

APPENDIX A

Information Concerning United Methodist Retirement Communities, Inc.

This Appendix A contains forward-looking statements which are not historical facts. These statements include expressions of the management of United Methodist Retirement Communities, Inc. (“UMRC”) about UMRC’s organizational characteristics, existing and new facilities, services, programs and collaborative ventures, regulatory environment, competitors, market conditions, relationships, technology, demographic trends, operations, fundraising efforts, investment performance and financial condition. These statements are identified with such forward-looking terminology as “expect,” “look,” “believe,” “anticipate,” “may,” “will” or similar terms or variations of such terms. Such forward-looking statements involve risks and uncertainties. Actual results may differ materially from such forward-looking statements. UMRC assumes no responsibility for updating any such forward-looking statements. This Appendix A should be read together with the section of the Official Statement entitled, “BONDHOLDERS’ RISKS” herein.

TABLE OF CONTENTS

INTRODUCTION AND BACKGROUND	1
FACILITIES AND SERVICES	1
CHELSEA RETIREMENT COMMUNITY	1
BOULEVARD TEMPLE	2
LICENSES, ACCREDITATIONS, APPROVALS, MEMBERSHIPS	3
COLLABORATIVE VENTURES	4
ORGANIZATIONAL INFORMATION	5
GOVERNANCE	5
REORGANIZATION	8
MANAGEMENT	8
EMPLOYEES AND LABOR RELATIONS	10
SERVICE VOLUMES AND UTILIZATION	11
WAITING LISTS	12
INDEPENDENT LIVING FACILITIES' TURNOVER RATE	13
SERVICE AREAS, COMPETING FACILITIES AND DEMAND FACTORS	13
INDEPENDENT LIVING FACILITIES	13
ASSISTED LIVING FACILITIES	15
RESIDENTIAL DEMENTIA FACILITIES	18
FINANCIAL INFORMATION	20
SOURCES OF REVENUE	20
RECENT FINANCIAL PERFORMANCE	25
PRO FORMA DEBT SERVICE COVERAGE RATIO	28
OTHER FINANCIAL INFORMATION	29
INSURANCE INFORMATION	36

UNITED METHODIST RETIREMENT COMMUNITIES, INC.

INTRODUCTION AND BACKGROUND

United Methodist Retirement Communities, Inc. (“UMRC”) is a church-related, mission-driven provider of diverse services for older adults in southeastern Michigan in a manner that promotes the principles and ideals of the United Methodist Church. UMRC is dedicated to Christian, compassionate and creative responses to the provision of health care, housing and supportive services to older adults.

UMRC is a non-profit charitable organization that is incorporated under the laws of the State of Michigan. UMRC is exempt from Federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code.

UMRC’s Fiscal Year (“FY”) is the calendar year. All quantitative data are presented by Fiscal Year, unless otherwise specifically indicated. Unless otherwise indicated, the source for all information presented is UMRC’s records.

FACILITIES AND SERVICES

UMRC owns and operates two retirement communities. UMRC is affiliated with the United Methodist Church in southeastern Michigan. The United Methodist Church has no legal or financial responsibility for UMRC’s obligations.

The Chelsea Retirement Community (“CRC”) is a continuing care retirement community serving approximately 370 residents. CRC consists of an independent living facility (“ILF”), an assisted living facility (“ALF”), a residential dementia facility (“RDF”) for people with Alzheimer’s disease and related disorders, and a skilled nursing facility (“SNF”). CRC is located in the Village of Chelsea, a small town approximately fifteen miles west of Ann Arbor. The Boulevard Temple (“BT”) is a 124-bed SNF complemented by an intergenerational child care center. BT is located in the City of Detroit, a short distance from Henry Ford Hospital (see “FACILITIES AND SERVICES – Boulevard Temple” and “FACILITIES AND SERVICES – Collaborative Ventures – Boulevard Temple”). All of UMRC’s facilities are charged on a fee-for-service or rental basis; there are no entrance fees assessed for any of the facilities.

CHELSEA RETIREMENT COMMUNITY

UMRC was founded in 1906 with the establishment of a residential home (now CRC), and has grown to include several facilities and programs for the elderly. Some facilities and programs are directly owned and operated; others represent collaborations with other organizations.

The Chelsea Old Peoples’ Home (as CRC was originally known) was intended to meet the needs of “lonely aged” people in a Christian setting. The original facility was constructed on 18 acres of farmland located in Chelsea, Michigan, that had been donated by Frank P. Glazier, then the State Treasurer. The facility was completed in 1907 and consisted of 36 small rooms. A waiting list developed shortly thereafter, necessitating the construction of additional buildings in 1915 and 1926. These accommodations survived until the 1980s, when these structures were razed to make way for Dancey House.

Since 1942, UMRC has developed a number of buildings at CRC that remain in use currently, as outlined in the following table.

<i>CRC Facilities</i>			
<i>Building</i>	<i>Year Placed in Service</i>	<i>Year Modernized</i>	<i>Contents</i>
Kresge Hall	1942	1987	ALF
Kimball Hall	1949	1990	ALF, Dining Room and Kitchen
Glazier Hall	1961	1986	ALF, recreation areas, laundry
Garden Apartments	1969		ILF
Kresge Nursing Unit	1985		SNF
Wesley Hall	1984	1986	RDF
Dancey House	1991		ILF, recreation areas

Except for the Garden Apartments, all are physically connected. The CRC campus consists of approximately 26 developed acres, plus another approximately 31 contiguous acres that were acquired in 1996 and currently remain farmland. The CRC 2000 Facility will be developed on this farmland.

CRC especially is designed to support the “aging in place” concept. For the past several years, all of CRC’s SNF residents had been transferred from either its ALF or ILF. In addition, many of its ALF residents have once been ILF residents. The ability to offer this “continuum of care” is a distinguishing characteristic of CRC, which UMRC management believes provides a marketing advantage over stand-alone ALFs. The overall length of stay in CRC’s facilities is approximately seven to eight years. UMRC management believes that approximately twenty to thirty additional SNF beds are required for transfers from other CRC facilities and from Silver Maples of Chelsea (see “Collaborative Ventures”).

CRC’s residential dementia facility, Wesley Hall, was opened in 1984. It was one of the first facilities in the nation for Alzheimer’s disease and related dementia residents.

ACADEMIC AFFILIATION

CRC is affiliated with the University of Michigan School of Medicine (the “Medical School”). CRC’s Medical Director is also director of the Medical School’s family practice residency program which is based in Chelsea. CRC also participates in the Medical School’s Department of Neurology’s latter-stage dementia research project.

BOULEVARD TEMPLE

BT began as a church (the “North Building”) and office/apartment building (the “South Building”) complex that was originally constructed in 1928. As a result of declining rental income from the offices and apartments, the South Building was converted into a home for the elderly in 1963. The kitchen, dining room and other common areas were situated on the ground floor of this building, a SNF was installed on floors two through four in former office space, and the apartments on floors five through nine were modernized to suit the needs of elderly persons. When the church was closed in 1975, a modern 124-bed SNF was established in the North Building, and SNF services were discontinued in the South Building. The vacated SNF space in the South Building was subsequently converted into additional apartments. In 1986, one floor of the South Building was designated as Asbury Hall, a RDF. Asbury Hall took over a second floor in 1990. In 1992, the Great Grandchildren’s Place, the State’s first intergenerational child care program located in a retirement community, was established in the South Building. By the end of 1996, all residential (non-SNF) facilities in the South Building had been discontinued due to the declining market for non-subsidized rental housing for the elderly. Since the end of 1996, only the 124-bed SNF in the North Building and the

Great Grandchildren's Place has remained operational. BT's medical director is a member of the Department of Gerontology at the nearby Henry Ford Hospital.

LICENSES, ACCREDITATIONS, APPROVALS AND MEMBERSHIPS

Certain characteristics of UMRC's facilities are summarized on the following table.

<i>Certain Characteristics of UMRC Facilities</i>					
	<i>CRC</i>				<i>BT</i>
	ILF	ALF	RDF	SNF	SNF
Units/Beds	100	92	28	110	124
State Licensure	None	HFA	HFA	SNF	SNF
Accreditation	CCAC	CCAC	CCAC	CCAC	None
Reimbursement Eligibility					
Medicare				✓	✓
Medicaid				✓	✓
Commercial Insurance				✓	✓
Supplemental Security Income		✓	✓		

UMRC's policy is to license its facilities according to the most demanding standards. CRC's ALF and RDF are licensed by the Michigan Department of Community Health ("MDCH") as Homes for the Aged ("HFA"). MDCH licensure as an HFA denotes adherence to certain operational and quality standards. Not all ALFs and RDFs operating in the State are licensed by MDCH as HFAs. The HFA licensure is particularly meaningful for the ALF, for it enables CRC to distinguish its ALF from competing facilities which may offer similar accommodations and services, but which are not so licensed.

ACCREDITATION

CRC was among the first rental-only retirement communities nationwide to be accredited by the Continuing Care Accreditation Commission ("CCAC"). The CCAC is the only accrediting body for continuing care retirement communities such as CRC. It is widely regarded as a "seal of approval" for retirement communities. Participation in accreditation offers the public a standard of comparison in evaluating retirement communities. Only those communities with adequate financial resources, sound fiscal operations and responsible resource management are accredited. When first accredited in 1993, CRC was one of the first rental (no entrance fee) retirement communities in the nation to achieve this distinction. Prior to the closure of its non-SNF units, BT had also been accredited by the CCAC. With its current focus on SNF services, BT no longer qualifies for CCAC accreditation.

RELATED INFORMATION

UMRC is an institutional member of the American Association of Homes and Services for the Aging ("AAHSA") and the Michigan Association of Homes and Services for the Aging ("MAHSA").

CRC was named as one of the top twenty retirement communities in the nation in 1996 by *New Choices*, a magazine oriented toward senior citizens.

COLLABORATIVE VENTURES

HURON WOODS

UMRC has been engaged as the manager of Huron Woods, a RDF owned by St. Joseph Mercy Health System (“St. Joseph”) and located on its Ann Arbor campus. The 42 units of Phase I, which opened in August 1996, are fully occupied. Planning for an additional 28 units is underway. UMRC is responsible for providing all staffing, and all supplies and other resources essential to operate the program. St. Joseph reimburses UMRC for the full cost of these inputs, and pays UMRC a management fee. St. Joseph owns the facility in which Huron Woods is situated, and is responsible for all capital expenditures related thereto. The contract expires in 2001, five years from the opening of the facility, but may be terminated by either party on thirty days’ notice after the three-year milestone.

SILVER MAPLES OF CHELSEA

UMRC is a 50 percent partner, along with Chelsea Community Hospital, in Silver Maples of Chelsea (“Silver Maples”). The Silver Maples facility, located approximately two miles from CRC, consists of a 48-unit ILF which has been open since November 1997, and a 62-unit ALF which opened in February 1998. Unlike UMRC’s ILF, residents of the Silver Maples ILF are assessed substantial entrance fees. UMRC guarantees one-half of amounts due from Silver Maples to a bank pursuant to a reimbursement agreement relating to a letter of credit that backs a \$14,140,000 bond issue (see “FINANCIAL INFORMATION – Other Financial Information – Silver Maples of Chelsea”).

SYLVAN PINES

In 1997, UMRC was approached by a real estate developer with an opportunity to become a joint venture partner in connection with the development of a moderate-income rental ILF project to be located near CRC in the Village of Chelsea and to be known as Sylvan Pines. Current plans call for the Sylvan Pines project to consist of 98 units, with groundbreaking scheduled for the third calendar quarter of 1998. Only UMRC’s equity contribution of approximately \$35,000 will be at risk. There will be no recourse to UMRC with respect to a loan to be extended by the Michigan State Housing Development Authority (“MSHDA”) to develop Sylvan Pines. In addition to its role as joint venture partner, UMRC will manage the facility and earn a management fee. UMRC recently obtained MSHDA certification as a property manager.

BOULEVARD TEMPLE

UMRC has begun to address the future of BT by partnering with other organizations to make BT the cornerstone of redevelopment efforts in Virginia Park, the Detroit neighborhood in which BT is located (see “FINANCIAL INFORMATION – Recent Financial Performance – Summaries of Financial Statements”). To date, UMRC has undertaken the following four initiatives:

1. UMRC has improved a vacant lot adjacent to BT for use as a park and children’s playground. UMRC anticipates that this public space will provide an attractive gateway to the Virginia Park community and serve as an anchor for future development.
2. It is anticipated that in 1998, UMRC will lease space in BT’s vacant South Building to the Institutional Leadership Conference / Peoples Awareness To Create Hope (“ILC/PATCH”), a faith-based non-profit organization dedicated to the economic and social revitalization of Virginia Park. ILC/PATCH plans to use this space to house its own administrative and program offices, and community outreach programs sponsored by the University of Michigan, Michigan State University, Wayne State University (Detroit), Oakland University (Rochester, Michigan), and the University of Illinois. Under the terms of a lease under negotiation, ILC/PATCH would pay rent to UMRC up to a maximum of approximately \$200,000 annually.
3. UMRC plans to develop a 100-unit, moderate-income rental ILF project on property adjacent to BT. UMRC, through an affiliated organization, plans to utilize a MSHDA non-recourse financing program similar to that to be used for the Sylvan Pines project, as discussed above.

4. As a result of informal discussions, UMRC, in January 1998, submitted a proposal to the Henry Ford Health System (“HFHS”), the corporate parent of Henry Ford Hospital, regarding the formation of a joint venture. As proposed, HFHS’ primary role in the joint venture would be the development and delivery of geriatric medical services to residents of BT and the new ILF project (#3, above), as well as elderly persons residing in the Virginia Park community. UMRC expects to benefit from such an arrangement by enhancing its ability to offer a more comprehensive array of services at the BT site, and by its association with HFHS for fundraising purposes. HFHS has responded to this proposal, and representatives of both parties are scheduled to meet to pursue the relationship.

ORGANIZATIONAL INFORMATION

UMRC is related in ministry to the Detroit Annual Conference of the United Methodist Church (the “DAC”), and carries out its commitment to serve persons in need of health and welfare ministries. The DAC is involved in promoting the activities of UMRC, but neither UMRC nor the DAC accept any legal or financial responsibility for the operations or affairs of the other. Moreover, UMRC and DAC have agreed to indemnify and hold each other harmless from any liabilities that may arise from their relationship. Title to the property of UMRC is held in the name of UMRC. Though legally separate, the DAC’s commitment in spirit is an important factor in UMRC’s fundraising efforts.

GOVERNANCE

UMRC’s Board of Trustees is responsible for setting policy for the entire organization, as well as maintaining oversight of its operations and finances. The Board recognizes the continual changes in the health care environment, and understands the organization’s need to evolve in a rational manner. Over the past several years, the Board has refined its structure and scope of authority. As a result of these efforts, the Board has removed itself from micro-management and now focuses strictly on broad policy issues. The Board’s leadership believes that the Board maintains an appropriate degree of oversight of management’s activities.

The Board’s leadership considers its large size (30 members) and diversity (in terms of occupational affiliation and geography) to be beneficial to fundraising efforts. The Board includes individuals affiliated with manufacturing concerns, financial services firms, social service organizations, public schools and academic institutions, and local governments, as well as professionals such as attorneys, accountants, architects, health care administrators and ministers. Many Trustees are regarded as leaders in their respective fields. Trustees reside in communities located in four counties in southeastern Michigan.

The Board of Trustees functions through a number of standing committees and subcommittees. Committees such as the Finance Committee, Audit Committee, Development Committee and Investment Subcommittee focus on UMRC’s business aspects. The Resident Life Committee and the CRC and BT Boards of Advisors address operational and resident care issues.

The Board meets four times annually. The Executive Committee, comprised of twelve Trustees, meets four times annually in between Board meetings. The Finance Committee meets twice per year.

Of the thirty Trustees, 25 are nominated by the Nominating Committee, with the other five nominated by the DAC. The DAC is represented on the Board of Trustees through *ex officio* membership of the Bishop of DAC, a representative of the DAC Cabinet (an advisory body comprised of seven District Superintendents – ordained ministers who oversee the operation of 70 to 80 churches each), and a delegate from the Health and Welfare Division of the DAC Board of Connectional Outreach. The President of the Retirement Homes Friends, a volunteer group, is also an *ex-officio* member of the Board.

<i>UMRC Board of Trustees</i>					
<i>Name</i>		<i>First Elected</i>	<i>Year Term Expires</i>	<i>Residence</i>	<i>Occupation / Affiliation</i>
Edward O. Adams		1997	2000	Birmingham	<i>Manager (retired), Quality and Process Leadership Group, Ford Motor Company</i>
Charles M. Allmand		1968	1999	Ann Arbor	<i>Assistant to Vice President for Academic Affairs (retired), The University of Michigan</i>
Fred W. Batten, Esq.	F	1992	2000	Grosse Pointe Farms	<i>Partner, Clark, Hill, P.L.C. (attorneys)</i>
Rick A. Bluhm		1996	2000	Ann Arbor	<i>Associate Director for Administration and Program Development, The University of Michigan Geriatrics Center; Administrator for the Geriatrics Program, University of Michigan Health System</i>
Kathleen M. Borlas	F	1992	2000	Shelby Township	<i>Computer Systems Analyst, Wayne State University</i>
Sandra K. Campbell, <i>Vice Chairperson - Finance</i>	E,F	1993	1998	Grosse Pointe Park	<i>First Vice President and Director of Wealth Management Services, Comerica Bank</i>
Alan R. Case	F	1977	1999	Ypsilanti	<i>Health Care Administrator, Henry Ford Health System</i>
Marianne B. Conner, C.P.A.	F,D	1995	1999	Orion Township	<i>Self-employed (accountant and consultant to the long-term care industry)</i>
Jan K. Culbertson, AIA, <i>Secretary</i>		1995	2000	Ann Arbor	<i>Architect, Ann Arbor Architects Collaborative</i>
Rev. Richard L. Dake		1993	1998	Chelsea	<i>Senior Pastor, Chelsea First United Methodist Church</i>
John T. Floyd		1983	1998	Detroit	<i>Supervisor of Special Education (retired), Detroit Public Schools</i>
James W. Ford, <i>Chairman</i>	E,F	1990	1998	Ann Arbor	<i>Chairman (retired), Ford Motor Credit Company</i>
Bruce W. Franklin, Esq.	E	1984	2000	Bloomfield Hills	<i>Partner, Franklin & Leonard (attorneys)</i>
Grovenor N. Grimes		1985	2000	Allen Park	<i>Administrative Coordinator (retired), Wayne State University</i>
Stanley Jones	E,D	1978	1998	West Bloomfield	<i>Executive Director of External Affairs (retired), Wayne State University</i>

<i>UMRC Board of Trustees</i>				
<i>Name</i>	<i>First Elected</i>	<i>Year Term Expires</i>	<i>Residence</i>	<i>Occupation / Affiliation</i>
Dr. Dean A. Klump	1984	1999	Plymouth	<i>Senior Pastor</i> , Plymouth United Methodist Church
Rev. Donald C. Kraushaar	1978	2000	Saline	<i>Assistant Director (retired)</i> , University of Michigan Medical Center; <i>Minister</i>
Rev. Dr. Linda Lee	<i>ex-officio</i>			Cabinet Representative, DAC
Richard B. Lundy E,F,D	1983	1998	Dexter	<i>Business Owner</i> , COM, Inc. (manufacturer of computer systems)
Harold R. Melin E	1986	1999	Bloomfield Hills	<i>Business Owner (retired)</i> , Soo Plastics Corporation (manufacturer of plastic products)
Bishop Donald A. Ott	<i>ex-officio</i>			Bishop, DAC
Shirley S. Peterson E	1992	2000	Bloomfield Hills	Self-employed, Consulting Works, Inc. (human resources and management consulting)
Stephen C. Ragan D	1996	1998	Plymouth	<i>Director of Capital Campaigns</i> , St. Joseph Mercy Hospital (Ann Arbor)
Rev. Donald A. Scavella, Vice Chairperson - Development E,D	1992	2000	Detroit	<i>Executive Secretary</i> , United Methodist Union of Greater Detroit; <i>Loan Officer</i> , Conference Extension Fund
Rev. Robert Selberg	<i>ex-officio</i>			Health and Welfare Division Representative, DAC
Hon. Ingrid B. Sheldon	1997	1999	Ann Arbor	<i>Mayor</i> , City of Ann Arbor
Roger C. Spry E,F	1974	1998	Bloomfield Hills	<i>Assistant Dean of Academic & Administrative Affairs</i> , Wayne State University School of Medicine
Miriam Taber	<i>ex-officio</i>			<i>President</i> , Retirement Homes Friends
Barbara L. Ulman, Esq. E,D	1994	1999	West Bloomfield	<i>Partner</i> , Ulman and Ulman (attorneys)
Dr. Robert P. Ward, Vice Chairperson - Resident Life E,D	1993	1999	Bloomfield Hills	<i>Senior Pastor (retired)</i> , Birmingham First United Methodist Church
Ronald C. Woodard E,D	1993	1998	Ann Arbor	Business Owner, Roush Industries (automobile engineering)

<i>UMRC Board of Trustees</i>				
<i>Name</i>	<i>First Elected</i>	<i>Year Term Expires</i>	<i>Residence</i>	<i>Occupation / Affiliation</i>
E = Member of Executive Committee F = Member of Finance Committee D = Member of Development Committee				

Sandra K. Campbell is an officer of Comerica Bank, an affiliate of Comerica Securities, an underwriter of the Series 1998 Bonds. Ms. Campbell abstained from voting on the resolution which appointed Comerica Securities, and that which authorized the award and sale of the Series 1998 Bonds to Comerica Securities.

REORGANIZATION

The Board is considering the formation of a separate Foundation to focus on fundraising and other development programs. The Foundation would be established as a “supporting organization” pursuant to Section 501(c)(3) of the Internal Revenue Code, though it has not yet been determined whether the Foundation would be a subsidiary or a “sibling” of UMRC. In either event, according to generally accepted accounting principles, the Foundation’s audited financial statements would be consolidated with those of UMRC. The governing board of the Foundation would likely consist of current UMRC Trustees whose primary interest is in fundraising, plus other persons whose participation in UMRC’s fundraising activities would be beneficial. The UMRC Board would focus on policy formation and management oversight matters. If the Foundation is established, then UMRC would transfer the Heritage Fund to the Foundation (see “FINANCIAL INFORMATION – Other Financial Information – Investment Policy and Performance”).

The Foundation would be considered an “Affiliate” as the term is used in the Trust Indenture and the Loan Agreement relating to the Series 1998 Bonds. In connection with the asset transfer, the Foundation will enter into an Affiliate Guarantee pursuant to which it would unconditionally guarantee UMRC’s payment obligations under the Loan Agreement.

MANAGEMENT

The Board has delegated the day-to-day operation of UMRC to Seneca S. Foote, its President and Chief Executive Officer, who, in turn, delegates to his management team. Mr. Foote is expected to announce his resignation in early April 1998 to accept a position as the CEO of another faith-based long-term care organization. Such resignation is expected to be effective in late May 1998.

The executive staff is situated at UMRC’s corporate headquarters building on the CRC campus. In addition to these executives, the day-to-day operations of each Facility are managed by an on-site administrator. Resumes of these individuals follow.

Seneca S. Foote, President and Chief Executive Officer, Age 51. Mr. Foote, an ordained minister, has held executive positions in long-term care organizations since 1980. Prior to joining UMRC in 1991, Mr. Foote had served as Executive Director of Luther Village, Arlington Heights, IL, as Director of Operations of Peninsula United Methodist Homes, Wilmington, DE, as Executive Director of Villa Gardens, Pasadena, CA, and as Administrator of Hermitage in Northern Virginia, a unit of the Virginia United Methodist Homes. In his various management positions, Mr. Foote has achieved CCAC accreditation. Mr. Foote also serves on the Board of Silver Maples.

Mr. Foote has been active in several professional associations. His leadership positions have included membership in the House of Delegates to AAHSA, Chairman of MAHSA, and Vice President of the Virginia Association of Non-Profit Homes for the Aging. He currently serves as a Commissioner of the CCAC. Mr. Foote has been a frequent presenter to diverse audiences on long-term care management and accreditation topics.

Mr. Foote received his Masters of Divinity degree from the Vanderbilt Divinity School, Nashville, Tennessee, and his Bachelors degree from Carson-Newman College, Jefferson City, Tennessee. In addition, he completed the

nursing home administrator certificate program at the University of Maryland, College Park. Mr. Foote is a licensed nursing home administrator in Michigan.

Donald C. House, Jr., Senior Vice President, Chief Financial Officer and Treasurer of the Board of Trustees, Age 44. Mr. House joined UMRC in 1978 as Controller, and was promoted to his present position in 1996. In addition to the overall financial management of UMRC, Mr. House is responsible for strategic planning, the analysis of new projects, programs and services, and long-range financial forecasting. He also serves as Chief Financial Officer for Silver Maples. During his career at UMRC, Mr. House has managed two tax-exempt bond issues, overseen the installation of two data processing systems, and implemented extensive management reporting and control systems. Prior to joining UMRC, Mr. House held accounting positions in private industry.

Mr. House holds a Masters of Business Administration degree from the University of Michigan, Ann Arbor, and a Bachelors degree from Vanderbilt University, Nashville, Tennessee. He serves on MAHSA's Finance and Reimbursement Committee, and acts as a site evaluator for the CCAC.

John A. Capes, Vice President and Director of Human Resources, Age 48. Mr. Capes' role at UMRC consists generally of three functions:

- P the development of new business opportunities;
- P the supervision of UMRC's contract to manage Huron Woods; and
- P the management of UMRC's human resources and payroll departments.

In addition, Mr. Capes maintains overall responsibility for the development and implementation of the CRC 2000 Facility.

Mr. Capes joined UMRC in 1991 as Director of Human Resources. During his tenure with UMRC, Mr. Capes has also served as the interim administrator of BT. Prior to joining UMRC, he held human resources management positions in private industry.

Mr. Capes holds a Bachelors degree from Rockford College, Rockford, Illinois. He is a licensed nursing home administrator in Michigan. Mr. Capes is a member of the Society of Human Resource Managers.

Wendy Lawson, Director of Fund Development, Age 40. Ms. Lawson is responsible for the direction of UMRC's fundraising, marketing and public relations activities. During Ms. Lawson's tenure, UMRC successfully completed a \$2 million endowment campaign. Prior to joining UMRC in 1993, Ms. Lawson served as Director of Development for Planned Parenthood of Mid-Michigan, Ann Arbor, and as Director of Development and Public Relations for the Children's Study Home, Springfield, Massachusetts, a child welfare organization.

Ms. Lawson was conferred her Masters of Business Administration degree with a concentration in marketing by Eastern Michigan University, Ypsilanti. She earned her Bachelors degree at the University of Michigan, Ann Arbor. Ms. Lawson is active in the Huron Valley Fund Raisers Association, serving as its Treasurer from 1992 to 1994.

Constance B. Amick, Administrator of CRC, Age 62. Ms. Amick is responsible for the day-to-day operations of CRC and the delivery of services to a total of 370 residents. Ms. Amick joined the CRC staff in 1981 as Resident Advisor after having served a five-year term on the UMRC Board. Prior to her promotion to her current position in 1995, Ms. Amick was CRC's Assistant Administrator and Director of Social Services, a position that entailed overall responsibility for the admissions process.

Ms. Amick holds a Bachelors degree granted by the University of Michigan, Ann Arbor. She is a licensed nursing home administrator and a registered social worker in Michigan.

Kathleen G. Porman, Administrator of BT, Age 47. Ms. Porman is responsible for directing the day-to-day functions of BT and ensuring continuous compliance with all regulations, standards and guidelines. She is also responsible for overseeing the Great Grandchildren's Place. Ms. Porman first joined the BT administrative staff in

1989 as its Administrative Assistant. She was promoted to Admissions Director in 1993, and to her present position in 1994. Prior to her association with BT, Ms. Porman held Assistant Development Director positions at two parochial schools.

Ms. Porman attended Wayne State University, Detroit, and received her Certificate in Long Term Care Administration from Madonna University, Livonia, Michigan. She is a licensed nursing home administrator in Michigan, and a member of the Michigan Chapter of the College of Healthcare Administrators.

EMPLOYEES AND LABOR RELATIONS

UMRC’s average complement of full-time equivalent (“FTE”) employees for FY1997 was 347, assigned as follows:

CRC	174.6
BT	121.4
Huron Woods	39.8
Corporate and Development Office	11.1

The Service Employees International Union (“SEIU”) represents UMRC employees in three distinct bargaining units.

<i>Service Employees International Union Bargaining Units</i>			
<i>Site</i>	<i>Job Classifications</i>	<i>Number of FTE Employees</i>	<i>Contract Expiration Date</i>
CRC	Licensed Practical Nurses (LPNs) and Registered Medical Assistants (RMAs)	15	October 20, 1999
CRC	Service employees	152	April 30, 1998
BT	Service employees	84	December 31, 2000

The contract with SEIU members working at BT was settled within UMRC’s budget, without any job action having occurred. Negotiations with the SEIU on behalf of employees at CRC commenced in March 1998. None of the Huron Woods employees is unionized.

UMRC maintains a positive relationship with its employees, and cordial relationships with the union representatives. Contract negotiations have typically been routine and non-confrontational. UMRC experiences only nominal grievance activity.

UMRC competes in a very constricted labor market in Washtenaw County, where both CRC and Huron Woods are located. The unemployment rate in Washtenaw County is currently less than three percent. Nevertheless, UMRC has been largely successful in attracting and retaining qualified employees in this very competitive environment to be able to deliver its services. In addition, management believes that current staffing levels are adequate. (See “BONDHOLDER’S RISKS)

SERVICE VOLUMES AND UTILIZATION

UMRC's service volumes and utilization are set forth in the following table.

<i>Occupancy Rates</i>								
<i>Facility / Location</i>		<i>Two Months Ended February 28</i>		<i>Fiscal Years Ended December 31</i>				
		<i>1998</i>	<i>1997</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
ILF	CRC	100.0%	98.8%	99.2%	99.2%	98.8%	99.0%	97.7%
	BT	N/A	N/A	N/A	51.9%	54.1%	63.0%	61.9%
ALF	CRC	98.0%	90.2%	95.9%	92.6%	97.1%	99.7%	97.4%
	BT	N/A	N/A	N/A	81.5%	88.8%	94.8%	82.1%
RDF	CRC	99.3%	96.8%	97.4%	97.5%	98.6%	98.9%	97.5%
	BT	N/A	N/A	N/A	64.3%	82.9%	86.7%	75.7%
SNF	CRC	99.5%	99.5%	99.2%	98.9%	99.0%	99.6%	99.5%
	BT	98.7%	96.9%	98.1%	97.7%	98.1%	98.9%	97.4%

Note: Shaded cells relate to discontinued operations at BT.

All facilities other than the SNF were discontinued at BT as of December 31, 1996 (see "FACILITIES AND SERVICES – Boulevard Temple"). While service volumes remained satisfactory, as indicated in the above table, many residents were unable to pay the full rent necessary for UMRC to sustain operations. Following UMRC's decision to discontinue these operations, ILF, ALF and RDF units were vacated in an orderly fashion by attrition and the transfer of residents to other facilities.

For several years, the entire SNF volume at CRC has been generated solely by transfers of residents from other accommodations at CRC. The only period during which residents were admitted directly to the SNF occurred during the winter of 1994-95, when the frequency of SNF discharges accelerated.

The decrease in ALF occupancy rate from 1995 to 1996 reflects a greater tendency for residents to occupy two adjoining units. This arrangement is especially prevalent on the third floor of Glazier Hall, where the units are smaller and common lavatories serve pairs of adjoining units. Because residents occupying two units are charged for both without any discount, there is no adverse impact on UMRC's revenue from ALF units, despite the apparent decrease in utilization. Beginning in mid-1997, record-keeping was improved so that two units were recorded as being occupied in these situations. The ALF occupancy rate for the two months ended February 28, 1997 appears artificially low because that period preceded this improvement in record-keeping.

WAITING LISTS

The following table sets forth recent waiting lists for the different accommodations. Waiting list figures in this table represent only bona-fide applicants who meet financial and other standards, and who are prepared to move in on short notice. Prospective residents are queued on the waiting lists in order of their original application dates. A prospective resident's original application date still governs even if a different level of accommodation becomes more appropriate for him/her.

<i>Waiting Lists, Active Prospective Residents Only (CRC Only)</i>					
		<i>At December 31</i>			
		<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>
ILF	Units	100	100	100	100
	Waiting List	59	41	47	48
ALF	Units	92	92	92	92
	Waiting List	23	18	25	46
RDF	Beds	28	28	28	28
	Waiting List	5	3	15	10
SNF	Beds	110	110	110	110
	Waiting List	25	16	25	16
Comparable data for years prior to 1994 are not available.					

When an ILF, ALF or RDF unit becomes available, new ILF, ALF and RDF residents are usually able to move in to their units within 30 days of notification of a vacancy. However, such new residents become liable for the rent on their unit once the unit has been cleaned, refurbished and prepared for occupancy. This process normally takes between three to ten days. Thus, with each vacancy, there is only a short period during which rent does not accrue.

The SNF waiting list is comprised of persons who filed applications prior to 1994, plus persons who were on waiting lists for other types of accommodations, but whose medical conditions worsened in the interim. As noted earlier, UMRC has been able to fill its SNF beds through transfers from other types of accommodations at CRC. No applications for SNF beds have been accepted from non-residents of CRC since 1994.

INDEPENDENT LIVING FACILITIES' TURNOVER RATE

The turnover rates for ILF units at CRC is set forth in the following table.

<i>ILF Turnover Rates (CRC Only)</i>							
	<i>Two Months Ended February 28</i>		<i>Fiscal Years Ended December 31</i>				
	<i>1998</i>	<i>1997</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
ILF Units	100	100	100	100	100	100	100
Reoccupied ILF Units	0	2	13	22	21	13	19
Turnover Rate (Annualized)	0%	12%	13%	22%	21%	13%	19%

Because the ILF units are rental-only, minimizing turnover rates is not an essential ingredient to successful financial performance. As noted above, UMRC has been able to maintain a truly active waiting list that is approximately equivalent to twice the annual turnover rate.

SERVICE AREAS, COMPETING FACILITIES AND DEMAND FACTORS

The competitive aspects of ILFs, ALFs and RDFs differ from those of SNFs due to the lack of insurance coverage and reimbursement (see “FINANCIAL INFORMATION – Sources of Revenue”). The ensuing discussion is oriented solely to CRC, where all of UMRC’s ILF, ALF and RDF units are located. Much of the information presented in this section has been extracted from data compiled by Hamlyn Senior Marketing (“Hamlyn”), which had been engaged by UMRC to perform a market analysis to support the planning for the CRC 2000 Facility. Hamlyn specializes in research, strategic planning, advertising, sales management, and market audits for rental housing, continuing care, life care, assisted living and nursing home facilities. Since 1977, Hamlyn has directed marketing programs for over 300 planned or existing facilities. Hamlyn’s report dated August 15, 1997 (the “Hamlyn Report”) contains data gathered and analyzed during the late spring and summer of 1997. However, except for announcements concerning the development of new units, UMRC believes that the data remain accurate in all material respects.

INDEPENDENT LIVING FACILITIES

The average age of residents moving into CRC’s ILF tends to be greater than that of people moving into other such facilities – 81 among those new residents of the Garden Apartments; 82½ among those moving into Dancy House. This factor has compelled UMRC to develop mechanisms for delivering services to ILF residents. As a result of these efforts, UMRC’s ILF marketing strategy is not limited to the “well elderly.”

UMRC management believes that CRC’s ability to attract ILF residents from throughout southeastern Michigan and beyond is attributable to the following:

- P its Methodist affiliation;
- P the Village of Chelsea having been regarded as a desirable destination;
- P its CCAC accreditation;
- P the availability of a continuum of care;
- P CRC’s reputation for high quality care; and
- P its attractive campus, along with relatively large ILF units compared to competitors (as detailed below).

In addition, UMRC has found that its rental, “pay-as-you-go” format has proven to be an easier concept to market, as prospective residents and their families do not have to consider the impact of entrance fees.

CRC's ILF Primary Service Area (the "PSA") is defined as all of Washtenaw County, plus bordering areas in Wayne, Oakland and Livingston Counties. However, only 46 percent of ILF residents who moved in between 1993 and March 1997 originated in the PSA. Another 17 percent moved from the Secondary Service Area (the "SSA"), a fifty-mile radius surrounding CRC, which encompasses all of southeastern Michigan except Macomb County and the Grosse Pointe area of Wayne County. Thus, 37 percent migrated more than 50 miles to reside at CRC.

COMPETITORS

Competing ILFs in the Service Area contain a total of 657 units. Certain characteristics of these competing ILFs are tabulated below, with CRC's ILFs shown for comparison.

<i>Characteristics of Competing ILFs - Existing</i>						
<i>ILF</i>	<i>Location</i>	<i>Year Opened</i>	<i>Number of Units</i>	<i>Square Footage</i>	<i>Occupancy Rate</i>	<i>Charges*</i>
CRC - Dancey House	Chelsea	1991	76	828	100%	\$186,360
CRC - Garden Apartments	Chelsea	1969	24	800	100%	\$124,440
Brookhaven Manor	Ann Arbor	1989	98	584	97%	\$171,000
Carriage Park	Canton	1994	90	N/A	100%	\$107,400
Gilbert Old People's Home	Ypsilanti	1960	40	N/A	98%	\$90,600
Glacier Hills	Ann Arbor	1973	122	527	92%	\$219,860
Hidden Pond Manor	Ypsilanti	1989	71	736	97%	\$156,000
Hillside Terrace	Ann Arbor	1969	76	504	100%	\$251,880
Independence Village of Brighton	Brighton	1988	90	550	100%	\$158,400
Plymouth Inn	Plymouth	1978	70	N/A	100%	\$144,000
* Total ILF Charges (both up-front and periodic), without meals, for ten-year period, assuming no transfer to a SNF unit Source: Hamlyn Report						

Collectively, the ILFs are nearly fully occupied. On the average, only sixteen out of a total of 757 units are unoccupied, a vacancy rate of just over two percent.

CRC's Dancey House ILF units are the largest, in terms of square footage, though only the third most costly, in terms of Total ILF Charges, as defined in the above table. Dancey House was constructed much more recently than its more expensive competitors, and its units are over 50 percent larger. CRC's Garden Apartments represent a superior value: as the second largest units (in rank, behind the Dancey House units), they are the third least costly.

Three other ILFs, having a total of 208 units, are expected to open within the next 18 months.

<i>Characteristics of Competing ILFs - Under Development</i>			
<i>ILF</i>	<i>Location</i>	<i>Number of Units</i>	<i>Opening Date</i>
Independence Village of Plymouth	Plymouth	90	July 1998
Saline Evangelical Home	Saline	70	November 1998
Silver Maples of Chelsea	Chelsea	48	November 1997
Source: Hamlyn Report			

UMRC is one of the two equal owners of Silver Maples. In contrast to CRC's rental-only format, Silver Maples's ILF units features a substantial entrance fee. Silver Maples's ILF has opened since the Hamlyn Report was issued.

MARKET PENETRATION RATES

Market Penetration Rates are relatively low, even after including the ILFs under development, plus the addition of 50 ILF units at CRC assumed in the Hamlyn Report. No ILF units will be constructed in connection with the Series 1998 Improvement Project.

<i>ILF Market Penetration Rates</i>					
	<i>A</i>	<i>B</i>	<i>C = A - B</i>	<i>D</i>	<i>E = D / C</i>
<i>Year</i>	<i>Qualified* Households</i>	<i>Occupied Units</i>	<i>Households not Occupying Units</i>	<i>Units to be Filled</i>	<i>Penetration Rate</i>
1997	2,549	590	1,959	8	0.41%
1998	2,755	614	2,141	10	0.47%
1999	2,961	683	2,278	16	0.70%
2000	3,167	757	2,410	28	1.16%
2001	3,373	793	2,580	19	0.74%
* PSA Residents who are greater than 80 years old with more than \$37,000 in annual household income; the selection of 80 for age-qualification relates to the average age of residents at move-in to Dancey House and to Silver Maples' ILF. Source: Hamlyn Report					

These data indicate that the market should be able to absorb another 50 ILF units beyond those already existing or under development.

ASSISTED LIVING FACILITIES (NON-DEMENTIA)

CRC attracts ALF residents from the entire southeastern Michigan area, but from a somewhat more concentrated area than ILF residents. CRC's ALF PSA is defined as most, but not all of Washtenaw County, and the Brighton area of Livingston County. Still, only 45 percent of ALF residents who moved in between 1993 and March 1997 originated in the PSA, indicating CRC's attractiveness to residents from beyond the PSA in need of ALF services.

COMPETITORS

Competing ALFs in the Service Area contain a total of 264 units. Certain characteristics of these competing ALFs are tabulated below, with CRC’s ALF shown for comparison.

<i>Certain Characteristics of Competing ALFs - Existing</i>					
<i>ALF</i>	<i>Location</i>	<i>Year Opened</i>	<i>Licensure*</i>	<i>Number of Units</i>	<i>Occupancy Rate</i>
CRC	Chelsea	1980s	HFA	92	94%
Arbor Care	Ann Arbor	1984	AFC	18	89%
Anna Botsford Bach Home	Ann Arbor	1901	none	16	81%
Brookhaven Manor	Ann Arbor	1989	none	44	100%
Glacier Hills	Ann Arbor	1973	HFA	36	100%
Hidden Pond Manor	Ypsilanti	1989	none	33	100%
Hillside Terrace	Ann Arbor	1969	HFA	12	100%
Independence Village of Brighton	Brighton	1988	none	59	100%
Saline Evangelical Home	Saline	1974	HFA	28	93%
Janet Taulbee Family Home	Ypsilanti	1984	AFC	12	95%
TLC Home	Ann Arbor	1995	AFC	6	100%
* HFA = Home for the Aged; AFC = Adult Foster Care (see below for explanations of these designations) Source: Hamlyn Report					

The composite occupancy rate is 96 percent, with only thirteen out of a total of 356 units are unoccupied on the average.

CRC's monthly charges for its ALF units compare favorably with those of most competitors. As outlined on the following table, ALFs have different types of units.

<i>Monthly Rates Charged by Competing ALFs</i>					
<i>ALF</i>	<i>Private</i>	<i>Semi-Private</i>	<i>Studio</i>	<i>One Bedroom</i>	<i>Two Bedroom</i>
CRC	\$1,358		\$1,703		
Arbor Care	\$2,100	\$1,920			
Anna Botsford Bach Home	\$1,301				
Brookhaven Manor				\$1,575	\$1,900
Glacier Hills			\$1,950	\$2,428	
Hidden Pond Manor			\$1,340	\$1,600	\$1,850
Hillside Terrace			\$2,423		
Independence Village of Brighton			\$1,700	\$2,000	\$2,600
Saline Evangelical Home	\$1,500				
Janet Taulbee Family Home	\$2,000	\$1,850			
TLC Home	\$1,500	\$1,500			
Source: Hamlyn Report					

The supply of ALF units in the PSA is expected to more than double over the next few years. Five other ALFs, having a total of 247 units are expected to open within the next 18 months. Another 40 units are targeted for opening in 1999 or 2000, and another existing ALF has not solidified its plans.

<i>Competing ALFs - Under Development</i>			
<i>ALF</i>	<i>Location</i>	<i>Number of Units</i>	<i>Opening Date</i>
Fairfax Manor	Ypsilanti	40	1999 - 2000
Hillside Terrace	Ann Arbor	unknown	1999 - 2000
Independence Village of Plymouth	Plymouth	83	July 1998
Karrington	Ann Arbor	70	April 1998
Saline Evangelical Home	Saline	32	November 1998
Silver Maples of Chelsea	Chelsea	62	February 1998
Source: Hamlyn Report			

UMRC is one of the two equal owners of Silver Maples. The opening date of Silver Maples' ALF was delayed to February 1998 from that cited in the Hamlyn Report.

ASSISTED LIVING FACILITY LICENSURE

In general, ALFs in Michigan may be licensed as an HFA or as an Adult Foster Care (“AFC”) facility, but there is no requirement that ALFs be licensed at all. Without licensure of any kind, however, operators of such unlicensed ALFs are more susceptible to certain State-imposed sanctions. HFA licensure entails more rigorous standards, and is considered by UMRC management to produce a marketing advantage.

The AFC program may be used to license small group homes containing between seven and 12 residents, or large group homes for 13 to 20 residents. The State regulatory agency that is responsible for oversight of AFC-licensed facilities is the Michigan Family Independence Agency, formerly the Department of Social Services. Operators of AFC-licensed facilities are required to provide both personal and supervisory care to residents as needed. Each resident must complete an annual health assessment, and a written plan of care must be prepared for each resident. An adequate number of staff to meet resident needs must be present 24 hours daily, but there are no specific staffing requirements. Further, there is no requirement that any of the staff be licensed nurses or other health care professional, nor is there any requirement that any of the unlicensed staff received special training.

HFA licensure applies only to ALFs housing more than 20 residents. The State regulatory agency that is responsible for oversight of HFA-licensed facilities is the Michigan Department of Consumer and Industry Services (“CIS”), a function that was transferred from the Michigan Department of Community Health in 1996. Residents admitted into HFA-licensed facilities must be certified to be free from communicable disease. HFA residents may receive health services delivered by a home care agency, but cannot remain in an HFA if their medical needs exceed the capabilities of a home care agency. Unlike an AFC, there is no requirement for the completion of annual health appraisals, or the preparation of care plans. Each HFA-licensed facility must be supervised by an administrator, and each shift staffed by a designated supervisor. However, an HFA need not employ nursing or other licensed health care professionals, nor provide special training for non-professional staff.

MARKET PENETRATION RATES

Market Penetration Rates are relatively low, even after including the ALFs under development, plus the addition of 50 ALF units at CRC assumed in the Hamlyn Report. No ALF units will be constructed in connection with the Series 1998 Improvement Project.

<i>ALF Market Penetration Rates</i>					
	<i>A</i>	<i>B</i>	<i>C = A - B</i>	<i>D</i>	<i>E = D / C</i>
<i>Year</i>	<i>Qualified* Households</i>	<i>Occupied Units</i>	<i>Households not Occupying Units</i>	<i>Units to be Filled</i>	<i>Penetration Rate</i>
1997	2,303	205	2,098	18	0.86%
1998	2,436	246	2,190	21	0.96%
1999	2,570	319	2,251	41	1.82%
2000	2,703	381	2,322	35	1.51%
2001	2,837	400	2,437	32	1.31%
* PSA Residents who are greater than 80 years old with more than \$20,000 in annual household income Source: Hamlyn Report					

These data indicate that the market should be able to absorb another 50 ALF units beyond those already existing or under development.

RESIDENTIAL DEMENTIA FACILITIES

The RDF distinction represents more a category of service rather than a type of facility. Different organizations deliver services to Alzheimer’s disease and related dementia residents in different types of facilities.

CRC does so in a facility that is classified as an ALF that is licensed as a HFA. Services to similarly-afflicted persons are operated by competitors in facilities that are classified variously as either SNFs, ALFs or AFCs.

UMRC considers the RDF PSA to be the same as the ALF PSA. Management believes that CRC's existing RDF, Wesley Hall, has achieved a superior reputation, and draws many residents from beyond the PSA.

Competing RDFs in the Service Area contain a total of 229 units. Certain characteristics of these competing RDFs are tabulated below, with Wesley Hall shown for comparison.

<i>Certain Characteristics of Competing RDFs - Existing</i>							
<i>RDF</i>	<i>Location</i>	<i>Year Opened</i>	<i>Licensure*</i>	<i>Number of Units</i>	<i>Occupancy Rate</i>	<i>Per Diem Charges</i>	
						<i>Private</i>	<i>Semi-Private</i>
CRC - Wesley Hall	Chelsea	1983	HFA	28	100%	\$99	
Bortz Health Care of Ypsilanti	Ypsilanti	1988	SNF	55	100%	\$110	\$105
Fairfax Manor	Ypsilanti	1996	AFC	20	84%	\$115	\$95
Glacier Hills	Ann Arbor	1991	SNF	36	100%		\$145
Hamilton House of Ann Arbor	Ann Arbor	1995	HFA	36	95%	\$112	\$91
Heartland	Ann Arbor	1997	SNF	40	New		
Huron Woods	Ann Arbor	1996	HFA	42	100%	\$123	

* SNF = Skilled Nursing Facility; HFA = Homes for the Aged; AFC = Adult Foster Care
Source: Hamlyn Report

Huron Woods is managed by UMRC. Heartland opened in July 1997.

Except for Fairfax Manor, all RDFs are either fully or nearly fully occupied. The composite occupancy rate is 98 percent, with only five out of a total of 217 units (excluding Heartland's units, which opened in July 1997) unoccupied on the average.

CRC's per diem charges for its Wesley Hall units are lower than all other competitors for private rooms.

The supply of RDF units in the PSA is expected to increase by 63 within the next 18 months.

<i>Competing RDFs - Under Development</i>			
<i>RDF</i>	<i>Location</i>	<i>Number of Units</i>	<i>Opening Date</i>
Karrington	Ann Arbor	15	April 1998
Fairfax Manor	Ypsilanti	20	October 1998
Huron Woods	Ann Arbor	28	March 1999

Source: Hamlyn Report

However, the Fairfax Manor expansion may be regarded as questionable, given its challenge to achieve full occupancy of its existing facility. The Huron Woods development would represent an expansion of its current facility. UMRC expects to be engaged by St. Joseph to manage the expanded Huron Woods.

Demand for RDFs is measured differently than other facilities. Elderly persons in need of an RDF program may currently be residents of SNFs or ALFs, or may still be living in private residences. The following summary table shows the estimated demand for RDF units by each of the three sources.

<i>Market Penetration Rates</i>					
<i>Source</i>	<i>Units or Households</i>	<i>Estimated Number of Persons with Dementia</i>	<i>Estimated Number of Income-Qualified Persons with Dementia</i>	<i>Penetration Rate</i>	<i>Closing Rate</i>
SNFs	927	251	78	4.67%	30%
ALFs	230	92	92	1.96%	30%
Private Homes	7,041	789	789	3.10%	7%
Source: Hamlyn Report					

These data take into account the RDFs under development, plus the addition of 50 RDF units at CRC. These data indicate that the market should be able to absorb another 50 RDF units beyond those already existing or under development. Thus, there appears to be sufficient market demand for UMRC to add 92 new RDF units, 60 to be licensed as a SNF, with the other 32 to be licensed as HFA.

FINANCIAL INFORMATION

UMRC’s Board and Management are committed to preserving the organization’s long-term financial viability. UMRC’s Mission Statement includes a “vision for the future” element. Among UMRC’s values are several relating to financial matters:

- P the recognition of fiscal responsibility in connection with the provision of charity care;
- P a commitment to competency in fiscal management; and
- P the sense that the organization “must do well to do good.”

In the 1991–1995 Strategic Plan, the Board established certain financial goals:

- P achievement of a stable financial base for UMRC short-term operations and for program continuity and growth;
- P maintenance of adjusted gross revenue at 6 percent over operating cost; and
- P implementation of a benevolent care program sustained by available gifts and income from certain restricted funds.

Each goal was accompanied by implementation steps which have largely been addressed.

SOURCES OF REVENUE

Except for the SNFs at CRC and BT, insurance (public or private) plays no meaningful role in the payment of UMRC’s fees and charges. Fourteen residents apply their SSI benefits to their service fees. Otherwise, residents and/or their families are the sole source of revenue for UMRC’s ILF, ALF and RDF accommodations.

THIRD-PARTY REIMBURSEMENT METHODOLOGIES FOR SNF BEDS

The federal Social Security Act, as amended, provides the legal basis for the Medicare program (Title XVIII) and the Medicaid program (Title XIX). Both provide benefits applicable to residents of the SNFs, but neither have any bearing on payments to UMRC with respect to residents of facilities other than the SNFs.

MEDICARE

Medicare consists of two distinct parts: Part A describes coverage of and conditions for payment for inpatients hospital services and services provided by other institutional health care providers, such as nursing homes (like the SNFs), home care agencies and hospices. Part B relates to a voluntary supplementary medical insurance benefit for the aged and disabled that covers, among other services, certain physician care, diagnostic testing, durable medical equipment and medical supplies. The Balanced Budget Act of 1997 mandates the implementation of a prospective payment system (“PPS”) for SNFs commencing on July 1, 1998. Under PPS, the amount paid to SNFs will be capped on a per-case or a per day of patient care basis, and may include certain diagnostic services covered under Part B. The Medicare program is administered by the Health Care Financing Administration (“HCFA”) through its fiscal intermediary, United Healthcare (the “FI”).

Medicare coverage of SNF services is available only if (a) the required skilled nursing or rehabilitative services can only be provided in a SNF; (b) the SNF resident had been hospitalized for at least three consecutive days (not including the day of discharge) prior to the SNF admission; (c) the need for the SNF services is directly related to the reason for the hospitalization; (d) the resident was admitted to the SNF within 30 days of discharge from the hospital. Medicare coverage of SNF services is limited to 100 days per benefit period; and (e) a medical professional certifies that daily skilled nursing or rehabilitative care is necessary. There is no annual limitation on the number of covered benefit periods that a SNF resident might ever encounter. Medicare, through the FI, reimburses UMRC a per diem rate that is based on allowable costs, subject to certain limits. Residents must pay to UMRC a deductible for each SNF stay and a coinsurance amount applicable to the 21st through the 100th days of each Medicare-covered SNF stay.

Eligibility for Medicare reimbursement of a SNF stay is predicated on the coincidence of several facts. Accordingly, the percentage of UMRC’s SNF resident-days reimbursed by Medicare has generally been less than ten percent of all SNF resident-days.

MEDICAID

The Medicaid program is a joint federal/state health insurance program for the categorically needy, aged or disabled. It is administered by HCFA and MDCH. HCFA funds approximately half of the aggregate payments to nursing homes in Michigan, with the State funding the other half through MDCH.

Medicaid coverage of SNF services is conditioned on financial eligibility rather than prior hospitalization. While Medicare Part A coverage is virtually universal among persons age 65 and over, eligibility for Medicaid coverage involves a “means-testing” procedure. The Medicaid program reimburses UMRC a per-diem rate with respect to each Medicaid-eligible SNF resident, without any limit on the number of days of care. Typical of Medicaid programs nationwide, residents are required to assign their social security and similar benefits to UMRC, except for a nominal spending allowance. The Medicaid reimbursement formula recognizes these resident payments, and funds a net amount so that UMRC realizes no more than the allowable Medicaid per diem rate.

The Medicaid per-diem rate formula includes the recognition of certain variable operating and capital costs, as modified by other factors, as tabulated below.

<i>Medicaid SNF Reimbursement Rates, 1998</i>		
	<i>CRC</i>	<i>BT</i>
Variable Cost Component	\$92.83	\$90.51
Plant Cost Component	9.00	4.95
Continuous Quality Improvement Incentive	0.75	2.92
Wage Pass-through Add-on	4.58	5.06
OBRA Training & Testing Add-on	0.80	0.00
Medicaid Reimbursement Rate	\$107.96	\$103.44

Rates are computed for CRC and BT separately, rather than UMRC as a whole. Except for the Wage Pass-through Add-on, all other components reflect audited costs from two years prior (in this case, 1996).

The Variable Cost Component is trended forward by an inflation factor. The Variable Cost Component is subject to a limit which UMRC (for both CRC and BT) and most other non-profit SNFs in the State routinely reach. MDCH establishes the limit by first ranking all nursing homes in the State in order of their Variable Cost Components. Then, starting with the SNF having the lowest Variable Cost Component, MDCH accumulates the number of beds licensed to each SNF until it reaches 80 percent of the total licensed SNF bed count in the State. The Variable Cost Component of that SNF in the 80th percentile of licensed beds then becomes the limit. This limit is further modified by a limit on the ratio of support costs to base costs. This additional limit affects BT. In recent years, the limit has increased at rates exceeding the general inflation rate, as tabulated below.

<i>Variable Cost Component Limits</i>		
<i>Year</i>	<i>Limit</i>	<i>Percent Increase over Previous Year</i>
1998	\$92.83	9.4%
1997	\$84.83	6.4%
1996	\$79.71	7.7%
1995	\$73.98	7.7%
1994	\$68.69	6.7%
1993	\$64.35	

These significant rate increases have been attributable largely to the pass-through of the costs of legislatively-mandated services and administrative requirements.

The Plant Cost Component reflects debt service and the original cost of facilities and equipment, the latter of which is trended forward. Both CRC and BT are well below the debt service reimbursement limit. CRC and BT have regularly qualified for the maximum Continuous Quality Improvement Incentive, a maximum of \$2.74 per diem for 1998. UMRC has appealed this component's determination with respect to CRC, contending that CRC maintains the same quality improvement programs as in prior years without there having been any material changes in the program's requirements. The Wage Pass-through Add-on is an amount by which MDCH increases reimbursement without being subject to the two-year lag. The \$4.58 and \$5.06 per diems, for CRC and BT, respectively, reflect an allowable increase of \$0.50 per hour for all SNF employees. The State legislature has enacted an amendment that

raises that allowable increase to \$0.75 per hour for 1998. However, the State's fiscal year 1998 budget contains an increase of only \$0.50. The OBRA Training & Testing Add-on reflects certain costs of training and certifying personnel in order to comply with the Omnibus Budget Reconciliation Act of 1987, the statute that mandated several significant additional quality of care requirements on nursing homes. BT is ineligible for this component because it performs no such training and certification functions. BT hires staff who have already been trained and certified by other organizations.

UMRC plans to apply to MDCH for a plant cost certification with respect to the SNF expansion. Completing this process would enable UMRC to recognize the costs associated with the SNF expansion immediately, rather than become subject to the two-year lag inherent in the Medicaid reimbursement methodology. Management is familiar with this process, and believes that it can be completed in a timely manner.

REVENUE BASIS

The following table compares Medicaid reimbursement rates with UMRC's per diem charges for a bed in a semi-private SNF room.

<i>SNF Revenue Basis, 1998</i>		
	<i>CRC</i>	<i>BT</i>
Charge for Semi-Private Room	\$120.00	\$111.25
Medicaid Reimbursement Rate	\$107.96	\$105.44
Discount from Semi-Private Room Charge	10.0%	5.2%

Because the Medicare per diem rate includes certain ancillary services, it cannot be compared in the same manner. In 1997, Medicaid and Medicare contractual allowances represented approximately six percent of gross charges. Because of the relatively modest discounts from charges, UMRC would not be greatly affected if the concentration of resident-days paid by Medicaid were to increase.

SNF PAYOR MIX

Data relating to the payor mix for the two SNFs are set forth below.

<i>SNF Payor Mix (expressed as percentages of resident-days)</i>								
		<i>Based on Unaudited Data</i>		<i>Based on Audited Data</i>				
		<i>Two Months Ended February 28</i>		<i>Fiscal Years Ended December 31</i>				
		<i>1998</i>	<i>1997</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
CRC	Medicare	2.9%	5.6%	4.0%	6.7%	5.6%	3.5%	5.6%
	Medicaid	28.0%	28.0%	26.5%	30.8%	28.8%	34.1%	34.3%
	Commercial	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Private	69.1%	66.4%	69.5%	62.5%	65.6%	62.4%	60.2%
BT	Medicare	8.6%	7.5%	10.2%	10.6%	12.6%	11.5%	9.7%
	Medicaid	70.4%	71.4%	72.3%	67.4%	65.5%	66.6%	66.6%
	Commercial	1.8%	1.8%	0.8%	0.1%	1.1%	1.4%	0.7%
	Private	19.2%	19.2%	16.7%	21.9%	20.8%	20.6%	22.9%
Composite	Medicare	5.9%	6.6%	7.2%	8.7%	9.3%	7.7%	7.7%
	Medicaid	50.4%	50.7%	50.6%	50.1%	48.2%	51.2%	51.3%
	Commercial	1.0%	1.0%	0.4%	0.1%	0.6%	0.7%	0.4%
	Private	42.7%	41.7%	41.4%	41.1%	41.9%	40.3%	40.6%

Two conclusions can be drawn from these data. First, the CRC payor mix varies greatly from the BT payor mix. This characteristic reflects the demographics of the resident populations at the two sites. BT draws most of its residents from the City of Detroit, while CRC residents emanate mainly from more affluent suburban communities. Moreover, virtually all of CRC’s SNF residents over the past five years had once been residents of other CRC facilities, for which they had been required to meet certain financial eligibility standards to gain entrance. Secondly, the percentages in each row have remained stable over the five-year period analyzed.

MANAGED CARE

Most of the leading managed care organizations operating in southeastern Michigan are sponsored by Blue Cross Blue Shield of Michigan or by non-profit health care providers. Though they have achieved a significant penetration of the private (non-governmental) insurance market, there is little of the price competition experienced by health care providers in other markets. To date, UMRC has had little experience with Medicare HMOs, which have only begun to operate in the area in late 1997. Two major HMOs, Health Alliance Plan (“HAP,” sponsored by Henry Ford Health System) and M-Care (owned by the University of Michigan Health System), have both been paying UMRC’s room and board, plus ancillary charges within sixty days of billing. The State has designated Medicaid HMOs for residents of southeastern Michigan, though participation has been limited to those beneficiaries who are not also enrolled in Medicare. The impact of the proliferation of Medicare and Medicaid HMOs is unclear.

UMRC has joined together with approximately 35 other long-term care organizations for the purpose of managed care contracting. This alliance is a managed care initiative sponsored by MAHSA. The capital contribution for each member is \$10,000.

RECENT FINANCIAL PERFORMANCE

UMRC's audited financial statements are presented in accordance with the accounting principles outlined in the American Institute of Certified Public Accountants' *Audits of Providers of Health Care Services*. The Statements of Cash Flows are based on the direct accounting method. The financial statements do not contain entries relating to entrance fees. There remains in effect a "life care" agreement relating to one current CRC resident. The liability relating to this agreement has been reduced to a nominal amount, and is recorded in the "accounts payable" row of UMRC's balance sheet.

SUMMARIES OF FINANCIAL STATEMENTS

Complete audited financial statements of UMRC for 1997 and 1996 are contained in Appendix B hereto. Internally-prepared unaudited financial statements of UMRC for the two-month periods ended February 28, 1998 and February 28, 1997 are contained in Appendix C hereto.

A summary of UMRC's balance sheet is set forth below.

Balance Sheet Summary (\$000s omitted)						
	Unaudited	Audited				
	As of	As of December 31				
	Feb. 28, 1998	1997	1996	1995	1994	1993*
Cash, Cash Equivalents and Investments**	14,772	14,949	13,021	7,840	7,938	7,780
Net Accounts Receivable	1,207	996	676	947	680	874
Other Current Assets	<u>492</u>	<u>436</u>	<u>486</u>	<u>658</u>	<u>279</u>	<u>295</u>
Total Current Assets	16,471	16,381	14,184	9,445	8,897	8,949
Non-Current Investments	434	433	458	321	263	0
Van Dusen Endowment Fund	2,374	2,374	1,204	578	217	170
Net Property and Equipment	21,298	21,374	21,614	21,868	22,538	23,356
Other Assets	<u>1,018</u>	<u>972</u>	<u>1,033</u>	<u>629</u>	<u>250</u>	<u>323</u>
Total	41,595	41,534	38,492	32,841	32,165	32,798
Current Liabilities	1,853	2,019	2,185	1,694	1,675	1,881
Long-Term Obligations	7,090	7,090	7,850	8,580	9,285	9,960
Other Liabilities	149	149	131	100	156	239
Unrestricted Net Assets	29,867	29,643	26,648	21,374	20,673	20,548
Restricted Net Assets	<u>2,636</u>	<u>2,633</u>	<u>1,677</u>	<u>1,093</u>	<u>376</u>	<u>170</u>
Total	41,595	41,534	38,492	32,841	32,165	32,798

* Figures in this column reflect accounting principles in effect prior to the implementation of SFAS Nos. 116 and 117

** Used in "Days Cash on Hand" and "Cushion Ratio" calculations

Beginning on January 1, 1996, UMRC commenced recognizing the market value of its investments, per SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Prior to that date, the value of such investments was recognized at the lower of cost or market. Between 1995 and 1996, this change in policy resulted in an increase in the value of the investments by over \$3.5 million. The magnitude of this increase was largely attributable to UMRC's tendency to "buy-and-hold" its investments. Because investments were infrequently sold, there was little opportunity to have recognized gains in prior years.

Restricted Net Assets are classified into Temporarily Restricted Net Assets and Permanently Restricted Net Assets. Temporarily Restricted Net Assets at December 31, 1997 consisted entirely of interests in split-interest agreements (gift annuities). Temporarily Restricted Net Assets at December 31, 1996 included approximately \$167,000 of contributions restricted for future capital improvements. The restrictions relating to these funds was removed during 1997, and the funds are committed toward site improvements at BT. Permanently Restricted Net Assets are the Van Dusen Endowment, described in detailed below and a smaller endowment fund for benevolent care.

UMRC's recent financial performance is summarized in the following table.

<i>Summary of Statements of Activities</i> <i>(\$000s omitted)</i>							
	<i>Unaudited</i>		<i>Audited</i>				
	<i>Two Months Ended February 28</i>		<i>Fiscal Years Ended December 31</i>				
	<i>1998</i>	<i>1997</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993*</i>
Net Resident Revenue	2,462	2,330	14,455	14,631	14,087	13,415	12,562
Other Operating Revenue	<u>303</u>	<u>340</u>	<u>1,989</u>	<u>1,212</u>	<u>591</u>	<u>525</u>	<u>510</u>
Total Operating Revenue	2,765	2,670	16,444	15,844	14,679	13,940	13,072
Depreciation Expense	187	185	1,176	1,150	1,171	1,185	1,193
Interest Expense	85	92	546	586	617	647	1,184
Other Operating Expenses	<u>2,475</u>	<u>2,467</u>	<u>14,918</u>	<u>15,027</u>	<u>13,362</u>	<u>12,782</u>	<u>12,030</u>
Total Operating Expenses	2,748	2,744	16,640	16,763	15,151	14,614	14,407
Increase (Decrease) in Unrestricted Net Assets from Operating Activities	17	(74)	(196)	(919)	(472)	(674)	(1,335)
Changes in Unrestricted Net Assets due to investment performance	143	356	2,787	1,802	381	221	714
Changes in Unrestricted Net Assets due to contributions, net of expenses	63	71	265	865	682	566	1,051
Other Changes in Unrestricted Net Assets	<u>0</u>	<u>0</u>	<u>139</u>	<u>(10)</u>	<u>110</u>	<u>43</u>	<u>87</u>
Increase (Decrease) in Unrestricted Net Assets before Extraordinary Changes	223	353	2,995	1,738	700	156	517
Extraordinary Changes in Unrestricted Net Assets	0	0	0	3,537	0	0	0
Increase (Decrease) in Unrestricted Net Assets	223	353	2,995	5,275	700	156	517
Increase (Decrease) in Temporarily Restricted Net Assets	5	0	(193)	208	35	44	0
Increase (Decrease) in Permanently Restricted Net Assets	1	89	1,148	376	682	92	96
* Figures in this column reflect accounting principles in effect prior to the implementation of SFAS Nos. 116 and 117							

The extraordinary item in 1996 reflects the recognition of market value of securities applicable to years prior to 1996. The last two rows relate to changes to balances of Restricted Net Assets, and are not included in the Statement of Activities, *per se*. The entries on these rows represent annual additions to the Restricted Net Assets, as described above.

Cash shortfalls are addressed by the annual transfer of five percent of the amount on deposit in the Heritage (endowment) Fund, plus the outcome of routine “annual giving” fundraising efforts. These fundraising programs have produced a steady revenue stream, though no assurance can be given that these results will continue (see “FINANCIAL INFORMATION – Other Financial Information – Fundraising Performance – Annual Giving”).

<i>Summary of Statements of Activities, by Operating Unit, 1997 and 1996</i> (<i>\$000s omitted</i>)						
	<i>Fiscal Years Ended December 31</i>					
	<i>1997</i>			<i>1996</i>		
	<i>CRC</i>	<i>BT</i>	<i>Huron Woods</i>	<i>CRC</i>	<i>BT</i>	<i>Huron Woods</i>
Net Resident Revenue	9,465	4,990	0	9,030	5,601	0
Other Operating Revenue	<u>151</u>	<u>385</u>	<u>1,453</u>	<u>146</u>	<u>461</u>	<u>606</u>
Total Operating Revenue	9,616	5,375	1,453	9,176	6,062	606
Depreciation Expense	768	408	0	749	401	0
Interest Expense	546	0	0	586	0	0
Other Operating Expenses	<u>7,989</u>	<u>5,457</u>	<u>1,472</u>	<u>7,890</u>	<u>6,541</u>	<u>595</u>
Total Operating Expenses	9,303	5,865	1,472	9,225	6,942	595
Increase (Decrease) in Unrestricted Net Assets from Operating Activities	313	(490)	(19)	(49)	(880)	11
Other Changes in Unrestricted Net Assets	<u>23</u>	<u>0</u>	<u>0</u>	<u>(10)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Unrestricted Net Assets	336	(490)	(19)	(59)	(880)	11

The significant operating loss at BT in 1996 was largely attributable to the phase-out of non-SNF accommodations. A full staff complement had been maintained at BT through the end of 1996 even though the resident census had been declining for several months prior to year-end. UMRC management made significant progress in reducing the operating loss at BT between 1996 and 1997. Management’s objective is to produce cash flow break-even results, once depreciation and corporate and development office expenses are eliminated.

St. Joseph, the owner of Huron Woods, reimburses UMRC for all expenses of operating Huron Woods, including an allocable share of Corporate Office overhead. UMRC’s financial statements are “grossed up” by Huron Woods’ revenues and expenses, which are included on the “Other Operating Revenue” and “Other Operating Expenses” lines, respectively. In 1996, the first year of this arrangement, UMRC incurred certain unreimbursed expenses in connection with the start-up. In future years, UMRC management expects Huron Woods’ “bottom line” to increase to the amount of the management fee, \$50,000 annually. If St. Joseph elects to develop Phase II of the Huron Woods project, UMRC’s management fee would increase to \$123,000 annually. The present timetable for doing so would be early 1999.

DEBT SERVICE COVERAGE RATIOS

The following Debt Service Coverage Ratios are calculated from the actual Net Income Available for Debt Service for each Fiscal Year, divided by, as the case may be:

- P** the Maximum Annual Debt Service on the Prior Bonds, with respect to the Historical Debt Service Coverage Ratios; or

- P the estimated Maximum Annual Debt Service on the Series 1998 Bonds, with respect to the Pro Forma Debt Service Coverage Ratios.

Calculations of Net Income Available for Debt Service and Debt Service Requirements are performed in accordance with the Indenture and Loan Agreement.

<i>Debt Service Coverage Ratio Calculations</i>					
<i>(\$000s omitted, except for Debt Service Coverage Ratios)</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Increase in Unrestricted Net Assets – before cumulative effect of change in accounting principle	2,995	1,738	700	156	517
Less: Unrealized Gains on Investments	(1,364)	(1,295)	–	–	–
Plus: Depreciation	1,176	1,150	1,171	1,185	1,193
Plus: Interest	546	586	617	647	1,184
Net Income Available for Debt Service	3,353	2,179	2,488	1,988	2,894
Maximum Annual Debt Service Requirements on the Prior Bonds	1,153	1,153	1,153	1,153	1,153
Historical Debt Service Coverage Ratio	2.91	1.89	2.16	1.72	2.51
Estimated Maximum Annual Debt Service Requirements on the Series 1998 Bonds	1,965	1,965	1,965	1,965	1,965
Pro Forma Debt Service Coverage Ratio	1.71	1.11	1.27	1.01	1.47

OTHER FINANCIAL INFORMATION

PRICING STRATEGY

UMRC's 1991–1995 Strategic Plan established a goal to *set resident rates competitive with designated facilities providing similar services and quality in each service area where UMRC operates*. If UMRC's investment portfolio were to cease producing such highly positive returns, UMRC management believes that the Board will support the imposition of double-digit charge increases, as had occurred in 1979 through 1981. The Hamlyn Report confirms an earlier study conducted by an accounting firm that revealed the existence of an opportunity to increase certain charges without losing volume.

EXPENSE CONTROL

UMRC has exhibited an ability to control its operating expenses. Earlier in 1997, UMRC requested that an accounting firm assemble certain benchmarking data relating to SNF-related expenses. The following table illustrates UMRC’s SNF cost structure compared with the average of a comparison group (the “Comparison Group”), and with the average of non-profit SNFs Statewide. The Comparison Group consists of ten Michigan non-profit SNFs that are similar to UMRC’s SNFs in terms of size, payor mix, geographic location and service amenities.

<i>SNF Operating Expenses per Resident-Day</i>					
		<i>UMRC</i>		<i>Comparison Group</i>	<i>All Non-Profits Statewide</i>
		<i>CRC</i>	<i>BT</i>		
Routine Expenses	Nursing Department	\$41	\$39	\$54	\$43
	Employee Benefits	\$2	\$1	\$1	\$1
	Administration	\$7	\$6	\$8	\$6
	Plant Operations	\$4	\$4	\$7	\$6
	Laundry	\$2	\$2	\$4	\$3
	Housekeeping	\$4	\$6	\$5	\$4
	Dietary	\$13	\$13	\$17	\$16
	Nursing Administration and Supplies	\$8	\$6	\$6	\$6
	Other	\$7	\$4	\$7	\$5
	Total Routine Expenses	\$88	\$81	\$109	\$90
	Ancillary Services	\$12	\$12	\$12	Not Available
	Capital Expenses	\$10	\$4	\$7	Not Available
TOTAL OPERATING EXPENSES		\$110	\$97	\$128	Not Available
Source of data: 1995 Medicaid Cost Reports					

Both the CRC and BT cost structures compare favorably with the Comparison Group and with the all non-profits Statewide.

UMRC has paid *ad valorem* taxes on its unlicensed facilities, mainly the ILF. UMRC had been successful in negotiating a mutually-satisfactory tax rate with the taxing authorities. Annual increases in *ad valorem* taxes subsequently became capped under a new State statute. UMRC expects that the CRC 2000 Facility will be exempt from *ad valorem* taxation due to its licensure as a health care facility.

INVESTMENT POLICY AND PERFORMANCE

UMRC divides its financial reserves into three categories for management purposes. All investments are managed by professional managers according to an Investment Policy adopted by UMRC's Investment Committee. Certain characteristics of UMRC's investment funds are set forth in the following table.

<i>Investment Characteristics</i>			
	<i>Heritage Fund</i>	<i>Heritage Fund</i>	<i>UMRC Endowment</i>
Purpose	Support operating deficits and fund major capital projects	Support operating deficits and fund major capital projects	Fund benevolent care of residents
Approximate Market Value at December 31, 1997	\$10,780,000	\$2,476,000	\$115,000
Investment Objective	Total Return	Total Return	Total Return
Investment Advisor	Wilson Kemp & Co.	Excalibur Management Corporation	Comerica Bank
Tenure of Investment Advisor (years)	14	2	7
Asset Allocation (equities / fixed-income / cash equivalents) at December 31, 1997	76 / 24 / 0	64 / 25 / 11	66 / 30 / 4
Average Life of Fixed-Income Investments (years)	5	6	N/A

The Heritage Fund consists of unrestricted donations and bequests that are controlled by the Board. In 1991, the Board adopted a policy to withdraw annually from the Heritage Fund five percent of its market value as of the previous September 30. Pursuant to this policy, \$707,000 is planned to be withdrawn from the Heritage Fund in 1998, an amount equal to five percent of its market value at September 30, 1997. This amount represents a 20.4 percent increase over 1997 figure of \$587,000 as a result of the increase in market value of, and donations to, the Heritage Fund.

According to UMRC's By-Laws, two consecutive two-thirds votes of the Board are required before any other portion of the Heritage Fund can be withdrawn. UMRC expects that funds in the approximate amount of \$100,000 will be withdrawn from the Heritage Fund in 1998 to provide additional funding for the Silver Maples project (see "FINANCIAL INFORMATION – Other Financial Information – Silver Maples of Chelsea").

In addition, UMRC is the income beneficiary of a Van Dusen Endowment, which income is earmarked for the benevolent care of residents. This Van Dusen Endowment had a market value of approximately \$2.4 million at December 31, 1997. This Van Dusen Endowment's assets are managed on a pooled basis by the Community Foundation of Southeastern Michigan. Five percent of the market value of this Van Dusen Endowment's assets are released to UMRC annually.

The investment performance of these funds compared to a benchmark is portrayed in the table below.

<i>Investment Performance (as of December 31, 1997)</i>			
<i>Time Frame</i>	<i>Performance by</i>	<i>Wilson Kemp</i>	<i>Excalibur</i>
Last Quarter	Fund	2.9%	1.4%
	Benchmark	2.9%	2.7%
Last Year	Fund	23.2%	20.7%
	Benchmark	23.2%	25.3%
Last 2 Years	Fund	18.5%	19.0%
	Benchmark	19.0%	19.0%

The Investment Subcommittee employs a benchmark consisting of the composite return of:

- P the Standard & Poor's 500 Stock Index, weighted 70 percent; and
- P the Lehman Intermediate Government/Corporate Bond Index, weighted 30 percent.

The Investment Subcommittee of UMRC meets four times annually with each Heritage Fund investment manager to review performance and discuss investment strategies for the ensuing quarter.

FUNDRAISING PERFORMANCE

UMRC's fundraising effort combines a routine annual giving program with periodic special campaigns. Both involve techniques such as direct mail, church appeals, special foundation and corporate requests and personal solicitations. All fundraising efforts are staffed by UMRC personnel, with support from the Board. Fundraising counsel has been engaged only prior to the commencement of a major campaign for the limited purpose of performing market analyses that are used to determine campaign goals. The development staff is currently focused on replacing the previous generation of large donors with younger such donors, expanding the donor base generally, and stimulating increased gift sizes from regular donors.

ANNUAL GIVING

Annual fundraising support is obtained from over 2000 donors, including residents of the facilities, family members, volunteers, church members and members of the community-at-large. Though no assurance can be given that historical results will continue, this effort has provided a reliable source of funding for UMRC's programs, as detailed below.

<i>Results of Annual Giving Campaign (\$000s omitted)</i>	
<i>Year</i>	<i>Proceeds</i>
1997	262
1996	222
1995	364
1994	308
1993	331

The performance of the annual giving campaign in 1997 was especially remarkable because many donations were being directed toward the Van Dusen Endowment.

SPECIAL CAMPAIGNS

UMRC has also experienced success in undertaking special campaigns. Most recently, UMRC completed a campaign to establish what has become known as the Van Dusen Endowment. When UMRC achieved its \$1.5 million goal from a broad spectrum of individuals, foundations and corporations, the Kresge Foundation added another \$500,000 through a challenge grant. The campaign strategy was designed to reach out to a non-traditional group of donors. As a result, all but one of the major donors to this campaign were unrelated to the United Methodist Church.

In 1993, prior to the Van Dusen Endowment campaign, UMRC successfully concluded a \$6¾ million capital campaign. This accomplishment enabled UMRC to limit the debt related to newly-constructed ILF units at CRC, and provided for a significant increase in UMRC's financial reserves.

In November 1997, the Board authorized the commencement of a "silent" (non-public) fundraising campaign. To date, there have been indications of favorable responses among potential major donors. Nevertheless, no assurance can be given that this or any other special fundraising campaign will be successful.

SILVER MAPLES OF CHELSEA

In 1996, The Economic Development Corporation of the Village of Chelsea issued \$14,140,000 of tax-exempt bonds on behalf of Silver Maples (the "SMOC Bonds"). The SMOC Bonds are structured as weekly-mode variable-rate demand obligations backed by a bank (the "Bank") letter of credit (the "LOC"). Proceeds of the SMOC Bonds are being applied toward the construction of the Silver Maples ILF/ALF project. Most of the terms, conditions and covenants to which Silver Maples is subject are controlled by the Bank through the Reimbursement Agreement relating to the LOC.

In connection with UMRC's co-sponsorship of the Silver Maples project, UMRC has:

- P guaranteed one-half of Silver Maples' payment obligations to the Bank under the Reimbursement Agreement;
- P funded one-half of Silver Maples' equity contribution;
- P agreed to extend Subordinated Loans to Silver Maples in the amount of one-half of the total required, the repayment of which would be subordinate to amounts owing by Silver Maples under the Loan Agreement and the Reimbursement Agreement; and
- P committed to fund Working Capital Advances to Silver Maples of up to \$425,000, the repayment of which are scheduled to occur after the initial release of residents' entrance fees, as described further below.

UMRC's obligations are limited to its respective shares of the above items. UMRC is not required to cure any default by Chelsea Community Hospital in the performance of its obligations.

To date, UMRC has funded \$700,000 of Silver Maples' equity contribution. UMRC has funded a Subordinated Loan of \$125,000. Due mainly to changes in construction codes that occurred after the issuance of the building permit, but to which Silver Maples remained subject, it appears that the SMOC Bond proceeds plus earnings thereon, along with Silver Maples' original equity contribution, will be insufficient to complete the project and meet operating expenses during the "rent-up" period.

UMRC has, as of February 28, 1998, funded \$240,000 of Working Capital Advances, and estimates that another \$135,000 may be necessary. Consequently, it may not be necessary to fund the remaining \$50,000 of its \$425,000 commitment. The total principal amount of Working Capital Advances eventually required will be a function

of several factors, most notably the actual “rent-up” schedule and the date on which the State Corporation, Securities and Land Development Bureau (the “Bureau”) authorizes the use of ILF residents’ entrance fees for general operating expenses. As of February 28, 1998, \$3,424,977 of ILF residents’ entrance fees were on deposit in an escrow account. The Bureau has indicated that it will authorize the release of 50 percent of such entrance fees when 75 percent of the ILF units (36 units) become occupied. Silver Maples estimates that this will occur during the third quarter of 1998, after which it will repay UMRC’s Working Capital Advances in full.

The first residents occupied the ILF units in November 1997, and the ALF units in February 1998. As of February 28, 1998, 32 of the ILF units and seven of the ALF units were occupied, with another one and six residents scheduled to move into the ILF and ALF, respectively, over the coming weeks.

The following table outlines Silver Maples' payment obligations under the Loan Agreement and the Reimbursement Agreement, assuming an interest rate on the SMOC Bonds of 5.00 percent. During the period that the SMOC Bonds have been outstanding, their interest rate has averaged less than 3.60 percent.

<i>Estimated Debt Service Requirements on the SMOC Bonds (\$000s omitted)</i>			
<i>Year Ending June 1</i>	<i>Redemption Requirements</i>	<i>Interest, at 5.00% per annum</i>	<i>Debt Service Requirements</i>
1998*	0	177	177
1999	0	707	707
2000	140	707	847
2001	150	700	850
2002	340	693	1,033
2003	365	676	1,041
2004	385	657	1,042
2005	415	638	1,053
2006	445	617	1,062
2007	475	595	1,070
2008	505	571	1,076
2009	545	546	1,091
2010	580	519	1,099
2011	625	490	1,115
2012	665	459	1,124
2013	710	425	1,135
2014	760	390	1,150
2015	815	352	1,167
2016	870	311	1,181
2017	930	268	1,198
2018	995	221	1,216
2019	1,065	171	1,236
2020	1,140	118	1,258
2021	1,220	61	1,281

* Interest on the SMOC Bonds has been capitalized through March 1, 1998. The amount due represents three months of interest.

UMRC's guarantee relates to only one-half of the above amounts.

INSURANCE INFORMATION

UMRC maintains professional and general liability insurance coverage through ITT Hartford at the following levels:

<i>General / Professional Liability</i>	
Each Incident	\$1 million
Aggregate	\$2 million
<i>Umbrella Liability</i>	
Each Incident	\$2 million
Aggregate	\$2 million
<i>Automobile</i>	\$1 million

In addition, UMRC carries blanket buildings, contents, boiler and machinery, and business interruption insurance in the amount of \$55 million. This amount is designed to cover the new replacement cost of all facilities, and 180 days of business interruption. Claims filed thereunder are subject to a \$10,000 deductible, with no coinsurance.