I’m really thankful we have this place.

— Sandra Intorre (Army, Air Corps)

Sandra spent 23 years in the Army and Army Air Corps. In WWII, she transcribed interrogations of POWs in Japan. While there, she sponsored a local Japanese orphanage in her off-duty time.

Sandra’s unit collected money on the pay line, determined what was needed, and purchased the items: “One gal was an interpreter, and she helped with the shopping. We bought those kids playground equipment, food, and medication.” Sandra even invited the children to her base’s Christmas party where they were given toys.

Later, Sandra was promoted to first sergeant. One assignment was in Hawaii working in Communications during the night shift. “That was one of my best assignments. During the day I was on the beach swimming and getting a nice suntan.”

Today, at AFRH-W, Sandra enjoys sewing—a hobby that began when she was very young and had to sew her own clothes during the Great Depression. Cooking, reading, and crocheting are also on her list of enjoyable pastimes.
AFRH Financial Overview

THOUGHTFUL GUIDANCE

THE BRAVE VETERANS AND RETIRED MILITARY WHO CHOOSE TO LIVE AT THE AFRH EXPECT MANAGEMENT TO PROTECT THIS AGENCY’S RESOURCES MOST RESPONSIBLY. WE CERTAINLY HAVE DONE SO. FOR THE 8TH STRAIGHT YEAR, WE ARE PROUD TO HAVE EARNED AN ‘UNQUALIFIED OPINION’ (CLEAN REVIEW) ON ALL AFRH FINANCIAL STATEMENTS BY THE INDEPENDENT ACCOUNTING FIRM BROWN & COMPANY, LLP. ALSO BROWN & COMPANY CITED NO MATERIAL WEAKNESSES ON OUR INTERNAL CONTROLS.


In this section you will learn about our 2012 financial achievements, which include keeping costs at low levels of manageability and services at high levels of satisfaction. We are able to do this because all of our managers are mindful of their fiscal responsibilities. They understand the duty we have to safeguard the money of our former military who all paid into the AFRH Trust Fund month after month dating back to the 1800s.

That longstanding Trust Fund, and our strong oversight of it, ensures that our doors stay open and the services keep flowing.

WE HAVE A CLEAR PLAN TO ENSURE THAT BOTH HOMES WILL HAVE RESOURCES TO CONTINUE GREAT SERVICE FOR MANY YEARS.

— Steve McManus (COO)

MY 12 YEARS OF SCHOOLING WERE ALL DURING THE DEPRESSION.

— Raymond Terry (Navy)

Unlike many kids, young Ray’s family could afford shoes for him. Ray’s father owned the only boat fuel station in Biloxi. Still, every day Ray would hide his shoes by the train tracks on his way to school.

“I’d go barefoot so that I would be like the other kids. Their families didn’t have money for shoes.” After school, he’d retrieve his shoes and head home.

At age 18, Ray joined the Navy and was sent to Boston for service training. At a YMCA social he met a girl who asked him to dance. He told her he didn’t know how to dance—so she invited him back to her house to learn how from her twin sisters. “I talked to them both for five minutes and picked me out one. I brought her to Biloxi, and she became one of us. Then, I married her. And we had a great life together.”
The CFO Message

PRUDENT STABILITY

I AM PLEASED TO REPORT THAT THE AFRH IS THRIVING. FY12 WAS ECONOMICALLY CHALLENGING FOR MANY BUSINESSES AND FEDERAL AGENCIES. THROUGH IT ALL, AFRH MANAGEMENT HAS BEEN WISE IN ITS EXPENDITURES AND CONSIDERATE IN ITS INVESTMENTS. ALSO, WE HAVE BEEN CONTINUALLY MANAGING EXPENSES, TOO. IN FY13, THE BUDGET WILL REQUIRE MORE BELT-TIGHTENING TO ENSURE STABILITY.

Today, we have a clear plan to ensure that both homes will have resources to continue great service for many years—as it has done for two centuries. The AFRH Trust Fund is the main source for paying bills in the event that expenses increase suddenly or revenue falls unexpectedly. Our duty is to preserve the assets in the Trust Fund while taking withdrawals with great prudence.

AFRH operations also require strong fiscal management. Of late, operating costs have exceeded sixty million dollars every year—and they increase each year due to inflation. We aim to contain costs through our Key Strategic Performance Goal: Maintain Exceptional Stewardship.

AFRH management has substantially reduced operating costs and taken on several major construction projects. We are confident that our main source of funding, the AFRH Trust Fund, will rebound from this year’s withdrawals for capital improvements.

The Trust Fund is forecast to positively grow with monies received from leasing or selling portions of this land. So, we are currently working with the Army Corps of Engineers and GSA to determine the true value of certain land segments at AFRH-W.

Our solvency analysis includes stress tests to provide management with a better understanding of risks. The analysis shows the Trust Fund remains solvent for a 10-year decrease in fines & forfeitures revenue by two standard deviations, and for a three percent increase in cost inflation above the base case assumptions. STATUS: Long-term Solvency.

Ultimately, our plan to sell or lease land at the Washington community is crucial to our long-term financial stability.

SAFEGUARDING THE FUTURE

In recent years, AFRH management has substantially reduced operating costs and taken on several major construction projects. We are confident that our main source of funding, the AFRH Trust Fund, will rebound from this year’s withdrawals for capital improvements.

The Trust Fund is forecast to positively grow with monies received from leasing or selling portions of this land. So, we are currently working with the Army Corps of Engineers and GSA to determine the true value of certain land segments at AFRH-W.

Our solvency analysis includes stress tests to provide management with a better understanding of risks. The analysis shows the Trust Fund remains solvent for a 10-year decrease in fines & forfeitures revenue by two standard deviations, and for a three percent increase in cost inflation above the base case assumptions. STATUS: Long-term Solvency.

We also updated the CIP and created an ‘investments timeline’ to effectively meet our top priorities. We plan to update this timeline as we fulfill commitments to keep the grounds and facilities in optimal shape.

EYE ON TOMORROW

As we approach the next fiscal year and build our budget, we must continue to rein in operational and capital costs and use our resources wisely. Concurrently, we must continue to provide top-notch care and services to residents. Our fiscal picture will solidify over the next few years—but we must be vigilant to ensure the AFRH will continue to be here when our veterans need us most.

I am delighted about this Agency’s positive financial status and solid staff performance. Yet, as always, I am most proud of the residents that we serve each day. Their loyal service and honorable patriotism to America is truly the greatest performance we have ever seen.

Sincerely,

Steven G. McManus
Chief Financial Officer (CFO)
November 15, 2012

AFRH PAR 2012 | FINANCIAL
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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, as amended.

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, as amended. 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 material weakness or significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 material weakness as defined above.

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.

Largo, Maryland
November 8, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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, as amended.

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, as amended. 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 with laws and regulations disclosed no material 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, as amended.

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.

Largo, Maryland
November 8, 2012
IT’S KIND OF FUN TO LIVE IN AN ART GALLERY FOR A LITTLE WHILE.

— Mike Martinez (Navy)

Mike began painting as a child and dabbled as a young man, but he didn’t paint professionally until he came to AFRH-W in 2003. One subject matter is scenery from southwest America where he grew up—which he paints from memory. Another is DC, mainly the DuPont Circle area. He’ll go to a location, take a photo, sketch it, and then paint from memory. Mike’s been very fortunate to sell many paintings over the years, and a DC restaurant even used one as a backdrop for their menu.

Sadly, the earthquake that shook DC in 2011 destroyed the Sherman Building art studio. Suddenly, Mike had to store his paintings in his room. “I sold them for $10 a piece to get them off my walls and into people’s homes!” Today, he paints in his room. While Mike somewhat enjoys living inside his “art gallery”, he looks forward to having a new studio in which to paint and store his artwork. Soon.
AFRH MANAGEMENT IS RESPONSIBLE FOR THE FAIR PRESENTATION OF INFORMATION CONTAINED IN THE PRINCIPAL FINANCIAL STATEMENTS. THE INDEPENDENT ACCOUNTING FIRM OF BROWN & CO., LLP HAS AUDITED THESE FINANCIAL STATEMENTS FOR FY12. THE STATEMENTS AND DATA PRESENTED HERE HAVE BEEN PREPARED FROM THE AGENCY’S ACCOUNTING RECORDS IN ACCORDANCE WITH GAAP—THE STANDARD PRESCRIBED BY THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB).

These financial statements should be read with the understanding they are for a component of the US Government, a sovereign entity.

In a public-to-public partnership, BPD ARC has administered all of our FY12 financial management activities including:

- **ACCOUNTING**
- **PURCHASING**
- **PAYMENTS**
- **TRAVEL**
- **BUDGET**

While renovating the Sherman clock tower, workers found a time capsule in a stone containing an 1887 penny, newspaper, 1889 Eiffel Tower coin, rusted tobacco tin, and a broken bottle.

The NFC, in conjunction with BPD’s Oracle platform, processed our payroll and time/attendance data entry transactions. These operations were managed under mutual agreements with the Department of Treasury and Agriculture. The AFRH relies on information received from BPD and NFC (plus audits and reviews) to execute its management controls.
## ARMED FORCES RETIREMENT HOME
### BALANCE SHEET
AS OF SEPTEMBER 30, 2012 AND 2011
(In Dollars)

<table>
<thead>
<tr>
<th>ASSETS:</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance With Treasury (Note 2)</td>
<td>$17,836,404</td>
<td>$4,814,306</td>
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<tr>
<td>Investments (Note 2, 3)</td>
<td>112,674,756</td>
<td>160,706,811</td>
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<tr>
<td>Accounts Receivable (Note 4)</td>
<td>1,520,495</td>
<td>2,854,923</td>
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<tr>
<td><strong>Total Intragovernmental</strong></td>
<td><strong>132,031,655</strong></td>
<td><strong>168,376,040</strong></td>
</tr>
<tr>
<td>Accounts Receivable, Net (Note 4)</td>
<td>249,362</td>
<td>219,510</td>
</tr>
<tr>
<td>Property, Equipment, and Software, Net (Note 5)</td>
<td>339,774,479</td>
<td>294,059,087</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$472,055,496</strong></td>
<td><strong>$462,654,637</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$282,173</td>
<td>$76,104</td>
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<tr>
<td>Other (Note 8)</td>
<td>1,907,034</td>
<td>2,007,140</td>
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<tr>
<td><strong>Total Intragovernmental</strong></td>
<td><strong>2,189,207</strong></td>
<td><strong>2,083,244</strong></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>16,835,098</td>
<td>4,244,190</td>
</tr>
<tr>
<td>Federal Employee and Veterans’ Benefits (Note 6, 7)</td>
<td>8,453,239</td>
<td>9,124,954</td>
</tr>
<tr>
<td>Other (Note 8)</td>
<td>2,330,946</td>
<td>2,183,670</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$29,808,490</strong></td>
<td><strong>$17,636,058</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>NET POSITION:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative Results of Operations - Earmarked Funds</td>
<td>$442,247,006</td>
<td>$445,018,579</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>$442,247,006</strong></td>
<td><strong>$445,018,579</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td><strong>$472,055,496</strong></td>
<td><strong>$462,654,637</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>CONSOLIDATED TOTAL:</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative Results of Operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Balances</td>
<td>$445,018,579</td>
<td>$462,155,986</td>
</tr>
<tr>
<td>Budgetary Financing Sources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations Used</td>
<td>14,630,000</td>
<td>-</td>
</tr>
<tr>
<td>Nonexchange Revenue</td>
<td>41,802,249</td>
<td>45,018,827</td>
</tr>
<tr>
<td>Donations and Forfeitures of Cash and Cash Equivalents</td>
<td>45,876</td>
<td>279,926</td>
</tr>
<tr>
<td>Other Financing Sources (Non-Exchange):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imputed Financing Sources (Note 12)</td>
<td>1,661,380</td>
<td>1,827,354</td>
</tr>
<tr>
<td>Total Financing Sources</td>
<td>58,139,505</td>
<td>47,126,107</td>
</tr>
<tr>
<td>Net Cost of Operations</td>
<td>(60,911,078)</td>
<td>(64,263,514)</td>
</tr>
<tr>
<td>Net Change</td>
<td>(2,771,573)</td>
<td>(17,137,407)</td>
</tr>
<tr>
<td>Cumulative Results of Operations</td>
<td>$442,247,006</td>
<td>$445,018,579</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
A. Reporting Entity

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

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

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

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

B. Basis of Presentation

The financial statements have been prepared to report the financial position and net cost of operations of the AFRH. The Balance Sheet presents the financial position of the Agency. The Statement of Net Cost presents the activities of the Agency’s equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the Agency’s resources and follow the rules for the Budget of the United States Government. The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the AFRH in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-126, Financial Reporting Requirements and the AFRH accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control AFRH’s use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

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

D. Revenues & 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, leases and sales, 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 eligible enlisted military personnel and Warrant Officers; resident fees, sales and leases, interest earned on Treasury securities, and donations.

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees and reimbursements from other government entities and the public.

Appropriations are recognized as a financing source when expended. Revenues from service fees associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services.

The AFRH recognizes as an imputed financing source the amount of post-retirement benefits earned on behalf of employees paid on our behalf by the Office of Personnel Management (OPM).

E. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay Agency liabilities. The AFRH does not maintain cash in commercial bank accounts or foreign currency balances.

F. Investment in U.S. Government Securities

Trust Fund balances may only be invested in interest bearing debt securities issued by the Bureau of the Public Debt. 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-year 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

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

H. Property, Equipment, and Software

The AFRH owns the land and buildings in which both homes operate. The majority of the property, equipment and software is used to provide residential and health care services to members and is valued at cost. Equipment purchased, transferred, or donated with an acquisition cost greater than or equal to $50,000 per unit is capitalized. Routine maintenance is expensed 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, equipment and software with the exception of construction-in-progress. Depreciation is recognized using the straight-line method over the assets’ useful lives. Other equipment is expensed when purchased. Most AFRH heritage assets are multi-use facilities and are classified as general property, equipment and software. The useful lives used when recording depreciation on property, equipment and software are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Useful Life (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvements to Land</td>
<td>10-20</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>20-50</td>
</tr>
<tr>
<td>Equipment</td>
<td>5-10</td>
</tr>
</tbody>
</table>

I. Advances and Prepaid Charges

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

J. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the AFRH as a result of transactions or events that have already occurred. The AFRH reports its liabilities under two categories; Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represent funds owed to any entity or person that is not a Federal agency, including private sector firms and Federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.
Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave and actuarial FECA.

K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to OPM upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning FY2010 and 100% in 2014.

L. Accrued and Actuarial Workers’ Compensation

The Federal Employees’ Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the AFRH employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years. OPM acts as the claims administrator and bills each agency for all claims brought by the AFRH employees for on-the-job injuries. OPM establishes pension cost factors by estimating the true cost of providing the retirement benefits during the employees’ active years of service. OPM acts as the claims administrator and bills each agency for all claims brought by the AFRH employees for on-the-job injuries.

M. Retirement Plans

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

P. 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 years 2011 and 2010 to the extent directed by OMB.

Q. Contingencies

The AFRH recognizes contingent liabilities 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. Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. AFRH recognizes contingent liabilities in the accompanying balance sheet by a statement of net cost when it is both probable and can be reasonably estimated. AFRH discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to AFRH for agency operations. Payments from the Judgment Fund are recorded as an “Other Financing Source” when made.

R. Reclassification

The reclassification of certain fiscal year 2011 balances has been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.
NOTE 2. FUND BALANCE WITH TREASURY (continued)

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the available balance as described in the following paragraph. The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations. The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the cash balance on hand.

NOTE 3. INVESTMENTS

Investments as of September 30, 2012 consist of the following:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amortization Method</th>
<th>Unamortized (Premium) Discount</th>
<th>Interest Receivable</th>
<th>Investments Net</th>
<th>Market Value Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Marketable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market-Based</td>
<td>$111,638,684</td>
<td>Interest</td>
<td>$197,605</td>
<td>$383,467</td>
<td>$112,674,756</td>
</tr>
<tr>
<td>Total</td>
<td>$111,638,684</td>
<td>Interest</td>
<td>$197,605</td>
<td>$383,467</td>
<td>$112,674,756</td>
</tr>
</tbody>
</table>

Investments as of September 30, 2011 consist of the following:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amortization Method</th>
<th>Unamortized (Premium) Discount</th>
<th>Interest Receivable</th>
<th>Investments Net</th>
<th>Market Value Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Marketable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market-Based</td>
<td>$158,297,575</td>
<td>Interest</td>
<td>$842,171</td>
<td>$1,567,065</td>
<td>$160,706,811</td>
</tr>
<tr>
<td>Total</td>
<td>$158,297,575</td>
<td>Interest</td>
<td>$842,171</td>
<td>$1,567,065</td>
<td>$160,706,811</td>
</tr>
</tbody>
</table>

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 the fiscal years ended September 30, 2012 and 2011 range from December 31, 2011 to May 15, 2016 and May 15, 2015 to May 15, 2016, respectively; and interest rates for the same fiscal years range from 4.750 percent to 5.125 percent and 4.500 percent to 5.125 percent, respectively.

The Federal Government does not set aside assets to fund future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the AFRH as evidence of its receipts. Treasury securities are an asset to the AFRH and a liability to the U.S. Treasury. Because the AFRH and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide the AFRH with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFRH requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NOTE 4. ACCOUNTS RECEivable

Accounts receivable balances as of September 30, 2012 and 2011, were as follows:

<table>
<thead>
<tr>
<th>WITH THE PUBLIC:</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$249,362</td>
<td>$219,510</td>
</tr>
<tr>
<td>Total Public Account Receivable</td>
<td>$249,362</td>
<td>$219,510</td>
</tr>
<tr>
<td>Total Accounts Receivable</td>
<td>$1,769,857</td>
<td>$3,074,433</td>
</tr>
</tbody>
</table>

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

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2012 and 2011.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2012

<table>
<thead>
<tr>
<th>Major Class</th>
<th>Acquisition Cost</th>
<th>Accumulated Amortization/Depreciation</th>
<th>Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>$390,168,413</td>
<td>$139,525,552</td>
<td>$250,642,861</td>
</tr>
<tr>
<td>Land and Improvements</td>
<td>11,066,567</td>
<td>10,481,142</td>
<td>525,425</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>11,664,814</td>
<td>4,567,148</td>
<td>7,097,666</td>
</tr>
<tr>
<td>Construction-in-Progress</td>
<td>81,508,527</td>
<td>-</td>
<td>81,508,527</td>
</tr>
<tr>
<td>Total</td>
<td>$494,348,321</td>
<td>$154,573,842</td>
<td>$339,774,479</td>
</tr>
</tbody>
</table>

Schedule of Property, Equipment, and Software as of September 30, 2011

<table>
<thead>
<tr>
<th>Major Class</th>
<th>Acquisition Cost</th>
<th>Accumulated Amortization/Depreciation</th>
<th>Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>$390,168,413</td>
<td>$129,970,497</td>
<td>$260,197,916</td>
</tr>
<tr>
<td>Land and Improvements</td>
<td>11,066,567</td>
<td>10,434,665</td>
<td>571,902</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>11,664,814</td>
<td>3,602,283</td>
<td>8,062,531</td>
</tr>
<tr>
<td>Construction-in-Progress</td>
<td>25,268,738</td>
<td>-</td>
<td>25,268,738</td>
</tr>
<tr>
<td>Total</td>
<td>$438,066,532</td>
<td>$144,007,445</td>
<td>$294,059,087</td>
</tr>
</tbody>
</table>
I WAKE UP AND SAY: ‘WHAT A BEAUTIFUL DAY!’ I PUT A SMILE ON AND KEEP IT ALL DAY.  
— Robert “Little Guy” Harvey (Navy)

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for AFRH as of September 30, 2012 and 2011 include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental - FECA</td>
<td>$1,636,446</td>
<td>$1,750,357</td>
</tr>
<tr>
<td>Intragovernmental - Unemployment Insurance</td>
<td>-</td>
<td>643</td>
</tr>
<tr>
<td>Unfunded Leave</td>
<td>1,319,304</td>
<td>1,189,638</td>
</tr>
<tr>
<td>Actuarial FECA</td>
<td>8,453,239</td>
<td>9,124,954</td>
</tr>
<tr>
<td>Total Liabilities Not Covered by Budgetary Resources</td>
<td>$11,408,989</td>
<td>$12,065,592</td>
</tr>
<tr>
<td>Total Liabilities Covered by Budgetary Resources</td>
<td>18,399,501</td>
<td>5,570,466</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$29,808,490</td>
<td>$17,636,058</td>
</tr>
</tbody>
</table>

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on AFRH behalf and payable to the DOL.

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

NOTE 7. ACTUARIAL FECA LIABILITY

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

AFRH bases its estimate for FECA actuarial liability on the DOL FECA model. The model considers the average amount of benefit payments incurred by AFRH for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid (LBP) ratio for the whole FECA program. For the fiscal years ending September 30, 2012 and 2011, AFRH uses the overall average percentages of the LBP ratios to calculate the $8.5 million and $9.1 million FECA actuarial liabilities for those years, respectively.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2012 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Non Current</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FECA Liability</td>
<td>$118,036</td>
<td>$1,518,410</td>
<td>$1,636,446</td>
</tr>
<tr>
<td>Unemployment Insurance Liability</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>270,588</td>
<td>-</td>
<td>270,588</td>
</tr>
<tr>
<td>Total Intragovernmental Other Liabilities</td>
<td>$388,624</td>
<td>$1,518,410</td>
<td>$1,907,034</td>
</tr>
<tr>
<td>With the Public</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>$42,201</td>
<td>-</td>
<td>$42,201</td>
</tr>
<tr>
<td>Accrued Funded Payroll and Leave</td>
<td>$931,460</td>
<td>-</td>
<td>$931,460</td>
</tr>
<tr>
<td>Unfunded Leave</td>
<td>1,319,304</td>
<td>-</td>
<td>1,319,304</td>
</tr>
<tr>
<td>Other</td>
<td>37,981</td>
<td>-</td>
<td>37,981</td>
</tr>
<tr>
<td>Total Public Other Liabilities</td>
<td>$2,330,946</td>
<td>-</td>
<td>$2,330,946</td>
</tr>
</tbody>
</table>

Other liabilities account balances as of September 30, 2011 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Non Current</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FECA Liability</td>
<td>$624,338</td>
<td>$1,126,019</td>
<td>$1,750,357</td>
</tr>
<tr>
<td>Unemployment Insurance Liability</td>
<td>643</td>
<td>-</td>
<td>643</td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>256,141</td>
<td>-</td>
<td>256,141</td>
</tr>
<tr>
<td>Total Intragovernmental Other Liabilities</td>
<td>$881,122</td>
<td>$1,126,019</td>
<td>$2,007,141</td>
</tr>
<tr>
<td>With the Public</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Taxes Payable</td>
<td>$30,583</td>
<td>-</td>
<td>$30,583</td>
</tr>
<tr>
<td>Accrued Funded Payroll and Leave</td>
<td>$906,078</td>
<td>-</td>
<td>$906,078</td>
</tr>
<tr>
<td>Unfunded Leave</td>
<td>1,189,638</td>
<td>-</td>
<td>1,189,638</td>
</tr>
<tr>
<td>Other</td>
<td>57,371</td>
<td>-</td>
<td>57,371</td>
</tr>
<tr>
<td>Total Public Other Liabilities</td>
<td>$2,183,670</td>
<td>-</td>
<td>$2,183,670</td>
</tr>
</tbody>
</table>
NOTE 9. LEASES
AFRH leases several of its buildings for use as office space as well as parking areas associated with those buildings. Most of the leases run on a year-to-year. Future receipts due:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Future Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$75,477</td>
</tr>
</tbody>
</table>

NOTE 10. EARMARKED FUNDS
AFRH has earmarked funds that fall into the following categories: Capital Fund, Hurricane Katrina Fund and the Operations & Maintenance Fund. Governed by limitations determined annually by the U.S. Congress, the Trust Fund is used to finance operating expenses as well as capital expenditures of the AFRH on an annual and no year basis, while the Hurricane Katrina monies were appropriated on an emergency basis to cover necessary expenses related to the consequences of Hurricane Katrina until expended. Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

NOTE 10. EARMARKED FUNDS (continued)
Schedule of Earmarked Funds as of September 30, 2012:

<table>
<thead>
<tr>
<th></th>
<th>Capital Fund</th>
<th>Earthquake Fund</th>
<th>Hurricane Katrina Fund</th>
<th>Operations &amp; Maintenance Fund</th>
<th>Total Earmarked Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury</td>
<td>($43,217,085)</td>
<td>$13,323,316</td>
<td>$726,795</td>
<td>$47,003,378</td>
<td>$17,836,404</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
<td>-</td>
<td>112,674,756</td>
<td>112,674,756</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td></td>
<td>-</td>
<td>1,769,857</td>
<td>1,769,857</td>
</tr>
<tr>
<td>Property, Equipment, and Software</td>
<td>105,874,019</td>
<td>13,000,000</td>
<td>220,900,480</td>
<td>339,774,479</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$62,656,934</td>
<td>$26,323,316</td>
<td>$726,795</td>
<td>$382,348,451</td>
<td>$472,055,496</td>
</tr>
<tr>
<td><strong>Liabilities and Net Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$502,594</td>
<td>$11,693,316</td>
<td>-</td>
<td>$4,921,361</td>
<td>$17,117,271</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12,691,219</td>
<td>12,691,219</td>
</tr>
<tr>
<td>Cumulative Results of Operations</td>
<td>62,154,340</td>
<td>14,630,000</td>
<td>726,795</td>
<td>364,735,871</td>
<td>442,247,006</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$62,656,934</td>
<td>$26,323,316</td>
<td>$726,795</td>
<td>$382,348,451</td>
<td>$472,055,496</td>
</tr>
<tr>
<td><strong>Statement of Net Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Costs</td>
<td>$5,074,389</td>
<td>$14,630,000</td>
<td>-</td>
<td>$56,518,914</td>
<td>$76,223,303</td>
</tr>
<tr>
<td>Less: Earned Revenues</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(15,312,225)</td>
<td>(15,312,225)</td>
</tr>
<tr>
<td>Net Program Costs</td>
<td>5,074,389</td>
<td>14,630,000</td>
<td>-</td>
<td>41,206,689</td>
<td>60,911,078</td>
</tr>
<tr>
<td><strong>Net Cost of Operations</strong></td>
<td>$5,074,389</td>
<td>$14,630,000</td>
<td>-</td>
<td>41,206,689</td>
<td>60,911,078</td>
</tr>
<tr>
<td><strong>Statement of Changes in Net Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Position Beginning of Period</td>
<td>$67,228,729</td>
<td>-</td>
<td>$227,190,014</td>
<td>$150,599,836</td>
<td>$449,018,579</td>
</tr>
<tr>
<td>Net Cost of Operations</td>
<td>(5,074,389)</td>
<td>(14,630,000)</td>
<td>-</td>
<td>(41,206,689)</td>
<td>(60,911,078)</td>
</tr>
<tr>
<td>Taxes and Other Nonexchange Revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56,478,125</td>
<td>56,478,125</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>1,661,380</td>
<td></td>
<td>1,661,380</td>
<td>1,661,380</td>
<td>1,661,380</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td>(5,074,389)</td>
<td>(14,630,000)</td>
<td>-</td>
<td>16,932,816</td>
<td>(2,771,573)</td>
</tr>
<tr>
<td><strong>Net Position End of Period</strong></td>
<td>$62,154,340</td>
<td>($14,630,000)</td>
<td>$227,190,014</td>
<td>$167,532,652</td>
<td>$442,247,006</td>
</tr>
</tbody>
</table>
Schedule of Earmarked Funds as of September 30, 2011:

### NOTE 10. EARMARKED FUNDS (continued)

#### ASSETS

<table>
<thead>
<tr>
<th>Capital Fund</th>
<th>Earthquake Fund</th>
<th>Hurricane Katrina Fund</th>
<th>Operations &amp; Maintenance Fund</th>
<th>Total Earmarked Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance with Treasury</td>
<td>$(23,939,680)</td>
<td>-</td>
<td>$(279,536)</td>
<td>$27,956,450</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>-</td>
<td>160,706,811</td>
<td>160,706,811</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>-</td>
<td>-</td>
<td>3,074,433</td>
<td>3,074,433</td>
</tr>
<tr>
<td>Property, Equipment, and Software</td>
<td>67,666,074</td>
<td>-</td>
<td>226,390,013</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$43,726,394</td>
<td>-</td>
<td>$227,190,549</td>
<td>$191,737,694</td>
</tr>
</tbody>
</table>

#### LIABILITIES AND NET POSITION

| Accounts Payable | $437,345 | - | $534 | 3,822,415 | 4,320,294 |
| Other | - | - | 13,315,764 | 13,315,764 |    |
| **Cumulative Results of Operations** | 43,289,049 | - | 227,190,015 | 174,539,516 | 445,018,579 |
| **Total Liabilities and Net Position** | $43,726,394 | - | $227,190,549 | $191,737,694 | $462,654,637 |

#### Statement of Net Cost

| Program Costs | $8,474,650 | - | $5,319,849 | $66,293,378 | $80,087,877 |
| Less: Earned Revenues | - | - | (15,824,363) | (15,824,363) |    |
| Net Program Costs | 8,474,650 | - | 5,319,849 | 50,469,015 | 64,263,514 |
| **Net Cost of Operations** | $8,474,650 | - | $5,319,849 | $50,469,015 | $64,263,514 |

#### Statement of Changes in Net Position

| Net Position Beginning of Period | $51,763,699 | - | $232,509,863 | $177,882,424 | $462,155,986 |
| Net Cost of Operations | (8,474,650) | - | (5,319,849) | (50,469,015) | (64,263,514) |
| Taxes and Other Nonexchange Revenue | - | - | 45,298,753 | 45,298,753 |    |
| Other Revenue | - | - | 1,827,354 | 1,827,354 |    |
| Change in Net Position | (8,474,650) | - | (5,319,849) | (3,342,908) | (17,137,407) |
| **Net Position End of Period** | $43,289,049 | - | $227,190,014 | $174,539,516 | $445,018,579 |

### NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and intragovernmental exchange revenue represent goods and services exchange transactions made between two reporting entities within the Federal government and are in contrast to those with non-Federal entities (the public). Such costs and revenue are summarized as follows:

#### PROGRAM: CULTURE OF INTEGRITY

| Intragovernmental Costs | $535,792 | $707,149 |
| Public Costs | 2,848,521 | 3,729,720 |
| **Total Program Costs** | 3,384,313 | 4,436,869 |
| Intragovernmental Earned Revenue | (130,322) | (217,765) |
| Public Earned Revenue | (549,541) | (658,905) |
| **Net Program Costs** | 2,704,450 | 3,560,199 |

#### PROGRAM: EXCEPTIONAL SERVICE

| Intragovernmental Costs | 10,258,482 | 9,894,982 |
| Public Costs | 54,538,949 | 52,189,140 |
| **Total Program Costs** | 64,797,431 | 62,084,122 |
| Intragovernmental Earned Revenue | (2,495,201) | (3,047,132) |
| Public Earned Revenue | (10,521,722) | (9,219,914) |
| **Net Program Costs** | 51,780,508 | 49,812,076 |

#### PROGRAM: FINANCIAL GROWTH

| Intragovernmental Costs | 2,413 | 39,570 |
| Public Costs | 12,832 | 208,702 |
| **Total Program Costs** | 15,245 | 248,272 |
| Intragovernmental Earned Revenue | (687) | (12,186) |
| Public Earned Revenue | (10,475) | (98,871) |
| **Net Program Costs** | 12,183 | 199,216 |

#### PROGRAM: IMPROVED PROCESSES

| Intragovernmental Costs | 1,075,203 | 1,905,087 |
| Public Costs | 5,716,293 | 10,206,235 |
| **Total Program Costs** | 6,791,496 | 12,111,322 |
| Intragovernmental Earned Revenue | (261,525) | (595,905) |
| Public Earned Revenue | (1,102,794) | (1,803,068) |
| **Net Program Costs** | 5,427,177 | 9,742,349 |

#### PROGRAM: LEARNING AND GROWTH

| Intragovernmental Costs | 195,492 | 187,637 |
| Public Costs | 1,039,326 | 989,655 |
| **Total Program Costs** | 1,234,818 | 1,177,292 |
| Intragovernmental Earned Revenue | (47,550) | (57,782) |
| Public Earned Revenue | (200,508) | (174,836) |
NOTE 12. IMPUTED FINANCING SOURCES
AFRH recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current staff. Assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the fiscal years ended September 30, 2012 and 2011, respectively, imputed financing was as follows:

The President’s Budget that will include FY12 actual budgetary execution information has not yet been published. The President’s Budget is scheduled for publication in February 2013 and can be found at the OMB Web site: http://www.whitehouse.gov/omb/.

The 2013 Budget of the United States Government, with the “Actual” column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

<table>
<thead>
<tr>
<th>Year</th>
<th>Office of Personnel Management</th>
<th>Total Imputed Financing Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,661,380</td>
<td>$1,661,380</td>
</tr>
<tr>
<td>2011</td>
<td>$1,827,354</td>
<td>$1,827,354</td>
</tr>
</tbody>
</table>

NOTE 13. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT
The 2013 Budget of the United States Government, with the “Actual” column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED
Obligations incurred and reported in the Statement of Budgetary Resources in 2011 and 2010 consisted of:

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Obligations, Category A</th>
<th>Direct Obligations, Category B</th>
<th>Direct Obligations, Category C</th>
<th>Total Obligations Incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$65,444,019</td>
<td>$19,362,055</td>
<td>$14,630,000</td>
<td>$99,436,074</td>
</tr>
<tr>
<td>2011</td>
<td>$68,560,187</td>
<td>$77,121,990</td>
<td>-</td>
<td>$146,273,177</td>
</tr>
</tbody>
</table>

NOTE 15. UNDELIVERED ORDERS AT THE END OF THE PERIOD
For the fiscal years ended September 30, 2012 and 2011, undelivered orders amounted to $48,170,100 and $91,482,133 respectively.

NOTE 16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET
AFRH reconciled its budgetary obligations and non-budgetary resources available to net cost of operations.

armed forces retirement home
reconciliation of net cost of operations to budget
for the fiscal years ended september 30, 2012 and 2011

resources used to finance activities:

<table>
<thead>
<tr>
<th>Resources Used to Finance Activities</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Resources Obligated</td>
<td>$99,438,074</td>
<td>$146,273,177</td>
</tr>
<tr>
<td>Spending Authority From Offsetting Collections and Recoveries</td>
<td>(7,187,512)</td>
<td>(1,474,323)</td>
</tr>
<tr>
<td>Offsetting Receipts</td>
<td>(27,330,935)</td>
<td>(12,669,471)</td>
</tr>
<tr>
<td>Net Obligations</td>
<td>64,917,627</td>
<td>132,129,383</td>
</tr>
<tr>
<td>Other Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imputed Financing From Costs Absorbed By Others</td>
<td>1,661,380</td>
<td>1,827,354</td>
</tr>
<tr>
<td>Net Other Resources Used to Finance Activities</td>
<td>1,661,380</td>
<td>1,827,354</td>
</tr>
<tr>
<td>Total Resources Used to Finance Activities</td>
<td>66,579,007</td>
<td>133,956,737</td>
</tr>
<tr>
<td>Resources Used to Finance Items Not Part of the Net Cost of Operations</td>
<td>(16,792,302)</td>
<td>(82,059,335)</td>
</tr>
<tr>
<td>Total Resources Used to Finance the Net Cost of Operations</td>
<td>49,786,705</td>
<td>51,897,402</td>
</tr>
<tr>
<td>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</td>
<td>11,124,373</td>
<td>12,366,112</td>
</tr>
</tbody>
</table>

Net Cost of Operations

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Cost of Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$60,911,078</td>
</tr>
<tr>
<td>2011</td>
<td>$64,263,514</td>
</tr>
</tbody>
</table>

I LIED ABOUT MY AGE AND JOINED THE NAVY AT 17. MY DAD SIGNED THE PAPERS AND I WAS IN.
— Marion Wolke (Navy)
ARmed Forces Retirement Home Required Supplementary Stewardship Information for the Years Ended September 30, 2012 and 2011

Federal agencies are required to classify and report heritage assets, in accordance with the requirements of SFFAS No. 29, “Heritage Assets and Stewardship Land.” Heritage assets are property, plant, and equipment that possess one or more of these characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics. Since the cost of heritage assets is usually not determinable, the 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. 29, 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.

"By living here, I'll never be a burden on my kids. That's worth a lot to me." — Woolf Kiessling (Navy)

A member of the Texas Woodcarvers’ Guild, Woolf has been woodworking since 1994. He carved the big sign that hangs above the bar in the Fiddler’s Green pub at AFRH-Gulfport. Plus he created a piece on display there that is dedicated to the memory of Master Chief Jim Fairbanks.

Besides woodcarving, Woolf utilizes the gym and camps locally. He has a real affinity for the staff, too: “They are highly personal and treat you as an individual rather than just part of a group. They’re always asking how things can be improved.”

Wolf is also fond of the food and thinks the healthcare is top-notch. “From a financial standpoint this is the greatest bargain in the country.” For him, the Home provides a great value—while allowing him to live a valuable and enriched life.