



Administration/Finance

17050 Arnold Drive · Riverside, California · 92518 · 951-697-2000 · Fax: 951-697-2842 · www.afvw.com

AIR FORCE VILLAGE WEST IS A TAX EXEMPT, NOT-FOR-PROFIT, PUBLIC BENEFIT CORPORATION

CA RCPE License #330907913 · License #25-0000-347 · Certificate 165

Certification by Chief Executive Officer

April 30, 2013

I, Brig. Gen. James L. Melin, USAFR, Ret, assert the following:

1. The information in this annual report, along with all attachments and amendments, are correct to the best of my knowledge.
2. All continuing care contracts in use at the Village have been approved by the California Department of Social Services.
3. As of the date of this certification, Air Force Village West, Inc. currently meets the required Liquidity Reserve as well as the required Refund Reserve.

APRIL 24, 2013

James L. Melin

Date

RECEIVED

APR 29 2013

CONTINUING CARE
CONTRACTS BRANCH

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- I. Annual Provider Fees
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- V. Liquid Reserves
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FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	518
[2]	Number at end of fiscal year	473
[3]	Total Lines 1 and 2	991
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	495.5
All Residents		
[6]	Number at beginning of fiscal year	545
[7]	Number at end of fiscal year	498
[8]	Total Lines 6 and 7	1,043
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	521.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	95.01

FORM 1-2
ANNUAL PROVIDER FEE

Line	TOTAL
[1] Total Operating Expenses (including depreciation and debt service – interest only)	29,159,532
[a] Depreciation	3,916,613
[b] Debt Service (Interest Only)	3,359,381
[2] Subtotal (add Line 1a and 1b)	7,275,994
[3] Subtract Line 2 from Line 1 and enter result.	21,883,538
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	95.01
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	20,792,508.30
[6] Total Amount Due (multiply Line 5 by .001)	x .001 20,792.51

PROVIDER: Air Force Village West, Inc.
 COMMUNITY: _____



Wrap+SM
for Non-Profit Organizations
Crime

DECLARATIONS

POLICY NO: 104637473

Travelers Casualty and Surety Company of America
Hartford, CT 06183
(A Stock Insurance Company, herein called the Company)

THE LIABILITY COVERAGES ARE WRITTEN ON A CLAIMS-MADE BASIS. THE LIABILITY COVERAGES COVER ONLY CLAIMS FIRST MADE AGAINST INSUREDS DURING THE POLICY PERIOD. THE LIMIT OF LIABILITY AVAILABLE TO PAY SETTLEMENTS OR JUDGMENTS WILL BE REDUCED BY DEFENSE EXPENSES, AND DEFENSE EXPENSES WILL BE APPLIED AGAINST THE RETENTION. THE COMPANY HAS NO DUTY TO DEFEND ANY CLAIM UNLESS DUTY-TO-DEFEND COVERAGE HAS BEEN SPECIFICALLY PROVIDED HEREIN.

ITEM 1	NAMED INSURED: Air Force Village West, Inc. D/B/A: Principal Address 17050 Arnold Drive RIVERSIDE, CA 92518
ITEM 2	POLICY PERIOD: ✓ Inception Date: November 9, 2010 Expiration Date: November 9, 2011 12:01 A.M. standard time both dates at the Principal Address stated in ITEM 1.
ITEM 3	ALL NOTICES OF CLAIMS OR LOSS TO THE COMPANY MUST BE ADDRESSED TO: Travelers Bond Vice President of Claims One Tower Square, 4PB Hartford, CT 06183-9062
ITEM 4	COVERAGE INCLUDED AS OF THE INCEPTION DATE IN ITEM 2: <input checked="" type="checkbox"/> Crime

ITEM 5



Crime		
Insuring Agreement	Single Loss Limit of Insurance	Single Loss Retention
A. Fidelity		
1. Employee Theft	\$1,000,000.00	\$25,000.00
2. ERISA Fidelity	\$1,000,000.00	\$0.00
3. Employee Theft of Client Property	Not Covered	\$0.00
B. Forgery or Alteration	\$1,000,000.00	\$25,000.00
C. On Premises	\$10,000.00	\$1,000.00
D. In Transit	\$10,000.00	\$1,000.00
E. Money Orders and Counterfeit Money	Not Covered	\$0.00
F. Computer Crime		
1. Computer Fraud	\$1,000,000.00	\$25,000.00
2. Computer Program and Electronic Data Restoration Expense	\$100,000.00	\$2,500.00
G. Funds Transfer Fraud	\$1,000,000.00	\$25,000.00
H. Personal Accounts Protection		
1. Personal Accounts Forgery or Alteration	\$1,000,000.00	\$25,000.00
2. Identity Fraud Expense Reimbursement	Not Covered	\$0.00
I. Claim Expense	\$5,000.00	\$0.00

If "Not Covered" is inserted above opposite any specified Insuring Agreement, or if no amount is included in the Limit of Insurance, such Insuring Agreement and any other reference thereto is deemed to be deleted from this Crime Policy.

Policy Aggregate Limit of Insurance: Applicable Not Applicable

If a Policy Aggregate Limit of Insurance is applicable, then the Policy Aggregate Limit of Insurance for each Policy Period is:

If a Policy Aggregate Limit of Insurance is not included, then this Crime Policy is not subject to a Policy Aggregate Limit of Insurance as set forth in Section V. CONDITIONS B. PROVISIONS AFFECTING LOSS ADJUSTMENT AND SETTLEMENT 1. Limit of Insurance a. Policy Aggregate Limit of Insurance.

Cancellation of Prior Insurance:

By acceptance of this Crime Policy, you give us notice canceling prior policies or bonds issued by us that are designated by policy or bond numbers 103223027 such cancellation to be effective at the time this Crime Policy becomes effective.

ITEM 6

FORMS AND ENDORSEMENTS ATTACHED AT ISSUANCE:
 CRI-3001-0705; CRI-5005-1207; CRI-7008-0705; CRI-7036-0706; CRI-7088-0207

The Declarations, the Application, the Crime Terms and Conditions, any purchased Insuring Agreements, and any endorsements attached thereto, constitute the entire agreement between the Company and the Insured.

Countersigned By
(where applicable)

NPC-2001-0705

**Travelers Casualty and Surety Company of America
Hartford, Connecticut
(A Stock Insurance Company, herein called the Company)**

<p>ITEM 1</p>	<p>NAMED INSURED:</p> <p>Air Force Village West, Inc.</p> <p>D/B/A:</p> <p>Principal Address: 17050 Arnold Drive RIVERSIDE, CA 92518</p>
<p>ITEM 2</p>	<p>POLICY PERIOD:</p> <p>Inception Date: November 9, 2011 Expiration Date: November 9, 2012 12:01 A.M. standard time both dates at the Principal Address stated in ITEM 1.</p>
<p>ITEM 3</p>	<p>ALL NOTICES OF CLAIM OR LOSS MUST BE SENT TO THE COMPANY BY EMAIL, FACSIMILE, OR MAIL AS SET FORTH BELOW:</p> <p>Email:bfclaims@travelers.com FAX:(888) 460-6622</p> <p>Mail:Travelers Bond & Financial Products Claim 385 Washington St. – Mail Code 9275-NB03F St Paul, MN 55102</p>
<p>ITEM 4</p>	<p>COVERAGE INCLUDED AS OF THE INCEPTION DATE IN ITEM 2:</p> <p>Crime</p>

ITEM 5

CRIME		
Insuring Agreement	Single Loss Limit of Insurance	Single Loss Retention
A. Fidelity		
1. Employee Theft	\$1,000,000	\$25,000
2. ERISA Fidelity	\$1,000,000	\$0
3. Employee Theft of Client Property	Not Covered	
B. Forgery or Alteration	\$1,000,000	\$25,000
C. On Premises	\$10,000	\$1,000
D. In Transit	\$10,000	\$1,000
E. Money Orders and Counterfeit Money	Not Covered	
F. Computer Crime		
1. Computer Fraud	\$1,000,000	\$25,000
2. Computer Program and Electronic Data Restoration Expense	\$100,000	\$2,500
G. Funds Transfer Fraud	\$1,000,000	\$25,000
H. Personal Accounts Protection		
1. Personal Accounts Forgery or Alteration	\$1,000,000	\$25,000
2. Identity Fraud Expense Reimbursement	Not Covered	
I. Claim Expense	\$5,000	\$0

**AIR FORCE VILLAGE WEST, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010**

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Michael R. Adcock, CPA
Shannon M. Carlson, CPA
Linda S. Devlin, CPA
Andrew Steinke, CPA

Of Counsel
Thomas E. Ahern, CPA
Nora L. Teasley, CPA

A California Limited Liability Partnership
Certified Public Accountants



AHERN·ADCOCK·DEVLIN·LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Members
American Institute of
Certified Public Accountants
Private Companies
Practice Section
Employee Benefit Plan
Audit Quality Center
Governmental Audit
Quality Center
California Society of
Certified Public Accountants

Independent Auditors' Report

To the Audit Committee and Board of Directors
Air Force Village West, Inc.

We have audited the accompanying consolidated statements of financial position of Air Force Village West, Inc. and Subsidiary (the "Company") (a nonprofit organization) as of December 31, 2011 and 2010 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ahern Adcock Devlin LLP

Riverside, California
December 28, 2012

AIR FORCE VILLAGE WEST, INC.
and Subsidiary
Consolidated Statements of Financial Position

	December 31,	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	\$	4,488,480	\$ 1,923,051
Assets whose use is limited (Note 2)		691,147	3,105,337
Receivables, net		2,812,785	3,786,629
Prepaid expenses and other current assets		<u>1,407,696</u>	<u>1,386,312</u>
Total current assets		9,400,108	10,201,329
Assets whose use is limited		35,805,967	40,406,260
Debt issuance costs, net of accumulated amortization of \$645,535 and \$582,607 in 2011 and 2010, respectively		1,243,591	1,305,419
Property, plant, and equipment, net		<u>68,058,641</u>	<u>70,834,043</u>
Total assets		<u>\$114,508,307</u>	<u>\$122,747,051</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts and construction cost payable	\$	940,401	\$ 1,027,356
Accrued liabilities		1,349,097	1,131,335
Deposit liabilities		292,817	233,552
Current portion of long-term debt		<u>2,105,000</u>	<u>1,995,000</u>
Total current liabilities		4,687,315	4,387,243
Contingent rebatable arbitrage		52,586	32,602
Deposit liabilities		452,013	581,405
Refundable entrance fees		8,359,367	8,814,446
Deferred entrance fee revenue		28,392,056	31,956,627
Long-term debt (Note 6)		<u>67,584,059</u>	<u>69,678,720</u>
Total liabilities		109,527,396	115,451,043
Net assets			
Unrestricted		4,871,397	7,192,308
Temporarily restricted		84,514	78,700
Permanently restricted		<u>25,000</u>	<u>25,000</u>
Total net assets		4,980,911	7,296,008
Total liabilities and net assets		<u>\$114,508,307</u>	<u>\$122,747,051</u>

The accompanying notes are an integral part of these consolidated financial statements.

AIR FORCE VILLAGE WEST, INC.
and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31,	2011	2010
UNRESTRICTED NET ASSETS		
Operating revenues		
Resident fees earned, including amortization of deferred revenue of \$5,696,775 and \$5,581,864 in 2011 and 2010, respectively	\$23,070,564	\$23,536,950
Patient revenues from nonresidents	2,621,505	2,457,016
Other operating revenues	32,956	65,645
Total operating revenues	25,725,025	26,059,611
Net assets released from restrictions	19,343	8,171
Total operating revenues and reclassifications	25,744,368	26,067,782
Operating expenses		
Resident services	2,436,597	2,475,740
Food services	4,110,484	3,926,670
Health care	6,865,486	6,209,158
General and administrative	5,503,191	4,898,844
Marketing, advertising, and promotion	608,357	606,816
Plant facility	2,359,423	2,154,262
Depreciation and amortization	3,916,613	4,063,937
Total operating expenses	25,800,151	24,335,427
Excess (deficit) of operating revenues over (under) operating expenses	(55,783)	1,732,355
Nonoperating revenues (expenses)		
Contributions	317,847	265,083
Investment income	1,303,077	2,472,060
Interest expense	(3,359,381)	(3,296,869)
Gain on termination of swap		271,884
Gain on sale of investments	1,472,045	895,269
Gain (loss) on disposal of property, plant, and equipment	753	(9,656)
Total nonoperating revenues (expenses)	(265,659)	597,771
Excess (deficit) of revenues over expenses	(321,442)	2,330,126
Unrealized gain (loss) on investments, net	(1,999,469)	1,886,299
Increase (decrease) in unrestricted net assets	(2,320,911)	4,216,425

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Consolidated Statements of Activities and Changes in Net Assets

<u>For the Years Ended December 31,</u>	<u>2011</u>	<u>2010</u>
Increase (decrease) in unrestricted net assets	<u>\$(2,320,911)</u>	<u>\$ 4,216,425</u>
TEMPORARILY RESTRICTED NET ASSETS		
Support		
Contributions	24,615	19,793
Investment income	<u>542</u>	<u>468</u>
Total support	25,157	20,261
Net assets released from restrictions	<u>(19,343)</u>	<u>(8,171)</u>
Increase in temporarily restricted net assets	<u>5,814</u>	<u>12,090</u>
Change in net assets	(2,315,097)	4,228,515
Net assets, beginning of year	<u>7,296,008</u>	<u>3,067,493</u>
Net assets, end of year	<u>\$ 4,980,911</u>	<u>\$ 7,296,008</u>

The accompanying notes are an integral part of these consolidated financial statements.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (2,315,097)	\$ 4,228,515
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of deferred entrance fee revenue	(5,696,775)	(5,581,864)
Depreciation	3,853,685	4,001,010
Amortization of debt issuance costs	62,928	62,928
Amortization of original issuance discount	10,339	10,340
(Gain) loss on disposal of property, plant, and equipment	(753)	9,656
Realized and unrealized (gain) loss on investments, net	527,424	(2,781,568)
Change in hedged fixed rate bond valuation, net		(180,041)
Change in interest rate swap valuation, net		(91,843)
Changes in assets and liabilities:		
(Increase) decrease in receivables	973,844	(196,820)
(Increase) decrease in prepaid expenses and other current assets	(21,384)	22,089
Increase (decrease) in accounts and construction cost payable	(86,955)	60,514
Decrease in accrued liabilities	217,762	56,232
Decrease in current deposit liabilities	<u>59,265</u>	<u>86,252</u>
Net cash used in operating activities	<u>(2,415,717)</u>	<u>(294,600)</u>
Cash flows from investing activities		
Proceeds from sale of fixed assets		18,000
Proceeds from sale of investments	57,303,425	54,361,172
Purchase of investments	(50,816,712)	(52,713,584)
Acquisition of property, plant, and equipment	<u>(1,078,284)</u>	<u>(968,594)</u>
Net cash provided by investing activities	<u>5,408,429</u>	<u>696,994</u>
Cash flows from financing activities		
Increase in contingent rebatable arbitrage	19,984	32,602
Decrease in deposit liabilities	(129,392)	(171,537)
Refunds of entrance fees	(803,476)	(1,763,537)
Proceeds from entrance fees	2,480,601	3,600,079
Repayment of long-term debt	<u>(1,995,000)</u>	<u>(1,890,000)</u>
Net cash used in financing activities	<u>(427,283)</u>	<u>(192,393)</u>
Increase in cash and cash equivalents	2,565,429	210,001
Cash and cash equivalents, beginning of year	<u>1,923,051</u>	<u>1,713,050</u>
Cash and cash equivalents, end of year	<u>\$ 4,488,480</u>	<u>\$ 1,923,051</u>
Supplemental disclosures		
Cash paid for interest	\$3,346,164	\$3,305,634

The accompanying notes are an integral part of these consolidated financial statements.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Air Force Village West, Inc. (the "Company") was incorporated in the State of California on September 21, 1984. The primary purpose of the Company is to operate a resident and health care facility in Riverside, California for officers of the United States uniformed services, who have been retired or honorably separated from active duty, their spouses and qualified dependents. The first phase of the facility was substantially completed in December 1989 and began operations at that time. The second and third phases of the facility were completed in October 1993 and July 1997, respectively. In 2007, construction was completed on phase four of the expansion of facilities which added 35 cottages, 15 assisted living units and 17 special care units, along with various renovations and improvements to existing facilities.

The Air Force Village West Foundation (the "Foundation") was formed as a nonprofit public benefit corporation on October 3, 2005. The Foundation was created to provide financial, administrative, programmatic, and other forms of support to Air Force Village West, Inc. The Foundation has one member, Air Force Village West, Inc.

Consolidated Financial Statements

The financial statements include the accounts of the Company and its subsidiary, Air Force Village West Foundation. All significant intercompany transactions and accounts are eliminated.

Financial Statement Presentation

The Company reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets include resources that are not temporarily or permanently restricted by donor and are available for operations of the Company without limit. Unrestricted net assets also include resources restricted by donor-imposed criteria for which the restrictions are met within the same time period as the funds were received.

Temporarily restricted net assets include those resources whose use is restricted by donor-imposed criteria that either expire with the passage of time or by actions of the Company.

Permanently restricted net assets result generally from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Company.

Cash Equivalents

Cash equivalents consist of investments with an original maturity of three months or less.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Assets Whose Use is Limited

Cash and investments restricted as to use under the terms of the Certificates of Participation trust agreement, California Department of Social Services statutes, and for contributions received for the chapel maintenance fund are classified as assets whose use is limited.

The Company applies the provisions of Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) No. 958, *Not-for-Profit Entities*. FASB ASC No. 958 requires not-for-profit organizations to report investments in marketable equity securities with readily determinable fair values and all debt securities at fair, or market, value in the statement of financial position. The Company reports its investments at market value, using quoted market prices.

Investment income, including interest, dividends, and realized gains and losses on investments, are included in nonoperating revenues (expenses).

Receivables

The Company receives monthly fees from residents during their residency. These monthly fees are subject to annual increases at the discretion of the board of directors. Substantially all receivables arising from these monthly fees are secured by fees paid upon entrance. Fees not paid within 30 days are considered past due.

The Company also receives payment for services rendered to patients from the federal government under the Medicare program. Management does not believe that there are any credit risks associated with receivables from this governmental agency. In compliance with the Balanced Budget Act of 1997, the Company uses the Prospective Payment System (PPS) for skilled nursing facilities, whereby routine service, ancillary, and capital related costs are combined to determine a case-mix per diem rate according to resident care classifications.

Doubtful accounts are accounted for under the allowance method. Accounts are deemed delinquent if not paid within 60 days of the due date. If accounts are not paid within this time period, the Company proceeds with collection actions.

Contributions

Contributions are recognized when the donor makes a promise to give to the Company that is unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met within the same reporting period. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

Property, Plant, and Equipment

Property, plant, and equipment in excess of \$500 are recorded at cost, or at fair value if donated. Upon sale or retirement, the cost and related accumulated depreciation is removed from the accounts and any gain or loss is included in the change in unrestricted net assets. Depreciation is provided on the straight-line basis over estimated useful lives of three to forty years.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments and Risk Management

The Company has certain long-term fixed rate debt obligations, the market value of which is subject to fluctuations due to changes in interest rates. Company policy allows for the use of certain derivative financial instruments to manage exposure to such interest rate fluctuations. The Company's derivative activities are subject to the direction and control of management and are presented to the board of directors at least annually. The Company reports derivative financial instruments at fair value. Changes in fair value are reported in current earnings. The derivative financial instrument held by the Company was terminated on December 1, 2010 and was not replaced.

Debt Issuance Costs

Issuance costs associated with the Certificates of Participation and Revenue Bonds are amortized using the straight-line method over the lives of the issues of 30 years.

Refundable Entrance Fees and Deferred Entrance Fee Revenue

Fees paid by residents upon entering into a continuing care contract (entrance fees), net of the portion that is refundable to the residents, are recorded as deferred revenue and amortized into income using the straight-line method over the actuarially determined estimated remaining life expectancy of each resident or joint and last survivor life expectancy of each pair of residents occupying the same unit. The portion of the entrance fees that is estimated to be refundable to the residents is reflected as a liability on the consolidated statements of financial position.

Advertising Costs

The Company uses advertising to promote its facility and services within the community it serves. The costs of advertising are expensed as incurred. During 2011 and 2010, advertising costs totaled \$138,800 and \$143,449, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Educational scholarships for AFVW employees or their children and staff assistance	\$37,942	\$39,066
Chapel O & M Fund	26,572	19,634
Medical education	12,000	12,000
Medical equipment	8,000	8,000
	\$84,514	\$78,700

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds to be held indefinitely, the income from which is restricted to the provision of employee assistance.

Income Taxes

The Company has received a determination from the Internal Revenue Service exempting it from federal income tax under Code Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service further determined that the Company is not a private foundation within the meaning of Section 509(a)(2) of the Code. The Company is exempt from state taxation under California Revenue and Taxation Code Section 23701(d).

As required by FASB ASC No. 740, *Income Taxes*, the Company evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Company's continued qualifications as a tax-exempt organization and whether there is unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Company is no longer subject to United States federal or state examinations by tax authorities for the years before 2008 and 2007, respectively. During 2011 and 2010, the Organization did not recognize any interest or penalties associated with any tax positions.

Obligation to Provide Future Services

The Company annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred entrance fee revenue. The calculation assumes a discount rate of approximately 5.50 percent, based on the expected long-term rate of return on investments. If the present value of the net cost of future services and use of facilities exceeds the deferred entrance fee revenue, a liability is recorded with a corresponding charge to expense. As of December 31, 2011 and 2010, the present value of the net cost of future services and use of facilities did not exceed the deferred revenue from entrance fees and, accordingly, no liability has been recorded.

Employee Benefit Plans

In 2000, the Company adopted a 403(b) plan for all employees. Employer contributions are made for employees upon attainment of age eighteen and completion of a three-month probationary period. Employer contributions for eligible employees' elective deferrals are made at a rate equal to 50 percent of up to four percent of compensation. The employer matching rate can be altered on an annual basis. Vesting of employer contributions is based on months of service, with 84 months of service required for full vesting. At the end of the second quarter in 2009, the Company suspended its matching provision for this plan, and the Company did not make contributions for the years ended December 31, 2011 and 2010.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Company has cash in financial institutions which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. Beginning December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. At various times throughout the year, the Company may have cash balances in financial institutions on a periodic basis and does not believe this concentration of cash results in a high level of risk for the Organization.

The Company entered into a swap agreement in 1999 which was restructured in 2004. The term of the restructured swap was to terminate June 1, 2029; however, the counterparty terminated the swap effective December 1, 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

2. Assets Whose Use is Limited

Assets whose use is limited consisting of restricted cash and investments associated primarily with refundable entrance fees and the Certificates of Participation are as follows:

	<u>2011</u>	<u>2010</u>
Entrance fee funds	\$21,830,829	\$29,517,690
Refund reserve funds	6,980,789	6,591,205
Entrance fee deposits	709,030	776,657
Priority deposits	35,800	38,300
Debt service	6,923,717	6,573,503
Restricted funds	16,949	14,242
	<u>36,497,114</u>	<u>43,511,597</u>
Less current requirements	691,147	3,105,337
	<u>\$35,805,967</u>	<u>\$40,406,260</u>

The debt service fund amounts are held by U.S. Bank, trustee for the Certificates of Participation issued in 1999 and the variable rate demand revenue bonds issued in 2005.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

2. Assets Whose Use is Limited (Continued)

Restricted cash and investments by class are summarized as follows at December 31:

	2011		
	Original Cost	Unrealized Gain (Loss)	Market Value
Cash and cash equivalents	\$ 1,658,788		\$ 1,658,788
Corporate bonds	4,277,003	\$ 177,018	4,454,021
Government bonds	4,329,869	6,441	4,336,310
Federal agencies	4,338,090	102,113	4,440,203
Collateralized mortgage obligations	1,272,245	30,392	1,302,637
GNMA, FNMA, and FHLMC mortgage backed-pools	3,539,743	154,444	3,694,187
Bonds – foreign	637,726	(746)	636,980
Equity securities – domestic	10,425,356	1,026,986	11,452,342
Equity securities – foreign	1,902,324	206,839	2,109,163
Mutual funds	4,016,744	(1,604,261)	2,412,483
	<u>\$36,397,888</u>	<u>\$ 99,226</u>	<u>\$36,497,114</u>

	2010		
	Original Cost	Unrealized Gain (Loss)	Market Value
Cash and cash equivalents	\$ 3,285,052		\$ 3,285,052
Corporate bonds	3,918,342	\$ 229,003	4,147,345
Government bonds	4,478,100	26,836	4,504,936
Federal agencies	4,501,838	(55,351)	4,446,487
Collateralized mortgage obligations	1,032,887	6,769	1,039,656
GNMA, FNMA, and FHLMC mortgage backed-pools	3,508,852	134,977	3,643,829
Bonds – foreign	714,538	5,175	719,713
Equity securities – domestic	14,116,683	2,474,269	16,590,952
Equity securities – foreign	1,919,067	395,624	2,314,691
Mutual funds	3,937,197	(1,118,261)	2,818,936
	<u>\$41,412,556</u>	<u>\$2,099,041</u>	<u>\$43,511,597</u>

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

3. Receivables

Receivables at December 31, 2011 and 2010 are as follows:

	2011	2010
Residents – current (net of allowance for doubtful accounts for 2011 and 2010 of \$688,627 and \$418,627, respectively)	\$2,168,739	\$2,940,934
Residents – entrance fees	425,095	576,426
Interest	194,982	249,859
Pledges receivable – Foundation	14,050	17,500
Other	9,919	1,910
	<u>\$2,812,785</u>	<u>\$3,786,629</u>

The pledge receivable is expected to be received within one year.

4. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	Useful Life	2011	2010
Land		\$ 1,784,643	\$ 1,784,643
Land improvements	20 years	24,561,142	24,548,556
Building and improvements	7 to 40 years	87,191,344	86,894,139
Furniture, fixtures, and equipment	3 to 10 years	11,805,977	10,706,526
Construction in progress		754,700	1,085,658
		126,097,806	125,019,522
Less accumulated depreciation		<u>58,039,165</u>	<u>54,185,479</u>
		<u>\$ 68,058,641</u>	<u>\$ 70,834,043</u>

5. Deposit Liabilities

Deposits at December 31, 2011 and 2010 are as follows:

	2011	2010
Rental deposits	\$ 57,321	\$ 41,092
Priority deposits	35,800	38,300
Entrance fee deposits	651,709	735,565
	744,830	814,957
Less current portion	<u>292,817</u>	<u>233,552</u>
	<u>\$452,013</u>	<u>\$581,405</u>

Rental deposits represent a portion of monthly rent and a one-time community fee paid by individuals renting a residence within the Company. Renters that become permanent residents within twenty-four months have these amounts applied to their entry fee. If the renter does not become a permanent resident within twenty-four months, these amounts become nonrefundable and are recognized as revenue.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

5. Deposit Liabilities (Continued)

Priority deposits represent those amounts paid by prospective residents to reserve a position on the waiting list for available units. Priority deposits are fully refundable; however, interest earned on the deposits is retained by the Company. The Company held approximately 26 and 28 priority deposits at December 31, 2011 and 2010, respectively.

Prospective residents are required to make deposits for the residency plan selected. When the individual moves into the facility, the deposit is applied toward the entrance fee. The Company had 36 and 32 entrance fee deposits as of December 31, 2011 and 2010, respectively.

6. Long-Term Debt

Long-term debt consists of the following at December 31:

	2011	2010
1999 Certificates of Participation (net of original issue discount of \$180,941 and \$191,280, respectively)	\$48,914,059	\$50,413,720
Variable rate demand revenue bonds, series 2005	<u>20,775,000</u>	<u>21,260,000</u>
	69,689,059	71,673,720
Less current maturities	<u>2,105,000</u>	<u>1,995,000</u>
	<u>\$67,584,059</u>	<u>\$69,678,720</u>

In June 29, 1999, tax exempt Certificates of Participation (the "1999 Certificates") totaling \$62,790,000 were issued to (i) fund an advance refunding escrow for \$59,510,000 principal amount of 1992 Certificates of Participation (the "1992 Certificates"); (ii) fund certain trustee-held accounts; and (iii) pay expenses of issuing the 1999 Certificates. The 1999 Certificates bear interest at rates ranging from 5.00 percent to 5.80 percent payable semiannually. The 1999 Certificates consist of \$5,760,000 serial certificates due in varying amounts commencing May 2000 through May 2005, and term certificates of \$5,000,000, \$18,700,000, and \$33,330,000 due May 2009, May 2019, and May 2029, respectively. The term certificates require annual mandatory sinking fund payments in various amounts prior to maturity. The Installment Sales Agreement, which represents the contracted loan amount between the Company and the Riverside County Public Financing Authority, contains, among other items, provisions regarding maintenance of an acceptable debt service coverage ratio (1.20 to 1), liquidity covenants, additional indebtedness, and maintenance of trustee-held funds. See Note 2.

Security for the 1999 Certificates consists of a Pledge of Gross Revenue perfected by a filing or notice under the Uniform Commercial Code of the State and Deed of Trust, on the facility including real property.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

6. Long-Term Debt (Continued)

In April 2005, variable rate demand revenue bonds (Series 2005) in the amount of \$23,000,000 were issued through ABAG Finance Authority for Nonprofit Corporations, maturing in 2035 and secured by a Letter of Credit provided by KBC Bank N.V., New York Branch (KBC). The bonds have interest rates initially calculated on a weekly mode. While on the weekly mode, the rate cannot exceed 10 percent per annum. Interest rates were 2.0 percent and .39 percent at December 31, 2011 and 2010, respectively. The Reimbursement, Credit and Security Agreement for the LOC contains, among other items, covenants regarding maintenance of acceptable debt service coverage ratios (1.25 to 1), liquidity covenants and maintenance of occupancy levels for Residential Living (90 percent).

The Letter of Credit (LOC) provided by KBC was due to expire April 15, 2008. Subsequent to December 31, 2007, KBC granted an extension of the LOC from April 15, 2008 to April 15, 2010. Subsequent to April 15, 2010, KBC has granted extensions at varying intervals through 2011 and 2012, with the most recent extension expiring June 15, 2013.

At December 31, 2011 and 2010, the Company did not meet the Debt Service Coverage Ratio requirement under the 1999 Certificates and did not meet the Debt Service Coverage Ratio and occupancy requirement of the (Series 2005) bonds. The Company has obtained waivers for the noncompliant covenants from the 1999 Certificate Holders and KBC for the Letter of Credit for years 2011 and 2010.

Scheduled annual principal maturities of the 1999 Certificates and 2005 revenue bonds in each of the five years and in aggregate subsequent to December 31, 2011 are as follows:

For the years ending December 31,	
2012	\$ 2,105,000
2013	2,215,000
2014	2,340,000
2015	2,475,000
2016	2,610,000
Thereafter	<u>58,125,000</u>
	<u>\$69,870,000</u>

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

7. Derivative Financial Instruments

Swap Agreement

In July 1999, the Company entered into a floating-to-fixed interest rate swap agreement (the "Swap Agreement") with Nations Bank, N.A. (now Bank of America) intended to reduce the exposure to changes in the market value of the Company's 1999 Certificates of Participation due to changes in tax-exempt interest rates that occur based on changes in LIBOR rates (general market rates). Under the terms of the original Swap Agreement, the Company agreed to make interest payments to the bank based on a floating rate of the SIFMA Municipal Swap Index, and in return the bank made interest payments to the Company at a fixed rate of 5.175 percent. The interest payments were calculated on a notional balance that declined over the 30-year term of the agreement. The Swap Agreement was terminated by the counterparty on October 1, 2010 effective December 1, 2010.

At inception, the Swap Agreement was designated as a "fair value" hedge. Changes in the fair value of a derivative that is qualified and determined effective as a fair value hedge, along with the gain or loss attributable to the hedged risk, are recorded in current earnings.

The Company carried the risk that if the floating rate exceeds the fixed rate, there would be additional cost to the Company. For the period January 1, 2010 to December 1, 2010, the floating rate of interest varied from .19 percent to .29 percent. Income included in the statement of activities for the Swap Agreement amounted to \$976,234 for the year ended December 31, 2010.

Debt Service (Trustee Held Funds)

In connection with the 1999 Certificates, the Company entered into a Reserve Fund Hedge Agreement with Bank of America (the "Hedge Provider"). Under the terms of the agreement, the Company is guaranteed an annual yield of 6.60 percent on the reserve fund requirement of \$4,399,975. The agreement's scheduled termination date is May 15, 2029. The financial performance of this agreement is subject to the contingent rebatable arbitrage provisions of the Internal Revenue Code of 1986 as amended and the 1993 Treasury Regulations applicable to the Certificates. As of December 31, 2011 and 2010, the Company has recorded a contingent rebatable arbitrage provision in the amount of \$52,586 and \$32,602, respectively. There are no interim filing requirements with the United States Treasury and the next Internal Revenue Service filing and payment would be 60 days from June 29, 2014. The Company filed the necessary reports in 2009 as well as paid a rebate of \$177,364 to the Internal Revenue Service.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

7. Derivative Financial Instruments (Continued)

Also under the terms of the agreement, the Hedge Provider at all times guarantees to the trustee the original principal value of the securities placed in the reserve fund under the trustee's control. Securities placed in the reserve fund have a quality standard of AAA.

At December 31, 2011 and 2010, the Company has reported the reserve fund (debt service) at cost without adjustment to market due to the guarantees made by the Hedge Provider. Market and book value of the securities at December 31, 2011 are approximately \$5,159,356 and \$4,979,744, respectively, and at December 31, 2010 were approximately \$4,483,771 and \$4,690,664, respectively.

8. Fair Value Measurements

FASB ASC No. 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

8. Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010:

United States government securities: Valued at the closing price reported in the active market on which the individual securities are traded.

Equity securities – foreign and domestic: Valued at the closing price reported in the active market on which the individual securities are traded.

Mutual funds – Valued at the net asset value (NAV) of shares held by the Company at year-end.

Municipal government securities: Valued at the closing price reported in the active market on which the individual securities are traded.

Short-term strategic cash funds: Valued at net asset value of underlying shares held by a banking institution at year-end.

Corporate, foreign and government bonds: Valued at closing price reported in the active market on which the individual bonds are traded.

Mortgage-backed securities, obligations, and pools: Valued at closing price reported in active market on which securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's investment assets at fair value as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Short-term strategic cash funds	\$ 1,658,788			\$ 1,658,788
Corporate bonds	4,454,021			4,454,021
Government bonds	4,336,310			4,336,310
Federal agencies	4,440,203			4,440,203
Collateralized mortgage obligations GNMA, FNMA and FHLMC	1,302,637			1,302,637
mortgage backed-pools	3,694,187			3,694,187
Bonds – foreign	636,980			636,980
Equity securities – domestic	11,452,342			11,452,342
Equity securities – foreign	2,109,163			2,109,163
Mutual funds	2,412,483			2,412,483
	<u>\$36,497,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$36,497,114</u>

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

8. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Company's investment assets at fair value as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Short-term strategic cash funds	\$ 3,285,052			\$ 3,285,052
Corporate bonds	4,147,345			4,147,345
Government bonds	4,504,936			4,504,936
Federal agencies	4,446,487			4,446,487
Collateralized mortgage obligations GNMA, FNMA and FHLMC	1,039,656			1,039,656
mortgage backed-pools	3,643,829			3,643,829
Bonds – foreign	719,713			719,713
Equity securities – domestic	16,590,952			16,590,952
Equity securities – foreign	2,314,691			2,314,691
Mutual funds	2,818,936			2,818,936
	<u>\$43,511,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$43,511,597</u>

Estimated fair values of the Company's financial instruments are as follows:

<u>Asset (liability) at December 31,</u>	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	\$5,179,627	\$5,179,627	\$5,028,388	\$5,028,388
Long-term investments	\$35,805,967	\$35,805,967	\$40,406,260	\$40,406,260
Long-term debt	\$(69,689,059)	\$(69,689,059)	\$(71,673,720)	\$(71,673,720)

The carrying amount approximates fair value of cash and short-term investments. For long-term investments, fair values are estimated based on quoted market prices. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

9. Deferred Revenue and Refundable Entrance Fees

The Company offers residents three entrance fee programs, as follows:

Plan 0

The 0 percent Refund Plan provides for a 100 percent refund upon withdrawal during the first 90 days of occupancy, decreased by up to 5.00 percent during the first five months and by 2.50 percent per month thereafter. There is no refund if the resident withdraws after 43 months of occupancy. Plan 0 also provides for a 100 percent refund upon death during the first 90 days of occupancy, decreased by up to 5.00 percent during the first five months and provides no refund thereafter.

Plan 50

The 50 percent Refund Plan is similar to Plan 0 during the first five months of occupancy. Thereafter, the amount to be refunded upon death or withdrawal decreases by 1.50 percent per month until it reaches 50 percent after 35 months of occupancy. The refund amount is never less than 50 percent.

Plan 95

The 95 percent Refund Plan is similar to Plan 0 during the first five months, but thereafter, the amount to be refunded upon death or withdrawal is not reduced below 95 percent.

Plan 50 and Plan 95 are restricted to single residents who have not attained the age of 80 by the date of move-in, or in the case of a couple, one spouse must be younger than 80 and the other spouse younger than 85.

An estimate of entrance fees likely to be returned to the residents is recorded as "refundable entrance fees." This includes the 50 percent and 95 percent portions of the entrance fees for Plans 50 and 95, respectively. Additional portions of entrance fees expected to be refunded due to residents withdrawing from the facility during the introductory period are based on the Company's experience and are also included in refundable entrance fees. The remaining amounts of entrance fees are recorded as "deferred entrance fee revenue" and amortized into income. The gross amount subject to possible refund under existing contracts at December 31, 2011 and 2010 was \$13,021,557 and \$14,541,886, respectively.

10. Professional Liability Coverage

The Company is insured for professional liability under an occurrence policy for a combined per occurrence and maximum annual aggregate of \$3,000,000.

**AIR FORCE VILLAGE WEST, INC.
and Subsidiary**

Notes to Consolidated Financial Statements

11. Contingent Liabilities

Current employer liability insurance policy has a maximum deductible of \$75,000 per claim. No provision has been made in these financial statements for any potential costs due to lawsuits.

The Company participates in a cooperative membership organization for worker's compensation coverage which is a pooled self-insurance program. Additional liability of \$208,000 has been recognized in fiscal year-end December 31, 2011, related to the amount of incurred but not paid claims and reserves for open claims.

12. Subsequent Events

In preparation of these financial statements, the Company considered subsequent events through December 28, 2012 which is the date these financial statements were issued.

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	6/1/1999	1,510,000	2,882,526.30	—	4,392,526.30
2	4/1/2005	485,000	475,429.04	—	960,429.04
3					
4					
5					
6					
7					
8					
TOTAL:					5,352,955.34

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

per Audit 3,359,381
per Sched 3,357,955
1,426 interest paid to 20% depositors

PROVIDER: Air Force Village West, Inc.

**FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)**

	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
Long-Term Debt Obligation					
1					
2					
3					
4					
5					
6					
7					
8					
TOTAL:		-	-	-	-

*(Transfer this amount to
Form 5-3, Line 2)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Air Force Village West, Inc.

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	<u>5,352,955.34</u>
2	Total from Form 5-2 bottom of Column (e)	<u>—</u>
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	<u>—</u>
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u>5,352,955.34</u>

PROVIDER: Air Force Village West, Inc.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	<u>25,800,151</u>
2	Deductions	
a	Interest paid on long-term debt (see instructions)	<u>3,357,955.34</u>
b	Credit enhancement premiums paid for long-term debt (see instructions)	<u>-</u>
c	Depreciation	<u>3,916,613.00</u>
d	Amortization	<u>-</u>
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>2,939,352.00</u>
f	Extraordinary expenses approved by the Department	<u>-</u>
3	Total Deductions	<u>10,213,920.34</u>
4	Net Operating Expenses	<u>15,586,230.66</u>
5	Divide Line 4 by 365 and enter the result.	<u>42,702.02</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>3,202,650.14</u>

PROVIDER: Air Force Village West, Inc.
 COMMUNITY: _____

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Air Force Village West, Inc.
 Fiscal Year Ended: 12/31/2011

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2011 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>5,352,955.34</u>
[2] Operating Expense Reserve Amount	<u>3,202,650.14</u>
[3] Total Liquid Reserve Amount:	<u>8,555,605.48</u>

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>4,488,480</u>	<u>4,488,480</u>
[5] Investment Securities	_____	_____
[6] Equity Securities	_____	_____
[7] Unused/Available Lines of Credit	_____	_____
[8] Unused/Available Letters of Credit	_____	_____
[9] Debt Service Reserve	<u>7,584,355</u>	(not applicable)
[10] Other: _____ (describe qualifying asset)	_____	_____
Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] align="right"> <u>12,072,835</u>	[12] align="right"> <u>4,488,480</u>
Total Amount Required:	[13] align="right"> <u>5,352,955</u>	[14] align="right"> <u>3,202,650</u>
Surplus/(Deficiency):	[15] align="right"> <u>6,719,880</u>	[16] align="right"> <u>1,285,830</u>

Signature:

Edward E. Reed
 (Authorized Representative)

Date: 4/30/2013

CFO
 (Title)

**Continuing Care Retirement Community
Disclosure Statement
General Information**

FACILITY NAME: Air Force Village West, Inc.
 ADDRESS: 17050 Arnold Drive, Riverside, CA ZIP CODE: 92518 PHONE: 951-697-2000
 PROVIDER NAME: Air Force Village West, Inc. FACILITY OPERATOR: James L. Melin President/CEO
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1989 NO. OF ACRES: 221 MULTI-STORY: SINGLE STORY: BOTH:
 MILES TO SHOPPING CTR: 2-5 miles MILES TO HOSPITAL: 5 miles

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>12</u>	ASSISTED LIVING <u>55</u>
APARTMENTS - 1 BDRM	<u>27</u>	SKILLED NURSING <u>59</u>
APARTMENTS - 2 BDRM	<u>64</u>	SPECIAL CARE <u>37</u>
COTTAGES/HOUSES	<u>337</u>	DESCRIBE SPECIAL CARE: <u>secured perimeter</u>
% OCCUPANCY AT YEAR END	<u>60%</u>	

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N BY: _____

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER: 95%

RANGE OF ENTRANCE FEES: \$ 112,290 TO \$ 437,479 LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Reduced rates: ALU, SCU, TCU & SNF

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: Mtry officer/spouse OTHER: Gov agencies

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED	FOR EXTRA
				IN FEE	CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>weekly</u>	
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<u>1</u>	<u>2</u>
BOWLING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<u>yes</u>	
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Cafe</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Air Force Village West, Inc.

	2008	2009	2010	2011
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	\$20,911	\$20,183	\$20,478	\$20,028
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	\$20,719	\$20,325	\$20,271	\$21,883
NET INCOME FROM OPERATIONS	\$192	-\$142	\$207	-\$1,855
LESS INTEREST EXPENSE	\$3,771	\$3,301	\$3,297	\$3,359
PLUS CONTRIBUTIONS	\$121	\$41	\$265	\$318
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	\$1,202	\$1,622	\$3,630	\$2,776
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-\$2,256	-\$1,780	\$805	-\$2,120
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	\$2,461	-\$160	\$1,842	\$1,745

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Bonds - Tax Exempt	\$48,914,059	5.76	06/01/99	05/15/29	30 years
Bonds - Tax Exempt	\$20,775,000	variable	04/01/05	05/15/35	30 years

FINANCIAL RATIOS (see next page for ratio formulas)

	2010 CCAC Medians 50 th Percentile (optional)	2009	2010	2011
DEBT TO ASSET RATIO				
OPERATING RATIO				
DEBT SERVICE COVERAGE RATIO				
DAYS CASH-ON-HAND RATIO				

**HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE**

	2008	%	2009	%	2010	%	2011
STUDIO	\$1,780	5.0%	\$1,869	6.1%	\$1,983	2.9%	\$2,041
ONE BEDROOM	\$1,945	5.0%	\$2,042	6.1%	\$2,167	2.9%	\$2,229
TWO BEDROOM	\$2,335	5.0%	\$2,452	6.1%	\$2,602	2.9%	\$2,677
COTTAGE/HOUSE	\$2,270	5.0%	\$2,384	6.1%	\$2,529	2.9%	\$2,603
ASSISTED LIVING	\$1,881	5.0%	\$1,975	6.1%	\$2,095	2.9%	\$2,156
SKILLED NURSING	\$3,170	5.0%	\$3,329	6.1%	\$3,532	2.9%	\$3,634
SPECIAL CARE	\$3,687	5.0%	\$3,871	6.1%	\$4,107	2.9%	\$4,226

COMMENTS FROM PROVIDER: Actual % increases were as follows. 2008 6.4%. 2009 2 increase the first on 3/1/09, the second on 11/1/09. 2010 increase began on 3/1/10. Monthly rates listed are actual rates that were charged.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ \text{-- Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>see attached (a-f)</u>		

[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>—</u>	<u>—</u>	<u>—</u>
---	----------	----------	----------

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented:
 (If more than 1 increase was implemented, indicate the **dates** for each increase.)

[4] Check each of the appropriate boxes:

Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase. see attached (g)

PROVIDER: Air Force Village West, Inc.
 COMMUNITY: _____

AIR FORCE VILLAGE WEST, INC.
Monthly Service Fee Schedule
for Single and Double Occupancy
Effective January 1, 2011

UNIT	MONTHLY FEE SINGLE RATE	MONTHLY FEE DOUBLE RATE
A-1	\$2,041	\$3,255
A-2	2,229	3,443
A-3	2,428	3,642
A-4	2,677	3,891
D-1	2,434	3,648
D-2	2,740	3,954
D-3	2,919	4,133
S-1	2,603	3,817
S-2	2,742	3,956
S-5	3,088	4,302
S-5-3	3,332	4,546
S-5-3A	3,199	4,413
PRE 1/93 S-5/4	3,350	4,564
S-5/4	3,503	4,717
A-2/3	3,159	4,373
A-2/4	3,222	4,436
DC-3	2,919	4,133
SC-1	2,603	3,817
SC-2	2,742	3,956
SC-5	3,088	4,302
SC-5-3	3,332	4,546
SC-5-3A	3,199	4,413

Second person rate is \$1,214 a month.

APPENDIX D
AIR FORCE VILLAGE WEST, INC.
ASSISTED LIVING ROOMS AND FEES
January 1, 2011

ALU I	Room	Resident Daily	Resident Monthly	Standard Daily	Standard Monthly
	Rm 1 - Studio w/Sunroom	\$129.79	\$3,947.78	\$259.57	\$7,895.25
	Rm 2 - Studio (single) *	70.88	2,155.93	142.35	4,329.81
	Rm 3 - Studio w/Sunroom	129.79	3,947.78	259.57	7,895.25
	Rm 4 - Studio (single) *	70.88	2,155.93	142.35	4,329.81
	Rm 5 - Studio w/Sunroom	129.79	3,947.78	259.57	7,895.25
	Rm 6 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	Rm 7 - Studio w/Sunroom	129.79	3,947.78	259.57	7,895.25
	Rm 8 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	Rm 9 - Doubleroom w/Sunroom	202.68	6,164.85	424.39	12,908.53
	Rm 10 - Couples' Room	155.71	4,736.18	311.42	9,472.36
	Rm 11 - Studio w/Sunroom	129.79	3,947.78	259.57	7,895.25
	Rm 12 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	Rm 13 - Studio w/Sunroom	129.79	3,947.78	259.57	7,895.25
	Rm 14 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	Rm 15 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	Rm 16 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	- Combined w/18	142.22	4,325.86	284.44	8,651.72
	Rm 17 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	Rm 18 - Studio (single)	70.88	2,155.93	142.35	4,329.81
	- Combined w/16	142.22	4,325.86	284.44	8,651.72

Resident rate applies to Continuing Care Contract Residents when no waivers are in effect for pre-existing medical conditions.

Rates are based on an annualized computation in order to maintain a level monthly payment. Upon discharge the final billing will be determined on the actual daily rate.

APPENDIX D
AIR FORCE VILLAGE WEST, INC.
ASSISTED LIVING ROOMS AND FEES
January 1, 2011

Room	Resident Daily	Resident Monthly	Standard Daily	Standard Monthly
ALU II				
Rm 19 - Studio w/Sunroom	\$122.28	\$3,719.35	\$244.53	\$7,437.79
Rm 20 Studio (single)	81.80	2,488.08	167.09	5,082.32
-Combined w/22	163.52	4,973.73	334.19	10,164.95
Rm 21 - Couples Room	167.09	5,082.32	332.45	10,112.02
Rm 22 - Studio (single)	81.80	2,488.08	167.09	5,082.32
-Combined w/20	163.52	4,973.73	334.19	10,164.95
Rm 23 - Couples Room	167.09	5,082.32	332.45	10,112.02
Rm 24 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 25 - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/27	163.52	4,973.73	334.19	10,164.95
Rm 26 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 27 - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/25	163.52	4,973.73	334.19	10,164.95
Rm 28* - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/29	163.52	4,973.73	334.19	10,164.95
Rm 29* - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/28	163.52	4,973.73	334.19	10,164.95
Rm 30 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 31 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 32 - Couples Room	167.09	5,082.32	332.45	10,112.02
Rm 33 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 34 - Couples Room	167.09	5,082.32	332.45	10,112.02
Rm 35 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 36 - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/38	163.52	4,973.73	334.19	10,164.95
Rm 37 - Studio (single)	81.80	2,488.08	167.09	5,082.32
Rm 38 - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/36	163.52	4,973.73	334.19	10,164.95
Rm 39 - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/41	163.52	4,973.73	334.19	10,164.95
Rm 41 - Studio (single)	81.80	2,488.08	167.09	5,082.32
- Combined w/39	163.52	4,973.73	334.19	10,164.95

Resident rate applies to Continuing Care Contract Residents when no waivers are in effect for pre-existing medical conditions.

Rates are based on an annualized computation in order to maintain a level monthly payment. Upon discharge the final billing will be determined on the actual daily rate.

APPENDIX D
 AIR FORCE VILLAGE WEST, INC.
 ASSISTED LIVING ROOMS AND FEES
 January 1, 2011

ALU III	Room	Resident Daily	Resident Monthly	Standard Daily	Standard Monthly
	Rm 40 - UNIT D	\$167.09	\$5,082.32	\$334.18	\$10,164.64
	Rm 42 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 43 - UNIT A	202.66	6,164.24	405.32	12,328.48
	Rm 44 - UNIT C.1	194.08	5,903.27	388.16	11,806.53
	Rm 45 - UNIT B.1	194.08	5,903.27	388.16	11,806.53
	Rm 46 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 47 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 48 - UNIT C	167.09	5,082.32	334.18	10,164.64
	Rm 49 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 50 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 51 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 52 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 53 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 54 - UNIT B	180.59	5,492.95	361.18	10,985.89
	Rm 55 - UNIT B	180.59	5,492.95	361.18	10,985.89

Resident rate applies to Continuing Care Contract Residents when no waivers are in effect for pre-existing medical conditions.

Rates are based on an annualized computation in order to maintain a level monthly payment. Upon discharge the final billing will be determined on the actual daily rate.

d

APPENDIX D
AIR FORCE VILLAGE WEST, INC.
SPECIAL CARE and TRANSITIONAL CARE
January 1, 2011

SCU

	STANDARD		RESIDENT	
	DAY	MONTH	DAY	MONTH
SINGLE	\$277.91	\$8,453.10	\$138.96	\$4,226.70
SHARED SINGLE ROOM	237.29	7,217.57	118.65	3,608.94
SHARED SINGLE COUPLES RATE	474.57	14,434.84	237.29	7,217.57
SHARED DOUBLE ROOM	254.20	7,731.92	127.10	3,865.96
SHARED DOUBLE COUPLES RATE	508.43	15,464.75	254.22	7,732.53

TCU

	STANDARD		RESIDENT	
	DAY	MONTH	DAY	MONTH
SINGLE	\$334.43	\$10,172.25	\$167.22	\$5,086.28
SHARED SINGLE ROOM	254.20	7,731.92	127.10	3,865.96
SHARED COUPLES RATE	508.45	15,465.35	254.23	7,732.83

Resident rate applies to Continuing Care Contract Residents when no waivers are in effect for pre-existing medical conditions.

Rates are based on an annualized computation in order to maintain a level monthly payment. Upon discharge the final billing will be determined on the actual daily rate.

APPENDIX D

**January 1, 2011
FEE SCHEDULE - SNF**

PRE 12/31/2005 Admission/Readmission

	STANDARD		RESIDENT	
	DAY	MONTH	DAY	MONTH
SEMI-PRIVATE	\$238.93	\$7,267.45	\$111.84	\$3,401.80
PRIVATE	401.77	12,220.50	200.89	6,110.40
SEMI PRIVATE CONVERSION	472.06	14,358.49	329.72	10,028.98
MED PRIVATE EXTRA CHARGE	162.84	4,953.05	89.05	2,708.60
MED/SP/P CONVERSION EXTRA CHG	233.13	7,091.04	217.88	6,627.18

**January 1, 2011
FEE SCHEDULE - SNF**

POST 01/01/2006 Admission/Readmission

	STANDARD		RESIDENT	
	DAY	MONTH	DAY	MONTH
SEMI-PRIVATE	\$238.93	\$7,267.45	\$119.47	\$3,633.88
PRIVATE	401.77	12,220.50	200.89	6,110.40
SEMI PRIVATE CONVERSION	472.06	14,358.49	352.60	10,724.92
MED PRIVATE EXTRA CHARGE	162.84	4,953.05	81.42	2,476.53
MED/SP/P CONVERSION EXTRA CHG	233.13	7,091.04	233.13	7,091.04

Resident rate applies to Continuing Care Contract Residents who are in private pay status and there are no waivers in effect for pre-existing medical conditions.

Rates are based on an annualized computation in order to maintain a level monthly payment. Upon discharge the final billing will be determined on the actual daily rate.

f

November 1, 2010

Dear Resident:

In accordance with your Continuing Care Contract (CCC) this letter serves as 60 days advance notice that, the monthly service fees (MSF) for Residential Living and for the Health Center will increase 2.9% beginning January 1, 2011. The discount for CCC residents living in the Health Center under private pay status will remain at 50%.

Attachment #1 is the fee schedules for Monthly Fees and fees not included in the monthly fee for both Residential and Health Care Center Units commencing January 1, 2011.

Attachment #2 is the approved operational budgets for 2008, 2009, 2010 & 2011.

Attachment #3 is the actual results of operations for 2007, 2008 & 2009 and projected financial information for 2010.

Attachment #4 is the announcement of a Town Meeting for the Residents, November 30, 2010 in the Convocation Room 10:00 a.m. - 12:00 p.m. to address the final budget for 2011.

Attachment #5 is the agenda for the November 30th meeting. At the meeting the various issues considered by the Board of Directors to minimize expenses and/or increase revenue will be covered. The resultant motions passed by the Board applied to FY 2011 budgets will also be covered. An example is the motion for approval of an interim budget for capital funded projects pending a special review of proposed projects by an ad hoc committee of the Board.

Sincerely,

Charles W. Lamb
President/CEO

For the Board of Directors:

Charles E. Wheeler
Chair