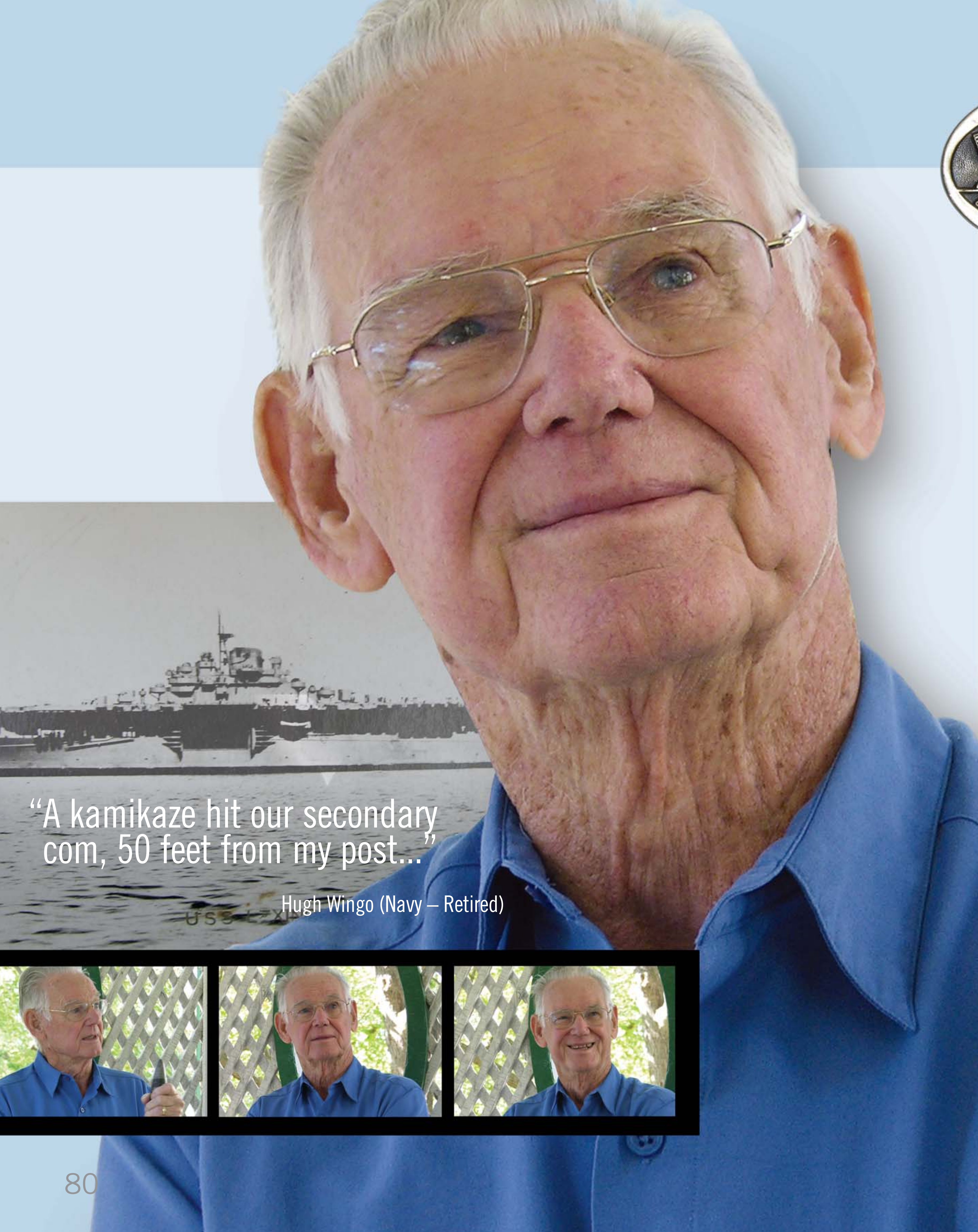


“A kamikaze hit our secondary com, 50 feet from my post...”

Hugh Wingo (Navy – Retired)


# FINANCIAL

Hugh Wingo served on the USS Benham destroyer, one of the few ships that sank. “A kamikaze hit our secondary com, 50 feet from my post - killing 50 and injuring 200. I ducked down in the gunner’s hatch to safety.” Hugh survived to serve in Korea and Vietnam, too. That versatility endures. At age 90, Hugh is a member of the Lions Club, the Fleet Reserve Association, and Toastmasters, a leadership club. He exercises daily and recently took up golf again. Plus he stays active in script plays at AFRH and enjoys reading the works of Louis L’Amour, a western writer. His next great adventure? Being a dossier at the restored Lincoln Cottage.

So far, we’ve outlined just how we laid the foundation for success. Plus we’ve highlighted the recent developments in our financial health. This section exhibits our sound financial gains.

In this part, we showcase:



*Message from the Chief Financial Officer*

# Constructing Strong Figures

*"In four years, we have grown the AFRH Trust Fund by $65 million." — Steve McManus, CFO*

I have the distinct pleasure of assuring the President, Congress and the American people of our steadfast stewardship of the public funds entrusted to us. Moreover, AFRH is maintaining its focus on residents. A recent analysis of our spending on Strategic Goals now demonstrates that 86 percent of all expenditures are for the Goal of Exceptional Service.

I am proud and pleased to report that FY07 is the year to tout the Home's success in financial performance. In this PAR, AFRH is showcasing the results of its improved government financial management.

## The Overarching Goal

Our objective in 2002 was to become financially efficient, with the goal of continuing optimal service to current and future residents. We were determined to achieve efficiency by leveraging our assets, using our property to its fullest potential, aligning workforce plans with employee standards and redesigning or renovating outdated facilities.

Our 2002 goals also included "re-visioning" AFRH as a modern CCRC. Thus, we were committed to demonstrate best value by modernizing our facilities and equipment – as well as managing our resources to create better living conditions and services for the residents of today and tomorrow.

## Accentuating Financial Performance

In 2002, Congress authorized AFRH to use its biggest asset, its land, to replenish our diminishing Trust Fund. We have been good stewards of that money: in four years, we have grown the Fund by $65 million and our FY07 end balance is $159 million. In fact, our Trust Fund Solvency study shows that if we follow our current strategy, it will be solvent through 2018.

## Utilizing the PART

In the 1990s, AFRH had grown and spread out across more than 300 acres in Washington. With this expanded "footprint" the Home's infrastructure and historic buildings were overwhelming, in terms of maintenance and cost. Further, these resources were not being used in the wisest manner. However, the PART enabled us to leverage our assets and maximize the use of our property.

According to various studies between 1995-2002, the cost of the Washington Home and its staffing were also excessive. In fact, staff was spread across our numerous buildings with growing infrastructure costs.

Hence, we set out to develop a more efficient Master Plan for the Washington property. Working with the GSA, we built a plan that generated revenue for long-term use and development of our underused property. Through the PART, we began to redefine our "footprint" on the Washington campus.

Soon, our buildings began to serve multiple purposes: we vacated numerous ones, including those dedicated to administrative functions. The employees were co-located in our dormitories to enhance resident service and promote greater efficiency. In short, these actions resulted in unprecedented cost savings. As a result, in 2004 our PART was rated "moderately effective."

## Drawing on the PMA and FAIR Act

To gain added efficiencies, we leveraged the PMA and FAIR Act. Poorly performing functions and programs with significant cost overruns – or those facing capital investment costs – became targets for A-76 studies. In addition, workforce plans were aligned with Business Plans for accountability and performance objectives.

Public-to-public outsourcing allowed us to eliminate integration problems with our network servers and thereby gain efficiencies. We integrated critical functions (such as accounting, travel, payroll, time and attendance, government credit card, procurement and investments) using a system provided by BPD-ARC.

## Measuring our Success

Although past measures for our Goals were not set, we have four years of data from our PMA self-assessments that show steady progress from 2004 to present. For our long-term Strategic Goals, we are using FY07 as the baseline, making concrete targets against which to measure year after year. Finally, we will collect standardized data for comparison and we have developed seven performance indicators especially for Financial Growth.

## Shaping the Future

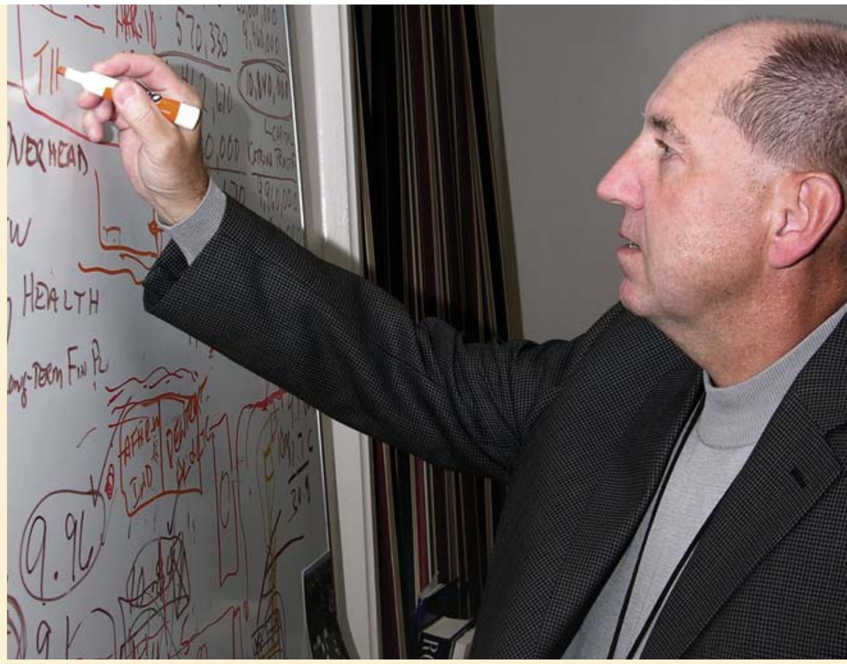
Our financial management successes are noteworthy. Through our efforts, we have postured the Home for continued growth and prosperity. Along with the achievements discussed here, we gained our third consecutive "unqualified" audit opinion. And our Trust Fund balance is healthy.

In accounting, our internal controls have yielded less than one-half of one percent errors. For FY08, we are poised to implement our cost-savings initiatives and continue with our asset management and acquisition strategy.

Undeniably, the future looks bright. Congress approved funds to rebuild Gulfport and the project is underway with a targeted completion date of 2010. Also our Washington Master Plan is on track. Through this Plan, we have selected a preferred developer and are negotiating an agreement to develop the southern end of the Washington campus, with financial returns to begin in 2012.

We are also focusing efforts in Washington to create better living conditions for residents. Management has requested funds from the Trust Fund to renovate our oldest dormitory, the Scott Building, in FY10. To keep pace with our vision of a modern CCRC, we are expanding the size of the rooms from 180 to 400-plus square feet. This move will also reduce our resident capacity in the Washington campus.

In FY19, when we renovate the Sheridan dormitory, our capacity will be reduced to the size of Gulfport, creating the opportunity to build a new resident tower to meet demand. We expect operating costs for both the Washington and the Gulfport homes to be approximately $18-$21 million, for an aggregate cost of $36-$42 million. This compares favorably to Washington's FY08 costs of $47 million. With expected revenue of more than $70 million, the Home will be positioned to create additional space to meet resident demand.



## Final Assessment

We have seen much progress over the past five years. Not just incremental improvements – but far-reaching, sound financial decisions that have led to a healthy present and promise a stable future. We have much to be proud of, because we have forged a solid foundation.

Sincerely,

Steven D. McManus

Steven G. McManus
Chief Financial Officer (CFO)

November 15, 2007

# Assembling Reliable Proof

We are pleased to present the AFRH financial statements, which attest to the reliability and accuracy of our recent financial success.

The principal AFRH Financial Statements were carefully prepared to report our financial position and operational results. Independent accountants conducted in-depth statement audits, in accordance with government auditing standards. Our Statements should be read with the understanding they are for a component of the US Government, a sovereign entity.

The AFRH financial management activities in FY07 – including purchasing, payments, accounting, budget and travel service – were administered by BPD. The NFC processed our payroll and time/attendance data entry transactions, integrated with the BPD financial management system.

These operations were managed under mutual agreements with the Departments of Treasury and Agriculture. The AFRH relies on information received from BPD and NFC (plus audits and reviews) to execute its management control.

*"When I saw the great setup here, I said: 'Man, I've got to get back into porcelains.'" – Paul Schlegel (Navy – Retired)*

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

U.S. Armed Forces Retirement Home
Washington, D.C.

We have audited the accompanying balance sheet of the U.S. Armed Forces Retirement Home (AFRH) as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources and financing for the years then ended. These financial statements are the responsibility of AFRH's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirement for Federal Financial Statements.* Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AFRH as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 9, 2007 on our consideration of the AFRH's internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Largo, Maryland
November 9, 2007

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

U.S. Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the U.S. Armed Forces Retirement Home (ARFH) as of and for the year ended September 30, 2007 and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the AFRH's internal control over financial reporting by obtaining an understanding of the AFRH's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be a significant deficiency or a material weakness as defined above.

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In addition, with respect to internal control objectives related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

This report is intended solely for the information and use of the management of the AFRH, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 9, 2007

*Albert Martin (Air Force – Retired) deserves a little extra Hershey's® Syrup – served by Laura Fogarty, Chief, Recreation Services – at the AFRH ice cream social.*

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

U.S. Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the U.S. Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

The management of the AFRH is responsible for complying with laws and regulations applicable to the AFRH. As part of obtaining reasonable assurance about whether the AFRH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the AFRH.

The results of our tests of compliance disclosed no reportable instances of noncompliance with laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the AFRH, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 9, 2007

Ralph Barry (Marine Corps – Retired)

*"In August 1945, plans to invade Japan were in place. Many generals and soldiers didn't know about the A-bomb. So they were surprised when we dropped two. But, that saved a million US lives. My most vivid war memory was Japan's surrender in Tokyo Bay on Sep. 02. I was a guard on board the USS Missouri, which was 18 stories tall – and 103 Admirals and Generals were present, including Nimitz, Wainwright and MacArthur. My ship got credit for shooting down 35 kamikaze planes. I remember, one landed aboard … and it was a sight. We still said, 'Splash One Bogey!'"*

## Financial Statements

BALANCE SHEET As of September 30, 2007 and 2006 (In Dollars)

| | 2007 | 2006 |
|---|---|---|
| **Assets:** | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 2) | $ 230,126,225 | $ 239,123,692 |
| Investments (Note 3) | 159,041,366 | 139,563,566 |
| Accounts Receivable, Net (Note 4) | 3,953,864 | 2,687,343 |
| Total Intragovernmental | 393,121,455 | 381,374,601 |
| Accounts Receivable, Net (Note 4) | 474,798 | 554,056 |
| General Property, Plant and Equipment (Note 5) | 72,018,853 | 75,875,693 |
| Total Assets | $ 465,615,106 | $ 457,804,350 |
| **Liabilities:** | | |
| Intragovernmental: | | |
| Accounts Payable | $ 159,954 | $ 772,159 |
| Unfunded FECA Liability | 1,815,645 | 1,777,219 |
| Payroll Taxes Payable | 153,315 | 155,028 |
| Total Intragovernmental | 2,128,914 | 2,704,406 |
| Accounts Payable | 3,242,755 | 3,471,327 |
| Accrued Funded Payroll | 596,549 | 778,426 |
| Unfunded Annual Leave | 1,051,722 | 1,162,838 |
| Other (Note 6) | 28,956 | 134,030 |
| Total Liabilities | $ 7,048,896 | $ 8,251,027 |
| **Net Position:** | | |
| Cumulative Results of Operations - Earmarked Funds (Note 9) | $ 458,566,210 | $ 449,553,323 |
| Total Net Position | 458,566,210 | 449,553,323 |
| Total Liabilities and Net Position | $ 465,615,106 | $ 457,804,350 |

The accompanying notes are an integral part of these statements.

*George Demonfort-Proska (Army)*

*When Germany invaded Poland in 1939, Mrs. Proska feared her teenage son would be taken. So she sent him underground to the Romanian border. He and 180 boys secretly traveled to Yugoslavia, Greece and finally France, where they finished school. In 1942, they moved to the mountains. "We trained in the Grenoble: a anti-communist group like Boy Scouts," he said. In 1944, they met up with the exiled Polish Army in England – then the war ended. Yet George was a political refugee and couldn't go home. So he studied in France, joined the US Army and later worked for Marriott in America. "For 26 years, I did not know if family was alive," he lamented. Now a US citizen, he was allowed re-entry to Poland. So he journeyed home and went to his old neighbors. "They said: 'mother still alive!' I said: 'OK, please inform her that I am alive – and going to see her tomorrow.' So I bought roses. I come to my home and knock on door … and my mother … mad like hell at me. She yelled: 'How could you go see neighbor – in place of me!' I said, 'Mother, I was afraid you would see me and you'd die.'"*

| STATEMENT OF NET COST For the years ended September 30, 2007 and 2006 (In Dollars) | 2007 | 2006 |
|---|---|---|
| **Program Costs:** | | |
| *Chief Operations Office:* | | |
| Gross Costs | $ 1,685,561 | $ 2,182,271 |
| Less: Earned Revenue | 514,804 | 543,256 |
| Net Program Costs | 1,170,757 | 1,639,015 |
| *Corporate Resource Office:* | | |
| Gross Costs | 6,718,250 | 6,925,162 |
| Less: Earned Revenue | 2,051,889 | 1,723,955 |
| Net Program Costs | 4,666,361 | 5,201,207 |
| *Gulfport, MS:* | | |
| Gross Costs | 1,571,591 | 7,533,225 |
| Less: Earned Revenue | 479,995 | 1,875,327 |
| Net Program Costs | 1,091,596 | 5,657,898 |
| *Washington D.C.:* | | |
| Gross Costs | 50,008,976 | 50,921,900 |
| Less: Earned Revenue | 15,273,748 | 12,676,537 |
| Net Program Costs | 34,735,228 | 38,245,363 |
| Total Program Costs: | 41,663,942 | 50,743,483 |
| Costs Not Assigned to Programs | 44,491 | - |
| Net Cost of Operations | $ 41,708,433 | $ 50,743,483 |

The accompanying notes are an integral part of these statements.

| STATEMENT OF CHANGES IN NET POSITION | 2007 | 2007 | 2006 | 2006 |
|---|---|---|---|---|
| For the years ended September 30, 2007 and 2006 (In Dollars) | Earmarked Funds | Consolidated Funds | Earmarked Funds | Consolidated Total |
| **Cumulative Results of Operations:** | | | | |
| Beginning Balances | $ 449,553,323 | $ 449,553,323 | $ 205,334,552 | $ 205,334,552 |
| Beginning Balances, as Adjusted | $ 449,553,323 | $ 449,553,323 | $ 205,334,552 | $ 205,334,552 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations Used | $ - | $ - | $ 241,800,000 | $ 241,800,000 |
| Nonexchange Revenue | 47,801,049 | 47,801,049 | 49,744,164 | 49,744,164 |
| Donations and Forfeitures of Cash and Cash Equivalents | 1,425,392 | 1,425,392 | 973,267 | 973,267 |
| Transfers-in/out Without Reimbursement | - | - | 800,000 | 800,000 |
| Other | (44,491) | (44,491) | - | - |
| **Other Financing Sources (Non-Exchange):** | | | | |
| Imputed Financing Sources | 1,494,879 | 1,494,879 | 1,644,823 | 1,644,823 |
| Total Financing Sources | 50,676,829 | 50,676,829 | 294,962,254 | 294,962,254 |
| Net Cost of Operations | (41,663,942) | (41,663,942) | (50,743,483) | (50,743,483) |
| Net Changes | $ 9,012,887 | $ 9,012,887 | $ 244,218,771 | $ 244,218,771 |
| Cumulative Results of Operations | 458,566,210 | 458,566,210 | 449,553,323 | 449,553,323 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received | - | - | 241,800,000 | 241,800,000 |
| Appropriations Used | - | - | (241,800,000) | (241,800,000) |
| Total Budgetary Financing Sources | - | - | - | - |
| **Net Position** | $ 458,566,210 | $ 458,566,210 | $ 449,553,323 | $ 449,553,323 |

The accompanying notes are an integral part of these statements.

*Who can do the most sit-ups? Our money is on top AFRH athlete Curt Young (left) ... or maybe 90-year old Hugh Wingo (center).*

## STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2007 and 2006 (In Dollars)

| | 2007 | 2006 |
|---|---|---|
| **Budgetary Resources:** | | |
| Unobligated Balance Brought Forward, October 1: | $ 271,474,561 | $ 33,296,782 |
| Recoveries of Prior Year Unpaid Obligations | 1,506,786 | 2,887,893 |
| Budget Authority | | |
| Appropriation | 56,690,105 | 542,681,000 |
| Temporarily Not Available Pursuant to Public Law | - | 582,810 |
| Total Budgetary Resources | $ 329,671,452 | $ 578,282,865 |
| **Status of Budgetary Resources:** | | |
| Obligations Incurred | | |
| Direct | $ 277,163,359 | $ 306,808,304 |
| Unobligated Balance | | |
| Apportioned | 52,508,093 | 271,474,561 |
| Total Status of Budgetary Resources | $ 329,671,452 | $ 578,282,865 |
| **Change in Obligated Balance:** | | |
| Obligated Balance, Net | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 7,808,113 | $ 9,200,924 |
| Obligations Incurred Net | 277,163,359 | 306,808,304 |
| Less: Gross Outlays | 55,932,831 | 305,313,222 |
| Less: Recoveries of Prior Year Unpaid | | |
| Obligations, Actual | 1,506,786 | 2,887,893 |
| Total, Unpaid Obligated Balance, Net, End of Period | $ 227,531,855 | $ 7,808,113 |
| **Change in Outlays:** | | |
| Net Outlays: | | |
| Gross Outlays | $ 55,932,831 | $ 305,313,222 |
| Net Outlays | $ 55,932,831 | $ 305,313,222 |

The accompanying notes are an integral part of these statements.

## REQUIRED SUPPLEMENTARY INFORMATION INTRACOVERNMENTAL TRANSACTIONS

As of September 30, 2007

### INTRAGOVERNMENTAL ASSETS

| Agency | Fund Balance with Treasury | Investments | Accounts Receivable | Total |
|---|---|---|---|---|
| Treasury | $ 230,126,225 | $ 159,041,366 | $ - | $ 389,167,591 |
| Air Force | - | - | 414,693 | 414,693 |
| Army | - | - | 1,530,287 | 1,530,287 |
| Army Corp of Engineers | - | - | 49,478 | 49,478 |
| Navy | - | - | 1,067,473 | 1,067,473 |
| Marines | - | - | 891,933 | 891,933 |
| Total | $ 230,126,225 | $ 159,041,366 | $ 3,953,864 | $ 393,121,455 |

### INTRAGOVERNMENTAL LIABILITIES

| Agency | Accounts Payable and Accruals | Payroll Taxes | Other | Total |
|---|---|---|---|---|
| Treasury | ($19,877) | $ - | $ - | ($19,877) |
| Treasury General Fund | - | -40,252 | - | -40,252 |
| Army | -8,393 | - | - | -8,393 |
| General Services Administration | -64,518 | - | - | -64,518 |
| Dept. of Interior | -67,166 | - | - | -67,166 |
| Labor | - | - | -1,815,645 | -1,815,645 |
| Personnel Management | - | -113,063 | - | -113,063 |
| Total | ($159,954) | ($153,315) | ($1,815,645) | ($2,128,914) |


*Is he bluffing??*
*Here, "Woody" Williams (Navy - WWII) decides to double-down in a blackjack game-show activity.*

ARMED FORCES RETIREMENT HOME REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006.

Federal agencies are required to classify and report heritage assets, in accordance with the requirements of SFFAS No. 8, "Supplementary Stewardship Reporting." Heritage assets are property, plant, and equipment that possess one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics.

Since the cost of heritage assets is usually not determinable, AFRH does not place a value on them or establish minimum value thresholds for designation of property, plant, and equipment as heritage assets. Additionally, the useful lives of heritage assets are not reasonably estimable for depreciable purposes. Since the most relevant information about heritage assets is their existence, they are qualified in terms of physical units.

The AFRH has four buildings and structures that are designated as National Historic Landmarks.

In accordance with SFFAS No. 8, heritage assets that are used in day-to-day government operations are considered "multi-use" heritage assets that are not used for heritage purposes. Such assets are accounted for as general property, plant, and equipment and are capitalized and depreciated in the same manner as other general property, plant, and equipment. The AFRH has three buildings and structures that are considered to be "multi-use" heritage assets.

## Many Thanks to BPD

# Forming Close Partnership

Our Strategic Goal of Financial Growth has always included the component of strong financial management. To strengthen it, we began a relationship with BPD in FY04 – and it has produced three "unqualified" audit opinions. This partnership has been one of the cornerstones of our recent financial success.

BPD gave us the key ability to balance and account for all assets, liabilities and other financial elements. BPD's management has helped us maintain and increase the balance of the AFRH Trust Fund – and pull all AFRH accounts together with sound accounting practices. AFRH did not have such in-house expertise. So, thanks to BPD's financial wisdom, the Home is now in a highly stable position.


Jennifer Dickerson


Debra Shreeves


Bart Scott


Richard McFee

The Avery Building – BPD's headquarters in Parkersburg, West Virginia.


*"BPD's staff spent many hours training us to use automated tools like Discoverer, Prism and Oracle Asset Management."*
*—Stan Whitehead, AFRH IT Manager*

*"We had a smooth accounting transition to BPD. Their knowledge and experience in system conversions made a big difference."*
*—Kelly Barnes, Former Business Center Chief*

**ARMED FORCES RETIREMENT HOME**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

## 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 24U.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 Washington, D.C. and the other is located in Gulfport, MS.

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.

An Advisory Board comprised of military and civilian experts with a broad range of expertise in retirement homes, geriatrics, public works, and aging assists the AFRH.

The 1991 Defense Authorization Act created an Armed Forces Retirement Home 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.

### B. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of the Armed Forces Retirement Home (AFRH). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 07-04, Audit Requirements for Federal Financial Statements. 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 approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Financial Reporting Requirements 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 statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Custodial Activity. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

### C. Basis of Accounting

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.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountant's Council designated FASAB as the accounting standards authority for Federal government entities.

### D. Exchange Revenue, Non-Exchange Revenue, and other Financing Sources

#### Exchange Revenue

Exchange revenues are inflows of resources to a government entity that the entity has earned. Exchange revenue is derived from the rendering of services, the sale of resources, and the use by others of entity assets yielding interest or dividends.

The AFRH's exchange revenue consists primarily of resident fees, rental income, subsistence for food service employees, custodial services, meal tickets, and interest earned on Treasury securities. Revenue from resident fees is recognized when services are provided and is invested for future funding requirements.

#### Non-Exchange Revenue

Non-Exchange revenues are inflows of resources the government demands or receives by donation. Such revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that the collection is probable and the amount is reasonably estimated.

The AFRH's non-exchange revenue consists of military fines and forfeitures, monthly payroll withholdings from enlisted military personnel, bequests, and donations. Non-exchange revenue is recognized when collected.

#### Financing Sources

The AFRH receives the majority of funding needed to support operations and capital expenditures from the Trust Fund. The Trust Fund is financed by military fines and forfeitures, monthly payroll deductions from enlisted military personnel, resident fees, interest earned on Treasury securities, and donations.

### E. Fund Balance with Treasury

Resident fees receipts collected by the AFRH are processed by a commercial bank for deposit at the U.S. Department of the Treasury (U.S. Treasury). The U.S. Treasury as directed by the authorized certifying officer processes cash receipts and disbursements. Funds with the Department of the Treasury primarily represent funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

### F. Investments

Trust Fund balances may only be invested in interest bearing debt securities issued by the Bureau of the Public Debt. The AFRH's investments are purchased exclusively through the Bureau of the Public Debt's FED-INVEST system. These securities are market based Treasury securities issued without statutorily determined interest rates and consist of Treasury bills and notes.

The AFRH classifies these investments as held-to-maturity at the time of purchase. The investments are stated at acquisition cost plus or minus any premium or discount. Premiums and discounts are amortized over the life of the Treasury security using the interest method. The AFRH's intent is to hold the investments to maturity, unless securities are needed to sustain operations. No provision is made for realized gains or losses on these securities due to the fact that they are held-to-maturity. Interest is received semi-annually on the held-to-maturity investments. This interest is accrued monthly until it is received.

The AFRH may, from time to time, hold an investment in a one-day certificate issued by the Bureau of the Public Debt. The interest earned on the certificate is reinvested in the certificate on a daily basis. These investments are classified as trading securities. See Note 3 for additional information.

### G. Accounts Receivable

The AFRH records accounts receivable as services are provided to residents. All amounts are considered collectible; therefore, no estimate is formulated for the allowance of uncollectible accounts. Generally, accounts receivable consists of either amounts receivable from federal agencies for payroll withholdings, fines and forfeitures, or fees due from residents of the home. See Note 4 for additional information.

### H. General Property, Plant, and Equipment, Net

The AFRH owns the land and buildings in which both homes operate. The majority of the property, plant, and equipment 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 $25,000 per unit is capitalized. Routine maintenance is expensed when 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, plant, and equipment 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. All AFRH heritage assets are multi-use facilities and are classified as general property, plant, and equipment. The useful lives used when recording depreciation on property, plant, and equipment are as follows:

| Description | Life |
|---|---|
| Land Improvements | 10 - 20 |
| Buildings and Improvements | 20 - 40 |
| Equipment | 5 - 10 |

### I. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by AFRH as a result of transactions or events that have already occurred. No liability can be paid, however, absent an apportionment. Liabilities for which an apportionment has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the apportionment will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities. See Note 6 for additional information.

### J. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

### K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year apportionments are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

### L. Retirement Plans

Most AFRH employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and AFRH makes a mandatory 1 percent contribution to this account. In addition, AFRH makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. 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 does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

### M. Imputed Costs / Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. AFRH recognized imputed costs and financing sources in fiscal year 2007 and 2006 to the extent directed by the OMB.

### N. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Marion Ritchie (Navy - WWII), Louise Hampton (Navy - Retired) and Helen Abercrombie (Army - WWII): all dolled up to celebrate the US Army birthday in June.*

## O. Commitments and Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. AFRH has no contingencies that require disclosure as of September 30, 2007 and 2006.

## P. Federal Employment Compensation Act

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The total liability should consist of an actuarial and accrued portion.

The accrued FECA liability as of September 30, 2007 and 2006 represents claims incurred for benefits administered and paid by DOL to AFRH employees. The AFRH will reimburse DOL for these claims in future periods. See Note 6 for additional information.

## Q. Reclassification

Certain fiscal year 2006 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation. Under SFFAS 7, OMB has reclassified the Statement of Financing to be presented in a note as Reconciliation of Net Cost of Operations to Budget.

**NOTE 2. FUND BALANCE WITH TREASURY** Schedule as of September 30, 2007

| | 2007 | 2006 |
|---|---|---|
| Fund Balances | | |
| Fund Balance with Treasury | $ 230,126,225 | $ 239,123,692 |
| Investments | 159,041,366 | 139,563,566 |
| Less: Accrued Interest and | | |
| Unamortized Premium | 1,976,045 | 2,160,163 |
| Total | $ 387,191,546 | $ 376,527,095 |
| Status of Fund Balance with Treasury | | |
| Unobligated Balance | | |
| Available | $ 52,508,093 | $ 271,474,561 |
| Unavailable | 107,151,598 | 97,244,421 |
| Obligated Balance not yet Disbursed | 227,531,855 | 7,808,113 |
| Total | $ 387,191,546 | $ 376,527,095 |



**NOTE 3. INVESTMENTS** Schedule of Investments as of September 30, 2007

| Description | Cost | Amortization Method | Unamortized (Premium) Discount | Interest Receivable | Investments (Net) | Market Value |
|---|---|---|---|---|---|---|
| Intragovernmental Securities | | | | | | |
| Non-Marketable | | | | | | |
| Market-Based | $157,610,000 | Interest | $ (503,092) | $ 1,934,458 | $ 159,041,366 | $ 160,463,904 |
| Total Investments | $157,610,000 | | $ (503,092) | $ 1,934,458 | $ 159,041,366 | $ 160,463,904 |

Schedule of Investments as of September 30, 2006

| Description | Cost | Amortization Method | Unamortized (Premium) Discount | Interest Receivable | Investments (Net) | Market Value |
|---|---|---|---|---|---|---|
| Intragovernmental Securities | | | | | | |
| Non-Marketable | | | | | | |
| Market-Based | $138,568,000 | Interest | $ (938,103) | $ 1,933,669 | $ 139,563,566 | $ 137,586,368 |
| Total Investments | $138,568,000 | | $ (938,103) | $ 1,933,669 | $139,563,566 | $ 137,586,368 |

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 fiscal years 2007 and 2006 range from February 29, 2008 to May 15, 2016 and October 15, 2006 to June 30, 2007, respectively, and interest rates for the same fiscal years range from 4.500 percent to 5.625 percent and 3.625 percent to 6.500 percent, respectively.

**NOTE 4. ACCOUNTS RECEIVABLE** Schedule of Accounts Receivable as of September 30

| | 2007 | 2006 |
|---|---|---|
| Intragovernmental | | |
| US Army Corp of Engineers | $ 49,478 | $ - |
| US Air Force 4th Qtr. Fines | 414,693 | 469,480 |
| US Army 4th Qtr. Fines | 1,530,287 | 1,376,893 |
| US Marines 4th Qtr. Fines | 891,933 | 840,970 |
| US Navy 4th Qtr. Fines | 1,067,473 | - |
| Total Intragovernmental | 3,953,864 | 2,687,343 |
| Resident Fees Receivable | 386,045 | 537,111 |
| Miscellaneous | 88,753 | 16,945 |
| Total Accounts Receivable | $ 4,428,662 | $ 3,241,399 |

*"I love it – they bring in bands, and I go out to dinner and dances. Where the girls are, I go!" — Daniel Funk (Army – WWII)*

**NOTE 5.** GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Schedule of Property, Plant and Equipment as of September 30, 2007

| Description | Acquisition Cost (In Dollars) | Accumulated Depreciation (In Dollars) | Net Book Value (In Dollars) |
|---|---|---|---|
| Land and Improvements | $ 10,982,370 | $ 9,772,837 | $ 1,209,533 |
| Buildings and Improvements | 181,456,706 | 132,448,241 | 49,008,465 |
| Equipment | 3,289,482 | 2,369,639 | 919,843 |
| Construction in Progress | 20,881,012 | - | 20,881,012 |
| Total | $ 216,609,570 | $ 144,590,717 | $ 72,018,853 |

Schedule of Property, Plant and Equipment as of September 30, 2006

| Description | Acquisition Cost (In Dollars) | Accumulated Depreciation (In Dollars) | Net Book Value (In Dollars) |
|---|---|---|---|
| Land and Improvements | $ 10,982,370 | $ 9,539,375 | $ 1,442,995 |
| Buildings and Improvements | 180,456,706 | 125,873,098 | 55,583,608 |
| Equipment | 3,464,626 | 2,249,210 | 1,215,416 |
| Construction in Progress | 17,633,674 | - | 17,633,674 |
| Total | $ 213,537,376 | $ 137,661,683 | $75,875,693 |

**NOTE 6.** OTHER LIABILITIES

As of September 30, 2007

The accrued liabilities for the AFRH are comprised of program expense accruals, payroll accruals, unfunded annual leave earned by employees, and unfunded FECA liability owed to the Department of Labor. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

| Schedule of Other Liabilites as of September 30 | 2007 | 2006 |
|---|---|---|
| Accrued Liabilities | 10,733 | 115,855 |
| Payroll Taxes Payable | 18,223 | 18,175 |
| Total Other Liabilities | $ 28,956 | $ 134,030 |

*A Radio City Music Hall "Rockette" gets friendly with Tom Hancock (Army – Korea)*

## NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on AFRH's Balance Sheet as of September 30, 2007 and 2006 include liabilities not covered by budgetary resources, which are liabilities for which 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. Liabilities not covered by budgetary resources consist entirely of unfunded leave and unfunded FECA liability. Unfunded leave and FECA liability balances are $2,867,367 and $2,940,057 as of September 30, 2007 and 2006, respectively.

**NOTE 8.** OPERATING/PROGRAM COSTS

Costs by major budgetary object classification are as follows:

| Budgetary Object Classifications | 2007 | 2006 |
|---|---|---|
| Personnel and Benefits | $ 23,860,413 | $ 27,608,889 |
| Travel and Transportation | 100,242 | 769,990 |
| Rents, Communication & Utilities | 4,733,696 | 5,557,587 |
| Printing and Contractual Services | 19,549,894 | 21,389,524 |
| Supplies and Materials | 4,670,298 | 4,834,801 |
| Equipment | 7,069,560 | 7,337,549 |
| Miscellaneous | 275 | 64,218 |
| Total Cost | $ 59,984,378 | $ 67,562,558 |
| Less: Combined Earned Revenue | $ 18,320,436 | $ 16,819,075 |
| Total Net Program Costs | $ 41,663,942 | $ 50,743,483 |

## NOTE 9. EARMARKED FUNDS

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

The Trust Fund is financed by military fines and forfeitures, monthly payroll deductions from enlisted military personnel, resident fees, interest earned on Treasury securities, and donations.

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

Schedule of Earmarked Funds as of September 30, 2007

| | Capital Fund | Hurricane Katrina Fund | Operations & Maintenance Fund | Total Earmarked Funds |
|---|---|---|---|---|
| **Balance Sheet** | | | | |
| ASSETS | | | | |
| Fund Balance with Treasury | $ (1,249,323) | $ 228,501,978 | $ 2,873,570 | $ 230,126,225 |
| Investments | - | - | 159,041,366 | 159,041,366 |
| Accounts Receivable | - | - | 4,428,662 | 4,428,662 |
| General Property, Plant and Equipment | 67,960,260 | 4,058,593 | - | 72,018,853 |
| Total Assets | $ 66,710,937 | $ 232,560,571 | $ 166,343,598 | $ 465,615,106 |
| LIABILITIES AND NET POSITION | | | | |
| Accounts Payable | $ 33,725 | $ 15,063 | $ 3,353,921 | $ 3,402,709 |
| Other | - | - | 3,646,187 | 3,646,187 |
| Cumulative Results of operations | 66,677,212 | 232,545,508 | 159,343,490 | 458,566,210 |
| Total Liabilities and Net Position | $ 66,710,937 | $ 232,560,571 | $ 166,343,598 | $ 465,615,106 |
| **Statement of Net Cost** | | | | |
| Program Costs | $ 7,047,912 | $ 45,541 | $ 52,890,925 | $ 59,984,378 |
| Less: Earned Revenues | - | - | 18,320,436 | 18,320,436 |
| Net Program Costs | 7,047,912 | 45,541 | 34,570,489 | 41,663,942 |
| Costs Not Assigned To Programs | 44,491 | - | - | 44,491 |
| Net Cost of Operations | $ 7,092,403 | $ 45,541 | $ 34,570,489 | $ 41,708,433 |
| **Statement of Changes in Net Position** | | | | |
| Net Position Beginning of Period | $ 73,769,615 | $ 232,591,049 | $ 143,192,659 | $ 449,553,323 |
| Net Cost of Operations | 7,092,403 | 45,541 | 34,570,489 | 41,708,433 |
| Taxes and Other Nonexchange Revenue | - | - | 47,801,049 | 47,801,049 |
| Other Revenue | - | - | 50,721,320 | 50,721,320 |
| Change in Net Position | (7,092,403) | (45,541) | 16,150,831 | 9,012,887 |
| Net Position End of Period | $ 66,677,212 | $ 232,545,508 | $ 159,343,490 | $ 458,566,210 |

## NOTE 9. EARMARKED FUNDS (CONTINUED)

Schedule of Earmarked Funds as of September 30, 2006

| | Capital Fund | Hurricane Katrina Fund | Operations & Maintenance Fund | Total Earmarked Funds |
|---|---|---|---|---|
| **Balance Sheet** | | | | |
| ASSETS | | | | |
| Fund Balance with Treasury | $ (3,099,596) | $ 232,396,299 | $ 9,826,989 | $ 239,123,692 |
| Investments | - | - | 139,563,566 | 139,563,566 |
| Accounts Receivable | - | - | 3,241,399 | 3,241,399 |
| General Property, Plant and Equipment | 74,086,752 | 1,788,941 | - | 75,875,693 |
| Total Assets | $ 70,987,156 | $ 234,185,240 | $ 152,631,954 | $ 457,804,350 |
| LIABILITIES AND NET POSITION | | | | |
| Accounts Payable | $ 317,137 | $ 1,417,092 | $ 2,509,257 | $ 4,243,486 |
| Other | - | 177,099 | 3,830,442 | 4,007,541 |
| Cumulative Results of operations | 70,670,019 | 232,591,049 | 146,292,255 | 449,553,323 |
| Total Liabilities and Net Position | $ 70,987,156 | $ 234,185,240 | $ 152,631,954 | $ 457,804,350 |
| **Statement of Net Cost** | | | | |
| Program Costs | $ 7,166,483 | $ 9,208,951 | $ 51,187,124 | $ 67,562,558 |
| Less: Earned Revenues | - | - | 16,819,075 | 16,819,075 |
| Net Program Costs | 7,166,483 | 9,208,951 | 34,368,049 | 50,743,483 |
| Less: Earned Revenues Not Attributable to Programs | - | - | - | - |
| Net Cost of Operations | $ 7,166,483 | $ 9,208,951 | $ 34,368,049 | $ 50,743,483 |
| **Statement of Changes in Net Position** | | | | |
| Net Position Beginning of Period | $ 77,836,502 | $ - | $ 127,498,050 | $ 205,334,552 |
| Net Cost of Operations | 7,166,483 | 9,208,951 | 34,368,049 | 50,743,483 |
| Taxes and Other Non-exchange Revenue | - | - | 49,744,164 | 49,744,164 |
| Other Revenue | - | 241,800,000 | 53,162,254 | 294,962,254 |
| Change in Net Position | (7,166,483) | 232,591,049 | 18,794,205 | 244,218,771 |
| Net Position End of Period | $ 70,670,019 | $ 232,591,049 | $ 146,292,255 | $ 449,553,323 |

## NOTE 10. IMPUTED FINANCING SOURCES

AFRH recognizes as imputed financing 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, the Office of Personnel Management (OPM). Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against AFRH are also recognized as imputed financing. For the fiscal years ended September 30, 2007 and 2006, respectively, imputed financing was as follows.

| | 2007 | 2006 |
|---|---|---|
| Office of Personnel Management | $ 1,494,879 | $ 1,644,823 |
| Treasury Judgment Fund | - | - |
| Total Imputed Financing Sources | $ 1,494,879 | $ 1,644,823 |

*A wounded soldier from Walter Reed Army Medical Center participates in the 13th annual AFRH Fishing Rodeo.*

## NOTE 11. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY07 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2008 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The 2008 Budget of the United States Government, with the Actual column completed for 2006, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

## NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Beginning with FY 2006, the format of the Statement of Budgetary Resources has changed and the amount of undelivered orders at the end of the period is no longer required to be reported on the face of the statement. Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the year ended September 30, 2007 and 2006, undelivered orders amounted to $223,361,061 and $2,508,730, respectively.



## NOTE 13. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

Budgetary and financial accounting information are complimentary, but both types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, AFRH has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

| Reconciliation of Net Cost of Operations to Budget as of September 30, | 2007 | 2006 |
|---|---|---|
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | $ 277,163,359 | $ 306,808,304 |
| Less: Spending Authority From Offsetting Collections and Recoveries | 1,506,786 | 2,887,893 |
| Obligations Net of Offsetting Collections and Recoveries | 275,656,573 | 303,920,411 |
| Net Obligations | 275,656,573 | 303,920,411 |
| Other Resources | | |
| Imputed Financing From Costs Absorbed By Others | 1,494,879 | 1,644,823 |
| Net Other Resources Used to Finance Activities | 1,494,879 | 1,644,823 |
| Total Resources Used to Finance Activities | $ 277,151,452 | $ 305,565,234 |
| Resources Used to Finance Items Not Part of the Net Cost of Operations | | |
| Change in Budgetary Resources Obligated For Goods, | | |
| Services and Benefits Ordered But Not Yet Provided | $ 220,852,331 | $ (2,211,294) |
| Resources That Fund Expenses Recognized in Prior Periods | 111,116 | 423,470 |
| Budgetary Offsetting Collections and Receipts That Do | | |
| Not Affect Net Cost of Operations | | |
| Other | 15,534,325 | 258,320,491 |
| Resources That Finance the Acquisition of Assets | 3,202,362 | 5,180,391 |
| Other Resources or Adjustments to Net Obligated | | |
| Resources That Do Not Affect Net Cost of Operations | - | 800,000 |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | $ 239,700,134 | $ 262,513,058 |
| Total Resources Used to Finance the Net Cost of Operations | $ 37,451,318 | $ 43,052,176 |
| Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period: | | |
| Components Requiring or Generating Resources: | | |
| Other | 38,426 | 20,621 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources | 38,426 | 20,621 |
| Components Not requiring or Generating resources: | | |
| Depreciation and Amortization | 4,228,117 | 7,677,223 |
| Other | (9,428) | (6,537) |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | 4,218,689 | 7,670,686 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | $ 4,257,115 | $ 4,257,115 |
| Net Cost of Operations | $ 41,708,433 | $ 50,743,483 |