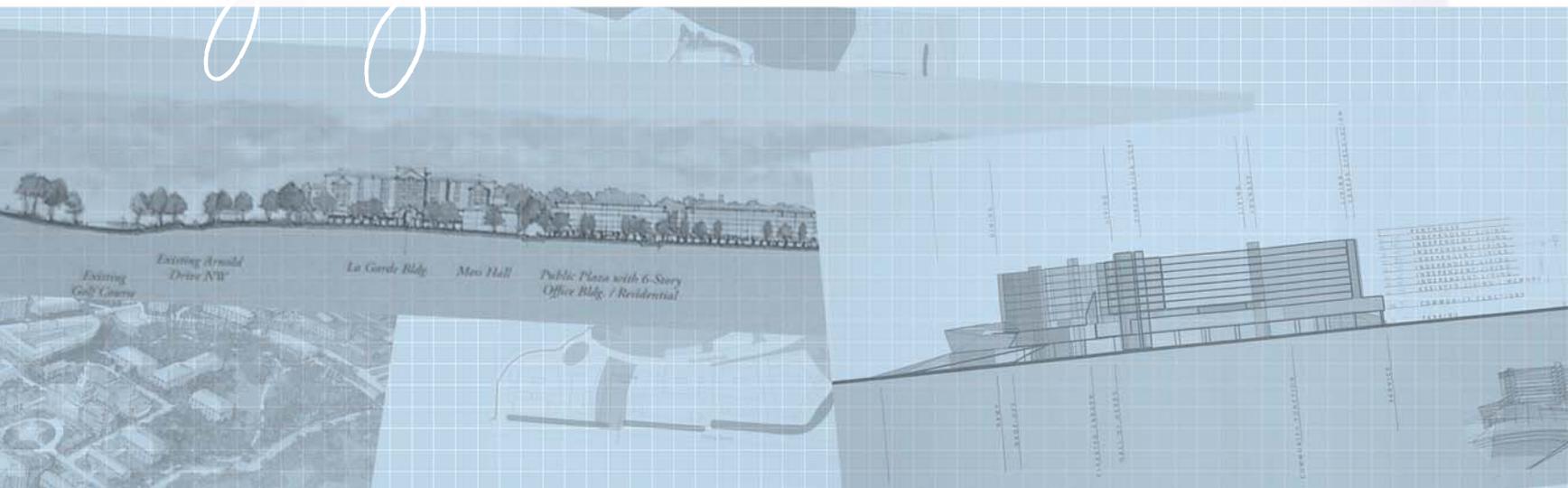




PERFORMANCE &
ACCOUNTABILITY
REPORT FY07



Forging New Foundations



Contents

VISION:

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

MISSION:

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



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www.afrh.gov

GUIDING PRINCIPLES:

Establish Accountability

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

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.

Inspire Excellence

We continuously work to improve each process, service and its 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.

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.

Message from the Chief Operating Officer

Fortifying Our Finances

I am pleased to present the AFRH PAR for FY07. For nearly 200 years, the mission of this Home has been to care for our nation's former military service members. All of us here carry a strong sense of pride in serving them. This year, at long last, we can take pride in our financial performance, too.

Today, we are forging a new foundation of financial success at AFRH. This renewal began in 2002, when Congress charged me to apply my CCRC¹ expertise from the private sector to the concerns at AFRH. Ever since, we have been striving to develop it into a self-sufficient retirement home. In this year's report, we will showcase that improved financial performance.

Restructuring our priorities

When I arrived in 2002, many believed that the Home was rapidly approaching financial insolvency, if not already there. So I pulled our team together and we drafted a strategic plan to unify our scattered forces and achieve new goals. Since then, we have focused on revitalizing our financial health via cost-cutting measures and renewing our aging infrastructure in DC. Our Master Plan has been the key to generating new sources of revenue and ultimately refurbishing the campus.

When Hurricane Katrina slammed the Gulf Coast in August 05, our main focus completely shifted from future strategy to daily survival. We resolved to transfer our weary Gulfport residents to Washington and shut down that severely damaged and outdated facility. Since then,

we've found new footing, thanks in part to the great support of Congress. Yet, many of our hard-earned economic efficiencies were again strained, due to the surge in occupancy after Katrina.

In short, we were building the foundations for Trust Fund solvency and financial growth when our entire configuration changed. So in FY07, we decided to conduct several studies to establish the best, most efficient way forward. We gained great insight. One study confirmed the Trust Fund is solvent. Another helped us develop a 10-year Financial Capital Plan. Along the way, we discovered our facility is in greater demand, given the legislation put forth by the Coast Guard to admit their veterans.

Modernizing the Home

Now, we are moving forward with many exciting developments – from the rebuild of Gulfport by 2010, to the renovation of the Scott building which comprises \$81 million of our 10-year Financial Capital Plan. These much-needed renovations will make our entire facility more vibrant and functional.

At the same time, we must keep pace with changing needs in senior care, like complying with the American Disability Act requirements – which includes alterations to the Sheridan residence. Another major decision entailed moving to CARE/CCAC² accreditation to cover all levels of care we provide as a CCRC. These changes will forge an even stronger foundation of care for the residents of today and tomorrow.

In May, we renewed our commitment to the AFRH Goals and Objectives at a successful management offsite. Moving forward, our business plan will be the blueprint for continued growth. Also, I challenged my staff to dig in and find ways to improve resident services. They responded by forming a variety of teams. One dramatically streamlined the work order process. Another focused on boosting staff retention. Yet another assessed ways to share data among the various levels of care. And another team surveyed ways to promote our military heritage. This synergy is creating a more efficient and dynamic AFRH.

Raising our Performance

Our Inspector General (IG) identified 3 major challenges for FY07:

- 1) - Implementing the Washington Master Plan
- 2) - Executing the Gulfport Master Plan to rebuild the facility
- 3) - Handling operational, financial & human capital strategies

Indeed, we made great progress. We signed a developer contract for our Washington Master Plan and completed the Memorandum of Agreement (MOA) with General Services Administration (GSA) to rebuild Gulfport. Reaching these major milestones gave us the launch pad we needed to move forward.

Further, we exceeded many of the strategic targets we set for FY07 performance. This demonstrates to Congress and our supporters that we

are producing results. Further, it reaffirms the strategies in our business plan and the "One Model" for a unified agency.

We are still in the process of reaching the training goals in our health and wellness model, measuring the success of our acquisition strategy, completing our succession planning for all operations and management and evaluating our organizational climate.

Looking forward, our IG has advised me that we face various new challenges in FY08. They involve staying on course with renovations, the accreditation and implementation of patient goals and keeping our constituents informed of our progress.

Structuring Sound Finances

Our ongoing cost-cutting measures, coupled with our new financial strategy, are the building blocks for future success. In fact, for the third straight year, we received an "unqualified opinion" on our financial statements from an external, independent auditor. So, I am confident that the performance information and financial data included in this PAR are complete and reliable.

In closing, I am proud of our recent achievements – yet I'm even more proud of the veterans who call the AFRH home. Rest assured, we will continue to manage their resources responsibly. Likewise we will continue to enhance the lives of the men and women who defended our nation and preserved our freedom.

"Our ongoing efforts, coupled with our new financial strategy, are the building blocks for success."

¹Continuing Care Retirement Community

²Commission on Accreditation of Rehabilitation Facilities and the Continuing Care Accreditation Commission



Sincerely,

A handwritten signature in gold ink that reads "Timothy C. Cox". The signature is written in a cursive, flowing style.

Timothy C. Cox
Chief Operating Officer (COO)

November 15, 2007

In this part, we present:

Message from Chief Operating Officer

Our Rich Heritage & Bright Future

Special Events in FY07

Building Blocks of Success

FY07 Highlights

AFRH at a Glance

Introduction to the PAR

As a girl, Barbara enlisted 'for patriotism and travel.' She served in the Army Signal Corps for six years. One Easter break, she took the train from Frankfurt to Paris. En route, she met a dashing soldier who would become her future husband: Harry Copare. "We knew right away. After our honeymoon in Switzerland, we lived in seven foreign countries, including Africa and Italy," she said. Today, they still live together at AFRH. And Barbara loves reliving her adventurous life overseas. "In Naples, we had to fill our helmets with water and bathe outside. When a group of privates started watching, we had to wash up in the tent."

We're pleased to introduce you to AFRH - a special place for America's veterans. In this Introduction, we establish the many recent developments that have shaped our fine organization. On behalf of our residents, thank you for your interest and support.



"In Naples, we had to fill our helmets with water and bathe outside."

Barbara Copare (Army — WWII)

Our Rich Heritage...

Back in 1811, our young nation made a Promise to care for its older and disabled veterans. This would be “repayment” for their sacrifices in defending liberty. So two homes were built: the US Naval Asylum in Philadelphia, PA (est. 1833). And the US Military Asylum in Washington, DC (est. 1851). Ultimately, the two joined forces in 1991 and evolved into a modern retirement home: The AFRH.

All along, we have provided eligible veterans with supportive care and shared camaraderie – much like they experienced in the service. Back then, they invested in the Home via small payroll deductions. So now, more than ever, we must deliver on that original Promise – and provide them with a safe, affordable and comfortable retirement.

Today, our staff is driven to nurture our nation’s heroes, while giving them the respect they deserve. Our foundation of care is getting stronger and our vision is getting sharper. This resurgence is driving us all to enhance our programs and services to keep our veterans happy and healthy. All so they can get the most out of their well-deserved retirement.



USS Missouri – Tokyo Bay, 1945



Card Room – Sherman North, 1951



Soldiers' Home – Barnes Hospital, South Side, 1905



Prize Holstein – Soldiers' Home farm, 1949

... And Bright Future



Afternoon Ride – Washington Campus, 2007

Master Plan – Washington Campus, 2007



Marching forward, we are bound by law to uphold that original Promise, to preserve the heritage of the Home and to take care of our own. As always, our mission will be to provide veterans with a premier retirement community with exceptional residential care and extensive support services.

To achieve this, we must enhance our campus. Doing so will meet the needs of today's retiring veterans – and the expectations of tomorrow's future residents – our current military service members. Those brave young men and women stationed in Iraq, Afghanistan, Europe and beyond are the future of AFRH. And all of them are paying into its Trust Fund. Ultimately, they will be the benefactors of an even greater AFRH.

At this moment, our service men and women are making great sacrifices to promote democracy around the world and preserve our way of life. We are very proud of them. So we must work hard to ensure *them* a safe and enjoyable future, too. Indeed, the foundation we're building today for current enlisted and warrant officers will truly safeguard their liberty in retirement.

*"I wake at 3AM and run around the campus. Then I hit the gym for strength training. After breakfast, I play 18 holes of golf. And after lunch, I practice yoga and do ab work."
– Curt Young (Air Force – Retired)*

*"Every morning, I climb up & down eight flights of stairs in Scott building. During the day, I like to walk 15-20 miles. Then I use the elliptical machine in the evening."
– Susan Chubb (Army – Retired)*



Weekly Tournament – Bowling Center, 2007

AFRH Special Events

Building New Friendships

Military camaraderie is what bonds us with Chelsea Pensioners from the UK.



Our residents make new connections at a variety of special events throughout the year. Many thanks go out to our strong base of community partners, volunteers and supporters. They truly make a wonderful difference in the lives of our nation's heroes.



October 2006

90 year-old resident runs in Army Ten-Miler

49th Anniversary Antique Car Show

Radio City Music Hall "Rockettes" visit

US Navy Birthday celebration

November 2006

London's Chelsea Pensioners (the UK equivalent of AFRH) visit

Marine Corps Birthday celebration

December 2006

Annual AFRH Holiday Dance

J5 Christmas Party at Pentagon, with Joint Chiefs of Staff

January 2007

US Coast Guard Master Chief, Charles W. "Skip" Bowen (Senior Enlisted), visits the Home

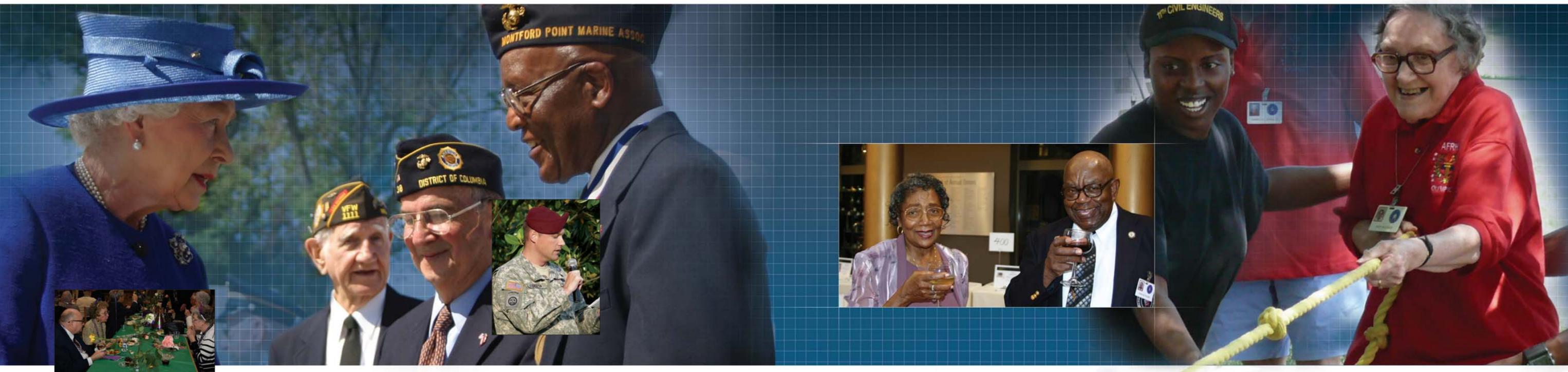
Residents attend an advance preview of Ken Burns' new film: THE WAR

AFRH Special Events, continued

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
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Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)	Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)	Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)	Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)	Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)	Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)	Funfest! Cookout & Flea Market Logrolling @ 8:45 a.m. in the rear of the Scott Dining Hall (Shelton room 1015)
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Our veterans were front-and-center to meet Queen Elizabeth II for a wreath laying ceremony at the WWII memorial.



February 2007

Mardi Gras celebration
Valentine's Day ice cream social

March 2007

First graduation of AFRH computer class



April 2007

Women in Defense visit AFRH female residents

May 2007

Poetry "in the Green"
Residents meet Queen Elizabeth II at the WWII Memorial

June 2007

Pentagon FCU hosts the annual "Night of Heroes"
AFRH Senior Olympics
US Army birthday celebration

July 2007

Congressional Golf and Crab Society annual benefit
AFRH residents are invited to Presidential Yacht
US Army birthday celebration

August 2007

General Robert Magnus, Assistant Commandant of the Marine Corps, visits the Home
AFRH Luau Dance
Army Command Sergeant Major William J. Gainey, Senior Enlisted advisor to the Chairman of the Joint Chiefs of Staff, visits

September 2007

Stone Soup Contest judging is held in AFRH gardens
Navy Chief Selectees 2nd Annual Volunteer Day
2007 Residents' Golf Championship
Air Force birthday celebration
Catholic University 3rd Annual Freshman Volunteer Day

The Building Blocks of Success

Charting Our Development

Our standard operating environment was established after the COO was appointed in September 02. The COO, Mr. Cox, reports to the Secretary of Defense through the Under Secretary of Defense (Personnel & Readiness).

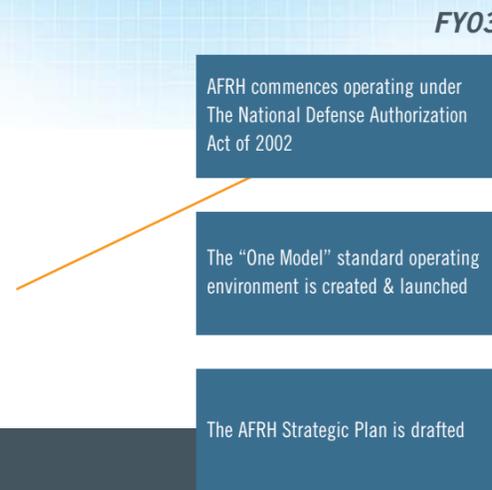
With vast experience in private retirement communities, Mr. Cox immediately standardized our two campuses – with one set of policies and procedures. His “One Model” called for regular assessments of our core competencies, plus determinations on whether to build internal capacity or competitively outsource functions. The result: the AFRH 2003 Strategic Plan, which became our blueprint for recovery and growth.

Before long, we fused that Strategic Plan with The Washington Master Plan, designed to provide additional resources to replenish the Trust Fund. Then, we integrated this dynamic AFRH strategic platform with several Federal strategic mandates:

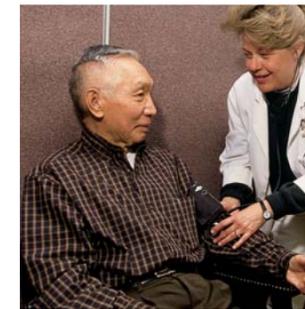
- 1 - The Program Assessment Rating Tool (PART) to reduce the footprint & identify underutilized space
- 2 - The Federal Activities Inventory Reform (FAIR) Act Of 1998 to identify functions of the Federal government that are not inherently governmental (see www.afrh.gov - About Us)
- 3 - The President’s Management Agenda (PMA), through which we have identified & achieved remarkable gains



Major achievements under this framework:



In 2004, all of these strategic tools coalesced. Since then, they've helped us form a solid platform for Trust Fund solvency and growth.



FY07 Highlights

Surveying Recent Progress

In the past year, our integrated strategic platform has produced many exciting developments:

November 2006

AFRH earns an “unqualified opinion” from independent external auditors (2nd year)

The Gulfport campus officially closes its doors

December 2006

Memory Support Day Care opens in LaGarde Building



January 2007

UltraCare financial system is deployed to collect all resident fees electronically

MOA is signed between GSA and AFRH to rebuild Gulfport facility

February 2007

Channel 99, the AFRH in-house TV station for residents, is launched

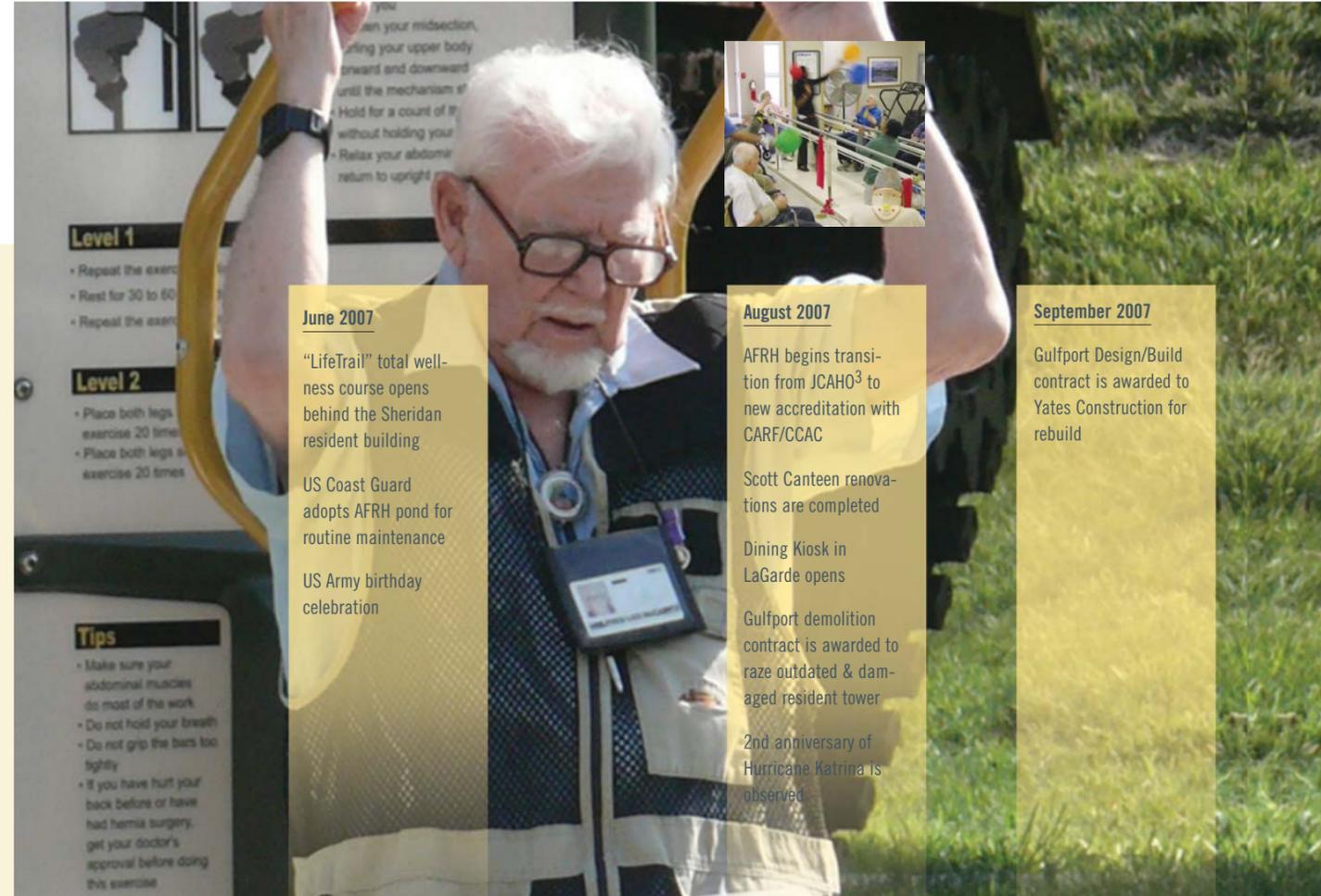
Keys to Gulfport are turned over to GSA



March 2007

For the Washington Master Plan, AFRH selects Crescent Resources, LLC, a North Carolina-based builder, as its preferred developer for a 77-acre parcel of land.

GSA designates Jacobs Engineering as the Professional Engineering Services & Construction Manager to rebuild Gulfport



June 2007

“LifeTrail” total wellness course opens behind the Sheridan resident building

US Coast Guard adopts AFRH pond for routine maintenance

US Army birthday celebration

August 2007

AFRH begins transition from JCAHO³ to new accreditation with CARF/CCAC

Scott Canteen renovations are completed

Dining Kiosk in LaGarde opens

Gulfport demolition contract is awarded to raze outdated & damaged resident tower

2nd anniversary of Hurricane Katrina is observed

September 2007

Gulfport Design/Build contract is awarded to Yates Construction for rebuild

TODAY'S AFRH AT A GLANCE:

Federal Authority	Current Locations	Resident Capacity	Average Resident Age	General Services	Major Amenities
AFRH Act of 1991, Public Law 101-510 (amended 2002)	Gulfport, MS (49 acres) Washington, DC (272 acres)	1,323 (as of Sep 07) Gulfport, MS: 0 (closed) Washington, DC: 1,125	79 Years Trust Fund Balance \$159 Million	Private Rooms & Showers Medical, Dental & Vision Care Dining Facilities Senior Activities & Programs Recreational Activities	Shuttle & Public Transportation Independent Living Assisted Living Memory Support Day Care Long Term Care Fitness Center Walking Trails LifeTrail Course 9-hole Golf Course 6-Lane Bowling Center Hobby Shops Fish Ponds 600+ Seat Theater Full-service Library Computer Center

³Joint Commission on Accreditation of Healthcare Organizations (now simply “Joint Commission”)

Welcome to the AFRH Performance and Accountability Report

Forging New Foundations

This book is a chance to celebrate our rich heritage and share our recent progress with Congress. It helps us meet various reporting requirements for US government agencies⁴. Plus, it's an opportunity to tell all Americans about the latest developments at the Home.

In recent years, AFRH 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. And we have continually enhanced our programs and services to provide even greater care.

FY07 has been the year of "Forging New Foundations." The strategic groundwork we laid out in 2002 has netted the positive gains we have been seeking. As a result of our recent business planning efforts, AFRH is finally showing concrete improvement in its financial performance.

Now we know the Trust Fund is solvent and the Home is financially sound. So, we've been developing a plan to renovate independent living, assisted living and long term care. Specifically, we're developing

more intimate and accessible living quarters by closing the distances between our buildings. Plus the Gulfport rebuild is under way and will rapidly accelerate in FY08.

Hence the foundation is set: one home in DC, one home in Gulfport – both with roughly the same resident capacity and economic cost. Add to it the Coast Guard's demand for inclusion plus new veterans from Iraq and future campaigns – and the picture is clear: AFRH is forging a very strong base, on top of which we will build our future.

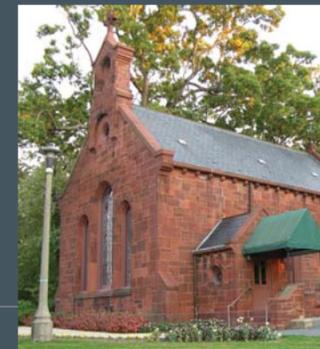
Along with our plans to develop the Washington campus, we have a new landscape management plan for campus beautification. Plus, we are crafting an active communication plan with the residents, in order to understand their ideas and needs for activities, dining and military heritage. Yet, every improvement of our physical "foundation" is geared to benefit our residents – who are forging their own new friendships, activities and lives here at the Home.

Renato Julian (Navy - Retired) and George Lang (Navy - Retired)



AFRH employees & contractors have prepared this report in accordance with Federal guidelines.

⁴The Accountability of Tax Dollars Act of 2002
The Federal Management Information Security Act of 1998
The Federal Financial Management Improvement Act of 1996
The Government Management Reform Act of 1994
The Government Performance and Results Act of 1993
The Chief Financial Officers Act of 1990
The Federal Managers Financial Integrity Act of 1982, and
The Inspector General Act of 1978



Renato and George are former career Navy personnel. Today, they're launching new creative projects in the AFRH Wood Shop. One is most inspiring: the new AFRH Chapel sign, which is replacing the original, deteriorated marker. "It's nice here at AFRH...we just want to make it a little nicer," said Renato. George chipped in, "And, we like to do things for other people." Well, this project will help the residents and the CFO – because a quality, handcrafted sign like this would cost \$1,500 or more, commercially.

Every improvement of our physical “foundation” is geared to benefit the residents



All told, we’re now poised to build “The AFRH of the Future.” For now, this Report features major events from FY07. It surveys the dynamic process that transformed AFRH, starting in 2002 with the creation of our Vision, Mission and Strategic Goals. Then it supplies an in-depth assessment of FY07 performance – including progress on goals and budget, plus detailed performance measures and financial statements. Finally, the PAR outlines management challenges and the plans to overcome them ... as well as future opportunities and the plans to leverage them.



We asked Robert & Jane, “How do you like living at AFRH?” They replied in unison: **“I Love It!”** (Robert Cornell – Retired Air Force; Jane Cornell – Army)

Four parts form a composite of how we’re managing the resources entrusted to us.

Part 1

Management’s Discussion and Analysis (MD&A):

A summary of our performance and financial status, featuring achievements and challenges. The MD&A includes our compliance with the President’s Management Agenda (PMA) and key legal requirements.

Part 2

Performance:

A detailed outline of the AFRH Goals and Objectives. This section shows precisely where we were successful and where we fell short of our own expectations.

Part 3

Financial:

The audit opinion, financial statements, disclosures and notes regarding AFRH fiduciary activities over the past year.

Part 4

Other Accompanying Information:

IG Statement, management challenges, improper payments and Acronyms

MANAGEMENT'S DISCUSSION & ANALYSIS

When you conduct Cold War military intelligence, you often keep to yourself. Secret agents get involved in covert activities - but rarely deep personal relationships. Now, George is turning the tables by giving back to his neighbors. He volunteers as a social worker here, escorting patients with limited vision. (You might say he's lending his expert surveillance skills to help the public.) George also enjoys daily walks around campus and did the Freedom Walk twice. Plus he just got his dream car: a Charger 3000. "There's quite a bit of good here, especially the medical care," he observed. That's a relief, given how George came to AFRH without seeing it first. "When the Army sent me somewhere, they didn't ask me to check it out first."

Improved financial performance is the cornerstone of our strategy. And "Forging New Foundations" has been our battle cry, calling for steady progress on each campus. As you will see here in the MD&A, that progress has been rock solid.

In this part, we discuss:

- Strategic Goals
- AFRH Organization
- Our Locations
- The Residents & Staff
- Performance Achievements
- GSA Customer of the Year
- Summary of Performance Measures
- The President's Management Agenda
- 2007 Financial Summary
- Management Assurances
- Letter of Assurance
- Controls, Systems & Compliance
- Risk Management



"When the Army sent me somewhere, they didn't ask me to check it out first."

George Wellman (Army – Retired)



Introduction to MD&A

Strengthening Our Base

Today's AFRH has sheltered and cared for tens of thousands of veterans spanning two centuries and nine major American conflicts. All along, the option to retire here has been one of the greatest benefits of military service. As our nation expands its military presence around the globe, we must rededicate ourselves to preserving the Home's resources – and ensuring those eligible a safe, comfortable retirement one day.

This mission can only be achieved with sound financial performance. In truth, the Home was bordering on insolvency for decades – mostly from cost inefficiencies on its sprawling Washington campus. Conversely, the Gulfport campus was more condensed and had a waiting list of approved applicants – making it much more cost-effective.

When the Trust Fund balance began to decline in 1995, Congress requested further study. AFRH responded by facilitating and executing many in-depth assessments:

AFRH STUDIES					
1995	1999	2000	2001	2001	2002
The Coopers & Lybrand Strategic Study:	The Army Inspector General Triennial Review Report:	More Efficient Organization Study - Gartner & Associates	Sen. Lott (R-MS) requested a Military Service Study Group	Actuarial Study by A.V. Powell & Associates, Inc.	The Navy Inspector General Triennial Review Report
<i>Recommended a Most Favorable Use of existing AFRH real property.</i>	<i>Advised an efficiency study before employing cost-saving measures.</i>	<i>Proposed we hire a COO, close the Pipes Building, reduce medical services staff and consolidate resource management at the agency level.</i>	<p><i>Study goal:</i></p> <p><i>Develop a short- and long-term plan to address AFRH insolvency. It proposed swift legislative changes to adopt a long-term</i></p> <p><i>Capital Improvement Plan, build an intermediate and long term care facility in Gulfport and restructure management by hiring a COO.</i></p>	<i>Analyzed the long term healthcare needs in Gulfport, MS</i>	<p><i>Conclusion</i></p> <p><i>"The change in direction over the past year at AFRH has been impressive. These efforts add credibility to the potential of</i></p> <p><i>AFRH to serve as a model of compassionate care to some of this nation's most deserving elderly."</i></p>
<p><i>Altogether, these studies chart our strong efforts and swift response in reversing the trend of insolvency at AFRH. By 2002, the foundation for our future was laid. This report outlines our impressive progress over the past five years.</i></p>					



WWII veterans from the DC metro area pose with Queen Elizabeth wreath at the National WWII Memorial.

Corporate Philosophy:

Our Vision and Mission are strongly rooted in the Home's heritage – yet they also incorporate modern philosophies in senior care. Plus our Guiding Principles were crafted to preserve the Home's foundation – while also serving as a guide to achieve the Mission. Ultimately, these smart strategic tools will help us meet the needs of a new generation of veterans.

Authority

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

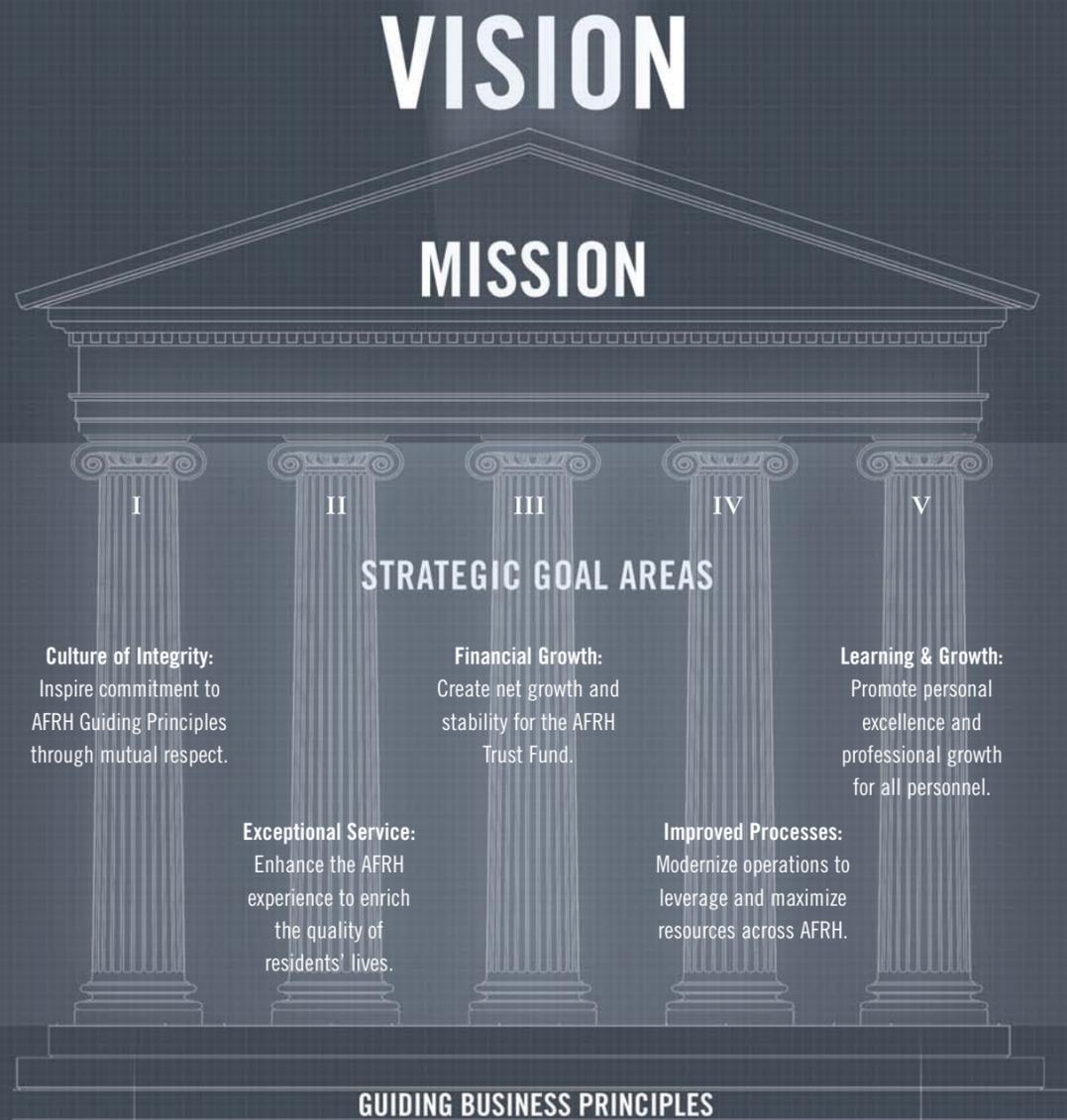
(b) Purpose - The purpose of the Retirement Home is to provide, through the Armed Forces Retirement Home-Washington and the Armed Forces Retirement Home-Gulfport, residences and related services for certain retired and former members of the Armed Forces.

AFRH Strategy

Our Strategic Goals

AFRH is a premier retirement community and CCRC 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 Strategic Goals across five major

areas. They serve as the pillars for specific performance objectives – which are connected to Initiatives in the President's Management Agenda (PMA). Plus these Goals continually help us build upon our success for the future.



"I would've ended up in San Quentin – but my grandmother put me in the military. That straightened me out!"



Jerry Stahler didn't have a choice when enlisting. "I was a pain-in-the-butt kid, always in trouble. I would've ended up in San Quentin – but my grandmother put me in the military. That straightened me out!" In the Air Force, Jerry had several tours as a boot camp instructor – teaching impressionable kids discipline. Ironic, eh? "Yeah, I used to get in their faces. Now I run into my recruits all over. A B-52 pilot from 'Nam came up to me and said he was an Aircraft Commander and a successful Captain. Guess he wanted to get in my face!" Today 78-year old Jerry maintains discipline by exercising six days a week. "AFRH has a wonderful gym. Watch me bench 185 lbs."

AFRH Organization

"Our 2002 goals included 're-visioning' AFRH as a modern CCRC."

Mapping Our Structure

The Organization

The AFRH was originally conceived as an "asylum" for old and disabled sailors and soldiers. It started in Philadelphia as the Naval Asylum, in the former country mansion of the prominent Pemberton family on the Schuylkill River. And in Washington as the Soldiers' Home, with a mere three residents in what is now the Lincoln Cottage on our main campus. For six generations thereafter, these Homes have been a beacon of security for America's aging guardians of freedom. Today, that tradition endures. Yet, AFRH has truly developed into a progressive retirement home with sound business practices.

Our Management

The COO manages both campuses with a corporate staff located on the Washington campus. [see figure 1.] Using our successful "One Model" for operations, each Home has a Director who reports directly to the COO. [see figure 2.]

Our Locations

The AFRH has two facilities. Our main campus is located on 272 lush acres in the heart of Washington, DC. Our auxiliary campus is nestled on 49 acres of pristine beachfront property in historic Gulfport, MS. When Gulfport reopens in 2010, both will provide excellent services and amenities that rival those at private retirement homes. For eligible veterans, the AFRH monthly fees are very affordable – and there are no costly registration dues.

CFO Steve McManus outlines our corporate strategy.



FIGURE 1: CORPORATE MODEL

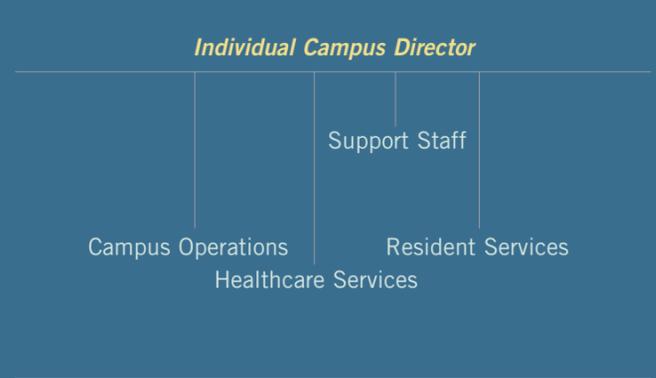


FIGURE 2: CAMPUS MODEL

Both campuses have the same management structure:

CAMPUS OPERATIONS	HEALTHCARE SERVICES	RESIDENT SERVICES	SUPPORT STAFF
Facility Maintenance Transportation Logistics Grounds Utilities Custodial Services	Nursing Social Services Community Health Dental Optometry Nutrition Medical Records Assisted Living Long Term Care Memory Support	Admissions Recreational Services Volunteer Coordination Security Dining Services Religious Activities Custodial Services	Safety Office

Our Locations

Washington

This campus is literally “a city within a city.” It has everything one could ever need: banks, chapels, a mail room, PX, laundry facilities, a barber shop, beauty salon, several dining areas, 24-hour security staff plus private rooms with cable TV and phone access. Not to mention scenic, sprawling grounds for walking, reflection and solace.

As we march into the future, we’ll continue to design innovative services and amenities with future residents in mind. After all, the next generation of retiring veterans will have greater expectations than those of the past. So, our final charge will be to make AFRH the most vibrant and enjoyable retirement community possible.

The Washington campus is our sole facility for now. So, management has made refurbishing it a top priority in its short-term strategy. Specifically, we’ll focus on capital improvements to existing structures with deficiencies.

A few years ago, AFRH retained GSA and hired consultants to draft a Master Plan to develop our under-utilized land in Washington. This Plan will guide the long-term use and development of our property to generate revenue for repairs. Albeit, this development may take 10 or more years, depending upon market conditions.

Several analyses were conducted to guide development:

- 10-year Financial Capital Plan Development
- Contract Integration & Efficiencies Study
- Cost-effective Use & Modernization of Dorms
- Information Technology Assessment
- Medical Equipment Needs Assessment
- Trust Fund Solvency Analysis
- Wellness Center Study

Gulfport

While this campus was closed in August 05 due to the damage from Hurricane Katrina, it has a bright future. Congress generously provided funds to relocate the Gulfport residents to the Washington campus – and to rebuild the damaged and outdated facility. AFRH has turned over the Gulfport keys to GSA, which has been charged by Congress to rebuild it. Demolition of the resident tower will start in October 07. Plus GSA has hired an engineering firm to manage the construction and its grand reopening is slated for 2010.

Progress:

- | | |
|-----------|---|
| Oct. 2006 | – All remaining salvageable items are removed from Gulfport |
| | – Military memorabilia is stored in nearby Naval Construction Battalion (SEABEE) base |
| Nov. 2006 | – Gulfport campus officially closes its doors |
| Jan. 2007 | – GSA and AFRH sign MOA to rebuild Gulfport |
| Feb. 2007 | – AFRH turns over the Gulfport keys to GSA |
| Mar. 2007 | – GSA designates Jacobs Engineering as construction managers to rebuild Gulfport |
| Aug. 2007 | – Demolition contract is awarded to raze damaged building (completion target: January 2008) |
| Sep. 2007 | – Web-cam to monitor Gulfport demolition via afrh.gov is initiated |
| | – The Design/Build contract is awarded to Yates Construction |



Residents & Staff

The AFRH Residents

The Home is a dynamic community of men and women who have served our country with steadfast devotion. Since the 1800s, tens of thousands of prior military service members have lived on these grounds. A stroll across our scenic Washington campus often winds up in a conversation with one of our engaging residents. Every patriot has a unique story – filled with vivid anecdotes and captivating battle tales. And many enjoy reliving their glory days while serving Uncle Sam.

Most of the residents seek a retirement filled with meaning and purpose. So, 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 achieve this through a variety of social, recreational and occupational programs that foster health and wellness.

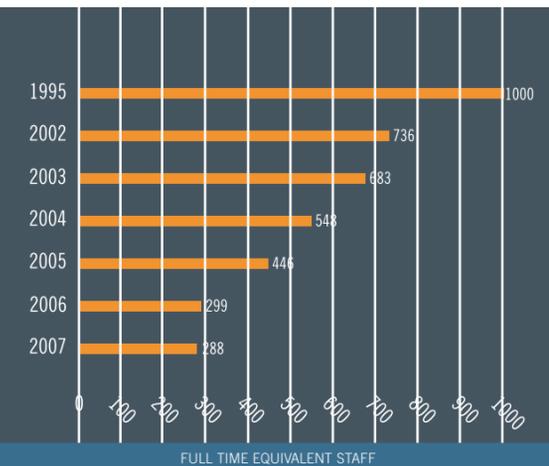
Adlyn Wilson and Donna Matthias are nurses who truly care for the residents.



Our Dedicated Staff

Our employees play a huge role in helping our residents build new lives. Many staff members routinely go the extra mile to create a new program, improve an existing service, or brighten a resident’s day. Truly, with the help of our great people, we have been successful.

In the 1990s, AFRH was mainly staffed with Federal employees and the resident population was much larger. As residency declined, so did our staff. Since 2002, one goal has been to maximize our workforce through a blend of salaried professionals and contracted experts. To reduce costs, various functions were put up for competitive sourcing and were awarded to private firms that were more proficient and cost-effective. Regrettably, the temporary closure of Gulfport made additional staff reductions necessary. This year, AFRH has stabilized at 288 full time equivalents.



Performance Achievements

Measuring Our Progress

HIGHLIGHTS

GOAL - Financial Growth:

Create net growth and stability for the AFRH Trust Fund.

The formula to attain financial solvency is simple: increase revenue, reduce costs and improve financial performance. Hence, our vision is to provide the “best value” to our residents through maximum fiscal management.

Indeed, FY07 was a banner year for financial achievement. The Trust Fund balance rose to \$159 million – from a low of \$94 million in FY03. We made inroads on our Washington Master Plan and we’re close to eliminating more vacant space and reducing our infrastructure costs. And new studies on capital improvements, Trust Fund solvency and IT are revealing new ways to economize. Plus, our Internal Control program has been operating successfully for more than a year now.

In accounting, we received our third annual “unqualified opinion,” thanks to Bureau of Public Debt’s (BPD) strong financial management. Truly, our key to success has been to reach out to “centers of excellence” for additional expertise.

GOAL - Improved Processes:

Modernize operations to leverage and maximize resources across AFRH.

To boost efficiency, we routinely assess and revamp our processes. So, in FY07, we aligned all strategies and processes with the corporate and campus level – yielding instant efficiencies. Also, we scrutinized our financial processes and in-house databases in concert with BPD. This, too, has resulted in better reporting and service to the residents.

Another focus in FY07 was to enhance communications by keeping technology current and available to the entire AFRH community. For instance, Channel 99/100 has been well received as a form of instant communication. The residents (and even staff) tune in for daily news, campus announcements, dining menus, videotaped group meetings, daily quotes and answers to popular questions.



Our residents made great strides, themselves, by competing in the AFRH Senior Olympics. Here, Renato Julian (Navy – Retired) runs the Relay Race.

GOAL - Learning & Growth:

Promote personal excellence and professional growth for all personnel.

Preparing our staff to serve the residents is vital. It promotes Exceptional Service, plus it helps fulfill several Objectives. The AFRH has high standards for staff training. We require 100% participation in four training courses and provide more than 136 hours of health and wellness training. And we do have a formal plan to implement. Due to changes in our training calendar, our goals for 100% participation were not met. But our goal to train in health and wellness, albeit modest at 70%, was exceeded with more than 94% participation in most of our mandatory courses.

Further, we began pursuing a more fitting healthcare accreditation through CARF/CCAC, given our role as a CCRC. This will cover all levels of care that we currently provide.

Also, we completed a succession plan for all nursing staff ... yet we lack such a plan for other professions. And finally, our professional development marks fell short of their targets.

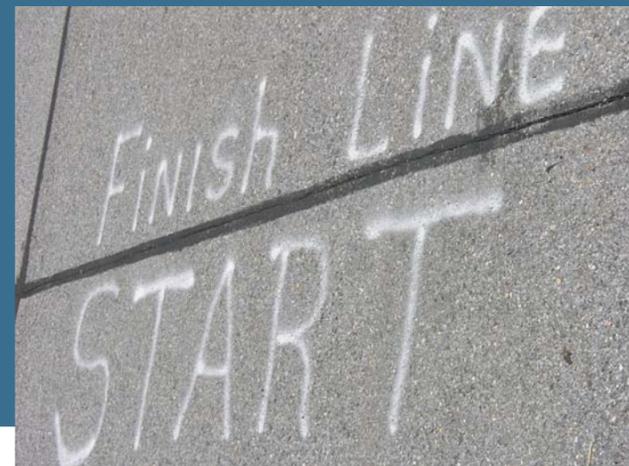
GOAL - Culture of Integrity:

Inspire commitment to AFRH Guiding Principles through mutual respect.

Given the cultural diversity of our staff, we have focused on creating workplace harmony in recent years. Today, we are promoting activities for management and staff, both in- and outside the workplace. For two years, we have engaged in team building at various off sites. Plus, we typically have a high turnout at employee days, agency picnics and golf events with the residents.

One major achievement was completing 100% of all performance reviews and Performance Plans. This has allowed every staff member to connect to our Vision, Mission, Goals and Guiding Principles – and to see where they fit into our Performance Plan. Incidentally, the Objective to administer an “organizational climate” survey is in development, but will not yield results till early in FY08.

In FY07, we made solid progress on our Strategic Goals and met many of the performance measures that hold our staff to a high standard. In fact, we realized great success in the areas of financial improvement, performance management and customer service. We were less effective in areas that required in-depth analysis, such as acquisition. Likewise, our rather extensive training program is not complete. Still, we finished several key studies, which will serve us in the future as we strive for even greater efficiencies.



Performance Achievements, continued



GOAL – Exceptional Service:

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

The residents are the main focus at AFRH. So, most of our budget is directed at programs, staffing and operations in their direct support. A key measure of satisfaction is feedback via surveys. Our Goal is to receive a “good” or “better” rating from 75% of respondents – and we have met that Goal.

This retirement home is unique, given our residents' US military service. So we've made a concerted effort to promote military heritage on the Washington campus. Our aim was to facilitate and attend six military-related events a year – and we exceeded that target with a total of 10 in FY07.

Communicating with the residents is key. To keep them informed, we revamped the afrh.gov website, launched Channel 99/100 (our in-house TV station) and published news about the Gulfport rebuild and our Master Plan.

To reach prospective residents, we must stay highly visible at national veterans' conventions, popular retiree activities and veterans' service organizations. So, we created a vibrant marketing and outreach program to convey the benefits of life at AFRH. In fact, we produced a new marketing kit featuring beautiful imagery, inspiring copy and handy application information.

2004: Competitive Sourcing

2005: Strategic Management of Human Capital & Improved Financial Performance

2006: Expanded Electronic Government

2007: Improved Financial Performance

⁵For a detailed discussion, see PMA.

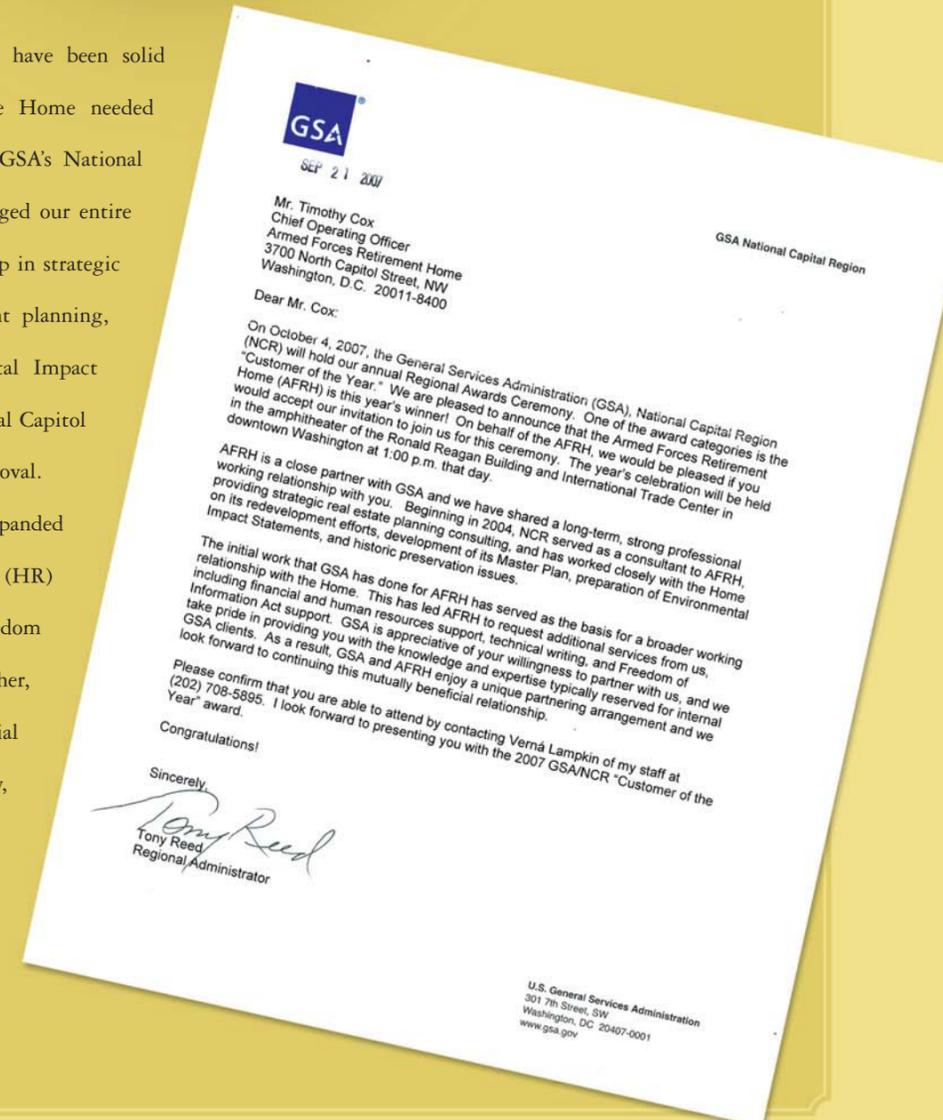
As a small Federal agency, AFRH has focused on one or two PMA initiatives⁵ each year:

AFRH WINS GSA “CUSTOMER OF THE YEAR” AWARD FOR FY 2007



Since 2004, AFRH and GSA have been solid business partners. When the Home needed expert advice, we consulted with GSA's National Capital Region (NCR). GSA managed our entire Master Plan package, providing help in strategic real estate planning, redevelopment planning, historic preservation, Environmental Impact Statement preparation, plus National Capitol Planning Commission (NCPC) approval.

The success of this initial work expanded into financial and human resources (HR) support, technical writing and Freedom of Information Act support. Together, we have enjoyed a mutually beneficial partnership for four years now. Today, we are excited and honored that GSA has selected the AFRH as its “Customer of the Year” for 2007.



Summary of Performance Measures

86%
of goals
achieved

Performance Measure	Baseline FY07 Target	Baseline FY07 ACTUAL	Met/Not Met
Goal: FINANCIAL GROWTH			
Net growth to AFRH Trust Fund	Any gain over previous year	+\$13 million	Met
Cost savings via Asset Management per year	\$500K	Saved \$707K by closing Pipes	Met
Accuracy of Financial reporting	Unqualified audit opinion	Unqualified audit opinion	Met
Solvency of AFRH Trust Fund	Even balance of resources vs. obligations	Balanced	Met
Cost savings initiatives	4	6	Met
Effectiveness of the acquisition strategy	% of award dates that are met or improved	Not measured	Not Met
Percentage of inaccuracies found through Internal Controls	5% or less	.5 % (1/2 of 1%)	Met
Goal: IMPROVED PROCESSES			
OPERATIONAL: Reengineered processes with automated enhancements per year	+2	3	Met
ORGANIZATIONAL: Communications enhancements between employees and residents per year	+1	1	Met
Goal: LEARNING & GROWTH			
Evidence of measurable training goals	100% participation in 4 mandatory training classes 4 for all staff	Less than 100% participation in mandatory training classes for all staff	Not Met
Percentage of training written into employee performance plans	100%	100%	Met
Evidence of a needs based succession plan	Plan	Nursing Plan written	Met
GOAL: CULTURE OF INTEGRITY			
Number of additional cultural/volunteer programs	+1	+1	Met
Number of employee offsite activities	2	2	Met
Percentage of completed employee performance reviews	100%	100%	Met
Percentage of Employee Climate Survey responses of "Excellent" or "Very Good"	70%	-	Not Met
Goal: EXCEPTIONAL SERVICE			
Percentage of Resident Service Survey responses of "Excellent" or "Very Good"	75%	75+%	Met
Number of new Independent Living residents	+144*	+172	Met
Number of military heritage related events per year	6	10	Met
Number of partnerships with external stakeholders	5 per year	5	Met
Percentage of employees trained in health and wellness model of retirement living	70%	94%	Met

Grouped by Strategic Goals, we have several performance measures for our new baseline. FY07 is the first year we will record the results. In future years, we will compare all results to these baseline targets.

Our great success in finances and planning are a prelude to achieving additional goals in the future. (See Part 2 - Performance - for details.)

Management Challenges

FY07 Challenge	Strategic Goals & Objectives to address Challenge	PMA Items related to Goals & Challenges
Achieving our mission with a multi-cultural workforce	Culture of Integrity -Increase teamwork & cooperation among employees -Engage & motivate the workforce	(#3) Strategic Human Capital (#2) Competitive Sourcing
Satisfying demands of an aging resident population Providing high quality residential care in the spirit of health & wellness Connecting current residents with their military heritage	Exceptional Service -Craft a resident-focused environment with service measurements -Enhance customer satisfaction through vibrant community outreach -Promote resident vitality & independence as long as possible	(#3) Strategic Human Capital (#5) Expanded Electronic Government
Maintaining the solvency of the AFRH Trust Fund Keeping the Home financially self-sufficient	Financial Growth -Increase revenue resulting in a net increase -Reduce costs resulting in a net increase -Enhance fiscal management -Change corporate operating model	(#4) Budget Integration (#2) Competitive Sourcing (#5) Expanded Electronic Government (#1) Improved Financial Performance
Maximizing resources via efficiencies & technology	Improved Processes -Simplify & standardize processes -Optimize our use of technology solutions -Increase timeliness & satisfaction with communications	(#5) Expanded Electronic Government (#1) Improved Financial Performance
Ensuring qualified, trained & professional personnel for the residents	Learning & Growth -Provide a comprehensive staff training program tied to performance, competencies & accountability -Develop & manage workforce talent -Develop a strategy for staff professional development	(#3) Strategic Human Capital (#1) Improved Financial Performance

Improving Our Enterprise

The PMA is a strategic tool to greatly improve the management and performance of the Federal government. This program was modeled after the President's vision for the government to operate like a business – efficiently and effectively. The AFRH heeds the guidance in the

PMA and continues to make significant progress in each of its five Initiatives. The Home has not officially submitted for evaluation, but every year since FY04, we have conducted a self-assessment as of September 30th.



Special Focus on Improved Financial Performance

Background

All spending at the Home comes straight from the AFRH Trust Fund. So, we must maintain a healthy balance between our revenues and expenditures to preserve the Fund's vitality.

Washington Master Plan

This Plan strives for new revenue to support our resident-focused care. It will help grow the Trust Fund and give us more capital to improve the campus. The Plan seeks to attract development at a fair market value that is compatible with the AFRH Mission. In summer 05, an open dialogue with the residents and neighbors began. At the close of FY06, one major milestone was reached: we chose three potential developers for the first AFRH redevelopment project. Initial revenue is planned for 2012 and is forecast to be just over \$1 million. Year 2013 should yield about \$14 million. Years 2014-2016 should yield more than \$24 million each year. Looking further out, our total predictions exceed \$600 million.

Gulfport Master Plan

The cost to rebuild this campus was funded through a Congressional Hurricane Supplemental totaling approximately \$236 million. The GSA, via legislation and an MOA, are managing the rebuild process in tandem with AFRH and NAVFAC.

Progress

At present, progress is "Green" and we are on track. Since FY04, we have been refining our Gulfport and Washington Master Plans. With the PMA as a guide, we literally transformed the way we do business.

Only 43 percent of our budget is in labor. Fortunately, since 2003, our "One Model" for operations has eliminated duplicate functions at each campus. In Washington, we closed excess buildings and out-sourced all services that were not resident-focused. The bottom line: we changed how we think and work.

As a result, the Trust Fund balance has grown dramatically – rising from its low of \$94 million in 2003 to \$159 million in 2007. Plus, the FY07 audit produced our third straight "unqualified opinion."

"The recommendations we have targeted address the most apparent deficiencies where the opportunity to improve performance is the greatest."

—George W. Bush

	FY 2004	FY 2005	FY 2006	FY 2007
Improved Financial Performance	●	●	●	●
Competitive Sourcing	●	●	●	●*
Strategic Management of Human Capital	●	●	●	●
Budget & Program Integration	●	●	●	●
Expanded Electronic Government	●	●	●	●

● Excellent ● Fair ● Poor

*Inefficiencies arose from Hurricane Katrina

Improved Financial Performance, continued

07 STUDY Contract Integration & Efficiency Study

Goal: to determine if any cost or time-savings could be applied to our contracts – while still maintaining effective campus operations. This study determined the best ways to manage, consolidate, administer or even re-procure contracted actions to maximize efficiency.



AFRH INTRANET

Washington Developments

We passed major milestones in our plan to draw revenue from surplus real estate. Crescent Resources LLC, a North Carolina-based builder, was selected as the preferred developer for a 77-acre parcel of land. We envision the stretch of land along North Capitol Street having a small hotel, supermarket, condominiums, market-rate rental apartments, 300 units of affordable housing, plus transitional facilities for veterans. Our briefing to the NCPC in August was well received. Now, we're poised to continue on schedule with GSA as our development partner.

Gulfport Progress

In FY07, we enjoyed smooth sailing in our plans to rebuild Gulfport. Demolition of the resident tower is slated for October 07, with campus completion targeted for July 2010.

Status

AFRH has no chronic or significant Anti-Deficiency Act Violations, no material auditor-reported internal control weaknesses and no material non-compliance with laws or regulations. Plus our agency head has provided an unqualified statement of assurance in this Report.

Today, we are continuing to grow and evolve. We're proud of our financial success, which has eluded AFRH in the past. With a change in thinking, a strong management team, and a clear vision, the Home is poised for continued success. Not without risks and challenges, mind you. Thus, AFRH has achieved a "Green" in Improved Financial Performance.



Progress Status

	Years 1-10	Years 11-20	Years 21-30	Total
Projected Payments to AFRH	\$183,875,415	\$180,099,102	\$242,079,215	\$606,053,732
Per SF-FAR (Years 10, 20, 30)	\$8.80	6.88	9.25	

07 STUDY Trust Fund Solvency

A key study was conducted to test the solvency of the AFRH Trust Fund. To our delight, it showed that the Fund is solvent through FY18 – as measured by Net Cash Flow, annual Trust Fund balance and 2018 Trust Fund balance. This fiscal forecast is based on innovative strategic elements in the management plans that seek to:

- Reduce various operating expenses
- Improve operating efficiency via building renovation
- Optimize levels of care for residents
- Increase revenue via long-term lease of real estate

Naturally, if the plan cannot be realized, it would present a major risk. Therefore, we will develop action plans to stay on course, along with contingency plans just in case. Also, we will track and update our resident population data and monitor results of both Master Plans.

Competitive Sourcing & Human Capital



The AFRH "Catch Me at My Best" program salutes exceptional staff performance.

Competitive Sourcing

Background

AFRH has actively engaged in competitive sourcing by conducting seven various efficiency studies. (Six were performed in FY04 and categorized as "Streamlined." One was performed in FY05 and classified as "Standard").

In FY06, our contracts expanded, due to the dramatic increase in residents from Gulfport. In fact, key changes were required in Transportation, Food Service, Custodial, Security, Garbage and Facilities Maintenance in Washington.

Progress

Our adage is: "Simplify operations to conserve dollars." So in FY07, we searched for cost savings and identified excessive spending. Then, new studies were commissioned to evaluate overall contract integration and efficiency.

Status

AFRH has achieved "Yellow" in competitive sourcing. This year was spent commissioning various studies. Now with definitive findings, we'll be ready to take action in FY08. As we move forward, several other areas are also targeted for extra cost savings.

07 STUDY Information Technology Assessment

Our office equipment (e.g., copiers and printers) is due for an overhaul to boost campus productivity. Working with DAPS⁶, we conducted a campus copier analysis and evaluated agency workflow. Plus we defined our requirements for printers and copiers. Currently, DAPS is finalizing the assessment report to include lease or replacement options, as well as maintenance recommendations. The report is due by first quarter 08.

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.

As in years past, we have fully aligned our actions with the Home's Strategy and Goals again in FY07. We integrated competitive sourcing to reduce full-time equivalents (FTEs) and boost staff quality. Plus we systematically measured performance on 100 percent of our staff's performance appraisals.

Progress

In FY07, we successfully completed the first cycle of our Performance Plan. In January, we began the new cycle in accordance with our schedule. Meeting our goal, we have given 100% of our employees their Performance Plans - and each one cites our Guiding Principles, AFRH standards and the employee's unique job standards.

BPD's Administrative Resources Center (BPD-ARC) executes many of our HR operations. The National Finance Center (Department of

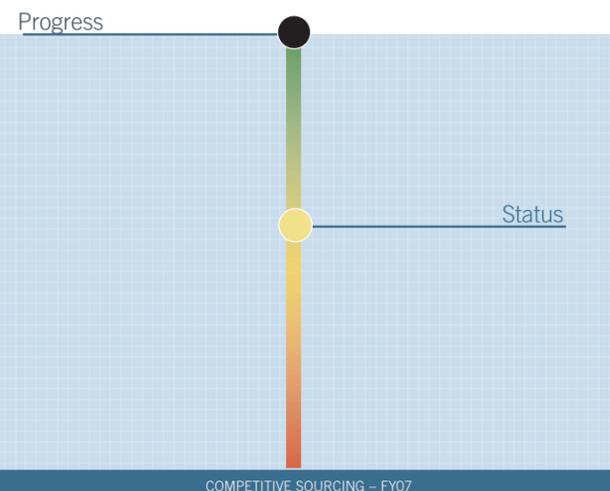
Agriculture) manages our personnel/payroll system. And GSA supervises our Equal Employment Opportunity (EEO) program. To gain insight on the effectiveness of these partnerships, OPM conducted a periodic inspection of our HR practices in September 06, as a part of its statutory mandate. The results presented in FY07 highlighted the benefits of these innovative and far-reaching franchise agreements. So, progress for this Initiative is "Green."

Status

Last year, just one key PMA criteria was not addressed: succession strategies. This year, we completed one for our nursing staff, which is the largest component of our workforce. Our Learning & Growth Goal – which entails four mandatory training courses, 136 hours of health and wellness model training, as well as professional development – is not complete. While our modest goal of "70% of all staff trained" was met and exceeded, we still have room to improve. Since we changed our training records from calendar year to fiscal year, our numbers for FY07 appear to be lower. But next year, we'll be able to demonstrate much better attendance. So, while our progress is "Green", our status remains "Yellow."

07 STUDY Wellness Center Study

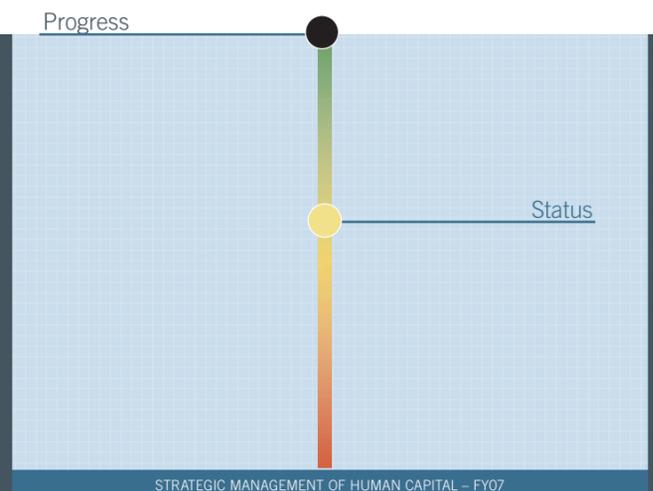
We studied the on-campus Wellness Center to unearth potential cost savings in overall operations.



COMPETITIVE SOURCING – FY07

07 STUDY Medical Equipment Needs Assessment

A needs assessment had never been performed on medical equipment. Now, we are focusing on acquiring new equipment to satisfy the residents' needs.



STRATEGIC MANAGEMENT OF HUMAN CAPITAL – FY07

⁶Document Automation and Production Service (in the Defense Logistics Agency)

Budget & Program Integration and E-GOV



Budget and Program Integration

Background

The AFRH Strategic plan has been revamped and a limited number of Goals and Objectives have become our performance indicators. Our performance appraisal plans for 100% of agency positions are linked to agency Mission, Goals and outcomes. Also, AFRH has at least one efficiency measure for each program. Yet, we have not been able to collect this data for more than two years in a row due to all the upheaval after Hurricane Katrina. So, this year is our baseline target.

Progress

Today, we are proud to demonstrate what portions of operating expenses are spent to achieve various Strategic Goals. (See pie chart below.) This is a giant leap forward for AFRH and this endeavor has been planned for some time. With FY07 as a baseline, we will leverage this new data to readjust our priorities.

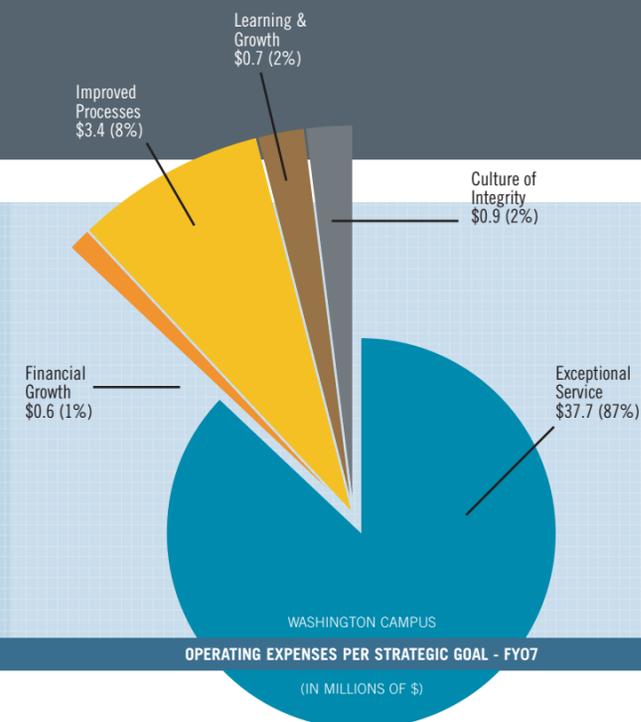
Further, we've been working hard on many levels to completely integrate our budget and performance.

Status

The performance link, from strategy to individual accomplishments, continues successfully – because operating expenses are now tagged to our Strategic Goals.

As expected, the majority of expenditures are on Excellent Service for the residents (87%) here on our main campus. Through other PMA initiatives, we have lowered costs and maintained a high performance organization. At the Corporate level, our expenditures are more evenly distributed among Goals, with a slightly higher percentage in Improved Processes (37%). Now we have proof for our stakeholders that our budget aligns with performance.

Yet, simply aligning them is not sufficient. We must analyze them to ensure our results equate financially. Since we have more work to do, the status for Budget and Performance Integration remains "Yellow."



Progress



Status

BUDGET AND PROGRAM INTEGRATION - FY07

Expanded Electronic Government (E-Gov)

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'll be measurably improved. The new AFRH enterprise platform is now aligned with our agency's Mission and it is implemented enterprise-wide.

Progress

We've made great strides to fully 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 reduced costs. Plus, we transformed our in-house managed systems to externally hosted resources – thus maximizing web-based technology.

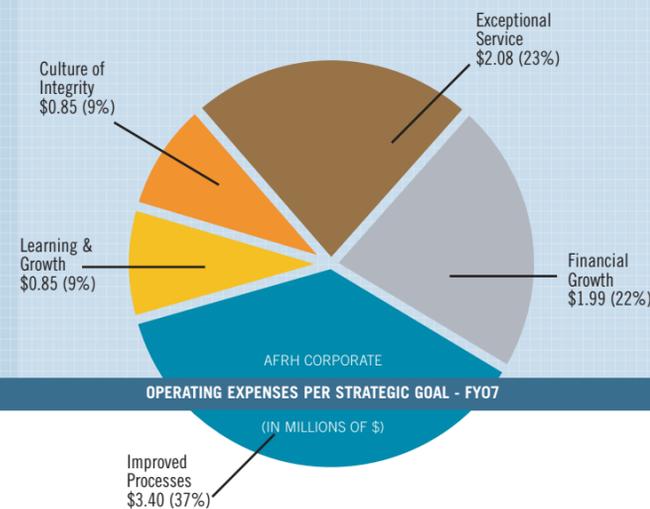
In FY06, we earned our official security Certification and Accreditation (C&A), as outlined by the National Institutes of Standards and Technology (NIST).

Status

In FY06, we highlighted E-Gov as the focus of our success. Today, we are studying copiers and printers for consolidation. We are also looking to move away from GSA's FTS 2001⁷ to other network solutions. Further, we're looking at new opportunities in service consolidation and equipment disposal. We are exploring options for appropriate IT contract vehicles. Plus we're continuing our strong campaign to comply with FISMA, the C&A and 508 requirements. In short, our E-Gov initiatives are on target, so the status is "Green."

⁷Worldwide telecommunications solutions (i.e. voice, data, wireless and video – a collaboration suite)

Progress



Progress



Status

EXPANDED ELECTRONIC GOVERNMENT (E-GOV) - FY07

Financial Summary and Highlights

Stanley Sagara (Air Force – Retired) visits with his cousins from Japan, Kumiko and Yuki. In September, the two college students came to visit him and tour America for the first time.



Designing Our Renewal

A permanent Trust Fund was established in the 1800s to maintain the Home – so it wouldn't rely on taxpayer money. Ever since, active duty payroll deductions from enlisted and warrant officers (ranging from \$.10 - \$.50 per month) have funded operations.

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

Trust Fund Balance

The true gauge of our success is the Trust Fund Balance. By 2003, operating costs greatly increased over previous years – eventually outpacing our revenue. Hence, 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. In swift fashion, we followed the Federal government's lead for an integrated strategy – linking

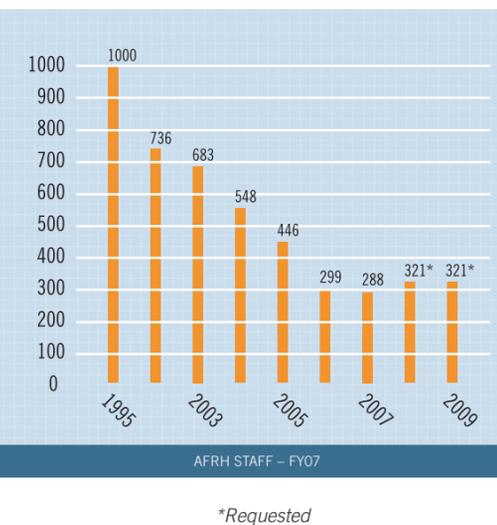
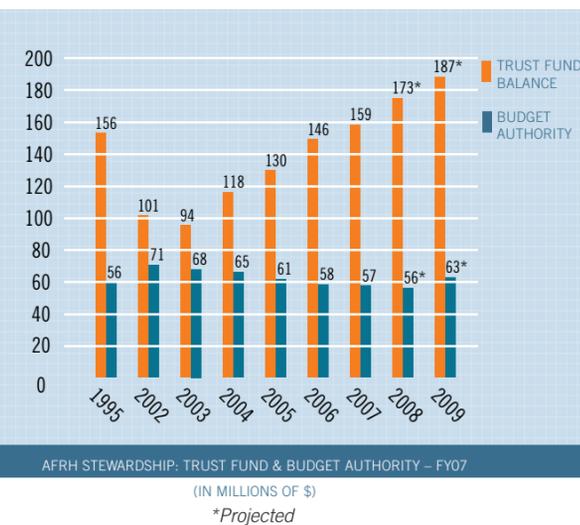
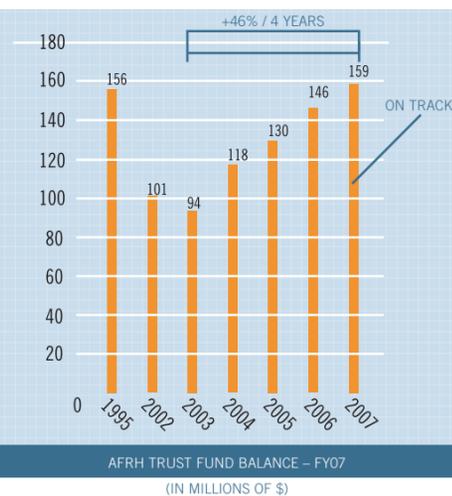
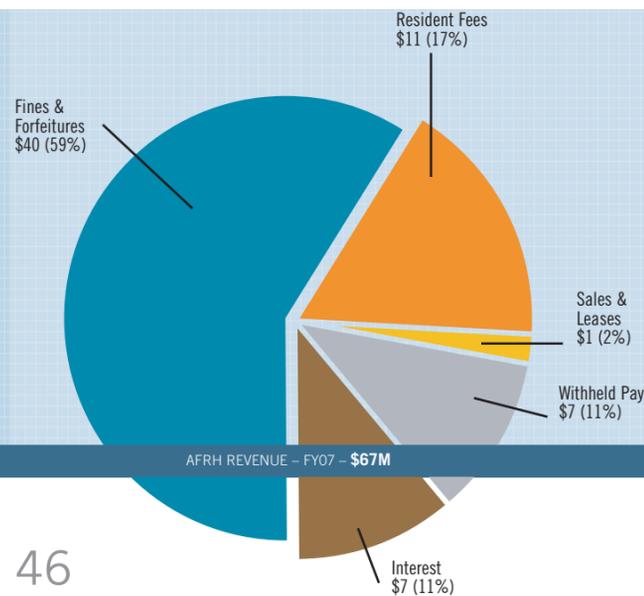
planning with budget and performance. By the end of FY07, we were back on solid ground and the Fund had topped \$159 million.

Appropriations:

Each year, AFRH submits a budget to Congress to withdraw funds from the Trust Fund through an annual appropriation. Although we only requested \$55 million for FY07, we were given \$57 million under the Continuing Resolution Act (CRA).

Staffing

Streamlining the staff has been a Strategic Initiative for several years. The chart below (AFRH Staff) shows our anticipated needs for full time equivalent employees based on the best data available. For now, the Washington campus is the focus of all operations. The Gulfport campus hasn't had any FTEs since early FY07, when the property was turned over to GSA. Yet, we will continue to plan for new staffing when Gulfport reopens in 2010.



Assets, Liabilities & Cumulative Results of Operations

Generating Sound Financials

Assets, Liabilities & Cumulative Results of Operations

For FY07, our Consolidated Balance Sheet reflects:

Total Assets:	\$ 465,615,106
Total Liabilities:	\$ 7,048,896

About 15 percent of our assets are property, plant, and equipment (PP&E), with a book value of \$72,018,853. 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 our financial position and operations results, pursuant to the requirements of 31 U.S.C. 3515(b). They were prepared following generally accepted accounting principles (as defined by The Chief Financial Officer's Act of 1990 and OMB). Plus these statements are in addition to financial reports prepared from

the same books and records used to monitor and control budgetary resources. We are pleased to report AFRH is in compliance with all relevant laws, statutes and legislation.

We accept the responsibility of reporting performance and financial data accurately and reliably. So all data for this report was gathered and reported through systems of rigorous controls and quality checks. AFRH employs BPD-ARC to perform its financial management. BPD-ARC's expertise is superb and it provides us with outstanding reporting services.

Financial & Performance Results Integration

Led by the Vision and Mission, our COO is ensuring that the Home's carefully crafted Strategic Plan is directing staff to improve performance – as well as the bottom-line.



When it comes to Exceptional Service, AFRH is a cut above.



*"He missed the tag."
Here, residents watch the AFRH Diamondbacks try to win a close ballgame.*

Financial Statements Summary

Brown and Company, PLLC is a firm of CPAs and Management Consultants. As independent auditors, they have given AFRH an "unqualified opinion" for FY07. They have also reported no material weaknesses.

Assets:

- Net changes between FY06 and FY07 equal \$7,810,756.
- Investments and the Trust Fund Balance equal 84% of our assets.

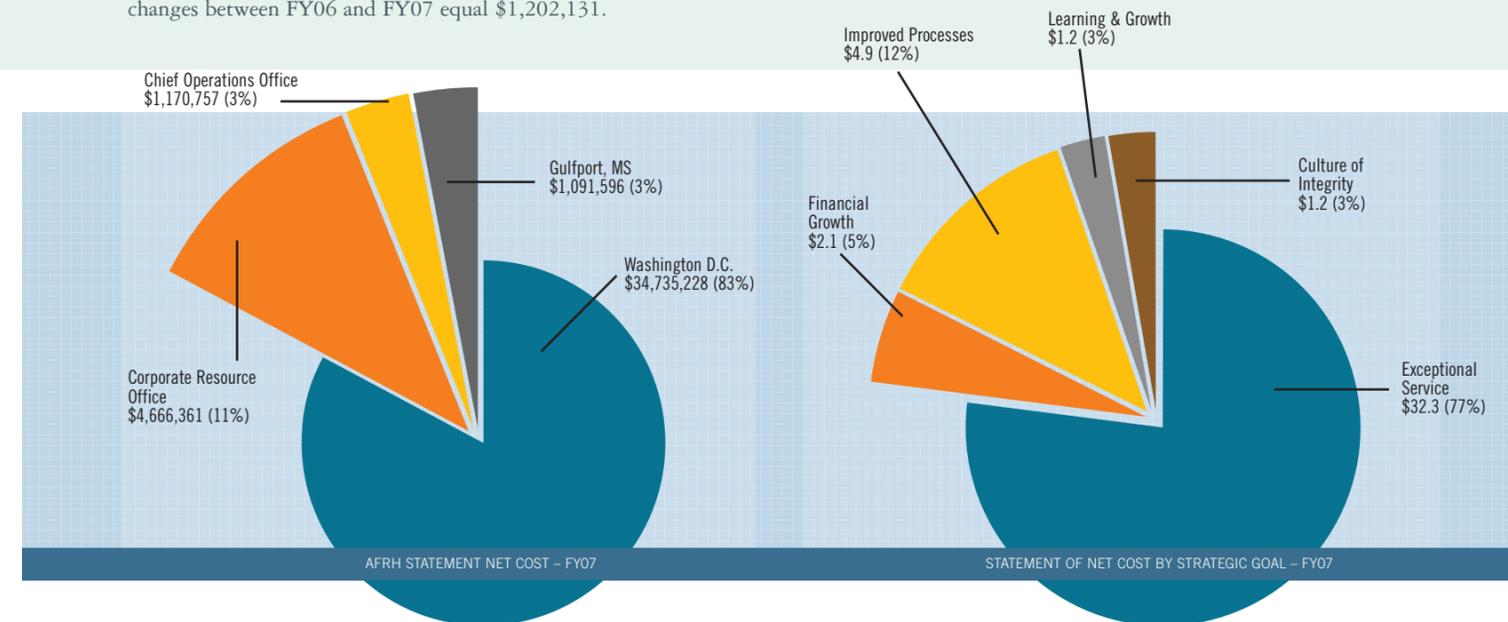
Liabilities:

This represents the money AFRH will likely pay, as a result of transactions or services that have already occurred. No liability can be paid absent an apportionment. Total AFRH Liabilities at the end of FY07, as reported in the financial statements, were \$7,048,896. Net changes between FY06 and FY07 equal \$1,202,131.

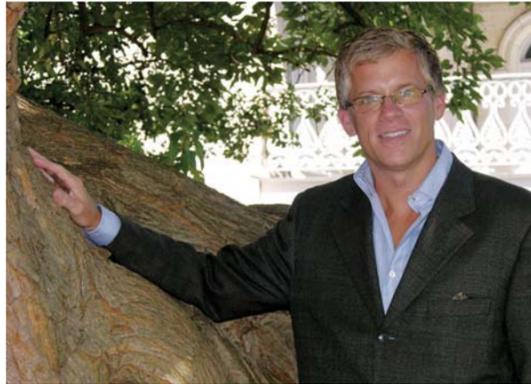
Net Cost by Strategic Goal

The Home's net cost of operations is \$41,708,433 for FY07 – down \$9,079,541 from FY06. The majority of costs incurred by AFRH go directly toward Exceptional Service. Costs associated with programs under the COO and the Corporate Resource Office support each campus and all five Strategic Goals.

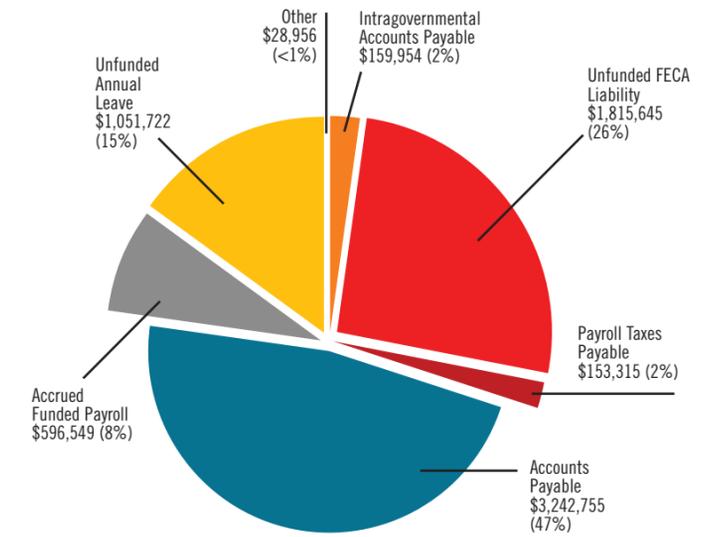
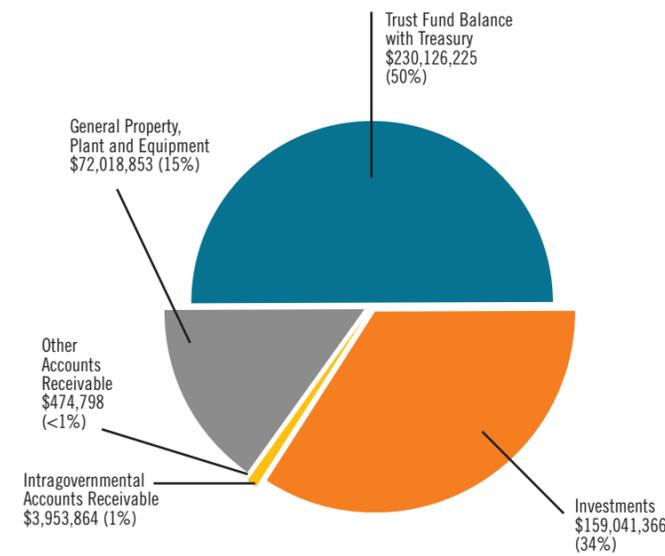
In FY06, 87% of the net cost went toward operating residential facilities and programs, (including the closure of Gulfport). In FY07, 83% of all net cost was mostly for the Washington campus with minimal support for Gulfport. By Strategic Goal, the major net cost was 77% for Exceptional Service. These figures validate our strategy for resident-focused care.



Letter of Assurance



“I can provide reasonable assurance that objectives have been achieved for FMFIA, FFMIA and FISMA.”



Creating New Confidence

Management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA) and the Federal Information Security Management Act (FISMA).

So, AFRH conducted its annual assessment of internal controls and compliance, per the Management's Responsibility for Internal Control

(OMB A-123). Yet, our managers continually monitor activities, gain insight into proper reporting and make corrective actions.

In FY07, we achieved many key actions under the Strategic Goal of Financial Growth. This can be greatly attributed to our public-to-public transfer of integrated services (supporting our financial management system) to BPD-ARC and NEC in 2004 – which has produced three “unqualified opinions.”

An independent audit was performed on BPD's financial management systems (i.e., the controls placed on the financial management systems and operating effectiveness from July 1, 2006 -- June 30, 2007). This assurance via Standards Number 70 (SAS70) validates the integrity of AFRH management controls and our compliance with Federal financial systems standards.

In September 06, we sought and received security C&A for the AFRH IT Enterprise Network. That C&A will be renewed in FY08.

I can provide reasonable assurance that objectives have been achieved for FMFIA, FFMIA and 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, 2007

ASSETS	FY07	FY06
Trust Fund Balance with Treasury	\$ 230,126,225	\$ 239,123,692
Investments	\$ 159,041,366	\$ 139,563,566
Intragovernmental Accounts Receivable	\$ 3,953,864	\$ 2,687,343
Other Accounts Receivable	\$ 474,798	\$ 554,056
General Property, Plant & Equipment	\$ 72,018,853	\$ 75,875,693
TOTAL	\$ 465,615,106	\$ 457,804,350

LIABILITIES	FY07	FY06
Intragovernmental Accounts Payable	\$ 159,954	\$ 772,159
Unfunded FECA Liability	1,815,645	\$1,777,219
Payroll Taxes Payable	153,315	\$155,028
Accounts Payable	3,242,755	\$3,471,327
Accrued Funded Payroll	596,549	\$778,426
Unfunded Annual Leave	1,051,722	\$1,162,838
Other	28,956	\$134,030
TOTAL	\$ 7,048,896	\$8,251,027

Controls, Systems and Compliance

The Federal Manager's Financial Integrity Act (FMFIA)

This Act requires an agency to report on the health and integrity of its financial, program and related activities. It ensures that resources are consistent with the overall Mission, that programs achieve their intended results, and that those 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.

2007 STATUS: No "material weaknesses" have been identified.

Internal Control

Since 2006, AFRH has conducted its own Internal Control Board using an AFRH Senior Assessment Team. Through the Home's CFO, managers are given a questionnaire to evaluate their own internal control structure, define effective controls and institute improvements for deficiencies (e.g. a "Risk Assessment"). Each quarter, the Senior Assessment Team reviews the Home's overall progress, then evaluates the Corporate Resource Office and Director.

Inspections

Triennial Inspector General

AFRH submitted an update to the Air Force Triennial Inspector's Report from April 06. Onsite inspections of both campuses were performed, along with assessments of agency level oversight. In August 07, Department of Defense (DoD) officially closed the inspection report, citing the completion of all recommended actions. A US Army Inspector will conduct the next inspection in FY08. And all completed actions will form the baseline for subsequent reviews.

DoD / JCAHO

This year, we responded to serious allegations aimed at our healthcare management, with oversight by an anonymous party. These claims were found to have no merit by the inspection teams dispatched by the Office of the Secretary of Defense. Still, we took extra measures to investigate them by requesting an independent audit of our healthcare facilities from JCAHO. It also found no evidence to support the claim. Moreover, we are now seeking CARE/CCAC accreditation to cover our CCRC services.

INTERNAL CONTROLS

AFRH Inspector General	AFRH Ethics Officer	Resident Town Hall meetings with Director	Chain of command review & approval of policies and procedures	Risk Management strategy via Washington & Gulfport Master Plans
EEO Office	Dining Customer Service Program (comment cards, action committees)	AFRH Strategic Plan	Annual AFRH PAR published	AFRH Multi-Year Capital Improvement Plan
AFRH Senior Assessment Team	CFO Management Assurances	AFRH Corporate Resources Business Plan	Mandatory AFRH IT Security Awareness Training	AFRH 10-Year Financial Capital Plan
Corporate Resources Offices annual self-evaluation & risk assessment	COO Management Assurances published in annual PAR	AFRH Performance Plan	AFRH IT Review Board	AFRH Management Challenges identified by IG in PAR
AFRH Internal Control Directive	Open meetings for residents with COO	Resident surveys	AFRH Resident Advisory Council	AFRH Directives & Policies
AFRH campus annual self-evaluation & risk assessment		Service pilot program in Health & Wellness Center	AFRH Ombudsman	
		AFRH IG Employee Hotline		

EXTERNAL CONTROLS

Triennial Inspection by one of the services' IGs JCAHO routine & on the spot inspections BPD-ARC for financial management	Independent IT security C&A for compliance with FISMA, Computer Security Act & OMB Circular A-130	PMA - self assessment	FMFIA compliance	Homeland Security Personal Identification Verification template in compliance
Annual Independent Audit of AFRH Financial Statements	OPM routine inspections	AFRH Local Advisory Board	FFMIA compliance	National Finance Center for payroll & time/attendance data entry
	Food and Drug Administration's (FDA) Food Code	Bolling Air Force Base Judge Advocate General	IPIA compliance	OMB
	US Army Sanitation inspections	Office of Undersecretary for Personnel & Readiness, OSD	Website for Washington Master Plan on afrhdevelopment.com	
		Website for AFRH documents on afrh.gov	Occupational Safety and Health Administration (OSHA)	

Young Francis worked the family farm for 10¢ a day. "I could handle a horse like nobody's business," he boasted. Sadly, his folks lost their Iowa farm in the Depression. So he joined the Civilian Conservation Corps to learn soil erosion and forestry. Then he joined the Army and was in Pearl Harbor on December 7, 1941. "We were in the dining hall when bullets shattered the windows – and two guys on either side of me were shot. I had to siphon gas from a truck to clean boxed rifles – then I fired back." Years later, he never forgot his family's farm debt. "I worked day and night till I paid off \$65,000." Well America certainly is in debt to Francis.



Francis Stueve (Air Force – Retired)

Controls, Systems and Compliance, continued



Federal Financial Management Improvement Act (FFMIA)

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

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

2007 STATUS: AFRH is in substantial compliance with FFMIA requirements.

As we serve our veterans with advanced care, we strive to be as efficient as possible. We rely on BPD-ARC, which underwent an SAS70 audit⁸ in FY07 on its internal control activities, IT controls and related processes. An examination of the accounting process, along with general computer controls provided by BPD-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, The auditors' reports confirm no material weaknesses in AFRH internal controls.

⁸A Statement on Auditing Standards (SAS No. 70, Service Organizations)

Federal Information Security Management Act (FISMA)

As reported above, the Home underwent its initial inspection and was awarded C&A in IT security (in accordance with FISMA). In FY07, it was maintained.

Financial Management Systems Framework

The Home benefits from the public-to-public relationship that transferred its financial management to BPD-ARC. We use the financial systems that BPD-ARC provides: Oracle Financials 11i, Oracle Assets, PRISM and WebTA. Payroll is through the NFC, which is integrated into the financial management systems.

BPD-ARC personnel operate and maintain the system, ensuring top-notch support. Plus, they have 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.

Since FY06, we have used Oracle Asset Manager as part of the Home's integrated suite of tools. Ultimately, BDP-ARC is responsible for the financial security and integrity of the system.

Improper Payments Information Act (IPIA)
(See Part 4: Other Accompanying Information)

Resident Information System (RIS)

After the 2006 implementation of Monette – an integrated resident-focused software package – AFRH is proud to report successful usage in FY07.

Ernest Sylvester (Navy – Retired) shows off his "Catch of the day" at the AFRH 13th Annual Fishing Rodeo. He moved from Washington to Gulfport – and now he's back again.



Risk Management

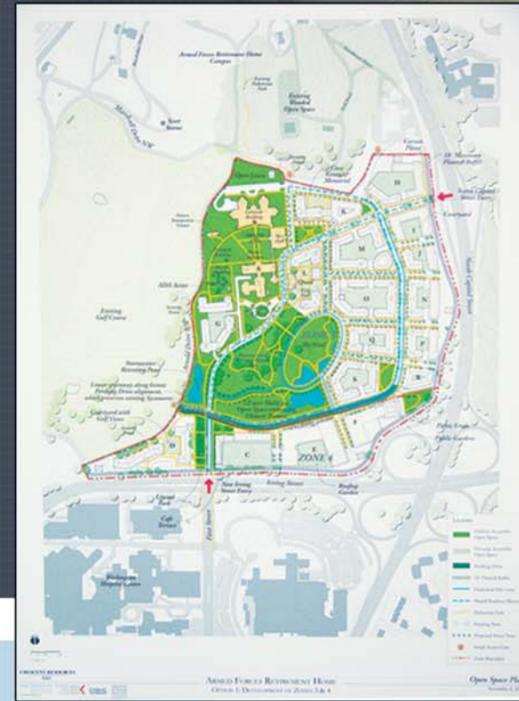
Engineering New Safeguards

Background

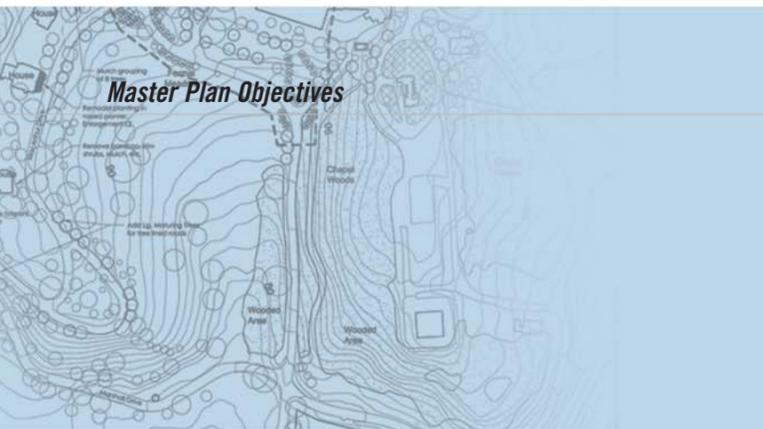
The National Defense Authorization Act of 2002 permitted us, through DoD, to sell, lease or otherwise dispose of underutilized buildings and property. So AFRH launched its Master Plan for Washington. This forms the basis of our risk management strategy. The desired outcome of the Master Plan is to provide additional resources to replenish the Trust Fund.

Washington Master Plan

Our agency-wide “One Model,” in compliance with PART and the FAIR Act, guided the development of our Washington Master Plan. This key endeavor helped us identify real property essential to the core Mission of AFRH. Likewise, it helped us identify non-critical facilities, target them for lease and establish a future revenue stream. This will enable us to renovate our aging buildings and replenish the AFRH Trust Fund. The current status and updates are available online at afrhdevelopment.com.



We are confident we have the resources, leadership and vision to execute or adjust our plans as necessary – regardless of any risk that may arise.



Preserve & improve the Home for the residents & staff
Provide revenue to support our Goal of resident-focused care

Replenish the partially depleted AFRH Trust Fund
Grow Trust Fund to meet residents' needs, today & tomorrow

Attract development that's compatible with our Mission, and
Ensure an open, inclusive process with residents & community

Risk Management, continued

Recent Accomplishments

At the end of 2006, an RFP was issued to three developers, as reported in our FY06 PAR. A five-member panel of experts convened by GSA reviewed their proposals. The panel considered each firm's design, financial bid, socio-economic benefits, environmental mitigation and ability to implement the proposal. At last, the panel made its recommendation. AFRH concurred, and in March 07, we selected Crescent Resources, LLC as the preferred developer for 4.3 million SF on the southeast corner of the Washington campus. (See map.)

This dynamic, mixed-use project calls for the adaptive reuse of nine historic buildings and includes about 30 acres of open green space. The project will open portions of the AFRH campus to public enjoyment and recreation for the first time in more than 50 years.

Later in FY07, we consulted our residents, the NCPC, the DC State Historic Preservation Office and Office of Planning, the Advisory Council for Historic Preservation, the Commission of Fine Arts, plus area neighbors and locally elected officials. The NCPC will hopefully approve the plan in December 07.

Gulfport Master Plan

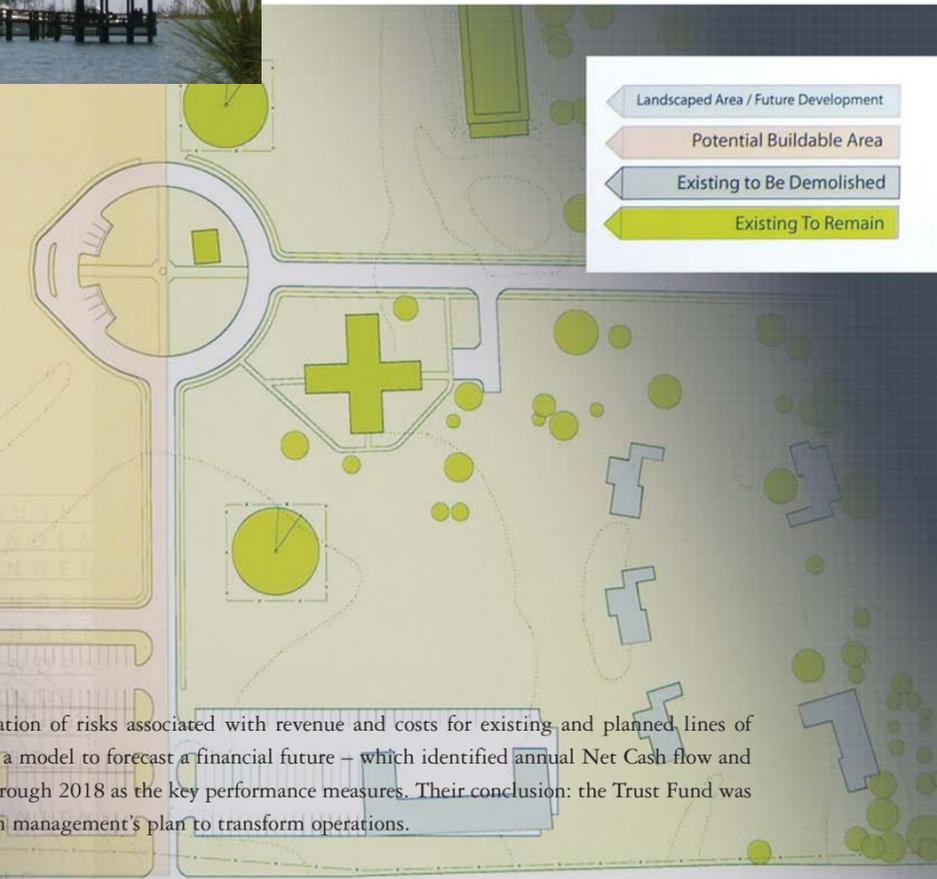
GSA is the agent for the design and construction of the new resident facility. Our progress in FY07 is on track and outlined in detail at the beginning of the MD&A.



07 STUDY

Trust Fund Solvency

This study included an evaluation of risks associated with revenue and costs for existing and planned lines of business. Martin & Wall built a model to forecast a financial future – which identified annual Net Cash flow and annual Trust Fund Balances through 2018 as the key performance measures. Their conclusion: the Trust Fund was solvent through 2018 based on management's plan to transform operations.



07 STUDY

10-Year Financial Capital Plan

To strengthen our risk strategy, we first conducted a 10-year Capital Improvement Plan. AFRH engaged URS Corporation to conduct a facility assessment to identify and estimate the costs to remedy deficiencies in our infrastructure and 28 buildings. The largest costs are associated with the Scott residence, which has deficiencies of over \$81 million. Then, with that analysis, we formulated a realistic 10-year Financial Capital Plan as requested by OMB.

Potential Risks to Trust Fund Solvency:

An unforeseen event could disrupt our Master Plan, Capital Improvement Plan or even our Financial Plan. Also, a variety of adverse market conditions could arise. Even so, the Trust Fund Solvency study concluded that management could act to protect solvency with a) careful monitoring of risk conditions, b) maintaining contingencies and c) taking action to reconfigure operations if conditions change. We are confident that we have the resources, leadership and vision to execute and adjust our plans as necessary - regardless of any risk that may arise.



PERFORMANCE

In this part, we showcase:

Introduction to Performance

Strategic Goals

Targets & Results

Survey Results

Stakeholder Outreach

Measures & Procedures

Few decorated soldiers receive five battle stars. Daniel fought the enemy and the bitter cold to earn them as an artillery mechanic – in all five battles for France. “I was shot at, bombed and mortared by the Germans. Damn lucky I never got injured.” The Battle of the Bulge was confusing: “We never had maps, just general directions. Finally we found maps that Renault printed for tourists!” he chuckled. One vivid memory is the liberation of Belgium. “Our division HQ was attacked in Wiltz and our band was there. The guys dropped their clarinets and picked up guns to fight back.” Last year, Belgium’s government invited Dan and numerous US veterans back for a 10-day visit and a special appreciation ceremony. “On day two, my stomach exploded from an aneurism – and I went to emergency surgery.” Dan quipped, “So...I survived Bastogne twice.”



We, too, have achieved many Goals in FY07. Plus we’ve outlined impressive financial gains. In Performance, we describe our organization and highlight our results for FY07 - which have been very concrete.



“The guys dropped their clarinets and picked up guns to fight back.”

Daniel Funk (Army – WWII)

Introduction To Performance

Renovating a Relic

For much of its existence, the Home has operated as a “city within a city” in Washington. In the late 1800s, it even featured a fully functional dairy farm. As the decades passed, the Home continued to be run with antiquated management practices. So the enormous task of transforming this dinosaur into a modern CCRC has been no small feat.

In FY03, the Home’s new management created a sweeping Strategic Plan⁹, which included our newly envisioned Goals and Objectives. Ever since, we have remained steadfast in our efforts to achieve and maintain those strategic initiatives. And we have used them to actively drive our collective performance.

The essential building blocks – our Mission, Goals, Objectives, Plans and Actions – are helping us realize the AFRH 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.”

Each AFRH employee is helping us reach that Vision, too – because we’ve connected it to individual employee performance goals.

A Balanced Strategy

All along, management has sought a comfortable balance in its foundational strategy. In FY07, we renewed our commitment to this strategy, which centers on several basic organizational components: people, finances, operations and climate.

Specifically, two of our Strategic Goals – Culture of Integrity and Learning & Growth – focus on our staff, the people who serve our residents best. Meanwhile, two other Goals – Financial Growth and Improved Processes – center on operational and organizational efficiencies, providing the “best value” to all. Our remaining Goal, Exceptional Service, is dedicated to the residents, the sole reason we exist.

Together, these initiatives directly or indirectly channel our efforts to serve the residents. They also help us serve their families and all military personnel who have a stake in our success. Moreover, our strategy will ultimately serve those contributing to the AFRH Trust Fund right now – America’s current military service members.

Improved Performance

In FY07, we met many of the performance measures that hold our managers and staff to a higher standard. We enjoyed success in the areas of performance management, financial improvements and customer service. Yet, we moved a bit slower in areas that required analysis and in-depth study.

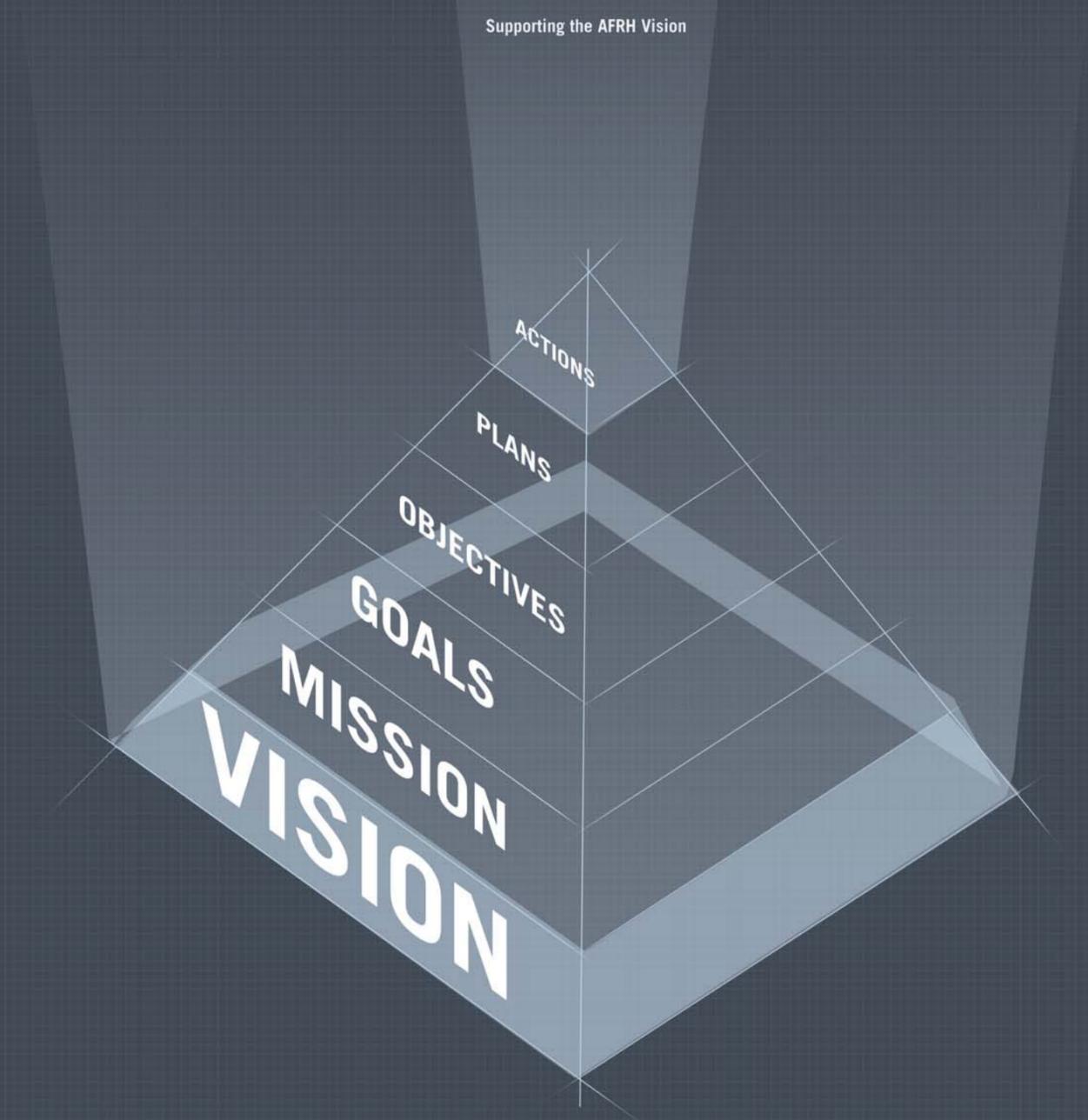
Reaching Higher

In the previous two years, “successful completion” of many actions had eluded AFRH. It seemed as though our efforts and focus were literally blown away with the dramatic events of Hurricane Katrina. Granted, setting the baseline measures for each performance outcome has been a major achievement. Yet, completely meeting those results has not yet occurred.

We have several performance measures per goal for the baseline. FY07 is the first year we will record complete results. In coming years, we will compare new results to these baseline targets.

Results: 86% of Goals achieved.

Our great success in financial management and planning efforts is a solid foundation for other Goals we wish to accomplish in the future. As we forge ahead, we will seek to meet or exceed these results.



⁹For the complete AFRH Strategic Plan, visit afrh.gov/afrh/about/strategic.pdf.

Performance Targets and Results

Cementing Our Strategy

GOAL - Financial Growth:

Create net growth and stability for the AFRH Trust Fund

Performance Measure	Baseline FY07 Target	Baseline FY07 Actual	Met/Not Met
Goal: FINANCIAL GROWTH			
Net growth to AFRH Trust Fund	Any amount over previous year	+\$13 million	Met
Cost savings via Asset Management per year	\$500K	Saved \$707K by closing Pipes	Met
Accuracy of Financial reporting	Unqualified audit opinion	Unqualified audit opinion	Met
Solvency of AFRH Trust Fund	Even balance of resources versus obligations	Balanced	Met
Cost savings initiatives	4	6	Met
Effectiveness of the acquisition strategy	% of award dates that are met or bettered	Not measured	Not Met
Percentage of inaccuracies found through Internal Controls	5%	.5% (1/2 of 1 %)	Met

“It’s a great place. The best part is the friendliness and how they look out for you.”
 – Herbert Thompson (Navy – WWII)

“I have a pretty good life here. My quarters are good and so is the medical care.”
 – Bill Sorince (Army – WWII)

Outcome

The fate of the Trust Fund is a top concern to those who paid - and to those who now contribute - because it ensures a comfortable retirement. So the Fund’s vitality is therefore the top priority of management. Moreover, the Fund is the main source of funding for AFRH, so its health must be continuously monitored. The essential outcome of the Financial Growth Goal is that America’s veterans are ensured a comfortable retirement - for today and tomorrow.

Our basic financial strategy to attain this outcome is to decrease expenditures, increase revenue, maximize resources and grow the Trust Fund. Meanwhile, we must maintain excellent service and improve our occupied facilities. To achieve all this, AFRH must look to the future for innovative ways to ensure financial stability.

Measures:

We continually measure how we manage the money entrusted to us in the AFRH Trust Fund. Doing so ensures our stakeholders the “best value.” Our measures include net growth of the Trust Fund balance, cost savings we realize from contracts or fiscal responsibility, plus the overall solvency of AFRH for the future. Lastly, we seek an “unqualified audit opinion” each year.

Results:

In FY07, we completed key studies to realize cost-savings and boost customer value. Those studies include: Trust Fund Solvency Analysis, Contract Integration and Efficiencies Study, Wellness Center Study,

Information Technology Assessment, Medical Equipment Needs Assessment, 10-year Financial Capital Plan and a Most Cost Effective Use Study to modernize resident dorms.

As a result, key performance measures were met:

Cost Savings

Our strategy to close unoccupied space involved the Pipes Building, which netted a savings of \$700,000+, which is well above our annual target.

Accuracy in financial reporting

Management’s strategy to hire BPD and NFC to manage our financials has enhanced accuracy and produced three “unqualified audit” opinions.

Trust Fund solvency & growth

The recent Trust Fund Solvency study confirmed that, if we follow our strategic plan, the Fund will be solvent through 2018. And so will AFRH.

Looking forward to FY08, we must shore up our acquisition strategy and determine what added savings our contracts should yield. Also, we have not realized any income from our Washington Master Plan yet - but according to projections, we will receive funds from the developers in 2012.



Performance Targets and Results, continued

GOAL – Improved Processes:

Modernize operations to leverage and maximize resources across AFRH.

Performance Measure	Baseline FY07 Target	Baseline FY07 Actual	Met/Not Met
Goal: IMPROVED PROCESSES			
OPERATIONAL: Reengineered processes with automated enhancements per year	+2	3	Met
ORGANIZATIONAL: Communications enhancements between employees & residents per year	+1	1	Met

Outcome

The outcome of Improved Processes is much better service to the AFRH residents. Specifically, we can respond faster to their needs and help them get more out of retirement. So, we continually assess and improve our processes to facilitate communication, promote AFRH teamwork and bolster efficiency. This ongoing Goal provides more “best value” to our stakeholders, who demand we operate AFRH wisely.

Measures:

We regularly measure the number of processes we can reengineer that directly shape great customer service. This figure is a solid way to monitor our ongoing growth and improvement.

Results:

Operations:

Corporate controls and technology updates are key to operations. To validate our controls, we prepare the OMB IG annual report and undergo a DoD inspection triennially. To boost efficiency and accuracy, our automated data systems now perform routine functions like resident data, contracting and property accountability. In FY07, our three reengineered processes included the resident database (Ultracare), room turnover and our work order process.

Organization:

Staff communication processes are continually targeted to promote openness and improve performance. One goal is to provide 24/7 and remote computer system access - and enhancements to our web service and email are forthcoming. Meanwhile, successful reengineering came via upgrades to Channel 99/100, where staff and residents now get valuable news on activities and events.

GOAL – Learning & Growth:

Promote personal excellence and professional growth for all personnel.

Performance Measure	Baseline FY07 Target	Baseline FY07 Actual	Met/Not Met
Goal: LEARNING & GROWTH			
Evidence of measurable training goals	100% participation in 4 mandatory training classes for all employees	Less than 100% participation in 4 mandatory training classes for all employees	Not Met
Percentage of training written into employee performance plans	100%	100%	Met
Evidence of a needs-based succession plan	Plan	Nursing Plan written	Met

Outcome:

As a service organization, we must continually improve our ability to serve – and professional development is one of the smartest ways. AFRH promotes excellence for all staff members by facilitating learning, honing skills, building competencies, developing proficiencies and supporting growth. In fact, we encourage staff to continually improve and expand their skills daily.

The outcome of Learning and Growth is that our employees enjoy more rewarding careers and get more personal satisfaction from serving our nation’s heroes. In turn, that yields a much more satisfying retirement for our veterans.

Measures:

Our success measures include evidence of training. This directly impacts our service – and boosts the percentage of staff with training tied to performance. Further, it indirectly helps us craft a needs-based succession plan.

Four mandatory training classes are now required for AFRH staff: Safety, Ethics, Information Security and EEO. Our goal is 100% training completion.

Results:

We fell short of 100% completion. Actual percentages completed are: Safety: 60%, Ethics: 71%, Information Security: 77%, EEO: 100% of new employees (not all current staff).

Rationale

The overlap of record keeping (from calendar year to fiscal year) contributed to our shortfall. For the calendar year, Safety was 95%, Information Security 82% and in past years EEO was 100%.

With each new performance plan, managers are required to enter training plans, yet our official training plan is still in revision. At present, our succession planning only includes nurses. And we are yet to plan for Campus Operations, Information Technology, Resident Services and corporate support staff.



Alfred Giunta (Army)

Alfred Giunta served in WWII, Korea and Vietnam. All his life, he wanted to be an artist. He began painting years ago, but had to quit to earn a living and focus on his family. While he never finished school at United Artists, Alfred never gave up his first love of painting. "Now, I have the time to really get back into it," he beamed. Of late, he has painted everything from lighthouses and boats to Tony Bennett and a Toreador. In fact, Alfred's most celebrated work is a 15x4 painting of the Battle of Midway, which proudly hangs in the AFRH Library.

GOAL – Culture of Integrity:

Inspire commitment to AFRH Guiding Principles through mutual respect..

Performance Measure	Baseline FY07 Target	Baseline FY07 Actual	Met/Not Met
Goal: CULTURE OF INTEGRITY			
Number of additional cultural/volunteer programs	+1	+1	Met
Number of employee offsite activities	2	2	Met
Percentage of completed employee performance reviews	100%	100%	Met
Percentage of Employee Climate Survey responses of "Excellent" or "Very Good"	70%	--	Not Met

Outcome

The outcome of a Culture of Integrity is that our residents receive active support and are satisfied with their lives. So, we maintain a culture of service, quality and dedication to those who call AFRH home. In truth, many of our veterans suffered tremendous physical and emotional pain during and after their service to country. And working with them can, at times, be difficult. So we encourage our staff to work together in unison to meet the residents' special needs.

The composition of our workforce resembles that of the United Nations, with staff originating from various countries around the world. Which means we have a greater diversity of language and cultural differences here. Our challenge is to blend that staff and produce outstanding results - in spite of different world-views and unique reactions to stress and miscommunication (which often result from diversity).

Measures:

We employ several measures to determine if we have reached our Staff Goal of a "high-performance, culturally diverse work environment." To boost diversity awareness, we form cultural and volunteer programs, as well as team-building opportunities to promote greater understanding among staff.

Further, we aim for 100% of our performance reviews to match AFRH Goals. This spells out the outcomes we seek for each individual's work in the larger context of AFRH. Plus we measure staff opinion to gauge our overall organizational climate.

Results:

To ensure cultural training programs are carried out, AFRH moved its EEO program to a contract under GSA. In FY07 we held two management off sites as planned, plus events like our annual Employee Day and Picnic, Employee Recognition Day and Golfing with the Residents. Finally, we added an opportunity to volunteer at the DC Food bank.

Also, we met our Objective of having 100% of all employees complete the annual performance review and began our new cycle as planned. We did not complete our action to administer an organizational survey. However, we did develop the survey and will administer it in FY08.

Performance Targets & Results, continued

GOAL — Exceptional Service:

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

Performance Measure	Baseline FY07 Target	Baseline FY07 Actual	Met/Not Met
Goal: EXCEPTIONAL SERVICE			
Percentage of Resident Service Survey responses of "Excellent" or "Very Good"	75%	75+%	Met
Number of new Independent Living residents	+144*	+172	Met
Number of military heritage related events per year	6	10	Met
Number of partnerships with external stakeholders	5 per year	5	Met
Percentage of employees trained in health & wellness model of retirement living	50%	70+%	Met

*Number may fluctuate when Scott Building renovations start

Outcome

Our first responsibility is to ensure the well-being of the residents. Our second duty is to assure satisfaction of service partners and key stakeholders. So, the outcome of our Exceptional Service Goal is high customer satisfaction in both groups. To achieve this, we are sustaining our strategy to provide quality services and respond to customer needs. Likewise, we are continuing our positive public relations efforts. In the end, our aim is to provide the best levels of resident care, while promoting vitality and independence as long as possible.

Measures:

To gauge success in Exceptional Service, we measure feedback from current, prospective and exiting residents. We also measure our ability to fill vacancies in the residence halls. The fill rate is dependent on the number of rooms that are readied and available, so we keep a close watch on numbers as they fluctuate.

Promoting military heritage is one of the most powerful and unique draws to living at AFRH. So we ensure a sufficient number of military themed events to enrich the lives of our residents.

The AFRH Diamondbacks defeated the Providence Hospital Saints 6-4 at the 2nd annual "Fall Classic" softball game. The residents enjoyed great weather, a fun game and a cookout hosted by Food service.



The Home also thrives with external partnerships - because they expand our sphere of influence and help us reach prospective residents and their significant others. So, we strive to add new liaisons each year.

Lastly, we seek to keep employees constantly trained in our new wellness philosophy – in order move away from the image of an "Old Soldiers' Home" to a modern CCRC.

Results:

Our residents have supplied feedback in many ways, which shows that we are succeeding (see charts – next spread). Plus they participate in a

dining room committee, which meets monthly to offer advice to Dining Services.

One major success was the launching of our in-house TV channel 99/100. Chock-full of wit, wisdom and news for residents, this station has been well received.

Through our budget integration process, we can now demonstrate that the majority of our funding is spent on this Strategic Goal of Exceptional Service (see PMA for details).

Hence, through innovative programs, outreach and training, we are now providing the best possible service to our residents.

Annual Surveys

Surveying the Residents

Recreation

We offer an annual survey to residents to assess customer service and participation in recreation and leisure activities. In 2007, 311 residents participating in recreational activities completed our survey - as compared to 303 in 2006. As in past years, our library and the fitness center rank at the top.

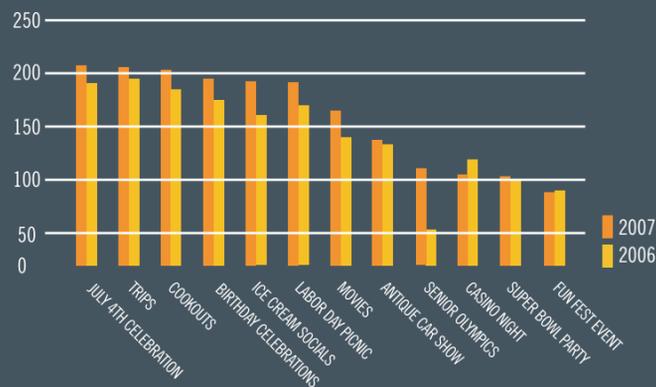
The dynamic events we plan include celebrations, dances, tournaments, shows and outdoor activities. This year, our athletic competition, the AFRH Senior Olympics, drew many more participants than in 2006. Also we added our usual lineup of poetry reading "on the green," swing dancing and extra bingo days. Clearly, the residents' favorite event is the July 4th celebration, while trips and cookouts come in a close second.



AFRH Facilities Usage - Top 12



AFRH Recreation Activities - Top 12



There's something fun going on every day at AFRH. From sports and crafts to dances and day-trips.



Annual Surveys, continued

Customer Service

We beat our target of 75 percent or better. In FY07, 79 percent of respondents graded staff service at “above average” or “outstanding.” This eclipses our 2006 grade of 63 percent. It should be noted that last year, more “above average” responses were logged – while this year many more “outstanding” marks were given.

Healthcare

In July, 222 residents who use our healthcare services completed the Healthcare Survey. It measured overall satisfaction in both services received and customer service in eight separate categories. Nearly every service garnered well over the 75% benchmark for “outstanding” or “very good” satisfaction. Furthermore Medication Distribution and Rehabilitation Services received more than 90 percent satisfaction. We had one exception with Long Term Care, where only eight residents submitted approval ratings at 63% for services and 60% for customer service. At present, we are looking into ways to improve this area.

Non-Resident Veterans

As part of its marketing efforts, Public Affairs conducted a survey among prospective residents to see what veterans are really looking for in a retirement home. The top 10 desired services are ranked in the chart below: [Top Ten Desired Services].

Exiting Residents

We often survey residents who leave the Home, to gain insight on areas for improvement. In FY07, the main reasons for leaving AFRH were:

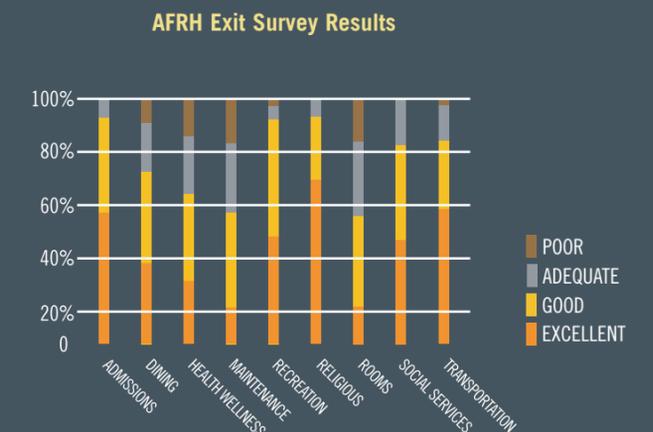
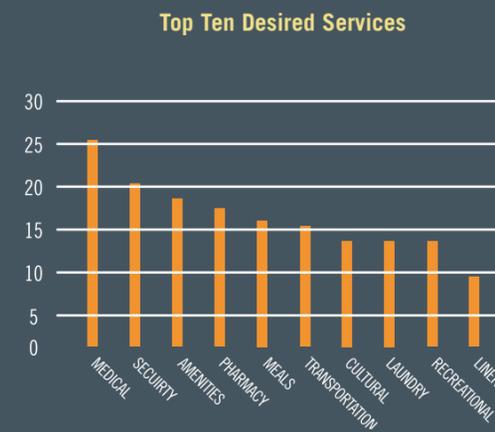
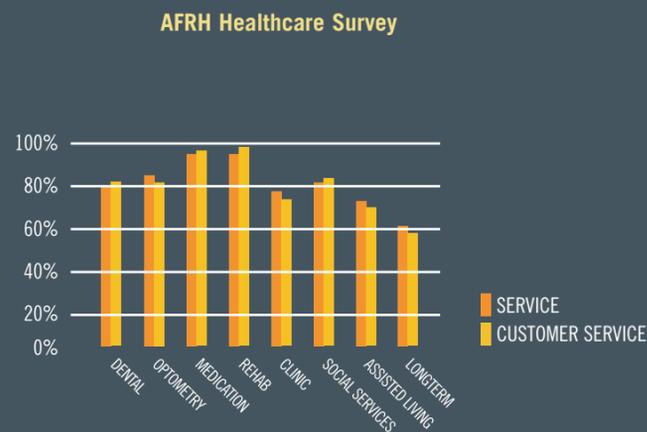
- ▶ To live near relatives
- ▶ To not live in a downtown metro area, and
- ▶ To avoid high DC taxes & licensing expenses

Currently, the only services that fall below our 75% benchmark are rooms, maintenance and medical. At present, we’re working hard to improve those areas, too.

“Most veterans were fit and healthy in the military. So they enjoy coming to Physical Therapy.”
 — Lynn Holt (Director, PT/OT)



NOTE: We do not count exiting residents’ results in meeting our Goals





Sergeant Major of the Army Kenneth Preston and resident Mike Longwell (Army – Retired) mingle at the Pentagon FCU's "Night of Heroes" gala.

Our historic Gazebo was moved to make way for Lincoln Cottage restoration. Here, 23 volunteers from The US Coast Guard, Chief Warrant Officer's Association and the Chief Petty Officer's Association chip in (along with 10 AFRH residents). This saved the Home \$2,000 on labor.



Military Heritage

AFRH managers have received their marching orders: take every opportunity to showcase military-related memorabilia, artifacts and themes. Doing so will reassure residents we are committed to celebrating military history – and their venerable service to the US Armed Forces.

To openly promote our rich heritage, a minimum of six military-related events is required on our campus each year. In FY07, we eclipsed this goal and offered participation in 10 such events:

- 1 – Let the Generations Meet (October)
- 2 – London's Royal Hospital Chelsea Pensioners visit (November)
- 3 – Joint Chief of Staff Christmas Party (December)
- 4 – Women in Defense social (April)
- 5 – Queen Elizabeth visit at WWII Memorial (May)
- 6 – Coast Guard event to adopt AFRH Pond (June)
- 7 – Night of Heroes celebration (June)
- 8 – US Army Birthday party at the Pentagon (June)
- 9 – Asst. Commandant of the USMC General Magnus visit (July)
- 10 – CSM Army William Gainey visit (August)

Communications

We've made strong efforts to communicate with the residents - such as revamping the website afrh.gov, launching our campus TV station Channel 99/100, and initiating a web-cam to view the Gulfport rebuild. Further, AFRH stays visible among its constituents with regular attendance at national conferences, "Retired Activity Days," various senior events and veterans service organizations. Lastly, our vibrant marketing and outreach program also keeps us top-of-mind.

Training

We strive to keep our staff current with advanced training. Although we exceeded our modest goal of 70 percent to be trained in health and wellness, this area is still evolving. Given the many mandatory courses required in nursing care, accreditation and safety, we now offer over 136 hours of training.

With a base number of about 273 staff requiring training, we can account for 94 percent attendance in essential courses. Yet, in FY07, we made a change in record keeping, moving from the calendar year to the fiscal year. So the overlap between records does not tell the full story.



The US Coast Guard now patrols our fishpond.

Stakeholder Outreach

We have established many external relationships in the greater Washington community. And these partnerships have produced great rewards for AFRH:

All told, these liaisons have greatly improved the quality of life for AFRH residents. Our latest target to add five new external partners will commence next year.

Partner

Endeavor

US Coast Guard	Adopted our pond
Armed Forces Foundation	Congressional Golf & Crab Society benefit
Pentagon Federal Credit Union	Night of Heroes celebration
Disabled American Veterans (DAV)	Mobile unit to aid residents with VA benefits
American Legion National HQ	Queen Elizabeth & Ken Burns events
Catholic University	Volunteer Day
Joint Chief of Staff (J-5)	Annual Christmas Party
All Branches retiree magazines	Army Echoes, Air Force Afterburner, Marine Corps Semper Fi & Navy Shift Colors
Defense Link	Home for Heroes (defenselink.com)
Retired Activities Offices (all Branches)	Boosting resident community participation

Measures and Procedures

Constructing New Controls

Each Federal agency is required to certify the completeness and reliability of its performance data and describe the means used to verify and validate it (per The Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000). To foster valid data, many of our performance areas have undergone independent reviews by the Air Force IG, OPM, BPD and JCAHO.

Financial Data

During the FY07 financial audit, various tests and reviews of our core accounting system were conducted and reported - as required by the Chief Financial Officers Act.

External Benchmarks

As a healthcare provider, AFRH is required to meet the standards developed by national organizations that accredit health facilities. In FY07, JCAHO made an unannounced inspection and results were favorable. In its annual inspection, JCAHO awarded its Gold Seal of Approval" to AFRH-Washington in FY06 and to AFRH-Gulfport in FY05. Previous years have also yielded positive feedback during separate on-the-spot inspections at both campuses.

In FY07, we began a new process for accreditation by CARF/CCAC. We should have our first review in FY08.

Dining Services has a profound and positive affect on the residents' health. As such, it must comply with JCAHO food and preparation

quality standards – as well as the FDA's Food Code. Plus, we also abide by sanitation standards enforced by the US Army during their sanitation inspections.

Finally, OPM conducted a routine inspection in September 06 and the findings were distributed in FY07. Points of discussion between OPM and AFRH included: our status as a small government agency; the impact of Hurricane Katrina on many HR functions; and the Home's approach to human capital management as a CCRC. Indeed, these factors are complex and all contribute to our unique HR environment.

Computer Data

To validate each data report, we ensure 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. In FY06, the Home received its first IT security C&A, which was maintained in FY07.

In Closing:

All told, we are proud of our impressive gains in performance, especially Improved Finances. Achieving this key Goal is the basis of our growth strategy and future vitality. In FY08, we look forward to achieving an even greater percentage of our goals – and building a more vibrant AFRH.

Command Sergeant Major William J. Gainey (Senior Enlisted Advisor to the Chairman of the Joint Chiefs) charms resident Jo Colvard (Army – WWII)



We draw on many measures to assess 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, nonprofits & foundations

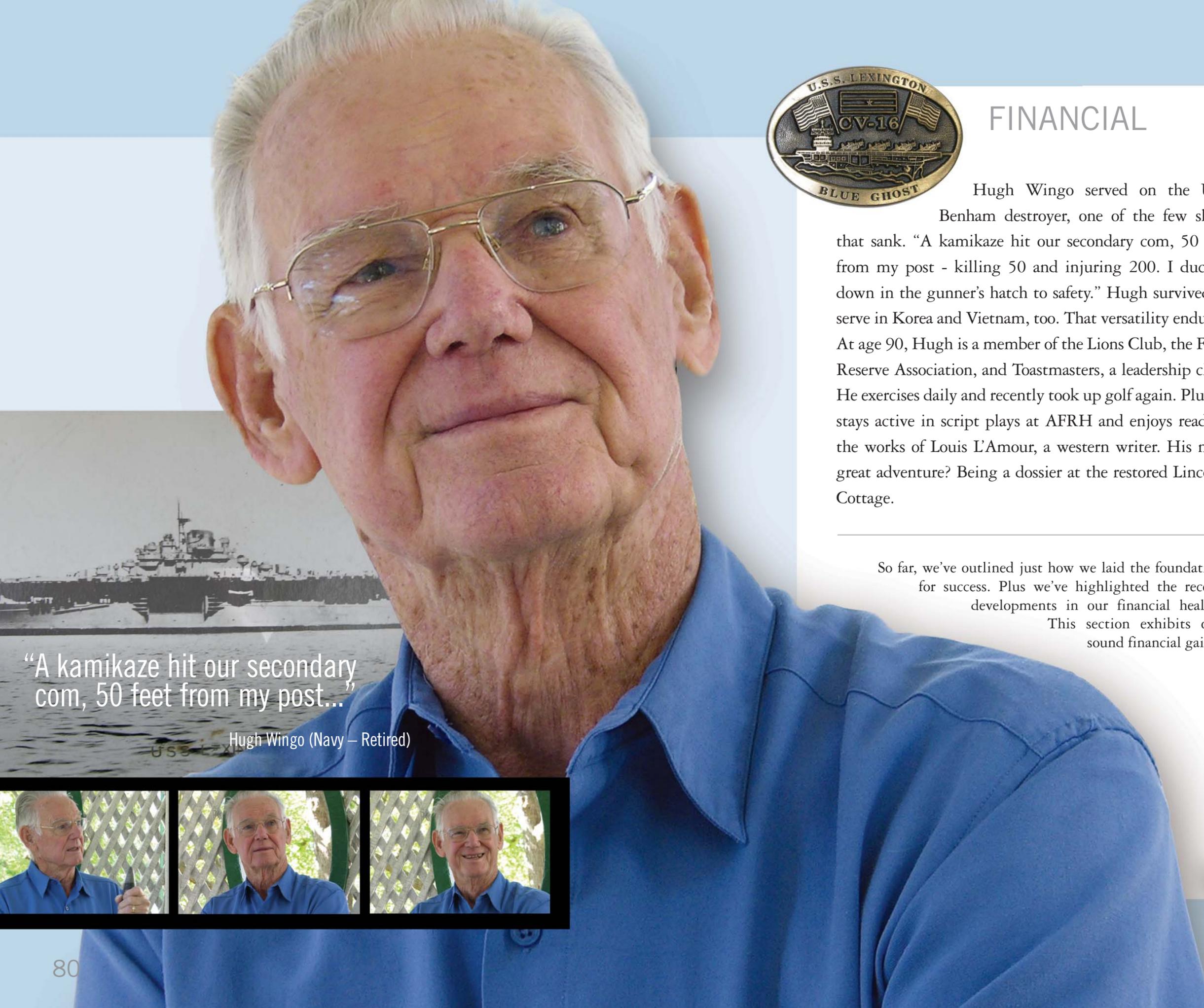
Customer Satisfaction:

- 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





FINANCIAL

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

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

In this part, we showcase:

Message from the CFO

Audits by Independent Accountants

Trust Fund Balance Sheet

Statement of Net Cost

Statement of Changes in Net Position

Statement of Budgetary Resources

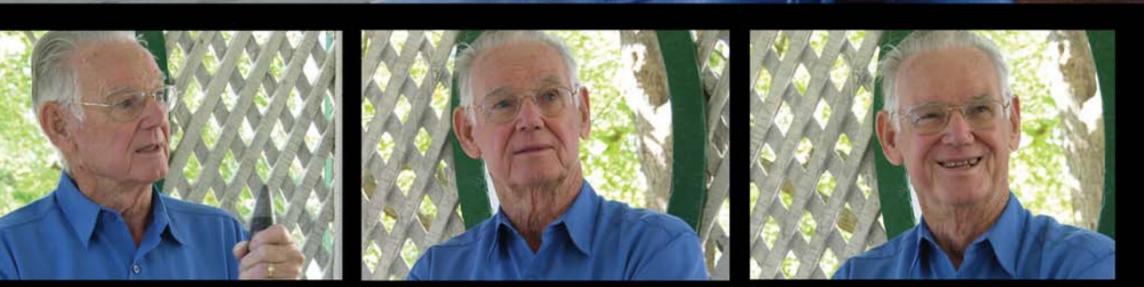
Supplementary Stewardship Reporting

Notes to the Financial Statements



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

Hugh Wingo (Navy – Retired)



Message from the Chief Financial Officer

Constructing Strong Figures

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

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

The Overarching Goal

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

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

Accentuating Financial Performance

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

Utilizing the PART

In the 1990s, AFRH had grown and spread out across more than 300 acres in Washington. With this expanded "footprint" the Home's infrastructure and historic buildings were overwhelming, in terms of

maintenance and cost. Further, these resources were not being used in the wisest manner. However, the PART enabled us to leverage our assets and maximize the use of our property.

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

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

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

Drawing on the PMA and FAIR Act

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

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

Measuring our Success

Although past measures for our Goals were not set, we have four years of data from our PMA self-assessments that show steady progress from 2004 to present. For our long-term Strategic Goals, we are using FY07

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

as the baseline, making concrete targets against which to measure year after year. Finally, we will collect standardized data for comparison and we have developed seven performance indicators especially for Financial Growth.

Shaping the Future

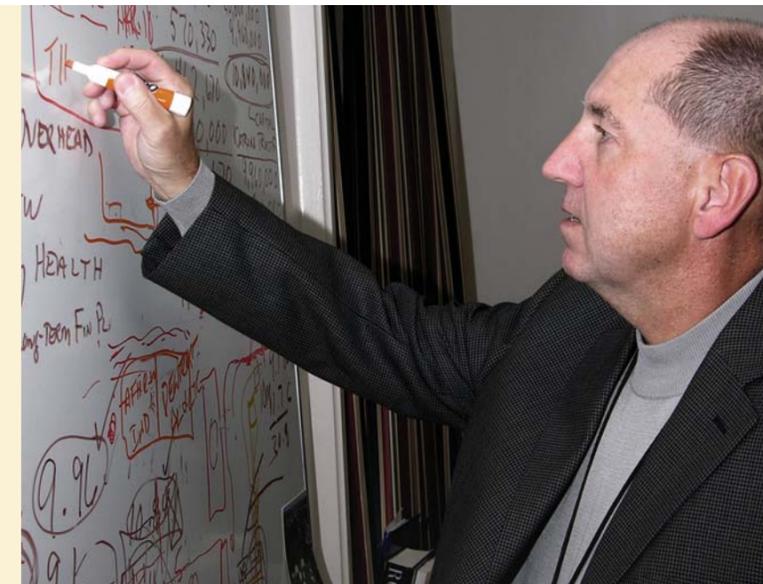
Our financial management successes are noteworthy. Through our efforts, we have postured the Home for continued growth and prosperity. Along with the achievements discussed here, we gained our third consecutive "unqualified" audit opinion. And our Trust Fund balance is healthy.

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

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

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

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



Final Assessment

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

Sincerely,

Steven G. McManus

Steven G. McManus
Chief Financial Officer (CFO)

November 15, 2007

Assembling Reliable Proof

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

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

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

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



“When I saw the great setup here, I said:
‘Man, I’ve got to get back into porcelains.’”
– Paul Schlegel (Navy – Retired)



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

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Brown & Company

Largo, Maryland
November 9, 2007



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

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

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

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



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

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

Largo, Maryland
November 9, 2007

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





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

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

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

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

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

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

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

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

Largo, Maryland
 November 9, 2007



Ralph Barry (Marine Corps – Retired)

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

Financial Statements

BALANCE SHEET	As of September 30, 2007 and 2006 (In Dollars)	
	2007	2006
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 230,126,225	\$ 239,123,692
Investments (Note 3)	159,041,366	139,563,566
Accounts Receivable, Net (Note 4)	<u>3,953,864</u>	<u>2,687,343</u>
Total Intragovernmental	393,121,455	381,374,601
Accounts Receivable, Net (Note 4)	474,798	554,056
General Property, Plant and Equipment (Note 5)	<u>72,018,853</u>	<u>75,875,693</u>
Total Assets	<u>\$ 465,615,106</u>	<u>\$ 457,804,350</u>
Liabilities:		
Intragovernmental:		
Accounts Payable	\$ 159,954	\$ 772,159
Unfunded FECA Liability	1,815,645	1,777,219
Payroll Taxes Payable	<u>153,315</u>	<u>155,028</u>
Total Intragovernmental	2,128,914	2,704,406
Accounts Payable	3,242,755	3,471,327
Accrued Funded Payroll	596,549	778,426
Unfunded Annual Leave	1,051,722	1,162,838
Other (Note 6)	<u>28,956</u>	<u>134,030</u>
Total Liabilities	<u>\$ 7,048,896</u>	<u>\$ 8,251,027</u>
Net Position:		
Cumulative Results of Operations - Earmarked Funds (Note 9)	\$ 458,566,210	\$ 449,553,323
Total Net Position	<u>458,566,210</u>	<u>449,553,323</u>
Total Liabilities and Net Position	<u>\$ 465,615,106</u>	<u>\$ 457,804,350</u>

The accompanying notes are an integral part of these statements.



George Demonfort-Proska (Army)



When Germany invaded Poland in 1939, Mrs. Proska feared her teenage son would be taken. So she sent him underground to the Romanian border. He and 180 boys secretly traveled to Yugoslavia, Greece and finally France, where they finished school. In 1942, they moved to the mountains. "We trained in the Grenoble: a anti-communist group like Boy Scouts," he said. In 1944, they met up with the exiled Polish Army in England – then the war ended. Yet George was a political refugee and couldn't go home. So he studied in France, joined the US Army

and later worked for Marriott in America. "For 26 years, I did not know if family was alive," he lamented. Now a US citizen, he was allowed re-entry to Poland. So he journeyed home and went to his old neighbors. "They said: 'mother still alive!' I said: 'OK, please inform her that I am alive – and going to see her tomorrow.' So I bought roses. I come to my home and knock on door ... and my mother ... mad like hell at me. She yelled: 'How could you go see neighbor – in place of me!' I said, 'Mother, I was afraid you would see me and you'd die.'"

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

The accompanying notes are an integral part of these statements.

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

The accompanying notes are an integral part of these statements.

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



STATEMENT OF BUDGETARY RESOURCES	For the years ended September 30, 2007 and 2006 (In Dollars)	
	2007	2006
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1:	\$ 271,474,561	\$ 33,296,782
Recoveries of Prior Year Unpaid Obligations	1,506,786	2,887,893
Budget Authority		
Appropriation	56,690,105	542,681,000
Temporarily Not Available Pursuant to Public Law	-	582,810
Total Budgetary Resources	\$ 329,671,452	\$ 578,282,865
Status of Budgetary Resources:		
Obligations Incurred		
Direct	\$ 277,163,359	\$ 306,808,304
Unobligated Balance		
Apportioned	52,508,093	271,474,561
Total Status of Budgetary Resources	\$ 329,671,452	\$ 578,282,865
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 7,808,113	\$ 9,200,924
Obligations Incurred Net	277,163,359	306,808,304
Less: Gross Outlays	55,932,831	305,313,222
Less: Recoveries of Prior Year Unpaid Obligations, Actual	1,506,786	2,887,893
Total, Unpaid Obligated Balance, Net, End of Period	\$ 227,531,855	\$ 7,808,113
Change in Outlays:		
Net Outlays:		
Gross Outlays	\$ 55,932,831	\$ 305,313,222
Net Outlays	\$ 55,932,831	\$ 305,313,222

The accompanying notes are an integral part of these statements.



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

REQUIRED SUPPLEMENTARY INFORMATION				
INTRAGOVERNMENTAL TRANSACTIONS				
As of September 30, 2007				
INTRAGOVERNMENTAL ASSETS				
Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Total
Treasury	\$ 230,126,225	\$ 159,041,366	\$ -	\$ 389,167,591
Air Force	-	-	414,693	414,693
Army	-	-	1,530,287	1,530,287
Army Corp of Engineers	-	-	49,478	49,478
Navy	-	-	1,067,473	1,067,473
Marines	-	-	891,933	891,933
Total	\$ 230,126,225	\$ 159,041,366	\$ 3,953,864	\$ 393,121,455
INTRAGOVERNMENTAL LIABILITIES				
Agency	Accounts Payable and Accruals	Payroll Taxes	Other	Total
Treasury	(\$19,877)	\$ -	\$ -	(\$19,877)
Treasury General Fund	-	-40,252	-	-40,252
Army	-8,393	-	-	-8,393
General Services Administration	-64,518	-	-	-64,518
Dept. of Interior	-67,166	-	-	-67,166
Labor	-	-	-1,815,645	-1,815,645
Personnel Management	-	-113,063	-	-113,063
Total	(\$159,954)	(\$153,315)	(\$1,815,645)	(\$2,128,914)

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

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

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

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

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

Many Thanks to BPD

Forming Close Partnership

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

BPD gave us the key ability to balance and account for all assets,

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



Jennifer Dickerson



Debra Shreeves



Bart Scott



Richard McFee

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



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



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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of the Armed Forces Retirement Home (AFRH). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 07-04, Audit Requirements for Federal Financial Statements. They have been prepared from, and are fully supported by, the books and records of AFRH in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Financial Reporting Requirements and AFRH accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control AFRH's use of budgetary resources.

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

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary

resources and facilitates compliance with legal constraints and controls over use of Federal funds.

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

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

Exchange Revenue

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

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

Non-Exchange Revenue

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

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

Financing Sources

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

E. Fund Balance with Treasury

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

F. Investments

Trust Fund balances may only be invested in interest bearing debt securities issued by the Bureau of the Public Debt. The AFRH's investments are purchased exclusively through the Bureau of the Public Debt's FED-INVEST system. These securities are market based Treasury securities

issued without statutorily determined interest rates and consist of Treasury bills and notes.

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

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

G. Accounts Receivable

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

H. General Property, Plant, and Equipment, Net

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

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

I. Liabilities

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

J. Accounts Payable

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

K. Annual, Sick, and Other Leave

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

L. Retirement Plans

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

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

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

M. Imputed Costs / Financing Sources

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

N. Use of Estimates

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

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



O. Commitments and Contingencies

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

P. Federal Employment Compensation Act

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

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

Q. Reclassification

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

NOTE 2. FUND BALANCE WITH TREASURY

Schedule as of September 30, 2007

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

NOTE 3. INVESTMENTS

Schedule of Investments as of September 30, 2007

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

Schedule of Investments as of September 30, 2006

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

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Investment maturity dates for fiscal years 2007 and 2006 range from February 29, 2008 to May 15, 2016 and October 15, 2006 to June 30, 2007, respectively, and interest rates for the same fiscal years range from 4.500 percent to 5.625 percent and 3.625 percent to 6.500 percent, respectively.

NOTE 4. ACCOUNTS RECEIVABLE

Schedule of Accounts Receivable as of September 30

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

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

NOTE 5. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET Schedule of Property, Plant and Equipment as of September 30, 2007

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

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

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

NOTE 6. OTHER LIABILITIES As of September 30, 2007

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

Schedule of Other Liabilities as of September 30

	2007	2006
Accrued Liabilities	10,733	115,855
Payroll Taxes Payable	<u>18,223</u>	<u>18,175</u>
Total Other Liabilities	\$ 28,956	\$ 134,030

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



NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on AFRH's Balance Sheet as of September 30, 2007 and 2006 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that

appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave and unfunded FECA liability. Unfunded leave and FECA liability balances are \$2,867,367 and \$2,940,057 as of September 30, 2007 and 2006, respectively.

NOTE 8. OPERATING/PROGRAM COSTS Costs by major budgetary object classification are as follows:

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

NOTE 9. EARMARKED FUNDS

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

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

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

Schedule of Earmarked Funds as of September 30, 2007

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

NOTE 9. EARMARKED FUNDS (CONTINUED) Schedule of Earmarked Funds as of September 30, 2006

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

NOTE 10. IMPUTED FINANCING SOURCES

AFRH recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management (OPM). Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against AFRH are also recognized as imputed financing. For the fiscal years ended September 30, 2007 and 2006, respectively, imputed financing was as follows.

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



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

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

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

NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

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

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

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



ACCOMPANYING INFORMATION

Catharine Deitch traveled the world with the Army. Now her uniform, orders and war memorabilia are traveling the US – on loan from Florida State University’s WWII Institute. “Many students didn’t believe what happened in The War. So professor Oldson founded the Institute.” After WWII, she and her husband opened a B&B in Gettysburg. When he passed, her son found another souvenir. “Years ago, I wrote a note to my young kids on a document: ‘Remember, I’m eligible for the Soldiers’ Home!’” Even today at 87, she’s grateful to be at AFRH. “Life here is made to order. And they have wonderful activities. Thank you, Lord.”

We’re thankful you have taken the time to get to know AFRH and its wonderful residents. Truly, they are the greatest generation our country has ever known. This final chapter of the PAR, Accompanying Information, rounds out our FY07 activities and fulfills our reporting requirements.

In this part, we furnish:

The IG Letter

Management Challenges

Improper Payments

Acronyms



“Life here is made to order. And they have wonderful activities. Thank you, Lord.”

Catharine Deitch (Army WAACS – WWII)



Management Challenges

Unearthing Likely Barriers

To maintain momentum and solid performance, our IG has identified the major challenges now facing the Home. As we strive to overcome them, our workforce, partners and contractors will be accountable for AFRH Trust Fund dollars. Naturally, oversight and enforcement is needed to ensure progress and fiscal responsibility.

Challenge 1: Implement & manage the Scott Building renovation:

Retaining residents and keeping them happy are essential to attaining our Goals of Financial Growth and Exceptional Service. Today the Scott Building in Washington is home to nearly half of our resident population. Yet, it has not been renovated in decades and desperately needs enhancements. In fact living conditions must be updated soon, if we wish to usher in new residents.

Repairs will cost about \$81 million, which is the greatest portion of the capital improvement estimate of \$134 million. So, this endeavor will require the hands-on guidance and supervision of management. Together we must focus our efforts, plan meticulously and coordinate with all stakeholders to finish on-time and on-budget.

Challenge 2: Employ & monitor National Patient Safety Goals (NPSG):

AFRH currently has a Gold Seal of Approval™ in healthcare from JCAHO and on-site, unannounced visits are required to maintain accreditation. AFRH faces the challenge of keeping pace with ever-changing requirements in healthcare. Fortunately, the NPSGs from JCAHO help identify widespread problems – and outline evidence and expert-based solutions. So, AFRH must scrutinize its operations to adhere to these Goals.

Challenge 3: Develop succession planning for operations & management

AFRH strives to meet the PMA's "Strategic Management of Human Capital" Initiative and maintain best practices. To achieve this, the Home must develop a consolidated succession plan for all management positions. Nursing was completed in 07 – and now we must develop succession plans for campus operations, corporate support staff, IT and resident services.



A construction crew begins to erect a new "military heritage" display in the Scott Residence Lobby.



Armed Forces Retirement Home
Office of the Inspector General
3700 N. Capitol Street, P.O. Box 1303
Washington, DC 20011-8400

November 1, 2007

Memorandum

To: Timothy C. Cox, Chief Operating Officer

Re: Management Challenges for FY 2008

Over the past year, the AFRH has had to respond to some serious allegations lodged at its healthcare management and oversight by an anonymous source. The allegations were later found to have no merit by the various inspections teams that were dispatched by the Office of the Secretary of Defense to investigate the allegations. The AFRH took additional measure to ensure that the allegations were investigated thoroughly by requesting an independent audit of its healthcare facilities from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). JCAHO also found no evidence to support the alleged allegations.

The Armed Forces Retirement Home's Inspector General (AFRH IG) hotline has served the agency well in allowing anyone to report occurrences of waste, fraud or abuse. As a result of the reported incidents, the AFRH IG has worked with the agency's management to correct the infractions which have led to the implementation of policies and procedures that will effect oversight to reduce or eliminate any reoccurrences. The AFRH IG has also established a great working relationship with the Department of Defense's Office of Inspector General. Residents at the AFRH may also access their hotline to report abuse, waste or fraud found at the agency.

In accordance with the Reports Consolidation Act of 2000, we have identified the most serious management and performance challenges facing the Armed Forces Retirement Home (AFRH) in FY 2008. Through various AFRH initiatives and programs, significant progress and improvements have been demonstrated as a result of recommendations made by my office and other inspection activities.

- Implement and monitor the Scott building renovation
- Implement and monitor the National Patient Safety Goals
- Implement Succession Planning for all strategic areas of operations and management
- Transition the accreditation review for the AFRH from JCAHO to CARF/CCAC
- Continue to educate our constituents and congressional oversight committees on the AFRH mission and services that will be needed to support our next generation of heroes

In order to sustain the progress that has been made by the AFRH through its initiatives and programs, we will continue to monitor the outcomes of the areas identified.

Maurice Swinton
Inspector General

Management Challenges continued



Challenge 4:
Transition from JCAHO to CARF/CCAC

To cover all levels of care AFRH that provides as a CCRC, we must seek a more fitting accreditation from CARF/CCAC. In FY08 we will seek initial review – so training and preparations must be carefully monitored to ensure a successful outcome.

Challenge 5:
Educate stakeholders on our Mission to serve a new generation of veterans

In recent years, both campuses have primarily served WWII veterans. So mental images of the “Old Soldiers’ Home” and the “Naval Home” still linger with most stakeholders. Sadly, this “greatest generation” is dying at a rate of nearly 1,000 a day. Thus, AFRH must address the needs of a new generation of war heroes – those eligible veterans from Korea and Vietnam to Afghanistan and Iraq.

As such, we must make major improvements such as larger rooms, more leisure activities and access to family and friends. Planning and executing the upgrades is a major challenge and calls for plenty of lead-time and a shared vision. Getting constituents and Congress to share our vision is vital – and clearly articulating our plans will take time. So AFRH must provide constant updates to keep constituents apprised of our direction. This way, if policy or funding changes are required, they’ll understand why ... and they’ll likely be supportive.

*“I’ve lived here nine years and it’s more than satisfactory. Please get the Coasties in here!”
– Reid Hawthorne (Navy – WWII; Coast Guard – Vietnam)*

The combined (Gulfport and Washington) Local Advisory Board meets in February 07 to assist AFRH.



Improper Payments Information Act (IPIA)

Through our partnership with BPD, each AFRH business program was reviewed to estimate the amount of potential improper and erroneous payments.

In FY07, we had a mere four erroneous payments out of a total of 2,923. This margin of error is little more than 1/10 of one percent. These four errors are outlined in the chart below:

Item	Issue	Amount	Resolution
1	Stipend payment sent to wrong Resident	\$ 120.00	Next stipend payment was withheld from Resident & thereby repaid
2	Refund sent to wrong Resident	\$1,376.00	Money collected from overpaid resident
3	Payment to Mississippi Power after contract expired	\$1,202.00	GSA is working to get a refund, since it is paying MS Power for service on the Gulfport campus during the rebuild.
4	AFRH was billed & paid for services used by another BPD customer	\$1,313.00	Vendor is returning the payment to BPD

Our hard work in this area has truly paid off - because in FY06 we had 30 improper payments. BPD is committed to catching erroneous payments, making the necessary corrections and raising our awareness – especially in terms of resident fees. Fortunately, these improper payments did not affect the outcome of our audit.

AFRH improper payment history: **FY07: 4**
FY06: 30
FY05: 1

Resident Volunteers

A new generation of eligible veterans and retired military is beginning to call the AFRH home. Below are the stories of several new and energetic residents who are changing the face of the AFRH. They are young at heart and generous in spirit – because they are giving back to the Home and the community as volunteers.

“When I retired, I relaxed a lot... and that got boring real fast! So I decided to keep busy by helping others.”



Gwen Hendley (Army - 20 yrs.)

Gwen is so young and vibrant, you'd think she was visiting a parent here. In her first year as a resident, she's staying busy with a full line-up of volunteer work. "When I retired, I relaxed a lot...and that got boring real fast! So I decided to keep busy by helping others." All told, Gwen volunteers at Walter Reed Medical Center, The Red Cross Blood Bank, the AFRH Chaplain's Office and LaGarde Building Health Education. Maybe she gets her generous nature from being a nurse in the service, and a social worker in civilian life. "Seeing that you've helped someone, like a soldier and his family at Walter Reed, is very special." So is Gwen Hendley.



Ann Whitaker (Navy – WWII)

Ann has a friendly spirit and quick smile. That's vital when helping worried patients. "My major volunteer activity is escorting people to medical appointments and the hospital, like for cataract surgery. I support them through it all." Ann gives back because she feels so grateful in life. "We Gulfport residents were the luckiest people in Mississippi – because we had a nice place to come to: Washington." That may just pay off in the long run for Ann, as her mother lived to 101.



Frank Nelson (Navy - 3 yrs.)

As a former shipmate on the USS Foote, Frank has a surprisingly green thumb. Nowadays, he spends plenty of time in the AFRH garden, cultivating potential prizewinners for the residents to enjoy. You see, each year the Home has a garden competition - and a stone soup contest, which Frank won this year. "Oh, it's great fun. And my buddies enjoy all the great veggies we grow in the garden." So next time you visit the Home, bring your favorite salad dressing.

Acronyms

Acronym	Meaning	Acronym	Meaning	Acronym	Meaning
AAFES	Army and Air Force Exchange Service	FASAB	Federal Accounting Standards Advisory Board	JFMIP	Joint Financial Management Improvement Act
ARC	Administrative Resource Center	FECA	Federal Employees Compensation Act	MCOC	Management Control Oversight Council
AFRH	Armed Forces Retirement Home	FEMA	Federal Emergency Management Agency	NFC	National Finance Center
BPD	Bureau of Public Debt	FEDInvest	Federal Investment (software application)	NPSG	National Patient Safety Goals
CARF/CCAC	Commission on Accreditation of Rehabilitation Facilities and Continuing Care Accreditation Commission	FFMIA	Federal Financial Management Improvement Act	OMB	Office of Management and Budget
CFO	Chief Financial Officer	FISMA	Federal Information Security Management Act	OPM	Office of Personnel Management
COO	Chief Operating Officer	FMFIA	Federal Managers Financial Integrity Act	OSD	Office of the Secretary of Defense
COTS	Commercial-Off-The-Shelf	FTE	Full-time Equivalents	OSHA	Occupational Safety and Health Administration
CRA	Continuing Resolution Act	FY	Fiscal Year	PART	Program Asset Rating Tool
DAPS	Document Automation and Production Service	GPRA	Government Performance and Results Act	PPE	Property, Plant and Equipment
DAV	Disabled American Veterans	GSA	General Services Administration	RIS	Resident Information System
DEOMI	Defense Equal Opportunity Management Institute	IPAC	Intragovernmental Payment and Collection System	SAS	Statement on Auditing Standards
DFAS	Defense Finance and Acquisition System	IPIA	Improper Payments Information Act	Seabees	Naval Construction Battalion
DoD	Department of Defense	IT	Information Technology	SF	Square Feet
EEO	Equal Employment Opportunity	IP	Internet Protocol	U.S.C.	United States Code
FAIR	Federal Activities Inventory Reform	JCAHO	Joint Commission on Accreditation of Healthcare Organizations	USSGL	US Standard General Ledger
FAR	Federal Acquisition Regulation				



R&R Rest and Relaxation



We'd like to hear from you —

Thank you for surveying our 2007 PAR. So what's your assessment? How well did we present the information? What did you find helpful? And what can we improve for next year? We welcome your feedback.

Please send it to:

AFRH
3700 North Capitol Street, NW
Washington, DC 20011-8400
ATT: CFO, Box 1303

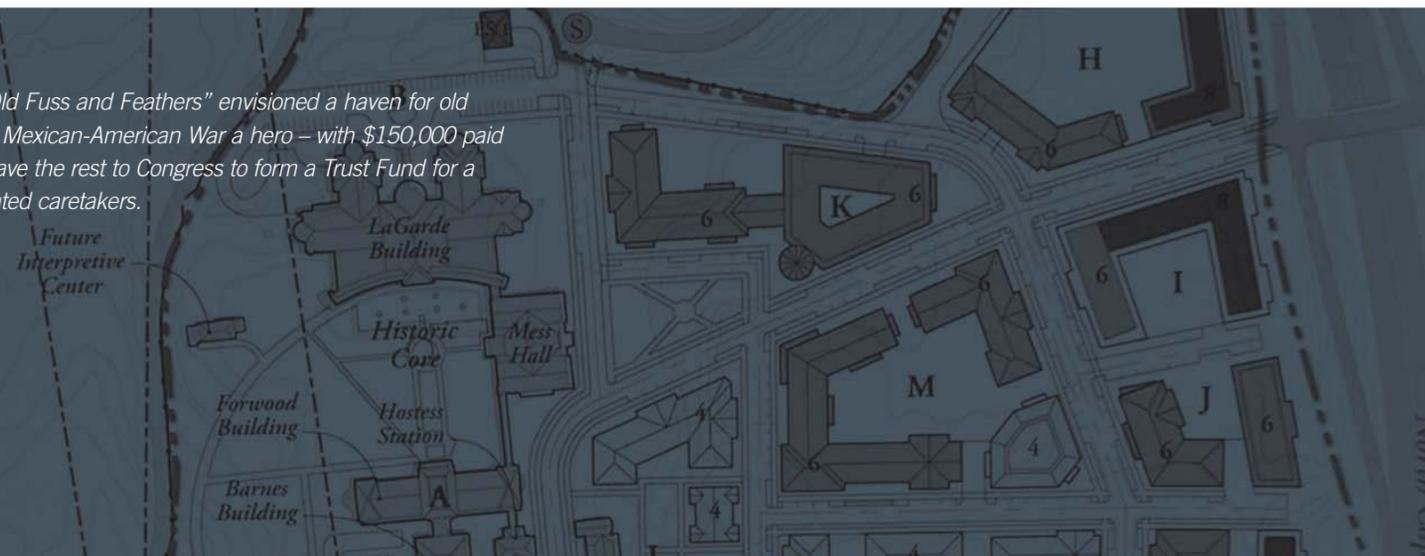
E-MAIL public.affairs@afrh.gov
PHONE 800.422.9988
FAX 202.730.3492



We'd like to thank you

The management and staff would like to express its sincere appreciation and heartfelt thanks to Congress, our many partners and volunteers. Your dedicated support is helping us carry out our Mission to serve America's veterans. Together we are ... *Forging New Foundations.*

General Winfield Scott was a celebrated war hero who was devoted to his troops. "Old Fuss and Feathers" envisioned a haven for old soldiers to ensure their care and restore their dignity. In 1848, he returned from the Mexican-American War a hero — with \$150,000 paid to him by Mexico City, in lieu of ransacking. Scott quickly paid off his soldiers and gave the rest to Congress to form a Trust Fund for a military asylum. Today, the Home is being re-envisioned by a "new guard" of dedicated caretakers.



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