



FOCUS FORWARD

PERFORMANCE & ACCOUNTABILITY REPORT FY09





VISION:

To actively nurture the Health and Wellness Philosophy of Aging while providing our nation's heroes with a continuum of Life Care Services in a community setting.

MISSION:

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

GUIDING PRINCIPLES:

Establish Accountability

We expect our workforce to achieve what we promise to residents, staff and service partners. To ensure success, we measure progress and provide feedback to our customers.

Honor Heritage

We honor the rich history of the US Armed Forces – from our veterans to our victories. As such, our community reflects that military heritage through memorabilia and tributes.

Inspire Excellence

We continuously work to improve each process, service and its delivery, while striving for excellence in all we do. We expect excellence and reward it.

Maintain Integrity

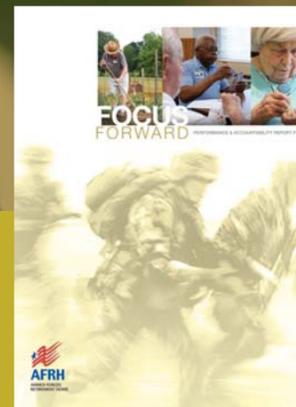
We will strongly uphold the mission of AFRH. We are honest and ethical and deliver on our commitments. We recognize that good ethical decisions require individual responsibility enriched by collaborative effort.

Maximize Workforce

We strive to hire and retain the most qualified people. We maximize their success through training and development as well as maintaining and promoting open communication.

Serve Customers

Success depends on our devotion to consistently serve ever-changing customer preferences. Hence we vow to be innovative and responsive – while offering exceptional products and services at competitive prices.



ON THE COVER

AFRH is striving to meet the needs of today's residents and tomorrow's heroes. Soon we'll see a rapid increase in military retirees. So we're modernizing for the future with Aging in Place, new amenities and advanced business practices. All of which will truly promote better health and help us all
Focus Forward

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Message from the COO

Since becoming the Chief Operating Officer (COO) at AFRH, I have focused all efforts on preserving the military's heritage of caring for its own, as well as expanding concepts in senior living. As we continuously look ahead, we are guiding our staff to maintain resident vitality and make AFRH a special place to call home. These efforts will build a dynamic, mutually satisfying bond between the residents and staff. Further, it will hone our focus forward, to make AFRH even more healthy and vibrant.

I am pleased to present our FY09 PAR, which details our achievements and challenges in program and fiscal management over the past year. This

report explains the actions AFRH has taken to exercise effective stewardship, maintain financial integrity and validate the successful delivery of our Mission. I am confident the performance information and financial data in this PAR are reliable and complete.

The transformation from an historic "Soldiers' Home" in DC to a modern CCRC¹ has advanced in FY09. We conceived a variety of plans under the Aging in Place philosophy and those plans are reflected in recent advances to staffing, programming, and construction. These developments are highlighted throughout this PAR.

WITNESS ACHIEVEMENT

In FY09, AFRH demonstrated its commitment to progress with solid achievements in ongoing strategies. Similarly, the Home is striving to ensure our actions meet the new targets by drawing links to the new administration's efforts in healthcare and caring for veterans. In the financial realm, AFRH received its fifth annual "unqualified" audit opinion and the Trust Fund balance has reached an all-time high.

Our "Exceptional Service" targets focused on providing "personalized" service by implementing Aging in Place concepts, and reviving our military heritage. The highly successful Freedom Day event held on September 22 brought together old and new gen-

erations of military, linking the Soldiers' Home founder General Scott with President Lincoln on the 147th anniversary of the signing of the *Emancipation Proclamation*.

Another aim has been to continually improve services and the cost of performance. So, we are upgrading our infrastructure, information technology, resident homing devices, telephone service, wireless access and computer availability. Also, our partnership with Walter Reed to integrate veterans' medical records with existing electronic records shows great promise in taking better care of our veterans.

Indeed, AFRH is transforming its entire culture to a new vision for senior living: Aging in Place. So our renewed emphasis in the Learning & Growth and Culture of Integrity actions have yielded many updated policies and procedures, new course offerings, and a more robust human capital program.

FY09 was unprecedented in the number of critical assessments. With our five year CARF/CCAC² accreditation valid through 2013, the Department of Defense Inspector General (DoD IG) reviewed operations in September 09

with positive comments. Office of Personnel Management (OPM) performed an annual audit and the report is due in FY10. Also, our Local Advisory Board created a bi-annual assessment that offered solid support and cited no major concerns in their spring review.

REGARDING PRIORITIES

In recent years, AFRH dedicated all resources to achieving its strategic goals under our FY06-10 Strategic Plan. The timing was right to catapult AFRH from its inefficient operations to a more comprehensive and cost-effective CCRC. After working steadily to resolve basic issues in financial management and customer service, we united around four major projects in FY08 to greatly enhance the future of AFRH. With the advent of the new administration's charge to identify high-performance goals, we realized that those projects were, indeed, our prime concerns.

In the FY10 budget, Congress funded the AFRH Scott Project under "Strengthening Infrastructure for the 21st Century" to improve housing for retired veterans. AFRH is making great strides with this Project, plus we're seeing great progress on our Gulfport rebuild in Mississippi. As such, our priorities have evolved as follows:

- Goal 1: Healthcare
(Resident Wellbeing)
- Goal 2: Housing
(Gulfport & Washington)
- Goal 3: Stewardship
(Corporate Effectiveness)

These goals are expanded upon throughout this report, but the staff is fully engaged in meeting the targets associated with them.

After a sudden turn of events, AFRH halted progress on its highly promising revenue generator – the Washington Master Plan. The economic downturn slowed our scheduled rollout due to less than favorable returns on investment. The Plan still stands approved, yet alternate ideas are being considered for development.

EXAMINE CHALLENGES

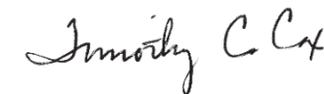
In FY09, the AFRH IG challenged us to monitor ongoing financial growth, manage our buildings and renewals, open the new Gulfport facility, orchestrate the residents' return to Gulfport, maintain AFRH accreditation and update constituents on our challenges and progress. We succeeded in making advances in each of these areas. Our oversight and ongoing inspections show, time after time, our ability to step up and provide the best service to our veterans.

These challenges remain, but the emphasis for FY10 will be in performance, specifically in Human Capital. Training and staffing for our new Aging in Place offerings, as well as our new facilities, will take center stage. While the culture is changing, we must guide it closely.

FOCUS FORWARD

I am pleased we have completed so many milestones in our corporate infrastructure, resident programs and staff development. FY09 was another remarkable year at AFRH. Yet, we have our sights set on the complete transformation of our operational model to showcase Aging in Place. A truly modern AFRH will reflect the needs of today's residents as well as those of current active duty who will need our services tomorrow.

Sincerely,



Timothy C. Cox
Chief Operating Officer
November 16, 2009

"Our Exceptional Service" targets focused on providing "personalized service by implementing Aging in Place concepts, and reviving our military heritage."

– Timothy Cox
Chief Operating Officer
(COO)

¹Continuing Care Retirement Community

²Commission on Accreditation of Rehabilitation Facilities and the Continuing Care Accreditation Commission

The Introduction features:

The Home in History

Freedom Day 2009

Aligning with Aging in Place

High-Priority Performance Goals:

Goal 1: Healthcare
(Resident Wellbeing)

Goal 2: Housing
(Gulfport & Washington)

Goal 3: Stewardship
(Corporate Effectiveness)

Risk Management

AFRH at a Glance

PAR Introduction



“I’ve had family members in the service since the Revolution.”

– Ann Whittaker
(Navy)

For Ann, military service is a tradition dating back to our country’s formation. “My ancestry goes back to John Hart, who signed the Declaration of Independence. I’m a direct descendant of his daughter. Hart’s son was a captain in the Revolutionary Army. Plus I had uncles who fought in WWI. Another uncle served the Navy in the 30s. And my brother served the Seabees in WWII. I don’t think it ever occurred to them NOT to serve. The educational benefits they received for their service were wonderful!” Ann served the Navy two years herself, from 1944-46, and married a sailor. Plus she has a long line of offspring following in her footsteps. “I had two sons in Vietnam and two in Germany. And I have seven grandchildren who all served simultaneously. Three were in Iraq at one time.” All of which received educational benefits. Undoubtedly, there will be many more patriots in Ann’s lineage. And America will be forever grateful.

The Home In History

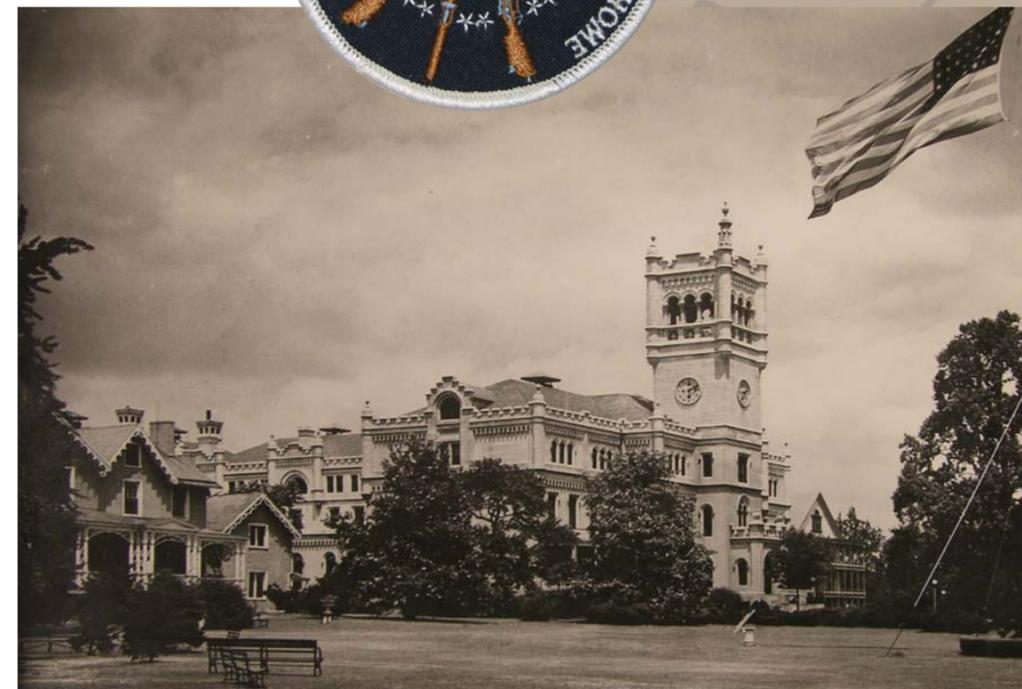


Nearly 200 years ago, the leaders of our young nation made a *Promise* to care for our aging and infirm military personnel. This pledge would be the soldiers' payoff for risking their lives to preserve democracy. In 1811 Congress fulfilled this Promise by passing legislation to build a home for destitute Navy officers, sailors and Marines in Philadelphia. By 1833, the new Naval Asylum was complete and it housed over 400 pensioners.

By 1851, momentum had built to fund a second home in Washington, DC using reparations from the Mexican-American War. At the urging of General Scott, the Government bought the Riggs cottage and farm in the Washington countryside – and established the Soldiers' Home with just three "inmates." A Trust Fund was formed to sustain the Home for future veterans.

For the next two centuries, both distinct homes evolved to meet the needs of new residents. The Naval Asylum moved to Gulfport, MS and was renamed the Naval Home. And the Soldiers' Home became a "city within a city" with a working farm.

In the 1950s, leisure and recreation took priority and new amenities were added. By 1991 both merged via Congressional Law and began operating under one standard business model. Today the two make up one thriving, modern retirement community: AFRH.





BEHOLD LIBERTY

Freedom Day

AFRH continued its rich tradition of supporting America's veterans with its inaugural "Freedom Day" event held on September 22, 2009. This daylong celebration honored the anniversary of President Lincoln's signing of the *Emancipation Proclamation*, the birthday of the Soldiers' Home founder General Winfield Scott, and American military service, past and present.



Freedom Day will go down in history as a memorable gala that showcased a range of musical talent. On hand were the Joint Service Color Guard, the US Armed Forces School of Music, a Fife and Drum Corps, the Pennsylvania Bucktails, and Comrades of the Civil War.



Many dignitaries were present to give heartfelt speeches, including Timothy Cox (AFRH COO), Frank Milligan (Director, President Lincoln's Cottage), David Moshier (Superintendent, Soldiers' Home National Cemetery), and Charles Bowen (Master Chief Petty Officer of the Coast Guard).

Hundreds of active duty military took part in Freedom Day, both as volunteers and as participants.

"I'm one of the few living relatives of General Scott. My husband was his great-grandnephew and I'm proud to live at the Home he founded."

— Frances Scott (Army) with General Scott re-enactor



The AFRH Freedom Bookmark

This gala was a perfect opportunity for AFRH veterans to swap stories and get to know the enlisted. Likewise, it was a great venue for today's enlisted to get to know AFRH and heroes who live here.

This grand event was co-hosted by President Lincoln's Cottage – the original "Soldiers' Home" established in 1851 – and now an historic landmark that sits on the AFRH-W grounds.

While living at the Cottage, President Lincoln wrote the *Emancipation Proclamation*. Since then thousands of veterans have lived at the Home.

All told, more than 1,400 people attended the Freedom Day event. Also in attendance were Wounded Warriors patients from the VA Hospital, members of the press and re-enactors who portrayed President Lincoln and General Scott.



RECOGNIZE NEEDS

Aligning With Aging in Place

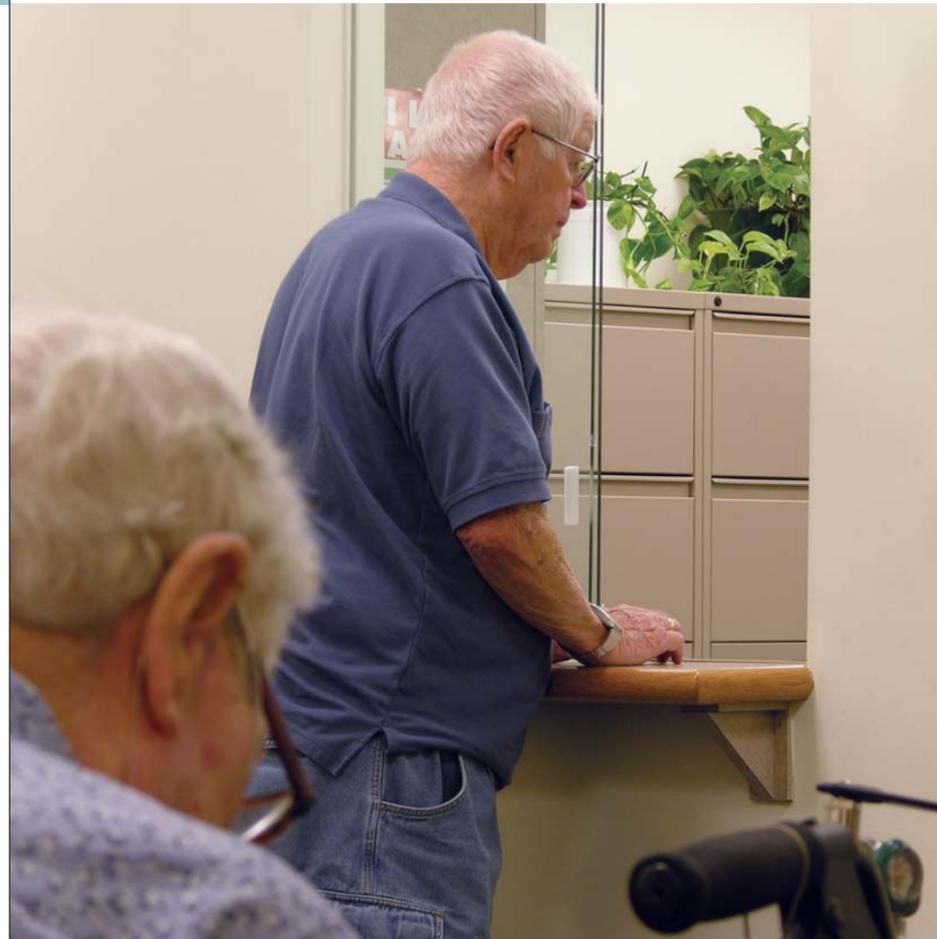
Integrated healthcare, vision & dental services

Aging in Place takes many forms at CCRCs. Generally, this movement is defined as helping seniors live in their home of choice—wherever that may be—for as long as possible. The idea is to help seniors stay connected, active members of their community. Management is committed to this new Aging in Place philosophy, as well as the original *Promise* from 1811 to care for our nation's heroes.

This vision can only be achieved by designing a proper environment and offering extensive support services. So, AFRH is leveraging all resources to maximize services to our Independent Living and Assisted Living residents so they may remain

as independent as possible. What's more, the Home will provide what is needed to provide a good quality of life – and will only curtail services when demand exceeds our resources.

Fitness Center upgrades



A new, modern Health & Wellness Center



Also, AFRH is aligning its facilities with the Federal drive for energy efficiency, by applying “green” concepts and investing in alternative and renewable energy. This includes the new Gulfport community and the new “Commons” Building planned in Washington.

Incidentally, all facilities and services in the new Gulfport community will have the very latest in senior care, including accessibility, when it reopens in October 2010. For Washington, a major facelift is the cornerstone of “The Scott Project.”

Our goal to promote Aging in Place and advance health and wellness is coming together nicely. The Home is making many upgrades across the entire community. In fact, we’re now developing buildings, services and activities to fulfill this vision. While AFRH has so much to offer as a CCRC, our plans to modernize will enhance current amenities and better suit the needs of aging veterans.

Advances for Washington:

- 1. Central dining & social areas in new “Commons”
- 2. Canteen Lounge Improvements
- 3. New kilns for Ceramics Shop
- 4. Golf shack remodeling
- 5. Bowling center improvements



High-Priority Performance Goals

Our ultimate mission is to advance the lives of our residents. As such, we identified our “High-Priority Performance Goals” for the coming year, in tandem with our FY11 budget. This is our first step in meeting President Obama’s agenda to build a high-performance government.

With help from the Office of Management and Budget (OMB), we have singled out our “significant challenges unlikely to be overcome without a concerted focus of agency resources.” Below are the Goals that will help us achieve great success.

Goals to shape our Future:

Goal 1:	Goal 2:	Goal 3:
Healthcare (Resident Wellbeing)	Housing	Stewardship (Corporate Effectiveness)
Ensure exceptional resident care and extensive support.	a. Gulfport: Add Residents to a fully functional facility in FY11. b. Washington: “Right-size” facility and give it a facelift by 2013.	Maintain overall vitality via efficient management.



FOCUS FORWARD ON: AGING IN PLACE

Goal 1: Healthcare (Resident Wellbeing)

Ensure exceptional resident care and extensive support.

It is vital to ensure resident health and wellbeing. So, AFRH management continues to modernize its facilities, improve outlets for activity, expand social networks, enhance military camaraderie and keep folks connected. In these ways and more, AFRH is leading the way for Aging in Place.

True to our goal, AFRH was highlighted in the Federal budget for

FY09 under “Strengthening Infrastructure for the 21st Century” by improving housing for eligible veterans.

One of our Guiding Principles is to deliver exceptional service. It states: “the staff vows to be innovative and responsive – while offering exceptional products and services at competitive prices.” To achieve this, our staff must stay positive, anticipate needs, listen attentively, take responsibility, keep its word, and give personal attention.

Thus we aim to achieve five short-term objectives:

1. Modernize key AFRH facilities
2. Apply Aging in Place campus-wide
3. Unite primary & specialty healthcare
4. Promote our rich military heritage
5. Personalize our customer service

Residents are the reason.

Goal 2a: Housing (Gulfport Standup)

Add residents to a functional facility in FY11.

Priority One: Staff Gulfport & ensure facility is fully operational in FY10.

A key challenge is to get our second home fully operational now, before the arrival of residents in Q1, 2011.

While damage from Hurricane Katrina closed Gulfport in 2005, Congressional funding and GSA management have driven the rebuild. And residents are eagerly awaiting the grand reopening.

With construction of the new facility more than half complete – on schedule and within budget – we can now focus our resources to our grand re-opening. All eligible, former Gulfport residents are scheduled to move in starting in October of 2011.

Thus we aim to achieve four short-term objectives:

1. Hold Monthly Q & A progress meetings for residents
2. Compile Q & As and post on afrh.gov
3. Develop plans for staffing & operations
4. Maintain schedule & budget (via GSA)



The excitement is building.

INTRODUCTION

INTRODUCTION



Goal 2b: Housing (Washington “Scott Project”)

“Right-size” AFRH-W and give it a facelift by 2013.



To fulfill our vision for Aging in Place, facilities must be upgraded properly. Yet, we must maintain financial stability in the process. So, management’s challenge was to cope with the aging infrastructure in Washington cost-effectively. Hence, the Scott Project was conceived.

The Project goal: replace the massive and rapidly aging Scott Building with a smaller and new two-building facility (with a total of 171 thousand square feet). This new, energy efficient complex will promote “right-sized” common areas and modern healthcare functions. Plus, it will be designed to modern building codes in compliance with the latest standards in senior care.

Thus we aim to achieve four short-term objectives:

1. Award Architect & Construction contracts (GSA)
2. Hold Monthly Q & A progress meetings for residents
3. Compile Q & As and post on afrh.gov
4. Plan for staffing & transition during build-out



Renovations are ramping up.

Goal 3: Stewardship (Corporate Effectiveness)

Maintain the Home's vitality via efficient management.

This Goal covers the major factors of AFRH stewardship: maintaining resident population, hiring superior staff, completing capital improvements, containing costs via effective contracts, and safeguarding the AFRH Trust Fund.

Achieving our vision to create true Aging in Place communities – with activities to match – depends on our ability to recruit, hire, develop and

retain a capable workforce. As such, we developed a Strategic Human Capital Plan (SHCP) in FY09.

Yet, success can only be realized with sound financial performance. Along with modernizing day-to-day operations and reshaping the physical plant, AFRH must craft contracts that will allow us to thrive in more modern facilities in a cost effective manner.

To this point, AFRH published a Long Range Financial Plan (LRFP) in FY09 to inform decision makers of the choices we have made, and to outline the conceived future for AFRH. The plan outlines in detail how Corporate AFRH will maintain Trust Fund solvency – and complete the desired building transformations through 2018. AFRH is committed to updating the LRFP annually.

Thus we aim to achieve three short-term objectives:

1. Implement the SHCP
2. Maintain & update the LRFP
3. Develop highly effective contracts



HEED RISK

Washington Master Plan

The core of the Washington Master Plan is to preserve and improve the Home for residents and the surrounding community. At the same time the Master Plan aims to create an additional revenue stream for the Trust Fund. This will ensure the viability of AFRH for future generations.



The National Defense Authorization Act for FY02 allowed AFRH (via DoD) to sell, lease or otherwise dispose of underutilized buildings and property. So, AFRH launched its real estate Master Plan -- which is the basis of our risk management strategy.

After six years of planning and design to develop 77 acres, we finally

received approval from the National Capitol Planning Commission (NCPC) to proceed with development in 2008. AFRH was poised to continue with GSA as our development partner.

Yet, real estate market conditions were deteriorating amid discussions between AFRH and the preferred developer (April 2007 – September 2008). Concurrently, both organizations could not agree on fundamental issues related to the control structure of the transaction. Hence, AFRH never reached an agreement to proceed with development and negotiations ended.

As a result, management has changed its priorities. We shifted away from revenue generation to infrastructure improvement.

AFRH at a Glance

Federal Authority:	AFRH Act of 1991, Public Law 101-510 (amended 2002)	
Current Locations:	Beach Drive, Gulfport, MS (49 acres) North Capitol Street, Washington, DC (272 acres)	
Organization:	AFRH Corporate (Washington, DC) manages 2 communities:	
Resident Capacity: (as of Sept. 2009)	Gulfport, MS: 0 (now under construction; when reopened: 584) Washington, DC: 1,323	
Average Resident:	81 Years Old	
Funding:	Congressional Authorizations from a Government Held Trust Fund fed by Resident Fees, Enlisted Pay Withholdings, Fines & Forfeitures and Investment Income	
Trust Fund Balance:	\$177 Million	
Major Services:	Private Rooms & Showers Medical, Dental & Vision Care Dining Facilities Senior Activities & Programs Recreational Activities	Shuttle & Public Transportation Independent Living Assisted Living Memory Support Day Care Long Term Care
Major Amenities:	Fitness Center Walking Trails LifeTrail Course 9-hole Golf Course 6-lane Bowling Center	Hobby Shops Fish Ponds 600+ Seat Theater Full-service Library Computer Center

FOCUS FORWARD

Par Introduction

Welcome back to the AFRH. Each year is a remarkable one at our Home and this year was no exception. In FY09 we crystallized our grand vision and have begun to execute our plans to build the new AFRH.

In this PAR we present our recent achievements to Congress, share the Home's rich heritage, and outline the relationship between our performance goals and the costs to achieve them. Also, this PAR meets the reporting requirements³ for US Government agencies.

Our essential mission is to provide exceptional care in a superb environment – all with great efficiency. At the same time, we are continuously implementing new advances in senior care.

AFRH is dedicated to provide the best housing for those who served. We cherish our historic Washington home, which is about to be renovated – and our modern Gulfport haven, which is under construction. With these endeavors, AFRH renews the *Promise* our 19th century leaders made to care for those who defend our freedom.

In recent years AFRH has rebounded from the impact of Hurricane Katrina and the economic instability of America. Gathering strength from adversity, AFRH envisioned an even better environment for our heroes by “forging new foundations” in 2007. Then we sought to help residents age with dignity and vigor by “building vitality” in 2008. Now, AFRH is ready to “focus forward” and fulfill these grand visions.

With our sights set on implementing Aging in Place, we have assembled the vital components: improved environments and facilities, enlightened management and staff, as well as viable programs and services.

In these pages you will witness the Home's evolution from its historic past to its vibrant future, which is brimming with opportunity. This PAR is an overview of Oct 1, 2008 – Sep 30, 2009 and demonstrates our ongoing success and ability to meet our goals. It has four parts that discuss exactly how AFRH has reached its goals and what it will take to propel forward:

Part 1. Management's Discussion and Analysis (MD&A):

This is a summary of our performance and financial status, which features accomplishments and challenges. The MD&A includes our compliance with essential legal requirements.

Part 2. Performance:

This is a detailed outline of AFRH Goals and Objectives. It shows our achievements and our shortfalls. We highlight our first set of “High-Priority Performance Goals” under President Obama's direction for high-performance government.

Part 3. Financial:

This includes the audit opinion, financial statements, disclosures and notes regarding AFRH fiduciary activities over the past year.

Part 4. Accompanying Information:

Finally, we present the IG Statement, management challenges, improper payments and Acronyms.

³ The Accountability of Tax Dollars Act of 2002

The Federal Management Information Security Act of 1998

The Federal Financial Management Improvement Act of 1996

The Government Management Reform Act of 1994

The Government Performance and Results Act of 1993

The Chief Financial Officers Act of 1990

The Federal Managers Financial Integrity Act of 1982, and

The Inspector General Act of 1978

