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# ARMED FORCES RETIREMENT HOME

PERFORMANCE AND ACCOUNTABILITY REPORT  
FOR FISCAL YEAR 2018



**ARMED FORCES RETIREMENT HOME**  
3700 NORTH CAPITOL STREET, NW  
WASHINGTON, DC 20011



November 9, 2018

We are pleased to provide this transmittal letter presenting the Armed Forces Retirement Home (AFRH) Performance and Accountability Report for fiscal year 2018. This annual report consolidates multiple Federal reporting standards as well as AFRH-unique requirements into one comprehensive document that measures our financial and management performance over the last year, highlights accomplishments, and sets the stage for objectives in fiscal year 2019.

2018 was a transformative year for AFRH. We took major steps which, over the coming years, we believe will ensure the Home thrives on solid financial ground for generations of veterans. We introduced new members to our leadership team and are proud of the wealth of talent across the agency. In July 2018 we issued a three-year strategic plan focused on solvency and sustainability containing 25 initiatives within nine objectives across three strategic goals. We also completed a triennial inspection by the Department of Defense Inspector General which examined all aspects of our operations. We learned a great deal from that process and appreciate the advice and recommendations we received along the way.

In April 2018 we announced a painful but necessary revision to the resident fee structure. The reasoning was simple: no entity whether for-profit, non-profit, private, or public can survive long-term by charging each of its users less than half of what it costs to provide its product or service; yet that is exactly what we were doing at AFRH. The active duty enlisted force provides a generous portion of income to support our services through pay withholding and fines, with the balance of our costs falling to taxpayers. By relying heavily on active duty service members and taxpayers for financial support, we give up substantial control of our affairs and destiny. We have taken to heart the point of pride many residents have shared that the Home was founded and thrived for most of its existence on the contributions of those in uniform. We want to make sure that pride of ownership continues to be real, not just a romantic notion from days gone by.

After over a decade of planning and false starts, and with recent changes to legislation, we finally moved forward to develop 80 underutilized acres on our Washington, D.C. campus. Through the General Services Administration, we issued a request for proposals in May 2018 with proposals due in October 2018. This project represents AFRH's greatest potential for new revenue, and we are keen to use the assets we have to generate ongoing income through leases rather than one-time infusions through sales. While the 80 acres will be developed in phases over many years, in the interim we entered into an agreement with the adjacent Veterans Affairs hospital to provide parking in the development zone for a monthly fee and are pursuing similar arrangements with other nearby facilities short on parking spaces.


We have been busy pursuing other opportunities on the D.C. campus. In September 2018 we executed a letter of intent with a small business with the goal of renovating the historic Grant Building for reuse as affordable assisted living for eligible seniors. That concept is an ideal fit with our existing operations, and will revitalize a stunning building vacant for two decades. We are currently conducting due diligence and hope to negotiate a lease in early 2019. We are also working with the President Lincoln's Cottage Foundation to revenue-share on events in some of our historic buildings and outdoor areas. The Foundation already markets for and manages events in its own spaces, and this agreement expands the list of venues available to their clients while generating revenue for AFRH.

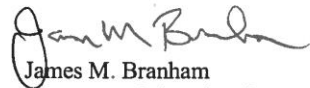
A key part of this report includes our independently audited financial statements and notes on our accounting procedures. We consider the financial and performance data and information to be reliable and complete; and, though the Agency does not have any material weaknesses, leadership takes very seriously its responsibilities for the stewardship and management of AFRH resources. Late in the fiscal year we identified process risks and challenges that required manual supports to ensure the integrity of our efforts and outcomes, and the solutions though attainable are still being resolved. At the same time we are proud to report fiscal year 2018 ended with \$7 million added to the Trust Fund, which included lease revenue from initiatives outlined in this letter that will grow substantially in the years ahead.

Our residents and staff, many veterans themselves, are at the core of what we do and inspire us every day. The initiatives in our strategic plan are focused on revitalizing and reenergizing our communities in Washington and Gulfport: improving occupancy rates, expanding access to more veterans—and now their spouses as well, upgrading facilities, modernizing technology, expanding our healthcare and resident services capabilities, and investing in talent. All of these make AFRH a better place to live and work and contribute to our long-term success. We are honored to be on this journey and thank you for your support.

Very Respectfully,

Sincerely,

  
Stephen T. Rippe  
Major General, U.S. Army (Ret.)  
Chief Executive Officer

  
James M. Branham  
Lieutenant Colonel, U.S. Army (Ret.)  
Chief Operating Officer

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# ABOUT THIS REPORT

The AFRH's Performance and Accountability Report (PAR), is a detailed, annual retrospective of the Agency's performance toward achieving its annual goals and long-term objectives for its programs, management, and budget. The Office of the Chief Financial Officer produces the PAR in collaboration with campus leadership and support offices throughout the AFRH. The PAR was created to meet government reporting requirements (including the Government Performance and Results Act, the Chief Financial Officers Act of 1990, and the Federal Financial Management Improvement Act of 1996).

This report consolidates multiple required financial and performance management reports into one volume:

- Performance and Accountability Report (31 USC 3516)
  - Financial management reports (31 USC chapters 9 and 35)
  - Agency performance update (31 USC 1116)
  - Improper Payments Act annual report (31 USC 3321 note)
  - Inspector General statement on management and performance challenges (31 USC 3516)
- Annual report by the Secretary of Defense (24 USC 411(h)) (until Dec. 31 2021 per section 1061 of Public Law 114–328)

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records Federal entities in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The report covers the Federal fiscal year 2018, from October 1, 2017 through September 30, 2018, and is organized in three parts in accordance with Office of Management and Budget guidance for performance and accountability reports:

**Part 1 -- Management Discussion and Analysis** -- Presents an overview of the agency and its programs; a snapshot of AFRH's achievements during the fiscal year; the challenges it faces and the plans and responses to those challenges; and detailed information on AFRH's Strategic Plan, including progress on strategic objectives, performance goals and agency priorities.

**Part 2 -- Financial Information** -- Provides the fiscal year 2018 auditor's report, audited financial statements, and notes to the financial statements.

**Part 3 -- Other Information** – Fulfills additional reporting requirements and additional details.

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# SECTION 1

## MANAGEMENT DISCUSSION & ANALYSIS

### AGENCY OVERVIEW

Formed by Congress in 1991, the Armed Forces Retirement Home (AFRH) is the only continuing care retirement community (CCRC) operated by the Federal Government. The 1991 Act merged two storied institutions under one corporate organization: the U.S. Soldier's and Airmen's Home in Washington, D.C. established in 1851, and the U.S. Naval Home in Gulfport, Miss. originally established in Philadelphia, Penn. in 1834. AFRH is governed by title 24, United States Code, chapter 10.

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#### **MISSION**

***To fulfill our Nation's commitment to its veterans by providing a premier retirement community with exceptional residential care and extensive support services.***

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#### **VISION**

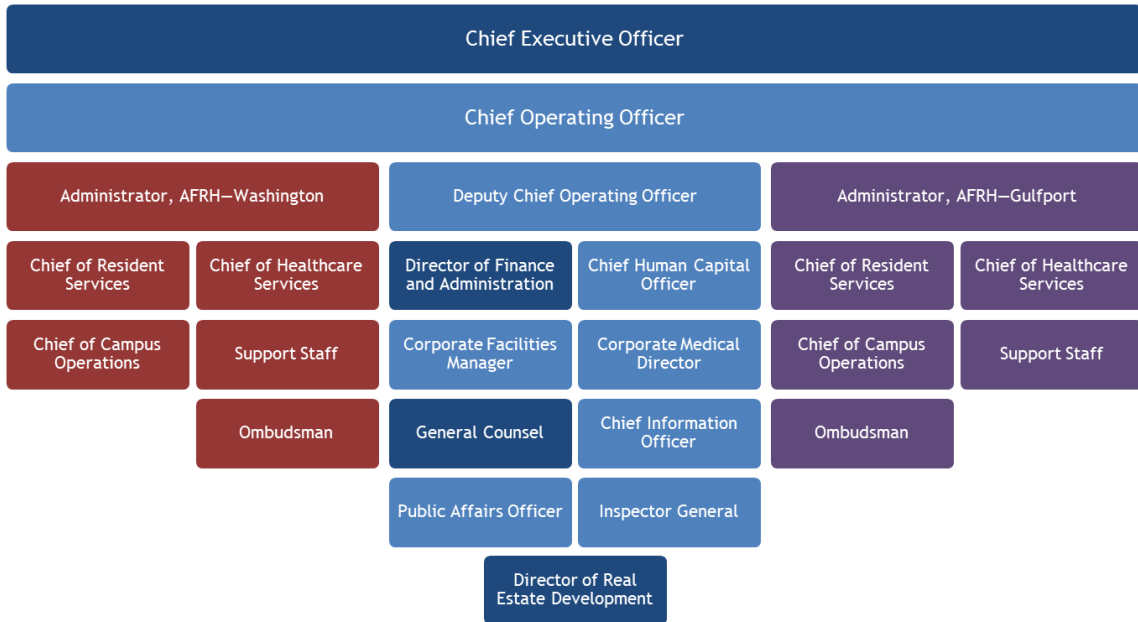
***A retirement community committed to excellence, fostering independence, vitality and wellness for veterans, making it a vibrant place in which to live, work and thrive.***

### LEADERSHIP & GOVERNANCE

AFRH's governance structure and oversight is unique in the Federal Government. While it is an independent agency, AFRH leadership and administration is overseen by the Secretary of Defense and delegated to the Office of the Chief Management Officer. Day-to-day agency oversight is exercised by the AFRH Chief Executive Officer (CEO), a Department of Defense executive. The CEO appoints key AFRH officials including the Chief Operating Officer who serves as the AFRH agency head, as well as the administrators and ombudsmen for each of the two campuses. The agency headquarters is located in Washington, D.C. and consists of a small corporate staff to manage common agency functions and services.

The Deputy Director of the Defense Health Agency oversees healthcare administration; the Inspector General of the Department of Defense (DOD) inspects and reports on all aspects of AFRH operations on a triennial basis; and all resident services are accredited by nationally recognized independent organizations including The Joint Commission (TJC) and Commission on Accreditation of Rehabilitation Facilities (CARF).

## ORGANIZATIONAL CHART



## LEADERSHIP TEAM

**Nancy Anne Baugher, CPA, CGFM** Managing Director of Finance and Administration

**James Branham** Chief Operating Officer

**Susan Bryhan** Administrator, AFRH—Washington

**Patrick Cavanagh** Acting Inspector General

**Etheldreda Collins, M.D.** Corporate Medical Director

**Jeffrey Eads** Administrator, AFRH—Gulfport

**Christopher Kelly** Public Affairs Officer

**Joseph Pollard** General Counsel

**Stephen Rippe** Chief Executive Officer

**John RisCassi** Deputy Chief Operating Officer

**Justin Seffens** Corporate Facilities Manager

**Donna Smith** Chief Human Capital Officer

**Stacey Tyley** Director of Real Estate Development

**Stanley Whitehead** Acting Chief Information Officer

## TWO CAMPUSES, ONE MISSION

### ARMED FORCES RETIREMENT HOME—WASHINGTON

In 2013, the General Services Administration completed a new \$88 million residence hall on the 272-acre campus of the AFRH in Washington, D.C. The new Scott Building, which is named after General Winfield Scott who founded the home in 1851, is a 160,000 square feet, and includes rooftop gardens, sunlit common areas, hobby shops, and a computer room and library, as well as 36 rooms for long-term nursing care and 24 rooms for residents who need memory support. The design of the building reflects input from resident focus groups, vast research in senior care, and new ideas in environmental design and green energy.



### ARMED FORCES RETIREMENT HOME—GULFPORT

When Hurricane Katrina forced the 11-story AFRH in Gulfport, Miss. to close in 2005, — leaving residents of the home without shelter — GSA began the construction of three eight-story buildings to replace it. The new facility was designed to mitigate the effects of a category five hurricane, and includes 584 rooms that are more than four times larger than the rooms in the old facility. In addition to the larger rooms, the building has an abundance of amenities for retired residents, including a swimming pool, bowling center, bike shop, and fitness center. In the fall of 2010, more than 200 former residents of the home returned to the new Gulfport facility after being forced to relocate to DC.



Each of our two campuses have similar organizational structures and services under our “One Agency Model”

<b>Campus Operations</b>	<b>Healthcare Services</b>	<b>Resident Services</b>	<b>Support Services</b>
Facilities Grounds Lawn & Garden Services Maintenance & Repairs Property Management Transportation Utilities	Medical Services Medical Records Nursing - Independent Living Plus - Assisted Living - Long Term Care - Memory Support Nutrition Services Pharmacy Services Rehab Services Social Services	Admissions Custodial Services Dining Services Recreation Activities Recreation Therapy Religious Activities Volunteer Services	Business Center Process Improvement Safety Security

## FIVE MISSION TENETS

The foundation of success and the path to sustainability for the AFRH are built on the following 5 tenets:

1. We are guardians for veterans who have come to AFRH as residents, made it their home, and whose health and welfare depend on us, so we must ensure the highest attention to care attainable in any setting. Quality of care has to be the highest mission objective, and to care for veterans in need.
2. Stewardship is at our core, reminding us that we are caretakers responsible for decisions now that will determine how AFRH will exist for veterans in the future, against a financial history that lacked needed sustainability.
3. We are trustees for active duty service members who contribute a portion of their pay to support veterans in need today with the expectation AFRH will be here for them if they need us later, so we need a Trust Fund that will develop and grow.
4. We are custodians of a true National treasure, continuing an illustrious history while preserving AFRH's legacy, facilities and grounds.
5. We are stewards for taxpayers who come to our aid when we need it, with the promise their resources will be responsibly used because our mission is so vital.

## PROGRAM SUMMARY

AFRH is the only Federally entity operating what is known in the private sector senior living industry as a continuing care retirement community (CCRC), meaning residential facilities with a continuum of care levels so residents can “age in place” as their physical and health needs change. AFRH features high quality facilities with an extensive variety of services and amenities rarely available in private sector facilities. Each of our campuses provide services to residents through three operating segments: Healthcare Services, Resident Services, and Campus Operations.

**Healthcare Services** includes our 24-hour wellness centers available to all residents. The wellness centers offer medical providers during business hours, with nursing coverage on on-call providers after hours. Additionally, the wellness centers feature dental providers and pharmacy delivery during business hours. Specialist services include optometry, podiatry, nutrition, psychiatry, psychology, physical and occupational therapy, and speech therapy. Some specialist services are provided through partnerships with Department of Defense health facilities and contract providers, some of whom independently bill insurance programs for their services. In addition to wellness center services available to all residents, Healthcare Services provides dedicated nursing care to our residents in upper levels of care.

**Resident Services** provides a full spectrum of services and amenities to all residents. All residents can enjoy meals in our community dining rooms with assistance for those with mobility needs, exercise equipment and instruction in our fitness facilities, organized activities both on and off site, library and media centers, hobby shops for arts and crafts, and game and sport amenities. Resident Services provides personal and spiritual services including social worker, chaplain, financial literacy, and legal and estate planning assistance.

**Campus Operations** ensures safe and secure facilities and grounds for our residents, staff, and visitors. Both our campuses are gated communities with 24-hour security booths controlling access to grounds and regular security patrols. Facilities staff keep our building interiors clean and well maintained and grounds staff are responsible for landscaping and upkeep of our beautiful campuses and outdoor amenities. Safety and emergency operations planners are prepared for and experienced in handling a broad spectrum of contingencies.



## CONTINUUM OF CARE

AFRH offer five levels of care to our residents, who must enter our communities at the independent living level:

**Independent Living (IL)** residents live independently and perform all activities of daily living without assistance. Rooms are private and equipped with full bathrooms. Residents have meals in the community dining room. AFRH provides general healthcare and dental services in the Wellness Clinic and a shuttle service to the local Department of Veterans Affairs, military and community hospitals for outside medical appointments and pharmacy services. There is a full range of amenities and recreational activities. If required, Residents no longer able to live independently are assessed and transitioned to a higher level of care to meet their needs.

**Independent Living Plus (ILP)** residents continue to live in their independent living rooms while receiving limited assistance with activities of daily living such as personal hygiene, medication management, and housekeeping. ILP residents continue to dine in the community dining room and use available amenities.

**Assisted Living (AL)** residents receive regular assistance with activities of daily living and are supported with 24 / 7 nursing coverage. Dining is provided in AL communities and residents may join recreational activities in the common areas or participate in activities offered in the AL areas. Most of the resident healthcare needs are met at the AFRH Wellness Center, and residents who need specialty care are provided an escort to outside medical appointments.

**Long Term Care (LTC)** residents receive total support for their activities of daily living due to chronic illness or disability and are supported with 24 / 7 nursing coverage. Dining and recreational activities are provided in the LTC communities. The majority of LTC resident healthcare needs are met in their community area, and residents who need specialty care are escorted to outside medical appointments.

**Memory Support (MS)** residents with a cognitive deficiency are unable to perform activities of daily living and need a supervised environment to keep them safe. They receive 24 / 7 nursing coverage and dining and recreational activities are provided in their community areas. The majority of MS resident healthcare needs are met in their community area, and residents who need specialty care are escorted to outside medical appointments.

Level of Care	Resident Capacity		
	Gulfport	Washington	Total
<b>IL / ILP</b>	501	436	937
<b>AL</b>	27	60	87
<b>LTC</b>	24	36	60
<b>MS</b>	17	24	41
<b>Total</b>	569	556	1,125

## RESIDENT ELIGIBILITY

Resident eligibility is governed by section 412 of title 24, United States Code. Persons eligible to become AFRH residents served as members of the Armed Forces, at least one-half of whose service was not active commissioned service (other than as a warrant officer or limited-duty officer) and:

- Are 60 years of age or over and were discharged or released from service in the Armed Forces after 20 or more years of active service;
- Persons who are determined under rules prescribed by the COO to be suffering from a service-connected disability incurred in the line of duty in the Armed Forces;

- Served in a war theater during a time of war declared by Congress or were eligible for hostile fire special pay and are determined under rules prescribed by the COO to be suffering from injuries, disease, or disability; or,
- Served in a women’s component of the Armed Forces before June 12, 1948 and are determined under rules prescribed by the Chief Operating Officer to be eligible for admission because of compelling personal circumstances.

Persons not eligible are those convicted of a felony; discharged or released from service in the Armed Forces under other than honorable conditions; or persons with substance abuse or mental health problems, with limited exceptions.

## RESIDENT PROFILE

Vital Statistics	
<b>Average Resident Age</b>	83.6
<b>Oldest Resident</b>	101
<b>Youngest Resident</b>	52
<b>Longest Residing Resident</b>	45

Resident Eligibility				
As of 2018-09-30	AFRH-G	AFRH-W	Total	%
<b>POW</b>	2	0	2	0%
<b>Service Connected Disability</b>	20	15	35	5%
<b>Female (served before 1948)</b>	33	9	42	5%
<b>War Theater</b>	22	27	49	6%
<b>Retiree</b>	378	269	647	83%
<b>Total</b>	455	320	775	100%

Level of Care				
As of 2018-09-30	AFRH-G	AFRH-W	Total	%
<b>Independent Living</b>	343	203	546	73%
<b>Independent Living Plus</b>	30	19	49	7%
<b>Assisted Living</b>	23	52	75	10%
<b>Memory Support</b>	16	14	30	4%
<b>Long Term Care</b>	22	30	52	7%
<b>Total</b>	434	318	752	100%

Resident Gender				
As of 2018-09-30	AFRH-G	AFRH-W	Total	%
Female	48	34	82	11%
Male	386	286	672	89%
Total	434	320	754	100%

Resident Last Branch of Service				
As of 2018-09-30	AFRH-G	AFRH-W	Total	%
Army	90	117	207	27%
Navy	164	82	246	33%
Marines	19	12	31	4%
Coast Guard	1	1	2	0%
Air Force	160	108	268	36%
Total	434	320	754	100%

Years at AFRH		
As of 2018-09-30	Total	%
0-5 Years	351	47%
5-15 Years	311	41%
15-25 Years	60	8%
25-35 Years	22	3%
35-45+ Years	6	1%
Total	750	100%

Resident War Theaters of Service		
	Total	%
World War II	143	15%
Korea	299	31%
Vietnam	449	46%
Grenada	17	2%
Panama	19	2%
Gulf War	25	3%
Iraq & Afghanistan	8	1%
Other	12	1%

Resident Pay Grade				
As of 2018-09-30	AFRH-G	AFRH-W	Total	%
E1	5	3	8	1%
E2	9	8	17	2%
E3	15	9	24	3%
E4	13	15	28	4%
E5	23	28	51	7%
E6	107	72	179	24%
E7	144	111	255	34%
E8	63	45	108	14%
E9	34	16	50	7%
W1	0	1	1	0%
W2	3	4	7	1%
W3	6	3	9	1%
W4	5	2	7	1%
W5	0	0	0	0%
O1	1	0	1	0%
O2	0	0	0	0%
O3	5	3	8	1%
O4	1	0	1	0%
O5	0	0	0	0%
O6	0	0	0	0%
O7	0	0	0	0%
O8	0	0	0	0%
O9	0	0	0	0%
<b>Total</b>	<b>434</b>	<b>320</b>	<b>754</b>	<b>100%</b>

## REVENUE

Unlike most Federal agencies which rely on appropriated funds, AFRH is intended to be self-sustaining with a combination of dedicated revenue sources as well as earned income.

**Fines and Forfeitures.** AFRH receives the proceeds from fines and forfeitures charged to active duty enlisted service members resulting from disciplinary violations. This continues to represent AFRH’s largest source of revenue, despite a substantial decline from \$41 million in FY 2009 to \$21 million in FY 2018.

**Resident Fees.** AFRH charges residents a monthly fee for their level of care which is set at the lesser of a percentage of their gross income or a maximum amount.

**Active Duty Withholding.** AFRH receives the proceeds from a monthly \$0.50 deduction from the pay of each active duty enlisted service member, warrant officer, and limited duty officer across all branches of the armed forces.

**Earned and Other Revenue.** AFRH earns revenue from interest on its trust fund balance, rent from leased property, as well as gifts and estate bequests.

## MANAGEMENT INITIATIVES

The AFRH is on a general mission to grow the Agency's Trust Fund to sustain the organization for the long term through new sources of revenue, and reorganizing around these plans. 2018 has been a transitional year as a new leadership team was installed to bring new energy with an organizational framework intended to elevate and improve strategic planning, align budgets to plans and objectives, create better monitoring and evaluation systems, manage organizational risks, improve integration, increase accountability and strengthen and sustain outcomes.

The first generation reform objectives are mainly financial and performance focused, but our primary objective will always be quality of care and the health and welfare of our residents. According to the Armed Forces Retirement Home Senior Medical Advisor FY 2017 Quality of Care Report to Congress:

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*"the AFRH leadership and staff continually demonstrate a strong commitment to the residents and to providing quality health care with a focus on each resident's individual needs. The AFRH staff at both facilities and the Agency office should be recognized for the extensive amount of work to continually maintain compliance with the TJC's nationally recognized standards and surveyor expectations. The recommendations from the DOD IG inspection, CARF-CCAC survey, and TJC surveys have been used to implement processes, systems, and structures to improve care and services provided to the residents."*

However, AFRH continues to be constrained financially. The Trust Fund is replenished from revenue sources defined by current legislation including: active-duty withholding, fines and forfeitures, resident fees, lease or sale of property, investment interest, and gifts and donations. Over the last seven years, there have been significant reductions to AFRH's largest revenue source, fines and forfeitures, and to interest income as the reserve balance has considerably declined, in part due to rising costs, many of which are required to meet standards of care and/or accreditation. The AFRH Trust Fund is at a low level, prompting Congressional support, in 2018, at \$22 million from the General Fund of the Treasury to support operations.

To address budget shortfalls, the AFRH has revised its Long Range Financial Plan (LRFP) to recognize changing Trust Fund funding sources, increases in upper-level care rooms, General Fund transfers and revenue projections based on current trends. Many Agency-wide management initiatives target gains in new efficiencies, improving performance outcomes, and the identification of new revenue streams to build up the Trust Fund, while investing in those things that support sustainability including the grounds and facilities. We are taking an integrated perspective through people, process, and systems include expanding the use of enterprise-wide data analytics, streamlining governance structures, employing long-term budget planning to support capital investments and mapping new and alternate revenue streams like fund raising, health care reimbursement, fees restructuring, occupancy qualifications, and turning assets to ensure the longevity of the AFRH Trust Funds and the Nation's people it supports and represents. The following are some of the management initiatives currently underway which stay true to the mission tenets cited earlier in this document:

**Achieve an occupancy rate of 90 percent or better.** Empty rooms are a wasted resource: missed opportunity to serve a veteran in need, lost revenue, and a sunk cost to maintain facilities sitting unused. Marketing efforts diminished when the DC campus took in Gulfport residents post Hurricane Katrina. As these residents returned to Gulfport, marketing efforts to backfill the DC campus were overlooked. Before the hurricane, these facilities were accustomed historically to a wait list of residents. The team is focused on rebuilding the client base. In 2018 we requested and received legislative changes, through the 2019 National Defense Authorization Act, that would broaden eligibility criteria, including the ability to admit spouses together with their eligible veteran when space is available as well as other veteran categories who have served in war times even as reservists, recognizing the importance of remaining organizationally vital and relevant as the world around us evolves. Stabilizing occupancy and related cost is expected to yield stability to residency income upwards to \$5M annually.

**Modernize residential facilities.** Antiquated residences and deteriorating common areas are unacceptable for current and unattractive to prospective residents. While room sizes cannot be improved without substantial cost and renovation, we can make modest improvements in fittings and furnishings to make residential spaces more attractive and provide residents some choices to personalize their rooms. We are also combining rooms to accommodate couples as part of the modernization effort and occupancy goals. The Washington campus independent-living accommodations are well-outdated compared to the newer Gulfport campus. Outdated bathrooms, deteriorated balconies, and furnishings are all areas needing attention, not to mention common areas and elevators.

**Reorganize healthcare services for optimum income potential.** One-third of AFRH expenses, approximately \$20 million per year from the Trust Fund, fund healthcare (Medical/Dental) services at our two campuses. Although all residents are eligible and entitled to these federal health benefit programs that include TRICARE, VA, Medicare, and Medicaid, as a Federal agency AFRH cannot currently obtain reimbursement from these programs; therefore, AFRH is proposing legislative changes to be able to secure Medical/Dental reimbursements. We are asking the Secretary of Defense and Secretary of Veterans Affairs to enter into memorandums of agreement with the AFRH to reimburse those health services already provided at the Home, and already drawn from the residents income which would be otherwise be provided at other government or contracted facilities such as DOD, VA facilities to TRICARE or Veterans Health beneficiaries (our residents) and redirected those funds to the AFRH Trust Fund (rather than, for instance, the Medicare Trust Fund as this is a direct care facility). By providing the on-site medical services to our residents, AFRH has effectively reduced the number of patient visits to DOD and VA facilities as well as the risks to elderly residents of traveling off-site for care. The proposal is fundamentally good government, eliminating duplication, and effectively servicing those it is intended to support.

**Ensure staffing is right-sized to level of care, and/or gaps in care, and professionally diverse.** Aligning with health benefit programs means following stringent requirements on provider types and qualifications, patient-to-provider ratios, and many other factors so that services are allowable. We are working to modify our staffing mix, policies, and systems to comply with these requirements.

**Utilize existing, viable capital assets to build and support long term sustainment of the Washington Campus, by increasing revenue base.** Some examples of work that is being done include the following, among others:

- Plans to execute a ground lease on the AFRH-Washington development zone have been in the making for over a decade, and the now 80-acre development zone represents AFRH's greatest long-term opportunity to generate significant new ongoing revenue. Proposals were received in October 2018 and are being reviewed, therefore revenue projections are not yet available.
- Working towards an adaptive reuse lease to increase core revenue streams on the AFRH-Washington Grant Building. The Grant Building is a grand 170,000 square foot structure on the Washington campus completed in 1910 and closed in 2002. An unsolicited proposal received in 2018 led to AFRH signing a letter of intent with the goal of executing a binding agreement in 2019. The project is currently in due diligence and feasibility review.

- Washington Campus presents other opportunities that we continue to explore. Leasing space to the Veterans administration and others for parking, and an agreement with the Lincoln Cottage Foundation are expected to yield over \$500,000 in revenue annually. In addition, over \$1.2 million additional revenue is anticipated through an agreement that houses the Creative Minds International Charter School (CMI) when in-kind contributions conclude.
- Adjusting eleven government quarters of various sizes and qualities to prevailing market rates is estimated to increase revenues over \$240,000.

***Transition to a cost-conscious management platform***, to better inform management decisions and directions includes several directed interventions begun in FY 2018:

- Create a cost-based resident fee model. AFRH's mission is to serve our Nation's veterans regardless of their ability to pay for the services they receive. Maximum fees were previously set without consideration of service costs, and changed in modest amounts through annual cost-of-living increases and in larger amounts when financial pressures mounted. In April 2018 a new fee structure was announced that, among other changes, tied maximum fees to cost of care. This objective completes the transition to a cost-based fee model for all residents by fiscal year 2021 and is intended to ensure service costs are transparent to both residents and the staff.
- Implement service cost budgeting. Revise budget formulation processes and timelines so operating budgets are set to costs per resident by level of care in advance of the fiscal year including required notification periods.
- Reform hardship assistance and gross income calculations. AFRH is committed to ensuring no resident is forced to leave AFRH due to unaffordability. We will continue to refine policies and procedures regarding hardship assistance to extend fee relief and services to residents with financial difficulties. We will also review components of and deductions from gross income calculations.
- Institute cost transparency. We will revise systems, annual fee determination documents, and public reports and presentations to make the cost of services, income calculation, and subsidy amounts transparent to residents and other stakeholders.
- Implement local budgeting and financial performance factors. Previous operating budgets were centrally produced at the corporate level absent active input, performance management and accountability at the Campus and departmental levels.
- Streamline administrative activities and processes while enhancing accountability and the effectiveness of controls. The AFRH invests significant resources into administrative services to handle routine functions common to any business: financial accounting and audit, purchasing and contracting, legal services, information technology, and a suite of human resource services including timekeeping and payroll, hiring, benefits administration and employee assistance, and labor relations. We are committed to a state of business process renewal understanding and recognizing that each new turn may offer an opportunity to grow to new heights and not remain stagnant to prior decisions that may longer be effective or otherwise prove more costly.
- Convey and build on the importance and significance of the capital requirements for maintaining, and sustaining the AFRH infrastructure. Since FY 2015, AFRH has operated with a \$1 million annual capital budget, approximately 1 percent of the annual budget. The value of our property, plant, and equipment as reported on the audited balance sheet in our FY 2017 Performance and Accountability Report was \$327,008,777. Comparably sized facilities manage capital requirements at an average of 10 to 12 % of their overall budget. The underfunding of the AFRH capital budget represents \$134,995,200 of priority projects including \$109 million in deferred maintenance outstanding from an assessment concluded in 2006. To continue to manage against a \$1 million threshold in spending authority and limitations on the expansion of a revenue base which limits investment options against this long standing financial demand is unattainable, and prevents AFRH from completing renovations critically needed for accommodating couples and for increasing occupancy and revenues. The AFRH needs the ability to build and invest for the future.

***Establish gifts and estates as a major source of support.*** While AFRH has been able to accept gifts, including estate gifts from residents and others, it did not previously have authority to solicit them. Congressional support was given and granted under the John S. McCain National Defense Authorization Act for Fiscal Year 2019. Private giving is an important revenue source for non-profit retirement communities and veteran service organizations. This has become a major new directional opportunity for the AFRH that we are embracing by building not only the capacity for fund raising but the foundation, both structurally and institutionally, and for both endowed and non-endowed funds, and for long- and short-term investments. We are beginning plans with a Development Officer to support fund raising (campaigns, annual gifts, major gifts, and planned gifts) and donor relations through public, corporate, foundations and individual sources, and for earned income. We are also developing plans, process and policy for investment management (cash and non-cash gifts through pooled investments, real estate, stocks, and bonds, and for charitable trusts and similar vehicles).

Based on our research, we have set a realistic goal in the first year of acquiring corporate sponsors, defining an appeal program for charitable remainder trusts and other gift giving options to residents, raising \$100,000 in donations, and developing a friends and family concept of program participants to acquire younger and other long-term donors.

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***AFRH Chief Operating Officer James Branham on the Agency-wide Management Initiatives***

*It is both an honor and tremendous responsibility to be in a position to preserve the beautiful Washington and Gulfport campuses and facilities for current and future generations of veterans who have put their country first throughout their careers. We must maintain a balance between modernization of facilities and living areas for new generations with preserving the historic traditions, architecture and green pastoral setting of this national treasure. Finally, we must return AFRH to financial self-sufficiency, while honoring AFRH's rich national and military history, and ensuring quality care for current and future generations of America's veterans.*

*There is much to be done, yet all attainable. The chart on the following page puts much of this into perspective and highlights the importance of alternate revenue streams to the AFRH Trust Fund. It is a five-year look back with a five-year prospective that considers the impact of the some of the initiatives identified above. The Congressional support we have received so far as a General Fund Transfer has balanced the revenue decline, and the steps both proposed as management and as additional appeals to Congress will aid in transitioning General Funds support to a stable foundation on which the AFRH and survive and thrive. The chart does not consider the following:*

- 
- *Fundraising projections under the new authority to generate donations,*
  - *The impact of the 80-acre development, and*
  - *The opportunity represented by investment options from gifts.*
  - *The infusion of \$18,000,000 over a 3-year period that the Grant Building represents and which may best serve the Trust over the Grant Building lease as a high yield investment.*

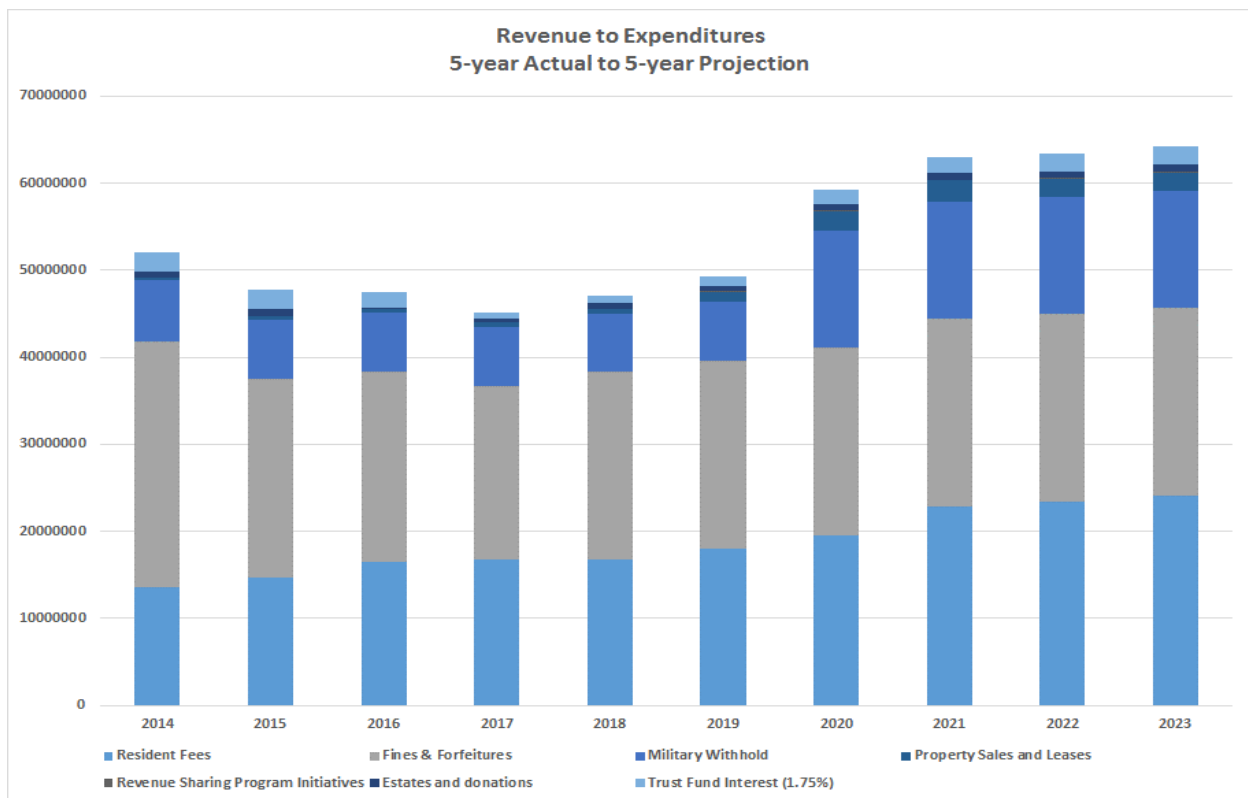


- Funds estimated to be \$4,300,000 annually to be gained by health/dental care reimbursements that are available, just not to the AFRH.
- The support provided by Congress that included \$20,000,000 in FY2016, \$22,000,000 in FY17 and FY18, and to continue as the Agency works to drive new revenue streams and opportunities.

The Chart does, however, assume and consider the increase in military withholding along with the initiatives leadership has and is taking as discussed in this report.

The Table on the next page provides a general overview of the relationship of cost to revenue in a 5 year look back and projection. The cost of operations was relatively stable from FY17 to FY18 with no distinguishing changes in resource requirements. The Congressional support we received helped the AFRH close the gap on the distance between costs and revenue, and we were able to begin investing against the Trust Fund. The future looks bright here for our veterans and we will work hard on their behalf.

## AFRH LOOK BACK – LOOK FORWARD



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## SECTION 2

# FINANCIAL INFORMATION

# INDEPENDENT AUDITOR'S REPORT



**BROWN & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

November 9, 2018

Armed Forces Retirement Home  
Attn: James M. Branham, Chief Operating Officer  
3700 N. Capitol Street, NW  
Washington, D.C. 20011

Dear Mr. Branham:

We have sent via email one electronic copy of the Audit Report of the Armed Forces Retirement Home's Financial Statements as of and for the years ended September 30, 2018 and 2017 in pdf version. We appreciate the assistance of your staff during the audit. Please contact me if you have any questions.

Sincerely,

Brown & Company CPAs and  
Management Consultants, PLLC

A handwritten signature in cursive script that reads "Gail Jenifer".

Gail Jenifer, CPA, CISA, CISM, CRISC, CGFM  
Member



**BROWN & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

## INDEPENDENT AUDITOR'S REPORT

Armed Forces Retirement Home  
Washington, D.C.

In our audits of the fiscal years 2018 and 2017 financial statements of the Armed Forces Retirement Home (AFRH), we found

- AFRH's financial statements as of and for the fiscal years ended September 30, 2018, and 2017, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI) and other information included with the financial statements; (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

### **Report on the Financial Statements**

In accordance with the provisions of Accountability of Tax Dollars Act of 2002 (ATDA) (Pub. L. No. 107-289), we have audited AFRH's financial statements. AFRH's financial statements comprise the balance sheets as of September 30, 2018, and 2017; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Management's Responsibility**

AFRH's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

#### Opinion on Financial Statements

In our opinion, AFRH's financial statements present fairly, in all material respects, AFRH's financial position as of September 30, 2018, and 2017, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

#### Other Matters

##### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

# INDEPENDENT AUDITOR'S REPORT

## Other Information

AFRH's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on AFRH's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

## **Report on Internal Control over Financial Reporting**

In connection with our audits of AFRH's financial statements, we considered AFRH's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to AFRH's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

### Management's Responsibility

AFRH's management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

In planning and performing our audit of AFRH's financial statements as of and for the year ended September 30, 2018, in accordance with U.S. generally accepted government auditing standards, we considered the AFRH's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AFRH's internal control over financial reporting. Accordingly, we do not express an opinion on AFRH's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.



# INDEPENDENT AUDITOR'S REPORT

## Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of AFRH's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of AFRH's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the AFRH's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

## **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

In connection with our audits of AFRH's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

## Management's Responsibility

AFRH's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to AFRH.

## Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to AFRH that have a direct effect on the determination of material amounts and disclosures in AFRH's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to AFRH.

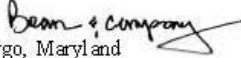
## Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to AFRH. Accordingly, we do not express such an opinion.

# INDEPENDENT AUDITOR'S REPORT

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

  
Largo, Maryland  
November 9, 2018





## PRINCIPAL FINANCIAL STATEMENTS

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the AFRH. The AFRH management is responsible for the fair presentation of information contained in the principal financial statements. The independent accounting firm, Brown & Co. CPAs, PLLC, is the auditor for the AFRH FY 2018 financial statements. The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, Financial Reporting Requirements, revised. The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. Shared service providers, U.S. Treasury BFS and U.S. Department of Agriculture National Financial Center (NFC), processed payroll and financial transactions under Interagency Agreements, and AFRH relies on information received from these partners (along with audits and reviews) to execute management controls.

The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2017 are included.

**The Balance Sheet** provides information on assets, liabilities, and net position similar to balance sheets reported in the private sector. Intra-departmental balances have been eliminated from the amounts presented.

**The Statement of Net Cost** reports the components of the net costs of the Agency's operations for the period. The net cost of operations consists of the gross cost incurred by the Agency less any exchange (i.e., earned) revenue from our activities. Intra-departmental balances have been eliminated from the amounts presented.

**The Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the period, and the ending net position. Intra-departmental transactions have been eliminated from the amounts presented.

**The Statement of Budgetary Resources** provides information on how budgetary resources were made available and their status at the end of the year. Information in this statement is reported on the budgetary basis of accounting. Intra-departmental transactions have not been eliminated from the amounts presented.

**Required Supplementary Information** contains a Combining Statement of Budgetary Resources, the condition of assets held by the Agency, and information on deferred maintenance and repairs. The Combining Statement of Budgetary Resources provides additional information on amounts presented in the Combined Statement of Budgetary Resources.

**Accompanying Notes** describe significant accounting policies as well as detailed information on select statement lines.

AUDITED FINANCIAL STATEMENTS

**ARMED FORCES RETIREMENT HOME  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2018 AND 2017  
(In Dollars)**

	2018	2017
<b>Assets:</b>		
Intragovernmental		
Fund Balance With Treasury	\$ 6,312,417	\$ 2,535,159
Investments (Note 3)	70,481,799	62,774,035
Accounts Receivable (Note 4)	1,382,636	1,052,235
<b>Total Intragovernmental</b>	<b>78,176,852</b>	<b>66,361,429</b>
Accounts Receivable, Net (Note 4)	39,219	35,554
Property, Equipment, and Software, Net (Note 5)	316,234,809	327,008,777
<b>Total Assets</b>	<b>\$394,450,880</b>	<b>\$393,405,760</b>
<b>Liabilities:</b>		
Intragovernmental		
Accounts Payable	\$ 177,741	\$ 518,085
Other (Note 8)	1,917,939	2,611,562
<b>Total Intragovernmental</b>	<b>2,095,680</b>	<b>3,129,647</b>
Accounts Payable	2,262,673	2,545,281
Federal Employee and Veterans' Benefits (Note 6)	6,906,133	7,598,104
Other (Note 8)	2,355,515	3,373,571
<b>Total Liabilities (Note 6)</b>	<b>\$ 13,620,001</b>	<b>\$ 16,646,603</b>
<b>Net Position:</b>		
Cumulative Results of Operations - Funds from Dedicated Collections	\$380,830,879	\$376,759,157
<b>Total Net Position</b>	<b>\$380,830,879</b>	<b>\$376,759,157</b>
<b>Total Liabilities and Net Position</b>	<b>\$394,450,880</b>	<b>\$393,405,760</b>

**ARMED FORCES RETIREMENT HOME**  
**STATEMENT OF NET COST**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(In Dollars)**

	2018	2017
<b>Program Costs:</b>		
Program: Embrace Resident-Centered Care		
Gross Costs	\$ 59,122,662	\$ 61,415,531
Less: Earned Revenue	(14,573,901)	(14,079,144)
Net Program Costs	\$ 44,548,761	\$ 47,336,387
Program: Maintain Exceptional Stewardship		
Gross Costs	\$ 6,501,867	\$ 6,648,735
Less: Earned Revenue	(1,602,728)	(1,524,183)
Net Program Costs	\$ 4,899,139	\$ 5,124,552
Program: Staff-Centered Stewardship		
Gross Costs	\$ 835,867	\$ 3,708,528
Less: Earned Revenue	(206,043)	(850,158)
Net Program Costs	\$ 629,824	\$ 2,858,370
Program: Leverage External Stakeholders		
Gross Costs	\$ 477,405	\$ 383,128
Less: Earned Revenue	(117,682)	(87,830)
Net Program Costs	\$ 359,723	\$ 295,298
Net Cost of Operations	\$ 50,437,447	\$ 55,614,607

**ARMED FORCES RETIREMENT HOME**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(In Dollars)**

	2018	2017
<b>Budgetary Financing Sources:</b>		
Appropriations Received	\$ 22,000,000	\$ 22,000,000
Appropriations Used	(22,000,000)	(22,000,000)
<b>Total Unexpended Appropriations</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 376,759,157	\$ 379,214,613
<b>Budgetary Financing Sources:</b>		
Appropriations Used	22,000,000	22,000,000
Nonexchange Revenue (Note 10)	29,965,450	29,387,811
Donations and Forfeitures of Cash and Cash Equivalents	648,526	509,176
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources (Note 11)	1,895,193	1,262,164
<b>Total Financing Sources</b>	<b>54,509,169</b>	<b>53,159,151</b>
<b>Net Cost of Operations</b>	<b>(50,437,447)</b>	<b>(55,614,607)</b>
<b>Net Change</b>	<b>4,071,722</b>	<b>(2,455,456)</b>
<b>Cumulative Results of Operations</b>	<b>\$ 380,830,879</b>	<b>\$ 376,759,157</b>
<b>Net Position</b>	<b>\$ 380,830,879</b>	<b>\$ 376,759,157</b>

**ARMED FORCES RETIREMENT HOME**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(In Dollars)**

	2018	2017
<b>Budgetary Resources:</b>		
Unobligated balance from prior year budget authority, net	\$ 30,920,297	\$ 27,938,104
Appropriations	86,300,000	86,300,000
<b>Total Budgetary Resources</b>	<b>\$117,220,297</b>	<b>\$114,238,104</b>
<b>Memorandum (non-add) Entries:</b>		
Net adjustments to unobligated balance brought forward, Oct. 1	\$ (29,190,123)	\$ (22,495,833)
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total) (Note 13)	\$ 81,365,210	\$ 81,640,625
Apportioned, unexpired account (Note 2)	29,533,918	26,481,473
Unapportioned, unexpired accounts	6,321,169	6,116,006
Unexpired unobligated balance, end of year	35,855,087	32,597,479
Unobligated balance, end of year (total)	35,855,087	32,597,479
<b>Total Budgetary Resources</b>	<b>\$117,220,297</b>	<b>\$114,238,104</b>
<b>Outlays, net:</b>		
Outlays, net, (total)	78,423,891	79,983,821
Distributed Offsetting Receipts (Note 15)	(17,041,971)	(17,138,742)
<b>Agency outlays, net</b>	<b>\$ 61,381,920</b>	<b>\$ 62,845,079</b>

## ACCOMPANYING NOTES TO 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 24 U.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 AFRH 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.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. AFRH manages an Operational General Fund.

The AFRH has rights and ownership of all assets reported in these financial statements. AFRH does not possess any non-entity assets.

#### *B. BASIS OF PRESENTATION*

The financial statements have been prepared to report the financial position and results of operations of AFRH. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

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 issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as amended, 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 financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

*C. BASIS OF ACCOUNTING*

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

*D. FUND BALANCE WITH TREASURY*

Fund Balance with Treasury is the aggregate amount of the AFRH’s funds with Treasury in expenditure, receipt, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The AFRH does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

*E. INVESTMENT IN U.S. GOVERNMENT SECURITIES*

AFRH has the authority to invest in U.S. Government securities. The securities include marketable Treasury securities and/or nonmarketable, market-based securities issued by the Bureau of the Fiscal Service. Market-based securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. It is expected that investments will be held until maturity; therefore, they are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and discounts. The amortization of premiums and discounts are recognized as adjustments to interest income using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest on investments is accrued as it is earned.

*F. ACCOUNTS RECEIVABLE*

Accounts receivable consists of amounts owed to AFRH by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor’s ability to pay.

*G. PROPERTY, EQUIPMENT, AND SOFTWARE*

The AFRH owns the land and buildings in which both homes operate. The majority of the property, equipment and software 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, equipment, and software 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. Most AFRH heritage assets are multi-use facilities and are classified as general property, equipment, and software. The useful lives used when recording depreciation on property, equipment, and software are as follows:

Description	Useful Life (years)
Improvements to Land	10-20
Buildings and Improvements	20-50
Equipment	5-10

#### *H. ADVANCES AND PREPAID CHARGES*

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

#### *I. LIABILITIES*

Liabilities represent the amount of funds likely to be paid by the AFRH as a result of transactions or events that have already occurred.

AFRH reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities with the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave and actuarial Federal Employees' Compensation Act benefits.

#### *J. ANNUAL, SICK, AND OTHER LEAVE*

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued monthly, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees.

#### *K. ACCRUED AND ACTUARIAL WORKERS' COMPENSATION*

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the AFRH employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the AFRH terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value



of estimated future payments calculated by the DOL and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

#### *L. RETIREMENT PLANS*

AFRH employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of AFRH matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund. Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and AFRH matches any employee contribution up to an additional four percent of pay. For FERS participants, AFRH also contributes the employer's matching share of Social Security.

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 recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to AFRH for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. AFRH recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

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 OPM, as the administrator.

#### *M. OTHER POST-EMPLOYMENT BENEFITS*

AFRH employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGSIP) may continue to participate in these programs after their retirement. The OPM has provided the AFRH with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The AFRH recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the AFRH through the recognition of an imputed financing source.

#### *N. USE OF ESTIMATES*

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

#### *O. 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 years 2018 and 2017 to the extent directed by accounting standards.

*P. CONTINGENCIES*

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. AFRH recognizes contingent liabilities in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. AFRH discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote.

*Q. RECLASSIFICATION*

Certain fiscal year 2017 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

**NOTE 2. FUND BALANCE WITH TREASURY**

Fund balance with Treasury account balances as of September 30, 2018 and 2017, were as follows:

	2018	2017
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 29,533,918	\$ 26,481,473
Unavailable	32,859,130	28,939,794
Obligated Balance Not Yet Disbursed	9,784,940	9,623,941
<b>Total</b>	<b>\$ 72,177,988</b>	<b>\$ 65,045,208</b>

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

### NOTE 3. INVESTMENTS

Investments as of September 30, 2018 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	\$ 70,536,647	Interest	\$ (125,161)	\$ 70,313	\$ 70,481,799	\$ 70,323,073
<b>Total</b>	<b>\$ 70,536,647</b>		<b>\$ (125,161)</b>	<b>\$ 70,313</b>	<b>\$ 70,481,799</b>	<b>\$ 70,323,073</b>

Investments as of September 30, 2017 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	\$ 62,790,006	Interest	\$ (113,749)	\$ 97,778	\$62,774,035	\$ 62,432,390
<b>Total</b>	<b>\$ 62,790,006</b>		<b>\$ (113,749)</b>	<b>\$ 97,778</b>	<b>\$62,774,035</b>	<b>\$ 62,432,390</b>

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. The investment maturity dates for marketable securities are: June 30, 2019 and June 30, 2020.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with dedicated collection funds. The cash receipts collected from the public for a dedicated collection fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Armed Forces Retirement Home as evidence of its receipts. Treasury securities are an asset to the Armed Forces Retirement Home and a liability to the U.S. Treasury. Because the Armed Forces Retirement Home 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 Armed Forces Retirement Home with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Armed Forces Retirement Home 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

Accounts receivable balances as of September 30, 2018 and 2017, were as follows:

	2018	2017
Intragovernmental		
Accounts Receivable	\$ 1,382,636	\$ 1,052,235
<b>Total Intragovernmental Accounts Receivable</b>	<b>\$ 1,382,636</b>	<b>\$ 1,052,235</b>
With the Public		
Accounts Receivable	\$ 39,219	\$ 35,554
<b>Total Accounts Receivable</b>	<b>\$ 1,421,855</b>	<b>\$ 1,087,789</b>

The Intragovernmental accounts receivable is primarily made up of fines and forfeitures from the Army, Air Force, Navy, Marine Corps and the Coast Guard. Accounts receivable from the public is primarily made up of resident fees due from residents of the home.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2018 and 2017.

#### NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2018

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Building	\$ 509,805,019	\$ 199,685,452	\$ 310,119,567
Leasehold Improvements	16,375,046	13,188,891	3,186,155
Furniture & Equipment	12,301,742	9,874,819	2,426,923
Construction-in-Progress	502,164	-	502,164
<b>Total</b>	<b>\$ 538,983,971</b>	<b>\$ 222,749,162</b>	<b>\$ 316,234,809</b>

Schedule of Property, Equipment, and Software as of September 30, 2017

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Building	\$ 504,743,933	\$ 190,269,039	\$ 314,474,894
Leasehold Improvements	15,687,364	12,699,972	2,987,392
Furniture & Equipment	12,682,806	9,399,975	3,282,831
Construction-in-Progress	6,263,660	-	6,263,660
<b>Total</b>	<b>\$ 539,377,763</b>	<b>\$ 212,368,986</b>	<b>\$ 327,008,777</b>

## NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for AFRH as of September 30, 2018 and 2017 include liabilities not covered by budgetary resources. 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.

	2018	2017
Intragovernmental – FECA	\$ 1,236,839	\$ 1,263,461
Intragovernmental – Unemployment Insurance	-	1,552
Unfunded Leave	1,097,186	1,088,750
Actuarial FECA	6,906,133	7,598,104
Deferred Lease Liabilities	4,332	4,332
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 9,244,490</b>	<b>\$ 9,956,199</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>4,375,511</b>	<b>6,690,404</b>
<b>Total Liabilities</b>	<b>\$ 13,620,001</b>	<b>\$ 16,646,603</b>

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on AFRH behalf and payable to the DOL. AFRH also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

## NOTE 7. ACTUARIAL FECA LIABILITY

FECA provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for AFRH's employees are administered by the DOL and ultimately paid by AFRH when funding becomes available.

AFRH bases its estimate for FECA actuarial liability on the DOL's FECA model. The DOL method of determining the liability uses historical benefits payment patterns for a specific incurred period to predict the ultimate payments for the period. Based on the information provided by the DOL, AFRH's liability as of September 30, 2018 and 2017, was \$6.9 million and \$7.5 million, respectively.

**NOTE 8. OTHER LIABILITIES**

Other liabilities account balances as of September 30, 2018 were as follows:

	Current	Non Current	Total
<b>Intragovernmental</b>			
FECA Liability	\$ 463,455	\$ 1,236,839	\$ 1,700,294
Payroll Taxes Payable	217,645	-	217,645
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 681,100</b>	<b>\$ 1,236,839</b>	<b>\$ 1,917,939</b>
<b>With the Public</b>			
Payroll Taxes Payable	\$ 77,860	\$ -	\$ 77,860
Accrued Funded Payroll and Leave	706,816	-	706,816
Unfunded Leave	1,097,186	-	1,097,186
Other	473,653	-	473,653
<b>Total Public Other Liabilities</b>	<b>\$ 2,355,515</b>	<b>\$ -</b>	<b>\$ 2,355,515</b>

Other liabilities account balances as of September 30, 2017 were as follows:

	Current	Non Current	Total
<b>Intragovernmental</b>			
FECA Liability	\$ 743,813	\$ 1,263,461	\$ 2,007,274
FECA Liability - Unemployment	380,760	-	380,760
Unemployment Insurance Liability	1,552	-	1,552
Payroll Taxes Payable	221,976	-	221,976
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 1,348,101</b>	<b>\$ 1,263,461</b>	<b>\$ 2,611,562</b>
<b>With the Public</b>			
Payroll Taxes Payable	\$ 88,430	\$ -	\$ 88,430
Accrued Funded Payroll and Leave	865,188	-	865,188
Unfunded Leave	1,088,750	-	1,088,750
Other	1,331,203	-	1,331,203
<b>Total Public Other Liabilities</b>	<b>\$ 3,373,571</b>	<b>\$ -</b>	<b>\$ 3,373,571</b>

## NOTE 9. DEFERRED REVENUE

In FY 2015 the Armed Forces Retirement Home entered into a Lease agreement with Creative Minds International Public Charter School as the Lessee with occupancy beginning on August 1, 2015. The Lessee will occupy the Sherman Building North and Annex sections with initial lease square feet of 32,050, and the square feet increasing over the next several years. The Lessee has made \$2,700,842 in Capital improvements to the Sherman Building that they will use as in-kind consideration as part of future lease payments. AFRH will carry deferred revenue for the capital improvements, and recognize the revenue as it is earned based on the in-kind consideration applied to the lease payment. As of September 30, 2018, AFRH has recognized \$2,237,226 in in-kind consideration, bringing the amount of deferred revenue associated with the lease to \$463,616. The remainder of deferred revenue, \$14,050 is associated with a previous outstanding transaction.

## NOTE 10. DEDICATED COLLECTIONS

AFRH has dedicated collections that fall into the following categories: Capital Fund, Hurricane Katrina Fund, Earthquake 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 and Earthquake monies were appropriated on an emergency basis to cover necessary expenses related to the consequences of these two events until expended.

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.

Schedule of Dedicated Collections as of September 30, 2018

	Capital Fund	Earthquake Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Funds from Dedicated Collections
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$ (7,029,935)	\$ 1	\$ 70,740	\$ 13,271,611	\$ 6,312,417
Investments	-	-	-	70,481,799	70,481,799
Accounts Receivable	-	-	-	1,421,855	1,421,855
Property, Equipment and Software	114,781,472	13,175,799	188,277,538	-	316,234,809
<b>Total Assets</b>	<b>\$ 107,751,537</b>	<b>\$ 13,175,800</b>	<b>\$ 188,348,278</b>	<b>\$ 85,175,265</b>	<b>\$ 394,450,880</b>
<b>LIABILITIES AND NET POSITION</b>					
Accounts Payable	\$ (537,225)	\$ -	\$ -	\$ 2,977,639	\$ 2,440,414
Other	-	-	-	4,273,454	4,273,454
Employee and Veteran Benefits	-	-	-	6,906,133	6,906,133
Cumulative Results of Operations	108,288,762	13,175,800	188,348,278	71,018,039	380,830,879
<b>Total Liabilities and Net Position</b>	<b>\$ 107,751,537</b>	<b>\$ 13,175,800</b>	<b>\$ 188,348,278</b>	<b>\$ 85,175,265</b>	<b>\$ 394,450,880</b>
<b>Statement of Net Cost</b>					
Program Costs	\$ 5,903,706	\$ 293,940	\$ 5,382,288	\$ 55,357,867	\$ 66,937,801
Less: Earned Revenues	-	-	-	(16,500,354)	(16,500,354)
Net Program Costs	5,903,706	293,940	5,382,288	38,857,513	50,437,447
<b>Net Cost of Operations</b>	<b>\$ 5,903,706</b>	<b>\$ 293,940</b>	<b>\$ 5,382,288</b>	<b>\$ 38,857,513</b>	<b>\$ 50,437,447</b>
<b>Statement of Changes in Net Position</b>					
Net Position Beginning of Period	113,118,018	13,469,740	193,730,566	56,440,833	376,759,157
Net Cost of Operations	(5,903,706)	(293,940)	(5,382,288)	(38,857,513)	(50,437,447)
Taxes and Other Nonexchange Revenue	-	-	-	29,965,450	29,965,450
Other Revenue	-	-	-	24,543,719	24,543,719
Change in Net Position	(5,903,706)	(293,940)	(5,382,288)	15,651,656	4,071,722
<b>Net Position End of Period</b>	<b>\$ 107,214,312</b>	<b>\$ 13,175,800</b>	<b>\$ 188,348,278</b>	<b>\$ 72,092,489</b>	<b>\$ 380,830,879</b>



Schedule of Dedicated Collections as of September 30, 2017

	Capital Fund	Earthquake Fund	Hurricane Katrina Fund	Operations & Maintenance Fund	Total Funds from Dedicated Collections
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$ (6,333,672)	\$ 1	\$ 70,740	\$ 8,798,090	\$ 2,535,159
Investments	-	-	-	62,774,035	62,774,035
Accounts Receivable	-	-	-	1,087,789	1,087,789
Property, Equipment and Software	119,879,212	13,469,739	193,659,826	-	327,008,777
<b>Total Assets</b>	<b>\$ 113,545,540</b>	<b>\$ 13,469,740</b>	<b>\$ 193,730,566</b>	<b>\$ 72,659,914</b>	<b>\$ 393,405,760</b>

**LIABILITIES AND NET POSITION**

Accounts Payable	\$ 427,522	\$ -	\$ -	\$ 2,635,844	\$ 3,063,366
Other	-	-	-	5,985,133	5,985,133
Employee and Veteran Benefits	-	-	-	7,598,104	7,598,104
Cumulative Results of Operations	113,118,018	13,469,740	193,730,566	56,440,833	376,759,157
<b>Total Liabilities and Net Position</b>	<b>\$ 113,545,540</b>	<b>\$ 13,469,740</b>	<b>\$ 193,730,566</b>	<b>\$ 72,659,914</b>	<b>\$ 393,405,760</b>

**Statement of Net Cost**

Program Costs	\$ 5,764,222	\$ 293,940	\$ 5,382,289	\$ 60,715,470	\$ 72,155,921
Less: Earned Revenues	-	-	-	(16,541,314)	(16,541,314)
Net Program Costs	5,764,222	293,940	5,382,289	44,174,156	55,614,607
<b>Net Cost of Operations</b>	<b>\$ 5,764,222</b>	<b>\$ 293,940</b>	<b>\$ 5,382,289</b>	<b>\$ 44,174,156</b>	<b>\$ 55,614,607</b>

**Statement of Changes in Net Position**

Net Position Beginning of Period	\$ 118,882,240	\$ 13,763,680	\$ 199,122,855	\$ 47,455,838	\$ 379,214,613
Net Cost of Operations	(5,764,222)	(293,940)	(5,382,289)	(44,174,156)	(55,614,607)
Taxes and Other Nonexchange Revenue	-	-	-	29,387,811	29,387,811
Other Revenue	-	-	-	23,771,340	23,771,340
Change in Net Position	(5,764,222)	(293,940)	(5,382,289)	8,984,995	(2,455,456)
<b>Net Position End of Period</b>	<b>\$ 113,118,018</b>	<b>\$ 13,469,740</b>	<b>\$ 193,730,566</b>	<b>\$ 56,440,833</b>	<b>\$ 376,759,157</b>

**NOTE 11. 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, OPM. For the years ended September 30, 2018 and 2017 respectively, imputed financing was as follows:

	2018	2017
Office of Personnel Management	\$ 1,895,193	\$ 1,262,164
<b>Total Imputed Financing Sources</b>	<b>\$ 1,895,193</b>	<b>\$ 1,262,164</b>

**NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The President’s Budget that will include 2018 actual budgetary execution information has not yet been published. The President’s Budget is scheduled for publication in February 2019 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2019 Budget of the United States Government, with the "Actual" column completed for 2017, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

FY2017	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$117,000,000	\$81,000,000	(\$17,000,000)	\$78,000,000
Difference - Due to Rounding	(3,000,000)	1,000,000	-	2,000,000
<b>Budget of the U.S. Government</b>	<b>\$114,000,000</b>	<b>\$82,000,000</b>	<b>(\$17,000,000)</b>	<b>\$80,000,000</b>

**NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Obligations incurred and reported in the Statement of Budgetary Resources in 2018 and 2017 consisted of the following:

	2018	2017
Direct Obligations, Category A	\$ 80,623,859	\$ 81,640,625
Direct Obligations, Category B	741,351	-
<b>Total Obligations Incurred</b>	<b>\$ 81,365,210</b>	<b>\$ 81,640,625</b>

Category A apportionments distribute budgetary resources by fiscal quarters.

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

**NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD**

As of September 30, 2018, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Unpaid Undelivered Orders	\$ 695,677	\$ 5,232,792	\$ 5,928,469
<b>Total Undelivered Orders</b>	<b>\$ 695,677</b>	<b>\$ 5,232,792</b>	<b>\$ 5,928,469</b>

As of September 30, 2017, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Unpaid Undelivered Orders	\$ 545,910	\$ 3,773,708	\$ 4,319,618
<b>Total Undelivered Orders</b>	<b>\$ 545,910</b>	<b>\$ 3,773,708</b>	<b>\$ 4,319,618</b>

## NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

AFRH has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2018	2017
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 81,365,210	\$81,640,625
Spending Authority from Offsetting Collections and Recoveries	-	(938,826)
Obligations Net of Offsetting Collections and Recoveries	(17,041,971)	(17,786,367)
Net Obligations	64,323,239	62,915,433
Other Resources		
Imputed Financing from Costs Absorbed by Others	1,895,193	1,262,164
Net Other Resources Used to Finance Activities	1,895,193	1,262,164
Total Resources Used to Finance Activities	66,218,432	64,177,597
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(26,268,044)	(20,052,080)
Total Resources Used to Finance the Net Cost of Operations	39,950,388	44,125,517
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	10,487,059	11,489,090
<b>Net Cost of Operations</b>	<b>\$ 50,437,447</b>	<b>\$55,614,607</b>

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## SECTION 3 OTHER INFORMATION

## Office of Inspector General: AFRH's Top Management & Performance Challenges

In accordance with the Reports Consolidation Act of 2000, I am providing a statement outlining what I have observed to be the most serious challenges facing the Armed Forces Retirement Home (AFRH) organization. There are three.

### Trust Fund Solvency

AFRH's permanent revenue sources are no longer sufficient to support annual outlays, giving rise to concerns about Trust Fund solvency. Fines and Forfeitures, reduced by 49% since FY 2009; Active Duty Withholding reduced by 11% with the reduction in active duty forces; and investment income reduced by over 90% due to the reduced Trust Fund balance. Fines and Forfeitures as a collective revenue source is unlikely to recover and interest income will not recover without a significant replenishment of the Trust Fund balance given the nature of government securities. New revenue streams are required to replace these sources to the extent they were lost, rebuild the Trust Fund to support longevity, and ensure current and long-term solvency against annual operational resource requirements.

Some of the proposed additional revenue streams require changes in current legislation as current legislation limits the type of revenues available to support the Trust Fund.

The IG will continue monitoring AFRH progress regarding this challenge. Mitigation requires new leadership to actively engage with key stakeholders like OMB, and Congress (some of the proposed opportunities require legislative changes) while exercising care and diligence in managing annual operational resource requirements.

### Financial Management and Contract Award and Administration

Section 418, title 24, United States Code, requires the DoD Office of Inspector General (DoD OIG) to perform a comprehensive inspection of the AFRH. As reported No. DODIG-2018-077, Feb 21, 2018, the OIG objective was to determine whether officials conducted effective financial management and contract award and administration for the Armed Forces Retirement Home (AFRH).

#### a. Financial Management

The DOD OIG found DoD and AFRH officials did not conduct effective financial management of the AFRH. Specifically, DoD and AFRH officials allowed the AFRH Trust Fund to substantially decline from \$186.5 million in FY 2010 to \$54.7 million in FY 2016 without identifying more reliable revenue sources. Based on its FY 2016 Long Range Financial Plan, the AFRH forecasted that the AFRH Trust Fund will have a negative trust fund balance by FY 2019 without supplemental funding. This occurred because:

- DoD and AFRH officials did not submit legislative proposals and administrative actions, as requested by Congress, that could be added to existing law to maintain a positive cash balance in the AFRH Trust Fund;

- other than a charter school lease executed in February 2015, DoD officials were unsuccessful in using the authority granted in 24 U.S.C. § 411(i) to generate additional revenue by leasing AFRH property to interested private developers;
- DoD officials did not generate additional revenue by raising the monthly amount withheld from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty from \$0.50 to \$1.00; and
- the former AFRH COO and former Chief Financial Officer (CFO) overstated future revenue stability and expense reductions associated with the construction of a new residential building.

To financially sustain its day-to-day operations and meet its mission of taking care of the veterans the AFRH is now receiving annual appropriated funds of \$20+ million from the U.S. Treasury needed to support yearly operating expenses and to increase the AFRH Trust Fund balance for its long-term financial obligations. Too, new leadership has established a strategic direction, as represented in its annual report, to support the growth, expansion, coordination and partnerships necessary for long term growth.

#### b. Contract Award Management and Administration

The DOD OIG found, in the contracts it reviewed, that AFRH officials did not adequately perform acquisition planning by 1) defining the requirements in the performance work statement; or 2) identifying the sources and methodologies used to develop the independent Government cost estimate, as required by the IAA and AFRH guidance. The result was not only costly but inefficient due to the number of modifications affecting the pricing on the Interagency Agreement (IAA) with the BFS. The AFRH paid the BFS \$80,222 to modify three contracts from FYs 2012 through 2016 the AFRH needed to award replacement contracts because contractors in some cases could not provide required services. AFRH officials did not 1) have sufficient contracting experience and did not rely on the expertise of BFS contracting officials; or 2) segregate the duties of the CFO and the head of procurement or implement appropriate internal controls for financial and contracting decisions.

At the same time the auditors found the contracting officer's representatives performed sufficient surveillance of contractor performance for the same agreements, and found that the AFRH CORs sufficiently:

- monitored contractor performance,
- verified that contractor services complied with contract requirements, and
- reviewed and verified invoices, and
- performed contract surveillance in accordance with the requirements in the IAA between the BFS and the AFRH, the COR designation letter, and the contract performance work statement.

As a result, the AFRH had assurance that it received the goods and services for which it paid.

New leadership is in place, including a new Managing Director of Finance and Administration, and the role of the Senior Procurement Official for AFRH is under the management responsibility of the Deputy Chief Operating Officer. There is sufficient organizational structure, control, and expertise in contract award and administration consequential to these findings. The IG will continue monitoring AFRH progress regarding this challenge.

### Capital Asset Management

Since FY 2015, AFRH has operated with a \$1,000,000 annual capital budget against property, plant, and equipment assets valued at \$316,234,809 in FY18. Capital expenditures at a fraction of one percent annually is not sustainable given the 24-hour operation of the AFRH facilities and the age and historic significance of the Washington property specifically. Comparably sized facilities to the AFRH manage capital requirements at an average of 10 to 12 % of their overall budget. Against the limitations on spending authority and limited Trust Fund resources, AFRH has delayed urgently needed repairs and replacements to infrastructure systems which directly affect life and safety. An assessment commissioned in 2006 identified more than \$100,000,000 of repairs and replacements needed on the Washington campus alone, including \$15,000,000 of life-safety items. Total identified Capital maintenance and improvement costs have reached \$135,000,000, including the following:

- o Electrical Infrastructure. Replace 1950's switch gear for parts that are no longer manufactured (\$3,500,000 estimated total cost).
- o Water and Sewer Infrastructure. Replace 80+ year old leaking underground piping for entire campus (\$6,500,000 estimated cost).

In order to manage to these concerns leadership has sought Congressional relief to the ceiling imposed that differentiates Operations & Maintenance costs from Capital Improvement Project costs and the availability of funds by appropriation, AFRH is seeking an increase in its authority in FY2020 to \$5 million for capital investments. AFRH is also looking to the new opportunity provided by Congress for fund raising to raise funds for Capital improvements. The IG will continue monitoring AFRH progress regarding this challenge.



Patrick Cavanagh,  
AFRH Acting Inspector General

## FRAUD RISK MANAGEMENT

AFRH is committed at the highest level to combating fraud and protecting Trust Fund resources. Under the Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 USC 3321 note), AFRH herein makes its report. AFRH evaluated an Internal Control Checklist, conducted a Risk and Control Assessment and Developed a Fraud Risk Profile and is managing in accordance with these assessments and their outcomes.

Risk management and internal controls management is a perpetual requirement in which the entity must annually evaluate systems, environmental, and other challenges that could potentially result in new risks. And, whereas, the Agency generally has low and no transactional risks in certain areas (very limited travel, no grants, a structured payroll, limited volume and type of payments), the risks are generally low overall for AFRH. However, the introduction of a new approach considered to be a solution to an audit recommendation has introduced manual processes through disparate systems and elevated the significance of risks on multiple fronts highlighted throughout (1) financial and administrative controls established pursuant to the Act, (2) the fraud risk principle in the Standards for Internal Control in the Government, and (3) OMB Circular A-123. The Agency is currently working to resolve these matters and manage to these risks.

<b>General Control Environment Total (Maximum of 35)</b>		<b>9</b>	
<b>Risk based on Control Environment Score and Management's Assessment Rank</b>		Low	( 1- 15)
If rank varies from suggested range based on total, provide justification of management's assessment.			
<b>Section III - Combined Assessment</b>			
<b>III.1</b>	<b>Preliminary Assessment of Safeguards</b>	<b>Value</b>	<b>Assessment</b>
	Controls in place adequately cover known internal and external risks.	(1)	3
	Some controls in place do not adequately cover known internal and external risks.	(3)	
	There are no existing controls in place.	(5)	
	<b>Inherent Risk Total (Maximum of 45 )</b>		<b>25</b>
	<b>General Control Environment Total (Maximum of 35)</b>		<b>9</b>
	<b>Combined Assessment (Maximum of 85)</b>		<b>37</b>
<b>MIC Combined Assessment Score and Management's Assessment Rank</b>		Low	( 1-38)
New management and leadership is currently assessing. Objective is to gain increased effectiveness in accordance with Agency's new short term Strategic Plan, published July 2018. The AFRH is under both new management and new leadership. We are just beginning our assessment of controls, oversight management and performance expectations, and beginning to revamp organizational structures and management activities. It is difficult at this time to assess and answer accurately each of the listed items under these circumstances. Too, because the operations have been in place for a long period of time and well controlled, the outcomes have been effective in most areas, but not everything has been assessed (historically or currently) the way it is presented here.			

## DEFERRED MAINTENANCE

Starting in FY 2015, OMB required agencies to disclose their deferred maintenance procedures to identify, categorize and prioritize maintenance and repairs. AFRH manages its capital improvement budget through an Investment Review Board (IRB) that manages capital improvement projects, reviews requests, prioritizes projects and approves funding for AFRH's capital investments and major acquisitions. AFRH Capital Investments include capital assets such as land, structures, equipment and intellectual property (e.g., software) that have an estimated dollar value or cost



of at least \$50,000 and a useful life of at least two years. The cost of a capital asset includes both its purchase price and all other costs incurred to prepare for its intended use and location.

## MANAGEMENT ASSURANCES

The following letters provide the agency head's annual statement of assurance required under the Federal Managers' Financial Integrity Act (FMFIA) for fiscal year 2018.



**Armed Forces Retirement Home  
700 North Capitol Street, N.W.  
Washington, D.C. 20011-8400**

DATE: September 25, 2018

FROM: James M. Branham, Chief Operating Officer

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal year 2018

As Chief Operating Officer of the **Armed Forces Retirement Home (AFRH)**, I recognize the **Agency** is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. The **AFRH** conducted its assessment of risk and internal controls in accordance with the OMB Circular No. A-123, *Management's Responsibility for Risk Management and Internal Control* and the Green Book, GAO-14-704G, *Standards for Internal Control in the Federal Government*. Based on the results of the assessment, and particularly the findings under DODIG-2018-077, dated February 2018, the **AFRH** can provide reasonable assurance, except for the material weakness(es) noted in these reports on the effectiveness of internal controls over operations, reporting, and compliance as of September 30, 2018.

A new management and leadership team are now in place and responsible for directly attending the concerns raised in the audit conducted by the Office of the Inspector General. Given the significance of these findings we would be remiss not to consider that these findings likely translate or otherwise impact the effectiveness of **AFRH** controls and its management through operations, reporting and compliance. Our early assessments indicate this is the case.

- **ICO:** The **AFRH** conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The Internal Control Evaluation section provides specific information on how the **AFRH** conducted this assessment. Based on the results of the assessment, and **as reported through DODIG-2018-077, the AFRH can provide reasonable assurance, except for the material weakness(es) identified in these reports, on the effectiveness of internal controls over operations, reporting, and compliance as of September 30, 2018.**
- **ICOFR:** The **AFRH** conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financials reporting) in accordance with OMB Circular No. A-123, Appendix A. The "*Internal Control Evaluation*" section, provides specific information on how the **AFRH** conducted this assessment, and as reported through DODIG-2018-077. Based on the results of the assessment and particularly the audit, the **AFRH** provided reasonable assurance, except for the material weakness(es) as reported through DODIG-2018-077, on the effectiveness of internal controls over operations, reporting (including internal and external reporting) as of September 30, 2018), and compliance.
- **ICOFs:** The **AFRH** conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FFMIA of 1996 (Public Law 104-208) and OMB Circular No. A-123, Appendix D. The "*Internal Control Evaluation*" section which provides specific information on how the **AFRH** conducted this assessment.

Based on the results of this weakness(es) as reported through DODIG-2018-077 the internal controls over the financial systems are in compliance with the FFMLA and OMB Circular No. A-123, Appendix D. as of September 30, 2018.

My point of contact is Nancy Anne Baugher, Managing Director for Finance and Administration. She can be reached at (202) 541-7530, email [nancy\\_anne.baugher@AFRH.gov](mailto:nancy_anne.baugher@AFRH.gov). if there are questions regarding this Statement of Assurance for Fiscal Year 2018.

Signed   
James M. Branham, Chief Operating Officer, AFRH



**Armed Forces Retirement Home  
3700 North Capitol Street, N.W.  
Washington, DC 20011-8400**

*Appendix D – Internal Control Evaluation Template*

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The Armed Forces Retirement Home's (AFRH) mission is to fulfill our nation's commitment to its veterans by providing a premier retirement community with exceptional residential care and extensive support services.

The Armed Forces Retirement Home (AFRH) is an independent Agency in the Executive branch of the US Government. The AFRH provides residences and related services through two Campus communities in Gulfport, MS (AFRH-G) and Washington, DC (AFRH-W), with a corporate Headquarters (HQ) component in Washington DC that oversees both, and serving certain retired and former members of the US Armed Forces (24 US Code 10, Subchapter 411). The Chief Operating Officer (COO) is the head of the Agency.

AFRH corporate HQ management evaluated the system of internal control in effect during the fiscal year as of the date of this memorandum, according to the guidance in OMB Circular No. A-123 and the GAO Green Book. Included is our evaluation of whether the system of internal control for AFRH is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal control of AFRH are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the FMFIA.

The evaluation of internal controls extends to every responsibility and activity undertaken by AFRH and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

**Internal Control Evaluation-Management Control Testing**

AFRH management evaluated the system of internal control in accordance with the guidelines

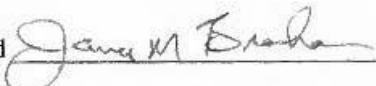
identified above. The results indicate that the system of internal control of AFRH, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding section.

**Conclusion on Overall Assessment of Internal Control**

A new management and leadership team was instituted over the course of this past year. The team members are now in place and responsible for directly attending the concerns raised in an audit conducted by the Office of the Inspector General (DODIG-2018-077), along with other reviews and findings. Given the significance of the findings we would be remiss not to consider that this information likely translates or otherwise impacts the effectiveness of AFRH controls and its management of them through operations, reporting and compliance. Our early assessments indicate that this is the case, and given our late entry into the fiscal year, our approach was to use the "Internal Control Evaluation" form and format used at the Department level for the effectiveness of internal controls over operations, reporting, and compliance as of September 30, 2018 and suffices as a starting place in the absence of a formal assessment otherwise conducted for FY18.

It is important to note that there exist many underlying strengths within the AFRH through policy, practice and people and that supports an effective internal control framework, historically well controlled, and with outcomes generally effective in most areas. New performance expectations, organizational structures, process and management activities, however, are in transition to ensure the AFRH's sustainable future and not everything has been assessed (historically or currently) within the window of these organizational changes. Finally, "moderately effective" suggests that it appears controls are working but these have yet to be tested. Management is therefore cautiously optimistic that controls are properly in place.

Overall Evaluation of a System of Internal Control	
Overall Evaluation	Operating Effectively (Yes/No)
Is the overall system of internal control effective? Yes, moderately effective	

Signed   
James Branham, Chief Operating Officer

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# ACKNOWLEDGMENTS

Thank you for your interest in AFRH. This annual report was produced with the energies and talents of the AFRH staff. To the dedicated staff of the AFRH, our sincere thanks.

To achieve its mission, AFRH relies on dedicated partners who donate their time, talents, goods and services as well as materials for construction and repairs. Management is grateful to so many people for their support: the AFRH Residents, the AFRH staff, America's active duty service members and military retirees, area school children, local churches, associations, clubs, commercial retailers, major corporations and military service organizations. These fine organizations provide vital support, invest numerous hours at AFRH and always lend a hand. This extended community is a wonderful part of the AFRH.

A PDF of this report is available on the AFRH Website:

<https://www.afrh.gov/PAR/2018PAR>

Submit Suggestions and Comments to:

AFRH Chief Financial Officer  
Sherman Building  
3700 N. Capitol Street, NW  
Washington, DC 20011

Learn How to Support AFRH Programs:

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