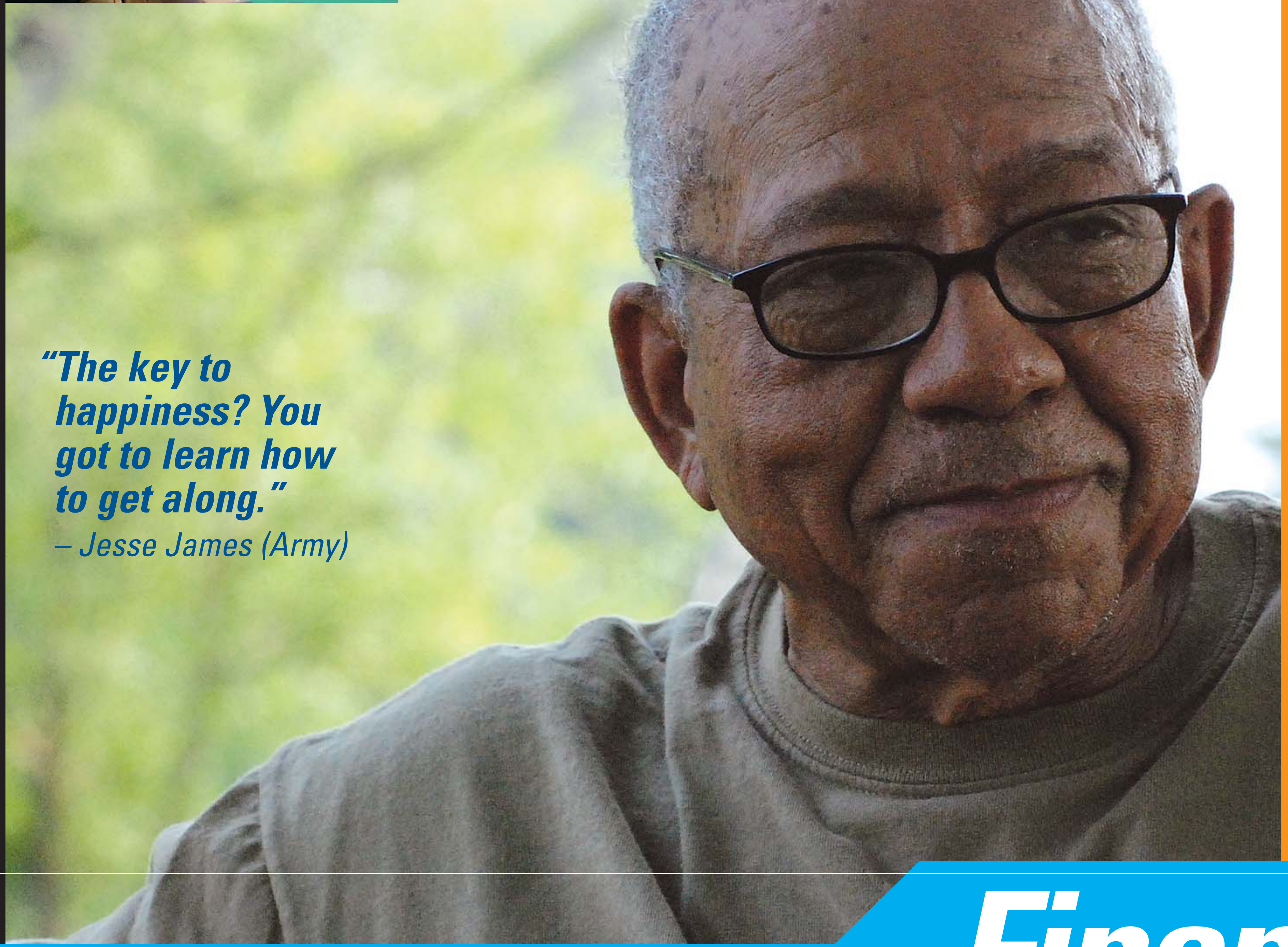
Over 50 years ago, Jesse bought 50 acres of land and fell in love with gardening. "I never drank or smoked … I fell in with plants and gardening," he snickered. Jesse had a garden in the Army and says he still learns something new each year. "About 14 residents garden. My favorite vegetables are cabbage and okra. We also grow onions, tomatoes, squash, beans and cantaloupes." The best thing he's ever grown was a 50 lb. watermelon. "I eat what I grow, but I mostly give it away to people in my church, soup lines, my employees at the Federal Reserve, and the residents here. No place is like the AFRH – it's real good. They do a lot for us." Jesse likened people to his garden vegetables: "We all just need a little love. Today, I'm thinking about … what can I do for someone in my church tonight? Or what can I do to make the Home a better place?" We think Jesse has already achieved that.



"The key to happiness? You got to learn how to get along."
– Jesse James (Army)

In Part 3, we present:

Financial

INTRODUCTION

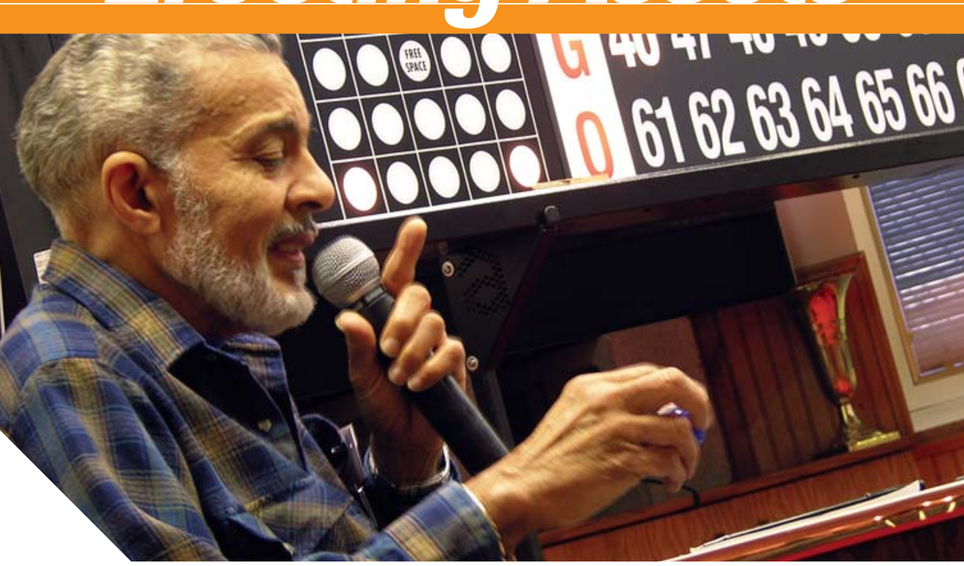
Since 2002, AFRH has been advancing toward financial efficiency. The Home has leveraged its assets, planned to capitalize off its property, aligned workforce plans with employee standards and revamped some outdated facilities. In short, we realized a range of successes.

In FY08, we found ourselves at a unique crossroad regarding our financial future. Gulfport is being rebuilt and the Washington Master Plan has received its final go-ahead. Yet, millions of dollars of capital improvements have been identified for the Washington community.

And management must determine if the AFRH Trust Fund can be the source of funding. Congress requested that experts assess whether the Trust Fund will be solvent should we withdraw money to update AFRH-Washington. The resulting AFRH LRFP (for FY 2009 – 2018), will be forthcoming in FY09.

What's more, AFRH must respond effectively to the changing market forces. So, we are looking forward to developing the best course of action in FY09.

Erecting Assets



"I don't know if I'm an artist yet."

After 20 years in the Army, Don took a job managing a skiing and climbing program for the troops in Ft. Carson, Colorado. But his main passion in life has been art. "I've done many bronze sculptures, like a series of four semi-nudes called 'The Warrior of Women.' They went over real good. I got $5,500 for the top of the line piece." Don does original sculptures in wax, and then goes to a foundry for a bronze cast. He also creates paintings in ink stipple, a series of graduated pinpoints of ink, from large to very small. "It took 50 hours to do 'Leaving Saigon,' which was based on a feeling I have." We asked Don how long he's been an artist. "I don't know if I'm an artist yet," he quipped. "I've fooled around with various media my entire life. But this has not been my profession – this has been my hobby. I was a professional soldier."

Don Patrick (Army)

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

"AFRH must adapt its financial posture because FY08 brought many new circumstances..."

I am pleased the Home experienced a stable financial year throughout FY08 – despite an array of changing economic conditions all around us.

Strengthening Controls

I am particularly proud that AFRH once again received an "unqualified" audit opinion from independent, external auditors. This marks the fourth consecutive year AFRH has received this distinction. With our partnership with BPD starting in FY04, our financial statements have had no material weaknesses since our very first audit in FY05.

Our successful audit is a reflection of our renewed emphasis on Internal Controls. First off, we diligently met our quarterly meeting requirements throughout FY08. Also, key decisions we made that include changing the composition of our Board, ensuring more managers were allowed to comment in our annual questionnaire, plus developing an AFRH Notice. The Notice identifies our senior assessment team, outlines our quarterly meeting agendas and discusses the five critical areas to pinpoint internal control (Control Environment, Risk Assessment, Control Activities, Information and Communications and Monitoring).

Changing Environments

FY08 was a level year for AFRH finances. We have consistently showed marked growth in our Trust Fund over several years. The Trust Fund balance peaked this year to $167 million. This is quite a rebound from its lowest level of $94 million in 2003. All along, we have geared all our efforts to reviving the Trust Fund balance and we have truly succeeded.

For FY09, we must look ahead. AFRH must adapt its financial posture because FY08 brought many new circumstances that will require a new outlook and stance. As such, continued growth in the Trust Fund requires a new approach with greater control of our operating environment.

External forces at work in the global economy are affecting AFRH operations. Financial instability, the credit crisis, fluctuating fuel costs, rising utility costs and food price increases are the major challenges we're facing. And these developments have spilled over into our financial arena. Hence, we have been taking action. In FY08, we had to adjust our budget to meet the spike in fuel costs during the summer – albeit we didn't meet our anticipated cost savings in food service due to rising costs.

Several years ago, we resolved to replenish the Trust Fund by applying the Program Asset Rating Tool (PART) in partnership with GSA. Also, we developed our risk management strategy in the form of the Washington Master Plan. The goal was to generate revenue for long-term use and development of our under-utilized property. A major milestone was reached in FY08 with the approval to proceed with our Master Plan by the NCPC.

Then, the financial world collapsed around us – and adapting to the evolving credit situation is a new challenge to contend with. This crisis will directly affect our ability to develop our property as quickly as we had planned. Plus, the lack of readily available financing may hinder potential developers from partnering with AFRH under the Washington Master Plan.

Revitalizing Washington

Dollars are programmed into our FY10 budget to upgrade the Washington community. Yet, we must alter our Washington operations, find ways to contain cost increases and ultimately succeed in the new market conditions.

In the latter half of FY08, we engaged contractors to develop concepts that combine ongoing Trust Fund solvency with vital upgrades for residents. This initiative will propel our ability to control our operating costs – by reducing unnecessary square footage and gaining greater efficiencies for utilities and maintenance.

Achieving our accreditation from CARF/CCAC was a high point in our year. This requirement, as directed by Congress, reflects the public interest in the care of our nation's former military. So, we must meet the expectations of others and still run a cost-effective operation.

Looking Forward

The ultimate goal from now to 2018 is to create two comparable retirement communities – one in Gulfport and one in Washington – of about the same size (under 600 residents in all levels of care) and costing about the same. By applying the principles of "aging in place" and cost-effective management, AFRH can be a role model for CCRCs. The Home could then be positioned to create additional space, according to resident demand.

Indeed, the LRFP will shape our future. The $70M withdrawn from the Trust Fund for Scott Project will yield a smaller balance initially. But it will transform AFRH-Washington and create an operating environment for continuous net growth. After all, our great challenge is to create a vital home that meets 21st century standards, while satisfying a new breed of energetic residents. I am confident AFRH is poised and ready to rise above.

Sincerely,

Steven D. McManus

Steven G. McManus
Deputy Chief Operating Officer/Chief Financial Officer
November 14, 2008

Adapting Wisely

For the fourth year in a row, AFRH has received an unqualified opinion.

FINANCIAL STATEMENTS

We are pleased to present our Financial Statements for FY08. Independent auditors have conducted in-depth reviews of our financial statements, in accordance with government auditing standards. We are proud to report that, for the fourth year in a row, AFRH has received an unqualified opinion. Also no material weaknesses were found.

The financial statements in the ensuing pages should be read with the understanding they are for a component of the US Government, a sovereign entity.

In a public-to-public partnership, the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) has administered all of the Home's FY08 financial management activities including:

- > Purchasing
- > Payments
- > Accounting
- > Budget
- > Travel

The National Finance Center (NFC), in conjunction with the BPD's Oracle platform, processed our payroll and time/attendance data entry transactions. These operations were managed under mutual agreements with the Departments of Treasury and Agriculture. The AFRH relies on information received from BPD and NFC (plus audits and reviews) to execute its management control.

Donna Smith, CHCO, has served AFRH for many years in campus operations, human resources and financial management

Accruing Accountability

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Armed Forces Retirement Home
Washington, D.C.

We have audited the accompanying balance sheet of the Armed Forces Retirement Home (AFRH) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of AFRH's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AFRH as of September 30, 2008 and 2007 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 7, 2008 on our consideration of the AFRH internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" (MD&A) is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. The AFRH's MD&A contains a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with AFRH officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

This report is intended solely for the information and use of the management of the AFRH, OMB and Congress, and is not intended to be and should not be used by anyone other than these specific parties.

Brown & Company

Largo, Maryland
November 7, 2008

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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2008 and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the AFRH's internal control over financial reporting by obtaining an understanding of the AFRH's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

This report is intended solely for the information and use of the management of the AFRH, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 7, 2008

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Armed Forces Retirement Home
Washington, D.C.

We have audited the financial statements of the Armed Forces Retirement Home (AFRH) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

The management of the AFRH is responsible for complying with laws and regulations applicable to the AFRH. As part of obtaining reasonable assurance about whether the AFRH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the AFRH.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the AFRH, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 7, 2008

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BALANCE SHEET

AS OF SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Assets :		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 175,561,312	$ 230,126,225
Investments (Note 3)	167,333,620	159,041,366
Accounts Receivable (Note 4)	3,923,114	3,953,864
Total Intragovernmental	$ 346,818,046	$ 393,121,455
Accounts Receivable (Note 4)	456,806	474,798
General Property, Plant and Equipment (Note 5)	122,593,036	72,018,853
Total Assets	$ 469,867,888	$ 465,615,106
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 43,049	$ 159,954
Other Liabilities (Note 6)	2,028,374	1,968,960
Total Intragovernmental	$ 2,071,423	$ 2,128,914
Accounts Payable	2,557,604	3,242,755
Other Liabilities (Note 6)	10,310,314	1,677,227
Total Liabilities	$ 14,939,341	$7,048,896
Net Position:		
Cumulative Results of Operations -		
Earmarked Funds - (Note 11)	$ 454,928,547	$ 458,566,210
Total Net Position	$ 454,928,547	$ 458,566,210
Total Liabilities and Net Position	$ 469,867,888	$ 465,615,106

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Program Costs:		
Chief Operations Office:		
Gross Costs	$ 1,969,840	$ 1,685,561
Less: Earned Revenue	522,282	514,804
Net Program Costs	$ 1,447,558	$ 1,170,757
Corporate Resource Office:		
Gross Costs	$ 8,589,086	$ 6,718,250
Less: Earned Revenue	2,277,303	2,051,889
Net Program Costs	$ 6,311,783	$ 4,666,361
Gulfport, MS:		
Gross Costs	$ 999,405	$ 1,571,591
Less: Earned Revenue	264,981	479,995
Net Program Costs	$ 734,424	$ 1,091,596
Washington D.C.:		
Gross Costs	$ 60,862,292	$ 50,008,976
Less: Earned Revenue	16,136,979	15,273,748
Net Program Costs	$ 44,725,313	$ 34,735,228
Total Program Costs:	$ 53,219,078	$ 41,663,942
Costs Not Assigned to Programs	-	44,491
Net Cost of Operations	$ 53,219,078	$ 41,708,433

The accompanying notes are an integral part of these statements.

Doris Balfour (Army)

"I take bus trips to Preakness and Atlantic City. Nothing compares with all the things we have to do here in Washington."

When you enter Doris' room, you are welcomed by velvet drapes, ornate throw rugs and elegant classical music. "My room was designed by an interior decorator. I said I want it to look like this painting." Doris came up from Gulfport – and recently went back for the groundbreaking on her own. Now, she's debating if she wants to live there again.

"I love Washington. Nothing compares with all the things we have to do here." Time will tell. Till then, Doris showed us a cuckoo clock she won at a southern casino. "When my Mississippi home was destroyed, we had to sort through the debris. All was lost, except this clock, which was still hanging and ticking. So I kept it when I moved to AFRH.

STATEMENT OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Cumulative Results of Operations:		
Beginning Balances	$ 458,566,210	$ 449,553,323
Beginning Balances, as Adjusted	$ 458,566,210	$ 449,553,323
Budgetary Financing Sources:		
Appropriations Used	$ 800,000	$ -
Nonexchange Revenue	46,123,348	47,801,049
Donations and Forfeitures of Cash and Cash Equivalents	1,256,854	1,425,392
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	1,401,213	1,494,879
Total Financing Sources	49,581,415	50,721,320
Net Cost of Operations	(53,219,078)	(41,708,433)
Net Change	$ (3,637,663)	$ 9,012,887
Cumulative Results of Operations	454,928,547	458,566,210
Unexpended Appropriation:		
Budgetary Financing Sources:		
Appropriations Received	800,000	-
Appropriations Used	(800,000)	-
Total Budgetary Financing Sources	-	-
Net Position	$ 454,928,547	$ 458,566,21

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007 (In Dollars)

	2008	2007
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1:	$ 52,508,093	$ 271,474,561
Recoveries of Prior Year Unpaid Obligations	1,569,312	1,506,786
Budget Authority		
Appropriation	57,324,000	56,690,105
Total Budgetary Resources	$ 111,401,405	$ 329,671,452
Status of Budgetary Resources:		
Obligations Incurred		
Direct	$ 61,410,012	$ 277,163,359
Unobligated Balance		
Apportioned	49,991,393	52,508,093
Total Status of Budgetary Resources	$ 111,401,405	$ 329,671,452
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 227,531,855	$ 7,808,113
Total Unpaid Obligated Balance, Net	$ 227,531,855	$ 7,808,113
Obligations Incurred Net	61,410,012	277,163,359
Less: Gross Outlays	114,604,909	55,932,831
Less: Recoveries of Prior Year Unpaid		
Obligations, Actual	1,569,312	1,506,786
Total, Unpaid Obligated Balance, Net, End of Period	$ 172,767,646	$ 227,531,855
Change in Outlays:		
Net Outlays:		
Gross Outlays	$ 114,604,909	$ 55,932,831
Less: Distributed Offsetting Receipts	(66,858,203)	(66,597,281)
Net Outlays	$ 181,463,112	$ 122,530,112

The accompanying notes are an integral part of these statements.

Henry Pike (Marine Corps)

"I organized a Gulfport Returning Committee to share developments and construction photos with the residents."

Henry was in the Raider Battalions – the military's first Special Ops unit created to fight the Japanese in WWII – guerrilla style. "We were specially trained for clandestine operations behind enemy lines," he said. "We were mean, lean and green. One of our troops wrote a book, 'Our Kind of War.' He called it fiction because we'd all get court-martialed if we said it was true." Today, Henry enjoys reading, computer work and serving as a member on the Resident Advisory Council. "I had a lot of input on the new Gulfport design, working with Mr. Cox, the agency engineer and DoD." Quite a special operation, indeed.

ARMED FORCES RETIREMENT HOME
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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 Gulfport, MS and the other is located in Washington, D.C.

The AFRH's mission is to fulfill our nation's Promise to its veterans by providing a premier retirement community with exceptional residential care and extensive support services. 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.

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

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of the Armed Forces Retirement Home (AFRH). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of AFRH in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Financial Reporting Requirements and AFRH accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control AFRH's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and the Statement of Budgetary Resources. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

AFR complies with the U.S. Standard General Ledger and conforms to Generally Accepted Accounting Principles (GAAP) for Federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as the body designated to establish GAAP for Federal 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, leases and sales, 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 eligible enlisted military personnel and Warrant Officers, resident fees, interest earned on Treasury securities, and donations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. See Note 2 for additional information.

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 may, from time to time, hold 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. See Note 3 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 4 for additional information.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 $25,000 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. All AFRH heritage assets are multi-use facilities and are classified as general property, plant, and equipment. The useful lives used when recording depreciation on property, plant, and equipment are as follows:

Description	Life
Land and 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 appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities. See Note 6 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 2008 and 2007 to the extent directed by the OMB.

N. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. AFRH has no contingencies that require disclosure as of September 30, 2008 and 2007.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

The accrued FECA liability as of September 30, 2008 and 2007 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 7 for additional information.

Q. Reclassification

Certain fiscal year 2007 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

Robert & Bonnie Bates (Navy & Army)

"A new couple asked me what I like best. I said, 'they don't make you cook.' " – Bonnie Bates

NOTE 2. FUND BALANCE WITH TREASURY

Schedule as of September 30,

	2008	2007
Fund Balances		
Fund Balance with Treasury	$ 175,561,312	$ 230,126,225
Investments	167,333,620	159,041,366
Less: Accrued Interest and Unamortized Premium	2,650,094	1,976,045
Total	$ 340,244,838	$ 387,191,546
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 49,991,393	$ 52,508,093
Unavailable	117,485,799	107,151,598
Obligated Balance not yet Disbursed	172,767,646	227,531,855
Total	$ 340,244,838	$ 387,191,546

NOTE 3. INVESTMENTS

Schedule of Investments as of September 30, 2008

Description	Cost	Amortization Method	Unamortized (Premium) Discount	Interest Receivable	Investments (Net)	Market Value
Intragovernmental Securities						
Non-Marketable						
Market-Based	$ 165,219,161	Interest	$ 199,211	1,915,248	$ 167,333,620	$ 172,136,956
Total Investments	$ 165,219,161		$ 199,211	$ 1,915,248	$ 167,333,620	$ 172,136,956

Schedule of Investments as of September 30, 2007

Description	Cost	Amortization Method	Unamortized (Premium) Discount	Interest Receivable	Investments (Net)	Market Value
Intragovernmental Securities						
Non-Marketable						
Market-Based	157,610,000	Interest	(503,092)	1,934,458	159,041,366	160,463,904
Total Investments	$ 157,610,000		$ (503,092)	$ 1,934,458	$ 159,041,366	$ 160,463,904

NOTE 3. INVESTMENTS (Cont.)

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Investment maturity dates for fiscal years 2008 and 2007 range from January 31, 2009 to May 15, 2016 and July 31, 2008 to May 15, 2016, respectively, and interest rates for the same fiscal years range from 2.625 percent to 5.125 percent and 4.500 percent to 5.125 percent, respectively.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the AFR as evidence of its receipts. Treasury securities are an asset to the AFR and a liability to the U.S. Treasury. Because the AFR and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the AFR with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFR requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NOTE 4. ACCOUNTS RECEIVABLE

Schedule of Accounts Receivable as of September 30,

	2008	2007
Intragovernmental		
US Army Corp of Engineers	$ 39,186	$ 49,478
US Air Force 4th Qtr. Fines	379,820	414,693
US Army 4th Qtr. Fines	1,461,481	1,530,287
US Marines 4th Qtr. Fines	1,003,246	891,933
US Navy 4th Qtr. Fines	1,034,881	1,067,473
US Postal Service	4,500	-
Total Intragovernmental	3,923,114	3,953,864
Resident Fees Receivable	398,138	386,045
Miscellaneous	58,668	88,753
Total Accounts Receivable	$ 4,379,920	$ 4,428,662

NOTE 5. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Schedule of Property, Plant and Equipment as of September 30, 2008

Description	Acquisition Cost (In Dollars)	Accumulated Depreciation (In Dollars)	Net Book Value (In Dollars)
Land and Improvements	$ 10,982,370	$ 10,004,994	$ 977,376
Buildings and Improvements	181,456,706	139,002,773	42,453,933
Equipment	3,289,482	2,559,071	730,411
Construction in Progress	78,431,316	-	78,431,316
Total	$ 274,159,874	$ 151,566,838	$ 122,593,036

NOTE 5. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET (Cont.)

Schedule of Property, Plant and Equipment as of September 30, 2007

Description	Acquisition Cost (In Dollars)	Accumulated Depreciation (In Dollars)	Net Book Value (In Dollars)
Land and Improvements	$ 10,982,370	$ 9,772,837	$ 1,209,533
Buildings and Improvements	181,456,706	132,448,241	49,008,465
Equipment	3,289,482	2,369,639	919,843
Construction in Progress	20,881,012	-	20,881,012
Total	$ 216,609,570	$ 144,590,717	$ 72,018,853

NOTE 6. OTHER LIABILITIES

The other liabilities for the AFRH are comprised of program expense accruals, payroll accruals, unfunded annual leave earned by employees and deferred revenue. 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. Other deferred revenue consists of an unclaimed estate of a former resident of the home

Schedule of Other Liabilities as of September 30,

	2008	2007
Intragovernmental:		
Accrued Payroll	$ 187,259	$ 153,315
Unfunded FECA Liability	1,841,115	1,815,645
Total Intragovernmental	2,028,374	1,968,960
Accrued Payroll	728,705	596,549
Unfunded Annual Leave	1,029,814	1,051,722
Other Deferred Revenue	74,980	-
Actuarial FECA Liability	8,460,824	-
Other	15,991	28,956
Total Other Liabilities	$ 12,338,688	$ 3,646,187

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on AFRH's Balance Sheet as of September 30, 2008 and 2007 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave and unfunded FECA liability. Unfunded leave balance is $1,029,814 and $1,051,722 as of September 30,2008 and 2007, respectively. The unfunded FECA liability balance is $1,841,115 and $1,815,645 as of September 30, 2008 and 2007, respectively.

The Department Of Labor (DOL) estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because AFRH is not one of the specified entities for which DOL provides individual agency estimates on a routine basis, AFRH calculated its actuarial liability amount by using the DOL model to estimate FECA actuarial liability. The FECA actuarial liability for fiscal year 2008 is $8,460,824.

The FECA actuarial liability for fiscal year 2008 is $8,460,824.

NOTE 8. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

	2008	2007
Program:		
Chief Operations Office:		
Intragovernmental Costs	$ 301,713	$ 306,058
Public Costs	1,668,127	1,379,503
Total Program Costs	1,969,840	1,685,561
Intragovernmental Earned Revenue Costs	214,370	204,155
Public Earned Revenue	307,912	310,649
Total Program Earned Revenue	522,282	514,804
Net Program Costs	1,447,558	1,170,757
Corporate Resource Office:		
Intragovernmental Costs	1,315,556	1,219,875
Public Costs	7,273,530	5,498,375
Total Program Costs	8,589,086	6,718,250
Intragovernmental Earned Revenue Costs	934,718	813,713
Public Earned Revenue	1,342,585	1,238,176
Total Program Earned Revenue	2,277,303	2,051,889
Net Program Costs	6,311,783	4,666,361
Gulfport, MS:		
Intragovernmental Costs	153,075	285,364
Public Costs	846,330	1,286,227
Total Program Costs	999,405	1,571,591
Intragovernmental Earned Revenue Costs	108,761	190,351
Public Earned Revenue	156,220	289,644
Total Program Earned Revenue	264,981	479,995
Net Program Costs	734,424	1,091,596
Washington D.C.:		
Intragovernmental Costs	9,322,035	9,080,448
Public Costs	51,540,257	40,928,528
Total Program Costs	60,862,292	50,008,976
Intragovernmental Earned Revenue Costs	6,623,417	6,057,073
Public Earned Revenue	9,513,562	9,216,675
Total Program Earned Revenue	16,136,979	15,273,748
Net Program Costs	44,725,313	34,735,228
Total Program Costs	53,219,078	41,663,942
Costs Not Assigned to Programs	-	44,491
Net Cost Of Operations	$ 53,219,078	$ 41,708,433

The purpose of this classification of AFRH's revenue and cost is to enable the Federal Government to provide consolidated financial statements and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The intragovernmental costs relate to the source of goods and services purchased by AFRH and not to the classification of related revenue.

NOTE 9. LEASES

AFRH leases several of its buildings for use as office space as well as the parking areas associated with those buildings. Most of the leases run on a year-to-year basis with the exception of one lease that runs to the year 2049. Future payments due:

Fiscal Year 2009	325,231.64
Fiscal Year 2010	43,186.92
Fiscal Year 2011	43,186.92
Fiscal Year 2012	43,186.92
Fiscal Year 2013	43,186.92
After 5 years	1,558,328.03

NOTE 10. OPERATING/PROGRAM COSTS

Costs by major budgetary object classification are as follows:

	2008	2007
Budgetary Object Classifications:		
Personnel and Benefits	$ 24,552,244	$ 23,860,413
Travel and Transportation	136,145	100,242
Rents, Communication & Utilities	4,706,113	4,733,696
Printing and Contractual Services	22,589,141	19,549,894
Supplies and Materials	4,735,471	4,670,298
Equipment	7,184,573	7,069,560
Miscellaneous	3,748	275
Total Other Liabilities	$ 63,907,435	$ 59,984,378

Joseph Montgomery (Marine Corps)

"I have a guardian angel. In WWII, I was in the rations dump, which kept me from seeing any action. So, some of the stuff that's on TV right now… I'm seeing it all for the first time!"

NOTE 11. EARMARKED FUNDS

AFRH has earmarked funds that fall into the following categories: Capital Fund, Hurricane Katrina Fund and the Operations & Maintenance 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, while the Hurricane Katrina monies were appropriated on an emergency basis to cover necessary expenses related to the consequences of Hurricane Katrina until expended.

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.

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.

NOTE 11. EARMARKED FUNDS (Cont.)

Schedule of Earmarked Funds as of September 30, 2008

	Capital Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Earmarked Funds
Balance Sheet				
ASSETS				
Fund Balance with Treasury	$ (1,481,916)	$ 172,391,231	$ 4,651,997	$ 175,561,312
Investments	-	-	167,333,620	167,333,620
Accounts Receivable	-	-	4,379,920	4,379,920
General Property, Plant and Equipment	62,450,108	60,142,928	-	122,593,036
Total Assets	$ 60,968,192	$ 232,534,159	$ 176,365,537	$ 469,867,888
LIABILITIES AND NET POSITION				
Accounts Payable	$ 5,896	$ 534	$ 2,594,223	$ 2,548,289
Other	-	-	12,338,688	3,877,864
Cumulative Results of operations	60,962,296	232,533,625	161432,626	463,441,735
Total Liabilities and Net Position	$ 60,968,192	$ 232,534,159	$ 176,365,537	$ 469,867,888
Statement of Net Cost				
Program Costs	$ 6,964,240	$ 11,883	$ 65,444,500	$ 63,907,435
Less: Earned Revenues	-	-	19,201,545	19,201,545
Net Program Costs	6,964,240	11,883	46,242,955	44,705,890
Less: Earned Revenues Not Attributable to Programs				
Net Cost of Operations	$ 6,964,240	$ 11,883	$ 46,242,955	$ 44,705,890
Statement of Changes in Net Position				
Net Position Beginning of Period	$ 67,926,536	$ 232,545,508	$ 158,094,166	$ 458,566,210
Net Cost of Operations	(6,964,240)	(11,883)	(46,242,955)	(44,705,890)
Budgetary and Other Financing Sources	-	-	49,581,415	49,581,415
Change in Net Position	(6,964,240)	(11,883)	3,338,460	4,875,525
Net Position End of Period	$ 60,962,296	$ 232,533,625	$ 161,432,626	$ 463,441,735

NOTE 11. EARMARKED FUNDS (Cont.)

Schedule of Earmarked Funds as of September 30, 2007

	Capital Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Earmarked Funds
Balance Sheet				
ASSETS				
Fund Balance with Treasury	$ (1,249,323)	$ 228,501,978	$ 2,873,570	$ 230,126,225
Investments	-	-	159,041,366	159,041,366
Accounts Receivable	-	-	4,428,662	4,428,662
General Property, Plant and Equipment	67,960,260	4,058,593	-	72,018,853
Total Assets	$ 66,710,937	$ 232,560,571	$ 166,343,598	$ 465,615,106
LIABILITIES AND NET POSITION				
Accounts Payable	$ 33,725	$ 15,063	$ 3,353,921	$ 3,402,709
Other	-	-	3,646,187	3,646,187
Cumulative Results of operations	66,677,212	232,545,508	159,343,490	458,566,210
Total Liabilities and Net Position	$ 66,710,937	$ 232,560,571	$ 166,343,598	$ 465,615,106
Statement of Net Cost				
Program Costs	$ 7,047,912	$ 45,541	$ 52,890,925	$ 59,984,378
Less: Earned Revenues	-	-	18,320,436	18,320,436
Net Program Costs	7,047,912	45,541	34,570,489	41,663,942
Less: Earned Revenues Not Attributable to Programs	44,491	-	-	44,491
Net Cost of Operations	$ 7,092,403	$ 45,541	$ 34,570,489	$ 41,708,433
Statement of Changes in Net Position				
Net Position Beginning of Period	$ 73,769,615	$ 232,591,049	$ 143,192,659	$ 449,553,323
Net Cost of Operations	(7,092,403)	(45,541)	(34,570,489)	(41,708,433)
Budgetary and Other Financing Sources	-	-	50,721,320	50,721,320
Change in Net Position	(7,092,403)	(45,541)	16,150,831	9,012,887
Net Position End of Period	$ 66,677,212	$ 232,545,508	$ 159,343,490	$ 458,566,210

NOTE 12. IMPUTED FINANCING SOURCES

AFRH recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management (OPM). Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against AFRH are also recognized as imputed financing. There were no Judgment Fund claims against the AFRH in fiscal year 2008. For the fiscal years ended September 30, 2008 and 2007, respectively, imputed financing was as follows.

	2008	2007
Office of Personnel Management	$ 1,401,213	$ 1,494,879
Total Imputed Financing Sources	$ 1,401,213	$ 1,494,879

NOTE 13. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

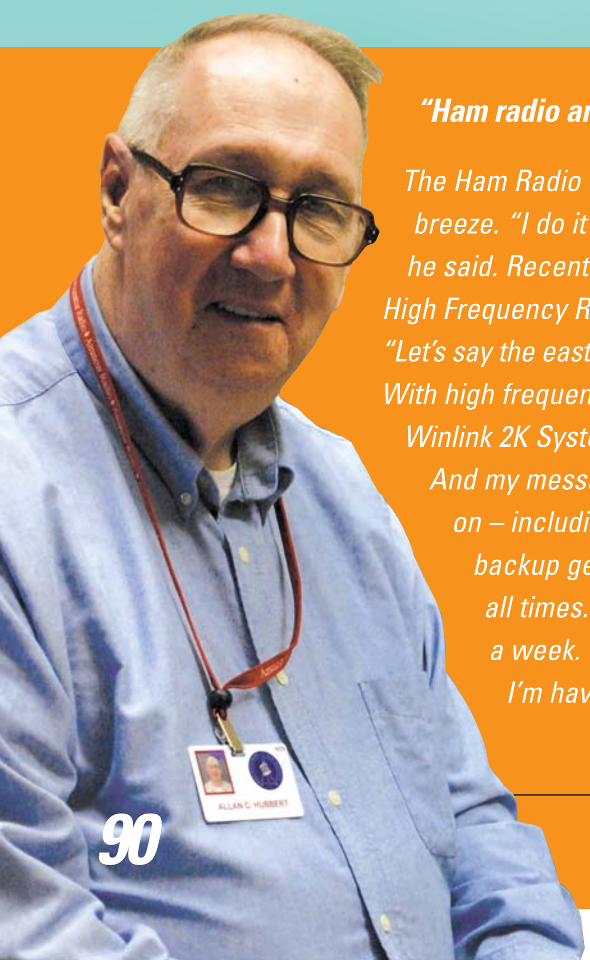
Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY08 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2009 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The 2009 Budget of the United States Government, with the Actual column completed for 2007, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the year ended September 30, 2008 and 2007, undelivered orders amounted to $169,251,030 and $223,361,061, respectively.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

Budgetary and financial accounting information are complimentary, but both types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, AFRH has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.



Allan Hubbert (Air Force)

"Ham radio and the Federal SHARES System are a big part of our emergency communications plan."

The Ham Radio Club has 12 members. But each night, Allan meets dozens more on the air to shoot the breeze. "I do it in Morse code, a fun language I mastered as a ground radio operator in the Air Force," he said. Recently, Allan got AFRH involved with the SHARES system – the Federal Shared Resources High Frequency Radio Network. It ensures communications, via Ham Radio, in the event of a catastrophe. "Let's say the east coast is down. No phones, Internet … nothing. With high frequency radio, I can introduce a message into the Winlink 2K System – which has four email servers, worldwide. And my message will flow to areas where the Internet is still on – including Federal agencies." Allan showed us a backup generator and battery bank he keeps charged at all times. So if power goes out, he can communicate for a week. "A lot of people would suggest I get a life, but I'm having too much fun with Ham Radio now."

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING) (Cont.)

Reconciliation of Net Cost of Operations to Budget as of September 30,

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 61,410,012	$ 277,163,359
Less: Spending Authority From Offsetting Collections and Recoveries	1,569,312	1,506,786
Obligations Net of Offsetting Collections and Recoveries	59,840,700	275,656,573
Less: Offsetting Receipts	66,858,203	66,597,281
Net Obligations	(7,017,503)	209,059,292
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,401,213	1,494,879
Net Other Resources Used to Finance Activities	1,401,213	1,494,879
Total Resources Used to Finance Activities	$ (5,616,290)	$ 210,554,171
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	$ (54,110,031)	$ 220,852,331
Resources That Fund Expenses Recognized In Prior Periods	21,909	111,116
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Other	(46,847,112)	(52,206,517)
Resources That Finance the Acquisition of Assets	57,550,304	3,202,362
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	-	(44,491)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(43,332,567)	171,914,801
Total Resources Used to Finance the Net Cost of Operations	$ 37,768,640	$ 38,639,370
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase In Exchange Revenue Receivable From the Public	$ 67,951	$ (1,188,052)
Other	8,486,295	38,426
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods	8,554,246	(1,149,626)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	6,917,715	4,228,117
Other	(21,523)	(9,428)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	6,896,192	4,218,689
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	15,450,438	3,069,063
Net Cost of Operations	$ 53,219,078	$ 41,708,433

NOTE 16. REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

Federal agencies are required to classify and report heritage assets, in accordance with the requirements of SFFAS No. 29, "Heritage Assets and Stewardship Land."

Heritage assets are property, plant, and equipment that possess one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics.

Since the cost of heritage assets is usually not determinable, AFRH does not place a value on them or establish minimum value thresholds for designation of property, plant, and equipment as heritage assets. Additionally, the useful lives of heritage assets are not reasonably estimable for depreciable purposes. Since the most relevant information about heritage assets is their existence, they are qualified in terms of physical units.

The AFRH has four buildings and structures that are designated as National Historic Landmarks.

In accordance with SFFAS No. 29, heritage assets that are used in day-to-day government operations are considered "multi-use" heritage assets that are not used for heritage purposes. Such assets are accounted for as general property, plant, and equipment and are capitalized and depreciated in the same manner as other general property, plant, and equipment. The AFRH has three buildings and structures that are considered to be "multi-use" heritage assets.

Intragovernmental Assets

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Total
Treasury	$ 175,561,312	$ 167,333,620	$ -	$ 342,894,932
US Postal Service			$ 4,500	$ 4,500
Air Force	-	-	379,820	379,820
Army	-	-	1,461,481	1,461,481
Army Corp of Engineers	-	-	39,186	39,186
Navy	-	-	1,034,881	1,034,881
Marines	-	-	1,003,246	1,003,246
Total	$ 175,561,312	$ 167,333,620	$ 3,923,114	$ 346,818,046

Intragovernmental Liabilities

Agency	Accounts Payable and Accruals	Payroll Taxes	Other	Total
Treasury General Fund	$ -	$ (49,644)	$ -	$ (49,644)
Army	(12,900)	-	-	(12,900)
General Services Administration	(30,149)	-	-	(30,149)
Army Corp of Engineers	-	(1,804)	-	(1,804)
Labor	-	-	(1,841,115)	(1,841,115)
Personnel Management	-	(135,811)	-	(135,811)
Total	$ (43,049)	$ (187,259)	$ (1,841,115)	$ (2,071,423)

AFRH is home to several survivors of the 1941 surprise Japanese attack on America in Pearl Harbor, HI.