United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Financial Report with Additional Information

December 31, 2007

United Methodist Retirement Communities, Inc. and Subsidiary

Contents

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Independent Auditor's Report

To the Board of Trustees
United Methodist Retirement
Communities, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of United Methodist Retirement Communities, Inc. and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization'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 audits 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 consolidated financial position of United Methodist Retirement Communities, Inc. and Subsidiary at December 31, 2007 and 2006 and the consolidated results of their activities, changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the consolidated financial statements, the Organization adopted the provisions of Emerging Issues Tax Force (EITF) 04-5, *Determining whether a General Partner, or the General Partner as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, as of January 1, 2006.

Plante & Moran, PLLC

April 10, 2008

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 1,505,060	$ 1,890,309
Investments (Note 3)	1,148,570	2,025,231
Accounts receivable - Less allowance for doubtful accounts of $568,404 and $522,000 in 2007 and 2006, respectively (Note 2)	2,882,857	3,078,209
Contributions receivable (Note 4)	209,898	1,533,915
Assets limited as to use (Note 8)	976,646	866,362
Prepaid expenses and other current assets	582,805	639,954
Total current assets	7,305,836	10,033,980
Assets Limited as to Use - Net of current portion (Note 8)	1,864,746	1,864,290
Property and Equipment - Net (Note 5)	40,905,654	40,249,426
Beneficial Interest in Perpetual Trust	244,341	387,791
Other		
Investments (Note 3)	16,877,318	14,867,824
Contributions receivable - Net of current portion (Note 4)	892,770	877,207
Investment in joint venture (Note 1)	396,747	213,963
Beneficial interest in Van Dusen endowment (Note 6)	3,067,361	2,889,341
Bond issue costs	473,220	496,980
Total assets	**$ 72,027,993**	**$ 71,880,802**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,267,115	$ 1,528,271
Current portion of long-term debt (Note 8)	555,016	529,174
Due to third-party payors	89,702	141,876
Liability accrued under split-interest agreements (Note 7)	57,413	52,723
Accrued liabilities and other	1,853,739	2,303,519
Total current liabilities	3,822,985	4,555,563
Long-term Debt - Net of current portion (Note 8)	21,465,740	22,020,757
Liability Under Split-interest Agreements (Note 7)	320,731	316,371
Net Assets		
Unrestricted:		
Controlling interest	41,690,457	40,246,373
Noncontrolling interest	(1,283,969)	(1,041,541)
Temporarily restricted (Note 9)	1,251,437	1,347,102
Permanently restricted (Note 9)	4,760,612	4,436,177
Total net assets	46,418,537	44,988,111
Total liabilities and net assets	**$ 72,027,993**	**$ 71,880,802**

See Notes to Consolidated Financial Statements.

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Statement of Activities

	Year Ended December 31, 2007	Year Ended December 31, 2006
Operating Revenue		
Net service revenue	$ 33,689,563	$ 32,375,480
Rental revenue	961,883	966,513
Other	288,758	306,585
Net assets released from restrictions	501,823	253,305
Total operating revenue	35,442,027	33,901,883
Operating Expenses		
Healthcare	33,762,086	32,585,741
General and administrative - Executive office expenses	1,780,752	2,033,465
Total operating expenses	35,542,838	34,619,206
Operating Loss - Before other operating activities	(100,811)	(717,323)
Other Operating Activities		
Investment income	1,170,455	990,959
Contributions	709,619	2,733,182
Gain on sale of investments	9,794	431,411
Development expenses - Dexter project	(256,172)	-
Income from investment in joint venture	182,784	213,963
Equity distributions from noncontrolling interest	(130,428)	(100,058)
Fund-raising - Promotion and development expenses	(434,786)	(433,919)
Total other operating activities	1,251,266	3,835,538
Operating Income	1,150,455	3,118,215
Changes in Unrealized Gain on Investments	51,201	573,839
Increase in Net Assets Before Change in Accounting Principle	1,201,656	3,692,054
Cumulative Effect of Change in Accounting Principle (Note 12)	-	(835,026)
Consolidated Increase in Unrestricted Net Assets	1,201,656	2,857,028
Less Consolidated Increase in Unrestricted Net Assets Attributable to Noncontrolling Interest in Subsidiary	(242,428)	(1,041,541)
Consolidated Net Income Attributable to Controlling Interest	**$ 1,444,084**	**$ 3,898,569**

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 2007	Year Ended December 31, 2006
Unrestricted Net Assets		
Increase in net assets attributable to controlling interests	$ 1,444,084	$ 3,898,569
Decrease in net assets attributable to noncontrolling interests	(242,428)	(1,041,541)
Increase in Unrestricted Net Assets	1,201,656	2,857,028
Temporarily Restricted Net Assets		
Contributions	427,024	193,152
Change in value of split-interest agreement	(20,866)	62,048
Net assets released from restriction	(501,823)	(253,305)
(Decrease) Increase in Temporarily Restricted Net Assets	(95,665)	1,895
Permanently Restricted Net Assets		
Contributions	55,000	245,000
Change in value of beneficial interest in VanDusen endowment	178,020	275,841
Change in value of beneficial interest in perpetual trust	91,415	135,113
Increase in Permanently Restricted Net Assets	324,435	655,954
Increase in Net Assets	1,430,426	3,514,877
Net Assets - Beginning of year	44,988,111	41,473,234
Net Assets - End of year	**$ 46,418,537**	**$ 44,988,111**

See Notes to Consolidated Financial Statements.

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash Flows from Operating Activities		
Increase in net assets	$ 1,430,426	$ 3,514,877
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	2,809,771	2,674,104
Amortization of bond issue costs	23,760	23,760
Realized and unrealized gains and losses on investments	(60,995)	(1,005,250)
Contributions restricted for long-term purposes	(482,025)	(438,152)
Cumulative effect in change in accounting principle	-	835,026
Distributions to partners	130,428	100,058
Bad debt expense	275,955	231,194
Change in value of split-interest agreements	(20,866)	62,048
Change in value of beneficial interest in perpetual trust	(178,020)	(275,841)
Equity in the losses of joint venture	(182,784)	(213,963)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(80,603)	(589,087)
Contribution receivable	1,308,454	(1,772,847)
Prepaid expenses and other current assets	57,149	79,994
Accounts payable	(261,156)	189,426
Accrued and other liabilities	(449,780)	69,814
Due to third party	(52,174)	21,729
Liability under split-interest agreement	29,916	(94,783)
Net cash provided by operating activities	4,297,456	3,412,107
Cash Flows from Investing Activities		
Property and equipment	(3,465,999)	(2,624,048)
Purchase of investments	(2,294,290)	(1,640,898)
Proceeds from sale of investments	1,222,452	1,736,434
Change in assets limited as to use	32,710	(20,081)
Net cash used in investing activities	(4,505,127)	(2,548,593)
Cash Flows from Financing Activities		
Principal payment on long-term debt	(529,175)	(1,193,618)
Principal from restricted contributions	482,025	438,152
Distributions to partners	(130,428)	(100,058)
Net cash used in financing activities	(177,578)	(855,524)
Net (Decrease) Increase in Cash and Cash Equivalents	(385,249)	7,990
Cash and Cash Equivalents - Beginning of year	1,890,309	1,882,319
Cash and Cash Equivalents - End of year	**$ 1,505,060**	**$ 1,890,309**
Supplemental Cash Flow Information - Cash paid for interest	**$ 1,030,204**	**$ 1,051,839**

See Notes to Consolidated Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

United Methodist Retirement Communities, Inc. (UMRC) is a Michigan nonprofit organization. UMRC, governed by a board of trustees, provides housing, health care, and other related services to residents through the operation of a continuing care retirement community in Chelsea, Michigan and a skilled nursing facility in Detroit, Michigan. Revenue for these services is primarily paid by individuals and third-party payors.

During 1998, UMRC formed the UMRC Heritage Foundation (the "Foundation"). The primary purpose of the Foundation is the management, stewardship, and allocation of funds; development and implementation of long- and short-term fund development plans; donor communication; and the recognition of certain activities and programs. UMRC and the Foundation (collectively, the "Organization") are related through common board control; as a result, the activities of the two are consolidated and all intercompany activity has been eliminated.

The Organization is also the operating member and 1 percent owner of Sylvan Pines Limited Dividend Housing Association, LLC (Sylvan Pines), an entity established to provide affordable housing to the elderly under the low-income housing tax credit program. Sylvan Pines is consolidated in its entirety as disclosed in Note 12.

UMRC is a 50 percent sponsor in Silver Maples of Chelsea (SMOC), a not-for-profit retirement facility which provides independent and assisted-living housing and services to residents in Chelsea, Michigan. The Organization's investment in SMOC is accounted for under the equity method, with a value of $396,747 and $213,963 at December 31, 2007 and 2006, respectively.

Principle of Consolidation - The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All material intercompany accounts and transactions have been eliminated.

Cash Equivalents - Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable - The Organization's accounts receivable are comprised of net invoice amounts due from residents. An allowance for doubtful accounts is established on an aggregate basis, computed using loss-rate factors based on historical loss experience and adjusted for economic conditions and other trends affecting the Organization's ability to collect outstanding amounts. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Investments - Investments in equity and debt securities are measured at fair value in the consolidated balance sheet. Fair value is based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from income from operations.

Contributions Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment - Additions to property and equipment are recorded at cost and depreciation is provided using the straight-line method over the following asset lives:

Land improvements	10 years
Buildings and improvements	40 years
Furniture, fixtures, and equipment	5-10 years

Costs of maintenance and repairs are charged to expense when incurred.

Bond Issue Costs - Bond issue costs are costs related to the issuance of Economic Development Corporation of the Village of Chelsea Limited Obligation Revenue Bonds and are being amortized over the term of the bond issue. Amortization expense was $23,760 for the years ended December 31, 2007 and 2006. Accumulated amortization was $332,196 and $308,436 at December 31, 2007 and 2006, respectively.

Operating Income - The consolidated statement of activities includes operating income. Changes in unrestricted net assets which are excluded from operating income, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Service Revenue - Net revenue from services is reported at the estimated amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The payor mix (percentage) of net patient service revenue is as follows:

	Percent	
	2007	2006
Private	50	51
Medicaid	14	15
Medicare	36	34

The Medicare payment methodology is based on clinical assessments that are subject to review and final approval. Any adjustment resulting from this final review and approval will be recorded in the period in which the adjustment was made.

The Medicaid payment is a cost-based reimbursement system that also includes a Quality Assurance Supplement (QAS). The QAS is a reimbursement based on Medicaid occupancy and is related to the provider bed tax assessed to nursing homes.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Benevolent Care - The Organization provides care to residents who meet certain criteria under its benevolent care policy at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as benevolent care, they are not reported as revenue. The Organization provided benevolent care totaling approximately $676,000 and $371,000 for the years ended December 31, 2007 and 2006, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions - Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Board-designated Net Assets - Board-designated net assets are intended to be used to protect the long-term interests of the Organization. Board-designated net assets totaled $15,994,010 and $16,274,457 as of December 31, 2007 and 2006, respectively, and are included in unrestricted net assets in the consolidated balance sheet.

Collective Bargaining Agreement - Certain employees of Chelsea Retirement Community are subject to a three-year collective bargaining agreement that expires on April 30, 2009. Licensed practical nurses at Chelsea Retirement Community are subject to a separate collective bargaining agreement which expires October 31, 2008. In addition, certain employees at Boulevard Temple are subject to a collective bargaining agreement which expires April 30, 2010. These employees comprise approximately 65 percent of the employees of the Organization for 2007 and 2006.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Internal Revenue Service has ruled that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Sylvan Pines is a limited liability company which does not pay federal income taxes at the entity level under the Internal Revenue Code. Accordingly, there is no provision for income taxes included in the consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Statement of Cash Flows - The 2006 consolidated statement of cash flows has been adjusted to include the cumulative beginning balance sheet of Sylvan Pines (see Note 12), including the following:

Assets:	
Cash	$ 274,532
Escrows	471,454
Property, plant, and equipment	5,861,209
Total assets	$ 6,607,195
Liabilities and deficiency in net assets:	
Current liabilities	$ 158,672
Mortgage payable	7,283,549
Deficiency in net assets	(835,026)
Total liabilities and deficiency in net assets	$ 6,607,195

Note 2 - Accounts Receivable

The Organization provides services without collateral to its patients, most of whom are local residents of these communities and are insured under third-party payor agreements. The percentage of receivables from patients and third-party payors at year end is as follows:

	Percent	
	2007	2006
Medicaid	26	26
Medicare	41	42
Patients and other third-party payors	33	32
Total	100	100

Note 3 - Investments

The Organization's investments consisted of the following at December 31:

	2007	2006
Cash and cash equivalents	$ 964,598	$ 574,758
Bonds	5,296,684	4,546,273
Stocks	11,764,606	11,772,024
Total investments	18,025,888	16,893,055
Less short-term portion of investments	1,148,570	2,025,231
Total long-term investments	$ 16,877,318	$ 14,867,824

Investments include endowment assets totaling $1,448,910 and $1,159,045 at December 31, 2007 and 2006, respectively. The corpus on these assets is to be held in perpetuity, with the income expendable to support the continuing care of residents. Included in this are split-interest agreements, which are further described in Note 7.

Note 4 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give:

	2007	2006
Contributions receivable:		
Due in less than one year	$ 209,898	$ 1,533,915
Due in one to five years	277,995	70,822
Due in more than five years	868,782	1,081,316
Total contributions receivable	1,356,675	2,686,053
Unamortized discount	(249,791)	(270,715)
Less allowance for uncollectible amounts	(4,216)	(4,216)
Subtotal	(254,007)	(274,931)
Less current portion	(209,898)	(1,533,915)
Long-term portion	$ 892,770	$ 877,207

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2007	2006
Land	$ 2,588,979	$ 1,903,235
Land improvements	4,007,396	4,025,995
Buildings	46,834,909	46,066,669
Building improvements	9,879,363	10,561,703
Transportation equipment	218,623	220,747
Furniture, fixtures, and equipment	13,222,000	13,086,801
Construction in progress	866,141	742,091
Total cost	77,617,411	76,607,241
Accumulated depreciation	36,711,757	36,357,815
Net carrying amount	$ 40,905,654	$ 40,249,426

Depreciation expense on property and equipment totaled $2,809,771 and $2,674,104 at December 31, 2007 and 2006, respectively.

Note 6 - Beneficial Interest in Van Dusen Endowment

The Organization has a beneficial interest in the net assets of the Van Dusen endowment held by the Community Foundation for Southeastern Michigan. All funds generated through this program are held and managed in commingled funds by the Community Foundation for Southeastern Michigan. Income from the funds is paid annually to the Organization at a rate of 5 percent of the market value of the assets. An asset has been recorded for the present value of future cash flows related to this endowment in the amount of $3,067,361 and $2,889,341 at December 31, 2007 and 2006, respectively.

Note 7 - Split-interest Agreements

The Organization is a beneficiary of various split-interest agreements which are included in long-term investments. Donors receive interest payments, based on published rates at the date of donation, earned on amounts donated during their lifetimes. The present value of the estimated future payments to the donors has been recorded as a liability of the Organization.

Note 8 - Long-term Debt

During 1998, the Organization issued $22,980,000 ($14,960,000 and $15,375,000 due at December 31, 2007 and 2006, respectively) of 30-year Term Limited Obligation Revenue Refunding Bonds through the Economic Development Corporation of the Village of Chelsea (EDC). The bond proceeds were lent by the EDC to the Organization for the purpose of refinancing the EDC's November 1, 1993 Limited Obligation Revenue Bonds and for the construction of a dementia facility in Chelsea, Michigan.

Principal payments on the bonds are due annually through November 15, 2027, the maturity date of the bonds. Interest on the bonds is payable semiannually each November 15 and May 15 through the maturity date of the bonds. The bonds are collateralized by gross revenue and other certain assets of the Organization. Principal payments and interest rates vary annually and range from $415,000 to $1,175,000 and 4.80 percent to 5.58 percent, respectively. Interest expense for the years ended December 31, 2007 and 2006 were $711,850 and $728,569, respectively. The bonds have restrictive financial and other covenants.

In accordance with the requirements of the trust indenture, the following trust funds have been established: Debt Service Reserve Fund, Bond Payment Fund, and the Project Fund. The purpose of the Debt Service Reserve Fund and the Bond Payment Fund is the payment of principal and interest, the purchase and retirement before maturity, or the redemption before maturity of the bonds. The Project Fund was used for the payment of project costs.

In 2001, Sylvan Pines entered into a loan totaling $7,766,000 ($7,060,756 and $7,174,931 due at December 31, 2007 and 2006, respectively) with the Michigan State Housing Development Authority to support the development of Sylvan Pines. The loan carries a fixed rate of interest at 5 percent per annum, is secured by real property of Sylvan Pines, and is repayable in monthly installments of principal and interest of $39,194 through November 2035. Interest expense for the year ended December 31, 2006 totaled $355,678 and $361,258 at December 31, 2007 and 2006, respectively. In accordance with the loan agreement, certain escrow revenues have been funded for real estate taxes, property insurance, replacement reserves, and operating assurance.

Note 8 - Long-term Debt (Continued)

The following is a summary of assets limited as to use supporting the Organization's debt:

	2007	2006
Debt Service Reserve Fund	$ 1,864,746	$ 1,864,290
Bond Payment Fund	440,802	362,345
Noncontrolling interest and escrows	535,844	504,013
Total assets limited as to use	2,841,392	2,730,648
Less assets limited as to use - Expected to be expended in 2007	976,646	866,358
Long-term assets limited as to use	$ 1,864,746	$ 1,864,290

Principal payments on long-term debt as of December 31, 2007 are due as follows:

2008	$ 555,016
2009	586,156
2010	612,610
2011	649,395
2012	681,527
Thereafter	18,936,052
Subtotal	22,020,756
Less current portion	(555,016)
Total	$ 21,465,740

Note 9 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2007 and 2006:

	2007	2006
Healthcare services:		
Contributions under split-interest agreement	$ 478,561	$ 473,244
Contributions restricted for future capital improvements	117,889	143,273
Contributions restricted for future charitable care	248,725	285,002
Contributions restricted for other future uses by donor	406,262	445,583
Total temporarily restricted net assets	$ 1,251,437	$ 1,347,102

Permanently restricted net assets at December 31, 2007 and 2006 are restricted by the following:

	2007	2006
Van Dusen Endowment	$ 3,067,361	$ 2,889,341
Beneficial interest in perpetual trusts	244,341	387,791
Endowment assets - Contributions from donors, the principal of which is restricted to be held in perpetuity with earnings used for the continuing care of residents	1,448,910	1,159,045
Total permanently restricted net assets	$ 4,760,612	$ 4,436,177

Note 10 - Employee Savings Plan

The Organization offers a 403(b) tax-deferred savings plan to qualified employees. Employees are allowed to contribute annually to the plan up to 20 percent of their compensation. The Organization matches one-half of contributions for nonunion employees up to a maximum of 2.5 percent of the employees' compensation. The matching contribution vests upon receipt. In addition, pursuant to the collective bargaining agreements, the Organization funds a union-sponsored pension fund based on employee hours worked. During 2007 and 2006, the Organization contributed $179,269 and $197,567, respectively, to the plans.

Note 11 - Workers' Compensation

The Organization is self-insured for a substantial portion of its workers' compensation claims. The Organization has obtained stop-loss insurance coverage for claims in excess of $300,000 per employee or per accident and for aggregate claims in excess of $1,000,000 in a two-year period. The Organization's stop-loss coverage is limited to $5,000,000 in aggregate for the same two-year period. Total workers' compensation expense approximated $198,000 and $409,000 in 2007 and 2006, respectively. Accruals of approximately $198,000 and $380,000 were recorded for unsettled and incurred but not reported claims at December 31, 2007 and 2006, respectively.

Note 12 - Change in Accounting Principle

On June 29, 2005, the Financial Accounting Standards Board (FASB) reached consensus on Emerging Issues Task Force (EITF) 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Similar Rights*. Under EITF 04-5, the limited partnership (or similar entity, such as a limited liability company, with Sylvan Pines hereinafter referred to as the "LLC," is assumed to control that LLC regardless of the extent of the managing member's ownership interest in the entity. With this, EITF 04-5 provides a new framework for determining when a managing member should consolidate an LLC. The Organization adopted the provisions of EITF 04-5 as of January 1, 2006.

In general, EITF 04-5 requires an entity to be consolidated under the presumption of control unless the nonmanaging members have substantial kick-out rights, substantive participating rights, or buy-out rights. EITF 04-5 became effective for fiscal years after December 15, 2006.

In accordance with the transition provisions of EITF 04-5, the assets, liabilities, and noncontrolling interests of the newly consolidated entity were initially recorded at the amounts at which they would have been carried in the consolidated financial statements if EITF 04-5 had been effective at the origination of the LLC. The difference between the net amount added to the Organization's consolidated balance sheet and the amount of any previously recognized interest in the newly consolidated entity was a loss of $835,026 and was recognized as a cumulative effect of a change in accounting principle as of January 1, 2006. The adoption of EITF 04-5 also resulted in an increase of total assets and total liabilities of $6,282,901 and $7,324,442, respectively, as of December 31, 2006.

Note 13 - Line of Credit

During 2007, the Organization entered into a $500,000 line of credit with a financial institution for a one-year term. The line of credit is not collateralized, bears interest at one quarter percent below the bank's prime rate, with interest due monthly, and with any principle due at the end of the term. At December 31, 2007, there were no borrowings against the line of credit.

Additional Information

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To the Board of Trustees
United Methodist Retirement
Communities, Inc. and Subsidiary

We have audited the consolidated financial statements of United Methodist Retirement Communities, Inc. and Subsidiary as of December 31, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheet and consolidating statement of operating activities information is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic consolidated financial statements. The accompanying consolidating information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

April 10, 2008

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidating Balance Sheet
December 31, 2007

	United Methodist Retirement Communities, Inc.	Sylvan Pines Limited Dividend Housing Association, LLC	Eliminations	Totals
Assets				
Current Assets				
Cash and cash equivalents	$ 1,233,445	$ 271,615	$ -	$ 1,505,060
Investments	1,148,570	-	-	1,148,570
Accounts receivable - Less allowance for doubtful accounts	2,882,857	-	-	2,882,857
Contributions receivable	209,898	-	-	209,898
Assets limited as to use	440,802	535,844	-	976,646
Prepaid expenses and other current assets	590,631	4,108	(11,934)	582,805
Total current assets	6,506,203	811,567	(11,934)	7,305,836
Assets Limited as to Use - Net of current portion	1,864,746	-	-	1,864,746
Property and Equipment - Net	35,780,588	5,125,066	-	40,905,654
Beneficial Interest in Perpetual Trust	244,341	-	-	244,341
Other				
Investments	16,877,318	-	-	16,877,318
Contributions receivable - Net of current portion	892,770	-	-	892,770
Investment in joint venture	396,747	-	-	396,747
Beneficial interest in Van Dusen endowment	3,067,361	-	-	3,067,361
Bond issue costs	473,220	-	-	473,220
Total assets	**$ 66,103,294**	**$ 5,936,633**	**$ (11,934)**	**$ 72,027,993**
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 1,246,052	$ 21,063	$ -	$ 1,267,115
Current portion of long-term debt	435,000	120,016	-	555,016
Due to third-party payors	89,702	-	-	89,702
Liability accrued under split-interest agreements	57,413	-	-	57,413
Accrued liabilities and other	1,726,890	138,783	(11,934)	1,853,739
Total current liabilities	3,555,057	279,862	(11,934)	3,822,985
Long-term Debt - Net of current portion	14,525,000	6,940,740	-	21,465,740
Liability Under Split-interest Agreements	320,731	-	-	320,731
Net Assets				
Unrestricted	41,690,457	(1,283,969)	-	40,406,488
Temporarily restricted	1,251,437	-	-	1,251,437
Permanently restricted	4,760,612	-	-	4,760,612
Total net assets	47,702,506	(1,283,969)	-	46,418,537
Total liabilities and net assets	**$ 66,103,294**	**$ 5,936,633**	**$ (11,934)**	**$ 72,027,993**

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidating Statement of Operating Activities
Year Ended December 31, 2007

	Chelsea Retirement Community	Boulevard Temple	Sylvan Pines Limited Dividend Housing Association, LLC	Eliminations	Totals
Operating Revenue					
Net service revenue	$ 22,111,432	$ 11,578,131	$ -	$ -	$ 33,689,563
Rental revenue	-	-	961,883	-	961,883
Other	230,958	4,772	53,028	-	288,758
Net assets released from restrictions used in operations	501,823	-	-	-	501,823
Total operating revenue	22,844,213	11,582,903	1,014,911	-	35,442,027
Operating Expenses					
Salaries, wages, and purchased labor	11,329,305	7,043,623	100,170	-	18,473,098
Employee benefits	2,127,247	940,703	14,465	-	3,082,415
Food	790,297	228,638	-	-	1,018,935
Medical care	806,516	1,102,711	-	-	1,909,227
Management fee	-	-	38,220	(38,220)	-
Repairs and maintenance	578,012	409,918	72,651	-	1,060,581
Laundry and housekeeping	13,179	16,987	-	-	30,166
Utilities	958,253	499,308	80,709	-	1,538,270
Supplies	541,641	139,319	-	-	680,960
Depreciation	1,925,716	457,422	379,784	-	2,762,922
Interest	696,225	-	355,678	-	1,051,903
Real estate taxes	118,215	-	35,472	-	153,687
Provider tax	302,696	467,960	-	-	770,656
Bad debts	75,697	200,258	-	-	275,955
Miscellaneous	527,556	375,993	49,762	-	953,311
General and administrative - Executive office expense	1,189,916	590,836	-	-	1,780,752
Total operating expenses	21,980,471	12,473,676	1,126,911	(38,220)	35,542,838
Operating Income (Loss)	**$ 863,742**	**$ (890,773)**	**$ (112,000)**	**$ 38,220**	**$ (100,811)**