



Financial Statements  
December 31, 2009 and 2008

**Oklahoma Methodist Manor, Inc.**

**OKLAHOMA METHODIST MANOR, INC.**

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
**Oklahoma Methodist Manor, Inc.**  
Tulsa, Oklahoma

We have audited the accompanying statements of financial position of **Oklahoma Methodist Manor, Inc.** (a nonprofit organization) 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 Manor'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 the 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 do not express such an opinion. 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 financial statements referred to above present fairly, in all material respects, the financial position of **Oklahoma Methodist Manor, Inc.** as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Tulsa, Oklahoma  
March 23, 2010

**OKLAHOMA METHODIST MANOR, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,445,156	\$ 1,097,542
Accounts receivable, net	458,203	308,240
Pledges receivable restricted to long-term capital campaign expenditures, net	247,470	236,338
Investments	1,117,658	720,883
Prepaid expenses	14,018	6,581
Food and supplies inventories	39,796	38,325
Total current assets	<u>5,322,301</u>	<u>2,407,909</u>
<b>OTHER ASSETS</b>		
Investments	795,933	665,059
Pledges receivable restricted to long-term capital campaign expenditures, net	318,947	92,831
Property and equipment, net	16,856,410	13,143,940
Prepaid expenses	6,635	7,168
Deposits and other assets	3,665	3,665
Total other assets	<u>17,981,590</u>	<u>13,912,663</u>
Total assets	<u>\$ 23,303,891</u>	<u>\$ 16,320,572</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 506,513	\$ 237,459
Resident prepayments	41,033	20,245
Accrued liabilities	251,312	232,491
Line of credit	4,300,000	698,225
Notes payable	701,128	73,441
Unearned rental deposits	221,711	171,500
Unearned entrance fees	852,946	44,000
Total current liabilities	<u>6,874,643</u>	<u>1,477,361</u>
<b>NON-CURRENT LIABILITIES</b>		
Residence fees - unearned revenue	2,974,776	3,559,123
Notes payable	-	700,452
Unearned rental deposits	692,981	300,252
Total non-current liabilities	<u>3,667,757</u>	<u>4,559,827</u>
Total liabilities	<u>10,542,400</u>	<u>6,037,188</u>
<b>NET ASSETS</b>		
Unrestricted net assets	9,765,698	8,670,580
Temporarily restricted net assets	2,099,492	932,399
Permanently restricted net assets	896,301	680,405
Total net assets	<u>12,761,491</u>	<u>10,283,384</u>
Total liabilities and net assets	<u>\$ 23,303,891</u>	<u>\$ 16,320,572</u>

See Notes to Financial Statements

**OKLAHOMA METHODIST MANOR, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND AND OTHER SUPPORT</b>				
Fees for resident care	\$ 6,115,442	\$ -	\$ -	\$ 6,115,442
Residence fee credit	(96,841)	-	-	(96,841)
Fee discounts for state aid residents	(70,460)	-	-	(70,460)
Assisted living residence fees	1,655,594	-	-	1,655,594
Cottage/garden apartment rental income	1,199,123	-	-	1,199,123
Maintenance fees	107,498	-	-	107,498
Miscellaneous resident charges	161,041	-	-	161,041
Net fees for resident care	9,071,397	-	-	9,071,397
Contributions	1,045,715	1,428,736	215,896	2,690,347
Expiration of resident contracts	558,749	-	-	558,749
Interest	29,507	29,424	-	58,931
Amortization of membership payments	30,098	-	-	30,098
Net gain on investments	78,758	12,803	-	91,561
Other	70,046	-	-	70,046
Net assets released from restrictions	303,870	(303,870)	-	-
Total revenues	11,188,140	1,167,093	215,896	12,571,129
<b>EXPENSES</b>				
Health Center	3,399,273	-	-	3,399,273
Dietary	1,428,176	-	-	1,428,176
Building maintenance	1,323,964	-	-	1,323,964
Administrative	1,440,561	-	-	1,440,561
Assisted living	809,643	-	-	809,643
Housekeeping	501,353	-	-	501,353
Member and social services	240,960	-	-	240,960
State assessment fee	187,821	-	-	187,821
Marketing	7,600	-	-	7,600
Donor funded expense	43,559	-	-	43,559
Total resident care expense	9,382,910	-	-	9,382,910
Depreciation	635,589	-	-	635,589
Interest	47,411	-	-	47,411
Bad debts	4,362	-	-	4,362
Other expense	22,750	-	-	22,750
Total expenses	10,093,022	-	-	10,093,022
CHANGE IN NET ASSETS	1,095,118	1,167,093	215,896	2,478,107
NET ASSETS, BEGINNING OF YEAR	8,670,580	932,399	680,405	10,283,384
NET ASSETS, END OF YEAR	\$ 9,765,698	\$ 2,099,492	\$ 896,301	\$ 12,761,491

See Notes to Financial Statements

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND AND OTHER SUPPORT</b>				
Fees for resident care	\$ 6,632,327	\$ -	\$ -	\$ 6,632,327
Residence fee credit	(121,990)	-	-	(121,990)
Fee discounts for state aid residents	(58,134)	-	-	(58,134)
Assisted living residence fees	1,556,729	-	-	1,556,729
Cottage/garden apartment rental income	1,101,216	-	-	1,101,216
Maintenance fees	116,231	-	-	116,231
Miscellaneous resident charges	149,066	-	-	149,066
Net fees for resident care	9,375,445	-	-	9,375,445
Contributions	623,590	431,839	121,510	1,176,939
Expiration of resident contracts	538,037	-	-	538,037
Interest	40,963	25,967	-	66,930
Amortization of membership payments	48,338	-	-	48,338
Net loss on investments	(222,419)	(67,320)	-	(289,739)
Other	67,291	-	-	67,291
Net assets released from restrictions	258,002	(258,002)	-	-
Total revenues	10,729,247	132,484	121,510	10,983,241
<b>EXPENSES</b>				
Health Center	3,095,575	-	-	3,095,575
Dietary	1,361,104	-	-	1,361,104
Building maintenance	1,345,905	-	-	1,345,905
Administrative	1,361,256	-	-	1,361,256
Assisted living	678,940	-	-	678,940
Housekeeping	480,500	-	-	480,500
Member and social services	277,007	-	-	277,007
State assessment fee	189,637	-	-	189,637
Donor funded expense	62,743	-	-	62,743
Total resident care expense	8,852,667	-	-	8,852,667
Depreciation	621,312	-	-	621,312
Interest	59,840	-	-	59,840
Bad debts	70,209	-	-	70,209
Total expenses	9,604,028	-	-	9,604,028
CHANGE IN NET ASSETS	1,125,219	132,484	121,510	1,379,213
NET ASSETS, BEGINNING OF YEAR	7,545,361	799,915	558,895	8,904,171
NET ASSETS, END OF YEAR	\$ 8,670,580	\$ 932,399	\$ 680,405	\$ 10,283,384

**OKLAHOMA METHODIST MANOR, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 2,478,107	\$ 1,379,213
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	635,589	621,312
Bad debt expense	4,362	70,209
Unrealized (gain) loss on investments	(91,561)	290,051
Reinvested interest and dividends	(45,819)	(57,686)
Noncash contributions	-	(49,622)
Amortization of unearned rental deposits	(212,060)	(247,098)
Change in residence fees - unearned revenue	(670,847)	(606,875)
Contributions restricted for capital campaign acquisitions	(630,781)	(333,320)
Changes in assets and liabilities		
Accounts receivable	(154,325)	(165,511)
Prepaid expenses	(6,904)	69,439
Food and supplies inventory	(1,471)	1,694
Pledges receivable	54,674	(157,492)
Accounts payable and accrued liabilities	287,875	101,643
Entrance fees	808,946	44,000
Resident prepayments	20,788	7,903
Application deposits	86,500	24,500
Unearned rental deposits	655,000	115,000
NET CASH FROM OPERATING ACTIVITIES	<u>3,218,073</u>	<u>1,107,360</u>
INVESTING ACTIVITIES		
Purchases of investments	(473,962)	(147,968)
Proceeds from the sale of investments	83,694	245,079
Purchases of property and equipment	(4,348,060)	(1,173,837)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(4,738,328)</u>	<u>(1,076,726)</u>
FINANCING ACTIVITIES		
Collections of contributions restricted under capital campaign	338,859	154,232
Net proceeds from line of credit	3,601,775	658,225
Principal payments on notes payable	(72,765)	(76,014)
NET CASH FROM FINANCING ACTIVITIES	<u>3,867,869</u>	<u>736,443</u>
NET CHANGE IN CASH	2,347,614	767,077
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,097,542</u>	<u>330,465</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,445,156</u>	<u>\$ 1,097,542</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 47,411</u>	<u>\$ 59,840</u>

**OKLAHOMA METHODIST MANOR, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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**NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

*Principal Business Activity*

Oklahoma Methodist Manor, Inc. (the "Manor") is a non-profit organization, having as its primary purpose the administration of a Christian retirement community. The Manor, which is affiliated with the Oklahoma Conference of the United Methodist Church, provides both independent and assisted (including long-term health care) retirement facilities.

*Basis of Presentation*

The accompanying financial statements of the Manor are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets are classified in the financial statements based on the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted* - Net assets for which no donor has imposed a restriction. Unrestricted net assets may be designated for specific purposes by action of the Manor or may otherwise be limited by contractual agreements with outside parties.

*Temporarily restricted* - Net assets whose use by the Manor is subject to donor-imposed stipulations that can be met either by actions of the Manor and/or the passage of time.

*Permanently restricted* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Manor. Such assets primarily include the Manor's permanent endowment funds. Generally, the donors of these assets permit the Manor to use all or part of the income earned on the assets for general or specific purposes.

*Contributions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

*Fair Value Measurements*

The Manor has determined the fair value of certain assets and liabilities in accordance with the provisions of FASB Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles.

Statement No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

## NOTES TO FINANCIAL STATEMENTS

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### *Cash and Cash Equivalents*

The Manor defines cash equivalents to be short-term, highly liquid investments that are readily convertible to cash except for amounts carried for investment purposes.

### *Accounts Receivable*

Accounts receivable are due on the first day of each month and are considered past due after the 10<sup>th</sup> of the month. Late fees of 1.5% per month are charged for past due amounts. Uncollectible accounts are charged off after all reasonable attempts to collect are exhausted.

### *Pledges Receivable*

The Manor has elected the fair value option for valuing pledges receivable. Pledges are recorded at their estimated fair value when received and they are revalued annually.

### *Food and Supplies Inventory*

Food and supplies inventories are valued at their most recent purchase price, which approximates the lower of cost or market.

### *Investments*

Investments in equity securities with readily determinable fair market values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in net assets.

### *Property and Equipment*

Purchased property and equipment are carried at cost, net of accumulated depreciation. The Manor capitalizes all furniture, fixtures, and equipment acquisitions and all building improvements over \$500 if their useful lives exceed one year. Donated property and equipment are carried at fair value, as of the date of the gift, net of accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The Manor capitalizes marketing costs related to the Manor's campus redevelopment project. These expenses are included in construction in progress at December 31, 2009 and 2008.

The Manor records impairments to its property, plant and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values determined by the Manor based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions and other information. No impairments were recorded in 2009 or 2008.

### *Residence Fees*

Residence fees represent non-refundable advance payments received from applicants and residents of the Manor proper, cottages and apartments. The prepayments represent a liability on behalf of the Manor to reduce the monthly obligation of a Manor proper resident for future services.

## NOTES TO FINANCIAL STATEMENTS

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The prepayments received from applicants and individuals directly entering the Manor are negotiated on an individual basis. For persons entering a cottage or apartment as the original occupant, the required prepayment represents the construction costs of the unit plus an amount for the use of the land. For subsequent occupants, the prepayment is based on the appraised value of the unit at the time of the transaction.

For individuals who have made prepayments and who are residing in the Manor proper, monthly fees are reduced by \$7.50 for each \$1,000 they have remitted as residence fees. The obligation to each resident is calculated annually on an individual basis using actuarial tables. Differences between the beginning of the year calculations, actual credits given, and the end of the year calculations are recorded as revenue or expense.

### *Unearned Rental Deposits*

Beginning in the year 2000, the Manor began leasing its cottages and apartments. The Manor requires each lessee to make a substantial non-refundable deposit. The deposit amount required varies given the monthly payment the lessee desires. Based upon historical data, the Manor anticipated that each lessee would occupy the cottage/apartment for an estimated five year period and adjusted the monthly payments accordingly. The Manor amortized the rental deposit into income on a straight-line basis over a five year period. In 2009, the Manor re-evaluated the average expected term of occupancy and began amortizing new deposits over an eight year period.

### *Income Taxes*

The Manor is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

In July 2006, Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN No. 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for nonpublic entities until years beginning after December 15, 2008. The Manor has elected to defer implementation of FIN No. 48, as allowable.

The Manor undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FIN No. 48.

### *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### *Advertising*

The Manor expenses advertising costs as incurred. Advertising expense amounted to \$27,377 and \$35,968, for the years ended December 31, 2009 and 2008, respectively.

### *Reclassifications*

Certain amounts in the prior-year financial statements have been reclassified, for comparative purposes, to conform with the presentation of the current-year financial statements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Restricted under capital campaign	\$ 576,671	\$ 346,588
Less allowance for uncollectible pledges	<u>(10,254)</u>	<u>(17,419)</u>
Net pledges receivable	<u>\$ 566,417</u>	<u>\$ 329,169</u>
Amounts due in		
Less than one year	\$ 247,470	\$ 236,338
One to five years	<u>329,201</u>	<u>110,250</u>
	<u>\$ 576,671</u>	<u>\$ 346,588</u>

The allowance for uncollectible pledges is an estimate. It is reasonably possible that this estimate may change in the near term as additional information regarding collections is obtained. Pledges receivable are reported at fair value at the date the promise is received using unobservable inputs, or Level 3.

### NOTE 3 - CONDITIONAL PROMISES TO GIVE

During 2007, the Manor received a conditional promise to give in the amount of \$800,000. This promise to give is conditioned upon the Manor starting and completing construction of a new wellness center. During 2009, the Manor received a conditional promise to give in the amount of \$300,000. This promise to give is conditioned upon the Manor raising \$6,000,000 toward the campus redevelopment project by December 1, 2010. Neither of these promises to give have been recognized in the financial statements as of December 31, 2009.

### NOTE 4 - INVESTMENTS

Investments at December 31, 2009 and 2008, are summarized as follows:

	<u>2009</u>		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Oklahoma Methodist Foundation	\$ 1,053,866	\$ 1,178,984	\$ (125,118)
Money market	85,594	85,594	-
Certificates of deposit	767,621	768,000	(379)
Other	<u>6,510</u>	<u>7,000</u>	<u>(490)</u>
Totals	<u>\$ 1,913,591</u>	<u>\$ 2,039,578</u>	<u>\$ (125,987)</u>
	<u>2008</u>		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Oklahoma Methodist Foundation	\$ 665,058	\$ 891,270	\$ (226,212)
Money market	42,357	42,357	-
Certificates of deposit	672,322	672,000	322
Other	<u>6,205</u>	<u>7,000</u>	<u>(795)</u>
Totals	<u>\$ 1,385,942</u>	<u>\$ 1,612,627</u>	<u>\$ (226,685)</u>

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## NOTES TO FINANCIAL STATEMENTS

Funds invested with the Oklahoma Methodist Foundation are managed by the Oklahoma Methodist Foundation and invested in various registered mutual funds.

Net gain on investments for the year ended December 31, 2009, included \$91,561 of unrealized gains. Net loss on investments for the year ended December 31, 2008, included \$312 of realized gains and \$290,051 of unrealized losses.

At December 31, 2009, the fair value of invested assets assigned to donor restricted endowment net asset balances required to be maintained in perpetuity had a \$73,299 deficiency.

### NOTE 5 - FAIR VALUE OF ASSETS AND LIABILITIES

Fair values of assets measured on a recurring basis at December 31, 2009 and 2008, were as follows:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets of Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2009</b>			
Pledges receivable	\$ -	\$ -	\$ 566,417
Investments	85,594	1,827,997	-
<b>Total Assets</b>	<b>\$ 85,594</b>	<b>\$ 1,827,997</b>	<b>\$ 566,417</b>

	Fair Value Measurements Using		
	Quoted Prices in Active Markets of Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2008</b>			
Pledges receivable	\$ -	\$ -	\$ 329,169
Investments	42,357	1,343,585	-
<b>Total Assets</b>	<b>\$ 42,357</b>	<b>\$ 1,343,585</b>	<b>\$ 329,169</b>

Generally, for all investment balances, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of pledges receivable and investments that cannot be determined in this manner is estimated using the present value of expected cash flows. Investments in private equities carried at fair value would otherwise be accounted for under the equity method of accounting.

## NOTES TO FINANCIAL STATEMENTS

Following is a reconciliation of changes in the fair value of the Manor's net financial assets classified as Level 3 in the fair value hierarchy:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 329,169	\$ 10,008
New pledges	1,546,677	869,360
Pledges collected	(1,316,594)	(532,780)
Change in allowance for uncollectible pledges	7,165	(17,419)
Balance, end of year	<u>\$ 566,417</u>	<u>\$ 329,169</u>

Unrealized gains of \$91,561 and unrealized losses of \$289,739 included in the changes in net assets at December 31, 2009 and 2008, respectively, are reported as net gain or loss on investments in the statements of activities. Interest and dividends of \$58,931 and \$66,930 for the years ended December 31, 2009 and 2008, respectively are reported as interest income in the statements of activities.

The fair value option was chosen to measure all financial assets and liabilities in order to mitigate volatility in reported changes in net assets.

### NOTE 6 - ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from residents of the Manor proper, cottages and apartments for the performance of monthly services and amounts due from Medicaid and Medicare. The balance at December 31, 2009 and 2008, included the following:

	<u>2009</u>	<u>2008</u>
Residents	\$ 36,686	\$ 42,592
State of Oklahoma	17,775	24,657
Medicare claims	434,309	271,810
Miscellaneous	750	498
	<u>489,520</u>	<u>339,557</u>
Allowance for doubtful accounts	<u>(31,317)</u>	<u>(31,317)</u>
Totals	<u>\$ 458,203</u>	<u>\$ 308,240</u>

The allowance for doubtful accounts is an estimate. It is reasonably possible that this estimate may change in the near term as additional information regarding collections is obtained.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 - PROPERTY AND EQUIPMENT

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

	<u>2009</u>	<u>2008</u>
Land	\$ 295,152	\$ 295,152
Construction in progress	2,236,139	691,525
Buildings	15,297,662	12,926,683
Garden apartments and homes	4,420,462	4,390,910
Cottages	1,922,587	1,909,085
Equipment	1,759,925	1,525,627
Grounds and improvements	1,863,872	1,726,426
Furniture and fixtures	330,651	312,983
	<u>28,126,450</u>	23,778,391
Accumulated depreciation	<u>(11,270,040)</u>	<u>(10,634,451)</u>
Totals	<u>\$ 16,856,410</u>	<u>\$ 13,143,940</u>

The determination of accumulated depreciation at any point in time is based upon estimated useful lives and residual values. The actual useful lives and residual values may differ from these estimates.

Depreciation charged to income was \$635,589 and \$621,312 for 2009 and 2008, respectively.

### NOTE 8 - RESIDENT FEES – UNEARNED REVENUE

The following schedule summarizes the current year activity within the residence fees - unearned revenue accounts during the year ended December 31, 2009 and 2008:

	Residents Garden Apartments	Cottages	Health Center	Applicants	Total
Balance, December 31, 2007	\$ 2,000,209	\$ 1,217,845	\$ 848,444	\$ 75,000	\$ 4,141,498
Receipts	-	-	-	24,500	24,500
Transfers between classifications	(201,131)	(69,500)	270,631	-	-
Residence fees earned	-	-	(586,375)	(20,500)	(606,875)
Balance, December 31, 2008	1,799,078	1,148,345	532,700	79,000	3,559,123
Receipts	-	-	-	86,500	86,500
Transfers between classifications	(150,458)	(122,851)	273,309	-	-
Residence fees earned	(153,409)	(130,300)	(305,138)	(82,000)	(670,847)
Balance, December 31, 2009	<u>\$ 1,495,211</u>	<u>\$ 895,194</u>	<u>\$ 500,871</u>	<u>\$ 83,500</u>	<u>\$ 2,974,776</u>

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9 - UNEARNED RENTAL DEPOSITS

The following schedule summarizes the unearned cottage and apartment rental deposits at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Total original rental deposits	\$ 2,445,000	\$ 1,790,000
Accumulated earned rental income	<u>(1,530,308)</u>	<u>(1,318,248)</u>
Unearned rental deposits, net	<u>\$ 914,692</u>	<u>\$ 471,752</u>

### NOTE 10 - LINE OF CREDIT

In September 2009, the Manor increased its line of credit agreement with a financial institution from \$3,200,000 to \$5,200,000. Interest on the line is 1.5 percent above the BOKF National Prime Rate on the portion of outstanding principal up to \$3,200,000 (4.75 percent at December 31, 2009) and 0.25 percent below the BOKF National Prime Rate on the portion of outstanding principal above \$3,200,000 (3.0% at December 31, 2009). Interest only payments are required monthly until maturity in September 2010, at which time all unpaid interest and principal are due. The line of credit is secured by substantially all of the assets of the Manor. The line of credit agreement contains certain financial covenants of which the Manor must comply. At December 31, 2009, management believes that the Manor is in compliance with all covenants.

### NOTE 11 - NOTE PAYABLE

	<u>2009</u>	<u>2008</u>
Note payable to financial institution due in monthly installments including interest at 0.75 percent above the BOKF National Prime Rate through October 2010, at which time the outstanding principal is due. The interest rate at December 31, 2009, was 4.75 percent. The note is secured by a first and prior security interest in all of the Manor's assets, a first and prior mortgage lien against the Manor's property, and all proceeds and products of the foregoing.	\$ 701,128	\$ 773,893
Less current maturities	<u>701,128</u>	<u>73,441</u>
	<u>\$ -</u>	<u>\$ 700,452</u>

The note agreement contains certain financial covenants of which the Manor must comply. At December 31, 2009, management believes that the Manor is in compliance with all covenants.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Capital improvements	\$ 3,771	\$ 15,110
Facilities redevelopment planning	1,428,308	908,241
Employee appreciation and needs	-	9,048
Supplemental aid	649,549	-
Wellness center operations	17,266	-
Endowment earnings not appropriated	598	-
	<u>\$ 2,099,492</u>	<u>\$ 932,399</u>

The following net assets were released from donor restrictions by incurring expenses satisfying the restrictions:

	<u>2009</u>	<u>2008</u>
Time restricted endowment earnings appropriated for expenditure	\$ 16,701	\$ 23,063
Capital improvements	63,987	63,922
Supplementary aid	76,464	23,361
Facilities redevelopment planning	125,303	125,155
Employee appreciation and needs	20,931	17,443
Other	484	5,058
	<u>\$ 303,870</u>	<u>\$ 258,002</u>

### NOTE 13 - PERMANENTLY RESTRICTED ENDOWMENTS

The Manor's endowments consist of 18 individual donor-restricted funds established to benefit operations and specific funds. All of the endowments resulted from Charitable Gift Annuity contracts or other agreements between the donor and The Oklahoma United Methodist Foundation ("Foundation") located in Oklahoma City, Oklahoma. In all cases, there were explicit donor stipulations that after the donor's death, the remaining principal will be placed in permanently restricted endowments held and invested by the Foundation. In addition, the donors instructed that only earnings are to be paid to the Manor as unrestricted or temporarily restricted distributions.

#### *Interpretation of Relevant Law*

The Board of Directors of the Manor has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original donor-restricted endowment principal. All of the endowments have explicit donor stipulations that the original corpus must be maintained in perpetuity. Therefore, all permanently donor restricted net assets are reported as the original amount plus any subsequent gifts. The remaining portion is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Manor in a manner consistent with the standard procedure prescribed by UPMIFA.

## NOTES TO FINANCIAL STATEMENTS

### *Investment Policy*

The Foundation has approved an endowment distribution or spending policy whereby distributions are limited to 5 percent of the fair value of the individual funds. Actual endowment returns earned in excess of 5 percent is retained as part of the corpus to offset inflation.

The Foundation's investment objective is to achieve superior, long-term performance while at the same time maximizing current income. Investment goals are formulated to earn returns over the long-term that equal or exceed the spending policy rates plus the impact of inflation. Funds are invested in a highly diversified portfolio to mitigate downturns in a single sector. The Manor does not own any endowment funds beyond those held by the Foundation. Changes in endowment net assets for the years ended December 31, 2009 and 2008, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 68,914	\$ -	\$ 558,895	\$ 627,809
Net asset reclassification based on UPMIFA	(68,914)	68,914	-	-
Endowment net assets balance, after reclassification	\$ -	\$ 68,914	\$ 558,895	\$ 627,809
Contributions	-	-	121,510	121,510
Investment income	-	25,967	-	25,967
Appropriation for expenditure	-	(27,561)	-	(27,561)
Unrealized change in value	(136,099)	(67,320)	-	(203,419)
Endowment net assets balance, December 31, 2008	\$ (136,099)	\$ -	\$ 680,405	\$ 544,306
Contributions	-	-	215,896	215,896
Investment income	-	29,424	-	29,424
Appropriation for expenditure	-	(23,685)	-	(23,685)
Unrealized change in value	62,800	12,803	-	75,603
Endowment net assets balance, December 31, 2009	<u>\$ (73,299)</u>	<u>\$ 18,542</u>	<u>\$ 896,301</u>	<u>\$ 841,544</u>

### **NOTE 14 - DEFINED CONTRIBUTION RETIREMENT PLAN**

After one year of service, all employees of the Manor are eligible to participate in the Cumulative Pension and Benefit Fund, a multi-employer defined contribution church plan established by the United Methodist Church. On a monthly basis, the Manor contributes, on behalf of each participant, an amount equal to 6 percent of the participant's compensation for participants who contribute at least 3 percent of their compensation. During the years ended December 31, 2009 and 2008, the Manor contributed \$93,346 and \$89,528, respectively, to the plan.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 15 - CONCENTRATIONS OF CREDIT RISK

At December 31, 2009, the Manor had a total investment of \$1,060,376 in a variety of investments which are prone to market risk and their value is subject to change on a daily basis. In the event of a significant change in the national economy, these investments could decline in value and the Manor could suffer a loss.

The Manor maintains investment accounts with an investment firm and with the Oklahoma Methodist Foundation. The account with the investment firm is fully insured against failure of the investment firm. The investments with the Oklahoma Methodist Foundation are not insured.

The Manor grants credit to residents for use of its facilities and nursing care. The residents have diversified backgrounds and their ability to pay is often dependent upon retirement income and state subsidies. The Manor does not require residents to provide collateral or other security. Therefore, should residents not perform according to the terms of their contracts, the Manor would incur a loss equal to the balance in accounts receivable, less Medicaid and Medicare claims receivable, which is \$32,998 at December 31, 2009.

The Manor has recorded pledges receivable of \$576,671. The Manor does not require donors to provide collateral or other security. Therefore, should donors not perform consistently with their promises, the Manor would incur a loss up to the balance of the related pledge or bequest receivable.

The Manor receives a significant amount of funding from Medicare. During 2009, the Manor received \$1,497,826 from Medicare of which \$434,309 is due from Medicare at December 31, 2009.

The Manor maintains its regular checking accounts at a local bank. At December 31, 2009 and 2008, the Manor's deposits with this bank were in excess of the amount insured by the Federal Deposit Insurance Corporation by \$3,252,634 and \$1,032,060, respectively. However, the excess funds from the Manor's primary checking account are swept into a mutual fund account daily which invests in U.S. Government obligations and other commercial investments. The Manor believes that the fund is not exposed to any significant risk due to the diversity and high grade of instruments held by the fund.

### NOTE 16 - NONCASH TRANSACTION

In 2009, the Manor replaced its note payable to a financial institution with a different note payable with the same financial institution. This noncash transaction is not reflected in the statement of cash flows.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 17 - FUNCTIONAL EXPENSES

The following is a detail of expenses by function:

	<u>2009</u>	<u>2008</u>
Program services	\$ 9,273,792	\$ 8,836,288
Management and general	649,016	583,407
Fundraising	<u>170,214</u>	<u>184,333</u>
	<u>\$ 10,093,022</u>	<u>\$ 9,604,028</u>

Program expenses include the following program areas: health center, dietary, building maintenance, assisted living, housekeeping, admissions and social services, and state assessment fee.

### NOTE 18 - COMMITMENTS AND CONTINGENCIES

During 2008, the Manor signed two contracts totaling \$312,955 related to upcoming construction projects. At December 31, 2009, the construction retainage remains to be paid on these contracts in the amount of approximately \$173,500.