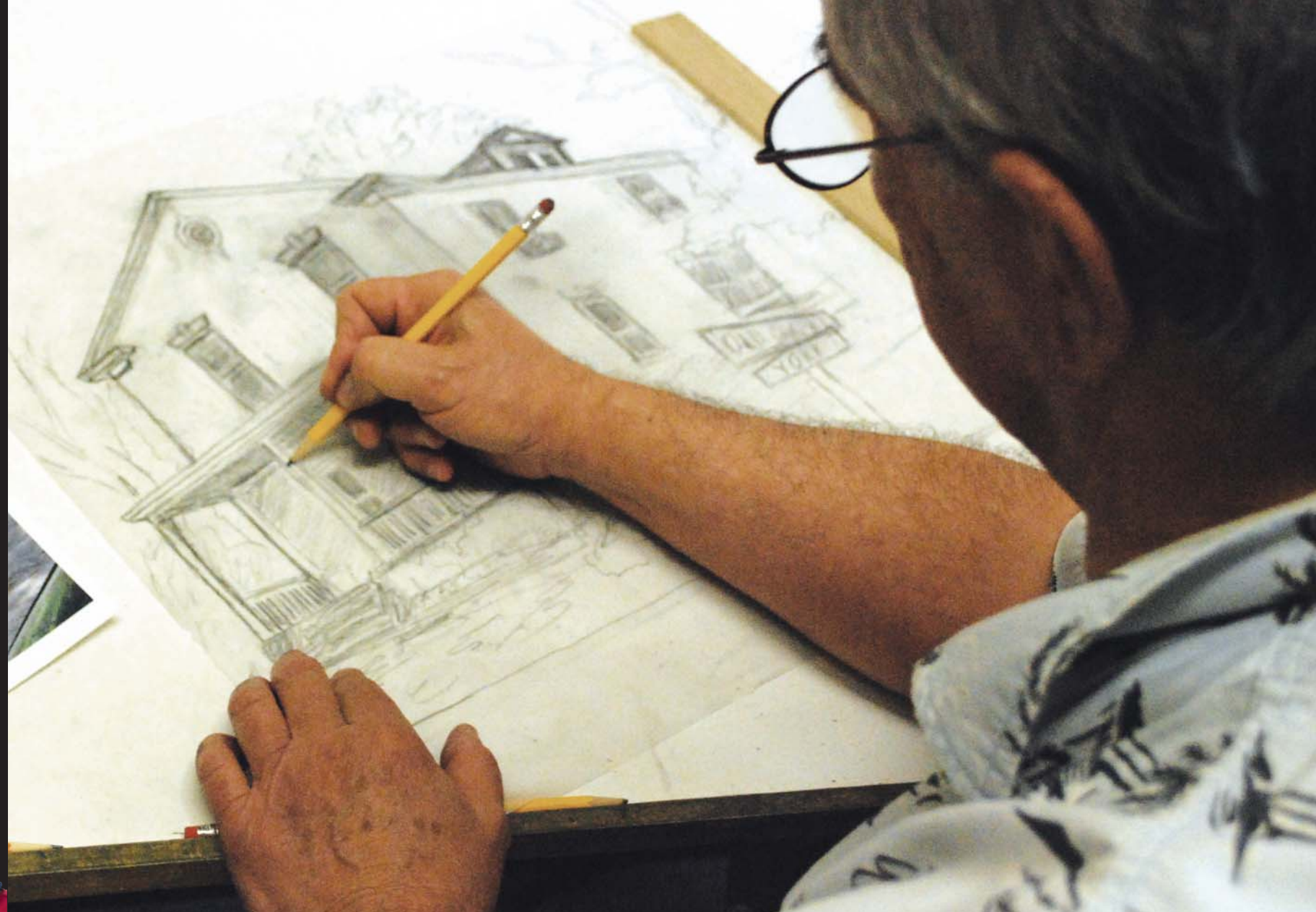


Mike began painting at age 29 and has truly grown as an artist in recent years. “When I was younger and married, art was just a hobby.” Then, after four years in the Navy, Mike worked in a few hospitals, went to college and taught school. “Then I lost my job – and at age 50, I was too old to get jobs. 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.

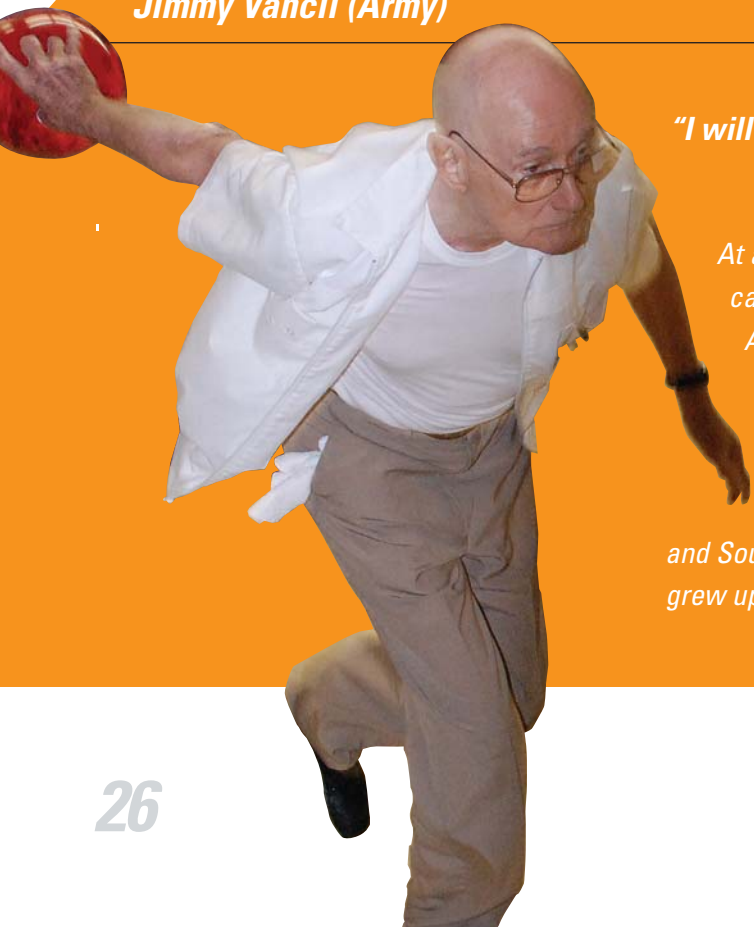
So, the Home's leaders, with the support of Congress, are literally revamping retirement once again. But this can only be realized with sound planning.

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.

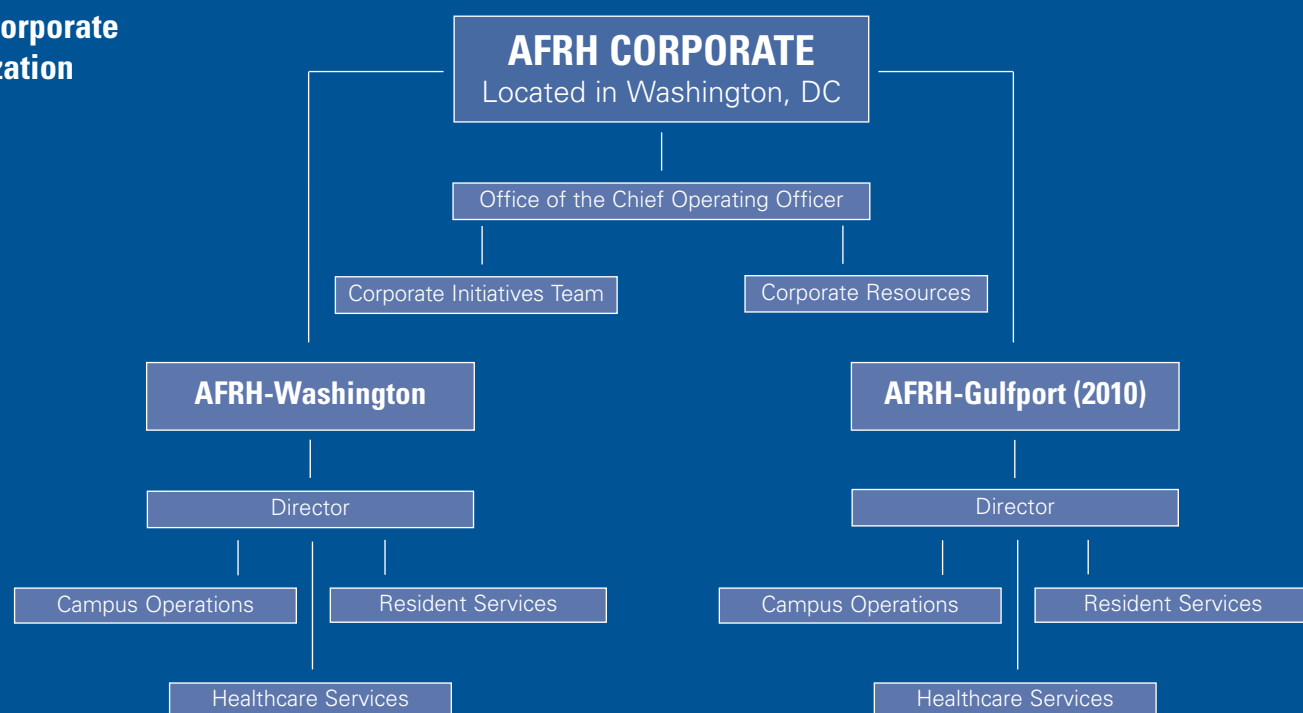
MANAGEMENT STRUCTURE

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.

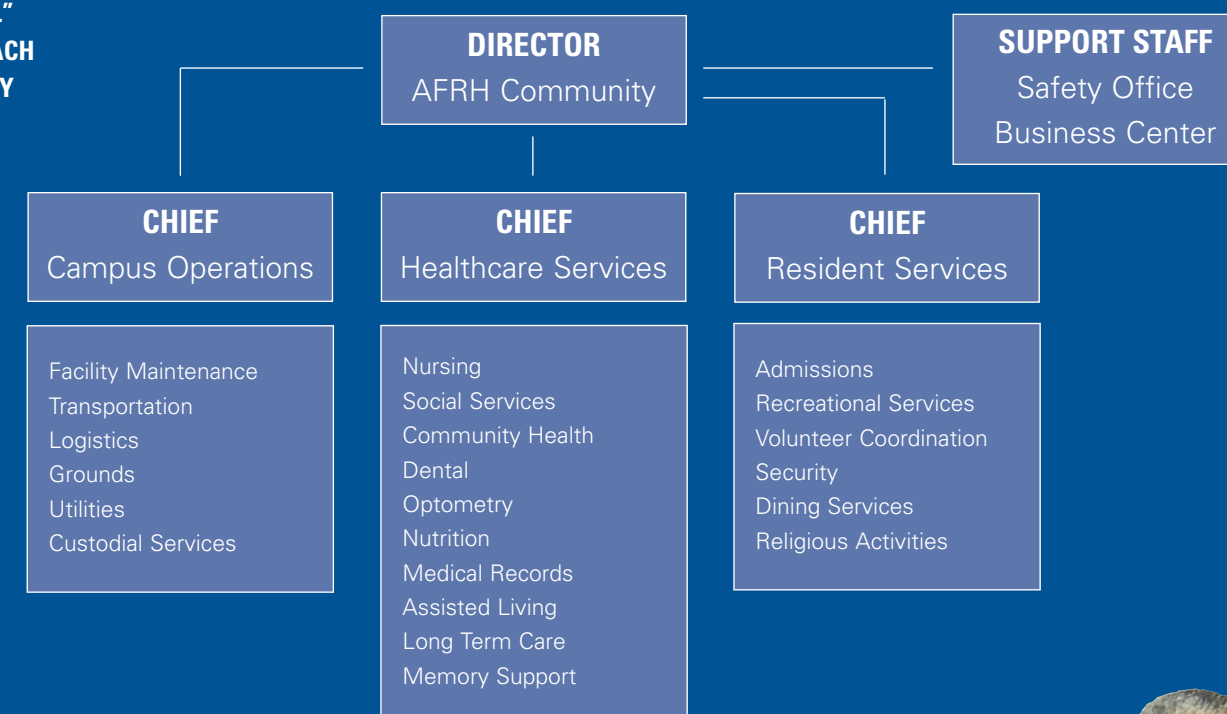
Using the successful "One Model" for all community operations, each Home has a Director who reports to the COO at the corporate level. Plus, each community can make its own tactical operational decisions, manage its facilities and respond to local resident requirements.

Boosting Competence

AFRH Corporate Organization



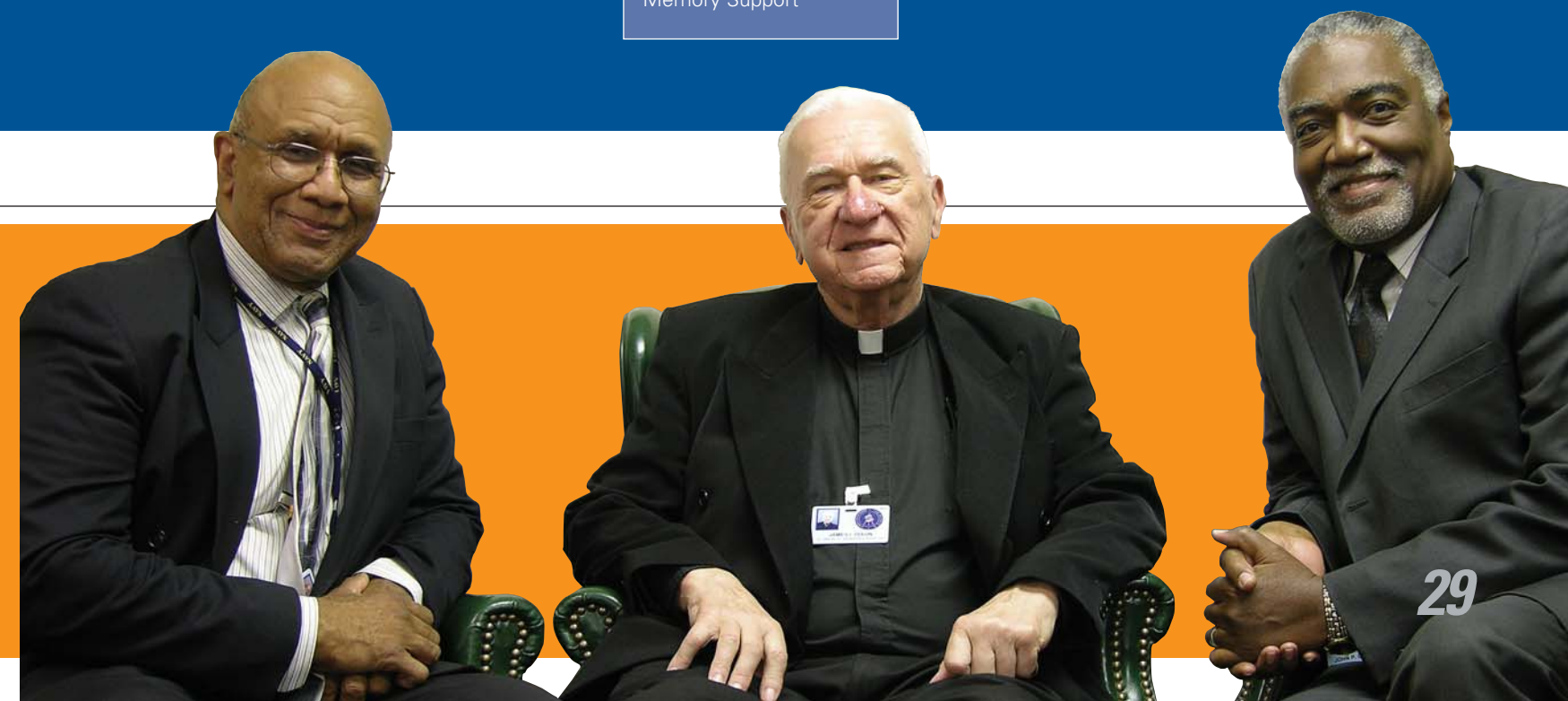
OUR "ONE MODEL" IS AT WORK IN EACH AFRH COMMUNITY



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.

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.

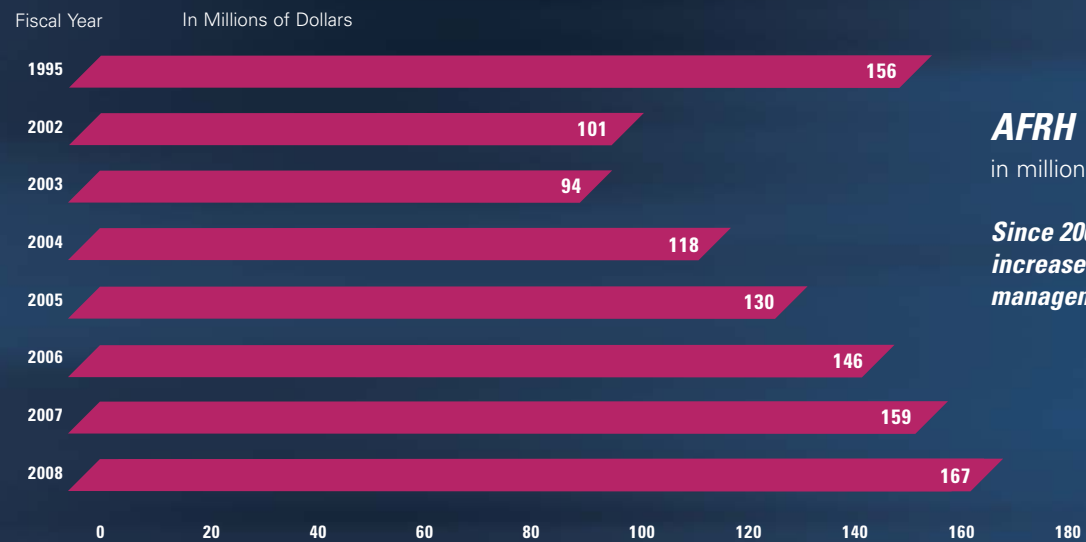
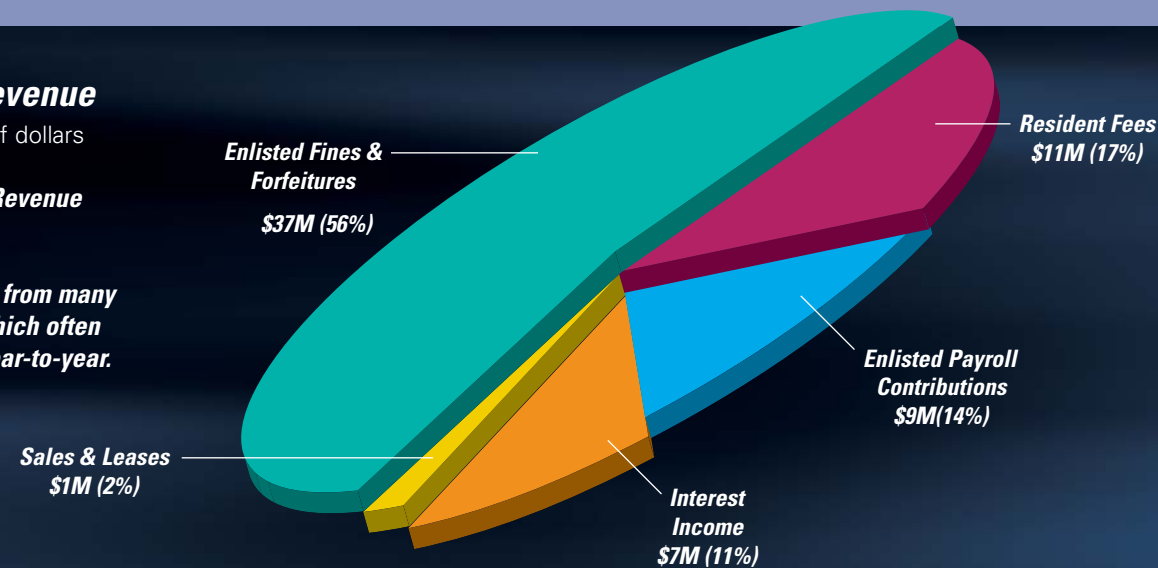
Operational funds come from our Trust Fund, which is sustained by many sources:

AFRH Revenue

in millions of dollars

FY08 Total Revenue = \$66M.

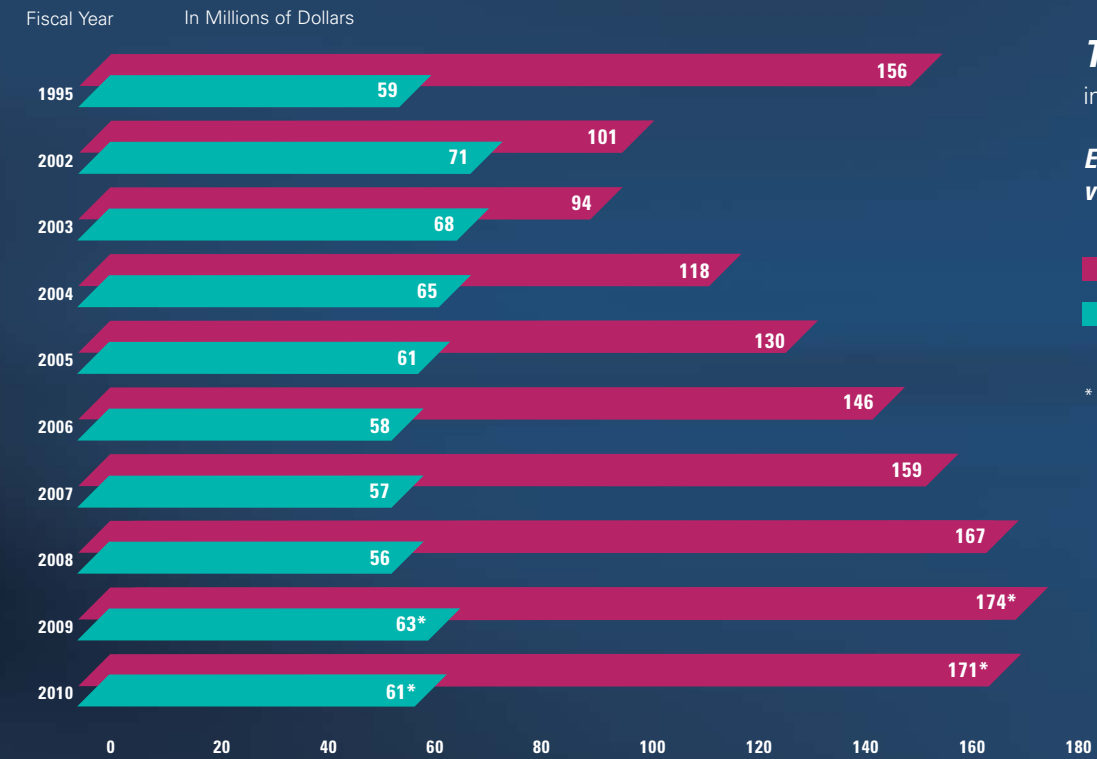
This comes from many sources, which often fluctuate year-to-year.



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.

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.

Victory:

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

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.

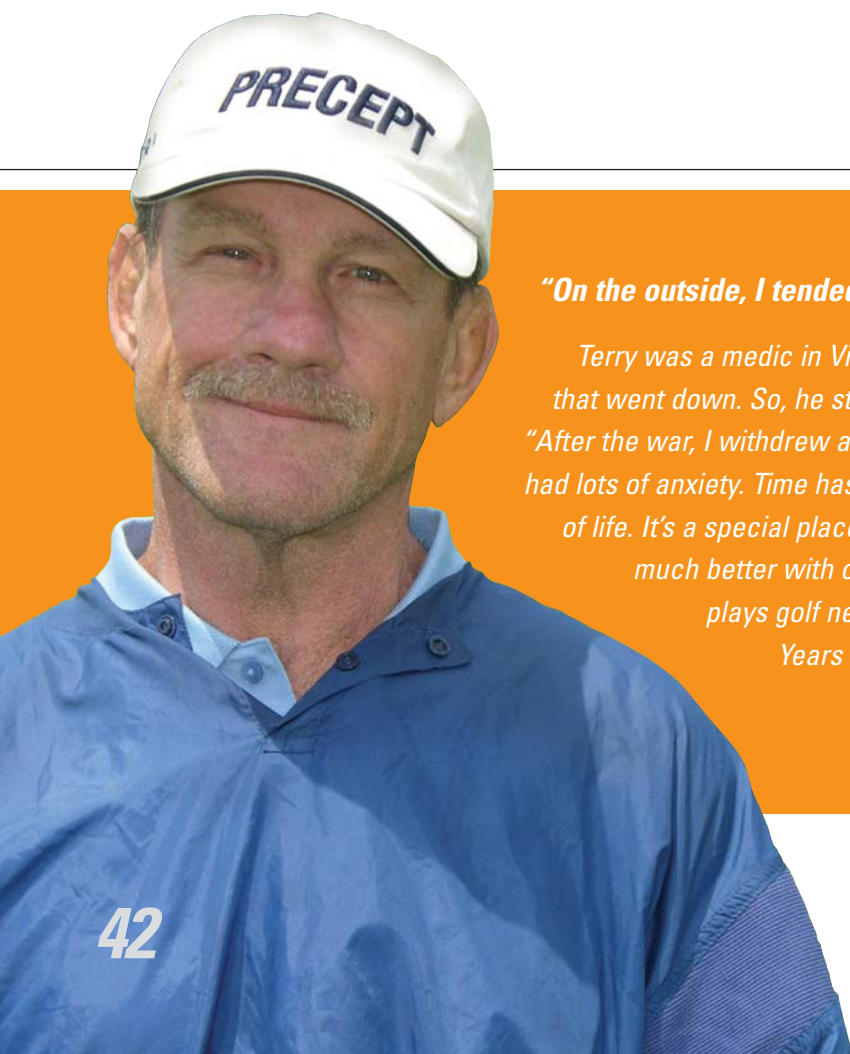
Assets:		
FY08	FY07	Net changes:
\$469,867,888	\$465,615,106	\$4,252,782
Liabilities:		
FY08	FY07	Net changes:
\$14,939,341	\$7,048,896	\$7,890,445

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).



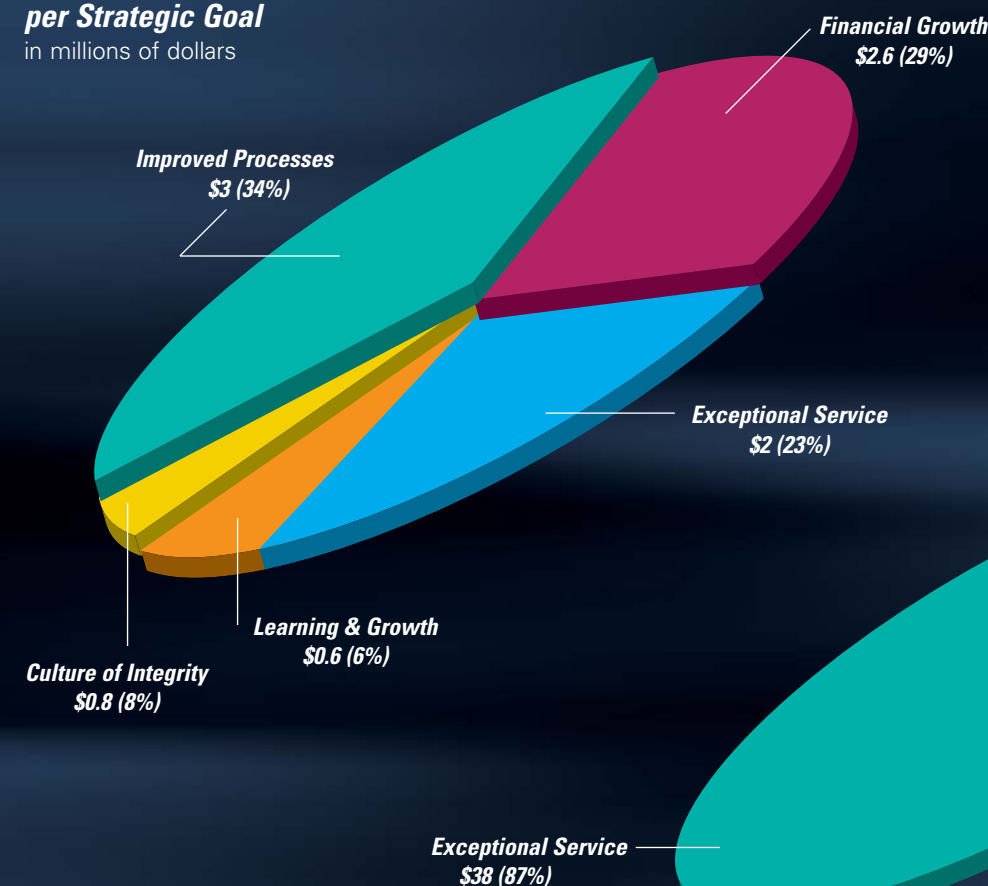
Terry Sawyer (Army)

"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.

carf ccac ■■■■■■■■■■ enhancing PEOPLE'S LIVES

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*

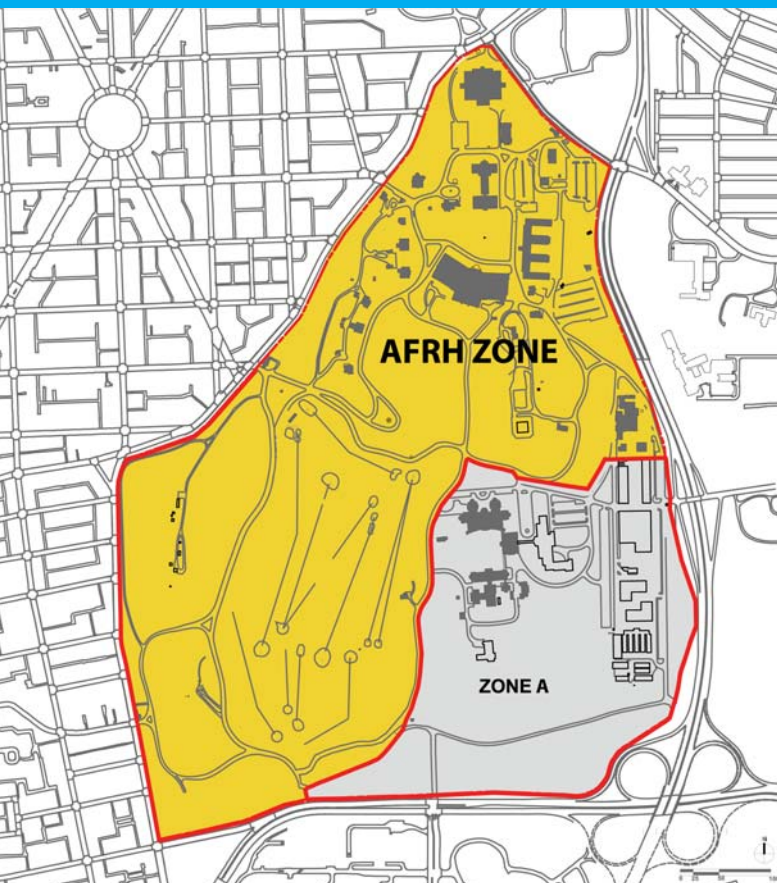
These strategies seek to guarantee the *Promise* to our nation's veterans and retired military that we will care for them in their golden years. And that AFRH will be there for future generations of soldiers, sailors, airmen, marines and coast guard. We are pleased to report that our risk management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

