

BUILDING VITALITY

PERFORMANCE & ACCOUNTABILITY REPORT FY08



ARMED FORCES
RETIREMENT HOME



TABLE OF CONTENTS

Introduction
 2 - 5 Message from the Chief Operating Officer
 6 - 7 Resident Cover Story
 8 - 9 Evolving Heritage
 10 - 11 Developing Benefits
 12 - 19 Four Focus Areas (FY08)
 12 - 13 1) Rebuilding Gulfport
 14 - 15 2) Renewing Washington
 16 - 17 3) CARF/CCAC Accreditation
 18 - 19 4) Resident Wellbeing
 20 Washington Master Plan
 21 AFRH At a Glance
 22-23 PAR Introduction



Part 1: Management's Discussion & Analysis
 24 - 25 Resident Profile
 26 - 27 Introduction - Reengineering Retirement
 28 - 33 AFRH Organization
 29 Management Structure
 30 - 31 Strategic Goals & Focus Areas
 32 - 33 Surrounds, Residents & Staff
 34 Challenges
 35 - 37 Summary: Performance Achievements
 38 - 39 President's Management Agenda
 40 - 43 Financial Summary & Highlights
 44 - 49 Management Assurances
 44 Letter of Assurance
 45 - 47 Controls, Systems & Compliance
 48 - 49 Risk Management

Part 3: Financial
 66 - 67 Resident Profile
 68 - 69 Introduction - Erecting Assets
 70 - 71 Message from the DCOO/CFO
 72 - 75 Audits by Independent Accountants
 76 - 79 Financial Statements
 80 - 91 Notes to the Financial Statements
 92 - 93 Supplementary Stewardship Reporting

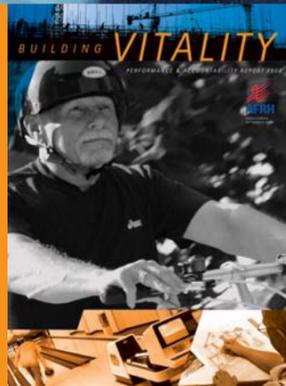
Part 4: Accompanying Information
 94 - 95 Resident Profile
 96 - 97 The IG Challenges
 98 Management Response
 99 Performance Response
 100 Improper Payments
 101 - 102 Acronyms
 103 Special Thank You

Part 2: Performance
 50 - 51 Resident Profile
 52 - 53 Introduction - Driving Progress
 54 - 61 Performance Achievements
 54 - 55 Rebuilding Gulfport
 56 - 57 Scott Project
 58 - 59 CARF Accreditation
 60 - 61 Resident Wellbeing
 62 - 63 Performance Measures
 64 - 65 Survey Results

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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)

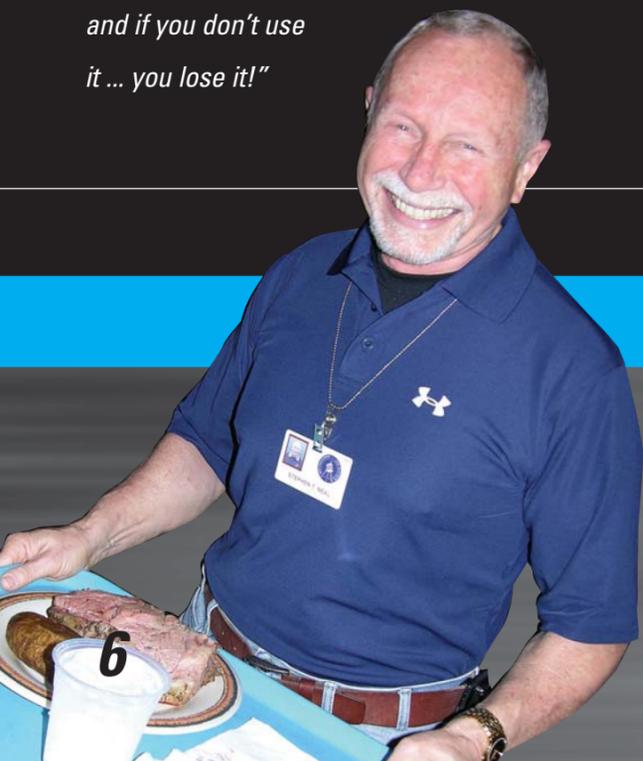
¹ Continuing Care Retirement Community

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.

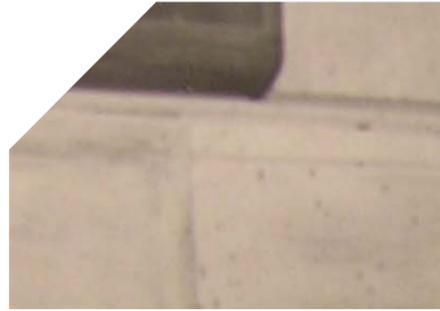
All along, we have provided eligible veterans with supportive care and shared camaraderie, much like they experienced in their service days. Back then, they invested in the Home via small payroll deductions. So now, more than ever, we must deliver on that original *Promise* – and provide them with a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

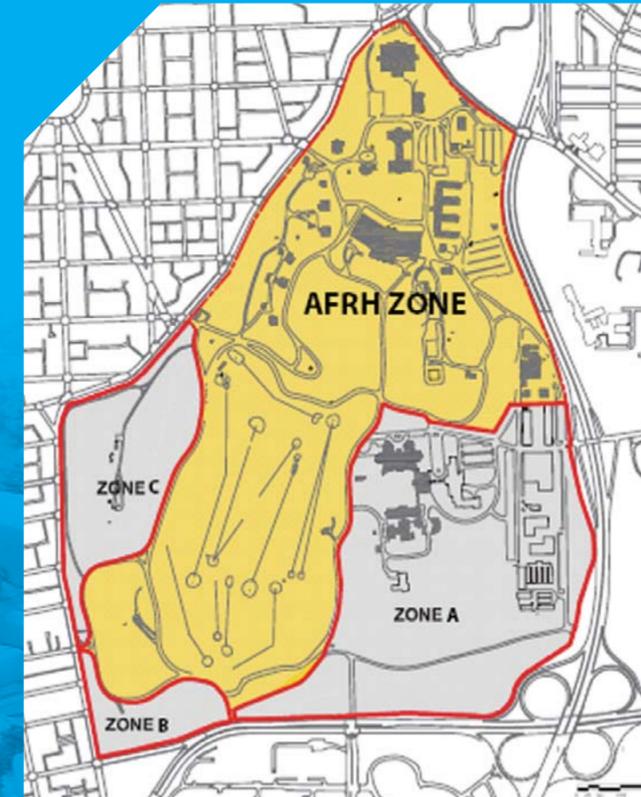
At last, the NCPC approved ZONE A redevelopment and returned ZONES B and C to the AFRH. The Commission also modified both the parking supply and transit service that we proposed.

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