United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Financial Report with Additional Information
December 31, 2009

United Methodist Retirement Communities, Inc. and Subsidiaries

Contents

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

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, 2009 and 2008 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, 2009 and 2008 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 15, 2010

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Balance Sheet

	December 31, 2009	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	$ 4,972,806	$ 2,370,848
Investments (Note 3)	835,198	1,256,512
Accounts receivable - Less allowance for doubtful accounts of $150,931 and $148,325 in 2009 and 2008, respectively (Note 2)	1,934,510	2,864,383
Contributions receivable (Note 4)	113,616	267,700
Assets limited as to use (Note 8)	812,653	753,055
Prepaid expenses and other current assets	508,968	510,108
Total current assets	9,177,751	8,022,606
Assets Limited as to Use - Net of current portion (Note 8)	1,812,007	1,864,506
Property and Equipment - Net (Note 5)	39,501,772	41,555,244
Beneficial Interest in Perpetual Trust	206,955	191,265
Other		
Investments (Note 3)	17,133,946	13,247,414
Contributions receivable - Net of current portion (Note 4)	802,409	758,659
Beneficial interest in Van Dusen endowment (Note 6)	2,302,158	2,010,145
Debt issue costs	661,549	449,460
Total assets	**$ 71,598,547**	**$ 68,099,299**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,860,056	$ 1,689,397
Bank line of credit	-	3,000,000
Current portion of long-term debt (Note 8)	612,610	586,156
Liability accrued under split-interest agreements (Note 7)	67,339	67,263
Accrued liabilities and other	2,100,839	1,920,813
Total current liabilities	4,640,844	7,263,629
Long-term Debt - Net of current portion (Note 8)	23,781,772	20,879,584
Liability Under Split-interest Agreements (Note 7)	346,948	365,774
Net Assets		
Unrestricted:		
Controlling interest	39,138,706	36,722,146
Noncontrolling interest	(1,576,778)	(1,413,274)
Temporarily restricted (Note 9)	1,149,899	823,513
Permanently restricted (Note 9)	4,117,156	3,457,927
Total net assets	42,828,983	39,590,312
Total liabilities and net assets	**$ 71,598,547**	**$ 68,099,299**

Consolidated Statement of Activities

	Year Ended December 31, 2009	Year Ended December 31, 2008
Operating Revenue		
Net service revenue	$ 22,963,708	$ 22,956,979
Rental revenue	964,314	963,739
Other	259,586	303,899
Contributions	380,728	734,909
Net assets released from restrictions	456,868	897,387
Total operating revenue	25,025,204	25,856,913
Operating Expenses		
Healthcare	22,862,521	22,801,993
Development expenses - Dexter project	680,315	599,876
General and administrative expenses	1,032,640	1,118,688
Fundraising - Promotion and development expenses	386,138	448,164
Total operating expenses	24,961,614	24,968,721
Operating Income - Before other income (expense)	63,590	888,192
Other Income (Expense)		
Investment income	421,997	1,211,849
Gain on sale of investments	26,688	280,149
Unrealized gains and losses on investments	3,658,550	(4,428,789)
Loss from investment in joint venture	-	(396,747)
Equity distributions from noncontrolling interest	(130,711)	(92,150)
Total other income (expense)	3,976,524	(3,425,688)
Income (Loss) from Continuing Operations - Before discontinued operations	4,040,114	(2,537,496)
Discontinued Operations (Note 5)	(1,787,058)	(2,560,120)
Excess of Revenue Over (Under) Expenses	2,253,056	(5,097,616)
Less Excess of Revenue Under Expenses Attributable to Noncontrolling Interest in Subsidiary	(163,504)	(129,305)
Consolidated Excess of Revenue Over (Under) Expenses Attributable to Controlling Interest	**$ 2,416,560**	**$ (4,968,311)**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 2009	Year Ended December 31, 2008
Unrestricted Net Assets		
Excess of revenue over (under) expenses attributable to controlling interests	$ 2,416,560	$ (4,968,311)
Excess of revenue under expenses attributable to noncontrolling interests	(163,504)	(129,305)
Excess of Revenue Over (Under) Expenses	2,253,056	(5,097,616)
Temporarily Restricted Net Assets		
Contributions	364,272	350,343
Change in value of split-interest agreement	(43,324)	(67,077)
Unappropriated earnings on endowments	462,306	-
Net assets released from restriction	(456,868)	(711,190)
Increase (Decrease) in Temporarily Restricted Net Assets	326,386	(427,924)
Permanently Restricted Net Assets		
Contributions	400,000	235,000
Change in value of endowments	(48,474)	(241,196)
Change in value of beneficial interest in Van Dusen endowment	292,013	(1,057,216)
Change in value of beneficial interest in perpetual trust	15,690	(53,076)
Net assets released from restriction	-	(186,197)
Increase (Decrease) in Permanently Restricted Net Assets	659,229	(1,302,685)
Increase (Decrease) in Net Assets	3,238,671	(6,828,225)
Net Assets - Beginning of year	39,590,312	46,418,537
Net Assets - End of year	**$ 42,828,983**	**$ 39,590,312**

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 3,238,671	$ (6,828,225)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	2,991,173	2,866,388
Amortization of debt issue costs	31,893	23,760
Realized and unrealized gains and losses on investments	(4,067,560)	4,389,836
Contributions restricted for long-term purposes	(400,000)	(474,111)
Distributions to partners	130,711	92,150
Loss on sale of business unit	254,421	-
Bad debt expense	361,293	255,872
Change in value of split-interest agreements	43,324	67,077
Change in value of beneficial interest in perpetual trust	(292,013)	1,057,216
Change in value of perpetual trusts	(15,690)	53,076
Equity in the losses of joint venture	-	396,747
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	568,580	(237,398)
Contribution receivable	110,334	76,309
Prepaid expenses and other current assets	(242,842)	72,697
Accounts payable	170,659	422,282
Accrued and other liabilities	180,026	67,074
Due to third party	-	(89,702)
Liability under split-interest agreement	(62,074)	(12,184)
Net cash provided by operating activities	3,000,906	2,198,864
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,192,122)	(3,515,978)
Proceeds from sale of business unit	3,000,000	-
Purchase of investments	(7,459,392)	(9,865,248)
Proceeds from sale of investments	8,061,734	8,997,374
Change in assets limited as to use	(7,099)	223,831
Net cash used in investing activities	(596,879)	(4,160,021)
Cash Flows from Financing Activities		
Proceeds from revolving loan	3,514,798	-
Proceeds from line of credit	-	3,000,000
Principal payment on long-term debt	(586,156)	(555,016)
Payments on line of credit	(3,000,000)	-
Principal from restricted contributions	400,000	474,111
Distributions to partners	(130,711)	(92,150)
Net cash provided by financing activities	197,931	2,826,945
Net Increase in Cash and Cash Equivalents	2,601,958	865,788
Cash and Cash Equivalents - Beginning of year	2,370,848	1,505,060
Cash and Cash Equivalents - End of year	**$ 4,972,806**	**$ 2,370,848**
Supplemental Cash Flow Information - Cash paid for interest, net of capitalized interest of $146,175 and $26,277 as of December 31, 2009 and 2008, respectively	**$ 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, healthcare, 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 at December 31, 2009 and 2008.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Foundation, which is a wholly owned subsidiary, and Sylvan Pines, an entity which is consolidated in its entirety due to its control and rights as a managing partner. 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, 2009 and for the year then ended, Sylvan Pines had assets of $5,405,748, liabilities of $6,982,526, revenue of $1,018,001, and expenses and distributions of $1,181,505. 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. 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.

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.

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

Debt Issue Costs - Debt issue costs are costs related to the issuance of Economic Development Corporation of the Village of Chelsea Limited Obligation Revenue Bonds and a revolving loan established during 2009 to finance the construction of the Cedars of Dexter. These costs are being amortized over the terms of the related debt. Amortization expense was $31,893 and $23,760 for the years ended December 31, 2009 and 2008, respectively. Accumulated amortization was $387,849 and $355,956 at December 31, 2009 and 2008, respectively.

Income (Loss) from Continuing Operations - 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.

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

	Percent	
	2009	2008
Private	48	52
Medicaid	17	16
Medicare	35	32

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.

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

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.

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 $1,219,000 and $821,000 for the years ended December 31, 2009 and 2008, 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 $16,088,289 and $12,766,856 as of December 31, 2009 and 2008, 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. These employees comprise approximately 60 percent and 64 percent of the employees of the Organization for 2009 and 2008, 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)

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 ending prior to December 31, 2006 are no longer subject to examination.

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.

Reclassifications - Certain prior year classifications have been changed to correspond with 2009 classifications.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including April 15, 2010, which is the date the consolidated financial statements were issued.

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	
	2009	2008
Medicaid	25	26
Medicare	35	41
Residents and other third-party payors	40	33
Total	100	100

Note 3 - Investments

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

	2009	2008
Cash equivalents	$ 836,605	$ 690,295
Bond mutual funds	3,264,377	4,178,744
Stocks	13,222,112	9,634,887
Hedge fund	646,050	-
Total investments	17,969,144	14,503,926
Less short-term portion of investments	835,198	1,256,512
Total long-term investments	$ 17,133,946	$ 13,247,414

Note 4 - Contributions Receivable

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

	2009	2008
Contributions receivable:		
Due in less than one year	$ 113,616	$ 267,700
Due in one to five years	296,044	277,995
Due in more than five years	771,668	748,979
Total contributions receivable	1,181,328	1,294,674
Unamortized discount	(265,303)	(268,315)
Less current portion	(113,616)	(267,700)
Long-term portion	$ 802,409	$ 758,659

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2009	2008
Land	$ 3,085,717	$ 3,845,216
Land improvements	4,620,072	5,106,068
Buildings	38,983,146	47,248,202
Building improvements	9,449,681	10,109,401
Transportation equipment	85,525	175,913
Furniture, fixtures, and equipment	10,066,146	12,902,844
Construction in progress	3,030,349	305,045
Total cost	69,320,636	79,692,689
Accumulated depreciation	29,818,864	38,137,445
Net carrying amount	$ 39,501,772	$ 41,555,244

Depreciation expense on property and equipment totaled $2,991,173 and $2,866,388 at December 31, 2009 and 2008, respectively.

Construction in progress relates to the construction of a new facility in Dexter, Michigan. The construction is being financed with a revolving loan and cash. The Organization has entered into an agreement with a general contractor for the construction of the new facility. The contract does not have a guaranteed maximum price and, as such, the Organization will be billed as work is performed for cost of labor and materials plus a percentage fee on a monthly basis. Management projects total costs to be approximately $18 million, with the development completed in 2011.

Note 5 - 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. The assets of the Facility were sold at a loss of approximately $254,000, which is included in discontinued operations on the consolidated statement of operations for the year ended December 31, 2009. Expenses in excess of revenues from discontinued operations incurred at the Facility totaled approximately $1,533,000 (including approximately $996,000 of operations and $537,000 related to costs associated with sale) and $1,358,000 for the years ended December 31, 2009 and 2008, respectively, and are included in discontinued operations on the consolidated statement of operations. During 2008, an impairment loss of $1,202,184 was recognized to write down the assets in the Facility 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 was allocated to reduce land and improvements, building and improvements, and furniture and fixtures on the consolidated balance sheet based on pro-rata percentages of the total net book value of the long-lived assets. Upon the sale of the Facility, the impairments are no longer on the Organization's books.

Note 6 - Beneficial Interest in Van Dusen Endowment

The Organization has a beneficial interest in the net assets of the Van Dusen endowment held by the Community Foundation for Southeastern Michigan. All funds generated through this program are held and managed in commingled funds by the Community Foundation for Southeastern Michigan. Income from the funds is paid annually to the Organization at a rate of 5 percent of the market value of the assets. An asset has been recorded for the present value of future cash flows related to this endowment in the amount of $2,302,158 and $2,010,145 at December 31, 2009 and 2008, respectively.

Note 7 - Split-interest Agreements

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

Note 8 - Long-term Debt

During 1998, the Organization issued $22,980,000 ($14,065,000 and $14,525,000 due at December 31, 2009 and 2008, 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, 2009 and 2008 was $622,409 and $682,602, 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.

During 2008, the Organization obtained a $3,000,000 line of credit with a financial institution. The outstanding balance on the line of credit as of December 31, 2008 was $3,000,000, which was rolled over into a revolving loan in October 2009. Under the terms of the revolving loan, a maximum amount of $9,000,000 is available, of which $3,514,799 was drawn at December 31, 2009. The loan is collateralized by all assets of the Organization and has restrictive financial and other covenants. The loan bears interest at the daily fluctuating LIBOR plus 320 basis points, effectively 3.43 percent at December 31, 2009, with interest due monthly, and with any remaining principal due October 31, 2014.

Note 8 - Long-term Debt (Continued)

In 2001, Sylvan Pines entered into a loan totaling $7,766,000 ($6,814,583 and $6,940,740 due at December 31, 2009 and 2008, 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, 2009 and 2008 was $343,646 and $349,812, 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:

	2009	2008
Debt Service Reserve Fund	$ 1,812,007	$ 1,864,506
Bond Payment Fund	265,854	213,328
Noncontrolling interest reserves and escrows	546,799	539,727
Total assets limited as to use	2,624,660	2,617,561
Less assets limited as to use - Expected to be expended within one year from year end	812,653	753,055
Long-term assets limited as to use	$ 1,812,007	$ 1,864,506

Principal payments on long-term debt as of December 31, 2009 are due as follows:

2010	$ 612,610
2011	649,395
2012	681,527
2013	719,023
2014	4,271,701
Thereafter	17,460,126
Subtotal	24,394,382
Less current portion	(612,610)
Total long-term	$ 23,781,772

Note 9 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2009 and 2008:

	2009	2008
Healthcare services:		
Contributions under split-interest agreement	$ 250,427	$ 297,495
Contributions restricted for future capital improvements	111,331	118,828
Contributions restricted for future charitable care	-	24,810
Contributions restricted for other future uses by donor	367,122	382,380
Earnings on endowment funds to be used for the continuing care of residents	421,019	-
Total temporarily restricted net assets	$ 1,149,899	$ 823,513

Permanently restricted net assets at December 31, 2009 and 2008 are restricted by the following:

	2009	2008
Van Dusen endowment	$ 2,302,158	$ 2,010,145
Beneficial interest in perpetual trusts	206,955	191,265
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	1,608,043	1,256,517
Total permanently restricted net assets	$ 4,117,156	$ 3,457,927

Note 10 - 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, 2009 and 2008, the Organization contributed $87,447 and $53,803 respectively, to the plan.

Note 10 - Retirement Plans (Continued)

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, 2009 and 2008, the Organization contributed $128,355 and $124,062, 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; however, the plan, as a whole, is underfunded as of January 1, 2009. 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 11 - Workers' Compensation

The Organization is self-insured for a substantial portion of its workers' compensation claims. The Organization has obtained stop-loss insurance coverage for claims in excess of $300,000 per employee or per accident and for aggregate claims in excess of $1,000,000 in a two-year period. The Organization's stop-loss coverage is limited to $5,000,000 in aggregate for the same two-year period. Total workers' compensation expense approximated $388,000 and $375,000 in 2009 and 2008, respectively. Accruals of approximately $409,000 and $287,000 were recorded for unsettled and incurred but not reported claims at December 31, 2009 and 2008, respectively.

Note 12 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in on 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.

The following tables present information about the Organization’s assets measured at fair value on a recurring basis at December 31, 2009 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.

Note 12 - Fair Value Measurements (Continued)

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.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2009

	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, 2009
Trading securities	$ 17,323,094	$ -	$ -	$ 17,323,094
Beneficial interest in Van Dusen endowment	-	-	2,302,158	2,302,158
Perpetual trusts	-	-	206,955	206,955
Hedge fund	-	-	646,050	646,050

Assets Measured at Fair Value on a Recurring Basis 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)	Balance at December 31, 2008
Trading securities	$ 14,503,925	$ -	$ -	$ 14,503,925
Beneficial interest in Van Dusen endowment	-	-	2,010,145	2,010,145
Beneficial interest in perpetual trusts	-	-	191,265	191,265

Note 12 - Fair Value Measurements (Continued)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Years Ended December 31, 2008 and 2009

	Beneficial Interest in Van Dusen Endowment	Beneficial Interest in Perpetual Trusts	Hedge Fund
Balance at January 1, 2008	$ 3,067,361	$ 244,341	$ -
Activity for 2008 - Change in value	(1,057,216)	(53,076)	-
Ending balance at December 31, 2008	2,010,145	191,265	-
Activity for 2009:			
Net transfer into Level 3	-	-	600,000
Change in value	292,013	15,690	46,050
Ending balance at December 31, 2009	$ 2,302,158	$ 206,955	$ 646,050

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.

Of the Level 3 assets still held by the Organization in the Van Dusen endowment at December 31, 2009, the unrealized gain for the year ended December 31, 2009 was $292,013, 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 perpetual trusts at December 31, 2009, the unrealized gain for the year ended December 31, 2009 was $15,690, 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 at December 31, 2009, the unrealized gain for the year ended December 31, 2009 was $46,050, which is recognized as an increase in unrestricted net assets in the consolidated statement of changes in net assets.

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 13 - 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, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 421,019	$ 1,608,043	$ 2,029,062
Board-designated endowment funds	16,088,288	-	-	16,088,288
Total funds	$ 16,088,288	$ 421,019	$ 1,608,043	$ 18,117,350

Note 13 - Donor- and Board-restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 12,766,855	$ -	$ 1,256,517	$ 14,023,372
Investment return:				
Investment income	285,457	31,510	(48,474)	268,493
Net appreciation (realized and unrealized)	3,688,508	430,796	-	4,119,304
Total investment return	3,973,965	462,306	(48,474)	4,387,797
Contributions	95,874	-	400,000	495,874
Appropriation of endowment assets for expenditure	(748,406)	(41,287)	-	(789,693)
Endowment net assets - End of year	$ 16,088,288	$ 421,019	$ 1,608,043	$ 18,117,350

Endowment Net Asset Composition by Type of Fund as of December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,256,517	$ 1,256,517
Board-designated endowment funds	12,766,855	-	-	12,766,855
Total funds	$ 12,766,855	$ -	$ 1,256,517	$ 14,023,372

Note 13 - 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)
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 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.

Note 13 - Donor- and Board-restricted Endowments (Continued)

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.

Additional Information

plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

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, 2009 and 2008. 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 15, 2010

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidating Balance Sheet
December 31, 2009

	United Methodist Retirement Communities, Inc.					
	Chelsea Retirement Community and Boulevard Temple	Cedars of Dexter	Heritage Foundation	Sylvan Pines Limited Divident Housing Association	Eliminations	Totals
Assets						
Current Assets						
Cash and cash equivalents	$ 4,040,616	$ 634,818	$ -	$ 297,372	$ -	$ 4,972,806
Investments	-	-	835,198	-	-	835,198
Accounts receivable - Less allowance for doubtful accounts	1,934,510	-	-	-	-	1,934,510
Contributions receivable	-	-	113,616	-	-	113,616
Assets limited as to use	265,854	-	-	546,799	-	812,653
Prepaid expenses and other current assets	522,561	-	-	2,465	(16,058)	508,968
Due from related party	3,718,190		527,405		(4,245,595)	-
Total current assets	10,481,731	634,818	1,476,219	846,636	(4,261,653)	9,177,751
Assets Limited as to Use - Net of current portion	1,812,007	-	-	-	-	1,812,007
Property and Equipment - Net	28,084,108	6,858,552	-	4,559,112	-	39,501,772
Beneficial Interest in Perpetual Trust	-	-	206,955	-	-	206,955
Other						-
Investments	-	-	17,133,946	-	-	17,133,946
Contributions receivable - Net of current portion	152,057	-	650,352	-	-	802,409
Beneficial interest in Van Dusen endowment	-	-	2,302,158	-	-	2,302,158
Debt issue costs	661,549	-	-	-	-	661,549
Total assets	$ 41,191,452	$ 7,493,370	$ 21,769,630	$ 5,405,748	$ (4,261,653)	$ 71,598,547
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	$ 1,831,601	$ -	$ -	$ 28,455		$ 1,860,056
Current portion of long-term debt	480,000	132,610	-	-		612,610
Liability accrued under split-interest agreements	-	-	67,339	-		67,339
Accrued liabilities and other	1,180,446	796,963	-	139,488	(16,058)	2,100,839
Due to related party	527,405	3,718,190	-	-	(4,245,595)	-
Total current liabilities	4,019,452	4,647,763	67,339	167,943	(4,261,653)	4,640,844
Long-term Debt - Net of current portion	13,585,568	3,381,621	-	6,814,583	-	23,781,772
Liability Under Split-interest Agreements		-	346,948	-	-	346,948
Total liabilities	17,605,020	8,029,384	414,287	6,982,526	(4,261,653)	28,769,564
Net Assets						
Unrestricted:						
Controlling interest	23,586,432	(536,014)	16,088,288	-		39,138,706
Noncontrolling interest	-	-	-	(1,576,778)	-	(1,576,778)
Temporarily restricted	-	-	1,149,899	-	-	1,149,899
Permanently restricted	-	-	4,117,156	-	-	4,117,156
Total net assets	23,586,432	(536,014)	21,355,343	(1,576,778)	-	42,828,983
Total liabilities and net assets	$ 41,191,452	$ 7,493,370	$ 21,769,630	$ 5,405,748	$ (4,261,653)	$ 71,598,547

United Methodist Retirement Communities, Inc. and Subsidiaries

Consolidated Statement of Operating Activities
Year Ended December 31, 2009

	United Methodist Retirement Communities, Inc.					
	Chelsea Retirement Community	Cedars of Dexter	Heritage Foundation	Sylvan Pines Limited Divident Housing Association	Eliminations	Totals
Operating Revenue						
Net service revenue	$ 22,963,708	$ -	$ -	$ -	$ -	$ 22,963,708
Rental revenue	-	-	-	964,314	-	964,314
Other	248,236	-	-	53,687	(42,337)	259,586
Contributions	-	-	380,728	-	-	380,728
Net assets released from restrictions used in operations	456,868	-	-	-	-	456,868
Total operating revenue	23,668,812	-	380,728	1,018,001	(42,337)	25,025,204
Operating Expenses						
Salaries, wages, and purchased labor	12,184,780	206,411	-	110,346	-	12,501,537
Employee benefits	2,183,432	39,766	-	19,671	-	2,242,869
Food	747,335	-	-	-	-	747,335
Medical care	707,850	-	-	-	-	707,850
Management fee		-	-	42,337	(42,337)	-
Repairs and maintenance	804,156	648	-	65,718	-	870,522
Laundry and housekeeping	22,181	-	-	-	-	22,181
Utilities	805,424	3,082	-	77,833	-	886,339
Supplies	592,603	-	-	-	-	592,603
Depreciation	2,132,646	61,915	-	297,462	-	2,492,023
Interest	646,169	8,133	-	343,646	-	997,948
Real estate taxes	243,326	15,745	-	35,721	-	294,792
Marketing and promotions		282,033	-	-	-	282,033
Provider tax	248,149	-	-	-	-	248,149
Bad debts	95,960	-	-	-	-	95,960
Miscellaneous	440,053	62,582	-	58,060	-	560,695
General and administrative - Executive office	1,032,640	-	-	-	-	1,032,640
Fundraising - Promotion and development expenses	-	-	386,138	-	-	386,138
Total operating expenses	22,886,704	680,315	386,138	1,050,794	(42,337)	24,961,614
Total operating income (loss) - Before other income (expense)	**$ 782,108**	**$ (680,315)**	**$ (5,410)**	**$ (32,793)**	**$ -**	**$ 63,590**