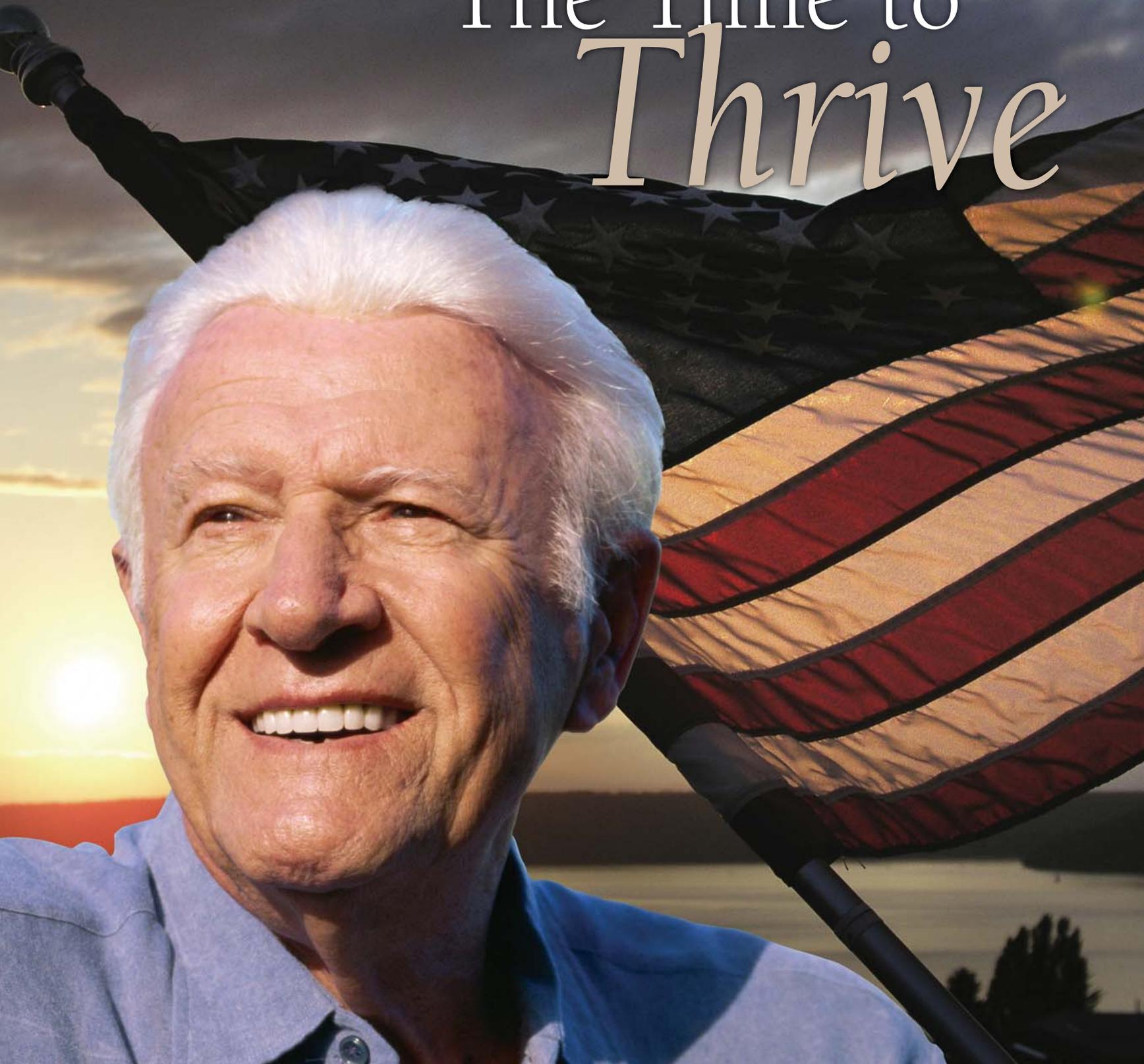


Performance & Accountability Report FY06

The Time to *Thrive*



Vision

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

Mission

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

Guiding Principles

Establish Accountability

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

Inspire Excellence

We continuously work to improve our processes, services and delivery while striving for excellence in all we do. We expect excellence and reward it.

Maintain Integrity

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

Honor Heritage

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

Maximize Workforce

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

Serve Customers

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

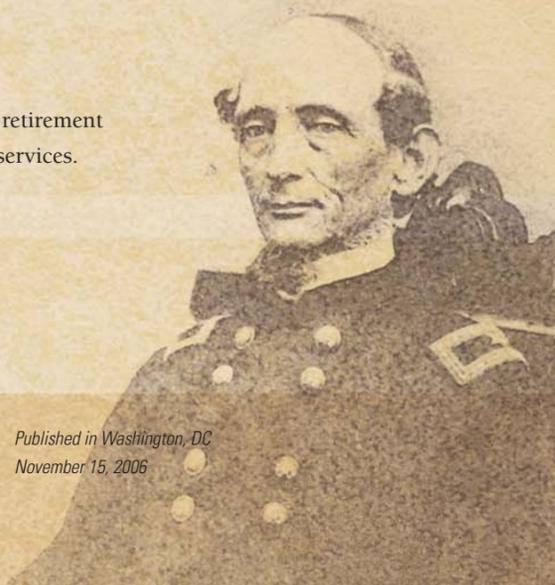


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Introduction

“Pete” Carter was named the “Ageless Hero” for community service by the Mississippi Blue Cross/Blue Shield. At age 85, he shows no signs of slowing down. Pete lives life to the fullest – always cheerfully volunteering to help the residents and staff. “I am glad to report I don’t know what getting old is. I continue to feel like I am junior to the elderly,”

he declared. Pete is a friend to Veterans,

patriots and church-goers alike. He faithfully

served America in WWII, in the

Army’s 442nd anti-aircraft battalion – and

again in the Korean War, as an Air Force

Master Sergeant. Through it all, he’s won several medals, including the EAME Campaign

Medal and a Presidential Unit Citation. His service to country didn’t end in retirement,

either. Today, Pete’s an active member of 21 Veterans Service Organizations. Plus, he visits

schools to teach kids the proper handling of the American flag and the importance

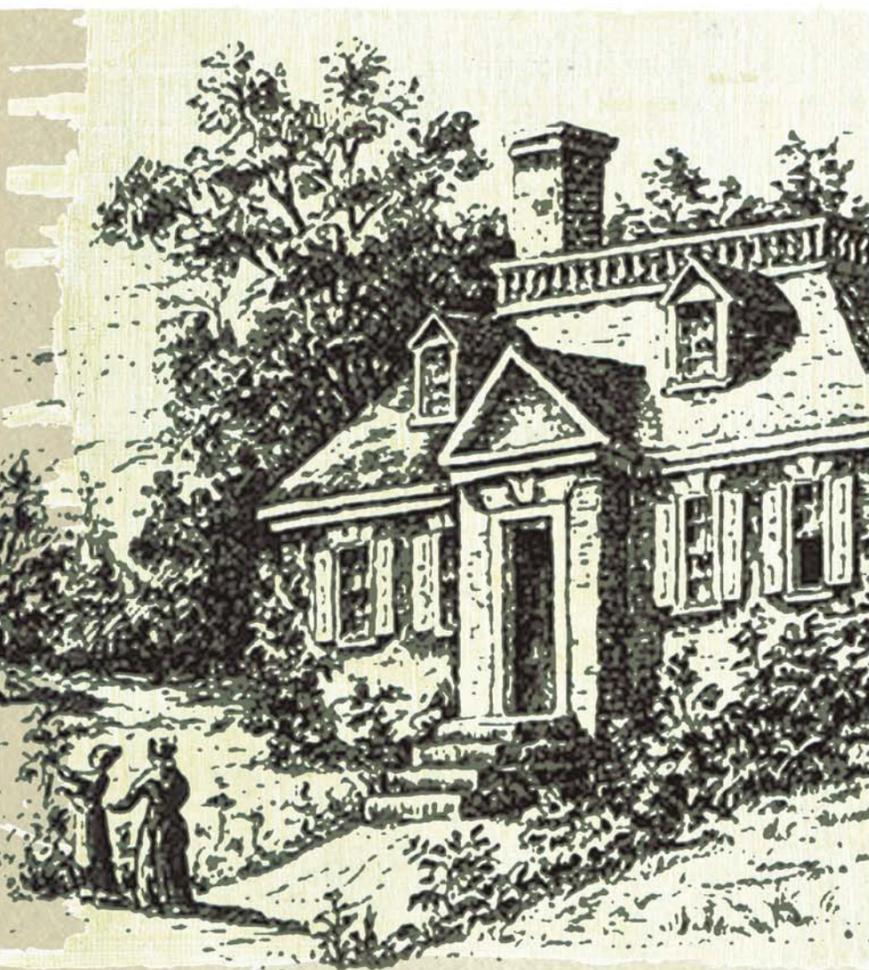
of patriotism. The always-smiling Pete says: to stay young, keep

active. “My life is such a joy that it seems I’ll live

forever. I cannot imagine otherwise.”



The *Heritage* to Celebrate



This country home in PA served as a Naval hospital till the Asylum was constructed.

Back in 1811, the leaders of our young nation made a Promise to care for its old, sick and disabled Veterans. This care would be repayment for the sacrifices they made in defending liberty. So, two homes were built: the US Naval Asylum in Philadelphia, PA in 1833 and the US Military Asylum in Washington, DC in 1851. Ever since, we have provided eligible residents with supportive care and a shared camaraderie. And we've done it all with the Veterans' own money in the AFRH Trust Fund.

To this day, we are bound by law to uphold the original Promise ... to preserve the heritage of the Home ... and to take care of our own.

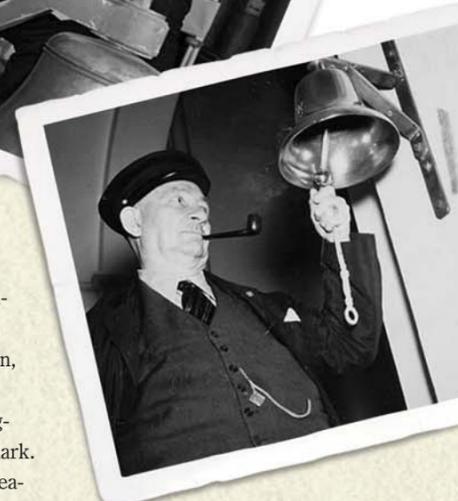
LAUNCHING A HOME IN PHILADELPHIA

The US Navy was the first Branch to care for retired military personnel. They mapped the concept after Britain's Royal Hospital Chelsea built in 1682. The Navy acquired a site known as "The Plantation" – the country mansion of the prominent Pemberton family in Philadelphia. The scenic farmland surrounding the summer home overlooked the Schuylkill River, the Baronial Castle of the State Penitentiary, as well as quaint Girard College. At first, the Pemberton home served as a Naval Hospital from 1826-1833, during the construction of the actual Asylum. Then in 1833, a three-building facility opened with the latest principles of hospital design and private rooms for 400 military pensioners. The new complex included a library with over 2,000 volumes, a lovely chapel, plus many common rooms for dining and smoking and reading. Cards, backgammon, and other games were furnished and "inmates were at liberty to smoke as much as desired." With the outbreak of Civil War in 1861, the need for additional hospital housing intensified when an influx of wounded strained the hospital wing's capacity. So in 1864 and 1865, Congress appropriated funds to build a new hospital on the grounds of the Asylum.

By 1889, the name was changed to the US Naval Home. In the ensuing decades, many residents would obtain a leave of absence for a few months, or even a year at a time, to ship off during the summer months on yachts or coasters. Some re-



Camaraderie was the universal compass for inmates at the US Naval Home, circa 1945.



Supper time was punctual at the US Naval Home in Philadelphia, 1938.

mained inmates and found light employment outside in the workshops, or inside the building making mats and hammocks. Others were employed by the Government as quartermasters, inside watchmen, gatekeepers or mail carriers. By 1971, the Naval Home was designated a National Historic Landmark. All told, this Home served our seamen well for 143 years. But in 1976, a parcel of oceanfront land in Gulfport, MS was chosen as the location for a new and larger Home. This facility would become a retirement community for all Branches of the military to enjoy. Ironically, the site was the former Gulf Coast Military Academy, a preparatory school for boys. This 49-acre campus featured an outdoor swimming pool, an overpass to the beach and an 11-story multi-use resident tower. For 30 years, the proud Gulfport residents properly dressed for meals and routinely engaged in the congenial formalities of the south.



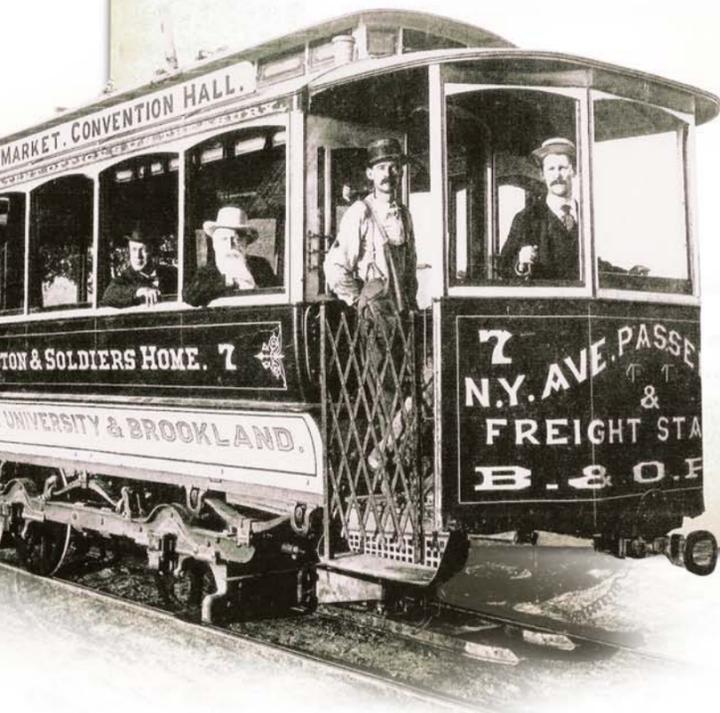
The Naval Asylum, beautifully situated on the Schuylkill River in Philadelphia. Watercolor, Augustus Köllner, 1847

REINSTATING DIGNITY IN DC

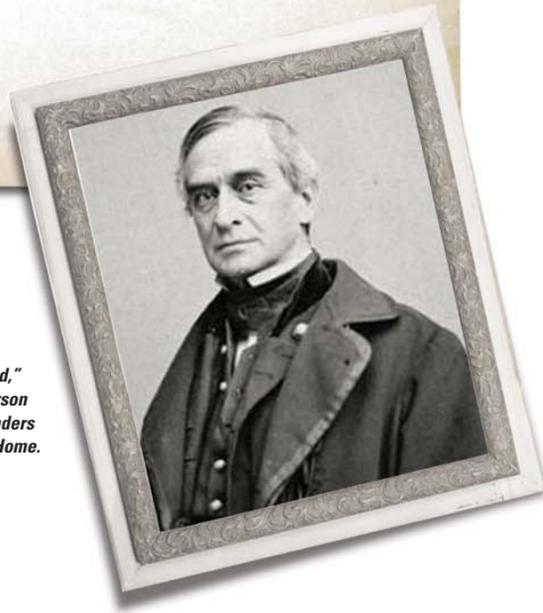
Meanwhile in Washington, three persistent individuals spearheaded the Asylum for disabled Army soldiers: MS Senator Jefferson Davis (future President of the Confederacy in the Civil War), General Winfield Scott (celebrated war hero who was devoted to his troops) and Major Robert Anderson (son of a Revolutionary War hero and aide to Scott). All three envisioned a haven for old soldiers that would ensure their care – while restoring their dignity. Back then, old soldiers were cast adrift with a tiny pension or none at all. In fact, a soldier's pension was just \$5 a year in 1790. This led many to rely on charity just to survive. So Anderson took a keen interest in the welfare of old and disabled soldiers. For years, he wrote resolutions and letter campaigns to win support. After the Mexican War, Scott returned a hero, carrying \$150,000 that was paid to him by Mexico City, in lieu of ransacking. He quickly paid off his soldiers and

gave the rest to Congress to create a Trust Fund for a Military Asylum. At last, in 1851, the Asylum was established in a small Washington farm cottage. Anderson led the grand opening, starting with just three Veteran “inmates” – and it was duly named the Anderson Cottage.

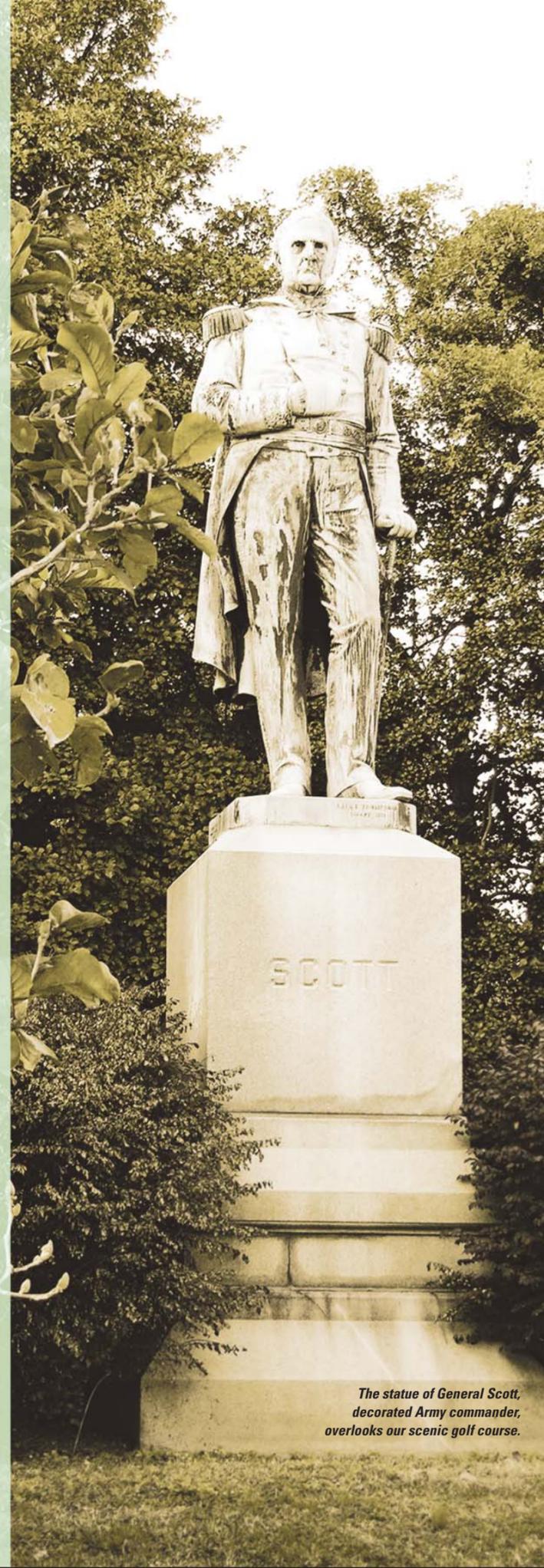
The cottage and surrounding land was a dairy farm that the government bought from the Riggs family, founders of a prominent Washington bank. So inmates enjoyed ample supplies of fresh milk, eggs and poultry. By 1859, the Asylum was renamed The Soldiers' Home, as “asylum” conveyed “charity” – and after all, current enlisted soldiers were funding it. New Veterans were admitted and new buildings were erected, most notably the Scott building (later renamed Sherman). In the turbulent Civil War, Abraham Lincoln moved into the original cottage to escape the city's intense humidity and political pressures. It is believed he wrote the final draft of the “Emancipation Proclamation” there. And, ultimately, it became known as the Lincoln Cottage. In the ensuing decades, the Home operated much like a military base. Uniforms were issued, reveille was at 0500 hours and leaving the grounds was strictly monitored. Inmates promptly marched to supper at 1800 hours, stood retreat in uniform at sunset, and were in bed by 2100 hours – for lights out. By the late 1800s, the Home was totally “self-sustaining,” due to the dairy farm and a machine shop. But inmates were forbidden from working – a restriction known as “the curse of enforced idleness.” (How ironic, given our goal today: to nurture residents with physical and mental activity.)



Next stop: the US Soldiers' Home, out in the rural 'countryside' of Washington, DC – circa 1890s.



"The Soldiers' Friend," Robert Anderson – one of the key founders of the Soldiers' Home.



The statue of General Scott, decorated Army commander, overlooks our scenic golf course.

“...The independence and dignity given is of great value in fostering the sense of honorable retirement. No restraint is put upon the liberty of the beneficiaries during reasonable hours, so long as the men behave themselves, and do not forfeit this privilege by bad conduct.”

—Charles Stockton, Navy historian (1886)

A STRONGER FORCE

By the turn of the century, inmates were working the farm and maintaining the grounds of what became a thriving, “city within a city.” But many advances took place in agriculture, so the Soldiers' Home slowly shifted away from its roots as a farm – to focus on serving residents. And just in time. The turn of the century was a “golden age” for the Home, as nearly a thousand Civil War era Veterans were admitted from 1880–1910. Also, Americans were living longer, so the Home's purpose became even greater. By the 1950s and 60s, Americans young and old were enjoying the post-war prosperity that came out of WWII. Many retiring Vets were considering the Home alongside a growing number of private retirement communities. So, to meet changing tastes, the Home evolved again – by modernizing its campus and revamping resident services. Additional buildings were constructed and a variety of hobby shops were added.

In 1991, the US Soldiers' and Airmen's Home in DC would unite with the US Naval Home in Gulfport – and the two would become the Armed Forces Retirement Home (AFRH). In the 15 years since, this new entity would evolve into a modern organization with sound business practices. The Trust Fund grew, along with the Home and its residents. Today, the AFRH is providing even greater care to our esteemed Veterans, rivaling the care and amenities of private-sector homes. And so it should be. Many of the decorated Veterans now living here have defended freedom in several wars – risking their lives so our nation might live, while literally changing the face of human history. So it is vital that we afford them a nurturing and comfortable retirement. President Lincoln might even say: it is altogether fitting and proper that our nation cares for its retired military heroes.

Situation

This time last year, our evacuees from the Gulfport campus were barely settled in at Washington. Those 351 weary survivors of Hurricane Katrina couldn't help but feel uneasy. Their home on the Gulf Coast was badly damaged and its future was uncertain. To ensure a smooth transition, we've adjusted many DC services to accommodate the extra residents. Plus we've gone all-out to boost their spirits.

The Moment to Reflect

The Home at a Glance:

Federal Authority:	AFRH Act of 1991 (amended 2002)
Current Locations:	Gulfport, MS (49 acres) Washington, DC (272 acres)
Resident Capacity:	1,323 Gulfport, MS: 0 (closed) Washington, DC: 1,323
Average Resident:	78 years old
Trust Fund Balance:	\$146 million
Major Services:	Private Rooms & showers Medical & Dental Care 2 Dining Facilities Senior Activities & Programs Recreational Activities Shuttle & Public Transportation Independent Living Assisted Living Long Term Care
Major Amenities:	Fitness Center Walking trails 9-hole golf course 6-Lane Bowling Center Hobby Shops Fish Ponds Full-service Library Computer Center

Did you Know?

Gulfport, MS:	This charming southern campus is a former military academy and sits just 100 yards off the pristine US Gulf Coast
Washington, DC:	Four original buildings stand as National Historic Landmarks, including President Lincoln's summer cottage



Major Achievements FY06

Gulfport evacuees are assimilated into Washington campus Extensive post-Katrina cleanup continues on Gulfport campus The renovated <i>Health and Wellness Clinic</i> opens in Scott Building DC campus earns a 3-year accreditation from JCAHO DoD provides \$68 million in post-Hurricane Katrina relief 20 Gulfport employees join the DC staff DoD social workers assess Gulfport residents for trauma Gulfport memorabilia & equipment is stored at Naval Construction Battalion (Seabee) Center A "Donation Center" on the DC campus issues donated clothes & toiletries Gulfport Hurricane damage assessment is completed	October 2005
An enterprise Internet system is deployed for the staff Scott & Pipes building renovations are completed to house Gulfport residents Transportation systems are redesigned to serve added residents An Independent Auditor gives an "unqualified opinion" to AFRH financial statements	November 2005
MS Power ultimately restores electricity to Gulfport, making our offices operational Remnants of fallen water tower are removed from MS campus AFRH notifies Gulfport staff of a reduction in force, effective six months post-Katrina A temporary mobile dental clinic serves all the additional Gulfport residents	December 2005
\$680,000 of new furniture is given to Scott & Pipes buildings	January 2006
Congress provides \$65.8 million in Supplemental Appropriations: • \$45 million for Gulfport planning, design, renovation or construction • \$20.8 million for recovery expenses and DC Assisted Living & Memory Support AFRH submits Special Report to Congress, with plans for Gulfport + Supplementals A reduction in force takes effect for the majority of Gulfport employees	February 2006
All personal items left in residents' rooms during Katrina are prepared for packing Volunteers steam clean the tower ground floor & remove additional debris from Gulfport campus	March 2006
Information Technology (IT) Board is established at AFRH	April 2006
Management updates AFRH Vision, Mission and establishes Guiding Principles The AFRH Strategic and Corporate Business Plans are revised The Gulfport residents' personal items are packed for transport	May 2006
Three developers are chosen to submit redevelopment RFPs (per Washington Master Plan) To rebuild Gulfport, AFRH receives \$236 million from Katrina Supplementals 138 Tons of belongings are shipped to Gulfport residents and family members around the US 3,000 memorabilia items are cleaned/stored in humidity-controlled storage at Seabee base 143 vehicles totaled by Katrina are finally removed from Gulfport grounds AFRH local boards convene on DC campus for Local Advisory Board meeting	June 2006
Navy Seabees build a new fence around the Gulfport campus AFRH visits GSA SE region to discuss the Gulfport rebuild AFRH and GSA officials visit Gulfport to begin rebuild process Management launches first AFRH Internal Control Board for oversight of programs	July-August 2006
AFRH, Deputy Under Secretary, Military Community & Family Policy, GSA and NAVFAC meet in the Pentagon to discuss MOA to rebuild Gulfport Pipes Building is mothballed again in DC (1-year after reopening) AFRH earns Federal security certification & accreditation for its IT Enterprise Network AFRH goes to the Pentagon again to meet with Principal Deputy Under Secretary of Defense (Personnel & Readiness), GSA and NAVFAC to discuss MOA to rebuild Gulfport The Home launches a redesigned website: afrh.gov	September 2006

On the Cover:

For two centuries, millions of young Americans have devoted their lives to defending this country. All along, the Home has been there to repay their service ... to enrich their daily lives ... to challenge their minds and bodies ... and to provide supportive camaraderie. Now, the AFRH is on the brink of many breakthrough victories that will help provide even greater care to our heroes. For the Home and its residents, now truly is *The Time to Thrive*.



The Resolve of Steel

Back in 1924, eight-year-old Fay Steel won second place in a grade school potato race in Somerville, TN. Little did he know that, 82 years later, he'd still be running races. But on Oct. 8th of this year, Fay competed in the Army Ten Miler. It drew 24,000 runners from around the world and Fay finished in 2:34.

"My time would have been better, but during the last two miles I had people stopping me – wanting to take a picture with me," Steel said with a chuckle. "How could I pass that up?"

He's been running literally his whole life – and at 90 years old, he still runs everyday. "It's just part of my routine," Steel mused. "I go to the gym each morning about 6:30 and do a 30-minute warm-up. Then I head out and run two-to-three miles. I don't think about it, I just do it," he said.

Three miles at age 90?!? What about aches and pains? "Of course I have aches and pains. Been having them for the last 50 years! But that doesn't stop me. I put one foot in front of the other and press on," he said.

Maybe he gets that perseverance from his

20-year career as a combat photographer. Steel joined the Army Air Corps in 1937 and served 10 years. Then, he moved over to the Air Force and served another 10.

"I shot still and motion pictures for the Army," he said. "In World War II, I flew in 78 combat missions, mostly in B26s. In 65 separate missions, our plane was hit by enemy fire 30 times. Only once did anyone get injured," he beamed.

All told, Fay has set 19 world records, including the Tennessee state record for marathons he ran at age 72, 73 and 77. Yet, Fay humbly acknowledged, all records are set to be broken.

Steel has lived at AFRH for the past 10 years. While the snow and chill of winter is just around the corner, it never stops him from getting in a run. "I don't use treadmills, ever. I do all my running outdoors. And if it's snowing, I plow right through it."

What's next for 90-year-old Fay Steel? The IRONMAN World Championship? "Well, I plan on being in next year's Army Ten Miler, for sure. And if I find a race between now and then, I'll enter," he said.



Welcome to the AFRH. Since 1811, America's Veterans have found safe haven here in retirement. Back then, the leaders of America made a Promise to safeguard our old and disabled soldiers. So, the leaders of this agency are vigilant in preserving that Promise – and the original Trust Fund that ensures the residents an affordable retirement.

Over the years, the Home has evolved into a modern retirement community, rivaling those in the private sector. We have made great strides transforming this agency, operating it more like a business. Plus, we have continually enhanced our programs and services to provide even greater care. Today, our staff is driven to nurture our country's war heroes, providing them with enjoyable and stimulating programs. Because, after all, now is their time to thrive.

This Report is a vehicle to celebrate our rich heritage and share our recent progress with the community. It also helps us meet various reporting requirements for US Government agencies*. Best of all, this Report is an opportunity to tell the American people about the exciting changes that will soon be taking place at our fine facility.

At present, the AFRH is poised to prosper. Over the past year, we safely transferred 351 Gulfport residents to Washington in the wake of Hurricane Katrina. We boosted our DC services accordingly, while also drastically cutting costs. Plus, we made prudent investment decisions for the AFRH Trust Fund, which have greatly boosted its balance. And, with the fate of Gulfport hanging in the balance, Congress recently approved \$236 million in Supplemental Funding for its rebuild.

Indeed, our recent success has put us in a very formidable position. Now is indeed the time to thrive – for this agency as well as its honored residents. So, now we march forward with a renewed resolve – eager to rebuild Gulfport and explore options for growth and expansion of the Home. Our ultimate goal is to create a dynamic, mixed-use network of military Homes. In short: "The AFRH of the Future."

For now, this Report highlights major events from the last Fiscal Year (Oct 1, 2005 – Sep 30, 2006). Yet, it also examines the ongoing dynamic process that has transformed the AFRH. This all began in 2002 with the creation of our Vision, Mission, and Strategic Goals. These key drivers are reviewed annually and refined regularly. Our process continues with program planning, budget formulation, Congressional presentation and budget execution. Then, it all culminates each year here in the PAR.

In these pages, we will provide a detailed summary of our performance in FY05. We'll outline our progress on goals, management and budget – while including detailed performance measures and financial statements. Further, we'll feature our management's challenges and the plans to overcome them ... as well as future opportunities and the plans to leverage them. From all of us at AFRH, thank you for your support.

The Time to Thrive

After this Introduction, this PAR contains four key sections:

Part 2: Management's Discussion & Analysis

This section is a broad overview of our performance featuring achievements, initiatives and resources. Plus it outlines our response to challenges, high-risk areas identified by staff and outside entities as well as our PMA progress.

Part 3: Performance

Here, we provide detailed progress toward the goals and objectives in our Strategic Plan and Performance Management Plan. Also, we describe actions the Home will take to meet the goals that have not yet been achieved.

Part 4: Financial

This part includes all AFRH financial statements to verify fiscal responsibility. Plus, we feature an in-depth audit of these statements by independent accountants (in accordance with government auditing standards).

Part 5: Accompanying Information

Finally, we will feature extra information to help round out this thorough report. This includes the Inspector General's Statement, management Challenges, Improper Payments and a Glossary of Acronyms

* 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.

Management Discussion & Analysis

When Frank Nelson tells fond Navy stories, he transports you back to 1942.

“I can still see my shipmates, just as they were. Courageous,” he said. Frank

served three years in the South Pacific on the USS Foote. This famed battleship

is one reason America won. “We got credit for sinking a Japanese destroyer.

Radar was our trump card – they couldn’t see us at night!” Yet, the Solomons

Campaign was cut short when a Japanese torpedo hit the Foote’s fantail –

destroying 55 feet and killing 19 gallant men. “I watched my buddies’ faces

as they died,” lamented Frank. The blow, while nearly fatal, didn’t destroy the

Foote. A fast-acting fleet got her to Purvis Bay for repairs – and she and her crew

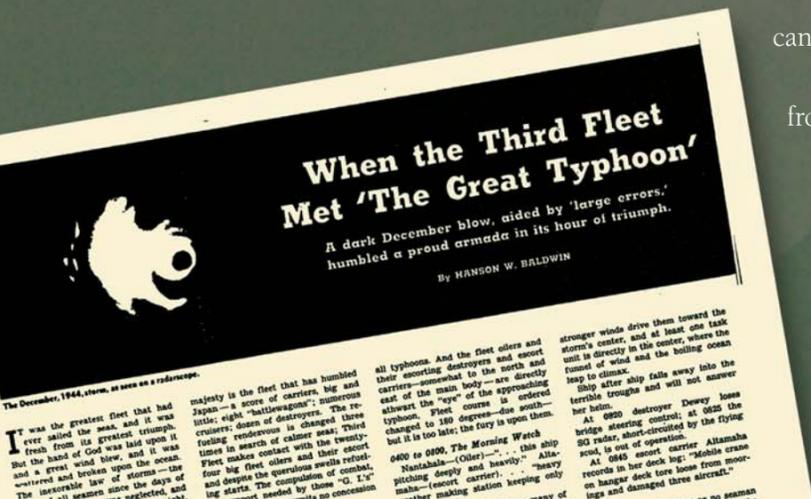
returned to the Pacific in fighting trim to join the Philippines assault. Today, Frank’s active

in the Foote Association and enjoys shipping off to the racetrack now and then. “Our ship

reunion is this November in Orlando: 15 out of 300 are still alive.” Which means many more

can hear firsthand battle tales

from ‘the Greatest Generation.’



The Liberty to Preserve

For more than two centuries, our nation has been a beacon of liberty for the civilized world. President Ronald Reagan even called America “a shining city on a hill.” Truly, our service men and women have played a vital role in keeping America a bright source of freedom around the globe. Through hundreds of campaigns and peacekeeping missions – not to mention in times of peace – our troops have been there to defend democracy.

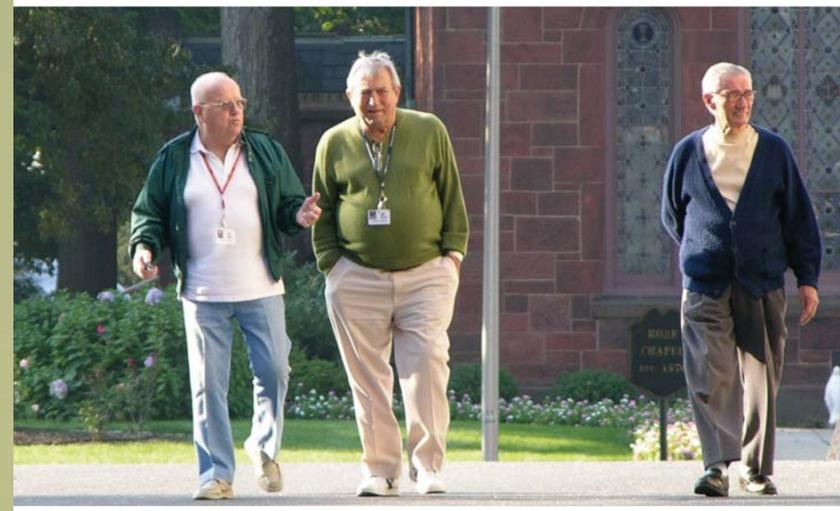
Why, at this very moment, several military campaigns are promoting liberty abroad – creating a new generation of Veterans. All of which are paying into the AFRH Trust Fund via monthly payroll deductions, plus fines and forfeitures. This makes honoring the original Promise to care for our retired military especially vital. Because one day, our current enlisted may be calling on us to safeguard them.

The Management's Discussion & Analysis is a broad overview of the current status of the AFRH, as introduced by the Chief Operating Officer (COO). It is also an analysis of how we will propel the Home into the future. This section is required as supplementary information for the financial statements. As you will see, our COO and dedicated staff continue to offer the residents exceptional support and care. In marching forward, we will be spearheading a variety of innovative new programs for yesterday's legends ... and tomorrow's heroes.

Message from the Chief Operating Officer

The Will to Achieve

I am pleased to present the AFRH “Performance and Accountability Report” for FY06. It features our exciting developments and unique challenges over the past year. As fate would have it, Hurricane Katrina created both. When she forced us to evacuate our Gulfport home, we mobilized to survive. Soon, overcoming the challenges to endure shifted into seeking new ways to thrive. All of which has made the past year partly anxious, sometimes joyous and mostly fruitful.



From Surviving to Thriving

Throughout 2006, we demonstrated our resolve to uphold the Promise Congress made in 1811 to care for our retired Veterans. Recovering from the Gulfport closure and absorbing the uprooted residents in Washington was met with swift, decisive action. We provided them with shelter, necessities and security in the face of uncertainty. Plus our warm reception in DC was reassuring in the

midst of a major life disruption ... especially when you consider their advanced years. In the end, many Gulfport residents truly felt they had come “home.”

To accommodate the extra residents, we reopened a building for temporary housing, enhanced existing services, expanded transportation and added a mobile dental unit. For all those those in need of memory support, we created an Adult Day Care Center with Katrina Supplemental Funds. Then, we designed an Assisted Living area and Memory Support unit to be built soon. Given our dedicated staff and proficient management, these efforts literally stemmed the tide of disaster.

The Plans for Progress

Soon after, Congress requested a Gulfport action strategy. We outlined five viable options in a Special Report in February 2006. Also, we were asked to participate in an Options Review Committee to submit recommendations to Congress. This board included members of the VA and DoD, plus the President of the Resident Advisory Council (a former Gulfport resident). Then in May, management held an offsite to reflect on the strenuous pace of the prior year. This helped refocus our efforts on what was becoming a new configuration at AFRH. At last, we altered our course – and ever since, the Home has been at full steam ahead.

At year's end, we saw great progress on our Strategic Goals and E-Gov. Also, we moved forward on our Washington Master Plan, which offers the campus vibrant change and promises to raise sufficient capital for future generations of Veterans. Thanks to the support of Congress and its Supplementals, we can look forward to deploying our Gulfport Master Plan and rebuilding the campus.

Achievements in 2006

This Report presents complete, reliable information that holds our

programs and finances to the highest standards of accountability. We are pleased to have earned JCAHO's Gold Seal of Approval™. Further, we responded with positive actions to the Triennial Inspection by the Office of the Air Force Inspector General.

To build an AFRH of the Future, we focused on:

- 1) Recovering from the impact of Hurricane Katrina
- 2) Consolidating all services to the DC campus
- 3) Preparing for a brighter, bolder future, and
- 4) Modernizing to leverage the advantages of E-Gov and the Internet

Creating Resident Value

In all we do, we are mindful to manage the Veterans' resources in a responsible and effective manner. This Report shows how we are giving them the best possible service for a prosperous life. Our well-rounded offerings satisfy their needs for stimulating activities and reliable healthcare. Meanwhile, our unique atmosphere of military camaraderie offers them tremendous support. Truly, our Veterans have found their peace – and now is their Time to Thrive.

In closing, I am happy to report the AFRH is thriving, remains financially independent and faces the future with renewed vigor. We have an impressive record of achievement in safeguarding the men and women who so bravely defended our freedoms. I am proud of our performance – and I hope our fellow-Americans are proud of this organization and the Veterans who call it home.

“

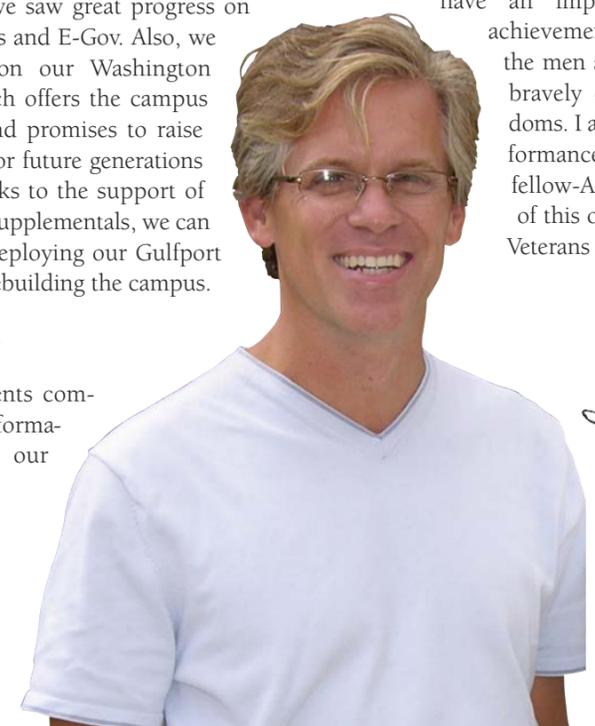
I'm happy to report the AFRH is thriving, remains financially independent and faces the future with renewed vigor.

”

—Timothy C. Cox, COO

Sincerely,

Timothy C. Cox
Chief Operating Officer (COO)
November 15, 2006



The Mission to Promote

Today, we continue to provide shelter and care for eligible residents, as they grow old. This demonstrates to today's soldiers – and tomorrow's Veterans – that their service and sacrifices won't be forgotten. Just as our brave young men and women helped save the world from fascism in the 20th Century, today's active duty can fight for and preserve our way of life – knowing their country will repay them for their dedicated service.

And for good reason. Currently, the pool of eligible residents is growing fast. Many Korean and Vietnam War Veterans are rapidly approaching retirement age. Yet, this new generation has much different needs than those of a generation ago. So it is essential that we map out a viable business plan to fund those changing needs. Then, we'll truly fulfill the Promise Congress made nearly two centuries ago. And we will go from an organization that's merely surviving...to one that's truly thriving.

Now, more than ever, the AFRH and Congress are bound to honor that Promise, the Home's heritage and the fine tradition of the US military. Our ultimate goal is to build upon that legacy – and provide even greater service to our nation's heroes in the future. This includes enhanced technology, improved healthcare and modern amenities that rival those of private retirement homes.

Corporate Philosophy

Over the years, the original Promise has been embodied in new ways. Our current Vision and Mission are strongly rooted in the Home's heritage – yet they also incorporate modern philosophies in senior care. What's more, the AFRH Guiding Principles were crafted to preserve the Home's roots, while also serving as a guide to help us achieve the Mission. Ultimately, these smart strategic tools will help us meet the needs of a new generation of Veterans.

Vision

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

Mission

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

Guiding Principles

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



Strategic Plan

The Armed Forces Retirement Home is a premier retirement community and continuing care provider for eligible US Armed Forces Veterans. We proudly serve them with the same level of honor and commitment that they demonstrated in serving our country. To fulfill our mission, we have defined our Strategic Goals across five major areas:

Strategic Goals

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

The AFRH Strategic Plan was updated in 2006 to reflect our renewed dedication to the AFRH Guiding Principles. And it is available online at www.afrh.gov. Our five Strategic Goals help us chart a course to a successful future. They also serve as the foundation for specific performance objectives – which are connected to initiatives in the President's Management Agenda (PMA).

The AFRH heeds the guidance in the PMA and we continue to make significant progress on each of these five Goals. The Home has not officially submitted for evaluation. However, every year since FY 2004, we have conducted a self-assessment as of September 30th.

As a small Federal agency, AFRH has focused on one initiative per year:

2004: we worked diligently on Competitive Sourcing
 2005: we spearheaded Strategic Management of Human Capital & Improved Financial Performance

2006: we focused on Expanded Electronic Government

In the Performance Section, we discuss Strategic Goals in detail.

[From Public Law] –
 24 US Code, Section 411
 Establishment of Armed Forces Retirement Home

(b) Purpose – The purpose of the Retirement Home is to provide, through the Armed Forces Retirement Home-Washington and the Armed Forces Retirement Home-Gulfport, residences and related services for certain retired and former members of the Armed Forces.



"Life here is beautiful. The living conditions are great and everything is at our disposal. Even the PX here."

—Maurice Taylor
 (Ret. Army Sergeant, 20 years)

The Structure to Succeed

The AFRH is an independent establishment of the Executive Branch of the Federal government. Ours is a unique Federal agency that closely resembles a private sector Continuing Care Retirement Community (CCRC). We serve enlisted and Warrant Officer retirees, plus eligible Veterans.

The Home is financially independent and wholly funded from the AFRH Trust Fund. Our COO is subject to the authority, direction and control of the Secretary of Defense, to the Under Secretary of Defense (Personnel & Readiness).

Our core business is to operate a premier retirement community with exceptional

Operational Background

In 1992, the Armed Services deemed that operating retirement communities was not “mission-critical.” So, the two Homes were realigned through the Armed Forces Retirement Home Act (Public Law 101-510). This Act combined the US Soldiers’ and Airmen’s Home with the US Naval Home under one Federal agency, while retaining two distinct locations.

In September 2002, the DoD hired a COO with private industry experience to facilitate our evolution. At the time, AFRH had two distinct campuses that lacked a single set of standards,

The Ability to Focus

The “One Model” was embodied in the AFRH strategic goals and objectives. In recent years, we’ve identified our “core competencies.” They have helped us decide whether or not to build internal capacities or to seek competitive sourcing for certain functions. Also, AFRH has integrated new systems to reduce duplication of effort, error and uneven workload agency-wide. The transition years for these systems were 2004 and 2005.

The new “One Model” was put to the test by multiple outside examiners who verified our progress in FY05. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) conducted a survey of Gulfport in March 2005 and of Washington in October 2005 – and awarded both campuses its Gold Seal of Approval’.

Forward Progress

Positive outside verifications have also affirmed the strength of the “One Model” as a driving force in evolving the Home. Ever since its inception, we have shown great progress – staying on track with objectives through many recent changes. The most dramatic change came in August 2005, when Hurricane Katrina forced the closing of our Gulfport campus. Even in the whirlwind of this cataclysmic event, the “One Model” provided us with a clear path in consolidating our services.

During the cleanup of Gulfport, The “One Model” helped us consolidate resident services in DC and continue to forge ahead.

The “One Model” approach serves both campuses:



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

resident quarters, advanced healthcare, and essential social services. The Home provides a host of recreational, entertainment and creative programs rooted in the health and wellness philosophy. For our residents, it all means an enjoyable, well-rounded retirement.

policies and procedures to operate as a unified agency. Therefore, the new COO proposed a “One Model” standard operating environment. Since its inception, this new “One Model” has enhanced accountability and promoted the highest quality service to our residents.

Both campuses have the same management structure:

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

*These functions were realigned to Agency level during FY06.



The Homes to Nurture

Scenic Gulfport, MS

This scenic campus spans 49 acres of ocean-front property on the Gulf of Mexico. Many of the residents and visitors relish the temperate climate and friendliness of the south. This Home was originally established in Philadelphia as the US Naval Asylum in 1833. After 143 years, it was relocated to Gulfport in 1976 – where it became a home for all of the Armed Forces. As such, this Home remains the oldest Veterans retirement home in the US.

Historic Washington, DC

When visitors enter the Washington campus for the first time, they're stunned by its wooded acreage, rolling hills, majestic views, tranquil ponds and historic landmarks. In a warm country setting, the Home is just minutes from the US Capitol, White House and other Washington landmarks. This tranquil environment has served as the temporary residence of several US Presidents, including the summer home of Abraham Lincoln. Four original buildings still stand on 2.3 acres and are listed as National Historic Landmarks. Today, the campus spans 272 lush acres with over 100 unique buildings and structures – including the "National Landmark District."

STATUS: Rebuild Plan Underway – Temporarily Closed

Before August 2005, AFRH-Gulfport had a capacity of 609 rooms in a multi-use 11-story tower. When the storm struck, our staff mobilized to evacuate nearly the entire resident population within 24 hours after the storm had passed. Two days later, our Mississippi residents were welcomed by a battalion of supportive residents, military personnel and neighborhood volunteers at the main campus in Washington. Many tears were shed on that day ... many in sadness, yet many more in heartfelt gratitude.

STATUS: Residents Consolidated – Open for Business

After Katrina, our staff was charged with the monumental task of transporting the Gulfport residents and caring for them in DC. Through Public Law 109-62 (the second Katrina Supplemental funding), Congress supplied \$6 million to aid AFRH in this effort. With this money, we purchased supplies, furniture and contractor support to reopen the Pipes Building and house the relocated residents in September 2005. A year later, we closed Pipes because its aging infrastructure is too expensive to maintain. As a result, the current capacity in Washington is 1,323 rooms in three residential buildings: Scott, Sheridan, and LaGarde.

Forging Ahead

Our greatest challenge 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 fiscal 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 we may continue our mission.

Supplementals

The third Katrina Supplemental funding (Public Law 109-148) included \$20.8 million to sustain relocation efforts and fund the necessary expenses. This supplemental funding also allocated \$45 million for planning and repair efforts in Gulfport and to begin restoring the facility to full occupancy. At the request of Congress (per House Report 109-359), AFRH created and furnished a Special Report to Congress that presented several options for consideration.

With the supplemental funding we received from Congress, the Home is now strategically poised to maintain and expand its fundamental role of serving our nation's eligible military personnel. To do this, AFRH must first build the "AFRH of the Future." As we prepare for a revival in the 21st century, we are focused on leveraging mandated government healthcare programs (Tricare, Medicare and Prescription Drugs). Yet, our niche will be our Guiding Principle – promoting the Home's military heritage. Here, residents will find camaraderie and enjoyment being "among their own."

Congress has appropriated funds for the replacement of the damaged facility in Gulfport. Over the next five years, the precise configuration of the campus footprint will emerge.

Summary

In short, we must live up to the original Promise to care for our Veterans – and grow the Trust Fund that supports them. The most viable way is for AFRH to evolve is to directly compete with private retirement homes. Together, the AFRH residents and staff can advance into the future ... our Time to Thrive.

Doris Jones takes a cruise on her three-wheeler. She's a former Army Master Sergeant and enjoys bicycling to keep her legs strong. If you're respectful, she may just give you a lift.



Our golf course is an oasis in the heart of Washington. It features 9 holes, many mature trees, geese, swans and the occasional deer.



"The holidays helped renew our tender spirits and our faith in the future. For many former Gulfport residents, this special time symbolized a new beginning in life."

— Ben Laub,
Director of Washington
(with resident Viola Grubb)

The Defenders to Support

The AFRH is more than a group of buildings that house military Veterans. The Home is a dynamic, thriving community of men and women who have served our country with steadfast devotion. Over the years, tens of thousands of Veteran soldiers, sailors, airmen, Coast Guard and Marines have lived on these grounds. Each soul has a unique story – filled with sentimental anecdotes and fascinating battle memories.

A scenic stroll across our campus often elicits a spontaneous conversation with one of our engaging Veterans. Many enjoy reliving their glory days while serving Uncle Sam. Yet, many more are guarded ... often reluctant to speak of the more painful events that took place in The War.



Providing a Safe Haven

Regardless of their age, background or Branch of service, all of our residents desire a fulfilling retirement – filled with meaning and purpose in life. So to meet their needs, we strive to enrich their daily routines ... to challenge their minds and bodies ... and to provide companionship and camaraderie in a supportive community setting.

We offer a variety of programs to promote the residents' overall health and wellness. This includes social, recreational and occupational activities for nearly any interest. For instance, our residents routinely enjoy dances, movie nights and trips to the Smithsonian. Avid golfers take advantage of our sprawling 9-hole golf course, while others compete in the Bowling Alley each Thursday afternoon. Many more residents indulge their creative side at

our Wood and Ceramics Shop. And a legion of our residents frequents the Library every day.

All the Necessities

Our residents have access to daily necessities – which is why the DC campus is literally “a city within a city.” It has everything a resident could need for daily living: banks, chapels, a post office, PX, laundry facilities, a barber shop, beauty salon, several dining halls, 24-hour security staff, plus private rooms with cable TV and telephones. Not to mention scenic, sprawling grounds for walking, reflection and solace.

As we advance into the future, we'll continue to develop innovative services for our residents. Our final charge is to make this phase of their lives the most vibrant and enjoyable ever.

Eligibility

Any person is eligible to become an AFRH resident if their active duty service in the military was at least 50 percent enlisted, Warrant Officer or Limited Duty Officer* Further, a person must also:

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

*in accordance with US Code 24, Section 412 (24USC412) and determined under rules prescribed by the COO



Veteran Daniel Funk greets British officers at the WWII Memorial in a special wreath-laying ceremony organized by the British Embassy.

Growth Potential

We are driven to provide the best service to our residents. This is only possible through vigilant, widespread efforts to increase revenue and reduce costs. Likewise, our fiduciary responsibility and fiscal accountability helps maximize our available resources – further ensuring the best interests of our residents and stakeholders. Yet, the key component of the Home's basic financial strategy is to realize significant net growth and stability in the Trust Fund. This will help us continue to raise our high standards to even greater heights.

The Hurricane to Overcome

Katrina Impact

With little warning, Hurricane Katrina slammed the US Gulf Coast in August 2005 – causing the evacuation and temporary closure of our Gulfport campus. Since then, hundreds of volunteers and government workers have aided the massive clean-up effort. This includes the good people at FEMA, the Seabees and our staff, plus Gulfport volunteers, clubs and agencies. Together, we removed the debris from the campus grounds. What remains are the damaged buildings, grounds and fixtures.

The hurricane forced us to shift our attention from enhancing the overall organization, to preparing the Washington campus for an influx of evacuees. This exhausting ordeal tested the limits of our staff and residents. And it forced us to retool our strategy, so we could maintain the ground we've recently gained. But, to truly thrive, the AFRH had to change and adapt again, just as it has done over the past two centuries.

Katrina even decimated our historic Gulfport chapel. Yet, miraculously, all 10 custom stained-glass windows survived. All were designed by the renowned Willet Stained Glass Studio in Philadelphia for \$140,000.



The Staff to Sustain

Our dedicated workforce is a big reason why the residents thrive. Our staff will routinely go the extra mile to create a new program, improve an existing service, or simply offer a kind word to brighten a resident's day. With the help of our great people, we have been successful. After Hurricane Katrina and the closure of Gulfport, we transferred some of our Gulfport staff to Washington. Many of those fearless employees were a great help during the transfer and transition.

All told, we kept our entire Gulfport staff on administrative leave for six months after Katrina struck. This helped them all maintain an income in a totally devastated region. We further helped by providing training and workforce transition for those unable to continue in their field. We even supplied onsite training and support to the distressed Gulfport area.

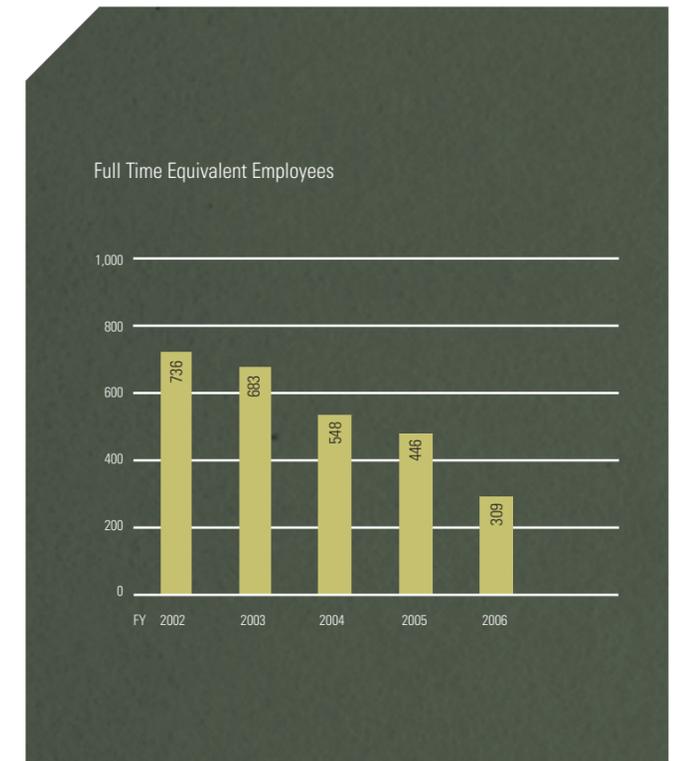
Staying Solvent

Alas, we could not sustain the added staff in Washington for the long haul. We soon realized the Gulfport campus would remain closed until reconstruction is finished – perhaps in a few years. So, we underwent one reduction in force of the Gulfport personnel.

A total of 231 policy directives from Gulfport have been cancelled. AFRH directives are being coordinated and published – and will apply to Gulfport and/or other campuses should they be opened.

The resident surge in DC caused various inefficiencies. We were constantly modifying our contracts and were shorthanded with specialized staff. So, we will need to put our workforce back to acceptable levels.

The chart below shows our anticipated staffing based on the best information available as of this writing. Fortunately, we will be planning to add staff members when Gulfport reopens in the future. But, for now, the Washington campus is the focus of all AFRH operations.



AFRH Medical Director Dr. Sissy, (right) cuts it up at the close of a productive offsite meeting. CFO Steve McManus and the AFRH staff look on.

The Performance to Propel

The Home realized solid progress in FY06, despite many distractions. Our ultimate hope is to continue to make even greater advances – so that our Veterans will be just as proud of this organization as we are of them. With that in mind, we march forward with steadfast determination to meet and exceed our Strategic Goals.

During FY06, we pursued our Strategic Goals, which are squarely in line with our Mission. These Goals are linked to the Performance Plan for all staff members – via

unique campus objectives, initiatives and agency leadership roles. Further, we created the AFRH Corporate Business Plan for both campuses – which will guide our staff to ultimately fulfill the Mission.

This section highlights the most significant AFRH performance measures for FY06, as identified by our management and related performance results. A detailed discussion of our key actions and results can be found in the Performance Section.

KEY ACTIONS: **35% Achieved (34)** **36% In Progress (35)** **29% Started (28)**

Strategic Initiatives

In line with the AFRH Strategic Plan for 2006-2010, we have refined our corporate Strategic Goals. Each goal has specific and measurable objectives – with corresponding Key Actions to ensure our steady progress.

Regrettably, the impact of Hurricane Katrina and the ensuing recovery affected our progress in FY06. Our steady advances quickly slowed when we were forced to relocate the Gulfport residents. Then we refocused our efforts and gained momentum on our Strategic Goals as we reached the end of the fiscal year. At this time, staff members became consumed with achieving them.

Results Summary

The Home strives for great results through its five Strategic Goals, 41 Objectives and 97 Key Actions. Yet, 2006 was a year filled with emergencies and uncertainty. Given the surprises we endured in the wake of Hurricane Katrina, the Home has shown remarkable flexibility and achievement toward its Goals.

Success Areas

Two areas of progress were in Financial Growth and in Exceptional Service. In fact, we improved fiscal management, plus we achieved our IT security certification and accreditation. This success story is highlighted in the PMA section below, under Expanded Electronic Government (E-Gov). As you will see, it shows the link between AFRH strategy and the PMA.

At a key management offsite, we addressed many corporate initiatives. Together, we initiated our AFRH Guiding Principles and formed action teams for resident service. In general, this offsite helped the staff re-energized its efforts to focus on residents' needs. In fact, our Memory Support Day Care is almost completed.

Resident Feedback

Our teams generated surveys to gather resident data. One survey garnered more than 200 responses, noting satisfaction in most areas. Concerns entailed transportation and living accommodations. While neighborhood location, dining services, and healthcare were cited as not meeting expectations. Further, a recreation survey is taken each year. Once again, the Library is the #1 preferred service on campus. Now, exit surveys are routinely given to residents as they leave, so we can make further enhancements. Also, one-on-one personal exit interviews were initiated.

We've taken bold steps to provide better service in all areas of concern – from process improvements and new dining menu items – to added transportation routes and familiarizing residents with Washington, DC. A service pilot program began in the Health and Wellness Center to assess wait times and service perceptions. Data collection over 30 days revealed smooth appointments for health problems, but delays waiting for the checkups required to renew prescriptions. So, our staff is now focusing on those areas for improvement.

"I just love the dances they throw here. They give me a chance to brush up on my Jitterbug, Cha-cha and Swing."

— Frank Migala (Ret. Army)



FY06 Performance Results

Objective	Key Actions Started	Key Actions Progressed	Key Actions Advanced	TOTAL	
GOAL 1 - Financial Growth:					
Create net growth and stability for the AFRH Trust Fund					
FG-1	Increase revenue resulting in a net increase.	3	8	9	20
FG-2	Reduce costs resulting in a net increase.	9			9
FG-3	Enhance fiscal management.		2	7	9
FG-4	Change corporate operating model.			5	5
GOAL 2 - Exceptional Service:					
Enhance the AFRH experience to enrich the quality of residents' lives.					
ES-1	Craft a resident-focused environment with service measurements.	4	4	7	15
ES-2	Enhance customer satisfaction through vibrant community outreach.		2	4	6
ES-3	Promote resident vitality and independence as long as possible.	1	3	1	5
GOAL 3. Improved Processes:					
Modernize operations to leverage and maximize resources across AFRH.					
IP-1	Simplify and standardize processes.	3	2	1	6
IP-2	Optimize our use of technology solutions.	1	5		6
IP-3	Increase timeliness and satisfaction with communications.		3		3
GOAL 4. Learning & Growth:					
Promote personal excellence and professional growth for all personnel. Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA and JCAHO requirements.					
LG-1		2			2
LG-2	Develop and manage workforce talent.	1	1		2
LG-3	Develop a strategy for employee professional development.	3	1		4
GOAL 5. Culture of Integrity:					
Inspire commitment to AFRH Guiding Principles through mutual respect.					
CI-1	Increase teamwork and cooperation among AFRH employees.	1	1		2
CI-2	Engage and motivate the workforce.		3		3
TOTALS		34	35	28	97

RESULTS

Management Challenges

Katrina Recovery

At the end of FY 2005, AFRH faced an uncertain future. Hurricane Katrina suddenly forced the closure of the Gulfport campus. And virtually all the residents were separated from their personal items. More than half of the residents accepted the generous offer of temporary residence in Washington. So our staff scrambled to accommodate them with living quarters, proper furniture and adequate services. This chaos, along with the miraculous and safe rescue of the Gulfport residents, was highlighted in the AFRH FY05 PAR.

Providing housing and care for the relocated residents consumed this organization from Oct. 2005 – Jan 2006. Consolidating services from two campuses inflated our medical, dining, healthcare, transportation and resident services. Contracts had to be expanded and then trimmed – as the number of residents swelled and then shrank, as some decided to leave. Also, supplying basic necessities was a top priority – like toiletries, radios, clocks, lamps and other creature comforts that were left behind in the foamy wake of Katrina. And buying obvious new items was in order – like winter coats and galoshes, given the climate change. All told, these exhausting efforts became our consuming focus in FY06.

Lapse in Momentum

Indeed, AFRH made great progress in prior years: from improving our core business processes and reducing staff size ... to competitive sourcing and reducing our campus "footprint." Yet, uncertainty has loomed throughout the AFRH this year – most of it surrounding the fate of Gulfport. To stay on track, we looked to the Guiding Principles of the AFRH. One states: "We will manage our resources while continuing to provide the highest levels of care and services to residents." With our Principles as a guide and with generous support from Congress, AFRH is now moving forward.

Supplemental Funds

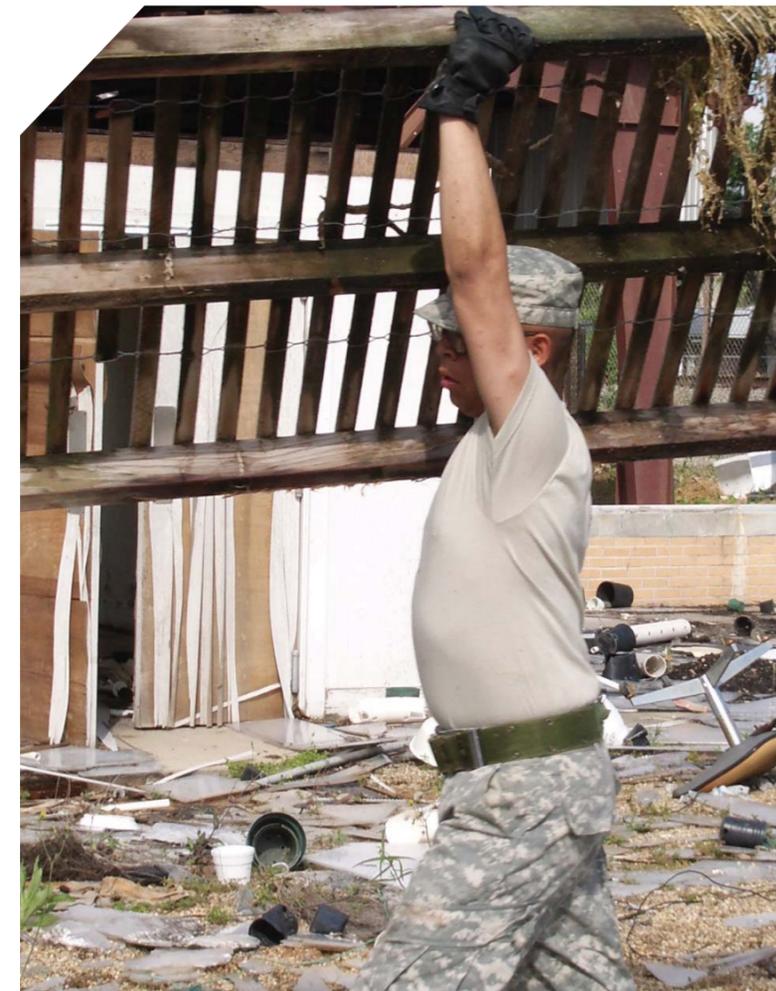
\$6 M initially given to move residents

\$65.5 M
 \$45 M to plan and design Gulfport
 \$20.8 M to house displaced residents in DC

\$176 M to rebuild the Gulfport complex

To accommodate the surge of residents in DC, \$10.8 million of Katrina funds are being used to develop a Memory Support unit, improve Assisted Living facilities and more. Katrina funds were also used to help transfer personal items to Washington and other locations in the US, where former Gulfport residents now reside. Thankfully, many volunteers helped boost these efforts.

The Seabees were true lifesavers in the aftermath of Katrina. They helped clean up the campus and salvage our valuables.



After Hurricane Katrina, various appropriated funds were authorized to AFRH to support our transferred Gulfport residents.

In FY06, these funds were used to:

- Establish a Mobile Dental Clinic
- Increase the number of nurses on contract
- Recondition resident rooms in the Pipes Building (formerly mothballed)
- Store the residents' personal belongings
- Purchase resident database software
- Acquire additional furniture and air conditioning units
- Pack and ship Gulfport residents' personal items to DC and elsewhere
- Make extra Assisted Living and Long Term Care renovations
- Augment local transportation services

Future Planning

Congress requested that we create strategies for the future of the Gulfport campus. So, in a Special Report to Congress, dated February 28, 2006, (per House Report 109-359) to provide options for the future of AFRH) one option was to construct a brand new campus. Fortunately for the AFRH, Congress has appropriated funds to rebuild the Gulfport facility in May 2006 (per Public Law 109-234). And our residents and staff are forever grateful.

Moving forward, GSA is the agent for the construction and has already begun work with AFRH. So far, GSA has appointed a program manager and, with AFRH managers, has visited the Gulfport site three times since the above law was enacted. The next step is the appointment of a GSA onsite project manager. A Memorandum of Agreement (MOA) between GSA, AFRH and NAVFAC is being negotiated along with the requirements for the building.

"Goldy" is an avid leatherworker, making belts, satchels and cutlery cases. He served in the Army Guard, the Marine Corps and the Air Force. Overall, he says he's satisfied with his life here.



Marian Powers celebrated her 83rd birthday on top of the world. Literally. She jumped out of an airplane at 13,500 feet, did a triple summersault, entered freefall for a minute and coasted to the ground.

"Since 1942, I have dreamed of going skydiving!" Marian said. But why on earth (or off it!) did she wait so long?!? Well, she first developed a passion for it in the Navy WAVES – at parachute rigging school in Lakehurst, NJ. There, she underwent 12-weeks of intense training.

The program was the same for all, with one exception: at the end, men were required to jump, while women were not permitted. Marian mused, "They always said, 'sometime in the future, you may be allowed to jump.'"

Marian's diligence advanced her to Chief Parachute Rigger by January 1946. Yet, fate put off her long-deserved jump. She fell in love and married her sweetheart "Skeets" a month later. And by June, she became pregnant and was discharged. Alas, her dream was put on hold. Nearly 60 years passed. On a visit to her daughter's in Palatka, Fla., Marian saw skydivers jumping and read about them in the paper. That was it. At once, she went to the airport

and booked her jump for November 3rd – her 80th birthday. (Another famous Vet also parachuted on his 80th birthday: George H.W. Bush, our 41st President.)

Finally, the big day arrived for this great-grandma of four. Wearing a lavender and hot pink jumpsuit, Marian took off for the wild blue yonder with her grandson Chris, instructor Ralph, two photographers and five jumpers. All of which sang 'happy birthday' to her on the flight up.

"I don't know how I made it to the door, Marian said. "But over the cold, brisk wind in my face, I heard, 'One, two, three, Jump!'" After freefalling for what seemed a lifetime, she felt a jolt – the chute opened. She coasted to the ground smooth as silk, doing just what Ralph told her. After kissing Skeets, she promptly told Ralph: "I'll be back again in 2022 – for my 100th birthday!"

It turns out Marian came back three years later, for her 83rd birthday – and did another spectacular jump. "I had waited 60 years – why wait another 20," Marian chuckled. Well, it just goes to prove: you're never too old to try something new.

The Targets to Hit

2006 Performance Measurement

Each Federal agency is required to certify the completeness and reliability of its performance data and describe the means used to verify and validate that data (per The Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000). So, many of our performance areas have undergone independent reviews by the Air Force Inspector General, Office of Personnel Management (OPM), the Bureau of Public Debt (BPD) and JCAHO.

Financial Data

During the financial audit of FY06, various tests and reviews of our core accounting system were conducted and reported in the SAS 70 – as required by the Chief Financial Officers Act.

Controls & Procedures:

We use a variety of measures to assess our effectiveness and achievement:

Business Measures:

- An increase in the Trust Fund value
- A rise in resident occupancy
- Savings through initiatives
- Reductions in space & land usage
- Donations from community partners, non-profits & foundations

Customer Satisfaction:

- An increase in completed Surveys
- Improvements in health & wellness
- Enhancements to the facilities
- Supplemental services

Employee Satisfaction

- A boost in Performance Evaluations
- Integration of the Volunteer Program
- Updated policies & directives



Paul Dwyer of the Pentagon Foundation mingles with resident Marion Marques at the "Night of Heroes" black tie. This annual gala salutes past and present wartime heroes, while raising money for wounded military personnel.

External Benchmarks

As a healthcare provider, AFRH is required to meet the standards developed by national organizations that accredit health facilities. In FY06, JCAHO awarded AFRH-Washington a Gold Seal of Approval™. That distinction was in addition to the success in FY05 at AFRH-Gulfport as well as positive feedback given during two separate on-the-spot inspections at both campuses.

Also, our Dining Services unit has a profound and positive affect on the health of our residents. As such, it must comply with JCAHO food and preparation quality standards – as well as the Food and Drug Administration's Food Code. Plus, we also abide by sanitation standards enforced by the US Army during their sanitation inspections.

Finally, The Office of Personnel Management (OPM) conducted a routine inspection in September 2006. While the final results are not yet known, the team did comment on the excellence of the service provided by the Bureau of the Public Debt and that our employees are pleased with it.

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. During FY06, AFRH underwent a rigorous inspection of its IT security by the BPD.

"I have a 50-year habit of exercise. Everyday. And I wouldn't do it if I didn't love it!"

— Jerry Stahler
(Ret. Air Force, E6)



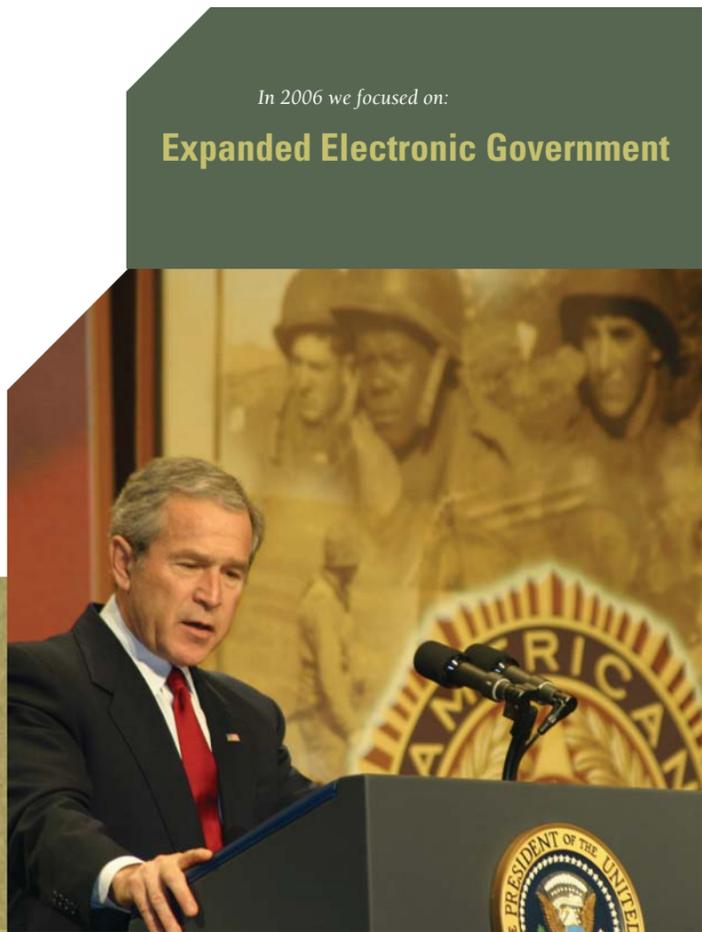
The Wisdom to Manage

The President's Management Agenda (PMA) is a strategic tool to improve the management and performance of the Federal government. Since 2001, five government-wide Initiatives have been the standard against which agencies develop and implement action plans. (See below.)

The AFRH heeds the guidance in the PMA – and we continue to make significant progress in each of the five initiatives. The Home has not officially submitted for evaluation, but every year since FY 2004, we have conducted a self-assessment as of September 30th.

"There are few items more urgent than ensuring that the Federal government is well run and results-oriented."

— George W. Bush



PMA Initiatives for AFRH

Initiative	Progress	Status
Strategic Management of Human Capital	●	●
Competitive Sourcing	●	●
Improved Financial Performance	●	●
Budget and Program Integration	●	●
Expanded Electronic Government	●	●

● PROGRESS ● STATUS

Strategic Management of Human Capital

Background

The goal of this initiative is to build, sustain and effectively deploy a workforce that is skilled, knowledgeable and diverse. In the process, agency strategies are aligned with the corporate mission, vision, guiding principles, goals and objectives – yielding an organization with a high-performance culture. Such an environment will help us meet our current and future needs. And truly manage change and growth.

For AFRH, it all starts with good people. They are the single most valuable resource available to our leaders, as cited in the AFRH guiding principles. So, we've been building a fully integrated human capital management system to bridge the gap between the AFRH of today ... and our vision for tomorrow. We fully aligned our actions with the Home's strategy and goals. We integrated competitive sourcing to reduce Full Time Equivalents (FTEs) and boost staff quality. Plus we systematically measured performance with 100 percent of our staff's performance appraisals (which were linked to our corporate goals). All along, we remained focused on our mission.

Progress

Our performance management pilot ended in the summer of 2005 – and performance standards were going to be set for the full implementation of the Performance Plan. However, with the Hurricane's arrival, we experienced a "disconnect" in our workforce in setting standards for the new performance period. Hence, an extension of the performance period has been granted to December 2006.

To manage our human capital most efficiently, we partnered with BPD's Human Resources division to execute all HR functions. To gain insight on the effectiveness of that partnership, the OPM performed a periodic inspection in September 2006 for us. While the final results are still unknown, the inspection team did comment on the excellence of the service provided by the BPD and that our employees are pleased with it.

We're providing our workforce with more E-Gov solutions. This gives them two advantages:

- Access to E-Gov initiatives at other agencies, and
- Management tools for their own personal career

Status

The only key PMA criteria – succession strategies – has not been addressed yet. (This entails structured executive development programs that result in a rich leadership talent pool. And they are continuously updated to achieve results.) So, the progress and status scores for this Initiative are both "Yellow."



Resident Edmund Crump (ret. Air Force) is congratulated after he walks a monumental 10,000 miles. He made walking a personal fitness goal to strengthen his heart and improve his circulation.

Competitive Sourcing

● PROGRESS

● STATUS



Competitive sourcing proved to be a great recipe for faster service, healthier food and happier residents.

Status

In 2004, AFRH focused on the Competitive Sourcing initiative. Its goal: to achieve cost-savings by having public and private vendors compete for business. Here, the procedures for evaluating public and private sources are simplified. And senior-level agency leaders are encouraged to promote competition.

ARFH has actively engaged in competitive sourcing with seven such studies (six in FY04, categorized as "Streamlined." And one in FY05, classified as "Standard").

In FY06, our contracts were reviewed for efficiency, with an eye on expansion – due to the increase in residents from Gulfport. AFRH had already reduced overhead by realigning costly, non-core operations with Federal strategic partners including: Department of Treasury's BPD, Department of Agriculture's NFC, GSA and Office of Management and Budget (OMB).

The next focus for efficiency will be Community Health.* We will identify which of our services can be outsourced, plus we'll also perform a feasibility study to streamline custodial services. Later, in FY 2007, AFRH will contract one of its partners to evaluate all A-76 study contracts.

Progress

Progress on the AFRH competitive sourcing is "Green". Throughout FY06, our managers monitored the performance of contracts awarded since 2004. Certain changes were required in Transportation and Facilities Maintenance at the Washington campus, due to the extra residents from Gulfport.

Finally, all contracts in Gulfport were cancelled after Katrina.

Status

AFRH has achieved "Yellow" in competitive sourcing. Due to the Hurricane, no studies were conducted in 2006. However, the studies are slated for 2007.

**In Gulfport, we had a contract with doctors to come onsite and they billed residents' insurance. Much of the focus can be on residents' medication as we are enhancing the current system in DC.*

Improved Financial Performance

Background

● PROGRESS

● STATUS

This Initiative requires Federal agencies to ensure their financial systems produce accurate and timely information. After all, sound, reliable data supports key operating, budget and policy decisions. Plus it helps an agency achieve and sustain clean audit opinions.

In order to meet their fiduciary responsibilities, agencies must comply with a variety of laws and regulations. They must meet financial deadlines, comply with the Federal Financial Management Improvement Act, produce accurate financial data on demand and routinely assess the performance and financial data that managers use to make daily decisions. All the while, agencies must avoid Anti-Deficiency Act violations, material internal control weaknesses and material non-compliance with laws or regulations in accountability reports.

Progress

Progress is "Green." The AFRH Trust Fund balance is vital to survival of this Home. So, AFRH has made aggressive moves to improve its financial state. In FY 2004, we outsourced the accounting and contracting functions to the BPD's Administrative Resource Center (ARC). This improved our execution and stewardship of funds. The Home meets its financial deadlines and complies with all relevant regulations, producing financial information on demand.

Due to the above, the Trust Fund balance has grown dramatically – from \$94 million in 2003 to \$146 million in 2006. Plus, the audits of FY05 and FY06 produced "unqualified opinions."

Washington Master Plan

This Plan strives for sufficient revenue to support our resident-focused care. It will also help replenish the Trust Fund and give us more capital to improve our campus. The Plan also seeks to attract development at a fair market value that is compatible with the AFRH mission. In the summer of 2005, an open dialogue with the residents and neighbors began and this process is moving forward. At the end of FY06, a major milestone was reached: we chose three potential developers for the first AFRH redevelopment project.

Gulfport Master Plan

Admissions to Gulfport are closed. The cost to rebuild the campus has been funded through a Congressional Hurricane Supplemental totaling \$236 million. The GSA, through legislation and an MOA, are managing the rebuild process. In conjunction with AFRH and NAVFAC. Currently, GSA is working on how we shall proceed. Estimated rebuild time: three-to-five years.

Status

We are continuing to grow and evolve. In FY06, the Home established its Internal Control Board and Senior Assessment Team. Our IT security received certification and accreditation. And we received an "unqualified opinion" in our audit. Lastly, we received assurance through an SAS70 that validated the integrity of our management controls. So, AFRH has achieved a "Green" in Improved Financial Performance.



Edith Ellington loves creating new projects in the ceramics shop. She's made 50 "Rock-n-Roll Santas" and has sold many to the residents and staff. Edith is a former flight line mechanic in the WACS.

- PROGRESS
- STATUS

Integrated Budget and Performance

Background

This PMA initiative calls for the quarterly examination of reports that integrate financial and performance information along the lines of major responsibilities. It ensures that performance is routinely considered in funding and management decisions. And that programs achieve expected results while working toward continual improvement.

Progress

We've been working on many fronts to integrate our budget and performance. On the agency level, initiatives for the PMA have been achieving objectives, as stated. On the corporate and campus level, our Business Plan directly links performance with strategy. In fact, 100% of our performance appraisals link one or more of our strategic objectives to staff performance expectations. Although our financial accounting system and the AFRH strategic goals were not directly aligned in this fiscal year, we are moving in that direction.

Now, we are determining what portions of our operating expenses are spent on achieving our various strategic goals (Exceptional Service, Improved Processes, Learning & Growth and Culture of Integrity). Incidentally, we have studied the Social Security Administration's success in this area and we are ready to focus on this initiative in FY07. We can, however, associate our PMA successes to our strategies. So, at present, our progress remains "Yellow".

Status

The performance link – from strategy to individual manager accomplishments – continued in FY06. With delays and a reduction in force due to Hurricane Katrina, the performance management results were not finalized. So, the status for Budget and Performance Integration remains "Yellow."

He said:

"We've been married 60 years. Over the years, we've traveled the US in our RV."

She said:

"Here, it is good living! There's no cooking and no cleanup. (Unlike in the RV.)"

—Ray & Jo Colvard
(Ret. Navy & Army - WWII)



Expanded Electronic Government (E-Gov)

- PROGRESS
- STATUS

PROGRESS

Background

The PMA requires all agencies to furnish a "modernization blueprint" for E-Gov. It should focus on IT investments in key functions and define how they will be measurably improved. To achieve a "Green" in E-Gov, the plan must address: security, success measures, program management, performance goals, risk-management and cost schedule for all IT systems. Cost and schedule must be on target – and no overruns or shortfalls should greater than 10%. Plus, agencies must contribute to three of the four categories within the E-Gov Initiative.

In fall 2003, an IT assessment and needs-analysis was conducted at AFRH. The results: our IT structure was fragmented, outdated and misaligned with the agency's business operations. In fact, Washington and Gulfport tech functions operated as independent entities – often with separate approaches to business systems and operational policies. This yielded two completely separate networks that lacked redundancy and integration, driven by aging servers that ran outdated software. So, a strategic vision was established and put in action. The new AFRH enterprise platform would be aligned with the agency's mission and implemented enterprise-wide.

Progress

We've made great strides to conform to agency-wide E-Gov. We addressed key issues, many of which were identified during our last IG assessment. We greatly enhanced communications and our reduced costs. Plus, we now have transformed our in-house managed systems to externally hosted resources – and using web-based technology to the max. As we modernize, we're also conducting internal reviews of our processes. Specifically, we're looking to streamline customer response and utilize best practices.

All of this is nothing new. The Home has been addressing IT deficiencies for years. In July 2005, the DoD conducted an agency-wide IG assessment. It confirmed numerous key IT issues we had previously identified for change. Plus, it identified a few new areas for focus. This assessment helped AFRH strengthen its methodology and conform to the Federal Information Security Management Act (FISMA), the Computer Security Act and OMB Circular A-130.

Cyber Victories

- We invested resources to upgrade our network infrastructure. This exponentially boosted security awareness and IT investment accountability. It also upgraded the Internet firewall protection to an enterprise level of protection
- A massive IT asset replacement and accountability project was completed. This increased our software vulnerability management, desktop management and software/hardware management
- We implemented customer security awareness. Now, AFRH is conducting mandatory security awareness onsite, plus web-based training for all enterprise customers. Beyond the rules of behavior, we're educating customers on the protection of sensitive unclassified information and agency IT policy.
- Our IT security policy was implemented. It was reviewed and accredited by an external legal review team. Then we established a managerial review process to respond to security issues. This will help maintain a peak level of conformity to our established security policies.

The Technology to Advance

Our goal is to help the entire AFRH organization maintain security peak protection, while complying with the Federal initiative for E-Gov. So, over the past year, we ramped up our efforts to take the Home's IT systems into the 21st century. These efforts will help us realize our mission, broaden our capabilities and expand the Home to other location in the future. Truly, the AFRH of the future is ready to thrive.

Security Certification & Accreditation

For starters, AFRH contracted the BPD to conduct a rigorous review of our IT system. All resources were tested against benchmarks set by FISMA and the OMB. And all facets of our IT management and oversight process were analyzed.

Thanks to our preparation, the government's guidance and our IT staff's ongoing testing, we have received a "Green" rating. As such, we have earned our official security certification and accreditation, as outlined by the National Institutes of Standards and Technology (NIST). This means we are now in compliance with Federal technology standards.

Specifically, certification and accreditation signifies that management, operational and

technical security controls in our information system all meet all identified security variables. And that the Home's IT operations, technical security controls and continuous risk monitoring are in concurrence with FISMA.

Local and Wide Area Network

AFRH designed and implemented a high-speed enterprise local and wide-area network. Complete with desktop management tools, our new network has the built-in capacity and flexibility for future growth in a wide-area expansion. It also allows for a future transition towards Voice over IP (VOIP) technology. To maintain our peak level of IT asset protection, vulnerability assessment tools have been put in place.

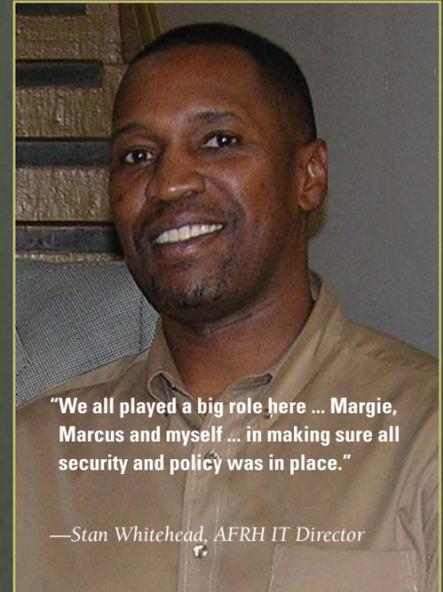
Resident Management System

AFRH executed an externally hosted web-based system to track all aspects of the resident community. This replaced our antiquated and redundant systems that were internally managed. Our new system integrates the functions of public affairs, admissions, finance, health-care and facilities in a single managed system. Plus it provides modular functionality in the Long Term Care areas of pre-admissions, admissions, A/R billing and Care Plan MDS.

The Home also established an internal policy to boost the protection of sensitive but unclassified resident data. Now, such data is disseminated to stakeholders, partners and contractors on a "need to know" basis.

"Our IT pros are the architects of our world-class enterprise system. And their amazing efforts have paid the Home big dividends!"

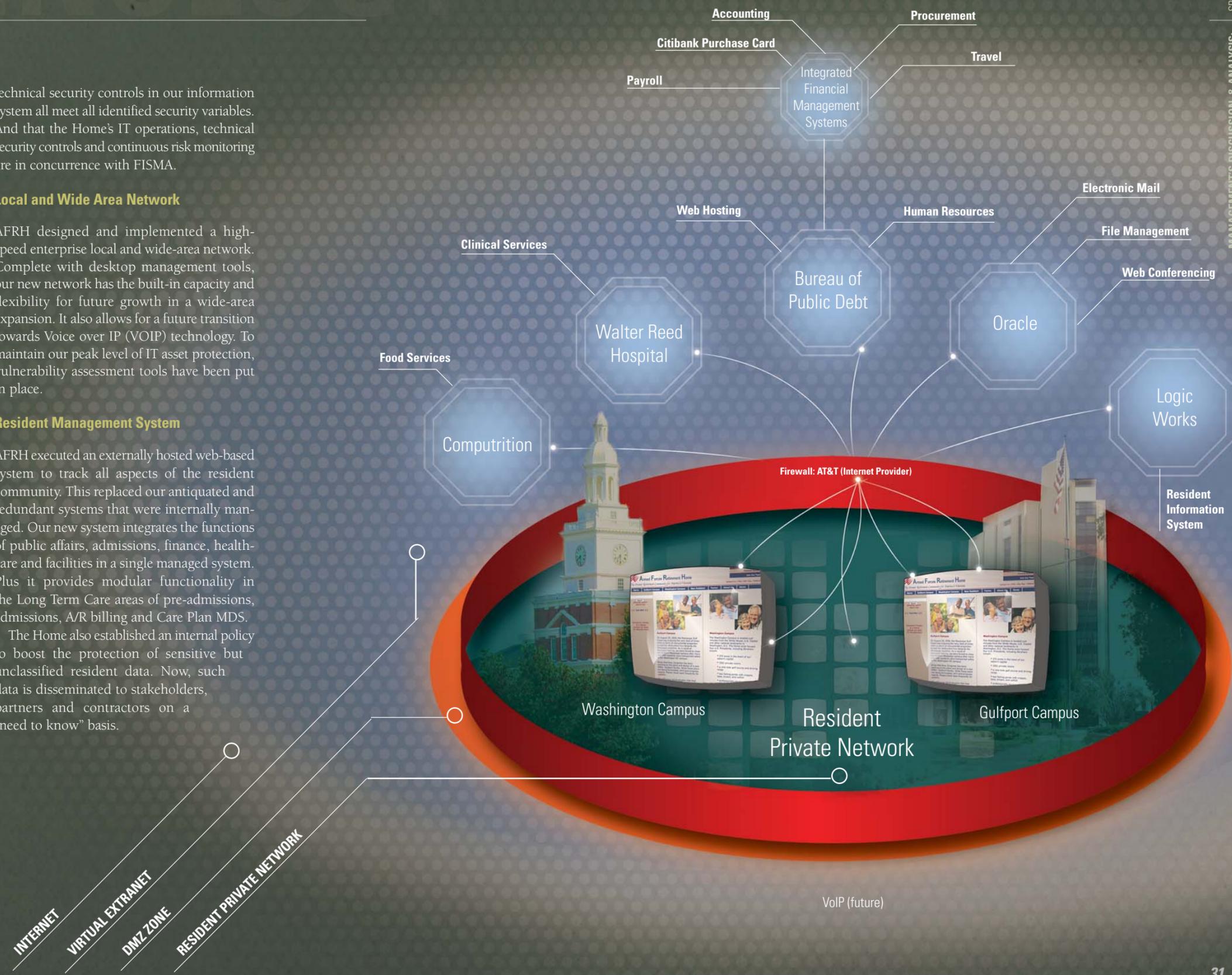
—Steve McManus, AFRH CFO & CIO



"We all played a big role here ... Margie, Marcus and myself ... in making sure all security and policy was in place."

—Stan Whitehead, AFRH IT Director

AFRH Enterprise



Intranet and Website

The BPD recently spearheaded the development and maintenance of our website and intranet web pages. This has streamlined customer access to our systems and consolidated all resources to a single source. The Home's public website (afrh.gov), proved to be a valuable tool during Hurricane Katrina. It served as a communication tool to circulate information to the residents' families and the public on the status of the Gulfport population and campus. At the end of FY06, the website was redesigned.

Today, AFRH is working with the BPD to add E-Gov resources to our website.

In-house Broadcasting System

AFRH is now upgrading its legacy and limited campus-wide video broadcasting system – Channel 99. This channel is widely used by the AFRH community to post announcements and promote events. The system's capability will move far beyond its present capabilities to offer much more entertaining and dynamic broadcasts. This new system will also have web-based management tools to allow multi-campus interaction.

Email and File Management

AFRH is currently utilizing an externally hosted web-based email and file management system. This secure system provides a single domain and streamlined management tools for our IT staff. This widely used system allows the AFRH customer base remote access to email and file storage via the Internet using a Secure Socket Layer (SSL) connection.

Moving Forward

Telecommunications System

Soon, we'll upgrade our legacy telecom system with an enterprise-wide system. This will support the AFRH business community – while also offering the residents enhanced services as well as competitive local and long-distance rates. This is in stark contrast to the limited services offered by local vendors. The new system will also have the ability to transition to VOIP technology between campuses – allowing for 4-digit dialing and eliminating all long-distance intra-campus charges.

The Home celebrates its IT security certification and accreditation on September 30th.



Streamlined Help Desk*

User support at our help desk has now expanded to include "rapid vendor response" to all end-user issues on our hosted systems. The Helpdesk also include customer training on applications, technology security awareness and IT etiquette. Now, the Helpdesk can maintain the latest security updates and reduce support response time with vulnerability assessment and remote management tools. This increased support at AFRH is enterprise-wide.

IT Review Board

We are developing a Review Board made up of select employees at various workforce levels. Its purpose is to review and analyze existing systems and perform requirements studies on our customers' future needs. The agency-wide input we get from the board will help us reduce gaps between our systems strategy and business model.

Status

In the aftermath of Hurricane Katrina, the Gulfport IT system was severely damaged. So VoIP planning is on hold until we rebuild. Still, AFRH successfully met the PMA E-Gov initiative in FY06. Also, improvements are complete on the IG-cited areas of concern.

AFRH established an MOA with BPD to conduct a rigorous, independent IT certification and assessment review. All IT resources were tested against benchmarks set by FISMA and the OMB. And all facets of our IT management and oversight process were analyzed. Thanks to our thorough preparation, the government's guidance and ongoing internal testing by our IT staff, AFRH has received a "Green" rating.

*The AFRH has just one person on the Help Desk. Yet, we have expanded its resources on each of the various applications available through BPD, which leverages five Help Desks.

"Three years ago, we couldn't send email outside of our own system. Today, we can access critical AFRH data and the world – with a new, robust enterprise system."

—Timothy C. Cox,
AFRH COO



Charles Chambers served in the 8th infantry during WWII – and was held as a POW in a German hospital for 3 weeks. Today, he spends a lot of time in the library doing research.

The Funds to Flourish

A permanent Trust Fund was established nearly 200 years ago to maintain AFRH – so it would not have to rely on taxpayer money. All throughout the Home's history, operational funding has come from the Veterans themselves. It is solely drawn from the AFRH Trust Fund, which is fed monthly by active duty payroll deductions of \$.50 per month from each enlisted and Warrant Officer.

It is also fed by fines and forfeitures from all Branches of the Services, our monthly resident fees, the sale or lease of underutilized land and buildings, gifts and bequests, interest gained on the Trust Fund balance plus certain one-time situational gifts and appropriations from Congress.

Trust Fund Balance

In 2003, operating costs greatly increased over previous years – eventually outpacing our revenue. The Trust Fund balance declined from \$156 million in 1995 to \$94 million in 2003. So, renewing it became a critical mandate to retain the Home's solvency. We concluded our operating model had to change. And we followed the Federal government's lead for an integrated strategy – linking planning with budget and performance. By the close of FY06, we were up to \$146 million.

As a result, the AFRH Trust Fund balance grew to \$146 million.

Congress provided Hurricane Supplemental funds to help us meet the residents' needs.



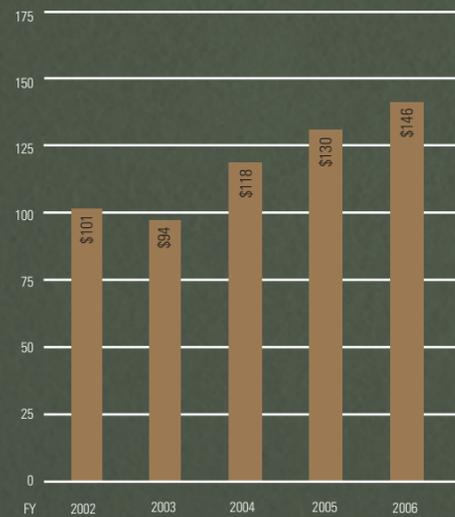
"I was honored to perform at AFRH. I've met a lot of soldiers and their families – and I truly feel for them. So I'm donating proceeds from my new CD to *The Fallen Heroes Fund*."

—Ty Nelson, rising country star

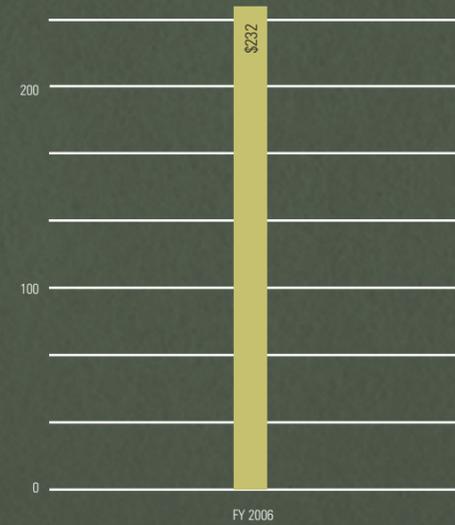


Ty Nelson schmoozes with Sheila Abar, our public affairs officer, after his 5-star performance here.

AFRH Trust Fund Balance
In millions of dollars

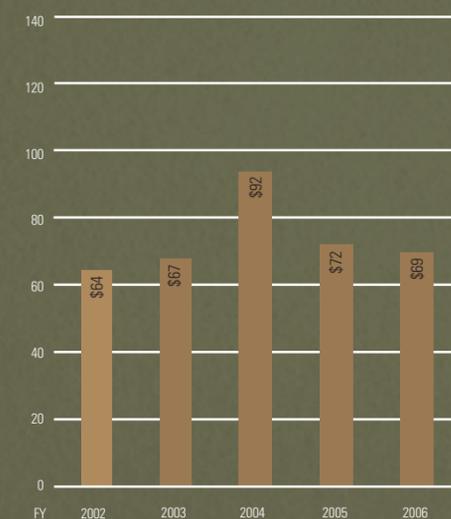


AFRH General Fund Balance
In millions of dollars

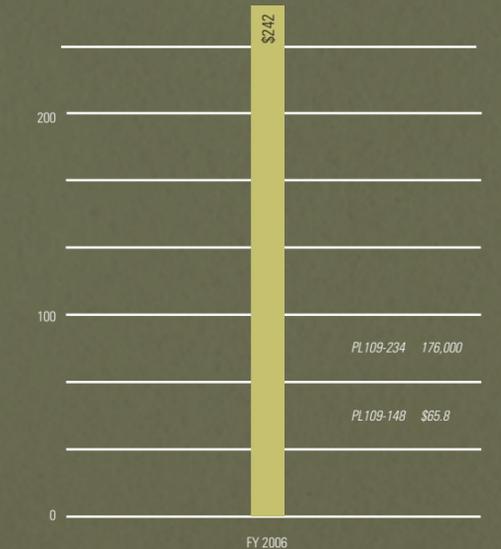


NOTE: This chart does not include Hurricane Supplementals.

AFRH Revenue
In millions of dollars



AFRH General Fund Revenue
In millions of dollars



Congress provided Hurricane Supplementals to help meet the residents' needs.

Revenue Increases

With the recent increase in the Trust Fund balance, AFRH revenue growth has also been steadily increasing. (See chart below: Revenue.) In fact, one main source of our increased revenue in FY 2004 was the sale of real estate on both campuses. In 2006, our revenue stream remained strong – despite the closure of the Gulfport campus. Our strategy for future revenue gains lie in the AFRH Master Plans. (See chart below: Revenue by Income Source.)

Revenue Sources

The Home's revenue sources include current enlisted fine and forfeitures, resident fees, withheld pay, Trust Fund interest, and other amounts (including donations, sales and real estate leases). Of all the revenue sources, Fines and Forfeitures provide the largest amount – and have fluctuated only slightly over the past several years. Also, large gains in revenue have come from sales and leases.

The Home's revenue sources include current enlisted fine and forfeitures, resident fees, withheld pay, Trust Fund interest, and other amounts (including donations, sales and real estate leases). Of all the revenue sources, Fines and Forfeitures provide the largest amount – and have fluctuated only slightly over the past several years. Also, large gains in revenue have come from sales and leases.

Staffing

Streamlining the staff has been an ongoing strategic initiative for several years. Ironically, the Gulfport closure after Hurricane Katrina required one personnel reduction in force.

The chart below (Full Time Equivalent Employees) shows our anticipated staffing based on the best data available. We will continue to plan for staffing when Gulfport reopens in the future. Yet, for now, the Washington campus is the focus of all operations. Starting in early FY07, no employees will work in Gulfport until the rebuild is completed.

Assets, Liabilities & Cumulative Results of Operations

For FY06, our Consolidated Balance Sheet reflects:

- Total assets of \$458 million
- Total Liabilities of \$8.2 million

About 17 percent of our assets are property, plant, and equipment (PP&E), with a book value of \$75.9 million. This PP&E is located on the Gulfport, MS campus and the Washington, DC campus.

Limitations of the Principal Financial Statements

These statements were prepared to report the AFRH financial position and operations results, pursuant to the requirements of 31 U.S.C. 3515(b). Our statements were prepared following generally accepted accounting principles (as defined by The Chief Financial Officer's Act of 1990 and by OMB). Plus they 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 BPD's ARC division to perform its financial management. BPD's level of expertise is superb and provides outstanding reporting services to AFRH.

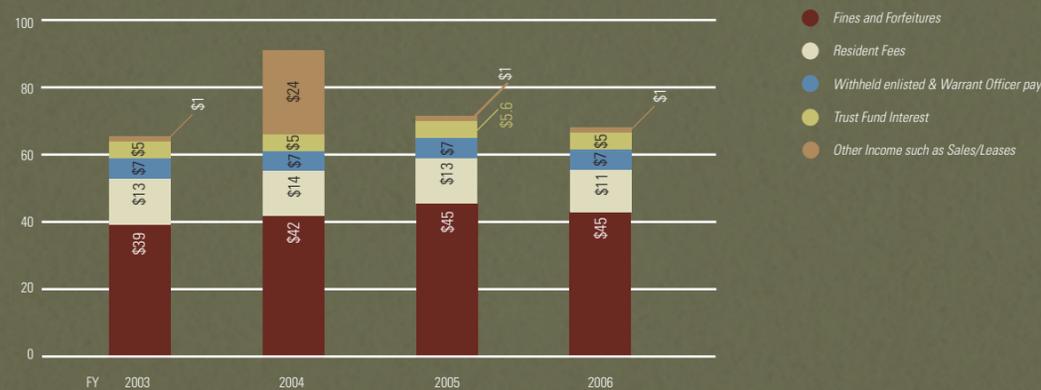
Financial & Performance Results Integration

Congress sent a clear message on its expectations for our performance by passing the National Defense Authorization Act of 2002. This law created the position of COO, to establish, measure and achieve performance goals for the Home. The COO would guarantee that we uphold The Promise to care for our residents – as well as future generations of soldiers, Marines, sailors and airmen who are in harm's way at this moment. Led by the Vision and Mission, our new COO is ensuring that the Home's carefully crafted strategic plan is directing the staff to improve performance – as well as the bottom-line.

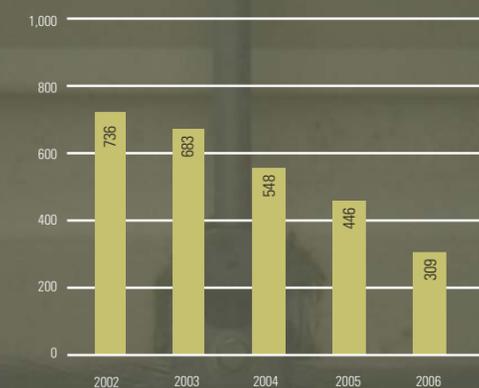
Current Challenges

We face many new and familiar challenges: an increase in competition from privately funded communities and the rising costs of providing a premier facility and comfortable lifestyle. So, the importance of a well-coordinated strategy has never been greater. Through continued cost efficiencies, prudent investments, watchful fiscal management and cost-effective services, the AFRH is poised to maintain its financial health for generations of new Veterans.

REVENUE BY INCOME SOURCE:



Full Time Equivalent Employees



This section has a summary of:

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

The Confidence to Assure

During the past year, we continued our successful advance with internal controls over financial management. We achieved results in many key actions under the Strategic Goal of "Financial Growth." This can be greatly attributed to our public-to-public transfer of accounting functions to the BPD's ARC division in 2004. That move resulted in our first "unqualified opinion" in FY05 – and a second in FY06.

An independent auditor performed an audit on BPD's financial management systems (e.g. controls placed on the financial management systems and operating effectiveness from July 1, 2005 – June 30, 2006.) This assurance via Standards Number 70 (SAS70) validates the integrity of AFRH management controls and our compliance with Federal financial systems standards.

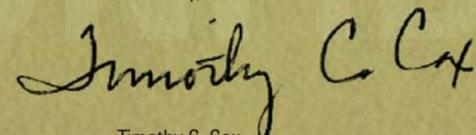
We sought security certification and accreditation for the AFRH IT Enterprise Network, which we received in September 2006. This IT effort began several years ago (as cited during the 2005 inspection by the Air Force Inspector General). Yet, it culminated in corrective actions coupled with our own unique strategy to leverage external web servers for our agency IT enterprise.

We implemented our own directive and questionnaire for Internal Control. This allowed our managers to monitor activities, gain insight into proper reporting for their functions and make corrective actions continuously.

I can provide reasonable assurance that objectives have been achieved for the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), as well as for the Federal Information Security Management Act (FISMA). As of this writing, we have no material weaknesses to report.

I am very pleased with our accomplishments – and I am highly confident that our positive fiscal progress will continue in the future.

Sincerely,



Timothy C. Cox
Chief Operating Officer, AFRH
November 15, 2006



COO Timothy Cox has a casual conversation with W.R. "Kit" Kitson, the newly elected Chair of the AFRH-Washington Resident Advisory Council.

The Federal Manager's Financial Integrity Act (FMFIA)

The FMFIA requires an agency to report on the health and integrity of its financial, program, and related activities. This requirement focuses on ensuring resources are consistent with the overall mission, that programs achieve their intended results, and that programs and resources are free of waste, fraud and mismanagement. Further, the agency head must see that Laws and regulations are followed and financial management complies with Federal standards.

Internal Control

In 2006, AFRH created its own Internal Control Board and established the AFRH Senior Assessment Team. Through the Home's CFO, managers are provided a questionnaire to evaluate their own internal control structure, define effective internal controls and institute improvements for internal control deficiencies (e.g. "Risk Assessment"). Each quarter, the Senior Assessment Team will conduct reviews of internal control progress made by AFRH as an agency, as well as assess the Corporate Resource Offices and the Director of each AFRH campus.

Inspections

Triennial Inspection, Summer 2005 (submitted to Congress in FY06)

"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."

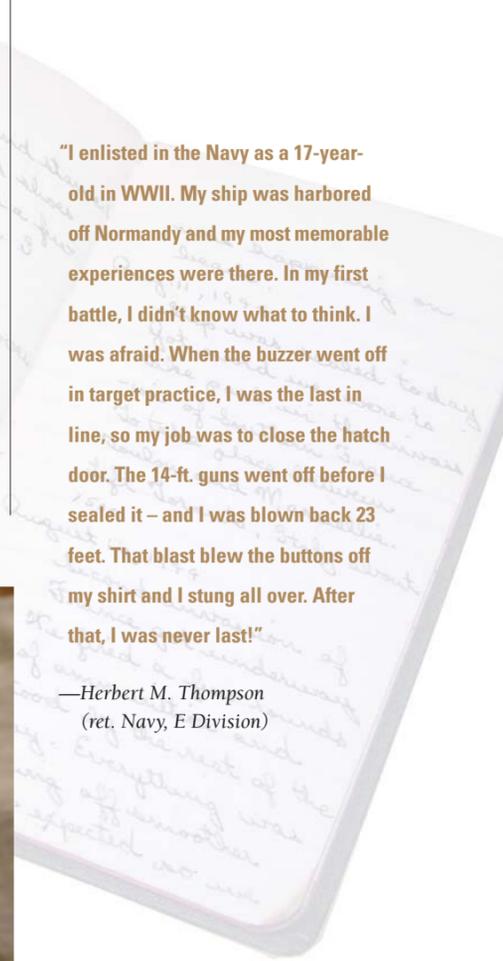
—Inspector General Review, Excerpt from the Executive Summary



2006 STATUS:
No "material weaknesses" have been identified.

"I enlisted in the Navy as a 17-year-old in WWII. My ship was harbored off Normandy and my most memorable experiences were there. In my first battle, I didn't know what to think. I was afraid. When the buzzer went off in target practice, I was the last in line, so my job was to close the hatch door. The 14-ft. guns went off before I sealed it – and I was blown back 23 feet. That blast blew the buttons off my shirt and I stung all over. After that, I was never last!"

—Herbert M. Thompson
(ret. Navy, E Division)



The Will to Advance

Inspection for Compliance with FISMA

As reported in the PMA E-Gov section, the Home underwent an inspection for certification and accreditation of its IT security (in accordance with FISMA). The AFRH received this distinction as a result of meticulous attention to detail and the united effort of the IT team. The team had been undergoing a continuing self-assessment for several years and benefited from suggested corrective actions from the IG's areas of concern.

JCAHO Inspection

During FY 2006, AFRH-Washington was inspected by JCAHO for its healthcare services. The Commission's standards focus on state-of-the-art performance improvement strategies that help organizations continuously improve the safety and quality of care. This ultimately reduces the risk of low quality care and error. AFRH-Washington received the Gold Seal of Approval™ from JCAHO, designating that the Home complies with the highest national standards for safety and quality of healthcare.

The highlights of the IG visit and our responsive actions include:

AREAS CITED	AFRH Actions
Many directives and policies are not standard or current.	AFRH issued an Agency Cancellation Notice that eliminated 221 Gulfport Healthcare Operational Instructions in September 2006. Since many Gulfport residents are living in Washington indefinitely, they will follow our Washington Instructions. Canceling these duplicate instructions aids our goal of streamlining dual campus policies into one standardized policy (under our Zero Base Review Plan). A total of 13 AFRH Agency Directives have been under review by legal counsel and/or unions(s). Most have been signed by the COO and issued. Our ongoing process to streamline will continue on the remaining Directives for completion in FY07.
No financial audits were conducted in 2003 and 2004.	Under the transfer of accounting functions to BPD's ARC, AFRH received two "unqualified opinions" during separate audits in 2005 and 2006.
No acquisition plan/strategy exists.	AFRH in conjunction with BPD are establishing milestones and activities for an Acquisition Plan. BPD is actively involved with monitoring and managing AFRH contracts.
AFRH Records Management Program does not meet standards.	AFRH in coordination with National Archives and Records Administration (NARA) are developing records schedules for unique files of AFRH. A directive is in draft, which provides an AFRH Records Schedule.
Information security is not in compliance with requirements.	AFRH began identifying and correcting security and infrastructure problems long before the Inspection. With additional input from the IG, AFRH continued to move towards compliance by establishing a Security Program and Information Security Training Program. AFRH received security certification and accreditation for its Information Enterprise Network in September 2006.
Human Resources management is in compliance.	Overall, the IG found HR programs (most of which are franchised to BPD) were in compliance and did not cite any corrective actions. One area of strength was noted in that the new performance forms linked business objectives with performance standards.

Federal Financial Management Improvement Act (FFMIA)

FFMIA is designed to improve federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data. This is in accordance with generally accepted accounting principles (GAAP) and standards. FFMIA requires AFRH to implement and maintain a financial management system that substantially complies with:

- Federal requirements for an integrated system
- Applicable Federal accounting standards
- US Standard General Ledger at the transaction level

2006 STATUS: AFRH is in substantial compliance with FFMIA requirements.

As we serve our Veterans with advanced care, the Home strives to be as efficient and economical as possible. We rely on the BPD's ARC division, which recently underwent an SAS70 audit* on its internal control activities and controls over information technology and related processes. The SAS70* is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA), where an organization undergoes an in-depth audit of their control activities. The independent auditor report on activities from July 1, 2005 – June 30, 2006, along with tests of the operating environment, disclosed "no instances of noncompliance" required to be reported under Government Auditing Standards.

An examination of the accounting process, along with general computer controls provided by ARC, provided reasonable assurance that our controls would achieve their objectives in conjunction with Customer Agencies' internal controls.

The independent auditors' AFRH report provides reasonable assurance that our financial statements are free of material misstatement. Further, they noted no matters involving the internal control and its operation that they would consider to be material weaknesses. The two independent auditors reports confirm no material weaknesses in the AFRH internal control.

Financial Management Systems Framework

AFRH benefits from the public-to-public relationship that transferred its financial management to the BPD's ARC division. The Home uses the financial systems that ARC provides: Oracle Financials 11i, Oracle Assets, PRISM and WebTA. Payroll is through the National Finance Center. 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. In FY06, per our request, BPD added Oracle Asset Manager to the Home's integrated suite of tools. Ultimately, BDP is responsible for the financial security and integrity of the system. In the PMA section above, the framework is illustrated in a chart.

Improper Payments Information Act (IPIA) is covered in Part 5: Accompanying Information

Resident Information System (RIS)

Another major achievement in 2006 has been the implementation of Monette – an integrated resident-focused software package. The modules rollout of this UltraCare application includes Admissions, Pre-Admissions, Clinical and Minimum Data Set (MDS) completed in September 2006.

*A Statement on Auditing Standards (SAS) No. 70, Service Organizations

The key to the Lincoln Cottage on the DC campus was once used by our 16th President. This artifact is on display in the AFRH Museum in the Sherman Building. Honestly.



The Mitigation of Risk

The National Defense Authorization Act for FY 2002 permitted us (via DoD) to sell, lease or otherwise dispose of underutilized buildings and property. So, AFRH launched its real estate Master Plan. This Plan forms the basis of our risk management strategy.

Washington Master Plan

This key endeavor will help us identify real property essential to the core mission of the AFRH. At the same time, it will help 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 and replenish the AFRH Trust Fund.

Master Plan Objectives:

- Preserve and improve the Home for the residents and the community
- Provide sufficient revenue that supports our goal of resident-focused care
- Replenish the partially depleted Trust Fund
- Grow the Trust Fund to meet the needs of today's residents and tomorrow's Veterans
- Attract development at fair market value that is compatible with our mission and
- Ensure an open, participatory process with residents and the community at large

A Temporary Halt

In 2005, we mothballed the Pipes building in order to lease it under the real estate Master Plan. Yet, the sudden displacement of Gulfport residents required us to reopen Pipes for temporary housing – and refurbish it throughout FY 2006. Recently, Pipes was closed again in September 2006, when the Gulfport residents were relocated to our Scott and Sheridan buildings.

Developing the Campus

Our vast DC campus is brimming with potential for development. It may include AFRH facilities, business offices, residential quarters, research and development facilities, medical related services, educational institutions, cultural organizations and even institutional and ancillary retail shops. Once we meet with all related community groups and select a developer, we will make the most prudent decisions and move forward.

Development Timeline

Keeping on target with its timeline throughout FY 2006, we continued to march forward. AFRH solicited a Request for Quote (RFQ) to potential developers for the Washington site in September 2005. In December 2005, 12 developers responded to the RFQ. In June 2006, AFRH selected three developers. On June 14, 2006, we concluded the RFQ process by announcing the selection of 3 development firms to be offered the chance to submit a final proposal for the AFRH redevelopment. The three firms were: Crescent, LLC, JBG and Clark Realty Capital, LLC.

Work began on the Environmental Impact Statement in July 2006. In August 2006, the Request for Proposal (RFP) was issued to the three developers, cited above. The current status and updates, including the RFP, are posted on the website at www.afrhdevelopment.com. The RFP developers' response date is November 2006. After the responses are received and evaluated, we will select a development partner(s) to proceed.



Gulfport Master Plan

After Hurricane Katrina forced the closure of AFRH-Gulfport, Congress requested we create strategies for the future of that campus. So, in a Special Report to Congress (dated February 28, 2006), one option was to construct a brand new residential complex. Fortunately for the Home, Congress appropriated funds for the construction of a new residential building in May 2006 (see Public Law 109-234 discussed above). And our residents and staff are forever grateful.

Moving forward, GSA is the agent for the design and construction and has already begun work. So far, GSA has appointed a program manager and has visited the Gulfport site three times since the above law was enacted. The next step is the appointment of a GSA onsite project manager. A Memorandum of Agreement (MOA) between GSA, AFRH and NAVFAC is being negotiated along with the requirements for the rebuild.



Above: design and construction of a new facility on the Gulfport campus is underway.

Left: the magnificent clock tower on our Washington campus proudly announces each hour with resonant chimes. So, there's no excuse for not finding the time to thrive.



"Coming here in August was one of the easiest moves I ever made. It's simpler ... with no stress of a house or car to maintain."

—Harvey Stackpole
(Ret. Army staff
Sergeant, E6 - 20 years)

Performance

We met Marie Townsend on the first day she moved to AFRH. Her 'encore' appearance at the Home, you might say. "Well, I was the first woman ever to sing in a service band – the US Navy Band. And I sang with the USO for Presidents Roosevelt and Truman," she said. "Oh, it was a wonderful life and I've met so many movie stars ...

Danny Kaye, Dinah Shore, Greer Garson. I even sang out in the gazebo here at the US Soldiers' Home – back in the '40s!" Talk about serendipity.

Marie must have been impressed with the Home, even back then. "I always said I'd come here," she noted. Marie was also encouraged to move here by her friend and current resident,

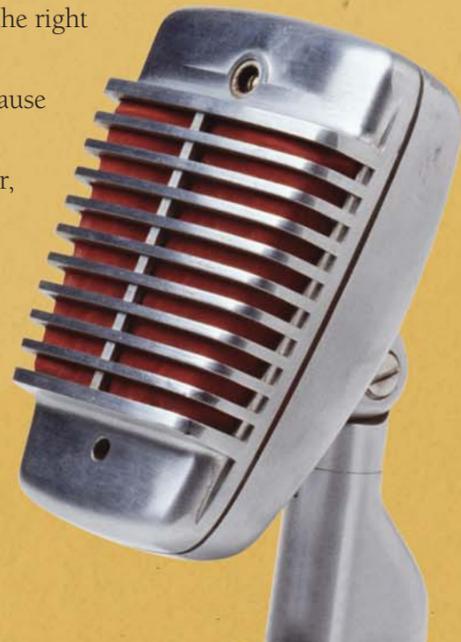
Everett "Ray" Rose. "Ray and I have belonged to the same seniors group since 2001.

When my handicapped son passed away ... I knew it was the right

time to come," she said. Well, we applaud her decision. Because

next year's talent show will feature this classic performer,

as she once again takes center stage at AFRH.



The Performance to Prosper

For us, great performance means fulfilling our mission: providing the best care for Veterans. In a larger sense, our victories also support today's active duty military. When our troops in Afghanistan and Iraq hear about our fine Veterans' care back home, they feel reassured that their service is appreciated. Our success also helps calm service members' deepest, darkest fears – that if they become disabled on the battlefield, they'll be well cared for by their own.

This is yet another reason why we're driven to perform – because it has a bearing on the performance of today's soldiers, who are preserving liberty for today ... and all our tomorrows. As we move forward, many Vietnam and Korean War Veterans will soon be approaching retirement age. Plus our current campaigns in the Middle East are creating many new Veterans who will surely need our care one day. So, ensuring the future success of the AFRH here at home is just as vital as preserving our American interests abroad.

As such, the AFRH and Congress have a moral obligation to honor the original Promise to care for its Veterans. Our goal is to build upon that pledge and provide even greater service in the future. The advances we're now pursuing include campus-wide Internet services, mobile dental services and additional Assisted Living and Memory Support. All of which will help us improve our care and compete with private homes.

This section details our achievements in FY06, namely our triumphs in two key focus areas: Financial Growth and Exceptional Service. We'll show you the linkage from our strategic goals and objectives to our action plans and results. Plus we'll explore our unmet goals – and discuss our action plans for future success.



The King made a surprise appearance at the AFRH Luau in June. Here, Marie Butz puts in a request for "A little less conversation." John Tuggle agrees.



The AFRH of the Future

Our agency-wide Business Plan for 2006 – 2010 outlines the Home's major corporate initiatives. This comprehensive Plan includes our present status, strategic initiatives and a financial report. (Since these are new initiatives, they cannot be compared to prior years.) Ultimately, we'll use this Plan as a guide to build a stronger, more vibrant AFRH.

Our Business Plan is directly linked to the AFRH Strategic Plan, which was recently updated after Hurricane Katrina. It communicates our broader intentions for managing challenges and exploiting opportunities as we march into the future.

Earlier this year, the AFRH held a management offsite to improve teamwork, adapt to the Hurricane's impact and to set our sights on long-term initiatives. We reviewed both Plans, adjusted our Mission, focused on recent achievements and pledged to do even better.

Each day, we focus on the goals and objectives cited below. To achieve them, the following public-to-public partners and contractors support us: the DoD, BPD, NFC, GSA and the OMB. These partners also helped our managers and personnel prepare the Home's performance results.

AFRH Performance Objectives	
Objective	Results by Objectives
GOAL 1 – Financial Growth: Create net growth and stability for the AFRH Trust Fund.	
FG1 Increase revenue resulting in a net increase. FG2 Reduce costs resulting in a net increase. FG3 Enhance fiscal management. FG4 Change corporate operating model.	In 3 of 4 Objectives 31 of 43 Key Actions In Progress or Achieved
GOAL 2 – Exceptional Service: Enhance the AFRH experience to enrich the quality of residents' lives.	
ES1 Craft a resident-focused environment with service measurements. ES2 Enhance customer satisfaction through vibrant community outreach. ES3 Promote resident vitality and independence as long as possible.	In 3 of 3 Objectives 21 of 26 Key Actions In Progress or Achieved
GOAL 3. Improved Processes: Modernize operations to leverage and maximize resources across AFRH.	
IP1 Simplify and standardize processes. IP2 Optimize our use of technology solutions. IP3 Increase timeliness and satisfaction with communications.	In 3 of 3 Objectives 11 of 15 Key Actions In Progress or Achieved
GOAL 4. Learning & Growth: Promote personal excellence and professional growth for all personnel.	
LG1 Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA and JCAHO requirements. LG2 Develop and manage workforce talent. LG3 Develop a strategy for employee professional development.	In 2 of 3 Objectives 2 of 8 Key Actions In Progress or Achieved
GOAL 5. Culture of Integrity: Inspire commitment to AFRH Guiding Principles through mutual respect.	
CI1 Increase teamwork and cooperation among AFRH employees. CI2 Engage and motivate the workforce.	In 2 of 2 Objectives 4 of 5 Key Actions In Progress or Achieved

Summary: For all 5 Goals, 63/97 Key Actions show "Progress" or "Achieved Results"

NOTE: Regarding the data quality, AFRH is a small agency with minimum layers of management. The data below has been input, reviewed and validated by managers, followed with a review by the Agency Inspector General.

The Actions to Assure

Many outside agencies reviewed The Home's 2006 performance. Overall, we are pleased with their findings. For starters, BPD conducted an independent review and awarded AFRH certification and accreditation to our enterprise network security. Plus, we had an independent audit of the financial statement and received an "unqualified opinion." And the OPM assessed our performance and training plans as favorable.

Further, we are now following up on the last DoD Inspector General's report and have received feedback for corrective actions. As a senior-care provider, we are routinely inspected for fire, safety and health standards. We are pleased to report JCAHO inspections resulted in earning their accreditation for healthcare services.

Below are quantitative assessments of our Strategic Objectives:

Strategic Goal 1: Financial Growth

Create net growth and stability for the AFRH Trust Fund.

Objectives	Key Actions	Key Actions			
		Started	Progress	Achieved	Total
FG1	Increase revenue resulting in a net increase.	3	8	9	20
FG2	Reduce costs resulting in a net increase.	9			9
FG3	Enhance fiscal management.		2	7	9
FG4	Change corporate operating model.			5	5

Description:

This Goal, Financial Growth, was a key focus in FY06. The key component of our basic financial strategy is to realize significant net growth and stability in the AFRH Trust Fund – so we may continue to raise our high standards to even greater heights.

To Increase Revenue, we:

- Provide value to current & prospective residents by modernizing facilities
- Develop the Washington Master Plan to acquire new revenue
- Continue to make prudent investments in the AFRH Trust Fund
- Consider alternatives and new revenue sources like grants (as explored in the Special Report to Congress)

To Reduce Costs, we:

- Identify efficiencies & cost savings via competitive sourcing
- Establish and maintain a multi-year capital improvement plan
- Seek ways to reduce our operating footprint
- Use high-technology to create added benefits & savings

To Enhance Efficiency*, we:

- Submit reporting that is timely & accurate
- Reduce overall spending, despite our varying requirements
- Establish a systematic and disciplined acquisition strategy
- Ramp up our Internal Control per FMFIA and FFMA

**While our financials are produced via BPD's financial system, the reconciliation and representation of our financial status has still varied in clarity and correctness at the corporate and campus levels*

To Evolve our Corporate Model, we:

- Explore successful operating models from the private sector
- Identify the needs of tomorrow's Veterans
- Seek to transform our operations to remain competitive
- Grow the resident population in the near future

Progress Analysis:

All the actions we proposed for financial growth were started. Our core progress has been in the Washington and Gulfport Master Plans, as well as in technology-related improvements (see PMA: E-Gov). Regarding our Master Plans, we fully achieved our goals for the DC campus in FY06. We also reduced our square footage requirements.

Overall Gains Included:

- Achieving a key result from our Gulfport funding options
- Reducing our costs by five percent
- Making substantial progress in fiscal management
- Advancing our acquisition strategy
- Managing the Government Purchase Card Program

At the end of FY06, credit card accounts in Gulfport were closed and we received our annual audit. Plus, the Asset and Property Management Program interfaced with the General Ledger as required by JFMIP.

Success in Internal Controls Involved:

- Establishing a Senior Assessment Team, including our public partners at BPD
- Drafting a formal directive
- Creating an effective questionnaire

Looking Ahead:

All 2006 areas of achievement will continue to receive attention for continued progress. The CFO will be consulting with BPD to review recommendations from the financial program audits, including credit cards.

Started Actions We'll Continue:

- Redesigning living and healthcare spaces
- Reaching milestones in the Master Plans
- Continuing to advance our healthcare model
- Advancing our competitive sourcing
- Developing a multi-year capital plan
- Promoting energy conservation

Strategic Goal 2: Exceptional Service

Enhance the AFRH experience to enrich the quality of residents' lives.

Objectives	Key Actions	Key Actions			
		Started	Progress	Achieved	Total
ES1	Craft a resident-focused environment with service measurements.	4	4	7	15
ES2	Enhance customer satisfaction through vibrant community outreach.		2	4	6
ES3	Promote resident vitality and independence as long as possible.	1	3	1	5

Description:

One of the guiding principles at AFRH is Customer Service. Our success here depends on our ability to consistently satisfy ever-changing customer preferences. To do this, we established the Key Actions to guide our efforts:



"This fish pond is one of the pleasures of life here. Duck, geese and heron fly in, often. And I take off quite a bit, myself. I head off campus to dinner, movies and the Smithsonian."

—Pat Garrity (Ret. Navy, 20 years)

To Serve Residents, we:

Respond to new and evolving preferences	Create high-quality products & services	Design annual marketing campaigns to boost admissions & image	Showcase our nation's military heritage in all communications	Create celebrations around military themes
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To Enhance Public Relations, we:

Establish volunteer and social events	Develop networking opportunities for residents & staff	Organize special events and recognition ceremonies	Establish partnerships with Veteran Service Organizations	Form relationships with entities providing direct resident services
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To Boost Resident Vitality, we:

Stay on top of trends in retirement services	Interact with top senior living organizations	Provide specialized staff training in elder care	Take a genuine, personal interest in our Veterans	Deliver the best possible services we can
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Progress Analysis:

Another success area in FY06 was Exceptional Service. After the relocation of Gulfport residents to DC, many decided to stay, leave or return at various times. So, the Home was continually accommodating new or return residents and making them feel welcome. Likewise, we also assisted those who decided to move on. As a result, we were continually modifying services repeatedly as occupancy changed.

Still, AFRH followed its strategy and continued action plans in all three customer-service areas. A renewed focus on marketing and military heritage emerged this year – with better promotional materials, more celebrations and new partnerships with Congress and local retiree services.

After our manager's offsite, surveys were conducted to gather resident feedback on all services. Areas of focus included medical services, dining and transportation. So improvements were made, like expanding campus transportation and identifying medical service issues.

Looking Ahead:

We'll continue to use surveys to get specific measures of customer satisfaction – and make adjustments. Resident-focused activities will remain high on our list of objectives. In fact, we'll focus on what residents want from their retirement community and develop services to meet those needs in the coming year.

Strategic Goal 3: Improved Processes

Modernize operations to leverage and maximize resources across AFRH.

Objectives	Key Actions	Key Actions			
		Started	Progress	Achieved	Total
IP1	Simplify and standardize processes.	3	2	1	6
IP2	Optimize our use of technology solutions.	1	5		6
IP3	Increase timeliness and satisfaction with communications.		3		3

Description:

To achieve synergy and success, AFRH Corporate must set, coordinate and oversee an overarching strategy for the entire agency. Our management must ensure alignment between Corporate/Campus strategies and initiatives – focusing on performance, all the while.

To improve processes, we:

Standardize and monitor them through internal controls

Simplify all procedures, agency-wide

Develop a 5-year financial management plan for OMB

To optimize technology, we:

Implement systems to track resident data & property accountability

Stay abreast of the latest advances to maximize our efforts

Improve the technology acquisition process

To enhance communications, we:

Improve the timeliness of workforce-resident contact

Gauge the satisfaction of our communications content & vehicles

Increase the widespread use of multi-media



“The Popcorn Man,” Billy Dalzell (Ret. Navy Medic, WWII). Each afternoon, he makes popcorn in the Scott Building for residents. Like Billy, the popcorn machine was recovered from Gulfport and relocated here”

Progress Analysis:

Our financial processes were greatly enhanced with Monette – an integrated resident-focused software package. Four modules of this UltraCare application were successfully fielded in September 2006: Admissions, Pre-Admissions, Clinical, and Minimum Data Set. Then, we trained the staff in Budget Metrics and the new Resident Information System (RIS).

We also established a Senior Assessment Team in Internal Controls (IC). We drafted an IC directive and coordinated a questionnaire. Then with our partner, BPD, we implemented Oracle Asset Manager and completed the annual personal property management inventory.

Some communication advances include an intranet, newsletter, bulletin boards and employee services. Our intranet (webpage) was configured to allow our staff access to all job aspects – including email, budget, travel and more. We improved our telephone systems. We began promoting information on our internal TV broadcast, Channel 99. And we started exploring the feasibility of a resident personal security system and resident monitoring.

Looking Ahead:

Monette’s financial processes module will be deployed in early 2007. Our Internal Control Board will meet on our processes. And we’ll continue to fine-tune our acquisition process as it is tested. Lastly, we are confident the resident personal security and monitoring systems will roll out in 2007.

Our Vets and members of American Legion Post

70 lay a wreath on the WWII Memorial. The

British Embassy organized this special ceremony

hosted by Prince Charles and wife Camilla.



Strategic Goal 4: Learning & Growth

Promote personal excellence and professional growth for all personnel.

Objectives	Key Actions	Key Actions			
		Started	Progress	Achieved	Total
LG1	Provide a comprehensive employee training program tied to performance, competencies and accountability in compliance with OSHA and JCAHO requirements.	2			2
LG2	Develop and manage workforce talent.	1	1		2
LG3	Develop a strategy for employee professional development.	3	1		4

Description:

The quality of our workforce is a top priority. So we strive to hire and retain the most qualified people available. Then, we maximize their opportunities for success through training and development. We are also committed to maintaining a safe work environment, supporting diversity and promoting open communication.

To offer training, we:

Continue to explore new training opportunities

Create training plans linked to individual performance

To develop the workforce, we:

Assess our staff needs while eliciting feedback

Develop a "needs-based" hiring strategy

To aid staff development, we:

Develop a sound strategy for our workforce

Explore intern and Continuing Ed. for professionals

Progress Analysis:

We started all our actions in Learning and Growth. Yet, our timelines have been pushed to FY07 due to many factors: the reduction in force, our fluctuating occupancy, the delay in completing our performance cycle, plus time-consuming preparations for OPM review and IG follow-up.

Further, we explored intern programs for our Certified Nursing Assistants by getting expert advice from local hospitals. Then, we conferred with OPM to determine the best path to success.

Looking Ahead:

In FY07, we'll complete our training plan and establish measurable training goals for the staff. After we get feedback on our development plan from OPM, it will be rolled out. And finally, we are pursuing arrangements for nurses training with Walter Reed Hospital, Catholic University and the VA Hospital.

Walter Barnes has been a resident at AFRH for 28 years, as he was disabled in the line of duty. Here he overlooks our picturesque campus, with the landmark Lincoln Cottage in the background.



Strategic Goal 5: Culture of Integrity

Inspire commitment to AFRH Guiding Principles through mutual respect.

Objectives	Key Actions	Key Actions			
		Started	Progress	Achieved	Total
CI1	Increase teamwork and cooperation among AFRH employees.	1	1		2
CI2	Engage and motivate the workforce.		3		3

Description:

A positive workplace is a key factor for recruitment and retention. Given our diverse workforce, we must promote cultural awareness, understanding and inclusiveness for everyone at AFRH. With the help of our Guiding Principles, we are forging ahead to enhance workplace performance.

To increase teamwork, we:

Provide training in cultural diversity

Maintain open communication

Encourage more involvement

To motivate the workforce, we:

Offer on-site social events for staff to mingle

Show a link between Objectives & individual performance

Recognize employees with awards and praise

Progress Analysis:

We initiated actions for each objective in FY06. Semi-annual and annual reviews of staff progress and accountability were completed according to plan. But reviews were extended to December 31, 2006 due to disruptions caused by the aftermath of Hurricane Katrina. Two management offsites were conducted in FY06 to get back on track and improve our management team. Then, several onsite meetings continued that momentum.

Also, we hired an Equal Employment Opportunity Officer in Washington. One new cultural diversity initiative in the works is a campus diversity survey.

Looking Ahead:

In the New Year, the Home will focus on creating a Culture of Integrity. We will soon publish a training directive that will contain requirements for diversity training. Plus, our performance directive will implement a performance awards policy. With the culmination of our individual performance plans from last year, a new round of objectives will be linked to employee tasks. This will enhance the understanding of how each person fits into the overall strategy. Plus, quarterly employee meetings and a staff climate survey are planned.

The Volunteers to Praise

Countless Good Samaritans came to our aid in the aftermath of Hurricane Katrina. Without their help, the Home could not have rebounded from this emergency. So many thanks go out to the caring people who have touched our lives this past year. You are proof that the American spirit is alive and well.

We truly wish we could list all the various groups and individuals who lent support, gave donations and spent time with the residents. Yet, in these pages, we can only list so many. For all those unnamed, you have our deepest appreciation, too.

In Gulfport:

20th Seabee Readiness Group

This unit readily provided many vehicles to aid recovery and clean up of the campus grounds.

27 Seabees of Construction Mobile Unit 202 (CBMU 202)

Days after the storm, this Unit moved onsite and set up "tent city." Their manpower helped gut the first floor and saved equipment, furniture and priceless memorabilia. These Seabees stayed onsite for six weeks working the main building and recovering salvageable equipment in Building Five.

Naval Construction Battalion Center

The Seabees also provided office space and admin support for five AFRH staff members. They also gave us warehouse space for files, office equipment and memorabilia.

Naval Construction Training Center/Naval Mobile Construction Battalion 74

These brawny Seabees removed more than 180 tons of storm debris from the campus.

Seabees of Naval Mobile Construction Battalion Seven (NMCB-7)

20 active duty Navy members assisted the facility before, during and after Hurricane Katrina. They prepared the campus for the storm, helped us evacuate residents to higher floors in the midst of rising floodwaters, settled residents in temporary bedding and helped them safely exit the tower the day after the storm.

Seabees of Naval Mobile Construction Battalion 74 (NMCB-74)

This unit removed concertina wire and installed new fencing around the campus.

Staff & students from Tri-service group of Naval Construction Training Center

Army, Navy and Air Force students volunteered three full Saturdays to help clean up the Gulfport campus.

Volunteers from Mississippi State University

Various students and staff traveled from Starkville, MS for six weekends to clean and box salvageable library books and first-floor memorabilia.

100 Members of the Canadian Navy

Kind sailors from up north spent two days assisting the recovery and clean up at AFRH.

"A Students" from the Naval Construction Training Center (NCTC)

These whiz kids helped us pack, box and ship our memorabilia for safe storage in humidity-controlled warehouses at the Seabee Center. They also helped move furniture to the ballroom staging area for shipment to DC.

Congressman Gene Taylor thanks the Seabees for their heroic work in cleaning up Gulfport after Hurricane Katrina.



In Washington:

AAFES

The Exchange Services donated free coats and phone cards to Gulfport residents.

AARP

This senior association hosted a sweet ice cream social with more than 500 residents in attendance.

AFRH Resident Advisory Council

This group opened and ran a donation center, days after the relocation. For months, they distributed emergency clothing and personal items for Gulfport evacuees – who came to Washington with nearly nothing.

Air Force Sergeants Association (AFSA)

The Association delivered over 300 AAFES gift cards and phone cards. This timely gift helped our residents and made their spirits soar.

Boy Scout: Bryant Oxborrow (Springfield, VA)

This young man donated \$297 – and collected 3 truck-loads of winter coats, hats and clothes for displaced Gulfport residents. Son, we salute you.

City of Gulfport, MS

The town distributed Hurricane Katrina survivor T-shirts to Gulfport residents in DC.

Marriott International

The hospitable Mr. JW Marriott declared May 17th "Spirit to Serve" Volunteer Day at AFRH. The Chairman of Marriott Hotels brought his son David and about 200 employees to spend quality time and work with residents on many projects. And we look forward to hosting them again next year.

Navy ROTC, Friendly High School

This unit made holiday decorations and assembled two new foosball tables donated by Costco. This scored big points with the residents.

OPM Human Capital Leadership Merit System, Accountability Division (HCLMSA, Center for Small Agencies)

These kind folks led a clothing drive for Gulfport residents who had no winter clothes. Over 370 items were donated – including coats, jackets, vests, sweaters, gloves, scarves, blankets, jogging suits and shoes. Truly, all of us were warmed.

Rolling Thunder

These Harley-lovers donated money to help Gulfport evacuees and visited our DC campus. And many hearts went Vroom.

Waldorf, MD Lady Volunteers

Three kind ladies from Waldorf handmade 65 lovely afghans and gave them to residents.



Washington, DC Metropolitan Police

DC's Finest helped redefine "To Serve and Protect." The Police served meals to our residents in the dining room. And they provided free hats, gloves and scarves, too.

West Point Parent Association

This generous group donated 100 military academy afghans to our residents. Needless to say, we're quite proud of the Parent Association.

Mr. Marriott brought nearly 200 of his employees to polish the chapels, clean the theater and brighten the residents' day.

Financial

Steve Hakala joined the Army at age 22. He bravely crawled through the trenches of many difficult campaigns as an infantryman – by way of the gritty coalmines back home. “It was 1941 and the depression was lingering on,” he said. “The coalmine shut down

and I wanted a meal – so I enlisted.” Little did he know



that he'd rise to such great heights on the

battlefield – and ultimately earn three prestigious

combat infantryman's badges. This admirable distinction is rare. Only one other resident here

has earned it three times. Hakala's unit was called the Bushmasters – the only jungle troops

in the Philippines. “I was in-and-out – with broken service. But I re-enlisted in the Korean War

... and again in Vietnam.” When asked why he repeatedly came back, Hakala shot back:

“I loved it!” At age 88, Steve seems a much younger man. He stays active and enjoys

competitive bowling and friendly beers with his

comrades each Thursday. “These are my

buddies. And I'm in my element

here, around service people.”

Well, as they say, once a soldier

always a soldier.



The Resources to Grow

I am pleased to present the AFRH financial statements for FY06. As always, we have continued to maintain our resident-focused approach – while employing the highest standards to our fiscal management. Now, I have the pleasure of offering the President, Congress and the American people this Report on our stewardship of the public funds entrusted to us.

Leveraging Challenges

In the face of adversity and change this past year, our staff has done an admirable job of safeguarding the funds entrusted to them. In fact, our entire staff has been vigilant about getting the most from every dollar – while also creating programs with tremendous value.

At the close of FY05, the AFRH was saturated with the aftermath of Hurricane Katrina and the ensuing Gulfport closure. Back then we faced many challenges. Now, I am happy to report we have met those challenges head on – and this section is a true reflection of our recent financial rebound. One success makes me especially proud – our second unqualified audit opinion for FY06.

Expanded E-Gov

This year's PAR has a special section devoted to our victory with the President's E-Gov Initiative (See pg. 30, Special IT Feature). We believe the Home has taken E-Gov to a new level as an agency and we are most proud. Our focus has been leveraging the power of the Internet through help desks, maintenance, software updates, training and innovation. In a sense, the Home is a "customer" of our pri-

mary systems – like e-mail, resident information, and financial management. Today, we feel like we've been given a premium upgrade – in the form of a web-based, enterprise IT system with great functionality and integration. And now, it is certified and accredited.

Financial Advances

I personally can vouch for our new financial management system – because it seamlessly integrates accounting, procurement, travel, purchase cards, investments, payroll and asset management. The best part: we have access to all vital systems via the Internet, from anywhere in the world. This advancement has been a strong enabler, dramatically bolstering the Home's core competency: premier retirement services for America's war Veterans.

We made great strides in another PMA Initiative, too: Competitive Sourcing. From 2003 – 2004, we conducted seven competitive sourcing studies for public-to-private partnerships. These studies will generate almost \$18.7 million in savings over five years. Meanwhile, we conducted an additional six public-to-public transfers. Those efforts helped create enviable full-service capabilities in accounting, procurement, human resources, travel, purchase and travel cards, as well as investing.

Boosting Efficiency

This would not have been possible without our unique public partnership with the BPD's ARC division. They helped us gain efficiencies by eliminating waste and minimize system costs by pooling resources. Now, we only pay for the services we use. All told, we developed

a successful public-to-public model that can serve as a benchmark for other Federal agencies as they strive for excellence.

With the added residents from Gulfport, the need for expansion in Washington became evident. The influx caused inefficiencies for part of the year – in medical services and transportation routes, to name a few. Yet, at the close of FY06, we were working toward efficiency. We also started our 10-year financial plan, to be completed in FY07. In our Washington Master Plan, we created a future vision to maximize our buildings and residential areas, while also earning revenue from our holdings. Lastly, management agreed on a set of Guiding Principles that will direct our operational decisions as we move toward even more efficiencies.

Gulfport Grateful

Regarding the fate of Gulfport, Congress has provided funding for the rebuild of the campus. All of us at the AFRH are very excited about this great news. Now, we are diligently working to move forward with GSA, the agent for Gulfport construction and contract administration.

In reflection of the past year, we must send out special thanks to many unsung heroes. All year long, hundreds of volunteers appeared in Gulfport and Washington to aid our residents'

in the aftermath of Hurricane Katrina. We are forever grateful for all they have done. From cleaning up debris, building fences and moving bulky furniture ... to packing personal items, making generous donations and providing moral support. Those good people brought many smiles to our residents' faces and their support and prayers have been invaluable for our morale. We cannot list the name of every volunteer ... but we can offer heartfelt thanks.

Special Thanks

Likewise, Congress has been extremely generous to us. The tremendous support they have shown our Veterans is a testament to the original Promise the military made in 1811 to care for its own. In our long and storied history, we have remained financially independent – mostly using money generated from the men and women of the Armed Forces themselves. Yet, with the appropriated funds for the Gulfport rebuild, Congress has bestowed a unique and noteworthy tribute to those who have served their country so selflessly.

In the end, FY06 was a year of new challenges and more successes. As always, we'll be looking to improve our performance as we advance on our Goals in 2007.

Sincerely,

Steven G. McManus
Chief Financial Officer (CFO), AFRH
November 15, 2005



"I do believe this is the first time ever, in the history of the Home, that we earned 'unqualified opinions' on audits two years in a row."

— Steve McManus, CFO

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

The AFRH financial management activities in FY06 – including purchasing, payments, accounting, budget and travel service – were administered by BPD. The NFC processed our payroll and time/attendance data entry transactions.

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

The Funds to Reinforce

Since Hurricane Katrina and throughout FY06, an influx of Congressional Hurricane Supplementals helped the Home financially.

PL 109-62	\$6 M initially given to move and house residents
PL109-148	\$65.8 M to plan and design Gulfport, as well as sustain and expand Assisted Living & Memory Support in DC
PL109-234	\$176 M to rebuild the Gulfport complex
TOTAL	\$247.8 MILLION

We are truly thankful to Congress for supporting the Home at this unique and critical juncture. It can rest assured that these funds will be spent wisely to help us fulfill our mission. Moving forward, GSA is the agent for Gulfport planning, design, construction and contract administration – in consultation with AFRH management and the Naval Facilities Engineering Command.

Strengthening Washington

Katrina funds of \$11 million are now being used to develop a Memory Support unit and to improve Assisted Living facilities in Washington. Katrina funds were also used to transport Gulfport residents' personal belongings to DC and other locations where former residents live.

Prince Charles came to honor our Veterans at a British Embassy WWII Memorial service. He conversed with many residents like Margaret Jirak – and made a royal impression.



The Capacity to Validate



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 sheets of the U.S. Armed Forces Retirement Home as of September 30, 2006 and 2005, and the related consolidated statements of net cost and results of operations and changes in net position, and the combined statements of budgetary resources and financing for each of the years ended September 30, 2006 and 2005. These financial statements are the responsibility of the U.S. Armed Forces Retirement Home. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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 No. 06-03, *Audit Requirements for Federal Financial Statements, as amended*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the principal statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Armed Forces Retirement Home as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and financing for the years 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 27, 2006 on our consideration of the U.S. Armed Forces Retirement Home's internal control over financial reporting and a report dated October 27, 2006 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Brown & Company

Largo, Maryland
October 27, 2006

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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Armed Forces Retirement Home as of and for the year ended September 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the U.S. Armed Forces Retirement Home's (AFRH) 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. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be 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.

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion and Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

This report is intended solely for the information and use of the management of the 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 27, 2006

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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 principal statements (hereinafter referred to as "financial statements") of the U.S. Armed Forces Retirement Home as of and for the year ended September 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of the U.S. Armed Forces Retirement Home (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, and certain other laws and regulations specified in OMB Bulletin No. 06-03. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to AFRH.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

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 27, 2006

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AFRH Financial Statements

Armed Forces Retirement Home

BALANCE SHEET

AS OF SEPTEMBER 30, 2006 AND 2005

(In Dollars)

	2006	2005
Assets :		
Intragovernmental:		
Fund Balance with Treasury	\$ 239,123,692	\$ 6,523,911
Investments	139,563,566	124,841,901
Accounts Receivable	2,687,343	3,168,942
Total Intragovernmental	\$ 381,374,601	\$ 134,534,754
Accounts Receivable	554,056	760,959
General Property, Plant and Equipment	75,875,693	77,871,110
Total Assets	\$ 457,804,350	\$ 213,166,823
Liabilities:		
Intragovernmental:		
Accounts Payable	\$ 772,159	\$ 133,340
Other	1,932,247	1,955,574
Total Intragovernmental	\$ 2,704,406	\$ 2,088,914
Accounts Payable	3,471,327	3,256,252
Other	2,075,294	2,487,105
Total Liabilities	\$ 8,251,027	\$ 7,832,271
Net Position:		
Cumulative Results of Operations	\$ -	\$ 205,334,552
Cumulative Results of Operations - Earmarked Funds	449,553,323	-
Total Net Position	\$ 449,553,323	\$ 205,334,552
Total Liabilities and Net Position	\$ 457,804,350	\$ 213,166,823

The accompanying notes are an integral part of these statements.

Lorenzo Seneris celebrates his 101st birthday in grand style — surrounded by family, friends and caring staff members. Apparently, you can have your cake and eat it too.



The spirit of Mardi Gras is alive and well in DC. Here, Calvin Woodwork pays homage to the honorable Queen Edythe Jackman, age 96.

Armed Forces Retirement Home

STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

(In Dollars)

	2006	2005
Program Costs:		
Chief Operations Office:		
Gross Costs	\$ 2,182,271	\$ 1,388,808
Less: Earned Revenue	543,256	342,567
Net Program Costs	\$ 1,639,015	\$ 1,046,241
Corporate Resource Office:		
Gross Costs	\$ 6,925,162	\$ 5,729,744
Less: Earned Revenue	1,723,955	1,413,318
Net Program Costs	\$ 5,201,207	\$ 4,316,426
Gulfport, MS:		
Gross Costs	\$ 7,533,225	\$ 17,603,692
Less: Earned Revenue	1,875,327	4,342,186
Net Program Costs	\$ 5,657,898	\$ 13,261,506
Washington D.C.:		
Gross Costs	\$ 50,921,900	\$ 47,990,238
Less: Earned Revenue	12,676,537	11,837,434
Net Program Costs	\$ 38,245,363	\$ 36,152,804
Total Program Costs:	\$ 50,743,483	\$ 54,776,977
Less: Earned Revenues Not Attributed to Programs		19,396
Net Cost of Operations	\$ 50,743,483	\$ 54,757,581

The accompanying notes are an integral part of these statements.

Armed Forces Retirement Home

STATEMENT OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

(In Dollars)

	2006 Earmarked Funds	2006 Consolidated Total	2005 Consolidated Total
Cumulative Results of Operations:			
Beginning Balances	\$ 205,334,552	\$ 205,334,552	\$ 203,525,737
Beginning Balances, as Adjusted	\$ 205,334,552	\$ 205,334,552	\$ 203,525,737
Budgetary Financing Sources:			
Appropriations Used	\$ 241,800,000	\$ 241,800,000	\$ -
Nonexchange Revenue	49,744,164	49,744,164	48,228,591
Donations and Forfeitures of			
Cash and Cash Equivalents	973,267	973,267	1,006,079
Transfers-in/out Without Reimbursement	800,000	800,000	5,200,000
Other Financing Sources (Non-Exchange):			
Imputed Financing Sources	1,644,823	1,644,823	2,131,726
Total Financing Sources	\$ 294,962,254	\$ 294,962,254	\$ 56,566,396
Net Cost of Operations	(50,743,483)	(50,743,483)	(54,757,581)
Net Changes	\$ 244,218,771	\$ 244,218,771	\$ 1,808,815
Cumulative Results of Operations	\$ 449,553,323	\$ 449,553,323	\$ 205,334,552
Budgetary Financing Sources:			
Appropriations Received	\$ 241,800,000	\$ 241,800,000	\$ -
Appropriations Used	(241,800,000)	(241,800,000)	-
Total Budgetary Financing Sources	\$ -	\$ -	\$ -
Net Position	\$ 449,553,323	\$ 449,553,323	\$ 205,334,552

The accompanying notes are an integral part of these statements.

Former Senator Bob Dole visits AFRH to deliver his annual inspirational message to the troops, our Vets and wounded military that were transported here from Walter Reed Hospital. Mr. Dole endured a long recovery from a shoulder and spine wound in WWII – which helped shape his optimistic character.



Armed Forces Retirement Home

STATEMENT OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

(In Dollars)

	2006	2005
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1:	\$ 33,296,782	\$ 20,661,522
Recoveries of Prior Year Unpaid Obligations	2,887,893	8,496,094
Budget Authority		
Appropriation	542,681,000	66,824,000
Temporarily Not Available Pursuant to Public Law	(582,810)	(492,992)
Total Budgetary Resources	\$ 578,282,865	\$ 95,488,624
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$ 306,808,304	\$ 62,191,842
Unobligated Balance		
Apportioned	271,474,561	33,296,782
Total Status of Budgetary Resources	\$ 578,282,865	\$ 95,488,624
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 9,200,924	\$ 16,158,262
Total Unpaid Obligated Balance, Net	\$ 9,200,924	\$ 16,158,262
Obligations Incurred Net	306,808,304	62,191,842
Less: Gross Outlays	305,313,222	60,653,086
Less: Recoveries of Prior Year Unpaid Obligations, Actual	2,887,893	8,496,094
Total, Unpaid Obligated Balance, Net, End of Period	\$ 7,808,113	\$ 9,200,924
Change in Outlays:		
Net Outlays:		
Gross Outlays	\$ 305,313,222	\$ 60,653,086
Net Outlays	\$ 305,313,222	\$ 60,653,086

The accompanying notes are an integral part of these statements.

Sharyl Attkisson of The CBS Evening News interviews Resident Advisor Henry Pike. Her feature explored how former Gulfport residents were spending their first Christmas away from home.



Armed Forces Retirement Home

STATEMENT OF FINANCING

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In Dollars)

	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 306,808,304	\$ 62,191,842
Less: Spending Authority From Offsetting Collections and Recoveries	2,887,893	8,496,094
Obligations Net of Offsetting Collections and Recoveries	\$ 303,920,411	\$ 53,695,748
Net Obligations	\$ 303,920,411	\$ 53,695,748
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,644,823	2,131,726
Net Other Resources Used to Finance Activities	\$ 1,644,823	\$ 2,131,726
Total Resources Used to Finance Activities	\$ 305,565,234	\$ 55,827,474

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	\$ (2,211,294)	\$ (7,874,994)
Resources That Fund Expenses Recognized in Prior Periods	423,470	210,482
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operation		
Other	258,320,491	20,404,734
Resources That Finance the Acquisition of Assets	5,180,391	3,180,991
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	800,000	(5,200,000)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 262,513,058	\$ 10,721,213
Total Resources Used to Finance the Net Cost of Operations	\$ 43,052,176	\$ 45,106,261

Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period

Components Requiring or Generating Resources:		
Other	\$ 20,621	\$ 177,234
Total Components of Net Cost of Operations That Will Require or Generate Resources	\$ 20,621	\$ 177,234
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	\$7,677,223	\$ 5,567,942
Revaluation of Assets or Liabilities	-	3,893,878
Other	(6,537)	12,266
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	\$ 7,670,686	\$ 9,474,086
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	\$ 7,691,307	\$9,651,320
Net Cost of Operations	\$ 50,743,483	\$ 54,757,581

The accompanying notes are an integral part of these statements.

Working Together



"The AFRH staff consistently demonstrates an unwavering commitment to America's Veterans. This is reflected in their improved accountability and efficiency, since enlisting our administrative support."

—Nancy Fleetwood,
Deputy Commissioner BPD



"Our relationship with the AFRH is a model of successful public-to-public partnership. It demonstrates the achievements that are possible when good organizations – and great people – team up."

—Fred Phillips,
Executive Director of ARC (BPD)

Jerry Woods (red cap) from the "Congressional Golf and Crab Society" presents a whale of a check to AFRH. Each year, this group of Congressmen, staffers and defense contractors make a strong drive to raise funds for the Home.



"I enjoy the library, especially reading up on history. I fought in the Battle of the Bulge on the German/Belgium border. We liberated Mauthausen — and it took five weeks to bury the dead."

—Wilfred "Mac" McCarty
(Ret. Army)



Armed Forces Retirement Home

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The AFRH's mission is: (a) to provide a continuum of care and services in the retirement community for retired and former members of the Armed Forces, enabling them to live among friends in an atmosphere of personal dignity, as authorized by law; (b) to provide the highest quality of residential, social, and health services to its residents, emphasizing a holistic approach toward each individual which stresses the excellence of these services in meeting the needs and expectations of the current and future residents of the Home; and (c) to retain the unique service identity, atmosphere, and tradition of these historic institutions.

Each facility is maintained as a separate entity operated by a director appointed by the Secretary of Defense. The director of each facility reports to his respective local Board of Trustees. The Armed Forces Retirement Home Board, also appointed by the Secretary of Defense, oversees the activities of the local boards.

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

These financial statements are provided to meet the requirements of the Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operations of the AFRH. These statements were prepared from the books and records of the AFRH in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. A-136, Form and Content of Agency Financial Statements.

C. Basis of Accounting

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

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

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

Exchange Revenue

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

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

Non-Exchange Revenue

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

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

Financing Sources

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

E. Fund Balance with Treasury

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

F. Investments

Trust Fund balances may only be invested in interest bearing debt securities issued by the Bureau of the Public Debt. The AFRH's investments are purchased exclusively through the Bureau of the Public Debt's 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.

General Renuart visits with Marion Marques (Ret. Air Force) at the AFRH Christmas Party. Here, the residents are recognized for their service with certificates and commemorative coins.



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.

G. Accounts Receivable

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

H. General Property, Plant, and Equipment, Net

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

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

Twice a year, active duty personnel visit our Veterans. Here, Barbara Copare shares her photos from the Army Signal Corps. She lived in seven foreign countries with her husband, including Africa and Italy.



I. Liabilities

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

J. Accounts Payable

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

K. Annual, Sick, and Other Leave

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

L. Retirement Plans

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

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and AFRH makes a mandatory 1 percent contribution to this account. In addition, AFRH makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, AFRH remits the employer's share of the required contribution.

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

M. Imputed Costs / Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. AFRH recognized imputed costs and financing sources in fiscal year 2006 and 2005 to the extent directed by the OMB.

N. 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.

O. Commitments and Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. AFRH has no contingencies that require disclosure as of September 30, 2006 and 2005.

P. Federal Employment Compensation Act

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The total liability should consist of an actuarial and accrued portion. The accrued FECA liability as of September 30, 2006 and 2005 represents claims incurred for benefits administered and paid by DOL to AFRH employees. The AFRH will reimburse DOL for these claims in future periods. See Note 6 for additional information.

Q. Reclassification

Certain fiscal year 2005 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

	Schedule as of September 30,	
	2006	2005
Fund Balances		
Fund Balance with Treasury	\$ 239,123,692	\$ 6,523,911
Investments	139,563,566	124,841,901
Less: Accrued Interest and Unamortized Premium	2,160,163	1,823,668
Total	376,527,095	129,542,144
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 271,474,561	\$ 33,296,782
Unavailable	97,244,421	87,044,438
Obligated Balance not yet Disbursed	7,808,113	9,200,924
Total	\$ 376,527,095	\$ 129,542,144

NOTE 3. INVESTMENTS

Schedule of Investments as of September 30, 2006

Description	Value at Maturity	(Discount) Premium Outstanding	Accrued Interest	Book Value
MK Note				
Matures October 15, 2006	\$ 36,726,000	\$ 26,501	\$ 1,095,759	\$ 37,848,260
Matures June 30, 2007	92,459,000	(932,381)	837,910	92,364,529
MK Bill				
Matures October 26, 2006	9,383,000	(32,223)	-	9,350,777
Total Investments	\$ 138,568,000	\$ (938,103)	\$ 1,933,669	\$ 139,563,566

Schedule of Investments as of September 30, 2005

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



Resident Lanier Phillips (ret. Navy) briefs Admiral Sullivan on his service as the first African-American Sonar Technician aboard the USS Truxton – which sank in WWII.

NOTE 4. ACCOUNTS RECEIVABLE

Schedule of Accounts Receivable as of September 30,

	2006	2005
Intragovernmental		
US Army Corp of Engineers	\$ -	\$ 63,136
US Air Force 4th Qtr. Fine	469,480	514,398
US Army 4th Qtr. Fines	1,376,893	-
US Marines 4th Qtr. Fines	840,970	2,591,408
Total Intragovernmental	2,687,343	3,168,942
Resident Fees Receivable	537,111	730,251
Miscellaneous	16,945	30,708
Total Accounts Receivable	\$ 3,241,399	\$ 3,929,901

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

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

Description	Acquisition Cost (In Dollars)	Accumulated Depreciation (In Dollars)	Net Book Value (In Dollars)
Land and Improvements	\$ 10,982,370	\$ 9,539,375	\$ 1,442,995
Buildings and Improvement	181,456,706	125,873,098	55,583,608
Equipment	3,464,626	2,249,210	1,215,416
Construction in Progress	17,633,674	-	17,633,674
Total	\$ 213,537,376	\$ 137,661,683	\$ 75,875,693

Schedule of Property, Plant and Equipment as of September 30, 2005

Description	Acquisition Cost (In Dollars)	Accumulated Depreciation (In Dollars)	Net Book Value (In Dollars)
Land and Improvements	\$ 10,982,370	\$ 9,299,384	\$ 1,682,986
Buildings and 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

NOTE 6. LIABILITIES

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

Schedule of Liabilities as of September 30,

	2006	2005
Intragovernmental		
Accounts Payable	\$ 772,159	\$ 133,339
Payroll Taxes Payable	155,028	194,644
Unfunded FECA Liability	1,777,219	1,760,931
Total Intragovernmental	2,704,406	2,088,914
Accounts Payable	3,471,327	3,256,252
Accrued Liabilities	115,855	4,133
Accrued Funded Payroll & Taxes	796,601	896,664
Unfunded Annual Leave	1,162,838	1,586,308
Total Liabilities	\$ 8,251,027	\$ 7,832,271



CFO Steve McManus tallies the length of a bass caught by resident Robert Schonheer at the AFRH Fishing Rodeo. (You should have seen the one that got away.)

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on AFRH's Balance Sheet as of September 30, 2006 and 2005 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave and unfunded FECA liability. Unfunded leave and FECA liability balances are \$2,940,057 and \$3,347,239 as of September 30, 2006 and 2005, respectively.

NOTE 8. OPERATING/PROGRAM COSTS

Costs by major budgetary object classification are as follows:

Budgetary Object Classifications	2006	2005
Personnel and Benefits	\$ 27,608,889	\$ 32,687,445
Travel and Transportation	769,990	338,169
Rents, Communication & Utilities	5,557,587	4,273,749
Printing and Contractual Services	21,389,524	17,377,325
Supplies and Materials	4,834,801	5,689,488
Equipment	7,337,549	12,337,635
Miscellaneous	64,218	8,671
Total	\$ 67,562,558	\$ 72,712,482

NOTE 9. EARMARKED FUNDS

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

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

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

SCHEDULE OF EARMARKED FUNDS AS OF SEPTEMBER 30, 2006

	Capital Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Earmarked Funds
Balance Sheet				
ASSETS				
Fund Balance with Treasury	\$ (3,099,596)	\$ 232,396,299	\$ 9,826,989	\$ 239,123,692
Investments	-	-	139,563,566	139,563,566
Accounts Receivable	-	-	3,241,399	3,241,399
General Property, Plant and Equipment	74,086,752	1,788,941	-	75,875,693
Total Assets	\$ 70,987,156	\$ 234,185,240	\$ 152,631,954	\$ 457,804,350
LIABILITIES AND NET POSITION				
Accounts Payable	\$ 317,137	\$ 1,417,092	\$ 2,509,257	\$ 4,243,486
Other	-	177,099	3,830,442	4,007,541
Cumulative Results of operations	70,670,019	232,591,049	146,292,255	449,553,323
Total Liabilities and Net Position	\$ 70,987,156	\$ 234,185,240	\$ 152,631,954	\$ 457,804,350
Statement of Net Cost				
Program Costs	\$ 7,166,483	\$ 9,208,951	\$ 51,187,124	\$ 67,562,558
Less: Earned Revenues	-	-	16,819,075	16,819,075
Net Program Costs	7,166,483	9,208,951	34,368,049	50,743,483
Less: Earned Revenues Not Attributable to Programs	-	-	-	-
Net Cost of Operations	\$ 7,166,483	\$ 9,208,951	\$ 34,368,049	\$ 50,743,483
Statement of Changes in Net Position				
Net Position Beginning of Period	\$ 77,836,502	\$ -	\$ 127,498,051	\$ 205,334,553
Net Cost of Operations	7,166,483	9,208,951	34,368,049	50,743,483
Taxes and Other Nonexchange Revenue	-	-	49,744,164	49,744,164
Other Revenue	-	241,800,000	53,162,253	294,962,253
Change in Net Position	(7,166,483)	232,591,049	18,794,204	244,218,770
Net Position End of Period	\$ 70,670,019	\$ 232,591,049	\$ 146,292,255	\$ 449,553,323



“Talk about Virginia slims! These lovely southern belles really lit up the entire room.”

—Mike Longwell (on Ms. Arlington & Mrs. Virginia)

The T's to Cross

ARMED FORCES RETIREMENT HOME

Required Supplementary Stewardship Information

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Federal agencies are required to classify and report heritage assets, in accordance with the requirements of SFFAS No. 8, "Supplementary Stewardship Reporting."

Heritage assets are property, plant, and equipment that possess one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics.

Since the cost of heritage assets is usually not determinable, AFRH does not place a value on them or establish minimum value thresholds for designation of property, plant, and equipment as heritage assets. Additionally, the useful lives of heritage assets are not reasonably estimable for depreciable purposes.

Since the most relevant information about heritage assets is their existence, they are qualified in terms of physical units.

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

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

ARMED FORCES RETIREMENT HOME

REQUIRED SUPPLEMENTARY INFORMATION – INTRAGOVERNMENTAL TRANSACTIONS

AS OF SEPTEMBER 30, 2006

Intragovernmental Assets

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Total
Treasury	\$ 239,123,692	\$ 139,563,566	\$ -	\$ 378,687,258
Air Force	-	-	469,480	469,480
Army Corp of Engineers	-	-	1,376,893	1,376,893
Marines	-	-	840,970	840,970
Total	\$ 239,123,692	\$ 139,563,566	\$ 2,687,343	\$ 381,374,601

Intragovernmental Assets

Agency	Accounts Payable and Accruals	Payroll Taxes	Other	Total
Treasury	\$ (78,143)	\$ -	\$ -	\$ (78,143)
Treasury General Fund	-	(41,968)	-	(41,968)
Army	(32,123)	-	-	(32,123)
General Services Administration	(26,886)	-	-	(26,886)
Dept. of Health & Human Services	(3,109)	-	-	(3,109)
Dept. of Interior	(548,457)	-	-	(548,457)
Labor	-	-	(1,777,219)	(1,777,219)
Personnel Management	-	(113,060)	-	(113,060)
Secretary of Defense	(14,753)	-	-	(14,753)
Veteran's Affairs	(68,688)	-	-	(68,688)
Total	\$ (772,159)	\$ (155,028)	\$ (1,777,219)	\$ (2,704,406)

The driving range at AFRH is a great escape for our community. Residents, members and guests alike come out to practice, unwind or really tee-off.

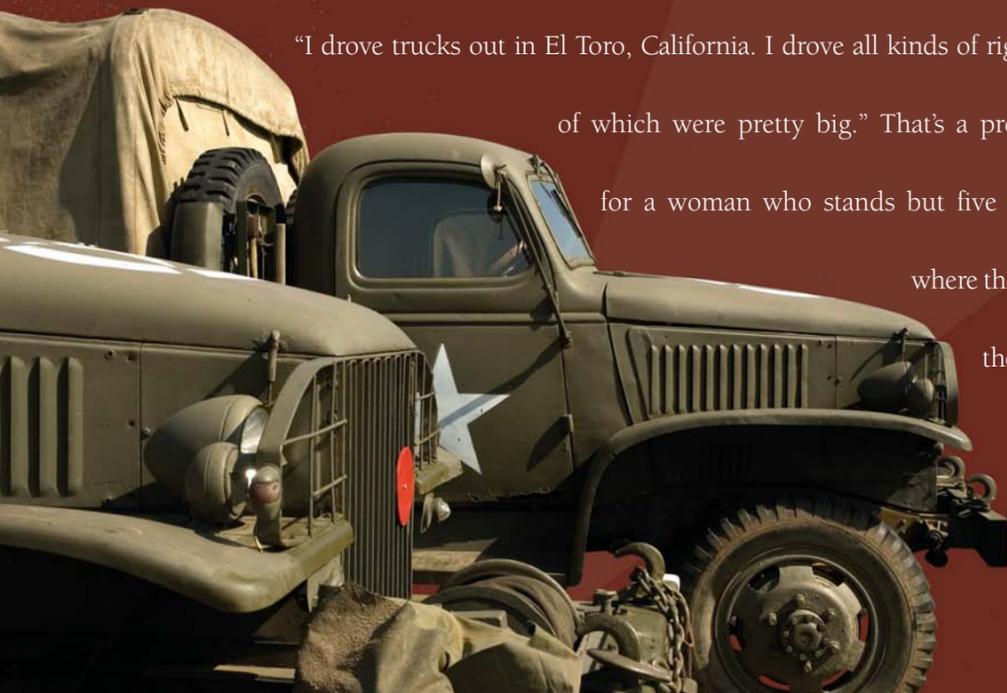
Accompanying Information

Willa Farrell comes from a long line of American patriots in her extensive family tree. “My ancestors have served in four major American conflicts – the American Revolution, the War of 1812, the Civil War ... and yours truly, during World War II,” she said. Ironically, her great-great uncle, Thomas Jefferson Henderson, was a Brevet Colonel in the Civil War and ultimately served on the board of directors at the US Soldiers’ Home. The very same establishment



where Willa lives today. She knows all about her family history because she’s an avid genealogist. All told, Willa has been researching her family’s decorated military past for 12 years now. And she was ready and willing to share her personal wartime photos and letters with us. Willa originally joined the Marine Corps in 1944 because she wanted a challenge.

“I drove trucks out in El Toro, California. I drove all kinds of rigs, too – some of which were pretty big.” That’s a pretty tall order for a woman who stands but five feet tall. Still, where there’s a Willa ... there’s a way.



The Challenges to Overcome

Management Challenges:

The IG identified the top challenges now facing the Home. As we overcome them, our workforce, partners and contractors are accountable for AFRH Trust Fund dollars. Naturally, oversight and enforcement is needed to ensure progress and fiscal responsibility.

Executing the Washington Master Plan

Throughout the Home's history, we have financed operations with interest from the AFRH Trust Fund. Yet, we must supplement this to ensure fiscal

stability for future Veterans. So, Congress provided AFRH (via DoD) the authority to sell or lease real estate (per the FY02 National Defense Authorization Act). We intend to capitalize by offering portions of our valuable real estate for development.

Our 272-acre campus has buildings and land that no longer serve AFRH operations. So, we created our Master Plan to address development – and a competitive process to choose partners is underway. A sound plan with regular due diligence is a must if we are to generate new and reliable revenue streams.

Deploying the Gulfport Master Plan

Congress just appointed GSA as the agent to rebuild Gulfport. So AFRH and GSA must form a good working relationship. AFRH must also maintain good stewardship over the Congressional rebuild funds and be helpful advisors as GSA oversees construction.

Handling operational, financial and human capital strategies

As we discussed, our strategies for operational, financial, and human capital have not been fully realized. So we must press forward in these areas. We will push to integrate our strategies with our budget. Implement our new performance plans. And work on our capital improvement plans. With consistent oversight and our new Internal Control measures, we expect progress in FY07.

Shuttle transportation is available to residents, especially those with special needs.



**Armed Forces Retirement Home
Office of the Chief Operating Officer
3700 N. Capitol Street, P.O. Box 1303
Washington, DC 20011-8400**

November 14, 2006

Memorandum

To: Timothy C. Cox, Chief Operating Officer

Re: Management Challenges for FY 2007

In accordance with the Reports Consolidation Act of 2000, we have identified the most serious management and performance challenges facing Armed Forces Retirement Home in FY 2007. AFRH is working to address these challenges and improve operations through various initiatives and by implementing recommendations made by my office and other inspection activities.

Those challenges are:

- Implementation of the AFRH-Washington Master Plan
- Implementation of the AFRH-Gulfport Master Plan to rebuild AFRH-Gulfport
- Handling operational, financial, and human capital strategies

To improve the efficiency and integrity of AFRH's programs and operations, we will continue to monitor progress in these areas of concern.

MAURICE SWINTON
Inspector General

Improper Payments Information Act (IPIA)

In concert with BPD, each AFRH business program was reviewed to estimate potential improper and erroneous payments. In separate scenarios, AFRH had three incidentals that caused a total of 30 improper payments in FY06.

Much attention has been focused on this area, because these incidents eclipse last year's single improper payment. The Home and its partners are committed to catching erroneous

payments, making corrections and raising awareness – especially in resident fees. We have emphasized the importance of doing so and have taken steps to ensure that these types of problems won't happen again.

With the launch of our RIS in FY06, and the financial module in FY07, we will soon have more detailed and accurate information. So next year, the ability to manipulate and track our data will give us a tremendous advantage in spotting problems.

Improper Payments:	FY05: 1	FY06: 30
---------------------------	----------------	-----------------

The Community to Serve

For years, the Home has prided itself on active staff and resident volunteering. Community involvement enriches the lives of everyone involved. And it reaffirms the spirit of giving and self-sacrifice that has made America such a great nation.

AFRH Volunteer Service

According to Executive Order 13401 in May 2006, each Federal agency must support and encourage volunteer community service in its Federal workforce. An annual report must be submitted that affirms this service. The first report is due in early FY07 and must designate annual performance indicators and measurable objectives. As such, we have developed our yearly requirements.

Annual Volunteer Requirements:

- Employees in grade GS9 & above must serve 10 hours
- Staff members in GS-8 & below must perform 5 hours

These hours may be served in each employee's local community – whether it is DC, Maryland or Virginia. To ensure this service, our above requirement will be incorporated into each individual's performance plan. In the end, our staff will do more than help our Veterans prosper. It will also help the community thrive.

Julie Carey of NBC4 Washington interviews resident Leonard Drozell about being away from the Gulf Coast during Thanksgiving.



AFRH employee volunteers like management analyst Tim Bourgeois serve our residents at an ice cream social. Ms. Tommie Lucas-Peterson (Navy Veteran) ponders, "If you think I want that topping, you're nuts."

Acronyms

Acronym	Meaning
AAFES	Army and Air Force Exchange Service
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
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
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
GSA	General Services Administration
IPAC	Intragovernmental Payment and Collection System
IPIA	Improper Payments Information Act
IC	Internal Controls
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
MDS	Minimum Data Set
MOA	Memorandum of Agreement
NAVFAC	Naval Facilities Command
NFC	National Finance Center
NLT	No Later Than
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OSHA	Occupational Safety and Health Administration
PART	Program Asset Rating Tool
PPE	Property, Plant, and Equipment
RIF	Reduction in Force
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

Residents Carl Smith & Claire Dimler celebrate their marriage in the AFRH chapel, as residents look on. The two originally met in Gulfport and became the closest of friends.



We'd like to thank you

The management and staff would like to send sincere appreciation and heartfelt thanks to all who helped in the Katrina recovery. From local officials and volunteers, to our workforce and business partners.

Special appreciation goes to all those who donated time, money, clothing and personal items. We appreciate your generous support. And many kudos go to our former staff members of Gulfport, MS.

In reality, you've all given us a lot more than just support. You've helped us all believe that now truly is ...

... The Time to Thrive

We'd like to hear from you

Thank you for reviewing our 2006 PAR. Did we present information in a useful way? Where did we succeed in this Report? What can we improve for next year? We welcome your input. Simply contact us:

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3700 North Capitol Street, NW
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ATT: CFO, Box 1303

E-MAIL: public.affairs@afrh.gov
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ARMED FORCES
RETIREMENT HOME

Protecting a promise *Renewing a trust.*

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