United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Financial Report with Additional Information

December 31, 2011

United Methodist Retirement Communities, Inc. and Subsidiaries

Contents

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of United Methodist Retirement Communities, Inc. and Subsidiaries (the "Organization") as of December 31, 2011 and 2010 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 Subsidiaries at December 31, 2011 and 2010 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 26, 2012

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Balance Sheet

	December 31, 2011	December 31, 2010 (as restated - Note 2)
Assets		
Current Assets		
Cash and cash equivalents	$ 5,588,471	$ 4,328,306
Investments (Note 4)	1,309,493	1,104,784
Accounts receivable - Less allowance for doubtful accounts of $100,000 and $89,193 in 2011 and 2010, respectively (Note 3)	1,641,373	1,800,001
Contributions receivable (Note 5)	353,528	104,811
Assets limited as to use (Note 4)	927,239	867,106
Prepaid expenses and other current assets	537,364	563,951
Total current assets	10,357,468	8,768,959
Assets Limited as to Use - Net of current portion (Note 4)	6,111,078	6,059,773
Property and Equipment - Net (Note 6)	51,052,843	46,758,178
Beneficial Interest in Perpetual Trust	202,367	219,503
Other		
Investments (Note 4)	19,304,146	20,201,911
Contributions receivable - Net of current portion (Note 5)	776,640	822,446
Deferred finance fees	1,062,460	622,368
Total assets	**$ 88,867,002**	**$ 83,453,138**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,942,085	$ 986,413
Current portion of long-term debt (Note 7)	927,239	867,106
Liability accrued under split-interest agreements (Note 11)	52,731	57,671
Due to affiliates	1,192,619	-
Accrued liabilities and other	1,240,237	1,124,362
Total current liabilities	5,354,911	3,035,552
Long-term Debt - Net of current portion (Note 7)	30,972,627	31,899,866
Liability Accrued Under Split-interest Agreements (Note 11)	270,161	309,131
Other Long-term Liabilities		
Resident entrance fees and deposits	5,542,736	3,638,040
Deferred entrance fee income	2,871,911	1,433,189
Fair value of interest rate swap agreement (Note 8)	278,869	121,941
Net Assets		
Unrestricted:		
Controlling interest	41,677,518	40,964,759
Noncontrolling interest	(1,911,505)	(1,704,070)
Temporarily restricted (Note 13)	1,113,823	1,370,170
Permanently restricted (Note 13)	2,695,951	2,384,560
Total net assets	43,575,787	43,015,419
Total liabilities and net assets	**$ 88,867,002**	**$ 83,453,138**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Activities

	Year Ended December 31, 2011	Year Ended December 31, 2010 (as restated - Note 2)
Operating Revenue		
Net service revenue	$ 26,049,260	$ 24,361,872
Rental revenue	1,874,708	950,206
Other	75,600	113,132
Amortization of entrance fees	285,323	99,500
Contributions	1,202,829	699,364
Net assets released from restrictions	472,381	321,895
Total operating revenue	29,960,101	26,545,969
Operating Expenses		
Healthcare and administrative expenses	28,222,197	25,592,645
Development expenses - Dexter project	-	642,426
Fundraising - Promotion and development expenses	386,604	377,627
Total operating expenses	28,608,801	26,612,698
Operating Income (Loss) - Before other income (expenses)	1,351,300	(66,729)
Other Income (Expenses)		
Investment income	734,944	588,537
Loss on sale of property	(13,374)	-
Gain on sale of investments	254,915	194,739
Unrealized (losses) gains on investments	(1,384,668)	1,716,337
Change in fair value of interest rate swap agreement (Note 8)	(156,928)	(121,941)
Net equity distributions from noncontrolling interest	(246,221)	(105,160)
Total other (expense) income	(811,332)	2,272,512
Income from Continuing Operations - Before discontinued operations	539,968	2,205,783
Discontinued Operations (Note 6)	(34,644)	(507,022)
Excess of Revenue Over Expenses	505,324	1,698,761
Less Excess of Revenue Under Expenses Attributable to Noncontrolling Interest in Subsidiary	(207,435)	(127,292)
Consolidated Excess of Revenue Over Expenses Attributable to Controlling Interest	**$ 712,759**	**$ 1,826,053**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 2011	Year Ended December 31, 2010 (as restated - Note 2)
Unrestricted Net Assets		
Excess of revenue over expenses attributable to controlling interests	$ 712,759	$ 1,826,053
Excess of revenue under expenses attributable to noncontrolling interests	(207,435)	(127,292)
Excess of Revenue Over Expenses	505,324	1,698,761
Temporarily Restricted Net Assets		
Contributions	343,199	204,202
Change in value of split-interest agreement	(12,122)	(14,679)
Unappropriated earnings on endowments	(115,043)	352,643
Net assets released from restriction	(472,381)	(321,895)
(Decrease) Increase in Temporarily Restricted Net Assets	(256,347)	220,271
Permanently Restricted Net Assets		
Contributions	328,527	557,014
Change in value of beneficial interest in perpetual trust	(17,136)	12,548
Increase in Permanently Restricted Net Assets	311,391	569,562
Increase in Net Assets	560,368	2,488,594
Net Assets - Beginning of year - As restated (Note 2)	43,015,419	40,526,825
Net Assets - End of year	**$ 43,575,787**	**$ 43,015,419**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended December 31, 2011	Year Ended December 31, 2010 (as restated - Note 2)
Cash Flows from Operating Activities		
Increase in net assets	$ 560,368	$ 2,488,594
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	2,970,295	2,687,639
Loss on disposal of property and equipment	13,374	-
Amortization of debt issue costs	31,320	66,979
Realized and unrealized loss (gain) on investments	1,244,796	(2,169,636)
Contributions restricted for long-term purposes	(328,527)	(578,488)
Amortization of entrance fees	(285,323)	(99,500)
Capital contributions to partnership	(1,054)	-
Distributions to partners	247,275	105,160
Bad debt expense	133,855	90,077
Change in value of split-interest agreements	12,122	14,679
Change in value of beneficial interest in perpetual trust	17,136	(12,548)
Change in interest rate swap	156,928	121,941
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	24,773	44,432
Contribution receivable	(202,911)	(11,232)
Prepaid expenses and other current assets	26,487	(54,983)
Accounts payable	490,645	(899,367)
Accrued and other liabilities	115,875	(154,358)
Liability under split-interest agreement	(56,032)	(62,164)
Net cash provided by operating activities	5,171,402	1,577,225
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,282,661)	(9,944,045)
Purchase of investments	(4,800,956)	(5,300,307)
Proceeds from sale of investments	4,249,216	4,132,392
Change in assets limited as to use	(111,438)	(4,302,219)
Net cash used in investing activities	(6,945,839)	(15,414,179)
Cash Flows from Financing Activities		
Proceeds from revolving loan	-	5,365,283
Payments on revolving loan	-	(9,012,125)
Principal payment on long-term debt	(867,106)	(480,000)
Proceeds from long-term debt	-	12,500,000
Principal from restricted contributions	328,527	578,488
Proceeds from entrance fees and deposits	3,979,427	4,563,726
Refunds of entrance fees	(350,686)	(189,960)
Payment of debt issue costs	(6,385)	(234,500)
Loss on refinancing	-	206,702
Distributions to partners	(247,275)	(105,160)
Capital contribution attributable to noncontrolling interests	198,100	-
Net cash provided by financing activities	3,034,602	13,192,454
Net Increase (Decrease) in Cash and Cash Equivalents	1,260,165	(644,500)
Cash and Cash Equivalents - Beginning of year	4,328,306	4,972,806
Cash and Cash Equivalents - End of year	**$ 5,588,471**	**$ 4,328,306**

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, healthcare, and other related services to residents through the operation of a continuing care retirement community in Chelsea, Michigan and independent-living cottages in Dexter, Michigan (Cedars of Dexter). 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 is the sole corporate member of the Foundation (collectively, the "Organization"); as a result, the activities of the two are consolidated and all intercompany activity has been eliminated.

UMRC 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 at December 31, 2011 and 2010.

During 2011, UMRC established UMRC Detroit AAL, Inc. to hold a 0.051 percent general partner interest in Detroit Affordable Assisted Living Limited Dividend Housing Association Limited Partnership (DAAL). DAAL is anticipated to be an 80-unit elderly affordable assisted-living facility in Detroit, Michigan under the low-income housing tax credit program. DAAL is consolidated in its entirety.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Foundation and UMRC Detroit AAL, Inc., which are wholly owned subsidiaries. Sylvan Pines is consolidated in its entirety due to UMRC's control and rights as a managing partner. Accordingly, the assets and liabilities and revenue and expenses of Sylvan Pines have been included in the accompanying consolidated financial statements. The equity attributable to Sylvan Pines' other members is reported as a noncontrolling interest in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated upon consolidation.

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

As of December 31, 2011 and for the year then ended, Sylvan Pines had assets of $4,808,785, liabilities of $6,721,344, revenue of $1,067,915, and expenses and distributions of $1,276,404. As of December 31, 2010 and for the year then ended, Sylvan Pines had assets of $5,152,534, liabilities of $6,856,604, revenue of $1,019,826, and expenses and distributions of $1,147,118. These amounts approximate the effect of consolidating Sylvan Pines.

The accompanying consolidated financial statements include the accounts of DAAL. UMRC Detroit AAL, Inc. has determined that it is the primary beneficiary of DAAL because of its majority ownership of the general partnership interest in DAAL and related performance guarantees as general partner, as well as UMRC Detroit AAL, Inc.'s responsibilities as management agent in the partnership agreement. Because of this, UMRC Detroit AAL, Inc. is provided with (1) the power to direct the activities of DAAL that most significantly impact its economic performance and (2) the obligation to absorb losses that could potentially be significant to DAAL. As a result, DAAL has been included in the financial statements as a consolidated variable interest entity. The equity attributable to the variable interest entities is reported as a noncontrolling interest in the accompanying consolidated financial statements. All material intercompany accounts and balances have been eliminated in consolidation.

As of December 31, 2011 and for the year then ended, DAAL had assets of $2,804,779, liabilities of $2,303,725, and no revenue, expenses, or distributions. These amounts approximate the effect of consolidating DAAL.

The effects of eliminations of revenue and expenses due to intercompany transactions with Sylvan Pines and UMRC Detroit AAL, Inc. are attributed to UMRC.

The creditors and beneficial holders of Sylvan Pines have no recourse to the assets or the general credit beyond the assets of Sylvan Pines. The creditors and beneficial holders of DAAL have no recourse to the assets or general credit beyond the assets of DAAL, except for DAAL obligations UMRC has guaranteed in accordance with financing. No draws were made on the financing as of December 31, 2011.

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 the $250,000 Federal Deposit Insurance Corporation insurance coverage limit.

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

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.

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 consolidated balance sheet.

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 the 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.

Assets Limited as to Use - Assets limited as to use primarily include assets held for debt service and designated assets set aside by the board of trustees for repayment of entrance fee liabilities, over which the board retains control, and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Organization have been reclassified in the consolidated balance sheet as current assets at December 31, 2011 and 2010.

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

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.

Deferred Finance Fees - Deferred finance fees incurred in conjunction with the issuance of debt obligations are capitalized and are amortized over the terms of the related debt. Amortization expense was $31,320 and $66,979 for the years ended December 31, 2011 and 2010, respectively. Accumulated amortization was $430,415 and $399,095 at December 31, 2011 and 2010, respectively. Deferred financing fees associated with refinanced debt issue costs associated with a balance refinanced during 2010 totaling $206,702 were expensed.

Interest Rate Swap - Interest rate swaps are recognized as assets or liabilities at fair value. Realized gains and losses on interest rate swaps are classified as a component of income from operations and are presented as part of interest expense in the consolidated statement of changes in net assets. Unrealized changes in the fair value of the interest rate swap are included in other income (expense) in determining excess of revenue over expenses.

Due to Affiliates - Due to affiliates includes amounts due to Presbyterian Villages of Michigan, an unrelated entity that is a co-general partner in DAAL. The amounts due are noninterest-bearing, with no repayment terms.

Income from Continuing Operations - The consolidated statement of activities reflects the excess of revenue over expenses as a performance indicator. Changes in unrestricted net assets which are excluded from the excess of revenue 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).

Deferred Entrance Fee Income - Deferred entrance fee income represents advance fees paid by a resident upon entering into a continuing care contract, which is recorded as deferred revenue, and then amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

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

Resident Entrance Fees and Deposits - Refundable entrance fees represent the refundable portion of the entrance fee to Cedars of Dexter residents. The refundable notes are noninterest-bearing and are refundable to the resident upon the termination of his or her residence.

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	
	2011	2010
Private and other	64 %	59 %
Medicaid	7	8
Medicare	29	33

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.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Michigan in 2009. The Organization is unable to determine if it will be audited and, if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Organization at a future date.

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

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 without charge or 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. Benevolent care is determined based on established policies, using resident income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenues received, as direct assistance for the provision of benevolent care. The estimated cost of providing charity services is based on data derived from the Organization's cost accounting system. The Organization estimates that it provided $1,073,000 and $1,148,000 of services to indigent residents during 2011 and 2010, respectively.

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.

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

Classification of Net Assets - Net assets of the Organization are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Earnings, gains, and losses on temporarily restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. The Organization reports investment income and gains on permanently restricted donations as unrestricted or temporarily restricted activity as applicable by state law.

Loss from Discontinued Operations - The loss from discontinued operations includes the net operating result of the Boulevard Temple skilled nursing facility (the "Facility") located in Detroit, Michigan. The Facility was sold in December 2009.

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 $17,574,227 and $18,202,361 as of December 31, 2011 and 2010, 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 five-year collective bargaining agreement that expires on April 30, 2015. Licensed practical nurses at Chelsea Retirement Community are subject to a separate collective bargaining agreement that expires on October 20, 2016. These employees comprise approximately 60 percent of the employees of the Organization for 2011 and 2010.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The fair value of financial instruments, including cash, accounts receivable, accounts payable, and debt, approximates carrying values. Investments are recorded at fair value under generally accepted accounting principles. The fair value of debt approximates carrying value because of the variable rate nature of the instrument. The interest rate swap is recorded at fair value on the Organization's consolidated balance sheet.

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

Income Taxes - The Internal Revenue Service has ruled that UMRC and the Foundation are 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.

UMRC Detroit AAL, Inc. is treated as a C Corporation for federal income tax purposes. There are no federal income taxes, deferred tax assets, or liabilities related to the estimated future tax effects of temporary differences between financial reporting and tax accounting. DAAL is a limited partnership 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.

The Organization is not currently under examination by the Internal Revenue Service or any state or local tax authorities. The Organization's federal income tax returns for the years ended prior to December 31, 2008 are no longer subject to examination.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including April 26, 2012 , which is the date the consolidated financial statements were issued.

Note 2 - Restatement

The Organization's accompanying consolidated financial statements for the year ended December 31, 2010 have been restated to correct an error in the presentation of beneficial interests in assets held by third parties. Amounts contributed by donors and held by third parties with which the third party has variance power in the asset agreements were previously reported as assets of the Organization. The beneficial interest in assets reported was based on donor contributions accumulated by the third party from donors. The following financial statement line items for fiscal year 2010 were affected by the change:

Consolidated Statement of Changes in Net Assets for the Year Ended December 31, 2010

	As Previously Reported	As Restated	Effect of Change
Contributions (permanently restricted)	$ 578,488	$ 557,014	$ (21,474)
Change in value (permanently restricted)	191,115	-	(191,115)
Increase in permanently restricted net assets	782,151	569,562	(212,589)
Increase in net assets	2,701,183	2,488,594	(212,589)

Note 2 - Restatement (Continued)

Balance Sheet December 31, 2010

	As Previously Reported	As Restated	Effect of Change
Beneficial interest in Van Dusen endowment	$ 2,514,747	$ -	$ (2,514,747)
Total assets	85,967,885	83,453,138	(2,514,747)
Permanently restricted net assets	4,899,307	2,384,560	(2,514,747)

As a result of the correction of an error, at January 1, 2010, permanently restricted net assets decreased by $2,302,158. Permanently restricted contributions for the year ended December 31, 2010 decreased by $21,474, and change in value decreased by $191,115, for a total decrease in the change in permanently restricted net assets of $2,514,747.

Note 3 - Accounts Receivable

The Organization provides services without collateral to its residents, 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	
	2011	2010
Medicaid	20 %	16 %
Medicare	42	46
Residents and other third-party payors	38	38
Total	100	100

Note 4 - Investments and Assets Limited as to Use

Assets Limited as to Use

The composition of assets limited as to use as of December 31, 2011 and 2010 is set forth in the following table. Investments are stated at fair value.

	2011	2010
Debt service reserve fund - Cash	$ 1,800,000	$ -
Debt service reserve fund - Fixed-income securities	1,271,974	1,593,111
Mortgage escrow for noncontrolling interest - Cash	490,047	437,108
Held in escrow pursuant to the Life Care Disclosure Act for repayment of entrance fee liabilities - Cash	1,160,426	4,896,660
Designated for repayment of entrance fee liabilities - Cash	15,384	-
Designated for repayment of entrance fee liabilities - Fixed-income securities	2,300,486	-
Total assets limited as to use	7,038,317	6,926,879
Less short-term portion of assets limited as to use	(927,239)	(867,106)
Total long-term assets limited as to use	$ 6,111,078	$ 6,059,773

Other Investments

Other investments, stated at fair value, at December 31, 2011 and 2010 include the following:

	2011	2010
Cash and equivalents	$ 21,503	$ 281,608
Money market funds	1,287,990	823,176
Fixed-income securities	3,764,115	3,754,247
Equity securities	14,231,229	15,407,613
Hedge fund	1,308,802	1,040,051
Total investments	20,613,639	21,306,695
Less short-term portion of investments	(1,309,493)	(1,104,784)
Total long-term investments	$ 19,304,146	$ 20,201,911

Note 5 - Contributions Receivable

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

	2011	2010
Contributions receivable:		
Due in less than one year	$ 353,528	$ 104,811
Due in one to five years	295,577	326,299
Due in more than five years	724,734	773,113
Total contributions receivable	1,373,839	1,204,223
Unamortized discount	(240,071)	(266,466)
Allowance for uncollectible amounts	(3,600)	(10,500)
Less current portion	(353,528)	(104,811)
Long-term portion	$ 776,640	$ 822,446

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2011	2010
Land	$ 3,085,717	$ 3,085,717
Land improvements	6,464,497	5,972,819
Buildings	52,110,065	43,709,330
Building improvements	10,593,805	9,605,767
Transportation equipment	30,224	30,224
Furniture, fixtures, and equipment	12,303,610	11,173,789
Construction in progress	1,627,116	5,483,225
Total cost	86,215,034	79,060,871
Accumulated depreciation	35,162,191	32,302,693
Net carrying amount	$ 51,052,843	$ 46,758,178

Depreciation expense on property and equipment totaled $2,970,295 and $2,687,639 at December 31, 2011 and 2010, respectively.

In 2011, DAAL began pre-development activities, with initial capital funding and purchase of capital assets. Capital assets purchased during 2011 of approximately $1,112,000 have been included in construction in progress as of December 31, 2011, which were funded in part by cash owed to affiliated organizations. DAAL has entered into construction commitments of approximately $12,600,000 at December 31, 2011.

Note 6 - Property and Equipment (Continued)

On December 1, 2009, the Organization sold its Boulevard Temple skilled nursing facility (the "Facility"), located in Detroit, Michigan, to an unrelated third party. Expenses in excess of revenue from discontinued operations incurred at the Facility totaled approximately $34,600 and $507,000 for the years ended December 31, 2011 and 2010, respectively, and are included in discontinued operations on the consolidated statement of activities.

Note 7 - Long-term Debt

During 2010, the Organization issued $12,500,000 ($12,282,289 and $12,500,000 due at December 31, 2011 and 2010, respectively) of Variable Rate Limited Obligation Revenue Bonds (2010 Bonds) through the Economic Development Corporation of the Village of Dexter (EDC of Dexter). The bond proceeds were issued to repay existing indebtedness and fund development costs associated with the construction of independent-living cottages and common space in Dexter, Michigan.

Principal and interest payments on the 2010 Bonds are due monthly, with interest due at a variable rate of interest, and with principal ranging from $20,145 to $56,313 through the maturity date of January 2041.

Concurrent to the bond issuance, the Organization entered into a bond purchase agreement, whereby the 2010 Bonds were acquired by the financial institution. Under the terms of the bond purchase agreement, the 2010 Bonds carry a variable rate of interest at a rate of 67 percent of the monthly LIBOR plus 25 basis points (effectively 2.09 percent and 2.07 percent at December 31, 2011 and 2010, respectively). Interest expense for the year ended December 31, 2011 was $359,395. There was no interest expense for the year ended December 31, 2010. The bond purchase agreement has a mandatory tender date of December 7, 2015.

The bond purchase agreement is collateralized by certain assets of the Organization and a guarantee by the Foundation, and is subject to certain restrictive financial and other covenants.

During 1998, the Organization issued $22,980,000 ($13,075,000 and $13,585,000 due at December 31, 2011 and 2010, respectively) of 30-year Term Limited Obligation Revenue Refunding Bonds through the Economic Development Corporation of the Village of Chelsea (EDC of Chelsea). The bond proceeds were lent by the EDC of Chelsea to the Organization for the purpose of refinancing the EDC of Chelsea's November 1, 1993 Limited Obligation Revenue Bonds and for the construction of a dementia facility in Chelsea, Michigan.

Note 7 - Long-term Debt (Continued)

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 certain assets of the Organization. Principal payments vary annually and range from $535,000 to $1,175,000 with an interest rate of 5.40 percent. Interest expense, net of credits, for the years ended December 31, 2011 and 2010 was $681,518 and $665,440, 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: the Debt Service Reserve Fund, the 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 ($6,542,577 and $6,681,972 due at December 31, 2011 and 2010, 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, 2011 and 2010 was $330,352 and $337,165, respectively. In accordance with the loan agreement, certain escrow revenue has 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:

	2011	2010
Debt Service Reserve Fund	$ 3,071,165	$ 1,235,393
Bond Payment Fund	809	357,718
Noncontrolling interest reserves and escrows	490,047	437,108
Total assets limited as to use, in conjunction with a financing agreement	3,562,021	2,030,219
Less assets limited as to use - Expected to be expended within one year from year end	490,856	794,826
Long-term assets limited as to use, in conjunction with a financing agreement	$ 3,071,165	$ 1,235,393

Note 7 - Long-term Debt (Continued)

Principal payments on long-term debt as of December 31, 2011 are due as follows:

2012		$ 927,239
2013		973,601
2014		1,020,667
2015		1,068,467
2016		1,122,874
Thereafter		26,787,018
	Subtotal	31,899,866
	Less current portion	(927,239)
	Total long-term	$ 30,972,627

Note 8 - Derivative Financial Instruments

The Organization is exposed to certain risks in the normal course of its business operations. The Organization manages risks related to the variability of future cash flows through the use of derivatives. The only derivative instrument used by the Organization is an interest rate swap. The interest rate swap is used by the Organization to manage the risks associated with interest rates on variable rate borrowings. The interest rate swaps used by the Organization do not qualify for hedge accounting.

The Organization entered into an interest rate swap which was effective December 31, 2010, and on which the Organization pays a fixed rate of 1.765 percent and receives a variable rate at 67 percent of LIBOR. The interest rate swap had a total notional amount of $6,141,145 and $6,250,000 at December 31, 2011 and 2010, respectively, and expires December 5, 2015. An unrealized loss on the interest rate swap of $156,928 and $121,941 has been recognized in other income (loss) for the years ended December 31, 2011 and 2010, respectively. Realized losses on borrowings of $101,377 have been recognized in interest expense for the year ended December 31, 2011. No gain or loss was recognized on borrowings during the year ended December 31, 2010. The Organization has recorded the fair value of this interest rate swap agreement, which resulted in a liability of $278,869 and $121,941 at December 31, 2011 and 2010, respectively.

Note 9 - Retirement Plans

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 IRS limits. 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. For the years ended December 31, 2011 and 2010, the Organization contributed $83,872 and $135,736 respectively, to the plan.

Defined Benefit Plan - The Organization participates in a multiemployer defined benefit retirement plan for the benefit of all employees covered under the collective bargaining agreement based on employee hours worked. For the years ended December 31, 2011 and 2010, the Organization contributed $90,496 and $86,712, respectively, to the plan. The position of the Organization relative to other contributors to the multiemployer plan has not been determined with respect to plan assets and accumulated benefits. In the event of a withdrawal from the plan and certain other conditions, a contributor to a multiemployer plan may be liable to the plan for a portion of the underfunded status.

Note 10 - 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 was approximately $291,000 and $314,000 in 2011 and 2010, respectively. Accruals of approximately $317,000 and $345,000 were recorded for unsettled and incurred but not reported claims at December 31, 2011 and 2010, respectively.

Note 11 - Split-interest Agreements

The Organization is a beneficiary of various split-interest agreements which are included in long-term investments. Assets contributed under these agreements are held at the Foundation. 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, which totaled $322,892 and $366,802 at December 31, 2011 and 2010, respectively.

Note 12 - Van Dusen Endowment

The Organization has certain funds donated by outside donors for the benefit of the Organization which are held and managed by the Community Foundation of Southeastern Michigan (CFSEM). Such contributions are subject to variance power maintained by the CFSEM. The fair value of these funds was $2,374,820 and $2,514,747 at December 31, 2011 and 2010, respectively. Earnings are available for operations at the discretion of the CFSEM and are treated as contributions in the year received.

Note 13 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2011 and 2010:

	2011	2010
Healthcare services:		
Contributions under split-interest agreement	$ 120,088	$ 174,345
Contributions restricted for future capital improvements	111,012	111,188
Contributions restricted for other future uses by donor	356,168	367,475
Earnings on endowment funds to be used for the continuing care of residents	526,555	717,162
Total temporarily restricted net assets	$ 1,113,823	$ 1,370,170

Permanently restricted net assets at December 31, 2011 and 2010 are restricted by the following:

	2011	2010
Beneficial interest in perpetual trusts	$ 202,367	$ 219,503
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	2,493,584	2,165,057
Total permanently restricted net assets	$ 2,695,951	$ 2,384,560

Note 14 - Donor- and Board-restricted Endowments

Organization endowments include both donor-restricted endowment funds and funds designated by the board of directors and trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors and trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors and trustees of the Organization have interpreted the Uniform Management of Institutional Funds Act (UPMIFA) 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 526,555	$ 2,493,584	$ 3,020,139
Board-designated endowment funds	17,574,227	-	-	17,574,227
Total funds	$ 17,574,227	$ 526,555	$ 2,493,584	$ 20,594,366

Note 14 - Donor- and Board-restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 18,202,360	$ 717,159	$ 2,165,057	$ 21,084,576
Investment return:				
Investment income	597,089	145,296	-	742,385
Net appreciation (realized and unrealized)	(1,129,739)	(260,337)	-	(1,390,076)
Total investment return	(532,650)	(115,041)	-	(647,691)
Contributions	651,346	-	328,527	979,873
Appropriation of endowment assets for expenditure	(746,829)	(75,563)	-	(822,392)
Endowment net assets - End of year	$ 17,574,227	$ 526,555	$ 2,493,584	$ 20,594,366

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 717,159	$ 2,165,057	$ 2,882,216
Board-designated endowment funds	18,202,360	-	-	18,202,360
Total funds	$ 18,202,360	$ 717,159	$ 2,165,057	$ 21,084,576

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 16,088,288	$ 421,019	$ 1,608,043	$ 18,117,350
Investment return:				
Investment income	466,387	72,609	-	538,996
Net appreciation (realized and unrealized)	1,911,853	280,034	-	2,191,887
Total investment return	2,378,240	352,643	-	2,730,883
Contributions	468,494	-	557,014	1,025,508
Appropriation of endowment assets for expenditure	(732,662)	(56,503)	-	(789,165)
Endowment net assets - End of year	$ 18,202,360	$ 717,159	$ 2,165,057	$ 21,084,576

Note 14 - Donor- and Board-restricted Endowments (Continued)

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 endowments 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.

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 activities. Annual distributions are calculated based on 5 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.

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Note 15 - Fair Value Measurements (Continued)

The following tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis at December 31, 2011 and 2010 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. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their 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 15 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2011
Assets				
Money market securities - Money market mutual funds	$ 1,287,990	$ -	$ -	$ 1,287,990
Fixed-income securities:				
Governmental debt securities	37,118	-	-	37,118
Fixed-income mutual funds	7,299,457	-	-	7,299,457
Total debt securities	7,336,575	-	-	7,336,575
Equity securities:				
U.S. company common stocks	3,299,219	-	-	3,299,219
Foreign company common stocks	128,220	-	-	128,220
Equity mutual funds	10,803,790	-	-	10,803,790
Total equity securities	14,231,229	-	-	14,231,229
Other investments:				
Beneficial interest in perpetual trusts	-	-	202,367	202,367
Hedge fund - Limited partnership	-	-	1,308,802	1,308,802
Total other investments	-	-	1,511,169	1,511,169
Total assets	$ 22,855,794	$ -	$ 1,511,169	$ 24,366,963
Liabilities - Interest rate swap agreement	$ -	$ (278,869)	$ -	$ (278,869)

Note 15 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010
Assets				
Money market securities - Money market mutual funds	$ 823,176	$ -	$ -	$ 823,176
Fixed-income securities:				
Governmental debt securities	112,550	-	-	112,550
Fixed-income mutual funds	5,234,808	-	-	5,234,808
Total debt securities	5,347,358	-	-	5,347,358
Equity securities:				
U.S. company common stocks	3,126,631	-	-	3,126,631
Foreign company common stocks	132,510	-	-	132,510
Equity mutual funds	12,148,472	-	-	12,148,472
Total common stocks	15,407,613	-	-	15,407,613
Other investments:				
Beneficial interest in perpetual trusts	-	-	219,503	219,503
Hedge fund - Limited partnership	-	-	1,040,051	1,040,051
Total other investments	-	-	1,259,554	1,259,554
Total assets	$ 21,578,147	$ -	$ 1,259,554	$ 22,837,701
Liabilities - Interest rate swap agreement	$ -	$ (121,941)	$ -	$ (121,941)

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. During the years ended December 31, 2011 and 2010, no transfers were identified.

Note 15 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2011 and 2010 are as follows:

	Beneficial Interest in Perpetual Trusts	Hedge Fund - Limited Partnership
Balance at January 1, 2011	$ 219,503	$ 1,040,051
Net purchases, issuances, sales, and settlements	-	250,000
Total realized and unrealized (losses) gains	(17,136)	18,751
Balance at December 31, 2011	$ 202,367	$ 1,308,802

	Beneficial Interest in Perpetual Trusts	Hedge Fund - Limited Partnership
Balance at January 1, 2010	$ 206,955	$ 646,050
Net purchases, issuances, sales, and settlements	-	370,000
Total realized and unrealized gains	12,548	24,001
Balance at December 31, 2010	$ 219,503	$ 1,040,051

The Organization estimates the fair value of the Level 3 assets based upon the fair value of the assets in the endowment fund or trust unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions. The Organization estimates the fair value of the Level 3 hedge fund investment based on information provided by the fund managers of the investment and other events and circumstances that may affect the fair value of the investment.

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.

Note 15 - Fair Value Measurements (Continued)

Of the Level 3 assets still held by the Organization in the perpetual trusts, during the year ended December 31, 2011, the unrealized loss was $17,136, which is recognized as a decrease in permanently restricted net assets in the consolidated statement of changes in net assets. During the year ended December 31, 2010, the unrealized gain was $12,548, which is recognized as an increase in permanently restricted net assets in the consolidated statement of changes in net assets.

Of the Level 3 assets still held by the Organization in the hedge fund investment, during the years ended December 31, 2011 and 2010, the unrealized gain was $18,751 and $24,001, respectively, which is recognized as an increase in unrestricted net assets in the consolidated statement of changes in net assets. The Organization also purchased $250,000 of additional investments in the hedge fund during the year ended December 31, 2011.

Note 16 - Cash Flows

Cash paid for interest was $1,361,639 for the year ended December 31, 2011, with no capitalized interest identified. Cash paid for interest, net of capitalized interest of $146,889, was $1,210,223 for the year ended December 31, 2010.

Significant noncash activity for the year ended December 31, 2011 included fixed asset additions and related accounts payable of $1,112,252 and deferred financing fees and related accounts payable of $465,027.

Additional Information

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Independent Auditor's Report on Additional Information

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

We have audited the consolidated financial statements of United Methodist Retirement Communities, Inc. and Subsidiaries as of and for the years ended December 31, 2011 and 2010. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

April 26, 2012

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidating Balance Sheet
December 31, 2011

	Chelsea Retirement Community	Cedars of Dexter	Heritage Foundation	Sylvan Pines Limited Dividend Housing Association, LLC	UMRC Detroit AAL, Inc.	Eliminations	Totals
Assets							
Current Assets							
Cash and cash equivalents	$ 4,036,691	$ 100	$ -	$ 324,180	$ 1,227,500	$ -	$ 5,588,471
Investments	-	-	1,309,493	-	-	-	1,309,493
Accounts receivable - Less allowance for doubtful accounts	1,628,685	12,688	-	-	-	-	1,641,373
Contributions receivable	-	-	353,528	-	-	-	353,528
Assets limited as to use	535,000	245,712	-	146,527	-	-	927,239
Due from affiliates	5,366,274	-	-	-	-	(5,366,274)	-
Prepaid expenses and other current assets	537,345	-	-	19,465	-	(19,446)	537,364
Total current assets	12,103,995	258,500	1,663,021	490,172	1,227,500	(5,385,720)	10,357,468
Assets Limited as to Use - Net of current portion	3,052,844	914,714	-	343,520	1,800,000	-	6,111,078
Property and Equipment - Net	26,851,002	19,114,496	-	3,975,093	1,112,252	-	51,052,843
Beneficial Interest in Perpetual Trust	-	-	202,367	-	-	-	202,367
Other							
Investments	-	-	19,304,146	-	-	-	19,304,146
Investment in UMRC Detroit AAL, Inc.	500,000	-	-	-	-	(500,000)	-
Contributions receivable - Net of current portion	155,683	-	620,957	-	-	-	776,640
Deferred finance fees	378,180	219,253	-	-	465,027	-	1,062,460
Total assets	**$ 43,041,704**	**$ 20,506,963**	**$ 21,790,491**	**$ 4,808,785**	**$ 4,604,779**	**$ (5,885,720)**	**$ 88,867,002**
Liabilities and Net Assets (Deficit)							
Current Liabilities							
Accounts payable	$ 1,447,252	$ -	$ -	$ 29,806	$ 465,027	$ -	$ 1,942,085
Current portion of long-term debt	535,000	245,712	-	146,527	-	-	927,239
Liability accrued under split-interest agreements	-	-	52,731	-	-	-	52,731
Due to affiliates	-	2,836,597	83,598	-	3,638,698	(5,366,274)	1,192,619
Accrued liabilities and other	1,110,722	-	-	148,961	-	(19,446)	1,240,237
Total current liabilities	3,092,974	3,082,309	136,329	325,294	4,103,725	(5,385,720)	5,354,911
Long-term Debt - Net of current portion	12,540,000	12,036,577	-	6,396,050	-	-	30,972,627
Liability Under Split-interest Agreements	-	-	270,161	-	-	-	270,161
Other Long-term Liabilities							
Resident deposits	-	5,542,736	-	-	-	-	5,542,736
Deferred revenue	-	2,871,911	-	-	-	-	2,871,911
Provision for interest rate swap agreement	-	278,869	-	-	-	-	278,869
Net Assets (Deficit)							
Unrestricted - Controlling interest	27,408,730	(3,305,439)	17,574,227	-	500,000	(500,000)	41,677,518
Unrestricted - Noncontrolling interest	-	-	-	(1,912,559)	1,054	-	(1,911,505)
Temporarily restricted	-	-	1,113,823	-	-	-	1,113,823
Permanently restricted	-	-	2,695,951	-	-	-	2,695,951
Total net assets (deficit)	27,408,730	(3,305,439)	21,384,001	(1,912,559)	501,054	(500,000)	43,575,787
Total liabilities and net assets (deficit)	**$ 43,041,704**	**$ 20,506,963**	**$ 21,790,491**	**$ 4,808,785**	**$ 4,604,779**	**$ (5,885,720)**	**$ 88,867,002**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidating Statement of Activities
Year Ended December 31, 2011

	Chelsea Retirement Community	Cedars of Dexter	Heritage Foundation	Sylvan Pines Limited Dividend Housing Association, LLC	UMRC Detroit AAL, Inc.	Eliminations	Totals
Operating Revenue							
Net service revenue	$ 26,049,260	$ -	$ -	$ -	$ -	$ -	$ 26,049,260
Rental revenue	-	874,069	-	1,000,639	-	-	1,874,708
Other	94,104	8,324	-	67,276	-	(94,104)	75,600
Amortization of entrance fees	-	285,323	-	-	-	-	285,323
Contributions	-	-	1,202,829	-	-	-	1,202,829
Net assets released from restrictions used in operations	-	-	472,381	-	-	-	472,381
Total operating revenue	26,143,364	1,167,716	1,675,210	1,067,915	-	(94,104)	29,960,101
Operating Expenses							
Salaries, wages, and purchased labor	12,706,379	255,182	-	103,303	-	-	13,064,864
Employee benefits	3,151,458	69,313	-	23,642	-	-	3,244,413
Food	793,198	54,486	-	-	-	-	847,684
Medical care	1,007,580	-	-	-	-	-	1,007,580
Management fee	-	50,004	-	44,100	-	(94,104)	-
Repairs and maintenance	1,050,643	118,343	-	72,939	-	-	1,241,925
Utilities	705,343	69,701	-	78,925	-	-	853,969
Supplies	613,134	47,684	-	-	-	-	660,818
Depreciation	2,213,868	460,840	-	295,587	-	-	2,970,295
Interest	681,518	365,952	-	330,352	-	-	1,377,822
Real estate taxes	243,478	72,982	-	36,927	-	-	353,387
Provider tax	340,529	-	-	-	-	-	340,529
Bad debts	133,855	-	-	-	-	-	133,855
Miscellaneous	1,334,462	163,718	-	43,354	-	-	1,541,534
Marketing and promotions	-	583,522	-	-	-	-	583,522
Fundraising - Promotion and development expenses	-	-	386,604	-	-	-	386,604
Total operating expenses	24,975,445	2,311,727	386,604	1,029,129	-	(94,104)	28,608,801
Operating Income (Loss) - Before other income (expenses)	1,167,919	(1,144,011)	1,288,606	38,786	-	-	1,351,300
Other Income (Expenses)							
Investment income	-	17,723	717,221	-	-	-	734,944
Loss on sale of property	(13,374)	-	-	-	-	-	(13,374)
Gain on sale of investments	-	-	254,915	-	-	-	254,915
Unrealized losses on investments	-	-	(1,384,668)	-	-	-	(1,384,668)
Change in fair value of interest rate swap agreement	-	(156,928)	-	-	-	-	(156,928)
Net equity contributions (distributions) from noncontrolling interest	-	-	-	(247,275)	1,054	-	(246,221)
Total other (expenses) income	(13,374)	(139,205)	(412,532)	(247,275)	1,054	-	(811,332)
Income (Loss) from Continuing Operations - Before discontinued operations	1,154,545	(1,283,216)	876,074	(208,489)	1,054	-	539,968
Discontinued Operations	(34,644)	-	-	-	-	-	(34,644)
Excess of Revenue Over (Under) Expenses	1,119,901	(1,283,216)	876,074	(208,489)	1,054	-	505,324
Less Excess of Revenue (Under) Over Expenses Attributable to Noncontrolling Interest in Subsidiariy	-	-	-	(208,489)	1,054	-	(207,435)
Consolidated Excess of Revenue Over (Under) Expenses Attributable to Controlling Interest	1,119,901	(1,283,216)	876,074	-	-	-	712,759
Consolidated Excess of Revenue (Under) Over Expenses Attributable to Noncontrolling Interest	-	-	-	(208,489)	1,054	-	(207,435)
Transfer to (from) Affiliates	1,504,210	-	(1,504,210)	-	500,000	(500,000)	-
Change in Unrestricted Net Assets	**$ 2,624,111**	**$ (1,283,216)**	**$ (628,136)**	**$ (208,489)**	**$ 501,054**	**$ (500,000)**	**$ 505,324**