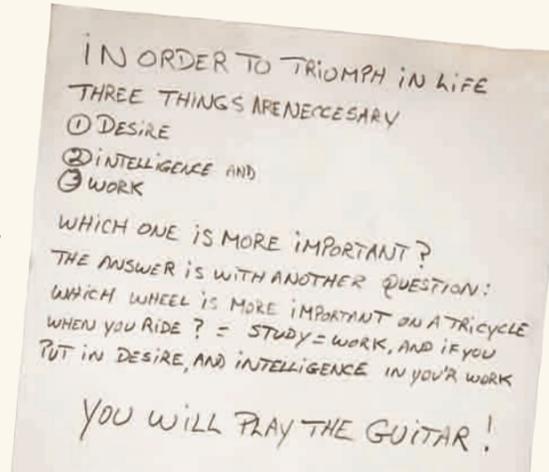
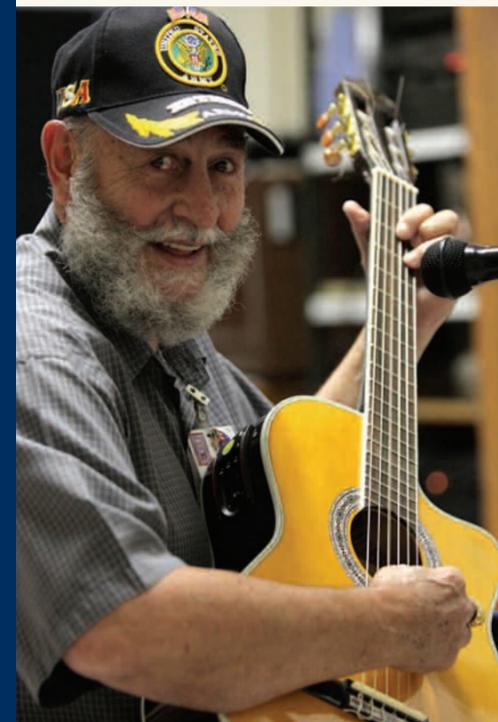


In 1956, "Lou" started a Doo-Wop band with his buddies while serving in Germany. "Everyone in my family plays or sings. But, once I got married, I eased off ... because I had the Army and six kids." Years later, at work, he reached behind a big door that closed – slamming his hand. For decades he couldn't play. Then, his beloved wife died. "I lost interest in everything. I even thought about taking my life. But my children talked to me – that was my therapy." When he came here, Lou needed to be active. He knew ceramics, carpentry, and leatherwork alright. Then he saw a guitar in the Chaplain's office. "I could barely pick it up! But I used a squeezing tool to get those muscles to pay attention to my brain." Now he practices daily in his own studio. "This is my sanctuary – 19 months ago I couldn't do one-fifth of *this* ... " Suddenly Lou burst into an upbeat Spanish song like he does in the hallways most evenings. "Ah, I love this place."



"Playing the  
**Guitar**  
 is my life.  
 It means I can  
 keep moving and  
 be happy."  
 — Louis Lopez (Army)



## MANAGEMENT'S DISCUSSION & ANALYSIS

Strategic Direction

AFRH Organization

Locations

Our Residents

Our Staff

Performance Summary

High-priority Performance Goals

Financial Statement Summary

Long Range Financial Plan

Legal & Regulatory Compliance

Management's Assurance

Early visionaries of 19th century America helped build a strong, viable nation. A select few also pictured a safe haven for our country's former military to age gracefully with their comrades. Today AFRH and DoD are determined to provide service men and women with a vibrant community where they may thrive in their golden years. To achieve this, AFRH has steadily changed with the times.

### Reinventing Retirement.

For two centuries, AFRH has evolved remarkably by responding to the unique needs of each generation. Today's resident desires the latest amenities, human connections, and creature comforts. Year after year, we aspire to be a better, more responsive organization that meets and exceeds residents' needs. With our sights set on modernization and wellness, we are cementing our reputation as a premier retirement community.

Ultimately, our great challenge is to preserve an enjoyable retirement in a fiscally prudent manner. We are pleased to report we are succeeding. Here in the MD&A, we showcase our many advances on the path to achieving our goals. We survey the AFRH organization, its strategic direction, our High-priority Performance Goals, and our financial status. All of which continually demonstrate the power of our progress.

## Vision

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

## Mission

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

## Guiding Principles

- |                          |                    |
|--------------------------|--------------------|
| Establish Accountability | Maintain Integrity |
| Honor Heritage           | Maximize Workforce |
| Inspire Excellence       | Serve Customers    |

## Corporate Philosophy

Our vision and mission are strongly rooted in the Home's heritage. Yet, they also incorporate modern philosophies in senior care. Further, our Guiding Principles were crafted to ensure delivery of the Home's services, while also guiding the success of our strategies. Ultimately, these tools will help us meet the needs of tomorrow's veterans.

## STRATEGIC DIRECTION

# The Impact of Planning



**AFRH STRATEGIC PLAN:**  
[afrh.gov/aboutus/stratplan.html](http://afrh.gov/aboutus/stratplan.html)

### PROGRESS

#### OBJECTIVE:

- Employing Aging in Place
- Modernizing all Facilities
- Raising Effectiveness

*\*Both Communities*

#### RESULT:



Record snowfall blankets AFRH-W in February 2010.

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



**AFRH ORGANIZATION**

# The Force of Efficiency

**Management:**

AFRH is organized in a contemporary business establishment with a corporate office that manages independent functioning retirement communities in different locations. This arrangement allows corporate to make strategic decisions as well as communicate with Congress and constituents.

Each AFRH facility operates under a Director, who reports to the COO. Each community may make its own tactical operational decisions, manage its facilities, and respond to local resident requirements.

The COO is subject to the authority, direction, and control of the Secretary of Defense, delegated to the Under Secretary of Defense (Personnel & Readiness) and the Deputy Under Secretary of Defense for Military

Community & Family Policy. Plus an Advisory Board provides expertise and knowledge of all aspects of senior living.

**Facilities:**

At the end of FY10, the successful "One Model" for operations was fully replicated in Gulfport. With the completion of AFRH-G construction, this second community with its own Director became operational.

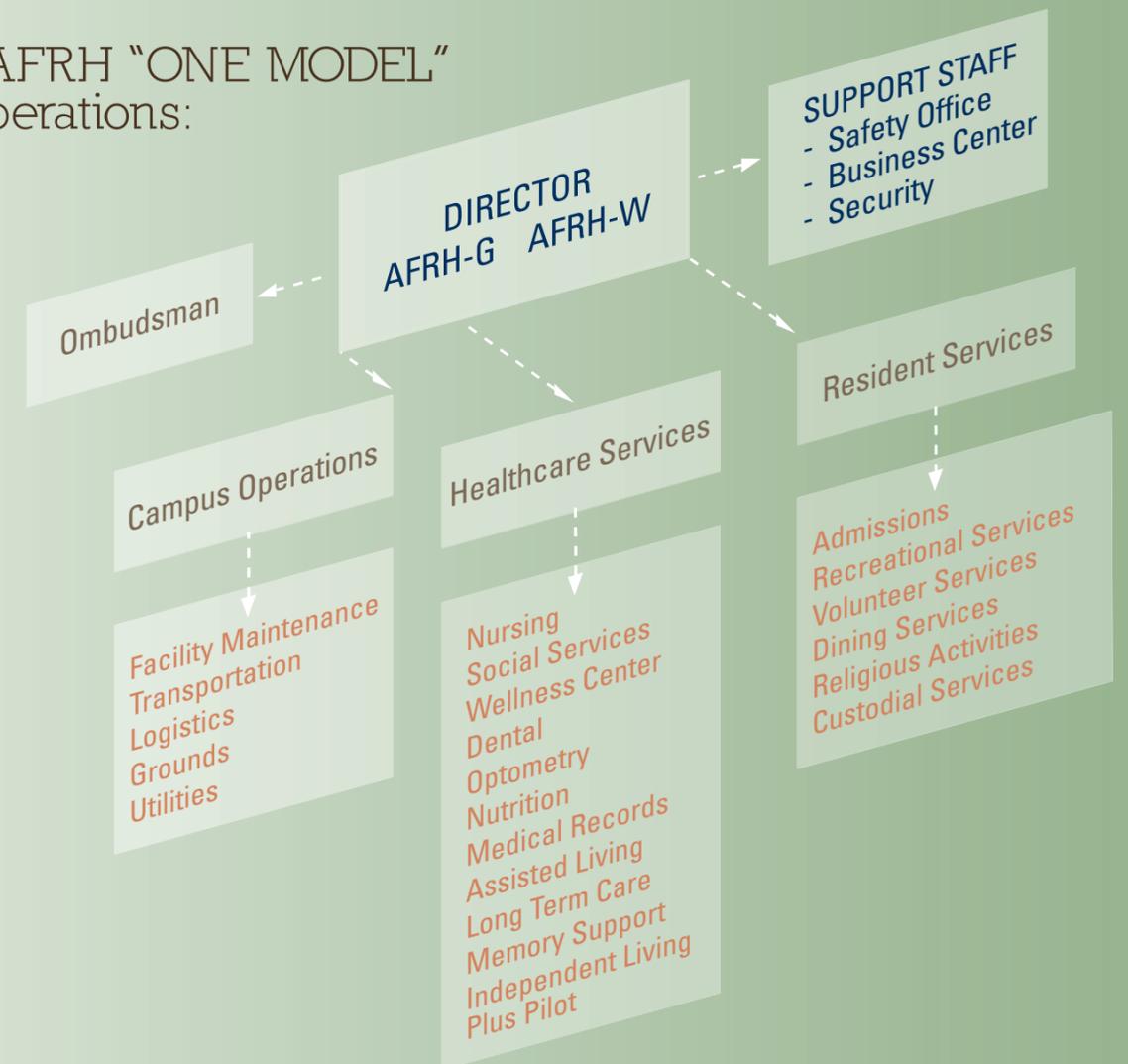
Dr. Clifford Stanley, Under Secretary of Defense for Personnel and Readiness, visits AFRH.



AFRH organizational structure:



The AFRH "ONE MODEL" for operations:



Back in 2004, both AFRH communities were flourishing residences. The agency was fiscally solvent and continued to evolve. Yet, Hurricane Katrina put many plans on hold. After that disastrous storm, AFRH-Washington became the sole provider of resident housing for AFRH, and many resources were shifted to care for our newly transferred residents from Gulfport.

**Modernizing & Right-sizing.**

Since 2005 residency has declined, partly due to our strategic initiative to modernize and right-size AFRH-W. Residences that are outdated are now being replaced. And buildings that no longer meet 21st century Federal guidelines have been mothballed. Our modernization coincides ideally with many residents' return to Gulfport.



LOCATIONS

# The Pillar of Improvement



## Gulfport, MS: Open for Residency.

With top-notch construction management, advanced engineering, and efficient scheduling, a modern facility with new amenities is complete. Staffing began with hiring of the Director Richard Heath in February 2010.

All year AFRH-W staff planned diligently for the Gulfport opening. Stellar work in developing Gulfport service contracts, as well as moving Gulfport residents and their household goods from DC, made the stand-up a success. Chuck Dickerson (Chief, Resident Services) and his team

made outstanding contributions to all service contracts, resident packing, and charter airplane transportation. Justin Seffens (Chief, Campus Operations) and his team performed admirably on all contractor consultations, punch lists, maintenance contracts, and ground transportation. Plus, Al Mori (Ombudsman) and resident Robert Leftiwitz were of great help in transporting residents' private vehicles. Lastly, Gulfport staff was hired over the summer and mentored by AFRH-W staff to prepare for the first occupants.

## Washington, DC: Poised for Change.

The historic stone buildings on the quadrangle and majestic trees surrounding us could tell some tall tales – if they could speak. From war stories to buddy shenanigans, they've seen tens of thousands of former soldiers, sailors, Marines, coasties, and airmen rest, work, and thrive here for 160 years. Most of our inhabitants have come and passed. A few buildings have disappeared as well. Yet the spirit of military heritage and keen love of country lingers here like an old, familiar friend.

High on a hill overlooking Washington, DC, the AFRH has been home to many of the unsung heroes of necessary and just wars in America's defense of freedom. As our residents have aged so have the buildings and infrastructure around them. Now it's time for these things to change, too. Soon, a modern facility with the latest amenities – one that respects our rich history – will adorn these grounds. "The Scott Project" is underway and design concepts were finalized in FY10. Completion is slated for FY13.

OUR RESIDENTS



# The Capacity of Endurance

## Experience Living History.

Many of our residents are walking history books. Their stories are rich with human emotion – from the heights of wartime victories to the depths of personal sorrow. We are fortunate to have cared for several recipients of the Bronze Star, the Silver Star, the Congressional Medal of Honor, and of late, the Lone Sailor Award.

Beyond military tales and commendations our population also includes talented and accomplished painters, sculptors, writers, musicians, historians, photographers, and more. Come by for a visit and talk with one of our own. You never know what you may learn.



### Eligibility:

Anyone may become an AFRH resident if their active duty military service was at least 50 percent enlisted, Warrant Officer or Limited Duty Officer (per US Code 24, Section 412 (24 USC.412)). Further, a person must also:

- a) Have 20 or more years of active duty service and be at least 60 years old, OR
- b) Be unable to earn a livelihood due to a service-connected disability, OR
- c) Be unable to earn a livelihood due to a non-service-connected disability, yet served in a war theater or received hostile fire pay, OR
- d) Have served in a women's component of the Services before June 12, 1948.

**UPDATE:**

*"Coast Guard & Maritime Transportation Authorization Act of 2010" (Sec 205) amends Section 1502 of the Armed Forces Retirement Home Act of 1991 (24 U.S.C. 401) to allow Coast Guard participation in AFRH.*



### Residents flocking to the Gulf:

Former AFRH-G residents (living at AFRH-W & moving back):	135
Current AFRH-W residents (moving to AFRH-G from wait list):	110
<b>Total Moving to Gulfport from Washington:</b>	<b>245</b>

### Residents by Branch:

347 (40%)	Army
280 (32%)	Air Force
204 (24%)	Navy
33 (4%)	Marine Corps
3 (< 1 %)	Coast Guard

### Resident Profile 2010:

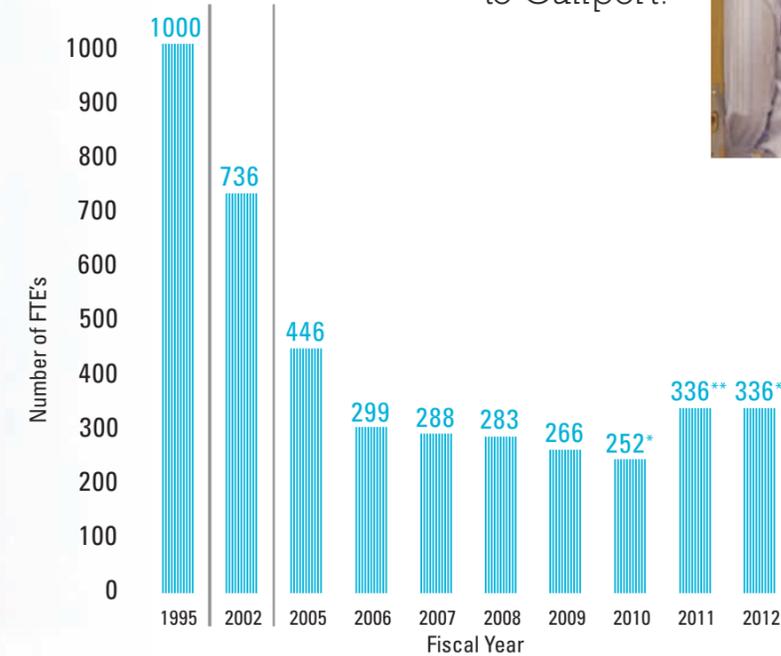
BY GENDER	BY WAR THEATER*	BY ELIGIBILITY CATEGORY
Male 777 (90%)	World War II 368 (31%)	Retiree 657 (76%)
Female 90 (10%)	Korean War 414 (35%)	Service-connected Disability 67 (8%)
	Vietnam 394 (34%)	War Theater 96 (11%)
	Grenada 3 (<1%)	Female (service before 1948) 47 (5%)
	Panama 0	
	Gulf War 0	

\*Some were in more than 1 war



OUR STAFF

Pam Young (DON) was commended by CARF and went all-out to help residents move to Gulfport.



AFRH Staffing from 1995-2010.

\*Gulfport starting to hire  
\*\* Projected

# The Energy of Evolution

In 2004, our vision was to become much more effective, operationally. The Home has evolved and strengthened since then through a highly diverse blend of staffing. With a core group of Federal employees at the helm, we also engage the expertise of independent consultants and service providers in fields vital to delivering great service.

Further, AFRH partners with others for transportation, facility maintenance, landscaping, food service, healthcare, personnel, finance, strategic planning, marketing, and IT. By adhering to the "One Model" for operations, AFRH has made great strides in replicating similar operations at both facilities – for maximum efficiency.

"ILP helps residents with daily tasks so they can be more independent."

— Omobola Akinkuowo (ILP Nurse)





Barack Obama mandated Performance Goals for Federal agencies.

## Strategic Goals

<b>Financial Growth</b>	Create net growth and stability for the AFRH Trust Fund.
<b>Exceptional Service</b>	Enhance the AFRH experience to enrich the quality of residents' lives.
<b>Improved Processes</b>	Modernize operations to leverage and maximize resources across AFRH.
<b>Learning &amp; Growth</b>	Promote personal excellence and professional growth for all personnel.
<b>Culture of Integrity</b>	Inspire commitment to AFRH Guiding Principles through mutual respect.

## High-priority Performance Goals

<b>1 Healthcare</b>	(Resident Wellbeing)
<b>2 Housing</b>	a. Gulfport      b. Washington
<b>3 Stewardship</b>	(Corporate Effectiveness)

### PERFORMANCE SUMMARY

# The Might of Measurement

The US government seeks greater efficiencies under the direction of the Chief Performance Officer and Office of Management and Budget (OMB). As such, agencies are required to focus on outcomes and set clear and measurable goals – and then use that data to reinforce priorities, motivate action, and guide improvement. This approach has proved effective.

In 2003, AFRH transformed the way it conducted business. We articulated our Mission, honed our Vision, and crafted Strategic Goals essential to success. Then we mapped our

Strategic Plan, which underwent multiple revisions over two years until we finalized a winning strategy.

Today, our High-priority Performance Goals stem from, and reinforce, our overarching AFRH Strategic Goals. Ultimately, these Goals are helping to direct our resources more efficiently. Plus, they are shaping a brighter future for AFRH.

#### Ongoing Evolution.

AFRH is now successfully completing many key actions in its Strategic Plan for 2006-2010. This has truly helped propel progress. Next year, we will assess many factors on the horizon that impact operations, and we will craft the next five-year Plan beginning in FY11.

Our Mission is solid. Our Vision is clear. And our Strategic Goals are constant. Yet, the emphasis and annual targets of those Goals will continue to evolve.



Justin Seffens and Chuck Dickerson led Gulfport resident moves and transport.

We manage performance in many ways. Internally, we use community Business Plans featuring action plans for the year, quarterly feedback meetings, and performance publications. Externally, AFRH is inspected annually by accrediting bodies or the Inspector General (IG), plus Office of Personnel Management (OPM).

Further, staff performance reviews are linked to our Strategic Goals, and then the effectiveness of each employee is measured.

The AFRH IG maintains documentation for agency accreditation and also manages issues, risks, and quality improvement derived from inspections.

**Ongoing Progress.**

AFRH has tracked progress on its High-priority Performance Goals since 2007, and we present the trends in the chart to the right. SUMMARY: we consistently achieve about 80% of our Strategic goals annually. This year, greater emphasis was placed on Learning & Growth in the Stewardship area because this is where AFRH had fallen short.

**PERFORMANCE HIGHLIGHTS**

# The Realm of Achievement

**IG Identified Challenges**

**2010 MANAGEMENT CHALLENGE**

	<b>PROGRESS</b>
Initiate Gulfport Stand-up	- Facility accepted July 2010 - Residents return - Wait lists reduced - Staffing ramped up
Implement, manage & monitor Washington Scott Project	- Awaiting awards for Design/Build - Concept design completed - On-time & on-budget
Educate, train & promote Wellness to staff & residents	- Trained 75+ staff in Aging in Place concepts - Distributed brochures to residents & families - Deployed ILP program

**PERFORMANCE CHALLENGE**

	<b>PROGRESS</b>
Deploy Human Capital Management Plan	- OPM approved our Plan in Nov 09 - Plan published in Dec 09
Execute Human Capital Succession Plan	- AFRH has drafted the plan - Gulfport reopening & staffing efforts have delayed completion
Define Gulfport & Washington Staffing Models	- Goal: Parity Staffing Models at all facilities - Models were created with regular updates
Increase visibility of military heritage	- Military "Hall of Honors" planned as focal point of new buildings at both Homes - Gulfport Hall of Honors opens in October - Scott Project Hall of Honors is designed - More historical artifacts have been installed at AFRH-W
Adhere to timelines & participate in annual mandatory training	- Tighter scrutiny of staff participation in mandatory training yielded better results
Manage operating costs & expenditures	- Analysis of economic conditions & possible scenarios helped shape forecasts & budgets - All contracts reviewed and updated

## ANALYSIS: High-priority Performance Goals

Relationship to AFRH Strategic Goals	Goals & Objectives	Baseline Performance Measure FY07 Target	FY07	FY08	FY09	FY10
<b>Goal: HEALTHCARE (Resident Wellbeing)</b>						
<b>ES IP</b>	Accreditation	In good standing	Met	Met	Met	Met
<b>ES IP</b>	% of resident satisfaction	70%	Met	Met	Met	Met
<b>ES IP</b>	% of resident assessment plans	95%	NA	NA	Met	NA
<b>Goal : HOUSING FOR VETERANS</b>						
GULFPORT						
<b>FG ES IP</b>	Construction	Within budget and on-schedule	Met	Met	Met	Met
<b>FG ES IP</b>	Operational plans	Plan	NA	Met	Met	Met
WASHINGTON						
	Construction	Within budget and on-schedule	NA	NA	Met	Met
<b>FG ES IP</b>	Operational plans	Plan	Met	Met	Met	Met
<b>Goal : STEWARDSHIP (Corporate Effectiveness)</b>						
<b>FG</b>	Trust Fund solvency	Even balance of resources vs. obligations	Met	Met	Met	Met
<b>FG IP</b>	Accuracy of financial reporting	Unqualified audit opinion	Met	Met	Met	Met
<b>LG</b>	Evidence of measurable training goals	80% participation in 4 mandatory training classes for all staff	Met	Met	Not Met	Met
<b>CI</b>	% of Employee Climate Survey responses of "Excellent" or "Very Good"	70%	NA	Met	Not Met	Not Met

**AFRH Strategic Goals**

**FG** - Financial Growth    **CI** - Culture of Integrity    **IP** - Improved Processes    **ES** - Exceptional Service    **LG** - Learning & Growth

**PROGRESS**

## 6TH CONSECUTIVE Unqualified Opinion.

**AUDIT TRENDS**

FY04	(No audit)
FY05	Unqualified
FY06	Unqualified
FY07	Unqualified
FY08	Unqualified
FY09	Unqualified
FY10	Unqualified

The independent accounting firm Brown & Company expressed an Unqualified Opinion on our comparative FY10 and FY09 Financial Statements, the Consolidated Statements of Net Cost, Balance Sheets, Statements of Changes in Net Position, and Statement of Budgetary Resources. Also, Brown & Company did not report any material weaknesses.

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



**HIGHLIGHTS OF FINANCIAL POSITION**

# The Muscle of Management



**Limitations of the Principal Financial Statements.**

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

**AFRH Trust Fund: Solvent.**

AFRH is unique: all funding comes from its Trust Fund as allocated by Congress.

TRENDS: The Fund Balance has fluctuated throughout its history, reaching dramatically low levels in the early 2000s. Through efficiencies and economies, management has raised that balance to an all time high of **\$186 million** in FY10. Soon, AFRH will spend a portion of these funds for the Scott Project as an investment for future generations of residents. This will thereby reduce the Trust Fund levels. However, we forecast that the balance will begin to increase again by FY15.

**AFRH Trust Fund Balance FY95-10:**  
{in millions of dollars}



**Assets & Liabilities: Small Rise.**

	<b>FY10</b>	<b>FY09</b>	<b>Net changes</b>	<b>% Change</b>
<b>Assets</b>	\$478,932,570	\$477,345,938	\$1,586,632	+ <1%
<b>Liabilities</b>	\$16,776,584	\$16,329,453	\$447,131	+ 3%

### Ending net position: Increase.

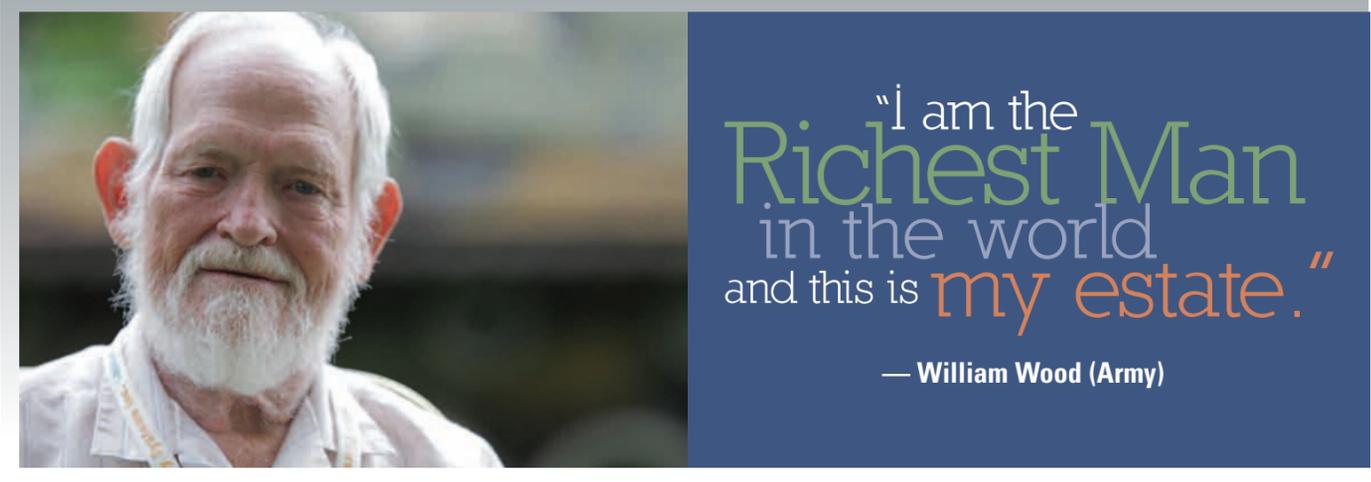
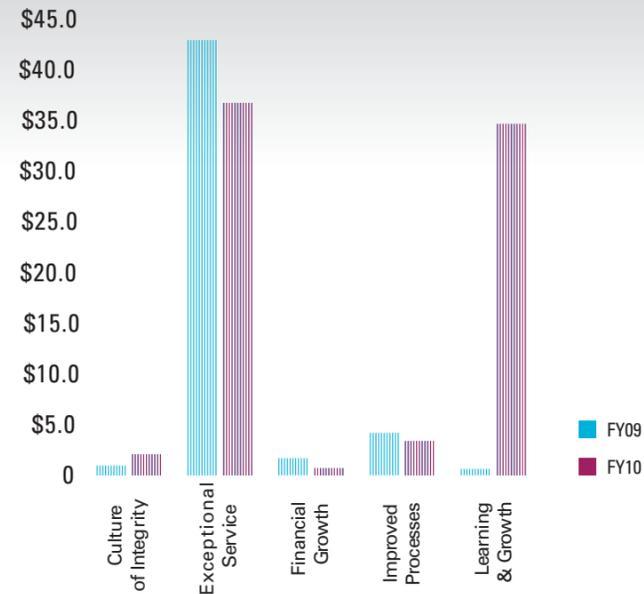
Net Position is the current value of the Agency's assets less liabilities. Our Net Position at the end of FY10 (per the Consolidating Balance Sheet and the Consolidating Statement of Changes in Net Position) was \$462 million: a \$1 million increase from the prior fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

### Revenue: Steady.

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

The Congressional budget request for FY10 equaled \$134 million with \$62 million in O&M and \$72 million in Capital Improvements. This entailed a \$7 million growth to begin the start-up of Gulfport. (Anticipated revenue was \$69 million in FY09, but actual was just \$61 million.) FY10 produced \$62 million in revenue.

Trends in AFRH – Net Costs by Strategic Goal: {in millions of dollars}



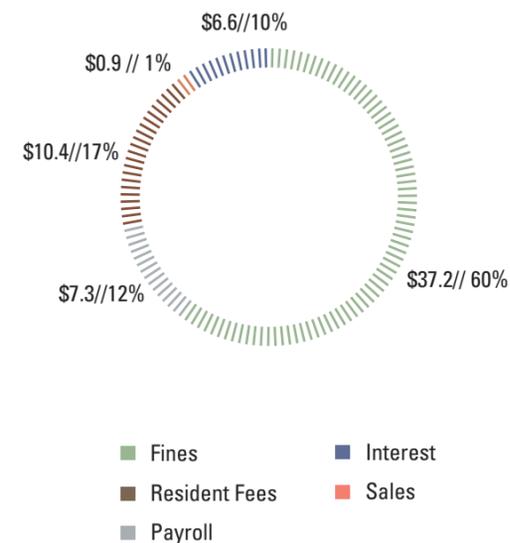
### Expenditures: Prudent.

AFRH has gathered information on its spending by strategic goal for the past 2 years. AFRH has spent significant funds on the goal of Exceptional Service (supporting Healthcare and Improved

Housing). The largest other expenditures go to improving our Stewardship, staff and equipment improvements, as well as modernization.

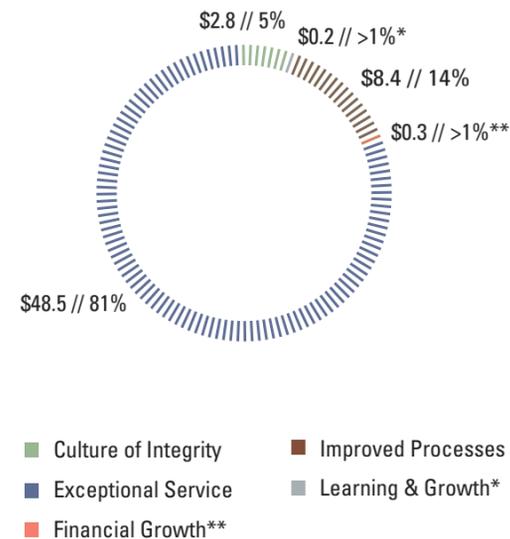
### AFRH FY10 Revenue Sources:

{in millions of dollars}

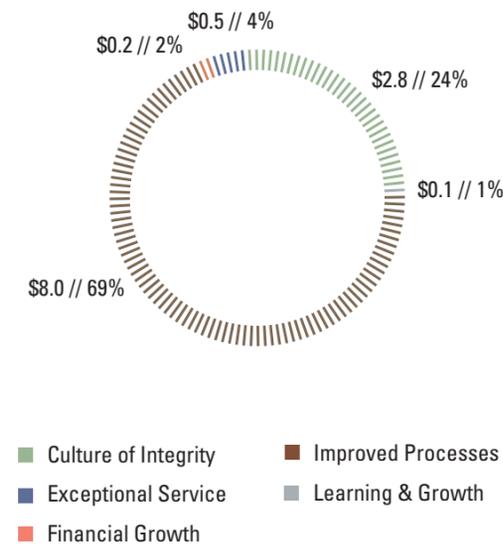


### AFRH FY10 Overall Net Costs by Strategic Goal:

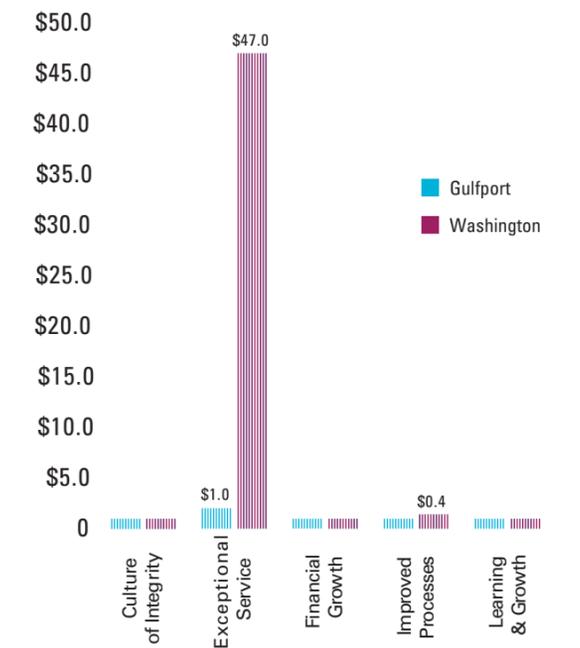
{in millions of dollars}



AFRH FY10 Corporate Net Costs by Strategic Goal: {in millions of dollars}



AFRH FY10 Campus Net Costs by Strategic Goal: {in millions of dollars}



AFRH has envisioned a synergy of great efficiency and modern communities. At the forefront of our planning were some key questions: "What will the costs be?" and "How will they impact the Trust Fund?" So, AFRH engaged experts to analyze Fund solvency through 2020.

In FY10, this analysis was repeated under prevailing assumptions. We assessed expected cash flows and associated risks against revenue and costs for existing and planned activities. Based on the study, experts concluded the Trust Fund

will remain solvent using the standard assumptions for economic conditions during the forecast period.

Since standard assumptions may not be realized, sensitivity analysis on the major assumptions was performed including: cost inflation and a reduction in revenue from fines and forfeitures paid by active duty military personnel.

**RESULTS:** *AFRH Trust Fund remains solvent for two severe risk scenarios between FY10 through FY20.*

## LONG RANGE FINANCIAL PLAN

# The Facility of Foresight



Remembering our fallen comrades at the memorial bell.



## Looking ahead: 2011 - 2020.

The greatest risk to the Trust Fund will occur in the transition years (2011 - 2013) as we stand-up operations in Gulfport and reduce our footprint in Washington. While we recognize negative growth will occur in these years as we expense the Scott Project, we expect positive growth to continue after 2013. In fact, many of the infrastructure and facility changes will have a long-term positive and direct impact on Trust Fund solvency.

We are also reviewing our fee structure to meet the growing demands in the transition years. As we move toward our vision of a vibrant, efficient operation at both communities, we continue to use funds wisely in the best interest of stakeholders.

## Focused actions: healthcare.

We are working on multiple initiatives to reduce costs. Our primary efforts are Tricare coverage for all AFRH residents and an "Independent Living Plus" program to assist residents with Aging in Place. We believe both efforts will reduce Trust Fund costs up to \$4 million per year while enhancing resident care and wellbeing.

## Added endeavors: contracts & energy.

AFRH completed a study by Stover to analyze contract costs, especially for food services. All contracts were reviewed, matched with Gulfport requirements, and FY11 marks the first year of efficiencies. AFRH-G is in the process of certification under LEED Silver energy efficiency. The AFRH-W construction goal is focused on LEED Silver. Under new administration mandates (Executive Order 13514), AFRH will undergo evaluation of its energy usage. Annual awards to service managers will continue for extra savings. Our energy-saving efforts, combined with a reduced AFRH-W footprint, will maximize the most significant savings.



"AFRH can provide  
reasonable assurance  
FMFIA objectives have been  
achieved."

— Timothy C. Cox (COO)

## LEGAL & REGULATORY COMPLIANCE

# The Grasp of Fulfillment



### Management Assurances.

We understand that we must ensure the effective and responsible use of the resources that have been entrusted to us. This is good stewardship and it is the right approach to maximizing progress. All of which will help us realize our goals.



**FY10 Audit:** No material weaknesses.

### Statement of Assurance

This fiscal year, our Internal Control (IC) focused on risk management and mitigation – ensuring that our facilities were well-prepared to minimize risks to residents and staff. I am pleased to report AFRH compliance with all applicable requirements, as well as progress in expanded action planning to previously identified risk areas.

AFRH managers, along with our partners BPD and the National Finance Center (NFC), participate in all IC. We have assessed their effectiveness in accordance with the Federal Managers' Financial Integrity Act (FMFIA), (PL No. 97-255) Section 2 and OMB Circular A-123, Management's Responsibility for Internal Control.

Based on our analysis, AFRH can provide reasonable assurance that objectives have been achieved. Also no material weaknesses have been reported in our IC or financial reporting.

Given our comprehensive management controls, I am pleased to certify with reasonable assurance that:

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

Sincerely,

Timothy C. Cox  
Chief Operating Officer (COO)

November 15, 2010

# Risk Management.

## Facility Level:

Throughout 2010, we managed and reported risks at Performance Improvement (PI) meetings. The Director of AFRH-W monitored the High Risks (resident falls, street light repairs, fire hydrant malfunctions) and worked on mitigating their effects. Repairs to 101 streetlights, 25 fire hydrants, and four main domestic underground water pipe breaks were all successfully made (meeting 100% of requirement).

## Washington Master Plan

The National Defense Authorization Act for FY 2002 (as modified by Public Law 111-084, The National Defense Authorization Act for FY10) permitted AFRH via DoD to sell, lease, or otherwise dispose of underutilized buildings and property. So, AFRH launched its Washington Master Plan as the basis of its risk management strategy. The focus of this Plan is to preserve and improve the Home for the residents and the community, as well as to create additional revenue for the Trust Fund.

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



## Corporate Level:

- 1 Washington Master Plan

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- 2 The LRFP

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- 3 Scott Project



## Gulfport Project Complete

New construction of the Gulfport facility was finished in FY10 within budget and on-schedule. The pedestrian walkway and Chapel restoration were additional projects and were almost complete by the close of FY10.

GSA turned over the facility keys to AFRH on July 28, 2010. On October 4, many former Gulfport residents returned to their home on the Mississippi Sound.

## 2 The LRFP

The infrastructure of AFRH is moving towards the Home's evolving operational requirements. The savings at AFRH-W from maintaining less operational square footage – along with changing IT processes, energy generation, and an energy-efficient Gulfport facility – are part of our strategy. These initiatives, combined with compliance with Executive Orders on energy efficiencies, will move AFRH toward optimal operational effectiveness.

### Gulfport Stand-up Cost Savings:

- No LTC costs for several years
- Reduced dining services & subsistence
- Minimal maintenance costs
- Lower regional cost of living

### Risks in Transition Years:

- Achieving reduced population targets
- Rescaling contracts effectively
- Realizing savings from Aging in Place philosophy

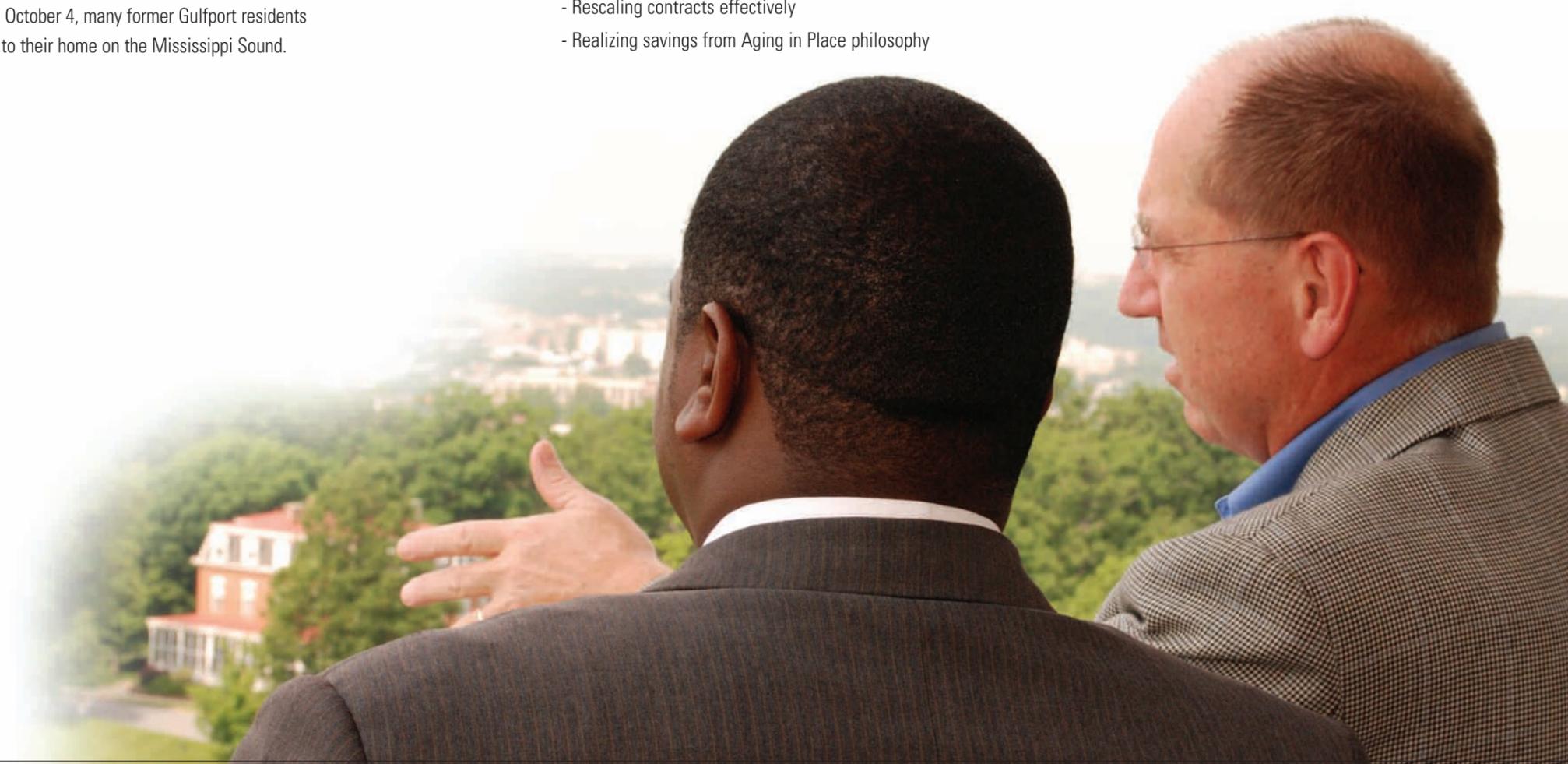
## 3 Scott Project

The Trust Fund expenditures for the Scott Project of \$5.6 million in FY09 and \$70 million in FY10 will provide a strong Return on Investment (ROI). The budget forecast shows that AFRH-W operating costs will reduce from \$45.9 million in 2009 to \$38.3 million in 2013. Further, if left unchecked, the 2009 cost (inflated @ 2.1%) becomes \$49.9 million in 2013. This savings will provide an annual ROI of 29% (on the \$76 million construction investment) from new facilities and operating processes.

Cost reductions will reach 14% in FY11. Plus the Scott Project will generate savings in all major cost drivers by FY14.

### The Scott Project empowers us to:

- Close the remote LaGarde Facility
- Relocate AL, MS, and LTC from LaGarde to Sheridan/Scott
- Reduce footprint by about 421,000 sq. ft.
- Position Operations for positive Trust Fund Growth
- Deploy parallel service models at AFRH-G & AFRH-W



### Internal Controls:

Rigorous controls are integrated into our financial reporting system, via BPD and NFC. An AFRH Senior Assessment Team, established by the CFO, has maintained oversight of our IC program since 2006. Each manager on this Team reports controls through an annual survey. AFRH can provide qualified assurance that controls over financial reporting were operating effectively as of Sep 30, 2010.

#### Our IC categories (required by law):

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

### Federal Manager's Financial Integrity Act (FMFIA):

This Act requires each agency to report the health and integrity of its financial program and related activities. It ensures that resources are consistent with the overall mission, that programs achieve intended results, and that both are free of waste, fraud, and mismanagement. Further, the agency head must see that laws and regulations are followed and that fiscal management complies with Federal standards. FMFIA sets requirements for internal controls and requests yearly evaluations of the control and financial systems to protect their integrity. AFRH performs these evaluations annually and is pleased to report no "material weaknesses" have been found in FY10.

### Federal Financial Management Improvement Act (FFMIA):

FFMIA requires all agencies to provide reliable, consistent disclosure of data per GAAP. For FY10, AFRH is in substantial compliance. BPD-ARC established our accounting process, and they are also in compliance and exercise internal controls. Based on agency assessment and the audit opinion, AFRH is in compliance with Federal financial management systems requirements, the Federal Accounting Standards Advisory Board, and the US Standard General Ledger (USSGL) at the transaction level.

#### AFRH is FFMIA compliant at the agency and auditor levels. This is achieved via:

- 1) Overall substantial compliance
- 2) System requirements
- 3) Accounting standards
- 4) USSGL at transaction level

### Federal Information Security Management Act (FISMA):

FISMA requires a competence review of information security and privacy policies, procedures, and practices. One of its primary objectives is to ensure the effectiveness of information security controls. An IG inspection found that too many AFRH applications were running on outside sources, which were not FISMA compliant. Those cited included the email system and the medical record/business operations software.

"It's great to wake up and feel the excitement of the day."

— John Miller (Air Force)

John stays quite active for a man of three score and 17 years. He serves as Outreach Chairman of DC's Abraham Lincoln Group, America's oldest Lincoln historical society. "We send out materials on Lincoln, honor patriots at monthly dinners, and coordinate with The Lincoln Cottage to spread his legacy." Why? "I'm a Civil War buff and I've always admired him. Also my grandfather was in the first battle of Bull Run." John wrote and directed a play, *Our American Cousin*, based on the actual events of Lincoln's assassination. He also recites poems at "Poetry on the Green",



volunteers with Toastmasters, and works with the Boy Scouts of America. "I like to see residents get out into the community and contribute. We have so much to offer." John enjoys being involved in things he never had time for while working. "All my friends stay active, and I have scores of friends here."

### PROGRESS

#### New network security systems:

In FY09 we agreed to a new Memorandum of Understanding with Department of Interior (DOI) National Business Center (NBC) to provide FISMA compliant desktop support and hosting services consolidation for all IT. RESULT: successful transition and deployment at Washington. The Gulfport IT system is still in transition.

In FY10 OMB issued guidelines with new, outcome-focused metrics to advance the security posture of agencies. With operations now provided by NBC, our IT Department has access to many security monitoring tools through NBC's hosted environment. NBC's IT Division (ITD) provides Data Network Services as a part of their Infrastructure and Application Hosting Services. The NBC's ITD Information Office Security Division provides a range of support to ensure that systems and networks are provisioned and managed in a secure manner to meet all government requirements.

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

#### NBC's support services include:

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

NOTE: Our next FISMA review will be in FY11.

#### Financial management systems:

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





**Compliance**

With the National Defense Authorization Act of FY08 (PL 110-181), AFRH was required to secure and maintain accreditation by a nationally recognized civilian entity for every aspect of each facility of the Home (including medical and dental care, pharmacy, independent living, assisted living, and nursing care). AFRH maintains a national accreditation with CARF and must be inspected annually. In the years the accrediting entity does not inspect, the DoD IG assesses AFRH. In FY09, the DoD IG performed a comprehensive inspection on all aspects listed above, plus financial and contracting records, the Advisory Board, and the Resident Advisory Committee.

**DoD IG: FY09**

The DoD IG completed his first comprehensive inspection on all aspects of AFRH in Sep 2009. PL 110-181 eliminated the previous requirement for a triennial alternating military service IG inspection of AFRH. Due to the rebuild of AFRH-G following

Hurricane Katrina, this inspection was limited to the management and facilities associated with AFRH-W.

Report No. IE-2010-2 was forwarded to AFRH and to Congress in Feb 2010. In the section "What We Found", inspectors stated: "In general, we found AFRH to be well managed, and the residents as well as the staff pleased to be affiliated with ARFH (W)."

The IG presented AFRH with 14 findings and five recommendations. During FY10, five of those findings were remedied and closed. The remainder are on target to be closed in FY11 because they required policy-making. All five of the recommendations were implemented and also closed during FY10.

**CARF-CCAC Accreditation (Valid 2008–2013):**

CARF is the accrediting body for CCRCs and others in aging services. CARF helps ensure that retirement homes fulfill their promise of quality, lifetime care to seniors. AFRH achieved this accreditation in September 2008 for a 5-year period ending in 2013.

All CARF requirements will be implemented at AFRH-G and we will ensure CARF compliance for six months (April - September 2011). Then AFRH-G will be inspected for the first time in 2012.

CARF performed an inspection at AFRH (corporate and campus) from September 13-15, 2010. Preliminary results were positive, but written recommendations will be forthcoming.

**CARF inspection highlights at AFRH:**

- The staff demonstrates a strong sense of caring & family
- Fiscal responsibility throughout the organization is top-notch
- Wonderful leadership by Pam Young, Director of Nursing (DON)
- Strong policies/procedures, but implementation occurs in silos
- Need improved checks and balances to track outcomes
- Staff beyond leadership team need to better understand how to implement resident-centered care

Al Mori (Ombudsman) wishes Gulfport-bound residents a safe trip.



"If you don't have a heart you cannot be a geriatrician."

— Dr. Sissay Awoke (AFRH-W Medical Director)



Dr. Awoke has been an AFRH physician for 26 years. You could say it's personal. "I absolutely get attached to all the residents. These people are history books. Everybody is interesting to be honest – and they deserve our respect." He explained how service today has been tethered to focus on residents' personal needs. "The new Wellness Center is a great plan – and Aging in Place is wonderful! It includes everything: medical, social, physical, spiritual ...

everything a human needs." He recalled one patient who wore a silver cross on his neck. "I asked where he got it and he said, 'Ethiopia'. I'm from Ethiopia! So, it all comes full circle." Personal indeed. Dr. Awoke, who walks with a cane, says you see the whole spectrum of your own mortality here. "I tell my students, 'you have to love old people. If you have grandparents, this will be easy for you.'"