



FOCUS FORWARD

PERFORMANCE & ACCOUNTABILITY REPORT FY09





VISION:

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

MISSION:

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

GUIDING PRINCIPLES:

Establish Accountability

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 community reflects that military heritage through 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 effort.

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.

ON THE COVER

AFRH is striving to meet the needs of today's residents and tomorrow's heroes. Soon we'll see a rapid increase in military retirees. So we're modernizing for the future with Aging in Place, new amenities and advanced business practices. All of which will truly promote better health and help us all
Focus Forward

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Message from the COO

Since becoming the Chief Operating Officer (COO) at AFRH, I have focused all efforts on preserving the military's heritage of caring for its own, as well as expanding concepts in senior living. As we continuously look ahead, we are guiding our staff to maintain resident vitality and make AFRH a special place to call home. These efforts will build a dynamic, mutually satisfying bond between the residents and staff. Further, it will hone our focus forward, to make AFRH even more healthy and vibrant.

I am pleased to present our FY09 PAR, which details our achievements and challenges in program and fiscal management over the past year. This

report explains the actions AFRH has taken to exercise effective stewardship, maintain financial integrity and validate the successful delivery of our Mission. I am confident the performance information and financial data in this PAR are reliable and complete.

The transformation from an historic "Soldiers' Home" in DC to a modern CCRC¹ has advanced in FY09. We conceived a variety of plans under the Aging in Place philosophy and those plans are reflected in recent advances to staffing, programming, and construction. These developments are highlighted throughout this PAR.

WITNESS ACHIEVEMENT

In FY09, AFRH demonstrated its commitment to progress with solid achievements in ongoing strategies. Similarly, the Home is striving to ensure our actions meet the new targets by drawing links to the new administration's efforts in healthcare and caring for veterans. In the financial realm, AFRH received its fifth annual "unqualified" audit opinion and the Trust Fund balance has reached an all-time high.

Our "Exceptional Service" targets focused on providing "personalized" service by implementing Aging in Place concepts, and reviving our military heritage. The highly successful Freedom Day event held on September 22 brought together old and new gen-

erations of military, linking the Soldiers' Home founder General Scott with President Lincoln on the 147th anniversary of the signing of the *Emancipation Proclamation*.

Another aim has been to continually improve services and the cost of performance. So, we are upgrading our infrastructure, information technology, resident homing devices, telephone service, wireless access and computer availability. Also, our partnership with Walter Reed to integrate veterans' medical records with existing electronic records shows great promise in taking better care of our veterans.

Indeed, AFRH is transforming its entire culture to a new vision for senior living: Aging in Place. So our renewed emphasis in the Learning & Growth and Culture of Integrity actions have yielded many updated policies and procedures, new course offerings, and a more robust human capital program.

FY09 was unprecedented in the number of critical assessments. With our five year CARF/CCAC² accreditation valid through 2013, the Department of Defense Inspector General (DoD IG) reviewed operations in September 09

with positive comments. Office of Personnel Management (OPM) performed an annual audit and the report is due in FY10. Also, our Local Advisory Board created a bi-annual assessment that offered solid support and cited no major concerns in their spring review.

REGARDING PRIORITIES

In recent years, AFRH dedicated all resources to achieving its strategic goals under our FY06-10 Strategic Plan. The timing was right to catapult AFRH from its inefficient operations to a more comprehensive and cost-effective CCRC. After working steadily to resolve basic issues in financial management and customer service, we united around four major projects in FY08 to greatly enhance the future of AFRH. With the advent of the new administration's charge to identify high-performance goals, we realized that those projects were, indeed, our prime concerns.

In the FY10 budget, Congress funded the AFRH Scott Project under "Strengthening Infrastructure for the 21st Century" to improve housing for retired veterans. AFRH is making great strides with this Project, plus we're seeing great progress on our Gulfport rebuild in Mississippi. As such, our priorities have evolved as follows:

- Goal 1: Healthcare
(Resident Wellbeing)
- Goal 2: Housing
(Gulfport & Washington)
- Goal 3: Stewardship
(Corporate Effectiveness)

These goals are expanded upon throughout this report, but the staff is fully engaged in meeting the targets associated with them.

After a sudden turn of events, AFRH halted progress on its highly promising revenue generator – the Washington Master Plan. The economic downturn slowed our scheduled rollout due to less than favorable returns on investment. The Plan still stands approved, yet alternate ideas are being considered for development.

EXAMINE CHALLENGES

In FY09, the AFRH IG challenged us to monitor ongoing financial growth, manage our buildings and renewals, open the new Gulfport facility, orchestrate the residents' return to Gulfport, maintain AFRH accreditation and update constituents on our challenges and progress. We succeeded in making advances in each of these areas. Our oversight and ongoing inspections show, time after time, our ability to step up and provide the best service to our veterans.

These challenges remain, but the emphasis for FY10 will be in performance, specifically in Human Capital. Training and staffing for our new Aging in Place offerings, as well as our new facilities, will take center stage. While the culture is changing, we must guide it closely.

FOCUS FORWARD

I am pleased we have completed so many milestones in our corporate infrastructure, resident programs and staff development. FY09 was another remarkable year at AFRH. Yet, we have our sights set on the complete transformation of our operational model to showcase Aging in Place. A truly modern AFRH will reflect the needs of today's residents as well as those of current active duty who will need our services tomorrow.

Sincerely,



Timothy C. Cox
Chief Operating Officer
November 16, 2009

"Our Exceptional Service" targets focused on providing "personalized service by implementing Aging in Place concepts, and reviving our military heritage."

– Timothy Cox
Chief Operating Officer
(COO)

¹Continuing Care Retirement Community

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

The Introduction features:

The Home in History

Freedom Day 2009

Aligning with Aging in Place

High-Priority Performance Goals:

Goal 1: Healthcare
(Resident Wellbeing)

Goal 2: Housing
(Gulfport & Washington)

Goal 3: Stewardship
(Corporate Effectiveness)

Risk Management

AFRH at a Glance

PAR Introduction



“I’ve had family members in the service since the Revolution.”

– Ann Whittaker
(Navy)

For Ann, military service is a tradition dating back to our country’s formation. “My ancestry goes back to John Hart, who signed the Declaration of Independence. I’m a direct descendant of his daughter. Hart’s son was a captain in the Revolutionary Army. Plus I had uncles who fought in WWI. Another uncle served the Navy in the 30s. And my brother served the Seabees in WWII. I don’t think it ever occurred to them NOT to serve. The educational benefits they received for their service were wonderful!” Ann served the Navy two years herself, from 1944-46, and married a sailor. Plus she has a long line of offspring following in her footsteps. “I had two sons in Vietnam and two in Germany. And I have seven grandchildren who all served simultaneously. Three were in Iraq at one time.” All of which received educational benefits. Undoubtedly, there will be many more patriots in Ann’s lineage. And America will be forever grateful.

The Home In History



Nearly 200 years ago, the leaders of our young nation made a *Promise* to care for our aging and infirm military personnel. This pledge would be the soldiers' payback for risking their lives to preserve democracy. In 1811 Congress fulfilled this Promise by passing legislation to build a home for destitute Navy officers, sailors and Marines in Philadelphia. By 1833, the new Naval Asylum was complete and it housed over 400 pensioners.

By 1851, momentum had built to fund a second home in Washington, DC using reparations from the Mexican-American War. At the urging of General Scott, the Government bought the Riggs cottage and farm in the Washington countryside – and established the Soldiers' Home with just three "inmates." A Trust Fund was formed to sustain the Home for future veterans.

For the next two centuries, both distinct homes evolved to meet the needs of new residents. The Naval Asylum moved to Gulfport, MS and was renamed the Naval Home. And the Soldiers' Home became a "city within a city" with a working farm.

In the 1950s, leisure and recreation took priority and new amenities were added. By 1991 both merged via Congressional Law and began operating under one standard business model. Today the two make up one thriving, modern retirement community: AFRH.





BEHOLD LIBERTY

Freedom Day

AFRH continued its rich tradition of supporting America's veterans with its inaugural "Freedom Day" event held on September 22, 2009. This daylong celebration honored the anniversary of President Lincoln's signing of the *Emancipation Proclamation*, the birthday of the Soldiers' Home founder General Winfield Scott, and American military service, past and present.



Freedom Day will go down in history as a memorable gala that showcased a range of musical talent. On hand were the Joint Service Color Guard, the US Armed Forces School of Music, a Fife and Drum Corps, the Pennsylvania Bucktails, and Comrades of the Civil War.



Many dignitaries were present to give heartfelt speeches, including Timothy Cox (AFRH COO), Frank Milligan (Director, President Lincoln's Cottage), David Moshier (Superintendent, Soldiers' Home National Cemetery), and Charles Bowen (Master Chief Petty Officer of the Coast Guard).

Hundreds of active duty military took part in Freedom Day, both as volunteers and as participants.

"I'm one of the few living relatives of General Scott. My husband was his great-grandnephew and I'm proud to live at the Home he founded."

— Frances Scott (Army) with General Scott re-enactor



The AFRH Freedom Bookmark

This gala was a perfect opportunity for AFRH veterans to swap stories and get to know the enlisted. Likewise, it was a great venue for today's enlisted to get to know AFRH and heroes who live here.

This grand event was co-hosted by President Lincoln's Cottage – the original "Soldiers' Home" established in 1851 – and now an historic landmark that sits on the AFRH-W grounds.

While living at the Cottage, President Lincoln wrote the *Emancipation Proclamation*. Since then thousands of veterans have lived at the Home.

All told, more than 1,400 people attended the Freedom Day event. Also in attendance were Wounded Warriors patients from the VA Hospital, members of the press and re-enactors who portrayed President Lincoln and General Scott.



RECOGNIZE NEEDS

Aligning With Aging in Place

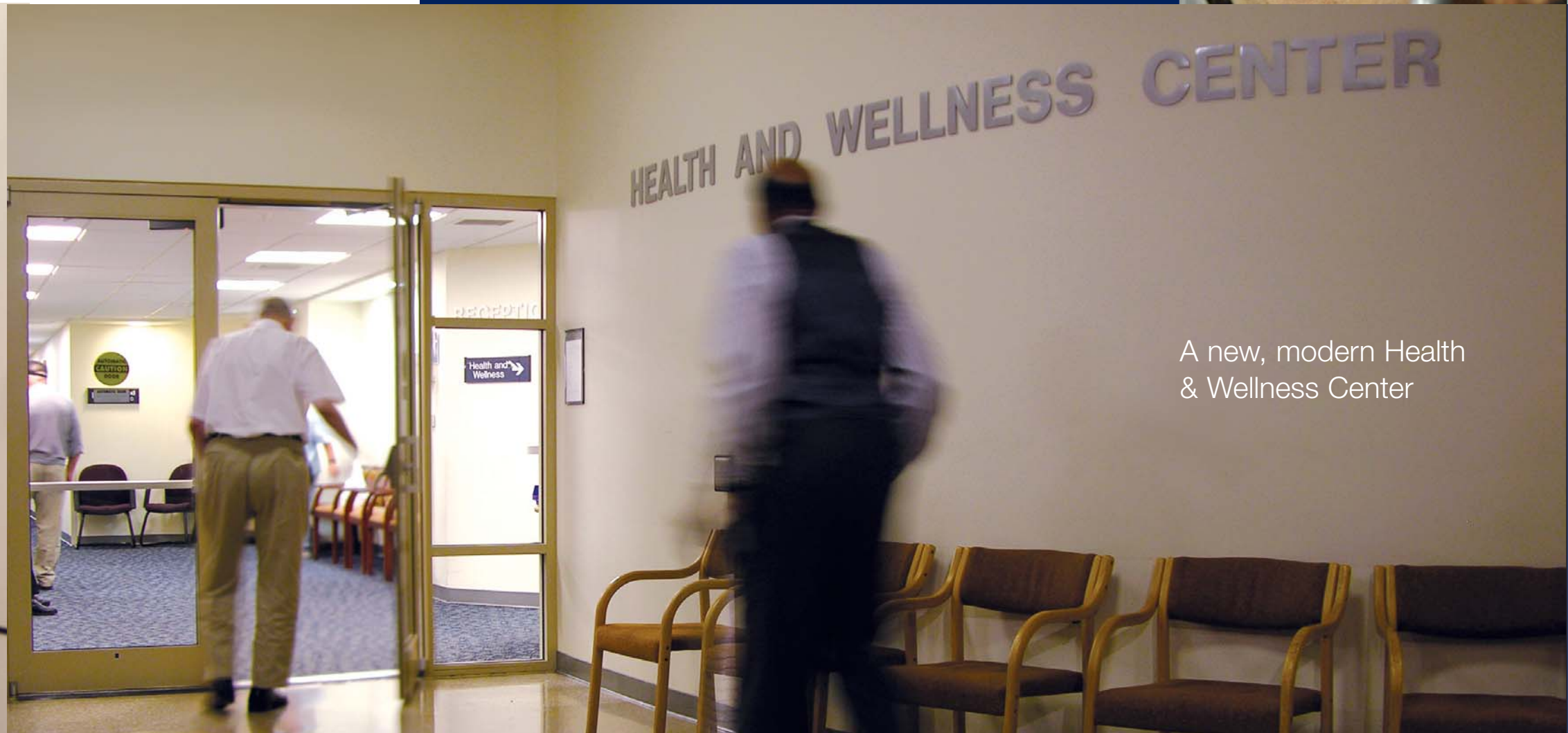
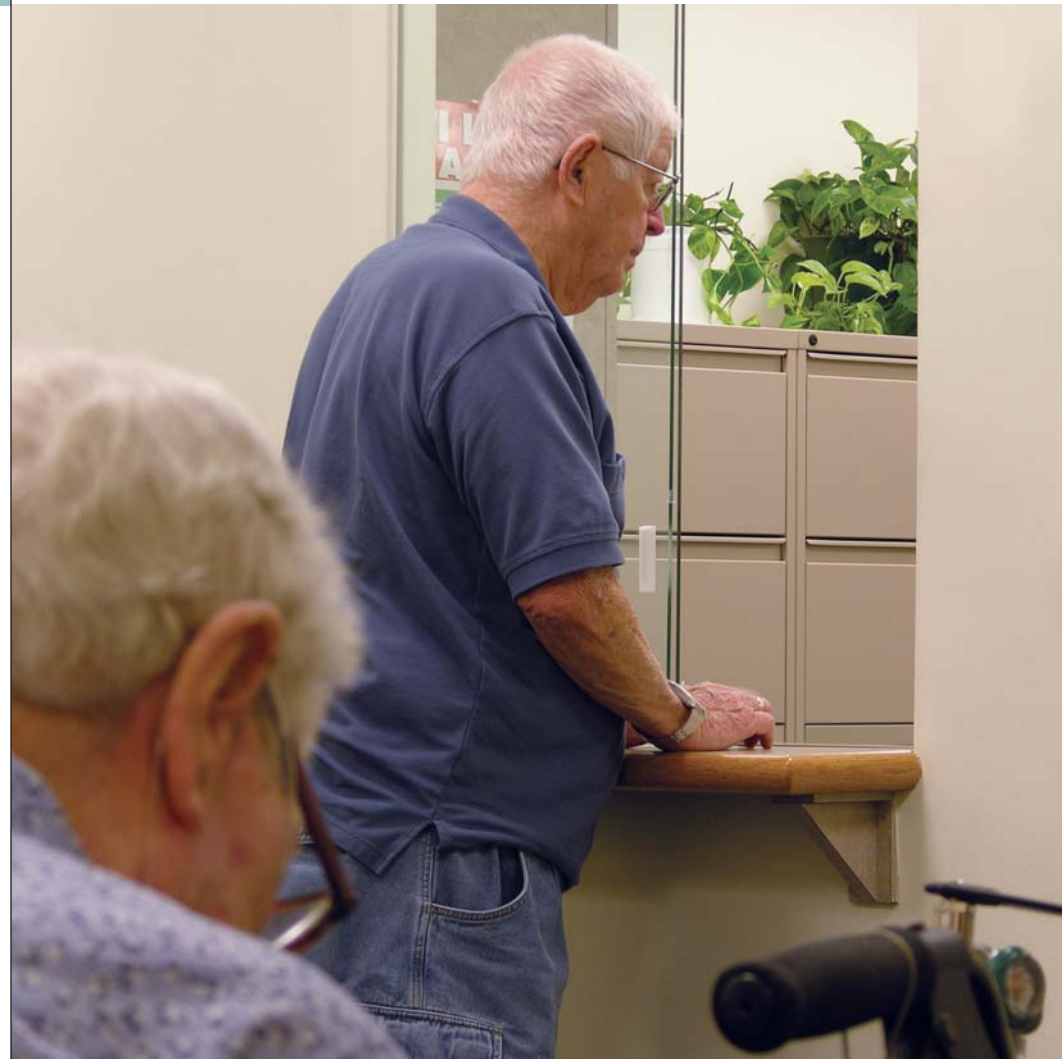
Integrated healthcare, vision & dental services

Aging in Place takes many forms at CCRCs. Generally, this movement is defined as helping seniors live in their home of choice—wherever that may be—for as long as possible. The idea is to help seniors stay connected, active members of their community. Management is committed to this new Aging in Place philosophy, as well as the original *Promise* from 1811 to care for our nation's heroes.

This vision can only be achieved by designing a proper environment and offering extensive support services. So, AFRH is leveraging all resources to maximize services to our Independent Living and Assisted Living residents so they may remain

as independent as possible. What's more, the Home will provide what is needed to provide a good quality of life – and will only curtail services when demand exceeds our resources.

Fitness Center upgrades



A new, modern Health & Wellness Center



Also, AFRH is aligning its facilities with the Federal drive for energy efficiency, by applying “green” concepts and investing in alternative and renewable energy. This includes the new Gulfport community and the new “Commons” Building planned in Washington.

Incidentally, all facilities and services in the new Gulfport community will have the very latest in senior care, including accessibility, when it reopens in October 2010. For Washington, a major facelift is the cornerstone of “The Scott Project.”

Our goal to promote Aging in Place and advance health and wellness is coming together nicely. The Home is making many upgrades across the entire community. In fact, we’re now developing buildings, services and activities to fulfill this vision. While AFRH has so much to offer as a CCRC, our plans to modernize will enhance current amenities and better suit the needs of aging veterans.

Advances for Washington:

1. Central dining & social areas in new “Commons”
2. Canteen Lounge Improvements
3. New kilns for Ceramics Shop
4. Golf shack remodeling
5. Bowling center improvements



High-Priority Performance Goals

Our ultimate mission is to advance the lives of our residents. As such, we identified our “High-Priority Performance Goals” for the coming year, in tandem with our FY11 budget. This is our first step in meeting President Obama’s agenda to build a high-performance government.

With help from the Office of Management and Budget (OMB), we have singled out our “significant challenges unlikely to be overcome without a concerted focus of agency resources.” Below are the Goals that will help us achieve great success.

Goals to shape our Future:

Goal 1:	Goal 2:	Goal 3:
Healthcare (Resident Wellbeing)	Housing	Stewardship (Corporate Effectiveness)
Ensure exceptional resident care and extensive support.	a. Gulfport: Add Residents to a fully functional facility in FY11. b. Washington: “Right-size” facility and give it a facelift by 2013.	Maintain overall vitality via efficient management.



FOCUS FORWARD ON: AGING IN PLACE

Goal 1: Healthcare (Resident Wellbeing)

Ensure exceptional resident care and extensive support.

It is vital to ensure resident health and wellbeing. So, AFRH management continues to modernize its facilities, improve outlets for activity, expand social networks, enhance military camaraderie and keep folks connected. In these ways and more, AFRH is leading the way for Aging in Place.

True to our goal, AFRH was highlighted in the Federal budget for

FY09 under “Strengthening Infrastructure for the 21st Century” by improving housing for eligible veterans.

One of our Guiding Principles is to deliver exceptional service. It states: “the staff vows to be innovative and responsive – while offering exceptional products and services at competitive prices.” To achieve this, our staff must stay positive, anticipate needs, listen attentively, take responsibility, keep its word, and give personal attention.

Thus we aim to achieve five short-term objectives:

1. Modernize key AFRH facilities
2. Apply Aging in Place campus-wide
3. Unite primary & specialty healthcare
4. Promote our rich military heritage
5. Personalize our customer service

Residents are the reason.

Goal 2a: Housing (Gulfport Standup)

Add residents to a functional facility in FY11.

Priority One: Staff Gulfport & ensure facility is fully operational in FY10.

A key challenge is to get our second home fully operational now, before the arrival of residents in Q1, 2011.

While damage from Hurricane Katrina closed Gulfport in 2005, Congressional funding and GSA management have driven the rebuild. And residents are eagerly awaiting the grand reopening.

With construction of the new facility more than half complete – on schedule and within budget – we can now focus our resources to our grand re-opening. All eligible, former Gulfport residents are scheduled to move in starting in October of 2011.

Thus we aim to achieve four short-term objectives:

1. Hold Monthly Q & A progress meetings for residents
2. Compile Q & As and post on afrh.gov
3. Develop plans for staffing & operations
4. Maintain schedule & budget (via GSA)



The excitement is building.

INTRODUCTION

INTRODUCTION



Goal 2b: Housing (Washington "Scott Project")

"Right-size" AFRH-W and give it a facelift by 2013.



To fulfill our vision for Aging in Place, facilities must be upgraded properly. Yet, we must maintain financial stability in the process. So, management's challenge was to cope with the aging infrastructure in Washington cost-effectively. Hence, the Scott Project was conceived.

The Project goal: replace the massive and rapidly aging Scott Building with a smaller and new two-building facility (with a total of 171 thousand square feet). This new, energy efficient complex will promote "right-sized" common areas and modern healthcare functions. Plus, it will be designed to modern building codes in compliance with the latest standards in senior care.

Thus we aim to achieve four short-term objectives:

1. Award Architect & Construction contracts (GSA)
2. Hold Monthly Q & A progress meetings for residents
3. Compile Q & As and post on afrh.gov
4. Plan for staffing & transition during build-out



Renovations are ramping up.

Goal 3: Stewardship (Corporate Effectiveness)

Maintain the Home's vitality via efficient management.

This Goal covers the major factors of AFRH stewardship: maintaining resident population, hiring superior staff, completing capital improvements, containing costs via effective contracts, and safeguarding the AFRH Trust Fund.

Achieving our vision to create true Aging in Place communities – with activities to match – depends on our ability to recruit, hire, develop and

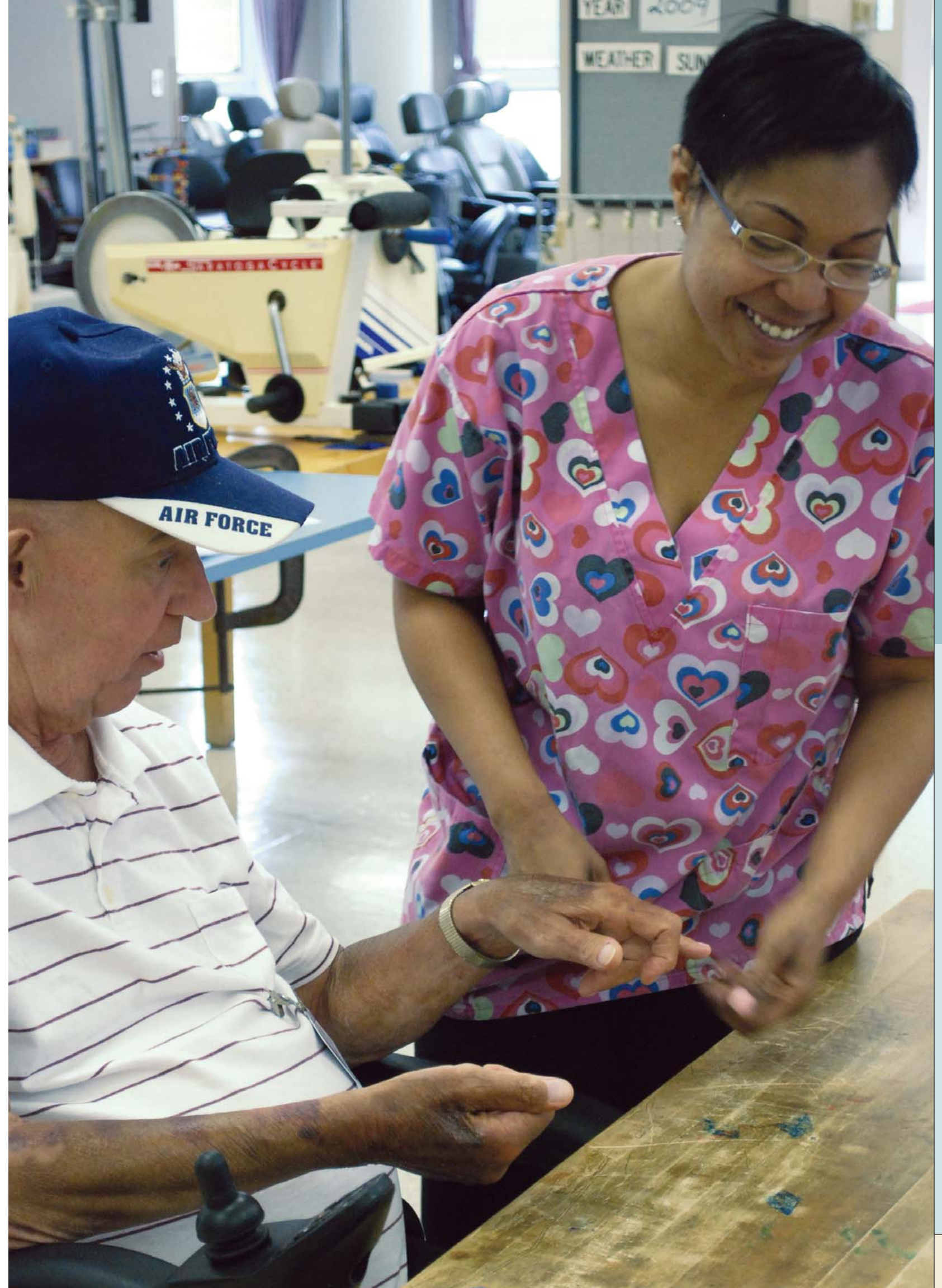
retain a capable workforce. As such, we developed a Strategic Human Capital Plan (SHCP) in FY09.

Yet, success can only be realized with sound financial performance. Along with modernizing day-to-day operations and reshaping the physical plant, AFRH must craft contracts that will allow us to thrive in more modern facilities in a cost effective manner.

To this point, AFRH published a Long Range Financial Plan (LRFP) in FY09 to inform decision makers of the choices we have made, and to outline the conceived future for AFRH. The plan outlines in detail how Corporate AFRH will maintain Trust Fund solvency – and complete the desired building transformations through 2018. AFRH is committed to updating the LRFP annually.

Thus we aim to achieve three short-term objectives:

1. Implement the SHCP
2. Maintain & update the LRFP
3. Develop highly effective contracts



HEED RISK

Washington Master Plan

The core of the Washington Master Plan is to preserve and improve the Home for residents and the surrounding community. At the same time the Master Plan aims to create an additional revenue stream for the Trust Fund. This will ensure the viability of AFRH for future generations.



The National Defense Authorization Act for FY02 allowed AFRH (via DoD) to sell, lease or otherwise dispose of underutilized buildings and property. So, AFRH launched its real estate Master Plan -- which is the basis of our risk management strategy.

After six years of planning and design to develop 77 acres, we finally

received approval from the National Capitol Planning Commission (NCPC) to proceed with development in 2008. AFRH was poised to continue with GSA as our development partner.

Yet, real estate market conditions were deteriorating amid discussions between AFRH and the preferred developer (April 2007 – September 2008). Concurrently, both organizations could not agree on fundamental issues related to the control structure of the transaction. Hence, AFRH never reached an agreement to proceed with development and negotiations ended.

As a result, management has changed its priorities. We shifted away from revenue generation to infrastructure improvement.

AFRH at a Glance

Federal Authority:	AFRH Act of 1991, Public Law 101-510 (amended 2002)	
Current Locations:	Beach Drive, Gulfport, MS (49 acres) North Capitol Street, Washington, DC (272 acres)	
Organization:	AFRH Corporate (Washington, DC) manages 2 communities:	
Resident Capacity: (as of Sept. 2009)	Gulfport, MS: 0 (now under construction; when reopened: 584) Washington, DC: 1,323	
Average Resident:	81 Years Old	
Funding:	Congressional Authorizations from a Government Held Trust Fund fed by Resident Fees, Enlisted Pay Withholdings, Fines & Forfeitures and Investment Income	
Trust Fund Balance:	\$177 Million	
Major Services:	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
Major Amenities:	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

FOCUS FORWARD

Par Introduction

Welcome back to the AFRH. Each year is a remarkable one at our Home and this year was no exception. In FY09 we crystallized our grand vision and have begun to execute our plans to build the new AFRH.

In this PAR we present our recent achievements to Congress, share the Home's rich heritage, and outline the relationship between our performance goals and the costs to achieve them. Also, this PAR meets the reporting requirements³ for US Government agencies.

Our essential mission is to provide exceptional care in a superb environment – all with great efficiency. At the same time, we are continuously implementing new advances in senior care.

AFRH is dedicated to provide the best housing for those who served. We cherish our historic Washington home, which is about to be renovated – and our modern Gulfport haven, which is under construction. With these endeavors, AFRH renews the *Promise* our 19th century leaders made to care for those who defend our freedom.

In recent years AFRH has rebounded from the impact of Hurricane Katrina and the economic instability of America. Gathering strength from adversity, AFRH envisioned an even better environment for our heroes by “forging new foundations” in 2007. Then we sought to help residents age with dignity and vigor by “building vitality” in 2008. Now, AFRH is ready to “focus forward” and fulfill these grand visions.

With our sights set on implementing Aging in Place, we have assembled the vital components: improved environments and facilities, enlightened management and staff, as well as viable programs and services.

In these pages you will witness the Home's evolution from its historic past to its vibrant future, which is brimming with opportunity. This PAR is an overview of Oct 1, 2008 – Sep 30, 2009 and demonstrates our ongoing success and ability to meet our goals. It has four parts that discuss exactly how AFRH has reached its goals and what it will take to propel forward:

Part 1. Management's Discussion and Analysis (MD&A):

This is a summary of our performance and financial status, which features accomplishments and challenges. The MD&A includes our compliance with essential legal requirements.

Part 2. Performance:

This is a detailed outline of AFRH Goals and Objectives. It shows our achievements and our shortfalls. We highlight our first set of “High-Priority Performance Goals” under President Obama's direction for high-performance government.

Part 3. Financial:

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

Part 4. Accompanying Information:

Finally, we present the IG Statement, management challenges, improper payments and Acronyms.

³ The 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



After retiring from the Army, Henry worked for his hometown of Carbon Hill, Alabama for 26 years. First with the police. Then in city hall as a Clerk, Magistrate, Council Member and ultimately Mayor. “We had the same ol’ complaints as they do in DC: transportation, police, fire departments, and ... how ya gonna control all the dang dogs!?!” Henry once appropriated \$19 million to rebuild the school, repave highways and replace sidewalks. That planning experience was an asset when it came to Gulfport’s redevelopment. So Henry was made Chair of the Gulfport Startup Committee. “In 2006, Mr. Cox and I attended five meetings with Congress to present five distinct options for Gulfport. Our

“I work with Gulfport public affairs to keep residents informed.”

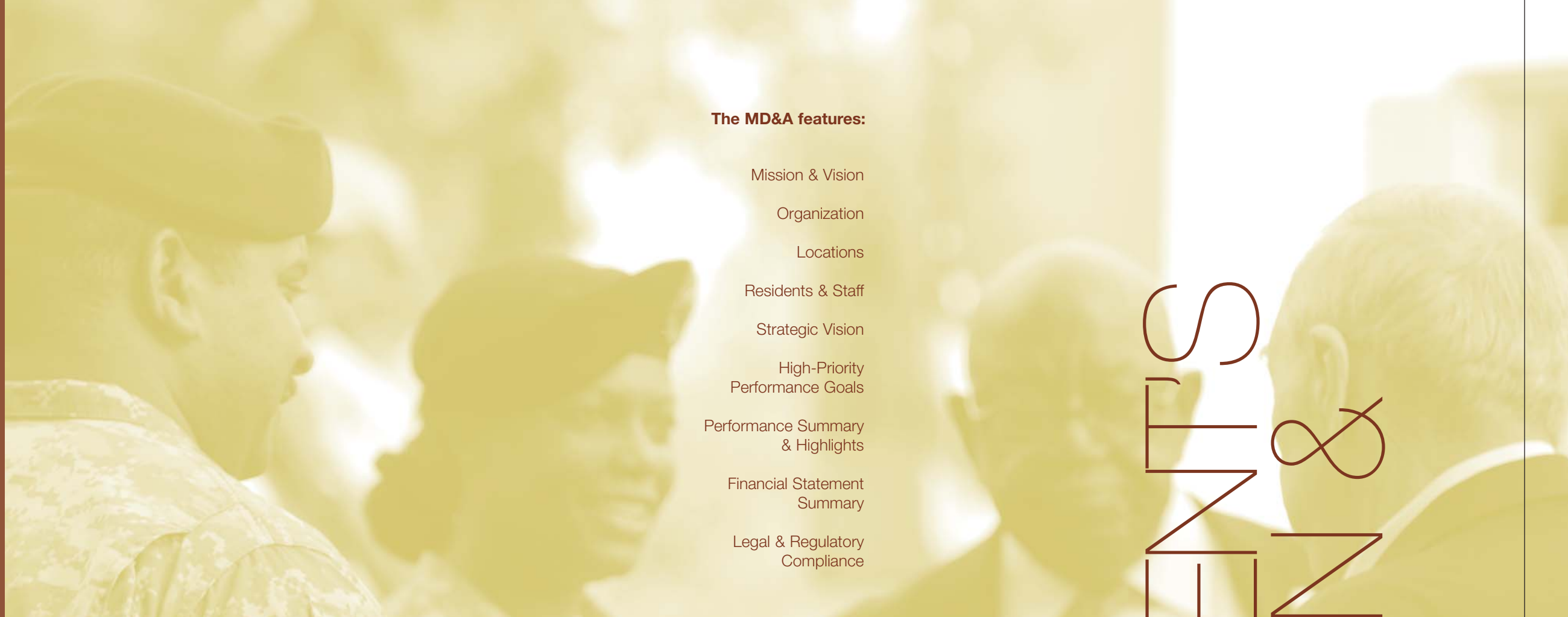
— Henry Pike
(Army)

committee had people from the VA and DoD. Plus we worked with architects and contractors to determine the best way forward.” Today Henry gives the residents routine updates. And he posts new construction photos on his door. You could say he’s ‘Mayor’ of the new Gulfport.

The MD&A features:

- Mission & Vision
- Organization
- Locations
- Residents & Staff
- Strategic Vision
- High-Priority Performance Goals
- Performance Summary & Highlights
- Financial Statement Summary
- Legal & Regulatory Compliance

MANAGEMENTS
&
DISCUSSION
ANALYSIS



REFOCUS RETIREMENT

Introduction

Over the past two centuries, the mission of the Home has not wavered. Yet, the execution of that mission has certainly evolved over time.

In 1826 the Naval Hospital was launched in Philadelphia to care for seamen and officers. By 1851 the Old Soldiers' Home was established for veterans in Washington with reparations from the Mexican War. A Trust Fund was created to make this Home self-sufficient, and each enlisted contributed small payroll deductions to grow the Fund.

Since then, the notion of retirement has dramatically evolved. In the 1800s, veterans were urged to recuperate and remain at rest. That view changed at the turn of the century when military governors ruled the Homes and demanded strict adherence to traditions of the service. In the early 20th century, a working farm sustained our Washington veterans. By the '60s, retirement progressed toward recreation and leisure, and many activities like golf and swimming took off. Indeed, many stipend workers helped support that lifestyle.

Mission:

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

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.

Guiding Principles

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

We're honing our Vision by:

Adopting Aging in Place

Modernizing all Facilities

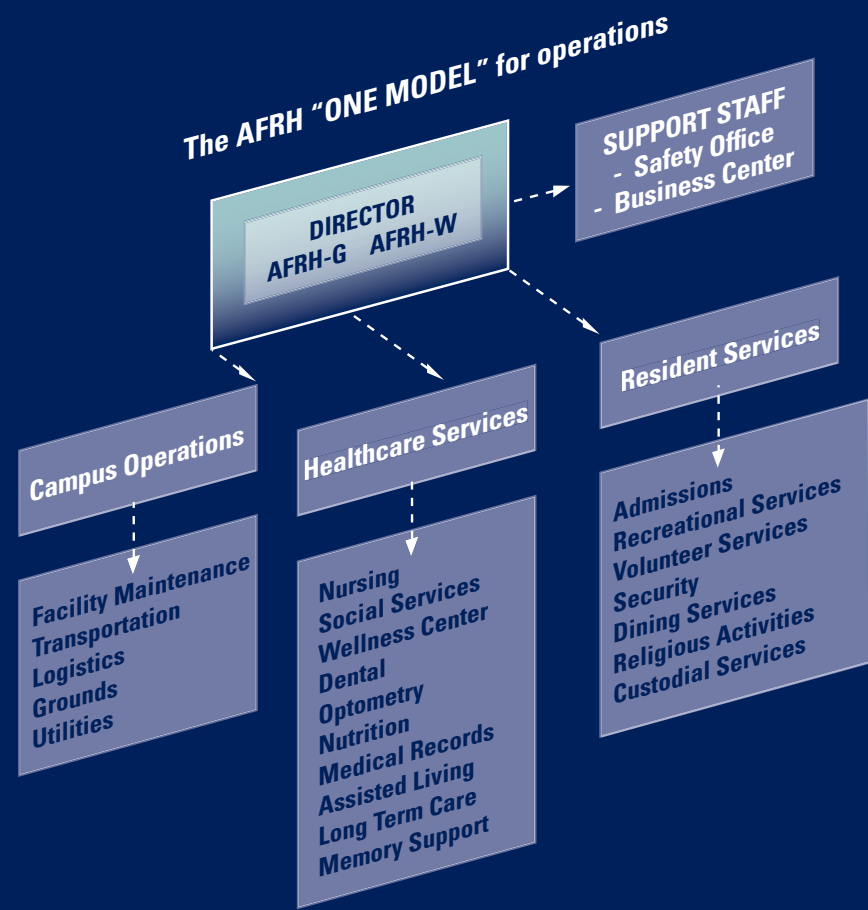
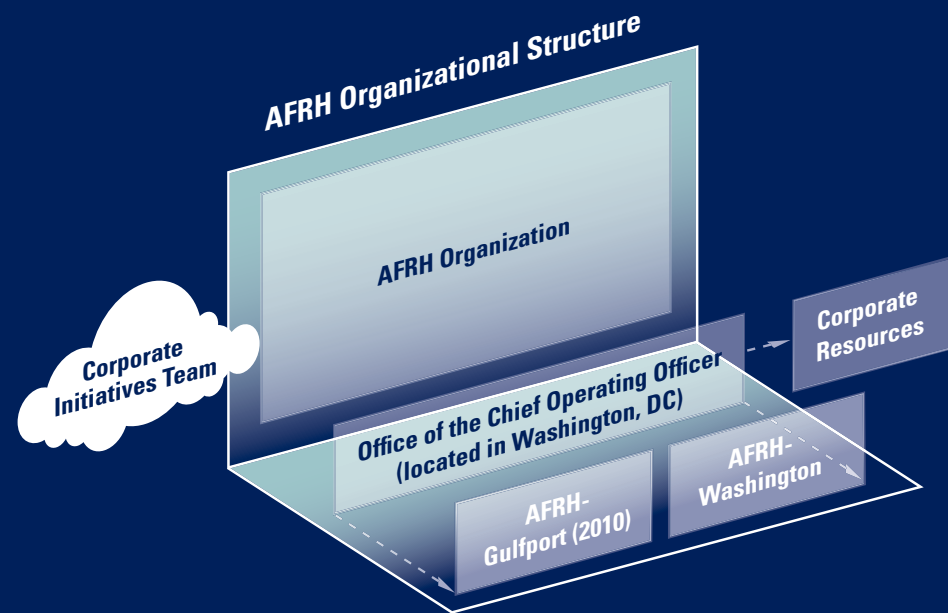
Raising Effectiveness

Of late, AFRH is posturing to move forward in a new direction – with modern facilities and operations to match the Aging in Place vision in modern retirement living. In FY09, AFRH received funding from its Trust Fund to begin “rightsizing” our infrastructure to realize efficiencies. Plus our new Gulfport facility, which reflects our vision for modern retirement, was 75% complete at the end of this fiscal year.

Our great challenge is to preserve an enjoyable retirement in a fiscally prudent manner. Today, management is pleased to report that we are truly succeeding.

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

AFRH Organization



Management

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

Facilities

Using the successful "One Model" for all community operations, each Home has a Director who reports to the COO. Plus each community can make its own tactical operational decisions, manage its facilities and respond to local resident requirements. A Local Advisory Board helps provide expert experience and knowledge of military and medical related concerns.

Our "One Model" is at work in each AFRH facility.



MG Carla Hawley-Bowland (Army), North Atlantic Regional Medical Command, Walter Reed, is Local Advisory Board Chair.



RADM Christine Hunter (Navy), Deputy Director TRICARE Management Activity, is Medical Advisor to AFRH (far right).

EXPLORE SURROUNDINGS

Locations



Gulfport, MS

AFRH-G was damaged in 2005 by Hurricane Katrina, and will reopen as a modern senior living facility in October 2010 on the same site it has occupied since 1976.

All amenities for dining, health-care and recreation are planned. The historic chapel is being successfully renovated after sustaining hurricane damage. And the century-old "Graduation Oak" tree still presides over this community.

A western view of the new Gulfport >



Washington, DC

Dating back to 1851, AFRH-W has many historic features and is adjacent to President Lincoln's Cottage and the Soldiers' Home National Cemetery. Yet, the infrastructure of AFRH-W is under-

going significant changes. The major change will begin in FY11, with the replacement of the Scott Building. The new facility will offer smaller, more accessible activity spaces for residents. Upgrades to the Home's main entrance and golf shack will begin in FY10, along with keyless entry to resident rooms.

AFRH-W is conveniently located near world-class medical centers and historic sites in Washington. It boasts a 9-hole golf course on its property along with many hobby shops, a fitness center and onsite medical services.

< Artist's rendering of the new Commons and Quadrangle



Eligibility

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

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

RESIDENTS

- > Veterans by Gender
 - Male: 875 (90%)
 - Female: 102 (10%)

- > Veterans who served in War Theaters*:
 - World War II: 413 (31%)
 - Korean War: 460 (36%)
 - Vietnam: 440 (33%)
 - Grenada: 2 (< .01 %)
 - Panama: 4 (< .01 %)
 - Gulf War: 2 (< .01 %)

* Figures exceed 100% as many have served in multiple wars

- > Current Resident Mix* (per Eligibility):
 - a) 20 year Military Retiree - 734 (76%)
 - b) Unable to earn a livelihood (service connected): 78 (8%)
 - c) Unable to earn a livelihood (war theater): 112 (11%)
 - d) Women serving before 1948: 53 (5%)

* Demographics fluctuate, yet are accurate as of Sep 30, 2009

> Veterans by Branch of Service

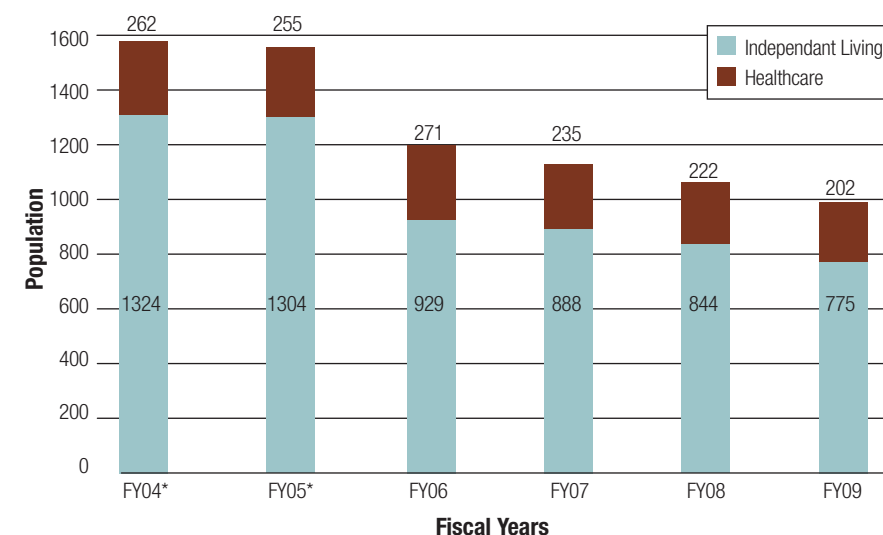
- US Army: 403 (42%)
- US Air Force: 315 (32%)
- US Navy: 224 (23%)
- US Marine Corps: 30 (3%)
- US Coast Guard: 4 (< .01 %)

Total: 977

Trends

Over the years residency has fluctuated. Per the chart below, overall residency has declined (along with capacity). Buildings no longer serviceable have been mothballed as part of the strategic planning process. All residents now live at AFRH-W till AFRH-G reopens.

AFRH Resident Trend Data



*Note: FY04 + 05 included AFRH-Gulfport operational





“We felt very lucky to come here. But we’re looking forward to going back to Gulfport.”
 – Marian Ritchie (Navy), left

Gulfport Resident Wait List

Total Former Gulfport	376
Former Gulfport at AFRH-W:	204
Former Gulfport out of AFRH:	172
<hr/>	
Total Other	585
Current residents asking transfer:	313
Eligible & approved applicants:	272

Barriers

Many eligible veterans who wish to move to AFRH cannot. Some can't move to the East Coast or separate from family in their waning years. Another hurdle is the policy regarding spouse admission. When spouses fail to meet our firm Eligibility, we lose eligible veterans as residents, along with their spouses. To lessen the impact of such losses, AFRH has developed a unique approach: make both existing facilities have similar capacity: AFRH-G 582 and AFRH-W 568. This enables cost efficiencies to be achieved. Further, the possibility of developing additional, more favorable locations can be considered.

STAFF

Synergy

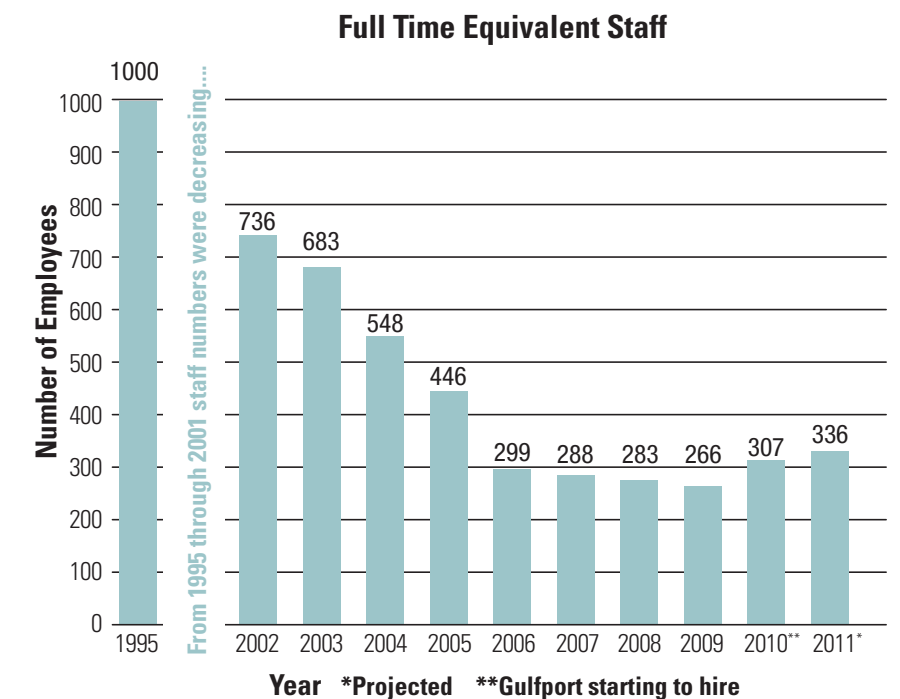
The AFRH team is comprised of Federal employees, expert consultants, and service providers. Blending expertise from various sources has proven to improve service to residents and reduce costs.

Our devoted staff serves our residents with the same honor and commitment with which they served our great nation. Members of the AFRH family are:

- > Dedicated, compassionate & energetic
- > Salaried professionals & contracted experts
- > Broad mix of service & health personnel
- > A multi-cultural blend of committed workers

Developments

As AFRH residency has decreased, so has the number of staff. The Staff Trend chart below shows the trend towards more efficient staffing. Incidentally, a large decrease occurred when Gulfport closed in 2005. However, Gulfport staffing will ramp up starting 2nd quarter FY10.



DISTINGUISH PURPOSE

Strategic Vision & High-Priority Performance Goals

AFRH conceived five Strategic Goals in 2003. They form the basis of our Strategic Plan for 2006-2010. Each Goal has specific, measurable objectives – with corresponding Key Actions to ensure steady progress. Our aim has been to make great strides – so that our veterans will be just as proud of this organization as we are of them. So, we have marched forward with unwavering resolve to meet and exceed these Strategic Goals:

Financial Growth:

Create net growth and stability for the AFRH Trust Fund.

Exceptional Service:

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

Improved Processes:

Modernize operations to leverage and maximize resources across AFRH.

Learning & Growth:

Promote personal excellence and professional growth for all personnel.

Culture of Integrity:

Inspire commitment to AFRH Guiding Principles through mutual respect.



High-Priority Performance Goals

This year, AFRH has differentiated its “significant challenges.” These key initiatives were existing objectives in the AFRH Strategic Plan – yet they have risen to the top of our Must-Do list. Now, these endeavors are the key to greatly improving resident life and ultimately realizing the AFRH Mission. Thus, we are spearheading these vital Performance Goals:

A “mock” room, with the actual furniture, was created in DC for resident focus groups.

Goal 1:
 Healthcare
 (Resident Wellbeing)
 Ensure exceptional resident care and extensive support.

Goal 2:
 Housing
 a. Gulfport:
 Add Residents to a fully functional facility in FY11.
 b. Washington:
 “Right-size” facility and give it a facelift by 2013.

Goal 3:
 Stewardship⁴
 (Corporate Effectiveness)
 Maintain overall vitality via efficient management.

⁴Resident satisfaction, superior staff, capital improvements, effective contracts, contained costs & Trust Fund solvency

SURVEY SUCCESS

Performance Summary & Highlights

AFRH has directed many resources to meet our challenges and execute our strategy. And many FY09 achievements are documented here. Results are positive.

While some staffing challenges disrupted our performance rating cycles, they never inhibited Excellent Service or impeded progress on major performance goals.

With the emergence of our three High Performance Goals in FY09, these new measures along with our former measures form a complete picture of how AFRH is doing.

Challenges

Each year the AFRH IG identifies and reports on management's challenges as well as performance challenges facing the Home. Throughout FY09, our IG tracked the collective challenges identified in FY08 for this year.



COO Timothy Cox explains the Home's benefits to visiting enlisted.

STATUS	MANAGEMENT CHALLENGE	RESULTS
Progress +++	Scott Project	- GSA initiated project - Bridging Architect & Construction Manager awarded
Progress +++	Gulfport residents' return	- Priority waiting list established - Ongoing Focus Groups study Q&As
Progress +++	Succession Planning	- Plan developed within Human Capital Strategic Plan
Progress +++	CARF/CCAC Accreditation	- CARF/CCAC inspection yielded accreditation thru 2013 - Monthly monitoring continues
Progress +++	Constituent & Congressional oversight committee education	- LRFP completed & updated - Local Advisory Board stays active - NCPC approved Scott Project

STATUS	PERFORMANCE CHALLENGES	RESULTS
Progress +++	Resident maintenance requests	- Automated system set up with great results
Progress +++	Customer service improvements	- I SERVE badge buddy issued to all staff - Survey of activities show 70+% satisfaction
Progress +++	Accountability of funds	- Unqualified audit opinion
Progress +++	Visibility of the Home's military heritage	- 1st annual Freedom Day gala held (September 22) - Halls of Honor designed into program of requirements for both Homes
Progress +++	Timelines & participation in mandatory training	- Added Performance Management as mandatory class

High-Priority Performance Goals

These Goals were established in FY09 (per OMB requirements), and closely match our four Focus Areas from last year. Those Areas were a key part of the AFRH Strategic Plan and their measures can be followed over several years. For FY09, our new High-Priority Performance Goals are prominent strategies that will help us focus our resources even better.

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

High-Priority Performance Goals Analysis

Relationship to AFRH Strategic Goals	High-Priority Performance Goal	Baseline Performance Measure FY07 Target	FY07	FY08	FY09	FY09 Actual
Goal: HEALTHCARE (Resident Wellbeing)						
ES, IP	Accreditation	In good standing	Met	Met	Met	CARF/CCAC through 2013 for AFRH-W
ES, IP	% of resident satisfaction	70%	Met	Met	Met	74%
ES, IP	% of resident assessment plans	95%	NA	NA	Met	99%
Goal: HOUSING FOR VETERANS (Gulport & Washington)						
GULFPORT						
FG, ES, IP	Construction	Within Budget and on schedule	Met	Met	Met	On Plan
FG, ES, IP	Operational Plans	Plan	N/A	Met	Met	On Plan
WASHINGTON						
	Construction	Within budget and on schedule	NA	NA	Met	On Plan
FG, ES, IP	Operational Plans	Plan	Met	Met	Met	On Plan
Goal: STEWARDSHIP (Corporate Effectiveness)						
FG	Trust Fund solvency	Even balance of resources versus obligations	Met	Met	Met	Long Range Financial Plan reported solvency through 2018
FG, IP	Accuracy of Financial reporting	Unqualified audit opinion	Met	Met	Met	Unqualified audit opinion
LG	Evidence of measurable training goals	80% participation in 4 mandatory training classes for all staff	Met	Met	Not Met	98% for Safety, EEO, and Ethics, IT Security not completed
CI	% of Employee Climate Survey responses of "Excellent" or "Very Good"	70%	N/A	Met	Not Met	63% of all responses were in the top 2 positive choices. While 77% are satisfied overall, there are some problems with pay levels.

Performance Measures Trend

All Measures stem from the AFRH Strategic Goals and Objectives – starting in FY07 as a baseline. As always, our managers review staff performance using the Business Plan and its corresponding action plans. Likewise, integrating our budget and Goals is carefully monitored. And now, so is the mapping of our Strategic Goals to our new High-Priority Performance Goals.

Our New Performance Goals support Most Strategic Goals

AFRH STRATEGIC GOALS	H-P GOAL 1 WELLBEING	H-P GOAL 2 HOUSING	H-P GOAL 3 STEWARDSHIP
Financial Growth	•	•	•
Exceptional Service	•	•	•
Improved Processes	•	•	•
Learning & Growth	•		•
Culture of Integrity	•		•

Mike Longwell and Richard Robinson (Army) salute the Tomb of the Unknown.



WITNESS PROGRESS

Financial Statements Analysis & Summary

5th Consecutive Unqualified Audit Opinion:

The independent accounting firm Brown & Company expressed an unqualified opinion on our comparative FY09 and FY08 financial statements, the Consolidated Statements of Net Cost, Balance Sheets, Statements of Changes in Net Position, and Statement of Budgetary Resources. Also, Brown & Company did not report any material weaknesses.

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

Limitations of the Principal Financial Statements

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

OVERVIEW: AFRH FINANCES

AFRH Trust Fund: our financing source since 1851.

Our Trust Fund balance was at \$156 million in 1995 and dramatically dropped to \$101 million in 2002. This serious decline led Congress to seek new leadership and direction for AFRH. Ever since, the balance has been steadily rising through better management and cost efficiencies.

*The Trust Fund rose to \$167 million at the end of FY08 and reached \$177 million in FY09. Yet, the impending Scott Project will be fully funded from the Trust Fund. As we expense the Scott Project, the balance in the Trust Fund will decline from FY10 through FY13.

Budget Authority: investing in veteran housing.

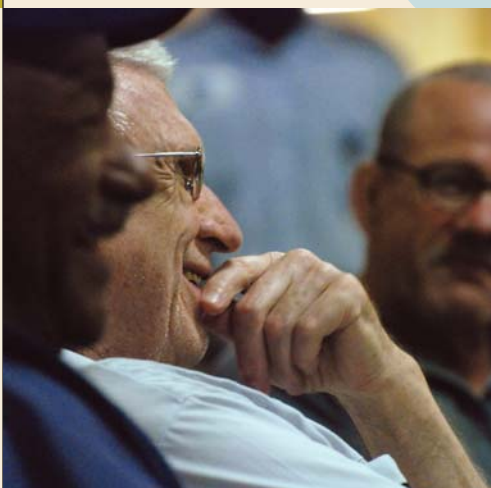
Increased spending is the result of greatly enhancing veteran housing – specifically, startup operations to rebuild Gulfport and capital funding for the Washington Scott Project. Hence, the Budget Authority for FY10 and FY11 will show increases in spending and decreases in the Trust Fund.

ENDING NET POSITION:

AFRH's Net Position at the end of FY09 (per the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position) was \$461 million: a \$6 million increase – or 1.32 percent – from the prior fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

Balance Sheet: Assets and Liabilities rose in FY09 (from FY08):

Assets:		
FY09	FY08	Net changes:
\$477,345,938	\$469,867,888	\$7,478,050
Liabilities:		
FY09	FY08	Net changes:
\$16,329,453	\$14,939,341	\$1,390,112



SEE
WHAT'S
NEW

Aging in Place
will offer new
resources for
residents.

Revenue:

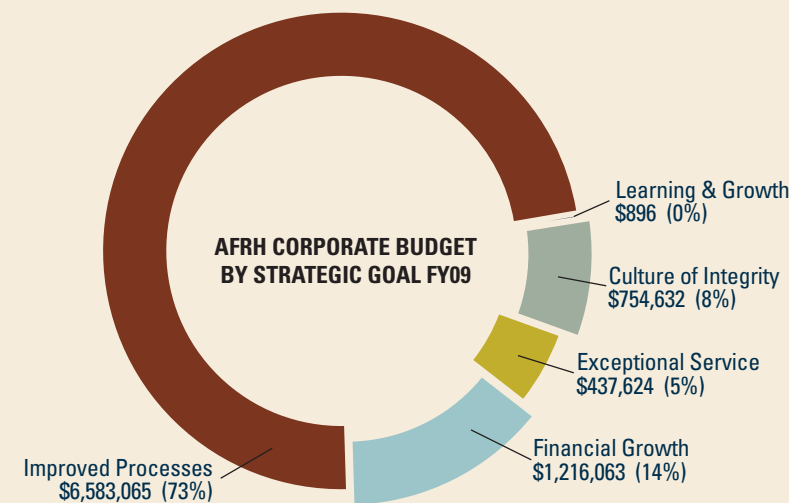
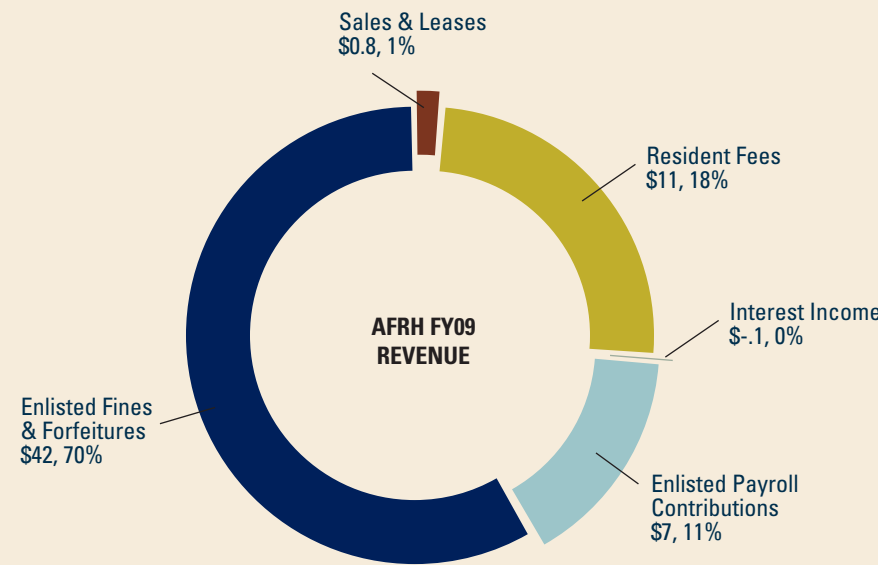
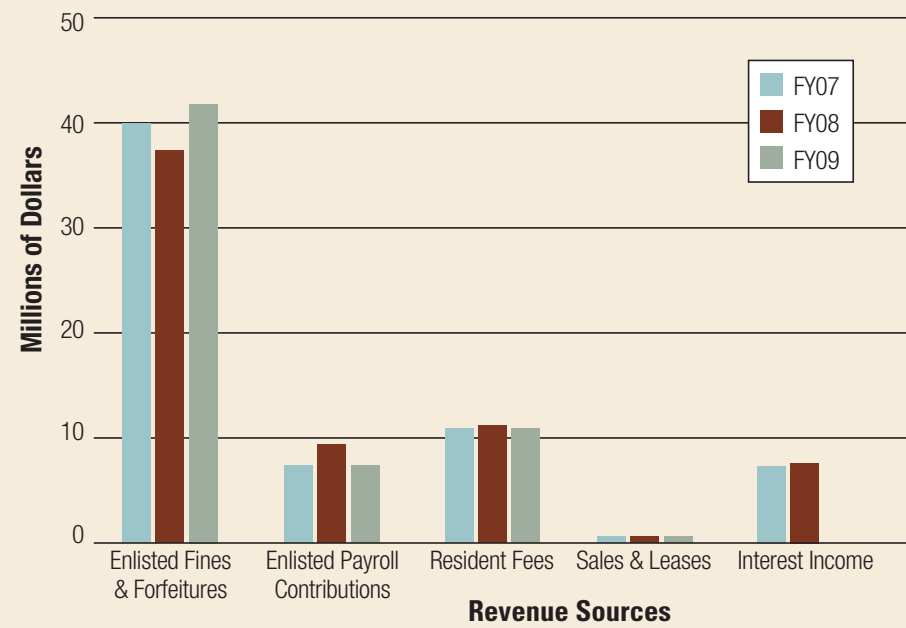
FY09 revenue was about \$61 million. Currently, the main source of revenue for our Trust Fund is Enlisted Fines & Forfeitures. Further, the Home's founders established that funding would come from automatic deductions from enlisted military. Currently it is 50 cents a month per individual, for the duration of service. These deductions have been supplemented with Interest Income (on Treasury Notes), Sales and Leases, as well as Resident Fees.

Earned Interest was lower:

In FY08 and 09 many of the Home's large Treasury Notes reached maturity and were reinvested at a premium to increase sustained revenue in the out years. As a result, this netted a decline in interest income for FY09.

Expenditures:

As we focus on residents and the future, AFRH is spending funds on two major Goals: Exceptional Service (which supports the High-Priority Goals of Healthcare and Housing) plus Improved Processes (which fulfills our stewardship in finances and modernization). To control finances more effectively we have conducted numerous studies in IT, acquisition, pharmacy, chillers, power plant, healthcare delivery, maintenance, and the LRFP.



Budgetary Concerns:

In the past decade, the needs of the AFRH-W community and the facilities to support them have shifted dramatically – requiring swift action over the coming decade to accommodate both. Plus, the new administration has charged agencies to leverage Government purchasing power to achieve savings.

Hence, we have developed, and are now executing plans to manage our financial issues.

Fiscal Concerns:

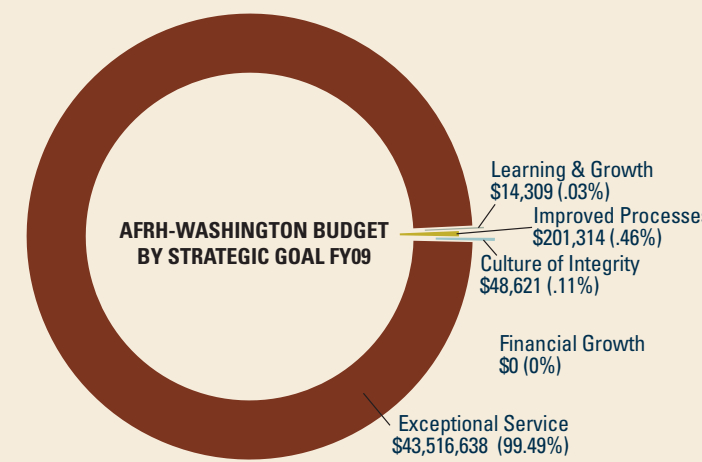
- Higher Gulfport operational sq. ft. costs (almost double in new facility)
- Ongoing Washington high infrastructure costs (managing 272 acres)
- Exploding healthcare & energy costs which have outpaced inflation
- Inefficient costly contracts that do not meet the needs of AFRH

Long Range Planning:

In FY07 and FY08 we engaged experts to develop a multi-year financial plan to ensure Trust Fund solvency while addressing our agency-wide capital needs. This led to the development of the landmark 10-year LRFP.

Concurrently, management also sought to cut operating costs and improve resident services. We considered options ranging from replacing buildings to adding programs to boost resident health. We decided to reduce the need for costly healthcare by implementing Aging in Place. This program motivates residents to stay healthy and identifies ways for them to stay in independent living – the least costly level of care.

In the LRFP, experts analyzed our new operating environment and management approach to improve resident service. Indeed, we found that it does strengthen the Trust Fund. Moving forward, the new operating environment will truly help us maintain Trust Fund solvency and keep budgets in check. All of which will help us serve our nation's veterans to the best of our ability.



Our Course of Action:

- Develop a plan to reduce energy costs by 2014
- Create an optimum population on each campus with reduced infrastructure by 2013
- Promote resident independence: implement Aging in Place strategy by 2010
- Reengineer key cost driver contracts between 2009 & 2013
- Deploy our Master Plan to develop south campus



“Working here is an adventure every day. The people are marvelous.”
 –Jackie Bell, Arts Specialist (Staff)

64 years later, veterans rally for true peace.

The Embassy of Japan extended a generous olive branch, choosing eight residents to visit the country and play its veteran softball team. For a week they toured Japan by train and ferry, tasted delectable food and sake, and explored exotic castles and temples. All expenses paid. Above all, they formed close bonds with their veteran counterparts in the East.



“When we landed, a Japanese player grabbed my suitcase by one hand – and me by the other. He never let go till we got to our hotel!” beamed Marian Ritchie. Gigi Malone added, “We rode bullet trains at 300 mph across Japan. The landscape had beautiful gardens and fields.” They also had an assigned interpreter. “The trip meant a little extra to me,” said Minoru Nagaoka smiling. “That’s where my parent’s grew up: Iwakuni, Japan. Stanley Sagara also has eight cousins in Fukushima. But they were too busy to visit family. The group toured a memorial park in Hiroshima,

where but one building was left standing. “It looked like a skeleton,” lamented Gigi. Given the history between our nations, you might think things would be awkward. “Not so,” said Hugh Wingo, who served on the USS Benham and saw 50 of his buddies die from a kamikaze hit. “We never saw anyone turn up their nose at us. One sponsor said: “You beat us ... but the next day after the war, you helped us.” This solidarity inspires us to look forward to the day when today’s adversaries become tomorrow’s allies.

Five residents share stories from the whirlwind journey to Japan (Stanley Sagara, Dorothy Malone, Marian Ritchie, Minoru Nagaoka & Hugh Wingo).

GATHER CONFIDENCE

LEGAL & REGULATORY COMPLIANCE

Management Affirmation

AFRH made great strides in strengthening its management practices and internal controls (IC) in FY09. Our FY09 audit contained no material weaknesses. In addition, the Home emphasized IC risk management for each service area through the year.

Statement of Assurance

I am pleased to report AFRH compliance with all applicable requirements, and progress in expanding action planning to previously identified risk areas.

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

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

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

> AFRH financial reporting is reliable. Transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with GAAP. Assets are safeguarded against loss from unauthorized acquisition, use or disposition.

> AFRH is in compliance with all applicable laws and regulations under FMFIA, FFMA and FISMA. Financial and business exchanges are executed in accordance with laws governing the use of budget authority, as well as laws and regulations that could have a direct

and material effect on the financial statements.

> AFRH performance reporting is reliable. Performance measures are properly recorded, processed and summarized to permit information preparation per criteria established by AFRH management.

Timothy C. Cox



Chief Operating Officer
November 16, 2009

Internal Controls

Rigorous controls are integrated into our financial reporting system, via BPD and NFC. An AFRH Senior Assessment Team, established by the CFO, has maintained oversight of our IC program since 2006. Each manager on this Team reports controls through an annual survey. AFRH can provide qualified assurance that controls over financial reporting as of September 30, 2009, were operating effectively. No IC material weaknesses were reported.

AFRH uses IC categories as required by law:

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

Risk Management

The IC Board strengthened risk management in FY09 for key actions under the goal of Financial Growth. Also, a draft Risk Management Plan was vetted throughout AFRH. Managers were asked to identify high, medium, and low risks in their service areas. After those risks were presented to the IC Board, action plans to mitigate them were created.

Ongoing progress continues with the expansion of key actions. Status reports are now standard agenda items at IC Board meetings. Plus many of the risks will become agenda items at monthly Performance Improvement meetings at the campus level.

At the corporate level, AFRH had maintained three risk management programs. Recently, the Scott Project was added as a fourth to improve infrastructure and provide better housing for veterans.

FY09 Programs:

1
Washington
Master Plan

2
Gulfport
Master Plan

3
The AFRH
LRFP

4
Scott Project

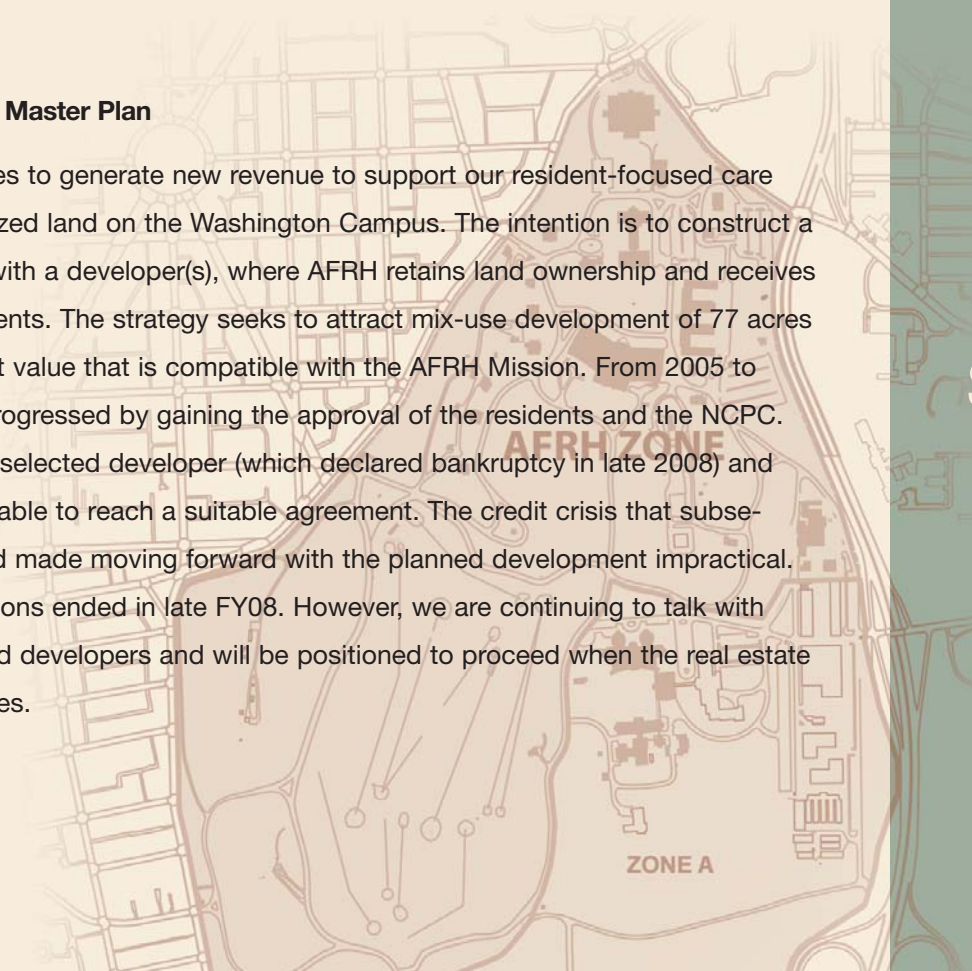
1) Washington Master Plan

This Plan strives to generate new revenue to support our resident-focused care from underutilized land on the Washington Campus. The intention is to construct a ground lease with a developer(s), where AFRH retains land ownership and receives monthly payments. The strategy seeks to attract mix-use development of 77 acres at a fair market value that is compatible with the AFRH Mission. From 2005 to 2008, AFRH progressed by gaining the approval of the residents and the NCPD.

The original selected developer (which declared bankruptcy in late 2008) and AFRH were unable to reach a suitable agreement. The credit crisis that subsequently ensued made moving forward with the planned development impractical. Thus, negotiations ended in late FY08. However, we are continuing to talk with other interested developers and will be positioned to proceed when the real estate market improves.

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

—Timothy C. Cox (COO)



2) Gulfport Master Plan

The rebuild of the Gulfport facility is within budget and on schedule. Plans are underway to reopen the facility to residents in October 2010. Its reopening will be a force multiplier in our risk management strategy.

Starting early in FY09, we ramped up planning efforts for the Gulfport standup. We began resident focus groups to answer questions and provide information on IT, living arrangements and building layout. In FY10, we'll be actively preparing the building for occupancy and solidifying plans to move former Gulfport residents back to the new facility starting October 2010 (E.g., FY11).

3) The AFRH LRF

Our long-term strategy is to maintain Trust Fund solvency. We will achieve this through our LRF. The original draft in FY08 surveyed plans to upgrade facilities, operations and budgets. Plus, it projected our financial status over a 10-year span.

To offset the decrease in revenue discussed earlier, we will follow our new operational plan – which calls for a smaller footprint and infrastructure. Also, we will continue to contain facility costs in other areas, and seek new ways to boost revenue. Fortunately, the LRF is proving to be an essential guide in these efforts.

Update: Our first LRF revision was completed in the summer of 2009. It featured new information plus more accurate cost and revenue data. Even with these new figures, we still found that the Trust Fund will remain solvent in the coming decade. All told, the LRF is our corporate key to avoiding financial risk and safeguarding the Home for future generations. And we are confident that it will help us keep the Trust Fund solvent.

4) Scott Project

Master Planning for AFRH-W was performed on many levels. We determined the Scott Residence was at risk due to its aging infrastructure and massive repair cost of \$81 million. In the LRF, the Home decided to tear down Scott and build a healthcare and multi-purpose facility in its place.

This facility will bring vital improvements to the lives of Veterans and manage the financial risks inherent with keeping the Washington facility open. Lastly, this strategy fulfills all three High-Priority Performance Goals.



Carroll Collins and Charles Felder discuss Army life with CSM Jefferson Varner.

Federal Manager's Financial Integrity Act (FMFIA)

This Act requires an agency to report the health and integrity of its financial, program and related activities. It ensures that resources are consistent with the overall mission, that programs achieve intended results, and that both are free of waste, fraud and mismanagement. Further, the agency head must see that laws and regulations are followed, and that fiscal management complies with Federal standards. FMFIA sets requirements for internal controls, and requests yearly evaluation of the control and financial systems to protect their integrity. AFRH performs these evaluations annually and is pleased to report no "material weaknesses" have been found in FY09.

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires all agencies to provide reliable, consistent disclosure of data, per GAAP. For FY09, AFRH is in substantial compliance. BPD-ARC established our accounting process and they are also in compliance. Based on agency assessment and the audit opinion, AFRH is in compliance with Federal financial management systems requirements, the Federal Accounting Standards Advisory Board, and the US Standard General Ledger (USSGL) at the transaction level.

Federal Information Security Management Act (FISMA)

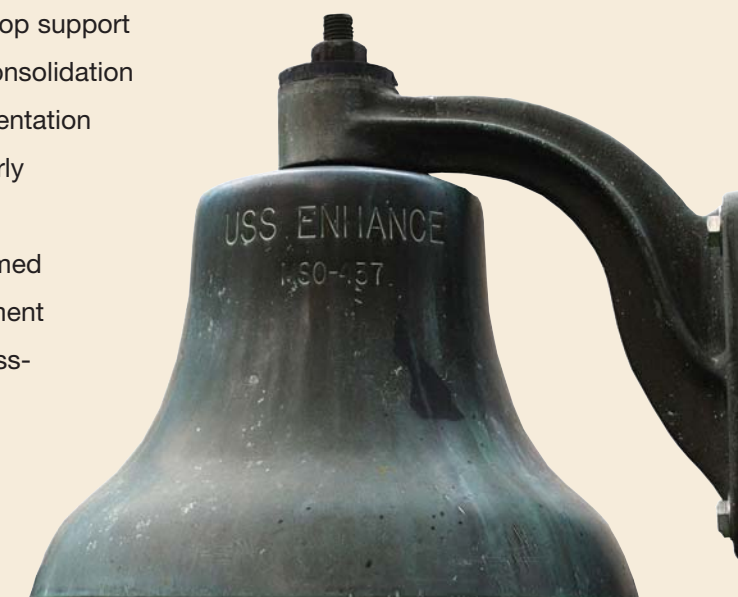
FISMA requires a competence review of information security and privacy policies, procedures and practices. One of its primary objectives is to ensure the effectiveness of information security controls. Under strong senior leadership, AFRH has enhanced overall security and has improved the safety of our IT hardware and software

HSPD-12 PIV (Homeland Security Presidential Directive 12 - Personal Identification Verification). Certification was maintained. That assessment was not scheduled for FY09, but will be completed in FY10. In FY06, AFRH earned its Certification and Accreditation (C&A). It was recertified in FY08, and is valid for three years. The next review will be in FY10.

	Agency	Auditor
Overall FFMIA Compliance	YES	YES
System Requirements	Yes	Yes
Accounting Standards	Yes	Yes
USSGL at Transaction Level	Yes	Yes

assets. OMB approved the AFRH FISMA Report for FY08 during FY09. Also, AFRH funded a new Memorandum of Agreement with Department of Interior (DOI) National Business Center (NBC) to provide FISMA compliant desktop support and hosting services consolidation for all AFRH IT. Implementation will be completed in early FY10.

In FY08, BPD performed the annual risk assessment and AFRH earned a passing grade with an addition to the network architecture for



Financial Management Systems

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

Compliance

A key mandate at AFRH is passing inspections to ensure compliance with operating procedures and best practices. Beginning with the National Defense Authorization Act of FY08, AFRH was required to secure and maintain accreditation by a nationally recognized civilian accrediting entity for every aspect of each facility of the

Home (including medical and dental care, pharmacy, independent living, assisted living and nursing care). Any year in which a facility of the Home is not inspected by that entity, the DoD IG must perform a comprehensive inspection on all aspects listed above, including but not limited to, financial and contracting records, IT, facilities maintenance, IG Hotline, safety, security, the Local Advisory Board, and the Resident Advisory Committee or Council.

CARF/CCAC Accreditation:

Valid 2008 - 2013

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

In October 2008, CARF provided us with 34 recommendations from their accreditation survey. AFRH has chosen to implement them all in its Quality

Improvement Plan (QIP) – even though none are “findings” or mandates, but merely suggestions that do not affect accreditation. At the end of FY09, only seven of the new QIP additions were yet to be completed.

Our monthly Process Improvement (PI) meetings provide oversight and management of the QIP. These meetings are helping managers review progress. Plus, the PI meetings manage risk, in tandem with the IC Board’s action plans, which are identified for CARF reporting.

DoD IG Inspection

The DoD IG Inspection Team was comprised of 22 Subject Matter Experts (SME). The team completed its first comprehensive inspection on all aspects of AFRH-W in September 2009. Recommendations will be forthcoming in early FY10.

SEE
WHAT'S
NEW

An artist's conception of the future “Quadrangle” in Washington

A

At age 65, Esker is very proactive. He's serving as Chair of the Resident Advisory Council (RAC) for a third year. “The RAC is the residents’ voice and we handle their problems. Each morning at 7:30 I meet with the Director Chuck Dickerson and Ombudsman Al Mori. We usually settle any issue by 8:00. If the mundane things are OK, 95% of the residents will be happy.” Esker’s tour in the Army may have helped his diplomacy skills. In Vietnam he worked for the Army’s Equal Opportunity Program. Altogether

he served 22 years, including three each in Frankfurt and Nuremburg, Germany. Esker stressed that change is more difficult for older people. And how we must help them understand the reasons for it. So, AFRH created the “Gulfport Startup” and “Scott Rebuild” committees to keep residents involved. “This is without a doubt the best place for retired people. I’m very contented here. I have no desire to ever leave,” he declared.

“It’s a small Heaven on Earth here. You don’t worry about a thing.”
—Esker McConnell
(Army)



Henri is passionate about cars. During our interview, he broke away to help a resident change his oil.

“When I retired from the Army, I sold Hondas for 20 years. When it was raining and few customers were around, I’d go ask the mechanics questions to keep from getting bored. I learned quick.” Today Henri shows residents where the tools are and offers guidance. Plus he tinkers with his own car. “When I arrived, I noticed a few abandoned vehicles taking up parking spots, including a handicapped space. And I’ve been pushing to get notices on those cars to be moved. I’m pretty vocal. So someone volunteered me for the RAC, and Scott Project committee,” he chuckled. Henri also likes golfing, bowling,

“I volunteer in the auto shop and help steer residents in the right direction.”
— Henri Gibson (Army)

and volunteering. Plus he goes downtown and has been to lots of museums. “I’m very happy. The only thing I’d change is adding some evening activities.” Maybe, someday, Henri will run an auto maintenance demo for residents?



PERFORMANCE

Performance features:

- Performance Management
- Human Capital Strategic Planning
- High-Priority Performance Goals
- Performance Budget Integration
- Performance Measures
- Verification & Validation

EXAMINE EXCELLENCE

Performance Management



Since 2004 AFRH has been fully engaged in a pilot Performance Management Program (PMP) – linking strategy to goals via extensive business planning and staff performance plans.

This pilot has been part of a larger strategic endeavor to align human capital management strategies with Agency Mission, Goals and Objectives. Such alignment creates a results-oriented culture – which fosters a diverse, high-performing workforce. It establishes a system that distinguishes high and low levels of performance. Plus it effectively links individual (and departmental) performance to our Goals and desired results.

Our PMP was officially launched in an agency notice in FY09. To ensure staff members truly understand their performance link to the AFRH strategy, we revamped our PM training, made it

mandatory, and administered it to most staff in FY09. Also, we rolled out an updated individual performance plan.

Two of the three “service areas” had a lack of supervisor input due to staff changes in early FY09. That resulted in the shift of 2008 performance from its usual 12-month cycle to a longer one ending March 2009. That shift means the 2009 performance cycle only spans April - December 2009.

One annual requirement is the Employee Satisfaction Survey, which was administered in August 09. The results show a majority of staff agree that working at AFRH is “very good” or “better”(actual result: 63%, which is slightly below our 70% goal). FY09 also featured an audit by OPM at the end of September. Results are forthcoming in FY10.

HUMAN CAPITAL STRATEGIC PLANNING

Our vision is to match our facilities and activities with the Aging in Place model. Achieving this depends on our ability to recruit, hire, develop and retain a highly capable workforce.

As such, we have developed our first Strategic Human Capital Plan (SHCP) for 2009 – 2014, which also responds to the President’s hiring reform agenda and Work-Life initiatives.

The SHCP links our Strategic Plan and Business Plans to our human capital priorities. It outlines our goals and planned activities for the next few years. And the Plan even outlines strategies and tactics to reach those goals.

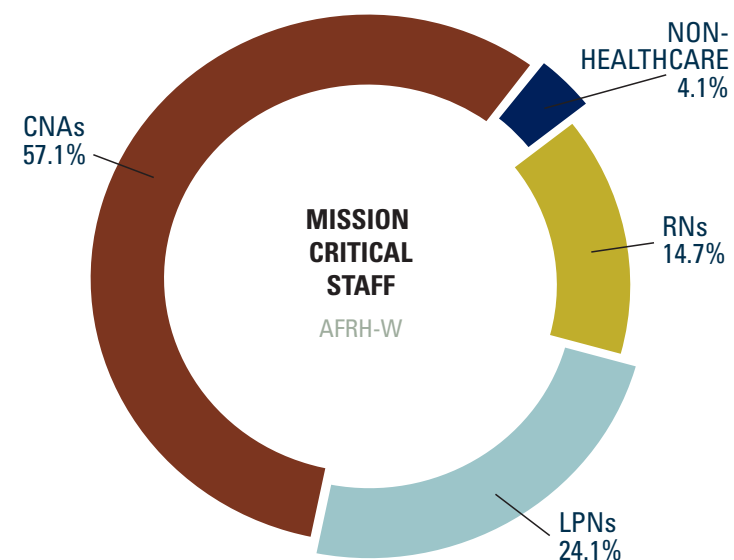
Finally, we set milestones to track, measure and assess our human capital programs. Ultimately this SHCP will help us achieve our Mission, serve our residents, and invest in our most important asset: our workforce.

The goals set forth in the SHCP were developed to directly align with the five human capital systems under the Human Capital Assessment and Accountability Framework (HCAAF) established by OPM. (See “Glance Endeavors” sidebar.)

Employees serve AFRH in the following core functions: healthcare services, campus operations, resident services, and support staff. Of these, healthcare is the largest organizational group at AFRH and it holds the majority of mission critical occupations.

58.3% of AFRH-W jobs are mission-critical.

Many are in Healthcare (see below):



Glance Endeavors:

- **Strategic Alignment:**
A system typically led by the Chief Human Capital Officer (CHCO) that promotes the alignment of human capital with Mission, Goals & Objectives
- **Leadership & Knowledge Management:**
A system that ensures leadership continuity by filling leader gaps and fostering programs that capture knowledge and promote learning
- **Results-driven Performance Culture:**
A system that promotes a diverse, high-performing workforce by cultivating effective performance management systems and awards programs
- **Talent Management:**
A system that addresses competency gaps (especially mission-critical jobs) by developing programs to attract, acquire, promote & retain top talent
- **Accountability:**
A system that boosts performance by evaluating the results of human capital programs, activities and policies – and creating measures for improvement



SEEK SUCCESS

High-Priority Performance Goals

Last year, we pioneered the concept of establishing four key “Focus Areas” that directly impact our bottom line. We directed our resources to support these Areas and presented the results in the FY08 PAR.

Our focus forward is now on “significant challenges.” OMB called upon all Agencies to support the President’s attention to high-impact goals. In response, we’ve revamped our Focus Areas – and we’re now monitoring progress according to our new “High-Priority Performance Goals.”

Reporting

These new Goals are already being measured – and our efforts are making a great impact on AFRH modernization. In fact, the new Goals have united staff and vendors to meet their end requirements.

Yet, our performance reporting is still in a state of flux. Starting in FY07, we baselined our performance measures by first isolating, then consolidating, key metrics. That process began the integration of performance with budget allocations. Moreover, we identified the costs associated with each Strategic Goal.

In FY09 our budget integration was fully automated – but reporting of the net cost by Strategic Goal will not occur until we have two full years to compare. This will occur in FY10.



LaGarde 3rd floor staff earns the “Patient Care” award in Q2.

PROGRESS:

Goal 1: Healthcare (Resident Wellbeing)

Ensure exceptional resident care and extensive support.



ACCREDITATION: IN GOOD STANDING

■ CARF Accreditation Good through 2013

- Quality Improvement Plans up-to-date via PI meetings
- PI meetings expanded to cover AFRH high risks

■ DoD IG Inspection

- September 09: awaiting report
- No indication of major findings



COMPLETED RESIDENT ASSESSMENT PLANS = 99%

■ Vitality Plans in place for Residents November 08

- All residents receive an annual assessment
- At annual physicals residents get assessments

■ Aging in Place initiatives moving forward

- Now developing program with appropriate resources

■ Aging in Place staff training in development

- (FY10 rollout)



RESIDENT SATISFACTION = 70% OVERALL

■ Annual Surveys = 74% “Excellent” or “Good”

■ “Excellent” Dining Survey taken in Healthcare only

The new administration employed “High-Priority Performance Goals” to build a transparent, high-performance government.



President Barack Obama





Major Bell (Air Force) is thanked for his service by resident George Wellman (Army).

Goal 2a: Housing (Gulfport)

Add residents to a fully functional facility in FY11.

CONSTRUCTION WITHIN BUDGET & ON SCHEDULE

- **Beach Access:**
 - Estimated Completion: March/April 2010
- **Chapel:**
 - Notice to Proceed June 8, 2009
 - Total Completed & Stored 18.77%
 - Estimated Finish: March/April 2010
- **Gulfport Main Facility**
 - Estimated Finish - July 2010
 - Design:
 - o 100% complete; drawings issued to builders
 - o Finishes and color selections final
 - o FF&E* procurement packages final
 - o Swimming pool 85% done (base contract mod.)
 - *Furniture, Fixtures & Equipment
 - Design-Build:
 - o Main facility notice to proceed Jan 3, 2008
 - >Total completed & stored 68.52%

OPERATIONAL PLANS DEVELOPED

Goal 2b: Housing (Washington)

Right-size" facility and give it a facelift by 2013.

SCOTT PROJECT WITHIN BUDGET & ON SCHEDULE

- **Scheduled Completion:**
 - Commons/Healthcare: late Dec 2012
 - o Bridging Design Architect-Engineer: Dimella Shaffer
 - o Construction Manager: Jacobs Engineering
 - o Progress: POR* review underway with Project Team, management & staff
 - o Design: 10% complete; 100% target: July 30, 2010
 - * Program of Requirements
- **Transition:**
 - Chiller & Cooling Tower:
 - o Relocate chiller & cooling tower to Sheridan before Scott demolition
 - Design: Chiller & Cooling Tower
 - o 20% complete; 100% target: May 31, 2010
 - IT:
 - o Move IT environment from Scott to Sherman
 - o Conducting IT Relocation Study

OPERATIONAL PLANS DEVELOPED

King and Queen of Mardi Gras: Robert Stevenson and Anna Kubish (Army).





Enlisted LPN students come work here for two weeks, full-time.

Goal 3: Stewardship (Corporate Effectiveness)

Maintain overall vitality via more efficient management.

✓ Trust Fund solvency

■ AFRH LRFP:

- Completed and then updated in FY09
- Analysis & forecasting assured solvency
- Forward-thinking AFRH plans were key

■ IC Risk Management Plan:

- Program Developed
- High risks at AFRH identified
- Action Plans written
- Quality reviews scheduled

✓ Accuracy of financial reporting

- Unqualified Audit Opinion: (earned FY09)
- Fifth straight year
- Financial Management Notice: published

ANALYZE ADVANCES

Performance Budget Integration

Financial Growth

FY09 updates to the LRFP have affirmed Trust Fund solvency. Management's emphasis on Aging in Place will promote longer resident independence, healthier lifestyle alternatives and greater support services. By wisely managing our high cost centers and lowering service expenses, we will modernize the quality of life for residents and preserve the AFRH Trust Fund.

As we prepare for the reopening of Gulfport in FY11, we recognize the need to create cost-effective financial models for both the resized Washington campus and the new Gulfport one. So, we created several strategies to achieve this.

Savings measures for financial growth:

- Staffing wisely to support Aging in Place
- Hiring aptly (per expected resident mix)
- Creating efficient, performance-based contracts
- Ensuring economic & environmental responsibility

FY09: 1st year we automated the measurement of spending, per strategic goal.



Resident Roger Davison (Air Force) earns a jacket for walking 24,000 miles.



Exceptional Service

AFRH Service standards continue to be upgraded. With added attention to resident-focused service, our Business Plans in FY09 were augmented with specific targets. For instance, to "personalize" our customer service and better meet the residents' needs, we added several key actions:

Define, develop and implement Aging in Place	ONGOING
Develop and implement targeted vitality services	ONGOING
Create a premier living residence – economically	ONGOING
Enhance communications (via resident & staff input)	ONGOING
Expand website and communication plans	ONGOING

services. This all-inclusive support includes network services to all Federal requirements, desktop support, email, calendaring, hosting of UltraCare (medical records), web services, IT security compliance, computation hosting (nutrition service), and records management.

Regarding CARF accreditation, monthly PI meetings are being

bring AFRH into compliance with "green" solutions to rising energy costs.

Lastly, the installation of keyless entry systems for both Sheridan in Washington and the new facility in Gulfport are well under way.

Learning & Growth

PM training was added to mandatory training courses.

This ongoing staff training is vital to transforming our entire culture to Aging in Place. In fact, we have a renewed emphasis on all our human capital programs.

Also, Aging in Place orientation – and Independent Living Plus (ILP) program and training – is under development for FY10 rollout. AFRH even published a comprehensive staff directive on Training and Development.

Culture of Integrity

Drafted goals and measures for Human Capital Program.

This major corporate initiative is now being successfully deployed throughout the entire organization.

AFRH also participated in a summer food drive in DC called "Warm Up to Giving." This was an ideal way for all staff to engage in a charitable event. Further, several offsite and service area get-togethers brought our staff and contractors together socially.



Improved Processes

With the Scott Project well underway, the planned demolition of the current Scott Residence poses a problem – given the location of our IT hub inside. So plans were finished in FY09 to move it. Plus, a Memorandum of Agreement (MOA) has been signed for the upgrade of desktop support and hosting consolidation.

The approved recommendation (for FY10 implementation) comes via NBC and will provide fully compliant data migration, consolidation and hosting

expanded. Given that we have identified high-risk areas, a new agenda item to address progress in these areas was added.

A thorough look at policies, directives and Standard Operating Procedures (SOP) in healthcare service was completed. Most Healthcare SOPs (470) were updated and redistributed. And a total of 27 directives, notices and policies were published.

Further, Procurement processes were revamped and yielded improved contracts for the coming year – especially in Campus Operations. Also, the Home is reaching for LEED Silver compliance in all new construction to



Residents transplant an historic tree from one of Abe Lincoln's landmark properties to AFRH grounds.



SEE
WHAT'S
NEW

> Big progress on capital improvements (AFRH-G & -W)

> Overall success on financial goals (despite recession)

> 1st automated year to track spending by strategic goal

INSPECT PROGRESS

Performance Measures

FY09: Our 1st year measuring High-Priority Performance Goals. We compared the results of our High-Priority Performance Goals to measurements of our Strategic Goals of years past. And we detected a consistent trend of meeting our measures. In FY10 we will refine our High-Priority measures for even greater performance.



SEE
WHAT'S
NEW

- > Aging in Place programs, training & staff underway
- > Advances in procurement, staffing & human capital
- > Surveys to residents & staff yield positive feedback

High-Priority Performance Goals Analysis

High-Priority Performance Goal	Baseline Performance Measure FY07 Target	FY07	FY08	FY09
Goal: HEALTHCARE (Resident Wellbeing)				
Accreditation	In good standing	Met	Met	Met
% of resident satisfaction	70%	Met	Met	Met
% of resident assessment plans	95%	NA	NA	Met
Goal: HOUSING FOR VETERANS (Gulfport & Washington)				
GULFPORT				
Construction	Within budget and on schedule	Met	Met	Met
Operational Plans	Plan	N/A	Met	Met
WASHINGTON				
Construction	Within budget and on schedule	NA	NA	Met
Operational Plans	Plan	Met	Met	Met
Goal: STEWARDSHIP (Corporate Effectiveness)				
Trust Fund solvency	Even balance of resources vs. obligations	Met	Met	Met
Accuracy of Financial reporting	Unqualified audit opinion	Met	Met	Met
Evidence of measurable training goals	80% participation in 4 mandatory training classes for all staff	Met	Met	Not Met
% of Employee Climate Survey responses of "Excellent" or "Very Good"	70%	N/A	Met	Not Met

IDENTIFY INTERESTS

Resident Surveys

To assess resident satisfaction, AFRH has several measures – both in Strategic Goals – and now in High-Priority Performance Goals.

In FY09, we conducted a survey of prospective Gulfport residents to gauge preferences in bed size (double or single). With 126 votes for single, AFRH chose to buy 150 single mattresses – and acquire adjustable bed-frames that can accommodate a single or full. This way, we can satisfy everyone.

Further, Resident Services took a thorough annual survey on activities. The comparative results are shown along with the highlights.

What's more, a meal satisfaction survey was taken in LaGarde (for LTC and AL residents) and it was compared to last year's survey. (A dining survey in Scott only occurs every other year, and we performed one in 2008.)

“We try to stay very active,” she said.

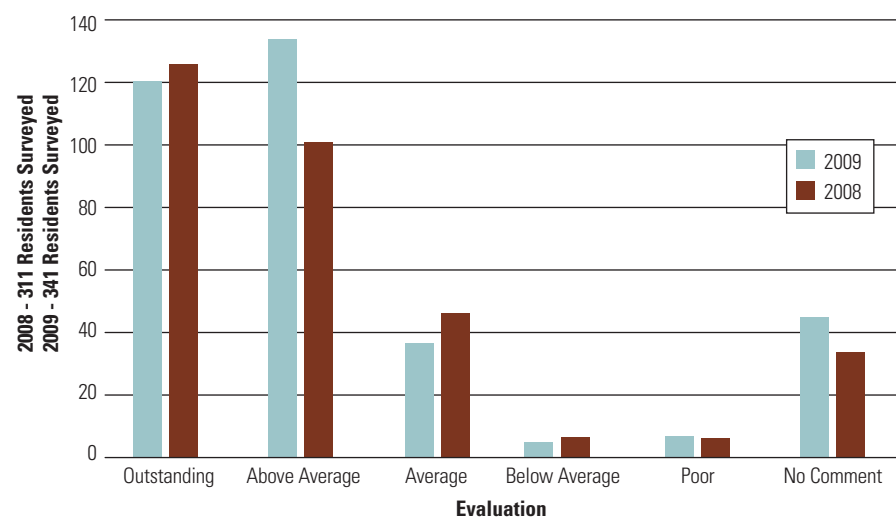
“Exercise class – twice a week!” he said.

– Buron & Helen Noel (Air Force & Navy Wave)

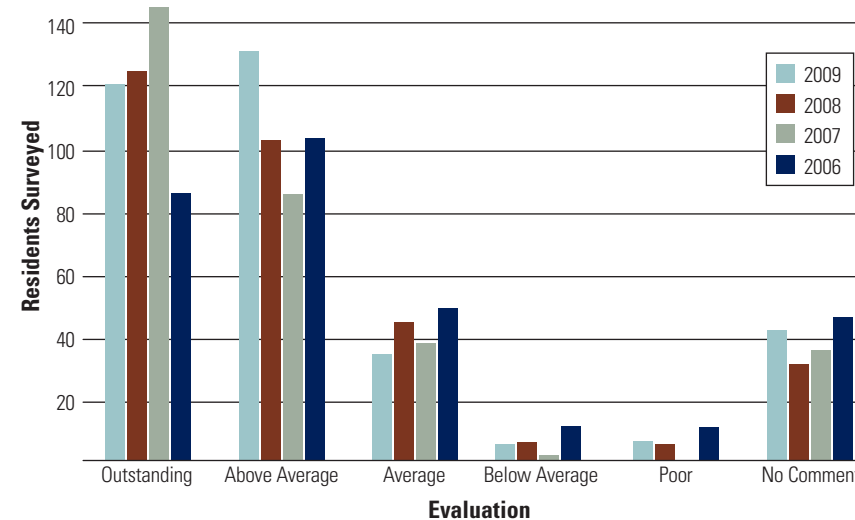
SURVEY RESULTS

Customer Service:	Result	Target
(“Outstanding” or “Above Average”)	74%	70%.

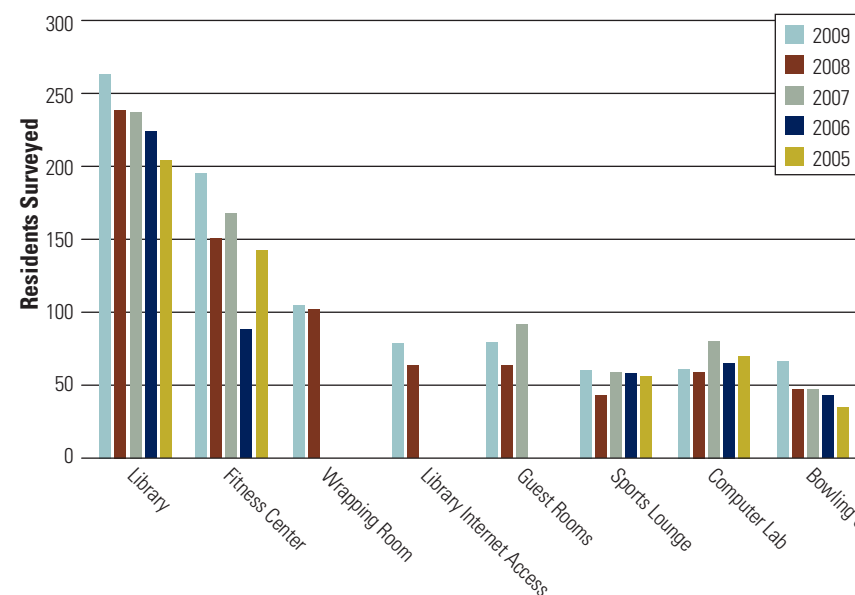
Comparative Customer Service Evaluation July 2008 and July 2009



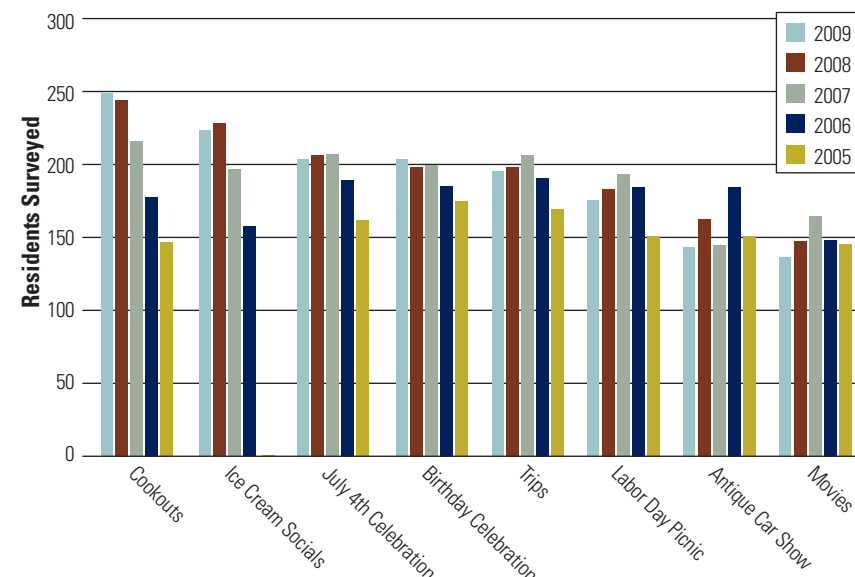
Comparative Customer Service Evaluation 2006-2009



Most Used Facilities (Top 8) Comparative Trends



Most Popular Activities/Programs (Top 8) Comparative Trends



Resident Services has been tracking “customer service” responses since 2006. The chart to the left shows the trend varying somewhat but remaining well above our target of 70% at the Outstanding or Above Average mark.

With the imminent resizing of the Washington facility, it is vital for us to know which amenities are preferred, so we can plan accordingly. The chart to the left reveals the library and the fitness center are now the most used resident services. This trend has remained constant over the years we’ve conducted surveys (FY05-09).

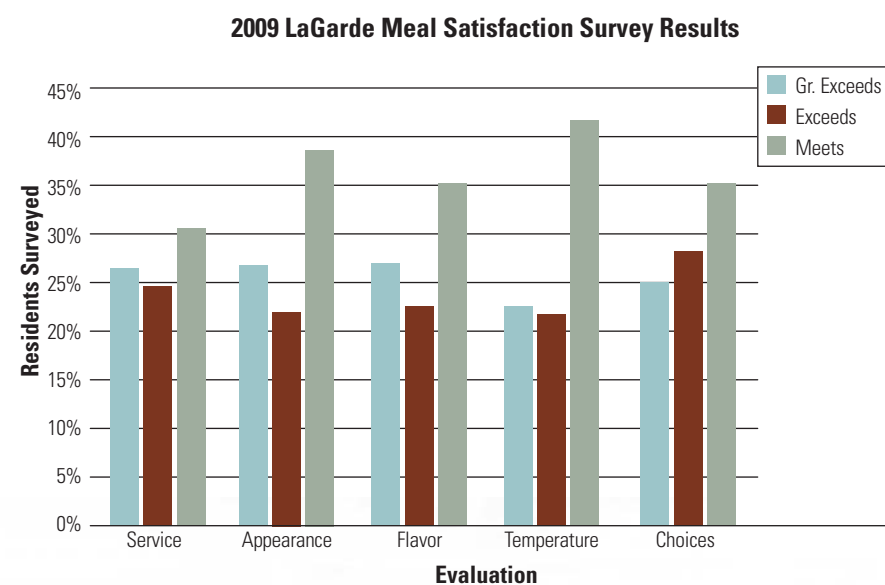
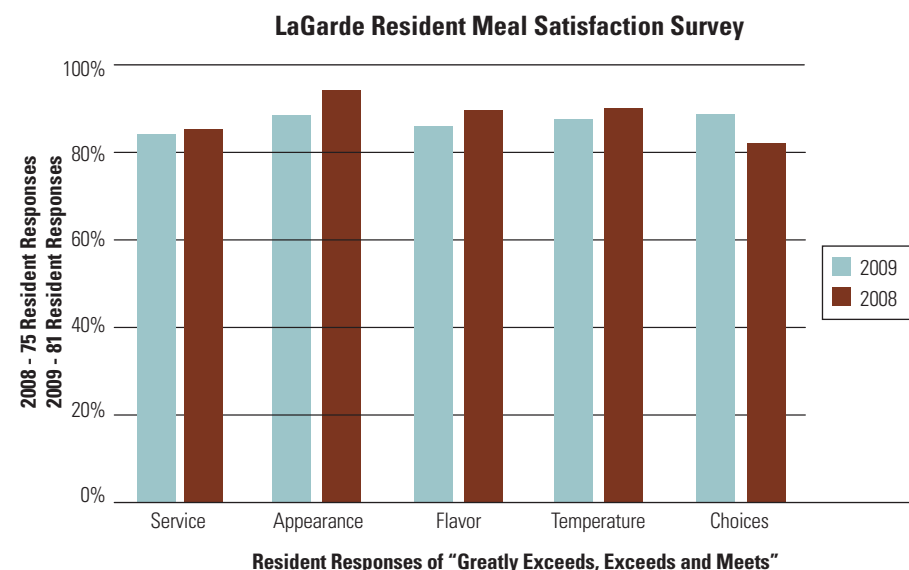
Naturally, AFRH wants to please residents with a full range of activities. Our annual survey showed ice cream socials, July 4 celebration, and day trips are still at the top of residents’ favorites, according to recent trends.



Capt. Timothy Fox navigates the first cut at the Navy Birthday gala.



LaGarde Dining: **Results**
(Service quality Meets or Exceeds): 82%



New benches are built with personalized plaques for a \$500 donation.



GAUGE ACHIEVEMENT

Verification & Validation

Federal agencies are required to certify completeness and reliability of performance data.⁵ That data must be verified and validated – so AFRH has several means of external, independent reviews (E.g., OPM, BPD, CARF/CCAC, DoD IG).

SUCCESS MEASURES:

Business Measures:

- Solvency of the Trust Fund
- Stability in Resident Occupancy
- Cost Savings via Initiatives
- Reductions in land & space ("right-sizing")
- Donations & Volunteering

Customer Satisfaction:

- Improved Survey Results
- Advances in Health & Wellness
- Enhancements to Facilities
- Supplemental Services

Employee Satisfaction:

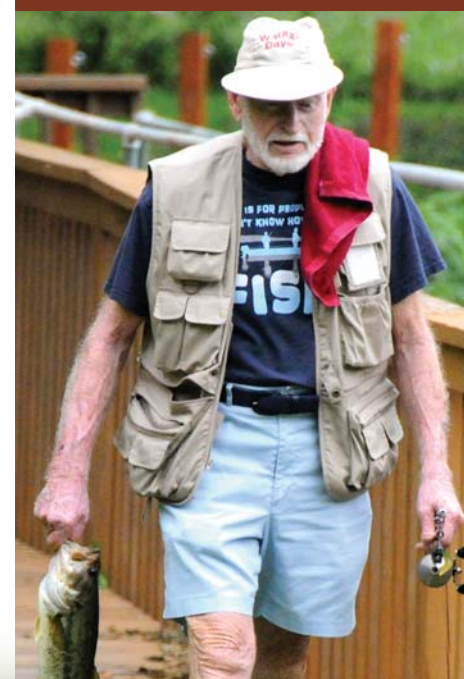
- Boost in Performance Evaluations
- Positive Staff Climate Surveys
- Updated Policies & Directives
 - Policy statements = 5
 - Notices = 11
 - Directives = 11

External Benchmarks:

- Maintenance of CARF/CCAC accreditation
- 1st inspection by DoD IG (no major findings)
- Evaluation of major operations by DoD IG
- 1st annual review by Local Board of Advisors & creation of meeting survey tool (No major issues & full accord)

Financial Data:

- Annual reviews of fiscal status & reporting devices (BPD & external auditor)
- Published a Financial Management Directive



David Anderson (Air Force) bags "catch of the day" at the Fish Rodeo.

⁵ Per the Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000

Financial features:

- Message form DCOO/CFO
- Financial Overview
- Independent Auditors Report
- Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information



The Coopers are a lovely couple. They're considerate of each other and possess great enthusiasm for the Home's future. "We're so happy the way things are going here," said Willa. Don agreed: "We're very happy. We wanted a room, food and medical – but we get so much more." Both were asked to join the Scott Project Committee. "We meet with management to get the facts straight and stop rumors – then spread the news in town halls, the cafeteria and newspaper," said Don. The Coopers are also spearheading efforts to build additional AFRH locations in warm locales like Nevada and California. They lived in Vegas for 45 years and loved it. "We talked to our Congressman, Senator Reid and management ... so we're hopeful," said Willa. Don interjected a caveat: "We like the way Mr. Cox is running the place. We couldn't find anything better! But if we became a nonprofit, we could get donations and do more for the Home."

"Their plans are great. Management has good foresight."

– Willa & Don Cooper
(Navy & Air Force)

Message from the DCOO/CFO

I am proud to report AFRH finances are healthy, despite the economic downturn. Indeed, FY09 was a good year. We received our fifth consecutive "unqualified audit opinion" from external auditors, thanks to our five-year partnership with BPD. Plus the AFRH Trust Fund balance has reached an all-time high of \$177 million.

In light of our success, we're pushing to complete the Gulfport facility – which opens in one year. Plus, design funding for the Scott Project was available in FY09, allowing us to make great progress. Altogether, both major capital projects are on time and on budget.

Regard Prudence

Our greatest challenge is to effectively protect and wisely invest our assets. Hence, our number one Strategic Goal is Financial Growth. And our top High-Priority Performance Goal is Stewardship. As always, Trust Fund solvency is the litmus test for all actions.

I can state unequivocally: the Trust Fund is solvent. Yet, its greatest risk will occur in the next four transition years (2010 - 2013) as we standup operations in Gulfport, and transition to a reduced footprint in Washington.

Negative growth will occur as we expend \$76 million for Scott and \$20 million on Gulfport. Long-term, these developments will positively impact solvency – and we expect positive growth to resume after 2013.

In light of these expenditures, we are reviewing our fee structures, working hard to decrease infrastructure costs, and spearheading a TRICARE insurance initiative.

Seek Efficiencies

AFRH is requesting a decrease in overall FY11 funding. Although, the Home needs \$7.4 million in extra operating costs related to our new 660 thousand square foot Gulfport facility, which opens October 2010.

Specifically, Gulfport workforce and base year contracts alone will cost \$9 million. While we're reducing Full-time Equivalents (FTEs) in Washington by 52, Gulfport will grow by 81 – producing a net growth of 29 FTEs in FY11. Other key cost-drivers range from facility maintenance, dining services and utilities ... to healthcare, nursing and transportation.

We expect our Budget Authority to stabilize in 2011 as funding and FTE continue to shift from Washington to Gulfport. Although we are standing up Gulfport in 2011, the Assisted Living, Memory Support, and Long-term Care population will grow as resident's Age in Place. In Gulfport, we're initially planning for few beds in these care levels.

Further, we're working on new initiatives to lower costs in the out-years. This includes TRICARE coverage for all residents, and an "Independent Living Plus" program to help them Age in Place. We believe both will reduce costs up to \$4 million a year – while enhancing resident wellbeing.

Scrutinize Controls

During FY09, management enhanced the Home's Internal Controls, especially Risk Management. In this area, we continue to identify high risks, craft mitigation plans, and monitor developments via PI reviews.

Our corporate high risks include adverse weather conditions and campus streetlight outages. Resident high risks involve potential suicides, property theft, and loss of independence. And healthcare high risks entail medication errors and festering wounds in bed-bound residents.

Incidentally, our IT environment did not meet Federal standards for FY09 compliance in several areas. So to ensure compliance we worked diligently to move to a Federally managed FISMA data center, which commences in early FY10.

Recognize Setbacks

Despite our achievements, AFRH had a few setbacks in FY09. The economic downturn yielded lower interest income on government securities, and no revenue from development in Washington.

Specifically, Treasury Notes matured in 2008 and 2009. As we renewed larger investments, premiums were high for investments with better interest rates. This impacted interest revenue mainly in FY09. Still, those higher premiums

will ensure us higher returns in the out-years (when we expense funds for the Scott and Gulfport Projects).

Unfortunately, we were unable to commence re-development on the Washington campus. AFRH and the initial developer (which declared bankruptcy) were unable to reach a suitable agreement. Plus the credit crisis that ensued made proceeding with development impractical.

Focus Forward

I can offer, without reservation, that AFRH has complete financial integrity. As we advance our vision for a vibrant and efficient agency, we will continue to manage resources wisely and act in the best interest of stakeholders. Most of all, we will passionately safeguard our residents ... the brave men and women who devoted their lives to defending freedom.

Sincerely,



Steven G. McManus
Deputy Chief Operating Officer/
Chief Financial Officer

November 16, 2009



ATTEND STEWARDSHIP

Financial Overview

Financial strategies dominate AFRH High-Priority Performance Goals and key actions. After all, operation funds do not come from taxpayers. They come from our service members, as it has ever since the Home was founded.

So, effective stewardship of our finances is the key to our survival. Plus it helps us uphold the ongoing *Promise* we make to all enlisted: that we'll provide a safe haven in retirement, in return for their years of service.

In the past 20 years we have witnessed many ups-and-downs in the Trust Fund balance. Since 2002 management has focused on financial survival – and most recently on Trust Fund solvency. In fact, several years have been devoted to improving investments, finding revenue resources, and creating cost efficiencies. Certainly, great progress has been made.

The FY09 financial highlights include the successful LRFP completion and update, new efficiencies in acquisition agreements, the creation of a Financial

Management Notice, and added financial accountability at all staff levels. Also, much work has also centered on the identification of risks – and the refinement of our Risk Management Plan.

Further, we updated data and projections in the LRFP with improved population targets and the latest economic conditions.

FINANCIAL STATEMENTS

We are pleased to present our Financial Statements for FY09. Independent auditors have conducted in-depth reviews of our statements, in

accordance with government auditing standards. We are proud to report that, for the fifth year in a row, AFRH has received an unqualified opinion. Also, no material weaknesses were found.

The financial statements in the ensuing pages should be read with the understanding they are for a component of the US Government, a sovereign entity. In a public-to-public partnership, BPD ARC has administered all of our FY09 financial management activities including:

- Purchasing
- Payments
- Accounting
- Budget
- Travel

The NFC, in conjunction with BPD's Oracle platform, processed our payroll and time/attendance data entry transactions. These operations were managed under mutual agreements with the Department of Treasury and Agriculture. AFRH relies on information received from BPD and NFC (plus audits and reviews) to execute its management controls.



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Armed Forces Retirement Home
Washington, D.C.

We have audited the accompanying balance sheet of the Armed Forces Retirement Home (AFRH) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of AFRH's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 in Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements 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 audit provides 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, 2009 and 2008 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 12, 2009 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 AFRH's Management's Discussion & Analysis contains a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with AFRH officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

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 specific parties.

Largo, Maryland
November 12, 2009

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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2009 and have issued our report thereon dated November 12, 2009. 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 in 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. 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 significant deficiencies. 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 results 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 significant deficiencies or material weaknesses as defined above.

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

Largo, Maryland
November 12, 2009

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

Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2009, and have issued our report thereon dated November 12, 2009. 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 other 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 12, 2009

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ARMED FORCES RETIREMENT HOME
BALANCE SHEET AS OF SEPTEMBER 30, 2009 AND 2008
(In Dollars)

	2009	2008
Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$76,282,883	\$175,561,312
Investments (Note 3)	176,358,831	167,333,620
Accounts Receivable (Note 4)	2,941,339	3,923,114
Total Intragovernmental	255,583,053	346,818,046
Accounts Receivable (Note 4)	658,004	456,806
General Property, Plant and Equipment, Net (Note 5)	221,104,881	122,593,036
Total Assets	\$477,345,938	\$469,867,888
Liabilities:		
Intragovernmental		
Accounts Payable	\$33,044	\$43,049
Other (Note 7)	2,133,577	2,028,374
Total Intragovernmental	2,166,621	2,071,423
Accounts Payable	3,397,200	2,557,604
Federal Employee and Veterans' Benefits (Note 8)	8,886,860	8,460,824
Other (Note 7)	1,878,772	1,849,490
Total Liabilities	\$16,329,453	\$14,939,341
Net Position:		
Cumulative Results of Operations - Earmarked Funds (Note 9)	461,016,485	454,928,547
Total Net Position	\$461,016,485	\$454,928,547
Total Liabilities and Net Position	\$477,345,938	\$469,867,888

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

ARMED FORCES RETIREMENT HOME
STATEMENT OF NET COST FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Dollars)

	2009	2008
Program Costs: (Note 10)		
Program Chief Operations Office:		
Gross Costs	\$2,133,343	\$1,969,840
Less: Earned Revenue	580,027	522,282
Net Program Cost	\$1,553,316	\$1,447,558
Other Programs:		
Program Chief Resource Office:		
Gross Costs	\$6,418,315	\$8,589,086
Less: Earned Revenue	1,745,054	2,227,303
Net Program Costs	\$4,673,261	\$6,311,783
Program Gulfport, MS:		
Gross Costs	\$889,909	\$999,405
Less: Earned Revenue	241,954	264,981
Net Program Costs	\$647,955	\$734,424
Program Washington DC:		
Gross Costs	\$51,511,093	\$60,862,292
Less: Earned Revenue	14,005,175	16,136,979
Net Program Costs	\$37,505,918	\$44,725,313
Net Cost of Operations	\$44,380,450	\$53,219,078

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

ARMED FORCES RETIREMENT HOME
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Dollars)

	2009	2008
Cumulative Results of Operations:		
Beginning Balances	\$454,928,54	\$458,566,210
Budgetary Financing Sources:		
Appropriations Used		800,000
Nonexchange Revenue	48,017,967	46,123,348
Donations and Forfeitures of Cash and Cash Equivalents	937,347	1,256,854
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	1,513,074	1,401,213
Total Financing Sources	50,468,388	49,581,415
Net Cost of Operations	44,380,450	53,219,078
Net Change	6,087,938	(3,637,663)
Cumulative Results of Operations	\$461,016,485	\$454,928,547
Budgetary Financing Sources:		
Appropriations Received	\$ -	\$800,000
Appropriations Used	-	(800,000)
Total Budgetary Financing Sources		
Net Position	\$461,016,485	\$454,928,547

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

Residents enjoy a visit from their British counterparts.



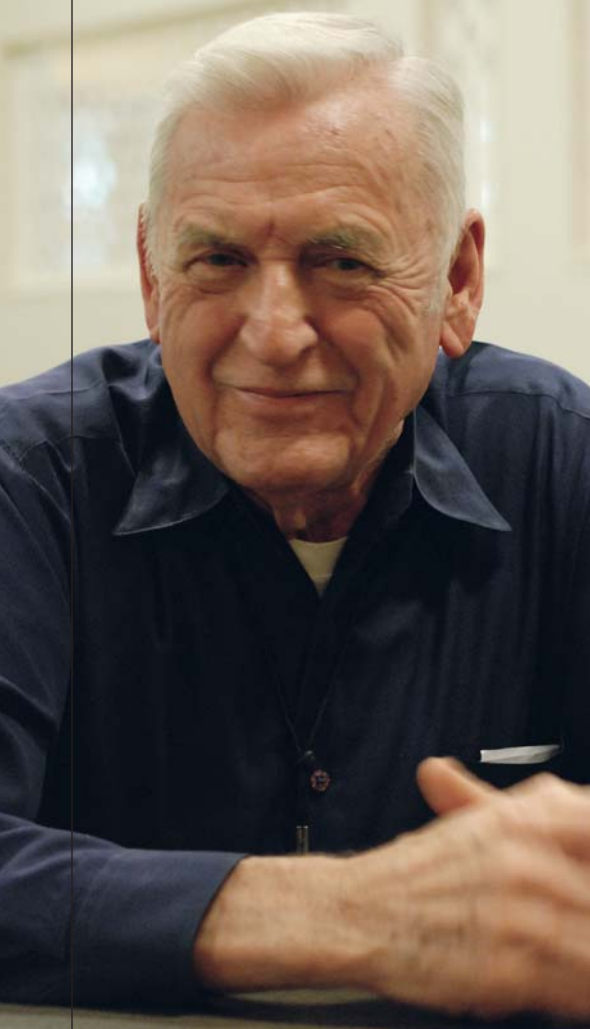
ARMED FORCES RETIREMENT HOME
STATEMENT OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In Dollars)

	2009	2008
Budgetary Resources:		
Unobligated Balance:		
Unobligated Balance Brought Forward, October 1	\$49,991,393	\$52,508,093
Recoveries of Prior Year Unpaid Obligations	1,308,146	1,569,312
Budget Authority		
Appropriation	63,010,000	57,324,000
Total Status of Budgetary Resources	\$114,309,539	\$111,401,405
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$69,903,422	\$61,410,012
Unobligated Balance		
Apportioned	44,406,117	49,991,393
Total Status of Budgetary Resources	\$114,309,539	\$111,401,405
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$172,767,646	\$227,531,855
Total Unpaid Obligated Balance, Net	172,767,646	227,531,855
Obligations Incurred Net	69,903,422	61,410,012
Less: Gross Outlays	156,499,309	114,604,909
Less: Recoveries of Prior Year Unpaid		
Obligations, Actual	1,308,146	1,569,312
Obligated Balance, Net, End of Period		
Unpaid Obligations	84,863,613	172,767,646
Total Unpaid Obligated Balance, Net, End of Period	\$84,863,613	\$172,767,646
Net Outlays:		
Gross Outlays	\$156,499,309	\$114,604,909
Less: Distributed Offsetting Receipts	60,751,627	66,858,203
Net Outlays	\$95,747,682	\$47,746,706

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

“We brought the celebration of Mardi Gras up here from Gulfport.”

— Bob Macy
(Army)



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The 1991 Defense Authorization Act created an 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 and the Accountability of Tax Dollars Act of 2002. 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.

C. Basis of Accounting

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

D. Revenues & Other Financing Sources

Exchange Revenue

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

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

Non-Exchange Revenue

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

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

Financing Sources

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

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

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

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

E. Taxes

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

F. Fund Balance with Treasury

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.

G. Investment in U.S. Government Securities

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

H. Accounts Receivable

The AFRH records accounts receivable as services are provided to residents. The AFRH uses the direct write-off method for uncollectible accounts when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

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.

I. Property, Equipment, and Software

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	Useful Life (Years)
Land and Improvements	10-20
Buildings and Improvements	20-40
Equipment	5-10

J. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the AFRH as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation or other funding. Liabilities for which an appropriation has not been enacted or other funds received are, therefore, classified as not covered by budgetary resources. There is no certainty that the appropriation will be enacted. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

K. Accounts Payable

Accounts payable consists primarily of amounts owed to other Federal agencies and the public for contracts for goods or services, such as leases, utilities, telecommunications and consulting and support services.

L. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken.

M. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the AFRH employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the AFRH terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

N. Retirement Plans

AFRH employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of AFRH matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

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

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

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

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

NOTE 3. INVESTMENTS

AFRH's Investment account balances as of September 30, 2009 and 2008 were as follows:

Amounts for 2009 Balance Sheet Reporting:

	Cost	Amortization Method	Unamortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Non-Marketable Based	\$168,664,083	Interest	\$5,513,497	\$2,181,251	\$176,358,831	\$182,414,775
Total	\$168,664,083		\$5,513,497	\$2,181,251	\$176,358,831	\$182,414,775

Amounts for 2008 Balance Sheet Reporting:

	Cost	Amortization Method	Unamortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Non-Marketable Market-Based	\$165,219,161	Interest	\$199,211	\$1,915,248	\$167,333,620	\$172,136,956
Total	\$165,219,161		\$199,211	\$1,915,248	\$167,333,620	\$172,136,956

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with treasury account balances as of September 30, 2009 and 2008 were as follows:

Fund Balances:

	2009	2008
Trust Funds	\$76,282,883	\$175,561,312
Investments	176,358,831	167,333,620
Less: Accrued Interest and Unamortized Premium	8,144,558	2,650,094
Total	\$244,497,156	\$340,244,838

Status of Fund Balances with Treasury

	2009	2008
Unobligated Balance		
Available	\$44,406,117	\$49,991,393
Unavailable	115,227,426	117,485,799
Obligated Balance Not Yet Disturbed	84,863,613	172,767,646
Total	\$244,497,156	\$340,244,838

O. Use of Estimates

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

P. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. AFRH recognized imputed costs and financing sources in fiscal years 2009 and 2008 to the extent directed by OMB.

Q. Reclassification

Certain fiscal year 2008 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

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 2009 and 2008 range from November 15, 2009 to May 15, 2016 and January 31, 2009 to May 15, 2016, respectively, and interest rates for the same fiscal years range from 4.500 percent to 6.500 percent and 2.625 percent to 5.125 percent, respectively.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the AFRH as evidence of its receipts. Treasury securities are an asset to the AFRH and a liability to the U.S. Treasury. Because the AFRH and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the AFRH with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFRH requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2009 and 2008 were as follows:

	2009	2008
Intragovernmental		
US Army Corp of Engineers	\$142,831	\$39,186
US Air Force 4th Qtr. Fines	450,864	379,820
US Army 4th Qtr. Fines	1,336,239	1,461,481
US Marines 4th Qtr. Fines	992,142	1,003,246
US Navy 4th Qtr. Fines	-	1,034,881
US Postal Service	-	4,500
Smithsonian Institution	19,263	-
Subtotal, Intragovernmental	2,941,339	3,923,114
With the Public		
Resident Fees Receivable	467,509	398,138
Miscellaneous	190,495	58,668
Subtotal, With the Public	658,004	456,806
Total Accounts Receivable	\$3,599,343	\$4,379,920

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Property, equipment, and software account balances as of September 30, 2009 and 2008 were as follows:

Schedule of Property, Equipment, and Software as of September 30, 2009

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Land and Improvements	\$10,982,370	\$10,216,187	\$766,183
Buildings and Improvements	181,456,706	145,535,038	35,921,668
Furniture & Equipment	3,289,482	2,728,126	561,356
Construction-in-Progress	183,855,674	-	183,855,674
Total	\$379,584,232	\$158,479,351	\$221,104,881

Schedule of Property, Equipment, and Software as of September 30, 2008

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Land and Improvements	\$10,982,370	\$10,004,994	\$997,376
Buildings and Improvements	181,456,706	139,002,773	42,453,933
Furniture & Equipment	3,289,482	2,559,071	730,411
Construction-in-Progress	78,431,316	-	78,431,316
Total	\$274,159,874	\$151,566,838	\$122,593,036

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on AFRH's Balance Sheet as of September 30, 2009 and 2008, include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

The Federal Employee and Veterans' Benefits are the actuarial liability estimates for FECA benefits. The estimates include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because AFRH is not one of the specified entities for which DOL provides individual agency estimates on a routine basis, AFRH calculated its actuarial liability amount by using the DOL model to estimate FECA actuarial liability.

	2009	2008
Intragovernmental Liabilities	\$1,932,719	\$1,841,115
Annual Leave	1,051,933	1,029,814
Federal Employee and Veterans Benefits	8,886,860	8,460,824
Total Liabilities	\$11,871,512	\$11,331,753

NOTE 7. OTHER LIABILITIES

All Other Liabilities are considered current liabilities.

	2009	2008
Intragovernmental Liabilities		
FECA Liability	\$1,932,719	\$1,841,115
Payroll Taxes Payable	199,054	185,455
Other Liability	1,804	1,804
Total Intragovernmental Liabilities	\$2,133,577	\$2,028,374

	2009	2008
With the Public		
Payroll Taxes Payable	\$25,285	\$21,427
Accrued Funded Payroll and Leave	749,631	709,082
Unfunded Annual Leave	1,051,933	1,029,814
Other Liability	51,923	89,167
Total Public Liabilities	\$1,878,772	\$1,849,490



NOTE 8. LEASES

AFRH leases several of its buildings for use as office space as well as the parking areas associated with those buildings. Most of the leases run on a year-to-year basis with the exception of one lease that runs to the year 2049. Future receipts due:

	2009
Fiscal Year 2010	\$547,858
Fiscal Year 2011	77,267
Fiscal Year 2012	77,267
Fiscal Year 2013	77,267
Fiscal Year 2014	77,267
After 5 Years	2,633,514
Total Receipts Due	\$3,320,040



John Miller cleverly performs his poem "Burma Shave's Faves".

**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.

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, 2009

Schedule of Earmarked Funds as of September 30, 2009

	Capital Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Earmarked Funds
Balance Sheet				
ASSETS				
Fund Balance with Treasury	\$(1,150,769)	\$68,137,374	\$9,296,278	\$76,282,883
Investments	-	-	176,358,831	176,358,831
Accounts Payable	35,658	-	3,563,685	3,599,343
General Property, Plant and Equipment	56,719,976	164,384,905	-	221,104,881
Total Assets	55,604,865	232,522,279	189,218,794	477,345,938
LIABILITIES AND NET POSITION				
Accounts Payable	58,286	534	3,371,424	3,430,244
Other	-	-	12,899,209	12,899,209
Cumulative Results of Operations	55,546,579	232,521,745	172,948,161	461,016,485
Total Liabilities and Net Position	55,604,865	232,522,279	189,218,794	477,345,938
Statement of Net Cost				
Program Costs	6,897,632	11,880	54,043,148	60,952,660
Less: Earned Revenues	-	-	16,572,210	16,572,210
Net Program Costs	6,897,632	11,880	37,470,938	44,380,450
Net Cost of Operations	6,897,632	11,880	37,470,938	44,380,450
Statement of Changes in Net Position				
Net Position Beginning of Period	62,444,211	232,533,625	159,950,711	454,928,547
Net Cost of Operations	(6,987,632)	(11,880)	(37,470,938)	(44,380,450)
Other Revenue	-	-	50,468,388	50,468,388
Change in Net Position	(6,897,632)	(11,880)	12,997,450	6,087,938
Net Position End of Period	\$55,546,579	\$232,521,745	\$172,948,161	\$461,016,485

NOTE 9. EARMARKED FUNDS

Schedule of Earmarked Funds as of September 30, 2008

	Capital Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Earmarked Funds
Balance Sheet				
ASSETS				
Fund Balance with Treasury	\$(1,481,916)	\$172,391,231	\$4,651,997	\$175,561,312
Investments	-	-	167,333,620	167,333,620
Accounts Receivable	-	-	4,379,920	4,379,920
General Property, Plant and Equipment	62,450,108	60,142,928	-	122,593,039
Total Assets	60,968,192	232,534,159	176,365,537	469,867,888
LIABILITIES AND NET POSITION				
Accounts Payable	5,896	534	2,594,223	2,600,653
Other	-	-	12,338,688	12,338,688
Cumulative Results of Operations	60,964,296	232,533,625	161,432,626	454,928,547
Total Liabilities and Net Position	60,968,192	232,534,159	176,365,537	469,867,888
Statement of Net Cost				
Program Costs	6,964,240	11,883	65,444,500	72,420,623
Less: Earned Revenues	-	-	19,201,545	19,201,545
Net Program Costs	6,964,240	11,883	46,242,955	53,219,078
Net Cost of Operations	6,964,240	11,883	46,242,955	53,219,078
Statement of Changes in Net Position				
Net Position Beginning of Period	67,926,536	232,545,508	158,094,166	458,566,210
Net Cost of Operations	(6,964,240)	(11,883)	(46,242,955)	(53,219,078)
Other Revenue	-	-	49,581,415	49,581,415
Change in Net Position	(6,964,240)	(11,883)	3,338,460	(3,637,663)
Net Position End of Period	\$60,962,296	\$232,533,625	\$161,432,626	\$454,928,547

NOTE 10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

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

	2009	2008
Chief Operations Office:		
Intragovernmental Costs	\$349,254	\$301,713
Public Costs	1,784,089	1,668,127
Total Program Costs	2,133,343	1,969,840
Less: Intragovernmental Earned Revenue	188,703	214,370
Less: Public Earned Revenue	391,324	307,912
Net Program Costs	1,553,316	1,447,558
Corporate Resource Office:		
Intragovernmental Costs	1,050,755	1,315,556
Public Costs	5,367,560	7,273,530
Total Program Costs	6,418,315	8,589,086
Less: Intragovernmental Earned Revenue	567,726	934,718
Less: Public Earned Revenue	1,177,327	1,342,585
Net Program Costs	4,673,261	6,311,783
Gulfport, MS:		
Intragovernmental Costs	145,689	153,075
Public Costs	744,220	846,330
Total Program Costs	889,909	999,405
Less: Intragovernmental Earned Revenue	78,716	108,761
Less: Public Earned Revenue	163,238	156,220
Net Program Costs	647,955	734,424
Washington, DC:		
Intragovernmental Costs	8,432,980	9,322,035
Public Costs	43,078,113	51,540,257
Total Program Costs	51,511,093	60,862,292
Less: Intragovernmental Earned Revenue	4,556,369	6,623,417
Less: Public Earned Revenue	9,448,806	9,513,562
Net Program Costs	37,505,918	44,725,313
Total Net Cost	\$44,380,450	\$53,219,078



Catherine Bowie (Army) cuddles her new PAL (from People Animals Love).



NOTE 11. 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, 2009 and 2008, respectively, imputed financing was as follows.

	2009	2008
Office of Personnel Management	\$1,513,074	\$1,401,213
Total Imputed Financing Sources	\$1,513,074	\$1,401,213

NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include FY09 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2010 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2009 Budget of the United States Government, with the Actual column completed for 2008, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2009 and 2008 consisted of the following:

	2009	2008
Direct Obligations, Category A	\$54,078,727	\$57,553,713
Direct Obligations, Category B	15,824,694	3,056,299
Direct Obligations, Category C	-	800,000
Total Obligations Incurred	\$69,903,422	\$61,410,012

NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD

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, 2009 and 2008, undelivered orders amounted to \$80,459,398 and \$169,251,030, respectively.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

AFRH has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2009	2008
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$69,903,422	\$61,410,012
Less: Spending Authority From Offsetting Collections and Recoveries	1,308,146	1,569,312
Obligations Net of Offsetting Collections and Recoveries	68,595,276	59,840,700
Less: Offsetting Receipts	60,751,627	66,858,203
Net Obligations	7,843,649	(7,017,503)
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,513,074	1,401,213
Net Other Resources Used to Finance Activities	1,513,074	1,401,213
Total Resources Used to Finance Activities	9,356,723	(5,616,290)
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	(88,791,631)	(54,110,031)
Resources That Fund Expenses Recognized In Prior Periods	(4,840)	21,909
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Other	(41,138,559)	(46,847,112)
Resources That Finance the Acquisition of Assets	105,424,358	57,550,304
Total Resources Used to Finance Items Not Part of Net Costs of Operations	(24,510,672)	(43,384,930)
Total Resources Used to Finance the Net Cost of Operations	33,867,395	37,768,640
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	22,120	-
Increase in Exchange Revenue Receivable From the Public	458,993	67,951
Other	517,639	8,486,295
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	998,752	8,554,246
Components Not Requiring or Generating Resources: Depreciation and Amortization	9,458,721	6,917,715
Other	55,582	(21,523)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	9,514,303	6,896,192
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	10,513,055	15,450,438
Net Cost of Operations	\$44,380,450	\$53,219,078

ARMED FORCES RETIREMENT HOME
 REQUIRED SUPPLEMENTARY INFORMATION INTRAGOVERNMENTAL TRANSACTIONS
 As of September 30, 2009

Intragovernmental Assets				
Agency:	Fund Balance with Treasury	Investments	Accounts Receivable	Total
Treasury	\$76,282,883	\$176,358,831	\$ -	\$252,641,714
Smithsonian Institution			19,263	19,263
Air Force	\$ -	\$ -	450,864	450,864
Army	\$ -	\$ -	1,336,239	1,336,239
Army Corp of Engineers	\$ -	\$ -	142,831	142,831
Marines	\$ -	\$ -	992,142	992,142
Total	\$76,282,883	\$176,358,831	\$2,941,339	\$255,583,053

Intragovernmental Liabilities				
Agency:	Accounts Payable and Accruals	Payroll Taxes	Other	Total
Treasury General Fund	\$ -	\$53,171	\$ -	\$53,171
Program Support Center	17,000	\$ -	\$ -	17,000
General Services Administration	16,044	\$ -	\$ -	16,044
Army Corp of Engineers	\$ -	1,804	\$ -	1,804
Labor	\$ -	\$ -	1,932,719	1,932,719
Personnel Management	\$ -	145,883	\$ -	145,883
Total	\$33,044	\$200,858	\$1,932,719	\$2,166,621

ARMED FORCES RETIREMENT HOME
 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
 FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Federal agencies are required to classify and report heritage assets, in accordance with the requirements of SFFAS No. 29, "Heritage Assets and Stewardship Land."

Heritage assets are property, plant, and equipment that possess one or more of 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. 29, heritage assets that are used in day-to-day government operations are considered "multi-use" heritage assets that are not used for heritage purposes. Such assets are accounted for as general property, plant, and equipment and are capitalized and depreciated in the same manner as other general property, plant, and equipment.

The AFRH has three buildings and structures that are considered to be "multi-use" heritage assets.

D-Day: one to remember and revere.

Daniel Funk (Army) honored the 65th Anniversary of D-Day with an historic day of remembrance. He participated in two wreath-laying ceremonies at Arlington National Cemetery. Afterwards, the Embassy of France hosted a special tribute with a display of replica WWII-era

Army vehicles, soldier supplies and period uniforms. The West Point Alumni Glee Club was on-hand to provide entertainment.

The event culminated when French Ambassador Pierre Vimont took the stage as the keynote speaker. Vimont expressed heartfelt thanks to all D-Day veterans for their bravery and sacrifices in liberating France during their darkest hour. Mr. Funk is an elite recipient of five battle stars, which he earned for fighting in all five battles for France in WWII. Through the bitter cold and erratic confusion, Daniel survived being bombed, mortared and shot at by German soldiers. Like the country of France, we, too, are most thankful.



June 6, 1944

They met in a playground where they grew up in Northeast Philly. “I played soccer and she played baseball. We were teenage sweethearts,” said Paul. Eva chimed in, “We went dancing, swimming in Atlantic City, and learned to sail.” Then Paul enlisted in the Marines in 1938, and Eva became a WAVE after WWII started. After the war, they married, and it’s been smooth sailing ever since. “We were retired eight years, and in our 40s, when I said: ‘let’s give this up – we’re going sailing!’ So we sold the house, bought a sailboat and set sail for the Caribbean,” relayed Paul. Eva added, “We lived on the boat six months of the year and became scuba divers and ham radio operators. He learned first. And I said,

“We’re sailors ...
so we’ve got our
sights set on Gulfport.”
– Paul & Eva Downs
(Marine Corps & Navy)

‘anything he can do I can do better,’” she quipped. In January 2010, they’ll be married 65 years. “We have four children, nine grandchildren and four great-grandchildren,” recounted Paul. “We’ve lived a good life.”



ACCOMPANYING INFORMATION

Accompanying
Information Features:

- IG Perspective
- Management &
Performance Challenges
- Improper Payments
- Acronyms
- Acknowledgements

AFRH
J. E. SMITH
RESIDENT

ASSESS PROGRESS

IG Perspective

Annually, the AFRH IG identifies the most serious management and performance challenges facing the agency (per Circular A-136 Financial Reporting Requirements). The IG tracks the Home's progress to ensure high-visibility concerns are addressed, and to inspire successful actions.

Throughout FY09 AFRH concentrated on its four High-Priority Performance Goals, which address matters that require immediate attention. Staff members track their own progress through updates to the Business Plan and reports to management.

November 16, 2009
Memorandum

To: Timothy C. Cox, Chief Operating Officer
Subject: Management and Performance Challenges for FY 2010

In accordance with Section 3 of the Reports Consolidation Act of 2000, a statement is provided by the Inspector General which summarizes what is considered to be the most serious management and performance challenges facing the Armed Forces Retirement Home. As in the past, the Inspector General at the AFRH focused on the primary challenges facing the Agency during the Fiscal Year. Given the numerous AFRH initiatives and programs being conducted and managed, measurable progress and improvements have been demonstrated as a result of recommendations made by my office and other inspection and audit activities. The management and performance challenges also link directly to the President's initiatives.

I am pleased to congratulate the AFRH on the development of its Long Range Financial Plan, Gulfport Stand-up Plan and Washington Scott Project Plan. Each of these plans demonstrates the AFRH strategy to develop, manage and implement the initiatives and processes required to sustain the operations at each campus and the solvency of the Trust Fund to ensure that the next generation of veterans will continue to enjoy the lifestyle and benefits that the Home has to offer.

Long Range Financial Plan:

The LRFP presents an overall vision for the future for AFRH. Inherent in that vision is how to maintain Trust Fund solvency while completing building transformations at both campuses. The resulting building project at AFRH-W approved and funded is the Scott Project. Within the Scott Project are many major elements: the movement of Assisted Living (AL) residents from the Scott Building to LaGarde and Sheridan as well as to Gulfport, demolition of the Scott Building, construction of a new facility to house common functions and a new Healthcare center, and moves into the new facility, closure of LaGarde, and eventually the renovation of AL rooms and Independent Living (IL) rooms in Sheridan.

Gulfport Stand-up:

Through two public Laws (PL 109-62 and 109-148) Congress has authorized approximately \$240 million for the rebuild of the Gulfport home. With General Services Administration (GSA) leading the task to rebuild the Gulfport Home, AFRH has been working with them in tandem throughout the entire process. The construction began in January 2008 and is on track for completion in the last quarter of Fiscal Year 2010.

Washington Scott Project:

In the President's Budget for Fiscal Year 2009, AFRH is highlighted under "Strengthening Infrastructure for the 21st Century" by improving housing for retired veterans and design funding for our Scott Project.

In accordance with the Reports Consolidation Act of 2000, I have identified the most serious management and performance challenges facing the AFRH in FY10.

Management Challenges

- Initiate Gulfport Stand-up
- Implement, manage and monitor Washington Scott Project
- Continue to educate, define, train and promote resident wellbeing to the resident community and staff

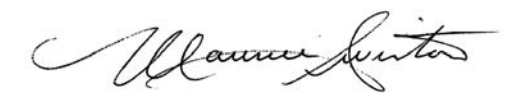
Performance Challenges

- Implement Human Capital Management Plan
 - AFRH must complete the development of the plan and implement it agency-wide while educating staff on the new polices.
- Implement Human Capital Succession Plan
 - AFRH must complete the development of the plan and implement the procedures while educating staff on the new polices.
- Define Washington & Gulfport Staffing Models
 - AFRH must ensure adequate staffing levels are provided and that parity exists between the staffing models at its two campuses.
- Increase visibility of military heritage
 - AFRH should continue to exhibit displays of military heritage throughout the facility and work with the

- DoD's Office of Morale, Welfare and Recreation to enhance these displays.
- Adhere to timelines and participate in annual mandatory training
 - AFRH management must continue to enforce attendance for its employees for the mandatory training classes outlined by the agency. Tighter constraints and measures must be taken to ensure that employees participate in the mandatory training classes and that participation is timely.
- Financial Management of operating costs and expenditures
 - AFRH management must work to streamline costs at the Washington campus and seek to bring spending parity between the two campuses (Gulfport & Washington, in as much as possible to ensure that long-range financial goals are met.

Sustaining the progress that has been made by the AFRH through its initiatives and programs is imperative; the AFRH IG will continue to monitor the outcomes of the areas identified.

Respectfully,



Maurice Swinton
Inspector General



AFRH IG
Maurice Swinton

COMPREHEND OBSTACLES

Management & Performance Challenges

Management Challenge

1) Initiate Gulfport Stand-up



2) Deploy & manage Scott Project

Agency Response

A major initiative was involving residents in their return to Gulfport. So, focus groups meet monthly to discuss topics like the new building layout, rooms, communications, move transport and more. Plus Q&As were gathered, then compiled in the Communications Plan and posted on afrh.gov.

The Gulfport Startup Committee was formed and holds meetings to share news with residents and staff. They have chosen names for the resident towers and activity spaces.

Agency staff members are monitoring construction progress, which is on schedule. Planning for contracts, campus operations and hiring has begun.

The Scott Project officially began in 2009. Funds for the design were expended, Bridging Architects and Construction Managers contracts were awarded, plus development of the POR began.

A resident focus group commenced, with Q&As compiled in the Communications Plan. Residents now meet monthly to hear about conceptual designs, transition plans and new amenities (like IT, communications and security).

Management Challenge

3) Advance wellbeing to residents & staff

Agency Response

Resident wellbeing was singled out as a key High-Priority Performance Goal. Currently the Home is spearheading construction at both communities to fulfill resident wellbeing and Aging in Place – and promote fitness and ADA compliance.

Aging in Place endeavors ramped up this year. We had ongoing management deliberations and staff discussions. Through special presentations, in both Town Halls and Focus Groups, we actively sought resident input to refine preferences and amenities.

Aging in Place is also listed as a key action in our Business Plans. Yet it was identified as a “high risk” in our Risk Management Plan with mitigating actions.

Performance Challenges

1) Deploy SHCP

Agency Response

Our SHCP (Strategic Human Capital Plan) was drafted with specific, measurable goals and objectives. Its execution will continue as planned next year.

2) Use SHCP “Succession Plan”

Part of the SHCP is an essential succession plan – which outlines backup roles in key management positions, and helps the Home meet Federal guidelines.

3) Define Staffing Models

Detailed staffing models were created for future years. The LRFPP was updated with these models – and they verified our forecast for Trust Fund solvency.

4) Promote Military Heritage

We continued year-round celebrations that honor military birthdays and key service events. Plus AFRH celebrated its inaugural “Freedom Day.”

5) Follow timelines & training

Nearly 98% of staff received required training in 3/4 required classes. And a new course in Performance Management was added as a mandatory class for all staff.

6) Manage cost & expenses

Tight controls on spending were implemented, along with extensive oversight. A new Financial Management Notice spelled out details in policy and procedures.

DISCERN ERRORS

Improper Payments

Improper Payments Information Act (IPIA)

Each year, our partner BPD reviews each AFRH business program for improper and erroneous payments. The total number of transactions was 3,285. With 179 erroneous payments, our margin of error was 5.4%.

Number Erroneous Payments FY09:	179
Total Dollar Amount, All Payments:	\$23,411.65

IP Details:

- | | |
|---|---|
| <p>1. Washington Gas over-charge
\$11.31 and \$5,265.84.
(AFRH got credit for both.)</p> <hr/> <p>2. Lankford-Sysco over-charge
\$37.50.
(AFRH got credit.)</p> <hr/> <p>3. Wrong vendor ID on stipend
This was an ARC error.
(Money was repaid.)</p> <hr/> <p>4. McKesson supplies over-charge
\$17,743.
BPD found 172 invoices paid erroneously.
(AFRH was reimbursed.)</p> <hr/> <p>5. Wrong resident was refunded
Incorrect info: Feb 09 spreadsheet
(Money was returned.)</p> | <p>BPD catches erroneous payments, makes needed corrections and notifies the AFRH Business Office, Contracting Officer's Technical Representatives (COTRs) and technicians. Fortunately those IPs did not affect our audit outcome.</p> <hr/> <p>AFRH IP history:
FY05: 1
FY06: 30
FY07: 4
FY08: 4
FY09: 179*</p> <hr/> <p><small>*172 by McKesson; detected in FY09</small></p> |
|---|---|

DISTINGUISH MEANING

Acronyms

Shorthand	Meaning	Shorthand	Meaning
AAFES	Army and Air Force Exchange Service	HSPD-12 PIV	Homeland Security Presidential Directive 12 – Personal Identification Verification
ADA	Americans with Disabilities Act	IG	Inspector General
ARC	Administrative Resource Center	ILP	Independent Living Plus
AFRH	Armed Forces Retirement Home	IPAC	Intragovernmental Payment and Collection System
BPD	Bureau of Public Debt	IPIA	Improper Payments Information Act
C&A	Certification and Accreditation	IT	Information Technology
CARF/CCAC	Commission on Accreditation of Rehabilitation Facilities and Continuing Care Accreditation Commission	IP	Internet Protocol
CCRC	Continuing Care Retirement Community	JFMIP	Joint Financial Management Improvement Act
CFO	Chief Financial Officer	LPN	Licenses Practical Nurse
CHCO	Chief Human Capital Officer	LRFP	Long Range Financial Plan
CMMS	Computerized Maintenance Management System	MCOC	Management Control Oversight Council
CNA	Certified Nursing Assistant	MEO	More Efficient Organization
COO	Chief Operating Officer	NBC	National Business Center
COTR	Contracting Officer's Technical Representative	NCPC	National Capital Planning Commission
COTS	Commercial-Off-The-Shelf	NAVFAC	Naval Facilities
CRA	Continuing Resolution Act	NCOA	Non Commissioned Officer Association
CWOA	Chief Warrant & Warrant Officers Association US Coast Guard	NDAA	National Defense Authorization Act
DAPS	Document Automation and Production Service	NFC	National Finance Center
DAV	Disabled American Veterans	NLT	No Later Than
DCOO	Deputy Chief Operating Officer	NPSG	National Patient Safety Goals
DEIS	Draft Environmental Impact Statement	OMB	Office of Management and Budget
DEOMI	Defense Equal Opportunity Management Institute	OPM	Office of Personnel Management
DFAS	Defense Finance and Acquisition System	OSD	Office of the Secretary of Defense
DoD	Department of Defense	OSHA	Occupational Safety and Health Administration
DOI	Department of Interior	PC	Personal Computer
EEO	Equal Employment Opportunity	PPE	Property, Plant and Equipment
EFT	Electronic Funds Transfer	QIP	Quality Improvement Plan
FAIR	Federal Activities Inventory Reform	RADM	Rear Admiral
FAR	Federal Acquisition Regulation	RFP	Request for Proposal
FASAB	Federal Accounting Standards Advisory Board	RFQ	Request of Qualification
FECA	Federal Employees Compensation Act	RIS	Resident Information System
FEMA	Federal Emergency Management Agency	RN	Registered Nurse
FEDInvest	Federal Investment (software application)	SAS	Statement on Auditing Standards
FFMIA	Federal Financial Management Improvement Act	SF	Square Feet
FISMA	Federal Information Security Management Act	SME	Subject Matter Expert
FMFIA	Federal Managers Financial Integrity Act	SOP	Standard Operating Procedure
FTE	Full Time Equivalents	SSG	Service Study Group
FY	Fiscal Year	STAR	Systems Time and Attendance Report
GPRA	Government Performance and Results Act	TREA	The Retired Enlisted Association
GSA	General Services Administration	USC	United States Code
		USSGL	US Standard General Ledger
		VSO	Veteran Service Organization



Each spring, the residents and military's finest get to shine at the "Night of Heroes" – a black tie gala sponsored by the Pentagon Federal Credit Union Foundation. This year's ball was the most successful ever – as \$406 thousand dollars was raised. All proceeds go to support programs for wounded soldiers and their families. Emcee Bob Schieffer from CBS News presided. And General Barry McCaffrey (ret.) presented the American Hero award to Bob Feller, decorated WWII Navy veteran and Hall of Fame pitcher. More than 600 people attended on June 4th at the Ritz-Carlton in Tysons Corner, VA. Patients from Walter Reed Army Medical Center and Bethesda National Naval Medical Center were special guests. Honored attendees included corporate supporters, members of Congress, representatives from all branches of the Armed Forces, and those working to support the military. Thanks to our devoted service members, America continues to be a shining city upon a hill ... whose beacon light guides freedom-loving people everywhere.

Night of Heroes:
the year's most
radiant event.



ACKNOWLEDGE PARTNERS

Thanks

We welcome your input.

Each year, many hours are spent gathering required information and resident stories. We strive to cover main events at AFRH and introduce you to our residents and their activities. We hope you find the content of this book valuable. Please tell us if you have suggestions or comments by writing:

AFRH

**3700 N. Capitol Street, NW
Washington, DC 20011-8400
att: CFO, Box 1303**

**E: Public.Affairs@afrh.gov
T: 800-422-9988
F: 202-730-3492**

We value your support.

Our devoted volunteers, families and stakeholders strengthen the Home in so many ways. In these challenging economic times, we treasure your assistance even more. Thank you for helping us move closer to our vision of greater independence and superior amenities for all residents. With your ardent support, AFRH and its partners will continue to ... **Focus Forward.**



AFRH-Gulfport

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