



“I get to live here, run a hobby shop, and have friends like Smitty.”

—Bill Norvell (Navy & Army)

Management's Discussion & Analysis:

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At age 16, Bill began fixing cars. He soon discovered a lifelong passion to work on motorcycles, engines, and bicycles.

When he came to AFRH-G in 2002, he eagerly took over the bicycle shop. And he took a class and read books to learn new technical tricks. “It’s like anything else when you have a gift...I just see things and can figure them out,” said Bill.

Quickly, the bike shop became Bill’s second home. Now he stays far beyond shop hours—because it doesn’t seem like work. “I love helping residents—I even fix TV sets and walkers.” Thanks to his dedication, our residents are more active and independent.

Bill is fortunate to get help from Neville “Smitty” Smith, a retired aircraft engine mechanic and fellow resident. Smitty rides his bike daily and works in the shop part-time. “He’s super, and he’s got a good head. I can say, ‘I’ll be gone a week—can you watch the shop?’ And he takes care of everything.”

AFRH Organization

DRIVING INNOVATION



The Advisory Board offers advice at a meeting near AFRH-G in May.

COHESIVE AGENCY

The AFRH is organized as a contemporary business establishment. On the corporate level, a COO leads the Agency and sets policy and procedures for experienced staff members at two separate locations. This business arrangement results in strategic decisions that advance the organization and effective communications that keep Congress and constituents informed.

The COO is subject to the authority, direction, and control of the Secretary of Defense, delegated to the Under Secretary of Defense (Personnel & Readiness) and the Deputy Assistant Secretary of Defense (Military Community and Family Policy).

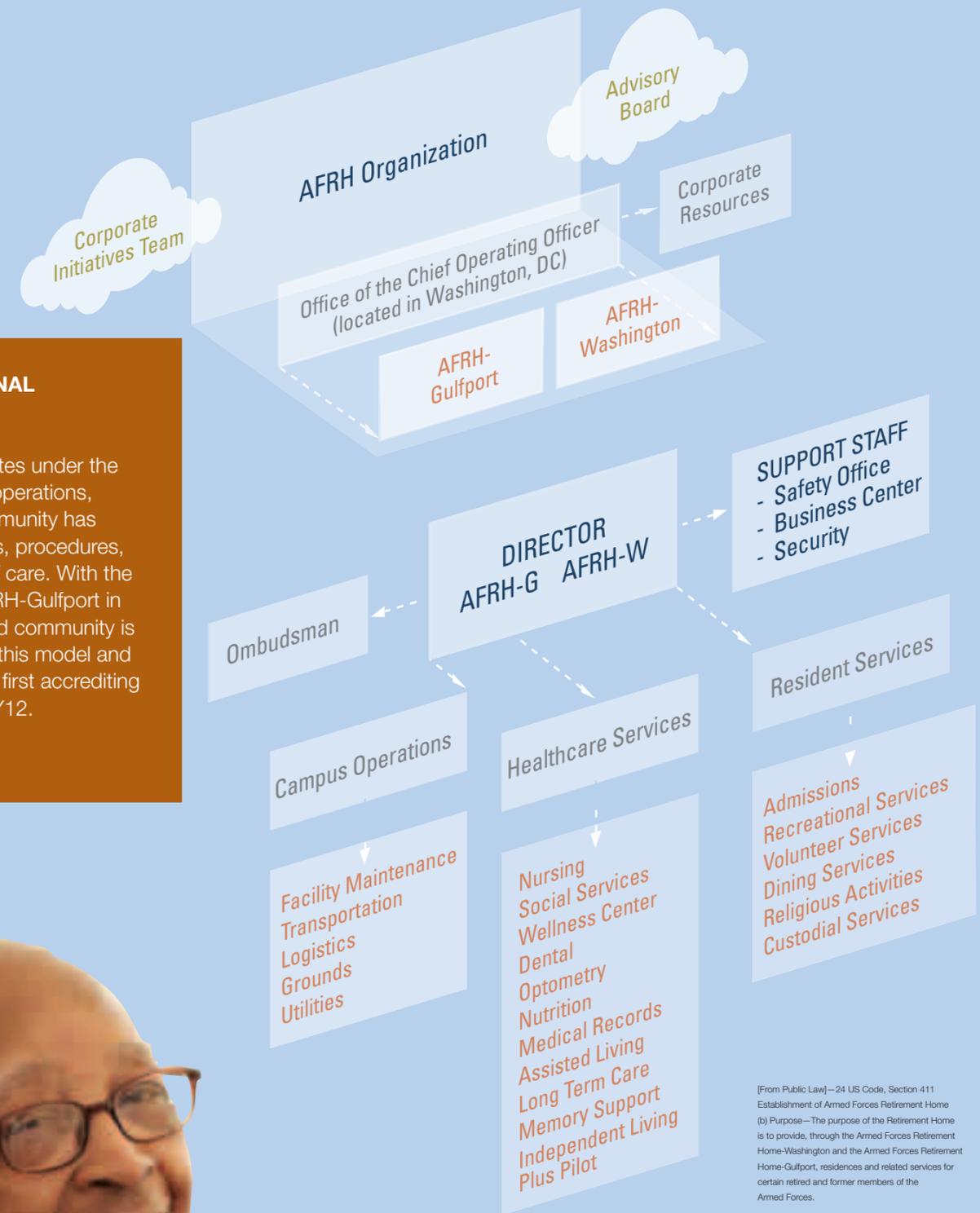
INDEPENDENT COMMUNITIES

The AFRH manages independent functioning retirement homes in different locations. Each AFRH facility operates under a Director, who reports to the COO. Each community may make its own tactical operational decisions, manage its facilities, and respond to local resident requirements.

A Local Advisory Board, which is comprised of active duty military, civilians, and community representatives, provides expertise and knowledge of military- and medical-related concerns for all aspects of senior living.

ORGANIZATIONAL STRUCTURE

The AFRH operates under the "One Model" of operations, where each community has the same policies, procedures, and standards of care. With the reopening of AFRH-Gulfport in FY11, our second community is moving towards this model and preparing for the first accrediting survey in early FY12.



VISION, MISSION & PRINCIPLES:

See Inside Front Cover or [AFRH Strategy](#) at [afrh.gov](#).

PERSON-CENTERED VALUES

Our new philosophy of Person-centered Care has several distinct core values, which guide all management and staff decisions. These values include: choice, dignity, respect, self-determination, and purposeful living. All values are adhered to and delivered within the support structure of a caring environment.

Learn more about [Person-centered Care.pdf](#) at [afrh.gov](#).



The new Badge Buddy, as worn by staff and contractors.



"I did everything. I've been around the world, and I've seen it all."
 — Frank Nash, age 90 (Army)

[From Public Law]—24 US Code, Section 411 Establishment of Armed Forces Retirement Home (b) Purpose—The purpose of the Retirement Home is to provide, through the Armed Forces Retirement Home-Washington and the Armed Forces Retirement Home-Gulfport, residences and related services for certain retired and former members of the Armed Forces.

AFRH Locations

FACILITATING AUTONOMY

The original idea to create shelter for our former military began two centuries ago. And the buildings and people serving those homes have come and gone. Yet, through it all, one constant has remained: devoted support and secure environments.

Over the past few years, we have taken our unique brand of care a major step further by advancing resident independence. Our programs, services, and facilities have been upgraded and our philosophy of care has moved towards Person-centered Care and Aging in Place. Today, two AFRH senior living communities exist: one in Gulfport, MS and one in Washington, DC.



GULFPORT, MS

Scenic Oceanfront Retreat

AFRH-G is located on 47 acres on the Mississippi Sound in a relaxed southern setting. Sandy beaches, waterfront views, beautiful sunrises, fun casinos, and a charming town surround our Gulfport home. The old building, destroyed by Hurricane Katrina in 2005, was replaced with an energy-efficient facility with modern conveniences. Gulfport opened this state-of-the-art LEED Silver Certified living facility in October 2010. While this building is new, we are still tweaking its operations and enhancing the complex to deliver true Person-centered Care.

Learn more about [AFRH-Gulfport](http://afrh.gov) at afrh.gov.

Henry Pike (Marine Corps & Army) and Louis Nemeck (Navy) cut the ribbon at "Glory on the Gulf".

WASHINGTON, DC

Dynamic Urban Oasis

AFRH-W sits on 272 acres in the heart of Northwest Washington, DC. Beautiful trees, majestic views, tranquil wildlife, and historic landmarks encompass our Washington home. In a warm, country setting, it is nestled in the heart of our Nation's Capital, a vibrant metropolis. Venture off campus and you're just minutes from the Metro, bus line, White House, monuments, theaters, museums, pro sports and more. This historic home is in transition. By 2013 it will feature a modern LEED Gold Certified building and new amenities to further support Person-centered Care and Aging in Place.

Learn more about [AFRH-Washington](http://afrh.gov) at afrh.gov.



Actor Gary Sinise and AFRH-W residents honor fallen warriors at the WWII Memorial.



All the AFRH residents may share a common background of serving as enlisted or Warrant Officers in the US military. Beyond that, each resident is unique and colorful, and has a fascinating story to tell. Our aim is to help each one stay independent as long as possible.

First off, we offer our residents a wide range of events, programs, and activities that promote health and wellness. Plus, our pilot ILP program supports those who need extra assistance with daily living activities. Altogether, our progressive support promotes vitality while helping the residents to defy the limitations of aging. Over 85% of all our Residents are in Independent Living or Independent Living Plus Pilot.

AFRH has an active stipend program that allows residents to work on campus. Many who are physically and mentally active treasure jobs giving tours, assisting volunteers, distributing mail, and more.

BY GENDER

Male: 914 (90%)
Female: 104 (10%)

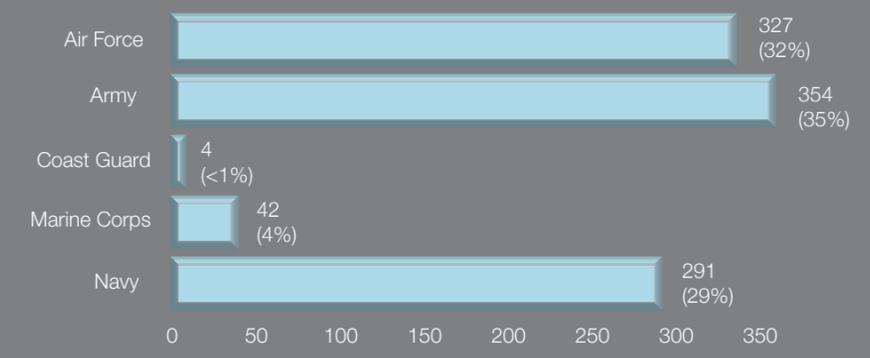
BY WAR THEATER*

World War II: 374 (27%)
Korean War: 466 (34%)
Vietnam: 500 (37%)

BY ELIGIBILITY *(Some qualify under several criteria)*

Retiree: 772 (74%)
Service-connected Disability: 129 (12%)
War Theater: 96 (9%)

RESIDENTS BY US MILITARY BRANCH (2011)



As of September 30, 2011

INSPIRATION



The first application from an eligible Coast Guard retiree was approved right after the Coast Guard & Maritime Transportation Authorization Act of 2010 (Sec 205) became law.

RESIDENT ELIGIBILITY⁶

(A) You must meet ALL of these criteria:

- You served as a member of the Armed Forces and at least one-half of that service was not active commissioned service (other than as a Warrant Officer or Limited-duty Officer)
- You are free of drug, alcohol, and psychiatric problems
- You have never been convicted of a felony
- You will enter the Home in Independent Living⁷ and tend to your personal needs, attend daily meals, and keep your medical appointments

(B) Plus ONE of the following criteria:

- You have at least 20 years of active duty service and are at least 60 years old, OR
- You are unable to earn a living due to a service-related disability, OR
- You are unable to earn a living due to a NON-service-connected disability, yet you served in a war theater or received hostile fire pay, OR
- You served in a women's component of the Armed Services before June 12, 1948

⁶Per US Code 24, Section 412 (24 USC.412)

⁷Higher care levels are available later, if residents need it



Our Staff

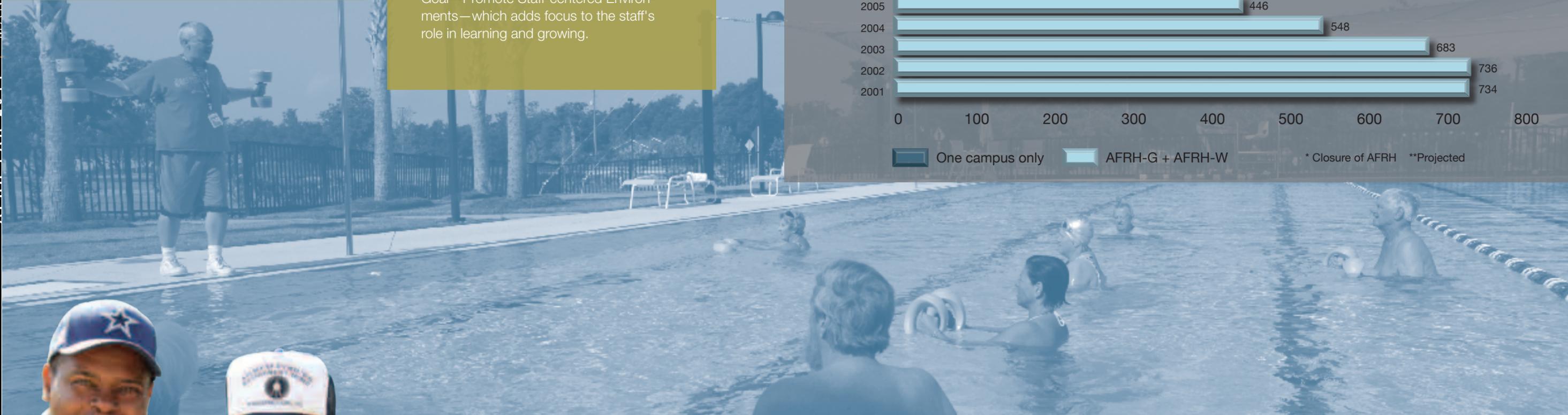
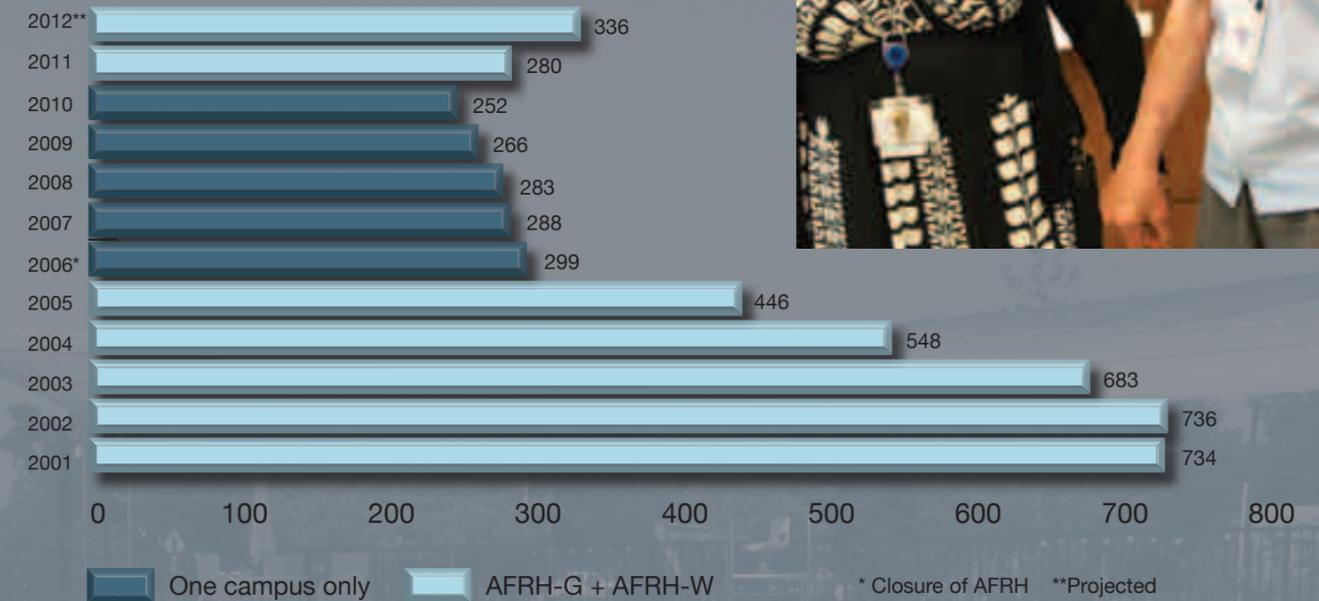
MOTIVATING VITALITY

The AFRH promotes staff creativity and resident independence.

The AFRH staff is comprised of diverse and compassionate individuals who care about our nation's veterans. Each employee encourages residents to be active and to make choices that promote vitality. The overarching goal is to deliver Person-centered Care that maximizes each resident's abilities.

However, being person-centered is not a one-way street of tailoring care to each resident. This new philosophy also encompasses an inclusive element for all Agency staff so they may also thrive. This unique approach motivates each staff member to try harder and to maximize his or her potential. To promote this concept Agency-wide, we have created a new Strategic Goal—Promote Staff-centered Environments—which adds focus to the staff's role in learning and growing.

AFRH Staffing Trends



This new approach extends to AFRH service partners who provide transportation, facility maintenance, landscaping, food service, healthcare, personnel, finance, strategic planning, marketing, and IT. By recognizing the needs of everyone involved in resident service, the AFRH has crafted a culture that inspires and nurtures.



The result: we have been able to achieve more with fewer staff members. Over a 10-year period, our employee roster has been continually fine-tuned to match the evolving community needs, the emerging resident independence, and the smaller campus population.

Agency New Direction

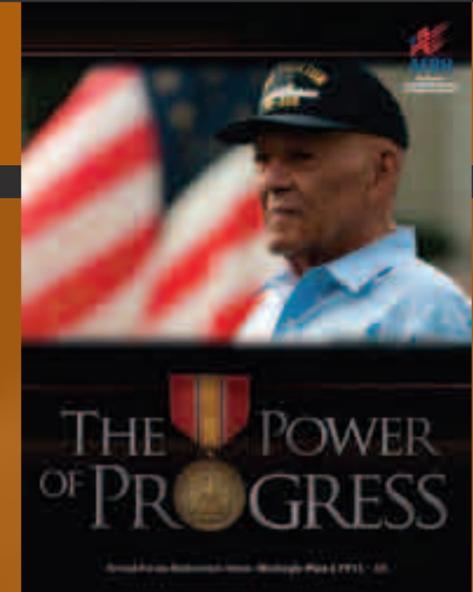
INVIGORATING STRATEGY



Congressman Joe Wilson & Raymond Whitelow (Air Force) at AFRH-W in May.

The AFRH Vision and Guiding Principles were updated in FY11 to meet and exceed the expectations of a new generation of residents. Advanced business practices and ongoing capital improvements have bolstered service. Plus, we revamped our facilities and programs to include Aging in Place, the movement that promotes personalized care and broader support. Each day, management is achieving its strategy to create two premier facilities that are also cost-effective.

The AFRH 2006-2010 Strategic Plan ended on a high note with the opening of the new facility in Gulfport. On the heels of this and other achievements, we refocused our person-centered approach to retirement living. The updated FY11-15 Strategic Plan builds on the original strategy's success while seeking new and better ways to manage the Agency. After all, prudent management and fiscal discipline put us in the position to re-create the AFRH in the first place.



See the full [AFRH Strategic Plan](http://afrh.gov) at afrh.gov.

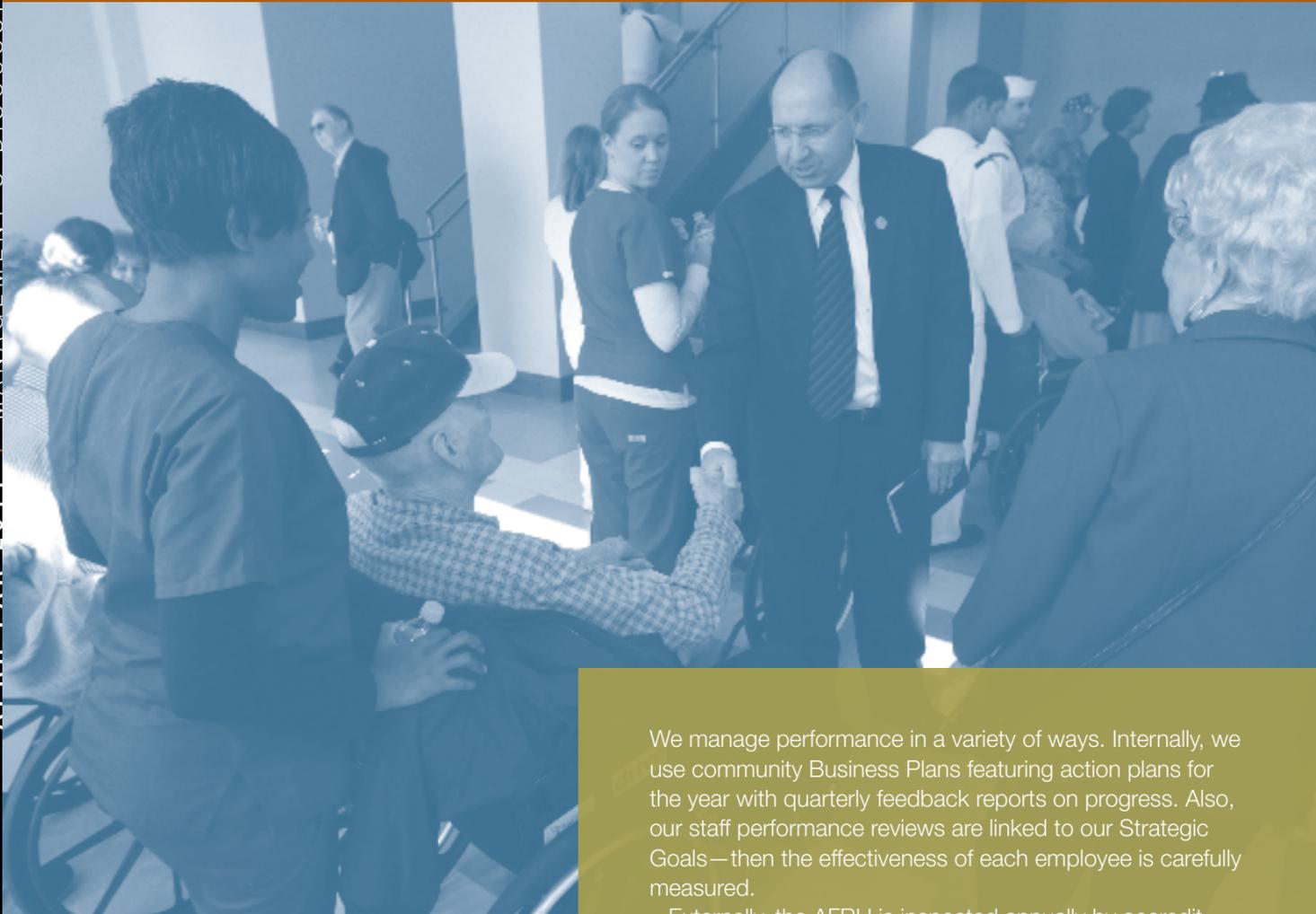
KEY STRATEGIC PERFORMANCE GOALS

In keeping with the Obama Administration's approach to focus on measurable goals with high impact, the AFRH chose to focus on vital areas that impact its future. Below are the four key Goals of the AFRH:

- | | | | |
|---|--|-------|--|
| 1 | <p>Embrace Resident-centered Care</p> <p>Each person will understand each resident's individual needs and take realistic action to fulfill them within AFRH resources and capabilities.</p> | NEW 3 | <p>Promote Staff-centered Environments</p> <p>Expand staff knowledge that directly impacts the accountability and efficiency of the Agency, which will in turn empower all employees to be proactive.</p> |
| 2 | <p>Maintain Exceptional Stewardship</p> <p>Pursue and implement innovative ways to deflect, reduce, and manage costs by maximizing assets, resources, and programs to fulfill needs and wishes of current / future residents.</p> | 4 | <p>Leverage External Stakeholders</p> <p>Harness, cultivate and focus our external stakeholders to become increasingly active participants who are engaged in AFRH operations in each of the next five years.</p> |

Performance Summary & Highlights

IMPRESSING ACHIEVEMENTS



We manage performance in a variety of ways. Internally, we use community Business Plans featuring action plans for the year with quarterly feedback reports on progress. Also, our staff performance reviews are linked to our Strategic Goals—then the effectiveness of each employee is carefully measured.

Externally, the AFRH is inspected annually by accrediting bodies or the DoD IG, and when required by OPM. The AFRH Corporate maintains documentation for Agency accreditation and also manages issues, risks, and quality improvement derived from inspections.

OUR CHALLENGES

The AFRH managers understand which challenges require hard work and steadfast commitment. We are tracking progress on them regularly and are striving constantly to overcome them.

“The staff is concerned about each person. It’s a receptive atmosphere.”

—Esker McConnell, AFRH-W RAC Chair (Army)

MANAGEMENT CHALLENGE

Return Residents to Gulfport and Initiate Programs & Services

INSPIRING RESULTS

- > residents safely returned starting Oct 2010
- > over 490 lived in Gulfport by Sep 2011
- > staff was added to provide full services

Implement, Manage & Monitor AFRH-W Scott Project Plan

- > Scott Building closed in Dec 2010
- > old Scott demolished by end of Sep 2011
- > Transition Period fully deployed using interim spaces for programs & activities

UNEXPECTED EVENT

- > the earthquake damaged Sherman Building.
- > residents & staff were shaken, but safe.

PERFORMANCE CHALLENGE

Implement Scott Project Construction

- > demolition & design-build is on-track
- > preparing for groundbreaking: Nov 2011
- > on time & within budget

INSPIRING RESULTS

Implement ILP Program

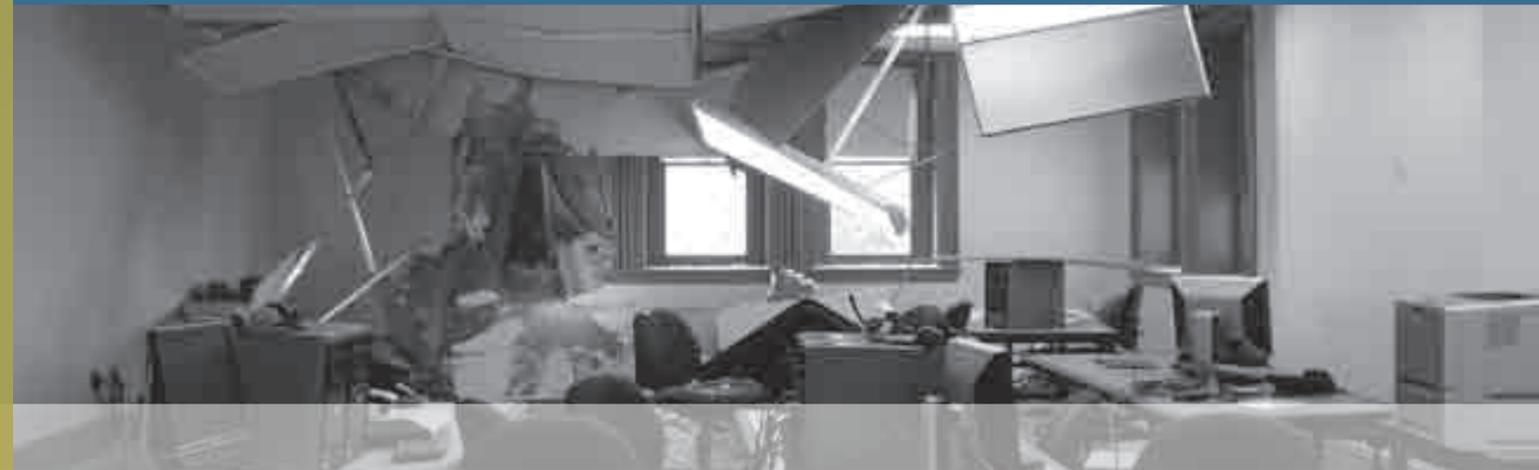
- > AFRH-G ILP began; up to 39 by Sep 2011
- > AFRH-W ILP up to 52 by Sep 2011; staff added

Implement e-Records / e-Health Records Systems

- > HealthMEDX contracted for AFRH-G
- > training at both AFRH-G & -W completed (to begin in FY12)

Financial Management of Operating Costs & Expenditures

- > internal controls & risks in sync with performance improvement
- > exceptional stewardship
- > strategically transitioning to decrease resident populations in levels of care
- > attainment of LRFP financial goals



During the earthquake, stone and debris crashed through the roof into our offices.

PERFORMANCE TRENDS & FY11 RESULTS

Performance Measures by Strategic Goals	Baseline Performance Measure Target set Before FY11*	Baseline Performance Measure Target set in FY11	FY07	FY08	FY09	FY10	FY11
Goal 1: EMBRACE RESIDENT-CENTERED CARE							
Accreditation*	In good standing	In good standing	Met	Met	Met	Met	Met
% of resident satisfaction*	70%	70%	Met	Met	Met	Met	Met
% of resident assessment plans*	95%	95%			Met	N/A	Met
Goal 2: MAINTAIN EXCEPTIONAL STEWARDSHIP							
Trust Fund solvency	Even balance of resources versus obligations	Even balance of resources versus obligations	Met	Met	Met	Met	Met
Accuracy of financial reporting*	Unqualified audit opinion	Unqualified audit opinion	Met	Met	Met	Met	Met
Housing for veterans (Scott Project)	On schedule and within budget	On schedule and within budget	Met	Met	Met	Met	Met
Trust Fund growth		Positive result of Washington Master Plan					NA
Cost avoidance		1 per year					Met
Goal 3: PROMOTE STAFF-CENTERED ENVIRONMENTS							
Evidence of measurable training goals*	80% participation in 4 mandatory training classes for all staff	80% participation in 4 mandatory training classes for all staff	Met	Met	Not Met	Met	Met
% of Employee Climate Survey responses of "Excellent" or "Very Good"	70%	70%		Met	Not Met	Not Met	Met
Measureable evidence of growth beyond work activities		Development Plan					Met
Achievable Person-centered Care		2 initiatives per year					Met
Goal 4: LEVERAGE EXTERNAL STAKEHOLDERS							
Congressional contacts		Quarterly					Met
Annual community events		2 per community per year					Met



When residents are asked what's so special about AFRH, a common answer is "the activities". Staff is the driving force behind activities—so our strategy to create a staff-centered environment where employees can thrive is definitely working. Susan Bergman is one employee who has the pleasure of seeing residents in action: "The more we add their interests onto the schedule, the more they want to come to activities. And that increases participation."

Bergman tracks resident participation monthly. In April, there were over 600 interactions, which meant over

80% engagement. Susan is very pleased with those results: "It's pretty cool, tracking that. You do it everyday but you don't immediately realize the cumulative impact. All those little interactions add up."

Recreational activities include music, cross-stitch, and field trips. Gardening is also a favorite pastime. Susan guides the residents to Walmart to choose seeds. Then, even those who didn't make the trip help plant, water, and nurture those seeds into big vegetables.

"Recreation makes a big difference in their lives."

—Susan Bergman
(Recreation & Music Therapist)

INSPIRING RESULTS

Once again, our financial management and resident satisfaction measures have earned high marks. Yet, the challenge remains to meet those measures that involve our staff. To improve results in this area, the AFRH has created a new strategic goal: Promote Staff-Centered Environments.

Our strategic and performance planning is a mix of measures from the 2006-2010 strategy combined with the new ones in our FY11-15 Strategic Plan. The summary below matches the measures that are reported in more detail in Performance.



Financial Overview

PROPELLING RESOURCEFULNESS

The independent accounting firm Brown & Company expressed an Unqualified Opinion on our comparative FY11 and FY10 Financial Statements, Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and Statement of Budgetary Resources. Further, Brown & Company did not report any material weaknesses.

Agency management, in partnership with BPD, is accountable for the integrity of the financial information presented in this Report. All Financial Statements and data have been prepared from the AFRH accounting records in conformity with Generally Accepted Accounting Principles (GAAP) as defined by the CFO's Act of 1990 and OMB.



AFRH Trust Fund: Solvent

AFRH is unique in that all funding comes from its Trust Fund, as allocated by Congress.

TRENDS: The Fund balance has fluctuated throughout its history, reaching dramatically low levels in the early 2000s. Through efficiencies and economies, management raised that balance to an all-time high of \$186 million last year. In FY11 the AFRH expended funds as an investment in future generations of residents via the Scott Project. This reduced the Trust Fund balance to \$162 million. Still, through our Long-Range Financial Plan (LRFP) we forecast that the Trust Fund will remain solvent and its balance will increase again to current levels by FY15.

Limitations of the Principal Financial Statements

Our Statements have been prepared to report the financial position and operating results of AFRH, pursuant to the requirements of 31 U.S. 315(b). They were prepared following GAAP. These statements are in addition to financial reports prepared from the same books and records used to monitor and control budgetary resources. They should be read with the understanding they are for a component of the US Government, a sovereign entity.

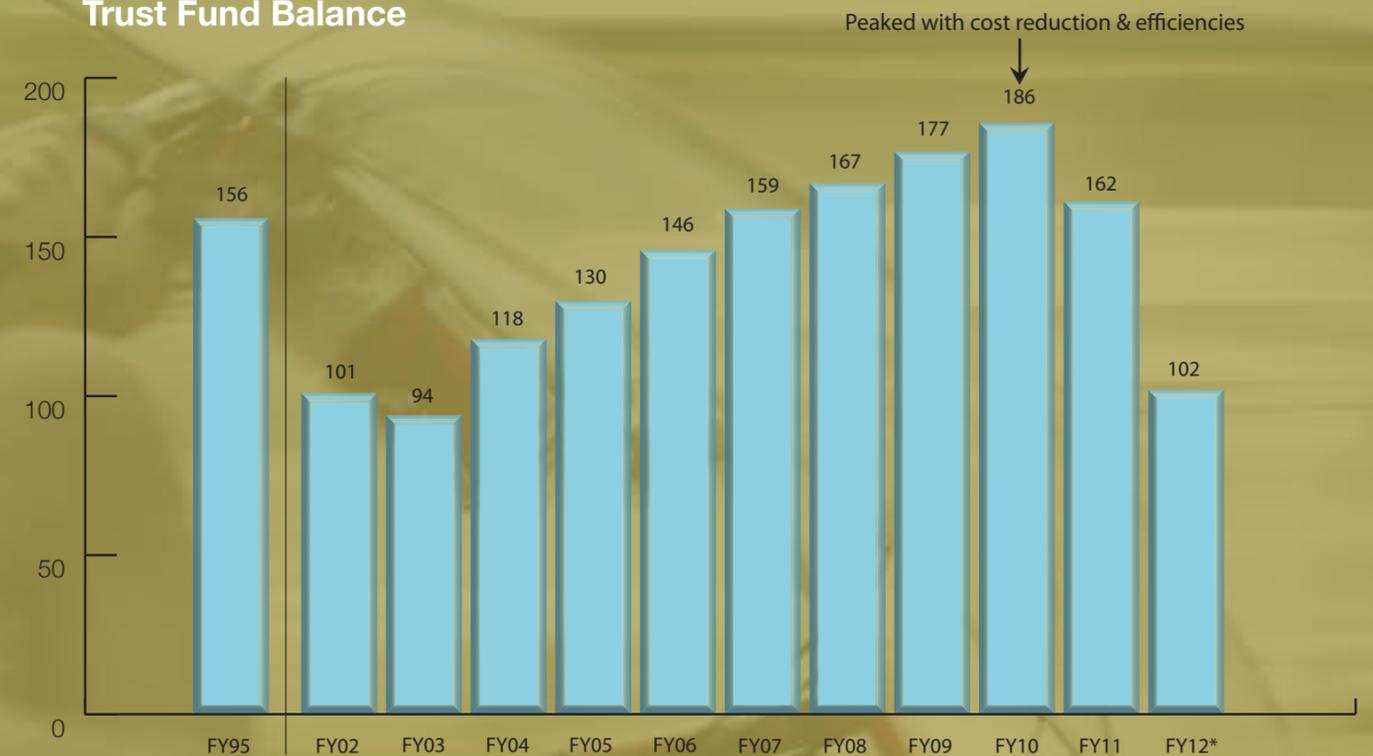
INSPIRATION

7th Consecutive Unqualified Opinion

Audit Trends:

FY04	N/A
FY05	Unqualified
FY06	Unqualified
FY07	Unqualified
FY08	Unqualified
FY09	Unqualified
FY10	Unqualified
FY11	Unqualified Opinion

Trust Fund Balance

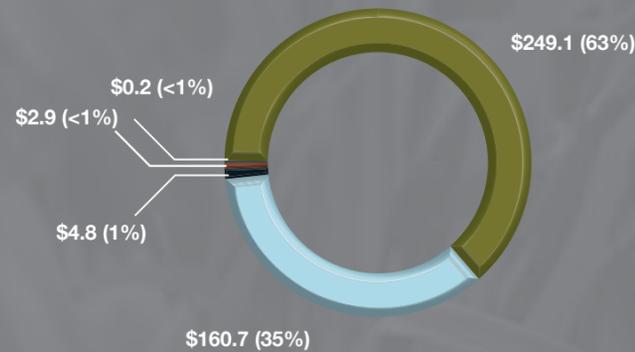


*Projected

Ending Net Position: Slight decrease

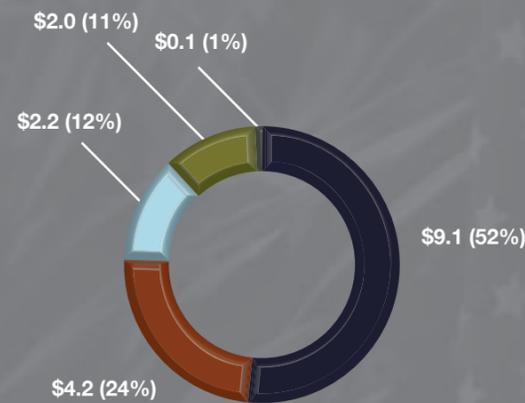
	FY11	FY10	Net changes:	% Change
Assests	\$ 462,654,637	\$ 478,932,570	(\$ 16,277,933)	-3%
Liabilities	\$ 17,636,058	\$ 16,776,584	\$ 859,474	+5%

AFRH Assets FY11 (in \$ Millions)



- Fund Balance With Treasury
- Investments
- Property, Equipment, and Software, Net
- Accounts Receivable, Net
- Accounts Receivable

AFRH Liabilities FY11 (in \$ Millions)



- Federal Employee & Veterans' Benefits
- Other (Note 8)
- Intragovernmental Other (Note 8)
- Intragovernmental Accounts Payable
- Accounts Payable

*Numbers are rounded

Assets & Liabilities: Changing

Net Position is the current value of the Agency's assets less liabilities. Our Net Position at the end of FY11 (per the Consolidating Balance Sheet and the Consolidating Statement of Changes in Net Position) was \$445 million: a \$17 million decrease from the prior fiscal year. This decrease reflects spending from the Trust Fund for the ongoing Scott Project and standing up Gulfport.

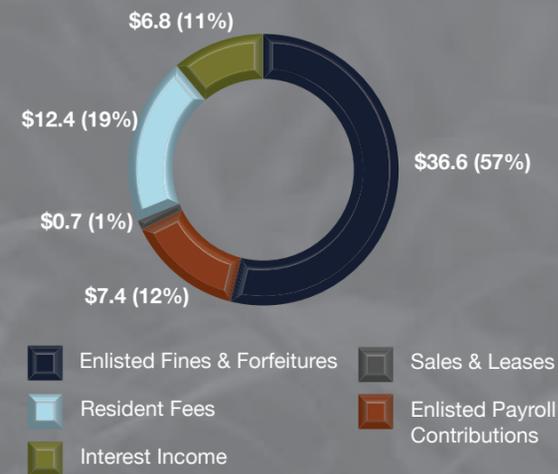
Major Expenditures: Resident Care

The AFRH began tracking its expenditures by Strategic Goal in FY09. An analysis of that data shows that the Agency has been spending the greatest proportion of its funds on the Goal of Exceptional Service (which supported our High-priority Performance Goal of Healthcare and Improved Housing). The next highest expenditure was in Stewardship, encompassing the Agency's drive to modernize and improve operations.

In FY11, the AFRH revamped its strategy. The data we currently have is mapped to FY06-10 Strategic Goals. Starting in FY12, data will be mapped to our new strategy.

Revenue: Fluctuating

AFRH FY11 Revenue Sources (in \$ Millions)



- Enlisted Fines & Forfeitures
- Resident Fees
- Interest Income
- Sales & Leases
- Enlisted Payroll Contributions

Amounts are based on a cash basis.

AFRH 5-year Revenue Trend



The AFRH Trust Fund, established by Congress in the 1800s, is the source of funding for all operations and capital expenditures. Its revenue comes from automatic deductions from active duty military (enlisted and Warrant Officer including US Coast Guard), 50 cents per month per person for the duration of service, plus Enlisted and Warrant Officer Fines & Forfeitures from all branches of military service and US Coast Guard, Interest Income (on Treasury Notes), Sales / Leases, and Resident Fees.

Enlisted Fines & Forfeitures are the main source of revenue for the AFRH Trust Fund, typically accounting for more than 50 percent. These funds come from conduct violations charged to eligible active duty personnel. In recent years, we have seen a decline in that revenue source.

Sales / Leases have decreased with the departure of the Corps of Engineers in Sherman North to make room for transitional dining for the Scott Project. Then, the earthquake forced the closure of Sherman, eliminating income from independent dormitory rooms for staff relocations and from the DC Public Charter School.

AFRH FY11 Net Costs by Strategic Goal (in \$ Millions)



- Improved Processes
- Culture of Integrity
- Exceptional Service
- Financial Growth
- Learning & Growth

Our new strategy focuses on Person-centered Care.

FY06-10 Strategic Goals

Exceptional Service / Financial Growth
Improved Processes / Learning & Growth
Culture of Integrity

FY11-15 Strategic Goals

Resident-centered Care / Exceptional Stewardship
Staff-centered Environments / External Stakeholders

Budget: \$71 Million

The Congressional Budget Request for FY11 totaled \$71 million (\$69 million in O&M and \$2 million in Capital Improvements). This was a net decrease of \$63 million over FY10.

Conversely, the Agency's annual operating costs have increased by \$7.1 million. This growth is associated with the opening of our new 660 thousand square foot facility in Gulfport, MS—plus approximately \$8 million to stand up a workforce and initiate base year contracts for operations that began in October 2010. FY11 marks the last year of growth in operating costs, as the new AFRH-G facility began operations in Gulfport, MS on October 1, 2010.

Our strategic objectives for both campuses became a reality as Washington managers worked diligently to replicate their processes, contractual services, and programs for a receptive new Gulfport management team. For the first time in the storied history of the AFRH, we have two campuses mirroring one another in operations.

We expected our Budget Authority to stabilize in 2011 as resources (funding and FTE) continue to shift from Washington to Gulfport. Although we opened Gulfport at the start of FY11, the AL, MS, and LTC populations will surely grow as residents Age in Place. Initially we planned for a minimum number of beds to be occupied in these levels of care to minimize costs Agency-wide.



Long Range Forecast

We are working on multiple initiatives to reduce costs in the out-years. Our primary efforts are an ILP program to assist our residents with aging in place. We believe this effort will reduce costs in the Trust Fund while enhancing the care and wellbeing of residents.

The greatest risk to the Trust Fund occurs in the Transition Period: 2010 - 2013. During this timeframe we have been establishing and maintaining operations in Gulfport and shifting to a reduced footprint in Washington. We recognize negative growth will occur in the transition years as we expense the Scott Project, yet we expect positive growth to continue after 2013. In fact, many of these infrastructure and facility upgrades will have a positive, direct impact on the long-term solvency of the Trust Fund.

RESULTS: The Trust Fund is solvent for two severe risk scenarios from FY11–20.

Capital Improvement Plan

The AFRH is committed to being person-centered. So, we created the Scott Project to refocus our attention and revamp our facilities to promote Person-centered Care and Aging in Place. While the AFRH has created an LRFP to evolve and remain solvent, management also must maintain its plans for each campus to achieve this vision.

The 10-year Capital Improvement Plan (CIP) for each community was updated in FY11. Working with residents and staff on each campus, our managers developed a vision of the physical needs for both. Each CIP includes a compilation of various development projects with detailed descriptions, dependencies, compliance requirements, and costs. An added purpose of these Plans is to align the LRFP with the Agency's new capital improvement needs.

The AFRH-G campus, albeit modern and efficient, still has capital improvement needs given the Agency's new focus on Person-centered Care. So, projects envisioned for development by 2021 must be planned and funded.

At AFRH-W, the most valuable and efficient footprint is the historic quadrangle near the Eagle Gate. Hence, AFRH-W is no longer utilizing buildings that do not directly serve residents—such as the old security building and the Grant Building. These structures are a still valuable resource and are now available for renovation and lease by outside entities. Hence, AFRH-W has 48 projects that are now in line for funding and execution.

Although Sherman is in the CIP, most likely its priority will be moved up because of the earthquake damage. We are working with DoD and Congress to identify the requirements.

Environmental Initiatives

Under Federal mandates (Executive Orders 13423 and 13514), the AFRH completed its first comprehensive evaluation of energy usage and greenhouse emissions. Its first report will be forthcoming in FY12.

FY11 marks the first year of significant energy efficiencies with the opening of the new Gulfport facility. It is undergoing certification for LEED Silver energy efficiency. One AFRH-W construction goal in the Scott Project is focused on LEED Gold certification for the new Scott Building.

Further, the AFRH performed an investment grade audit on three buildings at AFRH-W—the Sherman, the Sheridan, and Quarters 2. Recommendations with costs to improve energy efficiencies were detailed and will be combined in the Agency's energy initiatives in the next reporting period for the Executive Orders.

Per the Department of Defense (DoD) environmental initiatives, the AFRH is committed to improve facility sustainability to reduce its carbon footprint. The goals are to reduce emissions, energy consumption, and water usage to meet Federal reductions standards. Our new energy efforts, combined with a reduced footprint at AFRH-W, will reap the greatest savings.

AFRH is driven to reduce its carbon footprint.

Key Actions

Supporting Actions



Complete the Scott Project that reduces operational square footage by 400,000 square feet (Feb 13)

Shut down the Power Plant to reduce emissions (Feb 13)

Dispose of, sell, or lease 77 acres to reduce consumption (TBD)

Energy Goals:

- 30% reduction in energy intensity by 2015 (2003 baseline)
- 26% reduction in water intensity by 2020 (2007 baseline)
- 22% annual reduction of petroleum product usage by vehicle fleets through 2020 (2005 baseline)
- Reduce waste generation and increase recycling
- Reduce toxic and electronic waste
- Increase renewable energy usage

LEGAL & REGULATORY COMPLIANCE



MANAGEMENT ASSURANCES

Good stewardship can be defined as the effective and responsible management of the resources that have been entrusted to us. For the AFRH, those resources include the funds in the AFRH Trust Fund and the buildings and grounds at the two AFRH communities.

Beyond responsible management, we are bound to generate great progress in resident care, financial management, Strategic Goals, and Key Strategic Performance Goals continually. Success in all of these endeavors and more will help us achieve the AFRH Mission.

Internal controls are an integral part of all AFRH systems and processes. Of late, AFRH managers have been directed to place greater emphasis on performing duties in compliance with applicable laws and regulations. At the same time, managers must maintain strict operational and service integrity.

“AFRH can provide reasonable assurance FMFIA objectives have been met.”

—**Steven G. McManus,**
AFRH COO & CFO

STATEMENT OF ASSURANCE

The AFRH is in full compliance with all applicable requirements in accordance with the Federal Managers' Financial Integrity Act (FMFIA), PL No. 97-255 Section 2, and OMB Circular A-123—Management's Responsibility for Internal Control. AFRH managers, along with our partners BPD and the National Finance Center (NFC), actively participate in all IC.

Based on our annual analysis, the AFRH can provide reasonable assurance that FMFIA objectives have been met. Also, no material weaknesses have been reported in our IC or financial reporting. Given our comprehensive management controls, I am pleased to certify with reasonable assurance that:

- AFRH financial reporting is reliable. Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with GAAP. Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- AFRH internal controls are effective for both the financial reporting through our partner BPD and for our campus operations through our corporate IC Board.
- AFRH is in compliance with all applicable laws and regulations under FMFIA, FFMIA and FISMA. Financial and business exchanges are executed in accordance with laws governing the use of budget authority, as well as laws and regulations that could have a direct and material effect on the financial statements.
- AFRH performance reporting is reliable. Performance measures are properly recorded, processed and summarized to permit information preparation per criteria established by AFRH management.

Sincerely,

Steven G. McManus
Chief Operating Officer (COO)
Chief Financial Officer (CFO)
November 15, 2011

RISK MANAGEMENT

In the past two years, the AFRH managers have focused their internal controls on expanded action planning for identified risk areas. Using Performance Improvement reviews on each campus, each Director performs analysis and review of risks. The IC Board only deals with high risks. Each quarter, the Directors report and brief the IC Board on high and moderate risks.

At the Corporate Level, the AFRH monitors expansive, long-term projects aimed at reducing risk. Currently those projects include:

- 1) The Scott Project
- 2) The AFRH LRFP
- 3) The CIP
- 4) The Washington Master Plan

SCOTT PROJECT

1

The overarching goal: boost service and amenities, while lowering operating costs. Our budget forecast shows AFRH-W operating costs will reduce from \$45.9 million in FY09 to \$36.6 million in FY12. These savings will yield an annual Return on Investment (ROI) of 29% on the \$76 million construction investment.

Major savings on cost drivers:

- Closure of a dining facility & its operations
- Elimination of on-campus transportation
- Reduced custodial requirements
- Reduced facility maintenance needs
- Reduced subsistence costs
- Reduced utilities costs
- Reduced nursing staff by nearly 50%
- Closure of the LaGarde Building
- Reduced square footage: app. 421,050 sq. ft.

Fiscal benefits of Scott Project:

- Postures AFRH operations for positive Trust Fund Growth
- Creates similar capacity & service between AFRH-G & W
- Finalizes the closure of 77 acres for future development
- Lays a foundation to close the aging Power Plant
- Enhances wellness, which will reduce the cost of care

Success in Transition Period (FY10-13):

- Reduced Population at AFRH-W
- Executed Contract Strategy
 - > Made modifications for reduced scope
 - > Pushed for same costs on each campus (Dining Services & Custodial)
- Engineered Contracts at AFRH-W:
 - > Facility Maintenance
 - > Grounds Maintenance
 - > Dining Services
 - > Custodial
 - > Transportation
 - > Pharmacy & Medical Supplies
 - > Nurse Staffing
 - > Utilities
- Added Savings from ILP
 - > Minimized growth of AL at AFRH-G
 - > Reduced growth of AL at AFRH-W

THE CIP

3

The LRFP is a 10-year projection of the Trust Fund balance derived from revenue flowing in minus the costs that flow out (E.g., operations & maintenance plus all capital improvements).

The LRFP considers detailed forecasts of the impact of efforts to reduce operating costs and improve resident wellness. Cost savings at AFRH-W include maintaining less square footage, new contracting processes, changing IT processes, and enhanced energy efficiency. At AFRH-G, new energy efficiencies are part of the strategy, too. Such initiatives, along with compliance with EOs on energy efficiencies, will move the AFRH toward optimal efficiency.

Long range planning is vital now, as the AFRH is investing in a new building, making capital improvements, and implementing new operating processes. The LRFP recalculates the Trust Fund balance projection using a variety of future economic scenarios such as inflation, interest rates, and reduction in revenue from active duty personnel.

In a sense, the LRFP acts as an advance-warning tool to focus management's attention on areas that may become future high-cost problems.

The AFRH maintains 10-year CIPs for both communities. Both Plans include a compilation of various development projects with detailed descriptions, dependencies, compliance requirements, and costs. An additional purpose for these Plans is to align the LRFP with the Agency's identified capital improvement needs.

The aim of these Plans is to make sure the facilities align with the philosophies of Person-centered Care and Aging in Place. The AFRH has expanded and now tracks all projects year by year. This ensures that the Agency achieves its Goals, meets legal and governmental requirements, addresses resident needs, and delivers resident-focused care.

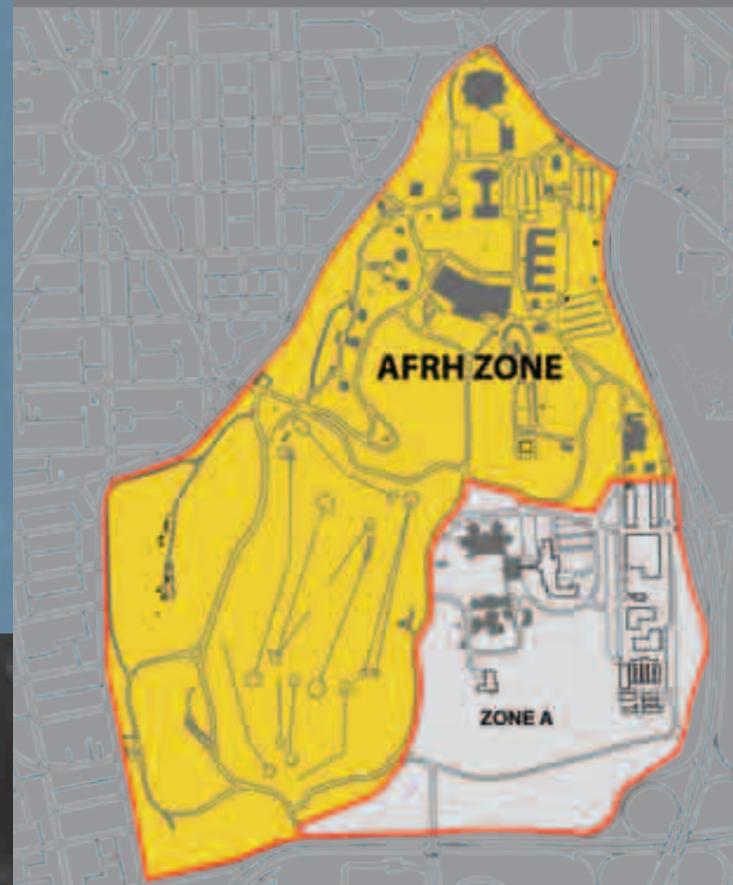
WASHINGTON MASTER PLAN

4

The National Defense Authorization Act for FY02 (as modified by Public Law 111-084) permitted the AFRH via DoD to sell, lease, or otherwise dispose of underutilized buildings and property. So, we launched the Washington Master Plan as the basis of the AFRH risk management strategy. The focus of this Plan is to preserve and improve the Home for residents, as well as to generate additional revenue for the Trust Fund.

Given the changing economic conditions beginning in 2008, we had to shift our focus from revenue generation to infrastructure improvements. We mothballed facilities within the 77-acre development zone and closed buildings not serving residents. Plus, we initiated the shutdown of the Power Plant, the remapping of utility grids, and the revitalization of key historic buildings.

During FY11, the Army Corps of Engineers was engaged to determine if the designated 77 acres are excess (per June 2010 Presidential Memorandum--Disposing of Unneeded Federal Real Estate) and if they could potentially be offered for lease or sale. This study continues in FY12.



INTERNAL CONTROLS

Rigorous controls are integrated into our financial reporting system, via BPD and NFC. An AFRH Senior Assessment Team, established by the CFO, has maintained oversight of our IC program since 2006. Each manager on this Team reports controls through an annual survey. The AFRH can provide qualified assurance that controls over financial reporting were operating effectively as of Sep 30, 2011.

Our IC categories (required by law):

1. Control Environment: organizational structure & culture
2. Risk Assessment: identifying factors that may hinder objectives
3. Control Activities: policies, procedures & mechanisms
4. Information & Communications: flow of information
Monitoring: periodic assessments

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA)

This Act requires each agency to report the health and integrity of its financial, program, and related activities. It ensures that resources are consistent with the overall mission, that programs achieve intended results, and that both are free of waste, fraud, and mismanagement. Further, the Agency COO must see that laws and regulations are followed and that fiscal management complies with Federal standards. FMFIA sets requirements for internal controls as well as requests yearly evaluation of the control and financial systems to protect their integrity. The AFRH performs these evaluations annually and is pleased to report no "material weaknesses" have been found in FY11.

An independent audit was performed on BPD's financial management systems (i.e., the controls placed on the financial management systems). This assurance via Standards Number 70 (SAS70) validates the integrity of AFRH management controls and our compliance with Federal financial systems standards.

NBC's SUPPORT INCLUDES:

- Applying relevant updates or patches
- Configuring servers and user accounts securely
- Installing/operating firewalls & network monitoring tools
- Providing virus defense & incident response
- Offering periodic vulnerability assessments, and
- Ensuring a complete Network Interconnect Agreement

We are in the process of kicking off our Certification & Accreditation (C&A) process with NBC. This is a part of the FISMA requirement that all agencies have this certification done every three years. Our FISMA review for 2011 was not completed before the end of the fiscal year, but will be conducted during the first quarter FY12.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

FFMIA requires all agencies to provide reliable, consistent disclosure of data per GAAP. For FY11, the AFRH is in substantial compliance. BPD-ARC established our accounting process and they are also in compliance and exercise internal controls. Based on Agency assessment and the audit opinion, the AFRH is in compliance with Federal financial management systems requirements, the Federal Accounting Standards Advisory Board, and the US Standard General Ledger (USSGL) at the transaction level.

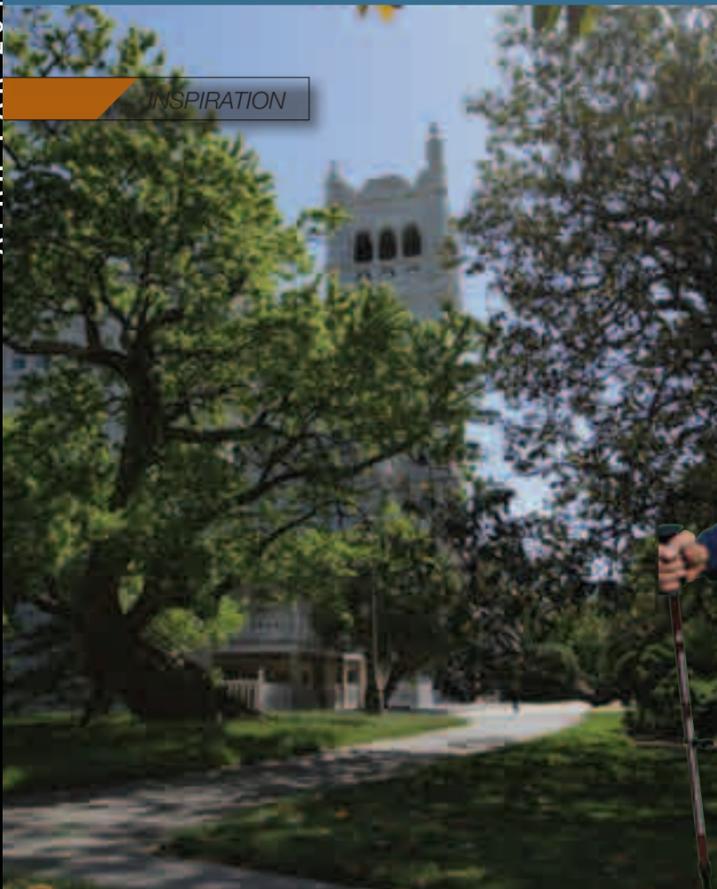
The AFRH is FFMIA compliant at the Agency & auditor levels via:

- Overall Substantial Compliance
- System Requirements
- Accounting Standards
- USSGL at Transaction Level

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

FISMA requires a competence review of information security and privacy policies, procedures, and practices. One of its primary objectives is to ensure the effectiveness of information security controls. The AFRH has worked tirelessly to move to a FISMA-compliant environment starting in FY09.

Department of Interior (DOI) NBC, through a Memorandum of Understanding, provides FISMA compliant desktop support and hosting services consolidation for all IT. In FY10 AFRH-W became operational and in FY11 AFRH-G came online.



INSPIRATION



The earthquake closed the Sherman—but the network inside never wavered.

FINANCIAL MANAGEMENT SYSTEMS

The AFRH uses financial systems from our partner BPD-ARC (Oracle financials 11i, Oracle Assets, PRISM and WebTA). ARC personnel operate and maintain the system, ensuring top-notch support. Plus they provide value-added services that interface with Oracle Federal Financials (e-payroll, procurement, purchase card, e-travel, Federal investment, and IPAC transactions). Ultimately, ARC is responsible for the financial integrity and security of this system. However, payroll transactions are handled by NFC and they are integrated with the above-mentioned systems.

“It feels wonderful to fly. It’s like rockabye baby.”

— Bill Allen
(Navy)



COMPLIANCE

With the National Defense Authorization Act of FY09, the AFRH was required to secure and maintain accreditation by a nationally recognized civilian entity for every aspect of each facility of the Home (including medical and dental care, pharmacy, IL, AL, and nursing care). The AFRH maintains a national accreditation and must be inspected annually. In the years the accrediting entity does not inspect, the DoD IG assesses the Agency. The DoD IG last visited the AFRH in FY09. In all other years, CARF has been on campus to validate our accreditation.

CARF/CCAC ACCREDITATION: (Valid 2008 - 2013)

CARF is the accrediting body for CCRCs and others in senior services. CARF helps ensure that retirement homes fulfill their promise of quality, lifetime care to seniors. The AFRH achieved this accreditation in September 2008 for a 5-year period ending in 2013. CARF performed an inspection (corporate and campus) in September 2010. Although there were no findings, written recommendations emphasized Person-centered Care, safety, breaking down silos, and more definitive guidelines for resident transitions.

Stemming from CARF’s AFRH-W visit, the need for understanding and demonstrating Person-centered Care by each staff member and contractor was emphasized. For the entire year, new training accelerated everyone’s knowledge of this practice. The development of a new AFRH Badge Buddy proudly declares that AFRH provides Person-centered Care.



March 1942: Japan sank the heavy cruiser USS Houston. 1,600 Houstonians volunteered to avenge it—including 16-year-old Bill.

“After Basic, I was a crewmember on Airship Blintz, a 300-ft. Navy blimp. Our job: locate enemy subs. I was an expert in Radio Radar and Magnetic Air Detection. We could locate subs underwater.”

Bill escorted Navy convoys from Brazil to Africa. “Every time a sub saw us, it dove back down. They knew we could sink it.” No convoy escorted by blimp ever lost a ship. “It’s an immense bag and hell to sail. We called it ‘Lighter Than Air’. Many hours I’d look out and see ships at sea, as far as the eye could see.”

Bill docked at AFRH-G in 2000. “I love this Home. I live on 7th deck and sit on my balcony watching the banana boats come in. I talk to my chaplain about going to heaven. I told him, ‘I think I’m in paradise already.’”



HIGHLIGHTS FROM THE CARF SURVEYORS’ REMARKS (AFRH-W visit, Sep 2011):

“The management team has been challenged yet has been very flexible and has demonstrated the ability to be capable”

“Employees at all levels are dedicated and compassionate—open to innovation and to improvement opportunities”

“The AFRH has impressive processes to redefine process improvement”

“The AFRH has a thorough process in dealing with contracts”, and

“The AFRH exhibits a commendable thoroughness in Annual Reports”

All CARF requirements were implemented at AFRH-G to show CARF compliance for six months (April - Sep 2011). Then AFRH-G will be inspected for the first time in early FY12.

