

**United Methodist Retirement  
Communities, Inc. and Subsidiary  
(nonprofit organizations)**

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**Consolidated Financial Report  
with Additional Information  
December 31, 2002**

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

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

## Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of United Methodist Retirement Communities, Inc. and subsidiary (nonprofit organizations) as of December 31, 2002 and 2001 and the related consolidated statements of operations, 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 financial position of United Methodist Retirement Communities, Inc. and subsidiary as of December 31, 2002 and 2001 and the consolidated results of their operations, 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*

March 11, 2003

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# United Methodist Retirement Communities, Inc. and Subsidiary

	December 31	
	2002	2001
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,266,608	\$ 2,973,148
Contributions receivable (Note 1)	585,003	709,125
Accounts receivable - Less allowances of \$280,656 and \$195,280 in 2002 and 2001, respectively (Note 2)	2,253,897	2,348,558
Investments (Note 3)	13,528,068	14,801,543
Assets limited as to use (Note 7)	335,257	322,956
Prepaid expenses and other current assets	573,846	461,029
Total current assets	21,542,679	21,616,359
<b>Contributions Receivable</b> (Note 1)	89,147	327,637
<b>Investments</b> (Note 3)	1,084,946	837,580
<b>Assets Limited as to Use</b> (Note 7)	1,811,440	1,811,462
<b>Property and Equipment - Net</b> (Note 4)	32,195,581	33,058,098
<b>Other Assets</b>		
Bond issue costs (Note 1)	592,020	615,780
Loan receivable - Affiliate (Note 5)	245,000	245,000
Beneficial interest in perpetual trusts (Note 9)	314,273	210,096
Beneficial interest in Van Dusen endowment (Note 6)	1,866,852	2,212,752
Total other assets	3,018,145	3,283,628
Total assets	<u>\$ 59,741,938</u>	<u>\$ 60,934,764</u>

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**Consolidated Balance Sheet**

	December 31	
	2002	2001
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$ 945,000	\$ 905,000
Accounts payable	704,061	547,759
Accrued and other liabilities	1,736,113	1,828,292
Due to third party	-	169,006
Liability under split-interest agreements (Note 8)	69,090	66,375
Total current liabilities	3,454,264	3,516,432
<b>Loss from Affiliate in Excess of Investment</b> (Note 5)	-	715,072
<b>Long-term Debt</b> - Net of current portion (Note 7)	18,485,000	19,430,000
<b>Liability Under Split-interest Agreements</b> (Note 8)	395,409	309,908
Total liabilities	22,334,673	23,971,412
<b>Net Assets</b>		
Unrestricted:		
Board-designated	12,205,243	14,769,041
Undesignated	21,542,344	18,779,858
Total unrestricted	33,747,587	33,548,899
Restricted (Note 9):		
Temporarily restricted	1,116,948	814,878
Permanently restricted	2,542,730	2,599,575
Total net assets	37,407,265	36,963,352
Total liabilities and net assets	<u>\$ 59,741,938</u>	<u>\$ 60,934,764</u>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Consolidated Statement of Operations

	Year Ended December 31	
	2002	2001
<b>Changes in Unrestricted Net Assets</b>		
Operating revenue:		
Net resident revenue (Note 10)	\$ 24,220,645	\$ 20,845,329
Other	222,663	209,012
Total operating revenue	24,443,308	21,054,341
Operating expenses:		
Health care services:		
Salaries and wages	12,612,554	11,983,858
Payroll taxes	849,454	894,822
Food	808,162	797,081
Medical care	1,001,011	980,327
Utilities	877,639	907,862
Repair and maintenance	931,455	682,667
Supplies	438,385	440,668
Insurance	2,034,717	1,769,515
Laundry and housekeeping services	57,005	43,919
Real estate taxes	181,183	165,211
Provider tax	106,907	-
Bad debts	146,556	116,372
Miscellaneous	552,311	543,994
Depreciation	1,570,544	1,691,446
Interest expense	967,040	993,083
General and administrative - Executive office expenses	1,043,691	1,072,401
Total operating expenses	24,178,614	23,083,226
<b>Operating Income (Loss) - Before other operating activities</b>	264,694	(2,028,885)
<b>Other Operating Activities</b>		
Contributions (Note 11)	1,111,371	525,492
Fund-raising - Promotion and development	(281,757)	(259,207)
Investment income	529,455	508,357
Gain (loss) on sale of investments	(762,715)	690,953
Total other operating activities	596,354	1,465,595
<b>Operating Income (Loss)</b>	861,048	(563,290)
<b>Other Changes in Unrestricted Net Assets</b>		
Gain (loss) on investment in affiliate (Note 5)	715,072	(164,118)
Unrealized loss on investments	(1,622,994)	(1,913,940)
Other gains	31,077	20,018
Net assets released from restrictions for capital improvements	214,485	541,619
Total other changes in unrestricted net assets	(662,360)	(1,516,421)
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>\$ 198,688</b>	<b>\$ (2,079,711)</b>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Consolidated Statement of Changes in Net Assets

	Year Ended December 31	
	2002	2001
<b>Increase (Decrease) in Unrestricted Net Assets</b>	\$ 198,688	\$ (2,079,711)
<b>Changes in Temporarily Restricted Net Assets</b>		
Net assets released from restrictions for capital improvements	(214,485)	(541,619)
Contributions	586,523	1,017,012
Change in value of split-interest agreements	(69,968)	4,481
<b>Increase in Temporarily Restricted Net Assets</b>	302,070	479,874
<b>Changes in Permanently Restricted Net Assets</b>		
Contributions	329,103	50,650
Loss on beneficial interest in perpetual trusts	(19,844)	(11,351)
Loss on beneficial interest in Van Dusen endowment	(346,650)	(237,400)
Other	(19,454)	(1,386)
<b>Decrease in Permanently Restricted Net Assets</b>	(56,845)	(199,487)
<b>Increase (Decrease) in Net Assets</b>	443,913	(1,799,324)
<b>Net Assets - Beginning of year</b>	<u>36,963,352</u>	<u>38,762,676</u>
<b>Net Assets - End of year</b>	<u><b>\$ 37,407,265</b></u>	<u><b>\$ 36,963,352</b></u>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Consolidated Statement of Cash Flows

	Year Ended December 31	
	2002	2001
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 443,913	\$ (1,799,324)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Change in value of beneficial interest in perpetual trusts	(104,177)	11,351
Change in value of split-interest agreements	69,968	(4,481)
Depreciation	1,637,068	1,760,593
Amortization of bond issue costs	23,760	23,760
Realized and unrealized gains on investments	2,751,813	1,461,773
Bad debt expense	146,556	116,372
(Gain) loss from investment in affiliate	(715,072)	164,118
Contributions restricted for long-term purposes	(915,626)	(1,067,662)
Decrease (increase) in operating assets:		
Accounts receivable	(51,895)	(1,240,092)
Contributions receivable	362,612	593,809
Prepaid expenses and other current assets	(112,817)	60,779
Increase (decrease) in operating liabilities:		
Accounts payable	156,302	(198,490)
Accrued and other liabilities	(92,179)	402,726
Due to third party	(169,006)	(173,004)
Liability under split-interest agreements	18,248	110,558
Net cash provided by operating activities	3,449,468	222,786
<b>Cash Flows from Investing Activities</b>		
Additions to property and equipment	(774,551)	(293,719)
Change in assets limited as to use	(12,279)	(23,161)
Investment in endowments	(750)	(650)
Purchase of investments	(12,965,328)	(3,575,471)
Proceeds from sale of investments	11,586,274	3,836,278
Net cash used in investing activities	(2,166,634)	(56,723)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for long-term purposes	915,626	1,067,662
Principal payments on long-term debt	(905,000)	(870,000)
Net cash provided by financing activities	10,626	197,662
<b>Net Increase in Cash and Cash Equivalents</b>	1,293,460	363,725
<b>Cash and Cash Equivalents - Beginning of year</b>	2,973,148	2,609,423
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 4,266,608</b>	<b>\$ 2,973,148</b>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	\$ 972,131	\$ 997,867

# United Methodist Retirement Communities, Inc. and Subsidiary

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## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### 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 27 trustees, provides housing, health care, and other related services to residents through the operation of a continuing care retirement community in Chelsea and a skilled nursing facility in Detroit, Michigan. Revenue for these services is primarily paid by individuals and third-party payors.

During 1998, UMRC formed the UMRC Heritage Foundation (the "Foundation"), the primary purposes of which are management of funds, stewardship, allocation of funds, development and implementation of long- and short-term fund development plans, donor communication, and recognition 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 for 2002 and 2001 and all intercompany activity has been eliminated.

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles outlined in the American Institute of Certified Public Accountants' audit and accounting guide, *Health Care Organizations*.

Significant accounting policies are as follows:

**Cash Equivalents** - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**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. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

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

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

	2002	2001
Capital campaign	\$ 986,610	\$ 1,462,193
Unamortized discount	<u>(137,460)</u>	<u>(325,431)</u>
Unconditional promises to give before allowance for uncollectibles	849,150	1,136,762
Allowance for uncollectibles	<u>(175,000)</u>	<u>(100,000)</u>
Net unconditional promises to give	<u>\$ 674,150</u>	<u>\$ 1,036,762</u>
Amounts due:		
Less than one year	\$ 585,003	\$ 709,125
One to five years	101,607	553,068
More than five years	<u>300,000</u>	<u>200,000</u>
Total	<u>\$ 986,610</u>	<u>\$ 1,462,193</u>

**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 improvements	10 years
Buildings and improvements	40 years
Furniture, fixtures, and equipment	5-10 years

**Bond Issue Costs** - Bond issue costs include financing costs related to the issuance of Economic Development Corporation of the Village of Chelsea Limited Obligation Revenue Bonds and are being amortized over the term of the bond issue using the straight-line method. Accumulated amortization was \$213,396 and \$189,636 at December 31, 2002 and 2001, respectively.

**Operating Activities** - Transactions deemed by management to be ongoing, major, or central to the provision of housing, health care, and other related services are reported as operating activities in the consolidated statement of operations. Peripheral or incidental transactions are reported as other changes in unrestricted net assets.

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

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

**Net Resident Revenue** - Resident service revenue is recorded at established rates. Allowances are provided to reduce such revenue to the amount of reimbursement expected to be received, including amounts receivable under contractual arrangements with Michigan Blue Cross, Medicare, and Medicaid. Medicaid reimburses the Organization for inpatient routine service costs on a per diem basis, prospectively determined.

Medicare reimburses the Organization for services provided to Medicare residents. The payment methodology is based on clinical assessments that are subject to review and final approval by Medicare. Any adjustment as a result of this final review and approval will be recorded in the period in which the adjustment is made.

The makeup (in percentages) of net resident service revenue is as follows:

	2002	2001
Private and other	58	60
Medicaid	17	19
Medicare	25	21
Total	<u>100</u>	<u>100</u>

**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 estimated charges foregone in providing benevolent care are reflected in Note 10.

**Contributions** - The Organization reports gifts of cash and other assets as 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 to unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions, which have restrictions that are met in the year of contribution, are recorded as unrestricted support.

**Board-designated Net Assets** - These net assets are intended to be used to protect the long-term interests of the Organization.

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

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

**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 reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Federal Income Taxes** - The Organization is exempt from federal income tax as provided for under Internal Revenue Code Section 501(c)(3).

### Note 2 - Concentrations of Credit Risk

The Organization operates facilities located in Chelsea and Detroit, Michigan. 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 was as follows:

	2002	2001
Medicaid	24	11
Medicare	51	63
Patients and other third-party payors	25	26
Total	<u>100</u>	<u>100</u>

Accounts receivable are stated at invoiced amounts. An allowance for doubtful accounts is established on an aggregate basis. The allowance is computed using historical loss rate factors applied to unpaid accounts stratified by the number of days payment is delinquent. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Organization's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### Note 3 - Investments

The Organization's investments, recorded at fair market value, consisted of the following at December 31:

	2002	2001
Cash and cash equivalents	\$ 1,861,330	\$ 2,675,568
Bonds	4,748,861	3,638,041
Stocks	<u>8,002,823</u>	<u>9,325,514</u>
Total investments	14,613,014	15,639,123
Less long-term investments related to endowment assets and split-interest agreements	<u>1,084,946</u>	<u>837,580</u>
Current investments	<u>\$ 13,528,068</u>	<u>\$ 14,801,543</u>

Investment income is net of investment fees of \$114,848 and \$111,976 for 2002 and 2001, respectively.

Endowment assets represent investments to be held in perpetuity, the income from which is expendable to support the continuing care of residents. Split-interest agreements are described in Note 8.

### Note 4 - Property and Equipment

The cost of property and equipment at December 31 is summarized as follows:

	2002	2001
Land and land improvements	\$ 2,160,781	\$ 2,151,681
Buildings	40,596,254	40,596,254
Building improvements	7,697,174	7,470,745
Furniture, fixtures, and equipment	<u>7,329,215</u>	<u>6,798,335</u>
Total cost	57,783,424	57,017,015
Less accumulated depreciation	<u>25,587,843</u>	<u>23,958,917</u>
Net carrying amount	<u>\$ 32,195,581</u>	<u>\$ 33,058,098</u>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### Note 4 - Property and Equipment (Continued)

Depreciation expense during 2002 and 2001 consisted of the following:

	<u>2002</u>	<u>2001</u>
Health care services	\$ 1,570,544	\$ 1,691,446
General and administrative	<u>66,524</u>	<u>69,147</u>
Total depreciation expense	<u>\$ 1,637,068</u>	<u>\$ 1,760,593</u>

### Note 5 - Related Party Transactions - Affiliate

The Organization and Chelsea Community Hospital are equal sponsors in Silver Maples of Chelsea, a not-for-profit retirement facility in Chelsea, Michigan. The following is a summary of financial position and results of operations of Silver Maples of Chelsea as of December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Total assets	\$ 21,113,469	\$ 19,253,389
Total liabilities	<u>22,829,984</u>	<u>20,683,533</u>
Net deficiency in assets	<u>\$ (1,716,515)</u>	<u>\$ (1,430,144)</u>
Decrease in total net assets	<u>\$ (291,628)</u>	<u>\$ (328,237)</u>

During 2001, the Organization guaranteed one-half of the Limited Obligation Revenue Bonds, Series 1996, related to Silver Maples of Chelsea. In 2001, the debt outstanding totaled \$13,850,000, of which the Organization was guarantor of \$6,925,000. Since the Organization guaranteed a portion of the joint venture's debt, the losses in excess of the amount invested were shown as a liability on the consolidated balance sheet. As of December 31, 2002, the Organization no longer guarantees a portion of the joint venture's debt. Since the Organization is no longer required to report losses in excess of the amount invested, the Organization recognized a gain on investment of affiliate of \$715,072, which is reported as an other change in unrestricted net assets.

Additionally, at December 31, 2002 and 2001, the Organization had a long-term receivable of \$245,000 from Silver Maples of Chelsea.

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### Note 6 - Beneficial Interest in Van Dusen Endowment

The Organization has a beneficial interest in the net assets of the Van Dusen endowment held by the Community Foundation for Southeastern Michigan. All funds generated through this program are held and managed in commingled funds by the Community Foundation for Southeastern Michigan. Income from the funds is paid annually to the Organization at a rate of 5 percent of the market value of the assets. An asset has been recorded for the present value of future cash flows related to this endowment in the amount of \$1,866,852 and \$2,212,752 at December 31, 2002 and 2001, respectively.

### Note 7 - Long-term Debt

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

In accordance with the requirements of the Trust Indenture, the following trust funds have been established: Debt Service Reserve Fund, Bond Payment Fund, and Project Fund. The purpose of the Debt Service Reserve and Bond Payment Funds is for the payment of principal and interest, or purchase and retirement before maturity, or the redemption before maturity of the bonds. The Project Funds are to be used for the payment of project costs.

	2002	2001
Debt Service Reserve Fund	\$ 1,811,440	\$ 1,811,462
Bond Payment Fund	335,253	322,952
Project Fund	<u>4</u>	<u>4</u>
Total assets limited as to use	2,146,697	2,134,418
Less assets limited as to use - Expected to be expended in 2002	<u>(335,257)</u>	<u>(322,956)</u>
Long-term assets limited as to use	<u>\$ 1,811,440</u>	<u>\$ 1,811,462</u>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### Note 7 - Long-term Debt (Continued)

Principal payments on the bonds are due annually through November 15, 2027, the maturity date of the bonds. Interest on the bonds is payable semiannually each November 15 and May 15 through the maturity date of the bonds. Principal payments and interest rates vary annually and range from \$415,000 to \$1,175,000 and 4.00 percent to 5.58 percent, respectively. The bonds have restrictive financial and other covenants. Principal payments on the bonds for years subsequent to 2002 are as follows:

2003	\$ 945,000
2004	990,000
2005	1,035,000
2006	1,085,000
2007	415,000
2008 and thereafter	<u>14,960,000</u>
Total	<u>\$ 19,430,000</u>

### Note 8 - Split-interest Agreements

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

### Note 9 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	<u>2002</u>	<u>2001</u>
Assets under split-interest agreement (Note 8)	\$ 327,962	\$ 350,945
Contributions restricted for future capital improvements	<u>788,986</u>	<u>463,933</u>
Total temporarily restricted net assets	<u>\$ 1,116,948</u>	<u>\$ 814,878</u>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### Note 9 - Temporarily and Permanently Restricted Net Assets (Continued)

Permanently restricted net assets consist of the following at December 31:

	2002	2001
Van Dusen Endowment (Note 6)	\$ 1,866,852	\$ 2,212,752
Beneficial interest in perpetual trusts	314,273	210,096
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>361,605</u>	<u>176,727</u>
Total permanently restricted net assets	<u>\$ 2,542,730</u>	<u>\$ 2,599,575</u>

### Note 10 - Net Resident Revenue

Room and board revenue during 2002 and 2001 is comprised of the following:

	2002	2001
Gross charges	\$ 24,953,708	\$ 21,229,050
Deductions:		
Medicaid contractual allowance	708,151	310,552
Medicare contractual allowance	(60,484)	(122,215)
Supplemental Social Security income and benevolent care allowances	220,898	105,905
Other	<u>(135,502)</u>	<u>89,479</u>
Total deductions	<u>733,063</u>	<u>383,721</u>
Net resident revenue	<u>\$ 24,220,645</u>	<u>\$ 20,845,329</u>

# United Methodist Retirement Communities, Inc. and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2002 and 2001

### Note 11 - Contributions

Unrestricted contribution income is comprised of the following:

	<u>2002</u>	<u>2001</u>
Detroit Annual Conference benevolence	\$ 78,705	\$ 55,705
Contributions from individuals	230,287	385,589
Bequests	<u>802,379</u>	<u>84,198</u>
Total unrestricted contribution income	<u>\$ 1,111,371</u>	<u>\$ 525,492</u>

### Note 12 - Employee Savings Plan

The Organization offers a 403(b) tax-deferred savings plan to qualified employees. Employees are allowed to contribute annually to the plan up to 20 percent of their compensation. The Organization matches one-half of contributions for nonunion employees up to a maximum of 2.5 percent of the employees' compensation. The matching contribution vests upon receipt. During 2002 and 2001, the Organization contributed \$164,140 and \$156,753, respectively, to the plan.

### Note 13 - Workers' Compensation

The Organization is self-insured for a substantial portion of its workers' compensation claims. The Organization has obtained stop-loss insurance coverage for claims in excess of \$250,000 per employee or per accident, and for aggregate claims in excess of \$765,000 in a two-year period. The Organization's stop-loss coverage is limited to \$5,000,000 in aggregate for the same two-year period. Total workers' compensation expense approximated \$392,400 and \$412,900 in 2002 and 2001, respectively. Accruals of approximately \$391,000 and \$380,000 were recorded for unsettled and incurred but not reported claims at December 31, 2002 and 2001, respectively.

## **Additional Information**

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

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

We have audited the consolidated financial statements of United Methodist Retirement Communities, Inc. and subsidiary (nonprofit organizations) for the years ended December 31, 2002 and 2001. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of operating income (loss) before other operating activities is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Plante & Moran, PLLC*

March 11, 2003

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# United Methodist Retirement Communities, Inc. and Subsidiary

## Schedule of Operating Income (Loss) Before Other Operating Activities

	Year Ended December 31			
	2002		2001	
	Chelsea Retirement Community	Boulevard Temple Retirement Community	Total	Total
<b>Changes in Unrestricted Net Assets</b>				
Operating revenue:				
Net resident revenue	\$ 16,323,785	\$ 7,896,860	\$ 24,220,645	\$ 20,845,329
Other	51,233	171,430	222,663	209,012
Total operating revenue	16,375,018	8,068,290	24,443,308	21,054,341
Operating expenses:				
Health care services:				
Salaries and wages	7,633,603	4,978,951	12,612,554	11,983,858
Payroll taxes	534,846	314,608	849,454	894,822
Food	593,251	214,911	808,162	797,081
Medical care	355,993	645,018	1,001,011	980,327
Utilities	600,556	277,083	877,639	907,862
Repair and maintenance	631,823	299,632	931,455	682,667
Supplies	304,653	133,732	438,385	440,668
Insurance	1,352,760	681,957	2,034,717	1,769,515
Laundry and housekeeping services	31,166	25,839	57,005	43,919
Real estate taxes	181,183	-	181,183	165,211
Provider tax	43,479	63,428	106,907	-
Bad debts	40,760	105,796	146,556	116,372
Miscellaneous	300,245	252,066	552,311	543,994
Depreciation	1,236,175	334,369	1,570,544	1,691,446
Interest expense	967,040	-	967,040	993,083
General and administrative - Executive office expense	668,016	375,675	1,043,691	1,072,401
Total operating expenses	15,475,549	8,703,065	24,178,614	23,083,226
<b>Operating Income (Loss) - Before other operating activities</b>	<b>\$ 899,469</b>	<b>\$ (634,775)</b>	<b>\$ 264,694</b>	<b>\$ (2,028,885)</b>