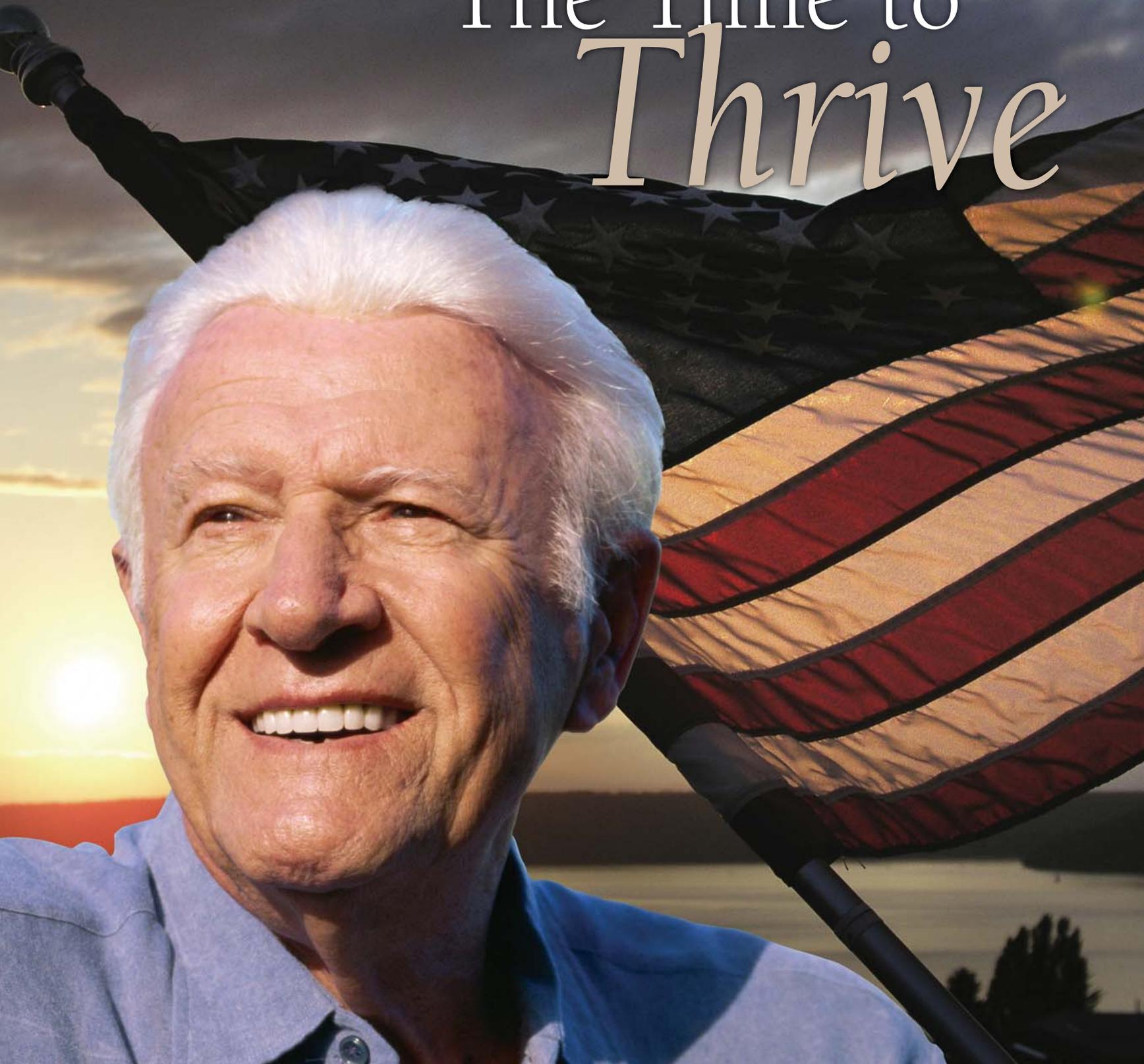


Performance & Accountability Report FY06

The Time to *Thrive*



Vision

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

Mission

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

Guiding Principles

Establish Accountability

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

Inspire Excellence

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

Maintain Integrity

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

Honor Heritage

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

Maximize Workforce

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

Serve Customers

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

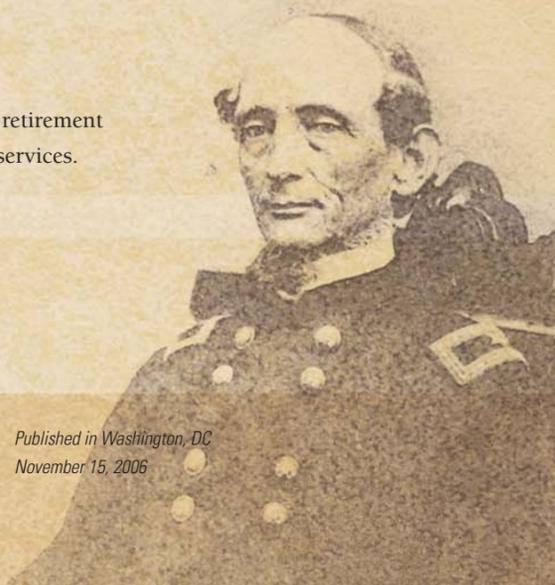


Table of Contents

Part 1: Introduction	iii
Part 2: Management's Discussion & Analysis	2
Message from the COO	4
The Mission to Promote	6
Vision, Mission & Principles	6
Strategic Goals	7
AFRH Structure	8
The Residents & Staff	12
2006 Performance Achievement Highlights	16
Performance Results	18
Performance Measurements	22
President's Management Agenda	24
Special IT Feature	30
2006 Financial Summary	34
Letter of Assurance	38
Management Assurances	39
Controls, Systems & Compliance	40
Risk Management	42
Part 3: Performance	44
The Performance to Prosper	46
Strategic Goal 1: Financial Growth	48
Strategic Goal 2: Exceptional Service	50
Strategic Goal 3: Improved Processes	52
Strategic Goal 4: Learning & Growth	54
Strategic Goal 5: Culture of Integrity	55
The Volunteers to Praise	56
Part 4: Financial	58
Message from the CFO	60
Independent Auditors' Report	63
Financial Statements	66
Notes	72
Supplementary Information	82
Part 5: Accompanying Information	84
Management Challenges	86
Inspector General's Statement	87
Improper Payments	88
AFRH Community Service	89
Acronyms	90
Thank you	91

Introduction

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

he declared. Pete is a friend to Veterans,

patriots and church-goers alike. He faithfully

served America in WWII, in the

Army’s 442nd anti-aircraft battalion – and

again in the Korean War, as an Air Force

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

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

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

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

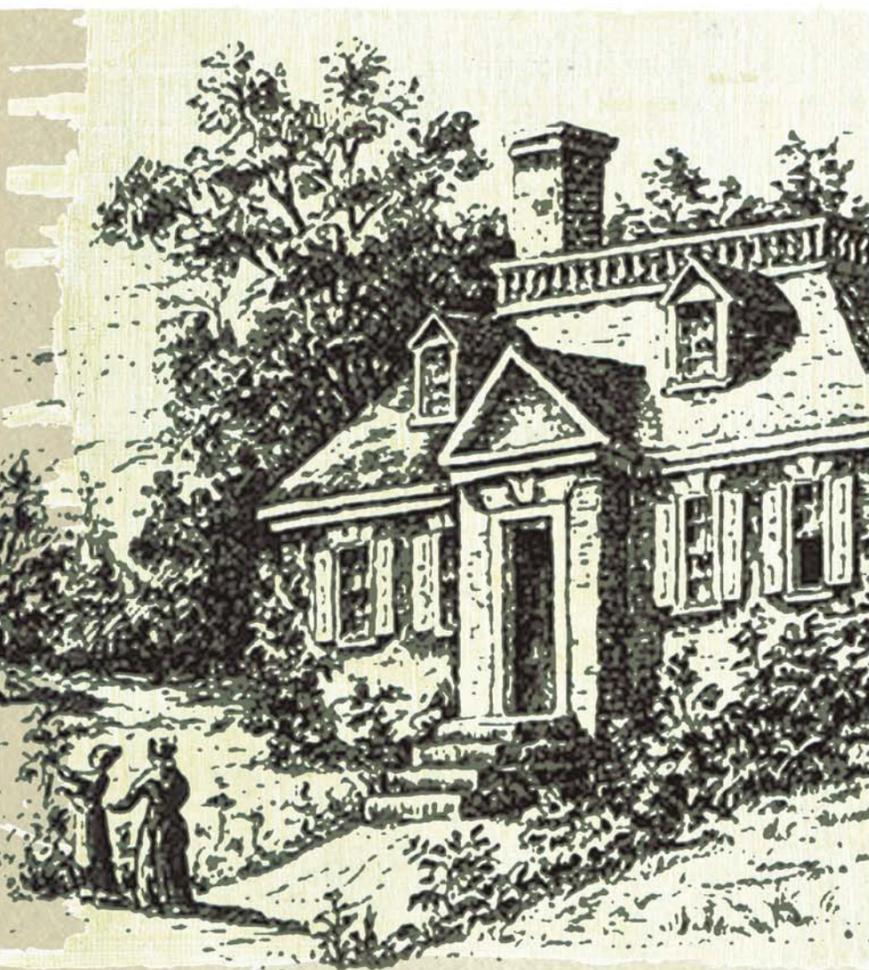
of patriotism. The always-smiling Pete says: to stay young, keep

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

forever. I cannot imagine otherwise.”



The *Heritage* to Celebrate



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

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

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

LAUNCHING A HOME IN PHILADELPHIA

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

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



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



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

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



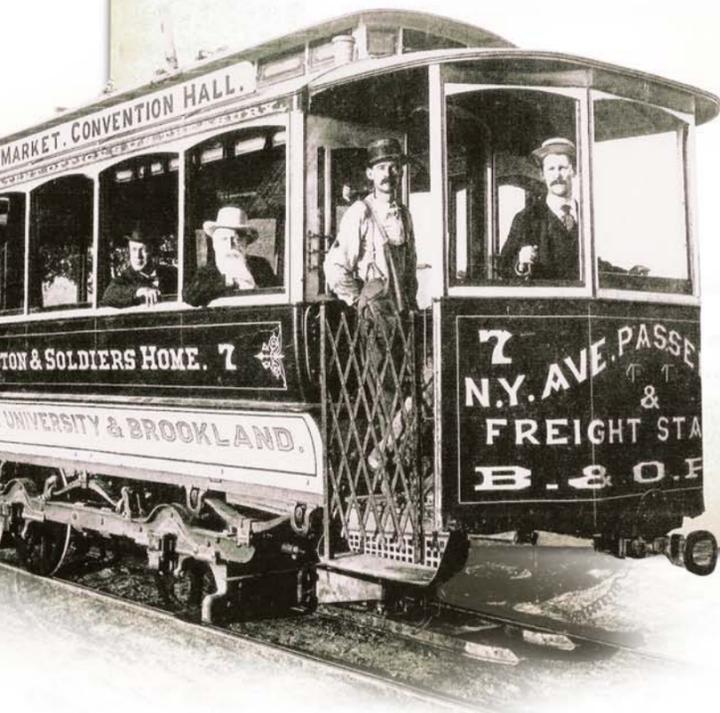
The Naval Asylum, beautifully situated on the Schuylkill River in Philadelphia. Watercolor, Augustus Köllner, 1847

REINSTATING DIGNITY IN DC

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

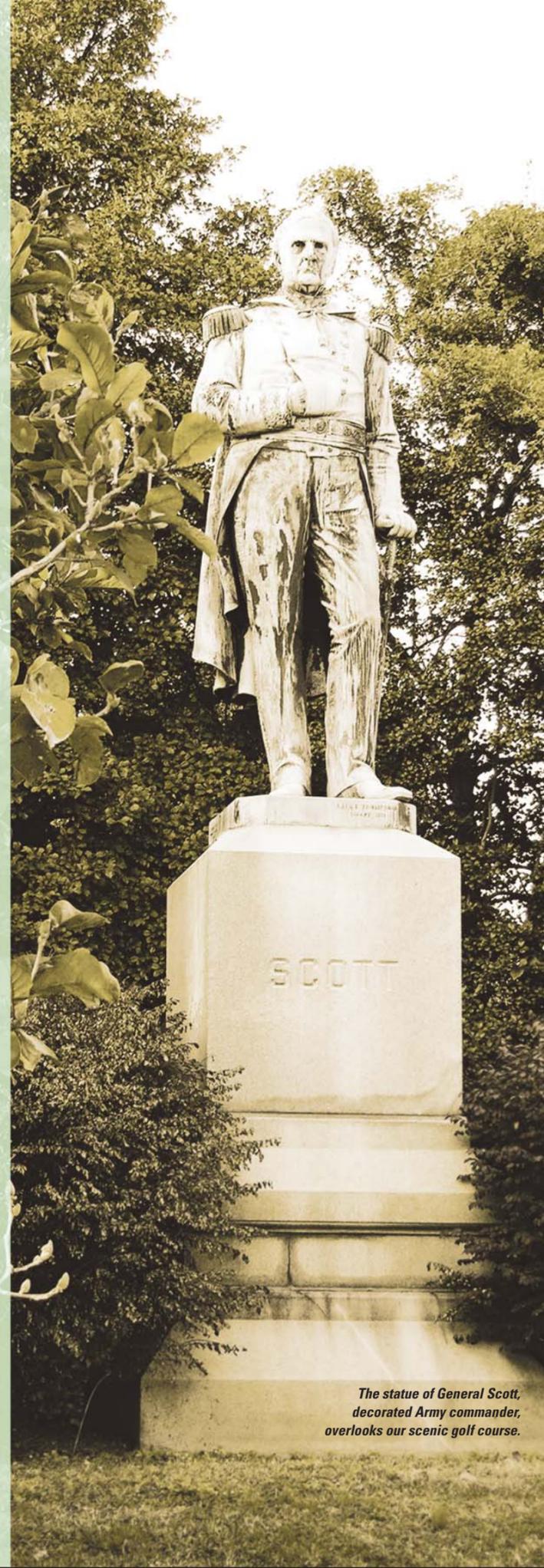
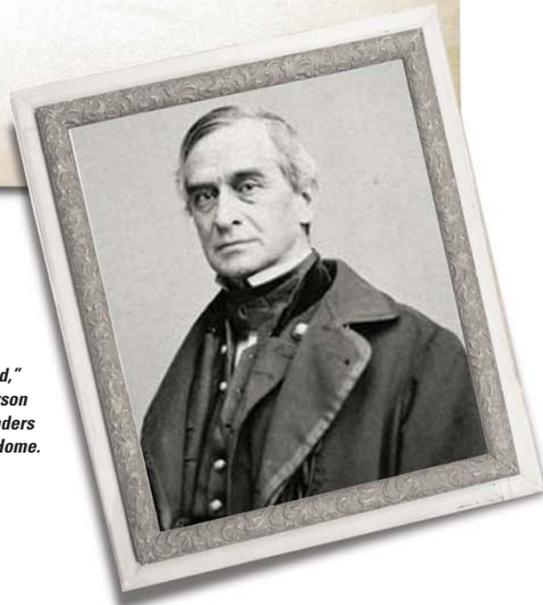
gave the rest to Congress to create a Trust Fund for a Military Asylum. At last, in 1851, the Asylum was established in a small Washington farm cottage. Anderson led the grand opening, starting with just three Veteran “inmates” – and it was duly named the Anderson Cottage.

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



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

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



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

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

—Charles Stockton, Navy historian (1886)

A STRONGER FORCE

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

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

Situation

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

The Moment to Reflect

The Home at a Glance:

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

Did you Know?

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



Major Achievements FY06

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

On the Cover:

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



The Resolve of Steel

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

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

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

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

Maybe he gets that perseverance from his

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

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

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

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

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



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

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

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

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

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

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

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

The Time to Thrive

After this Introduction, this PAR contains four key sections:

Part 2: Management's Discussion & Analysis

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

Part 3: Performance

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

Part 4: Financial

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

Part 5: Accompanying Information

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

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