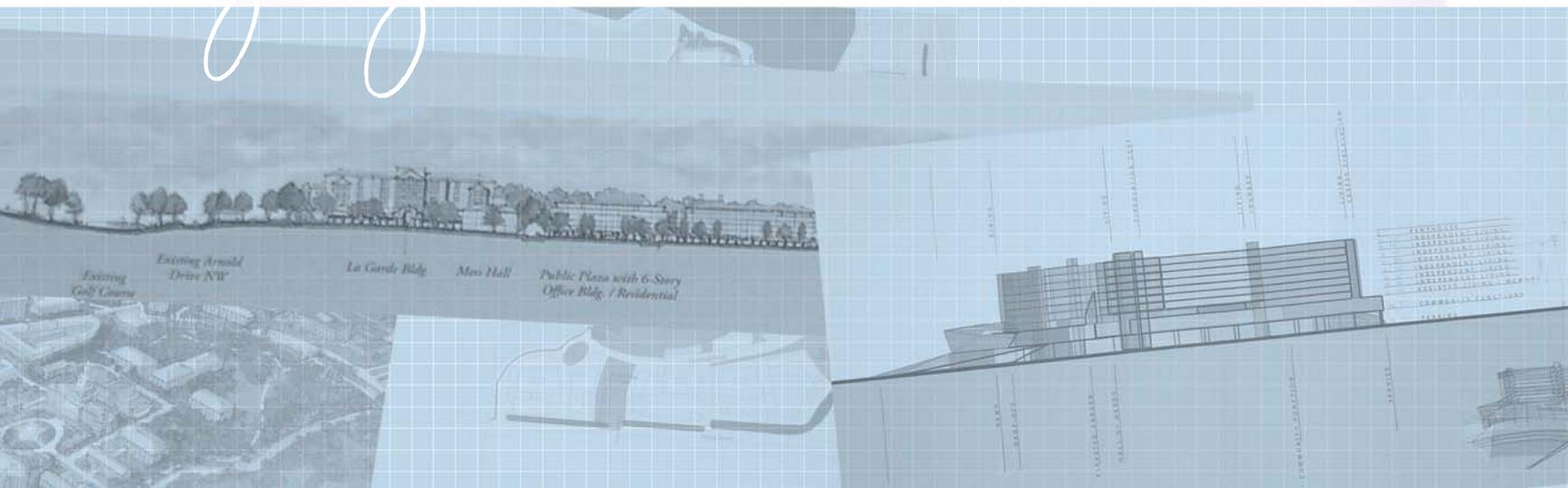




PERFORMANCE &
ACCOUNTABILITY
REPORT FY07



Forging New Foundations



Contents

VISION:

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

MISSION:

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



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www.afrh.gov

GUIDING PRINCIPLES:

Establish Accountability

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

Honor Heritage

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

Inspire Excellence

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

Maintain Integrity

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

Maximize Workforce

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

Serve Customers

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

Message from the Chief Operating Officer

Fortifying Our Finances

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

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

Restructuring our priorities

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

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

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

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

Modernizing the Home

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

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

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

Raising our Performance

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

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

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

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

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

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

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

Structuring Sound Finances

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

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

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

¹Continuing Care Retirement Community

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



Sincerely,

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

Timothy C. Cox
Chief Operating Officer (COO)

November 15, 2007

In this part, we present:

Message from Chief Operating Officer

Our Rich Heritage & Bright Future

Special Events in FY07

Building Blocks of Success

FY07 Highlights

AFRH at a Glance

Introduction to the PAR

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

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



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

Barbara Copare (Army — WWII)

Our Rich Heritage...

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

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

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



USS Missouri – Tokyo Bay, 1945



Card Room – Sherman North, 1951



Soldiers' Home – Barnes Hospital, South Side, 1905



Prize Holstein – Soldiers' Home farm, 1949

... And Bright Future



Afternoon Ride – Washington Campus, 2007

Master Plan – Washington Campus, 2007



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

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

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

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

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



Weekly Tournament – Bowling Center, 2007

AFRH Special Events

Building New Friendships

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



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



October 2006

90 year-old resident runs in Army Ten-Miler

49th Anniversary Antique Car Show

Radio City Music Hall "Rockettes" visit

US Navy Birthday celebration

November 2006

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

Marine Corps Birthday celebration

December 2006

Annual AFRH Holiday Dance

J5 Christmas Party at Pentagon, with Joint Chiefs of Staff

January 2007

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

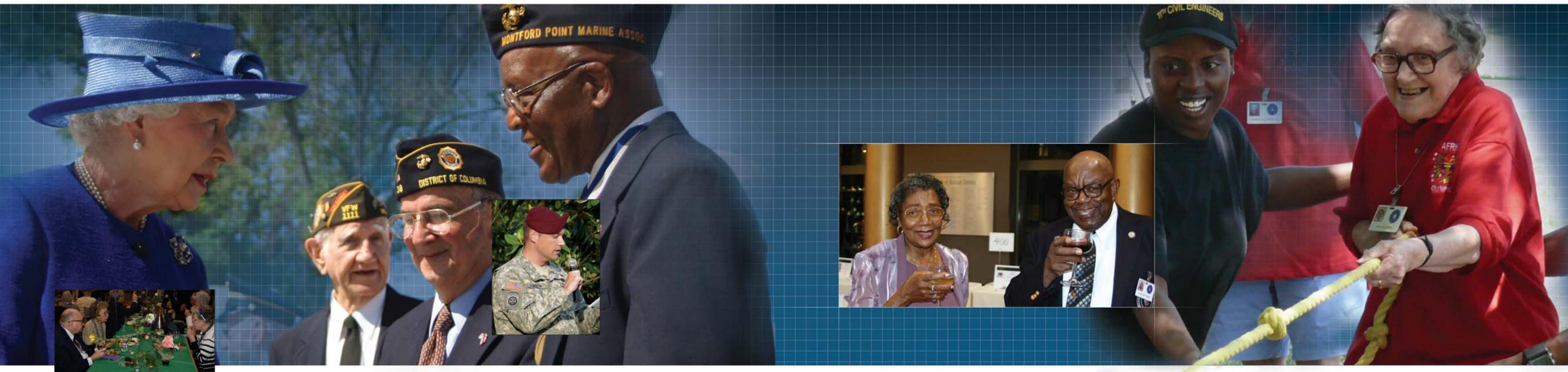
Residents attend an advance preview of Ken Burns' new film: THE WAR

AFRH Special Events, continued

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



February 2007

Mardi Gras celebration
Valentine's Day ice cream social

March 2007

First graduation of AFRH computer class



April 2007

Women in Defense visit AFRH female residents

May 2007

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

June 2007

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

July 2007

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

August 2007

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

September 2007

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

The Building Blocks of Success

Charting Our Development

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

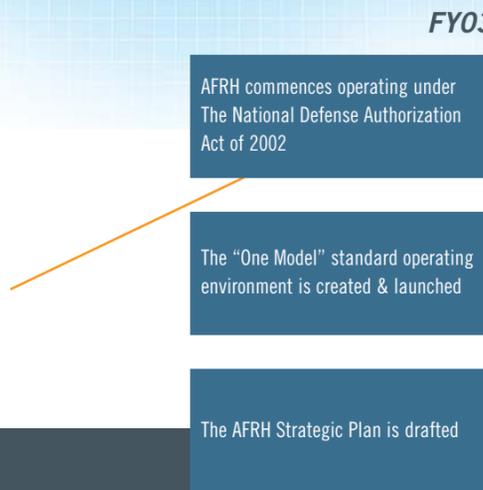
With vast experience in private retirement communities, Mr. Cox immediately standardized our two campuses – with one set of policies and procedures. His “One Model” called for regular assessments of our core competencies, plus determinations on whether to build internal capacity or competitively outsource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

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

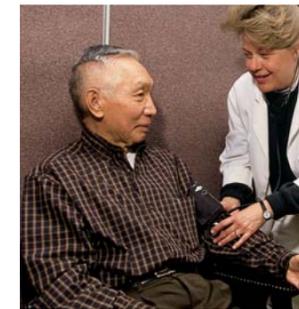
- 1 - The Program Assessment Rating Tool (PART) to reduce the footprint & identify underutilized space
- 2 - The Federal Activities Inventory Reform (FAIR) Act Of 1998 to identify functions of the Federal government that are not inherently governmental (see www.afrh.gov - About Us)
- 3 - The President’s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



Major achievements under this framework:



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



FY07 Highlights

Surveying Recent Progress

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

November 2006

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

The Gulfport campus officially closes its doors

December 2006

Memory Support Day Care opens in LaGarde Building



January 2007

UltraCare financial system is deployed to collect all resident fees electronically

MOA is signed between GSA and AFRH to rebuild Gulfport facility

February 2007

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

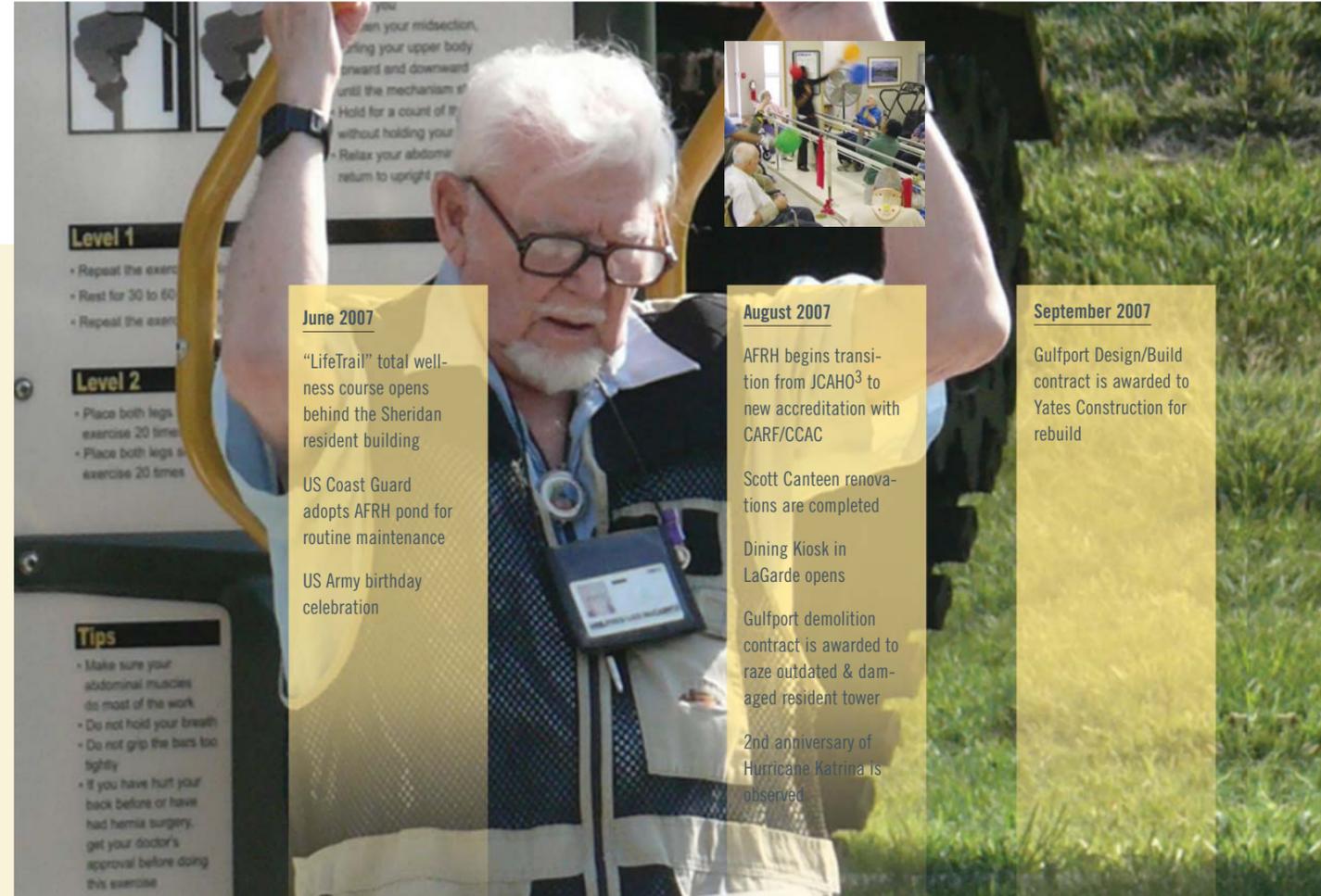
Keys to Gulfport are turned over to GSA



March 2007

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

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



June 2007

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

US Coast Guard adopts AFRH pond for routine maintenance

US Army birthday celebration

August 2007

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

Scott Canteen renovations are completed

Dining Kiosk in LaGarde opens

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

2nd anniversary of Hurricane Katrina is observed

September 2007

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

TODAY'S AFRH AT A GLANCE:

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

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

Welcome to the AFRH Performance and Accountability Report

Forging New Foundations

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

In recent years, AFRH has evolved into a modern retirement community, rivaling those in the private sector. We have made great strides transforming this agency, operating it more like a business. And we have continually enhanced our programs and services to provide even greater care.

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

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

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

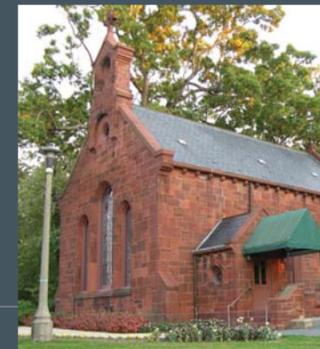
Hence the foundation is set: one home in DC, one home in Gulfport – both with roughly the same resident capacity and economic cost. Add to it the Coast Guard's demand for inclusion plus new veterans from Iraq and future campaigns – and the picture is clear: AFRH is forging a very strong base, on top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

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

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

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

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



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

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



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



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

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

Part 1

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

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

Part 2

Performance:

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

Part 3

Financial:

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

Part 4

Other Accompanying Information:

IG Statement, management challenges, improper payments and Acronyms