



The Premier  
Retirement Community  
for America's Veterans

FISCAL YEAR **2004**

*Annual Performance and Accountability Report*



ARMED FORCES RETIREMENT HOME

*Protecting a Promise. Renewing the Trust.*



*“I can’t imagine being happier and living anywhere else.”* —Resident Norman Godfrey

## VISION STATEMENT

Provide an environment that nurtures the Health and Wellness philosophy of aging and that provides a continuum of residential Life Care Services in a community setting for our Nation’s Heroes.

## MISSION STATEMENT

The mission of the Armed Forces Retirement Home is to fulfill our Nation’s commitment to provide care through a comprehensive range of services for America’s Armed Forces Veterans. We support our residents’ independence, dignity, distinction, heritage, and future of continued life-enriching experiences. Together, the AFRH family of residents and staff create a place of caring and continual learning. We are committed to providing the best housing and support services possible and creating a true community of accomplished, independent residents, who are free to explore their talents, pursue their interests, and follow their dreams.

## STRATEGIC GOALS

Create financial net growth and stability for the trust fund.

Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives.

Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization.

Promote professional development and personal excellence for all personnel.

Foster a commitment to service and quality and an environment of mutual respect and integrity.

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*“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have little.”*

— Franklin D. Roosevelt



Timothy Cox, Chief Operating Officer of AFRH, signs the sale of underutilized acreage from AFRH’s Washington campus to Catholic University.

# LETTER FROM THE CHIEF OPERATING OFFICER

## FISCAL YEAR 2004 ANNUAL PERFORMANCE AND ACCOUNTABILITY REPORT

**I**t is my pleasure to present this Annual Performance and Accountability Report, summarizing the achievements and progress made by the Armed Forces Retirement Home in Fiscal Year 2004.

In a year capped by the arrival of Hurricane Ivan at the doorstep of our Gulfport, Mississippi campus, I'm also pleased to say that we not only survived the various challenges we faced, but truly thrived. That's good news for our agency, but it's even better news for the brave men and women of the Armed Forces to whom we are proud to provide a home.

As this report explains in more detail, our change from a position of surviving to one of thriving has occurred on many fronts—from improvements in our core business processes, to difficult decisions about staff size and strategic outsourcing, to reducing the footprint of our campuses by selling portions of our underutilized acreage. In each of these areas, we were driven by an objective to better manage our resources while continuing to provide the highest levels of care and services to our residents.

These changes are each important in their own way, but their real impact was that they allow us to remain focused on our mission of providing resident-centered services in a quality community setting. Every step we have taken—including the innovative partnerships we have negotiated with other public and private entities—had to first pass the critical test of whether it



would help us fulfill this mission. The collective result of these changes and improvements is not only a sound financial picture, but an agency that continues to be a rewarding and meaningful place for our employees to work.

As we move into the new fiscal year, our Trust Fund is in strong shape, and the future is bright. Just as we relied on smart planning and close cooperation to continue operations through the hurricane and its aftermath, the organizational and financial improvements we made will allow us to continue serving our residents as a best-in-class provider in the years to come.

Our residents are remarkable individuals, and they deserve no less than our very best. It is gratifying to see that the changes we have made and the additional improvements we have planned for the near future will help us continue to provide a level of care and community that are unmatched anywhere as the premier retirement home for military retirees and veterans.

A handwritten signature in cursive that reads 'Timothy C. Cox'.

*Timothy Cox*  
*Chief Operating Officer*  
*Armed Forces Retirement Home*



# MANAGEMENT'S DISCUSSION AND ANALYSIS



*Protecting a Promise. Renewing the Trust.*

## OFFERING VETERANS AN ENRICHED LIFE



*"We are beneficiaries of the best investment most of us have ever made."*

—AFRH Resident Howard Sweet

The Armed Forces Retirement Home is more than a group of buildings that house soldiers, sailors, marines, and airmen who served our country. AFRH is home to approximately 1,600 veterans, a community of men and women who share a

past commitment to their country. To meet the day-to-day needs of these individuals, AFRH strives to enliven daily routines, to challenge mind and body, and to provide companionship and camaraderie in a community setting.

## VISION, MISSION, AND GOALS

For almost 200 years, our nation has recognized the pressing need to offer a home to its eligible veterans. In a variety of locations and in countless ways, we have helped care for tens of thousands of veterans.

### AFRH VISION STATEMENT

Provide an environment that nurtures the Health and Wellness philosophy of aging, and that provides a continuum of residential Life Care Services in a community setting for our Nation's Heroes.

Today, the Armed Forces Retirement Home is the premier retirement community for America's veterans. To ensure that we can provide residential, health care, long-term care, and personal enrichment services of the highest quality, we are guided by a clear vision. More specifically, our mission statement details the key strategies and approaches we employ to ensure that the services and care we provide are of the highest quality.

As we move forward, AFRH will continue its efforts to be customer-focused, quality-driven, and fiscally responsible. To do so, we have developed five comprehensive strategic goals that address the major aspects of our operations - from our agency's financial health and

cost effectiveness to the philosophical underpinnings of our approach to assisting residents in their daily lives.

Though we may make modifications from time to time in the types of service and support we provide, based on the needs of our customers and stakeholders, our mission will remain unchanged. We will use compassion, creativity, and innovation to continue to deliver best-in-class service to our veteran residents while ensuring cost-effective, efficient operations.

### AFRH MISSION STATEMENT

The mission of the Armed Forces Retirement Home is to fulfill our Nation's commitment to provide care through a comprehensive range of services for America's Armed Forces Veterans.

We support our residents' independence, dignity, distinction, heritage, and future of continued life-enriching experiences.

Together, the AFRH family of residents and staff create a place of caring and continual learning. We are committed to providing the best housing and support services possible and creating a true community of accomplished, independent residents, who are free to explore their talents, pursue their interests, and follow their dreams.

### AFRH STRATEGIC GOALS

Create financial net growth and stability for the trust fund.

Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives.

Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization.

Promote professional development and personal excellence for all personnel.

Foster a commitment to service and quality and an environment of mutual respect and integrity.

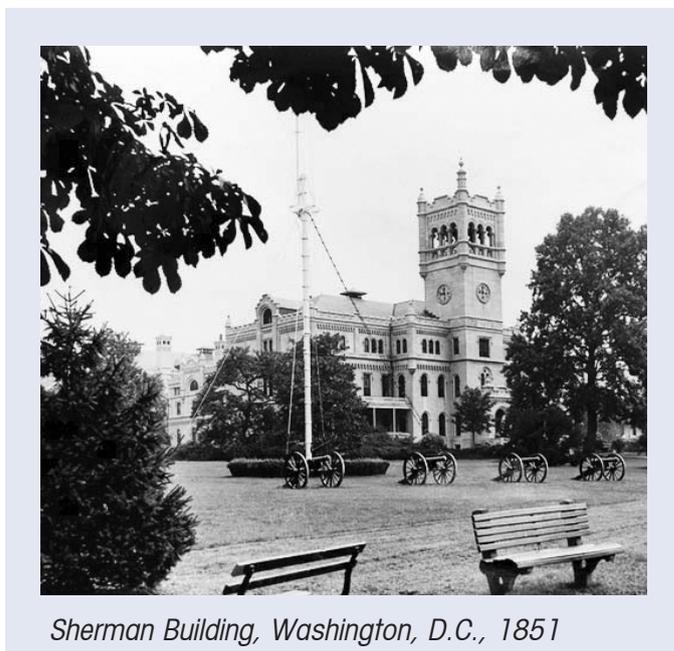
## ORGANIZATION AT A GLANCE

Our country has a long and proud legacy of caring for its veterans, dating back to the War of 1812, when Congress established a home for destitute Navy officers, sailors, and Marines in Philadelphia. Some 40 years later, Congress established an asylum for old and disabled soldiers in Washington, D.C.

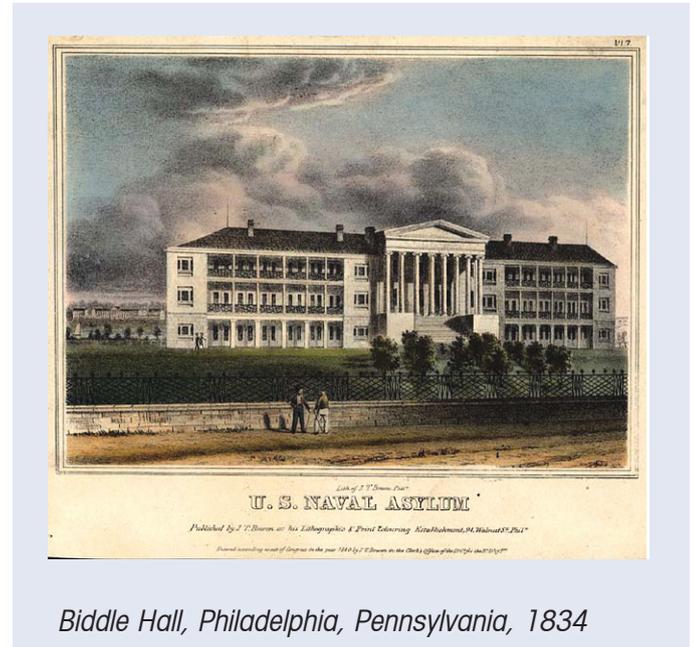
Through the proceeding years, the U.S. Naval Home (USNH, which later moved to Gulfport, MS), and the U.S. Soldiers' and Airmen's Home (USSAH, still in Washington), operated separately. One of the most significant changes for both institutions happened only 13 years ago, as a result of the Armed Forces Retirement Home Act, Public Law 101-510. This new law combined the USSAH and the USNH to form the Armed Forces Retirement Home.

Under the Act, Congress incorporated the U.S. Naval Home in Gulfport, and the U.S. Soldiers' and Airmen's Home in Washington, into one entity. The resulting organization, an independent establishment in the Executive Branch of the Federal government, is known as the Armed Forces Retirement Home, or AFRH.

The facilities continue to be maintained as separate entities for administrative purposes, available to all eligible veterans from all branches of the Armed Forces. A permanent trust fund was established a number of years ago, and it continues to be fed by monthly active duty payroll deductions and fines and forfeitures from the Armed Forces.



*Sherman Building, Washington, D.C., 1851*



*Biddle Hall, Philadelphia, Pennsylvania, 1834*

### THE GULFPORT CAMPUS

Legislation established a home in 1811 for naval personnel in Philadelphia, Pennsylvania to provide a permanent asylum for decrepit and disabled naval officers, seamen, and Marines. Naval personnel who were so injured or infirmed as to be unable to contribute materially to their own support were allowed to live at the home and asked to labor as much as they were able toward the care of it. The oldest veteran retirement home in the country, this facility was relocated almost a century and a half later to its present site in historic Gulfport, Mississippi. The Gulfport campus sits along the Gulf of Mexico, just a short walk to the world's most beautiful and therapeutic beaches.

### THE WASHINGTON CAMPUS

In 1851, legislation established a soldiers' home for Army veterans in a secure, peaceful setting in Northwest Washington, D.C. The Soldiers' Home was established as an asylum for old and disabled veterans. Four of the original buildings still stand, and are listed as national historic landmarks. Since the Home's beginning, operational funding has come from soldiers themselves.

# AFRH'S ORGANIZATIONAL MODEL FOR SUCCESS

AFRH has developed a one model approach to operating its homes in Gulfport and Washington, D.C. The desired outcomes of this approach are enhanced accountability and the ability to provide the highest quality service to our residents.

Another benefit of the one model approach has been the establishment of a standard operating environment. The Chief Operating Officer was appointed in September 2002 and began working toward an agency with two distinct campus locations, but one set of standards, policies, and procedures.

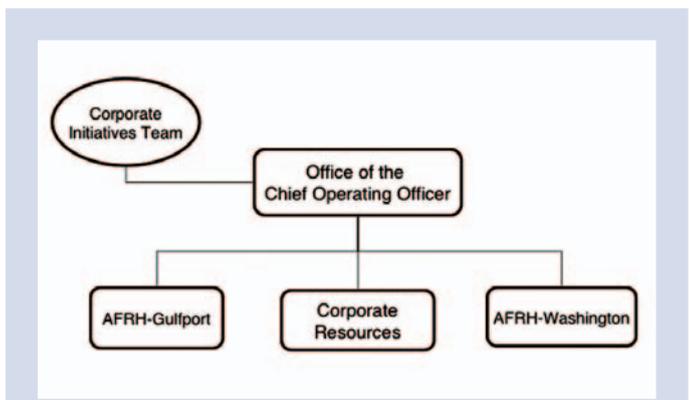
Agency oversight is conducted by the Chief Operations Officer, the Chief Financial Officer, and the Corporate Resources team. The Corporate Resources team is comprised of Public Affairs and Marketing, Human Resources, Acquisition and Logistics Management, Equal Employment Opportunity and Affirmative Action,

Master Planning, Dining Services, Information Technology, and Financial Management. The agency directs the activities of both campuses. The management team is identical at both campuses.

The transition to the one model approach requires ongoing oversight, including identification of and improvements to core competencies, and deciding when and where to build internal capacities or outsource functions. In addition, integrated systems are required to reduce errors, duplication of efforts, and uneven workload across the agency.

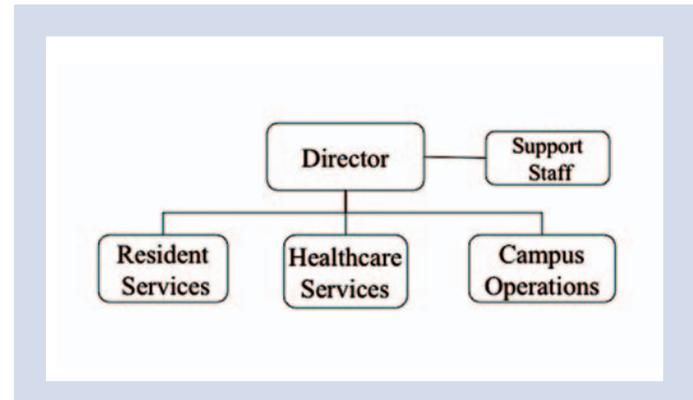
Likewise, the transition process has allowed a better alignment of staff capabilities with resident needs, which in turn is improving the delivery of services. Management recognizes the need to balance corporate resources between its Gulfport and Washington campuses, and has implemented several new policies to ensure a proper balance is maintained.

## Agency Organization Chart



Agency oversight for the Gulfport and Washington campuses of AFRH is conducted by the Chief Operating Officer.

## Campus Organization Chart



Under AFRH's "one model" approach, both homes use the same organizational structure to ensure accountability, service excellence, and standardized operating procedures.

## PROGRESS TOWARD STRATEGIC PLAN GOALS AND OBJECTIVES



The AFRH Strategic Plan communicates our intentions for managing challenges and exploiting opportunities to remain financially viable and capable of achieving the highest standard of performance. Perhaps the most important expected outcome of the plan is to increase our ability to provide quality services to our residents.

During the past year, we have had noteworthy success on several of our strategic goals. At the top of this list, we made significant progress toward our goal of better integrating and aligning service delivery between our two campuses.

Our strategic plan also describes how we are developing new business practices and implementing automated processes - especially in ways that can improve resident service and organizational efficiency. We are continuing to raise

the bar on our customer satisfaction measures, and at the same time are building our capability to expand services and program offerings in the future. We are also conducting an ambitious program of proactive communications and marketing outreach to ensure that the military communities are fully aware of the services we provide. Last, we have redesigned our website ([www.afrh.gov](http://www.afrh.gov)) to improve ease-of-use for current and prospective residents and their families, as well as personnel at AFRH.

In performing its mission, the AFRH interacts with other Federal agencies and private organizations. In the past year, we made significant progress in numerous initiatives and ongoing programs involving other agencies, and have laid the groundwork for increasing our outreach and partnerships with other public, as well as private, organizations.

# STRATEGIC GOALS AND OBJECTIVES: A CLOSER LOOK

## THE STRATEGIC PLAN DESCRIBES SPECIFIC GOALS AND OBJECTIVES AS FOLLOWS:

### 1 FINANCIAL

*Create financial net growth and stability for the trust fund.*

AFRH's ability to provide the best services and facilities to its residents is made possible by a commitment to increase revenue and reduce costs. AFRH's fundamental financial strategy is to make effective use of resources, decrease expenditures, increase revenue, and grow net results while maintaining and increasing high standards of services and facilities.

Objective F1: Increase revenue resulting in a net increase

Objective F2: Reduce costs resulting in a net increase

### 2 CUSTOMER

*Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives.*

AFRH's first responsibility is to ensure the satisfaction and well-being of its residents. AFRH also places high importance on the satisfaction of service partners and other key stakeholders. To engender high levels of customer satisfaction, AFRH aims at continuing positive public relations, and sustains a strategic approach providing quality services and responses to customer needs.

Objective C1: Increase customer satisfaction through superior execution of the mission

Objective C2: Increase resident retention and resident outreach through positive public relations

Objective C3: Assess transitions between levels of care

### 3 INTERNAL BUSINESS PROCESSES

*Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization.*

AFRH ensures its ability to provide quality services and facilities to America's veterans by maintaining effective, efficient internal business processes. AFRH continually evaluates and improves upon work functions and processes to improve our ability to manage resources, facilitate communication, and promote AFRH team operations.

Objective IBP1: Increase effectiveness and efficiency of service delivery to our residents

Objective IBP2: Increase timeliness and satisfaction with internal communications

### 4 LEARNING AND GROWTH

*Promote professional development and personal excellence for all personnel.*

AFRH is a learning organization that promotes professional development and excellence for all members of the staff by facilitating ongoing learning, refining skills, building competencies, developing new proficiencies, and encouraging growth for our community. AFRH encourages its employees to continually improve and expand their skills and gain from the experience of serving in our family.

Objective LG1: Provide a comprehensive employee training program tied to performance, competencies, and accountability in compliance with Occupational Safety and Health Administration (OSHA), Joint Commission on Accreditation of Healthcare Organizations (JCAHO), and Agency requirements

Objective LG2: Inform key AFRH stakeholders of value added programs and initiatives

### 5 CULTURE

*Foster a commitment to service and quality and an environment of mutual respect and integrity.*

AFRH's corporate culture reflects the values of service, quality, mutual respect, and integrity. AFRH maintains a culture of service, quality, and dedication to the veterans.

Objective CL1: Increase teamwork and cooperation among AFRH employees and residents

Objective CL2: Maintain an accurate cross-campus health and wellness model

Objective CL3: Attract, develop, and maintain a high-performing workforce

*"I have always been taken care of when it comes to my medical needs at the AFRH. I receive prompt, courteous and professional care."*

—Resident Mike Longwell

## PERFORMANCE SUMMARY

*“The man of virtue makes the difficulty to be overcome his first business, and success only a subsequent consideration.”*

—Confucius

**AFRH's** funding is based on monies collected from monthly active duty payroll deductions, resident fees, fines and forfeitures from the Armed Forces, and interest from the Armed Forces Retirement Home Trust Fund. Congress apportions a budget authority each year for operations at AFRH.

In 2003, AFRH found itself at a crossroads. The Trust Fund balance had declined from \$156 million in 1995 to \$94 million in 2003 as operating costs outpaced the collection of funds. To remain solvent, the agency needed to change its operating model. Major initiatives were launched in 2003 to change the operating model of the Home from survive to thrive. The Home also embarked on the roadmap to meet the President's Management Agenda. Limited transition efforts began in Fiscal Year 2003, with plans to complete the transition in Fiscal Year 2005.

Fiscal Year 2004 was a transformational year on several levels, with significant changes occurring in almost every aspect of our operations. Using the AFRH Strategic plan developed in November 2002 as a guide, we began implementing a baseline model of operation, a process that will continue for a three-year period.

### MULTIPLE INITIATIVES

The first order of business in this transition has been to bring our costs in line with our revenue, and thus strengthen the Trust Fund. By developing a strategy for asset management that includes reducing the footprint of AFRH's operational facilities, we have reduced operating costs and leveraged the underutilized assets as a source of revenue. It is important to note that the Trust Fund cannot be used as the sole source for capital projects; rather, we must develop other alternatives. A related necessity is that we must show that our finances are in order before we ask others to help.

During 2004, we have been moving to integrate and align the service delivery between the two campuses. As a result of this

unprecedented transition, we have now become a single agency called AFRH. For the first time in our history, a single agency directs the activities of both veterans' homes according to one set of standards, policies, and procedures. We must and will ensure that our service delivery model is both financially viable and capable of achieving the high standard of performance.

Additionally, development of the Business Plan has prompted collaboration between the two campuses to better align their service delivery. By balancing corporate resources between the Gulfport and Washington campuses, we are well on our way to our stated goal of 20 to 30% cost savings by Fiscal Year 2005.

At the agency level, we have made great headway in finding a more cost-effective way to deliver the quality services and care that our residents need and deserve. A key step in this process was to identify our core competencies, and then decide where to build internal capacities and where to do competitive outsourcing, as required by the Federal Activities Inventory Reform (FAIR) Act.

By integrating automated systems to reduce redundancy and errors, and better balance workloads across the agency, we have added the power of e-Government capabilities to our services, improving our accessibility to residents, prospective residents, and staff. In addition, by reducing layers of personnel, we have improved our strategic management of human capital.

AFRH embarked upon an aggressive course of linking strategic initiatives at both agency and campus level with achievable objectives. At the agency level, initiatives focused on meeting the President's Management Agenda (as discussed in the Responding to Government Initiatives section below). At the campus level, initiatives focused on the AFRH Business Plan, which links the goals and objectives set forth in the strategic plan to operational plans based on these goals and objectives. Detailed campus level performance information is contained in the Performance section.

# PERFORMANCE VALIDATION AND VERIFICATION

In the past year, AFRH has begun implementing operational plans to meet its strategic goals and objectives.

The measures for success at AFRH include the following:

MEASURES
<b>BUSINESS MEASURES</b>
Increases in dollar amounts in the Trust Fund
Increases in the resident population
Savings through competitive outsourcing
Reductions in space and land
Donations from community partnerships, organizations, and foundations
<b>CUSTOMER SATISFACTION INDEX</b>
Improvements in health and wellness
Improvements in facilities
Improvements in services
<b>EMPLOYEE SATISFACTION INDEX</b>
Surveys
Performance Evaluations
Integration of the volunteer program
Updates in policies and directives

Performance measurement is determined using data that comes from a variety of sources, as explained below.

## FINANCIAL DATA

In Fiscal Year 2004, AFRH transferred or converted many financial functions to ensure consistent and correct data. For example, AFRH transferred the following functions to the Bureau of Public Debt, (Parkersburg, WV):

- Financial Management Service (Accounting, Travel, and Investments)
- Property Management
- Contract/Procurement Management
- Procurement Cards

In addition, AFRH transferred its Payroll, Personnel, and Financial Management Systems to the National Finance Center (New Orleans, LA).

## BENCHMARK DATA FROM EXTERNAL SOURCES

As a provider of healthcare, AFRH is required to meet the standards developed by national organizations that accredit health facilities. AFRH has received a Gold Seal of Approval™ from JCAHO.

In addition, our Dining Services, which have a profound positive affect on the health and well-being of our residents every day, must comply with JCAHO standards for quality of food and preparation and the Food and Drug Administration Food Code. Dining Services also rely on local sanitation manuals that were written based on the Food Code.

## DATA FROM MANUAL OR SMALL FEEDER COMPUTER SYSTEMS

To validate each data report, we make sure that more than one person is responsible for compiling it. Likewise, we employ a chain of command review and approval methodology to validate our policies and procedures on everything from food, to health, to recreation.

# RESPONDING TO GOVERNMENT INITIATIVES



*“Excellent firms don’t believe in excellence - only in constant improvement and constant change.”*

—Tom Peters

Launched in August 2001 as a strategy for improving the management and performance of the Federal Government, the President’s Management Agenda (PMA) focuses on the areas where deficiencies are most apparent and where the Government can begin to deliver concrete, measurable results.

## **THE FIVE GOVERNMENT-WIDE INITIATIVES ARE:**

### **STRATEGIC MANAGEMENT OF HUMAN CAPITAL**

Having processes in place to ensure that the right person is in the right job, at the right time, and that every employee is not only performing, but performing well;

### **COMPETITIVE SOURCING**

Generating an estimated \$1.1 billion in savings over a 5-year period, using competitive sourcing wherever doing so makes economic and strategic sense;

### **IMPROVED FINANCIAL PERFORMANCE**

Making prudent financial decisions, and providing timely and accurate accounting on programs to help managers control costs and make better decisions;

### **EXPANDED ELECTRONIC GOVERNMENT**

Leveraging the Federal Government’s investments in information technology (IT) to significantly improve our ability to work with systems that are secure, timely and cost-effective; and

### **BUDGET AND PERFORMANCE INTEGRATION**

Systematically assessing programs to identify opportunities to improve effectiveness, and using program results to determine future funding.

AFRH has embraced the tenets of the PMA as a means to reduce costs and conduct more efficient operations.

# THE PRESIDENT'S MANAGEMENT AGENDA

*“What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises.”*

—President George W. Bush  
on the President's Management Agenda



## AFRH'S SELF-ASSESSED STATUS AND PROGRESS

ELEMENT	STATUS	PROGRESS
STRATEGIC USE OF HUMAN CAPITOL		
COMPETITIVE SOURCING		
FINANCIAL PERFORMANCE		
E-GOVERNMENT		
BUDGET AND PERFORMANCE INTEGRATION		

**AFRH** has made significant progress in each of the five initiatives under the President's Management Agenda (PMA). The PMA uses a scorecard which employs a simple traffic light grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory. Scores are based on five standards for success defined by the President's Management Council and discussed with experts throughout government and academe, including individual fellows from the National Academy of Public Administration.

AFRH has not entered its deliverables officially as part of the PMA. A self-assessment was done as of September 30, 2004 for AFRH. The following pages provide a brief description of each initiative, the current status of the management program, and explanations of our progress to get to green as AFRH implements the PMA with the ultimate goal of improving performance and providing better service.

### THE MEANING OF GRADES FOR STATUS AND PROGRESS

Under each of the five standards, status is green if it meets all of the standards for success, yellow if it has achieved some but not all of the criteria, and red if it has even one of any number of serious flaws.

#### DESIGNATIONS OF PROGRESS ARE DEFINED AS FOLLOWS:



#### GREEN

Implementation is proceeding according to plans



#### YELLOW

Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis



#### RED

Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.



**Strategic Management of Human Capital**



*“Never discourage anyone...who continually makes progress, no matter how slow.”*  
—Plato

**BACKGROUND**

The PMA requires agencies to implement a comprehensive Human Capital Plan that is fully aligned with the agency’s mission, strategy, and goals. The Human Capital Plan should include metrics, succession planning, leadership accountability, and plans for continuous improvement.

**STATUS**

In 2004, AFRH underwent a tremendous change in staffing. As part of our strategic efforts in Human Capital Management, we assessed staffing levels for excessive layering and identified a significant number of positions for elimination or competitive sourcing, resulting in a reduction-in-force. During this transitional period, focus was put on other initiatives to reduce costs first. Even so, full-time equivalent positions had to be

reduced dramatically from 683 to 549 by the end of Fiscal Year 2004. That being said, because the strategic human capital plan was only initiated in Fiscal Year 2004, the status in this area is “red.”

**PROGRESS**

In Fiscal Year 2004, AFRH began development of the AFRH Performance Plan. The plan flows directly from the AFRH campus Business Plans, which are in turn linked to the AFRH Strategic Plan. The AFRH Performance Plan relates to the criteria for successful human capital management as defined by the PMA, as well as the themes used by Office of Personnel Management and the criteria used by Office of Management and Budget.

Those themes/criteria are as follows:

THEME	AFRH INITIATIVE
STRATEGIC ALIGNMENT	AFRH aligns all human capital goals to support the AFRH vision and accomplish the AFRH goals and objectives.
STRATEGIC COMPETENCIES	AFRH recruits and retains a diverse workforce competent to accomplish its mission.
LEARNING	AFRH promotes a learning culture of continuous process improvement.
PERFORMANCE CULTURE	AFRH focuses on results and motivates and rewards employees.
LEADERSHIP	AFRH cultivates its leaders to inspire, motivate, and guide others toward their goals.

Because work is still continuing on the AFRH Performance Plan, the progress score for this category is “yellow.”



## Competitive Sourcing



### BACKGROUND

PMA cites the use of the A-76 process as a way to improve agency performance by inviting public/private competition for an agency's commercial activities or functions. AFRH actively engaged in this activity in Fiscal Year 2004 by contracting with Management Analysis, Incorporated to conduct A-76 studies in several strategic areas.

### STATUS

AFRH completed seven competitive sourcing studies (six of which were categorized as Streamlined and one as Standard). Collectively, the competitive sourcing opportunities studied will generate approximately \$12.6 million in savings over five years.

The A-76 studies that AFRH commissioned included the following:

### WASHINGTON CAMPUS

Transportation and Refuse Removal	Savings of \$485K over 5 years
Grounds Maintenance/Snow Removal	Savings of \$974K over 5 years
Facility Maintenance	Savings of \$1.1M over 5 years
Security	In-house award
Dining Services	Savings of \$10M over 5 years

The A-76 studies that AFRH commissioned included the following:

### GULFPORT CAMPUS

Security	In-house award
Facility Maintenance	In-house award

AFRH has achieved "green" in competitive sourcing, because the agency has completed the required number of sourcing competitions for Fiscal Year 2004.

### PROGRESS

Progress on AFRH's competitive sourcing is "green" with a focus on achieving savings in as many areas as possible. In Fiscal Year 2004, our one Standard competition was started in January 2004 and completed in September 2004, well within the required 12-month timeframe. All six of our Streamlined competitions were completed within a 90-day timeframe. No publicly announced Standard and Streamlined competitions were cancelled.



## Improved Financial Performance



*“Not everything that counts can be counted, and not everything that can be counted counts.”*

—Albert Einstein, on a sign hanging in his office at Princeton

### BACKGROUND

To meet their fiduciary responsibilities, agencies must comply with a variety of applicable laws and regulations. For example, they must meet financial deadlines, comply with the Federal Financial Management Improvement Act, produce accurate financial information on demand, and routinely assess the performance and financial information managers use to make daily decisions. In addition, agencies must avoid having any chronic or significant Anti-Deficiency Act Violations, material internal control weaknesses, and material non-compliance with laws or regulations in annual accountability reports.

### STATUS

As the AFRH Trust Fund balance is central to the financial equilibrium and survival of AFRH, the institution has aggressively moved toward an improved financial state. AFRH is meeting its financial deadlines, working to comply with all relevant regulations, and producing financial information on demand, but our first audit under the CFO act will be completed in Fiscal Year 2005.

On April 1, 2004, the AFRH outsourced the accounting function to the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC). We also outsourced our contracting effort to the ARC in the last quarter of the fiscal year. At that point, we began to work with our accounting and contracting office at ARC to develop a statement of work, and to initiate contractual efforts for an audit of our Fiscal Year 2004 Financial Statements. We requested a quote and subsequently received a proposal from only one company. A delivery order was awarded to that company. Then on October 8th the company notified us that they had misunderstood the requirements and would not be able to meet the contract timeline of November 15, 2004. Their inability to meet the contract requirements was a primary reason we were unable to meet the time frame for our audit; and at that point, there was not enough time to secure another audit firm to meet OMB's due dates.

Although we were unsuccessful in conducting an audit of our Fiscal Year 2004 Financial Statements, despite our best efforts to do so, we have nonetheless made many positive changes to improve our financial management and our ability to produce financial statements. We obtained the Oracle Federal Financials accounting system as a result of our outsourcing of business services to ARC. This system is Joint Financial Management Improvement Plan (JFMIP) certified, and includes the PRISM procurement system, which is integrated into the accounting system. We have also implemented a property management system with ARC, and are migrating to eTravel, which both feed into the financial accounting system. These are just a few of the benefits that we have received through this outsourcing agreement.

Consequently, in Financial Performance, AFRH is “red.”

### PROGRESS

AFRH transferred its accounting functions to the BPD ARC as of April 2004 to ensure its compliance with all required accounting functions and applicable laws. This move made AFRH compliant under the JFMIP. Under BPD, managers have access to their individual accounting sheets and balances of their funds at their desktops. This access allows them for the first time to know what their spending is on a daily basis.

AFRH increased the AFRH Trust Fund balance from \$94 million in Fiscal Year 2003 to \$118 million in Fiscal Year 2004, due to sound financial stewardship and the completion of the sale of portions of the agency's real estate assets.

Because work is continuing and AFRH has only started developing the audit functions, progress is “yellow.”



## Expanded Electronic Government



### BACKGROUND

The AFRH has a staff of approximately 549 employees working at the Washington D.C. and Gulfport facilities. Of these, roughly 400 have regular interaction with AFRH Information Technology (IT) Staff, and perform major parts of their day-to-day work using a variety of technologies.

Like many agencies that face the ongoing challenge of keeping pace with technology, AFRH must continually seek ways to use technology efficiently to fulfill its mission. And, like many other agencies, AFRH has recently had to make difficult decisions about how to best leverage its investment in IT.

### RESPONDING TO THE PRESIDENT'S MANAGEMENT AGENDA

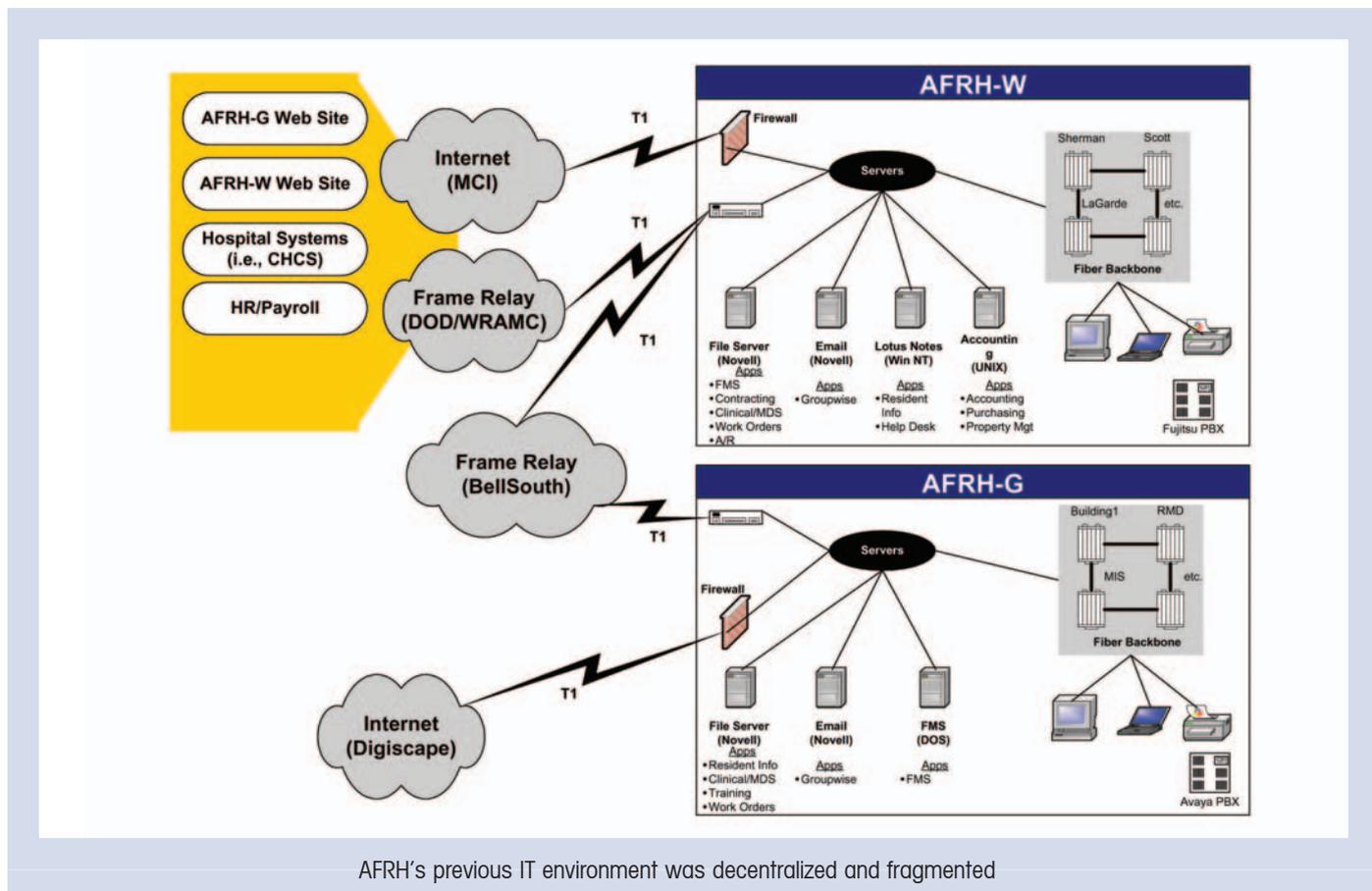
The PMA requires a modernization blueprint for Expanded Electronic Government (E-Gov) that focuses on IT investments in important agency functions and that defines how those

functions will be measurably improved. For a "green" in E-Gov, acceptable business cases must address such areas as: security, measures of success, program management, risk management, as well as cost, schedule, and performance goals for all major systems.

Additional requirements for a "green" rating in E-Gov are that levels of cost and schedule must be on target, and there must be no overruns and shortfalls greater than 10%. Agencies must contribute to and participate in three of the four categories of E-Gov initiatives rather than creating redundant or agency-unique IT projects. To meet the mandates of the PMA, AFRH conducted an IT assessment and needs analysis in the fall of 2003, the results of which are described below.

### STATUS

AFRH has made enormous strides in E-Gov initiatives. However, as work in this area is not yet complete, the status is "yellow."



**PROGRESS**

AFRH is "green" in progress in E-Gov because of the significant work it has done in this area, as described below.

The results of the 2003 IT assessment and needs analysis showed that AFRH's IT platform was fragmented, outdated, out of alignment with the organization's business operations, and unable to meet the increasing demands of federal mandates such as Health Insurance Portability and Accountability Act of 1996 (HIPAA), JCAHO, and E-Gov. The Washington D.C. and Gulfport locations operated largely as independent entities, often having completely separate approaches to technology, business systems, and operational policies.

This fragmented approach to IT meant that there were two completely separate networks, each with aging servers running outdated software and with completely separate support staff. A manual effort was required to merge the information from both sites into management reports to show agency level information. As a result, many of the business processes were redundant and inefficient.

One of the most important results of the study was the creation of a strategic vision for AFRH's technology platform that would create business alignment with the agency's mission, take an

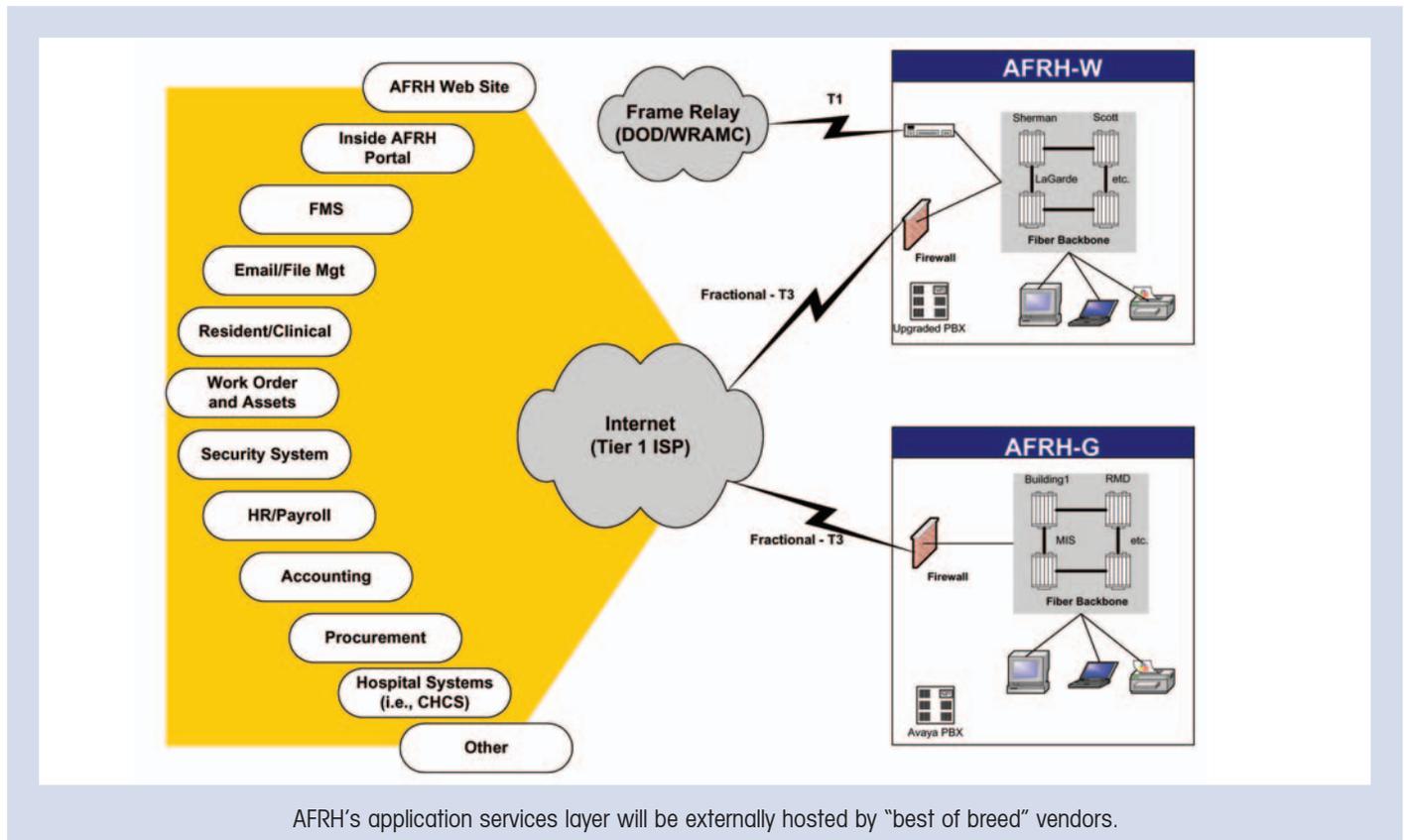
enterprise approach to implementing technology, and make AFRH a consumer rather than an owner of technology.

The major elements of AFRH's business and technology vision are to develop and utilize:

- Defined business strategy and objectives
- Defined missions and visions for each department
- Performance metrics
- Planned/prioritized technology projects mapped to business objectives
- Migration to enterprise web-based applications
- Detailed IT processes and procedures

In accordance with these goals, AFRH has been working to create a single agency with different campus locations, having a single set of standards, policies, and procedures, eliminating duplication, establishing web-based enterprise systems, and minimizing in-house IT services. The core business of AFRH is running the Premier Retirement Community for America's Veterans—not managing telephone switches, servers, and wide area networks.

The pace of change in technology is reducing the time between technology adoption and obsolescence to the point that it makes sense to lease technology rather than own it. This is



especially true with multi-million dollar investments, such as Private Branch Exchange (PBX) switches. In addition, it makes more sense to utilize industry best practices and industry standard software than to create and maintain an environment that will become obsolete and require a major overhaul every few years.

By utilizing Commercial Off-the-Shelf (COTS) products, AFRH will not only receive annual updates, but will also gain the benefits of enhancements brought about by the demands of a much broader community of users. Additionally, by outsourcing applications, AFRH not only eliminates the need for on-site infrastructure but also the maintenance and continuity of service tasks that go along with that infrastructure (e.g., maintenance, upgrades, disaster recovery, and other processes).

**SOME EXAMPLES OF AFRH'S RECENT SUCCESS TOWARD ACHIEVING THESE GOALS INCLUDE:**

**PERSONNEL AND PAYROLL SYSTEMS** - AFRH has successfully consolidated its previously separate Payroll and Personnel Systems and transferred them to the National Finance Center, which provides web-based interfaces, reduced overall costs of ownership, enhanced reporting capabilities, and an improved level of service.

**DINING SERVICES** - rather than having two separate systems to manage dining services, AFRH has migrated to the Computrition system at both locations. This provides continuity and ease-of-use through a web-based interface and has lowered overall costs for providing dining services.

**ACCOUNTING** - AFRH has converted from an obsolete, internally developed and maintained system to a web-based service from the Bureau of Public Debt, which provides a system that is compliant with JFMIP, with enhanced functionality and integration with other systems.

**EMAIL AND FILE MANAGEMENT** - AFRH has migrated from two obsolete internal email systems, which required different email addresses for Gulfport vs. Washington, and server-based file storage, to a web-based, enterprise class system that provides a single email domain for the entire agency as well as web-based file management that is accessible from any location via a web browser.

**PROPERTY MANAGEMENT** - AFRH has reduced its dependency on an outdated, internally built system by outsourcing the function of property management to the Bureau of Public Debt. This has saved the agency the need to purchase and maintain bar-coding devices and have dedicated personnel to manage this task.

**WEBSITE AND INTRANET** - AFRH has outsourced the development and maintenance of its public website and intranet to the Bureau of Public Debt, eliminating the need to have dedicated expertise in designing, managing, and operating these systems.

**AFRH ALSO HAS PLANS FOR THE FOLLOWING AREAS:**

**LOCAL AND WIDE AREA NETWORK** - AFRH has designed and is about to implement a high speed network between the two campuses that will consolidate infrastructures between the two campuses and allow Internet access, desktop support, and video conferencing to be shared between the two campuses. In the future, Voice over IP (VOIP) will be deployed on this network to further reduce telecommunications costs.

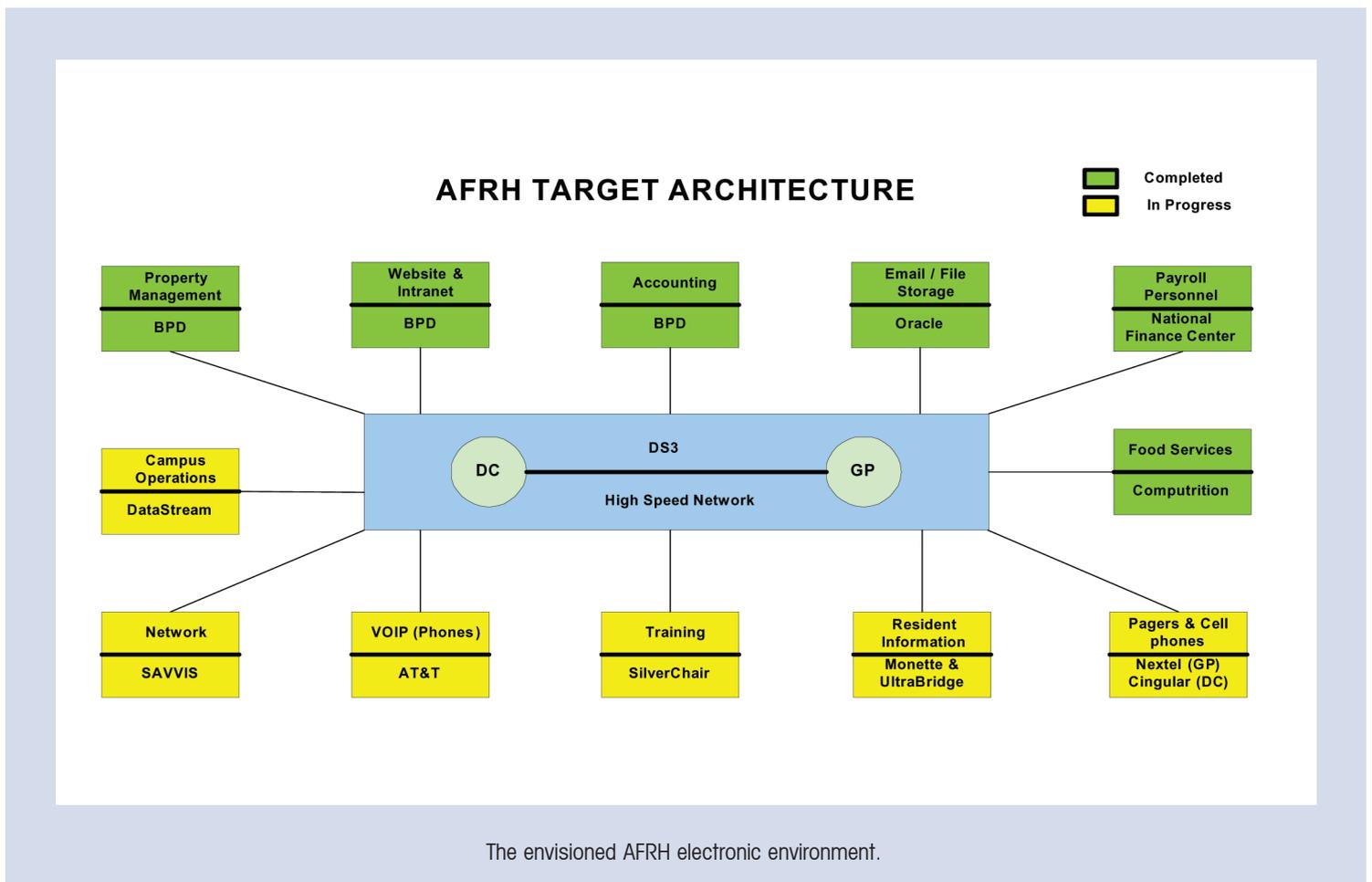
**CAMPUS OPERATIONS** - AFRH has signed a contract with DataStream to migrate its MP2 installations to the 7i product, which is a hosted, web-based enterprise solution to campus operations. Previously, any agency level-reporting would have required the manual consolidation of information from multiple standalone systems. This system will handle purchasing, inventory management, work orders, medical equipment inventory and calibration, costing, and productivity management.

**RESIDENT INFORMATION SYSTEM** - AFRH is about to replace its antiquated and fragmented systems that handle all aspects of capturing and tracking resident information with a hosted, web-based, enterprise-wide industry standard system that will integrate the functions of public affairs, admissions, resident services, finance, medical, and facilities into a single system.

**RESIDENT SECURITY SYSTEM** - In Fiscal Year 2005 AFRH will upgrade its antiquated, phone-based resident security system with a state-of-the-art wireless system that will enhance resident safety and response time, in addition to allowing the system to be unbundled from the Washington campus' existing PBX, which is reaching the end of its useful life.

**PHONES** - AFRH is in the planning phases of implementing a VOIP telephone system that will eliminate long distance charges between the campuses, enable 4-digit dialing, and eliminate the future need to undertake very expensive PBX upgrades at both campuses.

**VENDOR MANAGEMENT** - AFRH is implementing the policies and procedures to enable active management of its infrastructure through a planned equipment replacement schedule and documented vendor management strategy. This function will provide oversight to the vendors supplying services to the agency and ensure continuity of service by acting as a liaison between the agency and the vendors.



With the completion of these efforts, AFRH will be a consumer of managed services that will be actively managed and measured for efficiency, alignment with business objectives, and cost effectiveness.



PROGRESS

## Budget and Performance Integration



STATUS

*“Character is like a tree and reputation like its shadow. The shadow is what we think of it; the tree is the real thing.”*  
—Abraham Lincoln

### BACKGROUND

In this PMA initiative, reports that integrate financial and performance information covering all major responsibilities of the agency are examined quarterly to make decisions regarding program management. Strategic plans contain outcome-oriented goals and objectives. The measures identified using the Program Assessment Reporting Tool (PART) are incorporated in performance outcomes.

### STATUS

The PART holds programs to high standards. Simple adequacy or compliance with the letter of the law is not enough. Rather, a program must show it is achieving its purpose and that it is well managed. AFRH's achieved a Moderately Effective rating (the second highest rating possible) under PART for its asset management of AFRH real property. This rating was achieved by selling underutilized real estate at both the Washington and Gulfport campuses to reduce the footprint of AFRH.

The improvements made in Financial Performance have given managers online access to ARC software packages (including PRISM, Discoverer, CitiDirect, and Gov-Trip). These programs facilitate financial management in the most up-to-date, fastest manner possible. Managers can determine quickly and with confidence what impact their decisions have upon their budgets.

The performance link to individual manager accomplishments is under development via the campus Business Plans and the performance management plan. Launched in June 2004, the Business Plans provide clear direction for managers to achieve success in the strategic initiatives. Because the rollout of the performance management plan was not completed in Fiscal Year 2004, the status for budget and performance integration is “yellow.”

### PROGRESS

AFRH has been working on several different fronts to integrate budget and performance. At the agency level, the PMA and the PART have been achieving objectives as stated. At the campus level, the Business Plan for each campus has directly linked performance with strategy. Many of the objectives cited in the campus Business Plans have specific measures to be achieved by certain dates. Campus level activities are discussed in detail in later sections.

With comprehensive planning already underway for performance management and links to individual performance, AFRH is successfully strengthening its integration of budget and performance down to the individual staff member. The rollout of the performance management process is expected to be completed during Fiscal Year 2005. Because the plans are well underway, progress is graded at a “yellow.”

# FINANCIAL SUMMARY

At the end of Fiscal Year 2004, AFRH prepared its report of financial position and results of operations of the AFRH. Financial statements were not audited, so AFRH is working with Bureau of Public Debt to arrange for timely audits of Fiscal Year 2005 financial statements.

AFRH prepares its financial information from the books and records of AFRH in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements.

## OVERVIEW OF FINANCIAL POSITION

Fiscal Year 2004 was a positive financial period for AFRH. AFRH is in the unique position of maintaining the Armed Forces Retirement Home Trust Fund that collects the monies, which Congress then appropriates annually to AFRH. The AFRH Trust Fund balance rose dramatically in Fiscal Year 2004 to \$118 million, from \$94 million in Fiscal Year 2003. This increase was the direct result of disposing of property on both the Washington and Gulfport campuses. In Washington, real estate known as the 49 acres was sold to the Catholic University of America for \$22.3 million. In Gulfport, two beachfront properties were sold for approximately \$1 million. Revenue has consistently risen since Fiscal Year 2002. In Fiscal Year 2004 it rose significantly due to the change in our strategy of leveraging underutilized assets and sources of revenue. Revenue increased due to

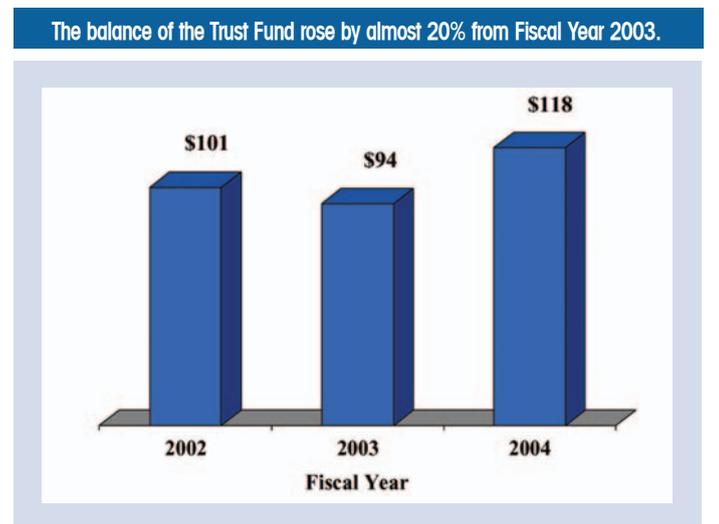
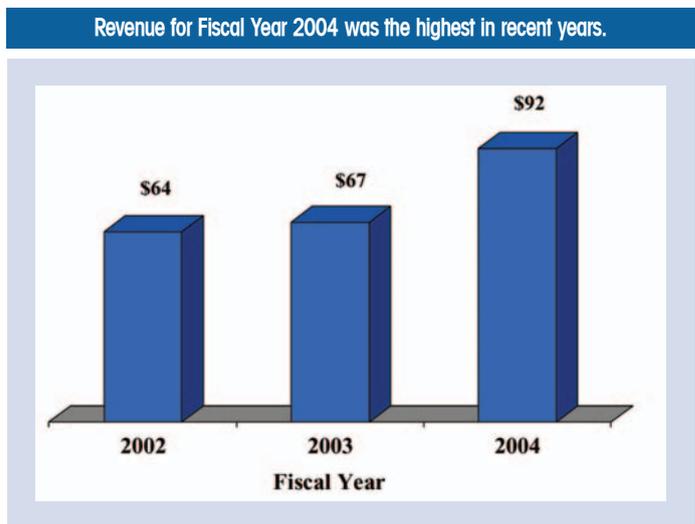
resident fees, sale of real estate, and increased fines and forfeitures from active duty soldiers, which collectively put revenue at an all-time high of \$92 million. The impetus for change in AFRH was the diminishing resources available in the AFRH Trust Fund starting in the 1990s. That tide has been stemmed. Increases in the Trust Fund balances have been achieved along with decreasing amounts of spending.

## OPPORTUNITIES AND CHALLENGES

Overall, the financial viability of AFRH is improving, and the steps we have taken in Fiscal Year 2004 have already begun solidifying the gains we have made. The dramatic rise in the AFRH Trust Fund in particular is a tremendously positive sign, and one that will continue to provide new options and capabilities to AFRH in years to come.

That being said, there are several challenges and potential threats we must monitor and adapt to. On an internal level, we must continue working to address those parts of our operations that received less than green status in our self assessment. We must also continue to fine-tune our one-model approach to operating our two distinct campuses. And we must remain vigilant to identify new and emerging opportunities for increased cost effectiveness and efficiency wherever they may occur.

On an external level, the entire field of senior living (with all of its subsets), continues to grow more diverse and competitive every day. To continue thriving in this environment, we must ensure that our staff, programs, facilities, and amenities offer as robust and attractive an alternative to potential residents as possible.



# PERFORMANCE SECTION



*Protecting a Promise. Renewing the Trust.*

## FOSTERING HIGH PERFORMANCE



*“As we express our gratitude, we must never forget that the highest appreciation is not to utter words, but to live by them.”*

—John F. Kennedy

At AFRH, the members of our dedicated staff assist with the countless daily activities, large and small, that comprise comfortable and satisfying living for our residents. How well residents cope with life’s challenges is due in significant part to the empathy, knowledge, and dedication of each staff member. For these reasons, performance in a place like AFRH is very different from

other government agencies, where output or bottom line results are key performance factors. Making people’s lives as comfortable and productive as possible is the key performance factor at AFRH, and measuring our success at this task has become the focus of our performance management system.

## INTRODUCTION TO PERFORMANCE

AFRH pursued an aggressive action plan in Fiscal Year 2004 to link the AFRH Strategic Plan to the Business Plan for each campus, culminating in a Performance Management Plan. For several years, the top priority management objective in the Executive Branch of the Government has been to Use performance information to improve program management and make better budget decisions. AFRH has set this priority at the agency level and pushed its implementation to the campuses starting in Fiscal Year 2004.

The AFRH Strategic Plan developed in November 2002 forms the framework for all initiatives on both campuses. AFRH used the concept of the Balanced Scorecard, introduced in the *Harvard Review* in 1992, to develop its strategic direction. The Balanced Scorecard performance management system is used to align AFRH's vision and mission with customer requirements and day-to-day

work, manage and evaluate business strategy, monitor operation efficiency improvements, build organization capacity, and communicate progress to all employees. The scorecard shows the financial and customer results, operations, and organization capacity.

Detailed operational plans for FY 2004-2006 were developed in the AFRH Business Plan based on the strategic goals and objectives as set forth in the Strategic Plan. All operational plans are directly mapped to the strategic plan goals and objectives and numbered as shown below for tracking. The corresponding initiatives are pursued by all divisions, but one division is named as the lead for each initiative. The specific actions in those operational plans will appear in individual performance plans. This linkage aligns employees' performance with the agency strategy.

### GOAL 1: FINANCIAL

**Create financial net growth and stability for the trust fund.**

OBJECTIVE F1: Increase revenue resulting in a net increase

OBJECTIVE F2: Reduce costs resulting in a net increase

### GOAL 2: CUSTOMER

**Deliver exceptional service and programs in an environment that attracts residents and enriches the quality of their lives.**

OBJECTIVE C1: Increase customer satisfaction through superior execution of the mission

OBJECTIVE C2: Increase resident retention and resident outreach through positive public relations

OBJECTIVE C3: Assess transitions between levels of care

### GOAL 3: INTERNAL BUSINESS PROCESSES

**Design and sustain effective and efficient internal operations that maximize and leverage resources across the entire organization.**

OBJECTIVE IBP1: Increase effectiveness and efficiency of service delivery to our residents

OBJECTIVE IBP2: Increase timeliness and satisfaction with internal communications

**GOAL 4: LEARNING AND GROWTH**

**Promote professional development and personal excellence for all personnel.**

OBJECTIVE LG1: Provide a comprehensive employee training program tied to performance, competencies, and accountability in compliance with OSHA, JCAHO, and Agency requirements

OBJECTIVE LG2: Inform key AFRH stakeholders of value added programs and initiatives

**GOAL 5: CULTURE**

**Foster a commitment to service and quality and an environment of mutual respect and integrity.**

OBJECTIVE CL1: Increase teamwork and cooperation among AFRH employees and residents

OBJECTIVE CL2: Maintain an accurate cross-campus health and wellness model

OBJECTIVE CL3: Attract, develop, and maintain a high-performing workforce

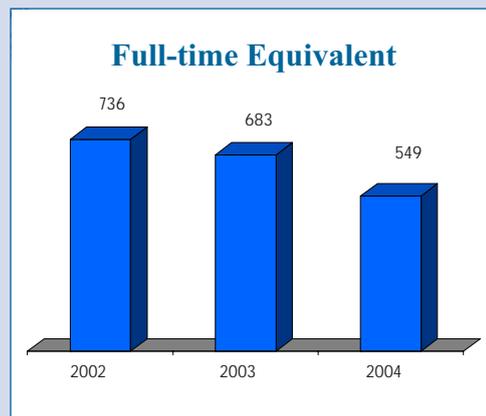
THE OBJECTIVES MAP TO THE PRESIDENT’S MANAGEMENT AGENDA AS FOLLOWS:

STRATEGIC HUMAN CAPITAL	COMPETITIVE SOURCING	IMPROVED FINANCIAL PERFORMANCE	EXPANDED ELECTRONIC E-GOVERNMENT	BUDGET AND PERFORMANCE INTEGRATION
IBP2.1	F2.1	F1.1	AGENCY LEVEL INITIATIVE	F1.1
IBP2.2	F2.3	F1.2	F2.2	F1.2
LG1.1		F2.2		F1.3
LG1.2		F2.4		F2.2
LG2.1		F2.5		F2.4
LG2.2		IBP1.2		F2.5
CL1.2		IBP1.4		IBP1.2
CL3.1				IBP1.4

One key piece of performance planning has been to have the correct balance of staff (full-time equivalents, or FTEs) needed to fulfill the mission. AFRH has been pushed over the last several years to streamline the number of employees. Fiscal Year 2004 saw a drop in the number of FTEs aligned with the new strategies. Not only has this focused the staff, but has helped the budget balance.

The vision of the AFRH Performance Management Plan is for AFRH to attract, develop, and maintain a high-performing workforce by expecting, rewarding, and recognizing great individual and team performance. Additionally, the vision incorporates the successful implementation and achievement by AFRH employees of the strategic goals and objectives envisioned in the AFRH Strategic Plan.

**FTE Employees, FY 2002-2004**



To help AFRH control costs, the total number of full-time equivalents has decreased almost 27% since 2002.



# PERFORMANCE AT AFRH-Gulfport

Striving towards the strategic goals at Gulfport, AFRH has achieved significant results in several areas. However, only one goal out of twenty-six received a status rating of "green." Below are the initiatives that have shown the most progress.

GOALS AND OBJECTIVES	PROGRESS DESCRIPTION
<p>FINANCIAL GOAL, OBJECTIVE F1.1. <b>MAXIMIZE AND RETAIN RESIDENT OCCUPANCY.</b> Staff Lead: Resident Services</p>	<p>The AFRH-Gulfport campus' superb Resident Services staff ensures that occupancy remains at all-time high levels. AFRH-Gulfport is consistently at full capacity of approximately 600. The mild climate and easy access to one of the world's loveliest beaches attracts many retirees to the Gulfport area. Eligible veterans also find the atmosphere of southern hospitality, combined with excellent facilities, an irresistible choice. Resident Services staff encourages tours, visits, and information sharing to all applicants. Their persistence and effort is reflected in the accomplishment of many of their goals. However, work is ongoing to meet other goals to reduce turnaround time for applications, perform surveys, and implement retention strategies.</p>
<p>FINANCIAL GOAL, OBJECTIVE F2.3. <b>INSTITUTIONALIZE A FOCUSED MAINTENANCE APPROACH.</b> Staff Lead: Campus Operations</p>	<p>Campus Operations leads AFRH-Gulfport in an orderly, successful program to preserve existing systems and facilities and respond to personal service requests of residents, creating a more resident-focused maintenance approach. Campus Operations participated in a streamlined competitive sourcing and beat outside vendors. Their goals to complete inventory reduction, increase customer satisfaction, maintain furniture accountability, reduce inventory by 50%, and review cost effectiveness of contracting for routinely purchased services have had all around success. Focused maintenance has the status of "green."</p>
<p>INTERNAL BUSINESS PROCESSES GOAL, OBJECTIVE IBP1.3. <b>STANDARDIZE AND IMPROVE ROOM REPAIR PROCESS WITH METRICS AND PROVEN RESULTS.</b> Staff Lead: Campus Operations</p>	<p>Campus Operations strives to rehabilitate rooms to a like-new condition in a cost-efficient manner. The process has to work as rapidly as possible with little or no disruption to revenue flow. Rooms in a repaired state enhance the first impression of new residents reporting to AFRH-Gulfport. Campus Operations has created processes and procedures that integrate inventory control and furniture accountability components.</p>
<p>INTERNAL BUSINESS PROCESSES GOAL, OBJECTIVE IBP1.4. <b>ESTABLISH EFFECTIVE PROPERTY ACCOUNTABILITY.</b> Staff Lead: Acquisitions and Logistics Manager</p>	<p>Sorting through numerous property documents and bringing them up to date has been necessary to ensure appropriate spending for required items and to liquidate unneeded items. Accomplishments in this area include the appointment of Accountable Officers for each Service, the baselining of the non-expendable property, the completion of a furniture inventory, the drafting of Directive 4400.1, and inventorying of non-expendable property that has been established as accountable.</p>
<p>CULTURE GOAL, OBJECTIVE CL1.1. <b>IMPROVE RESIDENT HEALTH AND WELLNESS THROUGH PROMOTING ACTIVITIES AND INVOLVEMENT OF VOLUNTEERS.</b> Staff Lead: Resident Services</p>	<p>One area that has seen many accomplishments on both campuses is the volunteer program. The goal is to build and maintain a premier volunteer program. By empowering and fostering partnerships with individuals and groups, employee workload is being decreased. The program uses innovative solutions, industry benchmarks, and best business practices in health and wellness. The volunteer program creates a healthy climate for residents, staff, and community.</p>

## PERFORMANCE AT AFRH-WASHINGTON

AFRH-Washington has different challenges than AFRH-Gulfport, and yet has also shown significant results in key areas. One goal out of twenty-six received a status rating of "green." Below are the initiatives that have shown the most progress.

GOALS AND OBJECTIVES	PROGRESS DESCRIPTION
<p>FINANCIAL GOAL, OBJECTIVE F1.2.</p> <p><b>REDUCE SQUARE FOOTAGE REQUIREMENTS AND IDENTIFY POTENTIAL LEASING OPPORTUNITIES OR MORE EFFICIENT USE OF SPACE.</b></p> <p>Staff Lead: Director with Campus Operations</p>	<p>AFRH-Washington is a large campus with many unused and underutilized physical spaces. The goal is to increase revenue through leases by preparing facilities for leasing, and to achieve 90% of 610,000 square footage reduction by September 2005. Almost all excess buildings have been identified and emptied and plans have been made for their disposition. This huge, successful project is extremely well-managed and has a status rating of "green."</p>
<p>FINANCIAL GOAL, OBJECTIVE F2.1.</p> <p><b>EXECUTE POST-COMPETITION ACCOUNTABILITY FOR STREAMLINED AND STANDARD COMPETITIONS PER OMB CIRCULAR NO. A-76.</b></p> <p>Staff Lead: Acquisitions and Logistics Manager</p>	<p>As discussed in the section on PMA, Competitive Sourcing, the competitions have been completed. Accountability for these competitions has been established in an orderly and effective manner. Quality Assurance Support Plans are being completed for Facility Maintenance and a process has been established. The accounting for these competitions is a major milestone in achieving strategic goals.</p>
<p>INTERNAL BUSINESS PROCESSES GOAL, OBJECTIVE IBP1.4.</p> <p><b>ESTABLISH EFFECTIVE PROPERTY ACCOUNTABILITY.</b></p> <p>Staff Lead: Director with Campus Operations</p>	<p>In concert with AFRH-Gulfport, AFRH-Washington has accomplished the same goals for property accountability. Accomplishments in this area include the appointment of Accountable Officers for each Service and the completion of Directive 4400.1, which allows for the disposal of property.</p>
<p>INTERNAL BUSINESS PROCESSES GOAL, OBJECTIVE IBP1.5.</p> <p><b>ESTABLISH PROCESS FOR RESIDENT CARE DURING CONSTRUCTION EFFORTS.</b></p> <p>Staff Lead: Director with Campus Operations</p>	<p>AFRH-Washington has a comprehensive Master Plan to improve facilities. This initiative is to provide a definitive process for managing resident care during construction per the Master Plan. Achievements toward this goal include the initial notification provided to residents concerning the upcoming Scott Dental/Optomety renovation. Campus Operations, along with the Safety Officer, has created a standardized Operational Risk Management system for all facilities projects.</p>
<p>INTERNAL BUSINESS PROCESSES GOAL, OBJECTIVE IBP 2.2.</p> <p><b>ENHANCE COMMUNICATIONS TO IMPROVE TEAMWORK BETWEEN RESIDENTS AND EMPLOYEES AND MEASURE THE COMMUNICATION'S EFFICIENCY AND EFFECTIVENESS.</b></p> <p>Staff Lead: Campus Director</p>	<p>AFRH-Washington has made great strides throughout all management areas in communications and teamwork. This goal was to enhance communication from staff to residents by bringing an ombudsman onboard to provide a focal point for Residents to communicate with staff, attending the Resident Advisory Committee meetings, and collecting and distributing comments on various resident issues via an internal TV channel. Responses in a timely manner have been achieved as well as posting questions and answers on a shared folder available to all staff.</p>
<p>CULTURE GOAL, OBJECTIVE CL1.1.</p> <p><b>IMPROVE RESIDENT HEALTH AND WELLNESS THROUGH PROMOTING ACTIVITIES AND INVOLVEMENT OF VOLUNTEERS.</b></p> <p>Staff Lead: Resident Services</p>	<p>The number and quality of volunteer opportunities and programs have increased substantially in the past year at AFRH-Washington. Fifteen volunteer job descriptions were written and approved. Hundreds of opportunities for volunteers have been available and widely attended and staffed. Numerous new organizations have flocked to the campus to help in a variety of ways from recreation to communication and assistance to residents.</p>

## PROVIDING OPPORTUNITIES FOR ACTIVE LIFESTYLES



*“The Wood Hobby Shop is the best. We’ve got everything we need to work on just about any type of project. You couldn’t ask for anything better”.* —Resident Alonzo W. Dick

**AFRH** is a model retirement community, complete with facilities and services conveniently located in Gulfport, MS and Washington, DC. Our outstanding services and amenities rival those found throughout the United States, but without costly initiation or registration fees, and with affordable monthly fees. At the Armed Forces Retirement Home, our residents enjoy comfortable rooms with three delicious meals provided in spacious dining rooms. On both campuses, a full service bar and lounge with large-screen televisions are available for residents. Also, resi-

dents have use of extensive print, audio, and video libraries as well as state-of-the-art, 24-hour fitness facilities. A main feature of the homes is the availability of accredited assisted living and long-term health care facilities in Washington, and on both campuses pharmacy, clinical, and dental services on site. Both campuses are gated communities with their own security forces. All these amenities give each campus a small town atmosphere with multi-denominational chapels, mail room, and financial institutions.

## RESIDENT SERVICES: STRATEGIC GOALS AND PERFORMANCE MEASURES

Resident Services has the wellness focus of the comprehensive health and wellness strategic initiative. From providing leisure activities such as sports and arts, to mind-stimulating opportunities using computers, library books, and videos, Resident Services has a large responsibility to fulfill the vision of an active lifestyle for residents.

The strategic focus in the transitional Fiscal Year 2004 focused on some very specific goals. Daily business must continue, but the strategic imperatives had to be worked. Those initiatives were as follows:

**FINANCIAL MEASURES. F1.1.** Maximize and retain resident occupancy.

The most crucial financial goal is to increase revenue. Boosting resident occupancy translates to increased for the AFRH Trust Fund. AFRH-Gulfport maintains almost full occupancy, while AFRH-Washington struggles with an excess of 200 rooms. After a year-long struggle with little change in population, the new target for AFRH-Washington is to achieve 100+ net residents (from 1,003 to 1,103) by September 2005. To meet this goal, AFRH-Washington has focused on its admissions process, resident satisfaction surveys, increasing customer services skills, enhancing communications between the admissions team and all affected service divisions, and increasing a sense of urgency for all employees to recruit and retain residents.

**CUSTOMER MEASURES. C2.1.** Enhance and expand resident outreach (community) programs.

The measure of the Outreach program is the number of agencies that partner with AFRH to broaden the services we offer our residents and enhance community friendships and bonds. AFRH has set targets for agency partnerships with governmental agencies, the military,

veteran service organizations, and civilian groups that have been met and exceeded for Fiscal Year 2004. The key is to retain these partnerships and measure the satisfaction that residents derive from these programs.

**LEARNING AND GROWTH MEASURES. LG2.1.** Develop and execute an initiative annually.

Resident Services has to add to the communication and learning of staff and residents through an initiative particular to its function. In Fiscal Year 2004, Resident Services set as its measure to implement a new admissions process, build internal and external volunteer programs, and improve the process of morning wellness checks through technology. These measures were met partially and will continue as initiatives through the next fiscal year.

**LG2.2.** Submit to the Agency articles annually for publication in various sources.

The measure was for one article for the year and it was met by both campuses in the *AFRH-Communicator*.

**CULTURE MEASURES. CL 1.1.** Improve resident health and wellness through promoting activities and involvement of volunteers.

Measures included obtaining an exact number of contacts for local high schools, colleges and universities for partnership opportunities, local community and military volunteer coordinators, military bases and Veteran Service Organizations. Other annual measures included attracting 50 new volunteers, creating two new mentorship programs with local community groups, and developing systems for soliciting and gathering employee, resident, and community feedback. AFRH has met and exceeded this goal and has established new stretch goals for Fiscal Year 2005.

## GIVING SPECIALIZED CARE IN A SAFE ENVIRONMENT



*“And in the end it’s not the years in your life that count. It’s the life in your years.”*

—Abraham Lincoln

Both AFRH campuses provide fine healthcare for the residents. At Gulfport, our accredited on-site medical facility provides pharmaceuticals and quality clinical and dental services at no additional cost to residents. AFRH-Gulfport has 48 long-term care beds for primary, intermediate, and advanced healthcare, as well as 50 assisted living beds, with plans to increase the Home with 64 new units. In addition, the Home operates shuttle buses several times daily to surrounding hospitals and medical centers, Keesler Air Force Base, two Veterans Affairs centers, and several civilian medical facilities in the immediate area.

At AFRH-Washington, our policy is that every resident, regardless of financial ability, will receive top-rated long-term care when needed. Our on-site 200-bed King Health Center for primary, intermediate, and skilled health care is JCAHO-accredited, and plans are underway to convert Independent Living beds in the Scott Building to Assisted Living. Physical, occupational, and recreational therapists and speech-language pathologists work with residents at the Center. In addition, AFRH-Washington provides scheduled daily transportation to surrounding hospitals, including Walter Reed Army Medical Center and the Washington DC Veterans Affairs Medical Center.

## HEALTHCARE SERVICES: STRATEGIC GOALS AND PERFORMANCE MEASURES

In supporting the comprehensive health and wellness strategic initiative, Healthcare Services has traditionally had a strong focus on residents' health. In the past fiscal year, the agency took major steps to enrich and broaden the services it offers to promote resident wellness. From dental and pharmaceutical services to long-term care, Healthcare Services delivers many critical services for residents, and expenses in this area tend to comprise a large portion of the AFRH budget.

Our strategic focus in Fiscal Year 2004 was on some very specific goals. Because of the vital nature of Healthcare Services' operations and programs, it was essential that while staff initiated new programs to address strategic challenges, daily business continue. New initiatives included:

**FINANCIAL MEASURES. F2.5.** Establish a comprehensive insurance coverage program and electronic fund transfer capabilities for our residents, with metrics and proven results.

Healthcare costs for residents who did not have insurance coverage were cited as a major expenditure of funds that had to be addressed. Healthcare Services and Resident Services worked in tandem to tackle this problem. Together, the two operating units enrolled 570 in-patients in Tricare for Life, tracked the top 100 most expensive medications, and developed and implemented a process to require all residents to have insurance coverage before in-processing. Coordination efforts between local hospitals and VA centers were stepped up to better manage pharmaceutical costs.

**CUSTOMER MEASURES. C3.1.** Standardize and improve levels of care for residents through assessment of health and wellness. (Note: these 2 objectives have the same operational plans, although they fall under different areas.)

**CULTURE MEASURES. CL 2.1.** Maintain an accurate cross-campus health and wellness model

During Fiscal Year 2004, the major thrust in this critical area was to ensure levels of care assessments were done in timely manner. Besides monitoring operational consistency, the initiative also introduced and facilitated increased resident involvement in their own care. New forms for Falls and Psychosocial Assessments were developed and introduced, and 100% of discharge planning and community health assessments were completed. Levels of care were matched between both campuses, for the first time. Medication reviews were completed via NeighborCare, the new pharmaceutical supplier that began serving AFRH residents in April 2004. In addition, every member of our staff attended classes in

medication error reduction, pain assessment, and diabetes management.

**INTERNAL BUSINESS PROCESS. IBP1.1.** Provide healthcare more effectively and efficiently.

The focus in this initiative is eventually to make contracted physicians the primary providers of care, and thereby increase revenue. During Fiscal Year 2004, AFRH laid the groundwork needed to accomplish this goal, and has already realized many gains in efficiency and effectiveness as a result.

Additional achievements included obtaining licensure information for physicians, planning for new Ophthalmology, Dental, Ambulatory Care Clinics in the residential Scott Building, hiring a Nurse Practitioner and an additional Dietician for Independent Living, and starting our first Pulmonary program. We also provided services in our Restorative Ambulation and Restorative Nursing programs, and instituted a new diabetic teaching program. Last, we established new contracts for Rehabilitation, Phlebotomy, and Radiology, and converted a 50-bed unit in the LaGarde building to Assisted Living.

**INTERNAL BUSINESS PROCESS. IBP1.2.** Provide more efficient and cost effective medication administration and delivery.

As medication costs skyrocketed, AFRH aggressively pursued a more efficient, more cost effective medication program to decrease medication errors and to meet JCAHO standards. The decision was to contract the Pharmacy to an outside provider to be solely responsible for the delivery of medications to Assisted Living and Long Term Care residents. The end result is that residents are now receiving fewer medications, nurses are ordering medications in a more timely fashion, and documentation and medication assessment is improved. The billing is now completed through resident insurance. The Washington campus contracted successfully with NeighborCare during Fiscal Year 2004. The Gulfport campus will contract with an outside source by early 2005. Training for staff and implementation of the program was at 100% for both.

**LEARNING AND GROWTH MEASURES. LG2.1.** Develop and execute an initiative annually.

The initiatives in Healthcare included contracting out physicians and transferring the pharmacy function to an outside source.

**LG2.2.** Submit to the Agency articles annually for publication in various sources.

The measure was for one article for the year and it was met by both campuses in the *AFRH-Communicator*.

## CAMPUS OPERATIONS: STRATEGIC GOALS AND PERFORMANCE MEASURES

Campus Operations has focused on the physical plant of both campuses. Having a safe environment for residents includes safety within the buildings, transportation, and on the grounds.

The strategic focus in the transitional Fiscal Year 2004 addressed several specific goals. It was important that life and work on the campuses continue as usual, even while strategic initiatives were introduced. These initiatives were so successful that they were included in the campus performance as well as here:

**FINANCIAL MEASURES. F2.3.** Institutionalize a focused maintenance approach.

The initiative was undertaken to reduce cost of operations for maintaining facilities, and to implement measured, appropriate levels of service provided in a timely and cost effective manner.

Campus Operations leads AFRH-Gulfport in an orderly, successful program to preserve existing systems and facilities and respond to personal service requests of residents, creating a more resident-focused maintenance approach. Campus Operations beat outside vendors in a streamlined competitive sourcing. Their goals are to complete inventory reduction, increase customer satisfaction, maintain furniture accountability, reduce inventory by 50%, and review cost effectiveness of contracting for routinely purchased services have had all around success. At AFRH-Washington, a contracted outside source began operation in January 2004.

**INTERNAL BUSINESS PROCESS MEASURES. IBP 1.3.** Standardize and improve room repair process with metrics and proven results.

To enhance the first impression on new residents, AFRH realized the need for rapid turnaround of vacant rooms for new occupancy. AFRH-Gulfport needs to have a vacant room repaired and ready for furniture within a three (3) day timeframe because of the facility's resident capacity. AFRH-Washington also needs to rehabilitate rooms to a like-new condition in a cost efficient manner as rapidly as possible with little or no disruption to revenue flow as possible. Procedures for room readiness and furniture inventory control have been developed. Room repair is identified as part of the ongoing work in facilities maintenance.

**LEARNING AND GROWTH MEASURES. LG2.1.** Develop and execute an initiative annually.

Focus in Campus Operations has been on the room readiness and facilities maintenance areas with some progress made during Fiscal Year 2004.

**LG2.2.** Submit to the Agency articles annually for publication in various sources.

The measure was for one article for the year and it was met by both campuses in the *AFRH-Communicator*. Campus Operations also published articles in *Dog Fancy* magazine and the Gulfport area *Sun Herald*.

# FINANCIAL SECTION



*Protecting a Promise. Renewing the Trust.*

## ACHIEVING FINANCIAL INTEGRITY



*“The highest use of capital is not to make more money, but to make money do more for the betterment of life.”*

—Henry Ford

AFRH exists to take care of America’s eligible veterans. Year after year veterans grow older and more in need of AFRH’s services. The money to take care of them has to be managed effectively so the services will be there when most needed.

# LETTER FROM THE CHIEF FINANCIAL OFFICER

## FISCAL YEAR 2004 ANNUAL PERFORMANCE AND ACCOUNTABILITY REPORT

**I**t is my pleasure to present the Armed Forces Retirement Home's financial statements for Fiscal Year 2004. This past fiscal year was a transitional period for AFRH, in several dimensions. From a financial perspective, the strategies we developed in the previous year are on track and helping us move forward. We were confident that our changes would improve our bottom line—and we succeeded! We worked smarter, and we produced better results.

As this report explains, in the past fiscal year we continued in our transition from an agency that “survives” to one that “thrives.” In planning and implementing this transition, we were guided by the President’s Management Agenda (PMA). The PMA presents recommendations and guidance on a broad variety of functions that together improve an agency’s cost effectiveness. Just as important, PMA presents a clear path toward improving an agency’s ability to fulfill its mission efficiently.

As a result of the various financial and organizational decisions we made in the past fiscal year, we collected \$92 million in revenue - the highest amount in our recent history. At the same time, we succeeded in reducing expenses with a balanced combination of alterations to our operations. These changes included transferring certain business functions to other agencies, greater efficiencies brought about by improved business processes and innovative changes to the way we use



*Steve McManus*

information technology, and more. In addition, with the sale of acreage from both of our campuses, we converted underutilized assets into a healthier Trust Fund balance. In the process, we also significantly reduced associated operating costs for our properties in such areas as facilities and grounds management, power and utilities, and snow removal. We also conducted several studies of additional functions for outsourcing, which point to even greater cost savings in the near future.

These changes are helpful in their own right. But more importantly, they all add up to improvements in what we regard as our real bottom line: our ability to provide quality care to our residents and a safe, resident-centered community environment.

The accomplishments of the past fiscal year bode well for our continued financial health—and therefore the ability of our residents to continue to thrive in our communities. What’s more, the strategic decisions and commitments we have made will continue to improve our financial viability in the years to come.

*Steven G. McManus*

*Chief Financial Officer*

*Armed Forces Retirement Home*

# PRINCIPAL FINANCIAL STATEMENTS

## ARMED FORCES RETIREMENT HOME BALANCE SHEET

AS OF SEPTEMBER 30, 2004

(In Dollars)

	<u>2004</u>
<b>ASSETS</b>	
Intragovernmental	
Fund Balance With Treasury (Note 1)	\$ 6,741,059
Investments (Note 2)	114,815,789
Accounts Receivable (Note 3)	1,850,099
	<u>123,406,947</u>
Total Intragovernmental	<u>123,406,947</u>
Accounts Receivable (Note 3)	160,413
General Property, Plant and Equipment, Net (Note 4)	<u>86,902,106</u>
Total Assets	<u><u>\$210,469,466</u></u>
<b>LIABILITIES</b>	
Intragovernmental	
Unfunded FECA (Note 5)	\$ 1,583,697
Other (Note 5)	264,615
	<u>1,848,312</u>
Total Intragovernmental	<u>1,848,312</u>
Accounts Payable (Note 5)	1,324,554
Other (Note 5)	3,770,864
Total Liabilities	<u><u>6,943,730</u></u>
<b>NET POSITION</b>	
Cumulative Results of Operations	203,525,736
Total Net Position	<u><u>\$203,525,736</u></u>
Total Liabilities and Net Position	<u><u>\$210,469,466</u></u>

The accompanying notes are an integral part of these statements.

## ARMED FORCES RETIREMENT HOME STATEMENT OF NET COST

FOR THE YEAR ENDED SEPTEMBER 30, 2004  
(In Dollars)

	<u>2004</u>
<b>PROGRAM COSTS</b>	
Intragovernmental Gross Costs	\$ 8,074,660
Less: Intragovernmental Earned Revenue	<u>(3,875,287)</u>
Intragovernmental Net Costs	4,199,373
Gross Costs With the Public	68,984,361
Less: Earned Revenues From the Public	<u>(13,946,506)</u>
Net Costs With the Public	<u>55,037,855</u>
Total Net Cost	59,237,228
Costs Not Assigned To Programs	-
Less Earned Revenues Not Attributable To Programs	<u>(21,075,680)</u>
Net Cost Of Operations	<u><u>\$ 38,161,548</u></u>

The accompanying notes are an integral part of these statements.

## ARMED FORCES RETIREMENT HOME STATEMENT OF CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2004

(In Dollars)

	<b>2004 Cumulative Results Of Operations</b>
Beginning Balances	\$188,165,867
Prior Period Adjustments	
Beginning Balances, as Adjusted	<u>188,165,867</u>
Budgetary Financing Sources	
Nonexchange Revenue	\$ 50,145,519
Donations and Forfeitures of Cash and Cash Equivalents	953,073
Other Financing Sources	
Imputed Financing from Costs Absorbed by Others	2,422,825
Total Financing Sources	<u>\$ 53,521,417</u>
Net Cost of Operations	<u>38,161,548</u>
Ending Balance	<u><u>\$203,525,736</u></u>

The accompanying notes are an integral part of these statements.

## ARMED FORCES RETIREMENT HOME STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 2004

(In Dollars)

	<u>2004</u>
<b>BUDGETARY RESOURCES</b>	
Budget Authority:	
Appropriations	\$70,093,141
Unobligated Balance	
Beginning of Period	22,887,730
Spending Authority from Offsetting Collections	
Earned	
Collected	4,739
Anticipated for Rest of Year, Without Advances	-
Subtotal	<u>92,985,610</u>
Recoveries of Prior-Year Obligations	
Actual	4,379,861
Temporarily Not Available	(385,146)
Total Budgetary Resources	<u><u>\$96,980,325</u></u>

## STATUS OF BUDGETARY RESOURCES

Obligations Incurred	
Direct	\$76,318,803
Reimbursable	-
Subtotal	<u>76,318,803</u>
Unobligated Balance	
Apportioned	20,661,522
Unobligated Balance Not Available	
Total Status of Budgetary Resources	<u><u>\$96,980,325</u></u>

The accompanying notes are an integral part of these statements.

## ARMED FORCES RETIREMENT HOME STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 2004

(In Dollars)

	<u>2004</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>	
Obligated Balance, Net, Beginning of Period	\$12,437,249
Obligated Balance, Net, End of Period	
Undelivered Orders	(12,595,019)
Accounts Payable	(3,563,243)
Outlays	
Disbursements	68,217,929
Collections	(4,739)
Subtotal	<u>68,213,190</u>
Less: Offsetting Receipts	-
Net Outlays	<u><u>\$68,213,190</u></u>

The accompanying notes are an integral part of these statements.

**ARMED FORCES RETIREMENT HOME STATEMENT OF FINANCING**

FOR THE YEAR ENDED SEPTEMBER 30, 2004

(In Dollars)

	<b>2004</b>
<b>Resources Used to Finance Activities</b>	
Budgetary Resources Obligated	
Obligations Incurred	\$76,318,803
Less: Spending Authority from Offsetting Collections and Recoveries	(4,384,601)
Obligations Net of Offsetting Collections and Recoveries	<u>71,934,202</u>
Other Resources	
Imputed Financing from Costs Absorbed by Others	2,422,825
Net Other Resources Used to Finance Activities	<u>2,422,825</u>
 Total Resources Used to Finance Activities	 74,357,027
 <b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>	
 Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	 (1,549,904)
Budgetary Offsetting Collections that Do Not Affect Net Cost of Operations	(48,105,347)
Resources That Finance the Acquisition of Assets	<u>4,609,759</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>(45,045,492)</u>
 Total Resources Used to Finance the Net Cost of Operations	 <u>29,311,535</u>
 <b>Components of the Net Cost of Operations That will not Require or Generate Resources in the Current Period</b>	
Components Requiring or Generating Resources in Future Periods:	
Increase in Annual Leave Liability	1,796,790
Other	315,857
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	<u>2,112,647</u>
 Components Not Requiring or Generating Resources:	
Depreciation and Amortization	6,755,867
Other	(18,501)
Total Components of Net Cost of Operations That will not Require or Generate Resources	<u>8,850,013</u>
 <b>Net Cost of Operations</b>	 <u><u>\$38,161,548</u></u>

The accompanying notes are an integral part of these statements.

# NOTES TO THE FINANCIAL STATEMENTS

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***A. Reporting Entity***

The Armed Forces Retirement Home (AFRH) was incorporated on November 1, 1991, by section 411(a) of 24U.S.C. The AFRH is an independent agency in the executive branch of the Federal Government. The AFRH has two facilities. One is located in Washington, D.C. and the other is located in Gulfport, MS.

The mission of the Armed Forces Retirement Home is to fulfill our Nation's commitment to provide care through a comprehensive range of services for America's Armed Forces Veterans. We support our residents' independence, dignity, distinction, heritage, and future of continued life-enriching experiences. Together, the AFRH family of residents and staff create a place of caring and continual learning. We are committed to providing the best housing and support services possible and creating a true community of accomplished, independent residents, who are free to explore their talents, pursue their interests, and follow their dreams.

In performing its mission, the AFRH interacts with many Federal Agencies and/or private organizations. Our primary partnerships are with the Office of Management and Budget, the Department of Defense, the Department of Treasury (Bureau of Public Debt), the Department of Agriculture (National Finance Center), the General Services Administration, the Smithsonian, U.S. VETS, the Catholic University of America, and the Washington Hospital Center.

The 1991 Defense Authorization Act created an Armed Forces Retirement Home Trust Fund (Trust Fund). Governed by limitations determined annually by the U.S. Congress, the Trust Fund is used to finance operating expenses as well as capital expenditures of the AFRH on an annual and no year basis.

### ***B. Basis of Presentation***

These financial statements are provided to meet the requirements of the Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operations of the AFRH. These statements were prepared from the books and records of AFRH in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements.

### ***C. Basis of Accounting***

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

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountant's Council designated FASAB as the accounting standards authority for Federal government entities.

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

#### **EXCHANGE REVENUE**

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

The AFRH's exchange revenue consists primarily of resident fees, rental income, subsistence for food service employees, custodial services, meal tickets, and interest earned on Treasury securities. Revenue from resident fees is recognized when services are provided and is invested for future funding requirements.

#### **NON-EXCHANGE REVENUE**

Non-Exchange revenues are inflows of resources the government demands or receives by donation. Such revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that the collection is probable and the amount is reasonably estimated.

The AFRH's non-exchange revenue consists of military fines and forfeitures, monthly payroll withholdings from enlisted military personnel, bequests, and donations. Non-exchange revenue is recognized when collected.

#### **FINANCING SOURCES**

The AFRH receives the majority of funding needed to support operations and capital expenditures from the Trust Fund. The Trust Fund is financed by military fines and forfeitures, monthly payroll deductions from enlisted military personnel, resident fees, interest earned on Treasury securities, and donations.

### ***E. Fund Balance with Treasury***

Resident fees receipts collected by the AFRH are processed by a commercial bank for deposit at the U.S. Department of the Treasury (U.S. Treasury). The U.S. Treasury as directed by the authorized certifying officer processes cash receipts and disbursements. Funds with the Department of the Treasury primarily represent funds that are available to pay current liabilities and finance authorized purchase commitments. The AFRH has a fund balance with Treasury totaling \$6,741,059 at September 30, 2004.

### ***F. Investments***

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

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

The AFRH also has an investment in a one-day certificate issued by the Bureau of the Public Debt. The interest earned on the certificate is reinvested in the certificate on a daily basis. These investments are classified as trading securities. The income

from the daily interest earned is recorded on a monthly basis. See Note 2 for additional information.

**G. Accounts Receivable**

The AFRH records accounts receivable as services are provided to residents. All amounts are considered collectible; therefore, no estimate is formulated for the allowance of uncollectible accounts. Generally, accounts receivable consists of either amounts receivable from federal agencies for payroll withholdings, fines and forfeitures, or fees due from residents of the home. See Note 3 for additional information.

**H. General Property, Plant, and Equipment, Net**

The AFRH owns the land and buildings in which both homes operate. The majority of the property, plant, and equipment is used to provide residential and health care to members and is valued at cost. Equipment purchased, transferred, or donated with an acquisition cost greater than or equal to \$50,000 per unit is capitalized. Routine maintenance is expensed when incurred. Construction costs are capitalized as construction-in-progress until the asset is completed then transferred to the appropriate property account. Depreciation expense is recognized on property, plant, and equipment with the exception of construction-in-progress. Depreciation is recognized using the straight-line method over the assets' useful lives. Other equipment is expensed when purchased. The useful lives used when recording depreciation on property, plant, and equipment are as follows:

DESCRIPTION	LIFE
Land Improvements	10-20
Buildings and Improvements	20-40
Equipment	5-10

**I. Liabilities**

Liabilities represent the amount of monies or other resources likely to be paid by AFRH as a result of transactions or events that have already occurred. No liability can be paid, however, absent an apportionment. Liabilities for which an apportionment has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the apportionment will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities. See Note 5 for additional information.

**J. Accounts Payable**

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

**K. Annual, Sick, and Other Leave**

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

**L. Retirement Plans**

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

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

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

**M. Imputed Costs / Financing Sources**

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. AFRH recognized imputed costs and financing sources in fiscal year 2004 to the extent directed by the OMB.

**N. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

**O. Commitments and Contingencies**

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

**P. Federal Employment Compensation Act**

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The total liability should consist of an actuarial and accrued portion. However, because the Department of Labor does not calculate the liability for small agencies, the future commitment for the AFRH's actuarial FECA liability for fiscal year 2004 is unknown.

The accrued FECA liability as of September 30, 2004 represents claims incurred for benefits administered and paid by DOL to AFRH employees. The AFRH will reimburse DOL for these claims in future periods. See Note 5 for additional information.

**NOTE 2. INVESTMENTS****SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2004**

	<b>AMORTIZED COST</b> (In Dollars)	<b>REPORTED AMORTIZATION</b> Method	<b>PREMIUM</b> (In Dollars)	<b>VALUE</b> (In Dollars)
MK Note Matures 11/15/2004	\$15,000,000	interest	\$ 72,076	15,072,076
MK Note Matures 2/15/2005	20,698,000	interest	281,268	20,979,268
MK Note Matures 10/15/2006	36,726,000	interest	1,349,958	38,075,958
One Day Certificate	38,955,715	n/a	n/a	38,955,715
Accrued Interest	<u>1,732,772</u>	<u>n/a</u>	<u>n/a</u>	<u>1,732,772</u>
Total Investments	\$113,112,487		\$ 1,703,302	\$ 114,815,789

**NOTE 3. ACCOUNTS RECEIVABLE****SCHEDULE OF ACCOUNTS RECEIVABLE AS OF SEPTEMBER 30, 2004**

<b>(In Dollars)</b>	
Intragovernmental	
Army Pay Withholding	\$ 209,832
Army Fines and Forfeitures	1,090,388
Marines Pay Withholding	87,002
Marines Fines and Forfeitures	<u>462,877</u>
Total Intragovernmental	1,850,099
Resident Fee Receivables	<u>160,413</u>
Total Accounts Receivable	<u>\$ 2,010,512</u>

**NOTE 4. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET****SCHEDULE OF PROPERTY, PLANT, AND EQUIPMENT AS OF SEPTEMBER 30, 2004**

Description	Acquisition Cost (In Dollars)	Accumulated Depreciation (In Dollars)	Net Book Value (In Dollars)
Land and Improvements	\$ 10,982,370	\$ (9,059,393)	\$ 1,922,977
Buildings and Improvements	166,447,948	(114,554,983)	51,892,965
Equipment	3,761,873	(2,357,497)	1,404,376
Construction in Progress	<u>31,681,788</u>	-	<u>31,681,788</u>
<b>TOTALS</b>	<u><u>\$ 212,873,979</u></u>	<u><u>\$ (125,971,873)</u></u>	<u><u>\$ 86,902,106</u></u>

**NOTE 5. LIABILITIES**

The accrued liabilities for the AFRH are comprised of program expense accruals, payroll accruals, unfunded annual leave earned by employees, and unfunded FECA liability owed to the Department of Labor. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

**SCHEDULE OF LIABILITIES AS OF SEPTEMBER 30, 2004**

(In Dollars)	
Intragovernmental Accrued Liabilities	\$ 69,193
Payroll Taxes Payable	195,422
Unfunded FECA Liability	<u>1,583,697</u>
Total Intragovernmental	1,848,312
Accounts Payable	1,324,554
Accrued Liabilities	1,078,276
Accrued Funded Payroll & Taxes	871,957
Payroll Taxes Payable	23,841
Unfunded Annual Leave	<u>1,796,790</u>
Total Liabilities	<u><u>\$ 6,943,730</u></u>

*Protecting a Promise.*

*Renewing the Trust.*

**AFRH-Washington**  
**3700 North Capitol Street, NW**  
**Washington, DC 20011**

**AFRH-Gulfport**  
**1800 Beach Drive**  
**Gulfport, MS 39507**

**Phone 202.730.3043**  
**Fax: 202-730-3492**  
**[www.afrh.gov](http://www.afrh.gov)**