

BUILDING VITALITY

PERFORMANCE & ACCOUNTABILITY REPORT FY08



ARMED FORCES
RETIREMENT HOME



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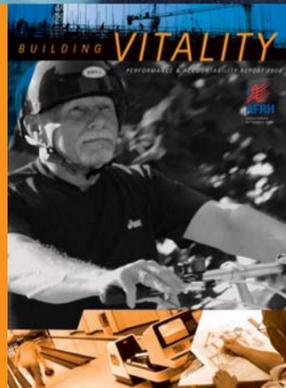
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ON THE COVER

The Home and its residents are Building Vitality in so many ways. Our dynamic construction projects are accelerating on both properties. And the residents are experiencing newfound health and happiness from our exciting new facilities and programs. Together we're growing stronger – and this spirited momentum will ultimately peak in the near future.

Vitality - vi-tal-i-ty (noun)

1. exuberant physical strength or mental energy combined with a joyous approach to activities: a person of great vitality
2. great capacity for survival, or the continuation of a meaningful and purposeful existence: the vitality of an institution.

VISION:

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

MISSION:

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

GUIDING PRINCIPLES:

Establish Accountability

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

Honor Heritage

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

Inspire Excellence

We continuously work to improve each process, service and its delivery, while striving for excellence in all we do. We expect excellence and reward it.

Maintain Integrity

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

Maximize Workforce

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

Serve Customers

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

“I am pleased to present our FY08 Performance and Accountability Report, which demonstrates our financial integrity and documents the successful delivery of our mission.”



During FY08, we focused on transitioning the AFRH from an outdated institution into a modern Continuing Care Retirement Community (CCRC)¹. The centerpiece of this transformation is the adoption of the “aging in place” philosophy and our efforts to move in that direction, as well as our centuries old commitment to uphold the *Promise* to care for our Nation’s heroes. AFRH’s progressive senior care includes services to help residents maintain independence in their Home of choice – as well as support to help them stay connected, active members of the community.

GENERATING PROGRESS

Our workforce has made, and continues to make, great strides to revitalize the Home and realize the vision of assisting our residents to age in place. Each of our five major Strategic Goals embodies this concept:

Financial Growth >>

Financial stability has been the foundation of all our activities – and at last, we’ve achieved it.

Exceptional Service >>

We are creating a more modern and vibrant community to serve the residents of today and tomorrow.

Improved Processes >>

We are making advances in procedural efficiency and electronic sufficiency throughout the AFRH.

Learning and Growth >>

We are keeping staff at the forefront of service while meeting new accreditation standards.

Cultural Integrity >>

We have shown solid progress in blending and bonding our diverse staff.

The AFRH cannot continue to endure unless its Trust Fund sustains financial growth. Our 2003 Strategic Plan called for revitalizing our financial health via cost-cutting measures and renewing our aging infrastructure.

Since then, we have continuously restructured our priorities accordingly and last year we showcased our “improved financial performance.”

During FY08 we made a commitment to build on our financial success by designing a streamlined and more economical facility to meet the needs of today’s residents as well as the residents of the future. In July 2008, we reached a major milestone when the National Capital Planning Commission (NCPC) approved our Washington Master Development Plan. This Plan is the cornerstone in generating new revenue and maintaining growth.

REVAMPING RESOURCES

In the President’s Budget for FY09, AFRH is highlighted as “Strengthening Infrastructure for the 21st Century” by improving housing for retired veterans. To truly achieve this, we have given top priority to four major projects:

1. Rebuilding the Gulfport Facility (MS)
2. Implementing the Scott Project (DC)
3. Earning CARF/CCAC¹ Accreditation (DC)
4. Advancing Resident Wellbeing (DC)

In 2008, we broke ground on a new resident Home in Gulfport. This modern facility will be ready for occupancy in late 2010. Additionally, we began developing concepts to revitalize the Washington community.

Growing Strong

To advance Resident care, we followed the advice of Congress and sought a more comprehensive accreditation (as JCAHO³ only accredits skilled nursing and ambulatory care). We contacted CARF/CCAC and our first inspection occurred in August 2008. I am delighted to report AFRH has achieved CARF/CCAC accreditation which remains valid through 2013. Seeking more comprehensive accreditation is just one example of our commitment to provide the best care and services to our residents. In truth, we focus on the residents' needs in all we do – from improving basic activities and necessities, to advancing health and wellbeing.



IDENTIFYING CHALLENGES – per Inspector General (IG)

A) Implement and monitor Scott Project renewal

FY08, we contracted with an engineering firm to provide conceptual ideas and costs associated with our "Scott Project," in light of our Washington Master Development Plan. The Agency is now in the final stages of completing a Congressionally-

mandated AFRH Financial Study. Our management team is carefully exploring its options and will choose a direction that gives top priority to ensuring Trust Fund solvency.

B) Meet National Patient Safety Goals

We have restructured our policies in order to meet comprehensive CARF/CCAC guidelines, while still staying in compliance with JCAHO.

C) Employ Succession Planning for management

We began the process of naming backups for key corporate managers. For example, we recently assigned our Chief Financial Officer the added responsibility of performing Deputy Chief Operating Officer duties.

D) Transition accreditation reviews to CARF/CCAC

We revisited and strengthened existing processes to meet CARF/CCAC guidelines and standards. We intensified staff training and included "training" in individual performance plans in order to ensure compliance. I am also pleased to report that CARF/CCAC inspectors found no material weakness during their recent review in August.

E) Continue to educate Congress and constituents >>

AFRH is the only US Federal agency that cares for former military members who have paid into a Trust Fund that sustains their community. So we must continually reinforce the goals, strategies and services to support them, via Congressional testimonies and budgets, as well as partnerships with military organizations.

BOLSTERING CONFIDENCE

AFRH received its fourth back-to-back "unqualified" (no findings) opinion on its financial statements from an external, independent auditor. This major feat serves as yet another confirmation of our commitment to excellence on behalf of the residents.

The AFRH IG has advised senior management of ongoing challenges, which include: continuing financial growth, managing our buildings/renewals, opening the new Gulfport facility, orchestrating the residents' move back to Gulfport, maintaining AFRH accreditation and updating constituents on agency challenges and progress.

PROPELLING FORWARD

Our future is exciting. We are building vitality in our infrastructure, among residents, across operations and with constituents. We are achieving our goals and realizing great momentum on many fronts.

I am pleased with the success achieved in FY08 and I am proud of the results of our success: residents are safe, happy and content. We will continue to manage our resident's resources responsibly as well as provide top-notch programs and services to the distinguished people who call the AFRH "Home."

Sincerely,

Timothy C. Cox
Chief Operating Officer (COO)
November 14, 2008



"I am confident the performance information and financial data in this PAR are reliable and complete."

– Timothy C. Cox (COO)

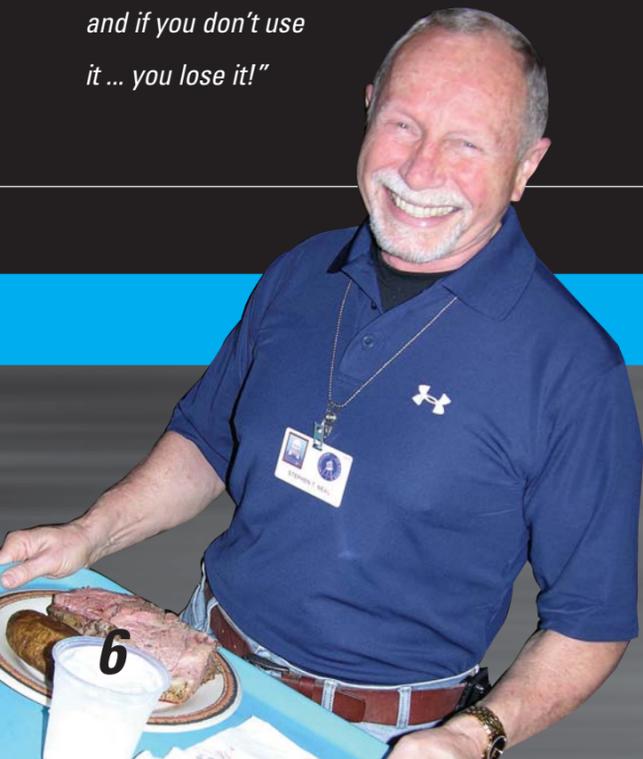
¹ Continuing Care Retirement Community

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

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



When we caught up with Steve, we had to catch our breath. At age 69, he embodies vitality. He uses AFRH as a 'base of operations' and drives a 30-foot motor home down to Florida and Delaware in the summer. "Last year, I spent the summer renting a place in Rehoboth Beach. And if I'm not here, I go to Jamaica," he said. Steve is 5'-6" tall and a very lean 156 lbs. And he literally lives in the gym. "I work out every day but Sunday, for nearly three hours a day. I work a different muscle each day, plus I do the elliptical machine regularly." He also owns three bikes and does a lot of riding. "I love it! I'm as strong as I was at age 35." After the Marines, he spent 15 years with the State Department building telecommunications systems. So he has two retirement incomes to play with. "Hey, you're only here one time – and if you don't use it ... you lose it!"



"We've got a great gym, aerobics and tai chi ... it's wonderful"
 – Stephen Neal (Marine Corps)

In the Introduction, we present:

Evolving Heritage

Developing Benefits

Four Focus Areas (FY08):

Rebuilding Gulfport

Renewing Washington

CARF/CCAC Accreditation

Resident Wellbeing

Washington Master Plan

AFRH at a Glance

Introduction to the PAR

Introduction



BUILDING ON OUR STORIED PAST

Back in 1811, a few compassionate military leaders made a *Promise* to care for America's old and disabled veterans. It would be "repayment" for their sacrifices in defending our nation. So two retirement homes were built: the US Naval Asylum in Philadelphia, PA (established 1833). And the Old Soldiers' Home in Washington, DC (established 1851). The Asylum later moved to Gulfport, MS and was renamed the US Naval Home in 1976. Ultimately, both Homes joined forces in 1991 and have evolved into a modern retirement community: The AFRH.

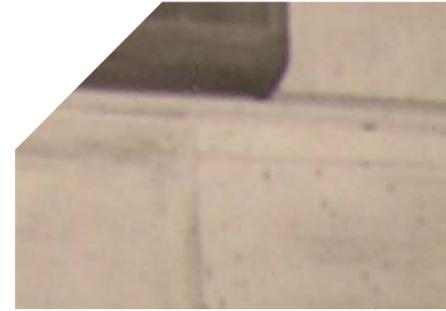
All along, we have provided eligible veterans with supportive care and shared camaraderie, much like they experienced in their service days. Back then, they invested in the Home via small payroll deductions. So now, more than ever, we must deliver on that original *Promise* – and provide them with a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

AFRH is bound by law to uphold that original *Promise*, to preserve the Home's heritage and to take care of its own. As always, our mission is to provide veterans with a premier retirement community with exceptional resident care and support services.

With a rich historic past and our current financial house in order, we now have a very solid foundation on which to build a more vibrant AFRH. Our devoted staff is still driven to nurture our nation's heroes.

However, we must also provide new amenities to our growing population of healthy and active seniors. The fact is: today's US military is much more focused on health and wellness. So, AFRH must boost the vitality of its community, too, in order to preserve this key component of military heritage. So, we are now revamping our infrastructure and culture to benefit prospective AFRH residents. This includes the brave young men and women stationed in Afghanistan, Iraq, Europe and beyond – plus other enlisted and warrant officers paying into the Trust Fund. They'll be the benefactors of a dynamic Home that suits their changing needs and lifestyles.

At this moment, our service men and women are making great sacrifices to promote democracy around the world and preserve our way of life. We are very proud of them. And we must work hard to ensure them a safe and enjoyable future, too. Building Vitality at AFRH is the best way to show them the respect they ultimately deserve.



Evolving Heritage





Developing Benefits

WHAT OUR PATRIOTS DESERVE

As a CCRC³, the Home has much to offer our nation's veterans and retired service members. Yet, we are now creating new and challenging programs so our residents can get even more out of their well-deserved retirement. The exciting changes we are now planning will modernize and improve upon this solid foundation:

PHYSICAL ACTIVITIES

- Bowling Center
- Fitness Center
- Gardening Area
- Golf Course
- Golf Driving Range
- LifeTrail Exercise Circuit

HEALTH CARE

- Dental Care
- Health & Wellness Center
- Physical Therapy
- Prescriptions Satellite
- Located near VA & Walter Reed (military)
- Near Washington Hospital & Providence Hospital (private)

ARTS & CRAFTS

- Artists' Colony
- Automotive Shop
- Ceramics Studio
- Woodworking Shop

DINING

- Canteen
- Dining Hall
- Vending Areas

TRAVEL

- Military Events
- Sponsored Trips
- Weekly Daytrips

SOCIAL ACTIVITIES

- Bingo & Card Games
- Birthday Dinners
- Dances
- Internet Cafe
- Military Celebrations
- Pool Tournaments

CULTURAL

- Concerts & Performances
- Special Lectures
- Theatrical Shows
- Weekly Films

FOUR FOCUS AREAS (FY08):

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project (DC)

FOCUS 3: Earning CARF/CCAC Accreditation (DC)

FOCUS 4: Advancing Resident Wellbeing (DC)

To achieve our vision of "aging in place" and to infuse vitality into AFRH, we've given top priority to these four major initiatives. Together, they will create great synergy for the Home.

With generous support from Congress, the rebuild of our Gulfport community was ensured. From the implosion of the damaged building, to breaking ground and beyond, our new oceanfront property has made amazing progress in FY08:

Creating Renewal



JAN 08

Wrangling the rubble of debris after the building's implosion.

APR 08

Construction crews begin forging new foundations in Gulfport.



MAR 08

Members of Congress and GSA, the Gulfport Mayor, several residents and Mr. Cox break new ground.



JUN 08

Enthusiasm swells, as a new home rises along the Gulf Coast.



SEP 08

"This facility will be built to today's standards with modern concepts for resident care."
- Leslye Arsht, Deputy Under Secretary of Defense



"The building is designed to mitigate the effects of a CAT 5 hurricane."
- Steve Smith, Project Manager, GSA



SCHEDULED RE-OPENING: LATE 2010

The key to relocating former and prospective residents on-time is crafting a sound strategic plan. Today, less than 200 former Gulfport residents are housed in the Washington community, while others are scattered across the country waiting for Gulfport to reopen. Also, several Washington residents have expressed strong interest in moving there, as well. The AFRH Management is developing strategies and timelines, in conjunction with the Public Affairs Office, which keeps a comprehensive waiting list of residents.

OCT 07

The damaged building is detonated with a thunderous boom.



Status

**On Schedule & Budget.
July 2010 Completion.**

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project (DC)

FOCUS 3: Earning CARF/CCAC Accreditation (DC)

FOCUS 4: Advancing Resident Wellbeing (DC)

MODERNIZING FOR TOMORROW

AFRH must evolve to meet the needs of the next generation of military veterans. They expect more choices and independence, plus more amenities. Since they will live much longer, it only follows that they'll have more chronic illnesses and disability – which require better care and support.

The Scott residence needs major repairs because it's an aging facility that hasn't been fully modernized. Our residents submit a multitude of maintenance requests, which has inflated maintenance costs to unacceptable levels.

Funds have already been programmed to start the Scott Project in 2010. So, our Chief Architect spearheaded the development of conceptual plans for a complete update of the Washington community, per the AFRH Long Range Financial Plan (LRFP).



Furnishing Amenities



A MORE FITTING ACCREDITATION

The sole accrediting entity for CCRCs and other senior care services is CARF/CCAC. It helps ensure that retirement communities fulfill their promise of quality lifetime care to older people. Their broad quality control covers everything from rehab service, daily nutrition and physical activity – to process improvement, strategic planning and financial health.

To be in full and complete conformance, AFRH had to provide specific training to its workforce. Then, when we determined the Home was in conformance to CARF standards and ready for an inspection, we contacted CARF to perform its survey in August 2008.



Victory:
Accreditation Achieved
(Valid Through 2013).

Raising Standards

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project (DC)

FOCUS 3: Earning CARF/CCAC Accreditation (DC)

FOCUS 4: Advancing Resident Wellbeing (DC)

KEEPING RESIDENTS ACTIVE

What is Exceptional Service? This was the theme of the annual managers' offsite in May 2008. Well, our Guiding Principle for exceptional service states: "the staff vows to be innovative and responsive – while offering exceptional products and services at competitive prices." But ... what does that really mean?

Our ultimate answer: action is what really counts in delivering great service. So, our staff must stay positive, anticipate needs, listen attentively, take responsibility, keep its word, and give personal attention. In short, we must all go beyond expectations.

Further, it is vital to ensure resident health and wellbeing. So, AFRH management will continue to modernize its facilities, improve outlets for activity, expand social networks, enhance military camaraderie and keep folks connected. In these ways and more, AFRH is leading the way for "aging in place."

To further ensure exceptional service, our Washington staff crafted a Resident/Staff Covenant to outline resident rights and staff expectations. Plus, we wrote a powerful, yet concise set of service standards to live by each day. Both will help ensure a high level of care and respect for the residents.



**COVENANT
BETWEEN THE STAFF AND RESIDENTS
OF THE
ARMED FORCES RETIREMENT HOME**

Each Resident has earned the privilege of residing at the Armed Forces Retirement Home. When our Nation needed them most, our Residents were there to fight its wars, secure its borders and maintain its freedom. With respect and gratitude, our Nation now offers its support to the Veterans who made this Country great.

As an AFRH Resident you have the:

- Right to be treated with dignity and respect
- Right to be treated as an individual
- Right to be informed
- Right to be heard
- Right to Quality of Life
- Right to have choice
- Right to have opportunity for growth
- Right to personal spirituality
- Right to a safe environment
- Right to live free of pain
- Right to die with dignity



AFRH Customer Service Standards:

- I Integrity First
- S Selfless Service
- E Excellence in Everything
- R Right Attitude
- V Visionary Teamwork
- E Embrace Responsibility

Infusing Vigor



WASHINGTON MASTER PLAN: APPROVED

Our ardent leaders have built consensus on the Washington redevelopment plan for two years. The residents ultimately saw the great value of the Master Plan's new income stream – and have given their enthusiastic support.

On July 10 2008, the National Capital Planning Commission (NCPC) reviewed our final Master Plan along with our transportation management plan. Dozens of eager residents attended the NCPC hearing, wearing their medals and toting their canes, walkers and oxygen tanks. Three testified and conveyed the overwhelming resident support for the Plan.

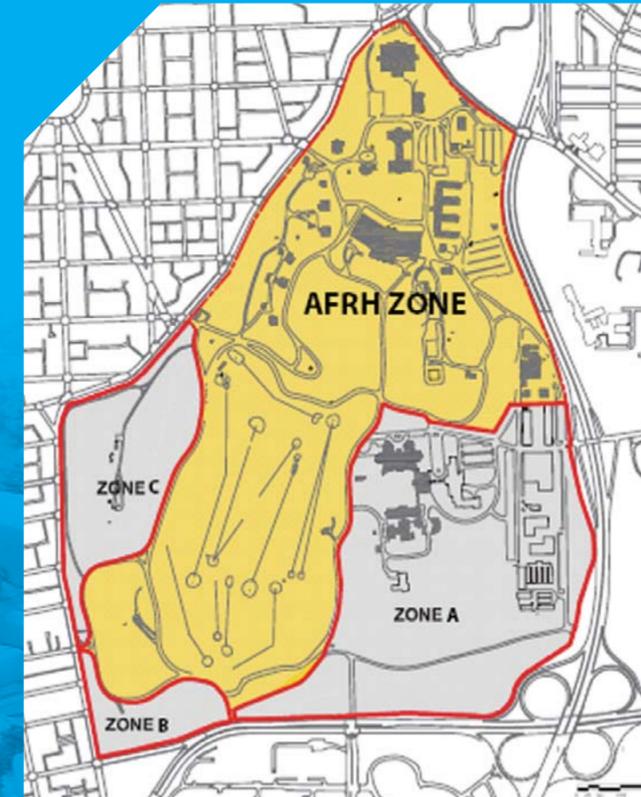
At last, the NCPC approved ZONE A redevelopment and returned ZONES B and C to the AFRH. The Commission also modified both the parking supply and transit service that we proposed.

The approved Plan calls for mixed-use development of Federally owned land in Zone A (see map). This site will be privately leased to accommodate residential, commercial, institutional, medical, retail, R&D and a hotel. Leasing will provide a critical income stream for the AFRH Trust Fund, which the Home depends upon for operating expenses. Plus it will ensure us new vitality for generations to come.



AFRH at a Glance

Federal Authority:	AFRH Act of 1991, Public Law 101-510 (amended 2002)
Current Locations:	Beach Drive - Gulfport, MS (47 acres) North Capitol Street - Washington, DC (272 acres)
Organization:	AFRH Corporate Headquarters (Washington, DC)
Now managing 2 Communities:	AFRH-Gulfport AFRH-Washington
Resident Capacity: (as of Sep 08)	Gulfport, MS: 0 (now under construction; when it reopens: 582) Washington, DC: 1,323
Average Resident:	83 Years Old
Funding:	Congressional Authorizations from a Government-Held Trust Fund fed by Resident Fees, Active Enlisted Military Withheld Pay, Fines & Forfeitures & Investment Income
Trust Fund Balance:	\$167 Million
Major Services:	Private Rooms & Showers Medical, Dental & Vision Care Dining Facilities Senior Activities & Programs Recreational Activities Shuttle & Public Transportation Independent Living Assisted Living Memory Support Day Care Long Term Care
Major Amenities	Fitness Center Walking Trails LifeTrail Course 9-hole Golf Course 6-Lane Bowling Center Hobby Shops Fish Ponds 600+ Seat Theater Full-service Library Computer Center



Generating Revenue



PAR INTRODUCTION

Welcome to the AFRH 2008 PAR. This book is a forum to celebrate our rich heritage and share new developments with Congress. It helps us meet various reporting requirements for US Government agencies.⁴ Plus, it gives us an opportunity to tell Americans and veterans alike about the exciting new direction of the Home.

Of late, the Home has evolved into a modern retirement community that rivals those in the private sector. We are passionately and persistently transforming this agency to run it more like a business. And we have continually enhanced our programs and services to provide greater care. In fact, we are in the midst of an ongoing physical and cultural change, which mirrors the robust, yet downsized military that America has produced in recent decades. Our revolution calls for greater vitality and enhanced longevity.

FY08 marks the beginning of "**Building Vitality.**" The strategic groundwork we laid out in 2003 has netted the positive gains we've been seeking in financial performance. It took some time, indeed. But now we're building on that solid foundation and realizing our ultimate vision to create "The AFRH of the Future."

Today, this Report highlights major events from FY08. It surveys the dynamic process that has transformed the Home – starting in 2003 with the creation of our vision, mission and strategic goals. Then it offers an in-depth assessment of AFRH in FY08 – including progress on goals and budget, plus detailed performance measures and financial statements. Finally, the PAR surveys management challenges and the plans to overcome them ... as well as future opportunities and the strategies to leverage them.

The FY08 PAR focuses on activities from Oct 1, 2007 – Sep 30, 2008. It has four Parts that form a composite of how we are managing the resources entrusted to us.

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

A review of performance and financial status, achievements, challenges, plus compliance with the President's Management Agenda (PMA) and key legal requirements.

Part 2. Performance:

A detailed outline of the AFRH Goals and Objectives. This section shows exactly where we succeeded and where we fell short of our expectations.

Part 3. Financial:

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

Part 4. Accompanying Information:

IG Statement, management challenges, improper payments and Acronyms

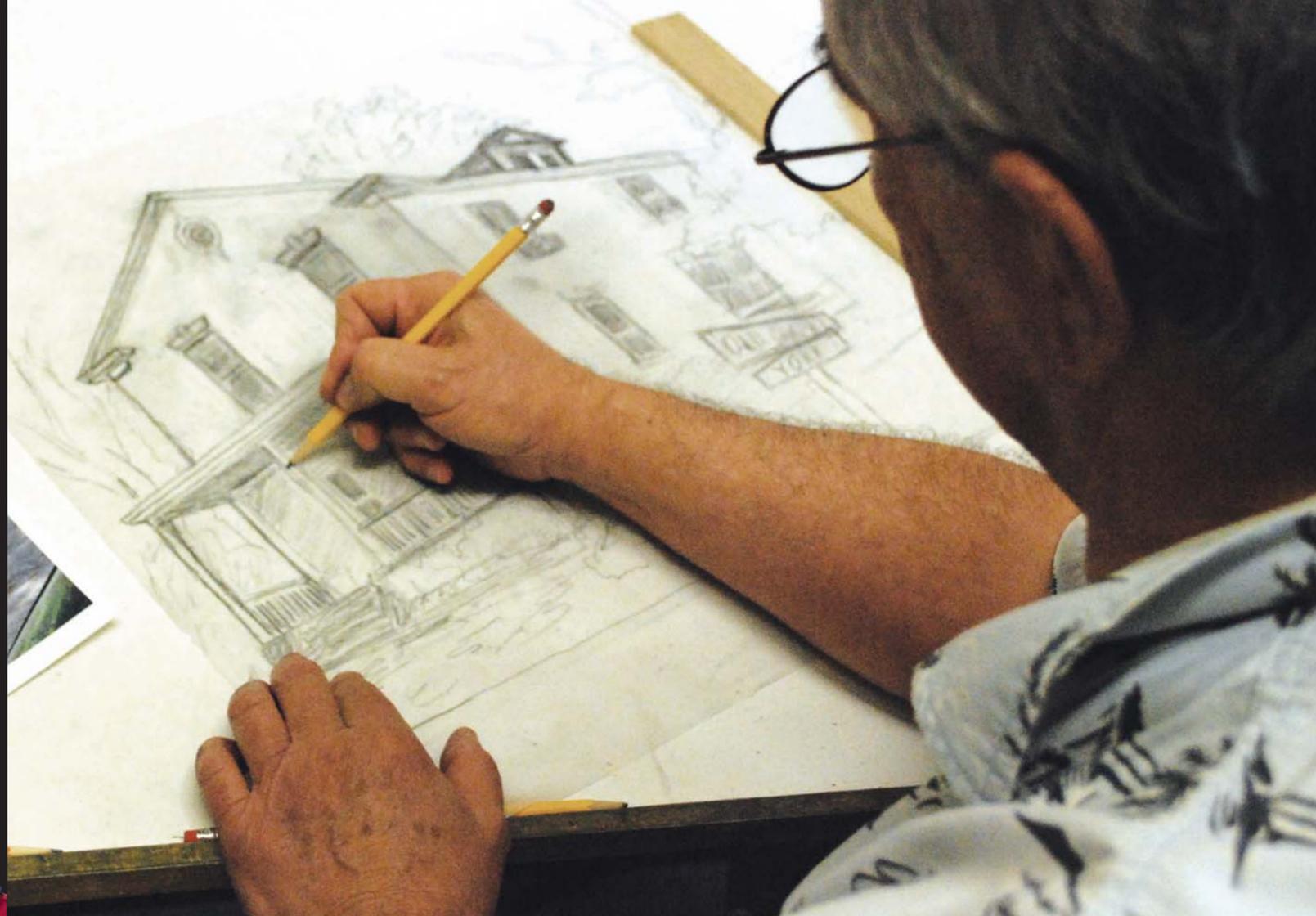
AFRH employees and contractors prepared this report in accordance with Federal guidelines.

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



Building Vitality

Mike began painting at age 29 and has truly grown as an artist in recent years. “When I was younger and married, art was just a hobby.” Then, after four years in the Navy, Mike worked in a few hospitals, went to college and taught school. “Then I lost my job – and at age 50, I was too old to get jobs. I almost became derelict and was about to live on the streets when they took me in here – because I was a Vietnam veteran,” he said. When Mike became a resident, he started painting full-time. Within a mere two years, he developed a “signature” style: bold, bright colors mixed with impressionism. “People say, ‘you always know a Martinez when you see one.’” Nowadays, churches and homes near DuPont Circle are a favorite subject. And so are Aztec spirits and Southwest pottery, as Mike was raised in New Mexico. “I’m one of the few artists here at AFRH who actively tries to get into the local galleries. I have to earn a living.”



“My art is what gets me up each morning as I grow older.”

– Mike Martinez (Navy)

In Part 1, we present:

Introduction to MD&A

AFRH Organization:

Management Structure

Strategic Goals &

Focus Areas

Surrounds, Residents & Staff

Challenges

Summary: Performance Goals

President’s Management Agenda

Financial Summary & Highlights

Management Assurances

Letter of Assurance

Controls, Systems & Compliance

Risk Management

Management’s Discussion & Analysis



INTRODUCTION

In the early 1800's, a few compassionate war officers envisioned a haven for former enlisted, so they could age with dignity alongside their comrades. With persistence, and the aid of Congress, the Soldier's Home in DC and the Naval Asylum in Philadelphia were launched. The facilities have evolved, but their mission has endured: to provide a premier retirement community to our nation's heroes with funds from their own payroll contributions.

Over the years, AFRH has sufficiently cared for tens of thousands of veterans spanning two centuries and nine major American conflicts. As the US expands its global military presence, we must modernize to meet the greater expectations and longevity of today's enlisted and Warrant Officers – and tomorrow's residents.

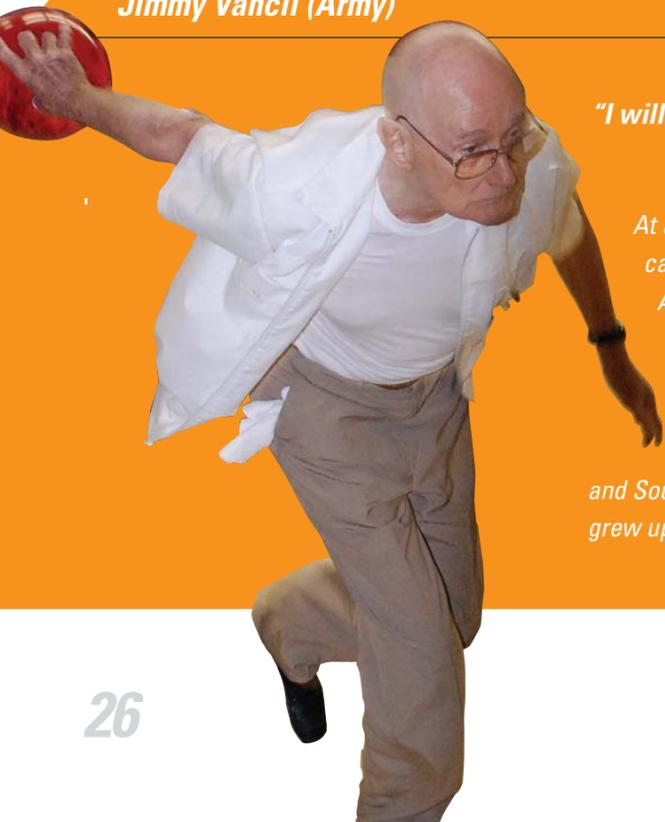
So, the Home's leaders, with the support of Congress, are literally revamping retirement once again. But this can only be realized with sound planning.

The current renewal of this agency began just five years ago with the crafting of our strategic goals. To fully achieve them, this year we crafted four key "focus areas" for operational improvement. Each will play a big part in building vitality at AFRH for our service men and women. Presently, we are maintaining our financial solvency, which is our number one priority. So these planned improvements are, indeed, feasible.

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



Jimmy Vancil (Army)



"I will probably die here – but hopefully not for a long time!"
– Jimmy Vancil (Army)

At age 92, Jimmy's energy level is striking. "I go bowling four times a week. I do calisthenics in my room three times a week, based on the Army's 12 exercises. Also, I run around campus. And I like to dance." Maybe he built up his great endurance working as an Army construction engineer. "We built roads, bridges and pre-fab buildings in WWII. But when the Battle of the Bulge came on, they pulled the guys from support troops and put us in infantry," he said. "We worked from daylight to dark during the invasions of Sicily and Southern France. It was quite an experience for a country boy like me who grew up on a farm, and whose father was a coal miner."

Vision

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

Mission

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

Corporate Philosophy

Our vision and mission are strongly rooted in the Home's heritage. Yet, they also incorporate modern philosophies in senior care. Further, our Guiding Principles were crafted to ensure delivery of the Home's services, while also guiding the success of our strategies. Ultimately, these tools will help us meet the needs of tomorrow's veterans.

Guiding Principles

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

Reengineering Retirement

AFRH ORGANIZATION

Making History

For six generations, the Soldiers' Home in Washington and the Naval Home in Gulfport were great beacons of security for America's aging guardians of freedom. Today, their historic military tradition endures at AFRH. Yet, the Home has truly developed into a progressive retirement community with sound business practices.

In 1992, Public Law formed the AFRH, combining both separate Homes into one organization, with standard policies and procedures. In September 2002, manage-

ment of the new AFRH was handed over to Timothy Cox, COO. Ever since, operations have been moving toward those of a modern CCRC.

While Hurricane Katrina destroyed the Gulfport facility and forced its closure, there was still a great demand for it among eligible seniors. So, Congress agreed to help rebuild this community under the guidance of GSA. Now Gulfport will be ready for re-occupancy in late 2010.

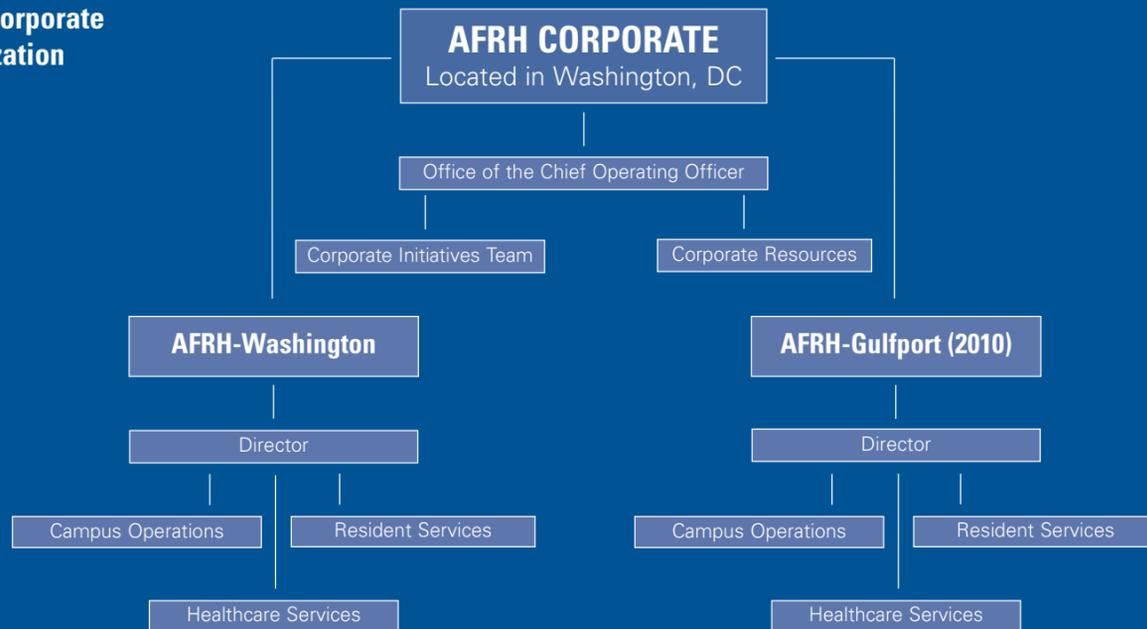
MANAGEMENT STRUCTURE

The AFRH is organized as a modern business, with a corporate office that manages independent functioning retirement communities in different locations. This arrangement allows corporate to make various strategic decisions, as well as communicate with Congress and the Home's constituents.

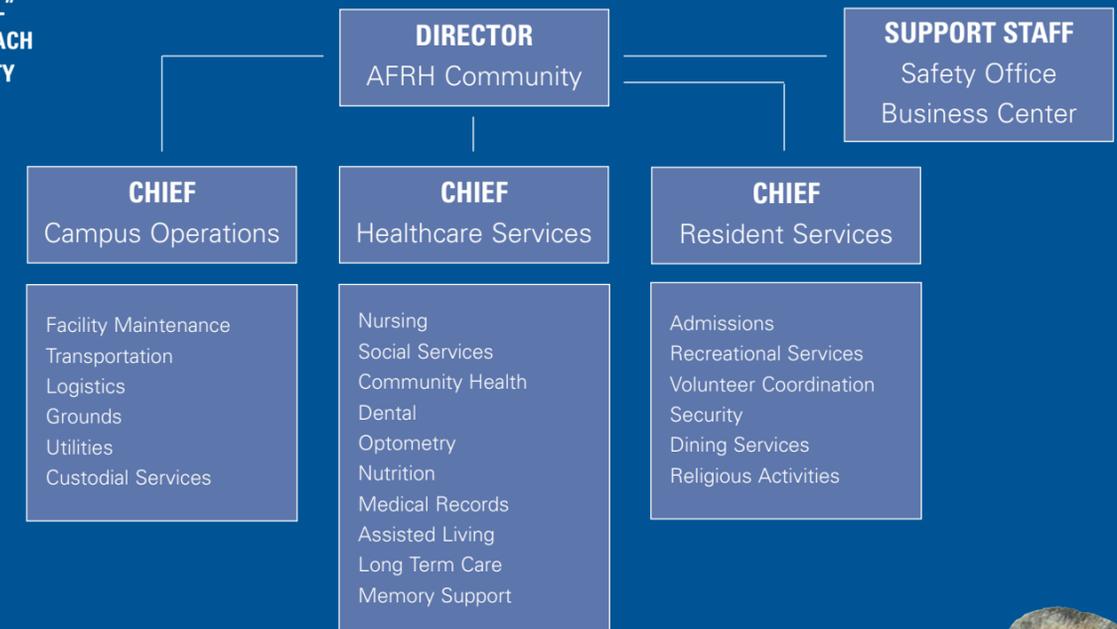
Using the successful "One Model" for all community operations, each Home has a Director who reports to the COO at the corporate level. Plus, each community can make its own tactical operational decisions, manage its facilities and respond to local resident requirements.

Boosting Competence

AFRH Corporate Organization



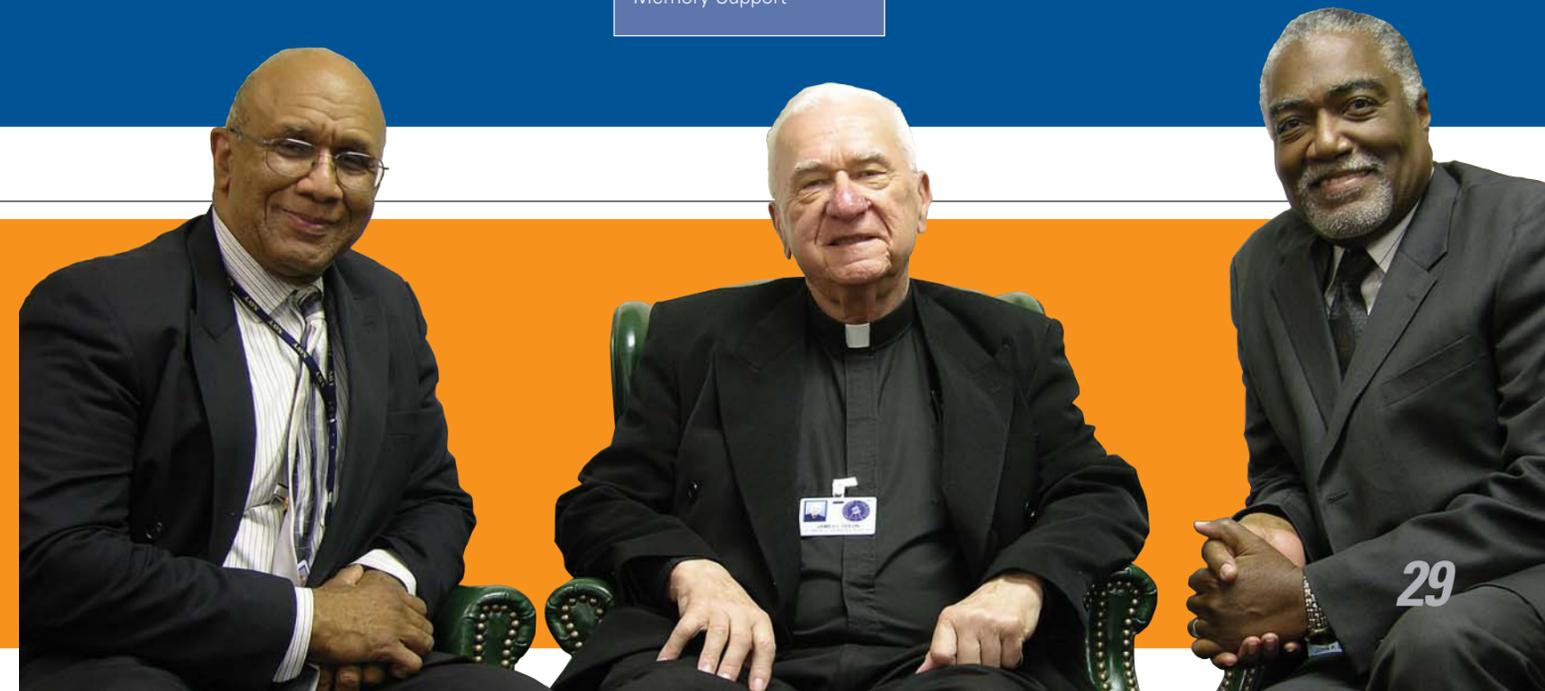
OUR "ONE MODEL" IS AT WORK IN EACH AFRH COMMUNITY



Reverend Ronald Austin, Father James Dixon & Reverend John Goodloe, Sr.

AFRH has three chaplains to serve the various religions on campus. Last year, they united to sponsor a pilgrimage to Strasburg, PA to see "Daniel and the Lion's Den" at the Sight & Sound Millennium Theatre – the largest Christian theatre in the US.

"The performance of 'Daniel' was so lovely. And so was the Amish family-style meal we enjoyed afterward in Hershey Farm, PA."
— Reverend Goodloe (right)





Establishing Renewal

AFRH STRATEGIC GOALS

FY08 FOCUS AREAS

Financial Growth:

Create net growth and stability for the AFRH Trust Fund.

> 1, 2, 4

Exceptional Service:

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

> 1, 2, 3, 4

Improved Processes:

Modernize operations to leverage and maximize resources across AFRH.

> 1, 2, 3, 4

Learning & Growth:

Promote personal excellence and professional growth for all personnel.

> 3, 4

Culture of Integrity:

Inspire commitment to AFRH Guiding Principles through mutual respect.

> 3, 4

In FY08, we simplified our plans with four "Focus Areas" to command our attention. Each Area stems from – and supports – a strategic goal (above).



AFRH PAR FY08

ORGANIZATION: STRATEGIC GOALS & FOCUS AREAS

Our strategic goals have helped us enhance operations to satisfy the residents – the sole reason for our existence. Our big challenge today is transforming an historic relic into a modern CCRC. So, our goals focus on improving finances, operations and staff. Plus, our goals also serve as pillars for detailed performance objectives, which are linked to PMA initiatives.

In recent years, we've struggled to maintain AFRH Trust Fund solvency, promote efficiency, decrease staff and reduce our sprawling underutilized property. This was especially challenging after Hurricane Katrina forced the closure of Gulfport. Yet, through it all, we looked to our strategic goals to guide our decisions in those turbulent times.



FY08 Focus Areas:

- 1 Rebuilding the Gulfport Facility (MS)
- 2 Implementing the Scott Project (DC)
- 3 Earning CARF/CCAC Accreditation (DC)
- 4 Advancing Resident Wellbeing (DC)

The AFRH Strategic Plan is available at www.afrh.gov/afrh/about/strategic.pdf.



ORGANIZATION: SURROUNDS, RESIDENTS & STAFF

AFRH is a vibrant community of active residents, devoted staff and lovely surroundings. As new residents come in, they bring with them physical vitality and a joy for life. And they infuse their energy and ideas to the very foundation of the Home. So, each day, AFRH is growing into a more enjoyable and rewarding place to live for America's guardians of freedom.

Assembling Components



Surrounds:

Washington, DC

- > 272 flourishing acres in Northwest DC, near US Capitol
- > A "city within a city," with extensive services & amenities
- > Ample grounds include a 9-hole golf course & driving range
- > Site of several historic landmarks (circa 1850s)
- > Co-located with the renowned President Lincoln's Cottage
- > Home to all AFRH residents since Katrina damaged Gulfport
- > Development & leasing of property will raise revenue

Gulfport, MS

- > Nestled on 47 acres of pristine beachfront property
- > Location of other AFRH community (since 1976)
- > Former site of the Gulf Coast Military Academy
- > Modern facility now being built, to replace destroyed site
- > Recipient of Congressional appropriations for rebuild
- > Construction is on-schedule (late 2010) & on-budget

Residents:

1065 total residents consisting of:

- > Retired career military personnel
- > War theater combatants
- > Those with service-related disabilities, and
- > Females in service prior to 1948

Average age: 83 years

Active in community, patriotic to country

80% - Independent Living

7% - Assisted Living, and

13% - Long Term Care

90% male / 10% female

Youngest Male: 42

Oldest Male: 103

Youngest Female: 59

Oldest Female: 98 (2)

Longest residency: 49 years

Staff:

- Dedicated, compassionate & energetic
- Salaried professionals & contracted experts
- Broad mix of service & health personnel
- A multicultural blend of dedicated workers

AFRH residents share a unique military bond and they often turn to each other for camaraderie. Yet, the residents often rely on our staff to fulfill many needs ... such as emotional support. After all, most residents are single males with no immediate blood relatives. So many AFRH employees reach out and serve as extended family members.

This brand of devotion is simply required to work here. Some staff members plan activities to keep residents active – such as trips, events and celebrations. Others provide maintenance and food service. Whatever the job, customer service is king here. This attitude inspired us to create a service standard doctrine for all staff called "I SERVE."

I Integrity First
S Selfless Service
E Excellence in Everything
R Right Attitude
V Visionary Teamwork
E Embrace Responsibility



Eligibility:

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

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

Demographics:

While our demographics constantly fluctuate, these figures are accurate as of Sep 30, 2008. All 1,065 residents are now residing in Washington. Patiently waiting for Gulfport to reopen (and living in DC) are 214 of the 500+ Gulfport residents evacuated after Hurricane Katrina. An additional 170 people living outside AFRH are waiting to move back – for a total wait list of 384.

Residents who served in War Theaters*:

- World War II: 466 (44%)
- Korean Conflict: 502 (47%)
- Vietnam: 469 (44%)
- Panama: 2 (< .01 %)
- Gulf War: 3 (< .01 %)

Resident Mix (per Eligibility):

- a) 20 year Military Retiree: 806 (76%)
- b) Unable to earn a livelihood (service disability): 81 (8%)
- c) Unable to earn a livelihood (war theater): 119 (11%)
- d) Women serving before 1948: 53 (5%)



CNAs like Sharon M. Allen are honored by COO Timothy Cox and Director of Nursing Liz Weathington.

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

CHALLENGES

Along with our bold new strategy in 2003 came operational challenges that persist today. Entrenched in our strategic goals are many of those obstacles we face daily, such as:

- Achieving our mission with a multicultural workforce
- Satisfying the demands of an aging resident population
- Ensuring that only qualified & trained professionals serve our residents
- Providing high quality care in both health & wellness
- Connecting residents with their military heritage
- Maintaining the solvency of the AFRH Trust Fund
- Staying self-sufficient, so we won't need taxpayer dollars
- Maximizing resources through efficiencies & technology

Despite these challenges, we deployed our performance reporting remarkably well, according to respected sources. In fact, CARF/CCAC surveyors and IG inspections both cited the tight link between AFRH strategy, goals and individual performance as exemplary. That's because our strategy notations flow directly to individual staff members – who quickly become aware of their role in meeting objectives with targeted actions.

In FY08, our IG continued tracking last year's management challenges and also identified several performance challenges stemming from them, as listed below. AFRH managers responded to them with solid progress in all areas, except for falling short in mandatory training.

IG Management Challenges (FY07)

STATUS	CHALLENGE	FY08 RESULTS
Progress ++	Scott Project Implementation	* Conceptual plans & costs were developed * Design work funded FY09; \$70M programmed in 2010
Progress +++	National Patient Safety Goals	* JCAHO Gold Seal maintained * CARF/CCAC onsite visit resulted in no major deficiencies
Progress +	Succession Planning	* One management job expanded to include automatic succession
Progress +++	JCAHO to CARF/CCAC accreditation	* CARF/CCAC accreditation was earned for 5 years, beginning 30 Sep 2008
Progress +++	Constituent & Congressional oversight committee education	* Design for Gulfport Long Term Care – per "aging in place" view, accepted by Congressional committee * NCPC approved Washington Master Plan

Many people watched as the damaged tower was imploded.

Summer 08 marked rapid progress as four floors were raised.

IG Performance Challenges (FY08)

- ✓ Monitor, track & respond to resident maintenance requests
- ✓ Improve upon customer service delivered to residents
- ✓ Boost accountability of funds by each department
- ✓ Increase the visibility of the Home's military heritage
- ✓ Adhere to timelines & participation in mandatory training

SUMMARY: PERFORMANCE ACHIEVEMENTS

AFRH has made steady progress on the strategic goals set in 2003. Today, their measures continue to be met – and our staff continues to perform admirably. As always, the number one goal has been Financial Growth.

Over time, the Trust Fund balance has fluctuated – and actually plunged in the early 1990s. COO Timothy Cox turned the tide with wise financial management. Hence, the Fund rebounded stronger than ever and continues to grow. This gave us critical stability so we could modernize AFRH, provide exceptional service and achieve remaining goals.

In FY08, we identified our four top "focus areas." All four were mapped to our strategic goals and individual actions – since their success calls for widespread dedication. Our performance measures were baselined in FY07 and many of the outcomes apply to several of our focus areas.

Focus 1: Rebuilding the Gulfport Facility (MS)

Our oceanfront Home was at capacity before Hurricane Katrina destroyed it. So Congress generously gave emergency appropriations to rebuild and designated GSA to lead efforts. GSA hired Jacobs Engineering to manage the rebuild, and chose Yates Construction, a local contractor known for its timely design/build capabilities.

The initial days of FY08 were marked by the implosion of our damaged tower. Residents are following construction on a live video cam at afrh.gov, which also has weekly progress photos. Indeed, they're excited about the new design, which features expanded living space, balconies on every room, accessible public spaces and accommodations for severe weather.

In Jan 08, the staff and residents brainstormed new ways to manage the Gulfport reopening. By spring,

a Corporate Planner was hired to manage the overall move, furnishings, staffing and contracting. This project alone requires a massive team effort – yet this is only one of four major endeavors happening at once.

Status: Project is on schedule and on budget. This focus area is tied to objectives in all five strategic goals.

Focus 2: Implementing the Scott Project (DC)

Bolstering the Trust Fund's solvency has been a top priority for some time. So, major repairs to the aging Washington infrastructure were postponed. There simply wasn't enough money for the hundreds of millions worth of improvements we identified.

Still, Congress requested that we complete a Long Range Financial Plan to assess AFRH Trust Fund solvency. In the interim, a modest amount of \$76 million was programmed for essential capital improvements to Scott, which hasn't been updated since 1987.

Status: Trust Fund solvency will be verified in FY09. This focus area is tied to objectives in all five strategic goals.

Focus 3: Attaining CARF/CCAC accreditation (DC)

The National Defense Authorization Act (NDAA) of 2008 (PL 110-181) directed AFRH to secure/maintain accreditation for all AFRH services – including medical, dental, pharmacy, independent living, assisted living and long term care. Previously, the aim was to maintain JCAHO accreditation, but that distinction only covered healthcare.

As reported in our FY07 PAR, we began seeking CARF/CCAC accreditation. Their broader standards assess deficiencies, effectiveness and the provision of services. Last year, we prepared for an initial survey to see how well our services meet CARF's quality standards.

Status: The August survey was highly positive and AFRH received its accreditation. This focus area is tied to objectives in all strategic goals but Financial Growth.

Focus 4: Advancing Resident Wellbeing (DC)

The COO has promoted our vision for "aging in place" with the aid of experts in gerontology, architecture and engineering. The goal is to customize the living space and physical activities to our male-dominated population with an eye towards longevity and wellness. This model is driving a major cultural change for the residents and staff, who have functioned under an institutional-driven approach for decades.

Our culture change entails new staff training, service standards, guiding principles, resident rights and CARF accreditation. Two products emerged to ensure success: the Resident Covenant and Customer Service Standards. Part of the LRFP was a resident profile study, resident-expressed activity preferences, and the creation of a Vitality Plan to manage the various care needs of residents.

Status: In resident profile study, 30+% turned in comprehensive surveys. Results show greater satisfaction. This focus area is tied to objectives in all five strategic goals.



Surmounting Barriers

SUMMARY: PERFORMANCE ACHIEVEMENTS (cont.)

FY08 Performance Measures

All measures stem from the AFRH strategic goals and objectives and are weighed against the FY07 base-line. With the emergence of our four focus areas in FY08, we elected to complete a performance analysis for them, too. Together, these measures will form a complete picture of how we are doing.

As always, our managers review staff performance using the AFRH Business Plan and its corresponding action plans. Plus the integration between budget and goals is carefully monitored.

Financial Growth continues

The Trust Fund balance is steadily increasing. Another unqualified audit opinion was achieved. Plus, progress was made toward integrating our budget and performance.

Exceptional Service targets on track

We are steadily realizing our vision to bring the workforce up to speed. Yet, culture change is slow. Going forward, we are confident that adapting to faster and more efficient ways to deliver our services is imminent. And so far, the results we've seen are positive.

Improved Processes: measures met

Our immediate aim has been to advance culture change and adopt more efficient ways to deliver great services. So, two major automated systems were installed: HomeFree (a resident wander alert and nurse call system), and an automated Contract Maintenance Management System (to improve response time to resident maintenance requests).

Learning and Growth targets reached

Progress was shown on all our mandatory training goals, but we're still not at 100%. During CARF preparations, training was written into every performance plan and a succession plan for top management was initiated.

Culture of Integrity measures in progress

Culture change was emphasized at our offsites this year. To facilitate change, expanded programs and celebrations will be offered to the residents and staff. Incidentally, FY08 was the first year an employee climate survey was distributed and about half the staff responded.

Ron Harding (Air Force)

"It's great here. I think I've died and gone to heaven."

Ron was diagnosed with Parkinson's and couldn't work anymore. He lived with his kids, but that didn't work either. Then he remembered he paid 50 cents from each paycheck to AFRH for 20 years.

"I've been here three years now and it's great. I try not to let my Parkinson's hold me back. The prognosis is not good ... but so far it's been medically controlled, because I have great care at Walter Reed."

Today, Ron is working again – nearly six days a week in the Chaplain's Office managing 10 volunteers. They all support four chaplains, two churches and hospital church services.

"We help solve people's problems – usually within a few hours," he said. Ron also enjoys playing cards on the computer and goes to the gym and theatre, occasionally.

"If you're unhappy here, you'll be unhappy everywhere!" he joked.

SUMMARY: STRATEGIC GOALS: Met 86% of goals

Performance Measure	Baseline FY07 Target	FY08 ACTUAL	MET/NOT MET
GOAL: FINANCIAL GROWTH			
Net growth to AFRH Trust Fund	Any gain over previous year	+\$8 million	M
Cost savings via Asset Management per year	\$500K	<\$500K	NM
Accuracy of financial reporting	Unqualified audit opinion	Unqualified audit opinion	M
Solvency of AFRH Trust Fund	Even balance of resources versus obligations	Even balance of resources versus obligations	M
Cost savings initiatives	4	3	NM
Effectiveness of the acquisition strategy	% of award dates that are met or improved	80%	M
% of inaccuracies found via Internal Controls	5% or less	.12%	M
GOAL: EXCEPTIONAL SERVICE			
% of Resident Service Survey responses of "Excellent" or "Very Good"	75%	75%+	M
# of new Independent Living residents	+144*	+154	M
# of military heritage events per year	6	10+	M
# of partnerships with external stakeholders	5 per year	5+	M
% of employees trained in health & wellness	70%	96%	M
GOAL: IMPROVED PROCESSES			
OPERATIONAL: Reengineered processes with automation	+2	2	M
ORGANIZATIONAL: Communications enhancements between employees & residents per year	+1	1	M
GOAL: LEARNING & GROWTH			
Evidence of measurable training goals	100% participation in 4 mandatory training classes for all staff	Less than 100% participation	NM
% of training written into employee Performance Plans	100%	100%	M
Evidence of a needs based succession plan	Plan	Management Succession	M
GOAL: CULTURE OF INTEGRITY			
# of new cultural / volunteer programs	+1	+1	M
# of staff offsite activities	2	2	M
% of completed employee performance reviews	100%	100%	M
% of staff Climate Survey responses of "Excellent" or "Very Good"	70%	71%	M

*Number will fluctuate when Scott Project starts

Gauging Success

PRESIDENT'S MANAGEMENT AGENDA

Expanding Efficiency

Monitoring Federal agency performance has been an Executive concern for decades. President Nixon endeavored to use OMB to keep spending in check. The Reagan administration managed via the Grace Commission on government waste. And President Clinton tasked the vice president to reinvent government, via the National Performance Review.

The Bush administration expanded this progressive approach – and has dramatically improved agency performance with sound business practices. The PMA embodies proven methods that improve the management of government and eliminate waste.

While the Home has never formally submitted a PMA for evaluation, it does hold managers accountable to it. In fact, each status is reported yearly here in the AFRH PAR, which demonstrates our commitment to greater efficiency.

In the past, we pulled all resources to achieve success on just one PMA initiative. This year, we decided to channel all efforts into the four focus areas, where progress was vital. Still, all four areas directly contribute to Improved Financial Performance. Plus, the resident focus involves key actions in Expanded Electronic Government.

Achieving Progress

According to Clay Johnson, Deputy Director of Management, the OMB deliberately makes it difficult for any agency to earn a green score. "It's not easy to be green," quipped Johnson. "And getting to green and yellow is hard." Nonetheless, AFRH is proud of its greens and yellows in all of these key initiatives.

PMA Initiative

Status

	FY04	FY05	FY06	FY07	FY08
Improved Financial Performance	Red	Yellow	Green	Green	Yellow
Competitive Sourcing	Green	Green	Green	Yellow	Yellow
Strategic Management of Human Capital	Yellow	Yellow	Yellow	Yellow	Yellow
Budget & Performance Integration	Yellow	Yellow	Yellow	Yellow	Yellow
Expanded Electronic Government	Yellow	Yellow	Green	Green	Green

Financial Performance

AFRH continues to earn unqualified audit opinions. And the Trust Fund is solvent. Moving forward, the approval of the Washington Master Plan – our risk management strategy – depends on finding developers who are willing to lease and build on the property. Also, the Gulfport reopening will boost revenue.

AFRH has no chronic or significant Anti-Deficiency Act Violations, no material auditor-reported internal control weaknesses and no material non-compliance with laws or regulations. Further, our agency head provides an unqualified statement of assurance in this report. This success is noteworthy. Yet, the uncertainty associated with leasing our property makes our overall status **Yellow**.

Competitive Sourcing

This endeavor has run its course at AFRH. Only one contract (Food Service) is still being evaluated. Plus only one last report is due (Facilities Maintenance). Given our agency's small size, most eligible areas have been reviewed and awarded by now. So this initiative is **Yellow**.

Strategic Management of Human Capital

This area is strong at AFRH. Since 2004, we have aligned our strategies to individual performance plans. The Home was cited by the CARF/CCAC survey (see the certification letter in "Management Assurances") as having an excellent, well-developed strategy. And we have 100% of our performance plans completed. In FY08, AFRH appointed its first Corporate Human Capital Officer (CHCO), plus the Performance Plan was updated with our guiding principles. Finally, training for the CARF/CCAC inspection touched nearly all staff members.

Additional succession planning was created through the new DCOO/CFO position.

However, succession planning was not fully developed and mandatory training was not totally realized. Thus, our status is **Yellow**.

Budget and Performance Integration

For two years now, we've been developing the integration of budget and performance in our accounting system. Finally, this has been achieved. Starting in FY09, all financial reports will list expenses along with their associated strategic goal. This marks a great advance for next year. Yet, for this year, our status remains **Yellow**.

Expanded Electronic Government

AFRH has kept pace with technology changes as best as possible, given our available resources. We renewed our network Certification and Accreditation and made network security classes mandatory. Plus our HomeFree resident locator system is in place and we expanded personal computing capabilities with designated computer areas for residents. Next up: printers, copiers, communications and telephones. Hence, our status in E-Gov is **Green**.

"These solutions are practical measures, well within our reach to implement."
—George W. Bush

Designated computing areas get more residents online.



Expanding Efficiency

FINANCIAL SUMMARY & HIGHLIGHTS

Through FY08, the Home continued its successful fiscal management, in tandem with its financial partner, Bureau of Public Debt (BPD). This alliance was forged in 2004 and our statements have been generated directly from their management system ever since.

Our recent victories are numerous. The Trust Fund

rose by \$8 million. FY08 marked our fourth consecutive unqualified audit opinion. Plus, a milestone was reached in automated reporting when we created codes to match budgets to strategic goals. While AFRH was hit with rising fuel and utility costs mid-year, we curbed our spending to end the year on balance.

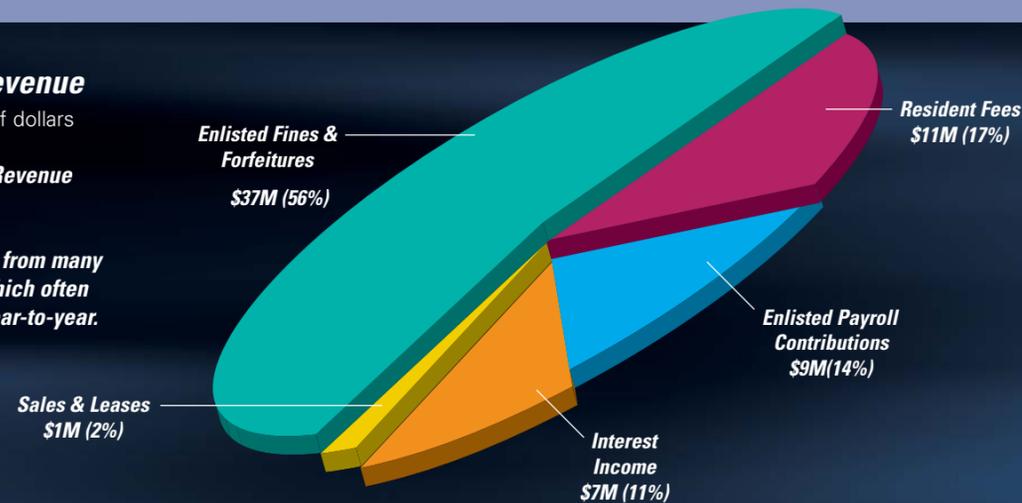
Operational funds come from our Trust Fund, which is sustained by many sources:

AFRH Revenue

in millions of dollars

FY08 Total Revenue = \$66M.

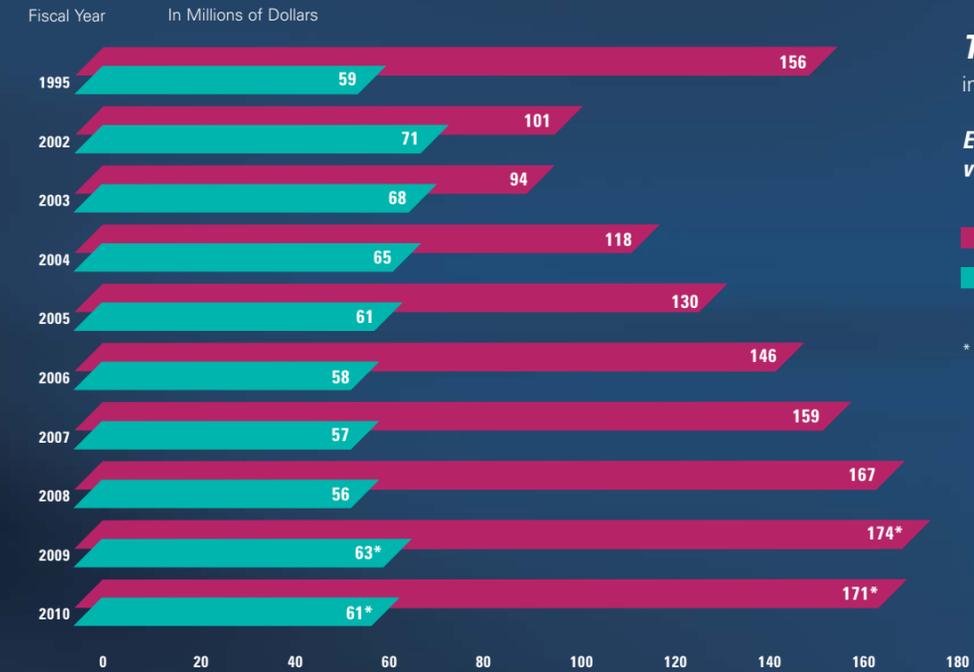
This comes from many sources, which often fluctuate year-to-year.



AFRH Trust Fund Balance

in millions of dollars

Since 2002, the Trust Fund has increased from wise financial management.



Trust Fund Budget Authority

in millions of dollars

Each year, we withdraw operating funds via a budget request to Congress.

Trust Fund Balance
Budget Authority

* Projected



Staffing

AFRH has decreased staff since the mid-90s. Many wonder how we still provide exceptional service with fewer employees. Yet, there are sound reasons for the reductions:

- > Staff from 1995-2005 included Gulfport (which has been closed since 2005)*
- > AFRH-Washington had 2000 residents in 1995 (and just 1,065 today)
- > In 1995, there were five residences operating in Washington (now there are three)
- > In 2004, we sold 49 acres to Catholic University to reduce our footprint
- > Fewer maintenance workers are needed to care for fewer residents & acreage
- > Dining services, maintenance & transportation are now outsourced
- > Healthcare was spread across many buildings in the past (but in 2008 it was centralized, reducing the staff count).

* Staff for the new Gulfport will be hired in 2010.

Mounting Gains

FINANCIAL SUMMARY & HIGHLIGHTS (cont.)

Review of Financial Statements

Our statements are drawn from a modern, web-based financial system maintained by BPD's Administrative Resource Center (ARC) – an OMB-approved "Center of Excellence for Financial Management." ARC has been our business partner since 2004 and their system uses reliable and complete data. AFRH accepts responsibility of reporting performance and data accuracy.

Brown and Company, PLLC, is a firm of CPAs and Management Consultants. As independent auditors, they have given AFRH an "unqualified" audit opinion for FY08. Further, they have reported no material weaknesses.

Victory:

FY08 is the fourth consecutive year AFRH has received unqualified audit opinions (See Financials).

Limitations of the Principal Financial Statement

These statements were prepared to report the financial position and operating results of AFRH, pursuant to the requirements of 31 U.S. 315(b). We followed generally accepted accounting principles (as defined by the CFO's Act of 1990 and OMB). These statements are in addition to financial reports prepared from the same books and records used to monitor and control budgetary resources. They should be read with the understanding they're for a component of the US Government, a sovereign entity.

Victory:

AFRH is in compliance with all relevant laws, statutes and legislation.

Balance Sheet

When comparing FY08 to last year, you can see a positive upward trend – with assets increasing in value – and liabilities steadily decreasing with efficiencies and cost containment.

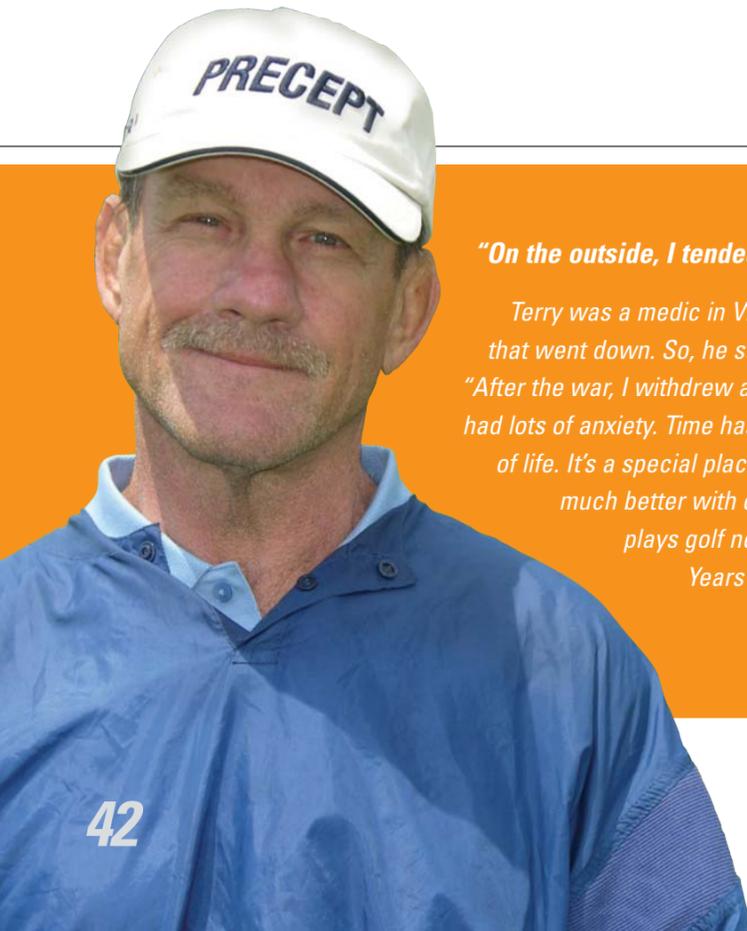
Assets:		
FY08	FY07	Net changes:
\$469,867,888	\$465,615,106	\$4,252,782
Liabilities:		
FY08	FY07	Net changes:
\$14,939,341	\$7,048,896	\$7,890,445

Net Costs (by Program and Strategic Goal)

For now, AFRH has two separate accounts of its net costs: one by Program (appearing in the Financial Statements), and one by Strategic Goal (satisfying the PMA budget and performance integration requirement).

Victory:

AFRH continues to spend most of its budget on exceptional service (see charts).



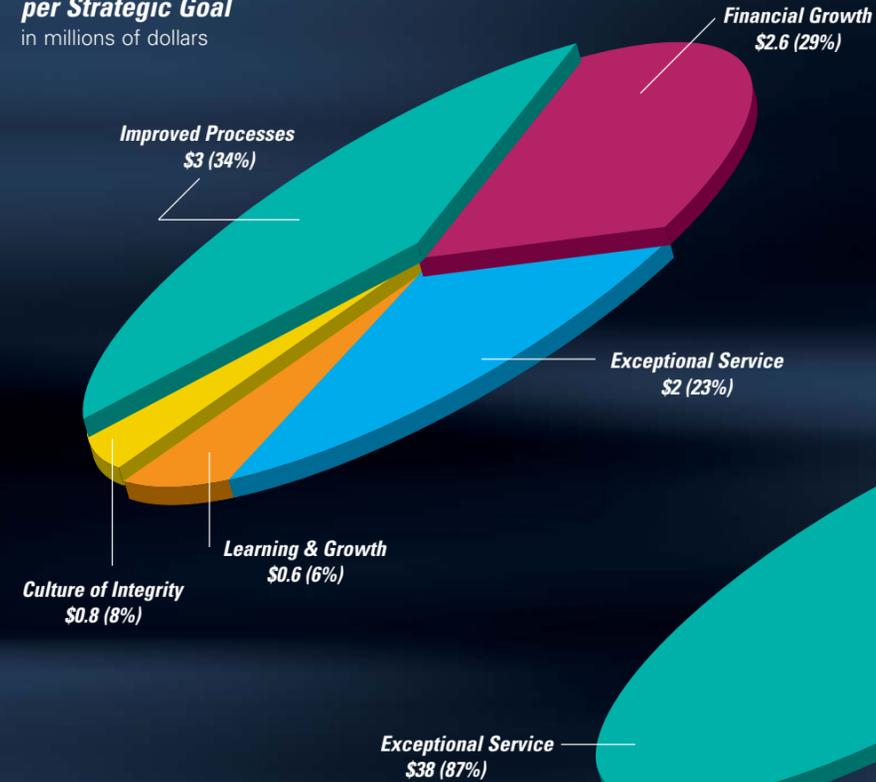
Terry Sawyer (Army)

"On the outside, I tended to withdraw and be 'inner.' Here, I tend to be more 'outer.'"

Terry was a medic in Vietnam. He got wounded himself, plus he was inside a helicopter that went down. So, he struggled with combat stress and social readjustment for decades. "After the war, I withdrew and life was pretty tough for 20 years. I was real depressed and had lots of anxiety. Time has a way of healing you. Plus the Home has really helped my quality of life. It's a special place with special people." Terry came here and started interacting much better with others. Now he goes to the gym in the mornings to exercise and plays golf nearly every day. "I walk the course and it's peaceful," he reflected. Years ago, I weighed 250 lbs. – now I'm 180."

AFRH Corporate 08 Operating Expenses per Strategic Goal

in millions of dollars



AFRH Washington Community 08 Operating Expenses per Strategic Goal

in millions of dollars



Valuating Achievement

MANAGEMENT ASSURANCES

Compliance with Legal and Regulatory Requirements

AFRH managers participate in all internal controls, as do our partners BPD and the National Finance Center (NFC). We have assessed the effectiveness of our internal controls, in accordance with the Federal Managers' Financial Integrity Act (FMFIA) (PL No. 97-255) Section 2 and OMB Circular A-123, Management's Responsibility for Internal Control. Based on our assessment, AFRH can provide reasonable assurance that objectives have been achieved. No material weaknesses have been reported in our internal controls or financial reporting.

"I can provide reasonable assurance that AFRH is in compliance."

—Timothy Cox, COO

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

- AFRH financial reporting is reliable.
 - Transactions are properly recorded, processed and summarized to permit preparation of financial statements in accordance with generally accepted US accounting principles. Assets are safeguarded against loss from unauthorized acquisition, use or disposition.
- AFRH is in compliance with all applicable laws and regulations like FMFIA, FFMIA and FISMA.
 - Our financial and business exchanges are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.
- AFRH performance reporting is reliable.
 - Performance measures are properly recorded, processed and summarized to permit information preparation per criteria established by AFRH management.

Timothy C. Cox



Chief Operating Officer
November 14, 2008

CONTROLS, SYSTEMS & COMPLIANCE

Ongoing Inspections

Triennial inspections by rotating IGs have been ongoing for years. The Air Force IG finalized our last one in FY05. However, the NDAA of 2008 added requirements for inspections:

- 1) The AFRH must secure and maintain accreditation by a nationally recognized civilian accrediting entity for each aspect of every facility of the Home (including medical and dental care, pharmacy, independent living, assisted living and nursing care).
- 2) Any year in which a facility of the Home is not inspected by said entity, the IG of the Department of Defense (DoD) shall perform a comprehensive inspection on all aspects of that facility (including independent living, assisted living, medical and dental care, pharmacy, financial and contracting records, plus any aspect the Local Board, Resident Advisory Committee or Council of the facility recommends for inspection).

Earning Accreditation

CCAC/CARF is America's only accrediting body for CCRCs and other aging services networks. Before CARF, consumers and financial rating agencies had no clear way of knowing if a retirement community was financially stable, if it provided quality care, or if it was investment-worthy. Today, CARF accredits all kinds of senior care providers (E.g., home-based, community-oriented and hospital-based).

AFRH prepared for this inspection for almost a year and operated under the CARF standards for at least six months prior to the visit. The survey team spent time with AFRH staff in Aug 2008 and gave a very positive report.

September 30, 2008

Linda E. F. Rader, Ph.D.
Administrator, Healthcare Services, King Health Center
Armed Forces Retirement Home - Washington
3700 North Capitol Street NW, LaGarde Building
Washington, DC 20011-8400

Dear Dr. Rader:

It is my pleasure to inform you that Armed Forces Retirement Home - Washington has achieved accreditation from CARF-CCAC for Assisted Living, Continuing Care Retirement Community, Person-Centered Long-Term Care Community, Dementia Care Specialty Program, and Person-Centered Long-Term Care Community.

Your organization's accreditation designation is a five-year term through August 2013 with annual demonstration of conformance to the standards and the policies and procedures required to retain accreditation. This achievement is an indication of your organization's dedication and commitment to improving the quality of the lives of the persons served. Services, personnel, and documentation clearly indicate an established pattern of conformance to standards. In particular, your organization was recognized by your peer survey team as having exemplary conformance in the following areas:

- The performance and accountability annual reports to Congress are extensive, clear, timely documents that give an in-depth overview of the organization and its forward-looking and creative picture of the strategic direction of Armed Forces Retirement Home - Washington (AFRH).
- AFRH's chief operating officer has minimized long-term financial threats by developing and seeking implementation of an innovative strategic initiative to lease 77 acres of land and turn them into a long-term revenue stream.
- The strategic plan for AFRH is a complete document that is well developed with input from stakeholders who thoroughly research and outline their respective areas with solid recommendations for consideration in the final strategic plan document.
- AFRH's total excess margin ratio, operating ratio, and days cash on hand ratio exceed the 75th percentile for single-site CCRCs in CARF-CCAC's database.
- There are a wide variety of on- and off-campus activities. The on-campus activity facilities include a movie theater, bowling alley, and a 50,000 volume library.

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VICTORY: In FY08, the Home underwent inspection by CARF/CCAC and was awarded accreditation through 2013. AFRH still maintained JCAHO's Gold Seal of Approval™ for its nursing units through FY08. The next DoD IG visit is slated during FY09.

Reinforcing Confidence

CONTROLS, SYSTEMS & COMPLIANCE (cont.)

Rigorous controls were integrated into our financial reporting system, via BPD and NFC. Plus, a Senior Assessment Team at AFRH has conducted oversight of our Internal Control program since 2006. Each manager

on this team reports controls through an annual questionnaire and no material weaknesses were reported in FY08. Our internal controls fall into five categories as required by law:



1) Control Environment (organizational structure & culture):

- AFRH Inspector General
- EEO Office
- AFRH IG Employee Hotline
- AFRH IT Review Board
- AFRH Ombudsman
- AFRH Ethics Officer
- AFRH Senior Assessment Team
- Chain of command review and approval of policies & procedures
- AFRH Resident Advisory Council
- Office of Undersecretary for Personnel & Readiness, OSD

2) Risk Assessment (identifying factors that may hinder objectives):

- Corporate Resources annual self-evaluation & risk assessment
- Risk Management strategy via Washington and Gulfport Master Plans
- AFRH 10-year Financial Plan
- Community annual self-evaluation & risk assessment
- AFRH Multi-Year Capital Improvement Plan
- IG Management Challenges in PAR

3) Control Activities (policies, procedures & mechanisms):

- Internal Control Directive
- Dining Customer Service program
- AFRH Performance Plan
- AFRH Policies & Directives
- AFRH Local Advisory Board
- National Finance Center for payroll & time/attendance data entry
- AFRH Strategic Plan
- AFRH Business Plan
- Mandatory training in network security
- BPD-ARC financial management
- Homeland Security Personnel ID Verification template in compliance
- OMB

4) Information & Communications (flow of information):

- COO Management Assurances in PAR
- Resident Town Hall meetings with Director
- Agency website: afrh.gov
- Open meetings with residents
- AFRH PAR published annually
- Website for Washington Master Plan on afrhdevelopment.com

5) Monitoring (periodic assessments):

- Corporate Resources annual self-evaluation & risk assessment
- Annual and periodic resident surveys
- CARF/CCAC accreditation
- Annual independent audit of AFRH Financial Statements
- OPM routine inspections
- US Army Sanitation inspections
- Bolling Air Force Base Judge Advocate General
- FFMIA compliance
- Occupational Safety and Health Administration (OSHA)
- Community annual self-evaluation & risk assessment
- DoD IG onsite visits
- JCAHO routine & on the spot inspections
- C&A for FISMA compliance, Computer Security Act & OMB Circular A-130
- Food and Drug Administration's (FDA) Food Code
- PMA – self assessment
- FMFIA compliance
- IPIA compliance

Maintaining Control

OVERALL COMPLIANCE: YES

1. System Requirements Yes 2. Accounting Standards Yes 3. USSGL (transactions) Yes

Federal Manager's Financial Integrity Act (FMFIA) 31 USC 3512 (as it pertains to operational and administrative controls).

This Act requires us to report on the health and integrity of our financial, program and related activities. It ensures that resources are consistent with the overall mission, that programs achieve intended results, and that programs and resources are free of waste, fraud and mismanagement.

The agency head must see that laws and regulations are followed and fiscal management complies with Federal standards. FMFIA sets requirements for internal control and it requests annual evaluation of the control and financial systems that protect the integrity of Federal programs. AFRH performs the evaluations yearly and is pleased to report no "material weaknesses" have been found in FY08.

Federal Financial Management Improvement Act (FFMIA)

This Act requires all agencies to provide reliable, consistent disclosure of data, per generally accepted accounting principles and standards. For FY08, AFRH is in substantial compliance. Our partner, BPD-ARC, has established our accounting process and they are also in compliance with FFMIA.

Based on agency assessment and the audit opinion, AFRH is indeed in compliance with Federal financial management systems requirements, the Federal Accounting Standards Advisory Board, and the US Standard General Ledger (USSGL) at the transaction level.

Federal Information Security Management Act (FISMA)

FISMA requires a thorough review of the adequacy and effectiveness of AFRH information security, privacy policies, and even procedures and practices.

A primary objective of FISMA is to ensure the effectiveness of information security controls. Under the guidance of strong senior leadership, AFRH enhanced overall information security – and improved the security of the agency's IT hardware and software assets, too.

In FY08, BPD performed the annual risk assessment and AFRH passed, receiving a "B grade," with an addition to the network architecture for HSPD-12 PIV (Homeland Security Presidential Directive 12 – Personal Identification Verification).

In FY06, AFRH earned its coveted Certification and Accreditation (C&A). In FY08, our C&A was recertified.

Financial Management Systems Framework

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

RISK MANAGEMENT

The greatest risk to AFRH is a shrinking Trust Fund balance. Therefore, ever since 2002, our major strategy has been to: a) keep the Fund solvent, and b) maintain and increase its balance. To achieve both, we created three major risk management strategies:

- 1) *Washington Master Plan*
- 2) *Gulfport Master Plan*
- 3) *AFRH Long Range Financial Plan*

These strategies seek to guarantee the *Promise* to our nation's veterans and retired military that we will care for them in their golden years. And that AFRH will be there for future generations of soldiers, sailors, airmen, marines and coast guard. We are pleased to report that our risk management strategies have forged great results in FY08.

Washington Master Plan

To supplement the Trust Fund and to ensure financial stability, Congress gave AFRH the authority to sell or lease real estate in the FY02 NDAA. We will capitalize on this Act and leverage the value of its real estate by offering portions of AFRH-W for development in line with our mission.

The approved Master Plan calls for private, mixed-use development and leasing on portions of ZONE A, including residential, office, R&D, institutional, medical, retail and a hotel. Development is slated to occur over the next 15-20 years, and we are anticipating initial revenue in 2014.

Ultimately, this Plan keeps the core of our Washington community intact, protects the quality of life for residents, and preserves the historic and environmental quality of one of the most beautiful sites in the capital city.



We will develop "ZONE A" along N. Capitol Street in Washington.

Essential Timeline

- 2003** AFRH hires GSA to lead the Washington Master Plan process.
- 2004** AFRH and GSA develop a process to keep residents, neighbors and decision makers involved with our intentions. Also, AFRH hosts the first public "scoping session" in September.
- 2005** The Draft Environmental Impact Statement (DEIS) is vetted and public discussions are held from May to July. Public neighborhood meetings are held in October & November to give information, solicit opinions and answer questions.
- 2006** Master Plan is submitted to the NCPC in February. AFRH releases Request for Qualification (RFQ) and three developers are chosen to receive an RFP.
- 2007** Preferred developers are selected to build out Zone A. Final DEIS submitted to NCPC.
- 2008** Final Master Plan is published. NCPC approves Master Plan development of "Zone A."

We aim to give the Washington community more modern amenities.



Securing Stability

Gulfport Master Plan

Rebuilding Gulfport is another key risk management strategy. The temperate weather and oceanfront views make Gulfport in high demand for potential residents. Plus, the resident fees will fuel the Trust Fund. So management has a keen interest in getting the facility up and running again. Thus, AFRH has made this project one of its focus areas, which is discussed in more detail in Performance.

The new and modern Gulfport facility is erected on the same site.

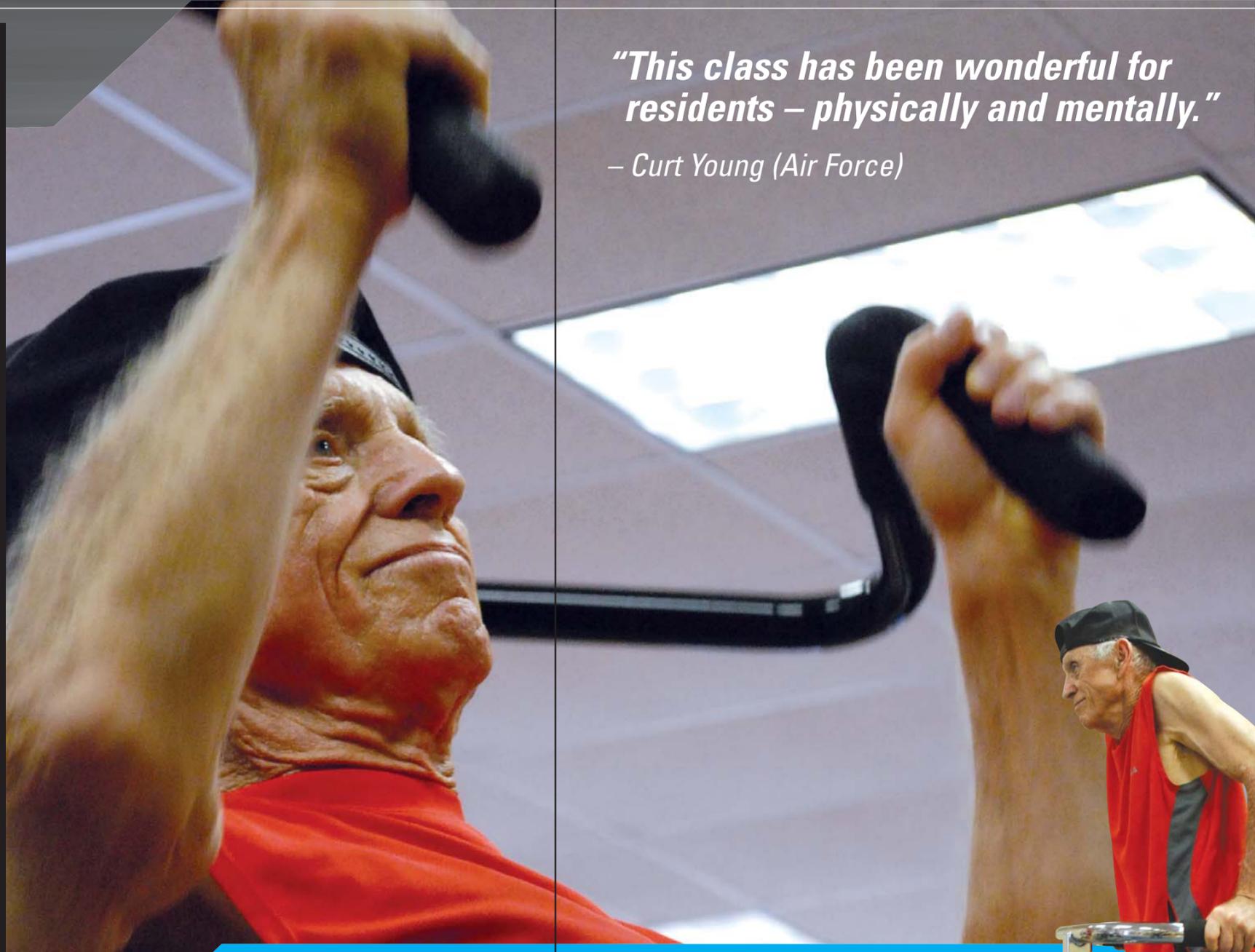
AFRH Long Range Financial Plan

As noted in the FY07 PAR, the Home conducted two major studies to bolster our risk strategy: a 10 Year Financial Capital Plan, and a Trust Fund Solvency study.

Also, Congress asked us to verify that our long-term course of action would maintain Trust Fund solvency. Our resulting plan, the Long Range Financial Plan, seeks to update the Scott residence in Washington. Overall, the Plan embodies our vision that new development and Trust Fund health go hand-in-hand.



Curt is forever Young. He lifts weights, rides bikes, runs daily and teaches "Flexibility & Strength Training" twice a week at AFRH. "I incorporate Yoga and Pilates into the class. We use cables, resistant bands and light barbells. I can see a big difference and some of the residents are really amazing." Curt admitted that a few really struggled at first. And some still can't get up from the matt, so they use raised, padded tables. "The class is 75 minutes and I spend 15 on balance. I see results when someone says, 'I stumbled yesterday, but I didn't fall. I caught myself.' That's HUGE!" he exclaimed. The Home airs his class on AFRH Channel 99 for those who prefer to train in their rooms. Curt says its very satisfying to see them progress. "Marie Townsend went from using a walker to a cane, and from a cane to nothing at all. She's overjoyed and doing great," he said. "You should see her now ... doing this Yoga pose called The Cobra."



*"This class has been wonderful for residents – physically and mentally."
– Curt Young (Air Force)*



In Part 2, we present:

- Introduction
- Performance Achievements
- Rebuilding Gulfport
- Scott Project
- CARF Accreditation
- Resident Wellbeing
- Performance Measures
- Survey Results

Performance



INTRODUCTION

All year, the Home's management has energized the staff to take initiative and do more. Establishing our four focus areas helped crystallize our vision and guide our collective efforts. To ensure that we continue to achieve our mission, we made sure that all four areas were directly tied to meeting our strategic goals, objectives and individual performance targets.

Yet, this is merely a natural progression of our past success. Since 2003, we've carved a solid record of strategic planning implementation. With our Strategic Plan as a guide, managers designed objectives and action plans to realize larger agency goals. Matching activities to strategic plans and measuring tangible results have yielded success year-after-year.



LEVERAGING GROWTH

Financial stability is integral to our survival. Since AFRH spends money out of its own Trust Fund, growing that Fund has been key to our revival. Yet, we must ensure that our recent financial victories do not falter. To remain at our current high point, we must be forward looking. We must continually survey the changing financial world we now live in – and make prudent decisions on how we manage our money. Moving forward, we will remain flexible and adjust our financial strategy as needed, based on evolving developments.

For now, we'll continue to provide required services for the residents of tomorrow. Naturally, we're spending money in the most critical areas – in wise and efficient ways. All the while, we will never forget that caring for residents and providing exceptional service is job one.

Driving Progress

Paul Harvey (Army)

Several residents enjoy fixing cars in the auto shop. Others change their oil in one of the four bays. But, Paul Harvey: he's the rest of the story. "I'm very knowledgeable about auto repair. And I give residents a hand if they have trouble," he said. "This white car belongs to Mike and we're doing a complete restoration. It's a 1963 Morgan with only 50,000 miles – and it's worth about 60 Grand the way it sits now." Then Mike injected: "I've had it since it was new. We took it apart to paint it. We put in a new engine liner. And pistons too," he said deliberately. "This is therapy for me ... I like having something to do," he beamed.

"We're doing a complete restoration on this 1963 Morgan. It's worth \$60,000 as it sits now."



FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

- > Financial Growth
- > Exceptional Service
- > Improved Processes

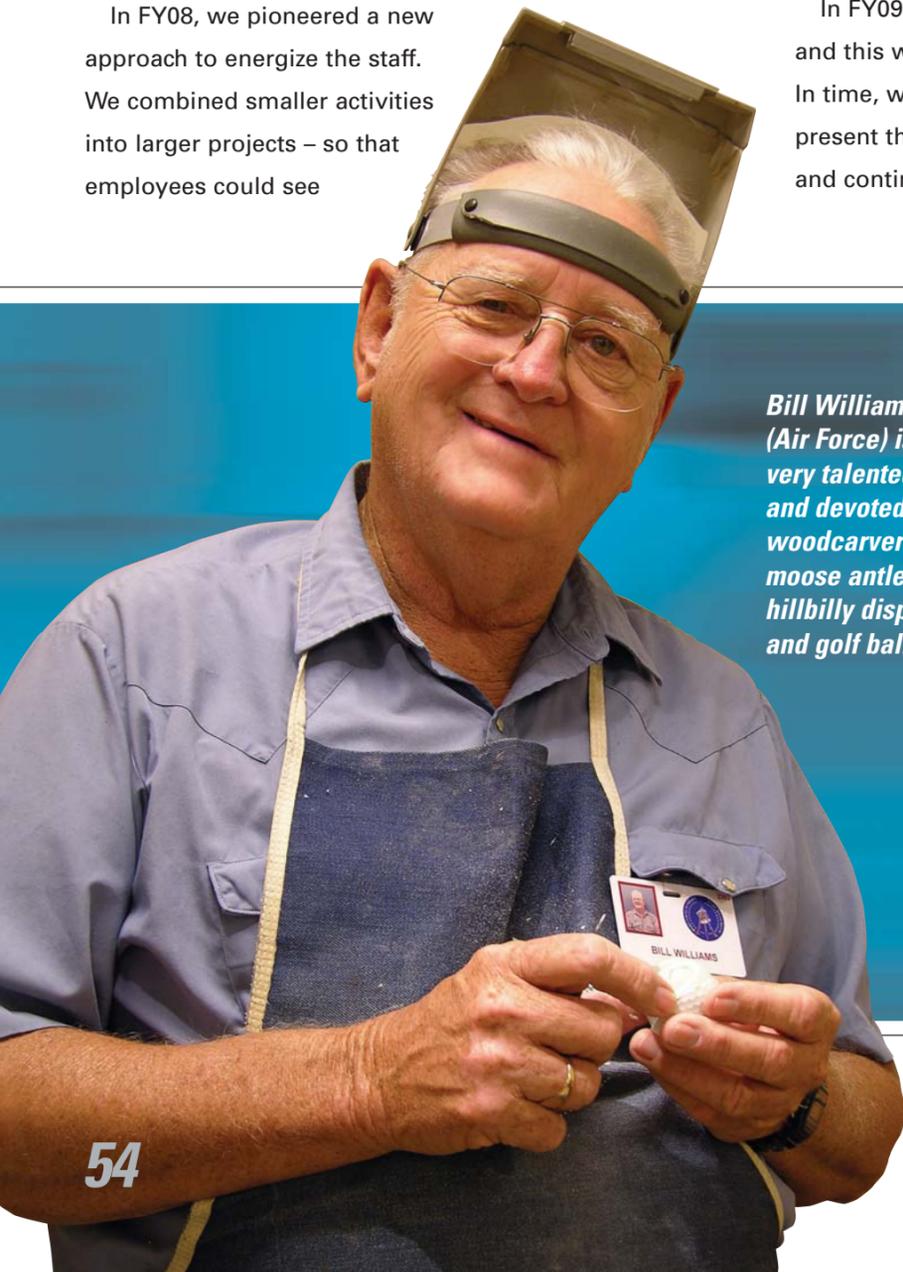
PERFORMANCE ACHIEVEMENTS

In FY07, we baselined our performance measures by first isolating, then consolidating, key metrics. Then we made a commitment to integrate our agency performance with budget allocations. In our FY07 PAR, we identified the various costs associated with each strategic goal.

In FY08, we pioneered a new approach to energize the staff. We combined smaller activities into larger projects – so that employees could see

“the big picture” and visualize their role in our success. Targets were created to boost achievement in four key “focus areas” that directly impact our bottom line. And we are now presenting results on the ensuing pages for the first time.

In FY09, our budget integration will be fully automated and this will be reflected in AFRH financial statements. In time, we’ll identify effective outcome measures, present the associated costs per strategic goal and continue to monitor progress.



Bill Williams (Air Force) is a very talented and devoted woodcarver of moose antlers, hillbilly displays and golf balls.



FOCUS 1 SUPPORTS THREE STRATEGIC GOALS:

Rebuilding the Gulfport Facility is key to continued growth and revenue. To ensure smooth developments, we hired a Corporate Planner to implement future Gulfport relocation (and to manage the Scott Project).

Since May 06, the Planner has already created timelines, established requirements and coordinated many efforts. These accomplishments have helped us realize solid progress in three strategic goals:

Financial Growth:

With Gulfport closed, we lost income and expenses from this 500+ resident facility. Yet, with careful management, AFRH continues to realize growth in the Trust Fund and plan cost-effective financial models for Gulfport’s reopening. Our savings measures will ensure financial growth and they include:

- > Staffing wisely to help support “aging in place”
- > Hiring appropriately (per the expected resident mix)
- > Creating valuable, performance-based contracts
- > Ensuring economic and environmental responsibility

Exceptional Service

The service standards we developed for Washington after a successful off-site will be presented to all staff we recruit for Gulfport. Likewise, we’ll tailor existing programs to the new facility, plus its organizational model will be the same.

Fortunately, recruitment is simply unnecessary. Today, 214 former Gulfport residents now living in Washington want to return (and they get Priority One). An extra 168 who were Gulfport residents at the time of Katrina, but now live elsewhere, have enrolled (and get Priority Two). Add to that 164 established Washington residents who wish to transfer (Priority Three) and an extra 196 on a waiting list of new eligibles (Priority Four) – and we’re at capacity. And our grand opening is two years away. We believe this hearty demand, coupled with our new service standards, will make Gulfport exceptional.

Improved Processes

We decided that all AFRH communities must be equivalent in services. As such, our recent innovations in health, wellness and aging will transfer to Gulfport. So will our “aging in place” vision, which was molded by experts on floor plans, room layouts and activity spaces. Interestingly, Gulfport’s “Program of Requirements” is the basis of the Scott Project and its early conceptual ideas in Washington. This shared synergy is making AFRH even more vibrant, overall.

Our current staff will be in a position to educate new Gulfport employees, since they have health & wellness training. So, yet again, the Gulfport culture will be positively shaped by our success in Washington.

Status

**On Schedule & Budget
Planned move-in: Late 2010**

Charting Initiatives

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

FOCUS 2 REINFORCES THREE STRATEGIC GOALS:

All three resident buildings in Washington need modernization, to some degree. Scott, in particular, needs a major upgrade, since it hasn't been updated in 23 years. So "The Scott Project" is under-way to renew it. One obvious improvement we already finished was building a new landscaped walkway between Scott and it's neighboring building, Sheridan. This, and future enhancements in The Scott Project, will positively impact three AFRH strategic goals:

- > Financial Growth
- > Exceptional Service
- > Improved Processes



Improved Processes

Our new healthy aging concepts are designed to prolong vitality. Enhancing our processes will result in stronger resident independence as they age. Yet, achieving this calls for a redirection of resources – including regular training, staff dedication and resident collaboration.

To aid new practices, we urge residents to get more involved in their own wellbeing. We encourage them to utilize the design features of their personal residences and common areas to bolster their abilities. And we encourage staff to promote more social behavior and physical activity. In the end, we expect fewer days in nursing care, greater physical ability and a "can do" attitude.

Status

LRFP will be completed in FY09.

Financial Growth

Trust Fund solvency is vital to daily operations. The Scott renewal stems from our Long Range Financial Plan (LRFP) – which was endorsed by Congress and is the key to forecasting our financial health through 2018.

The Home engaged experts in gerontology, engineering, finances, senior living and residential design to map out an integrated approach to renovation, development and finances. Meanwhile, Congress authorized a \$76 million withdrawal from the Trust Fund to start making changes in Washington right after Gulfport's reopening.

Exceptional Service

As part of our LRFP "resident profile," we conducted a resident interest survey on all programs and activities to see which improvements were most desired. Of our 1065 residents, 382 responded (36%) in residential and assisted living. The results:

MOST POPULAR ACTIVITIES	% ENGAGED	SUBSEQUENT IMPROVEMENTS
1. Reading Books, News & Magazines	77%	> Sustaining the Library & Media
2. Viewing Television Regularly	74%	> Offering Quality TV Choices
3. Walking on One's Own	62%	> Maintaining the Grounds
4. Traveling to Malls & Eating Out	61%	> Keeping the Busses Rolling
5. Exercising, Health & Wellness	57%	> Improving Access to Wellness
6. Seeing Old & New Movies	53%	> Making the Theater Accessible
7. Visiting Residents (Rooms/Lobbies)	53%	> Providing Space for Casual Visits
8. Using the Capitol Canteen	51%	> Expanding Access to Drinks/Snacks
9. Listening to Music & Performances	50%	> Creating a Modern Performance Center
10. Meeting up with Personal Friends	50%	> Creating Friendly Conversation Spaces



FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

FOCUS 3 BOLSTERS FIVE STRATEGIC GOALS:

As discussed in the MD&A, Congress directed AFRH to earn CARF/CCAC Accreditation, which covers all aspects of resident service (not just healthcare like JCAHO). So, we drafted a key action under the exceptional service goal in our Corporate Business Plan to secure it.

CARF's mission is to promote the quality, value and success of care through an intensive accreditation process. Organizationally, it reviews the environment (leadership and governance) and strategy (goals and processes). Operationally, it surveys financial planning, risk management, human resources, IT, health and safety

and human rights. Practically, CARF's globally recognized standards cover residential living, assisted living, adult day care, dementia care and nursing care.

Given CARF's comprehensive standards and broader scope, we are confident this accreditation will improve all the diverse aspects of life at AFRH. Likewise, we strongly believe it will greatly accelerate all five of our agency strategic goals (as listed above right).

- > Financial Growth
- > Exceptional Service
- > Improved Processes
- > Learning & Growth
- > Culture of Integrity

CARF agents Ron Dischinger (far left) and Kevin McLeod attend a focus group with residents Ed Davis and Kit Kitson (far right).



Harris Bircher (Navy)



Harris was born in a small Iowa town, and spent 20 years in the Navy seeing the whole world. He nearly saw the afterlife, too. "I was on the USS West Virginia, the first ship sunk in Pearl Harbor. I had to abandon ship and swim to Ford Island for cover. I was missing for two weeks. Then, I saw my funeral notice in my hometown paper. My family had my funeral back home in Dubuque!" Much to their surprise, Harris was alive and well. Today, he gets a lot out of life, too, despite being in a wheelchair. "This is a good place to be. Every day I go to Occupational Therapy and work on my upper body, because I can't walk or run."

Since we had to operate under CARF standards for six months before the survey, we began preparations in FY07. Staff training was expanded and accelerated to ensure we'd meet published standards. Plus, policies and procedures were scrutinized to secure conformance.

On survey day, we had many factors in our favor. AFRH is unique in that it's fully funded. Unlike most private senior-care homes, it has no debt. And, AFRH has advanced strategic execution, now in its fifth year.

As expected, CARF found no major deficiencies, accreditation was achieved and it is valid through 2013. Since ongoing training and compliance is critical to maintaining it, DoD IG inspections will occur during CARF survey off years.

Victory:

Accreditation was achieved in record time. AFRH was cited for exemplary practices.

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

FOCUS 4 BOOSTS FIVE STRATEGIC GOALS:

We are aggressively converting our operations and workforce to a “health and wellness philosophy” of aging. We will achieve this through staff training, process improvement and culture change. This transformation is already boosting resident wellbeing – which in turn, is strengthening all five strategic goals:

Financial Growth

We are vigilant with the money our service members have invested in AFRH. This ensures that the Home will remain fiscally stable and rich in vitality. Plus we always look for more efficient ways to advance resident wellbeing.

Exceptional Service

Our customer service standard, “I SERVE,” is already creating better service throughout the Home, along with our Resident Covenant (see page 18). Ongoing training will ensure that all staff act, and react, to the residents in respectful ways.

Integrity First

Do the right thing, even when no one’s looking. Be honest, ethical and abide by policies and standards.

Selfless Service

Give compassionate, respectful care. Promote dignity by anticipating and fulfilling the needs of others.

Excellence in Everything

Take pride in doing your best. Be creative, efficient and innovative with every task and process.

Right Attitude

Smile and spread positive energy. Maintain high personal standards and respect others each day.

Visionary Teamwork

Play a bigger role in achieving AFRH goals. Inspire others to work together for a brighter future.

Embrace Responsibility

Know your job and take ownership to give great service. Ask for help – and go all-out to be helpful.

Residents present a plaque for outstanding support to CSM Gainey, First Senior Enlisted Advisor, Joint Chief of Staff.



Improved Processes

Our annual resident surveys help measure performance in recreation, dining, activities, service and more. The feedback helps us enhance processes and deliver better programs. Ultimately, that creates much greater resident wellbeing.

Learning & Growth

Ongoing training is vital to transforming our culture to “aging in place.” So, we are implementing health and wellness training plus I SERVE training to enhance the living environment. Ultimately, this will improve residents’ overall happiness and pleasure in life.

Culture of Integrity

Our new service standards were designed to boost integrity at AFRH. These standards will encourage staff to abide by ethical behavior and treat residents with well-deserved respect. This endeavor will certainly elevate the residents’ quality of life.

The ultimate goal of investing in vitality and livability is to promote longer stays in residential and assisted living – and to prevent and reduce stays in costly nursing care. Educating our staff and finding new ways to ensure vitality will help us achieve this.

In our FY08 planning, we developed a Resident Profile that includes, a) Interests in programs & activities and, b) a Vitality Planning tool to track needs on various levels of care. Also, more than 96% of our staff is now receiving health and wellness training in many dynamic courses. A few of these training courses are listed to the right. >

Status:

We deployed a Vitality Plan with results due in FY09. Resident Survey results appear on pages 64-65.

Example Courses - Health & Wellness:	% Trained in '08:
CPR for Healthcare Providers (American Heart Association)	100%
Dementia Care Certification (Johns Hopkins)	85% (Dementia Care) 85% (Nursing Staff)
Conflict Resolution Skills (Department. of Navy)	90% (Healthcare) 100% (Nursing)
Customer Service (Director, AFRH-W)	95% (Healthcare)
Competency in Diabetic Glucose Monitoring (Rochet diagnostics AccuData Inform)	100% (Nursing Staff)
Birth-Month Competency Training	90% (RN/LPN/CNA)
Falls Prevention Program Training	100% (New Staff)
Wound Care Program Training	90% (Current Staff)
Monthly Mortality Conferences	100% (Healthcare)
Monthly Guest Medical Grand Rounds	100% (Healthcare)

NOTE: CARF cited our staff as exemplary.



FY07: 86% met or exceeded

FY08: 86% met or exceeded

08 New Developments

- > A spike in fuel and energy costs hit AFRH, especially in summer. Efficient budget cuts across the board have kept our budget balanced.
- > Quarterly Red, White and Blue Luncheons with key Veteran Service Organizations (VSO) have been well attended and received.

- > Partnerships with external stakeholders are growing, as our Public Affairs staff met with the Retiree Council from each branch of military service.
- > The first employee climate survey was distributed to all staff members. Positive feedback was received.

- > We installed financial codes into our accounting system, in order to integrate Budget and Performance for FY09.
- > After we hired a CHCO, our Human Capital and Performance Management Plan has truly progressed. Review and approval is expected in early FY09.

- > We made solid progress revising policies and directives to match our future direction. In all, 10 recently signed directives were approved and staffed. Another 10 are awaiting approval.

PERFORMANCE MEASURES

PROGRESS PER GOAL		FY08 MET-86% NOT MET 14%	FY07 MET-86% NOT MET 14%	BASELINE TARGETS
Performance Measure	FY08 ACTUAL			
Goal: FINANCIAL GROWTH				
Net growth to AFRH Trust Fund	+ \$8M (from \$159M in FY07, to \$167M in FY08)	M	M	Any gain over previous year
Cost savings via Asset Management per year	Closing Ignatia & King Halls yielded utility savings, but not the \$500K baseline.	NM	M	\$500K
Accuracy of financial reporting	For the fourth straight year, AFRH earned an unqualified audit opinion.	M	M	Unqualified audit opinion
Solvency of AFRH Trust Fund	The Fund has an even balance of resources vs. obligations and is solvent.	M	M	Even balance of resources vs. obligations
Cost savings initiatives	1. Combine contracts for efficiency & savings: Not Achieved 2. Transition to CMMS ⁵ to automate work orders: Achieved \$71K savings 3. Change printing methods to save \$4K a month: Not Achieved (starting in '09) 4. Shut down Building 70 & 73 to save utilities: Achieved 5. Eliminate Director's secretary job to save \$85K: Achieved 6. Hire new Food Services vendor: Not achieved (energy costs offset any savings)	NM	M	4
Effectiveness of the acquisition strategy	80% of contract award deadlines were met.	M	N/A	% of award dates met or improved
% of inaccuracies found via internal controls	.12 % (Four erroneous payments out of 3411 EFTs)	M	M	5% or less
Goal: EXCEPTIONAL SERVICE				
% of Resident Survey responses of "Excellent" or "Very Good"	81% (recreation services)	M	M	75%
# of new Independent Living residents	154	M	M	+144*
# of military heritage events per year	We celebrated all service branch birthdays. And residents participated in Arlington's Wreath Laying on Veterans Day, the Night of Heroes gala, the Patriot Picnic at the Capital Yacht Club, the DTRA Military Fun Day at Ft. Belvoir, the Congressional Golf & Crab Society, & Night at the USO, to name a few.	M	M	6
# of partnerships with external stakeholders	We partnered with the military & its liaisons, elementary schools, universities, engineering organizations (for operations), Army Corps of Engineers, NAVFAC to Healthcare (via Catholic University), hospitals and health organizations. New VSO Partners include: - NCOA (Non Commissioned Officer Association) - TREA (The Retired Enlisted Association) - CWVOA (Chief Warrant & Warrant Officers Association, US Coast Guard) - Military Order of the Purple Heart, & - The Reserve Enlisted Association	M	M	5 per year
% of employees trained in health & wellness	96% of staff (272/283) got one or more sessions. Those with direct care responsibilities attended more frequently. New training: healthy eating to control cholesterol & drug education for residents on coumadin.	M	M	70%

PERFORMANCE MEASURES		FY08 MET-86% NOT MET 14%	FY07 MET-86% NOT MET 14%	BASELINE TARGETS
Performance Measure	FY08 ACTUAL			
Goal: IMPROVED PROCESSES				
OPERATIONAL: Reengineered processes with automation	1. Work orders: CMMS was deployed for maintenance calls. It quickly improved response time/repairs & removed a 250-request backlog. Current backlog: 2%. 2. Replaced 50 Legacy Desktop PCs with unsupported operating systems to stay within federal guidelines & increase IT support. Next recycling: FY10.	M	M	+2
ORGANIZATIONAL: Communication enhancements between employees & residents	Emergency pull cords were conveniently located to implement our HomeFree wander alert / nurse call system. HomeFree offers added safety (it's wireless & runs on an independent network for instant care & wanderer monitoring).	M	M	+1
Goal: LEARNING & GROWTH				
Evidence of measurable training goals	< 100% in 4 mandatory classes. However, improved attendance in Ethics (91% vs. 71% in '07) and Safety (91% vs. 60% in '07).	NM	NM	100% staff participation in 4 classes
% of training written into the employee Performance Plans	Nearly 100% (mostly for CARF)	M	M	100%
Evidence of a needs based succession plan	We established a Deputy Chief Operations Officer (DCOO).	M	M	Plan
GOAL: CULTURE OF INTEGRITY				
# of new cultural / volunteer programs	1. New monthly memorial services for deceased residents 2. Events scheduled for Christmas, Hanukkah & Kwanzaa 3. Military, service organizations & volunteers continue to increase, including: a) Army Management Staff College faculty held a Valentine's Show for Assisted Living b) Volunteers spent Thanksgiving & Christmas in Independent Living and Long Term Care and c) Bethesda Medical Center active duty Navy made a monthly commitment to decorate Scott Dining Hall for monthly birthday nights	M	M	+1
# of staff offsite activities	During FY08, two offsites were held: one for Corporate managers near AFRH and one for top level managers in both Corporate and AFRH-W at Airlie House, Warrenton, Virginia with the theme of "World Class Customer Service."	M	M	2
% of completed employee performance reviews	100%	M	M	100%
% of staff Climate Survey responses of "Excellent" or "Very Good"	71% of responses were "Excellent" or "Very Good" (51% of staff participated). 80% responded positively in personal work experience, less in performance culture / job satisfaction.	M	M	70%

Measuring Advances

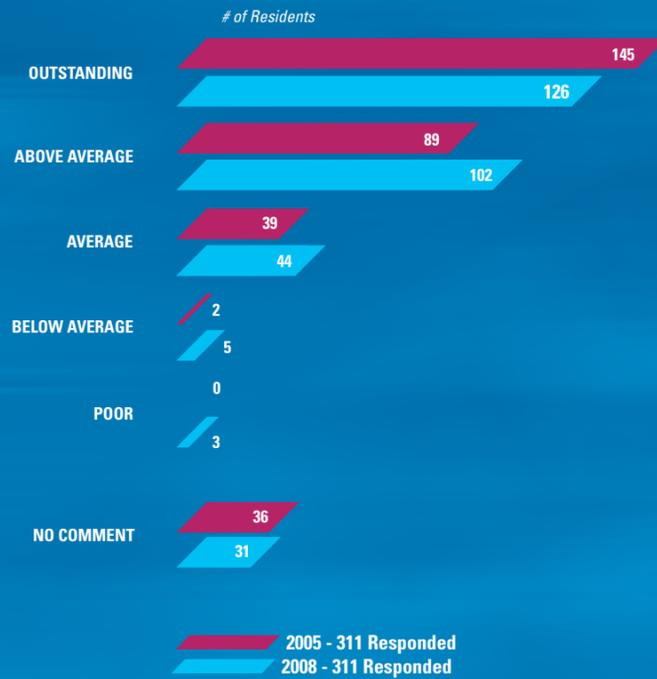
NOTE: Baselines were set in '07, so only two years of performance can be reported. ⁵ Computerized Maintenance Management System

SURVEY RESULTS:

Each year, we conduct a host of surveys to poll resident satisfaction in many areas. For instance, our food service vendor conducted a dining service survey. And, for the LRF, an expert on senior facility and program design has developed a resident interest survey. The results are as follows:

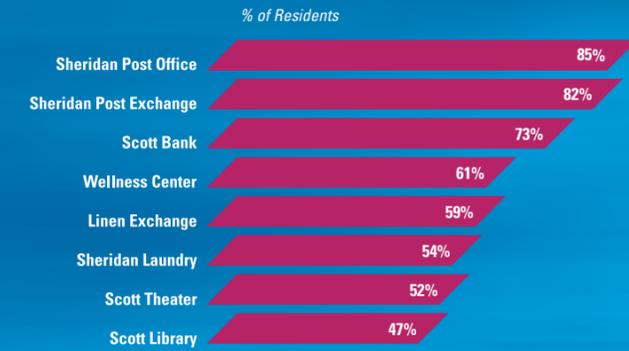
Resident Services:

81% say customer service is Outstanding or Above Average.



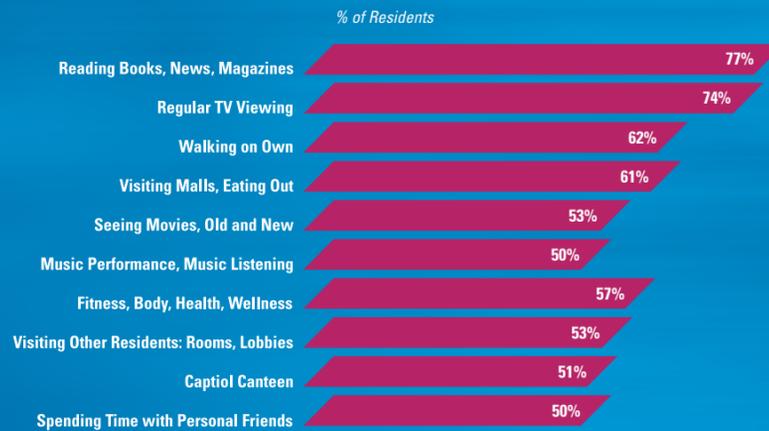
Most Used Facilities:

This input helped us create a residence Program of Requirements.



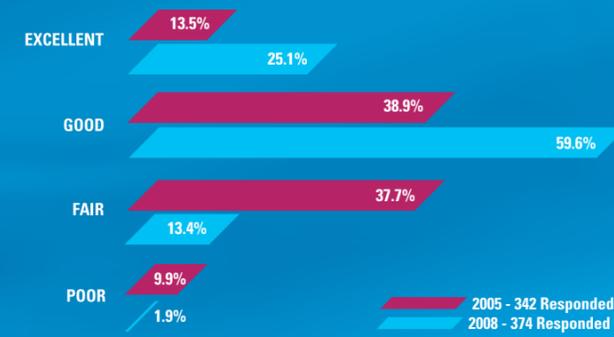
Personal Pursuits:

The most popular activities are reading, TV watching and walking.

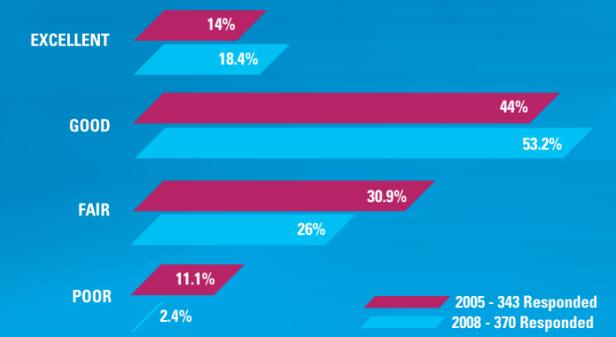


DINING SERVICES – 2008 SURVEY RESULTS (VS. 2005 RESULTS: THE LAST YEAR CONDUCTED):

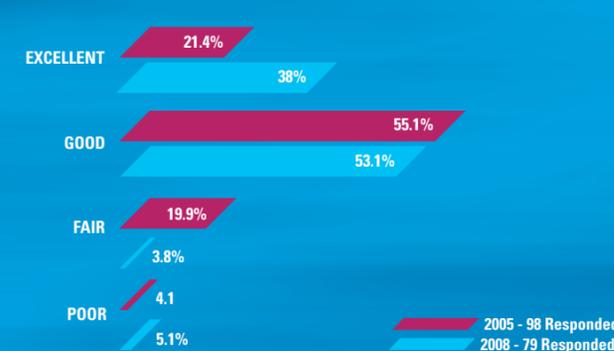
Scott Dining Hall Customer Service: 85% said it was Excellent or Good.



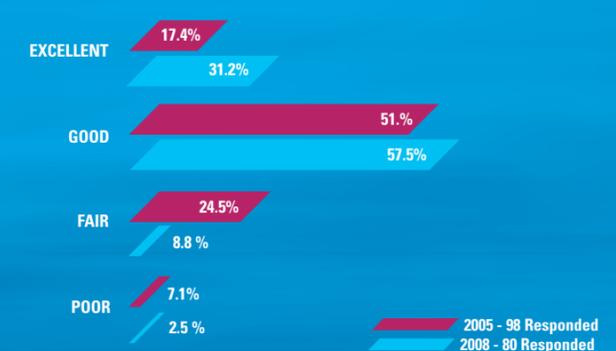
Food Quality: 72% graded it Excellent or Good.



LaGarde Dining Hall: 90% graded service Excellent or Good.



LaGarde: 90% rated Food Quality Excellent or Good.



Resident Entrance – Top 7 Important Services:



New resident priorities are medical, meals and pharmacy.

Importance of a veteran community:



Means of Verification & Validation:

Federal agencies are required to certify completeness and reliability of performance data.⁶ That data must be verified and validated, so AFRH has several means of external, independent reviews (E.g., JCAHO, OPM, BPD, CARF/CCAC).

How we measure achievement:

Business Measures:

- > Increases in Trust Fund Balance
- > Rises in Resident Occupancy
- > Cost Savings via Initiatives
- > Reductions in land & space
- > Donations & Volunteering

Customer Satisfaction:

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

Employee Satisfaction:

- > Boost in Performance Evaluations
- > Employee Climate Survey Results
- > Updated Policies & Directives

Financial Data:

- > Per the Chief Financial Officers Act, our financial status and reporting mechanisms underwent review by BPD and an external auditor.

External Benchmarks:

- > AFRH requested a survey and achieved CARF/CCAC Accreditation.
- > Per NDAA 08, an annual assessment by the AFRH Local Board of Advisors was implemented and a survey tool was developed.

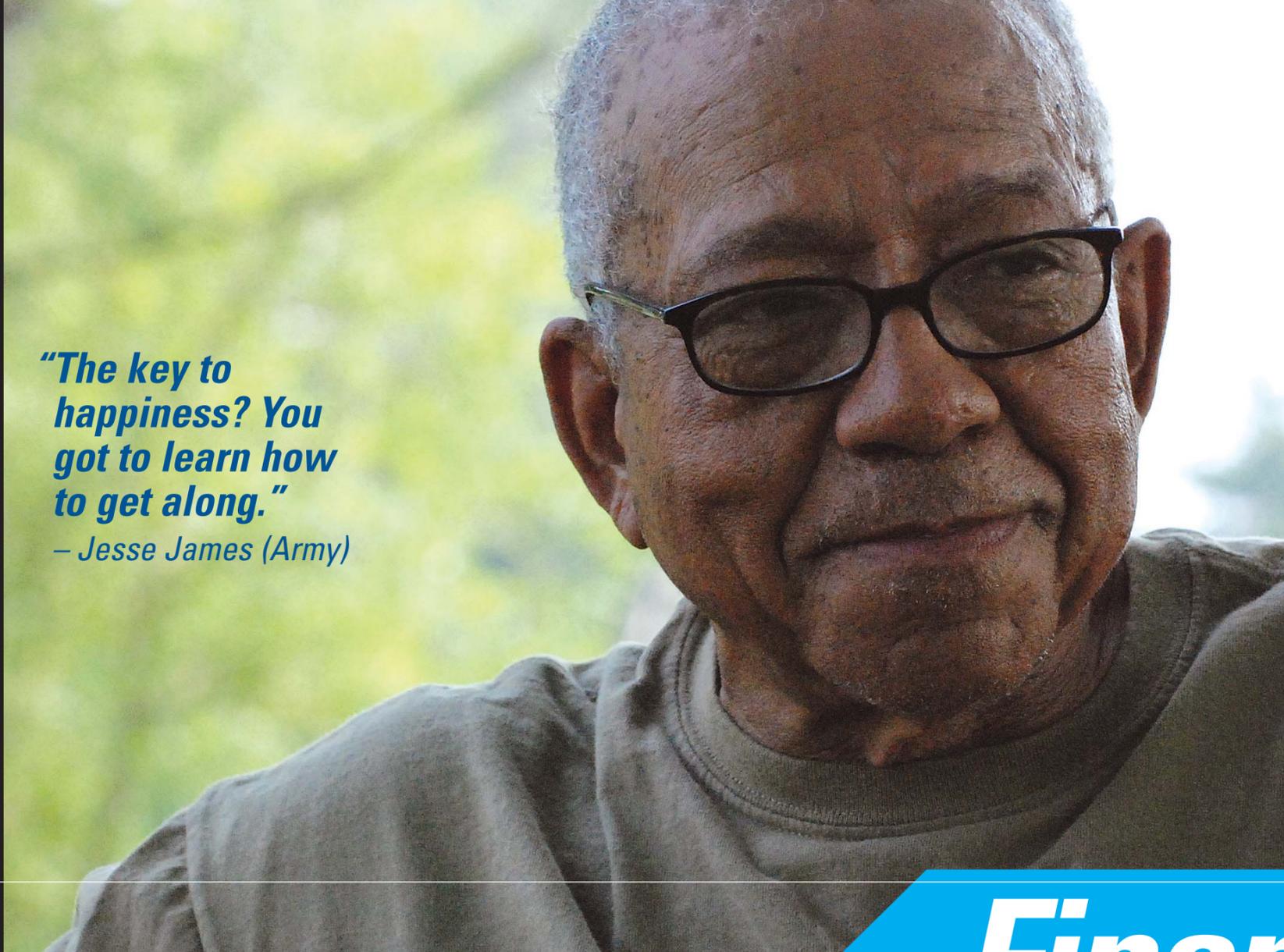
The first assessment will commence in FY09 and will be published in the FY09 PAR.

- > The DoD IG will evaluate our operations in years where no CARF/CCAC survey occurs. Next IG inspection: FY09.

Surveying Happiness

⁶ Per the Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000

Over 50 years ago, Jesse bought 50 acres of land and fell in love with gardening. "I never drank or smoked ... I fell in with plants and gardening," he snickered. Jesse had a garden in the Army and says he still learns something new each year. "About 14 residents garden. My favorite vegetables are cabbage and okra. We also grow onions, tomatoes, squash, beans and cantaloupes." The best thing he's ever grown was a 50 lb. watermelon. "I eat what I grow, but I mostly give it away to people in my church, soup lines, my employees at the Federal Reserve, and the residents here. No place is like the AFRH – it's real good. They do a lot for us." Jesse likened people to his garden vegetables: "We all just need a little love. Today, I'm thinking about ... what can I do for someone in my church tonight? Or what can I do to make the Home a better place?" We think Jesse has already achieved that.



"The key to happiness? You got to learn how to get along."
 – Jesse James (Army)

In Part 3, we present:

- Introduction to Financial
- Message from the DCOO/CFO
- Audits by Independent Accountants
- Financial Statements
 - Trust Fund Balance Sheet
 - Statement of Net Cost
 - Statement of Changes in Net Position
 - Statement of Budgetary Resource
 - Notes to the Financial Statements
 - Supplementary Stewardship Reporting



Financial



INTRODUCTION

Since 2002, AFRH has been advancing toward financial efficiency. The Home has leveraged its assets, planned to capitalize off its property, aligned workforce plans with employee standards and revamped some outdated facilities. In short, we realized a range of successes.

In FY08, we found ourselves at a unique crossroad regarding our financial future. Gulfport is being rebuilt and the Washington Master Plan has received its final go-ahead. Yet, millions of dollars of capital improvements have been identified for the Washington community.

And management must determine if the AFRH Trust Fund can be the source of funding. Congress requested that experts assess whether the Trust Fund will be solvent should we withdraw money to update AFRH-Washington. The resulting AFRH LRFP (for FY 2009 – 2018), will be forthcoming in FY09.

What's more, AFRH must respond effectively to the changing market forces. So, we are looking forward to developing the best course of action in FY09.

Erecting Assets



"I don't know if I'm an artist yet."

After 20 years in the Army, Don took a job managing a skiing and climbing program for the troops in Ft. Carson, Colorado. But his main passion in life has been art. "I've done many bronze sculptures, like a series of four semi-nudes called 'The Warrior of Women.' They went over real good. I got \$5,500 for the top of the line piece." Don does original sculptures in wax, and then goes to a foundry for a bronze cast. He also creates paintings in ink stipple, a series of graduated pinpoints of ink, from large to very small. "It took 50 hours to do 'Leaving Saigon,' which was based on a feeling I have." We asked Don how long he's been an artist. "I don't know if I'm an artist yet," he quipped. "I've fooled around with various media my entire life. But this has not been my profession – this has been my hobby. I was a professional soldier."

Don Patrick (Army)

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

“AFRH must adapt its financial posture because FY08 brought many new circumstances...”



I am pleased the Home experienced a stable financial year throughout FY08 – despite an array of changing economic conditions all around us.

Strengthening Controls

I am particularly proud that AFRH once again received an “unqualified” audit opinion from independent, external auditors. This marks the fourth consecutive year AFRH has received this distinction. With our partnership with BPD starting in FY04, our financial statements have had no material weaknesses since our very first audit in FY05.

Our successful audit is a reflection of our renewed emphasis on Internal Controls. First off, we diligently met our quarterly meeting requirements throughout FY08. Also, key decisions we made that include changing the composition of our Board, ensuring more managers were allowed to comment in our annual questionnaire, plus developing an AFRH Notice. The Notice identifies our senior assessment team, outlines our quarterly meeting agendas and discusses the five critical areas to pinpoint internal control (Control Environment, Risk Assessment, Control Activities, Information and Communications and Monitoring).

Changing Environments

FY08 was a level year for AFRH finances. We have consistently showed marked growth in our Trust Fund over several years. The Trust Fund balance peaked this year to \$167 million. This is quite a rebound from its lowest level of \$94 million in 2003. All along, we have geared all our efforts to reviving the Trust Fund balance and we have truly succeeded.

For FY09, we must look ahead. AFRH must adapt its financial posture because FY08 brought many new circumstances that will require a new outlook and stance. As such, continued growth in the Trust Fund requires a new approach with greater control of our operating environment.

External forces at work in the global economy are affecting AFRH operations. Financial instability, the credit crisis, fluctuating fuel costs, rising utility costs and food price increases are the major challenges we’re facing. And these developments have spilled over into our financial arena. Hence, we have been taking action. In FY08, we had to adjust our budget to meet the spike in fuel costs during the summer – albeit we didn’t meet our anticipated cost savings in food service due to rising costs.

Several years ago, we resolved to replenish the Trust Fund by applying the Program Asset Rating Tool (PART) in partnership with GSA. Also, we developed our risk management strategy in the form of the Washington Master Plan. The goal was to generate revenue for long-term use and development of our under-utilized property. A major milestone was reached in FY08 with the approval to proceed with our Master Plan by the NCPC.

Then, the financial world collapsed around us – and adapting to the evolving credit situation is a new challenge to contend with. This crisis will directly affect our ability to develop our property as quickly as we had planned. Plus, the lack of readily available financing may hinder potential developers from partnering with AFRH under the Washington Master Plan.

Revitalizing Washington

Dollars are programmed into our FY10 budget to upgrade the Washington community. Yet, we must alter our Washington operations, find ways to contain cost increases and ultimately succeed in the new market conditions.

In the latter half of FY08, we engaged contractors to develop concepts that combine ongoing Trust Fund solvency with vital upgrades for residents. This initiative will propel our ability to control our operating costs – by reducing unnecessary square footage and gaining greater efficiencies for utilities and maintenance.

Achieving our accreditation from CARF/CCAC was a high point in our year. This requirement, as directed by Congress, reflects the public interest in the care of our nation’s former military. So, we must meet the expectations of others and still run a cost-effective operation.

Looking Forward

The ultimate goal from now to 2018 is to create two comparable retirement communities – one in Gulfport and one in Washington – of about the same size (under 600 residents in all levels of care) and costing about the same. By applying the principles of “aging in place” and cost-effective management, AFRH can be a role model for CCRCs. The Home could then be positioned to create additional space, according to resident demand.

Indeed, the LRFPP will shape our future. The \$70M withdrawn from the Trust Fund for Scott Project will yield a smaller balance initially. But it will transform AFRH-Washington and create an operating environment for continuous net growth. After all, our great challenge is to create a vital home that meets 21st century standards, while satisfying a new breed of energetic residents. I am confident AFRH is poised and ready to rise above.

Sincerely,

Steven G. McManus

Steven G. McManus
Deputy Chief Operating Officer/Chief Financial Officer
November 14, 2008

Adapting Wisely

For the fourth year in a row, AFRH has received an unqualified opinion.

FINANCIAL STATEMENTS

We are pleased to present our Financial Statements for FY08. Independent auditors have conducted in-depth reviews of our financial statements, in accordance with government auditing standards. We are proud to report that, for the fourth 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, the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) has administered all of the Home's FY08 financial management activities including:

- > Purchasing
- > Budget
- > Payments
- > Travel
- > Accounting

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



Donna Smith, CHCO, has served AFRH for many years in campus operations, human resources and financial management



Accruing Accountability



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, 2008 and 2007, 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 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*. 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, 2008 and 2007 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 7, 2008 on our consideration of the AFRH internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" (MD&A) is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. The AFRH's MD&A 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.

Brown & Company

Largo, Maryland
November 7, 2008
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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

 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, 2008 and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

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

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be 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 result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

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

 Largo, Maryland
 November 7, 2008

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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, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

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

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

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

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

 Largo, Maryland
 November 7, 2008

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BALANCE SHEET

AS OF SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Assets :		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 175,561,312	\$ 230,126,225
Investments (Note 3)	167,333,620	159,041,366
Accounts Receivable (Note 4)	3,923,114	3,953,864
Total Intragovernmental	\$ 346,818,046	\$ 393,121,455
Accounts Receivable (Note 4)	456,806	474,798
General Property, Plant and Equipment (Note 5)	<u>122,593,036</u>	<u>72,018,853</u>
Total Assets	\$ 469,867,888	\$ 465,615,106
Liabilities:		
Intragovernmental:		
Accounts Payable	\$ 43,049	\$ 159,954
Other Liabilities (Note 6)	<u>2,028,374</u>	<u>1,968,960</u>
Total Intragovernmental	\$ 2,071,423	\$ 2,128,914
Accounts Payable	2,557,604	3,242,755
Other Liabilities (Note 6)	<u>10,310,314</u>	<u>1,677,227</u>
Total Liabilities	\$ 14,939,341	\$7,048,896
Net Position:		
Cumulative Results of Operations -		
Earmarked Funds - (Note 11)	\$ 454,928,547	\$ 458,566,210
Total Net Position	\$ 454,928,547	\$ 458,566,210
Total Liabilities and Net Position	\$ 469,867,888	\$ 465,615,106

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Program Costs:		
Chief Operations Office:		
Gross Costs	\$ 1,969,840	\$ 1,685,561
Less: Earned Revenue	<u>522,282</u>	<u>514,804</u>
Net Program Costs	\$ 1,447,558	\$ 1,170,757
Corporate Resource Office:		
Gross Costs	\$ 8,589,086	\$ 6,718,250
Less: Earned Revenue	<u>2,277,303</u>	<u>2,051,889</u>
Net Program Costs	\$ 6,311,783	\$ 4,666,361
Gulfport, MS:		
Gross Costs	\$ 999,405	\$ 1,571,591
Less: Earned Revenue	<u>264,981</u>	<u>479,995</u>
Net Program Costs	\$ 734,424	\$ 1,091,596
Washington D.C.:		
Gross Costs	\$ 60,862,292	\$ 50,008,976
Less: Earned Revenue	<u>16,136,979</u>	<u>15,273,748</u>
Net Program Costs	\$ 44,725,313	\$ 34,735,228
Total Program Costs:	\$ 53,219,078	\$ 41,663,942
Costs Not Assigned to Programs	-	44,491
Net Cost of Operations	\$ 53,219,078	\$ 41,708,433

The accompanying notes are an integral part of these statements.



Doris Balfour (Army)

"I take bus trips to Preakness and Atlantic City. Nothing compares with all the things we have to do here in Washington."

When you enter Doris' room, you are welcomed by velvet drapes, ornate throw rugs and elegant classical music. "My room was designed by an interior decorator. I said I want it to look like this painting." Doris came up from Gulfport – and recently went back for the groundbreaking on her own. Now, she's debating if she wants to live there again.

"I love Washington. Nothing compares with all the things we have to do here." Time will tell. Till then, Doris showed us a cuckoo clock she won at a southern casino. "When my Mississippi home was destroyed, we had to sort through the debris. All was lost, except this clock, which was still hanging and ticking. So I kept it when I moved to AFRH.



STATEMENT OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Cumulative Results of Operations:		
Beginning Balances	\$ 458,566,210	\$ 449,553,323
Beginning Balances, as Adjusted	\$ 458,566,210	\$ 449,553,323
Budgetary Financing Sources:		
Appropriations Used	\$ 800,000	\$ -
Nonexchange Revenue	46,123,348	47,801,049
Donations and Forfeitures of Cash and Cash Equivalents	1,256,854	1,425,392
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	1,401,213	1,494,879
Total Financing Sources	49,581,415	50,721,320
Net Cost of Operations	(53,219,078)	(41,708,433)
Net Change	\$ (3,637,663)	\$ 9,012,887
Cumulative Results of Operations	<u>454,928,547</u>	<u>458,566,210</u>
Unexpended Appropriation:		
Budgetary Financing Sources:		
Appropriations Received	800,000	-
Appropriations Used	(800,000)	-
Total Budgetary Financing Sources	-	-
Net Position	<u>\$ 454,928,547</u>	<u>\$ 458,566,210</u>

The accompanying notes are an integral part of these statements.



Henry Pike (Marine Corps)

"I organized a Gulfport Returning Committee to share developments and construction photos with the residents."

Henry was in the Raider Battalions – the military's first Special Ops unit created to fight the Japanese in WWII – guerrilla style. "We were specially trained for clandestine operations behind enemy lines," he said. "We were

STATEMENT OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1:	\$ 52,508,093	\$ 271,474,561
Recoveries of Prior Year Unpaid Obligations	1,569,312	1,506,786
Budget Authority		
Appropriation	<u>57,324,000</u>	<u>56,690,105</u>
Total Budgetary Resources	<u>\$ 111,401,405</u>	<u>\$ 329,671,452</u>
Status of Budgetary Resources:		
Obligations Incurred		
Direct	\$ 61,410,012	\$ 277,163,359
Unobligated Balance		
Apportioned	<u>49,991,393</u>	<u>52,508,093</u>
Total Status of Budgetary Resources	<u>\$ 111,401,405</u>	<u>\$ 329,671,452</u>
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 227,531,855	\$ 7,808,113
Total Unpaid Obligated Balance, Net	\$ 227,531,855	\$ 7,808,113
Obligations Incurred Net	61,410,012	277,163,359
Less: Gross Outlays	114,604,909	55,932,831
Less: Recoveries of Prior Year Unpaid Obligations, Actual	<u>1,569,312</u>	<u>1,506,786</u>
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$ 172,767,646</u>	<u>\$ 227,531,855</u>
Change in Outlays:		
Net Outlays:		
Gross Outlays	\$ 114,604,909	\$ 55,932,831
Less: Distributed Offsetting Receipts	<u>(66,858,203)</u>	<u>(66,597,281)</u>
Net Outlays	<u>\$ 181,463,112</u>	<u>\$ 122,530,112</u>

The accompanying notes are an integral part of these statements.

mean, lean and green. One of our troops wrote a book, 'Our Kind of War.' He called it fiction because we'd all get court-martialed if we said it was true." Today, Henry enjoys reading, computer work and serving as a member on the Resident Advisory Council. "I had a lot of input on the new Gulfport design, working with Mr. Cox, the agency engineer and DoD." Quite a special operation, indeed.



**ARMED FORCES RETIREMENT HOME
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

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 the other is located in Washington, D.C.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Basis of Accounting

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

AFR complies with the U.S. Standard General Ledger and conforms to Generally Accepted Accounting Principles (GAAP) for Federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as the body designated to establish GAAP for Federal entities.

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

Exchange Revenue

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

The AFRH's exchange revenue consists primarily of resident fees, rental income, 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, and donations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Fund Balance with Treasury

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

F. Investments

Trust Fund balances may only be invested in interest bearing debt securities issued by the Bureau of the Public Debt. The AFRH's investments are purchased exclusively through the Bureau of the Public Debt's FEDINVEST system. These securities are market based Treasury securities issued without statutorily determined interest rates and consist of Treasury bills and notes.

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

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

G. Accounts Receivable

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. General Property, Plant, and Equipment, Net

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

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

I. Liabilities

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

J. Accounts Payable

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

K. Annual, Sick, and Other Leave

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Retirement Plans

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

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

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

M. Imputed Costs / Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. AFRH recognized imputed costs and financing sources in fiscal year 2008 and 2007 to the extent directed by the OMB.

N. Use of Estimates

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

O. Commitments and Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. AFRH has no contingencies that require disclosure as of September 30, 2008 and 2007.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. Federal Employment Compensation Act

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

The accrued FECA liability as of September 30, 2008 and 2007 represents claims incurred for benefits administered and paid by DOL to AFRH employees. The AFRH will reimburse DOL for these claims in future periods. See Note 7 for additional information.

Q. Reclassification

Certain fiscal year 2007 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Schedule as of September 30,

	2008	2007
Fund Balances		
Fund Balance with Treasury	\$ 175,561,312	\$ 230,126,225
Investments	167,333,620	159,041,366
Less: Accrued Interest and Unamortized Premium	<u>2,650,094</u>	<u>1,976,045</u>
Total	\$ 340,244,838	\$ 387,191,546
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 49,991,393	\$ 52,508,093
Unavailable	117,485,799	107,151,598
Obligated Balance not yet Disbursed	<u>172,767,646</u>	<u>227,531,855</u>
Total	\$ 340,244,838	\$ 387,191,546

NOTE 3. INVESTMENTS

Schedule of Investments as of September 30, 2008

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

Schedule of Investments as of September 30, 2007

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



Robert & Bonnie Bates (Navy & Army)

"A new couple asked me what I like best. I said, 'they don't make you cook.' " – Bonnie Bates

NOTE 3. INVESTMENTS (Cont.)

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 2008 and 2007 range from January 31, 2009 to May 15, 2016 and July 31, 2008 to May 15, 2016, respectively, and interest rates for the same fiscal years range from 2.625 percent to 5.125 percent and 4.500 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 AFR as evidence of its receipts. Treasury securities are an asset to the AFR

and a liability to the U.S. Treasury. Because the AFR 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 AFR with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFR 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

Schedule of Accounts Receivable as of September 30,

	2008	2007
Intragovernmental		
US Army Corp of Engineers	\$ 39,186	\$ 49,478
US Air Force 4th Qtr. Fines	379,820	414,693
US Army 4th Qtr. Fines	1,461,481	1,530,287
US Marines 4th Qtr. Fines	1,003,246	891,933
US Navy 4th Qtr. Fines	1,034,881	1,067,473
US Postal Service	4,500	-
Total Intragovernmental	<u>3,923,114</u>	<u>3,953,864</u>
Resident Fees Receivable	398,138	386,045
Miscellaneous	58,668	88,753
Total Accounts Receivable	<u>\$ 4,379,920</u>	<u>\$ 4,428,662</u>

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

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

Description	Acquisition Cost (In Dollars)	Accumulated Depreciation (In Dollars)	Net Book Value (In Dollars)
Land and Improvements	\$ 10,982,370	\$ 10,004,994	\$ 977,376
Buildings and Improvements	181,456,706	139,002,773	42,453,933
Equipment	3,289,482	2,559,071	730,411
Construction in Progress	78,431,316	-	78,431,316
Total	<u>\$ 274,159,874</u>	<u>\$ 151,566,838</u>	<u>\$ 122,593,036</u>

NOTE 5. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET (Cont.)

Schedule of Property, Plant and Equipment as of September 30, 2007

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

NOTE 6. OTHER LIABILITIES

The other liabilities for the AFRH are comprised of program expense accruals, payroll accruals, unfunded annual leave earned by employees and deferred revenue. Program expense accruals represent expenses that were incurred

prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end, but were not paid. Other deferred revenue consists of an unclaimed estate of a former resident of the home

Schedule of Other Liabilities as of September 30,

	2008	2007
Intragovernmental:		
Accrued Payroll	\$ 187,259	\$ 153,315
Unfunded FECA Liability	1,841,115	1,815,645
Total Intragovernmental	2,028,374	1,968,960
Accrued Payroll	728,705	596,549
Unfunded Annual Leave	1,029,814	1,051,722
Other Deferred Revenue	74,980	-
Actuarial FECA Liability	8,460,824	-
Other	15,991	28,956
Total Other Liabilities	<u>\$ 12,338,688</u>	<u>\$ 3,646,187</u>

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on AFRH's Balance Sheet as of September 30, 2008 and 2007 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave and unfunded FECA liability. Unfunded leave balance is \$1,029,814 and \$1,051,722 as of September 30, 2008 and 2007, respectively. The unfunded FECA liability balance is \$1,841,115 and \$1,815,645 as of September 30, 2008 and 2007, respectively.

The Department Of Labor (DOL) estimates future workers' compensation liability for specified entities that are preparing state-ments under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for FECA benefits 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. The FECA actuarial liability for fiscal year 2008 is \$8,460,824.

The FECA actuarial liability for fiscal year 2008 is \$8,460,824.

NOTE 8. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

	2008	2007
Program:		
Chief Operations Office:		
Intragovernmental Costs	\$ 301,713	\$ 306,058
Public Costs	<u>1,668,127</u>	<u>1,379,503</u>
Total Program Costs	<u>1,969,840</u>	<u>1,685,561</u>
Intragovernmental Earned Revenue Costs	214,370	204,155
Public Earned Revenue	<u>307,912</u>	<u>310,649</u>
Total Program Earned Revenue	<u>522,282</u>	<u>514,804</u>
Net Program Costs	<u>1,447,558</u>	<u>1,170,757</u>
Corporate Resource Office:		
Intragovernmental Costs	1,315,556	1,219,875
Public Costs	<u>7,273,530</u>	<u>5,498,375</u>
Total Program Costs	<u>8,589,086</u>	<u>6,718,250</u>
Intragovernmental Earned Revenue Costs	934,718	813,713
Public Earned Revenue	<u>1,342,585</u>	<u>1,238,176</u>
Total Program Earned Revenue	<u>2,277,303</u>	<u>2,051,889</u>
Net Program Costs	<u>6,311,783</u>	<u>4,666,361</u>
Gulfport, MS:		
Intragovernmental Costs	153,075	285,364
Public Costs	<u>846,330</u>	<u>1,286,227</u>
Total Program Costs	<u>999,405</u>	<u>1,571,591</u>
Intragovernmental Earned Revenue Costs	108,761	190,351
Public Earned Revenue	<u>156,220</u>	<u>289,644</u>
Total Program Earned Revenue	<u>264,981</u>	<u>479,995</u>
Net Program Costs	<u>734,424</u>	<u>1,091,596</u>
Washington D.C.:		
Intragovernmental Costs	9,322,035	9,080,448
Public Costs	<u>51,540,257</u>	<u>40,928,528</u>
Total Program Costs	<u>60,862,292</u>	<u>50,008,976</u>
Intragovernmental Earned Revenue Costs	6,623,417	6,057,073
Public Earned Revenue	<u>9,513,562</u>	<u>9,216,675</u>
Total Program Earned Revenue	<u>16,136,979</u>	<u>15,273,748</u>
Net Program Costs	<u>44,725,313</u>	<u>34,735,228</u>
Total Program Costs	53,219,078	41,663,942
Costs Not Assigned to Programs	-	44,491
Net Cost Of Operations	<u>\$ 53,219,078</u>	<u>\$ 41,708,433</u>

The purpose of this classification of AFRH's revenue and cost is to enable the Federal Government to provide consolidated financial statements and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The intragovernmental costs relate to the source of goods and services purchased by AFRH and not to the classification of related revenue.

NOTE 9. 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 payments due:

Fiscal Year 2009	325,231.64
Fiscal Year 2010	43,186.92
Fiscal Year 2011	43,186.92
Fiscal Year 2012	43,186.92
Fiscal Year 2013	43,186.92
After 5 years	1,558,328.03

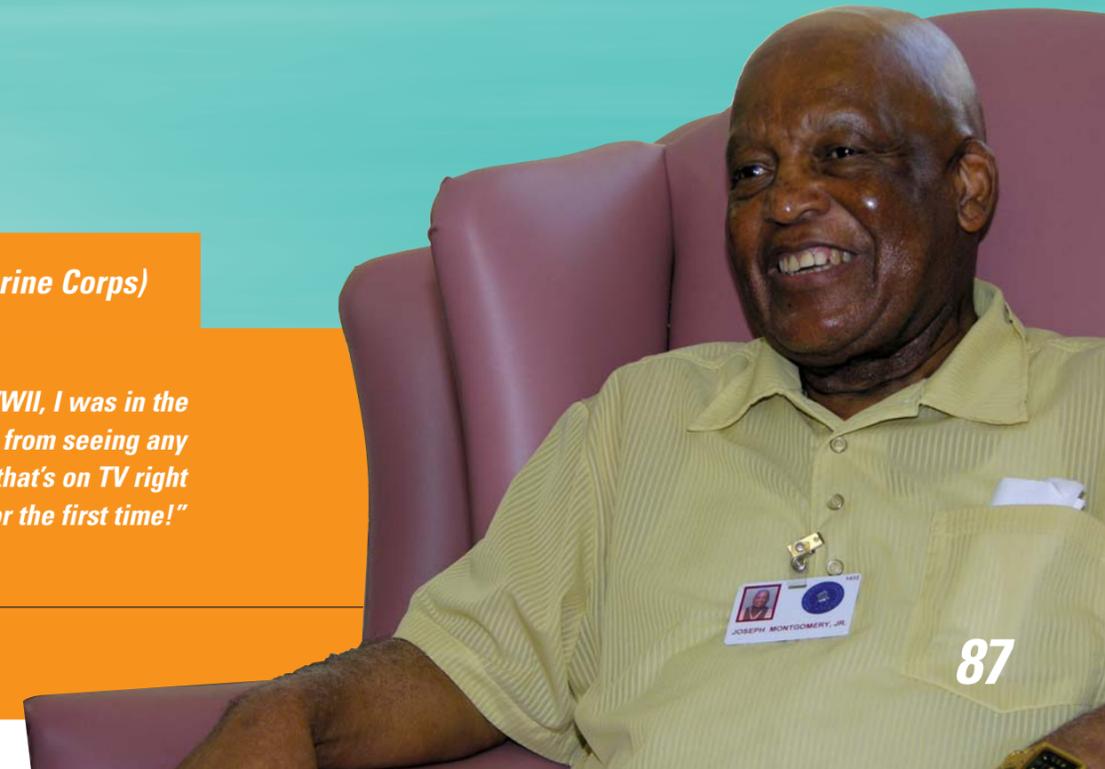
NOTE 10. OPERATING/PROGRAM COSTS

Costs by major budgetary object classification are as follows:

	2008	2007
Budgetary Object Classifications:		
Personnel and Benefits	\$ 24,552,244	\$ 23,860,413
Travel and Transportation	136,145	100,242
Rents, Communication & Utilities	4,706,113	4,733,696
Printing and Contractual Services	22,589,141	19,549,894
Supplies and Materials	4,735,471	4,670,298
Equipment	7,184,573	7,069,560
Miscellaneous	3,748	275
Total Other Liabilities	<u>\$ 63,907,435</u>	<u>\$ 59,984,378</u>

Joseph Montgomery (Marine Corps)

"I have a guardian angel. In WWII, I was in the rations dump, which kept me from seeing any action. So, some of the stuff that's on TV right now... I'm seeing it all for the first time!"



NOTE 11. EARMARKED FUNDS

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

The Trust Fund is financed by military fines and forfeitures, monthly

payroll deductions from enlisted military personnel, resident fees, interest earned on Treasury securities, and donations.

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

NOTE 11. EARMARKED FUNDS (Cont.)

Schedule of Earmarked Funds as of September 30, 2008

	Capital Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Earmarked Funds
Balance Sheet				
ASSETS				
Fund Balance with Treasury	\$ (1,481,916)	\$ 172,391,231	\$ 4,651,997	\$ 175,561,312
Investments	-	-	167,333,620	167,333,620
Accounts Receivable	-	-	4,379,920	4,379,920
General Property, Plant and Equipment	<u>62,450,108</u>	<u>60,142,928</u>	-	<u>122,593,036</u>
Total Assets	\$ 60,968,192	\$ 232,534,159	\$ 176,365,537	\$ 469,867,888
LIABILITIES AND NET POSITION				
Accounts Payable	\$ 5,896	\$ 534	\$ 2,594,223	\$ 2,548,289
Other	-	-	12,338,688	3,877,864
Cumulative Results of operations	<u>60,962,296</u>	<u>232,533,625</u>	<u>161,432,626</u>	<u>463,441,735</u>
Total Liabilities and Net Position	\$ 60,968,192	\$ 232,534,159	\$ 176,365,537	\$ 469,867,888
Statement of Net Cost				
Program Costs	\$ 6,964,240	\$ 11,883	\$ 65,444,500	\$ 63,907,435
Less: Earned Revenues	-	-	<u>19,201,545</u>	<u>19,201,545</u>
Net Program Costs	6,964,240	11,883	46,242,955	44,705,890
Less: Earned Revenues Not Attributable to Programs	-	-	-	-
Net Cost of Operations	\$ 6,964,240	\$ 11,883	\$ 46,242,955	\$ 44,705,890
Statement of Changes in Net Position				
Net Position Beginning of Period	\$ 67,926,536	\$ 232,545,508	\$ 158,094,166	\$ 458,566,210
Net Cost of Operations	(6,964,240)	(11,883)	(46,242,955)	(44,705,890)
Budgetary and Other Financing Sources	-	-	<u>49,581,415</u>	<u>49,581,415</u>
Change in Net Position	<u>(6,964,240)</u>	<u>(11,883)</u>	<u>3,338,460</u>	<u>4,875,525</u>
Net Position End of Period	\$ 60,962,296	\$ 232,533,625	\$ 161,432,626	\$ 463,441,735

NOTE 11. EARMARKED FUNDS (Cont.)

Schedule of Earmarked Funds as of September 30, 2007

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

NOTE 12. 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. There were no Judgment Fund claims against the AFRH in fiscal year 2008. For the fiscal years ended September 30, 2008 and 2007, respectively, imputed financing was as follows.

	2008	2007
Office of Personnel Management	\$ 1,401,213	\$ 1,494,879
Total Imputed Financing Sources	\$ 1,401,213	\$ 1,494,879

NOTE 13. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will

include FY08 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2009 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 2007, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

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, 2008 and 2007, undelivered orders amounted to \$169,251,030 and \$223,361,061, respectively.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

Budgetary and financial accounting information are complimentary, but both types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better

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

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING) (Cont.)

Reconciliation of Net Cost of Operations to Budget as of September 30,

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 61,410,012	\$ 277,163,359
Less: Spending Authority From Offsetting Collections and Recoveries	<u>1,569,312</u>	<u>1,506,786</u>
Obligations Net of Offsetting Collections and Recoveries	59,840,700	275,656,573
Less: Offsetting Receipts	<u>66,858,203</u>	<u>66,597,281</u>
Net Obligations	(7,017,503)	209,059,292
Other Resources		
Imputed Financing From Costs Absorbed By Others	<u>1,401,213</u>	<u>1,494,879</u>
Net Other Resources Used to Finance Activities	<u>1,401,213</u>	<u>1,494,879</u>
Total Resources Used to Finance Activities	<u>\$ (5,616,290)</u>	<u>\$ 210,554,171</u>
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	\$ (54,110,031)	\$ 220,852,331
Resources That Fund Expenses Recognized In Prior Periods	21,909	111,116
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Other	(46,847,112)	(52,206,517)
Resources That Finance the Acquisition of Assets	57,550,304	3,202,362
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>-</u>	<u>(44,491)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>(43,332,567)</u>	<u>171,914,801</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 37,768,640</u>	<u>\$ 38,639,370</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase In Exchange Revenue Receivable From the Public	\$ 67,951	\$ (1,188,052)
Other	<u>8,486,295</u>	<u>38,426</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods	<u>8,554,246</u>	<u>(1,149,626)</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	6,917,715	4,228,117
Other	<u>(21,523)</u>	<u>(9,428)</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>6,896,192</u>	<u>4,218,689</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	<u>15,450,438</u>	<u>3,069,063</u>
Net Cost of Operations	<u>\$ 53,219,078</u>	<u>\$ 41,708,433</u>

Allan Hubbert (Air Force)

"Ham radio and the Federal SHARES System are a big part of our emergency communications plan."

The Ham Radio Club has 12 members. But each night, Allan meets dozens more on the air to shoot the breeze. "I do it in Morse code, a fun language I mastered as a ground radio operator in the Air Force," he said. Recently, Allan got AFRH involved with the SHARES system – the Federal Shared Resources High Frequency Radio Network. It ensures communications, via Ham Radio, in the event of a catastrophe.

"Let's say the east coast is down. No phones, Internet ... nothing. With high frequency radio, I can introduce a message into the Winlink 2K System – which has four email servers, worldwide. And my message will flow to areas where the Internet is still on – including Federal agencies." Allan showed us a backup generator and battery bank he keeps charged at all times. So if power goes out, he can communicate for a week. "A lot of people would suggest I get a life, but I'm having too much fun with Ham Radio now."



NOTE 16. REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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.



Intragovernmental Assets

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Total
Treasury	\$ 175,561,312	\$ 167,333,620	\$ -	\$ 342,894,932
US Postal Service	-	-	\$ 4,500	\$ 4,500
Air Force	-	-	379,820	379,820
Army	-	-	1,461,481	1,461,481
Army Corp of Engineers	-	-	39,186	39,186
Navy	-	-	1,034,881	1,034,881
Marines	-	-	1,003,246	1,003,246
Total	\$ 175,561,312	\$ 167,333,620	\$ 3,923,114	\$ 346,818,046

Intragovernmental Liabilities

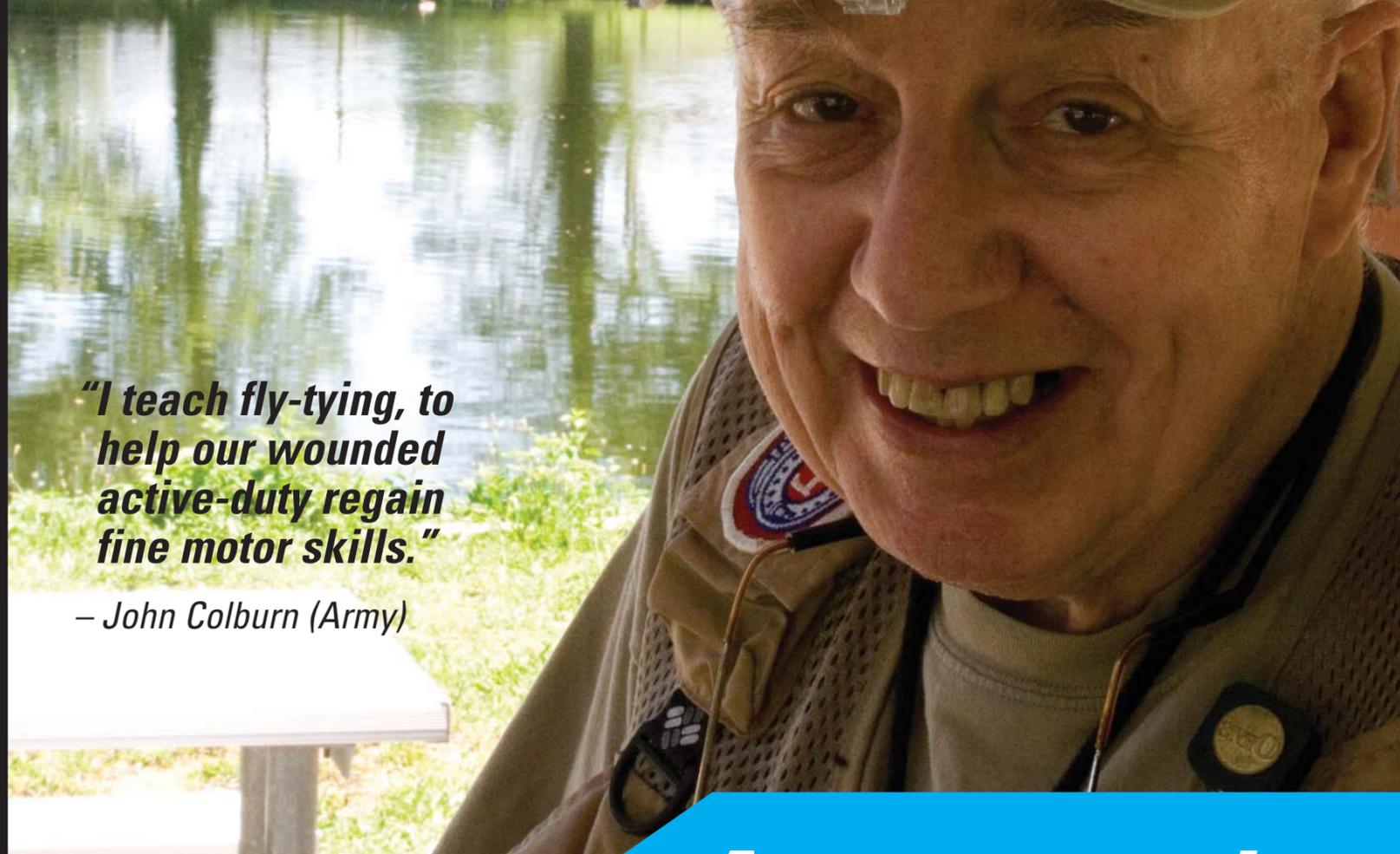
Agency	Accounts Payable and Accruals	Payroll Taxes	Other	Total
Treasury General Fund	\$ -	\$ (49,644)	\$ -	\$ (49,644)
Army	(12,900)	-	-	(12,900)
General Services Administration	(30,149)	-	-	(30,149)
Army Corp of Engineers	-	(1,804)	-	(1,804)
Labor	-	-	(1,841,115)	(1,841,115)
Personnel Management	-	(135,811)	-	(135,811)
Total	\$ (43,049)	\$ (187,259)	\$ (1,841,115)	\$ (2,071,423)



AFRH is home to several survivors of the 1941 surprise Japanese attack on America in Pearl Harbor, HI.



John was born in 1929, just before the Depression. "Biscuits got to hangin' pretty high – so we did a lot of fishing for food. Now, I come down here once in a while to exercise the Bluegills. They put on a tussle! I also teach fly-tying to the wounded at Walter Reed three times a week, through project Healing Waters." This program started in DC and has grown to 25 programs coast-to-coast at military and VA Hospitals. John said it's hard work, figuring out a way for each individual to tie knots with wounded hands – because each person has to be worked with differently. "One guy had 10% fingers and 20% elbow. He was left-handed before he was injured and was having trouble doing a whip finish knot ... what you do at the end of the fly. I sat down and said: OK, lemme try. I learned to tie a left-handed whip finish. When he saw me do it ... he knew what he had to do."



"I teach fly-tying, to help our wounded active-duty regain fine motor skills."

– John Colburn (Army)

In Part 4, we present:

The IG Letter

Management Challenges

Improper Payments

Acronyms

Special Thank You

Accompanying Information



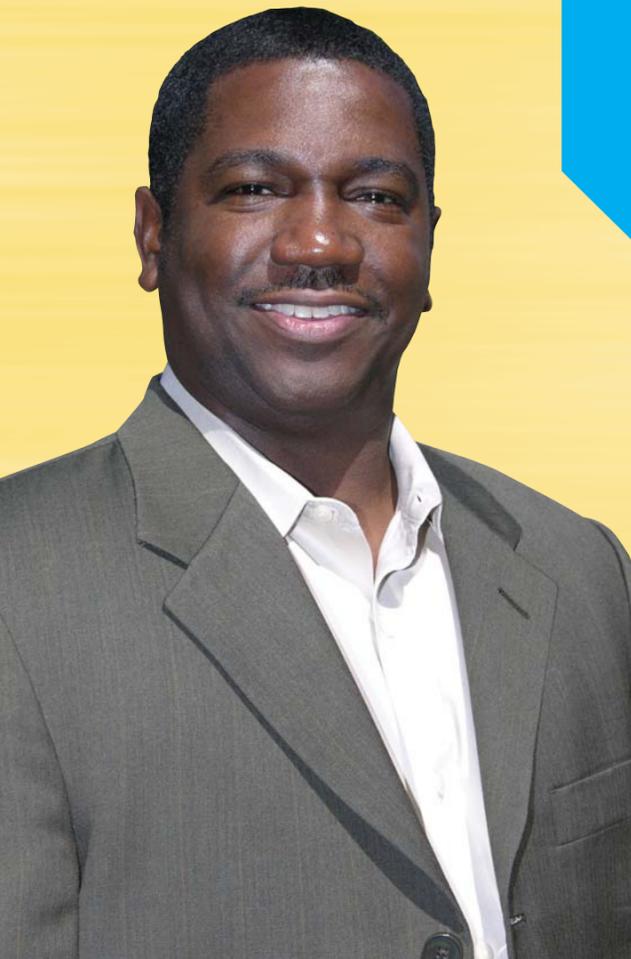
Forging Ahead

IG CHALLENGES

To continue building vitality, the AFRH IG has summarized the most serious management and performance challenges facing the agency. This summation is required by Circular A-136 Financial Reporting Requirements.



*"I had a bird's-eye view from the bridge of the USS Curtis in Pearl Harbor. I watched it all happen."
– Bob Carson (Navy)*



Maurice Swinton, our IG



Armed Forces Retirement Home
3700 N. Capitol Street
Washington, DC 20011-8400

November 1, 2008

Memorandum

To: Timothy C. Cox, Chief Operating Officer

Subj: Management and Performance Challenges for FY 2009

In accordance with Section 3 of the Reports Consolidation Act of 2000, a statement is provided by the Inspector General which summarizes what is considered to be the most serious management and performance challenges facing the Armed Forces Retirement Home. Many of these issues were the focus of significant work conducted by the Armed Forces Retirement Home's Office of Inspector General during Fiscal Year 2008. Through various AFRH initiatives and programs, significant progress and improvements have been demonstrated as a result of recommendations made by my office and other inspection activities. The management and performance challenges also link directly to the President's Management Agenda initiative.

I am very pleased to congratulate the AFRH on receiving accreditation by the Commission on Accreditation of Rehabilitation Facilities (CARF)/ the Continuing Care Accreditation Commission (CCAC) in August 2008. In FY2007, the AFRH embarked on acquiring a new independent accreditation service to review its healthcare practices. Throughout FY2008, the AFRH worked very diligently to implement new standards in accordance with those set forth by CARF/CCAC International, an independent, nonprofit accreditor of human service providers in the areas of aging services, behavioral health, child and youth services, DMEPOS, employment and community services, medical rehabilitation, and opioid treatment programs. The CARF/CCAC family of organizations currently accredits more than 5,000 providers at more than 18,000 locations in the United States, Canada, Western Europe, and South America. More than 6.5 million persons of all ages are served annually by CARF/CCAC accredited providers. The CARF/CCAC accreditation has replaced the long standing Joint Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation held by AFRH for nursing care only.

In addition to the CARF/CCAC inspection, the National Defense Authorization Act of 2008, changed the manner in which the Department of Defense conducts inspections of the AFRH. No longer will the agency be inspected by the services (Army, Navy and Air Force) triennially. The Department of Defense's Inspector General's Office (DoD OIG) will now inspect the AFRH in the years that the agency is not inspected by an independent accreditation body. The DoD OIG will conduct its initial inspection of the Armed Forces Retirement Home in April 2009.

In accordance with the Reports Consolidation Act of 2000, I have identified the most serious management and performance challenges facing the Armed Forces Retirement Home (AFRH) in FY2009.

Management Challenges

- Implement and monitor the Scott Project
- Develop a strategic plan for returning residents to Gulfport
- Implement Succession Planning for all strategic areas of operations and management
- Ensure CARF/CCAC accreditation criteria are maintained and quality improvement plans are implemented as recommended
- Continue to educate constituents and congressional oversight committees on the AFRH mission and services that will be needed to support our next generation of heroes

Performance Challenges

- Monitor, track and respond to resident maintenance requests
 - AFRH must continue to improve upon responses to maintenance calls and maintain a minimal backlog at all times.
- Improved customer service delivered to residents
 - AFRH must strive to improve its customer service to residents by reviewing, modifying and implementing procedures and educating staff on the new policies.
- Improved accountability of funds by each department
 - AFRH Service Chiefs, managers and supervisors should implement policies and procedures that track expenditures and hold individual employees accountable for their purchases of good and services on behalf of the AFRH.
- Increase visibility of military heritage
 - AFRH should continue to exhibit displays of military heritage throughout the facility and work with the Department of Defense's Office of Morale, Welfare and Recreation to enhance these displays.
- Adhere to timelines and participate in annual mandatory training
 - AFRH management must enforce attendance for its employees for the mandatory training classes outlined by the agency. Tighter constraints and measures must be taken to ensure that employees participate in the mandatory training classes and that participation is timely.

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

Respectfully,

Inspector General

ANSWERING THE CALL

As discussed by our COO in his opening letter, AFRH has aggressively spearheaded the challenges presented by our IG for FY08. With our focus areas as a guide, we engaged contractor support to review the feasibility of reshaping the Washington community in light of emerging national concerns (like rising utility costs, economic factors and the US military posture).

Further, our achievements in health-care have earned us the prestigious CARF Accreditation. With the approval of the Washington Master Plan by the NCP, and the permission to move forward with our development plans, AFRH has realized great progress in educating constituents.

AFRH is committed, from top management to individual staff, to meet all the challenges presented by our IG for FY09. Doing so will call for us to inspire and energize our staff – so they may contribute to our success and reap the many rewards. Below is management’s response to the various challenges in the IG Letter:

MANAGEMENT RESPONSE

Implement and monitor the Scott Project

Our major 2008 achievement was earning CARF/CCAC accreditation. The Scott Project, one of our four focus areas, is the top priority for 2009. With the completion of our LRFP in FY09, recommendations will be forthcoming on how to manage operating and capital costs – while still keeping the Trust Fund solvent. With this advice, AFRH will be poised to make solid progress in the Washington community next year.

Develop a plan to return residents to Gulfport

The Gulfport move requires oversight and direction. AFRH managers are dedicated to organizing this effort, as well as the Scott Project. AFRH has already begun to make plans for those moving to Gulfport from the Washington community. FY09 will focus on the start-up for Gulfport operations.

Implement Succession Planning for all strategic positions

FY08 saw the establishment of a new CHCO, a manager dedicated to strategic human capital. One of the tasks for this position is to develop succession planning. The Home’s foremost management position, the COO, now has a successor in the new DCOO/CFO position. Additional backup positions will follow.

Ensure CARF Accreditation criteria are maintained

After CARF Accreditation was achieved, we received suggestions for Quality Improvement Plans (QIP) in various areas that include training, billing, military heritage displays and accommodations. Those QIP suggestions will become actions in the ‘09 Business Plan and in individual performance plans. In the coming year, AFRH will keep up with training, make improvements and update policies as required.

Continue to educate Congress and constituents on our mission & needs

One of the most significant challenges is garnering support among stakeholders by outlining the AFRH mission and required services for residents. Stakeholders need the articulation of our vision, too, as it relates to the US military and its future. With constant communication, expansion of partnerships, utilization of volunteers and close associations, AFRH will continue to make inroads wherever possible.

PERFORMANCE RESPONSE

In addition to addressing all the management challenges, AFRH is ready to respond to the first round of performance challenges. Success here will also require the hard work and participation of all staff and contractors.

Monitor, track & respond to resident maintenance calls

With the new automated CMMS system to track resident maintenance requests, AFRH has decreased the backlog. New management in community operations is sought to bring fresh ideas to maintaining AFRH’s outdated facilities.

Delivering improved customer service to residents

AFRH created the “I SERVE” motto to motivate staff to provide great service and we’ll create badge buddies to reinforce it. Indeed, an emphasis on providing optimal service is at the forefront of all changes at the Home – which will help bring our vision of “aging in place” to fruition. Moving forward, managers will be supported by AFRH policies and directives and they must work with staff to maintain great service.

Improving accountability of funds in each department

Managers will continue to guard spending within budget limitations and with sound financial practices through our partnership with BPD. Also, manager-to-subordinate oversight, as well as Internal Controls, will be emphasized.

Increase the visibility of US military heritage

Military camaraderie is a top interest in our resident population – so it is high on the list of managerial action planning. One way to strengthen our heritage is to multiply our contacts with the military. So, we plan to boost cooperation with military service organizations and military volunteers, as well as gain added cooperation with DoD.

Adhere to timelines & participate in mandatory training

Although the Home has not met its goal of 100% for mandatory training classes, more employees were trained this year than ever. AFRH is poised to move even closer to this goal via better planning, optimal class times, results reporting and reviews of our “lessons learned.” Through surveys and schedules, AFRH managers will work with staff to ensure training is completed.

Infusing Resiliency

Sheila Abarr (Public Affairs) and Hugh Wingo (Navy) at the Night of Heroes gala.



Stabilizing Accuracy

IMPROPER PAYMENTS

Improper Payments Information Act (IPIA)

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

In FY08, we had only four erroneous payments out of 3,411 payments for a total amount of \$1,823.36. This margin of error is .12%. These four errors are outlined in detail in the following paragraphs. ▶

AFRH improper payment history:

FY05: 1

FY06: 30

FY07: 4

FY08: 4

The four erroneous Washington Gas (WG) payments totaling \$1,823.36 were discovered in September. These payments occurred between July 08 and Sept 08. In the past, our technician would pay the amount listed as TOTAL DUE on the invoice. Yet, this total due is typically made up of current charges, since payments to prior balances are usually already credited. For some reason on a few invoices, WG was slow in applying payments, so the balance forward was added to current charges. The balance forward, the current charges and a finance charge (which was improperly applied) were all paid. WG has issued AFRH credits for the duplicate payments of the balance forward charges. And those credits should be received on the next cycle of invoices.

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



Robert Stone (Navy)

“I served in Special Ops. Now people come to me to make special things.” – Robert Stone (Navy)

Robert has been in woodworking for 50 years. “Before retirement, I had a construction company and lived in the country. I had a big shop with a lot of tools and made custom furniture. I do that here too, for the residents. When we open, sometimes we have 8-10 people lined up, waiting for us to fix something. This morning, a guy came in and I built a shelf for him.” Robert showed us an old wood sign he’s making into a platform for a resident’s chair, so he can boost it up six inches. “You can’t buy this stuff at Home Depot,” he joked. Robert also fixes wheelchairs and assembles furniture. “And we don’t charge anything. It’s a free service. We’re here to support the residents. This makes my life better. It makes me feel good and makes everyone feel good.”

ACRONYMS

Acronym	Meaning
AAFES	Army and Air Force Exchange Service
ARC	Administrative Resource Center
AFRH	Armed Forces Retirement Home
BPD	Bureau of Public Debt
C&A	Certification and Accreditation
CARF/CCAC	Commission on Accreditation of Rehabilitation Facilities and Continuing Care Accreditation Commission
CFO	Chief Financial Officer
CHCO	Chief Human Capital Officer
CMMS	Computerized Maintenance Management System
CNA	Certified Nursing Assistant
COO	Chief Operating Officer
COTS	Commercial-Off-The-Shelf
CRA	Continuing Resolution Act
CWOA	Chief Warrant & Warrant Officers Association, US Coast Guard
DAPS	Document Automation and Production Service
DAV	Disabled American Veterans
DCOO	Deputy Chief Operating Officer
DEIS	Draft Environmental Impact Statement
DEOMI	Defense Equal Opportunity Management Institute
DFAS	Defense Finance and Acquisition System
DoD	Department of Defense
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
FAIR	Federal Activities Inventory Reform
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FEDInvest	Federal Investment (software application)
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers Financial Integrity Act
FTE	Full-time Equivalents
FY	Fiscal Year
GPRA	Government Performance and Results Act
GSA	General Services Administration
HSPD-12 PIV	Homeland Security Presidential Directive 12 – Personal Identification Verification
IPAC	Intragovernmental Payment and Collection System

Establishing Clarity

ACRONYMS (Cont.)

Acronym	Meaning
IPIA	Improper Payments Information Act
IT	Information Technology
IP	Internet Protocol
JCAHO	Joint Commission on Accreditation of Healthcare Organizations
JFMIP	Joint Financial Management Improvement Act
KHC	King Health Center
LPN	Licensed Practical Nurse
LRFP	Long Range Financial Plan
MCOC	Management Control Oversight Council
MEO	More Efficient Organization
NCPC	National Capital Planning Commission
NAVFAC	Naval Facilities
NCOA	Non Commissioned Officer Association
NDAA	National Defense Authorization Act
NFC	National Finance Center
NLT	No Later Than
NPSG	National Patient Safety Goals
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OSHA	Occupational Safety and Health Administration
PART	Program Asset Rating Tool
PC	Personal Computer
PPE	Property, Plant and Equipment
QIP	Quality Improvement Plan
RFP	Request for Proposal
RFQ	Request of Qualification
RIS	Resident Information System
RN	Registered Nurse
SAS	Statement on Auditing Standards
Seabees	Naval Construction Battalion
SF	Square Feet
SSG	Service Study Group
STAR	Systems Time and Attendance Report
TREA	The Retired Enlisted Association
U.S.C.	United States Code
USSGL	US Standard General Ledger
VSO	Veteran Service Organization
WG	Washington Gas



AFRH PAR FY08

Conveying Gratitude

WE WELCOME YOUR COMMENTS

This report is for you to review, enjoy and understand how we're keeping our *Promise* to serve our nation's heroes. Did this PAR meet your expectations? And what can we do to improve upon it? Please let us know by contacting us at:

AFRH

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

Email: Public.Affairs@afrh.gov
 Phone: 800-422-9988 (option 1)
 FAX: 202-730-3492

WE THANK YOUR SUPPORT

Despite the challenges of 2008, AFRH continues to provide exceptional care to its residents. Many thanks are due to the loyal and dedicated supporters of AFRH. You have generously thrown parties, cleaned spaces, given tours, bestowed tickets, aided residents and listened ardently. The devotion of our partners and volunteers has made AFRH a wonderful Home for the residents, who are now ... more than ever ... *Building Vitality*.

Woody Williams (Navy)

"To me, this is the most wonderful place a person could ever want to be." – Woody Williams (Navy)

Woody served on the USS Sea Fox submarine in the South Pacific. "We were constantly in the Japanese backyard. A few times, we chased their subs, which was hair-raising. And we practically slept on top of the torpedos." Today, he finds his quarters at AFRH much more comfortable. "To me, this is the most wonderful place – because we've got everything here. We've got the food, we got the doctors, we got the security. It's marvelous!" Woody works in the Thrift Shop 12 hours a month. And he helps set up the blackjack games and ice cream socials. Plus, he walks every night around the campus. "They're going to mount my 36-inch HD TV on the wall, right near my La Z boy. I've got some great friends here and I can't wait to invite them over," he said.





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