

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

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**Consolidated Financial Report  
with Additional Information  
December 31, 2010**

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

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## Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of United Methodist Retirement Communities, Inc. and Subsidiaries (the "Organization") as of December 31, 2010 and 2009 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, 2010 and 2009 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 5, 2011

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Consolidated Balance Sheet

	December 31, 2010	December 31, 2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,328,306	\$ 4,972,806
Investments (Note 3)	904,364	835,198
Accounts receivable - Less allowance for doubtful accounts of \$89,193 and \$150,931 in 2010 and 2009, respectively (Note 2)	1,800,001	1,934,510
Contributions receivable (Note 4)	104,811	113,616
Assets limited as to use (Note 6)	794,826	812,653
Prepaid expenses and other current assets	563,951	508,968
Total current assets	8,496,259	9,177,751
<b>Assets Limited as to Use</b> - Net of current portion (Note 6)	6,132,053	1,812,007
<b>Property and Equipment</b> - Net (Note 5)	46,758,178	39,501,772
<b>Beneficial Interest in Perpetual Trust</b>	219,503	206,955
<b>Other</b>		
Investments (Note 3)	20,402,331	17,133,946
Contributions receivable - Net of current portion (Note 4)	822,446	802,409
Beneficial interest in Van Dusen endowment (Note 11)	2,514,747	2,302,158
Deferred finance fees	622,368	661,549
Total assets	<b>\$ 85,967,885</b>	<b>\$ 71,598,547</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 986,413	\$ 1,860,056
Current portion of long-term debt (Note 6)	867,106	612,610
Liability accrued under split-interest agreements (Note 10)	57,671	67,339
Accrued liabilities and other	1,124,362	1,304,444
Total current liabilities	3,035,552	3,844,449
<b>Long-term Debt</b> - Net of current portion (Note 6)	31,899,866	23,781,772
<b>Liability Accrued Under Split-interest Agreements</b> (Note 10)	309,131	346,948
<b>Other Long-term Liabilities</b>		
Resident entrance fees and deposits	3,638,040	634,250
Deferred entrance fee income	1,433,189	162,145
Fair value of interest rate swap agreement (Note 7)	121,941	-
<b>Net Assets</b>		
Unrestricted:		
Controlling interest	40,964,759	39,138,706
Noncontrolling interest	(1,704,070)	(1,576,778)
Temporarily restricted (Note 12)	1,370,170	1,149,899
Permanently restricted (Note 12)	4,899,307	4,117,156
Total net assets	45,530,166	42,828,983
Total liabilities and net assets	<b>\$ 85,967,885</b>	<b>\$ 71,598,547</b>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Consolidated Statement of Activities

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Operating Revenue</b>		
Net service revenue	\$ 24,361,872	\$ 22,963,708
Rental revenue	950,206	964,314
Other	113,132	259,586
Amortization of entrance fees	99,500	-
Contributions	699,364	380,728
Net assets released from restrictions	321,895	456,868
Total operating revenue	26,545,969	25,025,204
<b>Operating Expenses</b>		
Healthcare and administrative expenses	25,592,645	23,895,161
Development expenses - Dexter project	642,426	680,315
Fundraising - Promotion and development expenses	377,627	386,138
Total operating expenses	26,612,698	24,961,614
<b>Operating (Loss) Income</b> - Before other income (expense)	(66,729)	63,590
<b>Other Income (Expenses)</b>		
Investment income	588,537	421,997
Gain on sale of investments	194,739	26,688
Unrealized gains on investments	1,716,337	3,658,550
Change in fair value of interest rate swap agreement (Note 7)	(121,941)	-
Equity distributions from noncontrolling interest	(105,160)	(130,711)
Total other income	2,272,512	3,976,524
<b>Income from Continuing Operations</b> - Before discontinued operations	2,205,783	4,040,114
<b>Discontinued Operations</b> (Note 5)	(507,022)	(1,787,058)
<b>Excess of Revenue Over Expenses</b>	1,698,761	2,253,056
<b>Less Excess of Revenue Under Expenses Attributable to Noncontrolling Interest in Subsidiary</b>	(127,292)	(163,504)
<b>Consolidated Excess of Revenue Over Expenses Attributable to Controlling Interest</b>	<b>\$ 1,826,053</b>	<b>\$ 2,416,560</b>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Consolidated Statement of Changes in Net Assets

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Unrestricted Net Assets</b>		
Excess of revenue over expenses attributable to controlling interests	\$ 1,826,053	\$ 2,416,560
Excess of revenue under expenses attributable to noncontrolling interests	(127,292)	(163,504)
<b>Excess of Revenue Over Expenses</b>	<b>1,698,761</b>	<b>2,253,056</b>
<b>Temporarily Restricted Net Assets</b>		
Contributions	204,202	364,272
Change in value of split-interest agreement	(14,679)	(43,324)
Unappropriated earnings on endowments	352,643	462,306
Net assets released from restriction	(321,895)	(456,868)
<b>Increase in Temporarily Restricted Net Assets</b>	<b>220,271</b>	<b>326,386</b>
<b>Permanently Restricted Net Assets</b>		
Contributions	578,488	400,000
Change in value of endowments	-	(48,474)
Change in value of beneficial interest in Van Dusen endowment	191,115	292,013
Change in value of beneficial interest in perpetual trust	12,548	15,690
<b>Increase in Permanently Restricted Net Assets</b>	<b>782,151</b>	<b>659,229</b>
<b>Increase in Net Assets</b>	<b>2,701,183</b>	<b>3,238,671</b>
<b>Net Assets - Beginning of year</b>	<b>42,828,983</b>	<b>39,590,312</b>
<b>Net Assets - End of year</b>	<b>\$ 45,530,166</b>	<b>\$ 42,828,983</b>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 2,701,183	\$ 3,238,671
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	2,687,639	2,991,173
Amortization of debt issue costs	66,979	31,893
Realized and unrealized gains on investments	(2,169,636)	(4,067,560)
Contributions restricted for long-term purposes	(578,488)	(400,000)
Amortization of entrance fees	(99,500)	-
Distributions to partners	105,160	130,711
Loss on sale of business unit	-	254,421
Bad debt expense	90,077	361,293
Change in value of split-interest agreements	14,679	43,324
Change in value of beneficial interest in perpetual trust	(12,548)	(15,690)
Change in value of beneficial interest in Van Dusen endowment	(212,589)	(292,013)
Change in interest rate swap	121,941	-
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	44,432	568,580
Contribution receivable	(11,232)	110,334
Prepaid expenses and other current assets	(54,983)	(242,842)
Accounts payable	(899,367)	170,659
Accrued and other liabilities	(154,358)	180,026
Liability under split-interest agreement	(62,164)	(62,074)
Net cash provided by operating activities	1,577,225	3,000,906
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(9,944,045)	(4,192,122)
Proceeds from sale of business unit	-	3,000,000
Purchase of investments	(5,300,307)	(7,459,392)
Proceeds from sale of investments	4,132,392	8,061,734
Change in assets limited as to use	(4,302,219)	(7,099)
Net cash used in investing activities	(15,414,179)	(596,879)
<b>Cash Flows from Financing Activities</b>		
Proceeds from revolving loan	5,365,283	514,798
Payments on revolving loan	(9,012,125)	-
Principal payment on long-term debt	(480,000)	(586,156)
Proceeds from long-term debt	12,500,000	-
Principal from restricted contributions	578,488	400,000
Proceeds from entrance fees and deposits	4,563,726	-
Refunds of entrance fees	(189,960)	-
Payment of debt issue costs	(234,500)	-
Loss on refinancing	206,702	-
Distributions to partners	(105,160)	(130,711)
Net cash provided by financing activities	13,192,454	197,931
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(644,500)	2,601,958
<b>Cash and Cash Equivalents - Beginning of year</b>	4,972,806	2,370,848
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 4,328,306</u>	<u>\$ 4,972,806</u>
<b>Supplemental Cash Flow Information</b> - Cash paid for interest - Net of capitalized interest of \$146,889 and \$146,175 as of December 31, 2010 and 2009, respectively	<u>\$ 1,210,223</u>	<u>\$ 1,058,692</u>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### 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 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, 2010 and 2009.

**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 revenue 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, 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. 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. These amounts approximate the effect of consolidating Sylvan Pines.

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

# United Methodist Retirement Communities, Inc. and Subsidiaries

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## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

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

**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 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 include funds held in escrow in relation to entrance fees received from residents at the Cedars of Dexter, which total \$4,896,660 and \$634,818 at December 31, 2010 and 2009, respectively. These funds are escrowed pursuant to the Life Care Disclosure Act, and are to be released from escrow upon achieving certain lease-up targets. Also included in assets limited as to use are escrow and reserve funds held in conjunction with a bond agreement totaling \$2,030,219 and \$2,624,660 at December 31, 2010 and 2009, respectively, which is disclosed in Note 6 to the consolidated financial statements. All assets limited as to use are invested in cash and cash equivalent funds.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### 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 financing are being amortized over the terms of the related debt. Amortization expense was \$66,979 and \$31,893 for the years ended December 31, 2010 and 2009, respectively. Accumulated amortization was \$399,095 and \$387,849 at December 31, 2010 and 2009, 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.

**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 revenue represents advance fees paid by a resident upon entering into a continuing care contract and is amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

**Refundable Entrance Fees** - 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.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

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

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

	Percent	
	2010	2009
Private	59	68
Medicaid	8	6
Medicare	33	26

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.

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.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

**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 \$1,266,000 and \$1,219,000 for the years ended December 31, 2010 and 2009, 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.

**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 \$18,202,361 and \$16,088,289 as of December 31, 2010 and 2009, respectively, and are included in unrestricted net assets in the consolidated balance sheet.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

**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, 2011. These employees comprise approximately 60 percent of the employees of the Organization for 2010 and 2009.

**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.

**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.

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, 2007 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 2010 classifications.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including April 5, 2011, 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	
	2010	2009
Medicaid	16	25
Medicare	46	35
Residents and other third-party payors	38	40
Total	100	100

### Note 3 - Investments

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

	2010	2009
Cash and equivalents	\$ 338,284	\$ 18,380
Money market funds	766,500	818,225
Fixed-income securities	3,754,247	3,264,377
Equity securities	15,407,613	13,222,112
Hedge fund	1,040,051	646,050
Total investments	21,306,695	17,969,144
Less short-term portion of investments	(904,364)	(835,198)
Total long-term investments	\$ 20,402,331	\$ 17,133,946

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 4 - Contributions Receivable

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

	2010	2009
Contributions receivable:		
Due in less than one year	\$ 104,811	\$ 113,616
Due in one to five years	326,299	296,044
Due in more than five years	773,113	771,668
Total contributions receivable	1,204,223	1,181,328
Unamortized discount	(266,466)	(265,303)
Allowance for uncollectible amounts	(10,500)	-
Less current portion	(104,811)	(113,616)
Long-term portion	\$ 822,446	\$ 802,409

### Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2010	2009
Land	\$ 3,085,717	\$ 3,085,717
Land improvements	5,972,819	4,620,072
Buildings	43,709,330	38,983,146
Building improvements	9,605,767	9,449,681
Transportation equipment	30,224	85,525
Furniture, fixtures, and equipment	11,173,789	10,066,146
Construction in progress	5,483,225	3,030,349
Total cost	79,060,871	69,320,636
Accumulated depreciation	32,302,693	29,818,864
Net carrying amount	\$ 46,758,178	\$ 39,501,772

Depreciation expense on property and equipment totaled \$2,687,639 and \$2,991,173 at December 31, 2010 and 2009, respectively.

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2010 and 2009**

### **Note 5 - Property and Equipment (Continued)**

Construction in progress relates to the development of new independent-living cottages in Dexter, Michigan. The Organization has entered into an agreement with a general contractor for 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. As of December 31, 2010, approximately \$16,000,000 of construction had been completed, with approximately \$10,800,000 placed in service. Management projects total costs to be approximately \$19,000,000, with the development anticipated to be completed in 2011.

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 activities for the year ended December 31, 2009. Expenses in excess of revenue from discontinued operations incurred at the Facility totaled approximately \$507,000 and \$1,533,000 (including approximately \$996,000 of operating expenses and \$537,000 expenses related to sale) for the years ended December 31, 2010 and 2009, respectively, and are included in discontinued operations on the consolidated statement of activities.

### **Note 6 - Long-term Debt**

During 2010, the Organization issued \$12,500,000 (\$12,500,000 due at December 31, 2010) 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 \$19,500 to \$56,000 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 2.07 percent at December 31, 2010). 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.

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2010 and 2009**

### **Note 6 - Long-term Debt (Continued)**

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 (\$13,585,000 and \$14,065,000 due at December 31, 2010 and 2009, 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.

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 and interest rates vary annually and range from \$415,000 to \$1,175,000 and 4.80 percent to 5.58 percent. Interest expense, net of credits, for the years ended December 31, 2010 and 2009 was \$665,440 and \$675,961, 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.

During October 2009, the Organization obtained a revolving loan. Under the terms of the revolving loan, a maximum amount of \$9,000,000 was available, of which \$3,514,799 was drawn at December 31, 2009. The loan was collateralized by substantially all assets of the Organization and had restrictive financial and other covenants. The loan bore 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. During 2010, the loan was refinanced with the issuance of the 2010 Bonds.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 6 - Long-term Debt (Continued)

In 2001, Sylvan Pines entered into a loan totaling \$7,766,000 (\$6,681,972 and \$6,814,583 due at December 31, 2010 and 2009, 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, 2010 and 2009 was \$337,165 and \$343,646, 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:

	<u>2010</u>	<u>2009</u>
Debt Service Reserve Fund	\$ 1,235,393	\$ 1,812,007
Bond Payment Fund	357,718	265,854
Noncontrolling interest reserves and escrows	<u>437,108</u>	<u>546,799</u>
Total assets limited as to use, in conjunction with a bond agreement	2,030,219	2,624,660
Less assets limited as to use - Expected to be expended within one year from year end	<u>794,826</u>	<u>812,653</u>
Long-term assets limited as to use, in conjunction with a bond agreement	<u>\$ 1,235,393</u>	<u>\$ 1,812,007</u>

Principal payments on long-term debt as of December 31, 2010 are due as follows:

2011	\$ 867,106
2012	927,238
2013	973,601
2014	1,020,667
2015	1,068,467
Thereafter	<u>27,909,893</u>
Subtotal	32,766,972
Less current portion	<u>(867,106)</u>
Total long-term	<u>\$ 31,899,866</u>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 7 - 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. All interest rate swaps are reported in the consolidated balance sheet at fair value and all gains and losses recognized on interest rate swaps are included in excess of revenue over expenses.

The Organization entered into an interest rates 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. As of December 31, 2010, the interest rate swap had a total notional amount of \$6,250,000 and expires December 5, 2015. An unrealized loss on the interest rate swap of \$121,194 has been recognized in other income (loss) for the year ended December 31, 2010. No gain or loss was realized 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 \$121,941 at December 31, 2010.

### Note 8 - 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, 2010 and 2009, the Organization contributed \$135,736 and \$87,447 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, 2010 and 2009, the Organization contributed \$86,712 and \$128,355, 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.

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

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## **Notes to Consolidated Financial Statements December 31, 2010 and 2009**

### **Note 9 - 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 \$314,000 and \$388,000 in 2010 and 2009, respectively. Accruals of approximately \$345,000 and \$409,000 were recorded for unsettled and incurred but not reported claims at December 31, 2010 and 2009, respectively.

### **Note 10 - 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 \$366,802 and \$414,287 at December 31, 2010 and 2009, respectively.

### **Note 11 - 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 \$2,514,747 and \$2,302,158 at December 31, 2010 and 2009, respectively.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 12 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Healthcare services:		
Contributions under split-interest agreement	\$ 174,345	\$ 250,427
Contributions restricted for future capital improvements	111,188	111,331
Contributions restricted for other future uses by donor	367,475	367,122
Earnings on endowment funds to be used for the continuing care of residents	<u>717,162</u>	<u>421,019</u>
Total temporarily restricted net assets	<u>\$ 1,370,170</u>	<u>\$ 1,149,899</u>

Permanently restricted net assets at December 31, 2010 and 2009 are restricted by the following:

	<u>2010</u>	<u>2009</u>
Van Dusen endowment	\$ 2,514,747	\$ 2,302,158
Beneficial interest in perpetual trusts	219,503	206,955
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	<u>2,165,057</u>	<u>1,608,043</u>
Total permanently restricted net assets	<u>\$ 4,899,307</u>	<u>\$ 4,117,156</u>

### 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.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

#### 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, 2010

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

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

#### 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	<u>\$ 18,202,360</u>	<u>\$ 717,159</u>	<u>\$ 2,165,057</u>	<u>\$ 21,084,576</u>

#### 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	<u>\$ 16,088,288</u>	<u>\$ 421,019</u>	<u>\$ 1,608,043</u>	<u>\$ 18,117,350</u>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### 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	<u>\$ 16,088,288</u>	<u>\$ 421,019</u>	<u>\$ 1,608,043</u>	<u>\$ 18,117,350</u>

#### 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.

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements December 31, 2010 and 2009**

### **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.

### **Note 14 - 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.

The following tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis at December 31, 2010 and 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. 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.

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 14 - 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
<b>Assets</b>				
Money market securities - Money market mutual funds	\$ 766,500	\$ -	\$ -	\$ 766,500
Debt securities:				
Governmental debt securities	112,550	-	-	112,550
Fixed-income mutual funds	3,641,697	-	-	3,641,697
Total debt securities	3,754,247	-	-	3,754,247
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 equity securities	15,407,613	-	-	15,407,613
Other investments:				
Beneficial interest in Van Dusen endowment	-	-	2,514,747	2,514,747
Beneficial interest in perpetual trusts	-	-	219,503	219,503
Hedge fund - Limited partnership	-	-	1,040,051	1,040,051
Total other investments	-	-	3,774,301	3,774,301
Total assets	\$ 19,928,360	\$ -	\$ 3,774,301	\$ 23,702,661
<b>Liabilities - Interest rate swap</b>	\$ -	\$ 121,941	\$ -	\$ 121,941

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 14 - Fair Value Measurements (Continued)

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

Assets	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
Money market securities - Money market mutual funds	\$ 836,605	\$ -	\$ -	\$ 836,605
Debt securities:				
Governmental debt securities	218,311	-	-	218,311
Fixed-income mutual funds	<u>3,046,066</u>	<u>-</u>	<u>-</u>	<u>3,046,066</u>
Total debt securities	3,264,377	-	-	3,264,377
Equity securities:				
U.S. company common stocks	2,864,228	-	-	2,864,228
Foreign company common stocks	173,910	-	-	173,910
Equity mutual funds	<u>10,183,974</u>	<u>-</u>	<u>-</u>	<u>10,183,974</u>
Total common stocks	13,222,112	-	-	13,222,112
Other investments:				
Beneficial interest in Van Dusen endowment	-	-	2,302,158	2,302,158
Beneficial interest in perpetual trusts	-	-	206,955	206,955
Hedge fund - Limited partnership	<u>-</u>	<u>-</u>	<u>646,050</u>	<u>646,050</u>
Total other investments	<u>-</u>	<u>-</u>	<u>3,155,163</u>	<u>3,155,163</u>
Total assets	<u>\$ 17,323,094</u>	<u>\$ -</u>	<u>\$ 3,155,163</u>	<u>\$ 20,478,257</u>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements December 31, 2010 and 2009

### Note 14 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2010 and 2009 are as follows:

	Beneficial Interest in Van Dusen Endowment	Beneficial Interest in Perpetual Trusts	Hedge Fund - Limited Partnership
Balance at January 1, 2010	\$ 2,302,158	\$ 206,955	\$ 646,050
Net purchases, issuances, sales, and settlements	21,474	-	370,000
Total realized and unrealized gains	<u>191,115</u>	<u>12,548</u>	<u>24,001</u>
Balance at December 31, 2010	<u>\$ 2,514,747</u>	<u>\$ 219,503</u>	<u>\$ 1,040,051</u>
	Beneficial Interest in Van Dusen Endowment	Beneficial Interest in Perpetual Trusts	Hedge Fund - Limited Partnership
Balance at January 1, 2009	\$ 2,010,145	\$ 191,265	\$ -
Net purchases, issuances, sales, and settlements	-	-	600,000
Total realized and unrealized gains	<u>292,013</u>	<u>15,690</u>	<u>46,050</u>
Balance at December 31, 2009	<u>\$ 2,302,158</u>	<u>\$ 206,955</u>	<u>\$ 646,050</u>

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

Of the Level 3 assets still held by the Organization in the Van Dusen endowment at December 31, 2010 and 2009, the unrealized gain was \$191,112 and \$292,013, respectively, which is recognized as an increase in permanently restricted net assets in the consolidated statement of changes in net assets.

# **United Methodist Retirement Communities, Inc. and Subsidiaries**

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## **Notes to Consolidated Financial Statements December 31, 2010 and 2009**

### **Note 14 - Fair Value Measurements (Continued)**

Of the Level 3 assets still held by the Organization in the perpetual trusts at December 31, 2010 and 2009, the unrealized gain was \$12,548 and \$15,690, respectively, 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, 2010 and 2009, the unrealized gain was \$24,001 and \$46,050, respectively, which is recognized as an increase in unrestricted net assets in the consolidated statement of changes in net assets. The Company also purchased \$370,000 of additional investments in the hedge fund during the year ended December 31, 2010.

## **Additional Information**

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Independent Auditor's Report on Additional Information

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, 2010 and 2009. 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 5, 2011

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Consolidating Balance Sheet December 31, 2010

	Chelsea Retirement Community	Cedars of Dexter	Heritage Foundation	Sylvan Pines Limited Dividend Housing Association, LLC	Eliminations	Totals
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 3,874,778	\$ 5,976	\$ -	\$ 447,552	\$ -	\$ 4,328,306
Investments	-	-	904,364	-	-	904,364
Accounts receivable - Less allowance for doubtful accounts	1,794,026	5,080	-	895	-	1,800,001
Contributions receivable	-	-	104,811	-	-	104,811
Assets limited as to use	357,718	-	-	437,108	-	794,826
Due from related party	5,214,095	-	23,270	-	(5,237,365)	-
Prepaid expenses and other current assets	588,032	-	-	1,643	(25,724)	563,951
Total current assets	11,828,649	11,056	1,032,445	887,198	(5,263,089)	8,496,259
<b>Assets Limited as to Use</b> - Net of current portion	1,235,393	4,896,660	-	-	-	6,132,053
<b>Property and Equipment</b> - Net	26,735,944	15,756,898	-	4,265,336	-	46,758,178
<b>Beneficial Interest in Perpetual Trust</b>	-	-	219,503	-	-	219,503
<b>Other</b>						
Investments	-	-	20,402,331	-	-	20,402,331
Contributions receivable - Net of current portion	152,830	-	669,616	-	-	822,446
Beneficial interest in Van Dusen endowme	-	-	2,514,747	-	-	2,514,747
Deferred finance fees	401,940	220,428	-	-	-	622,368
Total assets	<u>\$ 40,354,756</u>	<u>\$ 20,885,042</u>	<u>\$ 24,838,642</u>	<u>\$ 5,152,534</u>	<u>\$ (5,263,089)</u>	<u>\$ 85,967,885</u>
<b>Liabilities and Net Assets (Deficit)</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 950,560	\$ -	\$ -	\$ 35,853	\$ -	\$ 986,413
Current portion of long-term debt	510,000	217,711	-	139,395	-	867,106
Liability accrued under split-interest agreements	-	-	57,671	-	-	57,671
Due to related party	23,270	5,214,095	-	-	(5,237,365)	-
Accrued liabilities and other	1,011,307	-	-	138,779	(25,724)	1,124,362
Total current liabilities	2,495,137	5,431,806	57,671	314,027	(5,263,089)	3,035,552
<b>Long-term Debt</b> - Net of current portion	13,075,000	12,282,289	-	6,542,577	-	31,899,866
<b>Liability Under Split-interest Agreements</b>	-	-	309,131	-	-	309,131
<b>Other Long-term Liabilities</b>						
Resident deposits	-	3,638,040	-	-	-	3,638,040
Deferred revenue	-	1,433,189	-	-	-	1,433,189
Provision for interest rate swap agreement	-	121,941	-	-	-	121,941
<b>Net Assets (Deficit)</b>						
Controlling interest	24,784,619	(2,022,223)	18,202,363	-	-	40,964,759
Noncontrolling interest	-	-	-	(1,704,070)	-	(1,704,070)
Temporarily restricted	-	-	1,370,170	-	-	1,370,170
Permanently restricted	-	-	4,899,307	-	-	4,899,307
Total net assets (deficit)	24,784,619	(2,022,223)	24,471,840	(1,704,070)	-	45,530,166
Total liabilities and net assets (deficit)	<u>\$ 40,354,756</u>	<u>\$ 20,885,042</u>	<u>\$ 24,838,642</u>	<u>\$ 5,152,534</u>	<u>\$ (5,263,089)</u>	<u>\$ 85,967,885</u>

# United Methodist Retirement Communities, Inc. and Subsidiaries

## Consolidating Statement of Operating Activities Year Ended December 31, 2010

	Chelsea Retirement Community	Cedars of Dexter	Heritage Foundation	Sylvan Pines Limited Dividend Housing Association, LLC	Eliminations	Totals
<b>Operating Revenue</b>						
Net service revenue	\$ 24,186,696	\$ 175,176	\$ -	\$ -	\$ -	\$ 24,361,872
Rental revenue	-	-	-	950,206	-	950,206
Other	87,024	-	-	69,620	(43,512)	113,132
Amortization of entrance fees	-	99,500	-	-	-	99,500
Contributions	-	-	699,364	-	-	699,364
Net assets released from restrictions used in operations	321,895	-	-	-	-	321,895
<b>Total operating revenue</b>	<b>24,595,615</b>	<b>274,676</b>	<b>699,364</b>	<b>1,019,826</b>	<b>(43,512)</b>	<b>26,545,969</b>
<b>Operating Expenses</b>						
Salaries, wages, and purchased labor	12,454,469	93,893	-	116,185	-	12,664,547
Employee benefits	2,998,436	16,513	-	20,179	-	3,035,128
Food	765,961	13,240	-	-	-	779,201
Medical care	912,236	-	-	-	-	912,236
Management fee	-	-	-	43,512	(43,512)	-
Repairs and maintenance	746,669	23,712	-	68,234	-	838,615
Utilities	844,048	14,244	-	78,197	-	936,489
Supplies	600,585	26,668	-	-	-	627,253
Depreciation	2,197,309	193,847	-	296,483	-	2,687,639
Interest	468,156	528,574	-	337,165	-	1,333,895
Real estate taxes	245,191	25,474	-	35,006	-	305,671
Provider tax	338,905	-	-	-	-	338,905
Bad debts	90,077	-	-	-	-	90,077
Miscellaneous	935,640	60,351	-	46,997	-	1,042,988
Development expenses - Dexter project	-	642,426	-	-	-	642,426
Fundraising - Promotion and development expenses	-	-	377,628	-	-	377,628
<b>Total operating expenses</b>	<b>23,597,682</b>	<b>1,638,942</b>	<b>377,628</b>	<b>1,041,958</b>	<b>(43,512)</b>	<b>26,612,698</b>
<b>Operating Income (Loss) - Before other income (expenses)</b>	<b>\$ 997,933</b>	<b>\$ (1,364,266)</b>	<b>\$ 321,736</b>	<b>\$ (22,132)</b>	<b>\$ -</b>	<b>\$ (66,729)</b>