



ARMED FORCES RETIREMENT HOME

PERFORMANCE AND ACCOUNTABILITY REPORT
FOR FISCAL YEAR 2020

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MESSAGE FROM AFRH LEADERS

November 16, 2020

We are pleased to present the Armed Forces Retirement Home (AFRH) Performance and Accountability Report for fiscal year 2020. 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 2021.

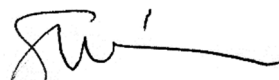
AFRH is continuing its evolution to ensure the long-term success of our vibrant communities for enlisted veterans. With support from Congress we are investing \$12 million into critical maintenance and capital replacement projects on our historic Washington campus. All of these projects will benefit residents directly: a new roof, elevators, and chillers in the Sheridan Building where most D.C. residents live, and first-phase modernization of electrical, water, and sewer infrastructure. In fiscal 2020 we continued making progress on our 80-acre development project on the Washington campus, signing a memorandum of understanding together with the National Capital Planning Commission and the D.C. Office of Planning which establishes processing for zoning, land use, and permits in the development area. We are currently working closely with the development team on possible amendments to the master plan, as well as with surrounding stakeholders to address traffic and utility infrastructure to the site. This long-term project continues to be a key component of AFRH's long-term strategy so we can generate income from our valuable property assets and provide residents and neighbors with exciting new amenities that will improve the quality of life in our area and reconnect us with the community.

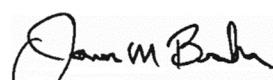
At the time of publication, the National Defense Authorization Act for Fiscal Year 2021 has not been passed. The Senate version of the bill included a provision which would expand resident eligibility to the National Guard and Reserves. If the provision is adopted, we will be honored to welcome enlisted 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.

The Coronavirus (COVID-19) pandemic loomed over our activities for much of fiscal 2020. The virus and its resulting disease, which targets with devastating effects precisely the demographics of AFRH residents, had and will continue to have significant impacts on our communities for the foreseeable future. Our highest priority must always be the health and safety of our residents and staff, and we are proud of our results to this point. This pandemic is very much a battle that our war-tested communities are fighting, and the number one enemy in the coming months will be complacency. We all look forward to the time when we can be close with family and friends again. Until that time, we ask for the support of all our stakeholders—residents, staff, families, friends, community partners, and government officials—to help us keep our homes in Washington and Gulfport safe and healthy.

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 2020, from October 1, 2019 through September 30, 2020, 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, and discussion on the COVID-19 Pandemic.

Part 2 -- Financial Information -- Provides the fiscal year 2020 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, 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, under one agency organization. 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



◆ Position appointed by the Secretary of Defense
 Department of Defense employees in dark blue

LEADERSHIP TEAM

- Nancy Anne Baugher, CPA, CGFM** Director of Finance and Administration
- James Branham** Chief Operating Officer
- Susan Bryhan** Administrator, AFRH—Washington
- Patrick Cavanagh** Director of Safety and Security and Inspector General
- Etheldreda Collins, M.D.** Chief Medical Officer
- 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

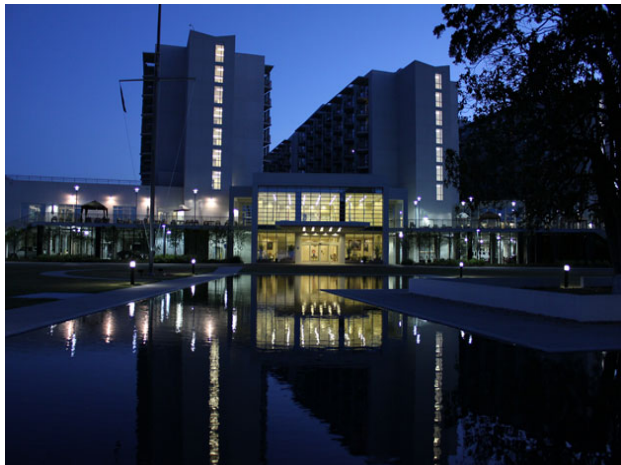
The 272-acre campus of AFRH—Washington features the state-of-the-art Scott Building which serves as the hub of the resident community and includes rooftop gardens, sunlit common areas, fitness center, an extensive library, as well as 36 rooms for long-term nursing care and 24 rooms for residents who 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** include 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** provide 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** ensure 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.

Level of Care	Resident Capacity		
	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, 2020

Age of Residents	
Average Age	84.5
Age of Oldest Resident	101
Age of Youngest Resident	54
Longest Residing Resident	47 years

Eligibility	AFRH-G	AFRH-W	Total	%
Retiree	350	207	557	85%
War Theater	28	17	45	7%
Service-Connected Disability	10	15	25	4%
Female (served before 1948)	15	8	23	4%
Spouse	1	1	2	<1%
Total	404*	248	652*	100%

* 3 Gulfport residents identified their eligibility under more than one category

Level of Care	AFRH-G	AFRH-W	Total	%
Independent Living	303	156	459	70%
Independent Living Plus	32	16	48	7%
Assisted Living	33	39	72	11%
Memory Support	15	10	25	4%
Long Term Care	18	27	45	7%
Total	401	248	649	100%

Gender	AFRH-G	AFRH-W	Total	%
Female	43	27	70	11%
Male	358	221	579	89%
Total	401	248	649	100%

Last Branch of Service	AFRH-G	AFRH-W	Total	%
Army	77	94	171	26%
Navy	142	65	207	32%
Marines	19	8	27	4%
Coast Guard	2	2	4	<1%
Air Force	160	78	238	37%
Not Applicable (Spouse)	1	1	2	<1%
Total	401	248	649	100%

Years at AFRH	AFRH-G	AFRH-W	Total	%
0-5 Years	222	96	318	49%
6-15 Years	146	97	243	37%
16-25 Years	28	34	62	10%
26-35 Years	5	16	21	3%
36-45+ Years	0	5	5	<1%
Total	401	248	649	100%

War Theaters of Service	AFRH-G	AFRH-W	Total	%
World War II	49	40	89	11%
Korea	133	84	217	28%
Vietnam	251	135	386	50%
Grenada	13	1	14	2%
Panama	15	8	23	3%
Gulf War	15	12	27	3%
Iraq & Afghanistan	5	4	9	1%
Other	8	2	10	1%

This table not totaled due to resident-specific variations in war theater service

Last Service Pay Grade	AFRH-G	AFRH-W	Total	%
E1	3	1	4	1%
E2	8	9	17	3%
E3	12	8	20	3%
E4	11	9	20	3%
E5	16	22	38	6%
E6	107	56	163	25%
E7	128	82	210	32%
E8	66	34	100	15%
E9	30	14	44	7%
W1	0	1	1	<1%
W2	1	4	5	1%
W3	8	4	12	2%
W4	3	0	3	<1%
W5	0	0	0	0%
O1	1	0	1	<1%
O2	0	0	0	0%
O3	6	3	9	1%
O4	0	0	0	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%
Not Applicable (Spouse)	1	1	2	<1%
Total	401	248	649	100%

REVENUE SOURCES

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, though the numbers seemed to have steadied.
- **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. Expansion in eligibility is expected to support growth in fees.

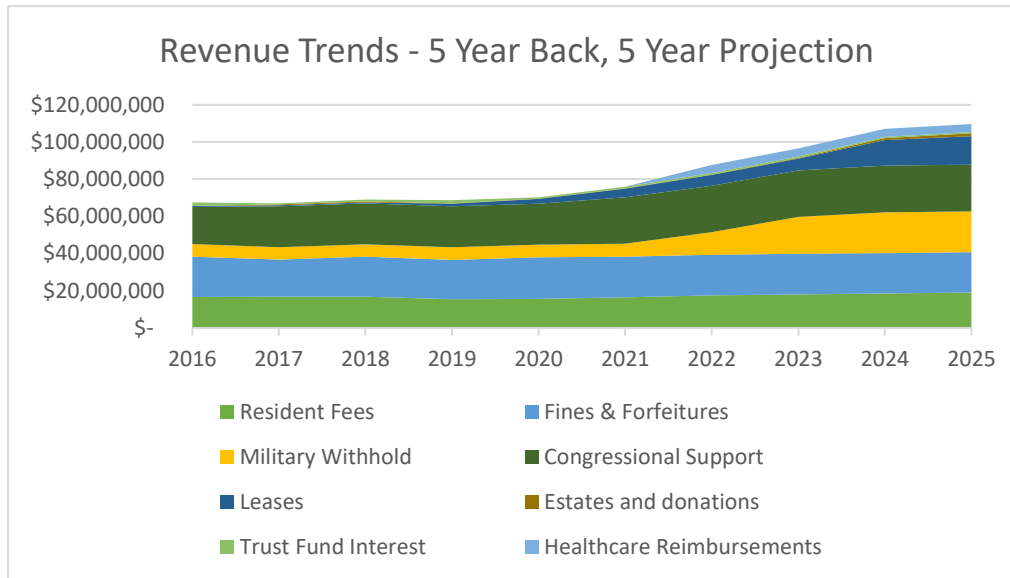
- **ACTIVE DUTY WITHHOLDING** AFRH receives the proceeds from a monthly \$0.50 deduction from the pay of each active duty enlisted service member, warrant officer, and limited duty officer across all branches of the Armed Forces. Section 1007 of title 37, United States Code, empowers the Secretary of Defense to adjust the amount, not to exceed \$1.00, based on the financial needs of the retirement home. The amount has been set at \$0.50 since 1977. The Bureau of Labor Statistics consumer price index inflation calculator indicates that \$0.50 in late 1977 has the same buying power as \$2.12 in late 2020. AFRH leadership has engaged regularly with DoD over the years but has been unable to secure a withholding increase, despite military pay increasing cumulatively 36.8 percent between 2007 and 2020 alone.¹

The Senate version of the National Defense Authorization Act (NDAA) for Fiscal Year 2020 contained a provision, not ultimately adopted in the final law, which would have extended AFRH eligibility to retired members of the National Guard and Reserves while also extending the withhold. The Congressional Budget Office estimated that AFRH would receive an additional \$4 million from the reserve components.² Because the provision would generate new revenue, the proposal must originate in the House of Representatives according to the Constitution. Accordingly, the Senate version of the NDAA for FY 2021 includes a provision which would extend AFRH eligibility but not the withhold, as well as provide flexibility to admit retirees under age 60. The House version did not include either version of the provision. The final NDAA for FY 2021 had not been passed at the time of this publication.

- **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. Since FY 2015, AFRH has had to rely on transfers from the General Fund to fund operations due to substantial declines fines and forfeitures from active duty military members. Additionally, in FY 2020 investment income from AFRH Trust Fund balances declined 41 percent, from \$1.3 million to an estimated \$780,000, due to economic conditions surrounding the Coronavirus pandemic. Since FY 2018, AFRH leadership has worked to identify new sources for revenue opportunity and has sought organizational efficiencies, while trying to absorb enacted salary increases in excess of 8% for the same period. These efforts, combined with Congressional support from the General Fund, are intended to help re-build the Trust Fund.

¹ Annual Pay Adjustments, <https://militarypay.defense.gov/Pay/Basic-Pay/AnnualPayRaise/>

² Direct Spending and Revenue Effects of S. 1790, the National Defense Authorization Act for Fiscal Year 2020, https://www.cbo.gov/system/files/2019-06/s1790directspending_0.pdf



	5-Year Look Back					5-Year Look Forward				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Resident Fees	\$ 16,532,401	\$ 16,710,306	\$ 16,700,000	\$ 15,356,540	\$ 15,590,513	\$ 16,500,000	\$ 17,500,000	\$ 17,981,250	\$ 18,475,734	\$ 18,983,817
Fines & Forfeitures	\$ 21,804,784	\$ 20,020,744	\$ 21,600,000	\$ 21,250,111	\$ 22,295,165	\$ 21,775,000	\$ 21,775,000	\$ 21,775,000	\$ 21,775,000	\$ 21,775,000
Military Withhold	\$ 6,761,978	\$ 6,694,877	\$ 6,720,000	\$ 6,891,586	\$ 6,887,186	\$ 7,000,000	\$ 12,250,000	\$ 20,000,000	\$ 22,000,000	\$ 22,000,000
Congressional Support	\$ 20,000,000	\$ 22,000,000	\$ 22,000,000	\$ 22,000,000	\$ 22,000,000	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000
Leases	\$ 483,029	\$ 562,177	\$ 500,300	\$ 1,312,491	\$ 2,647,657	\$ 4,718,621	\$ 5,835,606	\$ 6,259,346	\$ 13,782,936	\$ 15,341,172
Estates and donations	\$ 123,312	\$ 502,591	\$ 600,000	\$ 230,406	\$ 92,056	\$ 150,000	\$ 200,000	\$ 500,000	\$ 1,000,000	\$ 1,500,000
Trust Fund Interest	\$ 1,759,947	\$ 594,752	\$ 869,750	\$ 1,749,517	\$ 777,552	\$ 775,000	\$ 775,000	\$ 800,000	\$ 800,000	\$ 825,000
Healthcare Reimbursements						\$ 4,300,000	\$ 4,300,000	\$ 4,300,000	\$ 4,300,000	\$ 4,300,000
Total Revenue	\$ 67,465,451	\$ 67,085,448	\$ 68,990,050	\$ 68,790,651	\$ 70,290,129	\$ 75,918,621	\$ 87,635,606	\$ 96,615,596	\$ 107,133,670	\$ 109,724,989

MANAGEMENT PERFORMANCE, CHALLENGES & INITIATIVES

Since FY 2018, the AFRH management team has been 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, our primary objective will always be quality of care and the health and welfare of our residents.

FINANCIAL CONSTRAINTS

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 interest rates have considerably declined due to economic conditions surrounding the Coronavirus pandemic. The financial implications to revenue associated with COVID 19 added to the prior declines. FY20 saw a 44 percent decline in interest income, from \$1,749,517 to \$777,552, and upwards to \$1 million in previously projected fees and short-term rental revenue. We are still looking, however, to add Health Care Reimbursements estimated at \$4.3 million annually, which is expected in FY22.

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. This includes 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 fundraising, 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 Trust Fund gains can be measured through Intragovernmental Assets in the agency’s annual Financial Statements, and demonstrates management’s efforts to increase sustainability through increased funding and other initiatives:

Fiscal Year	Intergovernmental Assets (in millions)
2015	\$ 47.6
2016	56.4
2017	66.4
2018	78.2
2019	87.1
2020	100.5

Source: AFRH Performance and Accountability Reports

Though economies and efficiencies have been realized to reduce costs, other factors have diminished those gains. This includes mandatory enacted payroll increases of 8 percent along with associated benefits costs, and inflationary costs to health care, support and operations, many of which are required to meet standards of care and accreditation. No budgetary headroom remains under a fixed level of appropriations for operations and maintenance since 2015. To absorb the salary increases, the Agency enacted hiring freezes to lock in costs. The result is 27 positions at a value of \$2,479,782.97 in salaries and benefits.

Fiscal Year	Operation & Maintenance Budget	Mandatory Pay Increase
2015	\$ 63,400,000	1.0%
2016	63,300,000	1.0%
2017	63,300,000	1.0%
2018	63,300,000	1.4%
2019	63,300,000	1.4%
2020	63,300,000	2.6%
		8.4% total (8.7% cumulative)

The AFRH Trust Fund is improving but a step forward meets a step backward, prompting continued Congressional support that, in 2020, included \$22 million from the General Fund of the Treasury to support operations.

INFRASTRUCTURE & MAINTENANCE

Limited funding has put severe strain on our facilities, particularly on the historic Washington campus with its older infrastructure. Capital maintenance and investments have not kept pace with actual infrastructure needs or depreciation expenses, leaving over \$135 million in deferred maintenance, including \$19 million dollars in projects critical to our Washington operations as shown in the table below. Capital planning strategies and initiatives, however, are finally being realized. The Agency received an additional appropriation of \$12 million dollars in FY 2020 to support these essential projects, with \$7.2 million additional needed to complete them.

Top Five Priority Projects	Estimate	FY 2020 Commitment	Remainder
Electrical Infrastructure	\$ 7,500,000	\$ 4,500,000	\$ 3,000,000
Water and Sewer Infrastructure	6,500,000	2,300,000	4,200,000
Sheridan Bldg.—Roof Replacement	1,800,000	1,800,000	0
Sheridan Bldg.—Elevator Replacement	1,700,000	1,900,000	0
Chiller and Water Pump Replacement	1,500,000	1,500,000	0
TOTAL	19,000,000	12,000,000	7,200,000

COVID-19

Restrictions due to the Coronavirus pandemic closed our campuses to visitors and new residents for the majority of FY 2020, and are expected to extend into FY 2021, impacting our ability to attract and retain residents and maintain relationships and outreach with key partners and stakeholders. The pandemic also inhibited the Agency’s ability to make progress on plans to lease a portion of our Washington, D.C. campus for mixed-use private development, and collect revenue from visitors and volunteers such as through meal purchases and short-term rental accommodations. Projections for increased revenue associated with this development effort is delayed. Further, events revenue and any revenue associated with guests and volunteers including short term rentals and event sales have been tabled due to visitor restrictions and bans.

In FY2020, AFRH received funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed by Congress with overwhelming, bipartisan support and signed into law on March 27, 2020. The economic relief package delivered healthcare relief to the AFRH in the amount of \$2,800,000, and is discussed in further detail in Note 15 accompanying the financial statements. The money has enabled critical support to the acquisition of personal protective equipment (PPE) and other supplies and equipment (e.g. disinfectant and sterilization equipment) to help ensure the safety of our residents and staff, and the funding has been critical to supporting our ability to keep the residents free of the virus while in our care. We had a slow start acquiring much needed goods despite the funding support because of the limited access to PPE; however, we were able to establish partnerships with DoD and others through alternate procurement mechanisms and donations that included face masks and other necessities. We are currently awaiting the hire of term employees to aid in staff fatigue from quarantines and additional operational requirements for testing, and additional equipment needs to ensure safe premises, and increased costs associated with alternate operational requirements.

STRATEGIC GOALS AND INITIATIVES

Since leadership changes in FY 2018, AFRH has annually assessed its strategic goals and metrics with a short-term focus on taking steps to achieve long-term solvency and sustainability for AFRH and its trust fund, as directed by Congress. We continue to emphasize this is not agency strategic plan as defined by 5 USC 306 or OMB Circular A-11, which would encompass a four-year administration and include government-wide goals following prescribed formats and requirements. Due to the Coronavirus pandemic which required major shifts in focus and resources through most of FY 2020, AFRH did not update goals and metrics in Summer 2020 looking ahead to FY 2021. Despite the challenges presented this year, the following are some of the management initiatives currently underway:

- **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. 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. In FY 2020, despite efforts to increase occupancy through expanded outreach and new authority to admit spouses, occupancy continued to decline due to the Coronavirus pandemic as we were unable to admit new residents for most of the fiscal year and some residents opted to leave our community living environment.

Like the senior living industry writ large, we are watching for long-term effects the pandemic may have on our business model, but we generally expect its effects to be temporary, and we are beginning to welcome in a few new residents with great care and caution.

Long-term sustainability for AFRH must include evolving our facilities and services to meet the needs and desires of future generations of veterans. Our Gulfport campus continues to attract new residents with its modern facilities and amenities and beachfront location. Our Washington campus is significantly more challenging as over 80 percent of our residents live in the Sheridan Building, originally constructed in the 1960s, with the last significant facelift completed in the early 1990s. Rooms are designed for single occupants, not couples, and are smaller than average rooms in the lowest quartile compared to industry.

Average Unit Size of Continuing Care Retirement Communities (in square feet)			
AFRH	Industry Lower Quartile	Industry Median	Industry Upper Quartile
272	434	750	1,439

Source: *The State of Seniors Housing, 2019*; American Seniors Housing Association

In FY 2020, AFRH engaged an architecture and engineering firm to redesign an independent living floor of the Sheridan Building to modern standards and increase per-unit square footage by extending usable floor area to include the existing but currently unusable balconies damaged in the 2010 earthquake. Their proposed design would retain virtually the same number of rooms—50 instead of the current 51—but increase room size to an average 561 square feet, with individual units ranging from 400 to 700 square feet.

The cost estimate of \$10.3 million includes \$6.5 million in base costs and \$3.8 million in contingency costs and options. This estimate is for a single floor. A full renovation of all seven residential floors phased over a three-year period would likely yield lower average costs per floor through construction efficiencies and spreading fixed costs. Two floors would have higher renovation costs to accommodate assisted living units, and would move the units to lower floors to facilitate rapid evacuation of assisted living residents in the event of an emergency.

- **REORGANIZE HEALTHCARE SERVICES FOR OPTIMUM INCOME POTENTIAL**

One-third of AFRH expenses from the Trust Fund provide for 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 has proposed legislative changes to be able to secure healthcare-related reimbursements. By providing on-site medical services to our residents, AFRH has reduced 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.

DoD submitted a legislative proposal for the FY 2021 NDAA which would have enabled DoD and the Department of Veterans Affairs to reimburse AFRH for some of these services. It does not appear the request will be adopted by Congress in the FY 2021 bill. Nevertheless, AFRH is working closely with the Defense Health Agency and internally to assess electronic health record system capabilities to begin coding healthcare services to gather data to support reimbursements. At the same time, we are evaluating our staffing mix, policies, and other systems to comply with likely requirements for healthcare reimbursement recordkeeping.

- **MANAGE ASSETS PRODUCTIVELY**

AFRH has a wealth of assets and resources that could be used to productively expand our revenue base. 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.

In late FY 2020, AFRH negotiated a memorandum of understanding regarding the project's land use, zoning, and entitlements with the National Capital Planning Commission (NCPC) and the District of Columbia Office of Planning (DCOP). This significant achievement paved the way for Zone A's inclusion in DC's Comprehensive Plan update as the basis for zoning and shifted its building code jurisdiction to DC, thereby removing concerns identified by potential lenders and equity partners for the development. AFRH is also working with NCPC, DCOP, and the developers to amend the master plan, addressing proposed variances, revised construction standards and market preferences, and other assumptions since the plan's original approval in 2008. The target for the amended plan's approval is early 3rd quarter FY 2021. AFRH is continuing to negotiate the master ground lease (which will include the master plan as binding exhibit) with the development team and anticipate executing the lease by the close of FY 2021. In anticipation of this and with intent to jumpstart a revenue stream for AFRH as soon as possible, the development team is forming plans and financial proposals for interim uses of some of Zone A's vertical and horizontal infrastructure.

In addition, AFRH's initiative to lease parking spaces on the Washington campus to the adjacent VA and MedStar hospitals has yielded nearly \$900,000 in additional annual revenue. Our agreement with the Lincoln Cottage Foundation to revenue-share on special event rentals that will re-start post-COVID. AFRH continues to explore options to generate income through interim uses of underutilized property without inhibiting progress on the larger 80-acre development project.

- **TRANSITION TO A COST-CONSCIOUS MANAGEMENT PLATFORM**

AFRH needed a better platform and strategy to better inform financial management decisions and directions to include several directed interventions begun in FY 2018.

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 intended the transition to a cost-based fee model for all residents would be completed by fiscal year 2021. Due to the relatively large percentage fee increase which occurred in January 2019, and the impacts of Coronavirus on resident occupancy and retention in FY 2020, AFRH leadership announced it would not increase fees in 2020 or 2021.

Despite these challenges, AFRH continues its work to implement service cost budgeting so operating budgets are set to costs per resident by level of care in advance of the fiscal year including required notification periods, and to integrate the Agency's financial systems to reflect related budgets and be able to report to OMB required cost structures.

- **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 total acquisition cost of property, plant, and equipment as reported in Note 5 accompanying the financial statements is \$398,328,848. Comparably sized facilities manage capital requirements at an average of 10 to 12 percent 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. In addition, the Gulfport campus, now 10 years old and located on the coast, introduces maintenance needs associated with the damaging effects of saltwater and climate.

To continue to manage against a \$1 million threshold in spending authority and limitations on the expansion of a revenue base that limits investment options against this long-standing financial demand was unattainable, and prevented AFRH from completing renovations critically needed for accommodating couples sustaining the infrastructure of the Campuses, and for increasing occupancy and revenues. Progress has been made as cited earlier

in this report. The AFRH needs to remain vigilant to its ability to maintain its facilities as well as 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 a major new directional opportunity for the AFRH that we look to embrace by building not only the capacity for fund raising but the foundation for both endowed and non-endowed funds, and long- and short-term investments. This effort and focus is expected to resume post-pandemic.

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 work to preserve and enhance 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. In FY19, legislation authorized us to admit spouses along with the retired service member. We are working 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 the request for additional capital funding to make much needed repairs and replacements was successful and work is underway. 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-vamp 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. Plans for marketing strategies and increasing the resident population, however, collided with the COVID-19 Pandemic and our

attention for much of this past year turned to keeping residents safe and protected ending the year with no cases derived from or within our facilities.

From the earliest recognition, late February, that this dangerous virus would affect the elderly with such deadly consequences, we implemented strict protective measures ahead of most of the country, to keep the virus outside of AFRH. Our restrictive measures, including curtailing activities, prohibiting resident to continuously leave and re-enter the facilities, prohibiting visitors, and requiring strict self-quarantine rules on staff and residents, have affected our operations as well as the morale of our entire AFRH community. We have been, by most measures, very successful keeping the virus out of the campuses, and containing in potential outbreaks, but the cost on resident and staff morale and stress has been significant. Residents, having no outside contact, and minimal inside contact due to curtailed activities, and strict social distancing have shown the signs of the stress and anxiety of isolation and confinement. They do understand, and mostly appreciate the protective measures and relative safety they enjoy at AFRH, but the reduction in social contact or ability to move freely in the local communities does affect them. Our strict measures also affect staff, who are discouraged from any personal travel, and are required to self-isolate when visiting COVID-identified "hot spots," also have raised levels of feeling isolated and fearful of contracting the virus.

While the pandemic is slowing our achievement of other goals and objectives, we are not allowing it to prevent us from moving forward, we will continue to modernize and make AFRH a viable, long-term home for our nation's enlisted veterans.

SECTION 2

FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT



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 2020 and 2019 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, 2020, and 2019, 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 2020 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, 2020, and 2019; 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, 2020, and 2019, 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, 2020, 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

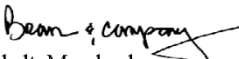
Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to AFRH that have a direct effect on the determination of material amounts and disclosures in AFRH's financial statements, and perform certain other limited procedures. 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 2020 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.


Greenbelt, Maryland
November 12, 2020

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 2020 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, 2020 AND 2019
(In Dollars)

	2020	2019
Assets:		
Intragovernmental		
Fund Balance With Treasury	\$ 7,336,931	\$ 7,977,155
Investments (Note 3)	93,137,348	79,152,531
Total Intragovernmental	100,474,279	87,129,686
Accounts Receivable, Net (Note 4)	3,117,404	3,475,011
Property, Equipment, and Software, Net (Note 5)	294,074,705	304,903,936
Total Assets	\$ 397,666,388	\$ 395,508,633
Liabilities:		
Intragovernmental		
Accounts Payable	\$ 201,578	\$ 313,681
Other (Note 8)	1,460,233	2,067,230
Total Intragovernmental	1,661,811	2,380,911
Accounts Payable	3,015,972	3,368,935
Federal Employee and Veterans' Benefits (Note 6)	6,933,297	7,053,335
Other (Note 8)	5,915,294	5,763,752
Total Liabilities	\$ 17,526,374	\$ 18,566,933
Net Position:		
Cumulative Results of Operations - Funds from Dedicated Collections	\$ 380,140,014	\$ 376,941,700
Total Net Position	\$ 380,140,014	\$ 376,941,700
Total Liabilities and Net Position	\$ 397,666,388	\$ 395,508,633

STATEMENT OF NET COST

ARMED FORCES RETIREMENT HOME
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(In Dollars)

	2020	2019
Program Costs:		
Program: Embrace Resident-Centered Care		
Gross Costs	\$ 62,584,317	\$ 65,806,120
Less: Earned Revenue	(14,693,016)	(15,251,492)
Net Program Costs	\$ 47,891,301	\$ 50,554,628
Program: Maintain Exceptional Stewardship		
Gross Costs	\$ 6,128,058	\$ 5,863,756
Less: Earned Revenue	(1,438,694)	(1,359,008)
Net Program Costs	\$ 4,689,364	\$ 4,504,748
Program: Staff-Centered Stewardship		
Gross Costs	\$ 1,650,079	\$ 2,472,139
Less: Earned Revenue	(387,391)	(572,953)
Net Program Costs	\$ 1,262,688	\$ 1,899,186
Program: Leverage External Stakeholders		
Gross Costs	\$ 576,676	\$ 537,844
Less: Earned Revenue	(135,387)	(124,653)
Net Program Costs	\$ 441,289	\$ 413,191
Net Cost of Operations	\$ 54,284,642	\$ 57,371,753

STATEMENT OF CHANGES IN NET POSITION

STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(In Dollars)

	2020	2019
Budgetary Financing Sources:		
Appropriations Received	\$ 24,800,000	\$ 22,000,000
Appropriations Used	(24,800,000)	(22,000,000)
Total Unexpended Appropriations	\$ -	\$ -
Cumulative Results of Operations:		
Beginning Balances	\$ 376,941,700	\$ 380,830,879
Budgetary Financing Sources:		
Appropriations Used	24,800,000	22,000,000
Nonexchange Revenue (Note 10)	30,926,889	29,192,665
Donations and Forfeitures of Cash and Cash Equivalents	92,056	230,416
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	1,664,011	2,059,493
Total Financing Sources	57,482,956	53,482,574
Net Cost of Operations	(54,284,642)	(57,371,753)
Net Change	3,198,314	(3,889,179)
Cumulative Results of Operations	\$ 380,140,014	\$ 376,941,700
Net Position	\$ 380,140,014	\$ 376,941,700

STATEMENT OF BUDGETARY RESOURCES

ARMED FORCES RETIRMENT HOME
STATEMENT OF BUDGETARY RESOURCES
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(In Dollars)

	2020	2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 28,987,896	\$ 26,654,847
Appropriations	102,899,999	86,300,000
Total Budgetary Resources	\$ 131,887,895	\$ 112,954,847
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 89,190,719	\$ 83,794,996
Unobligated balance, end of year:		
Apportioned, unexpired account	32,005,816	23,390,789
Unapportioned, unexpired accounts	6,203,194	5,761,192
Unexpired unobligated balance, end of year	38,209,010	29,151,981
Expired unobligated balance, end of year	4,488,166	7,870
Unobligated balance, end of year (total)	42,697,176	29,159,851
Total Budgetary Resources	\$ 131,887,895	\$ 112,954,847
Outlays, Net and Disbursements, Net:		
Outlays, net (total)	83,962,470	80,373,481
Distributed Offsetting Receipts	(18,331,954)	(16,901,497)
Agency outlays, net	\$ 65,630,516	\$ 63,471,984
Disbursements, net (total) (mandatory)	\$ 83,962,470	\$ 80,373,481

VARIANCE ANALYSIS

**ARMED FORCES RETIREMENT HOME
VARIANCE ANALYSIS OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Balance Sheet

No Significant variances between the comparative periods.

Statement of Net Cost

No Significant variances between the comparative periods.

Statement of Changes in Net Position

No Significant variances between the comparative periods.

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

Heritage Assets are defined by SSFAS No. 29 as: "Property, plant and equipment (PP&E) that are unique for one or more of the following reasons: historical or natural significance; cultural educational, or artistic (e.g., aesthetic) importance; or significant architectural characteristics." SSFAS 29 stipulates that Heritage Assets can be classified as Collection-Type Heritage Assets and Non-Collection Type Heritage Assets. AFRH-W maintains Collection-Type Heritage Assets which include buildings, structures, objects, etc. Federal agencies are not required to assign a cost on the Balance Sheet for heritage assets. Heritage assets are not included on the Balance Sheet since no financial,

nor replacement, can value be assigned to them. These items support the Agency's mission by demonstrating historical significance, excellence and innovation.

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 information pertaining to the retirement plans covering its employees on its financial statements. 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 (FEGSIP) 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. 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, 2020 and 2019, were as follows:

	2020	2019
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	\$ 32,005,815	\$ 23,465,755
Unavailable	52,748,163	51,018,921
Obligated Balance Not Yet Disbursed	15,720,301	12,645,010
Total	\$ 100,474,279	\$ 87,129,686

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, 2020 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	\$ 93,137,348	Interest	\$ -	\$ -	\$ 93,137,348	\$ 93,137,348
Total	\$ 93,137,348		\$ -	\$ -	\$ 93,137,348	\$ 93,137,348

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	\$ 79,112,955	\$ 79,077,564

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, 2020 and 2019, were as follows:

	2020	2019
With the Public		
Accounts Receivable	\$ 3,117,404	\$ 3,475,011
Total Accounts Receivable	\$ 3,117,404	\$ 3,475,011

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, 2020 and 2019.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2020:

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Building	\$ 390,526,912	\$ 99,796,373	\$ 290,730,539
Building Improvements	6,523,162	3,572,249	2,950,913
Furniture & Equipment	1,289,609	885,521	404,088
Construction-in-Progress	(10,835)	-	(10,835)
Total	\$ 398,328,848	\$ 104,254,143	\$ 294,074,705

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
Building 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

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for AFRH as of September 30, 2020 and 2019 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.

	2020	2019
Intragovernmental – FECA	\$ 1,135,424	\$ 1,253,514
Intragovernmental – Unemployment Insurance	13,188	3,124
Unfunded Leave	1,320,718	1,153,732
Actuarial FECA	6,933,297	7,053,335
Lease Deferred Revenue	3,260,518	3,439,256
Total Liabilities Not Covered by Budgetary Resources	\$ 12,663,145	\$ 12,902,961
Total Liabilities Covered by Budgetary Resources	4,862,813	5,663,365
Total Liabilities Not Requiring Budgetary Resources	416	607
Total Liabilities	\$ 17,526,374	\$ 18,566,933

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, 2020 and 2019 was \$7.0 million and \$7.0 million, respectively.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2020 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 1,135,424	\$ -	\$ 1,135,424
Unemployment Insurance Liability	13,188	-	13,188
Payroll Taxes Payable	311,621	-	311,621
Total Intragovernmental Other Liabilities	\$ 1,460,233	\$ -	\$ 1,460,233
With the Public			
Payroll Taxes Payable	\$ 71,973	\$ -	\$ 71,973
Accrued Funded Payroll and Leave	1,262,085	-	1,262,085
Unfunded Leave	1,320,718	-	1,320,718
Lease Deferred Revenue	3,260,518	-	3,260,518
Total Public Other Liabilities	\$ 5,915,294	\$ -	\$ 5,915,294

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 Liabilities	3,506,008	-	3,506,008
Total Public Other Liabilities	\$ 5,763,752	\$ -	\$ 5,763,752

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. Since leasing to the School, the Home has added property lease arrangements for Residential Quarters and parking spaces to generate revenue on underutilized property.

NOTE 10. DEDICATED FUNDS

AFRH has dedicated funds that fall into several categories. Governed by limitations determined annually by the U.S. Congress, the Trust Fund is used to finance operating expenses as well as other expenditures of the AFRH on annual and multi-year bases. For example, the Hurricane Katrina monies were appropriated on an emergency basis to cover necessary expenses related to the consequences of Hurricane Katrina and remain available until expended, the CARES Act funds were made available under a two-year appropriation for Pandemic-related expenditures, and Capital Funds are no-year appropriations.

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 Dedicated Funds as of September 30, 2020:

	Capital Fund	Earthquake Fund	Hurricane Katrina Fund	CARES Act Fund	Operations & Maintenance Fund	Total Funds from Dedicated Collections
Balance Sheet						
ASSETS						
Fund Balance with Treasury	\$ (8,492,643)	\$ 1	\$ 70,740	\$ 349,687	\$ 15,409,147	\$ 7,336,931
Investments	-	-	-	-	93,137,348	93,137,348
Accounts Receivable	-	-	-	2,100,000	1,017,404	3,117,404
General Property, Plant and Equipment	103,973,826	12,587,918	177,512,961	-	-	294,074,705
Total Assets	\$ 95,481,183	\$ 12,587,919	\$ 177,583,701	\$ 2,449,687	\$ 109,563,899	\$ 397,666,388
LIABILITIES AND NET POSITION						
Accounts Payable	\$ -	\$ -	\$ -	\$ 88,364	\$ 3,129,186	\$ 3,217,550
Other	-	-	-	-	7,375,527	7,375,527
Employee and Veteran Benefits	-	-	-	-	6,933,297	6,933,297
Cumulative Results of Operations	95,481,183	12,587,919	177,583,701	2,361,322	92,125,889	380,140,014
Total Liabilities and Net Position	\$ 95,481,183	\$ 12,587,919	\$ 177,583,701	\$ 2,449,686	\$ 109,563,899	\$ 397,666,388
Statement of Net Cost						
Program Costs	\$ 6,618,850	\$ 293,940	\$ 4,582,043	\$ 438,678	\$ 59,005,618	\$ 70,939,129
Less: Earned Revenues	-	-	-	-	(16,654,487)	(16,654,487)
Net Program Costs	6,618,850	293,940	4,582,043	438,678	42,351,131	54,284,642
Net Cost of Operations	\$ 6,618,850	\$ 293,940	\$ 4,582,043	\$ 438,678	\$ 42,351,131	\$ 54,284,642
Statement of Changes in Net Position						
Net Position Beginning of Period	\$ 102,002,313	\$ 12,881,859	\$ 182,165,743	\$ -	\$ 79,891,785	\$ 376,941,700
Net Cost of Operations	(6,618,850)	(293,940)	(4,582,043)	(438,678)	(42,351,131)	(54,284,642)
Taxes and Other Nonexchange Revenue	-	-	-	-	30,926,890	30,926,890
Other Revenue	-	-	-	-	26,556,067	26,556,067
Change in Net Position	(6,618,850)	(293,940)	(4,582,043)	(438,678)	15,131,826	3,198,314
Net Position End of Period	\$ 95,383,463	\$ 12,587,919	\$ 177,583,700	\$ (438,678)	\$ 95,023,611	\$ 380,140,014

Schedule of Dedicated 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

NOTE 11. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The President's Budget that will include fiscal year 2020 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2021 and can be found at the OMB website: <http://www.whitehouse.gov/omb/>. The Fiscal Year 2021 Budget of the United States Government, with the "Actual" column completed for 2019, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

In millions:

	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 113	\$ 84	\$ (17)	\$ 80
Difference - Due to Rounding	-	-	1	1
Budget of the U.S. Government	\$ 113	\$ 84	\$ (16)	\$ 81

NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2020, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Unpaid Undelivered Orders	\$ 1,748,661	\$ 9,139,101	\$ 10,887,762
Total Undelivered Orders	\$ 1,748,661	\$ 9,139,101	\$ 10,887,762

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

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.

Reconciliation of Net Cost Outlays as of September 30, 2020:

BUDGET AND ACCRUAL RECONCILIATION FOR THE YEAR ENDED SEPTEMBER 30, 2020 (In Dollars)

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	\$ 11,482,832	\$ 42,801,810	\$ 54,284,642
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(10,766,659)	(10,766,659)
Property, plant, and equipment disposal & reevaluation	-	728,174	728,174
(Increase)/Decrease in assets not affecting Budget Outlays:			
Accounts receivable	(39,576)	(357,607)	(397,183)
Investments	(35,391)	-	(35,391)
(Increase)/Decrease in liabilities not affecting Budget Outlays:			
Accounts payable	112,103	388,267	500,370
Salaries and benefits	498,753	(199,418)	299,335
Other liabilities	108,244	132,612	240,856
Other financing sources:			
Imputed federal employee retirement benefit costs	(1,664,010)	-	(1,664,010)
Transfers out (in) without reimbursement	24,800,000	-	24,800,000
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ 23,780,123	\$ (10,074,631)	\$ 13,705,492
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	271,710	296,173	567,883
Other	(28,673,263)	(21,518)	(28,694,781)
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	\$ (28,401,553)	\$ 274,655	\$ (28,126,898)
Other Temporary Timing Differences	25,767,280	-	25,767,280
Net Outlays (Calculated Total)	\$ 32,628,682	\$ 33,001,834	\$ 65,630,516
Related Amounts on the Statement of Budgetary Resources			
Outlays, net, (total) (SBR 4190)			83,962,470
Distributed offsetting receipts (SBR 4200)			(18,331,954)
Agency Outlays, Net (SBR 4210)			\$ 65,630,516

Reconciliation of Net Cost Outlays as of September 30, 2019:

**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 & reevaluation	-	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, 2020 and 2019, respectively, inter-entity costs were as follows:

	2020	2019
Office of Personnel Management	\$ 1,650,511	\$ 2,042,649
Treasury Judgment Fund	13,500	16,844
Total Imputed Financing Sources	\$ 1,664,011	\$ 2,059,493

NOTE 15. COVID-19 ACTIVITY

On March 11, 2020, a novel strain of the Coronavirus, also known as COVID-19, was declared a pandemic by the World Health Organization. As a result, a national emergency was declared in the United States concerning the COVID-19 outbreak on March 13, 2020.

In response to the pandemic, the United States Congress passed a series of Bills including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19.

AFR was appropriated CARES Act funding, under Public Law 116-136, in the amount of \$2.8 million to prevent, prepare for, and respond to Coronavirus, including to provide additional funds to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by the Coronavirus. The following programs throughout AFR received funding: Embrace Resident Centered Care and Maintain Exceptional Stewardship. Note 10 Dedicated Collections shows a breakdown of the fund.

As of September 30, 2020, AFR disbursed \$438 thousand of the CARES Act funding.

NOTE 16. NET ADJUSTMENTS TO UNOBLIGATED BALANCES

Budgetary resources consist of the unobligated balance, brought forward as of October 1, as adjusted by current fiscal year activity related to the unobligated balance brought forward—typical items include recoveries of prior years' unpaid obligations, downward adjustments of prior years' paid obligations, transfers of prior-years' balances, and cancellations of appropriations.

	2020	2019
Unobligated Balance Brought Forward From Prior Year, October 1	\$ (18,406)	\$ 63,990,480
Recoveries of Prior Year Obligations	-	561,446
Other Changes in Unobligated Balances	-	-
Unobligated Balance From Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ (18,406)	\$ 64,551,926

SECTION 3 OTHER INFORMATION

OFFICE OF THE INSPECTOR GENERAL: AFRH'S TOP MANAGEMENT & PERFORMANCE CHALLENGES FOR 2020

In accordance with the Reports Consolidation Act of 2000, the PAR must include as Other Information (OI), a statement by the agency's Inspector General (IG) summarizing the challenges facing the Armed Forces Retirement Home (AFRH) organization. The question of Trust Fund solvency has remained and continues to remain the Agency's highest unresolved risk.

REVENUES

AFRH is financed through a dedicated trust fund. AFRH Chief Operating Officer (COO) and senior leadership continue to work on new revenue streams to replenish the Trust Fund to support longevity, and ensure current and long-term solvency against annual operational resource requirements. 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.

Both campuses, Washington and Gulfport are in need of modernization and/or repair to meet industry standards. The Gulfport, Mississippi facility, although relatively new, is approaching ten years and is in need of service and repair of key systems. The Washington DC campus and associated facilities is in great need of infrastructure upgrades (roof, water system, electrical system, HVAC and elevators), as some systems are a century old. Additionally, our Resident rooms in Washington are small and in need of redesign and upgrade. The COO developed an aggressive modernization effort for housing Residents in Washington through a multimillion, multi-phased renovation of the main independent living building. This modernization effort, in turn, allows AFRH to increase occupancy levels, and expand eligibility to the National Guard and Reserves, as well as accommodation of couples.

COVID – 19 has strained all aspects of our healthcare system as we adjust to the constant changes directed by The Centers for Disease Control and Prevention (CDC) and our medical professions in order to keep our Residents safe. This resulted in an increase to overtime as well as causing many changes to policy as staff adopt to new procedure. AFRH has purchased additional personal protective equipment (PPE) and associated Ultraviolet systems (UV) systems to combat COVID-19 and keep staff and residents safe.

AFRH has proven itself agile and adaptive in responding to the many changes during the global pandemic, protecting veterans and staff while continuing our efforts to upgrade infrastructure and facilities, and increase revenue and occupancy.

INCREASING REVENUES

The COO has revised AFRH's Long-Range Financial Plan (LRFP) to grow the Trust Fund to sustain AFRH for the long term through new sources of revenue and reorganizing around the day-to-day operations. The COO and AFRH leadership have identified and implemented cost-saving initiatives for overtime, Resident occupancy and leasing of AFRH property.

The AFRH Trust Fund have several ongoing revenue sources, which have been declining since 2009: Fines and Forfeitures, Resident Fees, Active Duty Withholding and Earned and Other Revenue. Since 2018, the COO and senior leadership have aggressively generated additional revenue from existing property assets, to include parking, AFRH Quarters (Residential Housing) and a Public Charter School.

The COO has focused on achieving a Resident occupancy rate of 90% percent or better. Stabilizing AFRH's Resident occupancy at or above 90 percent is expected to yield additional income annually. AFRH now permits couples, with a spouse who has been dedicated to a military retiree. AFRH has found it necessary to offer fee incentives to encourage occupancy given the pre-existing state of the rooms. AFRH is also considering lowering the age for entry,

approving the Wounded Warriors Project receptionist to participate with housing opportunities and including members of the Reserve and National Guard who have also served.

The AFRH Trust Fund is improving but still at a historically low level, prompting continued Congressional support receiving \$22 million from the General Fund of the Treasury to support AFRH operations and ensure long-term solvency to support today's AFRH veteran Residents as well as future veterans.

To mitigate this management challenge, the Armed Forces Retirement Home will closely monitor revenue and receipts to ensure solvency of the Trust Fund. The IG will continue monitoring AFRH progress regarding this challenge.



Patrick Cavanagh, Sr.

Inspector General

October 28, 2020

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 2020.

FROM: Chief Operating Officer

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal year 2020

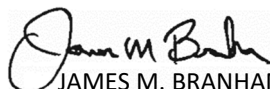
As Chief Operating Officer of the Armed Forces Retirement Home (AFRH), I recognize the Agency is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. The AFRH conducted its assessment of risk and internal controls in accordance 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, 2020.

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; however, we are working to correct any deficiencies we find along the way.

- 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, 2020.
- 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, 2020), and compliance.
- ICIFS: 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, 2020.

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.baugher@AFRH.gov if there are questions regarding this Statement of Assurance for Fiscal Year 2020.


JAMES M. BRANHAM
Chief Operating Officer
September 25, 2020

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, D.C. (AFRH-W); with a corporate headquarters (HQ) component in Washington, D.C. that oversees both, and serving certain retired and former members of the US Armed Forces (title 24, U.S. Code, chapter 10). 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.

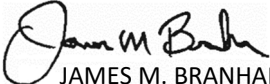
INTERNAL CONTROL EVALUATION-MANAGEMENT CONTROL TESTING

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

Management and leadership 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 FY 2020 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, 2020

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)		15	
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
	Controls in place adequately cover known internal and external risks.	(1)	3
	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)		24	
General Control Environment Total (Maximum of 35)		15	
Combined Assessment (Maximum of 85)		42	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 beginning 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.		
	Risk based on control environment or combined assessment are high - Development and implementation of adequate corrective actions is required immediately. A reassessment will be performed upon completion of implementation of corrective actions.		
	Provide a brief description of major causes of control risk and provide a brief description of corrective action plan and estimated implementation time line. A formal corrective action plan may be required if a material weakness is determined to be present.		

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/2020PAR>

Submit Suggestions and Comments to:

AFRH Chief Financial Officer
Sherman Building
3700 N. Capitol Street, NW
Washington, DC 20011

Learn How to Support AFRH Programs:

Armed Forces Retirement Home
ATTN: Public Affairs Officer #584
3700 N. Capitol Street NW
Washington, DC 20011

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Web: www.afrh.gov
Social: www.facebook.com/AFRH.gov