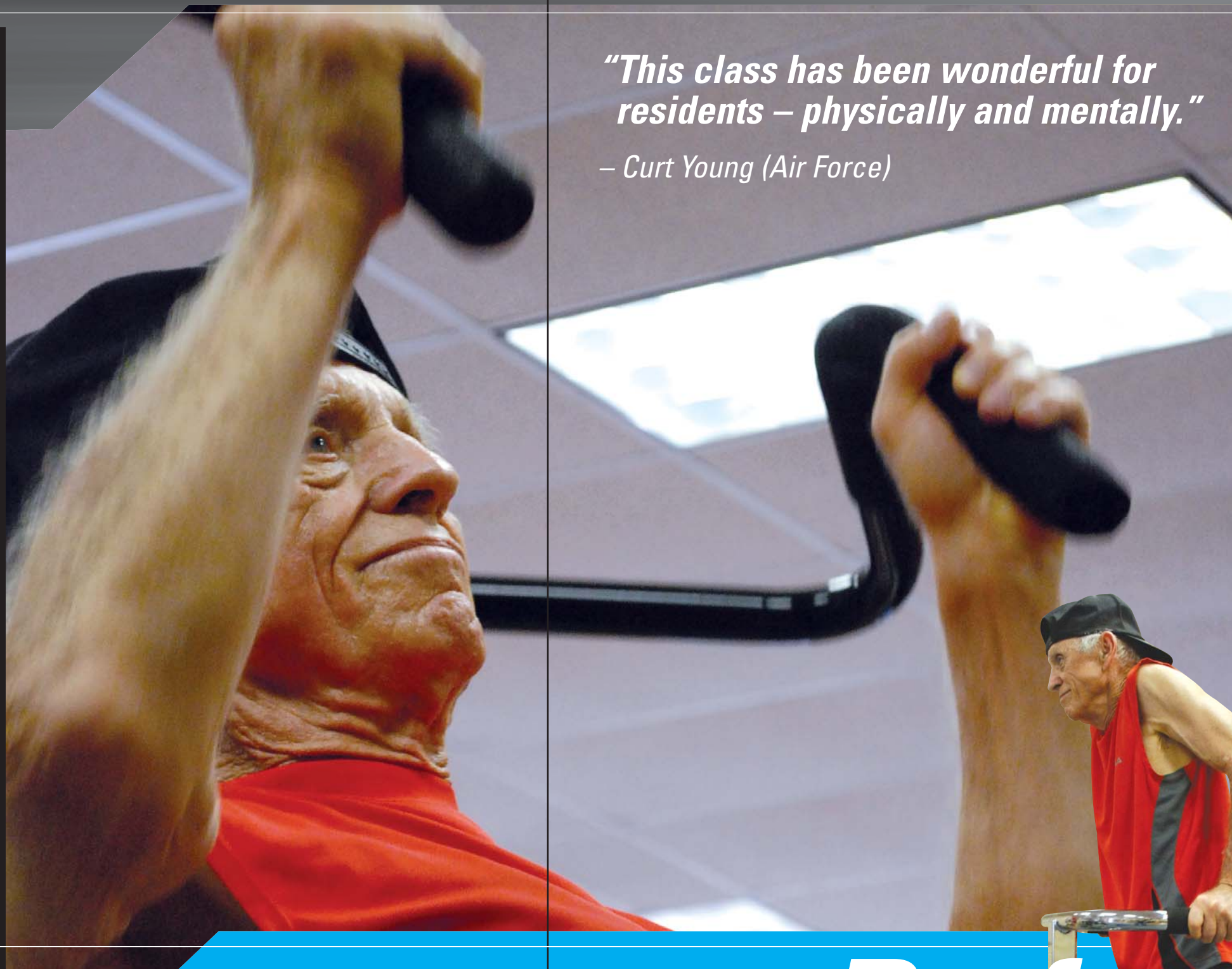


Curt is forever Young. He lifts weights, rides bikes, runs daily and teaches “Flexibility & Strength Training” twice a week at AFRH. “I incorporate Yoga and Pilates into the class. We use cables, resistant bands and light barbells. I can see a big difference and some of the residents are really amazing.”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



“This class has been wonderful for residents – physically and mentally.”

– Curt Young (Air Force)



In Part 2, we present:

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

Performance



INTRODUCTION

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

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



LEVERAGING GROWTH

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

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

Driving Progress

Paul Harvey (Army)

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

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



FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

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

PERFORMANCE ACHIEVEMENTS

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

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

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

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



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



FOCUS 1 SUPPORTS THREE STRATEGIC GOALS:

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

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

Financial Growth:

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

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

Exceptional Service

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

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

Improved Processes

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

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

Status

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

Charting Initiatives

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

FOCUS 2 REINFORCES THREE STRATEGIC GOALS:

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

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



Financial Growth

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

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

Exceptional Service

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

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

Improved Processes

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

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

Status

LRFP will be completed in FY09.



FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

FOCUS 3 BOLSTERS FIVE STRATEGIC GOALS:

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

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

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

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

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

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



Harris Bircher (Navy)



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

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

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

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

Victory:

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

FOCUS 1: Rebuilding the Gulfport Facility (MS)

FOCUS 2: Implementing the Scott Project

FOCUS 3: Attaining CARF/CCAC Accreditation

FOCUS 4: Advancing Resident Wellbeing

FOCUS 4 BOOSTS FIVE STRATEGIC GOALS:

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

Financial Growth

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

Exceptional Service

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

Integrity First

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

Selfless Service

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

Excellence in Everything

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

Right Attitude

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

Visionary Teamwork

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

Embrace Responsibility

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

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



Improved Processes

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

Learning & Growth

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

Culture of Integrity

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

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

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

Status:

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

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

NOTE: CARF cited our staff as exemplary.



FY07: 86% met or exceeded

FY08: 86% met or exceeded

08 New Developments

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

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

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

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

PERFORMANCE MEASURES

PROGRESS PER GOAL

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

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

Measuring Advances

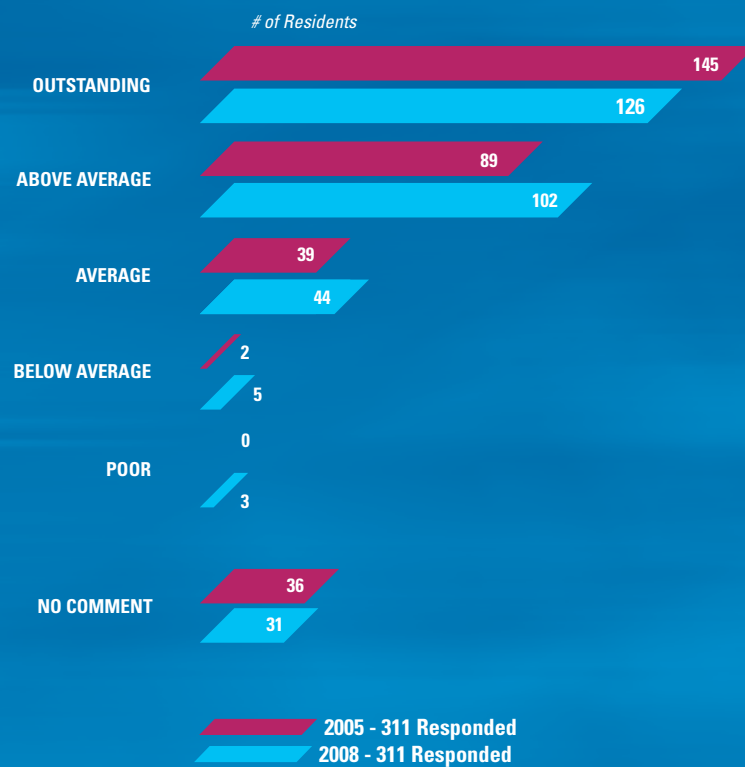
NOTE: Baselines were set in '07, so only two years of performance can be reported. ⁵ Computerized Maintenance Management System

SURVEY RESULTS:

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

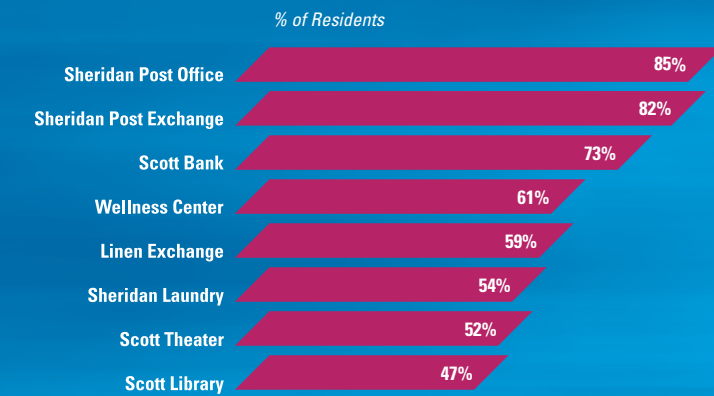
Resident Services:

81% say customer service is Outstanding or Above Average.



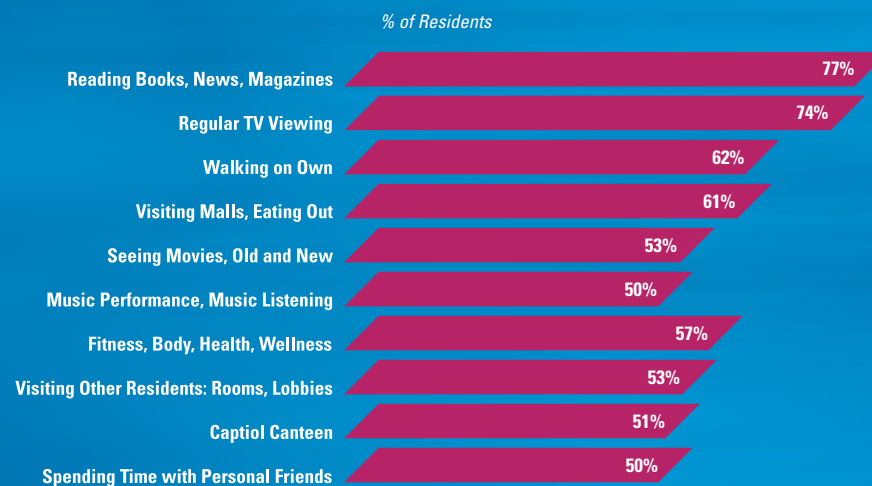
Most Used Facilities:

This input helped us create a residence Program of Requirements.



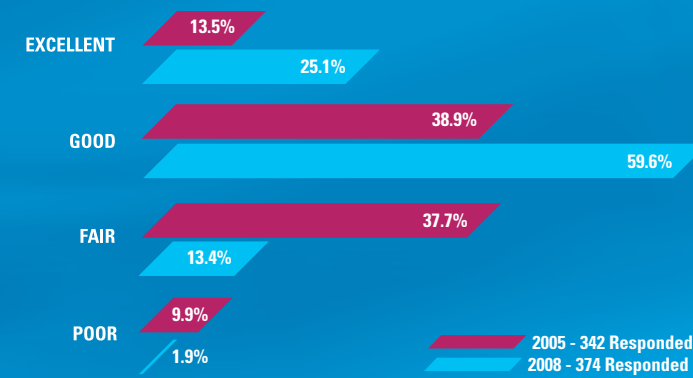
Personal Pursuits:

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

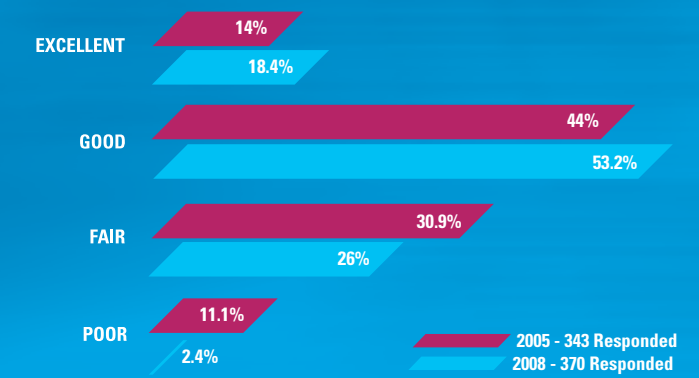


DINING SERVICES – 2008 SURVEY RESULTS (VS. 2005 RESULTS: THE LAST YEAR CONDUCTED):

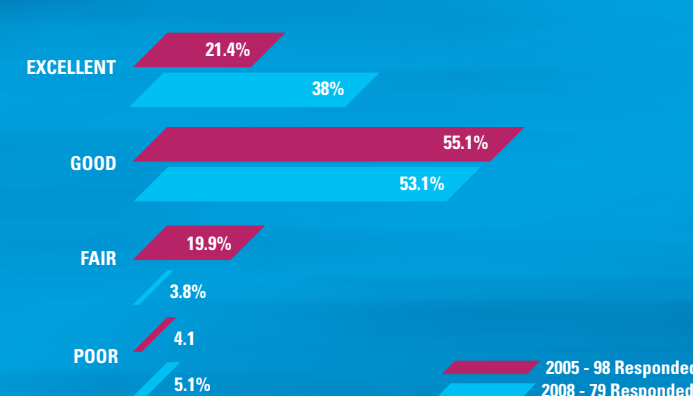
Scott Dining Hall Customer Service: 85% said it was Excellent or Good.



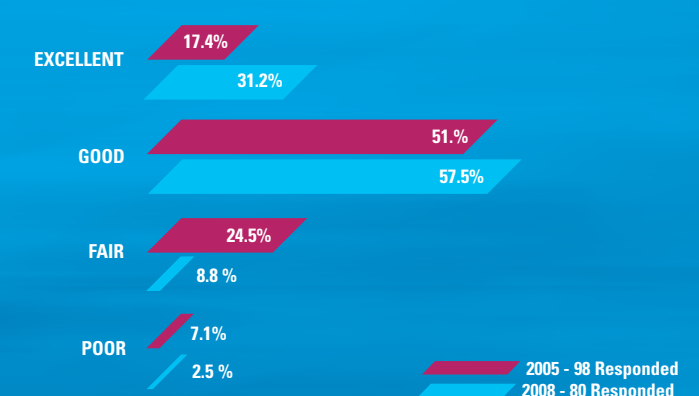
Food Quality: 72% graded it Excellent or Good.



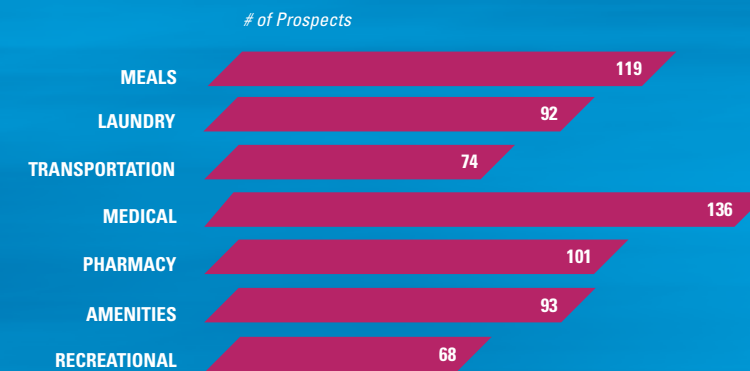
LaGarde Dining Hall: 90% graded service Excellent or Good.



LaGarde: 90% rated Food Quality Excellent or Good.

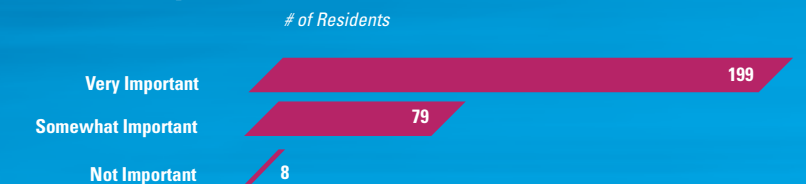


Resident Entrance – Top 7 Important Services:



New resident priorities are medical, meals and pharmacy.

Importance of a veteran community:



Means of Verification & Validation:

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

How we measure achievement:

Business Measures:

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

Customer Satisfaction:

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

Employee Satisfaction:

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

Financial Data:

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

External Benchmarks:

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

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

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

Surveying Happiness

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