

UNITED STATES DEPARTMENT OF DEFENSE

AGENCY FINANCIAL REPORT

FISCAL YEAR 2015





FOREWORD

Agency Financial Report (AFR)

This report, the U.S. Department of Defense Agency Financial Report (AFR) for Fiscal Year (FY) 2015, provides an executive-level overview of the Department, including our mission, organization, performance, highlights from the financial statements, internal controls and legal compliance, and challenges facing the Department. The Financial Section contains the agency-wide financial statements and notes, along with the Independent Auditor's Report. Additional and/or detailed information is available in the Other Information Section and Appendices to this report.

The Department has produced the Agency Financial Report as an alternative to the Performance and Accountability Report (PAR). The AFR is intended to simplify and summarize information while providing transparent financial and performance reporting.

The Department will publish two additional required reports that provide varying details on financial and performance information:

Annual Performance Report (APR)

Published with the Department's annual budget submission in February 2016, the APR will provide a detailed description of performance measures and FY 2015 results.

Summary of Performance and Financial Information (SPFI)

The SPFI, published in February 2016 and available for viewing on the Under Secretary of Defense (Comptroller) public website, is a succinct summary of the FY 2015 financial and performance information previously reported in the AFR and APR, making the information more transparent and accessible to Congress, the public, and other key constituents.



AH-64 Apache helicopters demonstrate their weapon systems during a live-fire exercise as part of Operation Dragon Spear on Fort Irwin, Calif. The demonstration included a forcible entry operation with Army and Air Force units showcasing the U.S. global response force's ability to deploy, fight and win.

U.S. Army photo by Staff Sgt. Jason Hull

ABOUT THE DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT

The Department of Defense Agency Financial Report is required by law, including the Government Management and Reform Act of 1994 (GMRA) and the Chief Financial Officers Act of 1990. This report includes five main sections.

The **Message from the Deputy Secretary of Defense**, the Honorable Robert O. Work, introduces the Agency Financial Report.

The **Management's Discussion and Analysis (MD&A) Section** provides an executive-level overview of the Department of Defense (DoD) and our use of taxpayer resources in fiscal year (FY) 2015. The MD&A describes the Department's organization and strategic priorities, and provides summary-level reporting on DoD performance based on measurable objectives through the third quarter of FY 2015. The MD&A also includes a Financial Overview section, introduced by the Chief Financial Officer, that reports on FY 2015 financial highlights from the agency-wide consolidated financial statements, and updates on the Department's financial management improvement initiatives. The MD&A section ends with an overview of the Department's Managers' Internal Controls program, business and financial management systems improvement strategy, and improper payments and recoveries program.

The **Agency-Wide Financial Statements Section** includes the FY 2015 Department of Defense financial statements and explanatory footnote disclosures, required supplementary information, and the Independent Auditor's report on these statements and on the Department's internal controls.

The **Other Information Section** reports detailed information on material weaknesses in internal controls, improper payments and recoveries, "Freeze the Footprint" real property, the Schedule of Spending, and DoD Inspector General-identified significant performance and management challenges facing the Department, along with DoD management responses.

The **Appendices Section** includes the Defense Security Cooperation Agency – Security Assistance Accounts financial statements and explanatory notes, accounts the Department executes on behalf of the Executive Office of the President. The Appendices section also includes a list of acronyms and abbreviations, useful websites, and an index of figures and tables included throughout this report.

The estimated cost of this report or study for the Department of Defense is approximately \$180,000 in Fiscal Years 2015 - 2016. This includes \$73,000 in expenses and \$107,000 in DoD labor.

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A MESSAGE FROM THE DEPUTY SECRETARY OF DEFENSE

The United States is at a pivotal moment in our history. We are coming out of more than 14 years of hard fighting that included the longest war in our nation's history. We are also leaving behind a unique unipolar moment when for more than two decades we reigned unchallenged as the world's single great power. We are witnessing the emergence of a more multi-polar world where U.S. global leadership will be increasingly challenged. Because we preserve the peace, the Department must continue to demonstrate our ability to project combat power anywhere in the world, no matter what threats we may face. We do so because that is what U.S. citizens, our friends, and our allies expect of us – they expect us to lead.



In 2015 we continued to prioritize our rebalance to the Asia-Pacific region, our commitment to security and stability in Europe and the Middle East, our global approach to countering violent extremists, our investments in key technology, and our efforts to build innovative partnerships. All the while, we have been responding to emergent and current geopolitical challenges such as Russian activities in Ukraine, the rise of the Islamic State of Iraq and the Levant (ISIL) and its effects on desperate people fleeing their countries as refugees, Ebola and other health concerns, cyber attacks, the rise of China, and threats to our space assets.

In addition, the Joint Force faces severe deployment demands and lacks a full reset from war. Recovering full spectrum readiness remains a challenge, and Congressional opposition to Departmental reforms complicates our efforts. Uncertainty over future resource levels complicates all of our program decisions.

Driving innovation and discovering new ways of doing business is a top priority for Secretary Carter, me, and the entire senior leadership of the Department. In particular, our technological margin of superiority is eroding at a pace too fast for comfort. This is a time for us to come up with new ideas, new innovations, and truly game changing technologies. We must do all this with fewer resources and what will no doubt be a smaller Joint Force.

This report discusses some of these challenges further and includes brief updates on our financial management initiatives, including our audit readiness efforts and actions to resolve material weaknesses in our business controls necessary to support a financial audit. We continue to strive to demonstrate that the Department of Defense manages its money with the same precision and confidence that we bring to our military operations. I encourage all concerned Americans to read this report. I am confident they will come away with new appreciation for the Department's commitment to fiscal transparency and effectiveness.

A handwritten signature in black ink, appearing to read 'R. Work'.

Robert O. Work
Deputy Secretary of Defense

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