

**Financial features:**

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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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**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.

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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.

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November 12, 2009

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

|   | 2009                 | 2008                 |
|---|----------------------|----------------------|
| <b>Assets:</b>  |                      |                      |
| 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            |
| <b>Total Intragovernmental</b>                              | <b>255,583,053</b>   | <b>346,818,046</b>   |
| Accounts Receivable (Note 4)                                | 658,004              | 456,806              |
| General Property, Plant and Equipment, Net (Note 5)         | 221,104,881          | 122,593,036          |
| <b>Total Assets</b>   | <b>\$477,345,938</b> | <b>\$469,867,888</b> |
| <b>Liabilities:</b>   |                      |                      |
| Intragovernmental   |                      |                      |
| Accounts Payable  | \$33,044             | \$43,049             |
| Other (Note 7)  | 2,133,577            | 2,028,374            |
| <b>Total Intragovernmental</b>                              | <b>2,166,621</b>     | <b>2,071,423</b>     |
| 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            |
| <b>Total Liabilities</b>                                    | <b>\$16,329,453</b>  | <b>\$14,939,341</b>  |
| <b>Net Position:</b>  |                      |                      |
| Cumulative Results of Operations - Earmarked Funds (Note 9) | 461,016,485          | 454,928,547          |
| <b>Total Net Position</b>                                   | <b>\$461,016,485</b> | <b>\$454,928,547</b> |
| <b>Total Liabilities and Net Position</b>                   | <b>\$477,345,938</b> | <b>\$469,867,888</b> |

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

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          |
|--|---------------|---------------|
| <b>Cumulative Results of Operations:</b>               |               |               |
| Beginning Balances                                     | \$454,928,54  | \$458,566,210 |
| <b>Budgetary Financing Sources:</b>                    |               |               |
| 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     |
| <b>Other Financing Sources (Non-Exchange):</b>         |               |               |
| 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 |
| <b>Budgetary Financing Sources:</b>                    |               |               |
| 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.



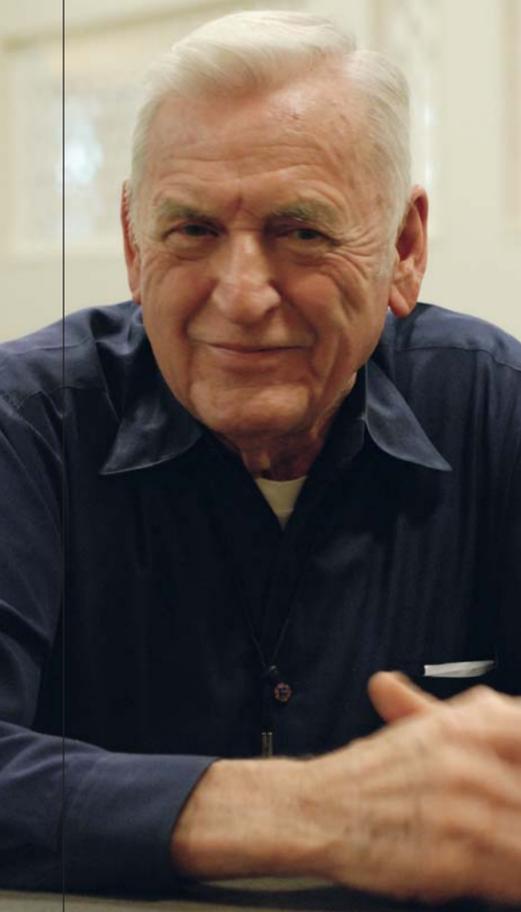
ARMED FORCES RETIREMENT HOME  
STATEMENT OF BUDGETARY RESOURCES  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2009 AND 2008  
(In Dollars)

|  | 2009          | 2008          |
|--|---------------|---------------|
| <b>Budgetary Resources:</b>                        |               |               |
| 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 |
| <b>Status of Budgetary Resources</b>               |               |               |
| 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 |
| <b>Change in Obligated Balance:</b>                |               |               |
| 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 |
| <b>Net Outlays:</b>                                |               |               |
| 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        |
|-----------------------------|-------------|-------------|
| <b>Intragovernmental</b>    |             |             |
| 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   |
| <b>With the Public</b>      |             |             |
| 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.

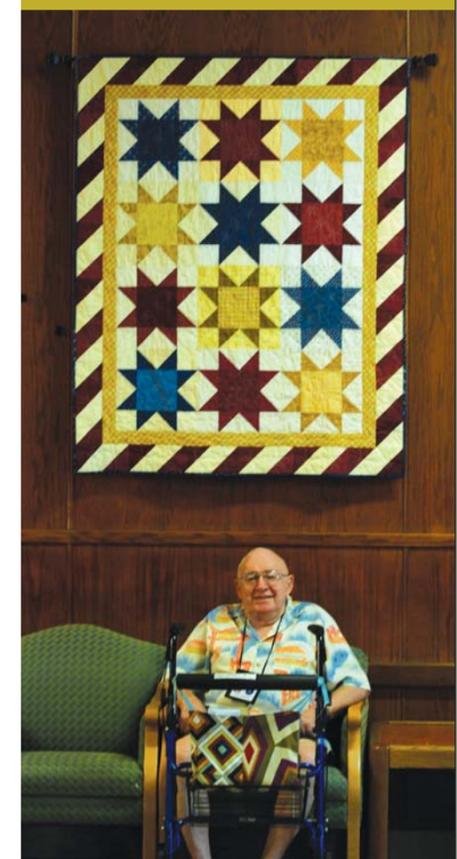
|  | 2009         | 2008         |
|--|--------------|--------------|
| Intragovernmental Liabilities          | \$1,932,719  | \$1,841,115  |
| Annual Leave                           | 1,051,933    | 1,029,814    |
| Federal Employee and Veterans Benefits | 8,886,860    | 8,460,824    |
| Total Liabilities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

**NOTE 7. OTHER LIABILITIES**

All Other Liabilities are considered current liabilities.

|                                      | 2009        | 2008        |
|--------------------------------------|-------------|-------------|
| <b>Intragovernmental Liabilities</b> |             |             |
| 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        |
|----------------------------------|-------------|-------------|
| <b>With the Public</b>           |             |             |
| 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          |
| <b>Total Receipts Due</b> | <b>\$3,320,040</b> |



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 |
|---|---------------------|------------------------|-------------------------------|-----------------------|
| <b>Balance Sheet</b>                        |                     |                        |                               |                       |
| <b>ASSETS</b>                               |                     |                        |                               |                       |
| 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           |
| <b>Total Assets</b>                         | <b>55,604,865</b>   | <b>232,522,279</b>     | <b>189,218,794</b>            | <b>477,345,938</b>    |
| <b>LIABILITIES AND NET POSITION</b>         |                     |                        |                               |                       |
| 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           |
| <b>Total Liabilities and Net Position</b>   | <b>55,604,865</b>   | <b>232,522,279</b>     | <b>189,218,794</b>            | <b>477,345,938</b>    |
| <b>Statement of Net Cost</b>                |                     |                        |                               |                       |
| 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            |
| <b>Statement of Changes in Net Position</b> |                     |                        |                               |                       |
| 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             |
| <b>Net Position End of Period</b>           | <b>\$55,546,579</b> | <b>\$232,521,745</b>   | <b>\$172,948,161</b>          | <b>\$461,016,485</b>  |

**NOTE 9. EARMARKED FUNDS**

**Schedule of Earmarked Funds as of September 30, 2008**

|   | Capital Fund      | Hurricane Katrina Fund | Operations & Maintenance Fund | Total Earmarked Funds |
|---|-------------------|------------------------|-------------------------------|-----------------------|
| <b>Balance Sheet</b>                        |                   |                        |                               |                       |
| <b>ASSETS</b>                               |                   |                        |                               |                       |
| 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           |
| <b>Total Assets</b>                         | <b>60,968,192</b> | <b>232,534,159</b>     | <b>176,365,537</b>            | <b>469,867,888</b>    |
| <b>LIABILITIES AND NET POSITION</b>         |                   |                        |                               |                       |
| 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           |
| <b>Total Liabilities and Net Position</b>   | <b>60,968,192</b> | <b>232,534,159</b>     | <b>176,365,537</b>            | <b>469,867,888</b>    |
| <b>Statement of Net Cost</b>                |                   |                        |                               |                       |
| 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            |
| <b>Statement of Changes in Net Position</b> |                   |                        |                               |                       |
| 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                |
|--|---------------------|---------------------|
| <b>Chief Operations Office:</b>        |                     |                     |
| 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             |
| <b>Net Program Costs</b>               | <b>1,553,316</b>    | <b>1,447,558</b>    |
| <b>Corporate Resource Office:</b>      |                     |                     |
| 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           |
| <b>Net Program Costs</b>               | <b>4,673,261</b>    | <b>6,311,783</b>    |
| <b>Gulfport, MS:</b>                   |                     |                     |
| 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             |
| <b>Net Program Costs</b>               | <b>647,955</b>      | <b>734,424</b>      |
| <b>Washington, DC:</b>                 |                     |                     |
| 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           |
| <b>Net Program Costs</b>               | <b>37,505,918</b>   | <b>44,725,313</b>   |
| <b>Total Net Cost</b>                  | <b>\$44,380,450</b> | <b>\$53,219,078</b> |



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         |
|---|--------------|--------------|
| <b>Resources Used to Finance Activities</b>   |              |              |
| 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)  |
| <b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>                                     |              |              |
| 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   |
| <b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b> |              |              |
| 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              |
| <b>Total</b>             | <b>\$76,282,883</b>        | <b>\$176,358,831</b> | <b>\$2,941,339</b>  | <b>\$255,583,053</b> |

| 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            |
| <b>Total</b>                    | <b>\$33,044</b>               | <b>\$200,858</b> | <b>\$1,932,719</b> | <b>\$2,166,621</b> |

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.

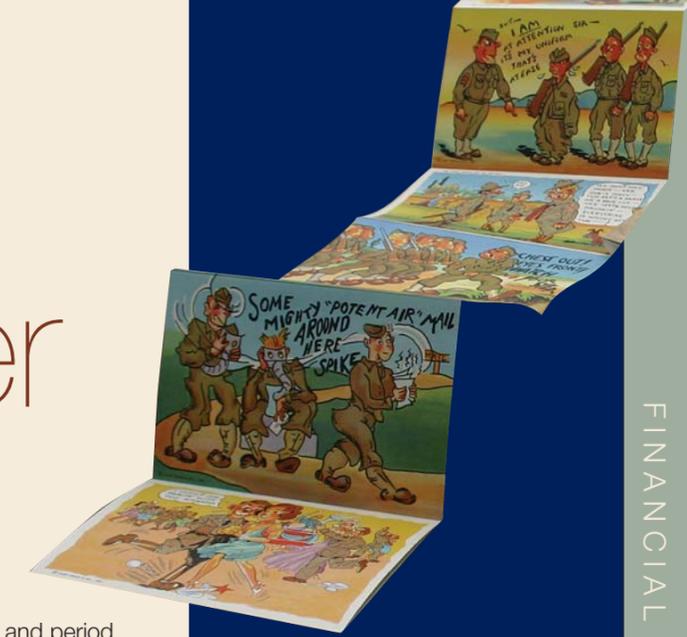
The AFRH has three buildings and structures that are considered to be "multi-use" heritage assets.

# 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