ARMED FORCES RETIREMENT HOME

PERFORMANCE AND ACCOUNTABILITY REPORT
FOR FISCAL YEAR 2019

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MESSAGE FROM AFRH LEADERS

November 19, 2019

We are pleased to present the Armed Forces Retirement Home (AFRH) Performance and Accountability Report for fiscal year 2019. This annual report consolidates multiple Federal reporting standards as well as AFRH-unique requirements into one comprehensive document that measures our financial and management performance over the last year, highlights accomplishments, and sets the stage for objectives in fiscal year 2020.

AFRH is continuing its evolution to ensure the long-term success of our vibrant communities for enlisted veterans. The 80-acre development project on our Washington campus is a key component of AFRH's long-term strategy so we can generate income from our valuable property assets and provide our residents and neighbors with exciting new amenities that will improve the quality of life in our area and reconnect us with the community. We received several visionary proposals from talented real estate development teams to transform an underused portion of our Washington, D.C. campus. After a thorough review process, AFRH announced a development team selection in October 2019 and is now working with the team to negotiate a master lease with the goal of executing a contract in fiscal year 2020.

At the time of publication, the National Defense Authorization Act for Fiscal Year 2020 has not been passed. The Senate version of the bill included a provision which would expand resident eligibility to the National Guard and Reserves and extend the monthly pay contribution to those components, which would substantially increase AFRH's income and reinforce the legacy since our founding in the 19th century that the best investors in AFRH are those who may one day wish to call it their home. The National Guard and Reserves are an essential part of the Total Force protecting our nation, and if the provision is adopted we will be honored to welcome enlisted veterans from all components to AFRH.

A key part of this report includes our independently audited financial statements and notes on our accounting procedures. We consider the financial and performance data and information to be reliable and complete; and, though the Agency does not have any material weaknesses, leadership takes very seriously its responsibilities for the stewardship and management of resources.

We call your attention to the initiatives in our strategic plan, revised during the summer each year, to revitalize our communities in Washington and Gulfport so they are attractive and competitive for our most important asset: people. Our residents and staff, many of whom are veterans or military family members themselves, are our true National treasure.

Sincerely,

STEPHEN T. RIPPE
Chief Executive Officer

JAMES M. BRANHAM
Chief Operating Officer

ABOUT THIS REPORT

The Armed Forces Retirement Home (AFRH) Performance and Accountability Report (PAR), is a detailed, annual retrospective of the Agency's performance toward achieving its annual goals and long-term objectives for its programs, management, and budget. The Office of the Chief Financial Officer produces the PAR in collaboration with campus leadership and support offices throughout the AFRH. The PAR was created to meet government reporting requirements (including the Government Performance and Results Act, the Chief Financial Officers Act of 1990, and the Federal Financial Management Improvement Act of 1996).

This report consolidates multiple required financial and performance management reports into one volume:

- Performance and Accountability Report (31 USC 3516)
  - Financial management reports (31 USC chapters 9 and 35)
  - Agency performance update (31 USC 1116)
  - Improper Payments Act annual report (31 USC 3321 note)
  - Inspector General statement on management and performance challenges (31 USC 3516)
- Annual report by the Secretary of Defense (24 USC 411(h)) (until Dec. 31 2021 per section 1061 of Public Law 114–328)

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of Federal entities in accordance with Federal GAAP and the formats prescribed by the Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The report covers the Federal fiscal year 2019, from October 1, 2018 through September 30, 2019, and is organized in three parts in accordance with OMB guidance for performance and accountability reports:

Part 1 -- Management Discussion and Analysis -- Presents an overview of the agency and its programs; a snapshot of AFRH's achievements during the fiscal year; the challenges it faces and the plans and responses to those challenges; and detailed information on AFRH's Strategic Plan, including progress on strategic objectives, performance goals and agency priorities.

Part 2 -- Financial Information -- Provides the fiscal year 2019 auditor's report, audited financial statements, and notes to the financial statements.

Part 3 -- Other Information – Fulfills additional reporting requirements and additional details.

SECTION 1
MANAGEMENT DISCUSSION & ANALYSIS

AGENCY OVERVIEW

Formed by Congress in 1991, the Armed Forces Retirement Home (AFRH) is the only continuing care retirement community (CCRC) operated by the Federal Government. The 1991 Act merged two storied institutions under one corporate organization: the U.S. Soldier's and Airmen's Home in Washington, D.C. established in 1851, and the U.S. Naval Home in Gulfport, Miss. originally established in Philadelphia, Penn. in 1834. AFRH is governed by title 24, United States Code, chapter 10.

MISSION

To fulfill our Nation's commitment to its veterans by providing a premier retirement community with exceptional residential care and extensive support services.

VISION

A retirement community committed to excellence, fostering independence, vitality and wellness for veterans, making it a vibrant place in which to live, work and thrive.

LEADERSHIP & GOVERNANCE

AFRH's governance structure and oversight is unique in the Federal Government. While it is an independent agency, AFRH leadership and administration is overseen by the Secretary of Defense and delegated to the Office of the Chief Management Officer. Day-to-day oversight is exercised by the AFRH Chief Executive Officer (CEO), a Department of Defense executive. The CEO appoints key AFRH officials including the Chief Operating Officer who serves as the AFRH agency head, as well as the administrators and ombudsmen for each of the two campuses. The agency headquarters is located in Washington, D.C. and consists of a small corporate staff to manage common agency functions and services.

The Deputy Director of the Defense Health Agency oversees healthcare administration as the AFRH Senior Medical Advisor; the Inspector General of the Department of Defense (DOD) inspects and reports on all aspects of AFRH operations on a triennial basis; and all resident services are accredited by nationally recognized independent organizations including The Joint Commission (TJC) and Commission on Accreditation of Rehabilitation Facilities (CARF).

Organizational Chart

Leadership Team

Nancy Anne Baugher, CPA, CGFM Director of Finance and Administration
James Branham Chief Operating Officer
Susan Bryhan Administrator, AFRH—Washington
Patrick Cavanagh Acting Inspector General
Etheldreda Collins, M.D. Corporate Medical Director
Jeffrey Eads Administrator, AFRH—Gulfport
Christopher Kelly Public Affairs Officer
Joseph Pollard General Counsel
Stephen Rippe Chief Executive Officer
John RisCassi Deputy Chief Operating Officer
Justin Seffens Corporate Facilities Manager
Donna Smith Chief Human Capital Officer
Stacey Tyley Director of Real Estate Development
Stanley Whitehead Acting Chief Information Officer

Two Campuses, One Mission

Armed Forces Retirement Home—Washington

The 272-acre campus of AFRH—Washington features the state-of-the-art Scott Building which serves as the hub of the resident community and includes rooftop gardens, sunlit common areas, fitness center, an extensive library, as well as 36 rooms for long-term nursing care and 24 rooms for residents who need memory support. The Sheridan Building houses independent living, independent living plus, and assisted living residents with amenities including a bowling alley, ceramics and woodworking studios, and AAFES-operated convenience store. Residents enjoy the extensive grounds with 9-hole golf course, fishing ponds, community gardens, and walking trails to support wellness. The historic campus features 19th century landmarks including President Lincoln's Cottage at the Soldiers' Home, a national monument. Washington residents take advantage of the capital's sites and cultural activities and have nearby access to the VA hospital and Walter Reed National Military Medical Center for their healthcare needs.

Armed Forces Retirement Home—Gulfport

The AFRH—Gulfport facility, opened in 2011, includes 584 rooms each with balconies overlooking the Gulf of Mexico. The facility houses an abundance of amenities for residents, including an outdoor swimming pool, bowling alley, art and hobby studios, and fitness center. In the fall of 2010, more than 200 former residents of the home returned to the new Gulfport facility after being forced to relocate to DC. Gulfport residents love the relaxed beachside vibe of the Gulf Coast and have easy access to entertainment venues in Gulfport and Biloxi as well as extensive healthcare services at the nearby VA hospital and Keesler Air Force Base medical center.

Each of our two campuses have similar organizational structures and services under our "One Agency Model"

Campus Operations	**Healthcare Services**	**Resident Services**	**Support Services**
Facilities Grounds Lawn & Garden Services Maintenance & Repairs Property Management Transportation Utilities	Medical Services Medical Records Nursing - Independent Living Plus - Assisted Living - Long Term Care - Memory Support Nutrition Services Pharmacy Services Rehab Services Social Services	Admissions Custodial Services Dining Services Recreation Activities Recreation Therapy Religious Activities Volunteer Services	Business Center Process Improvement Safety Security

Five Mission Tenets

The foundation of success and the path to sustainability for the AFRH are built on the following 5 tenets:

1. We are guardians for veterans who have come to AFRH as residents, made it their home, and whose health and welfare depend on us, so we must ensure the highest attention to care attainable in any setting. Quality of care has to be the highest mission objective, and to care for veterans in need.
2. Stewardship is at our core, reminding us that we are caretakers responsible for decisions now that will determine how AFRH will exist for veterans in the future, against a financial history that lacked needed sustainability.
3. We are trustees for active duty service members who contribute a portion of their pay to support veterans in need today with the expectation AFRH will be here for them if they need us later, so we need a Trust Fund that will develop and grow.
4. We are custodians of a true National treasure, continuing an illustrious history while preserving AFRH's legacy, facilities and grounds.
5. We are stewards for taxpayers who come to our aid when we need it, with the promise their resources will be responsibly used because our mission is so vital.

Program Summary

AFRH is the only Federal entity operating what is known in the private sector senior living industry as a continuing care retirement community (CCRC), meaning residential facilities with a continuum of care levels so residents can "age in place" as their physical and health needs change. AFRH features high quality facilities with an extensive variety of services and amenities rarely available in private sector facilities. Each of our campuses provide services to residents through three operating segments: Healthcare Services, Resident Services, and Campus Operations.

Healthcare Services includes our 24-hour wellness centers available to all residents. The wellness centers offer medical providers during business hours, with nursing coverage on on-call providers after hours. Additionally, the wellness centers feature dental providers and pharmacy delivery during business hours. Specialist services include optometry, podiatry, nutrition, psychiatry, psychology, physical and occupational therapy, and speech therapy. Some specialist services are provided through partnerships with Department of Defense health facilities and contract providers, some of whom independently bill insurance programs for their services. In addition to wellness center services available to all residents, Healthcare Services provides dedicated nursing care to our residents in upper levels of care.

Resident Services provides a full spectrum of services and amenities to all residents. All residents can enjoy meals in our community dining rooms with assistance for those with mobility needs, exercise equipment and instruction in our fitness facilities, organized activities both on and off site, library and media centers, hobby shops for arts and crafts, and game and sport amenities. Resident Services provides personal and spiritual services including social worker, chaplain, financial literacy, and legal and estate planning assistance.

Campus Operations ensures safe and secure facilities and grounds for our residents, staff, and visitors. Both our campuses are gated communities with 24-hour security booths controlling access to grounds and regular security patrols. Facilities staff keep our building interiors clean and well maintained and grounds staff are responsible for landscaping and upkeep of our beautiful campuses and outdoor amenities. Safety and emergency operations planners are prepared for and experienced in handling a broad spectrum of contingencies.

Continuum of Care

AFRH offer five levels of care to our residents, who must enter our communities at the independent living level:

Independent Living (IL) residents live independently and perform all activities of daily living without assistance. Rooms are private and equipped with full bathrooms. Residents have meals in the community dining room. AFRH provides general healthcare and dental services in the Wellness Clinic and a shuttle service to the local Department of Veterans Affairs, military and community hospitals for outside medical appointments and pharmacy services. There is a full range of amenities and recreational activities. If required, Residents no longer able to live independently are assessed and transitioned to a higher level of care to meet their needs.

Independent Living Plus (ILP) residents continue to live in their independent living rooms while receiving limited assistance with activities of daily living such as personal hygiene, medication management, and housekeeping. ILP residents continue to dine in the community dining room and use available amenities.

Assisted Living (AL) residents receive regular assistance with activities of daily living and are supported with 24 / 7 nursing coverage. Dining is provided in AL communities and residents may join recreational activities in the common areas or participate in activities offered in the AL areas. Most of the resident healthcare needs are met at the AFRH Wellness Center, and residents who need specialty care are provided an escort to outside medical appointments.

Long Term Care (LTC) residents receive total support for their activities of daily living due to chronic illness or disability and are supported with 24 / 7 nursing coverage. Dining and recreational activities are provided in the LTC communities. The majority of LTC resident healthcare needs are met in their community area, and residents who need specialty care are escorted to outside medical appointments.

Memory Support (MS) residents with a cognitive deficiency are unable to perform activities of daily living and need a supervised environment to keep them safe. They receive 24 / 7 nursing coverage and dining and recreational activities are provided in their community areas. The majority of MS resident healthcare needs are met in their community area, and residents who need specialty care are escorted to outside medical appointments.

Resident Capacity			
Level of Care	Gulfport	Washington	Total
IL / ILP	501	436	937
AL	27	60	87
LTC	24	36	60
MS	17	24	41
Total	569	556	1,125

Resident Eligibility

Resident eligibility is governed by section 412 of title 24, United States Code. Persons eligible to become AFRH residents served as members of the Armed Forces, at least one-half of whose service was not active commissioned service (other than as a warrant officer or limited-duty officer) and:

- Are 60 years of age or over and were discharged or released from service in the Armed Forces after 20 or more years of active service;
- Persons who are determined under rules prescribed by the COO to be suffering from a service-connected disability incurred in the line of duty in the Armed Forces;

- Served in a war theater during a time of war declared by Congress or were eligible for hostile fire special pay and are determined under rules prescribed by the COO to be suffering from injuries, disease, or disability; or,
- Served in a women's component of the Armed Forces before June 12, 1948 and are determined under rules prescribed by the Chief Operating Officer to be eligible for admission because of compelling personal circumstances.

Persons not eligible are those convicted of a felony; discharged or released from service in the Armed Forces under other than honorable conditions; or persons with substance abuse or mental health problems, with limited exceptions.

In late 2018, Congress adopted a statutory change requested by AFRH which now allows a spouse to enter AFRH with their eligible veteran. Specific eligibility is determined by the COO.

Resident Profile *as of September 30, 2019*

Age	
Average Resident Age	84
Oldest Resident	102
Youngest Resident	53
Longest Residing Resident	46

Eligibility				
	AFRH-G	AFRH-W	Total	%
Retiree	373	235	608	85%
War Theater	28	22	51	7%
Service connected disability	12	16	28	4%
Female served before 1948	17	8	25	4%
POW	1	0	1	0%
Cat 1(a) Spouse	2	0	2	0%
Total	432	281	713	100%

Level of Care				
	AFRH-G	AFRH-W	Total	%
Independent Living	348	172	520	73%
Independent Living Plus	26	14	40	6%
Assisted Living	30	48	78	11%
Memory Support	15	14	29	4%
Long Term Care	13	33	46	6%
Total	432	281	713	100%

Gender				
	AFRH-G	AFRH-W	Total	%
Female	47	30	77	11%
Male	385	251	636	89%
Total	432	281	713	100%

Last Branch of Service				
	AFRH-G	AFRH-W	Total	%
Army	84	108	192	27%
Navy	163	73	236	33%
Marines	16	11	27	4%
Coast Guard	2	1	3	0%
Air Force	165	88	253	35%
N/A (Spouse)	2	0	2	0%
Total	432	281	713	100%

Years at AFRH		
	Total	%
0-5 Years	366	51%
5-15 Years	255	36%
15-25 Years	61	9%
25-35 Years	23	3%
35+ Years	8	1%
Total	713	100%

War Theaters of Service		
	Total	%
World War II	85	12%
Korea	138	20%
Vietnam	402	58%
Grenada	13	2%
Panama	11	2%
Gulf War	25	4%
Iraq & Afghanistan	7	1%
Other	12	2%

Last Service Pay Grade				
	AFRH-G	AFRH-W	Total	%
None	2	0	2	0%
E1	3	2	5	1%
E2	8	8	16	2%
E3	13	8	21	3%
E4	12	12	24	3%
E5	21	25	46	7%
E6	112	65	177	25%
E7	143	98	241	34%
E8	63	36	99	14%
E9	34	15	49	7%
W1	0	1	1	0%
W2	2	4	6	1%
W3	7	3	10	1%
W4	5	0	5	1%
W5	0	0	0	0%
O1	1	0	1	0%
O2	0	0	0	0%
O3	6	4	10	1%
O4	0	0	1	0%
O5	0	0	0	0%
O6	0	0	0	0%
O7	0	0	0	0%
O8	0	0	0	0%
O9	0	0	0	0%
Total	432	281	713	100%

Revenue

Unlike most Federal agencies which rely on appropriated funds, AFRH is intended to be self-sustaining with a combination of dedicated revenue sources as well as earned income.

Fines and Forfeitures. AFRH receives the proceeds from fines and forfeitures charged to active duty enlisted service members resulting from disciplinary violations. This continues to represent AFRH's largest source of revenue, despite a substantial decline from $41 million in FY 2009 to $21 million in FY 2018.

Resident Fees. AFRH charges residents a monthly fee for their level of care which is set at the lesser of a percentage of their gross income or a maximum amount.

Active Duty Withholding. AFRH receives the proceeds from a monthly $0.50 deduction from the pay of each active duty enlisted service member, warrant officer, and limited duty officer across all branches of the Armed Forces.

Earned and Other Revenue. AFRH earns revenue from interest on its trust fund balance, rent from leased property, as well as gifts and estate bequests.

MANAGEMENT INITIATIVES

The AFRH is on a general mission to grow the Trust Fund to sustain the organization for the long term through new sources of revenue, and reorganizing around these plans. 2019 continued our transition with updated strategic goals and objectives, continued improvement of our budget and management practices, and increased focus on outreach to key stakeholders and marketing to prospective residents.

Our primary objective will always be quality of care and the health and welfare of our residents. However, AFRH continues to be constrained financially. The Trust Fund is replenished from revenue sources defined by current legislation including: active-duty withholding, fines and forfeitures, resident fees, lease or sale of property, investment interest, and gifts and donations. The last decade has seen significant reductions to AFRH's largest revenue source, fines and forfeitures, and to interest income as the reserve balance has considerably declined, in part due to rising costs, many of which are required to meet standards of care and accreditation. The AFRH Trust Fund is improving but still at a historically low level, prompting continued Congressional support which, in 2019 included $22 million from the General Fund of the Treasury to support our operations. Severely limited funding has put severe strain on our facilities, particularly on the historic Washington campus with its older facilities and infrastructure, as capital maintenance and investments have not kept pace with actual infrastructure needs or depreciation expenses. AFRH now has over $135 million in deferred maintenance including over $19 million in projects critical to our operations such as electrical and water infrastructure, roofing, and elevators.

To address budget shortfalls, the AFRH has revised its Long-Range Financial Plan (LRFP) to recognize changing Trust Fund income sources, increases in upper-level care rooms, General Fund transfers and revenue projections based on current trends. Many Agency-wide management initiatives target gains in new efficiencies, improving performance outcomes, and the identification of new revenue streams to build up the Trust Fund, while investing in those things that support sustainability including the grounds and facilities. We are taking an integrated perspective through people, process, and systems include expanding the use of enterprise-wide data analytics, streamlining governance structures, employing long-term budget planning to support capital investments and mapping new and alternate revenue streams like fund raising, health care reimbursement, fees restructuring, occupancy qualifications, and turning assets to ensure the longevity of the AFRH Trust Funds and the Nation's people it supports and represents. The following are some of the management initiatives currently underway which stay true to the mission tenets cited earlier in this document:

Achieve an occupancy rate of 90 percent or better. Empty rooms are a wasted resource: missed opportunity to serve a veteran in need, lost revenue, and a sunk cost to maintain facilities sitting unused. Marketing efforts diminished when the DC campus took in Gulfport residents after Hurricane Katrina. As these residents returned to Gulfport, marketing efforts to backfill the DC campus were overlooked. Before the hurricane, these facilities were accustomed to a waiting list of prospective residents. The team is focused on rebuilding its outreach and marketing. Stabilizing occupancy at or above 90 percent is expected to yield additional resident fee income upwards of $5M annually.

Antiquated residences and deteriorating common areas are unacceptable for current and unattractive to prospective residents. While room sizes cannot be improved without substantial cost and renovation, we can make modest improvements in fittings and furnishings to make residential spaces more attractive and provide residents some choices to personalize their rooms. We are also combining rooms to accommodate couples as part of the modernization effort and occupancy goals. The Washington campus independent-living accommodations are well-outdated compared to the newer Gulfport campus. Outdated bathrooms, deteriorated balconies, and furnishings are all areas needing attention, not to mention common areas and elevators. The COO is working to renovate existing rooms, combine and update rooms to house couples, and improve common areas and infrastructure so our facilities are attractive to current and prospective residents.

Reorganize healthcare services for optimum income potential. One-third of AFRH expenses, approximately $20 million per year from the Trust Fund, fund healthcare services at our two campuses. Although all residents are eligible and entitled to Federal health benefit programs that include TRICARE, VA, Medicare, and Medicaid, as a Federal agency AFRH cannot currently obtain reimbursement from these programs; therefore, AFRH is proposing legislative changes to be able to secure healthcare-related reimbursements. By providing on-site medical services to our residents, AFRH has reduces the number of patient visits to DOD and VA facilities as well as risks to our high-risk residents of traveling off-site for care.

Health benefit programs means following stringent requirements on provider types and qualifications, patient-to-provider ratios, and many other factors so that services are allowable. We are working to modify our staffing mix, policies, and systems to comply with these requirements.

Manage assets productively. AFRH has a wealth of assets and resources which could be used to productively expand our revenue base. Some examples of initiatives underway include:

- Plans to execute a ground lease on the AFRH-Washington development zone have been in the making for over a decade, and the now 80-acre development zone represents AFRH's greatest long-term opportunity to generate significant new ongoing revenue. Proposals were received in October 2018 and announcement of a development team selection is expected in the first quarter of fiscal year 2020.
- Leasing parking spaces on the Washington campus to the adjacent VA and MedStar hospitals has yielded nearly $900,000 in additional annual revenue, and an agreement with the Lincoln Cottage Foundation to revenue-share on special event rentals is in its early stages.
- Adjusting government quarters on the Washington Campus to prevailing market rates is estimated to increase revenues over $240,000.

Transition to a cost-conscious management platform, to better inform management decisions and directions includes several directed interventions begun in FY 2018:

- Implementing a cost-based resident fee model. AFRH's mission is to serve our Nation's veterans regardless of their ability to pay for the services they receive. Maximum fees were previously set without consideration of service costs, and changed in modest amounts through annual cost-of-living increases and in larger amounts when financial pressures mounted. In April 2018 a new fee structure was announced that, among other changes, tied maximum fees to cost of care. This objective completes the transition to a cost-based fee model for all residents by fiscal year 2021 and is intended to ensure service costs are transparent to both residents and staff.
- Implement service cost budgeting. Revise budget formulation processes and timelines so operating budgets are set to costs per resident by level of care in advance of the fiscal year including required notification periods.
- Reform hardship assistance and gross income calculations. AFRH is committed to ensuring no resident is forced to leave AFRH due to unaffordability. We will continue to refine policies and procedures regarding hardship assistance to extend fee relief and services to residents with financial difficulties. We will also review components of and deductions from gross income calculations.
- Institute cost transparency. We will revise systems, annual fee determination documents, and public reports and presentations to make the cost of services, income calculation, and subsidy amounts transparent to residents and other stakeholders.
- Implement local budgeting and financial performance factors. Previous operating budgets were centrally produced at the corporate level absent active input, performance management and accountability at the Campus and departmental levels. We are working to establish budget processes and accountability throughout the organization.

- Convey and build on the importance and significance of the capital requirements for maintaining, and sustaining the AFRH infrastructure. Since FY 2015, AFRH has operated with a $1 million annual capital budget, approximately 1 percent of the annual budget. The value of our property, plant, and equipment as reported on the audited balance sheet in our FY 2017 Performance and Accountability Report was $327,008,777. Comparably sized facilities manage capital requirements at an average of 10 to 12 % of their overall budget. The underfunding of the AFRH capital budget represents $135 million of projects including $109 million in deferred maintenance outstanding from an assessment concluded in 2006. To continue to manage against a $1 million threshold in spending authority and limitations on the expansion of a revenue base which limits investment options against this long-standing financial demand is unattainable, and prevents AFRH from completing renovations critically needed for accommodating couples and for increasing occupancy and revenues. The AFRH needs the ability to build and invest for the future.

Establish gifts and estates as a major source of support. While AFRH has been able to accept gifts, including estate gifts from residents and others, it did not previously have authority to solicit them. Congressional support was given and granted under the John S. McCain National Defense Authorization Act for Fiscal Year 2019. Private giving is an important revenue source for non-profit retirement communities and veteran service organizations. This has become a major new directional opportunity for the AFRH that we are embracing by building not only the capacity for fund raising but the foundation for both endowed and non-endowed funds, and for long- and short-term investments. In fiscal year 2019 we contracted with a development officer to support fund raising and donor relations through public, corporate, foundations and individual sources, as well as investment management.

AFRH Chief Operating Officer James Branham on the Agency-wide Management Initiatives

It is an honor to be in a position to serve our nation's enlisted veterans, and to preserve the beautiful Washington and Gulfport campuses and facilities for current and future generations of veterans who have selflessly served their country. We must continue to balance the needs for modernization of facilities, living areas, and services for new generations of residents, with the responsibility to preserve the historic traditions, architecture and green pastoral setting of this national treasure. Finally, we must return AFRH to financial self-sufficiency, while honoring AFRH's rich national and military history, and ensuring quality care for current and future generations of America's veterans.

There is much to be done, yet all attainable. To support our vision of making AFRH a community for all ages of retired or disabled veterans, we continue to make policy modifications and push for legislative changes that will allow us to expand eligibility requirements and bring veterans in when they are younger and can bring more vibrancy to the entire community. Last year's legislation authorized us to admit spouses along with the retired service member. We want to further expand the eligibility and bring in retired National Guard and Reservists who have also so honorably served. We are making plans to provide a home to service members who have completed the Wounded Warrior Program, whether they choose to live here the rest of their lives or just need a place to live while transitioning back to civilian life. We are asking to eliminate the minimum age requirement so that we can bring in younger retirees and build a more diverse age population.

To realize this vision, we have made both modernization and marketing strategy top priorities. We are planning and budgeting to renovate and increase our 280 square-foot rooms on our Washington campus independent living rooms to accommodate couples and to provide more modern living areas to our veterans. We also need to upgrade significant portions of our old infrastructure, and are requesting additional capital funding to make much needed repairs and replacements. This past year, we have also modernized our budgeting processes, both in the development of the budgets and in how we manage and account for the budgets. To bring in younger retired veterans, we understand we need to also re-vamping our marketing strategy. We are looking to professional marketing firms to help identify our targeted groups of veterans and then to develop and executed marketing plans tailored to the groups we want to reach. Included in our marketing plans are incentives to bring in and keep the right mix of residents.

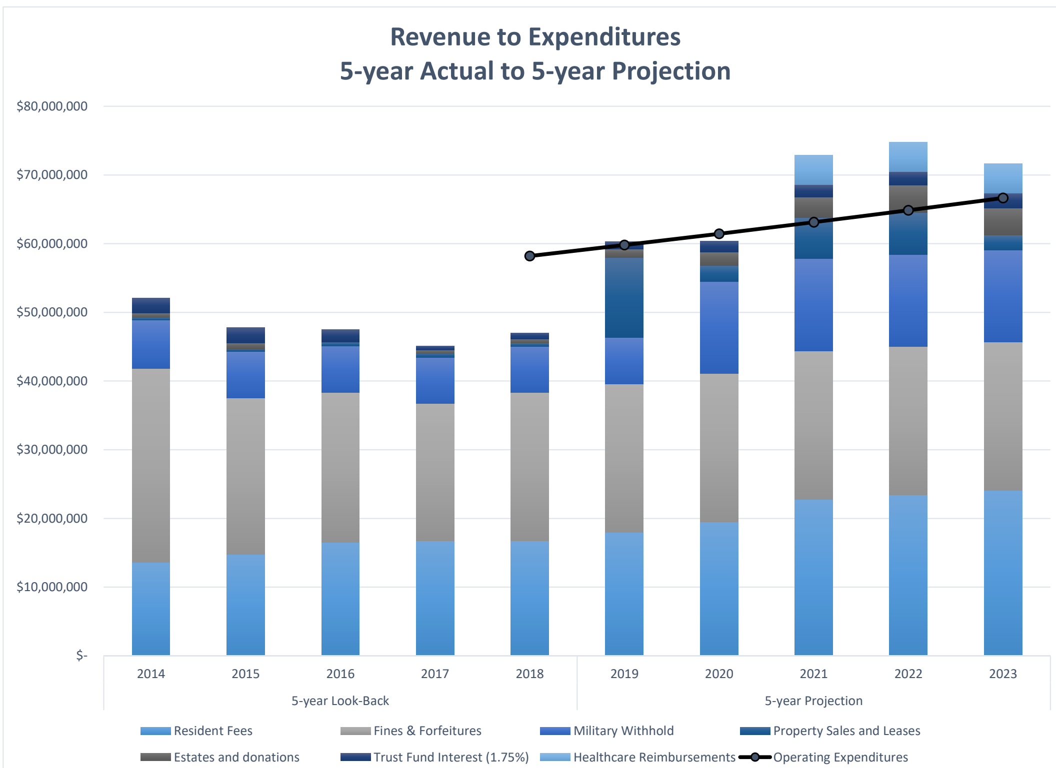
The chart on the following page puts much of our vision into perspective and highlights the importance of alternate revenue streams to the AFRH Trust Fund. It is a five-year look back with a five-year prospective that considers the impact of the some of the initiatives identified above. The Congressional support we have received so far as a General Fund transfer has balanced the revenue decline, and the steps both proposed as management and as additional appeals to Congress will aid in transitioning General Funds support to a stable foundation on which the AFRH and survive and thrive. The chart does not consider the following:

- *Fundraising projections under the new authority to generate donations*
- *The impact of the 80-acre development*

- *The opportunity represented by investment options from gifts*
- *Funds estimated to be $4,300,000 annually to be gained by health/dental care reimbursements that are available, just not to the AFRH*
- *The support provided by Congress that included $20,000,000 in FY 2016, $22,000,000 in FY17 and FY18, and to continue as the Agency works to drive new revenue streams and opportunities*

AFRH Look Back—Look Forward

The Table on the next page provides a general overview of the relationship of cost to revenue in the 5-year projection. Although the cost of operations is being managed prudently, expenditures are reaching the Agency's appropriated operating funding level of $63.3 million, plus $1 million for capital improvement programs, with no distinguishing changes in resource requirements. Federal wages and benefits, however, represent almost 50% of the AFRH operational budget, and Federal wages increased 2.6% in FY 2019. This fact along with general cost of business increases has reduced the fiscal headroom the Agency once enjoyed between appropriated spending and the budget. As we work hard to increase the revenue base, we are also seeking Congressional support to increase the Agency spending level and approval for other initiatives and support.



SECTION 2
FINANCIAL INFORMATION

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

Armed Forces Retirement Home
Washington, D.C.

In our audits of the fiscal years 2019 and 2018 financial statements of the Armed Forces Retirement Home (AFRH), we found:

- AFRH's financial statements as of and for the fiscal years ended September 30, 2019, and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI) and other information included with the financial statements; (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

In accordance with the provisions of Accountability of Tax Dollars Act of 2002 (ATDA) (Pub. L. No. 107-289), we have audited AFRH's financial statements. AFRH's financial statements comprise the balance sheets as of September 30, 2019, and 2018; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted government auditing standards and the provisions of OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

AFRH's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including 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.

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Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, AFRH's financial statements present fairly, in all material respects, AFRH's financial position as of September 30, 2019, and 2018, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

AFRH's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on AFRH's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of AFRH's financial statements, we considered AFRH's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to AFRH's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

AFRH's management is responsible for maintaining effective internal control over financial reporting, including 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.

Auditor's Responsibility

In planning and performing our audit of AFRH's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered the AFRH's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AFRH's internal control over financial reporting. Accordingly, we do not express an opinion on AFRH's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of AFRH's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of AFRH's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the AFRH's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of AFRH's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

AFRH's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to AFRH.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to AFRH that have a direct effect on the determination of material amounts and disclosures in AFRH's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to AFRH.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to AFRH. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Brown & Company

Greenbelt, Maryland
November 12, 2019

PRINCIPAL FINANCIAL STATEMENTS

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the AFRH. The AFRH management is responsible for the fair presentation of information contained in the principal financial statements. The independent accounting firm, Brown & Co. CPAs, PLLC, is the auditor for the AFRH FY 2019 financial statements. The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, Financial Reporting Requirements, revised. The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. Shared service providers, U.S. Treasury BFS and U.S. Department of Agriculture National Financial Center (NFC), processed payroll and financial transactions under Interagency Agreements, and AFRH relies on information received from these partners (along with audits and reviews) to execute management controls.

The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2018 are included.

The Balance Sheet provides information on assets, liabilities, and net position similar to balance sheets reported in the private sector. Intra-departmental balances have been eliminated from the amounts presented.

The Statement of Net Cost reports the components of the net costs of the Agency's operations for the period. The net cost of operations consists of the gross cost incurred by the Agency less any exchange (i.e., earned) revenue from our activities. Intra-departmental balances have been eliminated from the amounts presented.

The Statement of Changes in Net Position reports the beginning net position, the transactions that affect net position for the period, and the ending net position. Intra-departmental transactions have been eliminated from the amounts presented.

The Statement of Budgetary Resources provides information on how budgetary resources were made available and their status at the end of the year. Information in this statement is reported on the budgetary basis of accounting. Intra-departmental transactions have not been eliminated from the amounts presented.

Required Supplementary Information contains a Combining Statement of Budgetary Resources, the condition of assets held by the Agency, and information on deferred maintenance and repairs. The Combining Statement of Budgetary Resources provides additional information on amounts presented in the Combined Statement of Budgetary Resources.

Notes to the Financial Statements describe significant accounting policies as well as detailed information on select statement lines.

BALANCE SHEET

ARMED FORCES RETIREMENT HOME
BALANCE SHEET
AS OF SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		2019		2018
Assets:				
Intragovernmental				
Fund Balance With Treasury	$	7,977,155	$	6,312,417
Investments (Note 3)		79,152,531		70,481,799
Accounts Receivable (Note 4)		-		1,382,636
Total Intragovernmental		87,129,686		78,176,852
Accounts Receivable, Net (Note 4)		3,475,011		39,219
Property, Equipment, and Software, Net (Note 5)		304,903,936		316,234,809
Total Assets	$	395,508,633	$	394,450,880
Liabilities:				
Intragovernmental				
Accounts Payable	$	313,681	$	177,741
Other (Note 8)		2,067,230		1,917,939
Total Intragovernmental		2,380,911		2,095,680
Accounts Payable		3,368,935		2,262,673
Federal Employee and Veterans' Benefits (Note 6)		7,053,335		6,906,133
Other (Note 8)		5,763,752		2,355,515
Total Liabilities	$	18,566,933	$	13,620,001
Net Position:				
Cumulative Results of Operations - Funds from Dedicated Collections	$	376,941,700	$	380,830,879
Total Net Position	$	376,941,700	$	380,830,879
Total Liabilities and Net Position	$	395,508,633	$	394,450,880

STATEMENT OF NET COST

ARMED FORCES RETIREMENT HOME
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		2019		2018
Program Costs:				
Program: Embrace Resident-Centered Care				
Gross Costs	$	65,806,120	$	59,122,662
Less: Earned Revenue		(15,251,492)		(14,573,901)
Net Program Costs	$	50,554,628	$	44,548,761
Program: Maintain Exceptional Stewardship				
Gross Costs	$	5,863,756	$	6,501,867
Less: Earned Revenue		(1,359,008)		(1,602,728)
Net Program Costs	$	4,504,748	$	4,899,139
Program: Staff-Centered Stewardship				
Gross Costs	$	2,472,139	$	835,867
Less: Earned Revenue		(572,953)		(206,043)
Net Program Costs	$	1,899,186	$	629,824
Program: Leverage External Stakeholders				
Gross Costs	$	537,844	$	477,405
Less: Earned Revenue		(124,653)		(117,682)
Net Program Costs	$	413,191	$	359,723
Net Cost of Operations	$	57,371,753	$	50,437,447

STATEMENT OF CHANGES IN NET POSITION

ARMED FORCES RETIREMENT HOME
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		2019		2018
Budgetary Financing Sources:				
Appropriations Received	$	22,000,000	$	22,000,000
Appropriations Used		(22,000,000)		(22,000,000)
Total Unexpended Appropriations	$	-	$	-
Cumulative Results of Operations:				
Beginning Balances	$	380,830,879	$	376,759,157
Budgetary Financing Sources:				
Appropriations Used		22,000,000		22,000,000
Nonexchange Revenue (Note 10)		29,192,665		29,965,450
Donations and Forfeitures of Cash and Cash Equivalents		230,416		648,526
Other Financing Sources (Non-Exchange):				
Imputed Financing Sources		2,059,493		1,895,193
Total Financing Sources		53,482,574		54,509,169
Net Cost of Operations		(57,371,753)		(50,437,447)
Net Change		(3,889,179)		4,071,722
Cumulative Results of Operations	$	376,941,700	$	380,830,879
Net Position	$	376,941,700	$	380,830,879

Statement of Budgetary Resources

ARMED FORCES RETIREMENT HOME
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

		2019		2018
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	$	26,654,847	$	30,920,297
Appropriations		86,300,000		86,300,000
Total Budgetary Resources	$	112,954,847	$	117,220,297
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$	83,794,996	$	81,365,210
Unobligated balance, end of year:				
Apportioned, unexpired account (Note 2)		23,390,789		29,533,918
Unapportioned, unexpired accounts		5,761,192		6,321,169
Unexpired unobligated balance, end of year		29,151,981		35,855,087
Expired unobligated balance, end of year		7,870		-
Unobligated balance, end of year (total)		29,159,851		35,855,087
Total Budgetary Resources	$	112,954,847	$	117,220,297
Outlays, net:				
Outlays, net, (total)		80,373,481		78,423,891
Distributed Offsetting Receipts		(16,901,497)		(17,041,971)
Agency outlays, net	$	63,471,984	$	61,381,920

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Armed Forces Retirement Home (AFRH) was incorporated on November 1, 1991, by section 411(a) of 24 U.S.C. The AFRH is an independent Agency in the Executive branch of the Federal Government. The AFRH has two facilities. One is located in Gulfport, MS and the other is located in Washington, D.C.

The AFRH's mission is to fulfill our nation's promise to its veterans by providing a premier retirement community with exceptional residential care and extensive support services. We support our residents' independence, dignity, distinction, heritage and future of continued life-enriching experiences. Together, the AFRH family of residents and staff create a place of caring and continual learning. We are committed to providing the best housing and support services possible and creating a true community of accomplished, independent residents, who are free to explore their talents, pursue their interests and follow their dreams.

The 1991 Defense Authorization Act created an AFRH Trust Fund (Trust Fund). Governed by limitations determined annually by the U.S. Congress, the Trust Fund is used to finance operating expenses as well as capital expenditures of the AFRH on an annual and no year basis.

General Funds are accounts used to record financial transactions arising under Congressional appropriations or other authorizations to spend general revenues. AFRH manages Operations and Facilities, Engineering and Development General Fund accounts.

General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

AFRH has rights and ownership of all assets reported in these financial statements. AFRH does not possess any non-entity assets.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of AFRH. The Balance Sheet presents the financial position of the Agency. The Statement of Net Cost presents the Agency's operating results and the Statement of Changes in Net Position displays the changes in the Agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the Agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of AFRH in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* as amended, and AFRH accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control AFRH's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred (without regard to receipt or payment of cash). Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the AFRH's funds with Treasury in expenditure, receipt, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The AFRH does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the Agency on demand.

E. Investment in U.S. Government Securities

AFRH has the authority to invest in U.S. Government securities. The securities include marketable Treasury securities and/or nonmarketable, market-based securities issued by the Bureau of the Fiscal Service. Market-based securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. It is expected that investments will be held until maturity; therefore, they are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and discounts. The amortization of premiums and discounts are recognized as adjustments to interest income using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest on investments is accrued as it is earned.

F. Accounts Receivable

Accounts receivable consists of amounts owed to AFRH by other Federal Agencies and the general public. Amounts due from Federal Agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

G. Property, Equipment, and Software

The AFRH owns the land and buildings in which both Homes operate. The majority of the property, equipment and software is used to provide residential and health care to members and is valued at cost. Equipment purchased, transferred, or donated with an acquisition cost greater than or equal to $50,000 per unit is capitalized. Routine maintenance is expensed as incurred. Construction costs are capitalized as construction-in-progress until the asset is completed then transferred to the appropriate property account. Depreciation expense is recognized on property, equipment, and software with the exception of construction-in-progress. Depreciation is recognized using the straight-line method over the assets' useful lives. Other equipment is expensed when purchased. Most AFRH heritage assets are multi-use facilities and are classified as general property, equipment and software. Applicable standard governmental guidelines regulate the disposal and convertibility of Agency property, equipment, and software. The useful lives used when recording depreciation on property, equipment, and software are as follows:

Description	Useful Life (years)
Improvements to Land	10-20
Buildings and Improvements	20-50
Equipment	5-10

H. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

I. Liabilities

Liabilities represent the amount of funds likely to be paid by the AFRH as a result of transactions or events that have already occurred.

AFRH reports its liabilities under two categories: Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another Government Agency. Liabilities "With the Public" represent funds owed to any entity or person that is not a Federal Agency, including private sector firms and Federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accounts payable and accrued payroll and benefits.

J. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave (including compensatory, restored leave, and sick leave in certain circumstances) are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Non-vested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees.

K. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the AFRH employees for on-the-job injuries. The DOL bills each Agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the AFRH terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each Agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

L. Retirement Plans

AFRH employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of AFRH matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the Federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to one percent of pay and AFRH matches any employee contribution up to an additional four percent of pay. For FERS participants, AFRH also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, AFRH remits the employer's share of the required contribution.

AFRH recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to AFRH for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. AFRH recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

AFRH does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

M. Other Post-Employment Benefits

AFRH employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The OPM has provided the AFRH with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The AFRH recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the AFRH through the recognition of an imputed financing source.

N. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

O. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. AFRH recognizes contingent liabilities in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. AFRH discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote.

P. Reclassification

Certain fiscal year 2018 balances may have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

Q. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentation and disclosure to be modified, if needed, to prevent the disclosure of classified information.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury account balances as of September 30, 2019 and 2018, were as follows:

	2019	2018
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 23,465,755	$ 29,533,918
Unavailable	51,018,921	32,859,130
Obligated Balance Not Yet Disbursed	12,645,010	9,784,940
Total	$ 87,129,686	$ 72,177,988

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

NOTE 3. INVESTMENTS

Investments as of September 30, 2019 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	$ 79,266,309	Interest	$ (153,354)	$ 39,576	$ 79,152,531	$ 79,077,564
Total	$ 79,266,309		$ (153,354)	$ 39,576	$ 79,152,531	$ 79,077,564

Investments as of September 30, 2018 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	$ 70,536,647	Interest	$ (125,161)	$ 70,313	$ 70,481,799	$ 70,323,073
Total	$ 70,536,647		$ (125,161)	$ 70,313	$ 70,481,799	$ 70,323,073

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Investment maturity dates for marketable securities are: June 30, 2020.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2019 and 2018, were as follows:

	2019	2018
Intragovernmental		
Accounts Receivable	$ -	$ 1,382,636
Total Intragovernmental Accounts Receivable	$ -	$ 1,382,636
With the Public		
Accounts Receivable	$ 3,475,011	$ 39,219
Total Accounts Receivable	$ 3,475,011	$ 1,421,855

The Intragovernmental accounts receivable is primarily made up of fines and forfeitures from the Army, Air Force, Navy, Marine Corps and the Coast Guard. Accounts receivable from the public is primarily made up of resident fees due from residents of the Home.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2019 and 2018.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2019:

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Building	$ 391,265,205	$ 90,430,349	$ 300,834,856
Leasehold Improvements	6,251,453	3,067,190	3,184,263
Furniture & Equipment	1,671,490	999,480	672,010
Construction-in-Progress	212,807	-	212,807
Total	$ 399,400,955	$ 94,497,019	$ 304,903,936

Schedule of Property, Equipment, and Software as of September 30, 2018:

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Building	$ 509,805,019	$ 199,685,452	$ 310,119,567
Leasehold Improvements	16,375,046	13,188,891	3,186,155
Furniture & Equipment	12,301,742	9,874,819	2,426,923
Construction-in-Progress	502,164	-	502,164
Total	$ 538,983,971	$ 222,749,162	$ 316,234,809

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for AFRH as of September 30, 2019 and 2018 include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

	2019	2018
Intragovernmental – FECA	$ 1,253,514	$ 1,236,839
Intragovernmental – Unemployment Insurance	3,124	-
Unfunded Leave	1,153,732	1,097,186
Actuarial FECA	7,053,335	6,906,133
Deferred Lease Liabilities	3,439,256	4,332
Total Liabilities Not Covered by Budgetary Resources	$ 12,902,961	$ 9,244,490
Total Liabilities Covered by Budgetary Resources	5,663,365	4,375,511
Total Liabilities Not Requiring Budgetary Resources	607	-
Total Liabilities	$ 18,566,933	$ 13,620,001

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers' compensation claims and unemployment benefits paid on AFRH's behalf and payable to the DOL. AFRH also records an actuarial liability for future workers' compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and is reflected accordingly as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 7. ACTUARIAL FECA LIABILITY

FECA provides income and medical cost protection to covered Federal civilian employees harmed on the job or who have contracted an occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for AFRH's employees are administered by the DOL and ultimately paid by AFRH when funding becomes available.

AFRH bases its estimate for FECA actuarial liability on the DOL's FECA model. The DOL method of determining the liability uses payment patterns associated with historical benefits for a specific incurred period to predict the ultimate payments for the period. Based on the information provided by the DOL, AFRH's liability as of September 30, 2019 and 2018 was $7.0 million and $6.9 million, respectively.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2019 were as follows:

	Current		Non Current		Total	
Intragovernmental						
FECA Liability	$	550,000	$	1,253,514	$	1,803,514
Unemployment Insurance Liability		3,124		-		3,124
Payroll Taxes Payable		260,592		-		260,592
Total Intragovernmental Other Liabilities	$	813,716	$	1,253,514	$	2,067,230
With the Public						
Payroll Taxes Payable	$	32,300	$	-	$	32,300
Accrued Funded Payroll and Leave		1,071,712		-		1,071,712
Unfunded Leave		1,153,732		-		1,153,732
Other		3,506,008		-		3,506,008
Total Public Other Liabilities	$	5,763,752	$	-	$	5,763,752

Other liabilities account balances as of September 30, 2018 were as follows:

	Current		Non Current		Total	
Intragovernmental						
FECA Liability	$	463,455	$	1,236,839	$	1,700,294
Payroll Taxes Payable		217,645		-		217,645
Total Intragovernmental Other Liabilities	$	681,100	$	1,236,839	$	1,917,939
With the Public						
Payroll Taxes Payable	$	77,860	$	-	$	77,860
Accrued Funded Payroll and Leave		706,816		-		706,816
Unfunded Leave		1,097,186		-		1,097,186
Other		473,653		-		473,653
Total Public Other Liabilities	$	2,355,515	$	-	$	2,355,515

NOTE 9. DEFERRED REVENUE

In FY 2015 the Armed Forces Retirement Home entered into a Lease agreement with Creative Minds International Public Charter School as the Lessee with occupancy beginning on August 1, 2015. The Lessee continues to occupy the Sherman Building North and Annex sections with initial lease square footage of 32,050 and the square footage has increased throughout the years. The Lessee has made $3,651,658 in Capital improvements to the Sherman Building that they will use as an in-kind consideration as part of their future lease payments. AFRH will carry deferred revenue for the capital improvements, and recognize the revenue as it is earned based on the in-kind consideration applied to the lease payment. As of September 30, 2019, AFRH has recognized $3,651,658 in in-kind consideration, bringing the amount of deferred revenue associated with the lease to $0. The remainder of deferred revenue, $14,050 is associated with a previous outstanding transaction.

NOTE 10. EARMARKED FUNDS

AFRH has earmarked funds that fall into the following categories: Capital Fund, Hurricane Katrina Fund and the Operations & Maintenance Fund. Governed by limitations determined annually by the U.S. Congress, the Trust Fund is used to finance operating expenses as well as capital expenditures of the AFRH on an annual and no year basis. The Hurricane Katrina monies were appropriated on an emergency basis to cover necessary expenses related to the consequences of Hurricane Katrina and will remain available until expended.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

Schedule of Earmarked Funds as of September 30, 2019:

	Capital Fund	EarthQuake Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Funds from Dedicated Collections
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (7,904,696)	$ 1	$ 70,740	$ 15,811,110	$ 7,977,155
Investments	-	-	-	79,152,531	79,152,531
Accounts Receivable	-	-	-	3,475,011	3,475,011
Property, Equipment and Software	109,927,074	12,881,858	182,095,004	-	304,903,936
Total Assets	$ 102,022,378	$ 12,881,859	$ 182,165,744	$ 98,438,652	$ 395,508,633
LIABILITIES AND NET POSITION					
Accounts Payable	$ 20,065	$ -	$ -	$ 3,662,551	$ 3,682,616
Other	-	-	-	7,830,982	7,830,982
Employee and Veteran Benefits	-	-	-	7,053,335	7,053,335
Cumulative Results of Operations	102,002,313	12,881,859	182,165,744	79,891,784	376,941,700
Total Liabilities and Net Position	$ 102,022,378	$ 12,881,859	$ 182,165,744	$ 98,438,652	$ 395,508,633
Statement of Net Cost					
Program Costs	$ 5,211,999	$ 293,941	$ 6,182,534	$ 62,991,385	$ 74,679,859
Less: Earned Revenues	-	-	-	(17,308,106)	(17,308,106)
Net Program Costs	5,211,999	293,941	6,182,534	45,683,279	57,371,753
Net Cost of Operations	$ 5,211,999	$ 293,941	$ 6,182,534	$ 45,683,279	$ 57,371,753
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 107,214,312	$ 13,175,800	$ 188,348,278	$ 72,092,489	$ 380,830,879
Net Cost of Operations	(5,211,999)	(293,941)	(6,182,534)	(45,683,279)	(57,371,753)
Taxes and Other Nonexchange Revenue	-	-	-	29,192,665	29,192,665
Other Revenue	-	-	-	24,289,909	24,289,909
Change in Net Position	(5,211,999)	(293,941)	(6,182,534)	7,799,295	(3,889,179)
Net Position End of Period	$ 102,002,313	$ 12,881,859	$ 182,165,744	$ 79,891,784	$ 376,941,700

Schedule of Earmarked Funds as of September 30, 2018:

	Capital Fund	EarthQuake Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Funds from Dedicated Collections
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (7,029,935)	$ 1	$ 70,740	$ 13,271,611	$ 6,312,417
Investments	-	-	-	70,481,799	70,481,799
Accounts Receivable	-	-	-	1,421,855	1,421,855
Property, Equipment and Software	114,781,472	13,175,799	188,277,538	-	316,234,809
Total Assets	$ 107,751,537	$ 13,175,800	$ 188,348,278	$ 85,175,265	$ 394,450,880
LIABILITIES AND NET POSITION					
Accounts Payable	$ (537,225)	$ -	$ -	$ 2,977,639	$ 2,440,414
Other	-	-	-	4,273,454	4,273,454
Employee and Veteran Benefits	-	-	-	6,906,133	6,906,133
Cumulative Results of Operations	108,288,762	13,175,800	188,348,278	71,018,039	380,830,879
Total Liabilities and Net Position	$ 107,751,537	$ 13,175,800	$ 188,348,278	$ 85,175,265	$ 394,450,880
Statement of Net Cost					
Program Costs	$ 5,903,706	$ 293,940	$ 5,382,288	$ 55,357,867	$ 66,937,801
Less: Earned Revenues	-	-	-	(16,500,354)	(16,500,354)
Net Program Costs	5,903,706	293,940	5,382,288	38,857,513	50,437,447
Net Cost of Operations	$ 5,903,706	$ 293,940	$ 5,382,288	$ 38,857,513	$ 50,437,447
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 113,118,018	$ 13,469,740	$ 193,730,566	$ 56,440,833	$ 376,759,157
Net Cost of Operations	(5,903,706)	(293,940)	(5,382,288)	(38,857,513)	(50,437,447)
Taxes and Other Nonexchange Revenue	-	-	-	29,965,450	29,965,450
Other Revenue	-	-	-	24,543,719	24,543,719
Change in Net Position	(5,903,706)	(293,940)	(5,382,288)	15,651,656	4,071,722
Net Position End of Period	$ 107,214,312	$ 13,175,800	$ 188,348,278	$ 72,092,489	$ 380,830,879

NOTE 11. EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The President's Budget that will include fiscal year 2019 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2020 and can be found at the OMB website: http://www.whitehouse.gov/omb/. The Fiscal Year 2020 Budget of the United States Government, with the "Actual" column completed for 2018, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

Dollars are in millions:

FY2018	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 117	$ 81	$ (17)	$ 78
Difference - Due to Rounding		4	-	1
Budget of the U.S. Government	$ 117	$ 85	$ (17)	$ 79

NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2019, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Unpaid Undelivered Orders	$ 827,516	$ 6,220,470	$ 7,047,986
Total Undelivered Orders	$ 827,516	$ 6,220,470	$ 7,047,986

As of September 30, 2018, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Unpaid Undelivered Orders	$ 695,677	$ 5,232,792	$ 5,928,469
Total Undelivered Orders	$ 695,677	$ 5,232,792	$ 5,928,469

NOTE 13. RECONCILIATION OF NET COST TO NET OUTLAYS

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

BUDGET AND ACCRUAL RECONCILIATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In Dollars)

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	$ 10,752,814	$ 46,618,939	$ 57,371,753
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(11,610,042)	(11,610,042)
Property, plant, and equipment disposal & revaluation	-	1,029,248	1,029,248
(Increase)/Decrease in assets not affecting Budget Outlays:			
Accounts receivable	(1,413,374)	3,435,792	2,022,418
Investments	(53,021)	-	(53,021)
(Increase)/Decrease in liabilities not affecting Budget Outlays:			
Accounts payable	(135,940)	(1,130,466)	(1,266,406)
Salaries and benefits	(130,058)	(368,292)	(498,350)
Other liabilities	(19,232)	(3,162,945)	(3,182,177)
Other financing sources:			
Imputed federal employee retirement benefit costs	(2,059,493)	-	(2,059,493)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (3,811,118)	$ (11,806,705)	$ (15,617,823)
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	505,443	240,625	746,068
Other	21,999,858	(1,027,872)	20,971,986
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	$ 22,505,301	$ (787,247)	$ 21,718,054
Net Outlays (Calculated Total)	$ 29,446,997	$ 34,024,987	$ 63,471,984
Related Amounts on the Statement of Budgetary Resources			
Outlays, net, (total) (SBR 4190)			80,373,481
Distributed offsetting receipts (SBR 4200)			(16,901,497)
Outlays, Net (SBR 4210)			$ 63,471,984

NOTE 14. INTER-ENTITY COSTS

AFRH recognizes certain inter-entity costs for goods and services that are received from other Federal entities at no cost or at a cost less than the full cost. Certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. These imputed costs relate to employee benefits; and claims to be settled by the Treasury Judgment Fund. AFRH recognizes as inter-entity costs the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering Agency, OPM. For the periods ended September 30, 2019 and 2018, respectively, inter-entity costs were as follows:

	2019	2018
Office of Personnel Management	$ 2,042,649	$ 1,895,193
Treasury Judgment Fund	16,844	-
Total Imputed Financing Sources	$ 2,059,493	$ 1,895,193

SECTION 3
OTHER INFORMATION

OFFICE OF THE INSPECTOR GENERAL: AFRH'S TOP MANAGEMENT & PERFORMANCE CHALLENGES FOR 2019

In accordance with the Reports Consolidation Act of 2000, I am providing a statement outlying the challenges facing the Armed Forces Retirement Home (AFRH) organization. There are two primary areas: 1) Trust Fund Solvency and 2) Safety and Security.

1) TRUST FUND SOLVENCY

AFRH is financed through a dedicated trust fund. The AFRH Trust Fund has several revenue sources, as of September 30, 2019:

Fines & Forfeitures	46.2%
Resident Fees	34.2%
Active Duty 50 Cent Withholding	14.5%
Leases & Property Sales	1.5%
Investment Income	2.2%
Gifts and Donations	1.4%
Total	100.0%

The question of Trust Fund solvency has remained and continues to remain the Agency's highest unresolved risk. AFRH's permanent revenue sources are no longer sufficient to support annual outlays. Fines and Forfeitures have fallen by 49% since FY 2009. Declining interest rates and a lower balance of funds have lowered investment income, although this is expected to improve.

New revenue streams are required to rebuild the Trust Fund to support longevity, and ensure current and long-term solvency against annual operational resource requirements. New leadership has actively engaged with key stakeholders like OMB, and Congress (some of the proposed opportunities required legislative changes) while exercising care and diligence in managing annual operational resource requirements.

Key legislative changes enacted, as well as on the horizon, include an increase in the Active Duty Withholding from 50 cents to $1.00, legislative changes in leasing property has yielded more than a $640,000 in FY19 with more to come annually (particularly with the recent approvals and announcement regarding the development of 80 acres of underutilized property on the DC Campus), Congressional support and approval for direct solicitation of donations (fund raising) has been granted, eligibility factors to increase occupancy such as reducing the eligibility age and expanding the military service eligibility are all feeding sustainability, solvency and the future of the Home.

Another clear revenue source is Resident Fees, and whereas increasing fees is an obvious solution, the Agency learned in FY19 that there remains a delicate balance between occupancy levels and fees for care. The Agency also learned that the face of the enlisted veteran who calls this Home has changed as much as the theaters of war in which they served, so eligibility factors also needed to be updated, as well as the outdated rooms themselves. The Agency now also welcomes couples, with a spouse who has served and stayed with a military retiree; and, while rooms are being updated, the Agency has found it necessary to offer fee incentives to encourage occupancy given the state of the rooms. The Agency is also looking to lower the age for entry and hoping to include members of the Reserve and National Guard who have also served.

Solvency, however, is also factored through expenditures, and in 2015 AFRH Inspector General Challenges emphasized the need to promote economy, efficiency and effectiveness in the administration of programs, which new leadership to AFRH, effective in FY2018, has also addressed, along with implementing new organizational accountability lines and controls, with an emphasis on identifying and implementing cost-saving initiatives and operating within a mandated budgetary framework. The benefits here, however, have a cap and constrained budgeting can have negative or stagnant effects like stifling creativity, growth and development or expansion that come through new opportunities.

There are also some costs that are outside of the Agency's span of control. Federal wage and benefits represent almost 50% of the AFRH operational budget at $63.3 million ($1 million is Capital funding), payroll increases are outside management's control against a fixed appropriation (unchanged since FY2015) and has added $2.5 million in costs since 2015:

Year	Salary Increases	Pay and Benefits (Millions)	Annual Appropriations (Millions)
2020	2.6%	$30.4	$64.3
2019	1.4%	$29.6	$64.3
2018	1.4%	$29.2	$64.3
2017	1.0%	$28.8	$64.3
2016	1.0%	$28.5	$64.3

Utilities, contract costs, and medical costs also introduce annual cost increases like inflation factors or other increased costs of doing business.

Given all the inputs to improvement, perhaps the greatest risk remaining to longevity and sustainability that remains is 1) an outstanding obligation on deferred maintenance in excess of $130 million not achievable with annual inputs of $1 million, 2) access to the Trust Fund comparable to the business entity concept platform upon which it was created, so funds are not limited by one year appropriated increments, which increases costs and impedes continuity of operations, and 3) a budgetary ceiling that supports and promotes budgetary integrity while supporting both sustainable and continuous operations as well as creativity, growth and development or expansion and new opportunities.

The first point is compelling on its own in that it would take over 130 years to address the deferred maintenance requirements at $1 million per year. An assessment commissioned in 2006 identified more than $100,000,000 of repairs and replacements needed on the Washington campus alone, including $15,000,000 of life-safety items. Without an aggressive 5-year capital improvement plan, AFRH will not be able to maintain safe, efficient, and habitable facilities.

The second and third points are related. Businesses increase budgetary needs along with new initiatives as long as the revenue trajectory supports the increased expenditures. For example, should the Agency receive a gift specific to a major repair or other initiative I recommend it have an approval path similar in manner to what it has currently has on major leases, which is to fundamentally proceed with adequate notification to oversight authorities. For this I recommend a path to proceed with an amount of revenue that exceeds budgetary limits as matched to the level of expenditure needed to fund the project. These such things would be defined as outside the scope of normal operations and budgetary limitations operationally, and a reporting requirement could suffice for oversight authorities. Aside from the investment opportunity of fund raising to increase the Trust Fund balance like a business operation, the incentive to give may be limited if the Agency is not able to spend the funds raised.

2) SAFETY AND SECURITY

Safety and security comes in many forms from the physical safety of physical property and assets, including technology, to human life. The fact that the AFRH houses a potentially vulnerable population (senior citizens) maintaining vigilance in this area is fundamental because of the potential risks. AFRH addressed two risk areas in FY19: the Agency's need for a Continuity of Operations Plan (COOP) and technology fraud schemes targeting senior citizens.

The DoD OIG completes a periodic comprehensive inspection of the Armed Forces Retirement Home for meeting the statutory requirement in section 418, title 24, United States Code, for the DoD. A key recommendation from their report, DODIG-2018-153, cited the need for a Continuity of Operations Plan (COOP), and whereas AFRH had an

Emergency Operations Plan in place that met Federal requirements for a COOP to a limited degree. Completion of the COOP also helped to address other safety and security measures cited in the IG report, including coordination with local law enforcement and security countermeasures. This is an important accomplishment for the Agency.

The COOP was developed in accordance with National Security Presidential Directive 51/Homeland Security Presidential Directive 20 and National Fire Protection Association 1600 – Standard on Continuity, Emergency and Crisis Management and signed by the Chief Operating Officer in the fall of 2019. The development team engaged in training activities and learned much during the process. This is the Agency's first edition of the COOP, and as a matter of policy, once each fiscal year, each AFRH facility will review the Plan, including components and supporting elements, and make any required updates then, or more frequently as critical changes occur.

The COOP is intended to be a living document evaluated and revised as not only the Agency grows in understanding and developing its risk strategies, but also as the Agency evolves or the impact of other social and environmental changes become apparent.

Current lessons learned already through the process are the critical nature of sound communications. AFRH's COOP states, if an emergency or disaster strikes AFRH, landlines, cell phones, text and email messages will be used as primary communications to initiated AFRH's EOP or COOP. Although a two-way radio system, including repeaters and antennas, had been in place at the old Scott Building and installed in the construction of the new building in 2013, the new Scott Building is so well insulated it dampens the radio signals. A new system would require significant equipment to boost the signal to every floor. For the price, there may be different solutions such as Voice over Internet Protocol (VOIP) that provide the communication capabilities along with less expensive and/or reliable alternatives.

AFRH knows reliance on existing forms of communication will either become over-burdened with calls, the internet may go down or fail, and other events may overwhelm the effort, so the Team has begun evaluating alternatives, including replacement or expansion of a two way system.

The Senior Medical Advisor (SMA) Oversight Annual Assessment Site Visit was held on August 28 through 30, 2019. The SMA Team consisted of Defense Health Agency (DHA) staff. During their visit AFRH staff also identified emergency response communication as a challenge, so this increases the priority level of communications requirements as well as the opportunity to evaluate communications interoperability across the Agency, with on-Campus neighbors, including the school, and with our COOP partners.

In light of this I recommend that the AFRH ensures that updates are done with the frequency defined by the document as recommend and the communications risks are addressed.

Apart from working closely with its shared service provider (the Department of Interior) to address the challenges raised by the IG report, the AFRH continues to enhance technology security. Technology fraud schemes targeting senior citizens were also a focal point in FY19. AFRH's population is at risk, as other assisted living and nursing facilities, and this affects them personally, financially, and in turn impacts AFRH through the fees the Residents pay, or absence of when their financial resources are lost to fraud.

According to "A Report of the Federal Trade Commission (FTC) to Congress, Protecting Older Consumers 2017-2018", October 18, 2018, older adults have been targeted or disproportionately affected by fraud. The FTC has seen schemes targeting Medicare recipients; a "robocall" interest rate reduction scheme touting a purported special government program for senior citizens; and advertising claims for brain training programs that allegedly combat cognitive impairment associated with aging. Further, as described in the report, older adults report some of the highest dollar losses to certain types of fraud, with elder financial exploitation now considered a public health crisis, expected to grow dramatically along with the aging of America. In response to these trends, both the North American Securities Administrators Association (NASAA's) Model Act and Financial Industry Regulatory Authority (FINRA's) recent rule changes allow certain financial firms to place a temporary hold on disbursements from the accounts of customers when financial exploitation is reasonably suspected. The new measures also reflect renewed emphasis on communication. Nonetheless, AFRH must ask whether we as a community have done everything we can to address the challenge and the risk of our Residents financial future.

AFRH's Residents have been victims of financial exploration and it will probably continue, which is a serious crime against our nation's most vulnerable citizens, these crimes are affecting at least 10% of older Americans every year. Together with our federal, state, and local law enforcement partners, the Department of Justice is steadfastly committed to combatting all forms of elder abuse and financial exploitation through enforcement actions, training and resources, research, victim services, and public awareness. AFRH held training events and Town Hall meetings, posted literature, and assisted Residents in participating in the "National Do Not Call Registry" sponsored by the Federal Trade Commission (FTC).

PATRICK P. CAVANAGH, Sr.
Acting Inspector General
November 12, 2019

DEFERRED MAINTENANCE

Starting in FY 2015, OMB required agencies to disclose their deferred maintenance procedures to identify, categorize and prioritize maintenance and repairs. AFRH manages its capital improvement budget through an Investment Review Board (IRB) that manages capital improvement projects, reviews requests, prioritizes projects and approves funding for AFRH's capital investments and major acquisitions. AFRH Capital Investments include capital assets such as land, structures, equipment and intellectual property (e.g., software) that have an estimated dollar value or cost of at least $50,000 and a useful life of at least two years. The cost of a capital asset includes both its purchase price and all other costs incurred to prepare for its intended use and location.

MANAGEMENT ASSURANCES

The following letters provide the agency head's annual statement of assurance required under the Federal Managers' Financial Integrity Act (FMFIA) for fiscal year 2019.

FROM: Chief Operating Officer

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal year 2018

As Chief Operating Officer of the Armed Forces Retirement Home (AFRH), I recognize the Agency is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. The AFRH conducted its assessment of risk and internal controls in according with the OMB Circular No. A-123, Management's Responsibility for Risk Management and Internal Control and the Green Book, GAO-14-704G, Standards for Internal Control in the Federal Government. Based on the results of the assessment, and particularly the findings under DODIG-2018-077, dated February 2018, the AFRH can provide reasonable assurance, except for the material weakness(es) noted in these reports on the effectiveness of internal controls over operations, reporting, and compliance as of September 30, 2019.

A new management and leadership team are now in place and responsible for directly attending the concerns raised in the audit conducted by the Office of the Inspector General. Given the significance of these findings we would be remiss not to consider these findings likely translate or otherwise impact the effectiveness of AFRH controls and its management through operations, reporting and compliance. Our early assessments indicate this is the case.

- ICO**:** The AFRH 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. The Internal Control Evaluation section provides specific information on how the AFRH conducted this assessment. Based on the results of the assessment, and as reported through DODIG-2018-077, the AFRH can provide reasonable assurance, except for the material weakness(es) identified in these reports, on the effectiveness of internal controls over operations, reporting, and compliance as of September 30, 2019.
- ICOFR: The AFRH conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financials reporting) in accordance with OMB Circular No. A-123, Appendix A. The "Internal Control Evaluation" section, provides specific information on how the AFRH conducted this assessment, and as reported through DODIG-2018-077. Based on the results of the assessment and particularly the audit, the AFRH provided reasonable assurance, except for the material weakness(es) as reported through DODIG-2018-077, on the effectiveness of internal controls over operations, reporting (including internal and external reporting) as of September 30, 2018), and compliance.
- ICOFS: The AFRH conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FFMIA of 1996 (Public Law 104-208) and OMB Circular No. A-123, Appendix D. The "Internal Control Evaluation" section which provides specific

information on how the AFRH conducted this assessment. Based on the results of this weakness(es) as reported through DODIG-2018-077 the internal controls over the financial systems are in compliance with the FFMIA and OMB Circular No. A-123, Appendix D. as of September 30, 2019.

My point of contact is Nancy Anne Baugher, Managing Director for Finance and Administration. She can be reached at (202) 541-7530, email nancy_anne.baughter@AFRH.gov if there are questions regarding this Statement of Assurance for Fiscal Year 2019.

JAMES M. BRANHAM
Chief Operating Officer
September 25, 2018

INTERNAL CONTROLS ASSESSMENT

The Armed Forces Retirement Home's (AFRH) mission is to fulfill our nation's commitment to its veterans by providing a premier retirement community with exceptional residential care and extensive support services.

The Armed Forces Retirement Home (AFRH) is an independent Agency in the Executive branch of the US Government. The AFRH provides residences and related services through two Campus communities in Gulfport, MS (AFRH-G) and Washington, DC (AFRH-W); with a corporate Headquarters (HQ) component in Washington DC that oversees both, and serving certain retired and former members of the US Armed Forces (24 US Code 10, Subchapter 411). The Chief Operating Officer (COO) is the head of the Agency.

AFRH corporate HQ management evaluated the system of internal control in effect during the fiscal year as of the date of this memorandum, 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 control for AFRH is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal control of AFRH are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information system s compliance with the FMFIA.

The evaluation of internal controls extends to every responsibility and activity undertaken by AFRH and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits 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 control, 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.

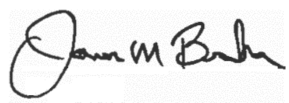
INTERNAL CONTROL EVALUATION-MANAGEMENT CONTROL TESTING

AFRH management evaluated the system of internal control in accordance with the guidelines identified above. 111e results indicate that the system of internal control of AFRH, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding section.

CONCLUSION ON OVERALL ASSESSMENT OF INTERNAL CONTROL

A new management and leadership team was instituted over the course of this past year. The team members are now in place and responsible for directly attending the concerns raised in an audit conducted by the Office of the Inspector General (DODIG-2018-077), along with other reviews and findings. Given the significance of the findings we would be remiss not to consider that this information likely translates or otherwise impacts the effectiveness of AFRH controls and its management of them through operations, reporting and compliance, and management found that it does. Our early assessments projected these ultimate findings and much focus has been given during FY2019 in building a stronger foundation for internal controls. AFRH management finds controls overall to be "moderately effective" suggesting that it appears controls are working but not all controls have been fully evaluated and tested.

It is important to note that there exist many underlying strengths within the AFRH through - policy, practice and people and that supports an effective internal control framework, historically well-controlled, and with outcomes generally effective in most areas. New performance expectations, organizational structures, process and management activities will continue to strengthen the organization.



JAMES M. BRANHAM
Chief Operating Officer
October 1, 2019

FRAUD RISK MANAGEMENT

AFRH is committed at the highest level to combating fraud and protecting Trust Fund resources. Under the Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 USC 3321 note), AFRH herein makes its report. AFRH evaluated an Internal Control Checklist, conducted a Risk and Control Assessment and Developed a Fraud Risk Profile and is managing in accordance with these assessments and their outcomes.

Risk management and internal controls management is a perpetual requirement in which the entity must annually evaluate systems, environmental, and other challenges that could potentially result in new risks. And, whereas, the Agency generally has low and no transactional risks in certain areas (very limited travel, no grants, a structured payroll, limited volume and type of payments), the risks are generally low overall for AFRH. However, the introduction of a new approach considered to be a solution to an audit recommendation has introduced manual processes through disparate systems and elevated the significance of risks on multiple fronts highlighted throughout (1) financial and administrative controls established pursuant to the Act, (2) the fraud risk principle in the Standards for Internal Control in the Government, and (3) OMB Circular A-123. The Agency is currently working to resolve these matters and manage to these risks.

	General Control Environment Total (Maximum of 35)		**9**	
	Risk based on Control Environment Score and Management's Assessment Rank If rank varies from suggested range based on total, provide justification of management's assessment.	Low	(1- 15)	
		Moderate	(16-26)	
		High	(27- 35)	
	Section III - Combined Assessment			
III.1	**Preliminary Assessment of Safeguards**	**Value**	**Current Assessment**	**Justification of Selection**
	Controls in place adequately cover known internal and external risks.	(1)	3	New management and leadership is still evaluating and enhancing/strengthening operations and mitigating weaknesses.
	Some controls in place do not adequately cover known internal and external risks.	(3)		
	There are no existing controls in place.	(5)		
	Inherent Risk Total (Maximum of 45)		**23**	
	General Control Environment Total (Maximum of 35)		**9**	
	Combined Assessment (Maximum of 85)		**35**	**Enter Combined Assessment Based on Total**
	MIC Combined Assessment Score and Management's Assessment Rank If rank varies from suggested range based on total, provide justification of management's assessment.	Low	(1-38)	
		Moderate	(39-64)	
		High	(65 - 85)	
	Results			
	Based on manager's assessment as noted above, select the appropriate line below and provide details as necessary (i.e. estimated dates for corrective actions if required)			
	Risk based on control environment and combined assessment are low or moderate - develop corrective actions for any noted control gaps and plan implementation for correction.			
	Provide a brief description of any noted control gaps and an estimated time line for correction.			
	New management and leadership is currently assessing. Objective is to gain increased effectiveness in accordance with Agency's new short term Strategic Plan, published July 2018. The AFRH is under both new management and new leadership. We are just beginnning our assessment of controls, oversight management and performance expectations, and beginning to revamp organizational structures and management activities. It is difficult at this time to assess and answer accurately each of the listed items under these circumstances. Too, because the operations have been in place for a long period of time and well controlled, the outcomes have been effective in most areas, but not everything has been assessed (historically or currently) the way it is presented here.			

ACKNOWLEDGMENTS

Thank you for your interest in AFRH. This annual report was produced with the energies and talents of the AFRH staff. To the dedicated staff of the AFRH, our sincere thanks.

To achieve its mission, AFRH relies on dedicated partners who donate their time, talents, goods and services as well as materials for construction and repairs. Management is grateful to so many people for their support: the AFRH Residents, the AFRH staff, America's active duty service members and military retirees, area school children, local churches, associations, clubs, commercial retailers, major corporations and military service organizations. These fine organizations provide vital support, invest numerous hours at AFRH and always lend a hand. This extended community is a wonderful part of the AFRH.

A PDF of this report is available on the AFRH Website:

https://www.afrh.gov/PAR/2019PAR

Submit Suggestions and Comments to:

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