

**DEFENSE CONTRACT
AUDIT AGENCY**



**FY 2004
ANNUAL FINANCIAL STATEMENTS**



DEFENSE LEGAL SERVICES

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

DL 240

October 28, 2004

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 25, 2004
- (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, 2004 through no earlier than October 28, 2004. 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, 2004 and from the period September 30, 2004 through October 28, 2004.

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, 2004, and from that date through October 28, 2004, 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.

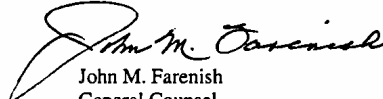
DCAA has been named as a codefendant with the Defense Contract Management Agency in a \$75 million Federal Tort Claims Act administrative claim filed September 2, 2003 by Information Systems Networks (ISN) Corporation. DCAA and DCMA coordinated on a consolidated claim report that

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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 28, 2004, 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

October 28, 2004


CFA 420.3

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

Dear Mr. Leiper:

Attached are the FY 2004 Annual Financial Statements (AFS) and Notes 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. Also attached are DCAA's Management Representation Letter and Legal Liability Letter.

I hereby certify the FY 2004 AFS, as of September 30, 2004, are supported by trial balances, feeder reports, or other information provided to or maintained by DCAA or the Defense Finance and Accounting Service Columbus Center.


Jody A. Trenary
Assistant Director, Resources
Defense Contract Audit Agency

Attachments
As stated



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

OFFICE OF THE DIRECTOR

October 28, 2004

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

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, 2004, 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, 2004.

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, 2003.

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;
 - c. cycle memos and flow charts of DCAA financial processes and systems.

October 28, 2004

was filed with the Army Claims Service. On September 29, 2004 the administrative claim was denied in full by the Army Claims Service. ISN now has six months to file a suit in U. S. District Court.

If suit is filed, the Government will deny liability because ISN's claim lacks factual, procedural and substantive merit. ISN asserts that it was tortious for the defendants to fail to establish overhead rates and close contracts. This claim is asserted as a tort even though there was ongoing litigation under the Contract Disputes Act (CDA) in the Court of Federal Claims involving the same subject matter. Essentially ISN is seeking to convert contract matters that are cognizable exclusively under the Contract Disputes Act into torts actionable in a non-CDA forum. This is wrong on many counts, the primary one being that the Federal Tort Claims Act expressly excludes contract claims.

The Government is highly confident that such claim, if filed, will be denied by a reviewing U. S. District Court. DCAA itself will seek to be dismissed from any lawsuit that may arise. It is DCMA, not DCAA that is solely responsible for unilaterally establishing overhead rates and for closing out contracts. DCAA will in all likelihood be dropped from any suit. Paul Mitchell is the DCAA attorney responsible for coordinating with DCMA trial counsel and the Army Claims Service attorneys in the administrative handling by the Service of this claim.

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).

Limitation on This Response

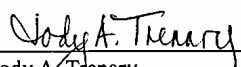
This response is limited by, and made in accordance with, the ABA Statement of Policy Regarding Lawyer's Responses to Auditors' Requests for Information (December 1975) (reference (c)). Without limiting the generality of the foregoing, the limitations set forth in such Statement on the scope and use 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)

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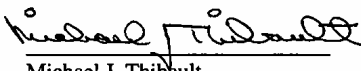
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. DCAA has no capital equipment and our offices are located either in Federal space or commercially leased space 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, 2004, 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 affect 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:

Leonard G. Birbaum and Company

- 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, 2004, 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. Trenary
Assistant Director, Resources
Defense Contract Audit Agency



Michael J. Thibault
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 35 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 2004, the five regional offices provided oversight and management for more than 340 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 2004, DCAA employed an all civilian workforce comprised of 4,060 professional contract auditors and administrative support personnel. Approximately 36 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 implementation of the PMA Balanced Scorecard. 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 Quadrennial Defense Review (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 Government Performance and Results Act (GPRA).

DCAA's Performance Plan with the Defense Management Council sets performance standards/stretch goals for its two major product lines – forward pricing and incurred cost audits. Together, these audit categories account for approximately 62 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 includes deliverables of average cost per million dollars audited. The Performance Plan goals versus actuals for FY 2004 were as follows:

	FY 2004 Goal	FY 2004 Actual
<i>Forward Pricing:</i>		
Cost per million dollars audited	\$ 632.0	\$ 548.0
<i>Incurred Cost:</i>		
Cost per million dollars audited	\$1,237.0	\$1,188.0

In addition to the productivity standards, the Performance Plan also has customer responsiveness metrics.

	FY 2004 Goal	FY 2004 Actual
Forward Pricing:		
Achieve average audit cycle time of 30 days or less	30 days	29 days
Forward pricing audits accomplished within 60 days	98%	99.0%
Incurred Cost:		
Complete audits within 12 months of receipt at major contractors and corporate offices	99%	99.7%
Complete audits within 24 months of receipt for all other submissions	99%	99.8%

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 \$106.07.

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 2004 was \$104.59, which is \$1.48 per hour less than the FY 2004 objective. The favorable variance is primarily due to management's emphasis on improving the indirect to direct labor ratio in FY 2004; as well as management's focus on reducing facilities and indirect support costs. DCAA's benchmarking cost per direct audit hour for FY 2004 was \$111.41. The rate calculation reflects DCAA's FY 2004 O&M, Procurement, and RDT&E funds plus \$26.7 million of imputed costs for post retirement benefits (i.e., pension, health insurance, and life insurance) using OMB prescribed rates. FY 2004 General Services Administration's Scheduled rates reflect a comparable labor rate for national accounting firms of \$154.49 which results in a DCAA rate that is approximately 27.9 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 2004, DCAA issued 99.6 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 2004 the Agency audited \$107.6 billion of incurred cost and 10,299 forward pricing proposals amounting to \$148.2 billion. Approximately \$2.1 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 \$427.6 million expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately \$5 for each dollar invested.

DCAA's contract audit services received an 85 percent overall customer satisfaction rating in the 2001-2002 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 2nd highest of all the 22 DoD Components surveyed. The conclusions drawn by the Biennial Review on DCAA, are stated below:

DCAA's ratings in the 2001-2002 Biennial Review showed some decreases compared with their ratings for the two previous Biennial Reviews. It is important to put the current findings in context. DCAA has been rated in the highest position in the past two Biennial Reviews. Their current ratings are still very high, with nearly complete support for Continuing Need and Importance. However, there is a decline in the areas of Coordination and Responsiveness. While it is important for DCAA to take note of these findings and address them, overall customer support remains very high.

DCAA has recently received the FY 2003-2004 results and is currently analyzing the results.

Financial Condition

During FY 2004, the O&M budget authority for DCAA was \$428.6 million with obligations of \$427.9 million. This represents an execution rate of 99.8 percent, which compares favorably to the FY 2003 execution rate of 99.9 percent.

DCAA has prepared its statements as part of DCAA's and the 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 eighth year of preparing financial statements, and the fourth 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 2004 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 the 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, 2004. Fund Balances with Treasury of \$26.3 million and Accounts Receivable of \$8.8 million comprised 97.5 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. Customers that are 30, 60, and 90 days in arrears are sent letters requesting payment or notification of why payment has not been made. As a result of the extensive review of the reimbursable program, several process improvements have been made:

- Regional focal points have been established to resolve issues at the FAO level.
- All FY 2004 billing transactions are being reviewed by DCAA prior to being released to DFAS Columbus for billing.
- DCAA developed a delinquency letter and customer reply form that DFAS Columbus is now using for the overdue accounts receivable.
- Because DBMS does not have the capability to age accounts, DFAS is maintaining an internal method to age accounts receivable.

Financial Condition – Liabilities. The Agency had total liabilities of \$64.1 million as of September 30, 2004. Accounts Payable were \$5.8 million, 9 percent of the total liabilities. Other Employment Actuarial Liabilities for workmen's compensation (FECA) were \$16.9 million, 26.3 percent of the total. Other Liabilities of \$41.4 million comprised the remaining 64.7 percent of the total. Unfunded liabilities of \$24.8 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 \$28.1 million as of September 30, 2004. This amount consisted of Unexpended Appropriations of \$18.2 million and a Cumulative Results of Operations of a negative \$46.3 million.

Results of Operations. The results of operations are reported in the Consolidated Statements of Changes in Net Position. DCAA had financing sources of \$392.9 million

and Net Cost of Operations of \$393.4 million. The net result of operations was a negative \$.5 million. The cumulative result of operations was a negative \$46.3 million.

Budgetary Issues. Approximately 84 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 have been fairly constant at approximately 4,000 work-years. However, as a result of the cumulative effect of several years of unfunded pay raises, beginning in FY 2004, work-years are declining. DCAA executed 3,941 work-years in FY 2004, with an expected work-year level of 3,609 by 2011, unless relief is provided by the Department. 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. The 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 management 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 Office oversees the

Agency's management 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 management controls are adequate. The statements are based on information from various sources such as the 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.

DCAA continued to evaluate its system of internal accounting and administrative controls in effect during the fiscal year end September 30, 2001 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 management 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 management 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.

In addition, DCAA has implemented internal controls that provide reasonable assurance that performance data and metrics are reliable and relevant. Procedures are in place that control access to DCAA's Management Information System (DMIS). Access to DMIS is controlled through use of security tables that require login identifications and passwords. These login procedures control the level of access to the information system. Point-of-data entry edit checks, numerous data accuracy queries run throughout the year, and specific quarterly reviews performed by Headquarters, the Regions and FAOs assure performance data and metrics are not significantly misstated for the period. In addition to the built-in data entry edit checks to prevent certain data input errors, other rigorous data accuracy queries are run after the data is entered to ensure performance data and metrics are accurate and reliable. These queries focus on data relationships to highlight significant amounts that, if erroneous, could materially affect reported statistics for the

period. The Agency maintains consistent and constant oversight of DMIS from data entry through transaction processing and reporting.

DEFENSE CONTRACT AUDIT AGENCY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2004

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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 Combined Statements of Financing (Principal Financial Statements) as of and for the years ended September 30, 2004 and 2003; we have examined internal control over financial reporting in place as of September 30, 2004 and 2003; and we have examined compliance with laws and regulations.

In our opinion, DCAA's 2004 and 2003 Principal Financial Statements are presented fairly in all material respects.

We found no material conflicts with DCAA's 2004 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, 2004 and 2003, 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. We noted certain other issues related to internal control as

implemented by DCAA which we have communicated to DCAA's management in a separate letter dated October 28, 2004.

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 Bulletin 01-09, *Form and Content of Agency Financial Statements*, 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, 2004

**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, 2004 and 2003
(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 26,340	\$ 33,518
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	0	0
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	8,727	4,315
Other Assets (Note 6)	0	0
Total Intragovernmental Assets	<u>\$ 35,067</u>	<u>\$ 37,833</u>
Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0
Accounts Receivable (Note 5)	99	3,253
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)	843	544
TOTAL ASSETS	<u>\$ 36,009</u>	<u>\$ 41,630</u>
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,293	\$ 425
Debt (Note 13)	0	0
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	5,128	4,850
Total Intragovernmental Liabilities	<u>\$ 7,421</u>	<u>\$ 5,275</u>
Accounts Payable (Note 12)	\$ 3,459	\$ 5,736
Military Retirement Benefits and Other Employment-Related	16,864	19,148
Actuarial Liabilities (Note 17)		
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	36,399	34,638
Debt Held by Public	0	0
TOTAL LIABILITIES	<u>\$ 64,143</u>	<u>\$ 64,797</u>
NET POSITION		
Unexpended Appropriations (Note 18)	\$ 18,235	\$ 22,670
Cumulative Results of Operations	(46,369)	(45,837)
TOTAL NET POSITION	<u>\$ (28,134)</u>	<u>\$ (23,167)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 36,009</u>	<u>\$ 41,630</u>

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
Program Costs		
Intragovernmental Gross Costs	\$ 110,271	\$ 84,768
(Less: Intragovernmental Earned Revenue)	(53,091)	(50,239)
Intragovernmental Net Costs	\$ 57,180	\$ 34,529
Gross Costs With the Public	336,201	347,704
(Less: Earned Revenue From the Public)	4	(95)
Net Costs With the Public	\$ 336,205	\$ 347,609
Total Net Cost	\$ 393,385	\$ 382,138
Cost Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	<u>\$ 393,385</u>	<u>\$ 382,138</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, 2004 and 2003
(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ (45,837)	\$ (42,864)
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	0	0
Beginning Balance, Restated	(45,837)	(42,864)
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	(45,837)	(42,864)
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	365,753	353,765
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
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	27,100	25,400
Other (+/-)	0	0
Total Financing Sources	392,853	379,165
Net Cost of Operations (+/-)	393,385	382,138
Ending Balances	\$ (46,369)	\$ (45,837)

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, 2004 and 2003
(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 22,670	\$ 25,494
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	0	0
Beginning Balance, Restated	22,670	25,494
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	22,670	25,494
Budgetary Financing Sources:		
Appropriations received	376,807	352,496
Appropriations transferred-in/out (+/-)	(5,268)	84
Other adjustments (rescissions, etc) (+/-)	(10,221)	(1,640)
Appropriations used	(365,753)	(353,765)
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
Other Financing Sources:		
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
Total Financing Sources	(4,435)	(2,825)
Net Cost of Operations (+/-)		
Ending Balances	\$ 18,235	\$ 22,669

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	2004 Combined	2003 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Budget Authority:		
Appropriations received	\$ 376,807	\$ 355,297
Borrowing authority	0	0
Contract authority	0	0
Net transfers (+/-)	0	0
Other	0	0
Unobligated balance:		
Beginning of period	11,853	16,132
Net transfers, actual (+/-)	(5,268)	(2,717)
Anticipated Transfers Balances	0	0
Spending authority from offsetting collections:		
Earned	0	0
Collected	50,777	52,117
Receivable from Federal sources	2,310	(991)
Change in unfilled customer orders	0	0
Advance received	22	0
Without advance from Federal sources	0	0
Anticipated for the rest of year, without advances	0	0
Transfers from trust funds	0	0
Subtotal	53,109	51,126
Recoveries of prior year obligations	4,997	2,525
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(10,221)	(1,640)
Total Budgetary Resources	\$ 431,277	\$ 420,723

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	2004 Combined	2003 Combined
STATUS OF BUDGETARY RESOURCES		
Obligations incurred:		
Direct	\$ 376,391	\$ 355,964
Reimbursable	51,936	52,907
Subtotal	428,327	408,871
Unobligated balance:		
Apportioned	2,503	1,950
Exempt from apportionment	0	0
Other available	0	1
Unobligated Balances Not Available	447	9,901
Total, Status of Budgetary Resources	\$ 431,277	\$ 420,723
Relationship of Obligations to Outlays:		
Obligated Balance, Net - beginning of period	\$ 21,667	\$ 18,051
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, Net - end of period:		
Accounts receivable	(7,828)	(5,518)
Unfilled customer order from Federal sources	0	0
Undelivered orders	15,481	11,624
Accounts payable	16,730	15,561
Outlays:		
Disbursements	418,302	403,723
Collections	(50,800)	(52,117)
Subtotal	367,502	351,606
Less: Offsetting receipts	0	0
Net Outlays	\$ 367,502	\$ 351,606

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINED STATEMENT OF FINANCING
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	2004 Combined	2003 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 428,327	\$ 408,871
Less: Spending authority from offsetting collections and recoveries (-)	(58,107)	(53,651)
Obligations net of offsetting collections and recoveries	370,220	355,220
Less: Offsetting receipts (-)	0	0
Net obligations	370,220	355,220
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	27,100	25,400
Other (+/-)	0	0
Net other resources used to finance activities	27,100	25,400
Total resources used to finance activities	397,320	380,620
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	(4,156)	(837)
Unfilled Customer Orders	22	0
Resources that fund expenses recognized in prior periods	(2,411)	0
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
Total resources used to finance items not part of the net cost of operations	(6,545)	(837)
Total resources used to finance the net cost of operations	390,775	379,783

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINED STATEMENT OF FINANCING
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	2004 Combined	2003 Combined
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	(145)
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 (+/-)	2,076	2,500
Total components of Net Cost of Operations that will require or generate resources in future periods	2,610	2,355
Components not Requiring or Generating Resources:		
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	0	0
Total components of Net Cost of Operations that will not require or generate resources	0	0
Total components of net cost of operations that will not require or generate resources in the current period	2,610	2,355
Net Cost of Operations	393,385	382,138

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in Thousands)

	Operation and Maintenance	Procurement	Other
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	24,819	1,506	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)	8,727	0	0
Other Assets (Note 6)	0	0	0
Total Intragovernmental Assets	\$ 33,546	\$ 1,506	\$ 0
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	99	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)	843	0	0
TOTAL ASSETS	\$ 34,488	\$ 1,506	\$ 0

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in Thousands)

ASSETS (Note 2)	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	15	0	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	0	8,727
Other Assets (Note 6)	0	0	0
Total Intragovernmental Assets	15	0	35,067
	\$	\$	\$
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	0	0	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	0	843
TOTAL ASSETS	15	0	36,009
	\$	\$	\$

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in Thousands)

	Elimination	2004 Consolidated	2003 Consolidated
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$	26,340	\$ 33,518
Entity	0	0	0
Non-Entity Seized Iraq Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	0	8,727	4,315
Other Assets (Note 6)	0	0	0
Total Intragovernmental Assets	\$ 0	\$ 35,067	\$ 37,833
Cash and Other Monetary Assets (Note 7)			
Accounts Receivable (Note 5)	\$ 0	\$ 0	\$ 0
Loans Receivable (Note 8)	0	99	3,253
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	843	544
TOTAL ASSETS	\$ 0	\$ 36,009	\$ 41,630

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in Thousands)

	Operation and Maintenance	Procurement	Other
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 2,292	\$ 0	\$ 0
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	5,128	0	0
Total Intragovernmental Liabilities	\$ 7,420	\$ 0	\$ 0
Accounts Payable (Note 12)	\$ 3,434	\$ 25	\$ 0
Military Retirement Benefits and Other Employment-Related			
Actuarial Liabilities (Note 17)	16,864	0	0
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	36,399	0	0
Debt Held by Public	0	0	0
TOTAL LIABILITIES	\$ 64,117	\$ 25	\$ 0
NET POSITION			
Unexpended Appropriations (Note 18)	\$ 16,740	\$ 1,481	\$ 0
Cumulative Results of Operations	(46,369)	0	0
TOTAL NET POSITION	\$ (29,629)	\$ 1,481	\$ 0
TOTAL LIABILITIES AND NET POSITION	\$ 34,488	\$ 1,506	\$ 0

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 1	\$ 0	\$ 2,293
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	0	5,128
Total Intragovernmental Liabilities	1	0	7,421
Accounts Payable (Note 12)	\$ 0	\$ 0	\$ 3,459
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	16,864
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	0	0	36,399
Debt Held by Public	0	0	0
TOTAL LIABILITIES	1	0	64,143
NET POSITION			
Unexpended Appropriations (Note 18)	\$ 14	\$ 0	\$ 18,235
Cumulative Results of Operations	0	0	(46,369)
TOTAL NET POSITION	14	0	(28,134)
TOTAL LIABILITIES AND NET POSITION	15	0	36,009

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in Thousands)

	Elimination	2004 Consolidated	2003 Consolidated
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 0	\$ 2,293	\$ 425
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	5,128	4,850
Total Intragovernmental Liabilities	\$ 0	\$ 7,421	\$ 5,275
Accounts Payable (Note 12)	\$ 0	\$ 3,459	\$ 5,736
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	16,864	19,148
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	0	36,399	34,638
Debt Held by Public	0	0	0
TOTAL LIABILITIES	\$ 0	\$ 64,143	\$ 64,797
NET POSITION			
Unexpended Appropriations (Note 18)	\$ 0	\$ 18,235	\$ 22,670
Cumulative Results of Operations	0	(46,369)	(45,837)
TOTAL NET POSITION	\$ 0	\$ (28,134)	\$ (23,167)
TOTAL LIABILITIES AND NET POSITION	\$ 0	\$ 36,009	\$ 41,630

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	Operation and Maintenance	Procurement	Other
Program Costs			
Intragovernmental Gross Costs	\$ 109,520	\$ 577	\$ 0
(Less: Intragovernmental Earned Revenue)	(53,091)	0	0
Intragovernmental Net Costs	\$ 56,429	\$ 577	\$ 0
Gross Costs With the Public	336,156	45	0
(Less: Earned Revenue From the Public)	4	0	0
Net Costs With the Public	\$ 336,160	\$ 45	\$ 0
Total Net Cost	\$ 392,589	\$ 622	\$ 0
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	\$ 392,589	\$ 622	\$ 0

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

Program Costs	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
Intragovernmental Gross Costs	\$ 174	\$ 0	\$ 110,271
(Less: Intragovernmental Earned Revenue)	0	0	(53,091)
Intragovernmental Net Costs	174	0	57,180
Gross Costs With the Public	0	0	336,201
(Less: Earned Revenue From the Public)	0	0	4
Net Costs With the Public	0	0	336,205
Total Net Cost	174	0	393,385
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	174	0	393,385

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency -
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	Elimination	2004 Consolidated	2003 Consolidated
Program Costs			
Intragovernmental Gross Costs	\$ 0	\$ 110,271	\$ 84,768
(Less: Intragovernmental Earned Revenue)	0	(53,091)	(50,239)
Intragovernmental Net Costs	\$ 0	\$ 57,180	\$ 34,529
Gross Costs With the Public	0	336,201	347,704
(Less: Earned Revenue From the Public)	0	4	(95)
Net Costs With the Public	\$ 0	\$ 336,205	\$ 347,609
Total Net Cost	\$ 0	\$ 393,385	\$ 382,138
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	\$ 0	\$ 393,385	\$ 382,138

The accompanying notes are an integral part of these statements.

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, 2004 and 2003
(\$ in Thousands)

	Operation and Maintenance	Procurement	Other
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ (45,837)	\$ 0	\$ 0
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	(45,837)	0	0
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	(45,837)	0	0
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	364,958	621	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
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	27,100	0	0
Other (+/-)	0	0	0
Total Financing Sources	392,058	621	0
Net Cost of Operations (+/-)	392,589	622	0
Ending Balances	\$ (46,368)	\$ (1)	\$ 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, 2004 and 2003
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 0	\$ 0	\$ (45,837)
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	0	0	(45,837)
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	0	0	(45,837)
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	174	0	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
Other Financing Sources:			
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	27,100
Other (+/-)	0	0	0
Total Financing Sources	<u>174</u>	<u>0</u>	<u>392,853</u>
Net Cost of Operations (+/-)	<u>174</u>	<u>0</u>	<u>393,385</u>
Ending Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (46,369)</u>

The accompanying notes are an integral part of these statements.

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, 2004 and 2003
(\$ in Thousands)

	Elimination	2004 Consolidated	2003 Consolidated
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 0	\$ (45,837)	\$ (42,864)
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	0	(45,837)	(42,864)
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	0	(45,837)	(42,864)
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	385,753	353,765
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
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	27,100	25,400
Other (+/-)	0	0	0
Total Financing Sources	0	392,853	379,165
Net Cost of Operations (+/-)	0	393,385	382,138
Ending Balances	\$ 0	\$ (46,369)	\$ (45,837)

The accompanying notes are an integral part of these statements.

**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, 2004 and 2003
(\$ in Thousands)**

	Operation and Maintenance	Procurement	Other
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 21,859	\$ 623	\$ 0
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	21,859	623	0
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	21,859	623	0
Budgetary Financing Sources:			
Appropriations received	375,327	1,480	0
Appropriations transferred-in/out (+/-)	(5,268)	0	0
Other adjustments (rescissions, etc) (+/-)	(10,220)	(1)	0
Appropriations used	(364,958)	(621)	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
Other Financing Sources:			
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
Total Financing Sources	<u>(5,119)</u>	<u>858</u>	<u>0</u>
Net Cost of Operations (+/-)			
Ending Balances	\$ 16,740	\$ 1,481	\$ 0

The accompanying notes are an integral part of these statements.

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, 2004 and 2003
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	Combined Total
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 188	\$ 0	\$ 22,670
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	188	0	22,670
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	188	0	22,670
Budgetary Financing Sources:			
Appropriations received	0	0	376,807
Appropriations transferred-in/out (+/-)	0	0	(5,268)
Other adjustments (rescissions, etc) (+/-)	0	0	(10,221)
Appropriations used	(174)	0	(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
Other Financing Sources:			
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
Total Financing Sources	(174)	0	(4,435)
Net Cost of Operations (+/-)			
Ending Balances	\$ 14	\$ 0	\$ 18,235

The accompanying notes are an integral part of these statements.

**DEFENSE CONTRACT
AUDIT AGENCY**



**NOTES TO THE PRINCIPAL
FINANCIAL STATEMENTS**

Note 1.	Significant Accounting Policies
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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 have been prepared from the accounting books and records of the DCAA and its accounting services provider, the Defense Finance and Accounting Service (DFAS), in accordance with the "Department of Defense (DoD) Financial Management Regulation," Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," 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 have been 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 of the elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of the DFAS financial management processes and systems, including non-financial feeder systems and processes. The DFAS continues to implement process and system improvements addressing the limitation of its financial and non-financial feeder systems. A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

1.B. Mission of the Reporting Entity

The DCAA was formed on January 8, 1965, to establish a single contract audit capability. The DCAA performs all necessary contract audits for the Department of Defense (DoD) and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration. The agency also performs contract audit services for other federal agencies on a reimbursable basis. These services are provided in connection with the negotiation, administration, and settlement of contracts and subcontracts.

1.C. Appropriations and Funds

The DCAA receives apportionments of Operation and Maintenance, Research, Development, Test and Evaluation, and Procurement funds from the Office of Management and Budget through the Department of Defense. These apportionments represent the obligation authority limitation for the budget program authorized.

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 as a result of the elimination of balances between DoD components and other federal entities. See Note 19.A., General Disclosures Related to the Statement of Net Cost for disclosure of adjustment amount.

1.G. Accounting for Intra-governmental Activities

The DCAA, as an agency to 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 of the DCAA as though the agency was a stand-alone entity.

Civilian Retirement Systems

The DCAA's employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Additionally, 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 reporting civilian pensions under CSRS and FERS. The DCAA recognizes an imputed expense on the Statement of Net Cost and the corresponding imputed revenue on the

Statement of Changes in Net Position for the portion of civilian employee pensions and other retirement benefits funded by the Office of Personnel Management (OPM).

Intragovernmental Elimination

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 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. 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

Not applicable to the Defense Contract Audit Agency.

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

The DCAA receives its spending authorizations as allotments from three DoD Appropriations. As such, what is presented on its Balance Sheet as Fund Balance with Treasury (FBWT), is not directly reconcilable with account balances maintained by the Department of Treasury. Specific disclosures of the amounts involved are contained in Note 3.

1.J. Foreign Currency

Not applicable to the Defense Contract Audit Agency.

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 applying a predetermined percentage of loss for each age group to the monthly receivables. See Note 5, Accounts Receivable for material disclosure.

1.L. Loans Receivable. As Applicable.

Not applicable to the Defense Contract Audit Agency.

1.M. Inventories and Related Property

Not applicable to the Defense Contract Audit Agency.

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

Not applicable to the Defense Contract Audit Agency.

1.O. General Property, Plant and Equipment

Not applicable to the Defense Contract Audit Agency.

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

Not applicable to the Defense Contract Audit Agency.

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 Defense Contract Audit Agency.

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 2004 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 which 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 2004.

Cumulative Results of Operations represents the difference, since inception of an activity, between expenses and losses and financing sources.

1.V. Treaties for Use of Foreign Bases

Not applicable to the Defense Contract Audit Agency.

1.W. Comparative Data

The DCAA's financial statements were audited for the first time in FY 2000 and audited again in FY 2001, FY 2002, and FY 2003. The amounts appearing in these statements for 4th Quarter, FY 2003 represent the reported balances for those line items from the 4th Quarter, FY 2003 Audited Financial Statements. This information is presented for comparative purposes.

Financial statement fluctuations greater than 10 percent between 4th Quarter, FY 2003 and 4th Quarter, FY 2004 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. Problem Disbursements

Disclosures Related to Problem Disbursements and In-transit Disbursements				
As of September 30 (dollars in thousands),	Sept 2002	Sept 2003	Sept 2004	+/- from 2003 to 2004
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	N/A	\$45	\$2	(\$43)
B. Negative Unliquidated Obligations	N/A	\$18	\$4	(\$14)
2. Total In-transit Disbursements, Net	N/A	\$126	\$136	\$10
3. Other Information Related to Problem Disbursements and In-transit Disb	N/A	N/A	N/A	N/A

Definitions

- Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.
- UMDs occur when payments do not match to a corresponding obligation in the accounting system.

- NULOs 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 represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet posted in an accounting system.

Data for 4th Quarter, FY 2002 was not available. The data used for the 4th Quarter, FY 2004 is from the September TI-97 Problem Disbursement (PD) reports.

Note 2.	Nonentity Assets
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As of September 30	2004	2003
<i>(Amounts in thousands)</i>		
1. Intra-governmental Assets		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Investments	0	0
C. Accounts Receivable	0	0
D. Other Assets	0	0
E. Total Intra-governmental Assets	\$ 0	\$ 0
2. Non-Federal Assets		
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 Non-Federal Assets	\$ 0	\$ 0
3. Total Non-Entity Assets	\$ 0	\$ 0
4. Total Entity Assets	\$ 36,009	\$ 41,630
5. Total Assets	\$ 36,009	\$ 41,630

Other Information

Assets are categorized as entity or nonentity:

Entity assets consist of resources that the entity 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 Reference

For Additional Line Item discussion, see:

- Note 3, Fund Balance with Treasury
- Note 5, Accounts Receivable
- Note 6, Other Assets

Note 3.A.	Fund Balance with Treasury
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As of September 30	2004	2003
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	\$ 26,340	\$ 33,518
B. Revolving Funds	0	0
C. Trust Funds	0	0
D. Other Fund Types	0	0
E. Total Fund Balances	\$ 26,340	\$ 33,518
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 0	\$ 0
B. Fund Balance per	26,340	33,518
3. Reconciling Amount	\$ (26,340)	\$ (33,518)

Explanation of Reconciling Amount

The Department of the Treasury reports fund balances at the appropriation basic symbol level. The Defense Contact Audit Agency (DCAA) is uniquely identified at the limit level within Defense Treasury Index 97 funds. For the DCAA, the Department of the Defense (DoD) reconciles Fund Balance with Treasury at the agency-wide level, since Defense Treasury Index 97 funds allotted at limit level preclude individual entity reporting compliance.

Other DCAA Disclosures

Appropriated funds are provided through congressional appropriation. The DCAA receives its spending authorizations as allotments from three DoD Appropriations. 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 obligations 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.

Fluctuations and/or Abnormalities

Line 1.A., Appropriated Funds (see chart above), decreased 21 percent, \$7,178 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is in part due to a \$5,268 thousand net transfer of funds to Foreign Currency Fluctuations (Construction) and Counter-Drug Activities. The DCAA's fund balance increased \$971 thousand as a result of collections received from reimbursable earnings. The DCAA reported a net overall increase of \$21,510 thousand in annual budget authority. Additional funds of \$14,209 thousand in support of Iraq was a part of the increase in

annual budget authority. In addition, funds disbursed (outlays) increased \$14,580 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004 which decreased the fund balance. Also, the DCAA canceled budgetary resources, both obligated and unobligated, accounts receivable and accounts payable balances for FY 1999 year as required under Public Law 101-510. Fund balance was decreased \$10,220 thousand by the canceled authority.

Note Reference

For additional line item discussion, see:

Note 20 – Disclosures Related to the Statement of Changes in Net Position

Note 3.B. Disclosures Related to Suspense/Budget Clearing Accounts

As of September 30	2002	2003	2004	(Decrease)/ Increase from FY 2003 - 2004
<small>(Amounts in thousands)</small>				
<u>Account</u>				
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
Total	\$ 0	\$ 0	\$ 0	0

Not applicable to the Defense Contract Audit Agency.

Note 4. Investments

As of September 30		2004			2003	
	Cost	Amortization Method	Amortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in thousands)						
1. Intra-governmental Securities:						
A. Marketable	\$ 0		\$ 0	0	0	0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	0		0	0	0	0
D. Subtotal	\$ 0		\$ 0	0	0	0
E. Accrued Interest	0		0	0	0	0
F. Total Intragovernmental Securities	\$ 0		\$ 0	0	0	0
2. Other Investments:						
	\$ 0		0	0	N/A	0
3. Other Information:						
Not applicable to the Defense Contract Audit Agency.						

Note 5. Accounts Receivable

As of September 30	2004			2003
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
1. Intra-governmental Receivables:	\$ 8,727	N/A	\$ 8,727	\$ 4,315
2. Non-Federal Receivables (From the Public):	\$ 102	\$ (3)	\$ 99	\$ 3,253
3. Total Accounts Receivable:	\$ 8,829	\$ (3)	\$ 8,826	\$ 7,568
4. Allowance method:				

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. The DCAA does not recognize an allowance for estimated uncollectible amounts from another federal agency.

5. Other information:

Allocation of Undistributed Collections

The difference between collections that are reported on the Cash Management Report (CMR), 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 (DoD) Financial Management Regulation Volume 6B, Chapter 4, requires that undistributed collections be allocated against an entity's Federal and Non-Federal accounts receivable balances. The analysis to support these undistributed balances was performed but was limited to current year collections. Undistributed balances from prior years could not be ascertained due to system limitations.

Elimination Adjustments

The DCAA is waived from buyer-side eliminations adjustments. 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

The DCAA's systems that are capable of aging receivables over 180 days have \$226 thousand of intragovernmental and non-federal receivables over 180 days old.

Fluctuations and/or Abnormalities

Line 1, Intragovernmental Receivables, increased 102 percent, \$4,412 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. In addition, the DCAA reported \$66 thousand in unsupported undistributed collections, which prior to 4th Quarter 2003 were applied to reduce accounts receivable. Due to a policy change in the FY 2003 year-end instructions, these unsupported collections were not applied to accounts receivable, but were posted to United States Standard General Ledger (USSGL) account 2400, Liability for Deposit Funds and Suspense Accounts. Unsupported undistributed collections decreased \$2,045 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. In addition, there was a \$483 thousand reclassification of receivables from non-federal to federal for Foreign Military Sales (FMS). For 4th Quarter, FY 2003 FMS was classified as non-federal and there was no reclassification. Beginning with 1st Quarter, FY 2004 the DCAA and the Defense Finance and Accounting Service (DFAS) partnered to improve the elimination process. As a result, it was identified that the FMS was misclassified and should be reclassified to federal.

Line 2, Non-Federal Receivables, decreased 97 percent, \$3,154 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is in part due to a \$2,345 thousand trading partner reclassification made in 4th Quarter, FY 2003 that was not made in FY 2004. In addition, there was a \$58 thousand decrease in the allowance for doubtful accounts, which is currently being analyzed on a monthly basis in FY 2004. Also, the DCAA had \$22 thousand in public advances that were coded as non-federal receivables on the general ledger and reclassified to unearned revenue. For 4th Quarter, FY 2004, there was a \$483 thousand reclassification of non-federal receivables to federal for Foreign Military Sales (FMS). For 4th Quarter, FY 2003 FMS was classified as non-federal and there was no reclassification. Beginning with 1st Quarter, FY 2004 the DCAA and the DFAS partnered to improve the proper coding of trading partners for the elimination process.

Note Reference

See Note Disclosure 1.K. – Significant Accounting Policies for additional discussion.

Note 6.	Other Assets
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As of September 30	2004	2003
(Amounts in thousands)		
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	\$ 0	\$ 0
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 0	\$ 0
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	843	544
C. Total Non-Federal Other Assets	\$ 843	\$ 544
3. Total Other Assets:	\$ 843	\$ 544

4. Other Information Related to Other Assets:

Non-Federal Other Assets

The Defense Contract Audit Agency (DCAA) reported \$843 thousand of Other Assets (With the Public). These other assets included travel and salary advances, and advances of overseas allowances for DCAA employees.

Fluctuations and/or Abnormalities

Line 2.B., Non-Federal Other Assets (With the Public), increased 55 percent, \$299 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. Travel advances increased \$194 thousand. These advances were to employees assigned to DCAA offices outside the continental United States. The remaining 19 percent, \$105 thousand is comprised of advances for Living Quarters Allowance, Advance Pay, Temporary Quarters & Subsistence Allowance, and Benefit Costs paid for employees in a leave without pay status.

Note 7. Cash and Other Monetary Assets

As of September 30 (Amounts in thousands)	2004	2003
1. Cash	\$ 0	\$ 0
2. Foreign Currency (non-purchased)	0	0
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0	\$ 0

5. Other Information Pertaining to Entity Cash & Other Monetary Assets:

Not applicable to the Defense Contract Audit Agency.

Note 8. A. Direct Loan and/or Loan Guarantee Programs



1. **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

2. **Other Information:**

Note 8.B. Direct Loans Obligated After FY 1991

As of September 30 (Amounts in thousands)	2004	2003
Loan Programs		
1. Military Housing Privatization Initiative:		
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
2. Armament Retooling & Manufacturing Support Initiative:		
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
3. Total Loans Receivable:	0 \$	0
4. Other Information:		

Note 8.C. Total Amount of Direct Loans Disbursed

As of September 30 (Amounts in thousands)	2004	2003
Direct Loan Programs		
1. Military Housing Privatization Initiative:	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	0	0
3. Total	\$ 0	\$ 0

4. Other information:

Note 8.D. Subsidy Expense for Post-1991 Direct Loans

As of September 30		Interest Differential		Defaults		Fees		Other		Total	
(Amounts in thousands)		2004		2003		2004		2003		2004	
1. Subsidy Expense for New Direct Loans Disbursed:											
Military Housing Privatization Initiative		\$	0	\$	0	\$	0	\$	0	\$	0
Armament Retooling & Manufacturing Support Initiative			0		0		0		0		0
Total		\$	0	\$	0	\$	0	\$	0	\$	0
2. Subsidy Expense for New Direct Loans Disbursed:											
Military Housing Privatization Initiative		\$	0	\$	0	\$	0	\$	0	\$	0
Armament Retooling & Manufacturing Support Initiative			0		0		0		0		0
Total		\$	0	\$	0	\$	0	\$	0	\$	0
3. Direct Loan Modifications and Reestimates:											
Military Housing Privatization Initiative		\$	0	\$	0	\$	0	\$	0	\$	0
Armament Retooling & Manufacturing Support Initiative			0		0		0		0		0
Total		\$	0	\$	0	\$	0	\$	0	\$	0
4. Direct Loan Modifications and Reestimates:											
Military Housing Privatization Initiative		\$	0	\$	0	\$	0	\$	0	\$	0
Armament Retooling & Manufacturing Support Initiative			0		0		0		0		0
Total		\$	0	\$	0	\$	0	\$	0	\$	0

	2004	2003
5. Total Direct Loan Subsidy Expense:		
Military Housing Privatization Initiative	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	\$ 0	\$ 0

6. Other information:

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, 2004 and 2003
(\$ in Thousands)

	Elimination	2004 Consolidated	2003 Consolidated
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 0	\$ 22,670	\$ 25,494
Prior period adjustments (+/-)	0	0	0
Prior Period Adjustments - Restated (+/-)	0	22,670	25,494
Beginning Balance, Restated	0	0	0
Prior Period Adjustments - Not Restated (+/-)	0	22,670	25,494
Beginning Balances, as adjusted	0	22,670	25,494
Budgetary Financing Sources:			
Appropriations received	0	376,807	352,496
Appropriations transferred in/out (+/-)	0	(5,268)	84
Other adjustments (rescissions, etc) (+/-)	0	(10,221)	(1,640)
Appropriations used	0	(365,753)	(353,765)
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
Other Financing Sources:			
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
Total Financing Sources	0	(4,435)	(2,825)
Net Cost of Operations (+/-)	0	18,235	22,669
Ending Balances	\$ 0	\$ 18,235	\$ 22,669

The accompanying notes are an integral part of these statements.

Department of Defense
 Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the periods ended September 30, 2004 and 2003
 (\$ in Thousands)

	Operation and Maintenance	Procurement	Other
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	\$ 375,327	\$ 1,480	\$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	11,338	514	0
Net transfers, actual (+/-)	(5,268)	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	50,777	0	0
Receivable from Federal sources	2,310	0	0
Change in unfilled customer orders	0	0	0
Advance received	22	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	53,109	0	0
Recoveries of prior year obligations	4,984	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(10,220)	(1)	0
Total Budgetary Resources	\$ 429,270	\$ 1,993	\$ 0

The accompanying notes are an integral part of these statements.

Department of Defense
 Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the periods ended September 30, 2004 and 2003
 (\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2004 Combined
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	\$ 0	\$ 0	\$ 376,807
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	1	0	11,853
Net transfers, actual (+/-)	0	0	(5,268)
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	0	50,777
Receivable from Federal sources	0	0	2,310
Change in unfilled customer orders	0	0	0
Advance received	0	0	22
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	0	0	53,109
Recoveries of prior year obligations	13	0	4,997
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	(10,221)
Total Budgetary Resources	\$ 14	\$ 0	\$ 431,277

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

2003 Combined

BUDGETARY FINANCING ACCOUNTS	2003 Combined
BUDGETARY RESOURCES	
Budget Authority:	
Appropriations received	\$ 355,297
Borrowing authority	0
Contract authority	0
Net transfers (+/-)	0
Other	0
Unobligated balance:	
Beginning of period	16,132
Net transfers, actual (+/-)	(2,717)
Anticipated Transfers Balances	0
Spending authority from offsetting collections:	
Earned	0
Collected	52,117
Receivable from Federal sources	(991)
Change in unfilled customer orders	0
Advance received	0
Without advance from Federal sources	0
Anticipated for the rest of year, without advances	0
Transfers from trust funds	0
Subtotal	51,126
Recoveries of prior year obligations	2,525
Temporarily not available pursuant to Public Law	0
Permanently not available	(1,640)
Total Budgetary Resources	\$ 420,723

Department of Defense
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COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the periods ended September 30, 2004 and 2003
 (\$ in Thousands)

STATUS OF BUDGETARY RESOURCES	Operation and Maintenance		Procurement	Other
Obligations incurred:				
Direct	\$ 375,047	\$ 1,344	\$ 0	0
Reimbursable	51,936	0	0	0
Subtotal	426,983	1,344	0	0
Unobligated balance:				
Apportioned	2,241	249	0	0
Exempt from apportionment	0	0	0	0
Other available	0	0	0	0
Unobligated Balances Not Available	46	400	0	0
Total, Status of Budgetary Resources	\$ 429,270	\$ 1,993	\$ 0	0
Relationship of Obligations to Outlays:				
Obligated Balance, Net - beginning of period	\$ 21,371	\$ 109	\$ 0	0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(7,828)	0	0	0
Unfilled customer order from Federal sources	0	0	0	0
Undelivered orders	14,649	832	0	0
Accounts payable	16,705	25	0	0
Outlays:				
Disbursements	417,533	596	0	0
Collections	(50,800)	0	0	0
Subtotal	366,733	596	0	0
Less: Offsetting receipts	0	0	0	0
Net Outlays	\$ 366,733	\$ 596	\$ 0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2004 Combined
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	0	\$	0
Reimbursable	0	\$	0
Subtotal	0	\$	0
Unobligated balance:			
Apportioned	13	\$	0
Exempt from apportionment	0	\$	0
Other available	0	\$	0
Unobligated Balances Not Available	1	\$	0
Total, Status of Budgetary Resources	14	\$	0
Relationship of Obligations to Outlays:			
Obligated Balance, Net - beginning of period	187	\$	0
Obligated Balance transferred, net (+/-)	0	\$	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	\$	0
Unfilled customer order from Federal sources	0	\$	0
Undelivered orders	0	\$	0
Accounts payable	0	\$	0
Outlays:			
Disbursements	173	\$	0
Collections	0	\$	0
Subtotal	173	\$	0
Less: Offsetting receipts	0	\$	0
Net Outlays	173	\$	0

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

2003 Combined

STATUS OF BUDGETARY RESOURCES	
Obligations incurred:	
Direct	\$ 355,964
Reimbursable	52,907
Subtotal	408,871
Unobligated balance:	
Apportioned	1,950
Exempt from apportionment	0
Other available	1
Unobligated Balances Not Available	9,901
Total, Status of Budgetary Resources	\$ 420,723
Relationship of Obligations to Outlays:	
Obligated Balance, Net - beginning of period	\$ 18,051
Obligated Balance transferred, net (+/-)	0
Obligated Balance, Net - end of period:	
Accounts receivable	(5,518)
Unfilled customer order from Federal sources	0
Undelivered orders	11,624
Accounts payable	15,561
Outlays:	
Disbursements	403,723
Collections	(52,117)
Subtotal	351,606
Less: Offsetting receipts	0
Net Outlays	\$ 351,606

The accompanying notes are an integral part of these statements.

Department of Defense
 Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF FINANCING
 For the periods ended September 30, 2004 and 2003
 (\$ In Thousands)

	Operation and Maintenance	Procurement	Other
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations Incurred	\$ 426,983	\$ 1,344	\$ 0
Less: Spending authority from offsetting collections and recoveries (-)	(58,094)	0	0
Obligations net of offsetting collections and recoveries	368,889	1,344	0
Less: Offsetting receipts (-)	0	0	0
Net obligations	368,889	1,344	0
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	27,100	0	0
Other (+/-)	0	0	0
Net other resources used to finance activities	27,100	0	0
Total resources used to finance activities	395,989	1,344	0

The accompanying notes are an integral part of these statements.

Department of Defense
Under Secretary of Defense (Comptroller) - Defense Contract Audit Agency
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2004 Combined
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations incurred	\$ 0	\$ 0	\$ 428,327
Less: Spending authority from offsetting collections and recoveries (-)	(13)	0	(58,107)
Obligations net of offsetting collections and recoveries	(13)	0	370,220
Less: Offsetting receipts (-)	0	0	0
Net obligations	(13)	0	370,220
Other Resources			
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	27,100
Other (+/-)	0	0	0
Net other resources used to finance activities	0	0	27,100
Total resources used to finance activities	(13)	0	397,320

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COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

	2003 Combined
Resources Used to Finance Activities:	
Budgetary Resources Obligated	\$ 408,871
Obligations incurred	(53,651)
Less: Spending authority from offsetting collections and recoveries (-)	355,220
Obligations net of offsetting collections and recoveries	0
Less: Offsetting receipts (-)	355,220
Net obligations	0
Other Resources	
Donations and forfeitures of property	0
Transfers in/out without reimbursement (+/-)	0
Imputed financing from costs absorbed by others	25,400
Other (+/-)	0
Net other resources used to finance activities	25,400
Total resources used to finance activities	380,620

The accompanying notes are an integral part of these statements.

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COMBINING STATEMENT OF FINANCING
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(\$ In Thousands)

	Operation and Maintenance	Procurement	Other
Resources Used to Finance Items not Part of the Net Cost of Operations			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	(3,620)	(723)	0
Unfiled Customer Orders	22	0	0
Resources that fund expenses recognized in prior periods	(2,411)	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	0	0	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
Total resources used to finance items not part of the net cost of operations	(6,009)	(723)	0
Total resources used to finance the net cost of operations	389,980	621	0

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COMBINING STATEMENT OF FINANCING
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 (\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2004 Combined
Resources Used to Finance Items not Part of the Net Cost of Operations			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	187	0	(4,156)
Unfilled Customer Orders	0	0	22
Resources that fund expenses recognized in prior periods	0	0	(2,411)
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
Total resources used to finance items not part of the net cost of operations	187	0	(6,545)
Total resources used to finance the net cost of operations	174	0	390,775

The accompanying notes are an integral part of these statements.

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(\$ in Thousands)

2003 Combined

Resources Used to Finance Items not Part of the Net Cost of Operations	
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	
Undelivered Orders (-)	(837)
Unfilled Customer Orders	0
Resources that fund expenses recognized in prior periods	0
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	
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0
Other (+/-)	0
Total resources used to finance items not part of the net cost of operations	(837)
Total resources used to finance the net cost of operations	379,783

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COMBINING STATEMENT OF FINANCING
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 (\$ in Thousands)

	Operation and Maintenance	Procurement	Other
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	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 public (-)	0	0	0
Other (+/-)	2,076	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	2,610	0	0
Components not Requiring or Generating Resources:			
Depreciation and amortization	0	0	0
Revaluation of assets or liabilities (+/-)	0	0	0
Other (+/-)	0	0	0
Trust Fund Exchange Revenue	0	0	0
Cost of Goods Sold	0	0	0
Operating Material & Supplies Used	0	0	0
Other	0	0	0
Total components of Net Cost of Operations that will not require or generate resources	0	0	0
Total components of net cost of operations that will not require or generate resources in the current period	2,610	0	0
Net Cost of Operations	392,590	621	0

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COMBINING STATEMENT OF FINANCING
 For the periods ended September 30, 2004 and 2003
 (\$ in Thousands)

	Research, Development Test & Evaluation	DCAA Component Level	2004 Combined
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	0	0	534
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	2,076
Total components of Net Cost of Operations that will require or generate resources in future periods	0	0	2,610
Components not Requiring or Generating Resources:			
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	0
Total components of Net Cost of Operations that will not require or generate resources	0	0	0
Total components of net cost of operations that will not require or generate resources in the current period	0	0	2,610
Net Cost of Operations	174	0	393,385

The accompanying notes are an integral part of these statements.

Department of Defense
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COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2004 and 2003
(\$ in Thousands)

2003 Combined

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	(145)	
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 (+/-)	2,500	
Total components of Net Cost of Operations that will require or generate resources in future periods	2,355	
Components not Requiring or Generating Resources:		
Depreciation and amortization	0	
Revaluation of assets or liabilities (+/-)	0	
Other (+/-)	0	
Trust Fund Exchange Revenue	0	
Cost of Goods Sold	0	
Operating Material & Supplies Used	0	
Other	0	
Total components of Net Cost of Operations that will not require or generate resources	0	
Total components of net cost of operations that will not require or generate resources in the current period	2,355	
Net Cost of Operations	382,138	

The accompanying notes are an integral part of these statements.

Note 8.E. Subsidy Rate for Direct Loans

	Interest Differential	Defaults	Fees	Other	Total
Direct Loans:					
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%

3. Other Information:

Note 8.F. Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

	2004		2003	
	Beginning Balance, Changes and Ending Balance			
(Amounts in thousands)				
1. Beginning Balance of the Subsidy Cost Allowance	\$	0	\$	0
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component				
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
E. Total of the above Subsidy Expense Components	\$	0	\$	0
3. Adjustments				
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
G. Total of the above Adjustment Components	\$	0	\$	0
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$	0	\$	0
5. Add or Subtract Subsidy Re-estimates by Component				
A. Interest Rate Re-estimate	\$	0	\$	0
B. Technical/default Re-estimate		0		0
C. Total of the above Re-estimate Components	\$	0	\$	0
6. Ending Balance of the Subsidy Cost Allowance	\$	0	\$	0

Note 8.G. Defaulted Guaranteed Loans from Post-1991 Guarantees

As of September 30
 (Amounts in thousands)

2004

2003

Loan Guarantee Program(s)	2004	2003
1. Military Housing Privatization 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
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
4. Other Information:		
	\$ 0	\$ 0

Note 8.H. Guaranteed Loans Outstanding

As of September 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding:		
1. Military Housing Privatization Initiative	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$ 0	\$ 0
3. Total	\$ 0	\$ 0
2004		
New Guaranteed Loans Disbursed:		
1. Military Housing Privatization Initiative	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$ 0	\$ 0
3. Total	\$ 0	\$ 0
2003		
New Guaranteed Loans Disbursed:		
1. Military Housing Privatization Initiative	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$ 0	\$ 0
3. Total	\$ 0	\$ 0
4. Other Information:		

Note 8.I. Liability for Post-1991 Loan Guarantees, Present Value

As of September 30 (Amounts in thousands)		2004	2003
Loan Guarantee Program Title			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative		0	0
3. Total	\$	0	\$ 0
4. Other Information:			0

Note 8.J. Subsidy Expense for Post-1991 Loan Guarantees

		As of September 30 (Amounts in thousands)				Total	
		Interest Differential	Defaults	Fees	Other		
		2004					
1. Subsidy Expense for New Loan Guarantees Disbursed:							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
		2003					
2. Subsidy Expense for New Loan Guarantees Disbursed:							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
		2004					
3. Loan Guarantee Modifications and Reestimates:							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
		2003					
4. Loan Guarantee Modifications and Reestimates:							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

	2004	2003
5. Total Loan Guarantee Subsidy Expense:		
Military Housing Privatization Initiative	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	\$ 0	\$ 0

6. Other Information:

Note 8.K. Subsidy Rate for Loan Guarantees

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees:					
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%
3. Other Information:					

Note 8.L. Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees

Beginning Balance, Changes and Ending Balance (Amounts in thousands)	2004	2003
1. Beginning Balance of the Loan Guarantee Liability	\$ 0	\$ 0
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
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
E. Total of the above Subsidy Expense Components	\$ 0	\$ 0
3. Adjustments		
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
H. Total of the above Adjustments	\$ 0	\$ 0
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	\$ 0	\$ 0
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	0	0
B. Technical/default Re-estimate	0	0
C. Total of the above Re-estimate Components	\$ 0	\$ 0
6. Ending Balance of the Loan Guarantee Liability	\$ 0	\$ 0
7. Other Information:		

Note 8.M. Administrative Expense

As of September 30	2004	2003
(Amounts in thousands)		
1. Direct Loans:		
Military Housing Privatization Initiative	0 \$	0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	0 \$	0
2. Loan Guarantees:		
Military Housing Privatization Initiative	0 \$	0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	0 \$	0

3. Other Information:

Note 9. Inventory and Related Property

As of September 30
(Amounts in thousands)

	2004	2003
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	0	0
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	\$ 0	\$ 0

Note 9.A. Inventory, Net

As of September 30	2004		2003		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
(Amounts in thousands)					
1. Inventory Categories:					
A. Available and Purchased for Resale	\$ 0	\$ 0	0	\$ 0	0
B. Held for Repair	0	0	0	0	0
C. Excess, Obsolete, and Unserviceable	0	0	0	0	0
D. Raw Materials	0	0	0	0	0
E. Work in Process	0	0	0	0	0
F. 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

2. Restrictions of Inventory Use, Sale, or Disposition:

3. Other Information:

Not applicable to the Defense Contract Audit Agency.

Note 9.B. Operating Materials and Supplies, Net

	2004		2003	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net
(Amounts in thousands)				
As of September 30				
1. OM&S Categories:				
A. Held for Use	\$ 0	\$ 0	\$ 0	\$ 0
B. Held for Repair	0	0	0	0
C. Excess, Obsolete, and Unserviceable	0	0	0	0
D. 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

2. Restrictions on OM&S:

3. Other Information:

Not applicable to the Defense Contract Audit Agency.

Note 9.C. Stockpile Materials, Net

As of September 30

	2004		2003	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Valuation Method
(Amounts in thousands)				
1. Stockpile Materials Categories:				
A. Held for Sale	\$ 0	\$ 0	\$ 0	
B. Held in Reserve for Future Sale	0	0	0	
C. Total	\$ 0	\$ 0	\$ 0	

1. Stockpile Materials Categories:

- A. Held for Sale
- B. Held in Reserve for Future Sale

C. Total

Legend for Valuation Methods:

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

2. Restrictions on Stockpile Materials:

3. Other Information:

Not applicable to the Defense Contract Audit Agency.

NRV = Net Realizable Value
O = Other

Note 10. General PP&E, Net

As of September 30	2004					2003
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes:						
(Amounts in thousands)						
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 ¹	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
J. Total General PP&E			\$ 0	0 \$	0 \$	0

¹ Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

2. Other Information:

Not applicable to the Defense Contract Audit Agency.

Note 10.A. Assets Under Capital Lease

As of September 30	2004	2003
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease:		
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

2. Description of Lease Arrangements:

3. Other Information:

Not applicable to the Defense Contract Audit Agency.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of September 30	2004	2003
(Amounts in thousands)		
1. Intra-governmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Environmental Liabilities	0	0
D. Other	3,606	3,733
E. Total Intra-governmental Liabilities	\$ 3,606	\$ 3,733
2. Non-Federal Liabilities		
A. Accounts Payable	\$ 2,076	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	16,864	19,148
C. Environmental Liabilities	0	0
D. Loan Guarantee Liability	0	0
E. Debt Held by Public	0	0
F. Other Liabilities	24,778	24,244
G. Total Non-Federal Liabilities	\$ 43,718	\$ 43,392
3. Total Liabilities Not Covered by Budgetary Resources	\$ 47,324	\$ 47,125
4. Total Liabilities Covered by Budgetary Resources	\$ 16,819	\$ 17,672
5. Total Liabilities	\$ 64,143	\$ 64,797

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

Other Information Related to Liabilities Not Covered by Budgetary Resources

Line 1.D., Intragovernmental Liabilities – Other

The Defense Contract Audit Agency (DCAA) reported \$3,606 thousand in intragovernmental liabilities not covered by budgetary resources. This liability is the unfunded portion of the Federal Employee's Compensation Act (FECA) liability.

Line 2.B., Non-Federal Liabilities – Other Employment Related Actuarial Liabilities

The DCAA reported \$16,864 thousand in military retirement benefits and other employment-related liabilities not covered by budgetary resources. This amount represents the September 30, 2004, actuarial present value of projected Federal Employee Compensation Benefits.

Line 2.F., Non-Federal Liabilities – Other Liabilities

The DCAA reported \$24,778 thousand in non-federal other liabilities not covered by budgetary resources. This liability is the 4th Quarter, FY 2004, unfunded portion of the annual leave liability.

Fluctuations and/or Abnormalities

Line 2.A., Non-federal Liabilities, Accounts Payable, increased \$2,076 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. The DCAA canceled the balance of \$2,076 thousand of outstanding accounts payable for FY 1999 as required under Public Law 101-510.

Note Reference

For Additional Line Item discussion, see:

Note 12, Accounts Payable

Note 15, Other Liabilities

Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

Note 12. Accounts Payable

As of September 30

	2004		2003
	Accounts Payable	Interest, Penalties, and Administrative Fees	
			Total
(Amounts in thousands)			
1. Intra-governmental Payables:	\$ 2,293	N/A	\$ 2,293
2. Non-Federal Payables (to the Public):	\$ 3,459	0	\$ 3,459
3. Total	\$ 5,752	0	\$ 5,752
			\$ 6,161

4. Other Information:

Intragovernmental accounts payable consists 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.

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 by the U.S. Treasury via the reconciled DD 1329, Statement of Transactions Report and DD 1400, Statement of Interfund Transactions Report. This should agree with the undistributed disbursements reported on accounting reports (SF133, Report on Budget Execution / 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 U.S. Standard General Ledger (USSGL) account 2120, Disbursements in Transit. The DCAA reported \$955 thousand in unsupported undistributed disbursements.

Fluctuations and/or Abnormalities

Line 1, Intragovernmental Accounts Payables

The DCAA's intragovernmental accounts payable increased 440 percent, \$1,868 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is in part due to a \$1,669 thousand increase in Other Contractual Services with the Defense Finance and Accounting Service (DFAS) for accounting service support and the Department of Interior (DOI) for audit services. The remaining \$199 thousand increase is comprised of Printing and Production, Rents and Utilities, and Supplies and Materials.

Line 2, Non-Federal Accounts Payables

The DCAA's non-federal accounts payables decreased 40 percent, \$2,277 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. The DCAA canceled the balance of \$2,076 thousand of outstanding accounts payable for FY 1999 as required under Public Law 101-510. Prior to 3rd Quarter, FY 2004 Accounts Payable from Canceled Appropriations was reported as part of Other Liabilities on the Balance Sheet and in Note 15. Treasury guidance has been revised and beginning with the 3rd Quarter, FY 2004, this account appears as accounts payable on the Balance Sheet.

Note Reference

See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

For Additional Line Item discussion, see:

Note 3, Fund Balance with Treasury

Note 13. Debt

As of September 30		2004		2003
(Amounts in thousands)		Beginning Balance	Net Borrowings	Ending Balance
1. Public Debt:				
A. Held by Government Accounts		N/A	N/A	N/A
B. Held by the Public		N/A	N/A	N/A
C. Total Public Debt		N/A	N/A	N/A
2. Agency Debt:				
A. Debt to the Treasury	\$	0 \$	0 \$	0 \$
B. Debt to the Federal Financing Bank		0	0	0
C. Debt to Other Federal Agencies		0	0	0
D. Total Agency Debt	\$	0 \$	0 \$	0 \$
3. Total Debt:	\$	0 \$	0 \$	0 \$
4. Classification of Debt:				
A. Intra-governmental Debt			\$	0 \$
B. Non-Federal Debt				N/A
C. Total Debt			\$	0 \$
5. Other Information:				
Not applicable to the Defense Contract Audit Agency.				

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30

(Amounts in thousands)

	2004		2003 Total
	Current Liability	Noncurrent Liability	
1. Environmental Liabilities -- Non Federal			
A. Accrued Environmental Restoration (DERP funded) Costs:			
1. Active Installations--Environmental Restoration (ER)	\$	\$	\$
2. Active Installations--ER for Closed Ranges	0	0	0
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0
B. Other Accrued Environmental Costs (Non-DERP funds)			
1. Active Installations--Environmental Corrective Action	0	0	0
2. Active Installations--Environmental Closure Requirements	0	0	0
3. Active Installations--Environ. Response at Active Ranges	0	0	0
4. Other	0	0	0
C. Base Realignment and Closure (BRAC)			
1. BRAC Installations--Environmental Restoration (ER)	0	0	0
2. BRAC Installations--ER for Transferring Ranges	0	0	0
3. BRAC Installations--Environmental Corrective Action	0	0	0
4. Other	0	0	0
D. Environmental Disposal for Weapons Systems Programs			
1. Nuclear Powered Aircraft Carriers	0	0	0
2. Nuclear Powered Submarines	0	0	0
3. Other Nuclear Powered Ships	0	0	0
4. Other National Defense Weapons Systems	0	0	0
5. Chemical Weapons Disposal Program	0	0	0
6. Other	0	0	0
2. Total Environmental Liabilities:	\$	\$	\$
3. Other Information Related to Environmental Liabilities:			

Relevant Information for Comprehension

Not applicable to the Defense Contract Audit Agency.

Note 15.A. Other Liabilities

As of September 30

(Amounts in millions of dollars)

	2004		2003	
	Current Liability	Noncurrent Liability	Total	Total
1. Intra-governmental:				
A. Advances from Others	\$ 0	\$ 0	\$ 0	0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspend Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (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. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H. Judgement Fund Liabilities	1,762	1,844	3,606	3,733
I. FECA Reimbursement to the Department of Labor	0	0	0	0
J. Capital Lease Liability	1,522	0	1,522	1,117
K. Other Liabilities				
L. Total Intra-governmental Other Liabilities	\$ 3,284	\$ 1,844	\$ 5,128	\$ 4,850

As of September 30

(Amounts in thousands)

	2004		2003	
	Current Liability	Noncurrent Liability	Total	Total
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	\$ 11,533	\$ 0	\$ 11,533	\$ 8,283
B. Advances from Others	22	0	22	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	66	0	66	2,111
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (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
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	24,778	0	24,778	24,244
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	0	0	0	0
N. Total Non-Federal Other Liabilities	\$ 36,399	\$ 0	\$ 36,399	\$ 34,638
3. Total Other Liabilities:	\$ 39,683	\$ 1,844	\$ 41,527	\$ 39,488
4. Other Information Pertaining to Other Liabilities:				
Other Liabilities, Intragovernmental				
Line 1.1., 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 \$3,606 thousand represents the chargeback amount to the Defense Contract Audit Agency. Public Law 93-416, Section 8147 essentially gives Agencies two years to pay the chargeback bill, allowing time for inclusion in their budgets.

Other Liabilities

The Defense Contract Audit Agency (DCAA) reported \$1,522 thousand in Employee Benefit Expenses. 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 amount shown are the benefits due and payable, or insurance and guarantee benefits which are incurred by the agency as of 4th Quarter, FY 2004.

Fluctuations and/or Abnormalities

Line 1.K., Other Intragovernmental Liabilities, increased 36 percent, \$405 thousand between 4th Quarter, FY 2003 to 4th Quarter, FY 2004. The increase is due to an increase in the number of employees enrolled in FEHB and FEGLI programs.

Line 2.A., Accrued Funded Payroll and Benefits, increased 39 percent, \$3,250 thousand between 4th Quarter, FY 2003 to 4th Quarter, FY 2004. The \$3,250 thousand is an increase in the DCAA employee salary and benefits expenses. This is a result of increases in pay (annual pay raise, promotions, with-in grade increases), increases in employee benefit withholdings and matching benefit contributions. In addition, employees assigned overseas are receiving "special pays."

Line 2.B., Advances from Others, reflects \$22 thousand in public advances with Santa Clara Valley Transportation Authority, LA County Metro Transportation Authority, and DC Government Office of Tax and Revenue.

Line 2.F., Deposit Funds and Suspense Accounts, decreased 97 percent, \$2,045 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. Prior to 4th Quarter, FY 2003 unsupported undistributed collections were applied to reduce accounts receivable. Due to a policy change in the FY 2003 year-end instructions, these unsupported undistributed collections were not applied to accounts receivable, but were posted to United States Standard General Ledger (USSGL) account 2400, Liability for Deposit Funds and Suspense Accounts. As a result, the unsupported undistributed collections decreased \$2,045 thousand.

Note 15.B. Capital Lease Liability

As of September 30 (Amounts in thousands)	2004			2003
	Asset Category			Total
	Land and Buildings	Equipment	Other	
1. Future Payments Due:				
A. 2004	\$ 0	\$ 0	\$ 0	\$ 0
B. 2005	0	0	0	0
C. 2006	0	0	0	0
D. 2007	0	0	0	0
E. 2008	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0
H. Less: Imputed Interest				
Executory Costs	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 0	\$ 0	\$ 0
2. Capital Lease Liabilities Covered by Budgetary Resources:				
			\$	\$ 0
3. Capital Lease Liabilities Not Covered by Budgetary Resources:				
			\$	\$ 0
4. Other Information:				

Not applicable to the Defense Contract Audit Agency.

Note 16.	Commitments and Contingencies
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Disclosures Related to Commitments and Contingencies:

Not applicable to the Defense Contract Audit Agency.

Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

	2004			2003
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
As of September 30				
(Amounts in thousands)				
1. Pension and Health Benefits:				
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
2. Other:				
A. FECA	16,864		\$ 16,864	\$ 19,148
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. <i>Other</i>	0		0	0
E. Total Other	\$ 16,864	\$ 0	\$ 16,864	\$ 19,148
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 16,864	\$ 0	\$ 16,864	\$ 19,148

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Relevant Information for Comprehension

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 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:

<u>FY 2004</u>	<u>Interest Rate</u>
Year 1	4.883%
Year 2	5.235%
Year 3+	5.235%

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost-of-living adjustments or 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	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009+	2.40%	4.02%

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.

Fluctuations and/or Abnormalities

The DCAA's FECA actuarial liability decreased by \$2,284 thousand, 12 percent between 4th Quarter, FY 2003 and 4th Quarter, FY 2004 due to the change in the present value at September 30, 2004, of projected future benefits payable to Federal Employee Compensation claimholders. The number of claims and approved compensation cases decreased between 4th Quarter, FY 2003 and 4th Quarter, FY 2004.

Note Reference

For Regulatory Discussion on "Military Retirement Benefits and Other Employment Related Actuarial Liabilities," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1019.

Note 18. Unexpended Appropriations

As of September 30		2004	2003
(Amounts in thousands)			
1. Unexpended Appropriations:			
A. Unobligated, Available	\$	1,464	\$ 1,950
B. Unobligated, Unavailable		447	9,902
C. Unexpended Obligations		16,324	10,818
D. Total Unexpended Appropriations	\$	18,235	\$ 22,670

2. Other Information Pertaining to Unexpended Appropriations:

Chart Information

Line 1.A., Unobligated, Available decreased 25 percent, \$486 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of a decrease in realized resources for non-expired authority for appropriated funds.

Line 1.B., Unobligated, Unavailable decreased 95 percent, \$9,454 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of the Defense Contract Audit Agency (DCAA) canceling budgetary resources, both obligated and unobligated, accounts receivable, and accounts payable for FY 1999 year as required under Public Law 101-510.

Line 1.C., Unexpended Obligations increased 51 percent, \$5,506 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of a \$2,472 thousand increase in recoveries of prior year obligations and a \$3,857 thousand increase in undelivered orders-unpaid. This amount is distinct from Line 12, Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided on the Statement of Financing. This line on the Statement of Financing includes the change during the fiscal year in unexpended obligations against all sources of budget authority for the DCAA.

Note 19.A General 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 non-financial feeder systems; then adjusted to record known accruals for major items such as payroll expenses and accounts payable.

Fluctuations and/or Abnormalities

Line 1.B., Intragovernmental earned revenue, increased 6 percent, \$2,853 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of an increase in reimbursable costs for contract audit services and audit and financial advisory services. These services are rendered primarily to the Department of the Army, Department of the Air Force, Department of the Navy and the Defense Contract Management Agency (DCMA).

Line 1.C., Intragovernmental net costs, increased 66 percent, \$22,651 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This consists of a 30 percent, \$25,503 thousand increase in intragovernmental gross costs and a 6 percent, \$2,852 thousand increase in intragovernmental revenue. The increase in intragovernmental gross costs includes a \$12,656 thousand increase in equipment, and supplies and materials, a \$4,219 thousand increase in pay benefit costs, and a \$1,669 thousand increase in other services (contractual) between the DCAA and other Federal Agencies, such as the Defense Finance and Accounting Service (DFAS) and the Department of Interior (DOI). The DCAA reported \$27,098 thousand of imputed financing expenses, which is a \$1,699 thousand increase between 4th Quarter, FY 2003 and 4th Quarter, FY 2004.

In FY 2004, the Defense Contract Audit Agency (DCAA) partnered with the Defense Finance and Accounting Service (DFAS) in utilizing a new methodology to determine their intragovernmental and non-federal expenses. In 3rd Quarter, FY 2004, intragovernmental and non-federal expenses were determined by a crosswalk that was based on general ledger account codes and object class codes. Due to coding errors in the system, it was difficult to properly identify the expenses. Currently, expenses are reviewed at a detailed level by trading partner to ensure only intragovernmental expenses are reflected in intragovernmental gross costs.

Line 1.D., Gross costs with the public, decreased 3 percent, \$11,503 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of a decrease in purchased services and other services other than Automated Data Processing.

Line 1.E., Earned revenue from the public, decreased 104 percent, \$99 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. The DCAA reported \$58 thousand in current year reimbursable work for non-federal clients, such as DC Government Office of Tax and Revenue. This is a \$37 thousand increase between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. In addition, the DCAA canceled the balance of \$62 thousand of accounts receivable for FY 1999 as required under Public Law 101-510.

Note 19.B. Gross Cost and Earned Revenue by Budget Functional Classification

As of September 30

Budget Functional Classification	2004		2003
	Gross Cost	(Less: Earned Revenue)	Net Cost
1. Department of Defense Military (051)	\$ 0	\$ 0	\$ 0
2. Water Resources by U.S. Army Corps of Engineers (301)	0	0	0
3. Pollution Control and Abatement by U.S. Army Corps of Engineers (304)	0	0	0
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0	0	0
6. Medicare Eligible Retiree Health Care Fund (551)	0	0	0
7. Total	\$ 0	\$ 0	\$ 0
8. Other Information			

Not applicable to the Defense Contract Audit Agency.

Note 19.C. Gross Cost to Generate Intra-governmental Revenue and Earned Revenue (Transactions with Other Federal—Non-DoD—Entities) by Budget Functional Classification

As of September 30

	2004		2003
	Gross Cost to Generate Intra-governmental Revenue	(Less: Earned Revenue)	Net Cost
(Amounts in thousands)			
Budget Functional Classification			
1. Department of Defense Military (051)	\$ 0	\$ 0	\$ 0
2. Water Resources by U.S. Army Corps of Engineers (301)	0	0	0
3. Pollution Control and Abatement by U.S. Army Corps of Engineers (304)	0	0	0
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0	0	0
6. Medicare Eligible Retirees Health Care Fund (551)	0	0	0
7. Total	\$ 0	\$ 0	\$ 0
8. Other Information			

Not applicable to the Defense Contract Audit Agency.

Note 19.D. Imputed Expenses

As of September 30
(Amounts in thousands)

	2004	2003
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 11,920	\$ 12,330
2. Civilian Health	15,123	13,016
3. Civilian Life Insurance	55	53
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	\$ 27,098	\$ 25,399

8. Other Information

Fluctuations and/or Abnormalities

Basic pay costs increased by 11 percent, \$1,410 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. Also, the cost factors for retirement increased from 24.4% to 25% and 11.5% to 12% for the Civilian Service Retirement System and the Federal Employees' Retirement System, respectively. Although, the cost factor for the FEHB program increased only fractionally, when combined with the increase in the number of FEHB enrollees, the imputed costs for Civilian Health increased by 16 percent, \$2,107 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004.

Note Reference

For Additional Line Item discussion, see:

Note 20, Disclosures Related to the Changes in Net Position.

Note 19.E. Benefit Program Expenses

As of September 30

(Amounts in thousands)

	2004	2003
1. Service Cost	\$ 0	\$ 0
2. Period Interest on the Benefit Liability	0	0
3. Prior (or past) Service Cost	0	0
4. Period Actuarial Gains or (Losses)	0	0
5. Gains/Losses Due to Changes in Medical Inflation Rate Assumption	0	0
6. Total Benefit Program Expense	\$ 0	\$ 0
7. Other Information		

Not applicable to the Defense Contract Audit Agency.

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Exchange Revenue – arises when a Government entity provides goods and services to the public or to another Government entity for a price. Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

Note Reference

For Additional Line Item discussion, see Note 19A, General Disclosures related to the Statement of Net Cost

Note 19.G.	Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors
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Disclosures Related to Amounts for FMS Program Procurements from Contractors:

Not applicable to the Defense Contract Audit Agency.

Note 19.H. Stewardship Assets

Disclosures Related to Stewardship Assets:

Not applicable to the Defense Contract Audit Agency.

Note 19.I. Intra-governmental Revenue and Expense

Disclosures Related to Intra-governmental Revenue and Expense:

Note Reference

For Additional Line Item discussion, see Note 19A, General Disclosures Related to the Statement of Net Cost

Note 19.J. Suborganization Program Costs
As of September 30

(Amounts in thousands)	2004			2003
	Subentity A	Subentity B	Subentity C	
1. Program A Costs:				
A. Intra-governmental Costs	\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Federal Costs:				
1. Transfer Payments	0	0	0	0
2. Administrative Costs	0	0	0	0
3. Other Costs	0	0	0	0
4. Program A Non-federal Costs	\$ 0	\$ 0	\$ 0	\$ 0
C. Total Program A Costs	\$ 0	\$ 0	\$ 0	\$ 0
2. Program B Costs:				
A. Intra-governmental Costs	\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Federal Costs:				
1. Transfer Payments	0	0	0	0
2. Administrative Costs	0	0	0	0
3. Other Costs	0	0	0	0
4. Program B Nonfederal Costs	\$ 0	\$ 0	\$ 0	\$ 0
C. Total Program B Costs	\$ 0	\$ 0	\$ 0	\$ 0

3. Program C Costs:									
A. Intra-governmental Costs	\$	0	\$	0	\$	0	\$	0	\$
B. Non-Federal Costs:									
1. Transfer Payments		0		0		0		0	
2. Administrative Costs		0		0		0		0	
3. Other Costs		0		0		0		0	
4. Program C Nonfederal Costs	\$	0	\$	0	\$	0	\$	0	\$
C. Total Program C Costs	\$	0	\$	0	\$	0	\$	0	\$
4. Program D Costs:									
A. Intra-governmental Costs	\$	0	\$	0	\$	0	\$	0	\$
B. Non-Federal Costs:									
1. Transfer Payments		0		0		0		0	
2. Administrative Costs		0		0		0		0	
3. Other Costs		0		0		0		0	
4. Program D Non-federal Costs	\$	0	\$	0	\$	0	\$	0	\$
C. Total Program D Costs	\$	0	\$	0	\$	0	\$	0	\$

5. Other Information:

Not applicable to the Defense Contract Audit Agency.

Note 20. Disclosures Related to the Statement of Changes in Net Position

As of September 30

(Amounts in thousands)

1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:

	Cumulative Results of Operations 2004	Unexpended Appropriations 2004	Cumulative Results of Operations 2003	Unexpended Appropriations 2003
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

2. Imputed Financing:

A. Civilian CSRS/FERS Retirement	\$ 11,920	\$ 0	\$ 12,330	\$ 0
B. Civilian Health	15,125	0	13,017	0
C. Civilian Life Insurance	55	0	53	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	0	0	0	0
G. Total Imputed Financing	\$ 27,100	\$ 0	\$ 25,400	\$ 0

3. Other Information:

Relevant Information for Comprehension

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 4th Quarter, FY 2004, 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 service cost and the actual contributions by and for employees is the imputed financing cost for retirement for 4th Quarter, FY 2004.

FEHB

The calculation for imputed FEHB Program costs for the 4th Quarter, FY 2004 looks at enrollment in the FEHB Program at three points in time: October 1, 2003; March 31, 2004; and September 30, 2004. A multiplier of one is used for October and September enrollment and a multiplier of two for March enrollment. The grand total after applying the multiplier is then divided by four which is the "constructed

FEHB enrollment.” The constructed FEHB enrollment is multiplied by the 4th Quarter FY 2004 cost factor of \$1 thousand (rounded). This is the FEHB imputed cost for the 4th Quarter, FY 2004.

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

Unexpended Appropriations – Appropriations transferred in/out, decreased 6,371 percent, \$5,352 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. In 4th Quarter, FY 2003, the DCAA had a \$17 thousand transfer out of funds to the United States Special Operations Command (USSOCOM) and a \$101 thousand transfer in of funds from Washington Headquarters Service (WHS) for a net transfer of funds amount of \$84 thousand in 4th Quarter, FY 2003. In 4th Quarter, FY 2004, the DCAA had a \$5,285 thousand transfer out of funds to the Foreign Currency Fluctuation, Construction (97X0801) and a \$83 thousand transfer out of funds to Drug Interdiction and Counter-Drug Activities. In addition, there was a \$100 thousand transfer in of funds from Drug Interdiction and Counter-Drug Activities. The net transfer of funds amount for 4th Quarter, FY 2004 is \$5,268 thousand.

Unexpended Appropriations – Other adjustments, increased 523 percent, \$8,581 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of the DCAA canceling budgetary resources, both obligated and unobligated, accounts payable and accounts receivable for FY 1999 year as required under Public Law 101-510.

Note Reference

For Additional Line Item discussion, see Note 19D, Imputed Expenses

Note 21. Disclosures Related to the Statement of Budgetary Resources

As of September 30 (Amounts in thousands)	2004	2003
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 16,324	\$ 12,168
2. Available Borrowing and Contract Authority at the End of the Period	0	0

3. Other Information:

Apportionment Categories

OMB Bulletin No. 01-09, section 9.27, specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment.

The direct obligations incurred against amounts apportioned are \$376,391 thousand for 4th Quarter, FY 2004.

The reimbursable obligations incurred against amounts apportioned are \$51,936 thousand for 4th Quarter, FY 2004.

Fluctuations and/or Abnormalities

Line 2.b., Net transfers, actual, reflects a \$5,368 thousand transfer out for Foreign Currency Fluctuations (Construction) and Counter-Drug Activities, as well as a transfer in of \$100 thousand for Counter-Drug Activities.

Line 3.a.2, Without advance from Federal sources, increased \$3,301 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is in part due to a \$2,173 thousand FY 1998 accounts receivable amount that closed September 30, 2003, but the proper closing entries were not made until FY 2004.

Line 3.b.1, Change in unfilled customer orders, advance received, reflects \$22 thousand in public advances with Santa Clara Valley Transportation Authority, LA County Metro Transportation Authority, and DC Government Office of Tax and Revenue.

Line 6, Permanently not available, increased \$8,581 thousand, which represents the outstanding authority and accounts payable that the DCAA canceled for FY 1999 canceling year per Public Law 101-510.

Line 9 a., Unobligated Balance, increased 28 percent, \$552 thousand between 4th Quarter, FY 2003 to 4th Quarter, FY 2004. This is a result of a \$1,798 thousand increase in reimbursable authority. In addition, (\$1,466 thousand) in anticipated orders was returned at September 30, 2004.

Line 10, Unobligated Balance Not Available, decreased 96 percent, \$9,454 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of net transfer of funds in the amount of \$5,268 thousand in 4th Quarter, FY 2004. In addition, the DCAA had \$62 thousand in canceled accounts receivable for FY 1999 canceling year and \$2,076 thousand in canceled accounts payable. This is a result of a decrease of expired authority from FY 2003 that is no longer available for new obligations. In 4th Quarter, FY 2003 the DCAA had a transfer of funds from United States Special Operations Command (USSOCOM) of \$17 thousand, which was not received in 4th Quarter, FY 2004.

Line 14.c., Undelivered orders, increased 33 percent, \$3,857 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is in part due to a \$3,512 thousand net increase in upward and downward adjustments of prior year undelivered orders.

Note Reference

For Additional Line Item Discussion, see:

Note 5, Accounts Receivable
Note 12, Accounts Payable

Note 22. Disclosures Related to the Statement of Financing



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. The OMB Bulletin 01-09 requires the SOF to be presented on a consolidated basis to enable a direct tie to the Statement of Budgetary Resources.

Fluctuations and/or Abnormalities

Line 12.a., Undelivered Orders, increased 397 percent, \$3,320 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004 due to an increase in obligations related to support for Iraq.

Line 12.b., Unfilled Customer Orders, is a result of \$22 thousand in public advances with Santa Clara Valley Transportation Authority, LA County Metro Transportation Authority, and DC Government Office of Tax and Revenue.

Line 13, Resources that fund expenses recognized in prior periods, decreased \$2,411 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of a decrease in the Federal Employees Compensation (FECOA) benefits liability. For 4th Quarter, FY 2003 there was an increase in FECA benefits liability of \$2,500 thousand, which was shown on Line 23, Other.

Line 19, Increase in annual leave liability, represents a \$679 thousand increase in unfunded annual leave resulting from changes in hourly salary rates and annual leave usage between 4th Quarter, FY 2003 and 4th Quarter, FY 2004.

Line 23, Other, decreased \$424 thousand between 4th Quarter, FY 2003 and 4th Quarter, FY 2004. This is a result of a decrease in resources that fund expenses recognized in prior periods.

Note Reference

For Additional Line Item discussion, see:

Note 5, Accounts Receivable

Note 19D, Imputed Expenses

Note 21, Disclosures Related to the Statement of Budgetary Resources

Note 23.	Disclosures Related to the Statement of Custodial Activity
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Disclosures Related to the Statement of Custodial Activity:

Not applicable to the Defense Contract Audit Agency.

Note 24.A. Other Disclosures

1. ENTITY AS LESSEE-Operating Leases

As of September 30		2004			2003	
(Amounts in thousands)						
B. Future Payments Due:						
Fiscal Year		Land and Buildings	Equipment	Other	Total	Total
2005	\$	0	0	0	0	0
2006		0	0	0	0	0
2007		0	0	0	0	0
2008		0	0	0	0	0
2009		0	0	0	0	0
After 5 Years		0	0	0	0	0
Total Future Lease Payments Due	\$	0	0	0	0	0

Fluctuations and Abnormalities:

Not applicable to the Defense Contract Audit Agency.

Definitions

Land and Buildings Leases consist of:

Description of Leases:

Not applicable to the Defense Contract Audit Agency.

Equipment Leases consist of:

Description of Leases:

Not applicable to the Defense Contract Audit Agency.

Other Leases consist of:

Description of Leases:

Not applicable to the Defense Contract Audit Agency.

Note 24.B. Other Disclosures

Other Disclosures:

Not applicable to the Defense Contract Audit Agency.

**DEFENSE CONTRACT
AUDIT AGENCY**



**REQUIRED SUPPLEMENTAL
INFORMATION**

Fiscal Year 2004 quarter 4
Required Supplemental Information - Part A
AT197 - Other Defense Organizations General Funds
Under Secretary of Defense (Comptroller)
DCAA - Defense Contract Audit Agency

Schedule, Part A DoD Intra-governmental Asset Balances.	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
(\$Amounts in Thousands)						
Executive Office of the President	11		\$27			
Department of Agriculture	12		\$18			
Department of Commerce	13		\$28			
Department of the Interior	14		\$6			
Department of Justice	15		\$10			
Department of Labor	16		\$27			
United States Postal Service	18		\$197			
Department of State	19		\$95			
Department of the Treasury	20	\$26,340	\$64			
Nuclear Regulatory Commission	31		\$6			
Department of Veterans Affairs	36		\$55			
General Service Administration	47		\$10			
National Science Foundation	49		\$28			
Central Intelligence Agency	56		\$4			
Environmental Protection Agency	68		\$216			
Department of Transportation	69		\$556			
Homeland Security	70		\$296			
Agency for International Development	72		\$558			
Department of Health and Human Services	75		\$499			
National Aeronautics and Space Administration	80		\$2,402			
Department of Energy	89		\$1,885			
Independent Agencies	95		\$2			
US Army Corps of Engineers	96		\$226			
Other Defense Organizations General Funds	97		\$1,408			
Navy Working Capital Fund		97-4930-002	\$5			
Totals:		\$26,340	\$8,728			
Totals might not match reports.						

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. (\$Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of the Interior	14	\$0		
Department of Labor	16			\$3,606
United States Postal Service	18	\$57		
Department of State	19	\$31		
Department of the Treasury	20	\$52		
Army General Fund	21	\$72		
Office of Personnel Management	24	\$56		\$1,522
Social Security Administration	28	\$0		
General Service Administration	47	\$163		
Air Force General Fund	57	\$0		
Department of Health and Human Services	75	\$459		
Department of Housing and Urban Development	86	\$113		
Other Defense Organizations General Funds	97	\$55		
Other Defense Organizations Working Capital Funds	97-4930	\$1,237		
Navy Working Capital Fund	97-4930.002	(\$3)		
Totals might not match reports.	Totals:	\$2,292		\$5,128

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)		
Executive Office of the President	11	\$232
Department of Agriculture	12	\$102
Department of Commerce	13	\$185
Department of the Interior	14	\$103
Department of Justice	15	\$126
Department of Labor	16	\$32
United States Postal Service	18	\$1,219
Department of State	19	\$823
Department of the Treasury	20	\$462
Federal Communications Commission	27	\$19
Social Security Administration	28	\$14
Library of Congress	3	\$11
Nuclear Regulatory Commission	31	\$63
Department of Veterans Affairs	36	\$266
Government Printing Office	4	\$0
General Service Administration	47	\$29
National Science Foundation	49	\$212
General Accounting Office	5	\$87
Central Intelligence Agency	56	\$2
Environmental Protection Agency	68	\$1,627
Department of Transportation	69	\$2,567
Homeland Security	70	\$1,635
Agency for International Development	72	\$4,062
Department of Health and Human Services	75	\$2,086
National Aeronautics and Space Administration	80	\$17,340
Department of Housing and Urban Development	86	\$231
National Archives and Records Administration	88	\$56
Department of Energy	89	\$13,726
Department of Education	91	\$5
Independent Agencies	95	\$12
US Army Corps of Engineers	96	\$1,032
Other Defense Organizations General Funds	97	\$4,703
Navy Working Capital Fund	97-4930.002	\$14
Architect of the Capitol		\$8
Totals might not match reports.	Totals:	\$53,091