United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Financial Report
with Additional Information
December 31, 2008

United Methodist Retirement Communities, Inc. and Subsidiaries

Contents

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of United Methodist Retirement Communities, Inc. and Subsidiaries as of December 31, 2008 and 2007 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, 2008 and 2007 and the consolidated results of their activities, changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 22, 2009

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Balance Sheet

		December 31, 2008		December 31, 2007
Assets				
Current Assets				
Cash and cash equivalents	$	2,370,848	$	1,505,060
Investments (Note 3)		1,256,512		1,148,570
Accounts receivable - Less allowance for doubtful accounts of $148,325 and $568,404 in 2008 and 2007, respectively (Note 2)		2,864,383		2,882,857
Contributions receivable (Note 5)		267,700		209,898
Assets limited as to use (Note 10)		753,055		976,646
Prepaid expenses and other current assets		510,108		582,805
Total current assets		8,022,606		7,305,836
Assets Limited as to Use - Net of current portion (Note 10)		1,864,506		1,864,746
Property and Equipment - Net (Note 6)		41,555,244		40,905,654
Beneficial Interest in Perpetual Trust		191,265		244,341
Other				
Investments (Note 3)		13,247,414		16,877,318
Contributions receivable - Net of current portion (Note 5)		758,659		892,770
Investment in joint venture		-		396,747
Beneficial interest in Van Dusen endowment (Note 7)		2,010,145		3,067,361
Bond issue costs		449,460		473,220
Total assets	**$**	**68,099,299**	**$**	**72,027,993**
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	1,689,397	$	1,267,115
Bank line of credit (Note 9)		3,000,000		-
Current portion of long-term debt (Note 10)		586,156		555,016
Due to third-party payors		-		89,702
Liability accrued under split-interest agreements (Note 8)		67,263		57,413
Accrued liabilities and other		1,920,813		1,853,739
Total current liabilities		7,263,629		3,822,985
Long-term Debt - Net of current portion (Note 10)		20,879,584		21,465,740
Liability Under Split-interest Agreements (Note 8)		365,774		320,731
Net Assets				
Unrestricted:				
Controlling interest		36,722,146		41,690,457
Noncontrolling interest		(1,413,274)		(1,283,969)
Temporarily restricted (Note 11)		823,513		1,251,437
Permanently restricted (Note 11)		3,457,927		4,760,612
Total net assets		39,590,312		46,418,537
Total liabilities and net assets	**$**	**68,099,299**	**$**	**72,027,993**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Activities

	Year Ended December 31, 2008	Year Ended December 31, 2007
Operating Revenue		
Net service revenue	$ 34,254,279	$ 33,689,563
Rental revenue	963,739	961,883
Other	303,899	288,758
Net assets released from restrictions	897,387	501,823
Total operating revenue	36,419,304	35,442,027
Operating Expenses		
Healthcare	34,920,048	33,762,086
General and administrative - Executive office expenses	1,655,869	1,780,752
Total operating expenses	36,575,917	35,542,838
Operating Loss - Before other operating activities	(156,613)	(100,811)
Other Operating Activities		
Investment income	1,211,849	1,170,455
Contributions	734,909	709,619
Gain on sale of investments	280,149	9,794
Change in unrealized gains and losses on investments	(4,428,789)	51,201
Development expenses - Dexter project	(599,876)	(256,172)
Income (loss) from investment in joint venture	(396,747)	182,784
Equity distributions from noncontrolling interest	(92,150)	(130,428)
Loss on impairment (Note 14)	(1,202,184)	-
Fund-raising - Promotion and development expenses	(448,164)	(434,786)
Total other operating activities	(4,941,003)	1,302,467
Excess of Revenue (Under) Over Expenses	(5,097,616)	1,201,656
Less Excess of Revenue Under Expenses Attributable to Noncontrolling Interest in Subsidiary	(129,305)	(242,428)
Consolidated Excess of Revenue (Under) Over Expenses Attributable to Controlling Interest	**$ (4,968,311)**	**$ 1,444,084**

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 2008	Year Ended December 31, 2007
Unrestricted Net Assets		
Excess of revenue (under) over expenses attributable to controlling interests	$ (4,968,311)	$ 1,444,084
Excess of revenue under expenses attributable to noncontrolling interests	(129,305)	(242,428)
Excess of Revenue (Under) Over Expenses	(5,097,616)	1,201,656
Temporarily Restricted Net Assets		
Contributions	350,343	427,024
Change in value of split interest agreement	(67,077)	(20,866)
Net assets released from restriction	(711,190)	(501,823)
Decrease in Temporarily Restricted Net Assets	(427,924)	(95,665)
Permanently Restricted Net Assets		
Contributions	235,000	55,000
Net realized and unrealized loss on endowment investments	(241,196)	81,767
Change in value of beneficial interest in Van Dusen endowment	(1,057,216)	178,020
Change in value of beneficial interest in perpetual trust	(53,076)	9,648
Net assets released from restriction	(186,197)	-
(Decrease) Increase in Permanently Restricted Net Assets	(1,302,685)	324,435
(Decrease) Increase in Net Assets	(6,828,225)	1,430,426
Net Assets - Beginning of year	46,418,537	44,988,111
Net Assets - End of year	**$ 39,590,312**	**$ 46,418,537**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (6,828,225)	$ 1,430,426
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	2,866,388	2,809,771
Amortization of bond issue costs	23,760	23,760
Realized and unrealized gains and losses on investments	4,148,640	(60,995)
Contributions restricted for long-term purposes	(474,111)	(482,025)
Unrealized loss on endowment funds	241,196	(81,767)
Distributions to partners	92,150	130,428
Bad debt expense	255,872	275,955
Change in value of split-interest agreements	67,077	(20,866)
Change in value of beneficial interest in perpetual trust	1,057,216	(178,020)
Change in value of perpetual trusts	53,076	(9,648)
Equity in the losses of joint venture	396,747	(182,784)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(237,398)	(80,603)
Contribution receivable	76,309	1,308,454
Prepaid expenses and other current assets	72,697	57,149
Accounts payable	422,282	(261,156)
Accrued and other liabilities	67,074	(449,780)
Due to third party	(89,702)	(52,174)
Liability under split-interest agreement	(12,184)	29,916
Net cash provided by operating activities	2,198,864	4,206,041
Cash Flows from Investing Activities		
Property and equipment	(3,515,978)	(3,465,999)
Purchase of investments	(9,865,248)	(2,294,290)
Proceeds from sale of investments	8,997,374	1,313,897
Change in assets limited as to use	223,831	32,710
Net cash used in investing activities	(4,160,021)	(4,413,682)
Cash Flows from Financing Activities		
Proceeds from line of credit	3,000,000	-
Principal payment on long-term debt	(555,016)	(529,175)
Principal from restricted contributions	474,111	482,025
Distributions to partners	(92,150)	(130,428)
Net cash provided by (used in) financing activities	2,826,945	(177,578)
Net Increase (Decrease) in Cash and Cash Equivalents	865,788	(385,219)
Cash and Cash Equivalents - Beginning of year	1,505,060	1,890,309
Cash and Cash Equivalents - End of year	**$ 2,370,848**	**$ 1,505,090**
Supplemental Cash Flow Information - Cash paid for interest	**$ 1,058,692**	**$ 1,030,204**

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.

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 $0 and $396,747 at December 31, 2008 and 2007, respectively.

Principle of Consolidation - The accompanying consolidated financial statements include the accounts of Sylvan Pines, an entity which is consolidated through the provisions of Emerging Issues Task 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*. Accordingly, the assets and liabilities and revenues and expenses of Sylvan Pines have been included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated upon consolidation.

As of December 31, 2008 and for the year then ended, Sylvan Pines had assets of $5,693,096, liabilities of $7,106,370, revenue of $1,018,894, and expenses and distributions of $1,148,199. As of December 31, 2007 and for the year then ended, Sylvan Pines had assets of $5,936,633, liabilities of $7,220,602, revenue of $1,014,911, and expenses and distributions of $1,257,339. These amounts approximate the effect of consolidating Sylvan Pines.

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

The effects of eliminations of revenue and expenses due to intercompany transactions with Sylvan Pines are not attributed to noncontrolling interests.

The creditors and beneficial holders of Sylvan Pines have no recourse to the assets or the general credit beyond the assets of Sylvan Pines.

Cash and Cash Equivalents - Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. The Organization maintains cash balances that at times may exceed Federal Deposit Insurance Corporation insurance coverage.

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.

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.

In previous years, investments held by the Organization were classified as other-than-trading securities with unrealized gains and losses that were considered temporarily excluded from excess of revenue (under) over expenses. During 2008, the Organization determined that substantially all its investment portfolio was more appropriately classified as trading, with unrealized gains and losses included in excess of revenue (under) over expenses. Therefore, certain amounts in the accompanying 2008 consolidated financial statements have been reclassified to reflect this change in classification. These reclassifications did not impact the increase in net assets previously reported; however, the excess of revenue (under) over expenses for 2007 decreased by $51,201 as a result of the reclassification.

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

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 and building improvements	10 years
Buildings	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, 2008 and 2007. Accumulated amortization was $355,956 and $332,196 at December 31, 2008 and 2007, respectively.

Excess of Revenue (Under) Over Expenses - The consolidated statement of activities reflects the excess of revenue (under) over expenses as a performance indicator. Changes in unrestricted net assets which are excluded from the excess of revenue (under) over expenses, consistent with industry practice, include 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).

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.

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

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

	Percent	
	2008	2007
Private	52	49
Medicaid	16	14
Medicare	32	37

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 $821,000 and $676,000 for the years ended December 31, 2008 and 2007, 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 $12,766,856 and $15,994,010 as of December 31, 2008 and 2007, 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, 2010. Licensed practical nurses at Chelsea Retirement Community are subject to a separate collective bargaining agreement. A tentative collective bargaining agreement is in place awaiting a union ratification vote. In addition, certain employees at Boulevard Temple are subject to a collective bargaining agreement which expires April 30, 2009. These employees comprise approximately 64 percent and 65 percent of the employees of the Organization for 2008 and 2007, respectively.

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)

Risks and Uncertainties - The Organization invests in various investment securities. Investment securities are exposed to risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could significantly affect the amounts reported in the balance sheet.

Reclassifications - Certain prior year classifications have been changed to correspond with 2008 classifications.

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	
	2008	2007
Medicaid	26	26
Medicare	41	41
Residents and other third-party payors	33	33
Total	100	100

Note 3 - Investments

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

	2008	2007
Cash equivalents	$ 690,295	$ 964,598
Bond mutual funds	4,178,744	5,296,684
Stocks	9,634,887	11,764,606
Total investments	14,503,926	18,025,888
Less short-term portion of investments	1,256,512	1,148,570
Total long-term investments	$ 13,247,414	$ 16,877,318

Note 3 - Investments (Continued)

Investments include endowment assets totaling $1,256,517 and $1,448,910 at December 31, 2008 and 2007, 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 8. Also included in these investment totals are board designated amounts as disclosed in Note 1.

Note 4 - Fair Value

As of January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures for fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective prospectively for periods beginning January 1, 2008 for financial assets and liabilities and for periods beginning January 1, 2009 for nonfinancial assets and liabilities as a result of the deferral of the effective date of SFAS 157 provided by FSP FAS 157-2. The implementation of the provisions of SFAS 157 for financial assets and liabilities as of January 1, 2008 did not have a material impact on the Organization's consolidated financial statements.

The following tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis at December 31, 2008, and the valuation techniques used by the Organization to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 4 - Fair Value (Continued)

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows:

Fair value measurements are as follows at December 31, 2008 using:

	Balance at December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments - Trading securities	$ 14,503,925	$ 14,503,925	$ -	$ -
Beneficial interest in Van Dusen endowment	2,010,145	-	-	2,010,145
Perpetual Trusts	191,265	-	-	191,265

Changes in level 3 assets and liabilities measured at fair value on a recurring basis are as follows:

	Van Dusen Endowment	Perpetual Trusts	Total
Balance at December 31, 2007	$ 3,067,361	$ 244,341	$ 3,311,702
Total unrealized losses included in change in net assets	(1,057,216)	(53,076)	(1,110,292)
Balance at December 31, 2008	$ 2,010,145	$ 191,265	$ 2,201,410

The Organization estimates the fair value of the level 3 assets based upon the fair value of the assets in the endowment or trust unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions.

Of the Level 3 assets that were held in the Van Dusen Endowment at December 31, 2008, the unrealized loss for the year ended December 31, 2008 was $1,057,216, which is recognized as a decrease in permanently restricted net assets in the consolidated statement of changes in net assets.

Of the Level 3 assets that were held as a beneficial interest in perpetual trust at December 31, 2008, the unrealized loss for the year ended December 31, 2008 was $53,076 which is recognized as a decrease in permanently restricted net assets in the consolidated statement of changes in net assets.

Note 4 - Fair Value (Continued)

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Other assets, including property and equipment, goodwill, intangible assets, and other assets acquired in business combinations, are also subject to periodic impairment assessments under other accounting principles generally accepted in the United States of America. These assets are not considered financial assets. Effective February 12, 2008, the FASB issued a staff position, FSP FAS 157-2, which delayed the applicability of FAS 157 to non-financial assets and liabilities until years beginning after November 15, 2008. Accordingly, these assets have been omitted from the above disclosures.

Note 5 - Contributions Receivable

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

	2008	2007
Contributions receivable:		
Due in less than one year	$ 267,700	$ 209,898
Due in one to five years	277,995	277,995
Due in more than five years	748,979	868,782
Total contributions receivable	1,294,674	1,356,675
Unamortized discount	(268,315)	(249,791)
Less allowance for uncollectible amounts	-	(4,216)
Subtotal	(268,315)	(254,007)
Less current portion	(267,700)	(209,898)
Long-term portion	$ 758,659	$ 892,770

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2008	2007
Land	$ 3,845,216	$ 2,588,979
Land improvements	5,106,068	4,007,396
Buildings	47,248,202	46,834,909
Building improvements	10,109,401	9,879,363
Transportation equipment	175,913	218,623
Furniture, fixtures, and equipment	12,902,844	13,222,000
Construction in progress	305,045	866,141
Total cost	79,692,689	77,617,411
Accumulated depreciation	38,137,445	36,711,757
Net carrying amount	$ 41,555,244	$ 40,905,654

Depreciation expense on property and equipment totaled $2,866,388 and $2,809,771 at December 31, 2008 and 2007, respectively.

Note 7 - 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 $2,010,145 and $3,067,361 at December 31, 2008 and 2007, respectively.

Note 8 - 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 9 - Line of Credit

During 2008, the Organization entered into a $3,000,000 line of credit with a financial institution, through July 2009. The line of credit is not collateralized, bears interest at one quarter percent below the bank's prime rate (but not less than 2.25 percent), with interest due monthly, and with any principal due at the end of the term. At December 31, 2008, there were $3,000,000 borrowed against the line of credit. The effective interest rate was 2.75 percent at December 31, 2008.

During 2008, the Organization entered into a $1,000,000 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 principal due at the end of the term. At December 31, 2008, there were no borrowings against this line of credit.

Note 10 - Long-term Debt

During 1998, the Organization issued $22,980,000 ($14,525,000 and $14,960,000 due at December 31, 2008 and 2007, 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, 2008 and 2007 were $682,602 and $711,850, 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.

Note 10 - Long-term Debt (Continued)

In 2001, Sylvan Pines entered into a loan totaling $7,766,000 ($6,940,740 and $7,060,756 due at December 31, 2008 and 2007, 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 years ended December 31, 2008 and 2007 were $349,812 and $355,678, respectively. In accordance with the loan agreement, certain escrow revenues have been funded for real estate taxes, property insurance, replacement reserves, and operating assurance.

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

	2008	2007
Debt Service Reserve Fund	$ 1,864,506	$ 1,864,746
Bond Payment Fund	213,328	440,802
Noncontrolling interest reserves and escrows	539,727	535,844
Total assets limited as to use	2,617,561	2,841,392
Less assets limited as to use - Expected to be expended within one year from year end	753,055	976,646
Long-term assets limited as to use	$ 1,864,506	$ 1,864,746

Principal payments on long-term debt as of December 31, 2008 are due as follows:

2009		$ 586,156
2010		612,610
2011		649,395
2012		681,527
2013		719,023
Thereafter		18,217,029
	Subtotal	21,465,740
	Less current portion	(586,156)
	Total	$ 20,879,584

Note 11 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2008 and 2007:

	2008	2007
Healthcare services:		
Contributions under split-interest agreement	$ 297,495	$ 478,561
Contributions restricted for future capital improvements	118,828	117,889
Contributions restricted for future charitable care	24,810	248,725
Contributions restricted for other future uses by donor	382,380	406,262
Total temporarily restricted net assets	$ 823,513	$ 1,251,437

Permanently restricted net assets at December 31, 2008 and 2007 are restricted by the following:

	2008	2007
Van Dusen Endowment	$ 2,010,145	$ 3,067,361
Beneficial interest in perpetual trusts	191,265	244,341
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	1,256,517	1,448,910
Total permanently restricted net assets	$ 3,457,927	$ 4,760,612

Note 12 - 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 2008 and 2007, the Organization contributed $177,865 and $179,269 respectively, to the plans.

Note 13 - 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 $375,000 and $198,000 in 2008 and 2007, respectively. Accruals of approximately $287,000 and $198,000 were recorded for unsettled and incurred but not reported claims at December 31, 2008 and 2007, respectively.

Note 14 - Impairment of Assets

During 2008, the Organization determined the building and other fixed assets at Boulevard Temple to be impaired. The Organization determined that certain impairment indicators exist, including cash flow deficits that have occurred in past operations and the potential sale of the property as described in Note 15 below. Based on this analysis, management determined that the carrying value of the fixed assets at Boulevard Temple of $4,702,184 were no longer recoverable. Accordingly, an impairment loss of $1,202,184 was recognized during 2008 to write down the assets to their estimated fair value of $3,500,000. The impairment loss was determined based on management's estimate of the market value of Boulevard Temple's long-lived assets as compared to sales of similar properties and the Medicaid rate threshold for facility cost reimbursement. The impairment total has been allocated to reduce land and improvements, building and improvements, and furniture and fixtures on the balance sheet based on pro-rata percentages of the total net book value of the long-lived assets.

Note 15 - Subsequent Event

Subsequent to December 31, 2008, the long-lived assets of Boulevard Temple met the criterion for classification as available for sale. Consequently, land and land improvements of $1,005,421, building and building improvements of $1,133,489, and furniture and fixtures of $1,361,090 will be classified as held for sale during 2009. The property was listed with a real estate broker at the price of $3,500,000 which approximates fair value and the current carrying value of the property (see note 14).

Note 16 - Donor- and Board-restricted Endowments

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the Organization has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UMIFA. In accordance with UMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

Note 16 - Donor- and Board-restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 15,994,010	$ -	$ 1,448,910	$ 17,442,920
Investment return:				
Investment income	1,034,684	-	-	1,034,684
Net depreciation (realized and unrealized)	(4,148,501)	-	(241,196)	(4,389,697)
Total investment return	(3,113,817)	-	(241,196)	(3,355,013)
Contributions	462,134	-	235,000	697,134
Appropriation of endowment assets for expenditure	(728,570)	-	(33,099)	(761,669)
Other changes:				
Transfers to create board-designated endowment funds	153,098	-	(153,098)	-
Endowment net assets - End of year	$ 12,766,855	$ -	$ 1,256,517	$ 14,023,372

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 9 percent annually. Actual returns in any given year may vary from this amount.

Note 16 - Donor- and Board-restricted Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution all income earned after fees as available for certain board designated activites. Annual distributions are calculated based on five percent of the average endowment balance of the past 20 quarters. In establishing this policy the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowments to continue to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Additional Information

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

We have audited the consolidated financial statements of United Methodist Retirement Communities, Inc. and Subsidiaries as of December 31, 2008 and 2007. 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 22, 2009

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidating Balance Sheet
December 31, 2008

	United Methodist Retirement Communities, Inc.	Sylvan Pines Limited Dividend Housing Association, LLC	Eliminations	Totals
Assets				
Current Assets				
Cash and cash equivalents	$ 2,052,742	$ 318,106	$ -	$ 2,370,848
Investments	1,256,512	-	-	1,256,512
Accounts receivable - Less allowance for doubtful accounts	2,864,383	-	-	2,864,383
Contributions receivable	267,700	-	-	267,700
Assets limited as to use	213,328	539,727	-	753,055
Prepaid expenses and other current assets	521,916	3,286	(15,094)	510,108
Total current assets	7,176,581	861,119	(15,094)	8,022,606
Assets Limited as to Use - Net of current portion	1,864,506	-	-	1,864,506
Property and Equipment - Net	36,723,267	4,831,977	-	41,555,244
Beneficial Interest in Perpetual Trust	191,265	-	-	191,265
Other				
Investments	13,247,414	-	-	13,247,414
Contributions receivable - Net of current portion	758,659	-	-	758,659
Beneficial interest in Van Dusen endowment	2,010,145	-	-	2,010,145
Bond issue costs	449,460	-	-	449,460
Total assets	**$ 62,421,297**	**$ 5,693,096**	**$ (15,094)**	**$ 68,099,299**
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 1,662,710	$ 26,687	$ -	$ 1,689,397
Bank line of credit	3,000,000	-	-	3,000,000
Current portion of long-term debt	460,000	126,156	-	586,156
Liability accrued under split-interest agreements	67,263	-	-	67,263
Accrued liabilities and other	1,796,964	138,943	(15,094)	1,920,813
Total current liabilities	6,986,937	291,786	(15,094)	7,263,629
Long-term Debt - Net of current portion	14,065,000	6,814,584	-	20,879,584
Liability Under Split-interest Agreements	365,774	-	-	365,774
Net Assets				
Unrestricted	36,722,143	(1,413,274)	-	35,308,869
Temporarily restricted	823,516	-	-	823,516
Permanently restricted	3,457,927	-	-	3,457,927
Total net assets	41,003,586	(1,413,274)	-	39,590,312
Total liabilities and net assets	**$ 62,421,297**	**$ 5,693,096**	**$ (15,094)**	**$ 68,099,299**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidating Statement of Operating Activities
Year Ended December 31, 2008

	Chelsea Retirement Community	Boulevard Temple	Sylvan Pines Limited Dividend Housing Association, LLC	Eliminations	Totals
Operating Revenue					
Net service revenue	$ 22,963,242	$ 11,291,037	$ -	$ -	$ 34,254,279
Rental revenue	-	-	963,739	-	963,739
Other	242,479	6,265	55,155	-	303,899
Net assets released from restrictions used in operations	897,387	-	-	-	897,387
Total operating revenue	24,103,108	11,297,302	1,018,894	-	36,419,304
Operating Expenses					
Salaries, wages, and purchased labor	12,193,991	7,116,474	108,094	-	19,418,559
Employee benefits	2,122,368	997,768	18,606	-	3,138,742
Food	835,298	241,316	-	-	1,076,614
Medical Care	729,959	1,011,944	-	-	1,741,903
Management fee	-	-	40,572	(40,572)	-
Repairs and maintenance	708,340	411,394	80,253	-	1,199,987
Laundry and housekeeping	12,375	13,446	-	-	25,821
Utilities	815,963	415,434	79,609	-	1,311,006
Supplies	545,492	121,060	-	-	666,552
Depreciation	2,003,233	494,223	299,451	-	2,796,907
Interest	708,881	-	349,812	-	1,058,693
Real estate taxes	227,635	-	35,594	-	263,229
Provider tax	320,847	480,362	-	-	801,209
Bad debts	42,735	213,137	-	-	255,872
Miscellaneous	519,397	601,499	44,058	-	1,164,954
General and administrative - Executive office expense	1,118,688	537,181	-	-	1,655,869
Total operating expenses	22,905,202	12,655,238	1,056,049	(40,572)	36,575,917
Operating Income (Loss)	**$ 1,197,906**	**$ (1,357,936)**	**$ (37,155)**	**$ 40,572**	**$ (156,613)**