-8256

LUSLIE A. LEPPER  
LEONARD G. BIRNBAUM  
DAVID SAKOFS  
CAROL A. SCHNEIDER  
DORA M. CLARKE

WASHINGTON, D.C.  
SUMMIT, NEW JERSEY  
REDWOOD CITY, CALIFORNIA

**INDEPENDENT AUDITOR'S REPORT**

To the Director, Defense Contract Audit Agency:

We have audited the Defense Contract Audit Agency's (DCAA) Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources and Consolidated Statements of Financing (Principal Financial Statements) as of and for the years ended September 30, 2005 and 2004; we have examined internal control over financial reporting in place as of September 30, 2005 and 2004; and we have examined compliance with laws and regulations.

In our opinion, DCAA's 2005 and 2004 Principal Financial Statements are presented fairly in all material respects.

We found no material conflicts with DCAA's 2005 report on management controls prepared under the Federal Managers' Financial Integrity Act of 1982.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

**PRINCIPAL FINANCIAL STATEMENTS**

In our opinion, DCAA's Principal Financial Statements, including the notes thereto, present fairly, in all material respects, the agency's financial position as of September 30, 2005 and 2004, and its net cost of operations, changes in net position, use of budgetary resources, and use of financing resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## INTERNAL CONTROL

We considered DCAA's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements. Since DCAA's financial recording and reporting, including the issuance of financial statements, are performed by the Defense Finance and Accounting Service (DFAS), our consideration of internal control included those aspects of internal control of DFAS which were relevant to DCAA. Since our objective was not to provide assurance on internal control, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget (OMB), Department of Defense management, or the Inspector General have identified as being significant and for which compliance can be objectively measured and evaluated; and
- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect DCAA's or DFAS' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in

the normal course of performing their assigned functions. Our tests of internal control did not disclose any material weaknesses.

### COMPLIANCE WITH LAWS AND REGULATIONS

DCAA's management is responsible for complying with laws and regulations applicable to its operations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of DCAA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Since DCAA's financial recording and reporting, including the issuance of financial statements, are performed by DFAS, we considered compliance with laws and regulations by DFAS which were relevant to DCAA. However, the objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Reportable instances of noncompliance are failures to follow requirements, or violations of prohibitions in statutes or regulations, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

### RESPONSIBILITIES AND METHODOLOGY

DCAA management has the responsibility for:

- ensuring that the Principal Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America;
- ensuring that effective internal control is established and maintained; and
- complying with laws and regulations.

Our responsibility is to express an opinion on the Principal Financial Statements based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misstatement and presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered DCAA's and DFAS' internal control for the purpose of expressing our opinion on the Principal Financial Statements and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

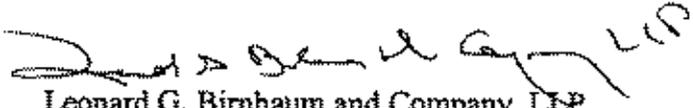
In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Financial Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal control over financial reporting;
- obtained an understanding of internal control over performance measures,
- tested, or obtained evidence of, compliance with selected provisions of laws and regulations that may materially affect the Principal Financial Statements; and
- performed other procedures as we considered necessary in the circumstances.

Our audit was conducted 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 OMB Bulletin 01-02. We believe that our audit provides a reasonable basis for our opinion.

The Management Discussion and Analysis and Required Supplementary Information are not a required part of the Principal Financial Statements, but are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, Volume 6B of the Department of Defense Financial Management Regulation and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information of DCAA management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

  
Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia  
October 28, 2005



## DEFENSE LEGAL SERVICES

GENERAL COUNSEL  
Defense Contract Audit Agency  
8725 John J. Kingman Road, Suite 2135  
Fort Belvoir, VA 22060-6219

DL 240

October 27, 2005

Leonard G. Birnbaum and Company  
6285 Franconia Road  
Alexandria VA 22310

### REFERENCES:

- (a) Interoffice Memorandum from Assistant Director, Resources, Defense Contract Audit Agency (DCAA), dated October 17, 2005
- (b) Statement of Federal Financial Accounting Standard (SFFAS) No. 5, "Accounting for Contingencies," December 1995, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5
- (c) American Bar Association Statement of Policy Regarding Lawyer's Responses to Auditors' Requests for Information (December 1975)

This letter responds to reference (a) which requests that I provide information involving matters with respect to which I have been engaged and to which I have devoted substantive attention on behalf of DCAA in the form of legal consultation or representation where the amount of potential loss exceeds \$1,000,000. Reference (a) requests that a response be provided including matters that existed as of September 30, 2005 through no earlier than October 27, 2005. Reference (a) further requests information concerning unasserted claims and assessments and requests confirmation that legal counsel are disclosing material loss contingencies as defined in reference (b).

As General Counsel of DCAA, I advise you as follows in connection with your examination of the DCAA concerning matters that existed as of September 30, 2005 and from the period September 30, 2005 through October 27, 2005.

As General Counsel of DCAA, I have supervisory authority with respect to claims and litigation made against DCAA. In such capacity, I or one of the lawyers over whom I exercise general supervision would have reviewed litigation and claims threatened or asserted involving DCAA.

### Known Claims, Litigation, and Assessments

Subject to the foregoing, and to the last paragraph of this letter, I advise you that, for the period ending September 30, 2005, and from that date through October 27, 2005, either I or one of the lawyers over whom I exercise general supervision have given substantive attention to, or represented, DCAA in connection with one known litigation, claim, or assessment of \$1,000,000 or more made against DCAA as described below.

October 27, 2005

In a United States District Court of Maryland action served on the United States on August 1, 2005 Information Systems Networks (ISN) Corporation asserts a claim to at least \$15,000,000 of damages under the Federal Tort Claims Act (FTCA). It alleges that DCAA and the Defense Contract Management Agency have intentionally failed to provide ISN with final indirect cost rates, refused to close out U.S. Government contracts and issued audit reports that are intentionally misleading. ISN previously filed a \$75 million administrative claim and that was denied by the Army Claims Service.

DCAA and DCMA have filed with the Department of Justice a litigation report. It asserts several defenses: (1) there is no negligence or failure to act by either DCAA or DCMA; 2) ISN fails to state a tort claim under Maryland law; 3) ISN fails to state a tort claim and instead passes off as a tort that which is substantively and legally a Government contract claim, cognizable as such in a Contract Disputes Act Forum; (4) any actions or inactions complained of fall within the discretionary function exception to the FTCA; (5) the claim is untimely.

The Government is highly confident that ISN's FTCA suit will be summarily denied by the Federal District Court and that its chances of prevailing in subject law suit are remote. Paul Mitchell is the DCAA attorney responsible for coordinating with DCMA counsel and with the DOJ attorneys representing the defendant United States in Federal District Court.

#### Unasserted Claims and Assessments

Information is also requested concerning unasserted claims and assessments that this office considers probable of assertion and, if asserted, would have a reasonable possibility of an unfavorable outcome. I have interpreted this request to refer to unasserted claims and assessments which, if asserted, have a reasonable possibility of resulting in a material unfavorable outcome where materiality is defined as \$1,000,000 or more.

Subject to the last paragraph of this letter, I advise you that neither I nor any of the lawyers over whom I exercise general supervision have given substantive attention to, or represented, DCAA in connection with any unasserted claims or assessments which, if asserted, would constitute a material loss contingency within the scope of clause (a) of Paragraph 5 of reference (c).

#### Representation Concerning Disclosure

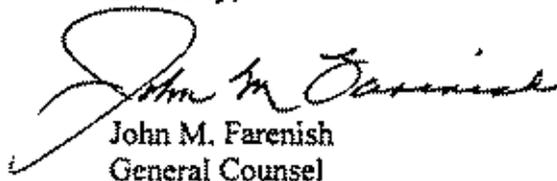
Subject to the last paragraph of this letter, and consistent with the last sentence of Paragraph 6 of reference (c), this will confirm that whenever, in the course of performing legal services for DCAA with respect to a matter recognized to involve an unasserted possible material claim or assessment against DCAA that may call for financial statement disclosure, I or one of the lawyers over whom I exercise general supervision have formed a professional conclusion that DCAA must disclose, or consider disclosure, concerning such possible claim or assessment, the lawyer forming such professional conclusion will so advise DCAA and will consult with DCAA financial managers concerning the question of such disclosure and the applicable requirements of reference (b).

October 27, 2005

Limitation on This Response

This response is limited by, and made in accordance with, the ABA Statement of Policy Regarding Lawyer's Responses to Auditors' Requests for Information (December 1975) (reference (c)). Without limiting the generality of the foregoing, the limitations set forth in such Statement on the scope and use of this response (paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of reference (c) and the accompanying Commentary (which is an integral part of this Statement). In addition, we do not interpret reference (a) to require or authorize the release of information subject to the attorney-client privilege or the work product doctrine, and in responding to reference (a) we have provided no information subject to that privilege or doctrine. Moreover, the information set forth herein is as of October 27, 2005, and I expressly disclaim any undertaking to advise you of changes which may be brought to my attention or to the attention of the lawyers over whom I exercise general supervision after the date of this letter.

Sincerely,



John M. Farenish  
General Counsel

Copy furnished:

↳ Assistant Director, Resources



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

OFFICE OF THE DIRECTOR

CFA 420.3

October 27, 2005

Leonard G. Birnbaum and Company  
Certified Public Accountants  
Washington Office  
6285 Franconia Road  
Alexandria, Virginia 22310-2510

Dear Mr. Leiper:

Attached are the FY 2005 Annual Financial Statements (AFS), Note Narratives, and Other Accompanying Information for the Defense Contract Audit Agency (DCAA), submitted in accordance with the Department of Defense Financial Management Regulation, Volume 6B, Form and Content of the Department of Defense Annual Financial Statements.

I hereby certify the FY 2005 AFS, as of September 30, 2005, are supported by trial balances, feeder reports, and other information provided to or maintained by DCAA, or the Defense Finance and Accounting Service, Columbus Center.

Sincerely,

Jody A. Trenary  
Assistant Director, Resources

Attachments  
As stated

Dear Mr. Leiper:

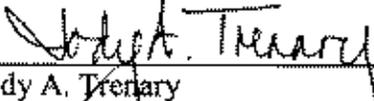
This letter is in connection with your audit of the Defense Contract Audit Agency (DCAA) Principal Statements (also referred to as financial statements) as of September 30, 2005, and for the year then ended for the purposes of (1) expressing an opinion as to whether the Principal Statements are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles, and (2) reporting whether the Agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2005.

We confirm, to the best of our knowledge and belief, the following representations were made to you during your audits, are as of the date of your auditor's report, and pertain to the period covered by the financial statements. These representations update the representations we provided in conjunction with your audit of the financial statements as of and for the year ended September 30, 2004.

1. We are responsible for the fair presentation of the Principal Statements in conformity with accounting principles generally accepted in the United States of America.
2. The financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.
3. We have made available to you, all:
  - a. financial records and related data;
  - b. minutes of meetings of the Audit Committee or summaries of actions of recent meetings for which minutes have not been prepared; and
  - c. cycle memos and flow charts of DCAA financial processes and systems.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. DCAA has no capital equipment and our offices are located either in Federal space or commercially leased space managed by General Services Administration or the Corps of Engineers.
6. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. There are no:
  - a. possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
  - b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed, that have not been accrued or disclosed; or
  - c. unasserted claims or assessments that are probable and must be disclosed that have not been disclosed.
8. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
9. No material events or transactions have occurred subsequent to September 30, 2005, that have not been properly recorded in the Principal Statements or disclosed in the notes thereto.
10. There has been no material fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the Principal Statements) or any fraud involving management or employees who have significant roles in internal control.
11. We are responsible for establishing and maintaining internal control.
12. Pursuant to the Federal Managers' Financial Integrity Act, we have assessed the effectiveness of DCAA's internal control in achieving the following objectives:

- a. Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements in accordance with Generally Accepted Accounting Principles, and the assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
  - b. Compliance with applicable laws and regulation – transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and government wide policies identified by the Office of Management and Budget (OMB) in Appendix C of OMB's Audit Bulletin; and
  - c. Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
13. Those controls in place on September 30, 2005, provide reasonable assurance that the foregoing objectives are met.
14. The Defense Finance and Accounting Service (DFAS) is responsible for implementing and maintaining financial management systems for DCAA that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, the United States Standard General Ledger (SGL) at the transaction level and the DoD Financial Management Regulation as prescribed by the Department of Defense USD(C).
15. We are responsible for the DCAA's compliance with applicable laws and regulations, and are currently unaware of any instances of noncompliance, except as noted in paragraph 14 above.
16. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

  
\_\_\_\_\_  
Jody A. Treary  
Assistant Director, Resources  
Defense Contract Audit Agency

  
\_\_\_\_\_  
April G. Stephenson  
Deputy Director  
Defense Contract Audit Agency

**DEFENSE CONTRACT  
AUDIT AGENCY**



**MANAGEMENT DISCUSSION  
AND ANALYSIS**

## **DEFENSE CONTRACT AUDIT AGENCY MANAGEMENT DISCUSSION AND ANALYSIS**

### **Mission**

More than 40 years of professional audit experience with complex, high dollar government contracts has made the Defense Contract Audit Agency (DCAA) *the* audit organization with the foremost reputation for competence, integrity, and customer satisfaction.

DCAA is a worldwide, single mission Agency dedicated to providing timely and responsive audits, reports, and financial advisory services to the Department of Defense (DoD) contracting officers and other customers. DCAA's primary customers are contracting officers in the Army, Navy, Air Force, and Defense Contract Management Agency (DCMA). However, the Agency also performs, on a reimbursable basis, contract audit services for the majority of other Federal agencies.

The majority of DCAA's workload is driven by statutory and regulatory requirements designed to ensure that the government meets its fiduciary responsibilities to the public when awarding and administering contracts. In this capacity, DCAA supports the oversight and internal control responsibilities of the Office of the Secretary of Defense (OSD), the Department of Defense Inspector General (DoDIG), the General Accounting Office (GAO), and the Congress.

### **Organization and Structure**

DCAA was established in 1965 by then Secretary of Defense Robert S. McNamara, who determined that Department of Defense contract audit functions would be more effective and efficient if performed by a single organization. The Agency operates under the direction, authority, and control of the Under Secretary of Defense (Comptroller). A member of the Senior Executive Service, the Director of DCAA, is appointed by the Secretary of Defense.

The Agency is organized into six major components: a Headquarters and five regions. The Headquarters is located at the Andrew T. McNamara Headquarters Complex, Ft. Belvoir, VA. Principal elements of Headquarters are the Director, Deputy Director, Executive Officer, Special Assistant for Quality, General Counsel, and the Assistant Directors for Operations, Policy and Plans, and Resources.

Regional offices are located in Smyrna, GA; Lowell, MA; Irving, TX; La Mirada, CA; and Philadelphia, PA. The regions direct and administer the accomplishment of the DCAA audit mission for assigned geographical areas; manage personnel and resources assigned to the regions; and direct the operation of Field Audit Offices (FAOs) within their region. Principal elements of regional offices are the Regional Director, Deputy Regional Director, Special Assistant to the Regional Director for Quality, Regional Audit Managers, Regional Special Programs Manager, and Regional Resources Manager.

During FY 2005, the five regional offices provided oversight and management for more than 350 FAOs and suboffices located throughout the United States and overseas.

An FAO is identified as either a branch office or a resident office. A resident office is established at a contractor's location when the amount of audit workload justifies the assignment of a permanent auditor and support staff. A branch office is established at a strategically situated location within the region, and is responsible for performing all contract audit services within the assigned geographical area, exclusive of contract audit services performed by a resident or liaison office within the area. Regional Directors establish suboffices as extensions of FAOs when required to furnish contract audit service more economically. A suboffice is dependent on its parent FAO for release of audit reports and other administrative support.

The Agency has established liaison offices at DoD procurement or contract administration offices to provide effective communication and coordination among procurement, contract administration, and contract audit elements. In addition, financial advisors are stationed at selected procurement offices to improve the quality of information for decision-makers by providing confidence about the reliability and relevance of financial information.

DCAA assists acquisition personnel by evaluating contractor submitted forward pricing proposals; providing contracting officers with accounting and financial advisory services useful to "could cost" and "should cost" assessments and negotiations; verifying the propriety and acceptability of costs charged by contractors to flexibly priced government contracts; and deterring contractors' inefficient practices which, if not detected and corrected, could lead to excessive costs and contract prices.

The Defense Contract Audit Institute (DCAI) in Memphis, TN provides both centralized and decentralized specialized contract audit training for DCAA's audit staff. In addition, DCAI's trained instructors provide contract audit training segments in courses and seminars offered by other DoD and non-DoD agencies.

As of September 2005, DCAA employed an all civilian workforce comprised of 3,942 full time equivalent professional contract auditors and administrative support personnel. Approximately 37 percent of DCAA's audit workforce is Certified Public Accountants (CPAs); 99 percent have bachelor's degrees and 24 percent have advanced degrees.

### **The Defense Contract Audit Agency Strategic Plan**

During 2004, DCAA added a number of Objectives to its Strategic Plan (first prepared in 1990), to reflect continued support for the goals set out in the DoD Quadrennial Review (QDR) which implements the Government Performance and Results Act (GPRA); as well as metrics associated with the President's Management Agenda (PMA) and the DoD's implementation of these initiatives and programs. DCAA's Strategic Plan defines the mission, goals, objectives, strategies, and performance measures for DCAA. The goals provide a framework for supporting the aforementioned DoD initiatives and each strategic plan objective includes metrics to measure performance against the plan. The

plan, which is available to the public at DCAA's web site, (<http://www.dcaa.mil>), is reviewed and updated continuously by DCAA's Executive Steering Committee (ESC).

### **Performance Goals, Objectives, and Results**

In response to the 1997 QDR, Defense Reform Initiative Directive (DRID) #23 required selected Defense agencies to develop and submit contracts (redefined as Performance Plans in FY 2002) that measure performance of the Agency. The Performance Plan identifies major business areas of the organization and outlines performance metrics in the areas of unit cost and productivity, quality and customer responsiveness, and the scale of work for each business area. In addition, the Performance Plan outlines anticipated Agency-wide actions and improvements in metrics, as well as improvements in selected business activities. The QDR serves as the overall strategic planning document of the DoD and fulfills the strategic planning requirements of the GPRA.

The DCAA Director's Performance Plan with the DoD Comptroller sets performance standards/stretch goals for its two major product lines -- forward pricing and incurred cost audits. Together, these audit categories account for approximately 84 percent of DCAA's direct audit workload. Forward pricing audits generally are performed on sole-source, fixed price contracts valued at more than \$500,000 and on flexibly priced contracts valued at more than \$10 million. Forward pricing audit efforts include, but are not limited to, price proposal audits, forward pricing rate reviews, contractor estimating system surveys, and "should cost" studies. Incurred cost audits are performed on cost claims submitted by contractors for reimbursement under flexibly priced contracts. Contractor claims are reviewed to determine if costs are acceptable and are in accordance with regulations and the terms of the Performance Plan. The Performance Plan goals versus actuals for FY 2005 were as follows:

	<b>FY 2005 Goal</b>	<b>FY 2005 Actual</b>
<b><i>Forward Pricing:</i></b>		
Achieve average audit cycle time of 30 days or less	30 days	27 days
Forward pricing audits accomplished within 60 days	99%	99%
<b><i>Incurred Cost:</i></b>		
Complete audits within 12 months of receipt at major contractors and corporate offices	99%	100%
Complete audits within 24 months of receipt for all other submissions	99%	99%

These goals were established to meet contracting officer needs for awarding and closing out contracting actions.

The Performance Plan also includes two Agency-wide goals:

**1. Achieve an Agency-wide average cost per direct audit hour of \$107.85.**

The cost per direct hour reports were developed to serve as a reporting tool used in measuring how well DCAA controlled costs. It is also used as a tool to assist in measuring DCAA's cost competitiveness. DCAA's cost per direct audit hour for FY 2005 was \$105.32, which is \$2.53 per hour less than the FY 2005 objective. The favorable variance is primarily due to management's emphasis on improving the indirect to direct labor ratio in FY 2005; as well as management's focus on reducing facilities and indirect support costs. DCAA's benchmarking cost per direct audit hour for FY 2005 was \$112.55. The rate calculation reflects DCAA's FY 2005 O&M and Procurement funds plus \$28.1 million of imputed costs for post retirement benefits (i.e., pension, health insurance, and life insurance) using OMB prescribed rates. The FY 2005 GSA's Scheduled rates reflect a comparable labor rate for national accounting firms of \$155.44, which results in a DCAA rate that is approximately 27.6 percent lower than the composite national firm rate.

**2. Issue at least 99 percent of audit reports electronically.**

Since the inception of this metric in FY 1999, DCAA has maintained an exceptionally high level of accomplishment for this metric. Once again, in FY 2005, DCAA issued 99.5 percent of its audit reports electronically.

Savings to the government, as a result of contract audit services, far exceed the cost of DCAA operations. For example, in FY 2005, the Agency audited \$118.7 billion of incurred cost and 9,673 forward pricing proposals amounting to \$150.7 billion. Approximately \$2.7 billion in net savings were reported during the year. These savings are available to the Military Services budgets for use on other high priority procurements. When compared to the \$434.3 million expended for the Agency's operations, the return on taxpayers' investments in DCAA was approximately \$6.20 for each dollar invested.

DCAA's contract audit services received an 81 percent overall customer satisfaction rating in the 2003-2004 Biennial Review of Defense Agencies and Field Activities. The Review covered 22 Defense agencies and DoD field activities; these components were broken down into 58 business lines for survey reporting purposes. And, although four of the 58 business lines ranked higher than DCAA, DCAA (a single business line Agency) ranked 6th highest of all the 22 DoD Components surveyed. The conclusions drawn by the Biennial Review on DCAA, are stated below:

*For the 2003-2004 Biennial Review, the evaluation of this DCAA business line is based on a strong number of customer responses. The response rate is above average (70%) and shows a significant increase from previous Biennial Reviews. The findings show this to be a business line that nearly all customers feel meets a Continuing Need and is Important to their organizations. ...Some comments indicated concern about communications with customers, timeliness, and report formats, but a large number of customers commented on their satisfaction with DCAA customer service.*

## **Financial Condition**

During FY 2005, the O&M budget authority for DCAA was \$436.2 million (which includes \$15.8 million in Title IX supplemental funds) with obligations of \$435.4 million. This represents an execution rate of 99.8 percent, which compares favorably to the FY 2004 execution rate of 99.8 percent.

DCAA has prepared its statements as part of DCAA's and DoD's overall goal to improve financial management in the Department and to provide accurate, reliable information that is useful in assessing Agency performance and allocating resources. This is DCAA's ninth year of preparing financial statements, and the sixth year that an independent accounting firm has audited the statements. Leonard G. Birnbaum and Company has been retained to examine the Agency's statements. Subjecting the financial statements to an independent audit enhances the reliability of the statements and aids the Agency in promoting improved accountability and stewardship over the public resources entrusted to DCAA. The auditor's report is based on an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards (issued by the Comptroller General of the United States), and Office of Management and Budget Bulletin 01-02, Audit Requirements for Federal Financial Statements.

DCAA's financial statements are prepared by the Defense Finance and Accounting Service (DFAS) in conjunction with DCAA. The financial statements report the FY 2005 financial position and results of operations for the DCAA, pursuant to the requirements of 31 U.S.C. 3515(b).

The statements were prepared from the books and records of DCAA, in accordance with the formats prescribed by the OMB, and include a Statement of Budgetary Resources. This statement links budget execution data reported in the Agency's financial statement to that reported in DCAA's Program and Financing Schedules in the President's Budget. The financial statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of DoD (U.S. Government), a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

**Financial Condition – Assets.** The Agency had total assets of \$36.0 million as of September 30, 2005. Fund Balances with Treasury of \$26.2 million and Accounts Receivable of \$9.3 million comprised 98.7 percent of this amount. The reimbursable accounts receivable balances have undergone an extensive analysis. The over-aged accounts have been analyzed, collections have been pursued, adjustments for erroneous billings have been made, and reversals of invalid account balances have been accomplished. DCAA is coordinating with DFAS Columbus to ensure that aged accounts receivable are reviewed in a timely manner and appropriate action taken.

**Financial Condition – Liabilities.** The Agency had total liabilities of \$65.5 million as of September 30, 2005. Accounts Payable were \$6 million, 9.2 percent of the total liabilities. Other Employment Actuarial Liabilities for workmen's compensation (FECA)

were \$16.6 million, 25.3 percent of the total. Other Liabilities of \$42.9 million comprised the remaining 65.5 percent of the total. Unfunded liabilities of \$25.4 million for Accrued Unfunded Annual Leave reflect the net amount that employees have accrued, which will be paid from future funds as the annual leave is taken. The balance in the accrued annual leave liability account is adjusted to reflect current pay rates.

**Financial Condition – Net Position.** The Agency's Net Position was a negative \$29.5 million as of September 30, 2005. This amount consisted of Unexpended Appropriations of \$16.4 million and a Cumulative Results of Operations of a negative \$45.9 million.

**Results of Operations.** The results of operations are reported in the Consolidated Statements of Changes in Net Position. DCAA had financing sources of \$411.5 million and Net Cost of Operations of \$411.1 million. The net results of operations were \$.46 million. The cumulative results of operations were a negative \$45.9 million.

**Budgetary Issues.** Approximately 85 percent of DCAA's operating budget is for pay and benefits; the balance of funds covers the necessary support costs – travel, office space, telecommunications, infrastructure, and supplies and equipment. Funding for DCAA operations is made available from two sources: appropriated funds provide for audits of DoD contracts, reimbursable funding is provided (on a per hour basis) for performance of contract audits for numerous non-Defense agencies.

Since 1999, DCAA's work-year levels had been fairly constant at approximately 4,000 workyears. However, as a result of the cumulative effect of several years of unfunded pay raises, beginning in FY 2004, workyears began declining. DCAA executed 3,941 workyears in FY 2004, 3,942 workyears in FY 2005, with an expected workyear level of 3,875 by 2011. Projected audit requirements are commensurate with planned changes in DoD procurement levels, departmental acquisition streamlining initiatives, and required effort to complete audits of prior year contract expenditures. Staffing levels also reflect incorporation of previous QDR recommendations, major Headquarters reductions, and related DoD initiatives.

### **Systems, Controls, and Legal Compliance**

The DCAA financial statements are prepared by DFAS based on data input into the Defense Business Management System (DBMS), a legacy accounting system. These older DoD accounting systems were developed to track budget execution, not to capture the information necessary to create financial statements. It was not until the Chief Financial Officers (CFO) Act of 1990 that CFOs of executive departments and agencies were required to prepare (and have audits of) annual financial statements. The Federal Financial Management Improvement Act (FFMIA) of 1996 required, among other things, that the audit reports state whether the Agency financial management systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. DoD and DFAS have developed long-term strategies to replace the many non-compliant accounting systems such as DBMS. However, until such time as the systems are replaced, DCAA is committed to implementing processes that support the accuracy and auditability of the DCAA financial statements.

The DCAA system of accounting and administrative internal controls is adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. Reasonable assurance is provided that assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud.

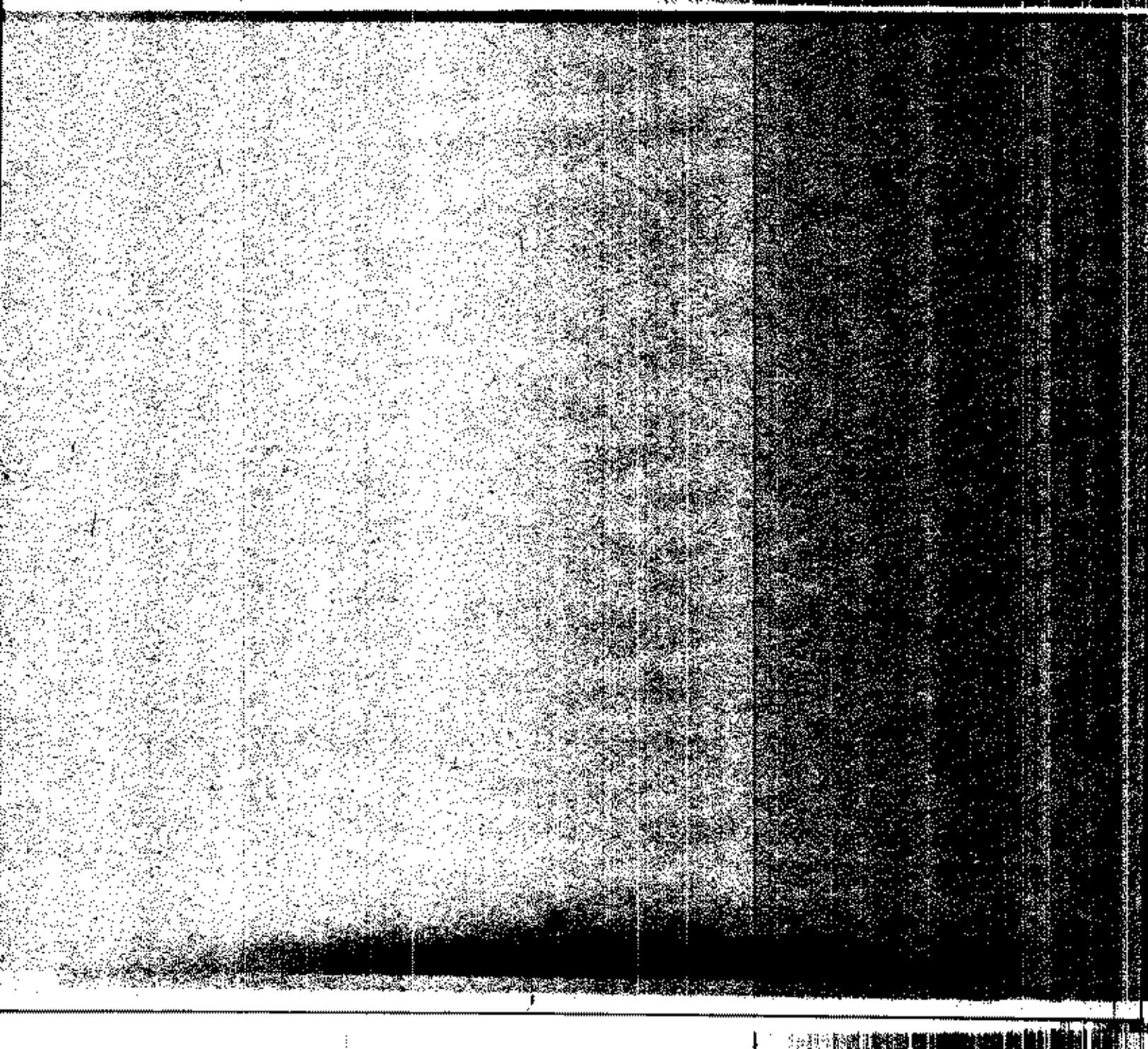
The Agency has in place a rigorous system of internal accounting and administrative controls to ensure effective management of the Agency's resources. This system provides the reasonable assurance required to certify that the objectives of the Federal Managers Financial Integrity Act are achieved. The DCAA Executive Officer oversees the Agency's internal control program. Individual assurance statements from each Headquarters Principal Staff Element and Regional Director serve as the primary basis for the Agency's assurance that internal controls are adequate. The statements are based on information from various sources such as managers' own knowledge of day-to-day operations and controls, program reviews, management initiated evaluations, and audits, reviews, and investigations performed by the DoDIG and/or the GAO.

The DCAA continues to evaluate its system of internal accounting and administrative controls in effect during the fiscal year end September 30, 2005 in accordance with the guidance in OMB Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," dated August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996.

The objectives of the system of internal accounting and administrative controls of the DCAA, are to provide reasonable assurance that:

1. The obligations and costs are in compliance with applicable laws.
2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
3. Revenues and expenditures applicable to Agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The evaluation of internal controls extends to each executive, manager, supervisor, auditor, and administrative employee in the Agency, and every responsibility and activity undertaken by DCAA is subject to financial, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors.



**DEFENSE CONTRACT  
AUDIT AGENCY**



**PRINCIPAL  
FINANCIAL STATEMENTS**

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2005 and 2004  
(\$ in Thousands)

	2005 Consolidated	2004 Consolidated
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 26,202	\$ 26,340
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	0	0
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	9,191	8,727
Other Assets (Note 6)	0	0
<b>Total Intragovernmental Assets</b>	<b>\$ 35,393</b>	<b>\$ 35,067</b>
Cash and Other Monetary Assets (Note 7)	0	0
Accounts Receivable (Note 5)	155	99
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	0	0
General Property, Plant and Equipment (Note 10)	0	0
Investments (Note 4)	0	0
Other Assets (Note 6)	474	843
<b>TOTAL ASSETS</b>	<b>\$ 36,022</b>	<b>\$ 36,009</b>
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 379	\$ 2,293
Debt (Note 13)	0	0
Other Liabilities (Note 15 & Note 16)	5,209	5,128
<b>Total Intragovernmental Liabilities</b>	<b>\$ 5,588</b>	<b>\$ 7,421</b>
Accounts Payable (Note 12)	\$ 5,866	\$ 3,459
Military Retirement Benefits and Other Employment- Actuarial Liabilities (Note 17)	16,586	16,864
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	37,676	36,399
<b>TOTAL LIABILITIES</b>	<b>\$ 65,516</b>	<b>\$ 64,143</b>
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 16,416	\$ 18,295
Cumulative Results of Operations	(45,910)	(46,369)
<b>TOTAL NET POSITION</b>	<b>\$ (29,494)</b>	<b>\$ (28,134)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 36,022</b>	<b>\$ 36,009</b>

Department of Defense

Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2005 and 2004

(\$ in Thousands)

	2005 Consolidated	2004 Consolidated
<b>Program Costs</b>		
Intragovernmental Gross Costs	\$ 113,189	\$ 110,271
(Less: Intragovernmental Earned Revenue)	(54,078)	(53,091)
Intragovernmental Net Costs	\$ 59,111	\$ 57,180
Gross Costs With the Public	352,038	336,201
(Less: Earned Revenue From the Public)	(75)	4
Net Costs With the Public	\$ 351,963	\$ 336,205
Total Net Cost	\$ 411,074	\$ 393,385
Cost Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	\$ 411,074	\$ 393,385

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended September 30, 2005 and 2004  
(\$ in Thousands)

	2005 Consolidated	2004 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>Beginning Balances</b>	\$ (46,369)	\$ (45,837)
<b>Adjustments (+/-)</b>		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
<b>Beginning Balances, as adjusted</b>	<u>(46,369)</u>	<u>(45,837)</u>
<b>Budgetary Financing Sources:</b>		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	383,410	365,753
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
<b>Other Financing Sources:</b>		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	28,129	27,100
Other (+/-)	0	0
<b>Total Financing Sources</b>	<u>411,533</u>	<u>392,853</u>
<b>Net Cost of Operations (+/-)</b>	<u>411,074</u>	<u>393,385</u>
<b>Net Change</b>	459	(532)
<b>Ending Balance</b>	<u>\$ (46,910)</u>	<u>\$ (46,369)</u>

Department of Defense

Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2005 and 2004

(\$ in Thousands)

	2005 Consolidated	2004 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>Beginning Balances</b>	\$ 18,235	\$ 22,670
<b>Prior period adjustments (+/-)</b>		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
<b>Beginning Balances, as adjusted</b>	<u>18,235</u>	<u>22,670</u>
<b>Budgetary Financing Sources:</b>		
Appropriations received	367,549	376,807
Appropriations transferred-in/out (+/-)	14,356	(5,268)
Other adjustments (rescissions, etc) (+/-)	(314)	(10,221)
Appropriations used	(383,410)	(365,753)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
<b>Other Financing Sources:</b>		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
<b>Total Financing Sources</b>	<u>(1,819)</u>	<u>(4,435)</u>
<b>Net Cost of Operations (+/-)</b>		
<b>Net Change</b>	(1,819)	(4,435)
<b>Ending Balance</b>	<u>\$ 16,416</u>	<u>\$ 18,235</u>

Department of Defense

Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2005 and 2004

(\$ in Thousands)

	2005 Combined	2004 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
Budget Authority:		
Appropriations received	\$ 367,549	\$ 376,807
Borrowing authority	0	0
Contract authority	0	0
Net transfers (+/-)	(216)	0
Other	0	0
Unobligated balance:		
Beginning of period	2,949	11,853
Net transfers, actual (+/-)	14,572	(5,288)
Anticipated Transfers Balances	0	0
Spending authority from offsetting collections:		
Earned	0	0
Collected	52,760	50,777
Receivable from Federal sources	1,393	2,310
Change in unfilled customer orders	0	0
Advance received	(5)	22
Without advance from Federal sources	0	0
Anticipated for the rest of year, without advances	0	0
Previously unavailable	0	0
Transfers for trust funds	0	0
Subtotal	54,148	53,109
Recoveries of prior year obligations	1,552	4,997
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(313)	(10,221)
<b>Total Budgetary Resources</b>	<b>\$ 440,241</b>	<b>\$ 431,277</b>

Department of Defense

Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2005 and 2004

(\$ in Thousands)

	2005 Combined	2004 Combined
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations incurred:		
Direct	\$ 383,720	\$ 376,391
Reimbursable	54,229	51,936
Subtotal	437,949	428,327
Unobligated balance:		
Apportioned	698	2,503
Exempt from apportionment	0	0
Other available	0	0
Unobligated Balances Not Available	1,594	447
<b>Total, Status of Budgetary Resources</b>	<b>\$ 440,241</b>	<b>\$ 431,277</b>
<b>Relationship of Obligations to Outlays:</b>		
Obligated Balance, Net - beginning of period	\$ 24,363	\$ 21,667
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, Net - end of period:		
Accounts receivable	(9,221)	(7,828)
Unfilled customer order from Federal sources	0	0
Undelivered orders	13,662	15,481
Accounts payable	19,535	16,730
Outlays:		
Disbursements	435,393	418,302
Collections	(52,754)	(50,800)
Subtotal	382,639	367,502
Less: Offsetting receipts	0	0
<b>Net Outlays</b>	<b>\$ 382,639</b>	<b>\$ 367,502</b>

Department of Defense  
 Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATED STATEMENT OF FINANCING**  
 For the periods ended September 30, 2005 and 2004  
 (\$ in Thousands)

	2005 Consolidated	2004 Consolidated
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$ 437,849	\$ 428,327
Less: Spending authority from offsetting collections and recoveries (-)	(55,699)	(58,107)
Obligations net of offsetting collections and recoveries	382,250	370,220
Less: Offsetting receipts (-)	0	0
Net obligations	382,250	370,220
<b>Other Resources</b>		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	28,123	27,100
Other (+/-)	0	0
Net other resources used to finance activities	28,123	27,100
<b>Total resources used to finance activities</b>	<b>410,373</b>	<b>397,320</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	2,168	(4,156)
Unfilled Customer Orders	(5)	22
Resources that fund expenses recognized in prior periods	(506)	(2,411)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
Resources that finance the acquisition of assets	0	0
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange	0	0
Other (+/-)	0	0
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>1,657</b>	<b>(6,545)</b>
<b>Total resources used to finance the net cost of operations</b>	<b>412,030</b>	<b>390,775</b>

Department of Defense

Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency

CONSOLIDATED STATEMENT OF FINANCING

For the periods ended September 30, 2005 and 2004

(\$ in Thousands)

	2005 Consolidated	2004 Consolidated
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Period:</b>		
Increase in annual leave liability	621	534
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	0	0
Other (+/-)	46	2,076
<b>Total components of Net Cost of Operations that will require or generate resources in future periods</b>	<b>667</b>	<b>2,610</b>
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and amortization	0	0
Revaluation of assets or liabilities (+/-)	0	0
Other (+/-)		
Trust Fund Exchange Revenue	0	0
Cost of Goods Sold	0	0
Operating Material & Supplies Used	0	0
Other	(1,623)	0
<b>Total components of Net Cost of Operations that will not require or generate resources</b>	<b>(1,623)</b>	<b>0</b>
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>(956)</b>	<b>2,610</b>
<b>Net Cost of Operations</b>	<b>411,074</b>	<b>393,385</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING BALANCE SHEET**  
**As of September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Operation and Maintenance	Procurement	Other
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	\$ 24,397	\$ 1,788	\$ 0
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	9,191	0	0
Other Assets (Note 6)	0	0	0
<b>Total Intragovernmental Assets</b>	<b>\$ 33,588</b>	<b>\$ 1,788</b>	<b>\$ 0</b>
Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0	\$ 0
Accounts Receivable (Note 5)	155	0	0
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	0	0	0
General Property, Plant and Equipment (Note 10)	0	0	0
Investments (Note 4)	0	0	0
Other Assets (Note 6)	474	0	0
<b>TOTAL ASSETS</b>	<b>\$ 34,217</b>	<b>\$ 1,788</b>	<b>\$ 0</b>



**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING BALANCE SHEET**  
**As of September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Elimination	2005 Consolidated	2004 Consolidated
	-----	-----	-----
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	\$ 0	\$ 26,202	\$ 26,340
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	0	9,191	8,727
Other Assets (Note 6)	0	0	0
Total Intragovernmental Assets	<u>\$ 0</u>	<u>\$ 35,393</u>	<u>\$ 35,087</u>
Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0	\$ 0
Accounts Receivable (Note 5)	0	155	99
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	0	0	0
General Property, Plant and Equipment (Note 10)	0	0	0
Investments (Note 4)	0	0	0
Other Assets (Note 6)	0	474	843
<b>TOTAL ASSETS</b>	<u><u>\$ 0</u></u>	<u><u>\$ 36,022</u></u>	<u><u>\$ 36,009</u></u>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING BALANCE SHEET**  
**As of September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Operation and Maintenance	Procurement	Other
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 378	\$ 1	\$ 0
Debt (Note 13)	0	0	0
Other Liabilities (Note 15 & Note 16)	5,209	0	0
<b>Total Intragovernmental Liabilities</b>	<b>\$ 5,587</b>	<b>\$ 1</b>	<b>\$ 0</b>
Accounts Payable (Note 12)	\$ 5,047	\$ 619	\$ 0
Military Retirement Benefits and Other Employment-Related	16,586	0	0
Actuarial Liabilities (Note 17)			
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	37,676	0	0
<b>TOTAL LIABILITIES</b>	<b>\$ 64,896</b>	<b>\$ 620</b>	<b>\$ 0</b>
<b>NET POSITION</b>			
Unexpended Appropriations	\$ 15,291	\$ 1,168	\$ 0
Cumulative Results of Operations	(45,910)	0	0
<b>TOTAL NET POSITION</b>	<b>\$ (30,619)</b>	<b>\$ 1,168</b>	<b>\$ 0</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 34,217</b>	<b>\$ 1,788</b>	<b>\$ 0</b>

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2005 and 2004  
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 0	\$ 0	\$ 379
Debt (Note 13)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	0	5,209
<b>Total Intragovernmental Liabilities</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 5,588</b>
Accounts Payable (Note 12)	\$ 0	\$ 0	\$ 5,666
Military Retirement Benefits and Other Employment-Related	0	0	16,586
Actuarial Liabilities (Note 17)			
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	0	0	37,676
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 65,518</b>
<b>NET POSITION</b>			
Unexpended Appropriations	\$ 17	\$ 0	\$ 18,416
Cumulative Results of Operations	0	0	(45,910)
<b>TOTAL NET POSITION</b>	<b>\$ 17</b>	<b>\$ 0</b>	<b>\$ (29,494)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 17</b>	<b>\$ 0</b>	<b>\$ 36,022</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING BALANCE SHEET**  
**As of September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Elimination	2005 Consolidated	2004 Consolidated
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 0	\$ 379	\$ 2,293
Debt (Note 13)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	5,209	5,128
<b>Total Intragovernmental Liabilities</b>	<b>\$ 0</b>	<b>\$ 5,588</b>	<b>\$ 7,421</b>
Accounts Payable (Note 12)	\$ 0	5,666	3,459
Military Retirement Benefits and Other Employment-Related	0	16,586	16,864
Actuarial Liabilities (Note 17)			
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	0	37,676	36,399
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 65,516</b>	<b>\$ 64,143</b>
<b>NET POSITION</b>			
Unexpended Appropriations	\$ 0	\$ 16,416	\$ 18,235
Cumulative Results of Operations	0	(45,910)	(46,369)
<b>TOTAL NET POSITION</b>	<b>\$ 0</b>	<b>\$ (29,494)</b>	<b>\$ (28,134)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 0</b>	<b>\$ 36,022</b>	<b>\$ 36,009</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF NET COST**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ In Thousands)**

	Operation and Maintenance	Procurement	Other
<b>Program Costs</b>			
Intragovernmental Gross Costs	\$ 113,115	\$ 74	\$ 0
(Less: Intragovernmental Earned Revenue)	(54,078)	0	0
Intragovernmental Net Costs	\$ 59,037	\$ 74	\$ 0
Gross Costs With the Public	350,454	1,587	0
(Less: Earned Revenue From the Public)	(75)	0	0
Net Costs With the Public	\$ 350,379	\$ 1,587	\$ 0
Total Net Cost	\$ 409,416	\$ 1,661	\$ 0
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	\$ 409,416	\$ 1,661	\$ 0

**Department of Defense**

**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**

**CONSOLIDATING STATEMENT OF NET COST**

**For the periods ended September 30, 2005 and 2004**

**(\$ in Thousands)**

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
<b>Program Costs</b>			
Intragovernmental Gross Costs	\$ 0	\$ 0	\$ 113,189
(Less: Intragovernmental Earned Revenue)	0	0	(54,078)
Intragovernmental Net Costs	\$ 0	\$ 0	\$ 59,111
Gross Costs With the Public	(3)	0	352,038
(Less: Earned Revenue From the Public)	0	0	(75)
Net Costs With the Public	\$ (3)	\$ 0	\$ 351,963
Total Net Cost	\$ (3)	\$ 0	\$ 411,074
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	\$ (3)	\$ 0	\$ 411,074

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF NET COST**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Elimination	2005 Consolidated	2004 Consolidated
<b>Program Costs</b>			
Intragovernmental Gross Costs	\$ 0	\$ 113,189	\$ 110,271
(Less: Intragovernmental Earned Revenue)	0	(54,078)	(53,091)
Intragovernmental Net Costs	\$ 0	\$ 59,111	\$ 57,180
Gross Costs With the Public	0	352,038	336,201
(Less: Earned Revenue From the Public)	0	(75)	4
Net Costs With the Public	\$ 0	\$ 351,963	\$ 336,205
Total Net Cost	\$ 0	\$ 411,074	\$ 393,385
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	\$ 0	\$ 411,074	\$ 393,385

**Department of Defense**

**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**

**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**

For the periods ended September 30, 2005 and 2004

(\$ in Thousands)

	Operation and Maintenance	Procurement	Other
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
<b>Beginning Balances</b>	\$ (46,369)	\$ 0	\$ 0
<b>Adjustments (+/-)</b>			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	<u>(46,369)</u>	<u>0</u>	<u>0</u>
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	381,752	1,661	0
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	28,123	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>409,875</u>	<u>1,661</u>	<u>0</u>
<b>Net Cost of Operations (+/-)</b>	<u>409,416</u>	<u>1,661</u>	<u>0</u>
<b>Net Change</b>	<u>459</u>	<u>0</u>	<u>0</u>
<b>Ending Balance</b>	<u>\$ (45,910)</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
<b>Beginning Balances</b>	\$ 0	\$ 0	\$ (46,369)
<b>Adjustments (+/-)</b>			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	<u>0</u>	<u>0</u>	<u>(46,369)</u>
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	(3)	0	383,410
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	28,123
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>(3)</u>	<u>0</u>	<u>411,533</u>
<b>Net Cost of Operations (+/-)</b>	<u>(3)</u>	<u>0</u>	<u>411,074</u>
<b>Net Change</b>	<u>0</u>	<u>0</u>	<u>459</u>
<b>Ending Balance</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (45,910)</u>

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended September 30, 2005 and 2004  
(\$ in Thousands)

	Elimination	2005 Consolidated	2004 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
<b>Beginning Balances</b>	\$ 0	\$ (46,369)	\$ (45,837)
<b>Adjustments (+/-)</b>			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	<u>0</u>	<u>(46,369)</u>	<u>(45,837)</u>
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	383,410	365,753
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	28,123	27,100
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>0</u>	<u>411,533</u>	<u>392,853</u>
<b>Net Cost of Operations (+/-)</b>	<u>0</u>	<u>411,074</u>	<u>393,385</u>
<b>Net Change</b>	<u>0</u>	<u>459</u>	<u>(532)</u>
<b>Ending Balance</b>	<u>\$ 0</u>	<u>\$ (45,910)</u>	<u>\$ (46,369)</u>

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended September 30, 2005 and 2004  
(\$ in Thousands)

	Operation and Maintenance	Procurement	Other
<b>UNEXPENDED APPROPRIATIONS</b>			
<b>Beginning Balances</b>	\$ 16,740	\$ 1,481	\$ 0
<b>Prior period adjustments (+/-)</b>			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	16,740	1,481	0
<b>Budgetary Financing Sources:</b>			
Appropriations received	366,173	1,376	0
Appropriations transferred-in/out (+/-)	14,357	(1)	0
Other adjustments (rescissions, etc) (+/-)	(287)	(27)	0
Appropriations used	(381,752)	(1,661)	0
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	(1,509)	(313)	0
<b>Net Cost of Operations (+/-)</b>			
<b>Net Change</b>	(1,509)	(313)	0
<b>Ending Balance</b>	\$ 15,231	\$ 1,168	\$ 0

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended September 30, 2005 and 2004  
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
<b>UNEXPENDED APPROPRIATIONS</b>			
<b>Beginning Balances</b>	\$ 14	\$ 0	\$ 18,235
<b>Prior period adjustments (+/-)</b>			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	14	0	18,235
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	367,548
Appropriations transferred-in/out (+/-)	0	0	14,356
Other adjustments (rescissions, etc) (+/-)	0	0	(314)
Appropriations used	3	0	(383,410)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	3	0	(1,819)
<b>Net Cost of Operations (+/-)</b>			
<b>Net Change</b>	3	0	(1,819)
<b>Ending Balance</b>	\$ 17	\$ 0	\$ 16,416

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ In Thousands)**

	Elimination	2005 Consolidated	2004 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>			
<b>Beginning Balances</b>	\$ 0	\$ 18,235	\$ 22,670
<b>Prior period adjustments (+/-)</b>			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	<u>0</u>	<u>18,235</u>	<u>22,670</u>
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	387,549	376,807
Appropriations transferred-in/out (+/-)	0	14,356	(5,268)
Other adjustments (rescissions, etc) (+/-)	0	(314)	(10,221)
Appropriations used	0	(383,410)	(365,753)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>0</u>	<u>(1,819)</u>	<u>(4,435)</u>
<b>Net Cost of Operations (+/-)</b>			
<b>Net Change</b>	0	(1,819)	(4,435)
<b>Ending Balance</b>	<u>\$ 0</u>	<u>\$ 16,416</u>	<u>\$ 18,235</u>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Operation and Maintenance	Procurement	Other
<b>BUDGETARY FINANCING ACCOUNTS</b>			
<b>BUDGETARY RESOURCES</b>			
Budget Authority:			
Appropriations received	\$ 366,173	\$ 1,376	\$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	(215)	(1)	0
Other	0	0	0
Unobligated balance:			
Beginning of period	2,286	649	0
Net transfers, actual (+/-)	14,572	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Eamed	0	0	0
Collected	52,760	0	0
Receivable from Federal sources	1,393	0	0
Change in unfilled customer orders	0	0	0
Advance received	(5)	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Previously unavailable	0	0	0
Transfers for trust funds	0	0	0
Subtotal	54,148	0	0
Recoveries of prior year obligations	1,549	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(286)	(27)	0
<b>Total Budgetary Resources</b>	<b>\$ 438,227</b>	<b>\$ 1,987</b>	<b>\$ 0</b>

Department of Defense  
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended September 30, 2005 and 2004  
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2005 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>			
<b>BUDGETARY RESOURCES</b>			
Budget Authority:			
Appropriations received	\$ 0	\$ 0	\$ 367,549
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	(216)
Other	0	0	0
Unobligated balance:			
Beginning of period	14	0	2,949
Net transfers, actual (+/-)	0	0	14,572
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	0	52,760
Receivable from Federal sources	0	0	1,393
Change in unfilled customer orders	0	0	0
Advance received	0	0	(5)
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Previously unavailable	0	0	0
Transfers for trust funds	0	0	0
Subtotal	0	0	54,148
Recoveries of prior year obligations	3	0	1,552
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	(913)
<b>Total Budgetary Resources</b>	<b>\$ 17</b>	<b>\$ 0</b>	<b>\$ 440,241</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ In Thousands)**

2004 Combined

**BUDGETARY FINANCING ACCOUNTS**

**BUDGETARY RESOURCES**

Budget Authority:

Appropriations received	\$	376,807
Borrowing authority		0
Contract authority		0
Net transfers (+/-)		0
Other		0

Unobligated balance:

Beginning of period		11,853
Net transfers, actual (+/-)		(5,266)
Anticipated Transfers Balances		0

Spending authority from offsetting collections:

Earned		0
Collected		50,777
Receivable from Federal sources		2,310
Change in unfilled customer orders		0
Advance received		22
Without advance from Federal sources		0
Anticipated for the rest of year, without advances		0
Previously unavailable		0
Transfers for trust funds		0
Subtotal		53,109

Recoveries of prior year obligations		4,997
Temporarily not available pursuant to Public Law		0
Permanently not available		(10,221)
<b>Total Budgetary Resources</b>	<b>\$</b>	<b>431,277</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ In Thousands)**

	Operation and Maintenance	Procurement	Other
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations incurred:			
Direct	\$ 382,178	\$ 1,542	\$ 0
Reimbursable	54,229	0	0
Subtotal	<u>436,407</u>	<u>1,542</u>	<u>0</u>
Unobligated balance:			
Apportioned	623	75	0
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	1,197	380	0
<b>Total, Status of Budgetary Resources</b>	<u>\$ 438,227</u>	<u>\$ 1,997</u>	<u>\$ 0</u>
<b>Relationship of Obligations to Outlays:</b>			
Obligated Balance, Net - beginning of period	\$ 23,526	\$ 857	\$ 0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	(9,221)	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	12,969	713	0
Accounts payable	18,915	620	0
Outlays:			
Disbursements	434,328	1,067	0
Collections	(52,754)	0	0
Subtotal	<u>381,574</u>	<u>1,067</u>	<u>0</u>
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<u>\$ 381,574</u>	<u>\$ 1,067</u>	<u>\$ 0</u>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Research, Development Test & Evaluation	DCAA Component Level	2005 Combined
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations incurred:			
Direct	\$ 0	\$ 0	\$ 383,720
Reimbursable	0	0	54,229
Subtotal	<u>0</u>	<u>0</u>	<u>437,949</u>
Unobligated balance:			
Apportioned	0	0	698
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	17	0	1,594
<b>Total, Status of Budgetary Resources</b>	<u>\$ 17</u>	<u>\$ 0</u>	<u>\$ 440,241</u>
<b>Relationship of Obligations to Outlays:</b>			
Obligated Balance, Net - beginning of period	\$ 0	\$ 0	\$ 24,383
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	0	(9,221)
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	13,682
Accounts payable	0	0	19,535
Outlays:			
Disbursements	(2)	0	435,393
Collections	0	0	(52,754)
Subtotal	<u>(2)</u>	<u>0</u>	<u>382,639</u>
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<u>\$ (2)</u>	<u>\$ 0</u>	<u>\$ 382,639</u>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

2004 Combined

**STATUS OF BUDGETARY RESOURCES**

Obligations incurred:		
Direct	\$	376,391
Reimbursable		51,936
Subtotal		<u>428,327</u>
Unobligated balance:		
Apportioned		2,503
Exempt from apportionment		0
Other available		0
Unobligated Balances Not Available		447
<b>Total, Status of Budgetary Resources</b>	<b>\$</b>	<b><u>431,277</u></b>

**Relationship of Obligations to Outlays:**

Obligated Balance, Net - beginning of period	\$	21,667
Obligated Balance transferred, net (+/-)		0
Obligated Balance, Net - end of period:		
Accounts receivable		(7,828)
Unfilled customer order from Federal sources		0
Undelivered orders		15,481
Accounts payable		16,730
Outlays:		
Disbursements		418,302
Collections		(50,800)
Subtotal		<u>367,502</u>
Less: Offsetting receipts		0
<b>Net Outlays</b>	<b>\$</b>	<b><u>367,502</u></b>

**Department of Defense**

**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**

**CONSOLIDATING STATEMENT OF FINANCING**

**For the periods ended September 30, 2005 and 2004**

**(\$ in Thousands)**

	Operation and Maintenance	Procurement	Other
<b>Resources Used to Finance Activities:</b>			
<b>Budgetary Resources Obligated</b>			
Obligations incurred	\$ 436,407	\$ 1,542	\$ 0
Less: Spending authority from offsetting collections and recoveries (-)	(55,696)	0	0
Obligations net of offsetting collections and recoveries	380,711	1,542	0
Less: Offsetting receipts (-)	0	0	0
Net obligations	380,711	1,542	0
<b>Other Resources</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	28,123	0	0
Other (+/-)	0	0	0
Net other resources used to finance activities	28,123	0	0
<b>Total resources used to finance activities</b>	<b>408,834</b>	<b>1,542</b>	<b>0</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF FINANCING**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Research, Development Test & Evaluation	DCAA Component Level	2005 Consolidated
<b>Resources Used to Finance Activities:</b>			
<b>Budgetary Resources Obligated</b>			
Obligations incurred	\$ 0	\$ 0	\$ 437,949
Less: Spending authority from offsetting collections and recoveries (-)	(3)	0	(55,899)
Obligations net of offsetting collections and recoveries	(3)	0	382,250
Less: Offsetting receipts (-)	0	0	0
Net obligations	(3)	0	382,250
<b>Other Resources</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	28,123
Other (+/-)	0	0	0
Net other resources used to finance activities	0	0	28,123
<b>Total resources used to finance activities</b>	<b>(3)</b>	<b>0</b>	<b>410,373</b>

**Department of Defense**

**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**

**CONSOLIDATING STATEMENT OF FINANCING**

**For the periods ended September 30, 2005 and 2004**

**(\$ in Thousands)**

**2004 Consolidated**

**Resources Used to Finance Activities:**

**Budgetary Resources Obligated**

Obligations incurred	\$	428,327
Less: Spending authority from offsetting collections and recoveries (-)		(58,107)
Obligations net of offsetting collections and recoveries		370,220
Less: Offsetting receipts (-)		0
Net obligations		370,220

**Other Resources**

Donations and forfeitures of property		0
Transfers in/out without reimbursement (+/-)		0
Imputed financing from costs absorbed by others		27,100
Other (+/-)		0
Net other resources used to finance activities		27,100
<b>Total resources used to finance activities</b>		<b>397,320</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF FINANCING**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ In Thousands)**

	Operation and Maintenance	Procurement	Other
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	2,049	119	0
Unfiled Customer Orders	(5)	0	0
Resources that fund expenses recognized in prior periods	(506)	0	0
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
Resources that finance the acquisition of assets	0	0	0
Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>1,538</b>	<b>119</b>	<b>0</b>
<b>Total resources used to finance the net cost of operations</b>	<b>410,372</b>	<b>1,661</b>	<b>0</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF FINANCING**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Research, Development Test & Evaluation	DCAA Component Level	2005 Consolidated
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	0	0	2,168
Unfilled Customer Orders	0	0	(5)
Resources that fund expenses recognized in prior periods	0	0	(506)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
Resources that finance the acquisition of assets	0	0	0
Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>0</b>	<b>0</b>	<b>1,657</b>
<b>Total resources used to finance the net cost of operations</b>	<b>(3)</b>	<b>0</b>	<b>412,030</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF FINANCING**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

2004 Consolidated

	<u>2004 Consolidated</u>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>	
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	
Undelivered Orders (-)	(4,156)
Unfilled Customer Orders	22
Resources that fund expenses recognized in prior periods	(2,411)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0
Resources that finance the acquisition of assets	0
Other resources or adjustments to net obligated resources that do not affect net cost of operations	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0
Other (+/-)	0
<b>Total resources used to finance items not part of the net cost of operations</b>	<u>(6,545)</u>
<b>Total resources used to finance the net cost of operations</b>	<u>390,775</u>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF FINANCING**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

	Operation and Maintenance	Procurement	Other
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>			
<b>Components Requiring or Generating Resources in Future Period:</b>			
Increase in annual leave liability	621	0	0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0
Other (+/-)	46	0	0
<b>Total components of Net Cost of Operations that will require or generate resources in future periods</b>	<b>667</b>	<b>0</b>	<b>0</b>
<b>Components not Requiring or Generating Resources:</b>			
Depreciation and amortization	0	0	0
Revaluation of assets or liabilities (+/-)	0	0	0
Other (+/-)			
Trust Fund Exchange Revenue	0	0	0
Cost of Goods Sold	0	0	0
Operating Material & Supplies Used	0	0	0
Other	(1,623)	0	0
<b>Total components of Net Cost of Operations that will not require or generate resources</b>	<b>(1,623)</b>	<b>0</b>	<b>0</b>
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>(956)</b>	<b>0</b>	<b>0</b>
<b>Net Cost of Operations</b>	<b>409,416</b>	<b>1,661</b>	<b>0</b>

Department of Defense  
 Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency  
**CONSOLIDATING STATEMENT OF FINANCING**  
 For the periods ended September 30, 2005 and 2004  
 (\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2005 Consolidated
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>			
<b>Components Requiring or Generating Resources in Future Period:</b>			
Increase in annual leave liability	0	0	621
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0
Other (+/-)	0	0	46
<b>Total components of Net Cost of Operations that will require or generate resources in future periods</b>	<b>0</b>	<b>0</b>	<b>667</b>
<b>Components not Requiring or Generating Resources:</b>			
Depreciation and amortization	0	0	0
Revaluation of assets or liabilities (+/-)	0	0	0
Other (+/-)			
Trust Fund Exchange Revenue	0	0	0
Cost of Goods Sold	0	0	0
Operating Material & Supplies Used	0	0	0
Other	0	0	(1,623)
<b>Total components of Net Cost of Operations that will not require or generate resources</b>	<b>0</b>	<b>0</b>	<b>(1,623)</b>
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>0</b>	<b>0</b>	<b>(956)</b>
<b>Net Cost of Operations</b>	<b>(3)</b>	<b>0</b>	<b>411,074</b>

**Department of Defense**  
**Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency**  
**CONSOLIDATING STATEMENT OF FINANCING**  
**For the periods ended September 30, 2005 and 2004**  
**(\$ in Thousands)**

**2004 Consolidated**

**Components of the Net Cost of Operations that will**  
**not Require or Generate Resources in the Current Period:**

**Components Requiring or Generating Resources in Future**  
**Period:**

increase in annual leave liability	534
increase in environmental and disposal liability	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0
increase in exchange revenue receivable from the the public (-)	0
Other (+/-)	2,076
<b>Total components of Net Cost of Operations that</b>	<b>2,610</b>
<b>will require or generate resources in future periods</b>	

**Components not Requiring or Generating Resources:**

Depreciation and amortization	0
Revaluation of assets or liabilities (+/-)	0
Other (+/-)	
Trust Fund Exchange Revenue	0
Cost of Goods Sold	0
Operating Material & Supplies Used	0
Other	0
<b>Total components of Net Cost of Operations that</b>	<b>0</b>
<b>will not require or generate resources</b>	
<b>Total components of net cost of operations that</b>	<b>2,610</b>
<b>will not require or generate resources in the current</b>	

**period**

**Net Cost of Operations** **393,385**

**DEFENSE CONTRACT  
AUDIT AGENCY**



**NOTES TO THE PRINCIPAL  
FINANCIAL STATEMENTS**

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

The financial statements present the financial position, net cost of operations, and changes in net position, budgetary resources and financing for the Defense Contract Audit Agency (DCAA), as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other applicable legislation. The financial statements are prepared from the accounting books and records of the DCAA and its accounting services provider, the Defense Finance and Accounting Service (DFAS). In addition, the financial statements are prepared in accordance with the "Department of Defense (DoD) Financial Management Regulation," Office of Management and Budget (OMB) Circular A-136, and to the extent possible, the Generally Accepted Accounting Principles (GAAP) for federal agencies.

The DCAA's financial statements are different from the financial reports that are used to monitor and control the use of budgetary resources, even though they are prepared from the same books and records. The financial statements are prepared to provide information with which Congress, agency managers, the public, and other interested parties can assess management performance and stewardship.

Currently, the DCAA is unable to implement fully all elements of Federal GAAP. GAAP for federal financial reporting entities recognize the federal accounting standards board as the standards setting body designed to establish these principles for these entities. The DFAS continues to implement process and system improvements addressing the limitations of its financial and non-financial feeder systems. A more detailed explanation of these financial statement elements is discussed in the applicable note narrative.

**1.B. Mission of the Reporting Entity**

The DCAA, formed on January 8, 1965, is a worldwide, single mission agency dedicated to providing timely and responsive contract audits, reports, and financial advisory services to the DoD contracting officers and other customers. The DCAA's primary customers are contracting officers in the Army, Navy, Air Force and the Defense Contract Management Agency. However, the DCAA also performs, on a reimbursable basis, contract audit services for most of the other federal agencies, currently about 40 entities. The majority of the DCAA's workload originates from statutory and regulatory requirements designed to ensure that the government meets its fiduciary responsibilities to the public when awarding and administering contracts.

**1.C. Appropriations and Funds**

The DCAA receives apportionments of Operation and Maintenance and Procurement funds from the Office of Management and Budget through the DoD. These apportionments represent the obligation authority limitation for the budget program authorized. As of Fiscal Year (FY) 2005, the DCAA no longer receives a new allotment of Research, Development, Test and Evaluation (RDT&E) funds from the DoD. RDT&E

obligation authority for years prior to FY 2005 will remain on the accounting books and records until the appropriations are closed.

#### **1.D. Basis of Accounting**

Transactions are recorded using financial (accrual) accounting and budgetary accounting. Budgetary and financial accounting information are complementary, but the types of information and timing of their recognition cause differences between the two bases of accounting. Budgetary accounting facilitates compliance with legal constraints and statutory controls over the use of federal funds. Financial accounting supports accrual accounting and financial reporting by accounting for assets, liabilities, net position, revenues, and expenses to show actual financial position and results of operations. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash.

#### **1.E. Revenues and Other Financing Sources**

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multi-year basis. When authorized, these appropriations are supplemented by revenues generated by sales of services through a reimbursable order process. The DCAA recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Under the reimbursable order process, the DCAA recognizes revenue when earned.

#### **1.F. Recognition of Expenses**

For financial reporting purposes, the DCAA recognizes operating expenses in the period incurred. Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual leave earned but not taken, are financed in the period in which the payment is made. The DCAA adjusts operating expenses because of the elimination of balances between DoD components and other federal entities.

#### **1.G. Accounting for Intragovernmental Activities**

The DCAA, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the DCAA as though the agency was a stand-alone entity.

The Federal government does not apportion debt and its related costs to Federal agencies. The DCAA's financial statements, therefore, do not report any portion of the public debt or interest, nor do the financial statements report the source of public financing whether from issuance of debt or tax revenues.

### Civilian Retirement Systems

The Civilian Retirement System for DCAA employees hired prior to January 1, 1984, is the Civil Service Retirement System (CSRS). The Federal Employees Retirement System (FERS) implemented on January 1, 1984 covers the DCAA's employees hired after December 31, 1983. For a period after the implementation of FERS, employees covered under CSRS could elect to transfer to FERS, or remain with CSRS. Additionally, certain CSRS employees and employees covered by FERS have coverage under Social Security. The DCAA funds a portion of its employees' pensions. The Office of Personnel Management (OPM) is responsible for government-wide reporting of CSRS and FERS assets, accumulated plan benefits and unfunded liabilities. The DCAA recognizes an imputed expense on the Statement of Net Cost for the portion of civilian employee pensions and other retirement benefits funded by OPM; and recognizes corresponding imputed revenue on the Statement of Changes in Net Position from civilian employee pensions and other retirement benefits.

### Intragovernmental Eliminations

Intragovernmental account eliminations are necessary so as not to overstate or understate the financial position of the DCAA by including the effects of intragovernmental transactions. Most of the Department of Defense and other federal accounting systems do not capture accounts receivable, accounts payable and unearned revenue data at a detail level that identifies the corresponding buying and selling agencies. DoD eliminates intragovernmental balances at the departmental level by adjusting, in most cases, the buyer-side records to recognize unrecorded costs, accounts payable and advances to the summary seller-side balances for revenue, accounts receivable and unearned revenue.

The DCAA is waived from buyer-side eliminations adjustments for Fiscal Year 2005. The DCAA's accounting systems capture trading partner data at the transaction level resulting in reliable and accurate buyer-side data. Because of the DCAA's controls over accounts receivable and its limited purchasing of goods or services from other agencies, potential error in intragovernmental accounts receivable or accounts payable and corresponding revenue or expense is not material to the DCAA's financial statements.

### 1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Control Act of 1976." Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance.

**1.I. Funds with the U.S. Treasury**

The DCAA receives its spending authorizations as allotments from DoD Appropriations. As such, what is presented on its Balance Sheet as Fund Balance with Treasury, is not directly reconcilable with account balances maintained by the Department of Treasury.

**1.J. Foreign Currency**

Not applicable to the DCAA.

**1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. The DCAA does not recognize an allowance for estimated uncollectible amounts from another federal agency. Claims against another federal agency are to be resolved between the agencies. The DCAA established 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**

Not applicable to the DCAA.

**1.M. Inventories and Related Property**

Not applicable to the DCAA.

**1.N. Investments in U.S. Treasury Securities**

Not applicable to the DCAA.

**1.O. General Property, Plant and Equipment**

Not applicable to the DCAA.

**1.P. Advances and Prepayments**

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures when the related goods and service are received.

**1.Q. Leases**

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially

all of the benefits or risks of ownership are classified as operating leases and recorded as expenses, as payments are made over the lease term.

**1.R. Other Assets**

Other assets represent prepayments made to civilian employees for salary advances and anticipated business expenses while on official travel.

**1.S. Contingencies and Other Liabilities**

Not applicable to the DCAA.

**1.T. Accrued Leave**

Civilian annual leave is accrued as earned and the unfunded accrued amounts are reduced as leave is taken. The balances for annual leave at the end of 4th Quarter, FY 2005 reflect current pay rates for the leave that is earned but not taken. To the extent that current year appropriations are not available to fund annual leave, funding will be obtained from future financing resources. Sick and other types of non-vested leave are expensed as taken.

**1.U. Net Position**

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations include the amount of unobligated allotments that have not been rescinded or withdrawn and the amounts obligated but for which liabilities for payments have not been incurred at the end of 4th Quarter, FY 2005.

Cumulative Results of Operations represent the balances that result from subtracting expenses and losses, from financing sources including appropriations, revenue, and gains since the inception of the activity.

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

Not applicable to the DCAA.

**1.W. Comparative Data**

The DCAA presents the current and previous year's financial data for comparative purposes. The amounts appearing in these statements for 4th Quarter, FY 2004 represent the balances reported for the line items in the 4th Quarter, FY 2004 Audited Financial Statements, as well as in the notes to the principal statements.

Financial statement fluctuations greater than 10 percent between 4th Quarter, FY 2004 and 4th Quarter, FY 2005 are explained within the Notes to the Financial Statements.

**1.X. Unexpended Obligations**

The DCAA records obligations for goods and services that have been ordered but not yet received. The financial statements do not reflect a liability for goods yet to be delivered and services yet to be received.

**1.Y. Undistributed Disbursements and Collections**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports.

It is the policy of the Department of Defense to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of Federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded as other liabilities for deposit funds. The DCAA follows this procedure.

<b>Note 2.</b>	<b>Nonentity Assets</b>
----------------	-------------------------

As of September 30	2005	2004
(Amounts in thousands)		
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Investments	0	0
C. Accounts Receivable	0	0
D. Other Assets	0	0
E. Total Intragovernmental Assets	\$ 0	\$ 0
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Loans Receivable	0	0
D. Inventory & Related Property	0	0
E. General PP&E	0	0
F. Investments	0	0
G. Other Assets	0	0
H. Total Nonfederal Assets	\$ 0	\$ 0
<b>3. Total Nonentity Assets</b>	\$ 0	\$ 0
<b>4. Total Entity Assets</b>	\$ 36,022	\$ 36,009
<b>5. Total Assets</b>	\$ 36,022	\$ 36,009

Assets are categorized as entity or nonentity:

Entity assets consist of resources that the Defense Contract Audit Agency has the authority to use or where management is legally obligated to use funds to meet entity obligations.

Nonentity assets are assets held by an entity, but are not available for use in the operations of the entity.

**Note 3. Fund Balance with Treasury**

As of September 30

(Amounts in thousands)

	2005	2004
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 26,202	\$ 26,340
B. Revolving Funds	0	0
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	\$ 26,202	\$ 26,340
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 0	\$ 0
B. Fund Balance per DCAA	26,202	26,340
<b>3. Reconciling Amount</b>	\$ (26,202)	\$ (26,340)

Explanation of Reconciling Amount

The Department of the Treasury reports fund balances at the appropriation basic symbol level. The Department of Defense (DoD) reconciles and reports the Fund Balance with Treasury (FBWT) for Treasury Index 97 (TI-97) funds at the agency-wide level. The Defense Contract Audit Agency (DCAA) is uniquely identified at the limit level within Defense TI-97 fund and cannot present a reconciliation of the Fund Balance per Treasury on its financial statements.

Other DCAA Disclosures

Appropriated funds are provided through congressional appropriation and the DCAA receives its spending authorizations as allotments from the DoD. Operation and Maintenance funds are available for new obligations for one year and for obligation adjustments for a period of five years after they expire. Research, Development, Test and Evaluation funds are available for new obligations for a period of two years and for obligation adjustments for a period of five years after they expire. Procurement funds are available for new obligations for a period of three years and for obligation adjustments for a period of five years after they expire.

**Status of Fund Balance with Treasury**

As of September 30	2005		2004	
(Amounts in thousands)				
<b>1. Unobligated Balance</b>				
A. Available	\$	698	\$	2,503
B. Unavailable		1,594		447
<b>2. Obligated Balance not yet Disbursed</b>	\$	33,217	\$	32,211
<b>3. Non-Budgetary FBWT</b>	\$	0	\$	0
<b>4. Non-FBWT Budgetary Accounts</b>	\$	(9,221)	\$	(7,828)
<b>5. Total</b>	\$	26,288	\$	27,333

Chart Information

Unobligated Balance, Available decreased 72 percent, \$1.8 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. In 4<sup>th</sup> Quarter, FY 2004, the DCAA reported \$2.5 million in the unobligated balance, available which was comprised of \$1.4 million in reimbursable authority and \$1.1 million in direct non-expired authority. At 4<sup>th</sup> Quarter, FY 2005, the DCAA reported \$0.7 million in the unobligated balance, available (non-expired direct authority). A reallocation of budgetary resources during 4<sup>th</sup> Quarter, FY 2005 reduced the end of year unobligated balance available.

Unobligated Balance, Unavailable, increased \$1.1 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. In 4<sup>th</sup> Quarter, FY 2004, the DCAA had \$1.1 million in direct non-expired authority. The \$1.1 million converted to expired authority in FY 2005 and is the reason for the dollar change between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005.

Non-FBWT Budgetary Accounts, increased 18 percent, \$1.4 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. September customer billings in FY 2004 included two payroll periods and nine days. However, September customer billings in FY 2005 included three full payroll periods that were billed to the customers, resulting in an additional eight hours billed to each customer. In addition, the DCAA's reimbursable hourly rate billed to their customers increased. Foreign Military Sales for Saudi Support services increased billings \$223 thousand. Hurricane Katrina Relief Efforts increased the customer billings to the Army Corps of Engineers by \$305 thousand. The remaining increase is due to the increase in billings for the National Aeronautics and Space Administration, Department of Homeland Security, and the Department of Energy.

**Disclosures Related to Suspense/Budget Clearing Accounts**

As of September 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
(Amounts in thousands)				
<b>Account</b>				
F3875	\$ 0	\$ 0	\$ 0	0
F3880	0	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0</b>

Not applicable to the Defense Contract Audit Agency.

## Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of September 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
(Amounts in thousands)				
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDS)	\$ 45	\$ 2	\$ 100	98
B. Negative Unliquidated Obligations (NULO)	18	4	0	( 4)
<b>2. Total In-transit Disbursements, Net</b>	<b>\$ 126</b>	<b>\$ 136</b>	<b>\$ 221</b>	<b>85</b>

Data used for the 4<sup>th</sup> Quarter, FY 2005 is from the September TI-97 Problem Disbursement reports.

### Definitions

- Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).
- Unmatched Disbursements occur when payments do not match to a corresponding obligation in the accounting system.
- Negative Unliquidated Obligations occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.
- In-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity. These transactions have not been recorded in the accountable activity's accounting system.

**Note 4. Investments and Related Interest**

As of September 30

	2005				2004	
	Par Value/Cost	Amortization Method	Unamortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in thousands)						
<b>1. Intragovernmental Securities</b>						
A. Non-Marketable, Market-Based	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
B. Accrued Interest	0			0	0	0
C. Total Intragovernmental Securities	<u>\$ 0</u>		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>2. Other Investments</b>	<u>\$ 0</u>		<u>0</u>	<u>0</u>	<u>N/A</u>	<u>\$ 0</u>

Not applicable to the Defense Contract Audit Agency.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of September 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
<b>1. Intragovernmental Receivables</b>	\$ 9,191	N/A	\$ 9,191	\$ 8,727
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 156	\$ (1)	\$ 155	\$ 99
<b>3. Total Accounts Receivable</b>	<u>\$ 9,347</u>	<u>\$ (1)</u>	<u>\$ 9,346</u>	<u>\$ 8,826</u>

Allowance Method

The methodology used to calculate and account for the allowance amount is referred to as a group analysis in the Department of Defense Financial Management Regulation, Volume 4, Chapter 3, Annex 1. The Defense Contract Audit Agency (DCAA) established an allowance for uncollectible accounts due from the public by applying a predetermined percentage of loss for each age group to the monthly receivables. As receivables identified in this group are collected, the allowance account will be adjusted accordingly. The DCAA assesses its receivables on a monthly basis and adjusts the allowance account when receivables are deemed uncollectible. The DCAA does not recognize an allowance for estimated uncollectible amounts from another federal agency.

Relevant Information for Comprehension

The breakout of the DCAA's accounts receivable (A/R) is shown below (dollars in thousands):

	A/R Per Activity Records	Undistributed Collections Total	Allowance for Doubtful Accounts	Eliminations	Net Receivables
Operations and Maintenance (O&M)					
Federal	\$9,190	\$1			\$9,191
Public	156		(\$1)		155
<b>Total</b>	<u>\$9,346</u>	<u>\$1</u>	<u>(\$1)</u>		<u>\$9,346</u>

### Allocation of Undistributed Collections

The difference between collections that are reported on the Cash Management Report, cumulative from inception, and the entity's general ledger is referred to as undistributed collections. A portion of the undistributed collections cannot be reconciled to known differences, such as unmatched collections or in-transit collections, and are considered to be unsupported undistributed collections. Those that can be reconciled to known differences are considered to be supported undistributed collections and are used to reduce the balance in accounts receivable. The Department of Defense Financial Management Regulation Volume 6B, Chapter 4, requires that supported undistributed collections be allocated against an entity's federal and nonfederal accounts receivable balances. The table on the prior page shows the amounts used to offset accounts receivable in the DCAA's Operation and Maintenance appropriation.

### Elimination Adjustments

The DCAA is waived from buyer-side eliminations adjustments for Fiscal Year (FY) 2005. The DCAA's accounting systems capture trading partner data at the transaction level resulting in reliable and accurate buyer-side data. Because of the DCAA's controls over accounts receivable and its limited purchasing of goods or services from other agencies, potential error in intragovernmental accounts receivable or accounts payable and corresponding revenue or expense is not material to the DCAA's financial statements.

### Intragovernmental Receivables Over 180 Days

As of 4<sup>th</sup> Quarter, FY 2005, the DCAA's systems that are capable of aging receivables over 180 days, have \$75 thousand of intragovernmental receivables over 180 days old.

### Fluctuations and/or Abnormalities

Nonfederal Receivables, increased 56 percent, \$55 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. The increase was due to a reclassification of assets and various increases and decreases that were one-time adjustments to that fiscal year such as unsupported undistributed and eliminations adjustments. The amount due to reclassification of assets was \$69 thousand. The amount of (\$155 thousand) was due to various one-time adjustments. The net amount of canceled receivables between FY 2004 and FY 2005 was \$62 thousand. Prior to 1<sup>st</sup> Quarter, FY 2005, federal employee health benefit (FEHB) costs paid by the DCAA for its employees in a leave without pay status were included on the Balance Sheet with Other Assets (With the Public) as advances. In 4<sup>th</sup> Quarter, FY 2005, the DCAA appropriately presented \$69 thousand in FEHB paid for these employees as nonfederal receivables on the Balance Sheet.

The net change in nonfederal receivables between 4<sup>th</sup> Quarters, FY 2004 and FY 2005 is reflected in the chart below (dollars are in thousands):

	FY 2005	FY 2004	Net Change
A/R (trial balance)	\$70	(\$13)	\$83
A/R related to FEHB	69	0	69
Unsupported Undistributed	0	66	(66)
Eliminations adjustment	0	89	(89)
Canceled Receivable	0	(62)	62
Allowance	(1)	(2)	1
Advances Received	17	22	(5)
Total	\$155	\$100	\$55

The DCAA's nonfederal accounts receivable per the trial balance increased by \$83 thousand. The increase is due to the addition of non-appropriated fund customers and a receivable due from a travel settlement overpayment.

<b>Note 6.</b>	<b>Other Assets</b>
----------------	---------------------

As of September 30 (Amounts in thousands)	2005	2004
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 0	\$ 0
B. Total Intragovernmental Other Assets	\$ 0	\$ 0
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	474	843
C. Total Nonfederal Other Assets	\$ 474	\$ 843
<b>3. Total Other Assets</b>	\$ 474	\$ 843

Nonfederal Other Assets

The Defense Contract Audit Agency (DCAA) reported \$474 thousand of Other Assets (With the Public). These other assets are comprised of travel advances, salary advances, and advances of overseas allowances to DCAA employees.

Fluctuations and/or Abnormalities

Nonfederal Other Assets, Other Assets (With the Public), decreased 44 percent, \$369 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. Since 1st Quarter, FY 2005, DFAS has performed ongoing research and reconciliations of three components of Other Assets (With the Public). In addition, emphasis was placed on reviewing DFAS business processes, particularly as related to comparisons of the list of aged salary advances outstanding with employee repayments made through payroll deductions. As a result, since 4th Quarter, FY 2004, advances for Temporary Quarters and Subsistence Allowance decreased \$138 thousand, Advance Pay decreased \$42 thousand, and Salary advances decreased \$131 thousand. Travel advances decreased \$23 thousand due to employees returning from assignments in the Iraq Branch Audit Office. The DFAS will continue to monitor these advances and reconcile Advances for Living Quarters Allowances which increased \$13 thousand, 14 percent.

Prior to 1<sup>st</sup> Quarter, FY 2005 advances to employees on leave without pay for federal Health Benefit Costs were presented in the Financial Statements as Other Assets (With the Public). During FY 2005, these amounts were appropriately classified as Nonfederal Receivables (From Public). This reclassification of assets also decreased Other Assets (With the Public) by \$47 thousand.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
----------------	---------------------------------------

As of September 30 (Amounts in thousands)	2005		2004
<b>1. Cash</b>	\$ 0	\$	0
<b>2. Foreign Currency (non-purchased)</b>	0		0
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 0	\$	0

Not applicable to the Defense Contract Audit Agency.

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
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As of September 30

**Direct Loan and/or Loan Guarantee Programs** The entity operates the following direct loan and/or Loan guarantee program(s)

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Not applicable to the Defense Contract Audit Agency.

**Direct Loans Obligated After FY 1991**

As of September 30	2005	2004
(Amounts in thousands)		
Loan Programs		
<b>Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0	\$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Direct Loans	\$ 0	\$ 0
<b>Total Loans Receivable</b>	<b>\$ 0</b>	<b>\$ 0</b>

Not applicable to the Defense Contract Audit Agency.

<b>Total Amount of Direct Loans Disbursed</b>		
As of September 30	2005	2004
<i>(Amounts in thousands)</i>		
<b>Direct Loan Programs</b>		
Military Housing Privatization Initiative	\$ 0	\$ 0
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>

Not applicable to the Defense Contract Audit Agency.

## Subsidy Expense for Post-1991 Direct Loans

As of September 30

(Amounts in thousands)

2005	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2004	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2005		2004			
<b>5. Total Direct Loan Subsidy Expense:</b> Military Housing Privatization Initiative	\$ 0	\$ 0			

Not applicable to the Defense Contract Audit Agency.

## Subsidy Rate for Direct Loans

As of September 30	Interest Differential	Defaults	Fees	Other	Total
Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable to the Defense Contract Audit Agency.

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

As of September 30

(Amounts in thousands)

	2005	2004
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0	\$ 0
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Rate Differential Costs	\$ 0	\$ 0
B. Default Costs (Net of Recoveries)	0	0
C. Fees and Other Collections	0	0
D. Other Subsidy Costs	0	0
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>3. Adjustments</b>		
A. Loan Modifications	\$ 0	\$ 0
B. Fees Received	0	0
C. Foreclosed Property Acquired	0	0
D. Loans Written Off	0	0
E. Subsidy Allowance Amortization	0	0
F. Other	0	0
<b>G. Total of the above Adjustment Components</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0	\$ 0
B. Technical/default Re-estimate	0	0
<b>C. Total of the above Re-estimate Components</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	<b>\$ 0</b>	<b>\$ 0</b>

Not applicable to the Defense Contract Audit Agency.

## Defaulted Guaranteed Loans from Post-1991 Guarantees

As of September 30

(Amounts in thousands)

**Loan Guarantee Program(s)**

**1. Military Housing Privatization Initiative**

	2005	2004
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0	\$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0	\$ 0

**2. Armament Retooling & Manufacturing Support Initiative**

A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0	\$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0	\$ 0

**3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable**

	\$ 0	\$ 0
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Not applicable to the Defense Contract Audit Agency.

<b>Guaranteed Loans Outstanding</b>			
As of September 30	Outstanding Principal, Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed
<i>(Amounts in thousands)</i>			
<b>Guaranteed Loans Outstanding</b>			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$	0	\$ 0
<b>3. Total</b>	<b>\$</b>	<b>0</b>	<b>\$ 0</b>
<b>2005</b>			
<b>New Guaranteed Loans Disbursed</b>			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$	0	\$ 0
<b>3. Total</b>	<b>\$</b>	<b>0</b>	<b>\$ 0</b>
<b>2004</b>			
<b>New Guaranteed Loans Disbursed</b>			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$	0	\$ 0
<b>3. Total</b>	<b>\$</b>	<b>0</b>	<b>\$ 0</b>

Not applicable to the Defense Contract Audit Agency.

**Liability for Post-1991 Loan Guarantees, Present Value**

As of September 30	2005	2004
<i>(Amounts in thousands)</i>		
<b>Loan Guarantee Program</b>		
1. Military Housing Privatization Initiative	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	0	0
<b>3. Total</b>	<b>\$ 0</b>	<b>\$ 0</b>

Not applicable to the Defense Contract Audit Agency.

## Subsidy Expense for Post-1991 Loan Guarantees

As of September 30

(Amounts in thousands)

2005		Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees</b>						
<b>Disbursed:</b>						
Military Housing Privatization Initiative	\$	0	\$	0	\$	0
Armament Retooling & Manufacturing Support Initiative		0		0		0
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>
2004		Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees</b>						
<b>Disbursed:</b>						
Military Housing Privatization Initiative	\$	0	\$	0	\$	0
Armament Retooling & Manufacturing Support Initiative		0		0		0
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>
2005		Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>						
Military Housing Privatization Initiative	\$	0	\$	0	\$	0.00
Armament Retooling & Manufacturing Support Initiative		0		0		0.00
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>
2004		Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>						
Military Housing Privatization Initiative	\$	0	\$	0	\$	0.00
Armament Retooling & Manufacturing Support Initiative		0		0		0.00
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>
2005		2004				
<b>5. Total Loan Guarantee:</b>						
Military Housing Privatization Initiative	\$	0	\$	0		
Armament Retooling & Manufacturing Support Initiative		0		0		
<b>Total</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>		

Not applicable to the Defense Contract Audit Agency.

<b>Subsidy Rate for Loan Guarantees</b>					
	<b>Interest Supplements</b>	<b>Defaults</b>	<b>Fees and other Collections</b>	<b>Other</b>	<b>Total</b>
<b>Loan Guarantees:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable to the Defense Contract Audit Agency.

## Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees

As of September 30

(Amounts in thousands)

	2005	2004
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 0	\$ 0
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Supplement Costs	\$ 0	\$ 0
B. Default Costs (Net of Recoveries)	0	0
C. Fees and Other Collections	0	0
D. Other Subsidy Costs	0	0
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>3. Adjustments</b>		
A. Loan Guarantee Modifications	\$ 0	\$ 0
B. Fees Received	0	0
C. Interest Supplements Paid	0	0
D. Foreclosed Property and Loans Acquired	0	0
E. Claim Payments to Lenders	0	0
F. Interest Accumulation on the Liability Balance	0	0
G. Other	0	0
<b>H. Total of the above Adjustments</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>4. Ending Balance of the Loan Guarantee Liability before Re-estimates</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	0	0
B. Technical/default Re-estimate	0	0
<b>C. Total of the above Re-estimate Components</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>6. Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 0</b>	<b>\$ 0</b>

Not applicable to the Defense Contract Audit Agency.

<b>Administrative Expense</b>		
As of September 30	2005	2004
(Amounts in thousands)		
<b>1. Direct Loans</b>		
Military Housing Privatization Initiative	\$ 0	\$ 0
Total	\$ 0	\$ 0
<b>2. Loan Guarantees</b>		
Military Housing Privatization Initiative	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	\$ 0	\$ 0

Not applicable to the Defense Contract Audit Agency.

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of September 30	2005	2004
(Amounts in thousands)		
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materials & Supplies, Net	0	0
3. Stockpile Materials, Net	0	0
4. Total	\$ 0	\$ 0

Not applicable to the Defense Contract Audit Agency.

Inventory, Net As of September 30		2005			2004		Valuation Method	
		Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net			
(Amounts in thousands)								
<b>1. Inventory Categories</b>								
A. Available and Purchased for Resale	\$	0	\$	0	0	\$	0	LAC,MAC
B. Held for Repair		0		0	0		0	LAC,MAC
C. Excess, Obsolete, and Inserviceable		0		0	0		0	NRV
D. Raw Materials		0		0	0		0	MAC,SP,LAC
E. Work in Process		0		0	0		0	AC
F. Total	\$	0	\$	0	0	\$	0	

**Legend for Valuation Methods:**  
 Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses  
 SP = Standard Price  
 AC = Actual Cost  
 NRV = Net Realizable Value  
 O = Other  
 MAC = Moving Average Cost

Not applicable to the Defense Contract Audit Agency.

## Operating Materials and Supplies, Net

As of September 30

	2005			2004		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
(Amounts in thousands)						
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	SP, LAC
B. Held for Repair		0	0	0	0	SP, LAC
C. Excess, Obsolete, and Unserviceable		0	0	0	0	NRV
D. Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	

**Legend for Valuation Methods:**

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

Not applicable to the Defense Contract Audit Agency.

## Stockpile Materials, Net

As of September 30

	2005			2004		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
<b>(Amounts in thousands)</b>						
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0	\$ 0	\$ 0	\$ 0		AC, LCM
B. Held in Reserve for Future Sale	0	0	0	0		AC, LCM
C. Total	\$ 0	\$ 0	\$ 0	\$ 0		

**Legend for Valuation Methods:**

LAC = Latest Acquisition Cost  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 LCM = Lower of Cost or Market  
 O = Other

Not applicable to the Defense Contract Audit Agency.

<b>Note 10.</b>	<b>General PP&amp;E, Net</b>
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As of September 30	2005					2004
Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
(Amounts in thousands)						
<b>1. Major Asset Classes</b>						
A. Land	N/A	N/A	\$ 0	N/A	\$ 0	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	0 \$	0	0	0
C. Leasehold Improvements	S/L	lease term	0	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0	0
E. General Equipment	S/L	5 or 10	0	0	0	0
F. Military Equipment	S/L	Various	0	0	0	0
G. Assets Under Capital Lease	S/L	lease term	0	0	0	0
H. Construction-in-Progress	N/A	N/A	0	N/A	0	0
I. Other			0	0	0	0
<b>2. Total General PP&amp;E</b>			<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

<sup>1</sup> Note 15 for additional information on Capital Leases  
 Legend for Valuation Methods  
 S/L = Straight Line    N/A = Not Applicable

Not applicable to the Defense Contract Audit Agency.

**Assets Under Capital Lease**

As of September 30

(Amounts in thousands)

**1. Entity as Lessee, Assets Under Capital Lease**

	2005	2004
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	0	0
C. Other	0	0
D. Accumulated Amortization	0	0
E. Total Capital Leases	\$ 0	\$ 0

Not applicable to the Defense Contract Audit Agency.

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of September 30 (Amounts in thousands)	2005	2004
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	3,379	3,606
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 3,379</b>	<b>\$ 3,606</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 2,122	\$ 2,076
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	16,586	16,864
C. Environmental Liabilities	0	0
D. Loan Guarantee Liability	0	0
E. Other Liabilities	25,400	24,778
<b>F. Total Nonfederal Liabilities</b>	<b>\$ 44,108</b>	<b>\$ 43,718</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 47,487</b>	<b>\$ 47,324</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 18,029</b>	<b>\$ 16,819</b>
<b>5. Total Liabilities</b>	<b>\$ 65,516</b>	<b>\$ 64,143</b>

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities covered by budgetary resources are those that are 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 the Management and Budget (OMB) without further action by the Congress or without a contingency first having to be met.

## **Other Information Related to Liabilities Not Covered by Budgetary Resources**

### Intragovernmental Liabilities - Other

The Defense Contract Audit Agency (DCAA) reported \$3.4 million in intragovernmental liabilities not covered by budgetary resources. This liability is the unfunded portion of the Federal Employee's Compensation Act (FECA) liability.

### Nonfederal Liabilities- Accounts Payable

The DCAA reported \$2.1 million in nonfederal accounts payable. This amount represents the liability for accounts payable from canceled appropriations from Fiscal Year (FY) 2004 and FY 2005.

### Nonfederal Liabilities – Other Employment Related Actuarial Liabilities

The DCAA reported \$16.6 million in military retirement benefits and other employment-related liabilities not covered by budgetary resources. This amount represents the actuarial present value of projected FECA Benefits at September 30, 2005.

### Nonfederal Liabilities – Other Liabilities

The DCAA reported \$25.4 million in nonfederal other liabilities not covered by budgetary resources. This liability is the 4<sup>th</sup> Quarter, FY 2005, unfunded annual leave liability.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of September 30	2005			2004
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in thousands)				
<b>1. Intragovernmental Payables</b>	\$ 379	N/A	\$ 379	\$ 2,293
<b>2. Non-Federal Payables (to the Public)</b>	5,666	0	5,666	3,459
<b>3. Total</b>	\$ 6,045	\$ 0	\$ 6,045	\$ 5,752

Relevant Information for Comprehension

Intragovernmental accounts payable consist of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal payables (to the Public) are payments to non-federal government entities.

The breakout of the accounts payable for the Defense Contract Audit Agency (DCAA) is shown in the table below (dollars in thousands):

	Trial Balance	Undistributed Disbursements Total	Negative Accounts Payable	JV Adjustments	Eliminations	Total
<b>Operations and Maintenance</b>						
Public	\$ 2,626	\$2,420				\$5,046
Federal	3,105	(2,726)				379
<b>Procurement</b>						
Public	620					620
Federal						
<b>Total</b>						
Public	\$3,246	\$2,420				\$5,666
Federal	\$3,105	(\$2,726)				\$379

### Undistributed Disbursements

Undistributed disbursements are the difference between disbursements recorded to a specific obligation or payable in the activity's detail field records and those reported to the U.S. Treasury on the reconciled DD 1329, Statement of Transactions Report and DD 1400, Statement of Interfund Transactions Report. This amount should agree with the undistributed disbursements reported on accounting reports (SF133, Report on Budget Execution and AR (M) 1002, Appropriation Status of Fiscal Year Program and Subaccounts Report). Intransit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance at the end of each quarter.

It is the policy of the Department of Defense (DoD) to allocate supported undistributed disbursements between federal and non-federal categories based on the percentage of federal and non-federal accounts payable. Unsupported undistributed disbursements should be recorded in USSGL account 2120, Disbursements in Transit. The DCAA reported \$2.1 million in unsupported undistributed disbursements.

### Fluctuations and/or Abnormalities

#### Intragovernmental Payables

The DCAA's federal accounts payable decreased 84 percent, \$1.9 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005 due to a concentrated effort to identify disbursements not expensed, obtain the voucher, and increase expenses to match the disbursement.

#### Non-Federal Accounts Payable

The DCAA's non-federal accounts payable increased 64 percent, \$2.2 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. The increase in nonfederal accounts payable is attributed to one more day accrued for personnel compensation at September 30, 2005 than at September 30, 2004, travel costs associated with employees assigned to the Iraq Branch Office (IBO), and travel and evacuation costs for employees assigned to the Gulfport area who were impacted by the recent hurricanes. Approximately 85 percent of the DCAA's operating budget is for pay and benefits and an additional day accrued adds significantly to the amount of nonfederal accounts payable. The number of employees assigned to the IBO fluctuates during the year. There were three more employees assigned at September 30, 2005 than at September 30, 2004 which increased accruals related to temporary duty assignments and other payroll costs related to their duty overseas.

<b>Note 13.</b>	<b>Debt</b>
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As of September 30	2005			2004	
(Amounts in thousands)	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance	
<b>1. Agency Debt</b>					
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0	0
B. Debt to the Federal Financing Bank	0	0	0	0	0
C. Total Agency Debt	\$ 0	\$ 0	\$ 0	\$ 0	0
<b>2. Total Debt</b>	\$ 0	\$ 0	\$ 0	\$ 0	0

Not applicable to the Defense Contract Audit Agency.

**Note 14. Environmental Liabilities and Disposal Liabilities**

As of September 30	2005			2004	
	Current Liability	Noncurrent Liability	Total	Total	
(Amounts in thousands)					
<b>1. Environmental Liabilities -- Non Federal</b>					
A. Accrued Environmental Restoration (DERP funded) Costs:					
1. Active Installations-- Environmental Restoration (ER)	\$ 0	\$ 0	\$ 0	\$ 0	0
2. Active Installations--ER for Closed Ranges	0	0	0	0	0
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0	0	0
B. Other Accrued Environmental Costs (Non-DERP funds)					
1. Active Installations-- Environmental Corrective Action	0	0	0	0	0
2. Active Installations-- Environmental Closure Requirements	0	0	0	0	0
3. Active Installations-- Environ. Response at Active Ranges	0	0	0	0	0
4. Other	0	0	0	0	0
C. Base Realignment and Closure (BRAC)					
1. BRAC Installations-- Environmental Restoration (ER)	0	0	0	0	0
2. BRAC Installations--ER for Transferring Ranges	0	0	0	0	0
3. BRAC Installations-- Environmental Corrective Action	0	0	0	0	0
4. Other	0	0	0	0	0
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers	0	0	0	0	0
2. Nuclear Powered Submarines	0	0	0	0	0
3. Other Nuclear Powered Ships	0	0	0	0	0
4. Other National Defense Weapons Systems	0	0	0	0	0
5. Chemical Weapons Disposal Program	0	0	0	0	0
6. Other	0	0	0	0	0
<b>2. Total Environmental Liabilities:</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0</b>

Not applicable to the Defense Contract Audit Agency.

**Note 15. Other Liabilities**

As of September 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
<b>(Amounts in thousands)</b>				
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0	0
C. Disbursing Officer Cash	0	0	0	0
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	1,411	1,967	3,378	3,606
F. Other Liabilities	1,831	0	1,831	1,522
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 3,242</b>	<b>\$ 1,967</b>	<b>\$ 5,209</b>	<b>\$ 5,128</b>
<b>(Amounts in thousands)</b>				
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 12,259	\$ 0	\$ 12,259	\$ 11,533
B. Advances from Others	17	0	17	22
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0	66
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accrued Unfunded Annual Leave	25,400	0	25,400	24,778
H. Capital Lease Liability	0	0	0	0
I. Other Liabilities	0	0	0	0
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 37,676</b>	<b>\$ 0</b>	<b>\$ 37,676</b>	<b>\$ 36,399</b>
<b>3. Total Other Liabilities</b>	<b>\$ 40,918</b>	<b>\$ 1,967</b>	<b>\$ 42,885</b>	<b>\$ 41,527</b>

## Capital Lease Liability

As of September 30

	2005				2004
	Asset Category				Total
	Land and Buildings	Equipment	Other	Total	
<i>(Amounts in thousands)</i>					
<b>1. Future Payments Due</b>					
A. 2005	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
B. 2006	0	0	0	0	0
C. 2007	0	0	0	0	0
D. 2008	0	0	0	0	0
E. 2009	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
H. Less: Imputed Interest Executory Costs	0	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0	\$ 0
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0	\$ 0

### Relevant Information for Comprehension

#### FECA Reimbursement to the Department of Labor

Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to either condition. FECA claims are submitted to and approved by the Department of Labor (DoL). The DoL pays the claim holders and prepares a chargeback to the applicable agency. The liability of \$3.4 million represents the chargeback amount to the Defense Contract Audit Agency (DCAA). Public Law 93-416, Section 8147 essentially gives Agencies two years to pay the chargeback bill, allowing time for inclusion in their budgets. Therefore, an unfunded liability is recorded in the financial statements for these two years. The summary of the DCAA FECA liability is shown in the chart below (amounts in thousands):

	<u>FY 2005</u>	<u>FY 2004</u>
FECA Liability (PY ending balance)	\$ 3,606	\$ 3,733
Plus: Change in actual FECA Liability	\$ (228)	\$ (127)
CY FECA Liability (ending balance)	\$ 3,378	\$ 3,606

### Intragovernmental Other Liabilities

All DoD agencies are required to report the actual contributions for employee benefits for (1) Civil Service Retirement System (CSRS), (2) Federal Employees Retirement Service (FERS), (3) Federal Employees Health Benefits Program (FEHB), (4) the Federal Employees Life Insurance Program (FELI), and (5) Voluntary Separation Incentive Program (VSIP). The amounts shown are the benefits due and payable or insurance and

guarantee benefits, which are incurred by the agency as of 4<sup>th</sup> Quarter, FY 2005. The summary of these liabilities is shown in the chart below (amounts in thousands):

	<u>FY 2005</u>	<u>FY 2004</u>
Life Insurance (FEGLI)	\$ 18	\$ 15
Health Benefits (FEHB)	\$ 737	\$ 611
Retirement (FERS/CSRS)	<u>\$ 1,076</u>	<u>\$ 896</u>
Total	\$ 1,831	\$ 1,522

#### Advances from Others

The DCAA reported \$17 thousand in advances from nonfederal entities such as Oakland County Michigan Road Commission, LA County Metro Transportation Authority, and the DC Government Office of Tax and Revenue. Nonfederal entities are required to pay in advance for work to be performed.

#### Deposit Funds and Suspense Accounts

This amount represents unsupported undistributed collections of \$499, which in accordance with guidance is posted as a liability in the United States General Ledger Account 2400 – Liability for Deposit Funds.

#### Fluctuations and/or Abnormalities

Intragovernmental Other Liabilities, increased 20 percent, \$309 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. This is a result of increases in contributions for employee benefits related to pay increases. Employee's contributions to the FEHB and FEGLI programs increased \$129 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. In addition, there was one additional day of payroll accrual during 4<sup>th</sup> Quarter, FY 2005, which attributed to the increase.

Advances from Others, decreased 25 percent, \$5 thousand. The decrease is due to the DCAA receiving less prepayments from its nonfederal entities. Nonfederal entities are required to pay in advance for work to be performed.

Deposit Funds and Suspense Accounts, decreased 99 percent, \$66 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. This is a result of a decrease in the amount of unsupported undistributed collections. The DCAA uses the Columbus Cash Accountability System (CCAS) to identify the amount of unsupported undistributed collections. CCAS, which balances to the Cash Management Report, does not have support for the undistributed collections prior to FY 2001. Beginning in FY 2006, all undistributed collections will be considered supported.

Total Nonfederal Other Liabilities, increased 4 percent, \$1.3 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. Approximately 85 percent of the DCAA's operating budget is for pay and benefits; the balance of funds covers the necessary support costs – travel, office space, telecommunications, infrastructure, and supplies and equipment. Accrued Funded Payroll and Benefits increased \$726 thousand.

In addition, Unfunded Annual Leave increased \$621 thousand due to changes in hourly salary rates (increases) and the unused annual leave balance at September 30, 2005 which are used in determining the liability.

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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Not applicable to the Defense Contract Audit Agency.

<b>Note 17.</b>	<b>Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>
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As of September 30	2005			2004	
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
(Amounts in thousands)					
<b>1. Pension and Health Benefits</b>					
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0	\$ 0
<b>2. Other</b>					
A. FECA	\$ 16,586		\$ 0	\$ 16,586	\$ 16,864
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. <u>(Enter Program Name)</u>	0		0	0	0
E. Total Other	\$ 16,586		\$ 0	\$ 16,586	\$ 16,864
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<b>\$ 16,586</b>		<b>\$ 0</b>	<b>\$ 16,586</b>	<b>\$ 16,864</b>

Actuarial Cost Method Used:  
 Assumptions:  
 Market Value of Investments in Market-based and Marketable Securities:

Federal Employees Compensation Act (FECA)

The actuarial liability for workers' compensation benefits is developed by the Department of Labor 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. The liability is determined by using historical benefit payment patterns to predict the future payments. Cost-of-living adjustments (COLAs) and medical inflation factors are also included in the calculation of projected future benefits. Consistent with past practices, these projected annual benefit payments are then discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Fiscal Year (FY) 2005	Interest Rate
Year 1	4.528%
Year 2	5.020%
Year 3+	5.020%

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. These factors were also used in adjusting the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various chargeback years (CBY) were as follows:

CBY	COLA	CPIM
2005	2.20%	4.33%
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009+	2.40%	4.01%

The model's resulting projections were critically analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency, to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year, as calculated for the current projection to the liability-payment ratio calculated for the prior projection.

**Note 18. Disclosures Related to the Statement of Net Cost**Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as data from non-financial feeder systems; then known accruals are recorded for major items such as accrued payroll expenses and accounts payable.

Fluctuations and/or Abnormalities

Intragovernmental gross costs, increased 3 percent, \$2.9 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. The increase in intragovernmental gross costs includes a \$931 thousand increase in equipment, and supplies and materials and a \$1.1 million increase in other services (contractual) between the Defense Contract Audit Agency (DCAA) and other federal agencies, such as the Defense Finance and Accounting Service and the Department of Interior. In addition, the DCAA reported \$28.1 million of imputed financing expenses, which is a \$1 million increase between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005.

Intragovernmental earned revenue, increased 2 percent, \$987 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. This is due to an increase in reimbursable work with federal agencies, such as the United States Army Corps of Engineers and the Department of Health and Human Services.

Earned revenue from the public, increased \$79 thousand between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. The DCAA earnings from reimbursable work performed for nonfederal clients are \$75 thousand. The number of nonfederal customers vary from year to year. This fiscal year, the DCAA had two additional Non-appropriated Funds activities customers as well as the DC Government Office of Tax and Revenue who is required to pay in advance.

Gross costs with the public, increased 5 percent, \$15.8 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. This is a result of an increase in personnel compensation and benefits. In addition, payroll costs increased for twenty-six auditors assigned to the Iraqi branch office (IBO) in support of Operation Enduring Freedom. In addition, the number of people assigned to the DCAA IBO has increased by three employees from 4<sup>th</sup> Quarter, FY 2004 to 4<sup>th</sup> Quarter, FY 2005 resulting in higher travel costs.

**Note 19. Disclosures Related to the Statement of Changes in Net Position**

As of September 30	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<i>(Amounts in thousands)</i>				
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
A. Changes in Accounting Standards	\$ 0	\$ 0	\$ 0	\$ 0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	\$ 0	\$ 0	\$ 0	\$ 0
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 11,240	\$ 0	\$ 11,920	\$ 0
B. Civilian Health	16,827	0	15,125	0
C. Civilian Life Insurance	56	0	55	0
D. Judgment Fund	0	0	0	0
E. Intra-Entity	0	0	0	0
F. Total Imputed Financing	\$ 28,123	\$ 0	\$ 27,100	\$ 0

Imputed Financing

The amounts remitted to the Office of Personnel Management (OPM) by and for employees of the Defense Contract Audit Agency (DCAA) covered by the Civil Service Retirement System (CSRS), Federal Employees' Retirement System (FERS), Federal Employees' Health Benefits Program (FEHB) and the Federal Employees' Group Life Insurance Program (FEGLI) do not fully cover the Government's true cost of future benefits to those employees. As required by Statement of Federal Financial Standards No. 5 – Liabilities of the Federal Government, the OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing costs for civilian benefit programs. The imputed financing costs are the difference between the true cost of providing these benefits, and the employer and employee contributions. The DFAS calculates the employee benefit cost and forwards the information to the Under Secretary of Defense (Personnel and Readiness) (USD (P&R)) for validation. The current costs and all imputed costs associated with pensions and other retirement benefits are included in the financial statements of the DCAA.

### CSRS and FERS

The cost factors for the CSRS and FERS are expressed as percentages of "basic pay." Basic pay is the portion from which agencies withhold CSRS and FERS deductions. The normal cost factor provided by OPM represents the percentage of basic pay that would have to be remitted by and for covered employees to pay fully the Government's cost to provide a CSRS or FERS benefit. For 4<sup>th</sup> Quarter, FY 2005, the normal cost factors for CSRS and FERS are 25 percent and 12 percent, respectively. This constitutes the total service cost for retirement. The difference between the total service cost and the actual contributions by and for employees is the imputed financing cost for retirement for 4<sup>th</sup> Quarter, FY 2005.

### FEHB

The calculation for imputed FEHB Program costs for the 4<sup>th</sup> Quarter, FY 2005 looks at enrollment in the FEHB Program at three points in time: October 1, 2004; March 31, 2005; and September 30, 2005. A multiplier of one is used for the October and September enrollments and a multiplier of two for the March enrollment. The grand total after applying the multiplier is then divided by four to obtain the "constructed FEHB enrollment." The constructed FEHB enrollment is multiplied by the 4<sup>th</sup> Quarter, FY 2005 cost factor of \$1 thousand (rounded). This is the imputed cost for the FEHB for 4<sup>th</sup> Quarter, FY 2005.

### FEGLI

The imputed cost for providing post-retirement FEGLI benefits is computed using a cost factor of .02 percent of basic pay on all employees covered by basic life insurance.

### Fluctuations and/or Abnormalities

Appropriations transferred-in/out, increased \$19.6 million between 4<sup>th</sup> Quarter, FY 2004 and 4<sup>th</sup> Quarter, FY 2005. During FY 2005, the DCAA transferred out \$1.7 million for reprogramming to support Foreign Currency Fluctuations and the Defense-Wide rescission. In addition, the DCAA received \$15.8 million (Title IX supplemental) for defense and reconstruction of Iraq and Afghanistan, and other war related efforts.

**Note 20. Disclosures Related to the Statement of Budgetary Resources**

As of September 30 (Amounts in thousands)	2005	2004
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 14,155	\$ 16,324
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The amount reflected above includes undelivered orders attributable to direct appropriations (USSGL 4801), undelivered orders-prepaid/advances (USSGL 4802) and recoveries of prior year obligations (USSGL 4871/4881) as shown below. The advances included in the amount above are not part of undelivered orders on the Statement of Budgetary Resources.

USSGL 4801, Consolidated credit ending balance	\$ 15,141,530.96
USSGL 4871 Direct, Consolidated debit ending balance	(1,505,575.08)
USSGL 4881 Direct, Consolidated credit ending balance	45,580.42
USSGL 4802 Direct, Consolidated credit ending balance	<u>473,681.02</u>
 Total in chart above	 \$ 14,155,217.32

Fluctuations and/or Abnormalities

Net transfers, actual, reflects a \$1.7 million transfer out for reprogramming to support Foreign Currency Fluctuations and the Defense-Wide rescission. In addition, the Defense Contract Audit Agency received \$15.8 million (Title IX supplemental) for defense and reconstruction of Iraq and Afghanistan, and other war related efforts.

**Note 21.**

**Disclosures Related to the Statement of Financing**

The objective of the Statement of Financing (SOF) is to reconcile the difference between budgetary obligations and net cost of operations reported.

<b>Note 22.</b>	<b>Disclosures Related to the Statement of Custodial Activity</b>
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Disclosures Related to the Statement of Custodial Activity

Not applicable to the Defense Contract Audit Agency.

**Note 23. Other Disclosures**

As of September 30	2005			
(Amounts in thousands)				
<b>1. ENTITY AS LESSEE-</b>				
<b>Operating Leases</b>				
Future Payments Due	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
<u>Fiscal Year</u>				
2006	\$ 10,425	\$ 0	\$ 0	10,425
2007	10,441	0	0	10,441
2008	10,442	0	0	10,442
2009	10,452	0	0	10,452
2010	10,455	0	0	10,455
After 5 Years	10,545	0	0	10,545
<b>Total Future Lease Payments Due</b>	<b>\$ 62,760</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>62,760</b>

Amounts reported for operating lease future payments represent estimates based on projections of present costs.

**Definitions:**

- \* **Lessee** - A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.
- \* **Operating Lease** - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

**Land and Building Leases consist of:**

**Description of Leases:**

Description - General Service Administration (GSA) and non-GSA leased office space at various locations.

Lease Terms - Depends on individual contracts and locations.

	<b>GSA LEASES</b>	<b>NON-GSA LEASES</b>	<b>Total</b>
2006	\$9,922	\$503	\$10,425
2007	\$9,938	\$503	\$10,441
2008	\$9,939	\$503	\$10,442
2009	\$9,949	\$503	\$10,452
2010	\$9,952	\$503	\$10,455

Other Information - The Defense Contract Agency has leases on office space that expire at various times. There are no material escalation clauses or contingent rental restrictions. Costs are gathered from General Services Administration bills.

**DEFENSE CONTRACT  
AUDIT AGENCY**



**REQUIRED SUPPLEMENTAL  
INFORMATION**

## Required Supplemental Information - Part A

AT97 - Other Defense Organizations General Funds  
 Under Secretary of Defense (Comptroller)  
 DCAA - Defense Contract Audit Agency

Schedule, Part A DoD Intra-governmental Asset Balances.  (\$Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Department of Agriculture	12		\$39			
Department of Commerce	13		\$35			
Department of the Interior	14		\$83			
Department of Labor	16		\$10			
United States Postal Service	18		\$105			
Department of State	19		\$128			
Department of the Treasury	20	\$26,202	\$160			
Federal Communications Commission	27		\$8			
Nuclear Regulatory Commission	31		\$1			
Department of Veterans Affairs	36		\$40			
General Service Administration	47		\$27			
National Science Foundation	49		\$102			
Environmental Protection Agency	68		\$265			
Department of Transportation	69		\$353			
Homeland Security	70		\$457			
Agency for International Development	72		\$269			
Department of Health and Human Services	75		\$517			
National Aeronautics and Space Administration	80		\$2,340			
Department of Housing and Urban Development	86		\$5			
National Archives and Records Administration	88		\$3			
Department of Energy	89		\$1,933			
Department of Education	91		\$6			
US Army Corps of Engineers	96		\$469			
Other Defense Organizations General Funds	97		\$1,854			
Totals might not match reports.	Totals:	\$26,202	\$9,193			

**Required Supplemental Information - Part B**

**AT97 - Other Defense Organizations General Funds**

**Under Secretary of Defense (Comptroller)**

**DCAA - Defense Contract Audit Agency**

Schedule, Part B DoD Intra-governmental entity liabilities.	Treasury Index	Accounts Payable	Debt/Borrowings From Other Agencies	Other
(\$Amounts in Thousands)				
Department of the Interior	14	\$157		
Department of Labor	16			\$3,378
Navy General Fund	17	\$0		
United States Postal Service	18	\$3		
Department of State	19	\$45		
Department of the Treasury	20	\$1		
Army General Fund	21	\$8		
Office of Personnel Management	24	\$11		\$1,631
General Service Administration	47	\$112		
Air Force General Fund	57	\$0		
National Archives and Records Administration	68	\$5		
Other Defense Organizations General Funds	97	\$0		
Other Defense Organizations Working Capital Funds	97-4930	\$39		
Navy Working Capital Fund	97-4930.002	\$0		
Air Force Working Capital Fund	97-4930.003	\$0		
Totals might not match reports.	Totals:	\$378		\$5,209

## Required Supplemental Information - Part C

**AT97 - Other Defense Organizations General Funds**  
**Under Secretary of Defense (Comptroller)**  
**DCAA - Defense Contract Audit Agency**

Schedule, Part C DoD Intra-governmental revenue and related costs.	Treasury Index	Earned Revenue
(\$Amounts In Thousands)		
Department of Agriculture	12	\$263
Department of Commerce	13	\$246
Department of the Interior	14	\$406
Department of Labor	16	\$89
United States Postal Service	18	\$691
Department of State	18	\$1,065
Department of the Treasury	20	\$790
Army General Fund	21	\$38
Office of Personnel Management	24	\$23
Federal Communications Commission	27	\$41
Social Security Administration	28	\$19
Nuclear Regulatory Commission	31	\$54
Department of Veterans Affairs	38	\$389
General Service Administration	47	\$41
National Science Foundation	49	\$307
General Accounting Office	5	\$4
Environmental Protection Agency	68	\$1,637
Department of Transportation	69	\$3,152
Homeland Security	70	\$2,462
Agency for International Development	72	\$2,012
Department of Health and Human Services	75	\$3,092
National Aeronautics and Space Administration	80	\$16,606
Department of Housing and Urban Development	86	\$139
National Archives and Records Administration	88	\$35
Department of Energy	89	\$13,610
Department of Education	91	\$6
Independent Agencies	95	\$5
US Army Corps of Engineers	96	\$1,656
Other Defense Organizations General Funds	97	\$4,971
Navy Working Capital Fund	97-4930.002	\$9
<b>Totals might not match reports.</b>	<b>Totals:</b>	<b>\$54,078</b>

Fiscal year 2005 quarter 4 **Required Supplemental Information - Part E**

**AT97 - Other Defense Organizations General Funds**

**Under Secretary of Defense (Comptroller)**

**DCAA - Defense Contract Audit Agency**

Schedule, Part E DoD intra-governmental non-exchange revenues.	Treasury Index	Transfers In	Transfers Out
(\$Amounts in Thousands)			
Totals might not match reports.	Totals:		