

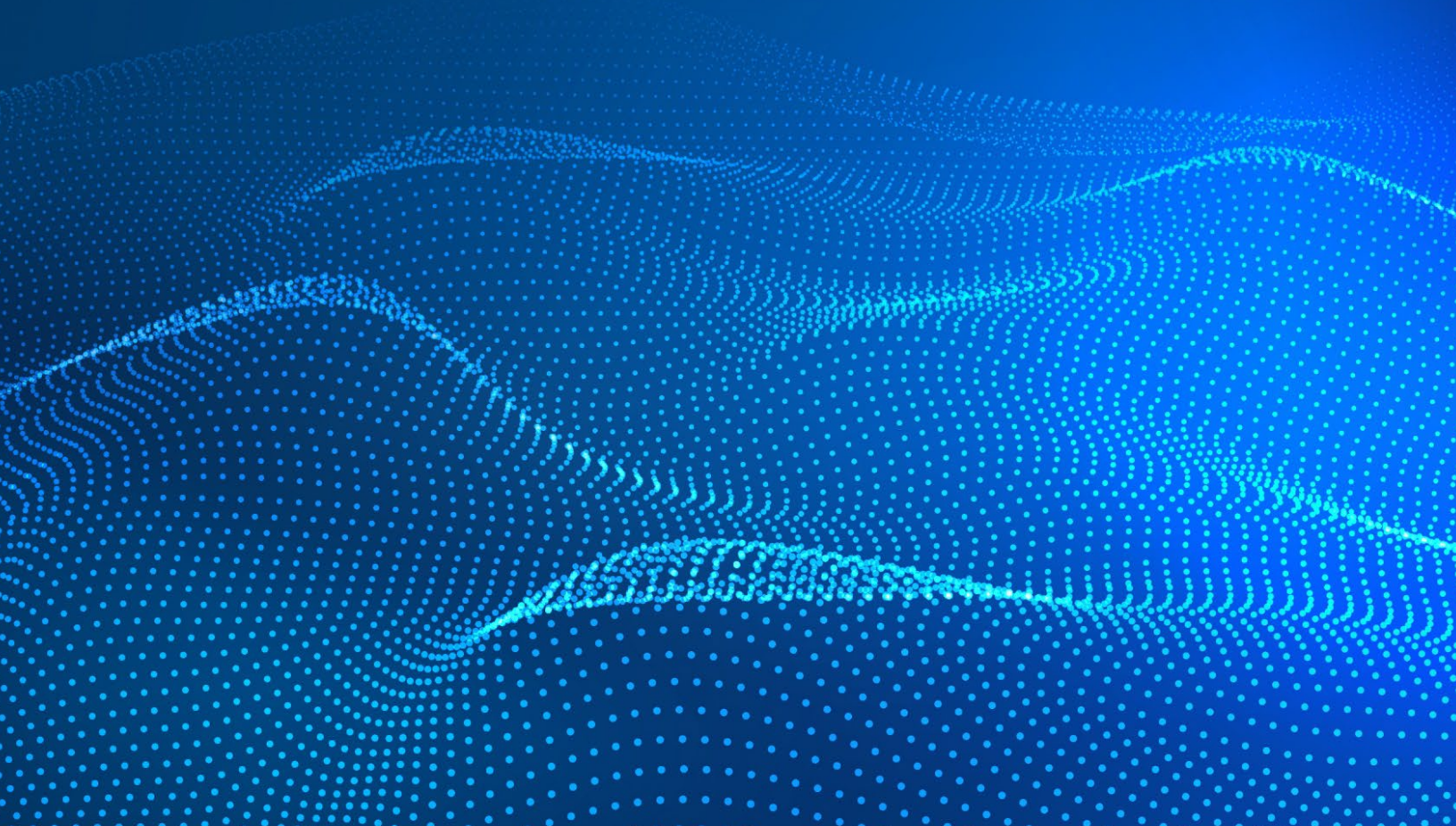


DEFENSE ADVANCED RESEARCH
PROJECTS AGENCY

DARPA AGENCY FINANCIAL
REPORT FY 2024



DARPA does more than plan for and adjust to the future. DARPA aims to drive the technological advances and capabilities that will determine the future, with the nation's security always as the first and foremost goal.



MESSAGE FROM THE DIRECTOR

On behalf of the Defense Advanced Research Projects Agency (DARPA), I am pleased to present the Fiscal Year (FY) 2024 Agency Financial Report (AFR). This report provides an overview of our mission, organization, challenges, financial statements and footnotes, and the auditor's signed report. The AFR is prepared as directed by the Office of Management and Budget (OMB) Circular A-136.

For more than 65 years DARPA has held to a singular and enduring mission: to prevent and create technological surprise. We do this by making pivotal investments in breakthrough technologies for national security and provide our nation with a competitive advantage. We work with national security leaders and the Nation's military services to understand today's obstacles and anticipate tomorrow's challenges, and demonstrate transformational solutions for both. We work quickly, embrace risk, and seek what we call "DARPA-scale impact." With the democratization and acceleration of technological advances around the world, we have increased our emphasis on rapid prototyping and on faster and lower-cost methods of designing, building, and testing technology not just in controlled settings but in the complex, real-world environments in which they must ultimately succeed.

This year, DARPA underwent its second stand-alone financial statement audit. With the publication of the FY 2024 Agency Financial Report, Kearney & Company issued a disclaimer of opinion. Our auditors reported deficiencies in key DoD-wide business processes which impact DARPA and the findings can be found within the Report from the Independent Public Accountant. The related auditor findings and recommendations continue to provide us with valuable information and the opportunity for improvement. As we continue to learn from each audit, we are fully committed in remediating the findings reported by our auditors by developing solutions with our service providers to overcome the DoD-wide deficiencies.

As with every aspect of our mission, DARPA strives for excellence in meeting audit goals and is committed to improving the Agency's accountability and transparency. In addition to achieving a "clean" unmodified audit opinion, DARPA remains focused on delivering on our mission, transforming revolutionary concepts and seeming impossibilities into practical capabilities. These improvements will drive effective and efficient operations that will increase the speed, precision, and support that DARPA provides to the warfighter.



A handwritten signature in black ink, which appears to read "Stefanie Tompkins". The signature is fluid and cursive, with a prominent initial "S" and a long horizontal stroke.

Dr. Stefanie Tompkins
Director

Table of Contents

MANAGEMENT'S DISCUSSION & ANALYSIS	5
DARPA OVERVIEW	5
DARPA'S MISSION	6
ORGANIZATIONAL STRUCTURE	6
PERFORMANCE GOALS, OBJECTIVES, AND RESULTS	9
FORWARD-LOOKING INFORMATION	16
ANALYSIS OF THE ENTITY'S FINANCIAL STATEMENTS (UNAUDITED)	18
ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE	20
FINANCIAL SECTION (UNAUDITED)	24
LIMITATIONS OF THE FINANCIAL STATEMENTS	24
DARPA FINANCIAL STATEMENTS (UNAUDITED)	25
NOTES TO THE FINANCIAL STATEMENTS	29
Note 1 – Summary of Significant Accounting Policies	29
Note 2 – Non-Entity Assets	39
Note 3 – Fund Balance with Treasury	40
Note 4 – Accounts Receivable, Net	42
Note 5 – General and Right-to-Use PP&E, Net	43
Note 6 – Other Assets	45
Note 7 – Liabilities Not Covered by Budgetary Resources	46
Note 8 – Current and Former Employee and Veteran Benefits Payable	47
Note 9 – Other Liabilities	49
Note 10 – Commitments and Contingencies	51
Note 11 – Disclosures Related to the Statement of Net Cost	52
Note 12 – Disclosures Related to the Statement of Changes in Net Position	53
Note 13 – Disclosures Related to the Statement of Budgetary Resources	54
Note 14 – Disclosures Related to Incidental Custodial Collections	55
Note 15 – Reconciliation of Net Cost to Net Budgetary Outlays	56
Note 16 – Disclosures Entities and Related Parties	59
Note 17 – Restatements	60
Note 18 – Subsequent Events	61
OTHER INFORMATION	62
SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES	62
MANAGEMENT AND PERFORMANCE CHALLENGES	63
PAYMENT INTEGRITY INFORMATION ACT REPORTING	63
GRANT PROGRAMS	63
INDEPENDENT AUDITOR'S REPORT	65
DARPA MANAGEMENT COMMENTS TO AUDITOR'S REPORT	84

MANAGEMENT’S DISCUSSION & ANALYSIS

Defense Advanced Research Projects Agency (DARPA) is pleased to present a Management Discussion and Analysis (MD&A) to accompany the financial statements and footnotes for its FY 2024 consolidated financial statements. The layout of this MD&A includes:

- 1) DARPA Overview
- 2) DARPA’s Mission
- 3) Organizational Structure
- 4) Performance Goals, Objectives, and Results
- 5) Possible future effects of existing conditions
- 6) Analysis of the Entity’s Financial Statements
- 7) Analysis of systems, controls, and legal compliance

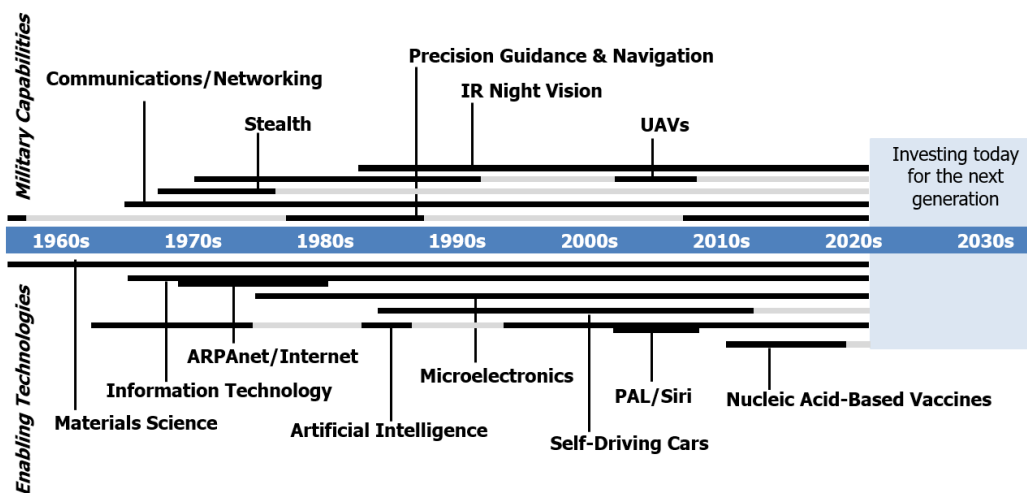
DARPA Management is responsible for the content of this MD&A.

DARPA OVERVIEW

Background and History

On February 7, 1958, Neil McElroy, the Department of Defense Secretary, issued DoD Directive 5105.15 establishing the Advanced Research Projects Agency (ARPA), later renamed the Defense Advanced Research Projects Agency (DARPA). The Agency’s first three primary research thrusts focused on space technology, ballistic missile defense, and solid propellants and has since extended into a variety of research subjects. As depicted in Figure 1 below, DARPA has made contributions to many world changing technologies from the Internet and IR night vision to self-driving cars and mRNA vaccines.

Figure 1: DARPA Contributions Through Time

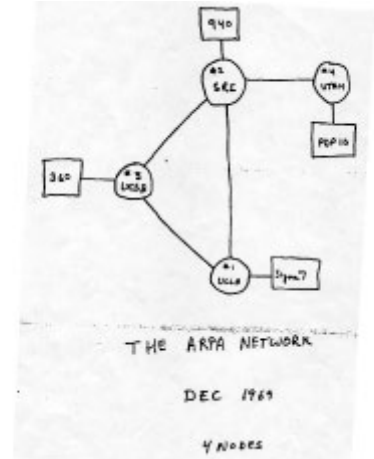


For over 65 years, DARPA has explicitly reached for transformational changes instead of incremental advances in basic and applied research. DARPA does not perform its functions in isolation; rather, it works within an ecosystem that includes academic, corporate, and governmental partners that focus on the Nation’s Military Services. The Military Services work in tandem with DARPA to create new strategic opportunities. For decades, this ecosystem of diverse collaborators has proven to be a nurturing environment for the creativity that DARPA is designed to cultivate.

DARPA'S MISSION

DARPA's mission is to create technological surprise for national security. To accomplish this mission, DARPA relies on diverse performers to apply multi-disciplinary approaches to advance knowledge through basic research and to create innovative technologies that address current practical problems through applied research. The Agency's scientific investigations span the gamut from the laboratory to full-scale technology demonstrations in the fields of biology, medicine, computer science, chemistry, physics, engineering, mathematics, material sciences, social sciences, neurosciences and more. As the DoD's primary innovation engine, DARPA undertakes projects that are finite in duration but that create lasting revolutionary change.

Figure 2: Original ARPA Network



ORGANIZATIONAL STRUCTURE

Reporting Entity

DARPA resides under the Office of the Secretary of Defense, the Under Secretary of Defense for Research and Engineering (OUSD R&E). DARPA, in accordance with DoD policies, is under the direction and control of the OUSD R&E and the Director, Defense Research and Engineering. Accordingly, DARPA is a component reporting entity that is funded exclusively from the Department of Defense's (DoD) *Research, Development, Testing, and Evaluation* appropriation (i.e., Treasury Index [TI]-97 Account 0400). DARPA's funds within this shared appropriation are reported within Limits 1300 and 1320.

Disclosure Entities

DARPA has relationships with DoD-sponsored Federally Funded Research and Development Centers (FFRDCs). In accordance with SFFAS 47 "Reporting Entity", the financial position and results of operations of FFRDCs are not reported in the DoD consolidated financial statements. While DARPA has such relationships, DARPA does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the number of staff-years of technical effort that may be funded for FFRDCs. Historically, funding for FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional funding controls on staff-years, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships. As such, FFRDCs are not material to DARPA.

In addition, DARPA has not identified anyone as a related party. Related Parties Organizations are considered related parties if: (1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions and (2) the organizations do not meet the inclusion principles of SFFAS 47.

The Workforce and DARPA's Technical Offices

DARPA employs approximately 250 government personnel in six technical offices, including nearly 100 Program Managers, who together oversee about 300 research and development projects. DARPA's technical offices each

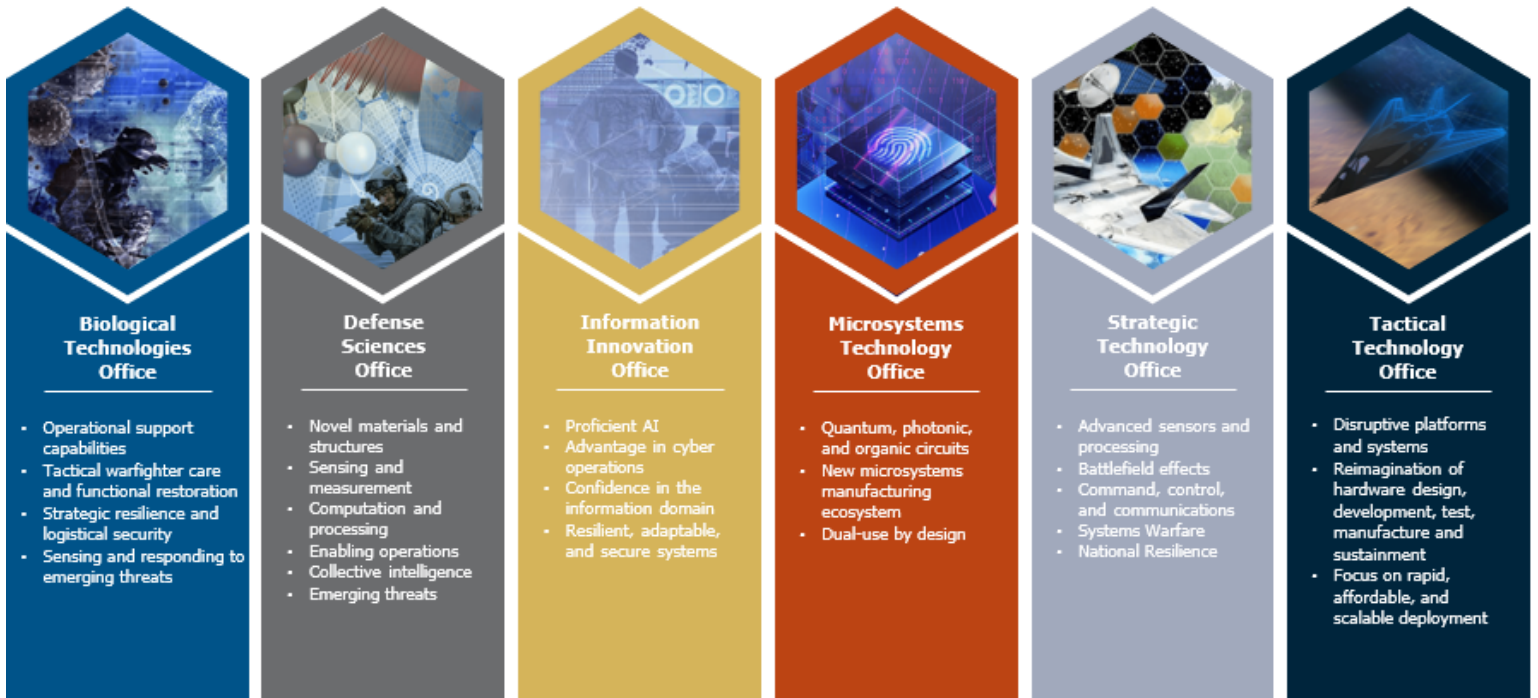
focus on different functions to support this mission. Figure 3 describes each of DARPA’s technical offices’ roles in supporting the agencies mission.

Figure 3: DARPA’s Technical Offices

Technical Office	Roles & Responsibilities
Biological Technologies Office (BTO)	DARPA’s Biological Technologies Office (BTO) develops capabilities that embrace the unique properties of biology and applies those features to revolutionize how the United States protects its Warfighters. BTO is helping the Department of Defense expand technology-driven capabilities in two thrust areas: warfighter readiness, to support readiness, health, and recovery, and operational biotechnology to create operational advantages and sustainable operations.
Defense Sciences Office (DSO)	DARPA’s Defense Sciences Office (DSO) identifies and pursues high-risk, high-payoff research initiatives across a broad spectrum of science and engineering disciplines and transforms them into important, new game-changing technologies for U.S. national security. Current DSO themes include novel materials and structures, sensing and measurement, computation and processing, enabling operations, collective intelligence, and emerging threats. DSO relies on the greater scientific research community to help identify and explore ideas that could potentially revolutionize the state-of-the-art.
Information Innovation Office (I2O)	DARPA’s Information Innovation Office (I2O) creates groundbreaking science and develops transformational capabilities in the informational and computational spheres to surprise adversaries and maintain enduring advantage for national security.
Microsystems Technology Office (MTO)	MTO’s mission is to dominate the microsystems ecology militarily and economically. To do this, MTO will 1) pursue scientific disruption, namely photonic, quantum, and organic circuits, 2) ecosystem disruption, by establishing a new sustainable microsystem manufacturing ecosystem, and 3) market disruption by utilizing the power of commercial scaling with the intelligent leveraging of DoD-only capabilities through dual-use by design.
Strategic Technology Office (STO)	DARPA’s Strategic Technology Office (STO) develops technology to give national security leaders trusted, disruptive capabilities to win in all physical domains (air, space, sea, and land) and across the spectrum of competition, from deterrence to high-end peer combat.
Tactical Technology Office (TTO)	The mission of the Tactical Technology Office (TTO) is to reimagine every aspect of military hardware design, development, test, manufacture, and sustainment, with a focus on rapid, affordable, and scalable deployment, in order to create and prevent technological surprise.

The technical offices described above are summarized in Figure 4.

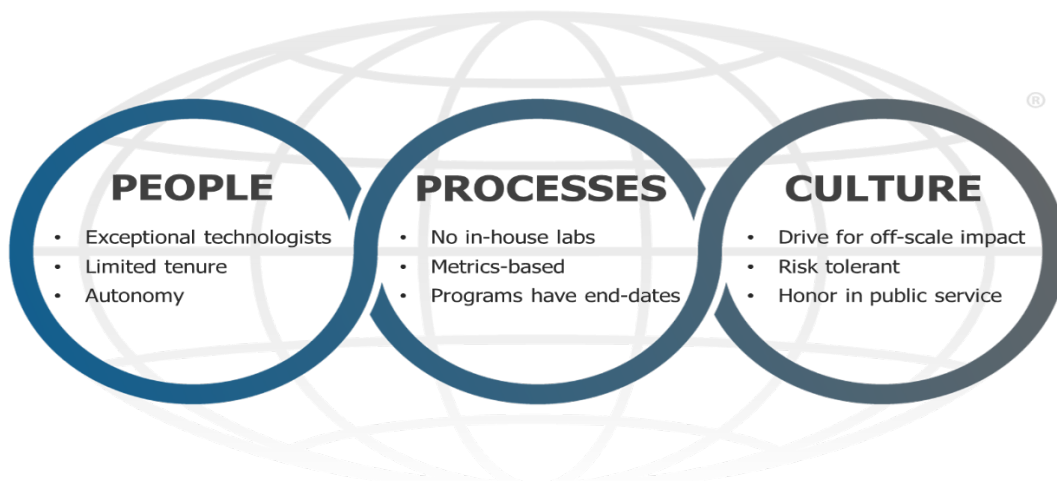
Figure 4: DARPA Technical Offices



Our People

DARPA goes to great lengths to identify, recruit and support excellent Program Managers— Program Managers address challenges broadly, spanning the spectrum from deep science to systems to capabilities, but ultimately, they are driven by the desire to make a difference. They define their programs, set milestones, meet with their performers and track progress. But they are also constantly probing for the next big thing in their fields, communicating with leaders in the scientific and engineering community to identify new challenges and potential solutions.

Figure 5: DARPA at a Glance



Program Managers report to DARPA’s office directors and their deputies, who are responsible for charting their offices’ technical directions, hiring Program Managers and overseeing program execution. The technical staff is also supported by experts in security, legal and contracting issues, finance, human resources and communications. These are the people who make it possible for Program Managers to achieve big things during their relatively short tenures.

At the Agency level, the DARPA Director and Deputy Director approve each new program and review ongoing programs, while setting Agency-wide priorities and ensuring a balanced investment portfolio.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

As an advanced research organization, DARPA does not fund the construction of actual operational systems; rather, it develops “proof-of-concept” prototypes that others in defense and/or the commercial world can further develop, modify, and implement – a process that DARPA calls “technology transition.” Other organizations in government and the corporate world further develop DARPA initiated technologies, and then commercialize or use the new potentially transformative technologies that it has fostered.

DARPA’s research and development strategies are pursued through a portfolio approach. DARPA pursues its objectives through hundreds of projects. By design, projects are finite in duration while creating lasting revolutionary change. They address a wide range of technology opportunities and national security challenges. This assures that while individual efforts might fail—a natural consequence of taking on risk—the total portfolio delivers.

DARPA’s management of its portfolio reflects the fact that while the Agency’s mission and philosophy have held steady for decades, the world around DARPA has changed dramatically—and the rate at which those changes have occurred has in many respects increased. Those changes include many scientific and technological advances that, if wisely and purposefully harnessed, have the potential not only to ensure ongoing U.S. military superiority and security, but also to catalyze societal and economic advances.

Strategic Objectives and Measures

Strategic Imperative: Prevent and Impose Technological Surprise

DARPA’s focus since inception has been to prevent and impose technological surprise after the then Soviet Union shocked the world when it launched Sputnik, the first satellite ever. This imperative is carried out by making pivotal early investments across many technological fields that change the trajectory of what is possible. It is through academia, industry, and through collaboration with military service labs and other government partners that DARPA embraces the opportunity to change the world.

To progress towards achieving the imperative of preventing and imposing technological surprise, DARPA considers every project valuable whether it ends in transition to another DoD component, directly used, or even does not complete the original goal. Under all scenarios, valuable information is taken from the project and applied to all future efforts. DARPA does not strive for a 100% “success” rate in transitioning projects because that indicates risk is not being taken for exploratory research and development. However, there are many examples of projects transitioning to a variety of users. Any specific project may transition to, but is not limited to:

- The commercial world
- Fellow DoD component for further development
- Further development within a different area under DARPA
- Another government agency for a project already existing under their purview
- Direct operational use

Objective 1 – Defend the Homeland

Defending the homeland involves an array of new capabilities including, but not limited to, autonomous cybersecurity, strategic cyber deterrence, weapons of mass destruction sensing and defense, active bio-surveillance, and bio threat countermeasures. Example portfolios that accomplish this are below.

Artificial Intelligence Cyber Challenge (AIxCC)

The Artificial Intelligence Cyber Challenge (AIxCC) is a two-year competition that brings together the best and brightest in AI and cybersecurity to safeguard the software critical to all Americans. AIxCC will ask competitors to design novel AI systems to secure this critical code and will award a cumulative \$29.5 million in prizes to teams with the best systems, including \$7 million in prizes to small businesses to empower entrepreneurial innovation during the initial phase of AIxCC.

AIxCC will unite top AI companies with DARPA and ARPA-H to make their cutting-edge technology and expertise available for challenge competitors and facilitating the development of state-of-the-art cybersecurity systems.

AIxCC is collaborating closely with the open-source community, to guide teams in creating AI systems capable of addressing vital cybersecurity issues, such as the security of critical infrastructure and software supply chains. Most software, and thus most of the code needing protection, is open-source software, often developed by community-driven volunteers. This software runs everything from transportation to water and wastewater systems, emergency services, and energy sources. At the center of this infrastructure are the health care and public health sectors, which are uniquely sensitive to disruptions in these areas.

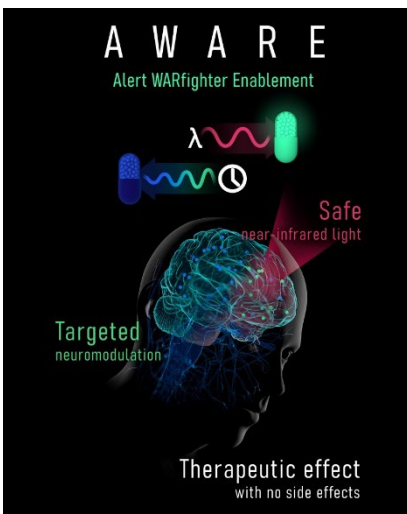
AIxCC competitions will occur at one of the world’s top cybersecurity conferences, DEF CON. The semifinal competition took place at DEF CON 2024, and the final competition will be at DEF CON 2025, where the top prize will be \$4 million.

Figure 6: AIxCC



Improving Warfighter Alertness Safely Without Off-Target Effects

Figure 7: AWARE



Active-duty conditions may lead to sleep loss, which can impair warfighter alertness and performance. Current state-of-the-art approaches for maintaining alertness following sleep deprivation include the use of drugs such as caffeine, and for U.S. military personnel undergoing long-duration training or missions, prescription stimulants, such as dextroamphetamine, may be prescribed. These stimulants have been shown to improve performance on vigilance tasks, alertness, and cognitive performance, but they can also negatively impact mood, have the potential for addiction, and may demonstrate a long circulation time in the bloodstream, which can negatively impact sleep. Over time, a cumulative lack of restorative sleep can adversely impact not only warfighter alertness and cognition, but also metabolic, immune, and mental health.

Combining light simulation and photo-pharmaceuticals — a category of drugs that are only active in the presence of certain types of light — to target specific brain circuits, DARPA’s Alert WARfighter Enablement (AWARE) program aims to safely stimulate brain function to improve alertness for a controlled time period. The AWARE program seeks to develop a

combination drug and device to non-invasively increase alertness following sleep loss in humans, without negative side effects such as anxiety, irritability, or euphoria, and with reduced addictive potential.

The goal of the AWARE program is to design a new photoswitchable stimulant that, while active, behaves in the same manner as the regular, unmodified drug. Through non-invasive delivery of near-infrared (NIR) light to specific areas of the brain, the combination of this photoswitchable stimulant and NIR light is anticipated to enable selective activation of the drug within the regions of the brain responsible for executive function, working memory, and decision making, while avoiding off-target effects. In addition to selective drug activation, the program seeks to demonstrate that removal of the NIR light switches the drug back to its inactive state, facilitating on-demand transition from a state of alertness and thus making restorative sleep possible.

The AWARE program includes an ethical, legal, and societal implications (ELSI) plan to include discussions regarding human use of the technology following its development.

Objective 2 – Deter Adversaries

Succeeding against peer competitors requires new thinking. Realizing new capabilities across the land, sea, and air domains will be important, but space and the electromagnetic spectrum will be just as or more important in deterring conflict away from our shores. New capabilities must be developed, fielded, and operated with speed and adaptability to stay ahead of increasingly capable adversaries. Example portfolios that accomplish this are below.

Cyber Agents for Security Testing and Learning Environments (CASTLE)

An ever-expanding cyber-attack surface, infrequent computer vulnerability scans, and burdensome security procedures create a seemingly lopsided battle when it comes to defending critical computing assets. Couple those factors with costly cybersecurity assessments that often lack actionable feedback, and the odds may appear to favor bad actors.

DARPA intends to change that dynamic through a new program focused on technology that can accelerate cybersecurity assessments with automated, repeatable, and measurable approaches.

The Cyber Agents for Security Testing and Learning Environments (CASTLE) program seeks to improve cyber testing and evaluation by developing a toolkit that instantiates realistic network environments and trains AI agents to defend against advanced persistent cyber threats (APTs). Teams will use a class of machine learning known as reinforcement learning to automate the process of reducing vulnerabilities within a network.

Another goal of CASTLE is to create open-source software that can help network defenders anticipate vulnerabilities an attacker may exploit. As an important benefit, datasets created by the CASTLE software will promote open, rigorous evaluation of defensive approaches that last beyond the life of the program.

Figure 8: CASTLE



Robotic Autonomy in Complex Environments with Resiliency (RACER)

The Robotic Autonomy in Complex Environments with Resiliency (RACER) program is focused on developing and demonstrating new autonomy algorithm technologies, rather than vehicle or sensor technologies, that enable Unmanned Ground Vehicles (UGVs) to maneuver on unstructured off-road terrain at speeds that are only limited by considerations of sensor performance, mechanical constraints, and safety. At a minimum, the program goal is software performance to move off-road at speeds on par with a human driver.

The self-driving car industry has made rapid advances via a vehicle platform-based, agile develop-test-develop-test model that has accumulated data to help train algorithms and refine approaches. Simulation-based development approaches use the same data for algorithm tuning. On-road autonomy algorithms operate in well-structured and highly predictable environments with limited obstacles. However, military off-road autonomy algorithms and capability development has lagged due to the challenging complexity of off-road terrain environments and need to travel in them at relevant speeds.

Figure 9: RACER



While RACER seeks to leverage advances in on-road autonomy, the project is investigating innovative approaches that enable revolutionary progress in algorithms operating on systems rather than science or research that primarily results in evolutionary improvements to the existing state of practice.

RACER will demonstrate game-changing autonomous UGV mobility, focused on speed and resiliency, using a combination of simulation and advanced platforms. It tests algorithms in the field at DARPA-hosted experiments across the country on a variety of terrain. The program provides UGV platforms that research teams can use to develop autonomous software capabilities through repeated cycles of tests on unstructured off-road landscapes. Goals include not only autonomy algorithms, but also creation of simulation-based approaches and environments that will support rapid advancement of self-driving capabilities for future UGVs.

Objective 3 – Increase Global Stability

The United States needs capabilities to address informal, unconventional gray-zone conflicts and city-scale warfare, along with rigorous and reliable models to better understand and predict our adversaries' moves prior to engagement. Example portfolios that accomplish this are below.

Deepfake Defense Tech Ready for Commercialization, Transition

The threat of manipulated media has steadily increased as automated manipulation technologies become more accessible, and social media continues to provide a ripe environment for viral content sharing. The speed, scale, and breadth at which massive disinformation campaigns can unfold require computational defenses and automated algorithms to help humans discern what content is real and what's been manipulated or synthesized, why, and how.

Through the Semantic Forensics (SemaFor) program, and previously the Media Forensics program, DARPA's research investments in detecting, attributing, and characterizing manipulated and synthesized media, known as deepfakes, have resulted in hundreds of analytics and methods that can help organizations and individuals protect themselves against the multitude of threats of manipulated media.

Figure 10: Deepfakes



With SemaFor in its final phase, DARPA's investments have systemically driven down developmental risks – paving the way for a new era of defenses against the mounting threat of deepfakes. Now, the agency is calling on the broader community – including commercial industry and

academia doing research in this space – to leverage these investments. To support this transition, the agency is launching two new efforts to help the broader community continue the momentum of defense against manipulated media.

The first comprises an analytic catalog containing open-source resources developed under SemaFor for use by researchers and industry. As capabilities mature and become available, they will be added to this repository.

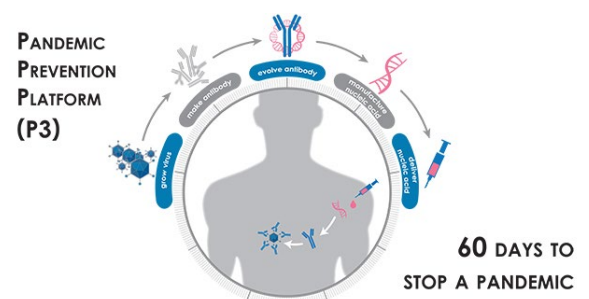
The second will be an open community research effort called AI Forensics Open Research Challenge Evaluation (AI FORCE), which aims to develop innovative and robust machine learning, or deep learning, models that can accurately detect synthetic AI-generated images. Via a series of mini challenges, AI FORCE asks participants to build models that can discern between authentic images, including ones that may have been manipulated or edited using non-AI methods, and fully synthetic AI-generated images. This effort will launch the week of March 18 and will be linked from the SemaFor program page. Those seeking a notification may sign up for the Information Innovation Office newsletter.

According to DARPA and SemaFor researchers, a concerted effort across the commercial sector, media organizations, external researchers and developers, and policymakers is needed to develop and deploy solutions that combat the threats of manipulated media. SemaFor is providing the tools and methods necessary to help people in this problem space.

Pandemic Prevention Platform (P3)

The Pandemic Prevention Platform (P3) program aims to support military readiness and global stability through pursuit of novel methods to dramatically accelerate discovery, integration, pre-clinical testing, and manufacturing of medical countermeasures against infectious diseases. P3 confronts the reality that Department of Defense (DoD) personnel are not only deployed around the world for routine operations, but are often among the first responders to outbreaks of emerging or re-emerging disease with pandemic potential (e.g., Ebola). P3 aims specifically to develop a scalable, adaptable, rapid response platform capable of producing relevant numbers of doses against any known or previously unknown infectious threat within 60 days of identification of such a threat in order to keep the outbreak from escalating and decrease disruptions to the military and homeland. State-of-the-art medical countermeasures often take many months or even years to develop, produce, distribute, and administer. The envisioned P3 platform would cut response time to weeks and stay within the window of relevance for containing an outbreak.

Figure 10: P3



P3 focuses on rapid discovery, characterization, production, testing, and delivery of efficacious DNA- and RNA-encoded medical countermeasures, a foundational technology pioneered by DARPA under the Autonomous Diagnostics to Enable Prevention and Therapeutics (ADEPT) program that provides the body with instructions on how to immediately begin producing protective antibodies against a given threat. The P3 program seeks to unlock the potential of these coded genetic constructs—establishing them as the basis for a threat-agnostic platform technology—by achieving and integrating breakthroughs in three key areas: novel approaches for the growth of viruses for use in testing and evaluation of countermeasures; rapid identification and maturation of protective antibodies to increase their potency; and novel technologies for the delivery of nucleic acid constructs into patients to encode the antibody of interest and produce a protective response.

A principal benefit of the nucleic-acid-based approach to limiting the spread of infection is that genetic constructs introduced into the body would process quickly and not integrate into an individual’s genome. Similarly, the antibodies produced in response to treatment would only be present in the body for weeks to months. This is consistent with DARPA's intent to safely deliver transient immunity, halting the spread of disease by creating a firewall, and buying time for longer-term medical responses to be developed and deployed.

In early 2020, performers in the P3 program pivoted the antibody discovery platform capabilities to address the novel coronavirus outbreak, and developed the first antibody therapeutic candidates. The antibodies were licensed to large pharmaceutical companies for manufacturing and clinical testing. Hundreds of thousands of doses of P3-discovered antibodies were manufactured and delivered during the COVID-19 pandemic, saving tens of thousands of lives.

Objective 4 – Foundational Research

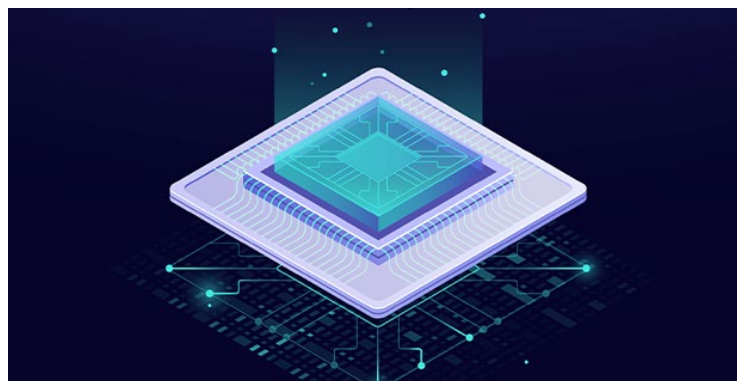
Basic research underlies all of DARPA’s grander pursuits and is what makes possible never-before-seen capabilities. Ultimately, the goal of the agency’s fundamental R&D investments is to understand where technology is leading us and to further develop and apply that technology with purpose, solving the nation’s toughest security challenges. The best way to prevent technological surprise is to create it, ensuring that U.S. warfighters and our allies have access to the most advanced technologies and capabilities first. Research funded by DARPA in the near term will explore science and technology that leads to “leap ahead” solutions for specific current and future threats across multiple operational domains. Highest priority is assigned to investments that enable the country to maintain a technological advantage over adversaries while ensuring maximum deterrence.

Next-Generation Microelectronics Manufacturing

The Next-Generation Microelectronics Manufacturing program, known as NGMM, aims to unlock accessible prototyping for the chips of tomorrow with a new agreement to establish the first-ever national center for advancing U.S.-based microelectronics manufacturing.

DARPA will work with the University of Texas at Austin and its existing Texas Institute for Electronics research center to establish a consortium to support 3D heterogeneous integration (3DHI) microsystems research, development, and low-volume production. Building on the program’s Phase 0 foundational research, NGMM’s next two phases focus on a domestic capability that comprehensively addresses key challenges and strengthens U.S. technological leadership and innovation. The consortium will leverage

Figure 12: Microelectronics Manufacturing



partnerships spanning organizations – across the defense industrial base, domestic foundries, vendors and startups, designers and manufacturers, members of academia, and other stakeholders – to achieve a shared vision of national and economic security.

DARPA’s work in microelectronics R&D align with, but are separate from, broader government initiatives to secure microchip supply chains. NGMM is funded by the Defense Department budget, rather than the CHIPS and Science Act of 2022 aimed at near-term domestic semiconductor manufacturing. However, cross-collaboration remains integral to building onshore capacity. For DOD, that includes programmatic investment in over-the-horizon technologies for both national security and commercial applications – a key goal for NGMM.

Quantum Benchmarking Initiative (QBI)

DARPA’s Quantum Benchmarking Initiative (QBI) aims to determine if it’s possible to build an industrially useful quantum computer much faster than conventional predictions. Specifically, QBI is designed to rigorously verify and validate if any quantum computing approach can achieve utility-scale operation — meaning its computational value exceeds its cost — by the year 2033.

Figure 13: QBI



The Quantum Benchmarking Initiative is an expansion of the existing DARPA Underexplored Systems for Utility-Scale Quantum Computing (US2QC). QBI is separate from but related to the existing Quantum Benchmarking (QB) program that seeks to determine the yardstick for impact. In the simplest terms, QB seeks to answer the question: If a fully functioning quantum computer magically appeared, what would it make possible that a standard computer cannot accomplish?

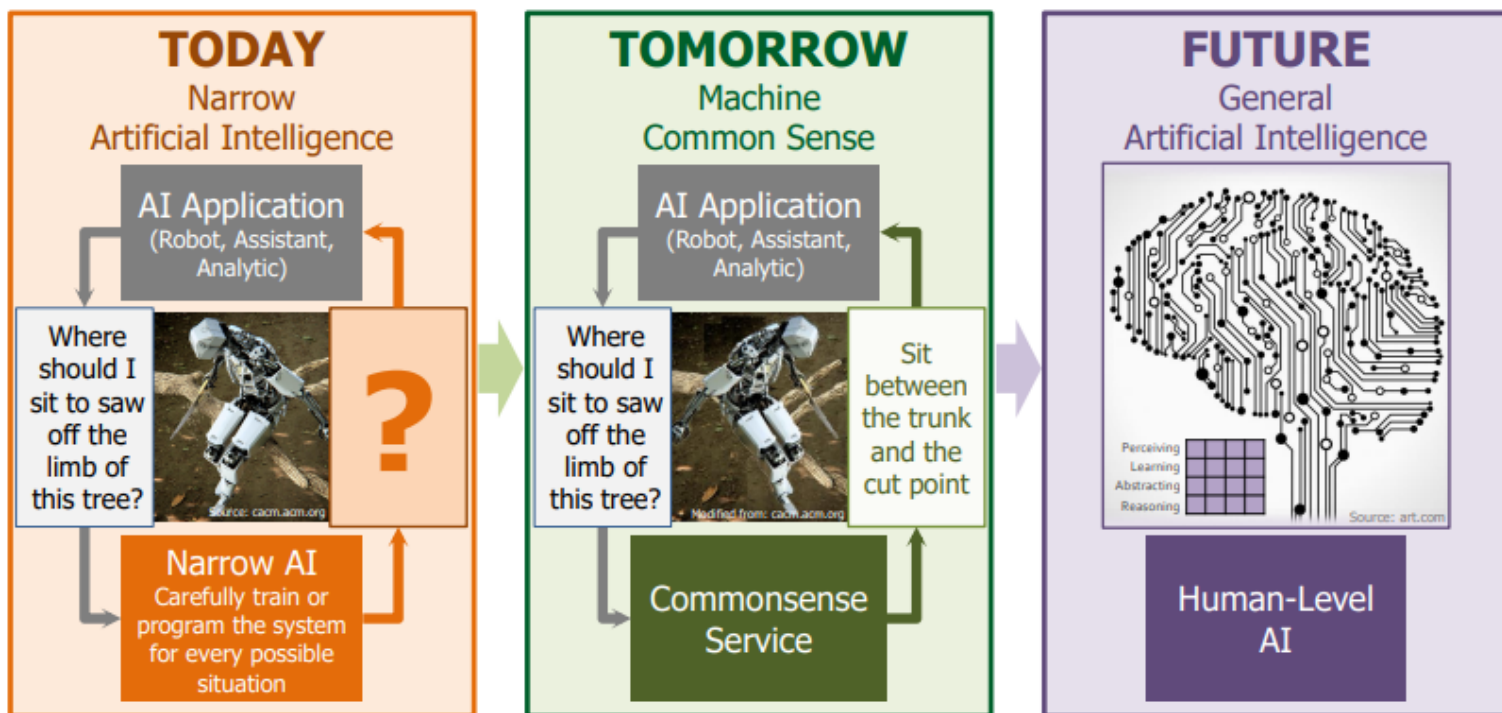
In addition to funding performers, QBI will add value to their ongoing research and development efforts by providing unbiased third-party verification and validation of an organization’s path to a utility-scale quantum computer. QBI will also effectively communicate the results of this verification and validation effort to other U.S. government stakeholders.

Machine Common Sense

Machine common sense has long been a critical but missing component of AI. Recent advances in machine learning have created new AI capabilities, but machine reasoning across these applications remains narrow and highly specialized. Current machine learning systems must be carefully trained or programmed for every situation.

The absence of common sense prevents intelligent systems from understanding their world, behaving reasonably in unforeseen situations, communicating naturally with people, and learning from new experiences. Its absence is considered the most significant barrier between the narrowly focused AI applications of today and the more general, human-like AI systems hoped for in the future. Common sense reasoning’s obscure but pervasive nature makes it difficult to articulate and encode.

Figure 14: MCS



Through the Machine Common Sense (MCS) program, DARPA teamed with the two other organizations to jointly develop advanced machine learning algorithms for autonomous robotic agents performing in-space assembly tasks. The main use cases for advanced machine learning algorithms for autonomous robotic agents performing in-space assembly tasks include large space telescope, large solar farms, human habitats, and autonomous research stations. After this initial phase of the collaboration, follow on efforts include testing and demonstrating these capabilities in space.

FORWARD-LOOKING INFORMATION

Workforce

DARPA is an agile agency with a constantly changing environment. DARPA projects have short lifespans, typically in the three-to-five-year range, and with that comes a workforce that is consistently shifting. One aspect of the DARPA organization and work model is the fact that Program Managers and tech office leadership all have limited work terms (generally 3 to 5 years), which results in an intentionally high turnover rate of approximately 20-25% a year. This term limit model and DARPA’s mission to create strategic technological surprise for national security requires that they have consistent access to diverse communities of world-class technical talent. As such, DARPA is always looking for new talent, particularly individuals who may not have prior Department of Defense experience in an attempt to gain fresh ideas and unique viewpoints. In addition, there is significant competition for talent within science and technology organizations as experts are highly sought after by private industry, public universities, and other government agencies. DARPA has undertaken significant efforts to address these needs and mitigate the challenges of our workforce in the face of an evolving culture. Some of these efforts include:

DARPAConnect: The agency launched DARPAConnect in late 2022 with a goal to broaden DARPA’S reach and stimulate growth and collaboration with small businesses and education institutions new to the national

security space. With a focus on underrepresented, diverse, and nontraditional performers, DARPAConnect aims to break down barriers of entry to find the next groundbreaking solutions. DARPA has recently begun to leverage DARPAConnect as an informal recruiting tool educating DARPAConnect community members and Regional Pop Up event attendees about Program Managers, Innovation Fellows, and contractor support positions at DARPA; to date these efforts have resulted in two (one direct and one indirect) new Program Manager hires at DARPA.

DARPA Innovation Fellowship Program: A DARPA effort to recruit standout scientists and engineers at the beginning of their careers for a two-year position at the agency. DARPA sees these fellowships as a great way for the nation's future scientific thought leaders to have the opportunity to make extensive connections across an extraordinarily rich, technologically focused network that includes DARPA Program Managers and the DARPA performer community.

DARPA Work Force Futures: The DARPA WorkForce Futures (WFF) initiative aims to identify innovative workforce models, factors, and approaches that DARPA (and possibly the wider DoD) can employ to address the limitations of traditional work modes and mitigate the evolving challenges of the modern workplace. In Phase I, WFF examined drivers and requirements of the workforce through focus groups, leadership interviews, an agency-wide survey, and benchmarking engagements. In Phase II, WFF will design and launch experiments to address pain points identified during Phase I, including increased bureaucracy, decreased work/life balance, and low transparency.

Technology

DARPA continues to evolve its information technology enterprise and cyber security posture by incorporating state-of-the-art technology and protection measures to creatively enable the staff to work the toughest National Security challenges to create and prevent strategic surprises. Our full adoption of the O365 environment allows DARPA to store all the research files in the cloud. The tools and applications can be accessed on any device, from any location, and enable staff to connect from anywhere, providing maximum flexibility and collaboration. Additionally, DARPA investments in cyber protection to build resilient, adaptable, and secure systems build confidence in the DARPA information domain and protects critical National Security research data.

Contract Writing System

DARPA currently utilizes a DoD contract writing system, the Standard Procurement System (SPS), which is scheduled to be sunset by the end of FY 2026. While over half of DARPA's procurement instruments are issued by the DARPA Contract Management Office (CMO), careful consideration is being given to the transition. The CMO has been involved in the testing and transition plan to the new system to minimize impact to the workforce and mitigate the challenges associated with the transition.

ANALYSIS OF THE ENTITY'S FINANCIAL STATEMENTS (UNAUDITED)

Background

DARPA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The accompanying financial statements and footnotes are prepared in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. DARPA records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenue is recognized when earned and costs/expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

DARPA has an established audit committee to oversee progress towards financial management reform and audit readiness. DARPA leadership participates in audit committee meetings to fully support the audit and maintain senior leader tone-at-the-top. The current mission of the DARPA Audit Committee is to serve in an advisory role to DARPA senior managers. The committee is tasked with developing, raising, and resolving matters of financial compliance and internal controls with the purpose of ensuring DARPA's consistent demonstration of accurate and supportable financial reports. The committee develops and enforces guidance established for this purpose.

The financial summary and highlights that follow provide a brief description of the nature of each financial statement and significant fluctuations from FY 2023 to FY 2024. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, are presented in Section II: Financial Section. Please note FY 2023 is restated due to a prior period adjustment as described in Note 17.

Balance Sheet

The Balance Sheet, which provide a snapshot of DARPA's financial position as of September 30, 2024, and September 30, 2023, report current and future economic benefits owned or managed by DARPA (Assets), claims against those Assets (Liabilities), and the difference between them (Net Position).

Table 1 – Changes in DARPA's Balance Sheet FY 2024
(Dollars in Thousands)

Net Financial Condition	FY 2024 Unaudited	Restated FY 2023 Unaudited	\$ Change	% Change
Assets	\$ 3,623,665	\$ 3,707,826	\$ (84,161)	(2.3%)
Liabilities	309,296	290,242	19,054	6.6%
Net Position	\$ 3,314,369	\$ 3,417,584	\$ (103,215)	(3.0%)

DARPA's Total Assets were \$3.6 billion as of September 30, 2024, a decrease of \$84.2 million, or 2.3%, over the September 30, 2023 total. The change was primarily attributable to decreases to Fund Balance with Treasury (FBWT).

DARPA's Total Liabilities were \$309.3 million as of September 30, 2024, an increase of \$19.1 million, or 6.6%, over the September 30, 2023 total. The change was primarily attributable to increases in intragovernmental accounts payable.

DARPA’s Net Position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, decreased \$103.2 million, or 3.0%, between 2024 and 2023. This decrease is attributed to the aforementioned changes mentioned for Total Assets and Total Liabilities.

Statement of Net Cost

The Statements of Net Cost present the net cost of DARPA’s major programs for the years ended September 30, 2024, and September 30, 2023. The net cost is computed by subtracting earned revenue from gross cost and adjusted by the (gain)/loss from changes in assumptions, as applicable.

Table 2 – Changes in DARPA’s Statement of Net Cost FY 2024
(Dollars in Thousands)

Summary Net Cost Data	FY 2024 Unaudited	Restated FY 2023 Unaudited	\$ Change	% Change
Gross Costs	\$ 4,185,976	\$ 3,812,995	\$ 372,981	9.8%
Less Earned Revenue	(57,856)	(26,682)	(30,994)	115.4%
Net Cost of Operations	\$ 4,128,120	\$ 3,786,133	\$ 341,987	9.0%

DARPA’s Net Cost of Operations increased \$342.0 million, or 9.0%, between 2024 and 2023. This increase is a result of a \$373.0 million increase, or 9.8%, in Gross Costs and a \$31.0 million, or 5.0%, increase in Earned Revenue. The increase in Gross Costs is attributable to an increase in the spending of the following programs: Electronics Technology for \$121.1 million, Network-Centric Warfare Technology for \$103.5 million, and Advanced Aerospace Systems for \$53.8 million. The increase in Earned Revenue is attributable to an increase of \$45.3 million in reimbursable activity with the National Aeronautics and Space Agency and a decrease of \$14.1 million in reimbursable activity with Defense Health Agency in support of the DARPA mission.

Statement of Changes in Net Position

The Statements of Changes in Net Position identify all financing sources available to, or used by, DARPA to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end.

DARPA’s Total Unexpended Appropriations decreased \$95.7 million, or 2.8%, primarily due to a decrease in appropriations received for the Defense Research Sciences program.

Statement of Budgetary Resources

The Combined Statements of Budgetary Resources present DARPA’s total budgetary resources, their status at fiscal year-end, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred, and payments made only to the extent that budgetary resources are available to cover such items.

Table 3 – Changes in DARPA’s Statement of Budgetary Resources FY 2024
(Dollars in Thousands)

Summary SBR Data	FY 2024 Unaudited	Restated FY 2023 Unaudited	\$ Change	% Change
Unobligated Balance from Prior Year Budget Authority, Net	\$ 885,213	\$ 591,633	\$ 293,580	49.6%
Appropriations	4,064,254	4,036,275	27,980	0.7%
Spending Authority from Offsetting Collection	148,641	69,014	79,627	115.4%
Total Budgetary Resources	\$ 5,098,108	\$ 4,696,922	\$ 401,187	8.5%

DARPA’s appropriations were similar year over year. The \$79.6 million, or 115.0%, increase in Spending Authority from Offsetting Collections is primarily attributable to an increase to reimbursable authority of \$68.5 million from 4Q23 compared to 4Q24.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Financial Management Systems Overview

Defense Agencies Initiative (DAI) - DARPA relies on DAI as its accounting system of record for financial reporting. DAI is an information technology system that provides a commercially-available Oracle Enterprise Resource Planning system. The Defense Agencies Initiative (DAI) is intended to transform the budget, finance, and accounting operations of most DoD Defense Agencies in order to achieve accurate and reliable financial information in support of financial accountability and effective and efficient decision-making throughout the Defense Agencies in support of the missions of the warfighter.

The benefits of DAI are:

- Common business processes and Enterprise data standards (i.e., SFIS and SLOA)
- Access to real-time financial data transactions
- Significantly reduced data reconciliation requirements
- Enhanced analysis and decision support capabilities
- Use of United States Standard General Ledger (USSGL) Chart of Accounts to resolve DoD material weaknesses and deficiencies.

Management Information System (MIS) – DARPA maintains applications, reporting and ancillary tools designed to complement and extend the functionality of DAI. These applications/tools are considered part of the Comptroller’s Management Information System (MIS) and are utilized by DARPA’s Technical Office Directors, Assistant Directors of Program Management (ADPMs), Mission Support Office (MSO), CMO and COMP within the agency.

DAI Monitor, Findex, Comptroller Management Information System (CMIS) are the major local financial applications used by DARPA. The main financial application for setting budgets and creating funding documents is the budget change application; it is a web-based application. The DAI Monitor web application is an executive information system used for tracking Office and Agency financial performance. Other web applications for reporting are accessed through the Findex portal.

There are various ad-hoc query and reporting tools in use by DARPA financial users including: OAS (Oracle Analytics Server) commonly referred to as CMIS and custom reports. OAS is an off-the-shelf desktop reporting tool that connects to the Sybase database and can be used to develop ad hoc reports, dashboards and run pre-defined 'canned' reports. A subject area in OAS/CMIS accesses a specific data set and allows for securing data by tech office or any other security construct.

Standard Procurement System (SPS) - SPS is the commercial off-the-shelf (COTS) application used by DARPA for contract writing. The system is being sunset by the end of FY 2026.

Assurance Standards

DARPA management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management (ERM) and Internal Controls"; the Federal Managers Financial Integrity Act (FMFIA) of 1982 (31 U.S. Code (U.S.C.) 3512, Sections 2 and 4) and the Federal Financial Management Improvement Act of 1996 (FFMIA) (Pub. L. 104-208), as prescribed by U.S. Government Accountability Office (GAO) Green Book, "Standards for Internal Control in the Federal Government"; DoDI 5010.40, "Managers' Internal Control Program Procedures"; the Payment Integrity Information Act of 2019; and the GAO, Fraud Risk Management (FRM) Framework, are met.

The objectives of DARPA's system of internal controls are to provide reasonable assurance over:

- The effectiveness and efficiency of operations and internal controls, including Entity Level Controls (ELCs) and those related to fraud, in accordance with the Payment Integrity Information Act of 2019 and GAO FRM Framework;
- The reliability of financial and nonfinancial reporting;
- The Agency's compliance with applicable laws and regulations; and
- The Agency's financial information systems' compliance with FMFIA.

The evaluation of internal controls and the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

DARPA has set in place oversight and management to demonstrate the organization's values, philosophy, and operating style. DARPA leadership reinforces a commitment of compliance to applicable laws and regulations to employees. Further, DARPA has established standards of conduct to communicate expectations concerning integrity and ethical values to balance the needs and concerns of different stakeholders, such as regulators, employees, and the public.

FY 2024 Internal Control Program Execution

DARPA executes its internal control program throughout all levels of its organization. The DARPA Director serves as the DARPA Senior Official and establishes and oversees the internal control program. The Audit Committee ("the Committee") serves as DARPA's Senior Assessment Team (SAT) overseeing the implementation of internal controls over reporting for financial reporting (ICOR-FR) and internal controls over reporting for financial system (ICOR-FS).

The Committee is chaired by the DARPA Deputy Director and its membership includes the DARPA Comptroller and the DARPA Senior Management Official (SMO). DARPA's SMO and RMIC Coordinator oversee the execution of DARPA's internal controls over reporting (ICOR) and internal controls over reporting for operations (ICOR-O) in coordination with DARPA's assessable unit managers (AUMs) who execute internal controls at the assessable unit level within the organization.

DARPA delegates authority only to the extent required to achieve objectives and management evaluates the delegation for proper segregation of duties to prevent fraud, waste, and abuse. In addition, DARPA relies on external stakeholders, such as Defense Finance Accounting Service (DFAS) — our accounting data processor, bill payer, and payroll processor — to better achieve our mission as documented in a service-level agreement.

Testing is conducted to ensure the internal control structure is adhering to the components of the GAO Green Book objectives of operations, reporting, and compliance. DARPA's senior management evaluated the system of internal control in effect for this fiscal year, according to the guidance in OMB Circular No. A-123 and the GAO Green Book. Included is our evaluation of whether the system of internal controls for DARPA is compliant with standards prescribed by the comptroller general.

Internal Controls Over Reporting - Operations (ICOR-O)

DARPA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. Based on the results of the assessment, DARPA can provide reasonable assurance (no Material Weaknesses) that its internal controls over operations and compliance are operating effectively as of September 30, 2024.

Internal Controls Over Reporting - Financial Reporting (ICOR-FR)

DARPA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. Based on the results of the assessment, DARPA can provide assurance that its internal controls over reporting (including internal and external reporting) and compliance are operating effectively, except as related to the material weaknesses identified in the auditor's findings in the areas of FBWT, Monitoring of Open Obligations, Advances, and Expenses and Related Liabilities as of September 30, 2024.

Internal Controls Over Reporting - Financial Systems (ICOR-FS)

DARPA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. Based on the results of this assessment, DARPA can provide reasonable assurance (no lack of compliance) that its internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

Entity Level Controls

DARPA conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, DARPA can provide reasonable assurance (no Material Weaknesses or lack of compliance) that its entity-level controls including fraud controls are operating effectively as of September 30, 2024.

Anti-Deficiency Act (ADA)

The Anti-Deficiency Act (ADA), which is codified in 31 U.S. Code (U.S.C.) 1331(a)(1), 1342, and 1517(a), stipulates that federal agencies may not:

- Obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations;
- Accept voluntary services on behalf of the government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or
- Obligate, authorize, or expend funds that exceed an apportionment or amount permitted by regulation prescribed for the administrative control of an appropriation.

An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative actions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States.

DARPA is hereby reporting that no ADA violation has been discovered or identified during our assessments of the applicable processes.

FINANCIAL SECTION (UNAUDITED)

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

DARPA FINANCIAL STATEMENTS (UNAUDITED)

BALANCE SHEETS

As of September 30, 2024 and 2023

(\$ in Thousands)

	Unaudited 2024	Restated Unaudited 2023
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 3,443,529	\$ 3,545,570
Accounts Receivable, Net (Note 4)	1,372	830
Other Assets (Note 6)	170,072	146,213
Total Intragovernmental	<u>3,614,973</u>	<u>3,692,613</u>
Other Than Intragovernmental:		
Accounts Receivable, Net (Note 4)	67	1,037
General and Right-To-Use Property, Plant and Equipment, Net (Note 5)	1,073	6,418
Advances and Prepayments (Note 6)	7,552	7,758
Total Other Than Intragovernmental	<u>8,692</u>	<u>15,213</u>
Total Assets	<u>\$ 3,623,665</u>	<u>\$ 3,707,826</u>
Liabilities (Note 7)		
Intragovernmental:		
Accounts Payable	\$ 31,621	\$ 18,937
Other Liabilities (Notes 8 and 9)	260	1,215
Total Intragovernmental	<u>31,881</u>	<u>20,152</u>
Other Than Intragovernmental:		
Accounts Payable	270,974	264,558
Federal Employee Salary, Leave and Benefits Payable (Note 8)	6,438	5,478
Pensions, Other Post-employment, and Veterans Benefits Payable (Notes 8)	3	54
Total Other Than Intragovernmental	<u>277,415</u>	<u>270,090</u>
Total Liabilities	<u>\$ 309,296</u>	<u>\$ 290,242</u>
Net Position:		
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 3,318,395	\$ 3,414,080
Cumulative Results of Operations - Funds Other than Dedicated Collections	(4,026)	3,504
Total Net Position	<u>3,314,369</u>	<u>3,417,584</u>
Total Liabilities and Net Position	<u>\$ 3,623,665</u>	<u>\$ 3,707,826</u>

STATEMENTS OF NET COST

For the periods ended September 30, 2024 and 2023

(\$ in Thousands)

	Unaudited 2024		Restated Unaudited 2023
Program Costs (Note 11)			
Gross Costs	\$ 4,185,976	\$	3,812,995
(Less: Earned Revenue)	(57,856)		(26,862)
Net Cost of Operations	<u>\$ 4,128,120</u>	<u>\$</u>	<u>3,786,133</u>

STATEMENTS OF CHANGES IN NET POSITION

For the periods ended September 30, 2024 and 2023

(\$ in Thousands)

	Unaudited 2024	Restated Unaudited 2023
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated	\$ 3,414,080	\$ 3,198,301
Prior Period Adjustments:	0	0
Beginning Balances, as adjusted	<u>3,414,080</u>	<u>3,198,301</u>
Appropriations received	4,143,208	4,056,275
Appropriations transferred in/out	71,046	(20,000)
Other adjustments (+/-)	(193,393)	(33,568)
Appropriations used	<u>(4,116,546)</u>	<u>(3,786,928)</u>
Net Change in Unexpended Appropriations	<u>(95,685)</u>	<u>215,779</u>
Total Unexpended Appropriations, Ending Balance	\$ 3,318,395	\$ 3,414,080
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 3,504	\$ (79)
Prior Period Adjustments:	0	0
Beginning Balances, as adjusted	<u>3,504</u>	<u>(79)</u>
Appropriations used	4,116,546	3,786,928
Non-exchange revenue	(109)	22
Imputed financing	4,044	2,788
Other	109	(22)
Net Cost of Operations (+/-)	<u>4,128,120</u>	<u>3,786,133</u>
Net Change in Cumulative Results of Operations	<u>(7,530)</u>	<u>3,583</u>
Cumulative Results of Operations, Ending	\$ (4,026)	\$ 3,504
Net Position	\$ <u>3,314,369</u>	\$ <u>3,417,584</u>

STATEMENTS OF BUDGETARY RESOURCES

For the periods ended September 30, 2024 and 2023

(\$ in Thousands)

	Unaudited 2024	Restated Unaudited 2023
	<u> </u>	<u> </u>
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 13)	\$ 885,213	\$ 591,633
Appropriations (discretionary and mandatory)	4,064,254	4,036,275
Spending Authority from offsetting collections (discretionary and mandatory)	148,641	69,014
	<u> </u>	<u> </u>
Total Budgetary Resources	\$ <u>5,098,108</u>	\$ <u>4,696,922</u>
 Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 4,317,368	\$ 3,856,733
Unobligated balance, end of year:		
Apportioned, unexpired accounts	<u>745,769</u>	<u>808,275</u>
Unexpired unobligated balance, end of year	<u>745,769</u>	<u>808,275</u>
Expired unobligated balance, end of year	<u>34,971</u>	<u>31,914</u>
Unobligated balance, end of year (total)	<u>780,740</u>	<u>840,189</u>
Total Budgetary Resources	\$ <u>5,098,108</u>	\$ <u>4,696,922</u>
 Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	<u>4,122,902</u>	<u>3,753,603</u>
Agency Outlays, net (discretionary and mandatory)	\$ <u>4,122,902</u>	\$ <u>3,753,603</u>

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Department of Defense (*Department* or *DoD*) includes the Office of the Secretary of Defense (*OSD*), Joint Chiefs of Staff (*JCS*), DoD Office of the Inspector General (*DoD OIG*), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the *Army*, the *Navy* (of which the *Marine Corps* is a component), and the *Air Force* (of which the *Space Force* is a component). Appendix A of the AFR provides a list of the consolidation entities which comprise the Department's reporting entity for the purposes of these consolidated/combined financial statements.

The Advanced Research Projects Agency was established in 1958 and was later changed to Defense Advanced Research Projects Agency (DARPA). DARPA resides under the Secretary of Defense, the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD AT&L). DARPA, in accordance with DoD policies, is under the direction and control of the OUSD AT&L and the Director, Defense Research and Engineering. DARPA is funded with Research, Development, Test and Evaluation funding (appropriation 0400). Funds are executed within a DARPA HQ limit which was "1320" for fiscal years prior to FY 2019 and "1300" for FY 2019 and forward. DARPA does not sub-allot funding to any other organization, nor does DARPA not contain sub-entities.

DARPA is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for the Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization they are for a component of the U.S. Government.

B. Mission of the Reporting Entity

DARPA serves as the research and development (R&D) organization in DoD with primary responsibility of maintaining U.S. technological superiority over our adversaries. DARPA only receives R&D (0400) funds of which all activity including payroll is disbursed from. DARPA has approximately a \$4.1 billion budget, over 250 government employees across 14 offices, and approximately 300 programs to accomplish its mission.

C. Basis of Presentation

The financial statements have been prepared to report the financial position, financial condition, and results of DARPA operations, as DoD is required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994* and other applicable legislation. The financial statements account for all resources for which DARPA is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

To the extent possible, the financial statements have been prepared from the accounting records of DARPA in accordance with the formats prescribed by Office of Management and Budget (*OMB Circular No. A-136, Financial Reporting Requirements*), and with U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). DARPA is unable to fully comply with all elements of GAAP and OMB Circular No. A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. DARPA derives reported values and information for major asset and liability categories largely from non-financial systems, such as logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. In addition,

DARPA is not compliant with GAAP in respect to accrual accounting requirements per SFFAS No. 1 Accounting for Selected Assets and Liabilities due to DoD policy related to vendor invoice submissions. DARPA continues to implement process and system improvements addressing these limitations.

In accordance with FASAB Statement of Federal Financial Accounting Standards (*SFFAS*) 47, *Reporting Entity*, in Note 16, *Disclosure Entities and Related Parties*, DARPA is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers.

D. Basis of Accounting

DARPA's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from non-financial feeder systems and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities (if applicable).

DARPA presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the consolidation entities therefore, intradepartmental activity has not been eliminated. DARPA does not currently have intradepartmental activity. DARPA financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The Department is continuing to evaluate the effects of adopting the below recent accounting standards and other authoritative guidance issued by FASAB.

SFFAS 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. The Department has valued some of its I&RP using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with *SFFAS 3, Accounting for Inventory and Related Property*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35: Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with *SFFAS 6, Accounting for Property, Plant and Equipment*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to the GPP&E line item.

SFFAS 53, Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment: Issued April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under *SFFAS 58, Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption is not permitted. For additional information, see *SFFAS 60, Omnibus Amendments 2021: Leases-Related Topics* and *Technical Release 20, Implementation Guidance for Leases*.

SFFAS 57, Omnibus Amendments: Issued September 27, 2019; Effective dates vary based on the paragraph number.

E. Accounting for Intragovernmental and Intergovernmental Activities

Intragovernmental Activities: Treasury Financial Manual (*TFM*), Volume I, Part 2, *Chapter 4700*, provides guidance for reporting and reconciling intragovernmental balances. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances. While intragovernmental balances are a DoD weakness, DARPA has a seasoned elimination process and differences are immaterial.

Intergovernmental Activities: Goods and services are received from other federal agencies at no cost or at a reduced cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with SFFAS 55, Amending Inter-entity Cost Provisions, DARPA recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act (*FECA*); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in DARPA's financial statements.

For additional information, see Note 11, *Disclosures Related to the Statement of Net Cost*.

F. Non-Entity Assets

DARPA records assets as either entity or non-entity. Entity assets are those that DARPA has authority to use for its operations. Non-entity assets are those held by DARPA but not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. DARPA combines its entity and non-entity assets on the Balance Sheet and discloses its non-entity assets in the notes.

For additional information, see Note 2, *Non-Entity Assets*.

G. Fund Balance with Treasury

The FBWT represents the aggregate amount of DARPA's available budget spending authority available to pay current liabilities and finance future authorized purchases. DARPA's monetary resources of collections and disbursements are maintained in Department of the Treasury (*Treasury*) accounts. The disbursing offices of the Defense Finance and Accounting Service (*DFAS*), the Military Departments, the U.S. Army Corps of Engineers (*USACE*), and the Department of State's financial service centers currently process the majority of DARPA's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using DoD's disbursing systems instead of Treasury's system is recognized by Treasury as Non-Treasury Disbursing Office (NTDO). DoD is actively migrating NTDO transactions to TDO under the TDO Enterprise Strategy effort. TDO is DoD's target end state of executing payments and collections directly between DoD and Treasury using Treasury's systems and Treasury as the Service Provider. This posture will allow DoD to achieve FBWT accountability and traceability through daily reconciliation and reporting directly with Treasury.

FBWT is an asset of the DARPA and a liability of the U.S. Government General Fund. The amount represents commitments by the U.S. Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole.

When DARPA seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, if in cases of a budget deficit.

In addition, the Department reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account. The Cash Management Report (CMR) is the process of DFAS breaking down disbursements and collections by Agency.

Fund Balance with Treasury and the accompanying liability for deposit funds are not reported by individual Other Defense Organizations General Fund, but rather reported in the consolidated Other Defense Organizations General Fund. As such, DARPA does not report deposit fund balances on its financial statements.

For additional information, see Note 3, *Fund Balance with Treasury*.

H. Cash and Other Monetary Assets

DARPA does not have Cash and Other Monetary Assets.

I. Investments

DARPA does not have Investments.

J. Accounts Receivable

Accounts receivable from other federal entities or the public include reimbursements receivable, claims receivable, and refunds receivable. Allowances for accounts doubtful accounts (estimated uncollectible amounts) due from the public are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history.

For additional information, see Note 4, *Accounts Receivable, Net*.

K. Loans Receivable, Net and Loan Gaurantee Liabilites

DARPA does not have Loans.

L. Inventories and Related Property

DARPA does not have Inventory and Related Property.

M. General and the right to use Property, Plant and Equipment

DARPA generally records General PP&E at the historical cost. See Note 12, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

General and right-to-use PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds \$250 thousand. The costs of modifications/improvements to existing General and right-to-use PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed \$250 thousand.

The capitalization threshold of \$250 thousand applies to General and right-to-use PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General and right-to-use PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds (\$100 thousand for general equipment and \$20 thousand for real property). However, in the years leading up to the DoD entities making unreserved assertions under SFFAS 50, each DoD Entity may apply the applicable capitalization threshold to its entire population of General and right-to-use PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. DARPA depreciates all General and right-to-use PP&E assets on a straight-line basis.

DARPA provides government-owned or leased General and right-to-use PP&E (Government-Furnished Property (GFP)) to contractors for performing a contract. All DARPA GFP is below the capitalization threshold and therefore is expensed.

Contractor-Acquired Property (CAP) is General and right-to-use PP&E acquired by a contractor on behalf of DARPA for performing a contract, where the government will ultimately hold the title to the General and right-to-use PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, GAAP requires the CAP to be reported on DARPA's Balance Sheet when title passes to DARPA or when the General and right-to-use PP&E is delivered to DARPA.

DARPA does not have capitalized CAP.

N. Other Assets

DARPA conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. DARPA may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation (*FAR*), *Part 32*, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (*DFARS*) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

In addition, DARPA has advances with intergovernmental activities.

For additional information, see Note 6, *Other Assets*.

O. Leases

Lease payments for the rental of equipment, internal use software, and operating facilities are classified as either intragovernmental, short term or right to use lease asset. When a lease substantially transfers all the benefits and risks of ownership to the Department, the Department records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The Department records the asset and liability at the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor). The

discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, Reporting Entity whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

A right to use lease asset deemed "operating leases" for budgetary treatment does not substantially transfer all the benefits and risks of ownership to the Department. Payments for right to use lease asset deemed operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of leases.

P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DARPA absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, see Note 7, *Liabilities Not Covered by Budgetary Resources*.

Q. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of DARPA's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with SFFAS 5, Accounting for Liabilities of the Federal Government, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, DARPA recognizes non-environmental disposal liabilities for nuclear-powered and non-nuclear powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

R. Other Liabilities

Other Liabilities includes:

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

The FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from DARPA for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by DARPA. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

SFFAS 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. The Office of Personnel Management (*OPM*) administers insurance benefit programs available for coverage to DARPA's civilian employees; however, they are not required to participate. These programs include life, health, and long term care insurance.

The life insurance program, Federal Employee Group Life Insurance (*FEGLI*) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (*FEHB*) program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (*FEDVIP*). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long Term Care Insurance Program (*FLTCIP*) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB; however, there is no requirement to enroll in FEHB.

OPM, as the administering agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. DARPA has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where DARPA is acting on behalf of another federal entity.

For additional information, see Note 8, *Federal Employee and Veterans Benefits Payable* and Note 9, *Other Liabilities*.

S. Commitments and Contingencies

DARPA recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 10, *Commitments and Contingencies*. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

DARPA executes project agreements pursuant to the framework cooperative agreement with foreign governments. All of these agreements give rise to obligations fully reported in the financial statements, pursuant to legal authority, appropriated funds, and none are contingent. DARPA does not enter into treaties and other international agreements that create contingent liabilities.

DARPA does report environmental contingencies separate from legal contingencies. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 10, *Commitments and Contingencies*.

T. Federal Employee and Veteran Benefits

Refer to Note 8, *Current and Former Federal Employee and Veteran Benefits Payable* and Note 11, *Disclosures Related to the Statement of Net Cost*, for additional information.

As an employer entity, DARPA recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans including health and life insurance plans. However, as the administering entity, OPM is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, DARPA does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DARPA employees hired prior to January 1, 1987, participate in the Civil Service Retirement System (CSRS), while the majority of DARPA employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. FERS basic annuity benefit. A primary feature of FERS offers a defined contribution plan (Thrift Savings Plan) to which DARPA automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. DARPA also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the FEHB Program and FEGLI Programs. DARPA reports both the full annual cost of providing these other retirement benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, DARPA recognizes the cost for other post-employment benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by DARPA is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

U. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, DARPA is subject to the federal budget process, which involves appropriations provided annually. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DARPA financial reports.

DARPA's budgetary resources reflect past congressional action and enable DARPA to incur budgetary obligations, but do not reflect assets to DARPA as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

DARPA receives congressional appropriation as general funds. DARPA uses these appropriations to execute its mission, and subsequently reports on resource usage.

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DARPA general fund appropriations cover costs including personnel and research and development.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, DARPA recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

Deferred revenue is recorded when DARPA receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

V. Recognition of Expenses

DARPA's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

In the case of OM&S, operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which consolidating entities may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under GAAP. DARPA OM&S meets the criteria and therefore is expensed.

W. Budgetary Resources

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The following budgetary terms are commonly used:

Appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting Collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

X. Treaties for Use of Foreign Bases

DARPA does not have treaties for use of foreign bases.

Y. Use of Estimates

The Department's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as environmental liabilities, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation, if applicable.

Z. Parent-Child Reporting

DARPA does not have a Parent or Child reporting situation.

AA. Transactions with Foreign Governments and International Organizations

The Department is implementing the administration's foreign policy objectives under the provisions of the Arms Export Control Act of 1976 by facilitating the sale of U.S. Government approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

AB. Fiduciary Activities

DARPA does not have fiduciary activities.

AC. Tax Exempt Status

As an agency of the federal government, DARPA is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

AD. Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2023 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2024 presentation. The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 13, Federal Employee and Veteran Benefits Payable, Note 15, Other Liabilities, and Note 24, Reconciliation of Net Cost to Net Outlays.

Effective in FY 2024, the presentation of the Statement of Net Cost has changed to align with the Department's new definition of major programs. Office of Management and Budget Circular No. A-136 states that the Statements of Net Cost must present the net cost of operations by an agency's defined major programs. As such, the Department updated their major programs. See Note 19, Disclosures Related to the Statement of Net Cost for further information.

Note 2 – Non-Entity Assets

Table 2. Non-Entity Assets (Amounts in Thousands)

As of September 30	2024	2023
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	0	0
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	0	0
B. Accounts Receivable	0	1,033
C. Other Assets	0	0
D. Total Non-Federal Assets	0	1,033
3. Total Non-Entity Assets	0	1,033
4. Total Entity Assets	3,623,665	3,706,793
5. Total Assets	\$ 3,623,665	\$ 3,707,826

Non-entity assets consist of assets belonging to other entities but are offset by DARPA's liabilities to accurately reflect DARPA's net position.

Note 3 – Fund Balance with Treasury

Table 3. Status of Fund Balance with Treasury (Amounts in Thousands)

As of September 30	2024	2023
1. Unobligated Balance:		
A. Available	\$ 745,769	\$ 808,275
B. Unavailable	34,971	31,914
Total Unobligated Balance	780,740	840,189
2. Obligated Balance not yet Disbursed	2,837,855	2,789,119
3. Non-FBWT Budgetary Accounts:		
A. Unfilled Customer Orders without Advance	(173,693)	(82,908)
B. Receivables and Other	(1,373)	(830)
Total Non-FBWT Budgetary Accounts	(175,066)	(83,738)
4. Total FBWT	\$ 3,443,529	\$ 3,545,570

The Treasury records cash receipts and disbursements on DARPA’s behalf; funds are available only for the purposes for which the funds were appropriated. DARPA’s Fund Balances with Treasury consists of appropriation accounts. The FBWT reported in the financial statements has been adjusted to reflect DARPA’s balance as reported by Treasury. The difference between FBWT in DARPA’s general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DARPA’s general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in DARPA’s general ledger accounts.

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

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

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations.

FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled Customer Orders Without Advance - Receivables provides budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. DARPA received allocation transfers from other federal agencies for execution on their behalf in the amount of \$180.4 million in FY 2017, \$164.5 million in FY 2018, \$161.5 million in FY 2019, \$174.2 million in FY 2020, and \$80.0 million in FY 2021. These amounts are not reported in FBWT in accordance with SFFAS 31.

The \$102.0 million, or 3%, decrease in FBWT is primarily attributable to the Defense Research Sciences program that decreased \$83.9 million from 4Q23 compared to 4Q24 because of research activity in support of the DARPA mission.

Note 4 – Accounts Receivable, Net

Table 4. Accounts Receivable, Net (Amounts in Thousands)

As of September 30	2024		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 1,372	\$ 0	\$ 1,372
2. Non-Federal Receivables (From the Public)	67	0	67
3. Total Accounts Receivable	<u>\$ 1,439</u>	<u>\$ 0</u>	<u>\$ 1,439</u>

As of September 30	2023		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 830	\$ 0	\$ 830
2. Non-Federal Receivables (From the Public)	1,037	0	1,037
3. Total Accounts Receivable	<u>\$ 1,867</u>	<u>\$ 0</u>	<u>\$ 1,867</u>

Accounts receivable represent DARPA’s claim for payment from other entities. Intragovernmental receivable claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, *Chapter 4700*. DARPA’s Non-Federal receivables (From the Public) are related to vendor overpayments on contracts, payroll, and travel.

Allowances for uncollectible accounts due from the public are reserved based on 100% of entity receivables over 2 years old. An allowance is not recorded for Non-entity receivables, interest, and penalties as they are offset with a custodial liability and revenue. DARPA does not record an intragovernmental allowance as all federal receivables are deemed collectible.

Note 5 – General and Right-to-Use PP&E, Net

Table 5A. Major General and Right-to-Use PP&E Asset Classes (Amounts in Thousands)

As of September 30	2024				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Software	S/L	5 years	\$ 720	\$ (720)	\$ 0
B. General Equipment	S/L	Various	127	(127)	0
C. Construction-in- Progress	N/A	N/A	1,073	N/A	1,073
D. Total General and Right-to-Use PP&E			<u>\$ 1,920</u>	<u>\$ (847)</u>	<u>\$ 1,073</u>

As of September 30	2023				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value

1. Major Asset Classes

A. Software	S/L	5 years	720	\$ (720)	\$ 0
B. General Equipment	S/L	Various	127	(127)	0
C. Construction-in-Progress	N/A	N/A	6,418	N/A	6,418
D. Total General and Right-to-Use PP&E			<u>\$ 7,265</u>	<u>\$ (847)</u>	<u>\$ 6,418</u>

Legend for Valuation Methods:

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

DARPA PP&E consists of software, general equipment, and CIP. The software asset class consists of the internal use software CMIS discussed in the MD&A under *Analysis of Systems, Controls, and Legal Compliance*. This software was depreciated using the straight-line method over five years and is fully depreciated as of September 30, 2024. The general equipment asset class consist of IT hardware that is depreciated using the straight-line method over three years. The CIP asset class consist of building improvements that will be transferred to Washington Headquarters Services. Per the DoD Financial Management Regulation (FMR), the capitalization threshold for DARPA is \$250,000 for GPP&E and IUS.

The \$5.3 million, or 83%, decrease in General Property, Plant, and Equipment, Net is mainly attributable to a \$6.4 decrease in Construction-In-Progress. Upon completion, Construction-In-Progress related costs for leasehold improvements were expected to be transferred to Washington Headquarters Service (WHS), but WHS determined that the proper treatment was to expense them.

Table 5B. General PP&E, Net – Summary of Activity (Amounts in Thousands)

For the period ended September 30	2024		2023	
1. General PP&E, Net beginning of year	\$	6,418	\$	4,543
2. Capitalized acquisitions		1,073		2,003
3. Dispositions		0		0
4. Revaluations (+/-)		(6,418)		0
5. Depreciation expense		0		(128)
6. General PP&E, Net end of year	<u>\$</u>	<u>1,073</u>	<u>\$</u>	<u>6,418</u>

DARPA PP&E has no restrictions and was capitalized at actual cost.

Note 6 – Other Assets

Table 6. Other Assets (Amounts in Thousands)

As of September 30	2024	2023
1. Intragovernmental		
A. Advances and Prepayments	\$ 170,072	\$ 146,213
B. Other Assets	0	0
C. Total Intragovernmental	170,072	146,213
2. Other than Intragovernmental		
A. Advances and Prepayments	7,552	7,758
B. Other Assets	0	0
C. Subtotal	7,552	7,758
D. Less: “Outstanding Contract Financing Payments” and “Advance and Prepayments” totaled and presented on the Balance Sheet as “Advances and Prepayments”	(7,552)	(7,758)
E. Net Other than Intragovernmental	0	0
3. Total Other Assets	\$ 170,072	\$ 146,213

Intragovernmental Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred. In FY 2024, DARPA instituted a process with our trading partner to obtain the actual advance amounts instead of an estimate. In order to correct the advance beginning balance, DARPA performed a FY 2023 prior period adjustment in FY 2024. The prior period adjustment impacted Line 1A “*Advances and Prepayments*”.

The \$23.9 million, or 16%, increase in Other Assets (Intragovernmental) is attributable to a change in advances with the Air Force General Fund. During FY 2024, DARPA advance activity increased with Air Force General Fund in support of the DARPA mission.

Other than Intragovernmental Advances and Prepayments are amounts advanced and prepaid to public universities for research.

DARPA instituted a process with our trading partner to obtain the actual advance amounts instead of an estimate. Due to this change in process, DARPA restated Line 1A “*Intergovernmental Advances and Prepayments*” for FY 2023.

Note 7 – Liabilities Not Covered by Budgetary Resources

Table 7. Liabilities Not Covered by Budgetary Resources (Amounts in Thousands)

As of September 30	2024	2023
1. Intragovernmental Liabilities		
A. Other	\$ 10	\$ 1
B. Total Intragovernmental Liabilities	10	1
2. Other than Intragovernmental Liabilities		
A. Federal employee and veteran benefits payable	5,156	4,612
B. Total Other than Intragovernmental Liabilities	5,156	4,612
3. Total Liabilities Not Covered by Budgetary Resources	5,166	4,613
4. Total Liabilities Covered by Budgetary Resources	304,130	285,629
5. Total Liabilities Not Requiring Budgetary Resources	0	0
6. Total Liabilities	\$ 309,296	\$ 290,242

Intragovernmental Liabilities “Other” consist of Unfunded FECA Liabilities. This balance is abnormal and represents an agency wide data call from DOL and is required to be reported.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$5.2 million of unfunded leave. Refer to Note 8, *Federal Employee and Veteran Benefits Payable*, for additional details.

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Note 8 – Current and Former Employee and Veteran Benefits Payable

Table 8. Federal Employee and Veteran Benefits Liability (Amounts in Thousands)

As of September 30	2024		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	\$ 3	\$ 0	3
B. Other	6,438	(1,285)	5,153
C. Total Other Benefits	6,441	(1,285)	5,156
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	6,441	(1,285)	5,156
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	260	(250)	10
4. Total Federal Employee and Veteran Benefits Payable	\$ 6,701	\$ (1,535)	5,166

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$0

As of September 30	2023		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	\$ 54	\$ 0	54
B. Other	5,478	(920)	4,558
C. Total Other Benefits	5,532	(920)	4,612
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	5,532	(920)	4,612
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	182	(181)	1
4. Total Federal Employee and Veteran Benefits Payable	\$ 5,714	\$ (1,101)	4,613

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: \$0

Other Benefits line 1C consists of Unfunded Annual Leave, Employer Contributions, and Payroll Taxes Payable.

The estimated actuarial liability is updated only at the end of each fiscal year.

Line 3 "Other benefit-related Other Liabilities on the Balance Sheet / Assets Available to Pay Benefits" corresponds to Note 9 Line 1C "Intragovernmental Other Liabilities reported on Note 8 Federal Employee and Veteran Benefits Current Liability." This includes:

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

The presentation of the FY 2023 Balance Sheet and the related footnotes was modified to be consistent with the FY 2024 presentation. The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 8, Current and Former Employee and Veteran Benefits Payable, Note 9, Other Liabilities, and Note 15, Reconciliation of Net Cost to Net Outlays.

Note 9 – Other Liabilities

Table 9. Other Liabilities (Amounts in Thousands)

As of September 30	2024		
	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
A. Liabilities for non-entity assets	\$ 0	\$ 0	\$ 0
B. Subtotal	0	0	0
C. Other Liabilities reported on Note 8, <i>Federal Employee and Veteran Benefits Payable</i>	258	2	260
D. Total Intragovernmental	258	2	260
2. Other than Intragovernmental			
A. Accrued funded payroll and leave	0	0	0
B. Total Other than Intragovernmental	0	0	0
3. Total Other Liabilities	\$ 258	\$ 2	\$ 260

As of September 30	2023		
	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
A. Liabilities for non-entity assets	\$ 1,033	\$ 0	\$ 1,033
B. Subtotal	1,033	0	1,033
C. Other Liabilities reported on Note 8, <i>Federal Employee and Veteran Benefits Payable</i>	172	10	182
D. Total Intragovernmental	1,205	10	1,215
2. Other than Intragovernmental			
A. Accrued funded payroll and leave	0	0	0
B. Total Other than Intragovernmental	0	0	0
3. Total Other Liabilities	\$ 1,205	\$ 10	\$ 1,215

Intragovernmental Liabilities for Non-entity Assets represents offsetting liabilities for non-entity assets where DARPA is acting on behalf of another Federal entity. For example, non-entity receivables that, upon collection, will be remitted to Treasury. These non-entity receivables are non-federal vendor overpayments on contracts, interest, and penalties.

Note 9 Line 1C “Intragovernmental Other Liabilities reported on Note 8 Federal Employee and Veteran Benefits Current Liability” corresponds to Note 8 Line 3 “Other benefit-related Other Liabilities on the Balance Sheet / Assets Available to Pay Benefits.” This cross-reference allows the tie-out of Note 9 to corresponding intragovernmental line on the Balance Sheet. All disclosures related to the amounts on Line 1C should be on Note 8 for Line 3.

“Intragovernmental Other Liabilities” on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information in Note 1.AD Significant Accounting Policies). Certain USSGLs on the Balance Sheet line “Intragovernmental Other Liabilities” are required to be reported on Note 8, Federal Employee and Veteran Benefits Payable, while others are reported on this Note 9. The amounts from the Balance Sheet “Intragovernmental Other Liabilities” reported on Note 8 are aggregated and also included above as Other Liabilities Reported on Note 8. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.”

The presentation of the FY 2023 Balance Sheet and the related footnotes was modified to be consistent with the FY 2024 presentation. The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 8, Current and Former Employee and Veteran Benefits Payable, Note 9, Other Liabilities, and Note 15, Reconciliation of Net Cost to Net Outlays.

Note 10 – Commitments and Contingencies

DARPA is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In most cases, DARPA does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the Contracts Disputes Act or the No FEAR Act.

In accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government, as amended by SFFAS No. 12, Recognition of Contingent Liabilities Arising from Litigation, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. For material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable, an accrual would be made. The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized and the range is disclosed. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed. However, DARPA has no contingent liabilities that are probable and therefore no accrual was made.

For contingencies where the likelihood of an unfavorable outcome is less than probable, an accrual is not required. DARPA has one instance of an unfavorable outcome is less than probable. If an amount is accrued for legal contingent liabilities, it would be included within the contingent liabilities amount reported in Note 9, *Other Liabilities*.

2024		
As of September 30 (Amounts in Thousands)		
Legal Contingent Liabilities	Accrued Liabilities	Estimation of Potential Loss
Reasonably Probable	\$0	\$50,000

2023		
As of September 30 (Amounts in Thousands)		
Legal Contingent Liabilities	Accrued Liabilities	Estimation of Potential Loss
Reasonably Probable	\$0	\$50,000

Note 11 – Disclosures Related to the Statement of Net Cost

Table 11. Costs and Exchange Revenue by Appropriation Category (Amounts in Thousands)

As of September 30	2024	2023
Research, Development, Test & Evaluation		
Gross Cost	\$ 4,185,976	\$ 3,812,995
Less: Earned Revenue	(57,856)	(26,862)
Net Program Costs	<u>\$ 4,128,120</u>	<u>\$ 3,786,133</u>

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of DARPA supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. DARPA’s current processes and systems capture costs based on appropriations groups as presented in the schedule above. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government,” as amended by SSFAS No. 55, “Amending Inter-Entity Cost Provisions.”

The \$373.0 million, or 10%, increase in Gross Cost is attributable to an increase in the spending of the following programs: Electronics Technology (\$121.1 million), Network-Centric Warfare Technology (\$103.5 million), and Advanced Aerospace Systems (\$53.8 million). All these factors were for research activities in support of the DARPA mission.

The \$31.0 million, or 115%, increase in Earned Revenue is attributable to an increase of \$45.3 million in reimbursable activity with the National Aeronautics and Space Agency and a decrease of \$14.1 million in reimbursable activity with Defense Health Agency in support of the DARPA mission.

One line on the Statement of Net Cost, Gross Cost, were impacted by a prior period adjustment that is detailed in Note 17.

Note 12 – Disclosures Related to the Statement of Changes in Net Position

Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		
As of September 30 (Amounts in Thousands)	2024	2023
Appropriations, SBR	\$ 4,064,254	\$ 4,036,275
Permanent and Temporary Reductions	150,000	0
Miscellaneous Items	(71,046)	20,000
Total Reconciling Differences	78,954	20,000
Appropriations Received, SCNP	\$ 4,143,208	\$ 4,056,275

Miscellaneous Items primarily include the current year authority transfers out, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

The \$95.7 million, or 3%, decrease in Unexpended Appropriations – Funds Other than Dedicated Collections is attributable to the Defense Research Sciences program that decreased Unexpended Appropriation \$85.4 million from 4Q23 compared to 4Q24.

The \$7.5 million, or 215% decrease in Cumulative Results of Operations – Funds Other than Dedicated Collections is attributable to the reclassification of construction-in-process capitalization costs of \$6.4 million to expense from 4Q23 compared to 4Q24. Upon completion, Construction-In-Progress related costs for leasehold improvements were expected to be transferred to Washington Headquarters Service (WHS), but WHS determined that the proper treatment was to expense them.

The \$91.0 million, or 455%, increase in Appropriations Transferred-in/out is attributable two offsetting transfers. The transfer out of appropriations of \$20.0 million with the Army occurred in 3Q23 and a transfer in of appropriations of \$71.0 million occurred with Chemical and Biological Defense and Defense Counterintelligence and Security Agency in 4Q24.

The \$150.0 million, or 100%, increase in Other Adjustments is attributable to a \$150.0 million 3Q24 funding rescission while rescissions were zero for 3Q23. The rescission decreased funding across various DARPA programs and provided those funds for other DoD research costs.

The \$159.8 million, or 476%, increase in Other Adjustments is attributable to a \$150.0 million 3Q24 funding rescission. The rescission decreased funding across various DARPA programs and provided those funds for other DoD research costs.

Two lines on the Statement of Changes in Net Position, Appropriations Used and Net Cost of Operations, were impacted by a prior period adjustment that is detailed in Note 17.

Note 13 – Disclosures Related to the Statement of Budgetary Resources

Table 13. Budgetary Resources Obligated for Undelivered Orders at the End of the Period (Amounts in Thousands)

As of September 30	2024	2023
1. Intragovernmental:		
A. Unpaid	\$ 261,166	\$ 165,604
B. Prepaid/Advanced	170,072	146,213
C. Total Intragovernmental	431,238	311,817
2. Non-Federal:		
A. Unpaid	2,272,559	2,338,918
B. Prepaid/Advanced	7,552	7,758
C. Total Non-Federal	2,280,111	2,346,676
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 2,711,349	\$ 2,658,493

Due to system limitations, DARPA is unable to determine the Intragovernmental and Non-Federal allocation of undelivered orders. DARPA estimates the allocation based on funded liabilities, excluding payroll and employee benefit liabilities, and paid undelivered orders based on advances and pre-payments reported on the Balance Sheet.

Information about legal limitations and restrictions affecting the use of the unobligated balance of budget authority is specifically stated by program and FY in the applicable appropriation language or in the alternative provisions section at the end of the appropriations act.

The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, no-year, and subsequent year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next FY for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are unavailable for new obligations but may be used to adjust previously established obligations.

The \$460.6 million, or 12%, increase in New Obligations and Upward Adjustments is primarily attributable to obligation activity increases from 4Q23 compared to 4Q24 in the following programs: Network-Centric Warfare Technology (\$246.7 million) and Advanced Electronics Technologies (\$151.4 million). These increases are for research activity in support of the DARPA mission.

The \$369.3 million, or 10%, increase in Net Outlays is primarily attributable to an increase in the following programs: Electronics Technology (\$124.8 million), Network-Centric Warfare Technology (\$98.7 million), and Advanced Aerospace Systems (\$57.7 million). These increases are for research activity in support of the DARPA mission.

DARPA instituted a process with our trading partner to obtain the actual advance amounts instead of an estimate. Due to this change in process, DARPA restated Line 1B *“Intergovernmental Prepaid/Advanced”* for FY 2023.

Note 14 – Disclosures Related to Incidental Custodial Collections

DARPA did not collect incidental custodial revenues in FY 2024 and collected \$2,105 of incidental custodial revenues in FY 2023. These revenues are generated primarily from collection of receivables on closed funds. These funds are not available for use by DARPA. At the end of each fiscal year, the accounts are closed and the balances relinquished to the U.S. Treasury.

Note 15 – Reconciliation of Net Cost to Net Budgetary Outlays

Table 15. Reconciliation of the Net Operating Cost & Net Budgetary Outlays (Amounts in Thousands)

As of September 30	2024		
	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	\$ 635,139	\$ 3,492,981	\$ 4,128,120
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Property, plant, and equipment depreciation expense	0	0	0
3. Property, plant, and equipment disposal and revaluations	0	(6,418)	(6,418)
4. Applied Overhead/cost capitalization Offset, PP&E	0	1,073	1,073
5. Increase/(decrease) in Assets:			
a. Accounts receivable, net	542	(970)	(428)
b. Advances and Prepayments	0	(206)	(206)
c. Other assets	23,859	0	23,859
6. (Increase)/Decrease in Liabilities:			
a. Accounts payable	(12,684)	(6,416)	(19,100)
b. Federal employee salary, leave, and benefits payable	0	(960)	(960)
c. Pensions, and post-employment-related benefits	0	51	51
d. Other liabilities	(78)	0	(78)
7. Financing Sources:			
a. Imputed cost	(4,044)	0	(4,044)
8. Total Components of Net Cost Not Part of Net Budgetary Outlays	7,595	(13,846)	(6,251)
Miscellaneous Reconciling Items			
9. Custodial/Non-exchange revenue	0	1,033	1,033
10. Other Temporary Timing Differences	109,422	(109,422)	0
11. Total Other Reconciling Items	109,422	(108,389)	1,033
12. Total Net Outlays	\$ 752,156	\$ 3,370,746	\$ 4,122,902
13. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			\$ 4,122,902
14. Unreconciled Difference			\$ 0

As of September 30

2023

	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	\$ 638,203	\$ 3,147,930	\$ 3,786,133
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Property, plant, and equipment depreciation expense	0	(129)	(129)
3. Property, plant, and equipment disposal and revaluations	0	0	0
4. Applied Overhead/cost capitalization Offset, PP&E	0	2,003	2,003
5. Increase/(decrease) in Assets:			
a. Accounts receivable, net	(807)	344	(463)
b. Advances and Prepayments	0	(1,122)	(1,122)
c. Other assets	(46,890)	0	(46,890)
6. (Increase)/Decrease in Liabilities:			
a. Accounts payable	(2,273)	19,676	17,403
b. Federal employee salary, leave, and benefits payable	0	(157)	(157)
c. Pensions, and post-employment-related benefits		(37)	(37)
d. Other liabilities	(8)	0	(8)
7. Financing Sources:			
a. Imputed cost	(2,788)	0	(2,788)
8. Total Components of Net Cost Not Part of Net Budgetary Outlays	(52,767)	20,579	(32,188)
Miscellaneous Reconciling Items			
9. Custodial/Non-exchange revenue	0	(354)	(354)
10. Other Temporary Timing Differences	0	0	0
11. Total Other Reconciling Items	0	(354)	(354)
12. Total Net Outlays	\$ 585,436	\$ 3,168,155	\$ 3,753,591
13. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			\$ 3,753,603
14. Unreconciled Difference			\$ 12

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between DARPA's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of

Budgetary Resources. While budgetary and financial (proprietary) accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of DARPA's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by DARPA. Outlays are payments to liquidate an obligation, excluding the repayment to the Treasury of debt principal.

The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. This remapping of accounts caused an unreconciled difference for FY 2023. In addition, no unreconciled difference was noted as of September 30, 2023 at the time FY 2023 financial statements were presented. Due to these factors, and the immateriality, DARPA has accepted the unreconciled difference.

The presentation of the FY 2023 Balance Sheet and the related footnotes was modified to be consistent with the FY 2024 presentation. The footnotes affected by the modified presentation are Note 8, Current and Former Employee and Veteran Benefits Payable, Note 9, Other Liabilities, and Note 15, Reconciliation of Net Cost to Net Outlays.

In addition to the mapping change, DARPA instituted a process with our trading partner to obtain the actual advance amounts instead of an estimate. Due to this change in process, DARPA restated Line 5C "*Other Assets*" for FY 2023.

Note 16 – Disclosures Entities and Related Parties

DARPA has relationships with DoD-sponsored Federally Funded Research and Development Centers (FFRDCs). In accordance with SFFAS 47 "Reporting Entity", the financial position and results of operations of FFRDCs are not reported in the DoD consolidated financial statements. FFRDCs are not material to DARPA.

Federally Funded Research and Development Centers

The DoD-sponsored FFRDCs are independent, not-for-profit, private-sector organizations that are established and funded to meet special long-term engineering, research, development, or other analytical needs. In accordance with FAR Part 35-017, FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency. DARPA maintains contractual relationships with certain DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing in-house or contractor resources. The work performed by the FFRDCs provide benefits to DARPA, which support national security. There are three categories of FFRDCs:

- (1) Research and Development Laboratories,
- (2) Systems Engineering and Integration Centers, and
- (3) Study and Analysis Centers.

FFRDC relationships are defined through a sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest, and have full disclosure of its affairs to the sponsoring agency.

DARPA does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding for FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional funding controls on staff-years, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

Related Parties

Related Parties Organizations are considered related parties if: (1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions and (2) the organizations do not meet the inclusion principles of SFFAS 47. DARPA has not identified anyone as related parties.

Note 17 – Restatements

DARPA underwent a full financial statement audit during FY 2023. One of the notice of findings and recommendations (NFRs) was federal advances were estimated and not actuals. As a result, DARPA instituted a process with our trading partner to obtain the actual advance amounts.

In order to correct the advance beginning balance, DARPA performed a FY 2023 prior period adjustment in FY 2024. This prior period adjustment ultimately reduced DARPA's net position by \$109.4 million by impacting the following balances (amounts in thousands):

Financial Statement	Statement Line	Balance Before Restatement	Balance After Restatement
Balance Sheet	Other Assets	\$255,635	\$ 146,213
Balance Sheet	Unexpended Appropriations – Funds Other than Dedicated Collections	\$3,523,502	\$3,414,080
Statement of Net Cost	Gross Costs	\$3,703,573	\$3,812,995
Statement of Changes in Net Position	Appropriations Used	\$(3,677,506)	\$(3,786,928)
Statement of Changes in Net Position	Net Cost of Operations	\$(3,676,711)	\$(3,786,133)

Note 18 – Subsequent Events

DARPA reported no subsequent events or transactions that occurred after the date of the Balance Sheet but before the issuance of the audited financial statements that have a material effect on the financial statements and, therefore, require adjustments to or disclosure in the statements.

OTHER INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit

Table 1 – Summary of Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	4	-	1	-	3

Summary of Management Assurances

Table 2 – Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fund Balance with Treasury	1		1			0
Monitoring of Obligations	1					1
Federal Advances	1					1
Expenses & Related Liabilities	1					1
Total Material Weaknesses	4	-	1	-	-	3
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	-	-	-	-	0
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems confirm to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	-	-	-	-	0
Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Federal Financial Management System Requirements	No lack of compliance noted			Lack of compliance noted		
Applicable Federal Accounting Standards	Lack of compliance noted			Lack of compliance noted		
USSGL at Transaction Level	No lack of compliance noted			Lack of compliance noted		

MANAGEMENT AND PERFORMANCE CHALLENGES

As required by the Reports Consolidation Act of 2000, the Agency's Office of the Inspector General (OIG) should prepare a statement summarizing what they consider to be the most serious management and performance challenges facing the Agency and assess the Agency's progress in addressing those challenges. Since DARPA does not have its own OIG, the DoDIG's FY 2024 Top DoD Management Challenges report which identifies eight challenges related to the DoD mission and its execution is included.

From the DoDIG report, the FY 2024 Top DoD Management Challenges are:

1. Building Enduring Advantages for Strategic Competition
2. Strengthening Cyberspace Operations and Securing Systems, Networks, and Data
3. Maintaining Superiority Through a Resilient Defense Industrial Base
4. Improving Financial Management and Budgeting
5. Adapting to Climate Change and Accelerating Resilience
6. Protecting the Health and Wellness of Service Members and Their Families
7. Recruiting and Retaining a Diverse Workforce
8. Accelerating the Transformation to a Data-Centric Organization

PAYMENT INTEGRITY INFORMATION ACT REPORTING

The Improper Payments Information Act of 2002 (IPIA; Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248), and the Payment Integrity Information Act of 2019 (PIIA; Pub. L. 116-117) requires agencies to annually report information on improper payments to the President and Congress. More detailed information on DARPA's payment integrity program can be found at <https://www.paymentaccuracy.gov/>.

For compliance with the Payment Integrity Information Act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), DARPA has an internal control structure in place to mitigate improper payments that could result in payment recovery actions. Actions taken to prevent overpayments include testing and review of civilian time and attendance, travel payments, and purchase card transactions. Tests validate that internal controls are in place and functioning as preventative measures to mitigate risks in the execution, obligation, and liquidation of funding for transactions. Controls are in place through established policy and procedures, training, separation of duties, and data mining to identify risks and fraud vulnerabilities.

Additionally, DFAS, as DARPA's accounting service provider, performs overpayment recapture functions on behalf of DARPA. DFAS includes DARPA transactions in its sampling populations for improper payment testing of civilian payroll and travel.

GRANT PROGRAMS

Grants Program Reporting

OMB's Circular A-136, Financial Reporting Requirements, requires agencies with Federal grants programs to submit a high-level summary of expired, but not closed, federal grants and cooperative agreements. A summary table (as shown below) of the total number of awards and balances for which closeout has not yet occurred, but for which the

period of performance has elapsed by two years or more prior to September 30, 2024 (i.e., on or before September 30, 2022).

Table 3 – Age and Balances for Expired Awards not Closed
(Amounts in Thousands)

CATEGORY	2-3 Years	4-5 Years	More than 5 years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	15	58	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	18	62	0
Total Amount of Undisbursed Balances	\$ 685	\$ 791	\$ 0

DARPA monitors grants and cooperative agreements to close out awards as timely as possible. Typically, awards are financially closed 120-days after the end-date of the award and are administratively closed automatically once the awards are financially closed. DARPA has made progress in decreasing the number of overdue final project reports and/or project outcome reports by implementing policies and procedures to track and enforce the submission of required project reports.

Undisbursed Balances in Expired Grant Accounts

DARPA funded research and development in technology through grants and cooperative agreements to 223 colleges, universities, and other institutions. DARPA grants are funded in one of two ways: (1) the grant may be funded fully at the time of the award, called a standard grant, or (2) the grant may be funded incrementally (one year at a time), called a continuing grant. In both cases, all costs on the grant must be incurred by the grantee during the term of the grant period. At DARPA, grantees typically have 120 days after the grant expires to complete final drawdowns and expenditures.

Table 4 – Status of Undisbursed Balances in Expired Grants
(Amounts in Thousands)

CATEGORY	FY 2024 (as of 9/30/23)	FY 2023 (as of 9/30/23)	FY 2022 (as of 9/30/22)
Number of Expired Grants/Cooperative Agreements	153	273	271
Undisbursed balances prior to closeout	\$1,476	\$ 4,583	\$ 3,023

When a grant is closed out, the unliquidated balances are de-obligated. The de-obligated grant balances are treated one of three ways:

- 1) If the source appropriation is still active, the balances are recovered by DARPA and remain available for valid new obligations until the source appropriation's expiration date.
- 2) If the source appropriation has expired but funds have not yet been canceled, the grant balances are recovered by DARPA and remain available for upward adjustment on other existing obligations within the source appropriation.
- 3) If the source appropriation has been cancelled, the grant balances are returned to the Treasury.

Prior to September 30 of each year, all undisbursed grant balances in cancelling appropriations are de-obligated and subsequently returned to Treasury.

INDEPENDENT AUDITOR'S REPORT

To the Director, Defense Advanced Research Projects Agency

Report on the Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the General Fund (GF) financial statements of the Defense Advanced Research Projects Agency (DARPA), which comprise the Balance Sheets as of September 30, 2024 and 2023, the related Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources (hereinafter referred to as the “financial statements”) for the years then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of DARPA. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are complete and free from material misstatements when taken as a whole. DARPA disclosed in Note 1, *Summary of Significant Accounting Policies*, instances where its current accounting business practices represent departures from accounting principles generally accepted in the United States of America. As a result, DARPA was unable to assert that the financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America. DARPA asserted to a departure from accounting principles generally accepted in the United States of America surrounding accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*.

We were unable to obtain sufficient appropriate evidential matter as to the existence, completeness, and accuracy of the financial statements reported as of September 30, 2024. This includes \$170 million of Other Assets and \$302.6 million of Accounts Payable (AP) (\$31.6 million Federal and \$271 million Non-Federal) reported on the Balance Sheet.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of Gross Costs. For the period ended September 30, 2024, DARPA reported \$4.186 billion in Gross Costs on its Statement of Net Cost.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2024, DARPA reported \$885.2 million of Unobligated balance from prior-year budget authority, net on its Statement of Budgetary Resources.

The effects of the conditions described in the preceding paragraphs cannot be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements. The effects of the conditions in the preceding paragraphs and overall challenges in obtaining timely and sufficient audit evidence also made it impractical to execute all planned audit procedures. As a result of these departures, we were unable to determine whether any adjustments might have been found necessary with respect to recorded or unrecorded amounts within the elements of the financial statements.

Emphasis of Matter

Corrections of Errors

As discussed in Note 17 to the financial statements, DARPA restated its fiscal year (FY) 2023 financial statements to correct errors identified during the FY 2023 financial audit related to amounts reported as other assets, gross costs, unobligated balance from prior-year budget authority, net, and net position during FY 2024. As described in the **Other Reporting Required by Government Auditing Standards** section of our report, our consideration of DARPA's internal controls is separately reported on in the *Independent Auditor's Report on Internal Control over Financial Reporting*. Item I of that report provides our consideration of internal controls associated with this restatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of required supplementary information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of other information included in DARPA's Agency Financial Report, as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DARPA's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

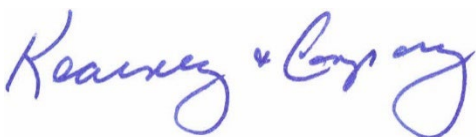
Our responsibility is to conduct an audit of DARPA's financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are required to be independent of DARPA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the RSI in accordance with GAAS because of matters described in the ***Basis for Disclaimer of Opinion*** section above. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02, we have also issued reports, dated November 7, 2024, on our consideration of DARPA's internal control over financial reporting and on our tests of DARPA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2024. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 and should be considered in assessing the results of our audit.



Alexandria, Virginia
November 7, 2024



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Director of the Defense Advanced Research Projects Agency

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements and the related notes to the financial statements of the Defense Advanced Research Projects Agency (DARPA) as of and for the year ended September 30, 2024, which collectively comprise DARPA's financial statements, and we have issued our report thereon dated November 7, 2024. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Report on Internal Control over Financial Reporting

In planning and performing our engagement to audit the financial statements, we considered DARPA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DARPA's internal control. Accordingly, we do not express an opinion on the effectiveness of DARPA's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying **Schedule of Findings**, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies, as described in DARPA's accompanying **Schedule of Findings** as Items I and II, to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in DARPA’s internal control, as described in the accompanying **Schedule of Findings** as Item III, to be a significant deficiency.

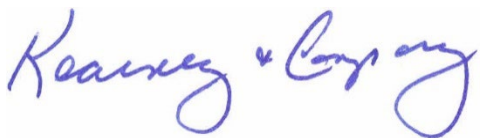
During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to DARPA’s management in a separate letter.

The Defense Advanced Research Project Agency’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DARPA’s response to the findings identified in our engagement. DARPA’s response is described in a separate memorandum attached to this report in the Agency Financial Report. DARPA concurred with the findings identified in our engagement. DARPA’s response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DARPA’s internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering DARPA’s internal control. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 7, 2024

Schedule of Findings

Material Weaknesses

The mission of the Defense Advanced Research Projects Agency (DARPA) is to maintain the technological superiority of the U.S. military and prevent technological surprise from harming national security. DARPA works within an innovation ecosystem consisting of academic, corporate, and governmental partners to create new strategic opportunities and novel tactical options. DARPA receives an annual apportionment of the President’s budget to make pivotal investments in breakthrough technologies for national security.

Throughout the course of our audit work at DARPA, we identified internal control deficiencies which were considered for the purposes of reporting on internal control over financial reporting for DARPA. The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal control over financial reporting. *Exhibit 1* presents the material weaknesses identified during our audit.

Exhibit 1: Material Weaknesses Identified

Accounting Area	Material Weakness
Advances and Prepayments	I. Federal Advances
Expenses and Related Liabilities and Budgetary Accounts	II.A Expenses and Related Liabilities
	II.B Monitoring of Obligations

I. Federal Advances (*Repeat Condition*)

Background: Advances represent cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Advances should be recorded as assets and should be reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire in accordance with Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*. Agencies record advances in United States Standard General Ledger (USSGL) Account 141000, *Advances and Prepayments*.

DARPA General Fund’s (GF) mission is to make pivotal investments in breakthrough technologies for national security. To fulfill its mission, DARPA provides reimbursable funding to the Secretary of the Air Force (SAF) for program support activities via Military Interdepartmental Purchase Requests (MIPR). After DARPA provides reimbursable authority to SAF, SAF initiates an Intragovernmental Payment and Collection (IPAC) transaction, which liquidates DARPA’s reimbursable order and provides SAF with payment for services to be rendered in the future. In response, DARPA records a permanent journal voucher (JV) to reclassify the payment as an advance, which is recorded as Other Assets on its Balance Sheet. DARPA reported \$193 million in Intragovernmental Other Assets on its Balance Sheet as of June 30, 2024.

DARPA is responsible for developing and implementing adequate policies, procedures, and internal controls to ensure that advance payments are accurately recorded and reduced when goods or services are received.

Condition: Based on a U.S. Generally Accepted Accounting Principles (GAAP) departure identified during the fiscal year (FY) 2023 audit related to DARPA’s methodology for reducing Advances and Prepayments with SAF, DARPA restated its FY 2023 financial statements and made a \$109.4 million adjustment to other assets, gross costs, Unobligated balance from prior-year budget authority, net, and net position during FY 2024.

Additionally, DARPA is unable to sufficiently support the substantive accuracy, validity, and completeness of its Federal Advances transactions in USSGL Account 141000, *Advances and Prepayments*, and related expenses in USSGL Account 610000, *Operating Expenses/Program Costs*, as of June 30, 2024.

Cause: DARPA changed its Federal Advances process with SAF to reduce its balance using information received from SAF, rather than reducing its Federal Advances with SAF via a pro-rated reduction over three years, which was not compliant with GAAP, as it did not take into consideration the timing or measurement of SAF’s actual performance and delivery of services and/or goods. The adjustment to correct the error was a result of updating its Federal Advances methodology to become GAAP-compliant.

DARPA, in coordination with its trading partner, has not developed an audit response infrastructure to obtain supporting documentation to support audit requests timely. The key supporting documentation required to support DARPA’s Federal Advances samples is not located in a centralized location. Access to the documents is limited based on clearance level and a need-to-know basis. Additionally, coordination is required among different SAF organizations.

Effect: DARPA cannot assert to the accuracy, validity, and completeness of its Federal Advances in USSGL Account 141000, *Advances and Prepayments*, and related expenses in USSGL Account 610000, *Operating Expenses/Program Costs*. DARPA’s Other Assets line item on its Balance Sheet and Statement of Changes in Net Position was overstated by \$109.4 million and Gross Cost line item on its Statement of Net Cost (SNC) was understated as of September 30, 2023. The Other Assets line item on the Balance Sheet and Gross Costs line item on the SNC may contain misstatements as of September 30, 2024.

Recommendation: Kearney & Company, P.C. (Kearney) recommends that DARPA perform the following:

1. Develop an audit response infrastructure to obtain the key supporting documentation from DARPA’s trading partner. DARPA should determine the feasibility of the entity obtaining the key supporting documentation during the normal course of business.
2. Continue to evaluate the current internal control environment and design/establish control activities to verify the accuracy of DARPA’s current advances methodology.

3. Perform monitoring activities and testwork under the DARPA Risk Management and Internal Control (RMIC) Program to determine if the newly implemented policies and procedures are effective.

II. Expenses and Related Liabilities and Monitoring of Obligations (*Repeat Condition*)

Deficiencies in two related areas define this material weakness:

- A. Expenses and Related Liabilities
- B. Monitoring of Obligations

A. Expenses and Related Liabilities

Background: DARPA purchases goods and/or services through commercial and governmental trading partners to achieve its mission. Once goods and services are procured, DARPA receives invoices through various systems in order to properly account for expenses and Accounts Payable (AP) in its financial statements.

The Mechanization of Contract Administration Services (MOCAS) is an automated integrated contracts administration and entitlement system that supports Department of Defense (DoD) contracts and payments. Expenses incurred against Direct Submit MOCAS-entitled contracts are recognized in DARPA's accounting records when vendor invoices are systemically approved by MOCAS.

DARPA regularly grants Reimbursable Work Orders (RWO) to Military Services, Other Defense Organizations (ODO), or other Federal agencies (i.e., trading partners) to procure goods and/or services. As trading partners accept and sign RWOs, DARPA incurs obligations in its general ledger (GL) system, the Defense Agencies Initiative (DAI).

In accordance with the Treasury Financial Manual (TFM), Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, Appendix 8, receipt and acceptance is a necessary element of a Federal agency's internal control environment and should occur as invoices are received to ensure DARPA can attest to the existence and valuation of the expense transactions being recorded in its GL system, DAI. In FY 2024, DARPA developed and implemented a post payment review internal control process to validate receipt and acceptance of goods and/or services received from the public intragovernmental trading partners when receipt and acceptance cannot be performed prior to payment.

Condition: DARPA remains in the process of implementing its post payment review internal control activities to validate receipt and acceptance of goods and/or services received from the public and intragovernmental trading partners when receipt and acceptance cannot be performed prior to payment.

DARPA is unable to sufficiently support the substantive accuracy, validity, and completeness of non-payroll expenses recorded in USSGL Account 610000, *Operating Expenses/Program Costs*.

Interim testing identified exceptions in 201 of 292 sampled transactions tested, resulting in an absolute dollar value error of \$207.8 million. Known errors were noted where the invoice did not show evidence of receipt and acceptance or completion of a post payment review, as well as instances where the Government personnel who performed receipt and acceptance or the post payment review did not match the Government personnel identified on the contract or agreement. There were unable to conclude errors noted where sufficient documentation was not provided to appropriately conclude on the sample amount.

Cause: DARPA completed key remediation activities with four months remaining in FY 2024. The post payment review internal control process was fully implemented as of July 31, 2024. Due to the timing of when DARPA completed its remediation activities, sufficient time had not passed to allow the internal control process to mature and fully take effect within DARPA's internal control environment.

Additionally, completeness and validation procedures did not occur prior to DARPA releasing the post payment review listing to the authorized Government personnel for review and approval, as there were instances where the post payment review listing did not include a complete listing of all the invoices that required review and validation by the authorized Government personnel.

Effect: Without appropriate receipt and acceptance of goods and/or services provided to DARPA, there is an increased risk that AP and related expenses recorded by DARPA may be misstated. DARPA is not able to assert to the validity, accuracy, and completeness of AP and related expenses as reflected in the Balance Sheet and SNC, respectively.

Recommendation: Kearney recommends that DARPA perform the following:

1. Continue to implement control activities to verify receipt and acceptance of goods/services prior to entitlement and disbursement or through timely post payment reviews. These control activities should be designed in a manner that allows management to have reasonable assurance that the risk of material misstatement will be reduced to a sufficiently low level. In instances where controls over the receipt and acceptance of goods and/or services cannot be completed prior to entitlement and disbursement, DARPA should continue to perform a post payment review to validate those disbursements occurred for goods and/or services received from trading partners in accordance with agreement terms.
 - a. In instances when the contract or agreement requires a pre-approval by authorized Government personnel, consider if it is possible to obtain the pre-approval documentation to demonstrate completion of valid receipt and acceptance prior to payment of the invoice.
 - b. Validate the completeness of the post payment review listing prior to submission of the authorized Government personnel for review and approval to ensure that all the invoices that should be submitted for review are included.
2. Continue to perform monitoring activities and testwork under the DARPA RMIC Program to determine if the newly implemented policies and procedures are effective.

3. Continue to update documentation of the control environment to include newly designed control activities to perform receipt and acceptance of goods and/or services from intragovernmental orders. Consistency between the documented control design, implementation of the control, and application of the controls during the normal course of business is necessary to achieve an auditable control environment.

B. Monitoring of Obligations

Background: Undelivered Orders (UDO) represent the amount of goods and/or services ordered that have not been actually or constructively received; these can be unpaid or prepaid. Federal agencies record UDOs when they enter into an agreement, such as a Military Interdepartmental Purchase Request (MIPR), contract, or sales order to receive goods and/or services. Agencies should maintain policies and procedures to ensure that UDOs represent valid future outlays. DARPA reported more than \$2.6 billion in UDOs on its September 30, 2024 trial balance (TB). The account balance is composed of transactions that contain detailed data fields, such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance.

DARPA's Finance Accounting Operations (FAO) Division utilizes DUET to review and monitor financial data and to identify potentially dormant UDOs and request funds holders to review the recorded balances for accuracy. In FY 2024, DARPA developed and implemented a new internal control over the monitoring of its open UDO balances. Within DUET, the DARPA FAO Division reviews open and dormant (no activity within 90 days) Unliquidated Obligations (ULO) lines above DARPA's materiality threshold. A ULO Letter is developed, signed by the DARPA Financial Analyst/ULO Lead and sent to the authorized Government personnel to verify the accuracy of DARPA's ULO balance or the determination if a deobligation, modification, or final payment is required. DARPA's ULO Letter monitoring process also includes escalation procedures in the event that DARPA has not received a response from the authorized Government personnel.

Condition: DARPA remains in the process of implementing its monitoring of open UDO internal control activities to ensure that stale and/or invalid UDOs are not reported on Line 1071, *Unobligated balance from prior year budget authority, net*, of the Statement of Budgetary Resources (SBR).

DARPA is unable to sufficiently support the substantive accuracy, validity, and completeness of its UDOs in USSGL Account 480100, *Undelivered Orders – Obligations, Unpaid*. Testing identified exceptions in 104 of 222 sampled transactions tested, resulting in an absolute dollar value error of \$213.6 million. Known errors were noted where the transaction balance represented a stale obligation and unable to conclude errors were noted where sufficient documentation was not provided to appropriately conclude on the sample transaction balance.

Cause: DARPA completed key remediation activities with four months remaining in FY 2024. The ULO Letter monitoring process was implemented as of June 30, 2024 and the post payment review internal control process was implemented as of July 31, 2024. Due to the timing of when

DARPA completed its remediation activities, sufficient time had not passed to allow the internal control process and escalation procedures to mature within DARPA’s internal control environment. When the authorized Government personnel did not respond to the ULO Letter, DARPA performed follow-up and initiated escalation procedures. However, additional time was still needed for the full escalation procedures and timeline to take effect. Additionally, during instances where the authorized Government personnel identified UDO balances for deobligation, documentation was not provided to demonstrate that the action was complete.

Effect: DARPA cannot assert to the substantive validity, accuracy, and completeness of UDO transactions recorded in USSGL Account 480100, *Undelivered Orders – Obligations, Unpaid*, as reported within the SBR. The untimely action to deobligate funds timely results in stale obligations remaining on DARPA’s financial statements, which increases the risk of overstatement of obligated balances. Additionally, DARPA’s inability to provide sufficient source documentation to support the validity, accuracy, and completeness of UDO transactions prevents the entity from effectively monitoring UDOs as part of internal control over financial reporting.

Recommendation: Kearney recommends that DARPA perform the following:

1. Continue to conduct analysis of open obligations to determine risk categories (e.g., high, medium, low) of UDOs which may require deobligation.
 - a. The deobligation initiative with established cut-off dates for mandatory deobligation of stale obligations should be communicated to the Technical Offices when such obligations cannot be adequately supported.
 - b. Deobligations should be processed to close stale UDOs or bring the balances down to a supported amount of remaining future services or close-out actions.
2. Continue to assess the current internal control environment to ensure designed processes are fully in place to effectively monitor the validity of open UDOs at the Contracting Officer’s Representative (COR)/Contracting Officer (CO) level. Quarterly certification of monitoring activities may be necessary in the short term to effectively ensure UDOs are being monitored and the clean-up initiative is performed timely.
3. Coordinate with DARPA Technical Offices, fund holders, and the acquisition community to ensure all relevant stakeholders are aware of the effect invalid and/or unsupported UDOs may have on DARPA, both operationally and financially.
4. Continue to refine the Technical Office escalation tracker process to ensure that ULO Letters are responded to on a timely basis by the authorized Government personnel.
5. Continue to implement post payment review internal control procedures and validate the completeness of the post payment review listing prior to submission to the authorized Government personnel for review and approval.

* * * * *

Significant Deficiency

III. Fund Balance with Treasury (*Repeat Condition*)

Background: The Defense Advanced Research Projects Agency (DARPA) performs reconciliations of its Fund Balance with Treasury (FBWT), by fiscal year (FY), and is responsible for the complete and accurate reporting of FBWT on its financial statements and disclosures. DARPA is responsible for monitoring and approving the FBWT reconciliations performed by its service organization on its behalf and is responsible for the complete and accurate reporting of FBWT on its financial statements and disclosures.

Treasury compares data submitted by financial institutions and Treasury Regional Financial Centers to ensure the integrity of the collection and disbursement activity submitted. A Statement of Differences (SOD) report, known as the Financial Management Services (FMS) 6652, is generated by Treasury each month in the Central Accounting Reporting System (CARS). The SOD report identifies discrepancies between the collections and disbursements reported to Treasury and the transactions that were processed by the ALCs each month (i.e., the month the report is generated).

Budget clearing (suspense) accounts temporarily hold unidentifiable general, revolving, special, or trust fund collections or disbursements that belong to the Federal Government. These accounts are to be used only when there is a reasonable basis or evidence that the collections or disbursements belong to the U.S. Government and, therefore, properly affect the budgetary resources of the Department of Defense (DoD) activity. None of the collections recorded in suspense accounts are available for obligation or expenditure while in a clearing account. Transactions recorded in DoD suspense accounts are required to be reconciled monthly and moved to the appropriate Line of Accounting (LOA) within 60 business days from the date of transaction.

Condition: DARPA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in suspense accounts or SOD balances in DARPA's primary DSSNs do not contain DARPA transactions that should be recognized in the entity's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and fiscal year (FY)-end financial reporting to enable DARPA to perform monitoring and record adjusting entries, as needed, within its accounting records. Furthermore, although DARPA's service organization prepares quarterly materiality assessments for SODs and suspense accounts, to advise DARPA and other Defense agencies of the potential count and dollar amount of transactions in these areas belonging to them, the uncleared transactions included across the assessments are material. Assessments with cleared data that have identified to an entity are not available in a timely manner to perform sufficient analysis for financial reporting timelines.

Lastly, DARPA's service organization has not designed or implemented effective internal controls to ensure the accuracy and completeness of the suspense UoTs. The Quarter (Q) 2 suspense UoT utilized for testing identified samples either requiring on-site testing, containing

summary lines, or both. DARPA's service organization did not know the status of these samples until after selection.

Cause: DARPA's service organization process to create the UoT for SOD and suspense is time-intensive and manual, requiring the consolidation of multiple files from various sources. The UoTs continue to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoT and materiality assessment, but takes a significant amount of time, making them unavailable for financial reporting. Additionally, at the time of UoT availability, there is a significant volume of transactions, for a significant dollar amount, making up balances that have not been identified to an entity and are listed in the UoTs as "to be determined" (TBD), as well as unknown samples within summary line transactions.

DARPA and its service organization have not designed and implemented a methodology to determine the financial reporting impact of the outstanding DoD suspense account balances and SOD balances from DARPA's primary DSSNs to its financial statements for financial reporting in a timely manner sufficient for quarterly and annual financial reporting timelines. The materiality assessments do not identify amounts attributed to DARPA for the current quarter, but estimate the amount based on historical data. At the time of UoT availability and when quarterly materiality assessments are prepared, there is a significant volume of transactions, for a material dollar amount, making up the suspense accounts and SOD balances that have not been identified to an entity and are listed in the UoTs as "TBD." Per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, DARPA's FBWT represents its claim to the Federal Government's resources and its accounts with Treasury for which DARPA is authorized to make expenditures and pay liabilities. The materiality assessment methodology is not designed effectively, as it pertains to recording an FBWT projection, should a material misstatement be identified. SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, does not permit FBWT as a viable account for estimated amounts.

Effect: DARPA cannot identify or record activity in the suspense accounts or SODs belonging to DARPA into its general ledger (GL) and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, DARPA is unable to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

Additionally, the inability to readily identify summary lines in the suspense UoT results in increased risk of inaccurate or incomplete suspense data for analysis, monitoring, and resolution.

Recommendation: Kearney & Company, P.C. (Kearney) recommends that DARPA implement internal control activities to ensure that material DARPA transactions, individually and in the aggregate, are identified and appropriately included within DARPA's accounting records. Specifically, Kearney recommends that DARPA, in coordination with its service organization, perform the following:

1. Assist DARPA’s service organization by providing supporting information to clear transactions reported in SODs timely.
2. Continue research efforts and resolve suspense transactions by correcting the transactions in source systems and assist its service organization by providing necessary supporting documentation for corrections, if needed.
3. Continue to develop procedures to determine what portion of the suspense balances, if any, should be attributed to DARPA for financial reporting in a timely manner and made available for year-end financial reporting purposes.
4. Continue to monitor and track the resolution of suspense activity cleared to DARPA to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as “TBD” in accordance with the 60-day timeline or as of the end of the reporting period, if earlier.
5. Consider any limitations to the service organization’s SOD process and develop compensating controls to reconcile SOD balances to minimize the risk of a potential material misstatement.
6. Develop procedures to determine the portion of the SOD balances, if any, that should be attributed to DARPA for financial reporting purposes prior to the end of an accounting period.
7. Research and resolve SOD transactions to identify the reporting entity that the transaction pertains to in the accounting period in which they were processed.
8. Monitor and track the resolution of SODs cleared to DARPA to enable the entity to perform root cause analysis and develop compensating controls for financial reporting purposes.

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor’s Report on Internal Control over Financial Reporting* included in the Defense Advanced Research Projects Agency’s (DARPA) fiscal year (FY) 2023 Agency Financial Report (AFR), we noted several issues that were related to internal control over financial reporting. The statuses of the FY 2023 internal control findings are summarized in *Exhibit 2*.

Exhibit 2: Status of Prior-Year Findings

Control Deficiency	FY 2023 Status	FY 2024 Status
I. Federal Advances	Material Weakness	Material Weakness
II.A Expenses and Related Liabilities	Material Weakness	Material Weakness
II.B Monitoring of Obligations	Material Weakness	Material Weakness
III. Fund Balance with Treasury	Material Weakness	Significant Deficiency



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Director of the Defense Advanced Research Projects Agency

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements, and the related notes to the financial statements of the Defense Advanced Research Projects Agency (DARPA) as of and for the year ended September 30, 2024, which collectively comprise DARPA's financial statements, and we have issued our report thereon dated November 7, 2024. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of DARPA, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts and disclosures, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-02, which are described in the accompanying **Schedule of Findings** as Item II.

The results of our tests of compliance with FFMIA disclosed that DARPA's financial management systems did not comply substantially with Section 803(a) requirements related to Federal financial management system requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger at the transaction level, as described in the accompanying **Schedule of Findings** as Item I.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.



The Defense Advanced Research Projects Agency’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DARPA’s response to the findings identified in our engagement and described in the accompanying **Schedule of Findings**. DARPA concurred with the findings identified in our engagement. DARPA’s response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on the effectiveness of DARPA’s compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering DARPA’s compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 7, 2024

Schedule of Findings

Noncompliance and Other Matters

I. The Federal Managers' Financial Integrity Act of 1982 (*Repeat Condition*)

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, implements the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA and OMB Circular A-123 require agencies to establish a process to document, assess, and assert to the effectiveness of internal control over financial reporting.

The Defense Advanced Research Projects Agency (DARPA) has not established and implemented controls in accordance with standards prescribed by the Comptroller General of the United States, as codified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book), as supported by the material weaknesses in the *Report on Internal Control over Financial Reporting*. Kearney & Company, P.C. (Kearney) noted material weaknesses over Federal Advances, Expenses and Related Liabilities and Monitoring of Obligations, and Correction of Errors. We determined that these material weaknesses constitute a violation of FMFIA, both individually and in the aggregate.

II. Federal Financial Management Improvement Act of 1996 Noncompliance/Other Matter (*Repeat Condition*)

The Federal Financial Management Improvement Act of 1996 (FMFIA) requires that an entity's overall financial management systems environment operate, process, and report data in a meaningful manner to support business decisions. Compliance with FFMIA is achieved through substantial conformity with the following three Section 803(a) requirements:

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

DARPA's financial management systems do not substantially comply with the requirements within FFMIA, as discussed below.

Federal Financial Management Systems Requirements

FFMIA requires reliable financial reporting, including the availability of timely and accurate financial information, and maintaining internal control over financial reporting and financial system security. The matters described in the "Basis for Disclaimer of Opinion" section in the accompanying *Independent Auditor's Report*, as well as the material weaknesses reported in the accompanying *Report on Internal Control over Financial Reporting*, represent noncompliance with the requirement for reliable financial reporting.

Applicable Federal Accounting Standards

As described in the “Basis for Disclaimer of Opinion” section of the accompanying *Independent Auditor’s Report*, we were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DARPA’s financial statements. Because of the significance of this scope limitation, we were unable to determine whether DARPA’s financial statements contained additional material departures from generally accepted accounting principles.

United States Standard General Ledger at the Transaction Level

FFMIA requires that agency management systems record financial events by applying the USSGL guidance in the Treasury Financial Manual (TFM) at the transaction level. As described in the “Basis for Disclaimer of Opinion” section of the accompanying *Independent Auditor’s Report*, we experienced a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DARPA’s financial statements. Because of the significance of this scope limitation, we were unable to execute all planned audit procedures, including testing for compliance with the USSGL at the transaction level.

* * * * *

DARPA MANAGEMENT COMMENTS TO AUDITOR'S REPORT



DEFENSE ADVANCED RESEARCH PROJECTS AGENCY
675 NORTH RANDOLPH STREET
ARLINGTON, VA 22203-2114

DARPA acknowledges receipt of the Kearney & Company's financial audit report for the DARPA FY 2024 financial statements.

We acknowledge the auditor identified findings related to 1) Timeliness of Fund Balance with Treasury information 2) Receipt and Acceptance of good and services 3) Monitoring of Undelivered Orders and 4) Federal Advances.

DARPA will continue to partner with our service providers to remediate these weaknesses.

SIMPSON.GREGORY.M.
RY.M.  Digitally signed by
SIMPSON.GREGORY.M.
Date: 2024.11.07 11:58:03 -05'00'

Gregory Simpson
Comptroller

Approved for Public Release,
Distribution Unlimited