The Department of Defense Agency Financial Report (AFR) for Fiscal Year (FY) 2012 provides an overview of the Department’s financial information and performance goals and objectives. It also describes our priorities in response to challenges encountered in defense of our Nation.

For FY 2012, the Department has chosen to produce the Agency Financial Report as an alternative to the Performance and Accountability Report (PAR). The alternative report is intended to simplify and summarize information to increase transparency while utilizing the Internet for providing additional details. The Department’s FY 2012 reporting consists of three components:

- Agency Financial Report – Published November 15, 2012
- Annual Performance Report – Published February 6, 2013
- Summary of Performance and Financial Information – Published February 15, 2013

All three reports will be available at the Under Secretary of Defense (Comptroller) public website: [http://comptroller.defense.gov/](http://comptroller.defense.gov/)

**Agency Financial Report (AFR)**

The AFR consists of the Management’s Discussion and Analysis section that provides executive-level information on the Department’s history, mission, organization, key performance activities, analysis of the financial statements, controls and legal compliance, and other challenges facing the Department. Additional information is available in Addendum A, Other Accompanying Information of the AFR.

**Annual Performance Report (APR)**

The APR will be included in the Congressional Budget Justification and will provide the detailed performance information and description of results by performance measure.

**Summary of Performance and Financial Information (SPFI)**

The SPFI will summarize the Department’s financial and performance information from the AFR and APR, making the information more transparent and accessible to Congress, the public, and other key constituents.
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Preparation of this study/report cost the Department of Defense a total of approximately $228,000 in Fiscal Year 2012.

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A MESSAGE FROM THE DEPUTY SECRETARY OF DEFENSE

I appreciate the opportunity to introduce the Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2012. This report contains the most complete financial picture of how the Department managed taxpayer resources last year.

The AFR accounts for nearly $650 billion in funds Congress appropriated to the Department. It explains how that money was used to provide America’s military with the resources necessary to provide for our nation’s security as we deal with a complex set of national security challenges in the Middle East, the Asia-Pacific region, and elsewhere.

During Fiscal Year 2012 we established a new national security strategy that guided efforts to reduce defense spending. The Budget Control Act of 2011 led to reductions of $487 billion in defense budgets in the ten years beginning in FY 2012. To accommodate these reductions, the new strategy accepts smaller and leaner forces but requires that they be highly ready. We will no longer maintain forces needed for large, prolonged stability operations, but we will rebalance our forces to the Mideast and the Asia-Pacific region. Overall, this new strategy will permit us to reduce defense funding while meeting key national security objectives in an effective manner.

This AFR also describes efforts within DoD to improve business practices and reduce overhead costs. The initiative aims at achieving more than $150 billion in efficiencies over the five-year period from Fiscal Years 2012 to 2017.

Lastly, this report summarizes our efforts to improve the Department’s financial management. We aggressively sought the financial flexibility we need to meet the emerging needs of our warfighters, especially those in combat. We also sought to improve our systems and business process to achieve audit readiness. At the direction of Secretary Panetta, the DoD management team has accelerated the pace for key elements of this audit initiative. For example, we now expect to achieve audit readiness for the Statement of Budgetary Resources for general funds by the end of 2014.

In presenting this report, I salute the Department’s 58,000 financial managers, both military and civilian. Their hard work and dedication were vital to the Defense organization and its mission in Fiscal Year 2012. They did everything asked of them and more. This report is their story.

Ashton B. Carter
Deputy Secretary of Defense
A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I take pride in presenting the Department of Defense (DoD) Agency Financial Report for Fiscal Year (FY) 2012. This document highlights the Department’s management of the billions of dollars that the Congress appropriated last year for the Nation’s defense.

As the report explains, the dedication and professionalism of the Department’s financial management workforce ensured that the men and women of America’s military were supplied with the resources they needed to do their jobs. In particular, we met the changing financial requirements of our warfighters and commanders while working within the confines of our budget and our fiscal laws. Because of the time required for assembly and review, the Department puts together budgets two to three years before they are executed. Especially during war, there are inevitably changes in budgetary requirements during this two- to three-year period. Working with the Congress, the Department has used techniques, such as reprogramming, to meet the emerging needs of our warfighters and commanders. I appreciate the support of the Department’s managers, and the support of the Congress, in this important endeavor.

Fiscal Year 2012 also marked the beginning of a major initiative to improve the efficiency of the Department’s business operations. The Department seeks to find ways to meet warfighter needs at less cost by changing process so they can be accomplished with fewer civilian employees, eliminating lower-priority organizations, and reducing overhead through approaches such as strategic sourcing and information technology consolidation. I am teaming with our Deputy Chief Management Officer to monitor the implementation of these important changes.

During Fiscal Year 2012, we made substantial progress toward improving financial management in the Department and achieving audit readiness. Despite significant obstacles, we are steadily moving toward our goal of audit readiness by 2014 for our highest-priority financial information - the Statement of Budgetary Resources for general funds and counts and locations of key assets – as well as auditability for all financial statements by 2017. We also made continued progress in creating a course-based certification program for defense financial managers that will allow us to improve training in many areas, including audit readiness.

I am very proud of the efforts of all of the Department’s employees and particularly its financial managers. Their commitment to the Department’s mission and to financial stewardship is second to none.

Robert F. Hale
Under Secretary of Defense (Comptroller)/
Chief Financial Officer