

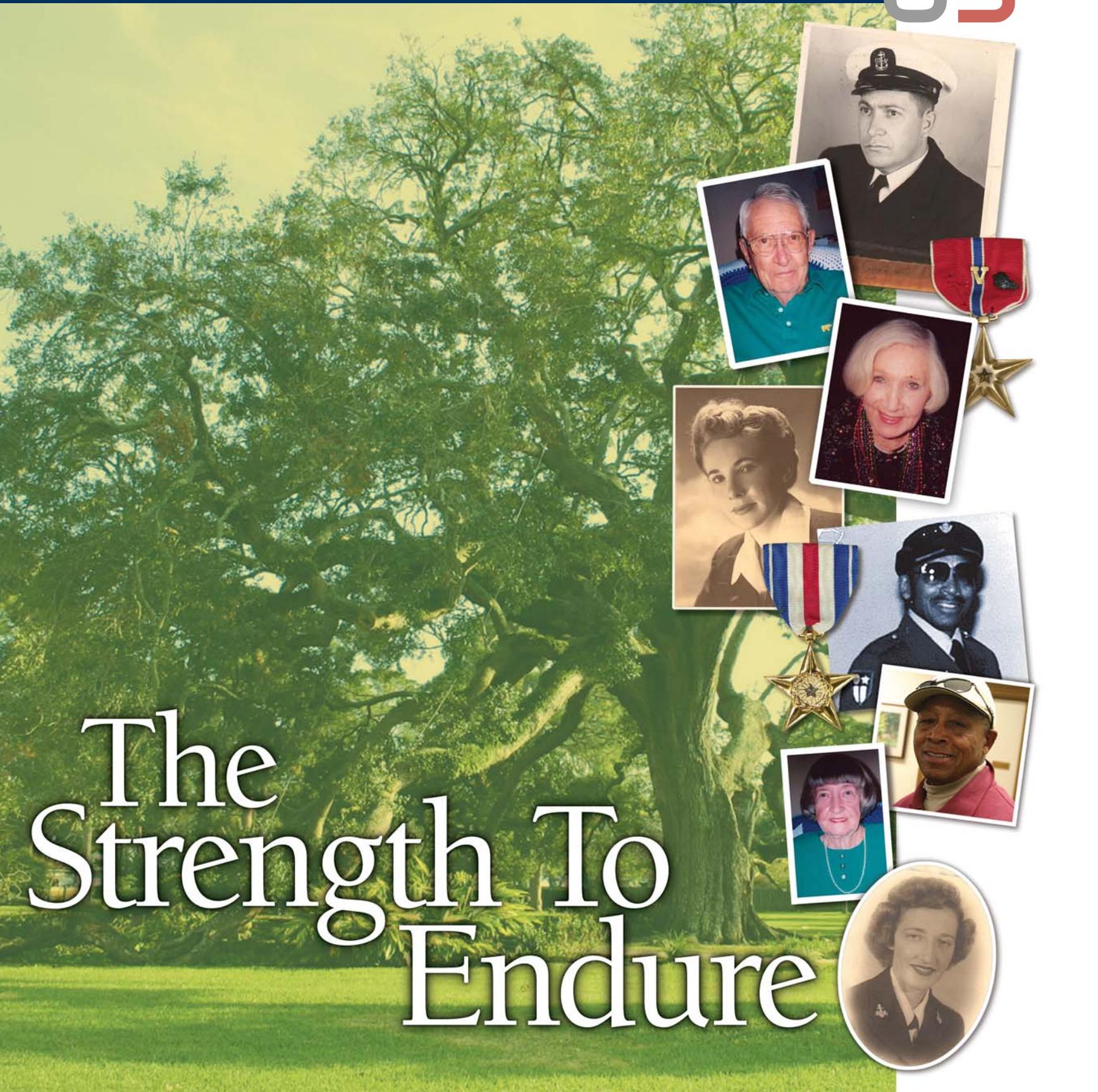


Protecting a promise | Renewing a trust.

FISCAL YEAR

Annual Performance and Accountability Report

05



The Strength To Endure



“When Katrina hit, you could hear debris flying through the air. Trees were snapping like twigs and came crashing to the ground.”



ON THE COVER:

More than a century old and over 50 feet tall, this mighty oak on our Gulfport campus is known as “The Graduation Tree.” It once presided over young cadets in the Gulf Coast Military Academy ... and it has been quietly watching over our Veterans since 1976. This oak has weathered countless hurricanes, including the fierce, Category 4 winds of Katrina. Today it still stands tall – a proud symbol of our venerable Home, its resilient members and our resourceful staff.



The Armed Forces Retirement Home (AFRH)

The Fiscal Year 2005 Performance and Accountability Report is published by the Armed Forces Retirement Home, Office of the Chief Financial Officer.

An electronic version is available on the World Wide Web at:
<http://www.afrh.gov/files/afrhpar.htm>

At a Glance:

Authority:
Armed Forces Retirement Home Act of 1991 (Amended 2002)

Locations:
■ Gulfport, MS
■ Washington, DC

Capacity: 1880 Veterans
■ 609 in Gulfport, MS
■ 1285 in Washington, DC

Strategic Goal Areas:
■ Financial
■ Customer
■ Internal Business Processes
■ Learning and Growth
■ Culture



It seemed like the end of the world ...”



“... by 3 a.m. the wind subsided and there was a dead calm. You could see that trees had toppled onto the ground. Cars were lying on top of each other. Beach Drive in front of the Home had large holes in it – with slabs of road sticking up in the air. Our front fence was knocked over. And at the main gate, the guard building was gone ... along with most of the small buildings.”

— Robert Royce, Gulfport resident

TABLE OF CONTENTS

| | |
|--|-----------|
| Introduction to AFRH Performance and Accountability Report for FY 2005 | 1 |
| Part 1: MANAGEMENT 'S DISCUSSION AND ANALYSIS | 3 |
| Message from the Chief Operating Officer | 5 |
| Vision, Mission and Goals | 7 |
| AFRH Organization | 8 |
| 2005 Performance Achievement Highlights | 14 |
| 2005 Performance Measures | 18 |
| The President's Management Agenda | 19 |
| The Challenges to Manage | 24 |
| Renewing a Trust: 2005 Financial Summary | 30 |
| Management Controls, Systems and Compliance | 32 |
| Existing Uncertainties and Risks | 37 |
| Part 2: 2005 PERFORMANCE SECTION | 39 |
| Introduction: 2005 Performance Section | 40 |
| Strategic Goal 1: Financial | 44 |
| Strategic Goal 2: Customer | 46 |
| Strategic Goal 3: Internal Business Processes | 47 |
| Strategic Goal 4: Learning and Growth | 48 |
| Strategic Goal 5: Culture | 49 |
| The Aftermath of Katrina | 51 |
| Part 3: 2005 FINANCIAL SECTION | 55 |
| Message from the Chief Financial Officer | 56 |
| Audits | 60 |
| Financial Statements | 63 |
| APPENDICES | |
| Appendix A – Glossary of Acronyms | 77 |

2002 *Commenced operating under the provisions of The National Defense Authorization Act of 2002*

This Act mandated creating the fulltime position of Chief Operating Officer. Therefore, the Secretary of Defense appointed a COO responsible for the management of the two facilities that comprise the Home (AFRH-Gulfport and AFRH-Washington). The Secretary of Defense had the flexibility of filling the Director and Deputy positions at each facility with

either military members (from any Branch of Service) or civilian experts from the private sector any time after December 31, 2004

Commenced operating under the concept of "One Model"

At the direction of the COO, both campuses were aligned under one set of processes to maintain accountability, achieve results and provide superior service to our retired Veterans.

2003 *Created the AFRH Strategic Plan*

An extensive Plan was created to fulfill our Nation's Promise to provide advanced care and comprehen-

sive services for its Veterans. This plan also helped us tackle the challenges facing our aging population in an ever-changing world.

2004 *Expanded our Strategic Plan with in-depth business and operational plans*

Reduced the "footprint" of both campuses

The AFRH sold some underutilized acreage – including a 3-acre parcel in Gulfport and a 49-acre parcel in Washington. The combined sales generated a one-time revenue gain of \$23 million — the highest gain in our recent history.

Lowered expenses

Several cost-cutting measures were taken, such as improving core business processes, streamlining our staff via strategic outsourcing and making innovative changes in information technology.

Significantly reduced operating costs

We drastically lowered the associated costs to maintain our vast properties, in areas such as facilities and grounds management, power and utilities, plus snow removal.

Evaluated our staff for excessive layers

We identified a significant number of positions that could be eliminated without reducing our quality of service.

Crafted the AFRH Performance Plan

This detailed Plan links individual employee performance directly to the AFRH Business Plans. In turn, the Business Plans are firmly linked to the broader AFRH Strategic Plan.

Improved Financial Performance

Transferring many of the Home's accounting func-

tions to the Bureau of Public Debt in April 2004 helped boost our performance. This move gave managers online access to an integrated financial management system – including payroll, travel, procurement actions, credit card purchases and a reporting tool.

Initiated the development a capital Real Estate Master Plan for AFRH-Washington

This key endeavor helped us identify real property essential to the core mission of the AFRH. At the same time, it helped us identify non-critical facilities, target them for lease and establish a revenue stream for the future. Specifically, the Lessee revenue will enable us to renovate our aging buildings.

Partnered with Federal Agencies

We further reduced our overhead by realigning costly, non-core operations with Federal strategic partners. They include the Department of Defense, Department of Treasury (Bureau of Public Debt), Department of Agriculture (National Finance Center), General Services Administration and the Office of Management and Budget.

Achieved a "Moderately Effective" rating

We earned the second highest possible rating (under the Program Assessment Rating Tool, or PART) for the asset management of AFRH real property.

Reduced square footage requirements and identified potential leasing opportunities.

AFRH-Washington achieved 90% of its goal to reduce 610,000 square footage.

*The Government Performance and Results Act, the Chief Financial Officers Act of 1990, the Accountability of Tax Dollars Act of 2002, the Federal Managers Financial Integrity Act of 1982, the Federal Financial Management Improvement Act of 1996, the Government Management Reform Act and the Inspector General Act.



The Strength to Endure

Welcome to the Armed Forces Retirement Home (AFRH). For nearly two centuries, this has been a haven for many of our Nation's war heroes in retirement. Our attentive staff proudly serves these Veterans with the same level of honor and commitment in which they served our beloved Country. Generations ago, our Nation made a promise to safeguard its Veterans, as well as the Trust Fund that ensures them an affordable retirement alternative. We are pleased to report that now, more than ever, the AFRH is ...

Protecting a Promise and Renewing a Trust.

Today, our facility is *the* premier retirement community. It is also the provider of choice in continuing care for eligible US Armed Forces Veterans. This Performance and Accountability Report (PAR) serves as a tool to share the status of our organization with the AFRH community and to meet various US Government reporting requirements*. Yet, this book also presents us with a tremendous opportunity to tell the American people about our organization, its recent progress ... and our latest challenges.

Presently, the AFRH is standing tall in the wake of Hurricane Katrina. This unprecedented

storm slammed our pristine Gulfport, Mississippi campus on August 29, 2005. This disaster forced the temporary closing of all buildings and the relocation of some 351 southern residents to our Washington, DC campus. Ironically, our DC campus was *also* hit by strong torrential winds in late July – toppling some 300 mature trees. These major events have dramatically shifted our focus from long-range goals to short-term necessities. Many of us are still recovering from the storms of this past summer. Yet, we remain resolute – and look forward to the dawn of a new era at the AFRH, where we may rebuild anew.

In the coming pages, we will provide a detailed account of our performance in FY 2005. We will outline our progress in achieving the annual goals and long-term objectives for our programs, management and budget. This PAR also includes detailed performance information and financial statements. Plus, it

features our management's challenges – and the plans and efforts to overcome them.

The storm's impact on our Home and its residents will be discussed as a part of the required reporting. The architecture of this PAR entails three key sections:



Part 1: Management Discussion and Analysis

This section is a broad portrait of our performance achievements. We will showcase the efforts, accomplishments and resources of our premier facility. Part 1 will address our response to challenges and high-risk areas identified by our staff and outside organizations. Also included is our progress on implementing the President's Management Agenda.

Part 2: Performance

This section provides detailed information on our progress in achieving milestones and goals as defined in the Strategic Plan and the FY 2005 Performance Management Plan. Part 2 also describes the actions that AFRH will take in the future to achieve those goals that have not been met in FY 2005.

Part 3: Financial

This section includes the AFRH financial statements. Also included is an in-depth audit of these statements by independent accountants, in accordance with government auditing standards.

“I chose to stay on the Coast, despite warnings. But there were no restaurants left – so we dined on two slices of bread, a sliver of spam and prayer. I asked God to forgive me for being so stubborn. And, ever since our arrival in DC, we have been treated with the greatest courtesy, hospitality and generosity I’ve ever experienced.”



The *Stamina* to succeed

Management's Discussion and Analysis



“Suddenly the skylights in the Wellness Center blew out – and the front doors blew open! Lady Katrina was in the house ...”

A lady named Katrina

It was late Sunday evening, August 28. The rain was just beginning. Mary Kay Gominger, our Public Affairs Specialist, asked if I would do an interview on the national Weather Channel. Anchor Jim Cantore had a crew parked in back of the Home – and they were ready. I don’t remember exactly what I said in that interview ... but I think I conveyed to the Nation that our hurricane plan at the Home was complete – and we were going to “ride out” the storm. Good thing our staff made a maximum effort to see to our safety and well-being. All I could think was: “Wow! What a great group.”

I was up early Monday, as Katrina began to make herself known. You could feel the howling winds. From my room on the 10th floor, I saw rain pounding down on the windows so heavy you couldn’t see a thing outside. In between gusts, we could see the destruction. Debris was flying everywhere. But we couldn’t see what was being ripped apart. Then, that monster we all heard about hit full force. The seawater surged up to the shore – 25-30 feet – capped by giant 21 foot waves. A clean parking lot swiftly flooded and cars were submerged. Soon cars began to move – tumbling, banging into one another like toys.

Suddenly the skylights in the Wellness Center blew out – and the front doors blew open! Lady Katrina was in the house. Rachel Hatten, Director of Dining Services, had her

crew in hip-deep water trying to save as much food as possible. And we saw another maximum effort to get Long Term Care patients to safety as the first floor completely flooded. From the second floor, we saw the guardhouse at the front gate blow by. Then the Cabana. Wood Shop. And Quarters A and B – all totally destroyed. Someone hollered, “The water tank’s coming down!” Finally, she began to quiet down. But we had no power, no water – and we still had to use the toilets. Soon the stench was overpowering.

About 8 a.m. Tuesday, we got word to move outside. The sun was out and you could see destruction everywhere. All of a sudden we got word that buses would be coming to take us away, to AFRH-Washington. Everyone was allowed to go inside to pack one bag. Before we knew it, the buses arrived, twelve in all. And we quickly loaded up. When we got to Interstate 10, four police cruisers – with sirens blaring and lights flashing – passed us and dropped into position in front of the convoy. They stayed right there with us, till we were forced to detour around the causeway across the Pascagoula Delta. I think and hope those cruisers were Gulfport PD ... wishing us “Bon Voyage” as we headed to our new home in Washington.”

— Henry Pike, Gulfport resident



The *Compassion* to care

I am pleased to present the Armed Forces Retirement Home FY 2005 PAR – created to show Congress, the Administration and public how we provide superior shelter, sustenance and care for our nation's Veterans. With the help of our dedicated staff, the Home also provides quality healthcare, enjoyable activities and volunteer opportunities to former military enlisted personnel. All from two dynamic campus environments: Gulfport, Mississippi and Washington, DC.

Evolving to a Unified Agency

I earned the appointment of COO in September 2002. Back then AFRH had two distinct locations that lacked a sole set of standards, policies and procedures to operate as a unified agency. So I rapidly advocated the "One Model" approach – to enhance accountability and promote exceptional service to residents in a standard operating environment. This model was embraced and embodied in our strategic goals and objectives. Recently, we identified our "core competencies" and decided whether to build internal capacities or outsource various functions. Also, we integrated many systems to reduce errors, duplication of efforts and uneven workloads, agency-wide. Ultimately, we identified 2004 and 2005 as key transition years.

In FY 2005, we had outside inspectors test the progress of our one model. An Inspector General team from the US Air Force called on both campuses in the summer, giving favorable feedback. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) conducted a survey at Gulfport in March and awarded the Gold Seal of Approval. Plus, two on-the-spot surveys on each campus resulted in no change in our compliance. An independent audit of financial operations for FY 2005 gave us an unqualified audit opinion. These positive verifications affirmed the strength of the one model as a driving force to transform the Home. Truly, we have shown great progress and have stayed on track with our objectives through many changes.

Performing at a Higher Level

We began 2005 energized to continue progress and meet objectives in all strategic focus areas: financial, customer, internal business processes, learning and growth and culture. We mitigated financial risks and boosted revenues with a variety of cost-cutting measures. Our real estate Master Plan is now underway to revitalize our balance sheet as we develop our greatest asset – our vital location in Washington, DC. Our resident-focused activities rival private-sector retirement homes. Plus, every staff member relates their role to our vision and mission in AFRH operations. Now, our staff – in tandem with our outsourcing contractors – can focus on the Home's core competency: operating a thriving retirement community.

Weathering Many Storms

Our Home emerged from severe natural disasters on both campuses in 2005. Hurricane Katrina wrought havoc our Gulfport, MS campus on August 29 – forever changing the landscape, operations and resident composition. Thankfully, we took swift measures to evacuate every resident on campus 24 hours after the storm subsided. Our refugees were embraced with open arms by a virtual legion of volunteers and neighbors in the DC community. This sight was, in a word, heartwarming. This PAR was developed by our devoted staff and outside contractors who helped with editorial assistance and graphic design. We will discuss our proud accomplishments and lessons learned. Also, we must forecast how Katrina disrupted our achievements – and how we will refocus our energy to regain momentum.

Marching Forward to 2006

Next year presents many challenges. We must renew the faith in our ability to remain financially independent. And continue to uphold The Promise to care for our war heroes. Also, we must quickly reevaluate our strategic direction in light of the events of 2005. The key to progress lies with the Master Plan in Washington, which offers the surrounding area some exciting changes. This Plan holds the promise to raise sufficient capital to meet the needs of the next generation of Veterans – those bold men and women who are fighting for freedom this moment in Iraq, Afghanistan and beyond. Given our dedicated staff and proficient management, their future is looking very promising, indeed.

If there were medals for bravery during natural disasters, they'd be given to our dedicated staff – in Gulfport and Washington. They worked long, hard hours during Katrina and the torrential summer storm in DC. Our staff rose above adversity to safeguard our Veterans – and in the process wrote heroic battle stories that ended in success. Their selfless efforts are the ultimate expression of The Promise to repay our Veterans ... and their actions are a bold reminder to us all that we are eternally in their debt.



Timothy Cox
Chief Operating Officer, AFRH

November 15, 2005

“We have extensive damage in Gulfport. But the immediate need for our Veterans is shelter, safety and security. So, we’re bringing them to DC.”

— Tim Cox, COO
(in the aftermath of Katrina)



The *Duty* to repay



What does it mean when we say we're "Protecting a Promise and Renewing a Trust?" It means we are defending The Promise America made two centuries ago to care for its Veterans. It also means preserving the Trust Fund that supports and operates our premier retirement community.

You see, our nation has a long and proud legacy of caring for its Veterans. The Promise dates back to the legislation of 1811, when Congress established a home for destitute Navy officers, sailors and Marines in Philadelphia. Some 40 years later, Congress created an asylum for "old and disabled soldiers" in Washington, DC.

Today's modern Armed Forces Retirement Home is a dynamic community. "A city within a city," if you will, it provides our Veterans with everything from residential and social amenities to cultural and health services. Rooted in a tradition that dates back nearly two centuries, our Home is the

living embodiment of The Promise to take care of our Veterans. All told, the AFRH is home to about 1,600 former soldiers, sailors, Marines and airmen who all share a passionate commitment to country.

AFRH is an independent establishment of the executive branch of the Federal Government – and is financially independent. A permanent Trust Fund was established over 150 years ago to support the Home. This Trust Fund continues to be fed by active duty enlisted and Warrant Officer monthly payroll deductions, fines and forfeitures from all branches of the Military, monthly resident fees, the sale or lease of underutilized land and buildings, gifts and bequeaths and interest gained on the Trust Fund balance. Moving forward, we relish the responsibility to manage the Trust Fund and keep it viable – so we may continue to support The Promise.

STRATEGIC GOALS

Financial:

Create financial net growth and stability for the AFRH Trust Fund.

Customer:

Deliver exceptional service and programs that attract residents and enrich their lives.

Internal Processes:

Design and sustain effective operations that maximize organizational resources.

Learning and Growth:

Promote professional development and personal excellence for all staff.

Culture:

Foster a dedication to service by creating an environment of mutual respect and integrity.

After Katrina, the residents were evacuated from the ravaged Gulfport campus. Meanwhile, the Gulfport staff and Seabees went to work immediately to minimize the environmental damage to the building. Truly, the courage of our staff has helped the entire Home regain the strength to endure.



VISION STATEMENT

The AFRH provides an environment that nurtures the Health and Wellness philosophy of aging and that provides a continuum of residential Life Care Services in a community setting for our Nation's Heroes.

MISSION STATEMENT

The mission of the AFRH is to fulfill our Nation's commitment to provide care through a comprehensive range of services for America's Armed Forces Veterans. 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.

STRATEGIC PLANNING

Our strategic plan stems from our Vision and Mission Statements. Together, all three permeate AFRH from the corporate level down to each individual performance plan. Likewise, all AFRH staff members share a commitment to be customer-focused, quality-driven and fiscally responsible. So, we have developed five strategic goals that drive our major operations – from financial health and cost effectiveness, to our daily actions and philosophy to nurture each resident.

Our weary Gulfport residents arrived in DC via bus on September 1st.



The *Structure* to succeed

The AFRH is driven to fulfill The Promise and renew The Trust. To effectively achieve this, our organization has developed a “One Model / One Process” framework for two very diverse homes – one in Gulfport, MS

and one in Washington, DC. The desired outcomes of the “One Model” approach are to maintain accountability, achieve results and provide superior service to our residents.



The COO is responsible for the overall direction, operation and management of both campuses.

| Support Staff | Resident Services | Healthcare Services | Campus Operations |
|--|---|---|---|
| Public Affairs Office Business Center | Admissions Leisure and Wellness Volunteer Coordination Security Dining Services Religious Activities Custodial Services | Nursing Social Services Community Health Dental Clinic Optometry Clinic Nutrition Medical records Pharmacy Services Assisted Living Long Term Care Memory Support | Facility Maintenance Transportation Logistics Grounds Utilities |



The *Locations* to live

SCENIC GULFPORT, MS

This attractive campus spans 47 acres of oceanfront property on the Gulf of Mexico. Our Home was originally established by legislation in 1811 as the Naval Home in Philadelphia, Pennsylvania – designated “to provide a permanent asylum for decrepit and disabled Naval Officers, Seamen and Marines.” Naval personnel who were “so injured or infirmed as to be unable to contribute materially to their own support” were allowed to live at the Home and were asked to labor as much as they were able toward its care. The Home was relocated over a century and a half later to its present site in historic Gulfport, Mississippi. Today, it remains the oldest Veteran retirement home in the country.

Together, a Safe Haven

Before Hurricane Katrina, The Washington campus was home to roughly 1,000 military Veterans, while Gulfport proudly cared for more than 550 Veterans. Both campuses featured a skilled staff and an array of amenities – such as private rooms, commercial banks, chapels, exchange services, mail rooms, laundry facilities, a barber-shops and beauty salon, dining rooms, fishing ponds and 24-hour security.

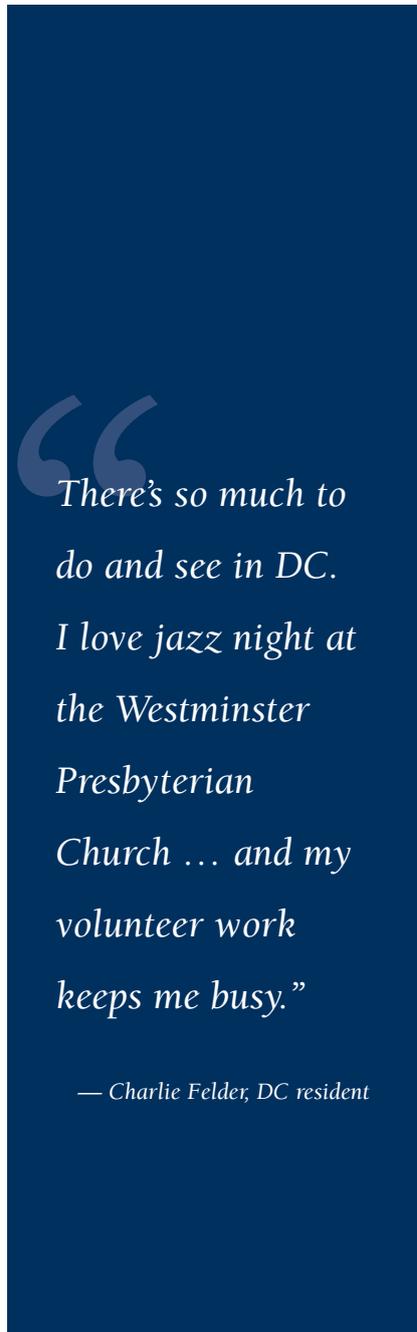
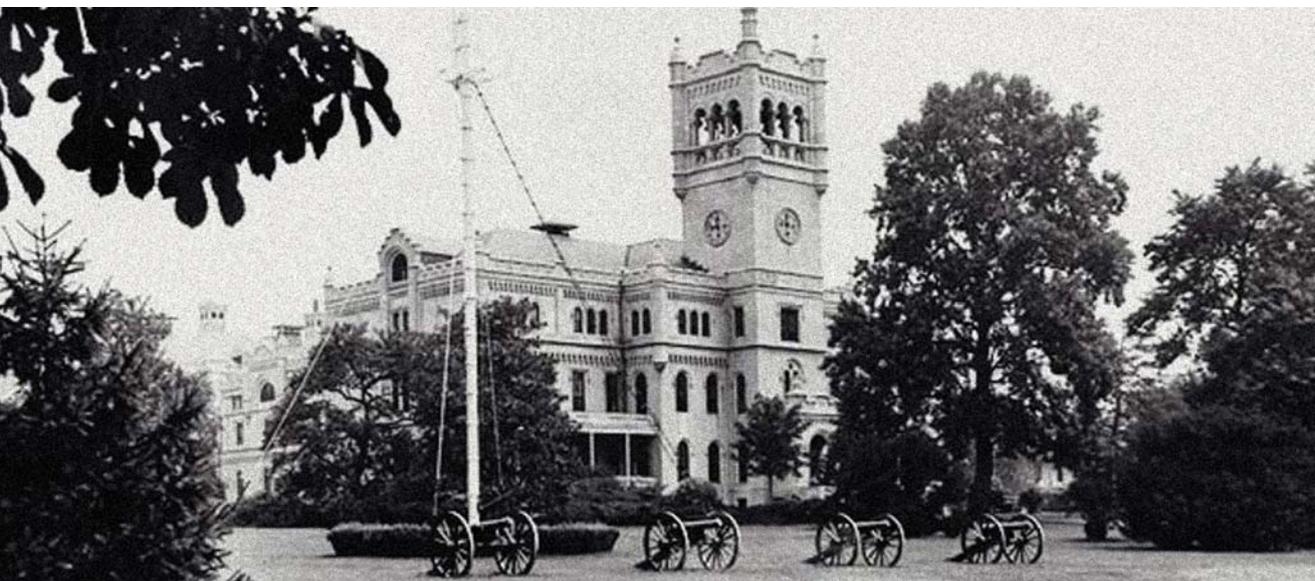
HISTORIC WASHINGTON, DC

The original 320-acre DC campus broke ground in 1851 as a Military Asylum. Back then, land was plentiful, so Congress helped create a home for Army Veterans in a secure, peaceful setting in Northwest Washington, DC. It was billed as “an asylum for old and disabled Veterans.” Four original buildings still stand – and they are listed as National Historic Landmarks. In fact, President Lincoln’s summer cottage is still a featured attraction. Today, AFRH now resides on 272 lush acres that host over 100 structures – namely the “National Landmark District” on the grounds of the AFRH. Currently, the AFRH is preparing a master plan to guide the wise future use of this valuable resource.

A unique perk at the Washington campus is the 9-hole golf course. Meanwhile, the Gulfport campus boasted a 50-meter covered swimming pool. Truly, the AFRH is the ultimate retirement experience.



The Sherman Building on our Washington, DC campus is a National Historic Landmark.



“There’s so much to do and see in DC. I love jazz night at the Westminster Presbyterian Church ... and my volunteer work keeps me busy.”

— Charlie Felder, DC resident



The *Courage* to carry on

The Resident Profile

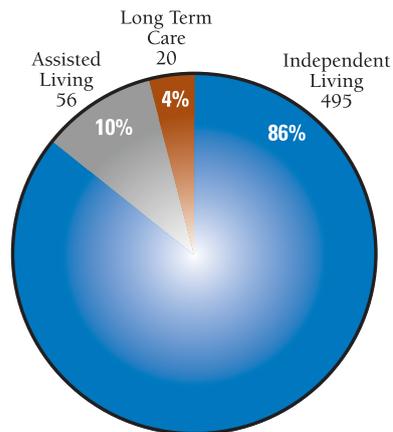
Our residents are a very dynamic group of individuals. All their lives, they have overcome adversity in their service to our nation. This year is no different. It has been a very emotionally challenging year for all our residents, as they have experienced great changes. And we salute them for their resiliency.

The AFRH provides great care and extensive services for eligible Veterans, as authorized by the Armed Forces Retirement Home Act of 1991. So, our residents expect The Promise to be upheld. Our Veterans may choose to live at either of our two distinct campuses (space permitting): AFRH-Gulfport and AFRH-Washington.

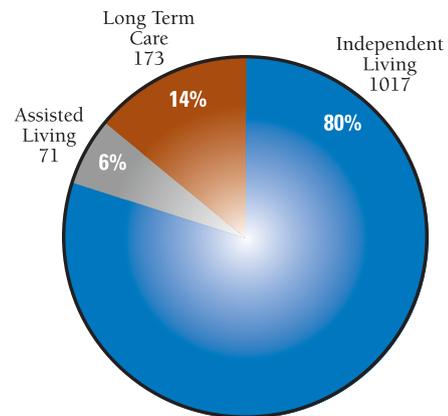
Veterans are eligible to become residents here if their active duty service in the military was at least 50 percent enlisted (Warrant Officer or limited duty officer). They are also eligible if they are:

- *60+ years of age, with 20 or more years of active duty service*
- *Unable to earn a livelihood due to a service-connected disability*
- *Unable to earn a livelihood due to non service-connected disability, yet served in a war theater or received hostile fire pay*
- *Female Veterans who served prior to 1948*
- *Deemed eligible for admission under rules of the COO due to compelling personal circumstances*

Gulfport Resident Capacity



Washington Resident Capacity



At full capacity, both Gulfport and Washington can comfortably house 1800+ Veterans. Both offer Independent Living, Assisted Living and Long Term Care.

Nearly a Paradise Lost

Thousands of fellow Americans living on the Gulf Coast were devastated by the Category 4 winds of Hurricane Katrina. Our Gulfport residents were no exception. They, too, nearly lost everything. In a mere 48 hours, this massive disaster created the most emotionally trying battle our Veterans would ever fight. When the storm subsided, the Veterans of Gulfport

suddenly became refugees – and were forced to relocate. But, as any Veteran can tell you, we are a resilient corps of people. Just as these Vets fought bravely in World War II, The Korean War and Vietnam, they have confronted this personal loss head on – and overcame it to enjoy the sweet taste of victory in their new home of Washington, DC.

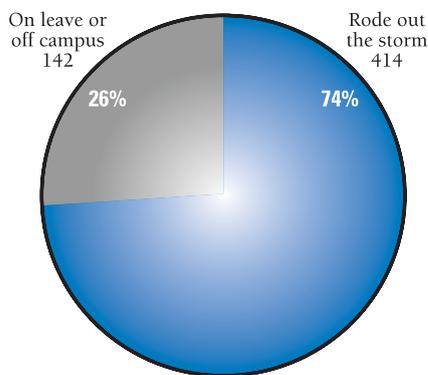
“The support and focus of our residents made a world of difference. As long as they knew what was going on, they were a force multiplier.”

—Steve McManus, CFO

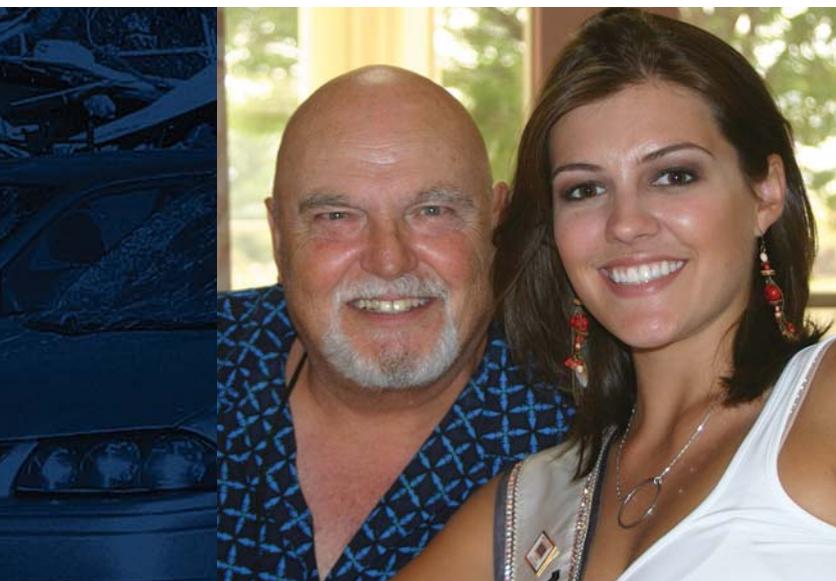
A Swift Evacuation

The damage from Hurricane Katrina left us with no choice but to evacuate our Gulfport residents. This process began with the 10 most fragile residents who were moved to a temporary nursing home in Mobile, Alabama – before final transport to AFRH-Washington. The second group of assisted living residents was bused to Maxwell Air Force base 908th Air Reserve Wing in Montgomery, Alabama and later airlifted to Andrews Air Force Base near Washington, DC. In a mere 24-hours, a full-scale evacuation was executed via bus, airlift and residents’ privately operated vehicles.

Gulfport Residents During Hurricane Katrina



More than 74% of Gulfport residents were in the building during Katrina. Others were on leave, in a medical facility or visiting friends and relatives.



“Chelsea’s bright smile made all our troubles fade away.”

— Nelson Jamison, DC resident

Miss USA, Chelsea Cooley, poses with Nelson Jamison while on her tour to welcome Gulfport residents to Washington.

The *Grit* to overcome

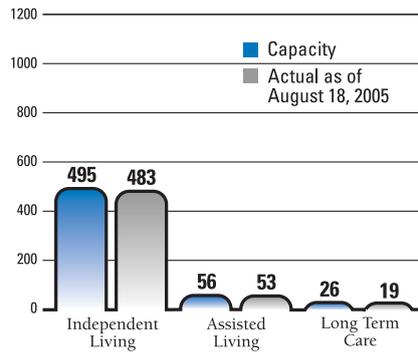
An Outstanding Effort

Naturally, resident occupancy in Washington expanded dramatically in September. Our resourceful staff met this challenge head on – and swiftly prepared for our new arrivals with amazing proficiency. In a mere two-days, supplies were gathered and a closed building was reopened. By September 1st, many of the Gulfport residents arrived in Washington. By September 30, a total of

351 Gulfport residents (or 62%) had relocated to Washington. The transfer of residents was in constant flux, with 38% changing their status at various times from “Resident” to “Discharged” “Delayed Reentry” or “On Leave.” Most likely, these numbers will continue to fluctuate throughout the next fiscal year.

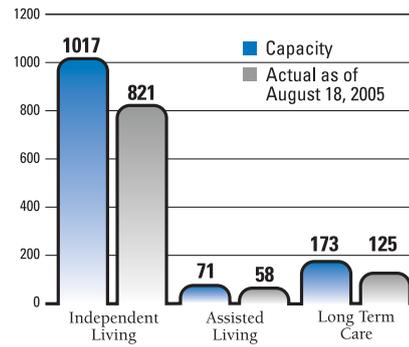
BEFORE KATRINA

Gulfport Almost at Capacity



Before Katrina, the resident capacity at AFRH-Washington was more than 79%.

Washington Under Capacity



Before Katrina, the resident capacity at AFRH-Gulfport was over 96%.

Once Again, a Paradise Found

The arrival in Washington was emotion-filled. After a two-day journey, the buses pulled into the front gate. Some 350 Gulfport refugees were greeted by a band of staff, neighbors, military and volunteers. As our Vets walked off the buses, the crowd formed a human gauntlet for them to walk through ... welcoming them to their new home. American flags were waving and our Vets

garnered hugs from every direction. A diverse mix of 220 volunteers showed up that day to help our Veterans settle in. Many stayed into the night and continue to help to this day. This show of support is a testimony to the American spirit and our country's sense of duty. One young lady summed it up best when she said: "We're helping them now, because they have helped us immensely."

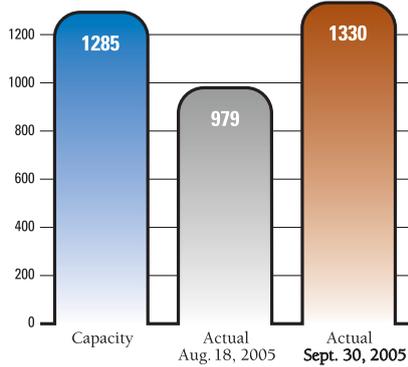


An Exceptional Staff

We pride ourselves on a generous resident / staff ratio. The personal attention we give to our retirees is what makes this the premier retirement home for Veterans. Yet, we also realize the need to be an efficient organization. A key component of the AFRH strategy is to have the right balance of staff or full-time equivalents (FTEs) to fulfill our mission. So, AFRH has made efforts over the past few years to carefully streamline its staff and use competitive sourcing for non-essential support activities. Today, all staff members focus strictly on their core competencies. We believe this has increased the quality of specialty care. FY 2004 saw the largest drop ever in the number of FTEs as we aligned our staff with our new strategies. This number continued to drop slightly in FY 2005, as we approached peak efficiency.

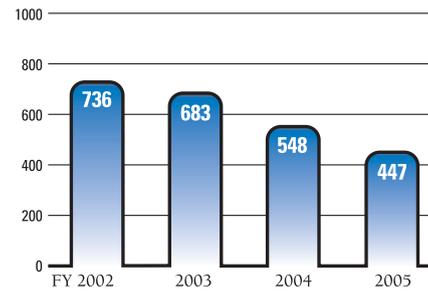
AFTER KATRINA

Washington Now Overcapacity



After Katrina, the actual number of residents exceeded official capacity at AFRH-Washington

Full Time Equivalent Employees



“It was like coming home to friends and family, although we didn’t even know them. They were wonderful and they even prayed for us. I am very touched.”

—Mary McLeod Nelson, Gulfport resident (on the DC welcome)

The *Ideals* to improve

2004: Good Progress All-around

One of our biggest challenges in recent years has been managing change – and ensuring that our care and services meet or exceed those in private sector retirement homes. As reported in the FY 2004 Performance and Accountability Report (PAR), we made significant improvements in all strategic goals. FY 2005 was our scheduled year to continue moving ahead.

2005: Ongoing Goals and Objectives

Our facility has five main strategic goals that drive the organization (see next page). These goals are comprised of 12 performance objectives. Likewise, within those 12 performance objectives are 27 specific key actions. Detailed action plans have been developed for all 27 key actions – for both campuses – resulting in a total of 54 key actions for the entire Home. We are pleased to report that good progress was made in all of these actions before Hurricane Katrina. In fact, we only failed to make significant progress in less than one percent of our key actions.

September 05: the Katrina Setback

As a result of the chaos caused by Katrina, we regret no progress was made at Gulfport in September and all actions are Off Track. In Washington, all strategic goals now have barriers and new issues to resolve – given the sudden transfer of 351 Gulfport residents. So, our strategic goals will now be reviewed and revised as a first order of business in FY 2006. The chart to the right outlines our progress in FY 2005.

Summary: AFRH Performance Highlights

As you can see, solid progress was made with a “moderately successful” status on most efforts throughout FY 2005. At the Gulfport campus, 93% of key actions were on track with about 44% still having barriers to total success. Meanwhile, at the Washington campus, only one key action (“Admissions for Residency.”) was showing unsatisfactory progress before the Hurricane. Overall, Washington has 67% satisfactory progress – despite the fact that over 93% of our key actions had barriers and issues keeping them from satisfactory progress.



William Abernathy, 92, completes his glory march in June – after walking 10,000 miles in only four years. “Abby” is a member of the AFRH-Washington walking program and a Master Sergeant Retired - US Marine Corps.

For details, please see the "Performance Section."

| Key Actions | August 2005 | | | | September 2005 | |
|--|-------------------|-----------------|---------------------|-------------------|-----------------|-------------------|
| | Gulfport Progress | Gulfport Status | Washington Progress | Washington Status | Gulfport Status | Washington Status |
| Overall | 93% | 44% | 67% | 3.5% | 100% | 100% |
| Financial Create financial net growth and stability for the trust fund. | | | | | | |
| F1 Increase revenue resulting in a net increase. | ■ | ■ | ■ | ■ | ■ | ■ |
| F2 Reduce costs resulting in a net increase. | ■ | ■ | ■ | ■ | ■ | ■ |
| Customer Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives. | | | | | | |
| C1 Increase customer satisfaction through superior execution of the mission. | ■ | ■ | ■ | ■ | ■ | ■ |
| C2 Increase resident retention and outreach through positive public relations. | ■ | ■ | ■ | ■ | ■ | ■ |
| C3 Assess transitions between levels of care. | ■ | ■ | ■ | ■ | ■ | ■ |
| Internal Business Processes Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization. | | | | | | |
| IB1 Increase effectiveness and efficiency of service delivery to our residents. | ■ | ■ | ■ | ■ | ■ | ■ |
| IB2 Increase timeliness and satisfaction with internal communications. | ■ | ■ | ■ | ■ | ■ | ■ |
| Learning and Growth Promote professional development and personal excellence for all personnel. | | | | | | |
| LG1 Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA, JCAHO, and Agency requirements. | ■ | ■ | ■ | ■ | ■ | ■ |
| LG2 Inform key AFRH stakeholders of value added programs and initiatives. | ■ | ■ | ■ | ■ | ■ | ■ |
| Culture Foster a commitment to service and quality and an environment of mutual respect and integrity. | | | | | | |
| CL1 Increase teamwork and cooperation among employees and residents. | ■ | ■ | ■ | ■ | ■ | ■ |
| CL2 Maintain an accurate cross-campus health and wellness model. | ■ | ■ | ■ | ■ | ■ | ■ |
| CL3 Attract, develop, and maintain a high-performing workforce. | ■ | ■ | ■ | ■ | ■ | ■ |

■ The initiative is on track. ■ The initiative has barriers and/or issues. ■ The initiative is off track.

STRATEGIC GOALS

1. FINANCIAL

Create financial net growth and stability for the Trust Fund.

FINANCIAL MANAGEMENT:

The outsourcing of financial management system to the Bureau of Public Debt (BPD) was fully operational throughout FY 2005. This gave managers online access to their accounts and kept AFRH compliant with regulations.

COMPETITIVE SOURCING:

In FY 2005, management monitored contractual savings as the results of seven competitive awards made in the previous year, FY 2004. A contract for Dining Services was awarded in October 2004. And a new maintenance award for the DC campus was made in the summer of 2005.

THE MASTER PLAN:

The Home held public meetings to review a proposed real estate Master Plan for the DC campus. This plan will guide the long-term use and development of the site by AFRH and others.

"ONE MODEL" OPERATIONS:

In FY 2005, the One Model alignment of both campuses involved creating and updating directives that apply to both campuses. Such alignment includes obtaining a single Dining Services vendor for both campuses, centralizing the admissions process at our DC headquarters and developing a cohesive and targeted marketing campaign.

2. CUSTOMER

Deliver exceptional service and programs in an environment that attracts residents and enriches their lives.

PERFORMANCE MANAGEMENT PLAN:

Each employee received a performance plan in January 2005 under a pilot program to link performance with strategy. 100 percent of our employees were evaluated on generic standards that included customer service responsiveness and expectations for resident-focused performance.

RESPONSE TO HURRICANE KATRINA:

We are very pleased to report that no lives were lost as a result of a Category 4 hurricane striking the Gulfport, Mississippi campus on August 29, 2005. The analysis of the overall impact to our operations in Washington is now underway. At present, our entire infrastructure is being affected, contracts are being changed, employees are being shifted around and the "One Model" is being tested.

3. INTERNAL BUSINESS PROCESSES

Design and sustain effective internal operations that maximize and leverage resources across the organization.

PROTECTING RESIDENTS DURING FACILITY IMPROVEMENTS:

Our extensive, careful planning helped ease residents through a major renovation in Washington—which involved moving many of the residents to another building. Renovations were successfully completed in June 2005 for a new Dental Clinic and the Community Health unit. Concurrently, the Pipes Building was mothballed in anticipation of being leased under the Master Plan.





Also, plans were being developed to protect residents while a new space for Assisted Living was being constructed in Gulfport.

AFTERMATH OF HURRICANE KATRINA:

Pipes was reopened DC within 72 hours after the storm to house over 100 independent Living residents evacuated from Gulfport.

The Gulfport facility is not accessible to residents until further notice.

4. LEARNING AND GROWTH

Promote professional development and personal excellence for all staff.

JOINT COMMISSION ACCREDITATION OF HEALTHCARE ORGANIZATIONS (JCAHO):

During FY 2005, AFRH-Gulfport underwent a full review of its healthcare facilities and received its accreditation in March 2005. Two unannounced, on-the-spot surveys were conducted in June and July at both Gulfport and Washington. Both unannounced surveys were conducted with no deficiencies reported.

KEY STAKEHOLDERS:

The flow of information to key AFRH stakeholders via publications and group activities was a significant key action. Both campuses easily exceeded the minimum requirements of one initiative during the year and one article for publication. Further, numerous activities and articles also appeared to publicize campus events.

AFTERMATH OF HURRICANE KATRINA:

The public outpouring of support for AFRH has been overwhelming. Donations of clothes and personal items have flowed in so fast and in such great quantities that

a Mini-Mall for clothing was created. Warehouse 77, previously mothballed, has been reopened to handle this large amount of donations.

5. CULTURE

Foster a commitment to service and quality in an environment of mutual respect and integrity.

PERFORMANCE-BASED MANAGEMENT:

Part of our strategic planning process entails identifying the Performance Management Plan. This Plan was developed and implemented during FY 2005. Subsequently, a pilot of the new system was launched in January 2005, while preliminary results were reported in July 2005.

VOLUNTEERS:

Our Gulfport and Washington campuses have been very successful with resident volunteer programs. Both campuses have dynamic volunteer coordinators and dedicated residents that have logged countless hours helping others. All of which has contributed to AFRH being a dynamic and active retirement community.

ACTIVITIES BETWEEN RESIDENTS AND EMPLOYEES:

The goals for activities among residents and employees have been exceeded for both campuses.

AFTERMATH OF HURRICANE KATRINA:

Our staff successfully protected the Gulfport residents and each other during this horrific storm – and ensured their safe transport to DC. Some staff members are scheduled to relocate to Washington in FY 2006 to augment operations on what has become a densely populated campus.



I've been here over three years. I shoulda been here 10 years ago! It's great."

— Daniel Funk, DC resident

The *Targets* to aim for

2005 PERFORMANCE MEASURES

BUSINESS MEASURES

- An increase in the Trust Fund value
- Growth of the resident population
- Savings through competitive outsourcing
- Reductions in space & land usage
- Donations from community partnerships, nonprofits & foundations

CUSTOMER SATISFACTION

- Improvements in health & wellness
- Enhancements to the facilities
- Supplements to our services

EMPLOYEE SATISFACTION

- An increase in completed Surveys
- A boost in Performance Evaluations
- Integration of Volunteer Program
- Updated policies & directives

Achieving the performance measures to the left is critical for the success of the organization. The actual quantitative measurement of our performance is determined by data that comes from a variety of sources:

Our Financial Data

In FY 2004, AFRH transferred or converted many financial functions to ensure consistent and correct accounting. The following functions were transferred to the Bureau of Public Debt in Parkersburg, West Virginia:

- *Financial Management Service (Accounting, Travel and Investments)*
- *Property Management*
- *Contract/Procurement Management*
- *Purchase Cards*

Further, AFRH transferred its Payroll, to the National Finance Center (formerly in New Orleans, Louisiana – now working out of a disaster recovery center in Philadelphia with business operations in Dallas).

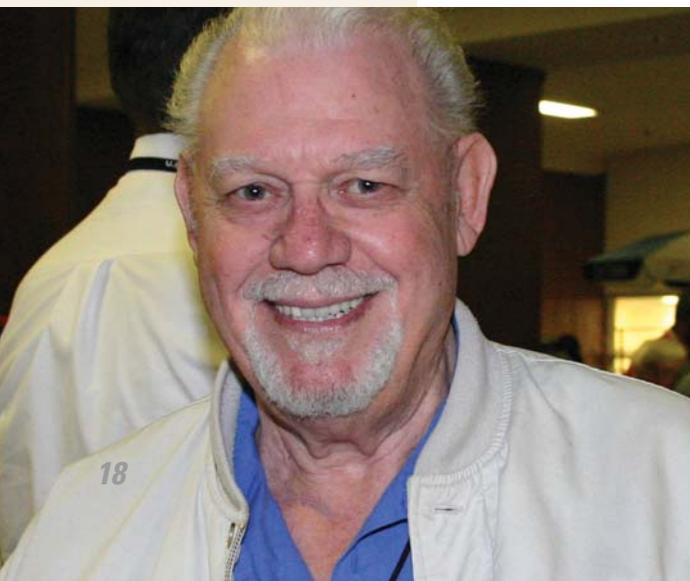
External Benchmarks

As a healthcare provider, AFRH is required to meet the standards developed by national organizations that accredit health facilities. AFRH has received a Gold Seal of Approval[®] from JCAHO at AFRH-Gulfport – and received positive feedback during two separate on-the-spot inspections at AFRH-Gulfport and AFRH-Washington.

Lastly, our Dining Services division has a profound and positive affect on the health of our residents. As such, this division must comply with JCAHO standards for quality of food and preparation – as well as the Food and Drug Administration Food Code. Dining Services also abides by local sanitation manuals that were written based on the Food Code.

Our Computer Data

To validate each data report, we make sure that more than one person is responsible for compiling it. Likewise, we employ a chain of command review and approval to validate our policies and procedures – on everything from food and healthcare, to recreation and support services.



“I find it exciting to live here, where President Lincoln spent his summer months. I am completely at peace with my surroundings – and myself.”

—John Bowery, DC resident

The *Resolve* to lead

True Progress

The AFRH is pleased to report it has made significant progress in each of the five initiatives under the President's Management Agenda (PMA). The Home has not officially entered its deliverables as part of the PMA, as of this writing. However, we did conduct a self-assessment as of August 30, 2005. A comparison of our Status between FY 2004 and FY 2005 shows improvement in two areas and no improvement in a third area.

Due to the impact of Hurricane Katrina, all initiatives must be reworked. The following pages provide a brief description of each initiative, the current status of the management

program and explanations of our progress to "Get to Green." AFRH is implementing the PMA with the ultimate goal of improving performance and providing superior service.

Proper Methodology

The PMA measures the Government's progress toward these goals through the use of the Executive Branch Management Scorecard. Under each of the five standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria and "red" if it has but one of a number of serious flaws.



“What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises.”

—President George W. Bush

AFRH Self-Assessed Status & Progress

| Initiative | Status | | Progress FY 2005 |
|------------------------------------|---------|---------|------------------|
| | FY 2004 | FY 2005 | |
| Human Capital | ■ | ■ | ■ |
| Competitive Sourcing | ■ | ■ | ■ |
| Financial Performance | ■ | ■ | ■ |
| E-Government | ■ | ■ | ■ |
| Budget and Performance Integration | ■ | ■ | ■ |

■ The initiative is on track. ■ The initiative has barriers and/or issues. ■ The initiative is off track.



PROGRESS:



STATUS:



STRATEGIC HUMAN CAPITAL

Background

The PMA requires agencies to implement a comprehensive Human Capital Plan that is fully aligned with the agency's mission, strategy and goals. The Human Capital Plan should include metrics, succession planning, leadership accountability and plans for continuous improvement.

Progress

PERFORMANCE-BASED MANAGEMENT PLAN:

This Plan was developed and implemented in FY 2005. It flows directly from the AFRH campus Business Plans – which are linked to the AFRH Strategic Plan. The Performance Plan relates to the criteria for successful human capital management as defined by the PMA, the themes used by Office of Personnel Management as well as the criteria used by Office of Management and Budget. Following best practices, this Plan links corporate strategies, goals and objectives with each employee's performance standards. A pilot performance appraisal program was started for a period from January to July 2005 and the results are still being analyzed.

JOINT COMMISSION ACCREDITATION OF HEALTHCARE ORGANIZATIONS (JCAHO):

Part of the AFRH strategic plan includes the training of all staff to meet standards set by outside organizations such as JCAHO. During FY 2005, AFRH-Gulfport underwent a full review and received JCAHO's Gold Seal of Approval™ in March 2005 – signifying full compliance with all applicable standards. Unannounced on-the-spot surveys were also conducted in June and July at AFRH-Gulfport and AFRH-Washington. Both unannounced surveys verified our full compliance with the applicable standards.

Status

Since all of the PMA criteria have not been achieved via the AFRH Performance Plan, the progress and status scores for this initiative are both "Yellow."

Aftermath of Hurricane Katrina:

Our staff successfully protected the Gulfport residents and each other during this ferocious storm – and ensured their safe transport to DC. No loss of life occurred as a direct result of this storm. Operational decisions for the Gulfport campus will be made during FY 2006.

PROGRESS:



STATUS:



COMPETITIVE SOURCING

Background

The PMA cites the use of the A-76 Process as a way to improve agency performance. This entails inviting public/private competition for an agency's commercial activities or functions. So, the ARFH has actively engaged in competitive sourcing since FY 2004. Local contractor Management Analysis, Incorporated assisted the AFRH in conducting seven competitive sourcing studies (six in FY 2004 that were categorized as "Streamlined." And one in FY 2005 classified as "Standard"). These studies enabled AFRH to successfully focus on its own internal core competencies – and outsource various Support Services. To that point, no Healthcare Services were outsourced. According to our estimates, the competitive sourcing contracts now in place for FY 2005 will generate approximately \$18.7 Million in savings over five years. Those contracts include:

- *Grounds, Golf Course and Snow Removal*
- *Transportation and Refuse Removal*
- *Facilities Maintenance*
- *Food Services*
- *Security Services in Gulfport*
- *Security Services in Washington*
- *Campus Operations in Gulfport*

IMPROVED FINANCIAL PERFORMANCE

Background

To meet their fiduciary responsibilities, agencies must comply with a variety of applicable laws and regulations. For example, they must meet financial deadlines, comply with the Federal Financial Management Improvement Act, produce accurate financial information on demand and routinely assess the performance and financial data managers use to make daily decisions. Further, agencies must avoid chronic or significant Anti-Deficiency Act Violations, material internal control weaknesses as well as material non-compliance with laws or regulations in annual accountability reports.

Progress

FINANCIAL MANAGEMENT:

Progress will remain "Green" as we continue in compliance. The outsourcing of financial services to BPD has enabled the agency to manage and monitor all expenditures. Now, managers have online access to their accounts through a variety of online programs.

THE REAL ESTATE MASTER PLAN:

This Plan strives to provide sufficient revenue to support our goal of resident-focused care – while also replenishing the partially depleted Trust Fund. This Plan also seeks to attract

development at a fair market value that is compatible with the mission of the AFRH. So, an open participatory process with the residents and the neighboring community began in the summer of 2005.

Status

The AFRH Trust Fund balance is central to the financial vitality and survival of AFRH. So, the institution has aggressively made moves to improve its financial state. In FY 2004, AFRH outsourced the accounting and contracting functions to the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC). Currently, the Home is meeting its financial deadlines, working to comply with all relevant regulations and producing financial information on demand. Also, the first audit under the CFO Act was completed for Fiscal Year 2005 and AFRH received an unqualified audit opinion.

Aftermath of Hurricane Katrina:

Admissions to Gulfport are closed. Current revenue from that campus is about 60% of what it should be. The cost of renovations to the Gulfport campus is now being estimated. Meanwhile, renovations for the Pipes Building on the Washington campus will now be required and those costs are being developed as well.

PROGRESS: 

STATUS: 

Progress

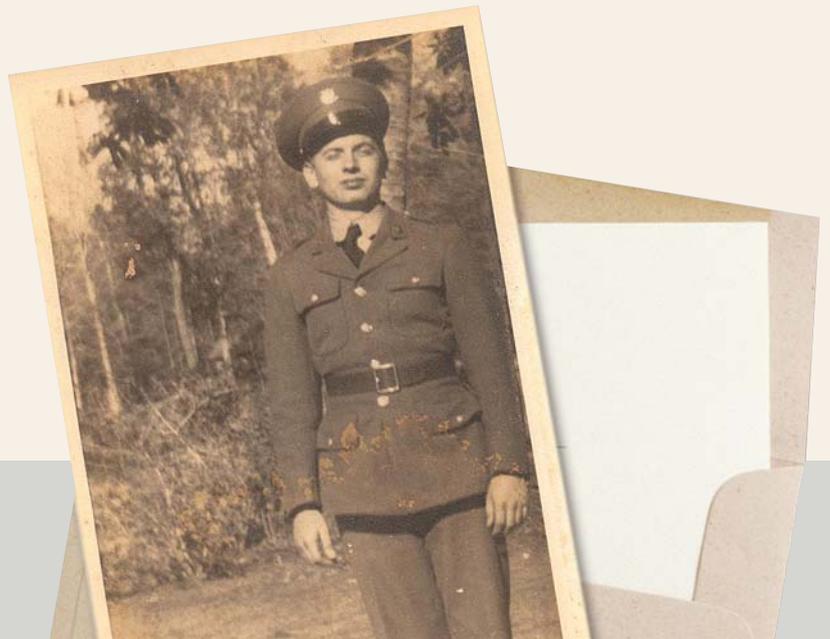
Progress on the AFRH competitive sourcing is also "Green". The competitive bid for Dining Services at the Washington campus was awarded in October 2004. In FY 2005, our managers monitored the performance results of awards made in 2004. As a result, several changes occurred in the status of the AFRH Competitive Sourcing data for FY 2005. Those changes occurred in Grounds, Golf Course and Snow Removal, Transportation and Refuse Removal, as well as Facilities Maintenance.

Status

AFRH has achieved "Green" in competitive sourcing.

Aftermath of Hurricane Katrina:

A change in the Transportation contract was required at the Washington campus due to the increased numbers of riders after Katrina. Most contracts at the Gulfport campus have been cancelled.



PROGRESS:



STATUS:



EXPANDED ELECTRONIC GOVERNMENT

Background

The PMA requires agencies to furnish a modernization blueprint for Expanded Electronic Government (E-Gov). The blueprint should focus on IT investments in key agency functions and define how those functions will be measurably improved. To achieve a "Green" in E-Gov, an agency's plan must address a variety of areas. They include security, success measures, program management, performance goals, risk management, as well as cost schedule for all major IT systems. Additional requirements for a "Green" rating in E-Gov stipulate that cost and schedule must be on target – and there must be no overruns or shortfalls greater than 10%. Agencies must contribute to and participate in three of the four categories of E-Gov initiatives (rather than create redundant or agency-unique IT projects.) To meet the mandates of the PMA, the Home conducted a thorough IT Assessment and Needs Analysis in the fall of 2003.

Progress

FY 2005 was the first full year for all the enhancements suggested and implemented in FY 2004. For residents, plans for Voice over Internet Protocol (VoIP) were underway, so they could make free long-distance calls on their computers. The current direction is to create an "AFRH Environment" which drastically improves financial outcomes. This Environment will provide better information to our community at lower cost – and with greater simplicity, accuracy and availability.

Our focus is a universal Resident Information System (RIS). This will provide enhanced caregiver productivity, business office efficiency and enterprise decision-making. The RIS will consist of a broad range of routine and specialized functions

currently performed by multiple organizations within the Home. These functions include Pre-Admissions, Admissions, Medical Assessments, Billing, Care Plans, Quality Indicators, Nursing Statistics and various associated reports to name a few. The AFRH signed an agreement in FY 2005 to adopt Monette as its off-the-shelf software. Yet, due to limited resources, those planned improvements will start in FY 2006.

During and immediately after Hurricane Katrina, the AFRH website served as a key portal of information to family, relatives and friends regarding the status of residents. Likewise, afrh.gov was critical in tracking items that were needed for donations and it served as a point of contact for many people.

Currently, progress in this area remains "Yellow."

Status

AFRH had made enormous strides in E-Gov initiatives in FY 2004. However, in FY 2005, the IG cited many areas for improvement because work in this area is not yet complete. Therefore, the status is "Yellow."

Aftermath of Hurricane Katrina:

The IT infrastructure at Gulfport was severely damaged. Estimates for repair will be reported in FY 2006. With the transfer of Gulfport residents to Washington, this VoIP planning is being revisited.



“Every year, we get together and watch the Super Bowl. I always watch for the long bomb.”

—Louie Aiello, DC resident
(retired Air Force)

INTEGRATED BUDGET AND PERFORMANCE

Background

This PMA initiative calls for quarterly examinations of reports that integrate agency financial and performance information for major responsibilities. This helps an agency make informed decisions regarding its program management. As always, Strategic Plans must contain outcome-oriented goals and objectives.

Progress

The AFRH has been working on several different fronts to integrate budget and performance. At the agency level, initiatives for the PMA have been achieving objectives as stated. At the campus level, the Business Plan for each campus has directly linked performance with strategy. Many of the objectives cited in the campus Business Plans have specific measures to be achieved by certain dates. Campus level activities are discussed in detail in later sections.

At present, our progress remains "Yellow."

Status

In FY 2005, the AFRH did not submit any actions for assessment in the PART. The performance link – from strategy to individual manager accomplishments – was tested this fiscal year through the new appraisal system executed in our Performance Management Plan.

Since results were not finalized, the status for budget and performance integration remains "Yellow."

"One Model" Operations

In FY 2005, additional progress was made in the One Model alignment. This includes creating and updating directives that apply to both Homes – such as obtaining a single Dining Services vendor for both campuses, centralizing the admissions process at corporate headquarters and developing a cohesive and targeted marketing campaign.

DC Campus Upgrades in 2005

Early in the year, planned renovations in Washington were completed for a new Dental Clinic, the new Optometry Clinic and a new Community Health unit. Meanwhile, the Pipes Building was mothballed in anticipation of being leased under the Master Plan.

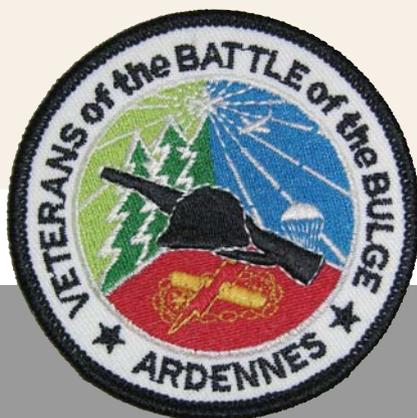
Aftermath of Hurricane Katrina:

Then in-depth analysis of Katrina's impact to our Washington operations is underway. Presently, all contracts are being altered to accommodate the additional residents from Gulfport. Many staff members are being shifted around. Plus, the "One Model" is being put to the test. Specifically, the Pipes Building was reopened within 72 hours after the storm to house more than 100 Independent Living residents from Gulfport.

On the Gulfport campus, the Cabana, Wood Hobby Shop and water tower were all demolished. The living quarters near the entrance were lost. And major damage occurred on the first floors of the Resident Tower, the Administration Building and the Campus Operations Building. Further, all vehicles left on the grounds were completely lost. As of this writing, the Gulfport campus still has limited electrical power and no running water. Yet, we are hopeful that the Gulfport facility can be refurbished and that it may be reopened within a year.

PROGRESS: 

STATUS: 



The *Challenges* to manage

The Home faced a variety of challenges this year, coming from many fronts. In August, Hurricane Katrina left a wake of destruction in Gulfport. And in July, tornado-like winds toppled 300 some mature trees in Washington. Paying for the cleanup after these disasters strained our budget – and our funding would have been nearly wiped

out if it weren't for Congressional support.

Another challenge we faced was creating a new branding and marketing campaign to boost admissions. Nearly a year after the campaign was launched, the results fell far short of our expectations.

COUNTDOWN TO KATRINA:

OCTOBER 2004

- *Continued competitive sourcing in two innovative new ways:*
 - *Public-to-public contracting with BPD for financial services and contracting*
 - *Public-to-private contracting for all food services*

JANUARY 2005

- *Began the Performance Management pilot*

MARCH 2005

AFRH-Washington Achievements

- *Moved Memory Support & Assisted Living (from Pipes to LaGarde & Scott Buildings)*
- *Moved Dental and Optometry Clinic (from Barnes and Forwood to renovated space in Scott)*
- *Celebrated the completion of Lincoln Cottage exterior*

AFRH-Gulfport Advancements

- *Planned to expand Assisted Living quarters and clinics on 2nd floor*
- *Welcomed a new Healthcare Administrator*
- *Received JCAHO Gold Seal of Approval™ at AFRH-Gulfport*

Despite the chaos from the hurricane and the loss of some key records, we still adhered to federal guidelines, complied with regulations and hosted the auditors and inspectors. All the while, we still achieved our strategic objectives for 2005.

Yet, our greatest challenge today is to remain financially independent. We must

develop innovative ways to increase admissions in Washington – our sole campus for now – in order to fulfill our financial obligations. At present, the AFRH is working hard to rejuvenate its infrastructure and reenergize its resident programs. In FY 2006, we will refocus our efforts toward revitalizing the Home's financial situation ... so that we may continue to endure.

APRIL 2005

- *Conducted climate surveys on both campuses by Defense Equal Opportunity Management Institute (DEOMI)*

JUNE 2005

- *Mothballed Pipes, Barnes & Forwood buildings in Washington*
- *Hosted public hearing for the AFRH Real Estate Master Plan*
- *Received Auditors*
- *Welcomed new military personnel at both campuses*

JULY 2005

- *Sustained storm damage in Washington to 300+ trees*
- *Fulfilled inspection by USAF Inspector General team (for Triennial Review)*
- *Hosted JCAHO on-the-spot inspections on both campuses*
- *Welcomed several new doctors in Gulfport*

AUGUST 2005

- *Survived Hurricane Katrina in Gulfport:*
 - *Sustained major damage to campus*
 - *Safely evacuated all residents*
 - *Reopened closed buildings in DC to house displaced residents*

SEPTEMBER 2005

- *Minimized environmental damage to Gulfport campus*
- *United all AFRH residents in Washington*
- *Placed majority of Gulfport staff on Administrative Leave due to hurricane damage and temporary closure of campus*



“There was worse devastation than in any war - and more widespread damage than in Pearl Harbor. If I could go back to help, I would in a minute.”

—Bruce Frye, Gulfport resident

Gulfport: nowhere to hide

The Gulfport campus lies 21 feet above sea level. But, Hurricane Katrina still unleashed plenty of damage. Her wrath destroyed buildings. Decimated homes. Flooded buildings. Severed utilities. Totaled vehicles. And toppled a 100,000-gallon water tank. To add insult to injury, extreme summer temperatures magnified problems on the flooded first floor of the resident Tower. Since the average age of our residents is 78 – and several have unique health concerns – we had no

choice but to leave. In a mere 24 hours, we completed a full-scale evacuation of 414 Veterans on 12 buses. As we pulled out of Gulfport, we silently gazed at dozens of cars, stacked along the west boundary of the campus – tossed about by Katrina’s ferocious wind and tidal surge. That ugly sight was a dramatic, haunting illustration of her power. And to this day, that vision serves as a vivid reminder of how lucky we are to be alive.



The *Resiliency* to act

A well-prepared staff, combined with excellent contract and Seabee support, assured our Gulfport residents a safe passage out of harm's way. In fact, our evacuation plan was executed hours after a loss of power and surge of floodwater in the residents' home. Without such a high level of preparedness, our residents may have suffered the unfortunate fate of thousands of other victims in New Orleans and the surrounding areas.

A Smart Emergency Plan

It all began with our goal to be prepared for any natural disaster. Early in FY 2005, AFRH updated its directives for an emergency response (including Agency Directive 6-3, Emergency Preparedness and Response). In general, our plan classified the probability of a major hurricane, power outage and flooding at Gulfport as "High" – but the probability of water shortage as "Low." Therefore, we concluded our 11-story resident tower would be self-sufficient in a prolonged disaster – given our generator, stockpiles of food and supplies, plus direct access to an independent water tower on campus.

Our Plan also stated: "Due to the strength of the facility and available emergency utility systems, there is little chance that a mass evacuation of AFRH would be necessary." Nonetheless, routine drills were *still* incorporated into our emergency planning procedure. And for good reason. The experience and knowledge gained from those drills made our planned response a tremendous success.

A Swift Emergency Response

Given our sound Plan, 414 out of 556 total residents chose to stay in the Gulfport resident tower for the hurricane. (The other 142 residents were on leave, in a medical facility, or away visiting family or friends.)

Hours after Katrina hit, our Gulfport and Washington staff rapidly coordinated with BPD. Their swift efforts ensured the safety of our residents and they helped troubleshoot problems that came up. The result: in less than 24 hours, a full-scale evacuation of all residents was complete. The outstanding coordination and effort at BPD Contracting literally saved lives. BPD's Division of Procurement (DOP) worked with our staff at both campuses to contract vital goods and services.* In fact on August 30, the day after the hurricane, our staff made arrangements for a timely emergency food shipment from U.S. Foods, DOP's prime vendor.

*Under the authority of FAR 6.302-2, 41 USC 428a and the emergency procedure authorities authorized by Section 1443 of Services Acquisition Reform Act.

BPD Rapidly Arranged:

- Buses for resident evacuation
- Lodging arrangements in Atlanta
- Meals for residents during the trip
- Nursing services for pre- and post-transport to Atlanta
- Medical transport for residents requiring care

“The good news is we survived this natural disaster and all our residents and staff are safe. Now we can move on to next steps.”

*—Tim Cox, COO
September 30, 2005*



To accommodate the residents en route to Washington, we re-opened empty rooms in the Scott, Sheridan and LaGarde Buildings. Plus, we reopened the shuttered Pipes Building with help from BPD. Many goods and services were needed ASAP to make these rooms comfortable and many more would be needed in the coming weeks. Fortunately, hundreds of civilians and military personnel answered the call for volunteers – and helped us re-open closed buildings, clean the facilities and gather supplies for the coming residents.

The buses headed to Washington arrived after two days, including a layover in Atlanta. As the convoy pulled in the main gate, the residents were met with cheers and applause from some 200 volunteers. In the coming days, our Washington residents

gave a tremendous show of emotional support to their Gulfport counterparts. In fact, they helped organize and run a donation center to supply basic clothing and personal items for their new friends.

Meanwhile, BPD began terminating most of the Gulfport contracts. To help restore partial power there, BPD purchased one generator, leased a second and leased a chiller. These items were needed to help regulate the rising temperatures in the damaged resident tower. All through September, Gulfport would continue to have limited electrical power and no running water. In the end, the support of so many kind people helped us get through this crisis. And it gave us the strength to endure the remainder of 2005.

| Evacuation Order: | Destination: | Outcome: |
|--|---|--|
| <i>Long Term Care residents (1 bus)</i> | <i>Mobile, AL Nursing Home</i> | <i>Living comfortably until further notice</i> |
| <i>Assisted Living residents (2 buses)</i> | <i>Montgomery, AL - Maxwell AFB, 908th Air Reserve Wing (assessed for air lift to DC)</i> | <i>3 residents unfit to fly; moved to Mobile nursing home via Montgomery VA Hospital</i> |
| <i>Independent Living residents (7 buses)</i> | <i>AFRH-Washington – via stay in Atlanta, GA</i> | <i>All residents alive and well</i> |
| <i>Independent Living residents that wouldn't leave MS (1 bus)</i> | <i>Seabee base - Gulfport, MS</i> | <i>Mission Accomplished</i> |
| <i>Emergency Reserve (1 bus)</i> | <i>~</i> | <i>~</i> |



BPD Helped Us Acquire:

- Air conditioning units
- Linens & towels
- Bed frames & mattresses
- Additional nursing services
- Extra custodial services and
- Supplemental food services

BPD Helped Us Purchase / Contract:

- Pajamas
- Refrigerators
- Washers & dryers
- Pillows
- Picnic tables & umbrellas
- Convection ovens (moved from Scott to LaGarde)
- Added security services in DC
- Social workers (to assist with family contact / financial guidance)
- More on- and off-campus services
- An environmental safety study of the Pipes Building*
- A structural, mechanical, electrical & environmental study of AFRH-Gulfport*

Future Unfulfilled Needs (as of 9-30):

- Dental Services
- Nursing Home & Assisted Living arrangements
- Air transport for long-term care residents (from Mobile to DC)
- Lodging for various Gulfport staff in DC
- Heat & Phone service in Pipes Building
- Repairs for LaGarde kitchen (to serve additional residents)
- Wardrobes, credenzas, night stands & lamps
- Couches, recliners, high back chairs & TVs for day rooms

* Results of this work will be reviewed and funded in FY 2006.

ONORABLE DISCHARGE

1. LAST NAME - FIRST NAME - MIDDLE INITIAL
FUNK DANIEL C

2. ARMY SERIAL NO.
33 561 606

3. GRADE
PVT

4. ORGANIZATION
728TH ORDNANCE COMPANY

5. PERMANENT ADDRESS FOR MAILING PURPOSES
2329 E CHASE ST BALTIMORE MD

6. DATE OF SEPARATION
15 OCT 45

7. PLACE OF SEPARATION
SEP

8. ADDRESS FROM WHICH EMPLOYMENT WILL BE SOUGHT
SEE 9

9. DATE OF BIRTH
6 DEC 23

10. RACE
X WHITE

11. MARITAL STATUS
X SINGLE

12. U.S. CITIZEN
X YES

13. COLOR EYES
BROWN

14. COLOR OF HAIR
BROWN

15. DATE OF INDUCTION
4 MAR 43

16. DATE OF ENLISTMENT
11 MAR 43

17. DATE OF ENTRY INTO ACTIVE SERVICE
11 MAR 43

18. SELECTIVE SERVICE DATA
X REGISTERED

19. LOCAL S.S. BOARD NO.
6

20. COUNTY AND STATE
BALTIMORE MD

21. CIVILIAN OCCUPATION AND ADDRESS
DRILL PRESS

22. MILITARY OCCUPATIONAL SPECIALTY AND NO.
ARTILLERY MECHANIC 913

23. PLACE OF ENTRY
BALTIMORE

24. BATTLES AND CAMPAIGNS
ARDENNES, RHINELAND, CENTRAL EUROPE, NORMANDY

25. MILITARY QUALIFICATION AND DATE (i.o., infant)

26. HOME ADDRESS AT
SEE 9

27. DECORATIONS AND CITATIONS
EAMETO M...

“I am glad to be here in DC. They will take care of us. They always do.”

—William Thomas
Gulfport resident

“Out of tragedy, comes so much goodness. When we left Gulfport, there were a lot of sad faces. But when we got off the bus in DC, there were many smiling faces – because so many people came here to welcome us.”

—Steve McManus, CFO

The *Responsibility* to protect

Assets, Liabilities and Cumulative Results of Operations

For FY 2005, our Consolidated Balance Sheet reflects total assets of \$213 million and liabilities of \$7.7 million. About 37 percent of the assets are property, plant and equipment (PP&E), with a book value of \$77.8 million. This PP&E is located on the Gulfport, MS campus and the Washington, DC campus.

Limitations of the Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of AFRH, pursuant to the requirements of 31 U.S.C. 3515(b). Our financial statements were prepared following generally accepted accounting principles as defined by The Chief Financial Officer's Act of 1990 and by the Office of Management and Budget (OMB). These statements are in addition to financial reports prepared from the same books and records used to monitor and control budgetary resources.

We are pleased to report AFRH is in compliance with all relevant laws, statutes and legislation. We accept the responsibility of reporting performance and financial data accurately and reliably. So all data for this report was gathered and reported through systems of rigorous controls and quality checks. AFRH employs the Bureau of Public Debt (BPD) through its Administrative Resource Center (ARC) to perform its financial management. BPD's level of expertise is superb and provides outstanding reporting services to AFRH.

Financial and Performance Results Integration

The Home's funding always comes through a Congressional appropriation and is solely drawn from the AFRH Trust Fund. This Fund is fed monthly by active duty enlisted

payroll deductions, fines and forfeitures from all Branches of the Services, monthly resident fees, the sale or lease of under-utilized land and buildings, gifts and bequeaths, interest gained on the Trust Fund balance and certain one-time amounts in the form of situational gifts and appropriations from Congress.

Congress sent a clear message on their expectations for our purpose and performance by passing the National Defense Authorization Act of 2002. This legislation created the position of Chief Operating Officer (COO) to establish, measure and achieve performance goals for the Home. This person would guarantee that we uphold The Promise to care for our resident Veterans – as well as future generations of soldiers, Marines, sailors and airmen who are in harm's way at this very moment. Led by the vision and mission, our new COO is now ensuring that the Home's carefully crafted strategic plan is directing our staff to improve performance – as well as the bottom-line.

Trust Fund Balance

In 2003, we saw operating costs significantly increase over previous years, eventually outpacing our revenue stream. The Trust Fund balance declined from \$156 million in 1995 to \$94 million in 2003. Renewing the Trust Fund became a critical mandate to retain the Home's solvency. So, we concluded that our operating model had to change.

The approach we took followed the Federal Government's lead for an integrated strategy that links planning with budget and performance. From 2003 to 2005, AFRH aggressively pursued a disciplined strategic planning process that netted many improvements and gains. As a result, the new balance of the Trust Fund reached \$130 million and was still rising before Hurricane Katrina.

“Here, you don't

have to worry

about your

decline eating up

the money you've

accumulated.

I know I won't be

a burden to my

children.”

—John Smith, DC resident
(on the affordability)



Revenue

Likewise, revenue growth has been steadily increasing, along with the Trust Fund balance. In fact, a main source of our increased revenue in FY 2004 was the sale of real estate on both campuses. By FY 2005, the targeted source of income was adequately meeting resident capacity. Our strategy for future increases in revenue lies in the Real Estate Master Plan – discussed in detail in the Performance Section.

We will achieve this goal via reduced costs & requirements in:

- Capital and Infrastructure
- Utilities (Gas & Electric)
- Facility & Grounds maintenance
- Vehicles
- Phone Service
- Administrative Overhead
- Snow Removal and
- Refuge Removal

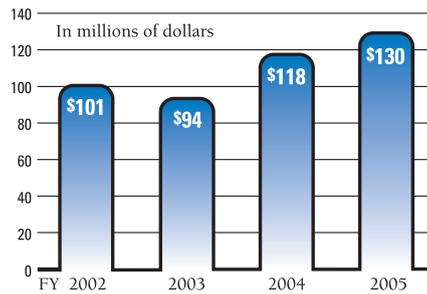
The measurement of savings will encompass:

- Resident Occupancy
- Square footage requirements
- Overtime
- Staff Nursing Ratio
- Nursing Agency Costs
- Food Service Subsistence Costs
- Post A-76 Requirements
- Utilities and
- Room turnover repair (timeframe & costs)

Streamlining the Staff

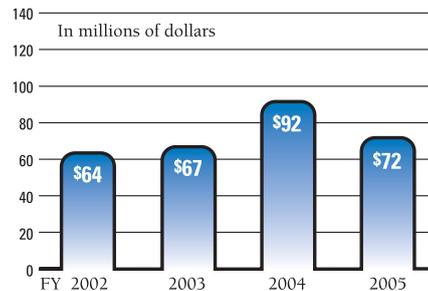
Another big goal in our Strategic Plan was to streamline staff in FY 2005. As a result of the Food Service competitive sourcing, staffing was reduced by 10 percent – from 548 Full-Time Equivalents (FTE) to 447.

AFRH Trust Fund Balance



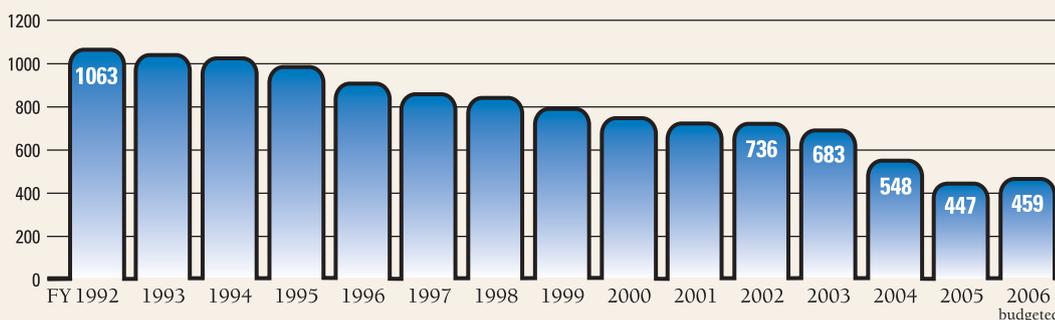
After a decline in FY 2003, the Trust Fund balance has been steadily increasing.

Revenue



FY 2005 Goal: a 20-30 % reduction in costs (from FY 2003).

AFRH Staffing



Total staff has been reduced more than 58% since 1992.



The *Wisdom* to ensure

This section contains the COO Letter of Assurance and a summary of:

- *Federal Managers' Financial Integrity Act (FMFIA – Management Controls)*
- *Federal Financial Management Improvement Act (FFMIA – Financial Systems)*
- *Financial Management Systems Framework*

Early in FY 2003, AFRH conducted a public-to-public transfer of the accounting function to the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC). The goal was to give managers online access to an integrated financial management system – including payroll, procurement actions, credit card purchases, travel, investments and a reporting tool. Although the transfer date was initially scheduled for October 1, 2003, ARC was unable to meet this date and AFRH was rescheduled for April 1, 2004. Prior to this transfer we were limited by a legacy financial system that had little integration with other systems and AFRH received a qualified opinion on our last audit.

FY 2005 marks the Home's first audit under the CFO act and the Agency's first full year of accounting support from the BPD. Although a contract was in place and a delivery order was awarded for a company to conduct an independent audit in FY 2004, the company notified us on October 8th that they misunderstood the requirements and would not be able to meet the contract timeline of November 15, 2004. This untimely contract termination resulted in our inability to secure another audit firm that could meet OMB's submission date – and is the primary reason AFRH was unable to satisfy the audit requirement.

The AFRH has evaluated its management controls and compliance with Federal financial systems standards for FY 2005. The results of an independent audit were considered as part of AFRH's evaluation process. As a result of our evaluations AFRH can provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) have been achieved. Without question, our public-to-public transfer of the accounting function to the BPD's experienced, well-qualified accountants – coupled with an integrated financial management system – marked a turning point in the Agency's Financial Performance.

Further, I am confident that AFRH's progress will continue in FY 2006.

Sincerely,



Timothy Cox
Chief Operating Officer, AFRH
November 15, 2005



“This entire evacuation was nothing short of a miracle.”



THE FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA)

OBJECTIVES:

- *To make sure programs achieve their intended results*
- *To make resources consistent with our overall mission*
- *To keep programs & resources free of waste, fraud and mismanagement*
- *To see that our Laws and regulations are followed*
- *To help minimize improper or erroneous payments*
- *To ensure performance information is reliable*
- *To keep system security in compliance with all requirements*
- *To reduce risk to reasonable levels through major operations planning*
- *To ensure financial management complies with Federal standards*

2005 STATUS:

No "Material Weaknesses" Were Identified

Deficiencies that affect an agency's ability to meet the objectives are considered material weaknesses.

Yet, the Home's Triennial Inspector General's Review by the Department of Defense (DoD) did identify a few areas for improvement – which we are now actively pursuing. These DoD inspections serve as a litmus test to target areas for improvement and motivate management action. And we take these recommendations seriously. While the official report is still in draft form, the following positive quote comes from the Executive Summary:

"Overall, the inspection team found that AFRH provided quality care and a comfortable resident living environment; AFRH personnel managed the Home effectively and were committed to their core business—running the premiere retirement community for America's Veterans. Moreover, AFRH experienced a significant operations transformation in the services provided to the residents and in the working environment for the staff. The change was positive as AFRH evolved from inefficient management practices of the past to the 'one model' approach of the future."

*— Inspector General Review
excerpt from Executive Summary*





FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

This Act is a mandate for agencies to “implement and maintain financial management systems that comply with the Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level.” The FFMIA also requires that remediation plans be developed for any agency that is unable to report substantial compliance with these requirements.

2005 STATUS:

Substantial Compliance with FFMIA Requirements

As we serve our Veterans with advanced care, the Home still strives to be as efficient and economical as possible. We rely on the

BPD Oracle Federal Financials 11i – an advanced system of management controls. This system provides reasonable assurance that our financial obligations comply with applicable laws, our valued assets are protected and our business functions are properly accounted for. In FY 2006, we will add another integrated application of Oracle Financials 11i to our system: Oracle Assets.

This tool will automate asset management and give us greater visibility into all of our assets. Plus, it will simplify accounting tasks even further. Now, standard management tasks, such as asset transfers, disposals, reclassifications and financial adjustments, will be streamlined with automated business flows.

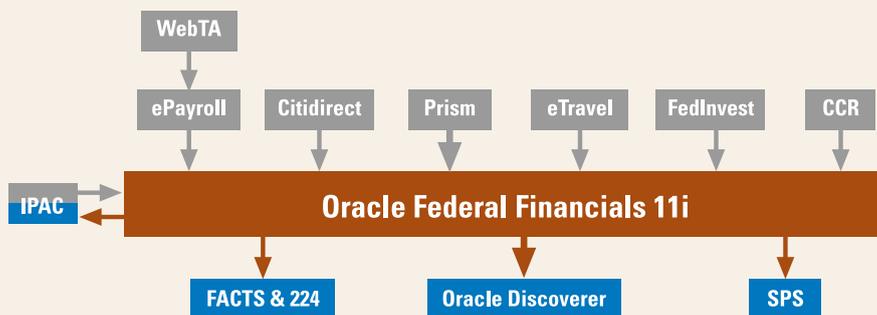
FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

In 2002, when the COO and CFO took the helm at AFRH, the financial management systems were outdated legacy and manual systems with little integration. Since that time, AFRH has transitioned to the current automated system operated by their partner BPD. Today, our new financial management systems reside within the BPD Oracle Federal Financials 11i – a commercial-off-the-shelf certified core financial system – which is compliant with the Joint Financial

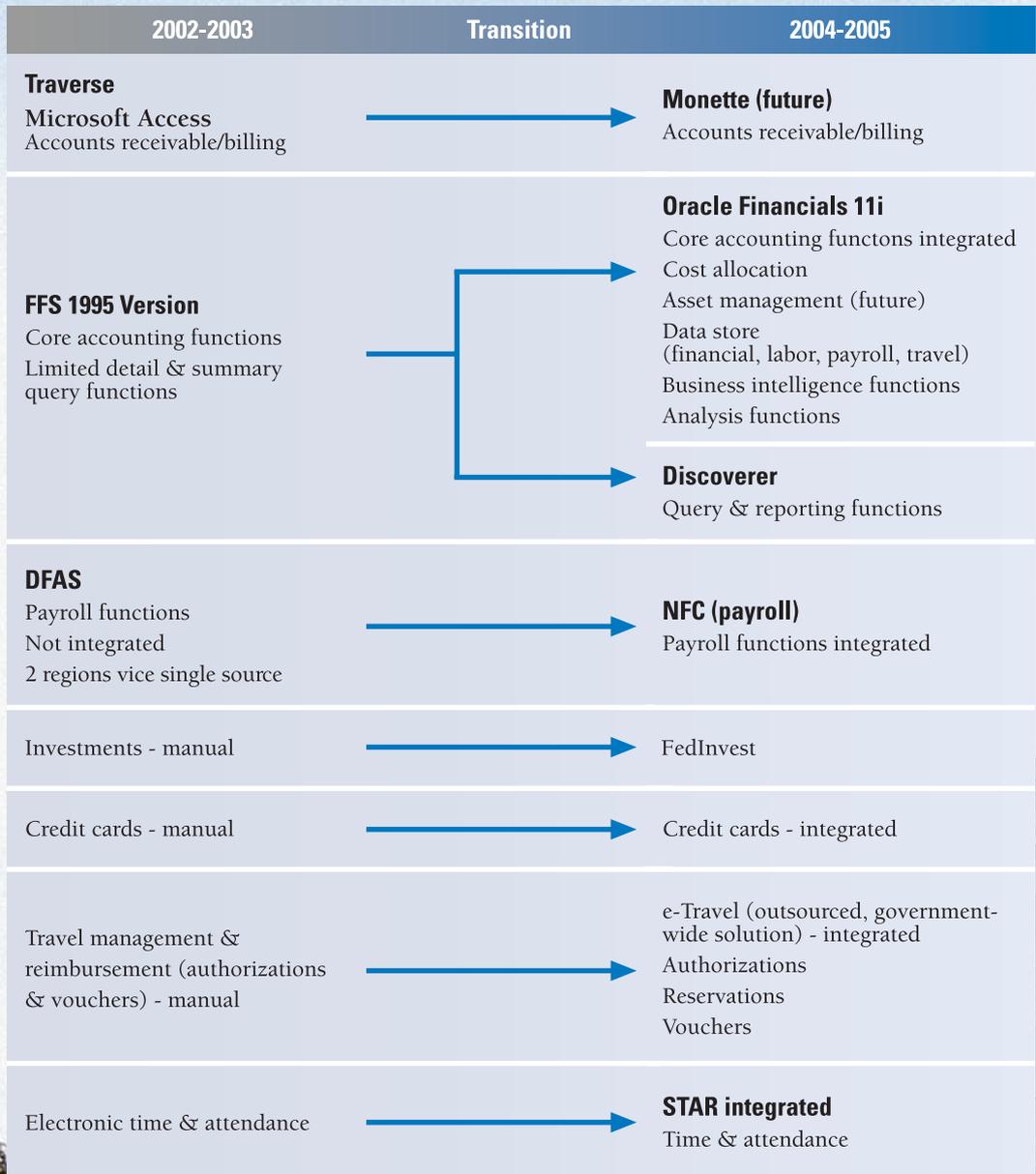
Management Improvement Act (JFMIP).

Oracle Federal Financials 11i include other financial applications that provide purchasing, accounts payable, accounts receivable, general ledger and budget execution. BPD personnel operate and maintain the system, ensuring top-notch support. Plus, they also developed and implemented several interfaces into Oracle Federal Financials to integrate key activities – such as e-payroll, procurement, purchase card,

e-travel, Federal investments and Intragovernmental Payment and Collection System (IPAC) transactions. Ultimately, BDP is responsible for the financial security and integrity of the system.



AFRH Financial Management Systems Framework



IMPROPER PAYMENTS INFORMATION ACT (IPIA)

Through our partnership with BPD, each AFRH business program was reviewed to estimate the amount of potential improper and erroneous payments. One such improper payment was found. BPD made 7 payments of \$500 to FitnessWorks, one of several entities affiliated with Gold's Gym. All of these

entities have the same TIN number and different DUNS numbers and apparently BPD selected an incorrect DUNS number. Currently, FitnessWorks has paid back \$500 to AFRH, leaving the balance due on this account receivable at \$3,000. Ongoing efforts to recoup this money are still underway.



ADDITIONAL PLANS FOR FY 2006

AFRH and BPD plan to expand efforts to uncover Improper Payments in FY 2006. We have targeted a more comprehensive asset management control system using Oracle Federal Financial 11i. Monette, an integrated resident-focused software package, along with the ULTRACare application, are set for installation in FY 2006 as part of the Resident Information System (RIS).

The new RIS will consist of a broad range of routine and specialized functions now performed by multiple organizations within

AFRH. These functions include but are not limited to Pre-Admissions, Admissions, Medical Assessments, A/R Billing, Care Plans, Quality Indicators, Nursing Statistics and various associated reports. Next year, additional modules will be added to our robust system to expand our capabilities even further. Should any systems require corrective action in FY 2006, the responsible official will develop a plan in accordance with Public Law 107-300.



The *Management* of risk

In the mid- to late-1990s, the balance of the Trust Fund shrank dramatically. This was mostly due to downsizing of the military at the end of the Cold War (which naturally decreased funding to the Home). Additional revenues were vital to continue a sustainable retirement home for our Veterans. So, Congress provided us with swift legislative support by enacting the National Defense Authorization Act for FY 2002. This allowed us to sell, lease or otherwise dispose under-utilized buildings and property.* This legislation was as bold and brave as the law that originally established and funded the Home back in 1851.

The Real Estate Master Plan

Now, the proceeds from any real estate transactions can help replenish the AFRH Trust Fund – and sustain the vitality of our Home. To implement this new authority, we have been developing a Real Estate Master Plan for AFRH-Washington. This Plan will guide the long-term use and development of the entire facility. The key objectives of this proactive Plan are cited below:

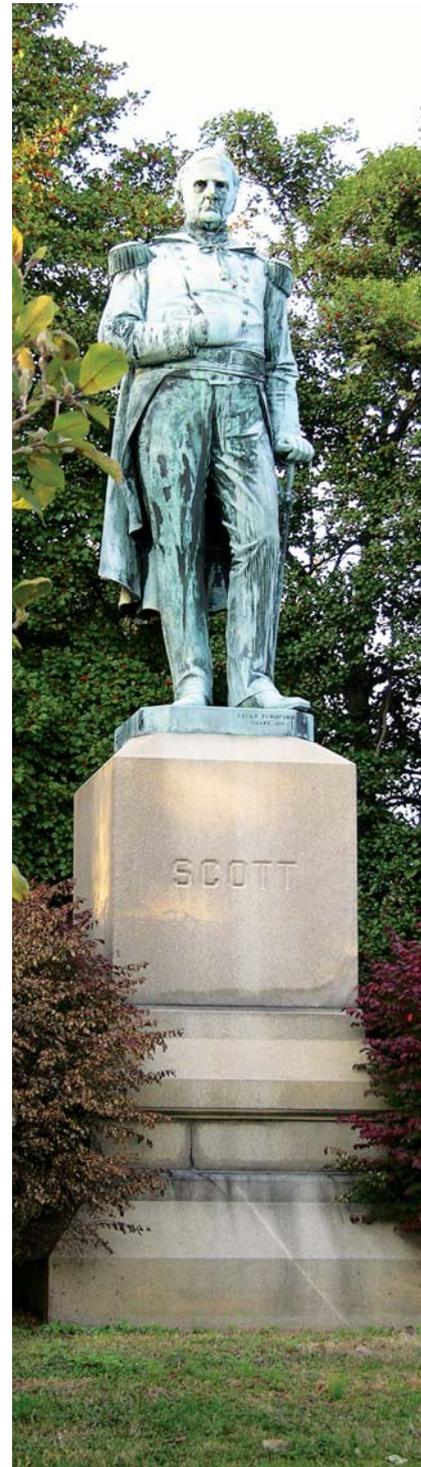
**Requires Secretary of Defense approval and 120 days notification.*

Objectives:

- *To preserve and improve the facility for residents and the community*
- *To provide a sufficient revenue stream to support our resident-focused care*
- *To replenish the depleted Trust Fund*
- *To grow the Trust Fund to meet the needs of current and future residents*
- *To attract development at fair market value that is compatible with our mission and*
- *To ensure an open participatory process with residents and the general community*

Aftermath of Hurricane Katrina

In September 2005, a Structural and Environmental Study was performed at AFRH-Gulfport to guide decisions on the cost of refurbishment, construction and loss. In the interim, various Gulfport staff will join the Washington staff to provide additional services – so we can care for all residents as one stronger, united team. All financial decisions are dependent on sustaining this new mix of Gulfport/DC residents and staff. Reworking the business plan accordingly is one of the first orders of business in FY 2006.



“

The evacuation was a long and arduous process. It would not have happened without the invaluable assistance of rescue workers and the cooperation of the residents.”

—Steve McManus, CFO



The *Will* to succeed

2005 Performance Section



This section of the PAR details the linking of our strategic goals and objectives to staff performance. On the whole, the Home's strategy is implemented through performance objectives, performance outcomes, action plans and performance results. We developed our Strategic Plan in 2002 - 2003. In early 2004, a Business Plan was developed for both campuses – and through early 2005, each facility was mapping out an action plan to achieve targeted milestones.

As always, our mission is to protect The Promise to military Veterans that a national retirement home will be available for many generations. To achieve this, the AFRH Trust Fund must be continually replenished to keep both campuses independent and self-sufficient. By meeting its targeted goals and objectives, the AFRH will ultimately fulfill its mission.

Partially Reliable Performance Data

AFRH implemented its Business Plans in FY 2004 with one Director overseeing both campuses. However, in FY 2005, we underwent changes in Director positions at both campuses. The Gulfport campus had an interim director, while the Washington campus had the Deputy Director manage its Business Plan. Having two separate Directors created variance in the accurate

measurement of performance outcomes for each campus.

Throughout this section, we designate our performance outcomes with green, yellow and red, so they may be easily adapted to the President's Management Agenda (PMA). Since two different people made these designations at various times throughout the year, we believe the data is only partially complete. Nonetheless, the reliability of the information in this report is the best that could be garnered, given the circumstances.

Limited Availability of Yearly Data

Since our Business Plans were only implemented in the past two years, it is not possible to provide four years of performance information.

Performance Management

Employee performance standards were linked to the strategic plan and deployed in 2005. Our new staff "performance appraisal form" states the vision and mission of AFRH and lists the following initiatives – our strategic goals and objectives – that apply to all staff members:

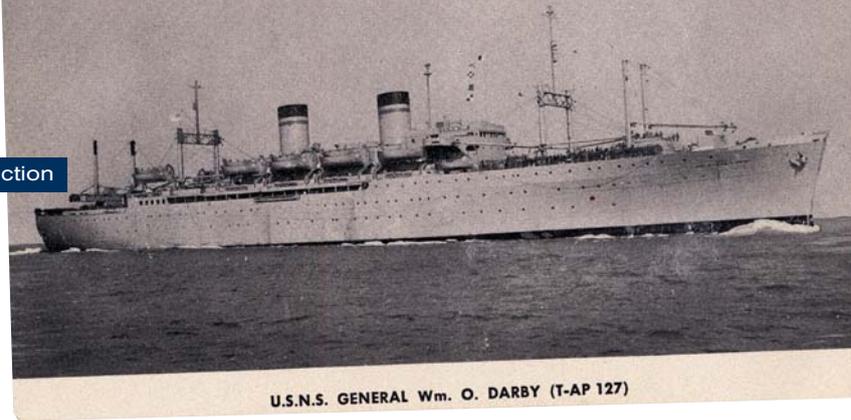
“I have been here 4 years and I like it because I can be independent. I go when I want – and I can do my painting here. Plus, my schoolmate that I have known for 28 years is here down the hall.

—Alice L. Garrymore, DC resident



AFRH Strategic Goals & Objectives

| | | |
|------------|---|---|
| Initiative | Goal 1: | FINANCIAL: Create financial net growth and stability for the trust fund. |
| | Objective F1: | Increase revenue resulting in a net increase |
| | Objective F2: | Reduction of costs resulting in a net increase |
| F2.2 | Improve financial performance | |
| | Goal 2: | CUSTOMER: Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives. |
| | Objective C1: | Increase customer satisfaction through superior execution of the mission |
| | Objective C2: | Increase resident retention and outreach through positive public relations |
| | Objective C3: | Assess transitions between levels of care |
| C1.1 | Respond to resident needs in a timely and effective manner | |
| C1.2 | Provide top quality services to residents | |
| | Goal 3: | INTERNAL BUSINESS PROCESSES: Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization |
| | Objective IBP1: | Increase effectiveness and efficiency of service delivery to our residents |
| | Objective IBP2: | Increase timeliness and satisfaction with internal communications |
| IBP2.1 | Enhance communications to improve teamwork among employees and measure its efficiency and effectiveness | |
| IBP2.2 | Enhance communications to improve teamwork between residents and employees and measure its efficiency and effectiveness | |
| | Goal 4: | LEARNING & GROWTH: Promote professional development and personal excellence for all personnel. |
| | Objective LG1: | Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA, JCAHO and Agency requirements |
| | Objective LG2: | Inform key AFRH stakeholders of value added programs and initiatives |
| LG1.1 | Display linkage between results and performance appraisals | |
| LG1.2 | Establish measurable, results-oriented training programs | |
| | Goal 5: | CULTURE: Foster a commitment to service and quality in an environment of mutual respect and integrity. |
| | Objective CL1: | Increase teamwork and cooperation among AFRH employees and residents |
| | Objective CL2: | Maintain an accurate cross-campus health and wellness model |
| | Objective CL3: | Attract, develop, and maintain a high-performing workforce |
| CL1.2 | Promote activities between employees and residents | |
| CL3 1 | Expect reward and recognize great individual and team performance | |



U.S.N.S. GENERAL Wm. O. DARBY (T-AP 127)

Official Launch of Performance Standards

In early 2005, a pilot program was initiated to firmly connect each employee’s performance standards with the Home’s performance goals and objectives on the previous page. Those applicable objectives were firmly linked to the

AFRH generic standards (below) in a rating section on each employee’s individual appraisal form. As such, all staff members were rated on these generic standards:

| | |
|--|---|
| <p>1. COMPLIANCE</p> | <p>Generally supports AFRH initiatives C1.2 and LG1.2 by providing quality services in accordance with guidance and rules and by actively participating in required training.</p> |
| <p>2. IMPROVEMENT</p> | <p>Generally supports AFRH initiatives C1.2, IBP2.1, CL1.2 and CL3.1 by improving teamwork among employees and by promoting activities between employees and residents.</p> |
| <p>3. RESPONSE</p> | <p>Generally supports AFRH initiatives C1.1 and IBP 2.2 by responding to resident needs in a timely and effective manner and by enhancing communications to improve teamwork between residents and employees.</p> |
| <p>4. EFFICIENCY</p> | <p>Generally supports AFRH initiatives F2.2 and LG1.1 by improving financial performance and by displaying the link between performance and results.</p> |
| <p>5. MANAGEMENT [for supervisory positions only]</p> | <p>Generally supports AFRH initiatives LG1.1, LG1.2, and CL3.1 by displaying the link between performance and results, by actively providing and maintaining employees’ required training and by expecting, rewarding, and recognizing great individual and team performance.</p> |

SUMMARY:

Preliminary results were available in September 2005 and most staff appraisals followed these guidance standards. In fact, the Inspector General cited Performance Management as a positive AFRH management initiative.

Changes

Given that two natural disasters hit both campuses, all existing plans have been altered. Currently, a preliminary assessment of the direction AFRH will follow is being explored with leadership at the Office of the Secretary of Defense (OSD).

“I caught Cheryl Benton at her best!

August 1st, 2005 – Gulfport

Cheryl is by far the best dental hygienist I have ever seen. She always does a fabulous job. She shows concern – and gives excellent advice to help keep my teeth and gums healthy!”



Mary Kay Gominger serves it up right, the day after Katrina.

“Catch Me at My Best”

An innovative program was launched so residents could provide positive comments to staff members who gave them special service or help. This program was named, “Catch Me at My Best” (while I am doing something good). Mary Kay Gominger, Public Affairs Specialist at the Gulfport campus (above), first introduced this program in the summer of FY 2005.

To promote the initiative, all residents were given a form and are free to recognize staff or simply give positive feedback. We believe this program gives our residents another way to express themselves or say thank you for special care. In turn, the noteworthy efforts of staff members are being recognized and praised by AFRH management.

“I caught Jasper Rhodes at his best!

August 15, 2005 – Gulfport

Jasper wasn't just kind to me on any “one” occasion. He has been friendly and helpful every time I've seen him since I checked in 15 months ago. He just seems to be this way to EVERYONE!”

The *goals* to thrive

STRATEGIC GOAL 1: FINANCIAL

Create Financial Net Growth and Stability for the Trust Fund.

We are driven to provide the best services and facilities to our residents. This is only possible through vigilant, widespread efforts to increase revenue and reduce costs. Similarly, our fiduciary responsibility and financial accountability helps maximize our available resources – further ensuring the best interests of our residents and key stakeholders. Yet, the key component of the

Home’s basic financial strategy is to realize significant net growth in the Trust Fund – so that we may continue to raise our high standards to even greater heights.

RESULTS AND IMPROVEMENTS:

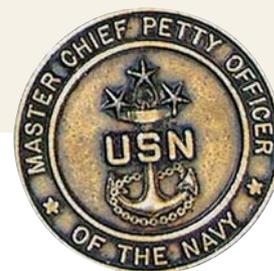
As you can see in the comparisons below, most areas show improvement in the overall status. In fact, certain areas showed remarkable progress, stretching the agency to “reach green” in its outcomes.



AFRH Performance Objectives

| Objective F1 Increase revenue resulting in a net increase | Gulfport | | | | Washington | | | |
|---|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| F1.1 Maximize and retain resident occupancy | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| F1.2 Reduce square footage requirements and identify potential leasing opportunities or more efficient use of space | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective F2 Reduce costs resulting in a net increase | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| F2.1 Execute post competition accountability for streamlined and standard competitions per OMB Circular No. A-76 | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.2 Improve financial performance | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.3 Institutionalize a focused maintenance approach | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.4 Establish an effective energy conservation program with metrics and proven results | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.5 Execute a comprehensive insurance coverage program and electronic fund transfer for our residents with metrics and proven results | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |



Increasing Revenue

This objective involves two main initiatives: increasing admissions to achieve resident capacity at each campus and leasing unused space. In the summer of FY 2005, admissions at Gulfport were at an all-time high with a waiting list. In Washington, the resident numbers had dipped to under 1000, from a previous high of more than 1200. So, we spearheaded new initiatives to boost admissions. We consolidated all admissions for both campuses and then launched a brand new marketing campaign.

Our efforts began to show results, such as reduced infrastructure. Likewise, open property and buildings were identified as candidates for financial resources. Altogether, the objectives of the AFRH Master Plan alternatives are:

- *To preserve and improve the Home for the residents and the community*
- *To provide sufficient revenue that supports our goal of resident-focused care*
- *To replenish the partially depleted Trust Fund*
- *To grow the Trust Fund so it meets the needs of today's residents and tomorrow's war heroes*
- *To attract development at fair market value that is compatible with our mission and*
- *To ensure an open, participatory process with residents and the community at large*

Reducing Costs

Our focus has been in several key areas – including energy, competitive sourcing of support services, resident health insurance premiums and manager financial performance. First off, substantial energy savings were realized on the Washington campus by closing underutilized and vacant buildings. Also, an evaluation of our steam systems was conducted in February 2005 and this prompted further energy cuts. Our overall energy costs were reduced – but the rising price of utilities has undercut those savings. Meanwhile, added savings were realized in our competitive sourcing contracts – yet modifications to our transportation contracts caused overall costs to rise. Finally, unexpected costs were incurred when large-scale natural disasters hit both the Gulfport and Washington campuses in the summer of 2005.

LACK OF PROGRESS:

Overall costs increased in FY 2005. In short, rising utility costs undercut the proposed savings that we envisioned. Furthermore, progress in resident admissions was slow in Washington. No new income was generated in FY 2005 from the Master Plan.



“We made a commitment to our residents and we never looked back. We could only look forward to getting to DC.”

– Rachel Hatten, Dining Service Administrator.



STRATEGIC GOAL 2: CUSTOMER

Deliver Exceptional Service and Programs in an Environment that Attracts Residents and Enriches Their Lives.

Our first and foremost responsibility is to ensure the satisfaction and well-being of our residents. At the same time, we also place high importance on the satisfaction of our service partners and key stakeholders. To create higher levels of overall customer satisfaction, we will continue positive public relations. Plus, we will maintain a strategic approach to providing quality service while responding to the needs of our customers.

RESULTS AND IMPROVEMENTS:

Performance Management Plan

Each employee received our new performance standards in January 2005. Page two of the form includes the Vision, Mission and Generic Goals of the Home. Page three lists the Generic Standards based on the strategic performance outcomes for which every employee is responsible. All employees must be appraised on those Generic Standards – which include high expectations in customer service responsiveness and resident-focused performance.

Community and Outreach Programs

On both of our campuses, we extended the number and variety of programs for residents to interact with the community. These new programs help create value for society. Plus, they boost social interaction and brighten the lives of our residents. All of which ties in directly with our corporate Mission.

In Gulfport, these community and military programs involved Keesler Air Force Base, the Naval Construction Battalion (Seabees), Coast Guard, Army, Marine Corps, Air National Guard, Stennis Space Center, William Carey College, the Girl Scouts, Boy Scouts, Gulf Coast Senior Games, the National Barbershop Quartet Federation, local recreation departments and more. Ongoing events included VA Medical Center therapeutic swimming trips, free resident tax services by AARP and Pet Partners to name a few.

In Washington, we focused on partnering with local elementary and high schools, plus City, County and private agencies. We also found a variety of educational opportunities for our residents through

| Objective C1 Increase customer satisfaction through superior execution of the mission | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| C1.1 Respond to resident needs in a timely and effective manner | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| C1.2 Provide top quality services to residents | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective C2 Increase resident retention and outreach through positive public relations | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| C2.1 Enhance and expand resident outreach (community) programs | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| C2.2 Establish and conduct semiannual programs with the community | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective C3 Assess transitions between levels of care | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| C3.1 Standardize and improve levels of care for residents through assessment of health and wellness | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

swimming, cultural, theatrical, social and mentoring events. Our residents got involved with military bands and choirs, the new basketball program at Catholic University and exchanges with Walter Reed Military Hospital. We partnered with Veterans of Foreign Wars (VFW) and the American Legion. Plus, we created an inter-generational bowling program. Altogether, these programs created a very positive experience for both residents and the community at large.

Setbacks from Hurricane Katrina

When the storm struck the Gulfport campus on August 29, it altered our operations and halted all community involvement among residents. We are pleased to report that the community, in turn, gave back plenty of

support and assistance in helping the Home through this very traumatic event.

LACK OF PROGRESS:

Currently, all community outreach programs in Gulfport are suspended due to the damage from Hurricane Katrina and the subsequent evacuation. Having the displaced Gulfport residents in Washington means we must step up efforts here for additional community outreach. By helping our new residents integrate with the Washington community, we can give their lives an even stronger purpose and meaning. To support our residents in this transition, we also plan to relocate certain Gulfport staff to the Washington campus.

STRATEGIC GOAL 3: IMPROVED BUSINESS PROCESSES

Design and Sustain Effective Internal Operations that Maximize and Leverage Resources Across the Organization.

Providing quality services and facilities to America's Veterans is our top priority. One major way to achieve this is to maintain

efficient internal business processes. Therefore, we continually evaluate and improve upon our processes to effectively manage resources, facilitate communication and promote team operations.

| Objective IBP1 Increase effectiveness and efficiency of service to our residents | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| IBP1.1 Provide healthcare more effectively and efficiently | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| IBP1.2 Provide more efficient and cost effective medication administration and delivery | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| IBP1.3 Standardize and improve room repair process with metrics and proven results | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| IBP1.4 Establish effective property accountability | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| IBP1.5 Establish a process for resident care during construction | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective IBP2 Increase timeliness and satisfaction with internal communications | Gulfport | | | | Washington | | | |
|---|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| IBP2.1 Enhance communications to improve teamwork among employees and measure its efficiency and effectiveness | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| IBP2.2 Enhance communications to improve teamwork between residents and employees and measure its efficiency and effectiveness | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

Results and Improvements:

We spearheaded a new process to protect residents during many facility improvements. In Washington, extensive planned renovations were completed in 2005 for a new Dental Clinic, an Optometry Clinic and a new Community Health unit. Also, the Pipes Building was mothballed in anticipation of being leased under the Master Plan. In Gulfport, plans were underway to construct new space for Assisted Living. Throughout all renovations, carefully executed plans were made to ensure minimum

disruption of residents' living space and lifestyle. These plans in Washington were successfully carried out to the satisfaction of everyone, whereas in Gulfport, our plans are now on hold.

Lack of Progress:

The inability to measure communication for the effectiveness of our plans was evident throughout FY 2005. A review of the action plans in this area is required.

STRATEGIC GOAL 4: LEARNING AND GROWTH

Promote Professional Development and Personal Excellence for All Staff.

The Home prides itself on professional development and excellence for all staff members. We achieve this through continual learning, skills refinement, competency building, proficiency development and growth programs for the entire community. We encourage staff to regularly improve and expand their skills – and gain from the experience of serving our family of residents.

RESULTS AND IMPROVEMENTS:

The Joint Commission Accreditation of Healthcare Organizations (JCAHO) is an independent, not-for-profit organization. It was established more than 50 years ago to set the standards by which health care quality is measured, globally. To earn and maintain accreditation, we must have an extensive, on-site review by a team of JCAHO professionals at least once every

three years. The purpose of the review is to evaluate performance in areas that affect resident care. In March 2005, AFRH-Gulfport underwent a thorough review – and received JCAHO's Gold Seal of Approval™. This award is only given to organizations that meet the Commission's highest standards. What's more, two unannounced, on-the-spot surveys were conducted in June and July in both Gulfport and Washington. Both surveys demonstrated that the Home is in full compliance with JCAHO.

Linkage Between Performance and Results

The pilot program for performance standards was an excellent start for the Home's efforts to incorporate new concepts of human capital management. Many lessons were learned from the pilot program – and our experience here will help improve our system before it is fully implemented in FY 2006.

| Objective LG1 Provide an in-depth employee training program tied to performance, competencies and accountability compliance with OSHA, JCAHO and Agency requirements | Gulfport | | | | Washington | | | |
|---|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| LG1.1 Display linkage between results and performance appraisals | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| LG1.2 Establish measurable, results oriented training programs | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective LG2 Inform key AFRH stakeholders of value added programs and initiatives | Gulfport | | | | Washington | | | |
|---|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| LG2.1 Develop and execute an initiative annually | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| LG2.2 Submit to the Agency annual articles for publication in various sources | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

Key Stakeholders.

The flow of information to key AFRH stakeholders through publications and involvement in activities was a major performance outcome. Both campuses easily exceeded the minimum requirements for one initiative and one article for publication. Numerous activities and articles appeared to publicize campus activities.

LACK OF PROGRESS:

Training programs were sufficient to retain accreditations and pass IG inspections. Yet, our managers must develop more in-depth and specific training requirements in the future. This will ensure that the AFRH remains the premier retirement home for Veterans.



STRATEGIC GOAL 5: CULTURE

Foster a Commitment to Service and Quality in an Environment of Mutual Respect and Integrity.

Our Home's corporate culture must reflect the core values of service, quality, mutual respect and integrity. To this end, the

AFRH promotes and maintains a philosophy of serving its Veterans with unswerving dedication and pride.

| Objective CL1 Increase teamwork and cooperation among AFRH employees and residents | Gulfport | | | | Washington | | | |
|---|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| CL1.1 Improve resident health and wellness through promoting activities and involvement of volunteers | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| CL1.2 Promote activities between employees and residents | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective CL2 Maintain an accurate cross-campus health and wellness model | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| CL2.1 See C3.1 for action plan | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

| Objective CL3 Attract, develop, and maintain a high-performing workforce | Gulfport | | | | Washington | | | |
|--|----------|------|--------|------|------------|------|--------|------|
| | Progress | | Status | | Progress | | Status | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| CL3.1 Expect, reward, and recognize great individual and team performance | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

RESULTS AND IMPROVEMENTS:

Performance-Based Management

A thorough Plan was developed and implemented during FY 2005. Following “best practices,” our Plan linked our corporate strategic goals with employee performance standards. A pilot trial of the new system was launched in January and preliminary results were reported in July. We are pleased to report that the Air Force Inspector General recognized our Plan for its quality. Lessons learned were assessed for a complete rollout in the coming fiscal year. And rewards for outstanding performance will be forthcoming in early FY 2006.

Resident Volunteerism

Both campuses have been extremely successful with their resident volunteer programs. In fact, the goals set for each campus have been exceeded. Our Veterans got involved with a variety of organizations, including churches, schools and the military. With dynamic volunteer coordinators on each campus, our tireless residents have logged countless hours – creating an active and vivacious community.

In Gulfport, the Volunteer Coordinator developed descriptions for the following positions: Auto Hobby Shop Attende, Bike Shop Attende, Bingo Coordinator, Golf Green Coordinator, Grounds Keeper, Information & Referral Specialist, Lifeguard,

Mail Room Assistants, Meal Monitor, Ombudsman, Public Affairs Coordinator, Recycling Assistant, Spiro’s Monitor, Swimming Pool Attendant, and Wood Shop Assistant. Furthermore, our Volunteer Coordinators developed Program Instructions for all volunteers, in conjunction with the Directors of Resident Services.

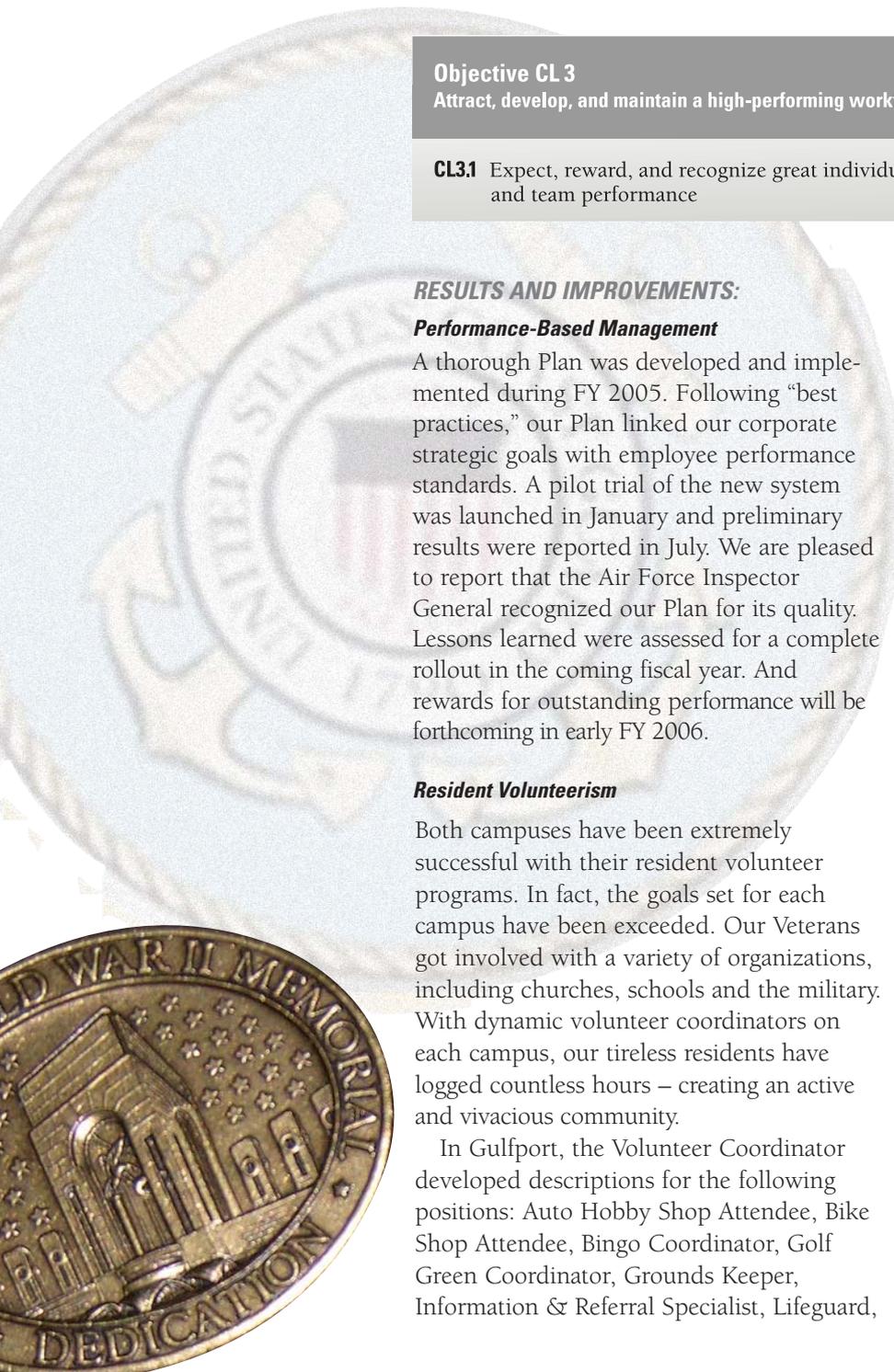
Throughout the year, our residents gave talks to local groups, manned a clothing store, produced craft exhibits and partnered with Walter Reed Hospital and the VA Hospital. In turn, many volunteers from outside community groups, military organizations and religious groups came to AFRH to help our residents in a variety of ways. In April 2005, our community service program culminated with the “Volunteer Celebration Week” in Washington – an enjoyable 5-day event that honored our generous resident volunteers.

Activities Between Residents and Employees

Our goals have been met and exceeded for both campuses, thanks to the fine planning efforts of our Volunteer Coordinators.

LACK OF PROGRESS:

Most performance objectives were addressed. However, we believe a more direct link to individual performance standards will enhance the overall effectiveness of our program.





The Aftermath of Katrina

| Goal | Progress Before the Hurricane | Aftermath of Hurricane Katrina |
|------------------------------------|---|---|
| Financial | To increase revenue, we focused on increasing admissions at both campuses and leasing property through the AFRH Master Plan. Both efforts saw steady progress in FY 2005. Another focus was to reduce costs via energy savings and contracts, which was proving to be successful. | Admissions procedures will be revised in FY 2006 due to the closure of Gulfport. Extra expenditures in facilities maintenance, transportation, support services and healthcare are being compiled in order to bolster services on the DC campus. Plans to reopen Gulfport will garner much attention in FY 2006. |
| Customer | Generic Standards regarding customer service and resident-focused activities were tested through a pilot program. | Many of our residents have been moved to new buildings. Social workers have been hired to assist with the adjustments and to evaluate resident needs. The trauma of the evacuation is yet to be measured in terms of the health effects on residents. |
| Internal Business Processes | Well-executed processes were followed during renovations at the DC campus. The goal was to maintain exceptional care of residents through final construction. Meanwhile, plans to enlarge the Assisted Living area were being mapped out for Gulfport. | The Pipes Building in DC was mothballed in anticipation of being leased through the AFHR Master Plan. But it was reopened within 72 hours after the storm to house over 100 independent living residents evacuated from the Gulfport campus (which is no longer accessible to residents until further notice). All services and processes in DC must be adjusted to accommodate the increase in new residents. |
| Learning and Growth | Maintaining compliance and being highly trained to meet expectations were top priorities. Good progress was being made. And keeping stakeholders informed and involved was moving at a slow, but steady pace. | The public support of AFRH has been tremendous since the evacuation in Gulfport. News reports of the “lucky” ones who were evacuated 24 hours after the storm have garnered steadfast support. The website and toll-free hotlines kept information flowing during the most tenuous hours of resident transfer to DC. Most residents took but one suitcase of belongings to DC. Others brought nothing but the clothes on their backs. All personal items left behind are being guarded in Gulfport. Donations of clothes and personal items have flowed in so fast that a “Mini-Mall” was created - and Warehouse 77 was reopened to store the goods. Phone cards proved to be a valuable donation — enabling our evacuees to contact family and friends. |
| Culture | Teamwork between the staff and residents was progressing through our very successful volunteer programs. And the performance management pilot initiated the link between strategic goals and individual performances. | Cooperation between staff and residents was tested throughout this ordeal. Our staff went beyond their duty to help residents – and relations were cemented. Also, residents from both campuses rallied together when 200+ volunteers came out to help. The Performance management program and awards were put on low priority as urgent needs took priority (but they will continue in FY 2006). |

“
I have no problems
with anything here.
It’s a safe place,
I have a nice bed,
it’s quiet and dinner’s
always there. I know
almost everyone
here, too.”

—Henry T. Lindley,
Gulfport and DC resident

Progress Charts

A swift change to our strategy has been mandated, due to the extensive impact of Hurricane Katrina. The columns on the left show the progress being made in FY 2005 before the storm. The columns on the right reveal that all Gulfport's initiatives are Off

Track - and all of Washington's initiatives have Barriers and Issues, due to the aftermath of Katrina. In order to fulfill our mission, all barriers and issues must be resolved as quickly as possible.

| Key Actions | August 2005 | | | | September 2005 | |
|---|-------------------|-----------------|---------------------|-------------------|-----------------|-------------------|
| | Gulfport Progress | Gulfport Status | Washington Progress | Washington Status | Gulfport Status | Washington Status |
| Overall | 93% | 44% | 67% | 3.5% | 100% | 100% |
| Financial Create financial net growth and stability for the trust fund | | | | | | |
| F1 Increase revenue resulting in a net increase. | | | | | | |
| F1.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| F1.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| F2 Reduce costs resulting in a net increase | | | | | | |
| F2.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.3 | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.4 | ■ | ■ | ■ | ■ | ■ | ■ |
| F2.5 | ■ | ■ | ■ | ■ | ■ | ■ |
| Customer Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives | | | | | | |
| C1 Increase customer satisfaction through superior execution of the mission. | | | | | | |
| C1.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| C1.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| C2 Increase resident retention and outreach through positive public relations | | | | | | |
| C2.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| C2.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| C3 Assess transitions between levels of care | | | | | | |
| C3.1 | ■ | ■ | ■ | ■ | ■ | ■ |

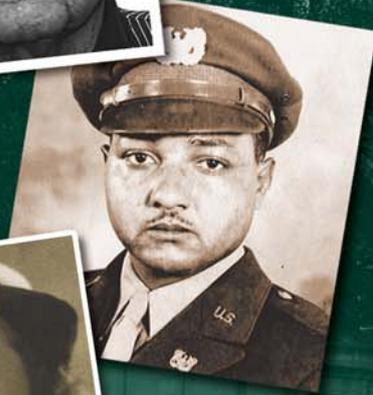
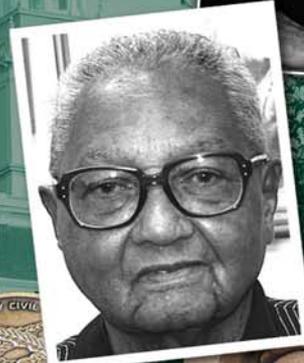
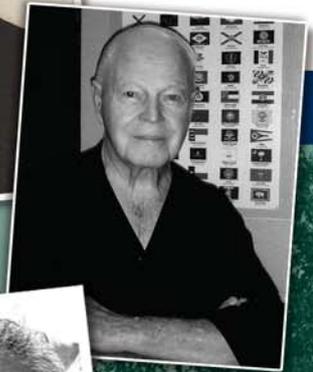
■ The initiative is on track. ■ The initiative has barriers and/or issues. ■ The initiative is off track.

| | | | | | | |
|---|---|---|---|---|---|---|
| Internal Business Processes Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization | | | | | | |
| IB1 Increase effectiveness and efficiency of service delivery to our residents | | | | | | |
| IB1.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| IB1.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| IB1.3 | ■ | ■ | ■ | ■ | ■ | ■ |
| IB1.4 | ■ | ■ | ■ | ■ | ■ | ■ |
| IB1.5 | ■ | ■ | ■ | ■ | ■ | ■ |
| IB2 Increase timeliness and satisfaction with internal communications | | | | | | |
| IB2.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| IB2.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| Learning and Growth Promote professional development and personal excellence for all personnel | | | | | | |
| LG1 Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA, JCAHO, and Agency requirements | | | | | | |
| LG1.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| LG1.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| LG2 Inform key AFRH stakeholders of value added programs and initiatives | | | | | | |
| LG2.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| LG2.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| Culture Foster a commitment to service and quality and an environment of mutual respect and integrity | | | | | | |
| CL1 Increase teamwork and cooperation among employees and residents | | | | | | |
| CL1.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| CL1.2 | ■ | ■ | ■ | ■ | ■ | ■ |
| CL2 Maintain an accurate cross-campus health and wellness model | | | | | | |
| CL2.1 | ■ | ■ | ■ | ■ | ■ | ■ |
| CL3 Attract, develop, and maintain a high-performing workforce | | | | | | |
| CL2.2 | ■ | ■ | ■ | ■ | ■ | ■ |



The *Perseverance* to protect

2005 Financial Section



The *Vitality* to rebound



I am very pleased to present the AFRH financial statements in this PAR for FY 2005. Our report to the President and the American people indicates our stewardship of the public funds to which we have been entrusted. Like our resilient Veterans, the Home itself has rebounded. Overall, the AFRH Trust Fund experienced positive growth for the second consecutive year. This positive upward climb marks a new trend that has not been displayed in over a decade.

AFRH received an unqualified opinion on our FY 2005 financial statements. This demonstrates that the significant changes we have undertaken since 2002 to improve accountability have worked. In partnership with Bureau of Public Debt (BPD) in the Department of Treasury, AFRH is complying with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) – which are discussed in the Management's Discussion and Analysis Section. A special thanks goes to our financial partners at the BPD, who made this unqualified opinion possible.

Hurricane Katrina's strike to the Gulf Coast set in motion the exodus of long-time residents and staff of the Home in Gulfport, Mississippi. The effects of this storm have only begun to be realized. For the past few years, we have been working towards the "One Model" of operation with mirror

image management and services on our two campuses in Gulfport and Washington. Successful changes to our business practices in the past pushed the staff to continuously modify and adapt their day-to-day activities. Then, the storm of the century, Hurricane Katrina, overwhelmed us and forced us to combine residents and staff into one campus in Washington in the final month of FY 2005.

I am proud to acknowledge that our staff fulfilled their part as we strived to meet our strategic goals and objectives – as required by the Government Performance and Results Act (GPRA). We are now poised to continue this good work. Our ultimate plan is to return to Gulfport, yet the new temporary configuration in DC is challenging and thought provoking. We must take a strategic pause and reshape the AFRH Business Plan for FY 2006. All our strategic goals and objectives are affected and must be considered in light of our new circumstances. Rework of our strategy, along with our continued focus on process improvement will continue in FY 2006. Our plan remains to establish Management Boards and assemble teams for continued process improvement and compliance.

In the aftermath of Katrina, we took stock in our great fortune: no life was lost. For this, many thanks are in order. As the former Interim Director of AFRH-Gulfport and a participant in the evacuation, I was witness

“
Like our resilient Veterans, the Home itself has rebounded ... This positive upward climb marks a new trend that has not been displayed in over a decade.”

— Steven McManus, CFO

2005 FINANCIAL SECTION

The principal Financial Statements have been carefully prepared to report the financial position and operational results of the Home. These Statements should be read with an understanding that they are for a component of the US Government, a sovereign entity.

The AFRH financial management activities in FY 2005 – including purchasing, payments, accounting, budget and travel services – were administered by BPD. Our payroll and time/attendance data entry transactions were processed by the Department of Agriculture's (USDA's) National Finance Center (NFC).

to the professionalism and hard work of our Gulfport staff. They performed flawlessly according to our emergency plans. The safe movement of our residents is a tribute to their dedication. Further, the rapid response by our Washington staff was equally impressive. We salute them for opening a mothballed building within the week to receive new occupants ... for sponsoring a hearty welcome for the displaced Veterans ... for recruiting on- and off-campus volunteers who helped so effectively ... and for maintaining and expanding operations with such dedication and resolve.

I want to extend a special thanks to the tough and talented Seabees (Navy Construction Battalion) for their unwavering support in Gulfport prior, during and after Katrina. With their help, we were able to prepare for the storm by installing plywood over windows and nailing down loose objects. During the storm, they also quickly moved handicapped residents away from rising waters. Likewise, after the storm they helped clean up debris and guard our campus. In the end, our success was greatly enhanced by their dedication and hard work.

The contract support that AFRH received from the BPD during the evacuation of Gulfport after Katrina is a model for public-to-public competitive sourcing. Starting with our limited connections via cell phone just after the hurricane, BPD acted

swiftly and decisively to assess our needs. With amazing efficiency, they procured dozens of requests – from charter buses, water and food – to pillows, blankets, and supplies. Thanks to BPD, our residents were out of harm's way within a day after the storm. Truly, the Home is proud to reaffirm their reputation as one of the best customer-service providers in the Federal Government.

FY 2005 was a complex year of reviews, inspections and audits ... as well as natural disasters, challenges and emotions. And we fared very well during all of them. In the wake of the storms, we look forward in FY 2006 to bring many new challenges. As always, we will look to improve our performance as we march with confidence toward our goals and objectives.



Steven G. McManus
Chief Financial Officer
Armed Forces Retirement Home
November 15, 2005

The Financial statements in this section include all required Notes plus the following:

- *Trust Fund Balance Sheet*
- *Statement of Net Cost*
- *Statement of Changes in Net Position*
- *Statement of Budgetary Resource*
- *Statement of Financing*
- *Supplementary Stewardship Reporting*

These operations were administered under cross-servicing agreements with the Departments of Treasury and Agriculture. The AFRH relies on information received from BPD and NFC (plus audits and other reviews) in order to execute its management control.



The *Foresight* to Plan

Our Grand Campus

For nearly a decade now, the Washington, DC Metropolitan Region has been one of the most fastest-growing and thriving economies in the US. The Home sits on a 272-acre site, nestled in the heart of the Nation's Capital – in the desirable Northwest portion of DC. As we look to the future, we must capitalize off this tremendous resource – and take advantage of unused or underutilized real estate.

Our Grand Plan

Currently, our campus is developed with more than 100 buildings and ancillary structures designated in the National Landmark District. AFRH has been developing a Master Plan for this campus to lead us into the future. This Plan will help generate much needed revenues and ensure the vitality of our Home for generations to come. So that we may continue to protect The Promise to care for our Veterans.

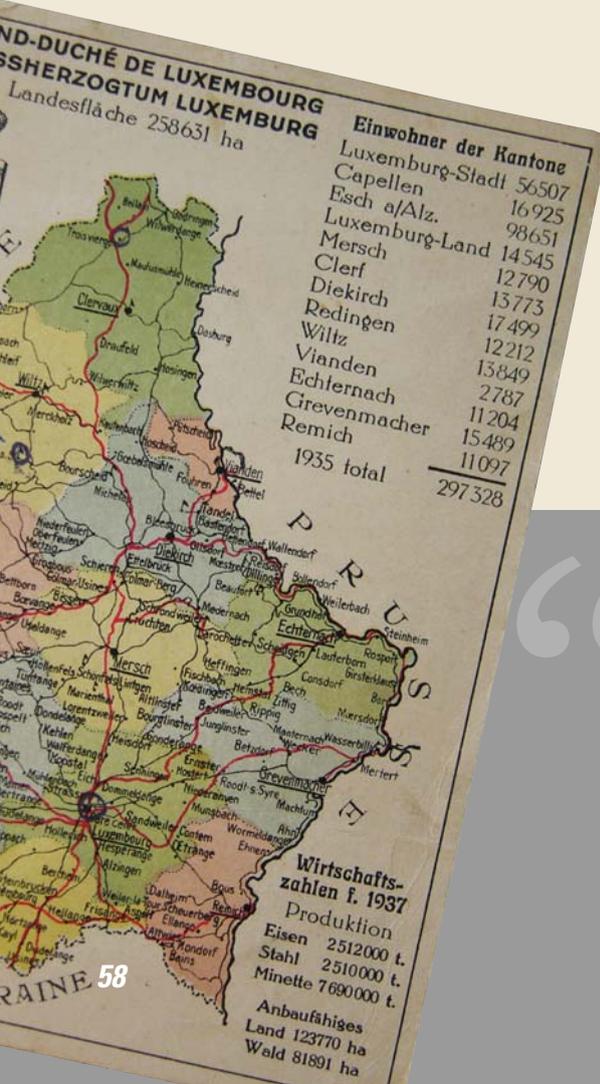
Our Alternatives

The Home will soon prepare a range of alternatives for future development on the AFRH campus as we finalize our Master Plan. We will also analyze the various impacts of those alternatives – to our residents as well as our bottom line.

As required by National Environmental Policy Act of 1969 (commonly referred to as NEPA) the Home will analyze alternative development scenarios. These are referred to as “proposed actions” in NEPA, whereas an alternative with no new development is referred to as the “no-action alternative.”

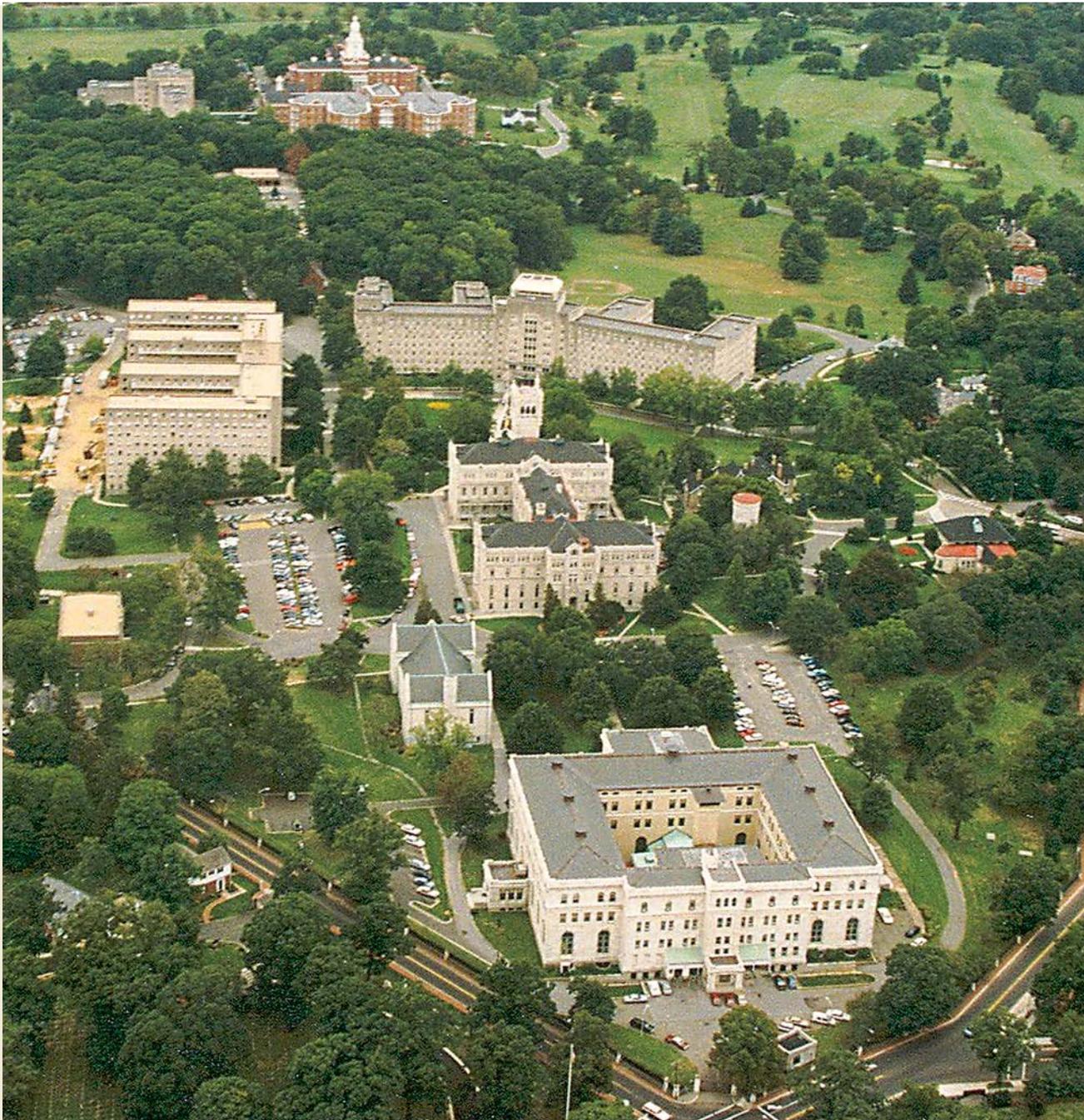
Our Considerations

Potential development on our expansive campus includes AFRH Facilities, Offices, Residential Quarters, Research and Development Facilities, Medical Related Services, Foreign Missions, Educational Institutions, Cultural Organizations, as well as Institutional and Ancillary Retail Shops. Once we meet with all related community groups and finalize our investors, we will make the most prudent decisions and move forward.



“Here, you get a room, a bed, 3 meals a day, a fitness center, bowling alley, huge library, computers for internet and games, primary care doctors plus trips, movies and base exchange! Everything you could want.”

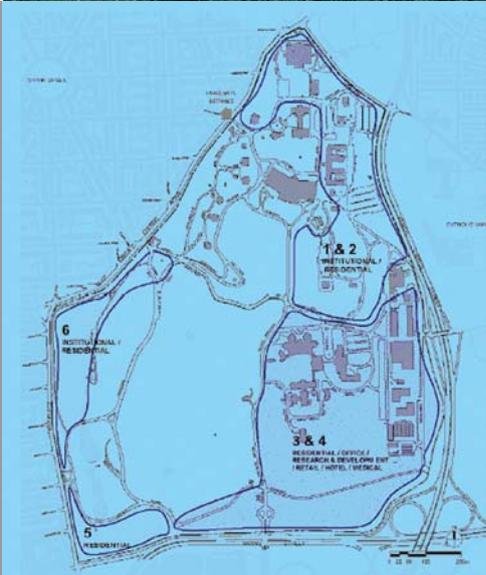
—Philip Cardinalis, DC resident (and Newcomers Volunteer)



“

I've been here five years. This is my security. I lost my wife and my daughter, so now this is my home.”

—Charles E. Recla,
DC resident
(Navy, Marines, Army -
retired 1972)



National Historic Preservation Act - Section 106

Section 106 of the National Historic Preservation Act of 1966 requires that Federal agencies take into account the effects of their actions on any district, site, building, structure, or object listed or eligible for inclusion in the National Register of Historic Places. AFRH, in consultation with the District of Columbia Historic Preservation Office, the Advisory Council on Historic Preservation, the National Park Service, and consulting parties, is preparing a Programmatic Agreement to determine how to protect historic resources and mitigate the impacts from the proposed Master Plan development.





BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated balance sheet of the U.S. Armed Forces Retirement Home (AFRH) as of September 30, 2005, and the related consolidated statements of net cost, and changes in net position and of financing and the combined statement of budgetary resources for the year then ended. These financial statements are the responsibility of AFRH's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of AFRH as of September 30, 2004, were unaudited.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined statements referred to above present fairly, in all material respects, the financial position of AFRH as of September 30, 2005, and the results of its net costs of operations, changes in its net position, budgetary resources and financing for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2005 on our consideration of AFRH's internal control over financial reporting and a report dated October 28, 2005 on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of information. However, we did not audit this information and, accordingly, we express no opinion on it.

Largo, Maryland
October 28, 2005

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

INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the financial statements of the U.S. Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2005 and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered AFRH's internal control over financial reporting by obtaining an understanding of 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. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect AFRH's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 material weaknesses as defined above.

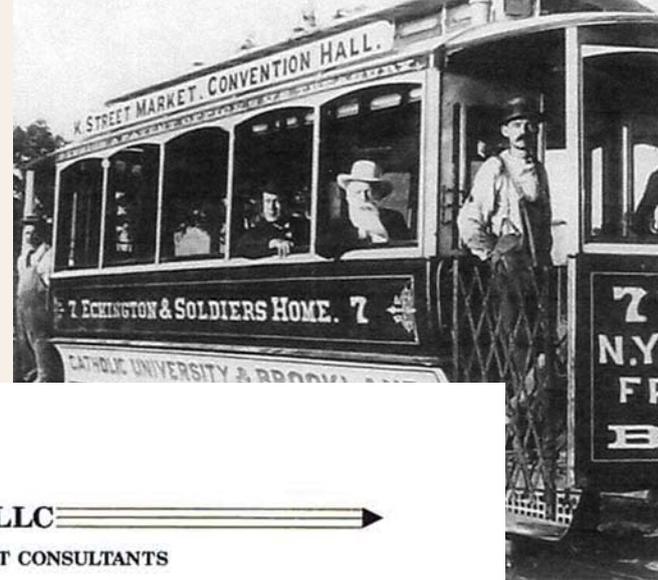
This report is intended solely for the information and use of the management of the U.S. Armed Forces Retirement Home, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
October 28, 2005

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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

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

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

We have audited the financial statements of the U.S. Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of AFRH is responsible for complying with laws and regulations applicable to AFRH. As part of obtaining reasonable assurance about whether 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.

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 U.S. Armed Forces Retirement Home, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
October 28, 2005

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Armed Forces Retirement Home Consolidated Balance Sheet
as of September 30, 2005 and 2004 (In Dollars)

| | 2005 | Unaudited 2004 |
|---|-----------------------|-----------------------|
| Assets: | | |
| Intragovernmental: | | |
| Fund balance with Treasury (Note 2) | \$ 6,523,911 | \$ 6,741,059 |
| Investments (Note 3) | 124,841,901 | 114,815,789 |
| Accounts receivable, net | 3,168,942 | 1,850,099 |
| Total intragovernmental | \$ 134,534,754 | \$ 123,406,947 |
| Accounts receivable, net | \$ 760,959 | \$ 160,413 |
| General property, plant and equipment, net (Note 4) | 77,871,110 | 86,902,106 |
| Total assets | \$ 213,166,823 | \$ 210,469,466 |
| Liabilities: | | |
| Intragovernmental | | |
| Other (Note 5) | \$ 2,088,914 | \$ 1,848,312 |
| Total intragovernmental | \$ 2,088,914 | \$ 1,848,312 |
| Accounts payable (Note 5) | \$ 1,348,501 | \$ 1,324,554 |
| Other (Note 5) | 4,394,856 | 3,770,864 |
| Total liabilities | \$ 7,832,271 | \$ 6,943,730 |
| Net Position: | | |
| Cumulative results of operations | \$ 205,334,552 | \$ 203,525,736 |
| Total net position | \$ 205,334,552 | \$ 203,525,736 |
| Total liabilities and net position | \$ 213,166,823 | \$ 210,469,466 |

The accompanying notes are an integral part of these statements.

Armed Forces Retirement Home Consolidated Statement of Net Cost
for the years ended September 30, 2005 and 2004 (In Dollars)

| | 2005 | Unaudited 2004 |
|--|----------------------|----------------------|
| Program Costs: | | |
| Intragovernmental gross costs | \$ 14,544,577 | \$ 8,074,660 |
| Less: Intragovernmental earned revenue | (4,026,112) | (3,875,287) |
| Intragovernmental net costs | \$ 10,518,465 | \$ 4,199,373 |
| Gross costs with the public | \$ 58,167,905 | \$ 68,984,361 |
| Less: Earned revenues from the public | (13,928,789) | (35,022,186) |
| Net costs with the public | \$ 44,239,116 | \$ 33,962,175 |
| Total net cost | \$ 54,757,581 | \$ 38,161,548 |
| Net Cost of Operations | \$ 54,757,581 | \$ 38,161,548 |

The accompanying notes are an integral part of these statements.

**Armed Forces Retirement Home Consolidated Statement of Changes in Net Position
for the years ended September 30, 2005 and 2004 (In Dollars)**

| | Unaudited | |
|---|-------------------------------------|-------------------------------------|
| | 2005 | 2004 |
| | Cumulative Results of Operations | Cumulative Results of Operations |
| Beginning Balances | \$ 203,525,736 | \$ 188,165,867 |
| Prior period adjustments | - | - |
| Beginning balances, as adjusted | \$ 203,525,736 | \$ 188,165,867 |
| Budgetary Financing Sources | | |
| Nonexchange revenue | 48,228,592 | 50,145,519 |
| Donations and forfeitures of cash and cash equivalents | 1,006,078 | 953,073 |
| Transfers-in/out without reimbursement | 5,200,000 | - |
| Other Financing Sources: | | |
| Imputed financing from costs absorbed by others | 2,131,727 | 2,422,825 |
| Total Financing Sources | \$ 56,566,397 | \$ 53,521,417 |
| Net Cost of Operations | 54,757,581 | 38,161,548 |
| Ending Balances | \$ 205,334,552 | \$ 203,525,736 |

The accompanying notes are an integral part of these statements.



“ I have only been here 4 months, but I LOVE it! Good people are here – Vets helping Vets. They don’t let anybody get hurt. When the bus pulled up from Gulfport, my heart went “VRRrrrooom” – I was so glad to see them.”

—Louis Di Croce, Jr., DC resident (former Navy Seal)



Armed Forces Retirement Home Combined Statement of Budgetary Resources
for the years ended September 30, 2005 and 2004 (In Dollars)

| | 2005 | Unaudited 2004 |
|--|-----------------------------|-----------------------------|
| Budgetary Resources: | | |
| Budget authority | | |
| Appropriations received | \$ 66,824,000 | \$ 65,279,000 |
| Unobligated balance: | | |
| Beginning of period | 20,661,522 | 30,502,132 |
| Spending authority from offsetting collections: | | |
| Earned | | |
| Collected | - | 4,739 |
| Subtotal | <u>\$ 87,485,522</u> | <u>\$ 95,785,871</u> |
| Recoveries of prior year obligations | | |
| Actual | \$ 8,496,094 | \$ 4,379,861 |
| Temporarily not available pursuant to Public Law | (492,992) | (385,146) |
| Total Budgetary Resources | <u>\$ 95,488,624</u> | <u>\$ 99,780,586</u> |
| Status of Budgetary Resources: | | |
| Obligations incurred | | |
| Direct | | |
| Category A | \$ 58,921,632 | \$ 61,848,761 |
| Category B | 3,270,210 | 17,270,303 |
| Subtotal | <u>\$ 62,191,842</u> | <u>\$ 79,119,064</u> |
| Unobligated balance | | |
| Apportioned | | |
| Balance, currently available | \$ 33,296,782 | \$ 20,661,522 |
| Total status of budgetary resources | <u>\$ 95,488,624</u> | <u>\$ 99,780,586</u> |
| Relationship of Obligations to Outlays | | |
| Obligated balance, net, beginning of period | \$ 16,158,262 | \$ 9,636,988 |
| Obligated balance, net, end of period | | |
| Undelivered orders | 4,720,024 | 12,595,019 |
| Accounts payable | 4,480,900 | 3,563,243 |
| Outlays | | |
| Disbursements | 60,653,086 | 68,217,929 |
| Collections | - | (4,739) |
| Subtotal | <u>\$ 60,653,086</u> | <u>\$ 68,213,190</u> |
| Less: Offsetting receipts | - | - |
| Net Outlays | <u>\$ 60,653,086</u> | <u>\$ 68,213,190</u> |

The accompanying notes are an integral part of these statements.

Armed Forces Retirement Home Consolidated Statement of Financing
for the years ended September 30, 2005 and 2004 (In Dollars)

| | 2005 | Unaudited 2004 |
|---|----------------------|----------------------|
| Resources Used to Finance Activities | | |
| Budgetary Resources Obligated | | |
| Obligations incurred | \$ 62,191,842 | \$ 79,119,064 |
| Less: Spending authority from offsetting collections and recoveries | <u>8,496,094</u> | <u>4,384,600</u> |
| Obligations net of offsetting collections and recoveries | \$ 53,695,748 | \$ 74,734,464 |
| Less: Offsetting receipts | <u>-</u> | <u>-</u> |
| Net obligations | \$ 53,695,748 | \$ 74,734,464 |
| Other Resources | | |
| Imputed financing from costs absorbed by others | 2,131,727 | 2,422,825 |
| Net other resources used to finance activities | <u>\$ 2,131,727</u> | <u>\$ 2,422,825</u> |
| Total resources used to finance activities | \$ 55,827,475 | \$ 77,157,289 |
| Resources Used to Finance Items Not Part of the Net Cost of Operations | | |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided | \$ (7,874,994) | \$ 4,350,165 |
| Resources that fund expenses recognized in prior periods | 210,482 | - |
| Budgetary offsetting collections and receipts that do not affect net cost of operations | | |
| Other | \$ 20,404,735 | \$ 43,285,622 |
| Resources that finance the acquisition of assets | 3,180,991 | 209,968 |
| Other resources or adjustments to net obligated resources that do not affect net cost of operations | <u>(5,200,000)</u> | <u>-</u> |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | \$ 10,721,214 | \$ 47,845,755 |
| Total Resources Used to Finance the Net Cost of Operations | \$ 45,106,261 | \$ 29,311,534 |
| Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period: | | |
| Components Requiring or Generating Resources in Future Periods: | | |
| Increase in annual leave liability | \$ - | \$ 1,796,790 |
| Other | <u>177,234</u> | <u>315,857</u> |
| Total components of Net Cost of Operations that will require or generate resources in future periods | \$ 177,234 | \$ 2,112,647 |
| Components not Requiring or Generating Resources: | | |
| Depreciation and amortization | 5,567,942 | 6,755,868 |
| Revaluation of assets or liabilities | 3,893,878 | - |
| Other | <u>12,266</u> | <u>(18,501)</u> |
| Total components of Net Cost of Operations that will not require or generate resources | \$ 9,474,086 | \$ 6,737,367 |
| Total components of Net Cost of Operations that will not require or generate resources in the current period | \$ 9,651,320 | \$ 8,850,014 |
| Net Cost of Operations | \$ 54,757,581 | \$ 38,161,548 |

The accompanying notes are an integral part of these statements.



AFRH - NOTES TO THE FINANCIAL STATEMENTS

for the years ended September 30, 2005 and 2004

Note 1. Summary of significant accounting policies

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

The mission of the AFRH is to fulfill our Nation's commitment to provide care through a comprehensive range of services for America's Armed Forces Veterans. 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 Armed Forces Retirement Home Trust Fund (Trust Fund). Governed by limitations determined annually by the U.S. Congress, the Trust Fund is used to finance operating expenses as well as capital expenditures of the AFRH on an annual and no year basis.

B. Basis of Presentation - The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the AFRH. The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 01-02, Audit Requirements for Federal Financial Statements. They have been prepared from, and are fully supported by, the books and records of AFRH in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Financial Reporting Requirements and 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 the AFRH's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Financing. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

C. Basis of Accounting - Transactions are recorded on 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.

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

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

Exchange 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 of land, custodial services, meal tickets and interest earned on Treasury securities. Revenue from resident fees is recognized when services are provided and is invested for future funding requirements.

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

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



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

The AFRH recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM).

E. Taxes - The AFRH, as a Federal entity, is not subject to Federal, State, or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

F. 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. Foreign currency payments are made either by Treasury or the Department of State and are reported by the AFRH in the U.S. dollar equivalents. See Note 2 for additional information.

G. 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. The AFRH's investments are purchased exclusively through the Bureau of the Public Debt's FEDINVEST system. These securities are market based Treasury securities issued without statutorily determined interest rates and consist of Treasury bills and notes.

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

The AFRH also has an investment in a one-day certificate issued by the Bureau of the Public Debt. The interest earned on the certificate is reinvested in the certificate on a daily basis. These investments are classified as trading securities. The income from the daily interest earned is recorded on a monthly basis. See Note 3 for additional information.

H. Accounts Receivable - Accounts receivable consists of amounts owed to the AFRH by other Federal agencies and the public. Amounts due from Federal agencies are considered fully

collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) 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, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. Accounts Receivable balances are \$3,929,901 and \$2,010,512 as of September 30, 2005 and 2004, respectively.

I. General Property, Plant and Equipment, Net - The AFRH owns the land and buildings in which both homes operate. The majority of the property, plant and equipment is used to provide residential and health care to members and is valued at cost. Equipment purchased, transferred, or donated with an acquisition cost greater than or equal to \$25,000 per unit is capitalized. Routine maintenance is expensed when incurred. Construction costs are capitalized as part of the construction-in-progress account until the asset is completed then transferred to the appropriate property account. Depreciation expense is recognized on property, plant and equipment with the exception of construction-in-progress. Depreciation is recognized using the straight-line method over the assets' useful lives. Other equipment is expensed when purchased. All the AFRH's heritage assets are multi-use facilities and are classified as general property, plant and equipment. See Note 4 for additional information. The useful lives used when recording depreciation on property, plant and equipment are as follows:

| Description: | Useful Life (in years) |
|-----------------------------------|------------------------|
| <i>Land Improvements</i> | <i>10-20</i> |
| <i>Buildings and Improvements</i> | <i>20-40</i> |
| <i>Equipment</i> | <i>5-10</i> |

J. Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. Intra-governmental liabilities are claims against the AFRH by other Federal agencies. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as Components requiring or generating resources on the Statement of Financing. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities. See Note 5 for additional information.

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

L. Annual, Sick and Other 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. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements. 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.

M. Retirement Plans - Most employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the AFRH's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 elected to join either FERS and Social Security, or remain in CSRS. FERS offers a savings plan to which AFRH automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, the AFRH also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the AFRH remits the employer's share of the required contribution.

The AFRH recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to the AFRH for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The AFRH recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

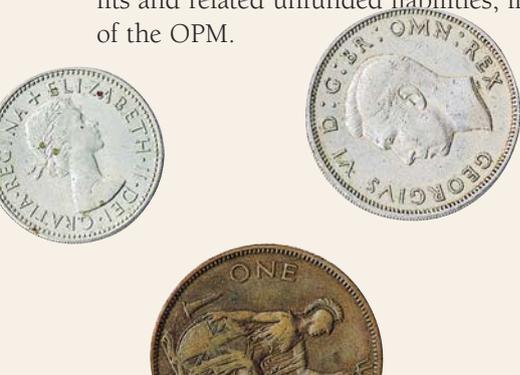
The AFRH does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits and related unfunded liabilities, if any, is the responsibility of the OPM.

N. 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. The AFRH recognized imputed costs and financing sources in fiscal year 2005 and 2004 to the extent directed by the OMB.

O. Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

P. Contingencies - Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The AFRH recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. The 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 the AFRH for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

Q. Accrued Workers' Compensation - A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because the AFRH will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA. See Note 5 for additional information.





Note 2. Armed Forces Retirement Home Fund Balance with Treasury
as of September 30, 2005 and 2004

| | 2005 | Unaudited 2004 |
|--|-----------------------|-----------------------|
| Fund Balance with Treasury | \$ 6,523,911 | \$ 6,741,059 |
| Investment in US Government Securities | 124,841,901 | 114,815,789 |
| Less: Accrued Interest | (1,095,759) | (1,095,759) |
| Unamortized Premium | (727,909) | (2,340,315) |
| Total | \$ 129,542,144 | \$ 118,120,774 |
| Status of Fund Balance with Treasury | | |
| Unobligated Balance | | |
| Available | \$ 33,296,782 | \$ 20,661,522 |
| Unavailable | 87,044,438 | 81,300,990 |
| Obligated Balance not yet Disbursed | 9,200,924 | 16,158,262 |
| Total | \$ 129,542,144 | \$ 118,120,774 |

Unobligated fund balances represent the amount of trust fund 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. Unobligated capital fund balances are treated as no year funds. Therefore, there are no period of availability restrictions on these funds.

Note 3. Armed Forces Retirement Home Investments in US Government Securities
Schedule of Investments as of September 30, 2005

| Description | Value at Maturity | Discount/Premium Outstanding | Accrued Interest | Book Value |
|--|-----------------------|---------------------------------|---------------------|-----------------------|
| MK Note <i>Matures October 15, 2006</i> | \$ 36,726,000 | \$ 703,243 | \$ 1,095,759 | \$ 38,525,002 |
| MK Bill <i>Matures December 29, 2005</i> | 87,056,000 | (739,975) | - | 86,316,025 |
| One Day Certificate <i>Matures Daily</i> | 874 | - | - | 874 |
| Total Investments | \$ 123,782,874 | \$ (36,732) | \$ 1,095,759 | \$ 124,841,901 |

Investments in US Government Securities
Schedule of Investments as of September 30, 2004 (Unaudited)

| Description | Value at Maturity | Discount/Premium Outstanding | Accrued Interest | Book Value |
|--|-----------------------|---------------------------------|---------------------|-----------------------|
| MK Note <i>Matures November 15, 2004</i> | \$ 15,000,000 | \$ 72,076 | \$ 442,969 | \$ 15,515,045 |
| MK Note <i>Matures February 15, 2005</i> | 20,698,000 | 281,268 | 194,044 | 21,173,312 |
| MK Note <i>Matures October 15, 2006</i> | 36,726,000 | 1,349,958 | 1,095,759 | 39,171,717 |
| One Day Certificate <i>Matures Daily</i> | 38,955,715 | - | - | 38,955,715 |
| Total Investments | \$ 111,379,715 | \$ 1,703,302 | \$ 1,732,772 | \$ 114,815,789 |

The market values of the trust fund investment portfolio at September 30, 2005 and 2004 are \$123,902,126 and \$114,703,305, respectively.

Note 4. Armed Forces Retirement Home General Property, Plant and Equipment
Schedule of Property, Plant and Equipment as of September 30, 2005

| Description | Acquisition Cost | Accumulated Depreciation | Net Book Value |
|--------------------------|-----------------------|--------------------------|----------------------|
| Land & Improvements | \$ 10,982,370 | \$ (9,299,384) | \$ 1,682,986 |
| Buildings & Improvements | 180,073,394 | (119,160,368) | 60,913,026 |
| Equipment | 3,405,220 | (2,026,123) | 1,379,097 |
| Construction in Progress | 13,896,001 | - | 13,896,001 |
| Total | \$ 208,356,985 | \$ (130,485,875) | \$ 77,871,110 |

Schedule of Property, Plant and Equipment as of September 30, 2004

| Description | Acquisition Cost | Accumulated Depreciation | Net Book Value |
|--------------------------|-----------------------|--------------------------|----------------------|
| Land & Improvements | \$ 10,982,370 | \$ (9,059,393) | \$ 1,922,977 |
| Buildings & Improvements | 166,447,948 | (114,554,983) | 51,892,965 |
| Equipment | 3,761,873 | (2,357,497) | 1,404,376 |
| Construction in Progress | 31,681,788 | - | 31,681,788 |
| Total | \$ 212,873,979 | \$ (125,971,873) | \$ 86,902,106 |

The General Services Administration periodically holds auctions to sell antiquated and unused property on behalf of the AFRH. When a capitalized asset is sold at an auction, the AFRH decreases the recorded property amount by the cost of the asset and records a corresponding gain or loss depending on the net book value of the asset sold.

Due to the damage caused by Hurricane Katrina in August 2005, management decided to revalue the recorded book value of the property, plant and equipment located at the Gulfport, MS campus. After a thorough review, management decided to write-off assets with a total cost of \$7,165,804. A loss of \$3,893,878 was recorded upon the disposition of these assets.

Note 5. Liabilities

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

Armed Forces Retirement Home Liabilities
account balances as of September 30, 2005 and 2004

| | 2005 | 2004 Unaudited |
|--------------------------------|---------------------|---------------------|
| Intragovernmental | | |
| Accrued Liabilities | \$ 133,339 | \$ 69,193 |
| Payroll Taxes Payable | 194,644 | 195,422 |
| Unfunded FECA Liability | 1,760,931 | 1,583,697 |
| Total Intragovernmental | 2,088,914 | 1,848,312 |
| Accounts Payable | 1,348,501 | 1,324,554 |
| Accrued Liabilities | 1,911,884 | 1,078,276 |
| Accrued Funded Payroll | 896,664 | 895,798 |
| Unfunded Annual Leave | 1,586,308 | 1,796,790 |
| Total Liabilities | \$ 7,832,271 | \$ 6,943,730 |

All liabilities are current liabilities.

Note 6. Liabilities Not Covered by Budgetary Resources

The liabilities on the AFRH Balance Sheet, as of September 30, 2005 and 2004, include liabilities not covered by budgetary resources. These are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Further, there are no intragovernmental liabilities not covered by budgetary resources. Other liabilities not covered by budgetary resources consist entirely of unfunded leave and unfunded FECA liability. As of September 30, 2005 and 2004, unfunded leave and FECA liability balances are \$3,347,239 and \$3,380,487, respectively.

**Note 7. Armed Forces Retirement Home Operating / Program Costs
as of September 30, 2005 and 2004**

| Budgetary Object Classifications | 2005 | 2004 Unaudited |
|----------------------------------|----------------------|----------------------|
| Personnel & Benefits | \$ 32,687,445 | \$ 39,147,929 |
| Travel & Transportation | 338,169 | 451,029 |
| Rents, Communication & Utilities | 4,273,749 | 4,173,577 |
| Printing & Contractual Services | 17,377,325 | 17,002,114 |
| Supplies and Materials | 5,689,488 | 3,711,772 |
| Equipment | 12,337,635 | 12,536,147 |
| Miscellaneous | <u>8,671</u> | <u>36,453</u> |
| Total | \$ 72,712,482 | \$ 77,059,021 |

Note 8. Armed Forces Retirement Home Operating Imputed Financing Sources

The AFRH recognizes the amount of accrued pension and post-retirement benefit expenses for current employees as imputed financing. The assets and liabilities associated with such benefits are the responsibility of the administering agency – the Office of Personnel Management (OPM). Amounts paid from the US Treasury's Judgment Fund in settlement of claims or court assessments against the AFRH are also recognized as imputed financing. For the fiscal years ended September 30, 2005 and 2004, imputed financing was \$2,131,727 and \$2,422,825, respectively.



The *requirements* to meet

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

The cost of heritage assets is usually not determinable. So, the AFRH does not place a value on them – or establish minimum value thresholds for the designation of property, plant and equipment as heritage assets. Further, 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.

All told, the AFRH has four buildings and structures designated as National Historic Landmarks. However, three of these are considered to be “multi-use” heritage assets – where they are used in day-to-day government operations and not used for heritage purposes. In accordance with SFFAS No. 8, such multi-use heritage assets are accounted for as general property, plant and equipment and are capitalized and depreciated as such.

Roy Pickel, an original member of the WWII “Band-of-Brothers,” presents a signed print commemorating the famed Army Airborne Paratrooper Division.



Armed Forces Retirement Home Required Supplementary Information
Intragovernmental Transactions as of September 30, 2005

Intragovernmental Assets

| Agency | Fund Balance with Treasury | Investments | Accounts Receivable | Total |
|------------------------|----------------------------|-----------------------|---------------------|-----------------------|
| Treasury | \$ 6,523,911 | \$ 124,841,901 | \$ - | \$ 131,365,812 |
| Air Force | - | - | 514,398 | 514,398 |
| Army Corp of Engineers | - | - | 63,136 | 63,136 |
| Marines | - | - | 2,591,408 | 2,591,408 |
| Total | \$ 6,523,911 | \$ 124,841,901 | \$ 3,168,942 | \$ 134,534,754 |

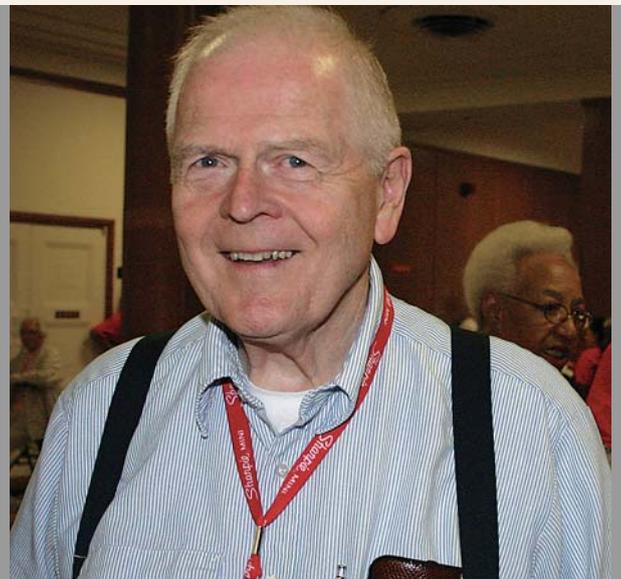
Intragovernmental Liabilities

| Agency | Accounts Payable and Accruals | Payroll Taxes | Other | Total |
|---------------------------------|-------------------------------|---------------------|-----------------------|-----------------------|
| Treasury | \$ (29,266) | \$ - | \$ - | \$ (29,266) |
| Treasury General Fund | - | (55,073) | - | (55,073) |
| Army | (44,864) | - | - | (44,864) |
| General Services Administration | (6,363) | - | - | (6,363) |
| Labor | - | - | (1,760,931) | (1,760,931) |
| Navy | (7,248) | - | - | (7,248) |
| Personnel Management | - | (139,571) | - | (139,571) |
| Secretary of Defense | (19,882) | - | - | (19,882) |
| Veteran's Affairs | (25,716) | - | - | (25,716) |
| Total | \$ (133,339) | \$ (194,644) | \$ (1,760,931) | \$ (2,088,914) |



“I went from DC to Gulfport for the southern hospitality — where I could walk outside safely. Now I’m back in DC and I see something is going on. The streets are clean and very nice.”

—William Norvell, Gulfport resident



Armed Forces Retirement Home Required Supplementary Information
Intragovernmental Transactions as of September 30, 2004

Intragovernmental Assets

| Agency | Fund Balance with Treasury | Investments | Accounts Receivable | Total |
|--------------|----------------------------|-----------------------|---------------------|-----------------------|
| Treasury | \$ 6,741,059 | \$ 114,815,789 | \$ - | \$ 121,556,848 |
| Army | - | - | 1,300,220 | 1,300,220 |
| Marines | - | - | 549,879 | 549,879 |
| Total | \$ 6,741,059 | \$ 114,815,789 | \$ 1,850,099 | \$ 123,406,947 |

Intragovernmental Liabilities

| Agency | Accounts Payable and Accruals | Payroll Taxes | Other | Total |
|---------------------------------|-------------------------------|---------------------|-----------------------|-----------------------|
| Treasury | \$ (4,818) | \$ - | \$ - | \$ (4,818) |
| Treasury General Fund | - | (51,478) | - | (51,478) |
| Army | (20,158) | - | - | (20,158) |
| General Services Administration | (30,871) | - | - | (30,871) |
| Labor | - | - | (1,583,697) | (1,583,697) |
| Personnel Management | - | (143,944) | - | (143,944) |
| Veteran's Affairs | (13,346) | - | - | (13,346) |
| Total | \$ (69,193) | \$ (195,422) | \$ (1,583,697) | \$ (1,848,312) |



The *age* to embrace

This eccentric club began with a few resolute women who decided to greet middle age with verve and humor. So one day, they decided to go to tea, wearing bright red hats and gloves – and the most outlandish purple dresses they could find. The trend took off and the group evolved into a national organization. The official Web site of the Red Hat society says, “We

believe silliness is the comedy relief of life, and since we are all in it together, we might as well join red-gloved hands and go for the gusto together.” Underneath all the frivolity, these women share a bond of affection and a genuine enthusiasm for wherever life happens to take them next. An AFRH chapter was formed in Gulfport and boasts dozens of members that meet for tea, lunch and folly.

“Ode to the Red Hat Society”

by Sue Ellen Cooper

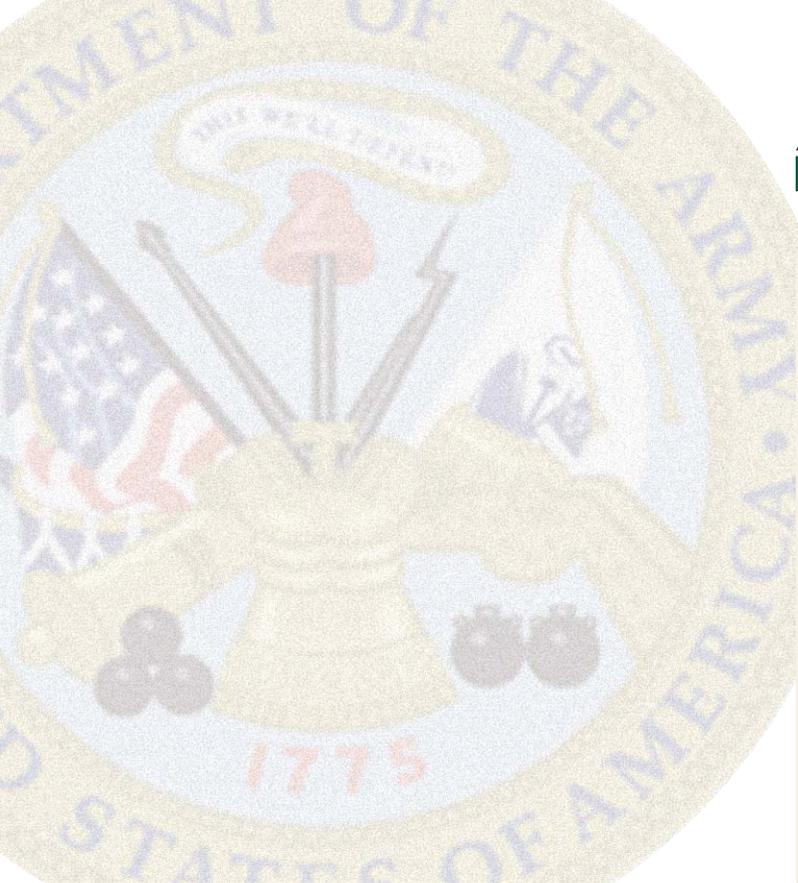
*A poet put it very well. She said when she was older,
She wouldn't be so meek and mild. She threatened to get bolder.
She'd put a red hat on her head, and purple on her shoulder.
She'd make her life a warmer place, her golden years much golder.*

*We read that poem, all of us, and grasped what she is saying.
We do not need to sit and knit, although we all are graying.
We think about what we can do. Our plans we have been laying.
Instead of working all the time, we'll be out somewhere playing.*

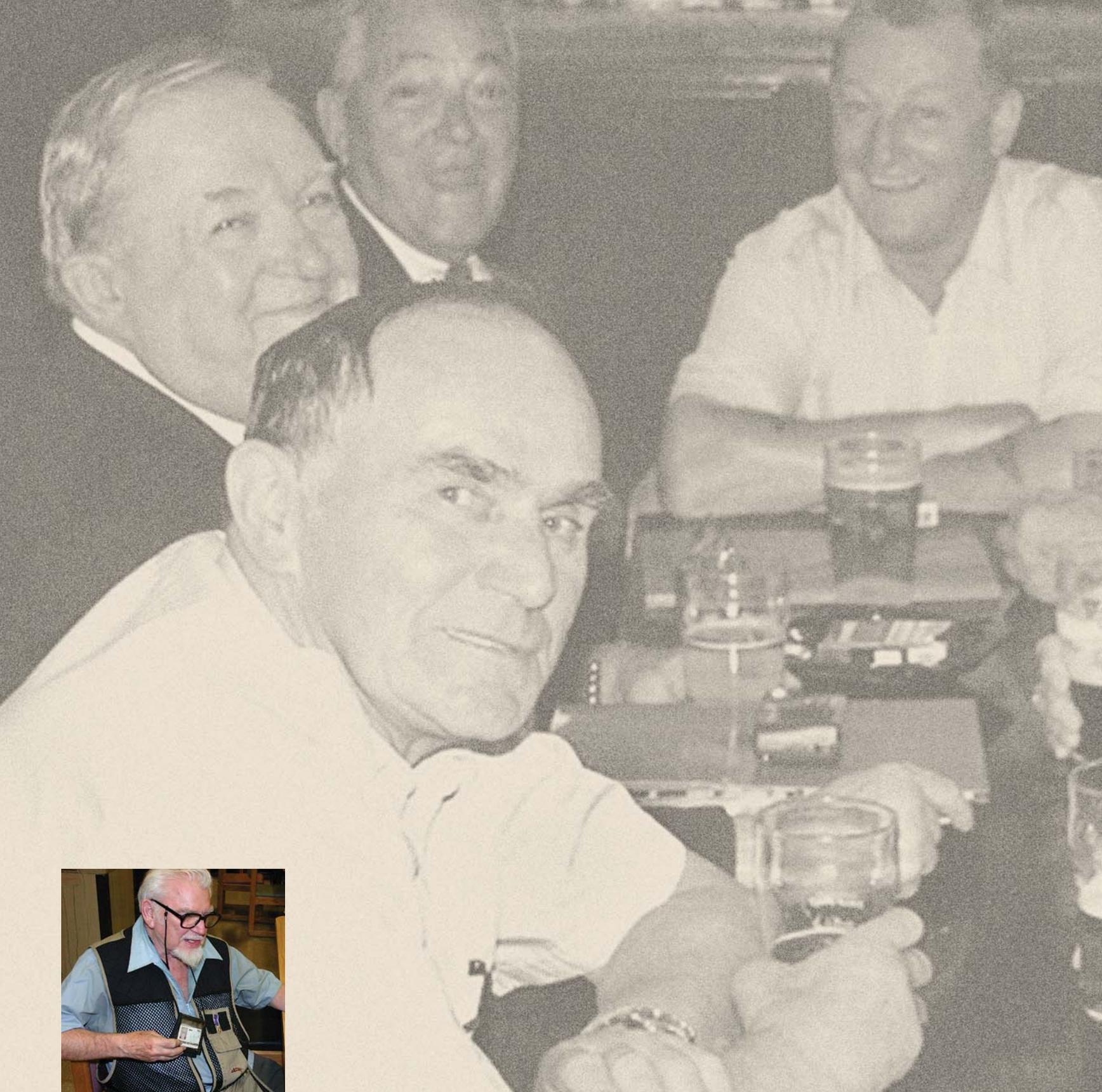
*We take her colors to our hearts, and then we all go shopping
For purples clothes and hats of red, with giant brims a-flopping.
We're tired of working all the time, and staying home and mopping.
We order pies and chocolate fudge, and rich desserts with topping.*

*We crown ourselves as duchesses and countesses and queens.
We prove that playing dress-up isn't just for Halloween.
We drape ourselves in jewels, feathers, boas, and sateen.
We see ourselves on television and in magazines.*

*We laugh, we cry, we hug a lot. We keep each other strong.
When one of us goes out for fun, the rest all go along.
We gad about, we lunch and munch, in one big happy throng.
We've found the place where we fit in, the place we all belong.*



| Acronym | Meaning |
|------------------|---|
| AFRH | Armed Forces Retirement Home |
| BPD | Bureau of Public Debt |
| CFO | Chief Financial Officer |
| COO | Chief Operating Officer |
| COTS | Commercial-Off-The-Shelf |
| DEOMI | Defense Equal Opportunity Management Institute |
| DFAS | Defense Finance and Acquisition System |
| DoD | Department of Defense |
| FAR | Federal Acquisition Regulation |
| FEDInvest | Federal Investment (software application) |
| FFMIA | Federal Financial Management Improvement Act |
| FISMA | Federal Information Security Management Act |
| FMFIA | Federal Managers Financial Integrity Act |
| FTE | Full-time Equivalents |
| FY | Fiscal Year |
| GPRA | Government Performance and Results Act |
| IPAC | Intragovernmental Payment and Collection System |
| IPIA | Improper Payments Information Act |
| IT | Information Technology |
| IP | Internet Protocol |
| JCAHO | Joint Commission on Accreditation of Healthcare Organizations |
| JFMIP | Joint Financial Management Improvement Act |
| KHC | King Health Center |
| MCOC | Management Control Oversight Council |
| NFC | National Finance Center |
| NLT | No Later Than |
| OMB | Office of Management and Budget |
| OSD | Office of the Secretary of Defense |
| OSHA | Occupational Safety and Health Administration |
| PART | Program Asset Rating Tool |
| PPE | Property, Plant and Equipment |
| RIS | Resident Information System |
| Seabees | Naval Construction Battalion |
| STAR | Systems Time and Attendance Report |
| U.S.C. | United States Code |
| USSGL | US Standard General Ledger |



“There is comradeship here – you can’t match that for any place in the world! I came here for health reasons and I appreciate it more and more. There is always somebody to visit you – and they’ve gone through the same things. You don’t have to say anything; they just know what you have been through.”



WE'D LIKE TO HEAR FROM YOU

Thank you for reviewing our 2005 PAR. Tell us: did we present information in a useful way? Where did we succeed? And what could we improve? We welcome your input. Simply contact us by US mail or e-mail:

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ATTENTION: Chief Financial Officer

E-MAIL: public.affairs@afrh.gov

PHONE: 800.422.9988

FAX: 202.730.3492

WE'D LIKE TO THANK YOU

To all those who made a difference during and after Hurricane Katrina: the management and staff of the Home would like to extend its sincere appreciation and heartfelt thanks.

Many kudos go to the:

Seabees
Contracting Office
Bureau of Public Debt
Administrative Resource
Center

To all those who made timely donations – either financial, clothing, items or personal services – we appreciate your generous support. You have truly given us

The Strength to Endure.



ARMED FORCES
RETIREMENT HOME

Now, more than ever, we're...

Protecting a promise | Renewing a trust.

“Graduation Oak”
by Brigadier General E.b. Kitchens
Gulf Coast Military Academy, Class of 1936

*Ancient oak, I stand in awe and wonder
As I contemplate your
span of life and callings.
Explorers traced the trail beside you
when, as a sapling, you
sought your share of light.
Before you, top gallants above the sea
beyond, the British fleet
sailed in a war that was –
To a battle yet to be at Chalmette,
You saw the island fort, a prize of battle,
become a dungeon hell
for soldiers of the gray.
In a better time, young men named you
as a symbol of a goal to seek.
You served them well; thus your name
will not die with them.
Your strength and massive spread now
legend, you were called
again to a high and worthy purpose.
To shade them as they realize their voyages past,
these old warriors of the sea.
Yes, I stand in awe and wonder, ancient tree.*

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