



Terwilliger Plaza

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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HANSEN HUNTER & CO. P.C.

Certified Public Accountants

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HANSEN HUNTER & CO. P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Members of Terwilliger Plaza, Inc.
Portland, Oregon

We have audited the accompanying statements of financial position of Terwilliger Plaza, Inc. (the Plaza) (an Oregon non-profit corporation) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Plaza's management. Our responsibility is to express an opinion on these 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 financial statements referred to above present fairly, in all material respects, the financial position of Terwilliger Plaza, Inc. as of December 31, 2009 and 2008, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hansen, Hunter & Company, P.C.

February 19, 2010

TERWILLIGER PLAZA, INC.**STATEMENTS OF FINANCIAL POSITION****ASSETS**

	December 31,	
	2009	2008
Current assets		
Cash and cash equivalents	\$ 1,381,056	\$ 1,107,469
Current portion of assets whose use is limited	2,038,466	2,696,630
Accounts and notes receivable, net	965,805	235,218
Interest receivable	105,163	108,704
Supplies inventory	44,892	38,150
Prepaid expenses	280,124	204,276
Total current assets	<u>4,815,506</u>	<u>4,390,447</u>
Assets whose use is limited		
Internally designated	13,461,236	12,005,737
Held by trustee, net of current portion	3,592,557	3,717,486
Charitable gift annuities and other	231,132	186,973
Total assets whose use is limited	<u>17,284,925</u>	<u>15,910,196</u>
Property, buildings and equipment, net	<u>61,410,917</u>	<u>62,685,820</u>
Other assets		
Deferred financing costs, net	1,482,537	1,561,523
Capitalized marketing costs, net	326,501	364,541
	<u>1,809,038</u>	<u>1,926,064</u>
Total assets	<u>\$ 85,320,386</u>	<u>\$ 84,912,527</u>

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

TERWILLIGER PLAZA, INC.**STATEMENTS OF FINANCIAL POSITION**
(Continued)**LIABILITIES AND NET ASSETS**

	December 31,	
	2009	2008
Current liabilities		
Accounts payable	\$ 178,367	\$ 138,536
Construction costs payable	-	220,601
Accrued liabilities	637,778	572,574
Reservation fee deposits	89,000	221,112
Current portion of long-term debt	935,000	500,000
	<hr/>	<hr/>
Total current liabilities	1,840,145	1,652,823
Long-term debt, net of current portion	41,244,027	42,198,579
Refundable fees	717,902	717,902
Deferred revenue from membership fees	36,522,369	37,712,276
Charitable gift annuities and other liabilities	229,033	184,872
	<hr/>	<hr/>
Total liabilities	80,553,476	82,466,452
Net assets		
Unrestricted net assets	4,738,035	2,446,075
Temporarily restricted net assets	28,875	-
	<hr/>	<hr/>
Total net assets	4,766,910	2,446,075
Total liabilities and net assets	\$ 85,320,386	\$ 84,912,527

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

TERWILLIGER PLAZA, INC.**STATEMENTS OF ACTIVITIES**

	Years Ended December 31,	
	2009	2008
Changes in unrestricted net assets:		
Revenue, gains, and other support		
Monthly maintenance fees	\$ 4,724,018	\$ 3,952,860
Resident services including health services	4,684,427	4,205,554
Amortization of membership fees	4,699,770	3,273,873
Interest and dividend income	530,574	612,466
Realized gains and losses	(53,584)	(216,367)
Contributions	222,959	333,798
Rents and other income	68,948	80,543
	<u>14,877,112</u>	<u>12,242,727</u>
Expenses		
Resident care	2,063,693	1,835,500
Dietary and grocery	1,045,949	1,076,771
Beauty salon	91,980	92,681
Transportation	43,103	43,657
Environmental services	530,480	332,050
Plant	1,385,398	1,397,841
Wellness Center	107,859	90,346
Computer support	92,386	79,291
Marketing costs	429,586	443,859
General and administrative	1,023,840	938,700
Payroll taxes and benefits	1,009,175	873,117
Property taxes and insurance	577,368	470,186
Depreciation	2,773,850	2,334,865
Amortization	117,026	95,501
Interest	2,467,668	2,100,759
	<u>13,759,361</u>	<u>12,205,124</u>
Operating income	<u>1,117,751</u>	<u>37,603</u>
Net unrealized gains (losses) on investments	<u>1,174,209</u>	<u>(535,157)</u>
Increase (decrease) in unrestricted net assets	<u>2,291,960</u>	<u>(497,554)</u>

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

TERWILLIGER PLAZA, INC.

STATEMENTS OF ACTIVITIES
(Continued)

	Years Ended December 31,	
	<u>2009</u>	<u>2008</u>
Change in temporarily restricted net assets		
Foundation grants not yet expended	\$ <u>28,875</u>	\$ <u>-</u>
Change in total net assets	2,320,835	(497,554)
Net assets, beginning of year	<u>2,446,075</u>	<u>2,943,629</u>
Net assets, end of year	\$ <u>4,766,910</u>	\$ <u>2,446,075</u>

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

TERWILLIGER PLAZA, INC.**STATEMENTS OF CASH FLOWS**
Increase (Decrease) in Cash

	Years Ended December 31,	
	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 2,320,835	\$ (497,554)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,773,850	2,334,862
Amortization	97,474	75,949
Amortization of membership fees	(4,699,770)	(3,273,873)
Net unrealized (gains) losses on investments	(1,174,209)	735,312
Changes in certain operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(759,462)	58,099
Interest receivable	3,541	93,552
Supplies inventory	(6,742)	(4,576)
Prepaid expenses	(75,848)	(22,384)
(Decrease) increase in liabilities:		
Accounts payable	39,831	(9,529)
Accrued liabilities	65,204	3,553
Proceeds from nonrefundable membership fees	4,466,760	11,032,920
Reservation deposits	(132,112)	(116,000)
Net cash provided by operating activities	<u>2,919,352</u>	<u>10,410,331</u>
Cash flows from investing activities		
Increase in assets limited as to use - internally designated	(249,022)	(3,015,838)
Decrease in assets limited as to use - held by trustee	716,213	18,276,533
Decrease in assets limited as to use - Heights deposits	34,612	1,770,779
(Increase) decrease in assets limited as to use - other	(44,159)	362,823
Capitalized marketing expenditures	-	(81,348)
Purchases of property and equipment, net	<u>(1,719,548)</u>	<u>(19,088,598)</u>
Net cash used by investing activities	<u>(1,261,904)</u>	<u>(1,775,649)</u>

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

TERWILLIGER PLAZA, INC.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

(Continued)

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from financing activities		
Repayment of long-term debt	\$ (500,000)	\$ (20,500,000)
Payments to Terwilliger Plaza Foundation, Inc. and Lesta Hoel Memorial Trust Fund for matured gift annuities	(7,297)	(68,466)
Charitable gift annuities received	40,000	35,000
Charitable gift annuities paid to beneficiary	(30,987)	(35,835)
Gift annuities change in market value	42,445	(73,439)
Temporarily restricted foundation grants	28,875	-
Proceeds from refundable membership fees	609,800	11,634,316
Refunds of membership fees	<u>(1,566,697)</u>	<u>(217,323)</u>
Net cash used by financing activities	<u>(1,383,861)</u>	<u>(9,225,747)</u>
Net change in cash and cash equivalents	273,587	(591,065)
Cash and cash equivalents, beginning of year	<u>1,107,469</u>	<u>1,698,534</u>
Cash and cash equivalents, end of year	\$ <u>1,381,056</u>	\$ <u>1,107,469</u>
<u>Supplemental cash flow information</u>		
Cash paid during the year for interest, net of capitalized interest costs of \$0 and \$680,475 for the years ended December 31, 2009 and 2008, respectively	\$ <u>2,471,933</u>	\$ <u>2,406,667</u>

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

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS

Terwilliger Plaza, Inc. (the Plaza) was incorporated in 1958 as a nonprofit organization in the State of Oregon. The Plaza operates 251 independent living apartments for senior citizens, a 29-unit residential care facility and a 44-unit assisted living facility in Portland, Oregon. In August of 2008, the Plaza completed construction of a new building, the Heights, that includes 48 of the 251 independent living apartments, a pool, a wellness center and a Café. Membership (i.e., residency) in the Plaza is limited to persons 62 years of age or older.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not include the following affiliated organizations:

- Terwilliger Plaza Foundation, Inc. (the Foundation)
- Lesta Hoel Memorial Trust Fund (the Trust Fund)

For purposes of reporting, transactions deemed by management to be ongoing, major or central to the operations of the Plaza are reported as operating revenues and expenses. Nonrecurring, peripheral, or incidental transactions are reported as other income (expenses). The accompanying statements of activities include the excess (deficit) of revenue over expenses from operations, consistent with industry practice, and the net unrealized gains (losses) on investments.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, other support, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of six months or less, excluding amounts whose use is limited.

Accounts receivable – Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The allowance for doubtful accounts has been established based upon an analysis of the collectibility of accounts receivable at December 31, 2009 and 2008. Accounts deemed uncollectible are charged against the allowance. Subsequent recoveries of bad debts are credited to the allowance.

Supplies inventory – Supplies inventory is stated at the lower of cost or market on a first-in, first-out (FIFO) basis and consists of food and medical items.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the accompanying statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or law.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets whose use is limited – Assets whose use is limited primarily includes Board designated funds for future capital acquisitions and refunds of certain membership fees, reservation deposits on new units, gift annuity funds and assets held by a trustee under a bond indenture agreement.

Property, plant and equipment – The cost (fair value if donated) of depreciable property, plant and equipment is depreciated over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs and minor renewals and betterments, are charged to expense. Major renewals and betterments in excess of \$2,000 are capitalized.

Deferred financing costs and bond premium – Deferred financing costs and bond premium are amortized over the term of the related bonds using the interest method.

Fees and refunds – There are two basic types of membership fee contract options for residents of the Plaza. Both membership fee options are made up of two payments. An application fee, which is paid upon making an application for residency in Terwilliger Plaza, is refundable if an applicant withdraws their application prior to occupancy, less a \$1,000 processing fee. When taking possession of the apartment, the resident signs a residency agreement and pays the balance of their membership fee. After signing a residency agreement, and taking possession of the apartment, the application fee becomes non-refundable.

Traditional membership fee option – Under the traditional membership fee option, the balance of the membership fee is refundable if the resident moves out of the Plaza during the first six months of occupancy. After six months of occupancy, the balance is refundable only within the first 40 months of residency on a pro-rata basis.

Under the traditional membership fee option, advance fees paid by residents upon entering the Plaza are recorded as deferred revenue and are amortized into income using the straight-line method over periods approximating the estimated remaining life expectancy of the residents. Any remaining unamortized fees (net of refunds) are recognized as income in the year the residency is terminated.

Refundable membership fee option(s) - Under the refundable membership fee option(s), fees are higher than those paid under the traditional membership fee option, but a portion will eventually be refunded to the resident or resident's estate.

For the time period from January, 1998 until April 30, 1999, the Plaza offered a 100% refundable membership fee option. Refunds relating to agreements entered into from May 1, 1998 to the elimination of this option on April 30, 1999 will only be refunded upon the reoccupancy of the resident's vacated apartment. Refunds relating to agreements entered into prior to May 1, 1998 will be refunded upon the earlier of the reoccupancy of the resident's vacated apartment or one year after the termination of the resident's agreement. Since the fees will eventually be refunded and the refund amount is not determined based on the advance fee paid by the next resident occupying that apartment, these fees are reported as refundable fees in the accompanying statements of financial position.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fees and refunds (continued) - For the residents moving into the Heights, the newly constructed apartments, the residents can choose between the traditional membership fee option, or a 90% refundable option. Under the 90% refundable option, 90% of the membership fee is refundable if the resident moves out of the Plaza and the apartment is reoccupied, or at one year, whichever comes sooner. A limited amount of residents were offered promotional contracts which will refund the greater of 90% of the amount of the membership fee received when the apartment is resold and reoccupied, or 90% of the original fee paid.

The non-refundable portion of the membership fee (10%) is recorded as deferred revenue and amortized into income using the straight-line method over periods approximating the estimated remaining life expectancy of the resident. Any remaining unamortized fees (net of refunds) are recognized as income in the year the residency is terminated.

The refundable portion of the membership fee (90%) is recorded as deferred revenue and amortized into income using the straight-line method over the expected life of the Heights building, which is 55 years.

Contributions – The Plaza accounts for contributions in accordance with the recommendations of the Revenue Recognition Topic of the FASB Accounting Standards Codification (FASB ASC 958-605). In accordance with this Topic, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Restricted contributions received whose restrictions are met in the same reporting period are recorded as unrestricted support.

Charitable gift annuity agreements – The Plaza administers various charitable gift annuity agreements (the Agreements) on behalf of the Foundation and the Trust Fund. In connection with the Agreements, the Plaza receives cash or marketable equity securities from donors and agrees to make certain fixed distributions to the donors over their lifetimes. At the end of the donors' lifetimes, the remaining assets are remitted to the Foundation or the Trust Fund. As such, the Plaza generally does not record contribution revenue from the Agreements; instead, the Plaza records amounts received under the Agreements as liabilities to the donors, Foundation and Trust Fund.

Included in *Assets Whose Use is Limited* in the accompanying statements of financial position is \$226,133 and \$181,972 at December 31, 2009 and 2008, respectively, related to the Agreements. Such assets are invested in mutual funds. Included in other liabilities in the accompanying statements of financial position are the liabilities to the donors, Foundation and Trust Fund relating to the Agreements.

Derivatives – In 2008 and prior years, the Plaza made limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert a portion of the floating rate long-term debt to a fixed rate. The differentials paid or received on interest rate swap agreements are accrued and recognized as adjustments to interest expense; gains and losses realized upon settlement of these agreements are deferred until the underlying hedge instrument is settled. The interest rate swap agreement was terminated in October 2008.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed services – During the years ended December 31, 2009 and 2008, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Income taxes – The Plaza is a tax-exempt organization pursuant to Internal Revenue Code (IRC) Section 501(c)(3) and applicable state law; therefore, no provision for income taxes has been made in the financial statements.

Advertising and marketing expenses – Capitalized marketing costs consist of direct mailing and promotional costs for the Plaza's expansion project. As such, these costs will be amortized over the sales generation period, which is ten years.

Other routine advertising costs are charged to expense at the time they are incurred. Advertising costs were \$250,025 and \$272,197 for the years ending December 31, 2009 and 2008, respectively.

Unemployment insurance – The Plaza is a "Reimbursing Employer" for Oregon State Unemployment. Expenses are incurred under the plan as claims that give rise to them occur. The Plaza makes monthly estimated accruals to recognize this liability. The accrual for unemployment claims as of December 31, 2009 and 2008 were \$8,806 and \$6,551, respectively, and are included in accrued liabilities in the accompanying statements of financial position.

Financial instruments – The Plaza's financial instruments consist of accounts and interest receivable, limited use assets, accounts payable, accrued expenses and bonds payable. It is management's opinion that the Plaza is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

Reclassifications – Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year's presentation.

NOTE 3 – ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable consisted of the following at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Resident accounts	\$ 123,546	\$ 151,712
Foundation	244,618	74,347
Insurance receivable	-	6,241
Entrance fees receivable	604,141	6,418
Allowance for doubtful accounts	(6,500)	(3,500)
	<u>\$ 965,805</u>	<u>\$ 235,218</u>

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 3 – ACCOUNTS AND NOTES RECEIVABLE (Continued)

Resident accounts receivable over 90-days old were \$28,153 and \$12,952 at December 31, 2009 and 2008, respectively.

Included in entrance fees receivable are notes receivable, which are secured by liens, in the amounts of \$502,100 and \$0 at December 31, 2009 and 2008 respectively.

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Plaza's operations are concentrated in the elderly housing market in Portland, Oregon. In addition, the Plaza grants credit to private residents on an unsecured basis.

NOTE 5 – ASSETS WHOSE USE IS LIMITED

Assets limited as to use consisted of the following at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Internally designated by the Board for capital acquisitions:		
Cash and cash equivalents	\$ 584,844	\$ 2,588,213
Certificates of deposit	97,509	148,104
U.S. Government agency securities	1,632,443	1,245,284
Corporate bonds	3,887,823	4,195,651
U.S. Treasury securities	3,943,869	1,498,873
Preferred stocks	285,457	244,288
Common stocks	3,029,291	2,085,324
Total internally designated for capital acquisitions	\$ 13,461,236	\$ 12,005,737

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – ASSETS WHOSE USE IS LIMITED (Continued)

	December 31,	
	2009	2008
Held by trustee:		
Bond principal fund - cash and cash equivalents	\$ 78,731	\$ 42,524
Bond interest fund - cash and cash equivalents	270,729	202,873
Debt service reserve fund:		
Cash and cash equivalents	584,199	295,390
U.S. Government agency securities	628,039	1,158,956
U.S. Treasury securities	1,367,191	1,098,743
Corporate bonds	1,013,128	1,164,397
	3,942,017	3,962,883
Construction fund – cash and cash equivalents	1,689,006	2,416,621
Total held by trustee	5,631,023	6,379,504
Less portion reported as current	(2,038,466)	(2,662,018)
Total held by trustee, net of current portion	\$ 3,592,557	\$ 3,717,486
Reservation deposits, current	\$ -	\$ 34,612
Charitable gift annuities and other	\$ 231,132	\$ 186,973

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Land and improvements	\$ 2,266,692	\$ 2,127,799
Building and improvements	71,573,037	70,764,564
Equipment and vehicles	6,636,609	6,310,625
Furniture and fixtures	568,059	501,868
	81,044,397	79,704,856
Less accumulated depreciation	(19,850,103)	(17,076,253)
	61,194,294	62,628,603
Construction in progress	216,623	57,217
Property and equipment, net	\$ 61,410,917	\$ 62,685,820

Construction in progress primarily consists of expenditures incurred in connection with a remodeling project for the Plaza's present facilities.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 7 – DEFERRED FINANCING COSTS

Deferred financing costs consisted of the following at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Deferred financing costs	\$ 1,989,443	\$ 1,989,443
Accumulated amortization	<u>(506,906)</u>	<u>(427,920)</u>
	<u>\$ 1,482,537</u>	<u>\$ 1,561,523</u>

Future amortization of financing costs, in the aggregate, consists of the following for the years ending December 31:

2010	\$ 78,275
2011	77,062
2012	75,832
2013	74,571
2014	73,163
Thereafter	<u>1,103,634</u>
	<u>\$ 1,482,537</u>

NOTE 8 – CAPITALIZED MARKETING COSTS

Capitalized marketing costs consist of the following at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Capitalized marketing costs	\$ 380,391	\$ 380,391
Accumulated amortization	<u>(53,890)</u>	<u>(15,850)</u>
	<u>\$ 326,501</u>	<u>\$ 364,541</u>

NOTE 9– STATUTORY RESERVES

The Plaza is certified as a Continuing Care Retirement Community (CCRC) by the State of Oregon Department of Human Resources. Oregon Revised Statute 101.160 (ORS 101.060) requires CCRC's to establish "liquid reserves" (cash, marketable securities, and net receivables) equal to the total of all principal and interest payments on long-term obligations due during the next fiscal year plus three months of the CCRC's projected operating expenses. Based on the Plaza's anticipated principal and interest payments due in 2010 and the Plaza's budgeted operating expenses for 2010, the Plaza was required to have approximately \$5,400,000 in liquid reserves as of December 31, 2009. The Plaza's liquid reserves at December 31, 2009 were sufficient to meet this requirement.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 10 – DEFINED CONTRIBUTION PLAN

The Plaza has a defined contribution retirement plan (the Plan) available to substantially all employees who are at least 21 years old, have been continuously employed by the Plaza for at least one year, and have provided at least 1,000 hours of service during the previous year. Contributions to the Plan include a 401(k) feature (whereby participants can make pre-tax contributions up to certain limits). In addition, the Plaza's contributions consist of a matching contribution and a discretionary profit-sharing contribution, each determined annually by the Board. Total costs incurred by the Plaza related to the Plan during the years ended December 31, 2009 and 2008 were \$43,495 and \$37,793, respectively.

NOTE 11 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2009 and 2008:

	December 31,	
	2009	2008
The Hospital Facilities Authority of Multnomah County, Oregon, Revenue and Refunding Bonds, Series 1999	\$ 22,100,000	\$ 22,600,000
The Hospital Facilities Authority of Multnomah County, Oregon, Revenue Bonds, Series 2006	19,765,000	19,765,000
	41,865,000	42,365,000
Plus unamortized premium	314,027	333,579
Less current portion of long-term debt	(935,000)	(500,000)
	<u>\$ 41,244,027</u>	<u>\$ 42,198,579</u>

1999 Bonds

In March 1999, the Plaza entered into a loan agreement with The Hospital Facilities Authority of Multnomah County, Oregon (the Authority), whereby the Authority issued \$26,000,000 of Revenue and Refunding Bonds, Series 1999 (the 1999 Bonds). The proceeds from the 1999 Bonds were used to provide funds for the refunding of 1995 Bonds and to finance Project improvements.

Under the terms of the Bonds, the Plaza has (1) collateralized the 1999 Bonds with the Plaza's gross receivables, property and equipment, and certain reserve funds held by a trustee; and (2) unconditionally guaranteed payment of principal and interest on the 1999 Bonds. Additionally, the Plaza has agreed to limit the amount of certain other indebtedness and meet certain financial covenants on an annual basis.

The 1999 Bonds require annual principal payments (including mandatory requirements) ranging from \$500,000 beginning in 2007 to \$1,900,000 in 2029. Effective June 1, 2009, the Bonds are subject to optional redemption at a two percent premium through November 30, 2010, a one percent redemption premium from December 1, 2010 through November 30, 2011, and at par thereafter.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 11 – LONG-TERM DEBT (Continued)

Required principal payments on the 1999 Bonds for the five fiscal years subsequent to 2009, and thereafter, are due each December 1 as follows:

2010	\$	600,000
2011		600,000
2012		600,000
2013		700,000
2014		700,000
Thereafter		<u>18,900,000</u>
	\$	<u>22,100,000</u>

Interest payments are due semi-annually and accrue at a rate of 6.50%.

2006 Bonds

In December 2006, the Plaza entered into a loan agreement with The Hospital Facilities Authority of Multnomah County, Oregon (the Authority), whereby the Authority issued \$39,765,000 of Revenue Bonds, Series 2006 (the 2006 Bonds). The proceeds from the 2006 Bonds are for the development and construction of 48 new independent living apartments, additional parking, and a pool and wellness center. The new building was open for occupancy during August, 2008.

Under the terms of the Bonds, the Plaza has (1) collateralized the 2006 Bonds with the Plaza's gross receivables, property and equipment, and certain reserve funds held by a trustee; and (2) unconditionally guaranteed payment of principal and interest on the 2006 Bonds. Additionally, the Plaza has agreed to limit the amount of certain other indebtedness and meet certain financial covenants on an annual basis.

The 2006 Bonds consist of four different series of issuance as follows:

- \$14,765,000 of Series A, accruing interest at fixed rates ranging from 4.40% to 5.25%
- \$2,000,000 of Series B1, accruing interest at an adjustable rate, initially 4.75%
- \$3,000,000 of Series B2, accruing interest at an adjustable rate, initially 4.90%
- \$20,000,000 of Series C, accruing interest at a variable rate, initially 3.87%

As of December 31, 2008, the \$20,000,000 of Series C bonds has been repaid.

All series contain provisions for optional redemptions and fixed rate conversion if certain requirements are met.

The 2006 Bonds require annual principal payments (including mandatory requirements) ranging from \$335,000 beginning in 2010 to \$1,160,000 in 2035, with a final payment of \$2,555,000 due in 2036.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 11 – LONG-TERM DEBT (Continued)

Required principal payments on the 2006 Bonds for the five fiscal years subsequent to 2009, and thereafter, are due each December 1 as follows:

2010	\$	335,000
2011		350,000
2012		365,000
2013		385,000
2014		400,000
Thereafter		<u>17,930,000</u>
	\$	<u>19,765,000</u>

NOTE 12 – DERIVATIVE TRANSACTION

In 2006, the Plaza entered into an interest rate swap agreement with Lehman Brothers to reduce the impact of changes in interest rates on a portion of its floating rate long-term debt. During 2008, Lehman Brothers filed for bankruptcy and during 2009 the Plaza obtained a written termination agreement. The realized gain on the derivative transaction represents the change in market value amounting to \$78,094 in 2008.

NOTE 13 – DEFERRED REVENUE FROM MEMBERSHIP FEES

Deferred revenue from advance fees represents the unamortized portion of advance fees paid by residents upon entering the Plaza. The activity in deferred revenue from membership during the years ended December 31, 2009 and 2008 was as follows:

	Years Ended December 31,	
	2009	2008
Balance, beginning of year	\$ 37,712,276	\$ 16,534,852
Proceeds	5,076,560	24,668,620
Refunds	(1,566,697)	(217,323)
Amortization	<u>(4,699,770)</u>	<u>(3,273,873)</u>
Balance, end of year	<u>\$ 36,522,369</u>	<u>\$ 37,712,276</u>

NOTE 14 – RESTRICTED NET ASSETS

Restricted net assets consist of the following:

	Years Ended December 31,	
	2009	2008
Temporarily restricted:		
Foundation grants for capital projects	<u>\$ 28,875</u>	<u>\$ -</u>

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Plaza adopted the requirements of the Fair Value Measurements and Disclosure Topic of FASB ASC 820-10. This Topic defines fair value and requires enhanced disclosure about assets and liabilities carried at fair value. As of December 31, 2009, these additional disclosures are required only for financial assets and liabilities measured at fair value and for nonfinancial assets and liabilities measured at fair value on a recurring basis.

This Topic requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. The Topic also specifies that transaction costs should not be considered in the determination of fair value. According to the Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The Topic establishes a fair value hierarchy that prioritizes the inputs 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by the Topic are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

As required by the Topic, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table shows the Plaza’s financial assets that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2009</u>				
<u>Assets:</u>				
Cash and cash equivalents	\$ 1,381,056	\$ 1,381,056	\$ -	\$ -
Assets whose use is limited	19,323,391	19,323,391	-	-
Total assets	\$ 20,704,447	\$ 20,704,447	\$ -	\$ -
<u>Liabilities:</u>				
Annuity payment liability	\$ 226,133	\$ -	\$ -	\$ 226,133
<u>December 31, 2008</u>				
<u>Assets:</u>				
Cash and cash equivalents	\$ 1,107,469	\$ 1,107,469	\$ -	\$ -
Assets whose use is limited	18,607,546	18,607,546	-	-
Total assets	\$ 19,715,015	\$ 19,715,015	\$ -	\$ -
<u>Liabilities:</u>				
Annuity payment liability	\$ 181,972	\$ -	\$ -	\$ 181,972

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Annuity payment liability	Total
<u>Liabilities:</u>		
January 1, 2008	\$ 324,712	\$ 324,712
Annuities received	35,000	35,000
Payments made to annuitants	(35,835)	(35,835)
Payments made to the Foundation and the Trust Fund for matured annuities	(68,466)	(68,466)
Net change in present value of annuities	(73,439)	(73,439)
December 31, 2008	181,972	181,972
Annuities received	40,000	40,000
Payments made to annuitants	(30,987)	(30,987)
Payments made to the Foundation and the Trust Fund for matured annuities	(7,297)	(7,297)
Net change in present value of annuities	42,445	42,445
December 31, 2009	\$ 226,133	\$ 226,133

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. The fair value for Level 3 liabilities is determined by calculating the present value of cash flows expected to be paid out, using various discount rates and life expectancy tables. There were no assets or liabilities valued using Level 2 inputs and no assets valued using Level 3 inputs.

NOTE 16 – TERWILLIGER PLAZA FOUNDATION, INC.

Terwilliger Plaza Foundation, Inc. (the Foundation) is a tax-exempt organization pursuant to IRC Section 501(c)(3) established to raise and distribute funds to promote and support the Plaza and its associated programs and operations (including the Trust Fund). The accompanying financial statements do not include the accounts of the Foundation.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 16 – TERWILLIGER PLAZA FOUNDATION, INC. (Continued)

Summarized financial information for the Foundation as of and for the years ended December 31, 2009 and 2008 is approximately as follows:

	Years Ended December 31,	
	<u>(unaudited)</u>	<u>(audited)</u>
	<u>2009</u>	<u>2008</u>
Assets – cash, investments and property	\$ <u>3,973,600</u>	\$ <u>5,888,596</u>
Net assets	\$ <u>3,739,737</u>	\$ <u>5,685,509</u>
Increase (decrease) in net assets	\$ <u>(1,945,772)</u>	\$ <u>(382,462)</u>

During the years ended December 31, 2009 and 2008 the Foundation contributed \$43,095 and \$235,918, respectively, toward various Plaza capital projects and equipment. Included in the Plaza's charitable gift annuities and other liabilities is a payable due to the Foundation in the amount of \$89,802 and \$49,265 as of December 31, 2009 and 2008, respectively. Included in accounts receivable is a receivable from the foundation in the amount of \$226,761 and \$62,345 as of December 31, 2009 and 2008, respectively.

NOTE 17 – THE LESTA HOEL MEMORIAL TRUST FUND

The Lesta Hoel Memorial Trust Fund (the Trust Fund) is a tax-exempt organization pursuant to IRC Section 501(c)(3) established to furnish financial assistance to senior citizens - primarily residents of the Plaza. The accompanying financial statements do not include the accounts of the Trust Fund.

Summarized *unaudited* financial information for the Trust Fund as of and for the years ended December 31, 2009 and 2008 are approximately as follows:

	Years Ended December 31,	
	<u>2009</u>	<u>2008</u>
Assets - cash and cash equivalents and investments (at fair value)	\$ <u>1,621,756</u>	\$ <u>1,481,798</u>
Net assets	\$ <u>1,603,899</u>	\$ <u>1,469,796</u>
Increase (decrease) in net assets	\$ <u>134,103</u>	\$ <u>(355,031)</u>

Contribution revenue in the accompanying 2009 and 2008 statements of activities includes approximately \$179,864 and \$97,880, respectively, paid by the Trust Fund to the Plaza to cover certain resident charges that could not be paid by the residents. Included in accounts receivable is a receivable from the Trust Fund in the amount of \$17,857 and \$12,002 as of December 31, 2009 and 2008, respectively.

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 18 – LONG-TERM COMMITMENTS

The Plaza leases out certain space within the facility to a bank. Under the terms of the lease, which expires on June 30, 2010, the payments will increase based on levels of monthly deposit activity. The current payment is \$1,000 per month. The future minimum lease payments due to the Plaza for the subsequent year ended December 31 are as follows:

2010	\$ <u>6,000</u>
	\$ <u>6,000</u>

Lease income for the years ended December 31, 2009 and 2008 was \$9,600 and \$8,400, respectively.

NOTE 19 – FUNCTIONAL CLASSIFICATION OF EXPENSES

The costs of providing the various programs and other activities of the Plaza have been summarized in the following schedules on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

	Independent Living	Supported Living	General and Administrative	Total
Expenses incurred for the year ended				
December 31, 2009:				
Salaries and benefits	\$ 1,767,899	2,898,002	565,486	\$ 5,231,387
Materials and supplies	1,276,213	608,848	257,677	2,142,738
Contract services	234,698	101,967	112,660	449,325
Insurance	220,659	41,374	13,791	275,824
Property taxes	241,235	45,232,	15,077	301,544
Depreciation and amortization	2,312,701	433,631	144,544	2,890,876
Interest	<u>1,974,134</u>	<u>370,150</u>	<u>123,383</u>	<u>2,467,667</u>
Total expenses	<u>\$ 8,027,539</u>	<u>\$ 4,499,204</u>	<u>\$ 1,232,618</u>	<u>\$ 13,759,361</u>

	Independent Living	Supported Living	General and Administrative	Total
Expenses incurred for the year ended				
December 31, 2008:				
Salaries and benefits	\$ 1,580,853	2,547,017	530,506	\$ 4,658,376
Materials and supplies	1,167,507	603,509	288,612	2,059,628
Contract services	235,648	167,976	82,185	485,809
Insurance	195,365	36,631	12,210	244,206
Property taxes	180,784	33,897	11,299	225,980
Depreciation and amortization	1,944,293	364,555	121,518	2,430,366
Interest	<u>1,680,607</u>	<u>315,114</u>	<u>105,038</u>	<u>2,100,759</u>
Total expenses	<u>\$ 6,985,057</u>	<u>\$ 4,068,699</u>	<u>\$ 1,151,368</u>	<u>\$ 12,205,124</u>

TERWILLIGER PLAZA, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 20 – SUBSEQUENT EVENTS

The Plaza did not have any subsequent events through February 19, 2010, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended December 31, 2009.