

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

\$22,980,000

The Economic Development Corporation of the Village of Chelsea (Michigan)

Revenue and Revenue Refunding Bonds, Series 1998

United Methodist Retirement Communities, Inc.

Provide nine-digit CUSIP* numbers if available, to which the information relates:

163347AW7

163347AX5

163347AY3

163347AZ0

163347BA4

163347BB2

163347BC0

163347BD8

163347BE6

163347BF3

163347BG1

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: _____

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

Electronic (number of pages attached) 34 Paper (number of pages attached) _____

If information is also available on the Internet, give URL: www.firstriver.com

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: January – December 2006 (FY2006)

B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: January – December 2006 (FY2006)

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. Notice of Failure to Provide Annual Financial Information as Required

E. Quarterly or Monthly Financial Information and Operating Data
(Financial information and operating data should not be filed with the MSRB.)

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name Shelley J. Aronson Title President
Employer First River Advisory L.L.C.
Address 2640 Override Drive City Ann Arbor State MI Zip Code 48104
Telephone (734) 761-3624 Fax (734) 761-3614
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

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Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

**UNITED METHODIST RETIREMENT COMMUNITIES, INC.
809 WEST MIDDLE STREET
CHELSEA, MI 48118**

OFFICER'S CERTIFICATE

DATED: JUNE 1, 2007

This Officer's Certificate is delivered pursuant to Section 5.6(b)(i) of the Loan Agreement between United Methodist Retirement Communities, Inc. (the Corporation) and The Economic Development Corporation of the Village of Chelsea (the Issuer), dated as of April 1, 1998. All capitalized terms used herein are as defined in the Loan Agreement or in the Trust Indenture between the Issuer and U.S. Bank National Association, as Trustee, dated as of April 1, 1998.

In accordance with Section 5.6(a)(i) of the Loan Agreement, attached are audited financial statements for the Fiscal Year ended December 31, 2006, including a balance sheet as of such date, a statement of activities and changes in Net Assets for such Fiscal Year, a statement of cash flows for the Fiscal Year, and notes to the financial statements (the Annual Financial Statements). The undersigned certifies that:

1. I am the President and Chief Executive Officer of the Corporation and duly authorized to deliver this Officer's Certificate.
2. Although the Corporation has failed to comply with Section 5.6(a)(i) of the Loan Agreement due to the tardiness of the filing of the documents specified therein, Section 7.1(b) of the Loan Agreement provides an opportunity to remedy such non-compliance so that such non-compliance shall not constitute an Event of Default. By delivering the documents specified in such Section 5.6(a)(i) herewith, the Corporation has now complied with Section 5.6(b)(i) of the Loan Agreement, for to the best of my knowledge, no Event of Default exists under the Loan Agreement, nor has any event occurred which, with notice and/or passage of time, would constitute such an Event of Default.
3. The Corporation has complied with Section 5.01(a)(ii) of the Loan Agreement by having recorded a Debt Service Coverage Ratio for FY2006 of 3.10, as calculated in the following manner:

<i>Debt Service Coverage Ratio Calculation for the Fiscal Year Ended December 31, 2006</i>		
Increase in Unrestricted Net Assets		2,857,028
Minus:	Unrealized Gains on Investments	(573,839)
Plus:	Extraordinary Items	835,026
Plus:	Interest	683,579
Plus:	Depreciation	2,286,297
Net Income Available for Debt Service		6,088,091
Debt Service Requirements for FY2006		1,961,750
Debt Service Coverage Ratio		3.10



by: John J. Thorhauer
President and Chief Executive Officer

UNITED METHODIST RETIREMENT COMMUNITIES, INC.

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006 (FY2006)

Unless otherwise noted, all data apply to the Fiscal Year Ended December 31, 2006, or are accurate as of December 31, 2006, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated April 8, 1998. The source of all data is the Corporation's records.

SERVICE VOLUMES AND UTILIZATION

<i>Occupancy Rates</i> <i>[OS Page A-11]</i>						
<i>Facility / Location</i>		<i>Fiscal Years Ended December 31</i>				
		<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
ILF	CRC	98.7%	98.2%	96.5%	97.2%	97.0%
	BT	N/A	N/A	N/A	N/A	N/A
ALF	CRC	96.6%	95.4%	86.8%	92.8%	87.8%
	BT	N/A	N/A	N/A	N/A	N/A
RDF	CRC	94.5%	98.1%	98.4%	96.1%	96.3%
	BT	N/A	N/A	N/A	N/A	N/A
SNF	CRC	88.7%	89.7%	89.9%	89.8%	90.6%
	BT	90.5%	82.2%	80.3%	92.3%	87.4%

Note: Shaded cells relate to discontinued operations at BT.

MUNICIPAL SECONDARY MARKET DISCLOSURE
The Economic Development Corporation of the Village of Chelsea /
United Methodist Retirement Communities, Inc.
Fiscal Year Ended December 31, 2006
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<i>Waiting Lists, Active Prospective Residents Only</i> <i>(CRC Only)</i> <i>[OS Page 12]</i>						
		<i>At December 31</i>				
		<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
ILF	Units	129	129	132	100	100
	Waiting List	72	149	68	30	24
ALF	Units	82	82	81	120	120
	Waiting List	25	13	28	23	6
RDF	Beds	76	72	72	72	72
	Waiting List	15	23	16	5	15
SNF	Beds	85	85	85	85	85
	Waiting List	2	2	0	3	2

<i>ILF Turnover Rates</i> <i>(CRC Only)</i> <i>[OS Page A-13]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
ILF Units	129	129	132	100	100
Reoccupied ILF Units	26	28	22	8	21
Turnover Rate (Annualized)	20%	22%	17%	8%	21%

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FINANCIAL INFORMATION

<i>Medicaid SNF Reimbursement Rates, FY2007</i> <i>[OS Page A-22]</i>		
	<i>CRC</i>	<i>BT</i>
Variable Cost Component	\$147.68	\$143.90
Plant Cost Component	11.65	7.49
Continuous Quality Improvement Incentive	0.00	0.00
Wage Pass-through Add-on	0.00	0.00
OBRA Training & Testing Add-on	0.00	0.00
Medicaid Reimbursement Rate	\$159.33	\$151.39

<i>Variable Cost Component Limits</i> <i>[OS Page A-22]</i>		
<i>Fiscal Year</i>	<i>Limit</i>	<i>Percent Increase over Previous Year</i>
2007	\$147.68	4.5%
2006	\$141.28	5.2%
2005	\$134.36	3.5%
2004	\$129.83	5.9%
2003	\$122.56	2.0%

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<i>SNF Revenue Basis, 2007</i> <i>[OS Page A-23]</i>		
	<i>CRC</i>	<i>BT</i>
Charge for Semi-Private Room	\$201.00	\$190.00
Medicaid Reimbursement Rate	\$159.33	\$151.39
Discount from Semi-Private Room Charge	20.7%	20.3%

<i>SNF Payor Mix</i> <i>(expressed as percentages of resident-days)</i> <i>[OS Page A-24]</i>						
		<i>Fiscal Years Ended December 31</i>				
		<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
<i>CRC</i>	Medicare	41.1%	39.6%	31.3%	29.2%	19.1%
	Medicaid	26.9%	35.1%	34.8%	25.8%	27.1%
	Commercial	1.7%	3.3%	2.9%	1.9%	2.2%
	Private	30.3%	22.0%	31.0%	43.1%	51.6%
<i>BT</i>	Medicare	39.5%	31.3%	28.3%	26.1%	28.8%
	Medicaid	51.5%	59.5%	63.4%	58.7%	60.8%
	Commercial	3.2%	1.7%	1.5%	6.6%	4.5%
	Private	5.8%	7.5%	6.8%	8.6%	5.9%
<i>Composite</i>	Medicare	40.2%	34.9%	29.6%	27.3%	24.8%
	Medicaid	41.7%	49.0%	50.9%	45.6%	46.8%
	Commercial	2.6%	2.4%	2.2%	4.7%	3.5%
	Private	15.5%	13.7%	17.3%	22.4%	24.9%

MUNICIPAL SECONDARY MARKET DISCLOSURE
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<i>Balance Sheet Summary</i>					
<i>(\$000s omitted)</i>					
<i>[OS Page A-26]</i>					
	<i>As of December 31</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Cash, Cash Equivalents and Investments	3,640	15,042	16,187	18,892	17,794
Contributions Receivable	1,534	244	273	154	585
Net Accounts Receivable	3,078	2,720	2,635	2,758	2,254
Other Current Assets	<u>1,009</u>	<u>1,090</u>	<u>1,014</u>	<u>950</u>	<u>909</u>
Total Current Assets	9,261	19,097	20,109	22,754	21,542
Non-Current Investments	14,868	2,549	1,403	1,318	1,085
Contributions Receivable	877	456	131	314	89
Van Dusen Endowment Fund	2,889	2,614	2,462	2,259	1,867
Net Property and Equipment	34,751	34,438	35,688	33,420	32,196
Other Assets	<u>2,963</u>	<u>2,699</u>	<u>2,724</u>	<u>2,733</u>	<u>2,963</u>
Total	65,609	61,853	62,517	62,798	59,742
Current Liabilities	4,303	4,610	4,697	4,572	3,454
Long-Term Obligations	14,960	15,375	16,460	17,495	18,485
Other Liabilities	316	394	447	390	395
Unrestricted Net Assets	40,246	36,348	36,711	36,494	33,748
Restricted Net Assets	<u>5,783</u>	<u>5,125</u>	<u>4,202</u>	<u>3,847</u>	<u>3,660</u>
Total	65,609	61,853	62,517	62,798	59,742

MUNICIPAL SECONDARY MARKET DISCLOSURE
The Economic Development Corporation of the Village of Chelsea /
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<i>Summary of Statements of Activities</i> (<i>\$000s omitted</i>) <i>[OS Page A-27]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Net Resident Revenue	32,375	29,516	27,728	26,248	24,221
Other Operating Revenue	<u>237</u>	<u>271</u>	<u>323</u>	<u>253</u>	<u>222</u>
Total Operating Revenue	32,613	29,787	28,051	26,501	24,443
Depreciation Expense	2,286	2,246	2,070	1,712	1,637
Interest Expense	684	819	883	931	967
Other Operating Expenses	<u>30,592</u>	<u>27,883</u>	<u>26,216</u>	<u>24,721</u>	<u>21,575</u>
Total Operating Expenses	33,562	30,948	29,169	27,364	24,179
Operating Income (Loss) – Before Other Operating Activities	(949)	(1,161)	(1,118)	(863)	264
Other Operating Activities	<u>3,884</u>	<u>1,335</u>	<u>646</u>	<u>957</u>	<u>596</u>
Operating Income (Loss)	2,934	174	(472)	94	861
Extraordinary Items	(835)	0	0	0	0
Unrealized Gain (Loss) on Investments	574	(673)	553	2,040	(1,623)
Other Changes in Unrestricted Net Assets	<u>253</u>	<u>136</u>	<u>135</u>	<u>612</u>	<u>961</u>
Increase (Decrease) in Unrestricted Net Assets	2,926	(363)	216	2,746	199
Increase (Decrease) in Temporarily Restricted Net Assets	2	508	67	(347)	302
Increase (Decrease) in Permanently Restricted Net Assets	<u>656</u>	<u>414</u>	<u>289</u>	<u>533</u>	<u>(57)</u>
Increase (Decrease) in Net Assets	<u>3,584</u>	<u>560</u>	<u>572</u>	<u>2,932</u>	<u>444</u>

MUNICIPAL SECONDARY MARKET DISCLOSURE
The Economic Development Corporation of the Village of Chelsea /
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<i>Summary of Statements of Activities, by Operating Unit, 2006, 2005 and 2004</i>						
<i>(\$000s omitted)</i>						
<i>[OS Page A-28]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>2006</i>		<i>2005</i>		<i>2004</i>	
	<i>CRC</i>	<i>BT</i>	<i>CRC</i>	<i>BT</i>	<i>CRC</i>	<i>BT</i>
Net Resident Revenue	21,472	10,903	20,589	8,927	19,123	8,605
Other Operating Revenue	<u>234</u>	<u>3</u>	<u>189</u>	<u>82</u>	<u>182</u>	<u>141</u>
Total Operating Revenue	21,706	10,907	20,778	9,009	19,305	8,746
Depreciation Expense – Health Care Services	1,878	408	1,814	384	1,643	374
Interest Expense	684	0	699	0	883	0
Other Operating Expenses	<u>19,315</u>	<u>11,277</u>	<u>18,198</u>	<u>9,853</u>	<u>16,696</u>	<u>9,573</u>
Total Operating Expenses	21,876	11,686	20,711	10,237	19,222	9,947
Operating Income - Before Other Operating Activities	(170)	(779)	67	(1,228)	83	(1,201)
Note: UMRC's management of Huron Woods was discontinued prior to FY2004.						

MUNICIPAL SECONDARY MARKET DISCLOSURE
The Economic Development Corporation of the Village of Chelsea /
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<i>Debt Service Coverage Ratio Calculations</i> (\$000s omitted, except for Debt Service Coverage Ratios) [OS Page A-29]					
	<i>Fiscal Years Ended December 31</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Increase (Decrease) in Unrestricted Net Assets	2,857	(363)	216	2,747	199
Less: Unrealized Gains on Investments	(574)	 	(551)	(2,040)	
Plus: Unrealized Losses on Investments	 	673	 	 	1,623
Plus: Extraordinary Items	835	0	0	0	0
Plus: Depreciation	2,286	2,246	2,070	1,712	1,637
Plus: Interest	<u>684</u>	<u>819</u>	<u>883</u>	<u>931</u>	<u>967</u>
Net Income Available for Debt Service	6,088	3,375	2,618	3,350	4,426
Debt Service Requirements relating to Series 1998 Bonds	1,962	1,961	1,963	1,961	1,962
Debt Service Coverage Ratio	3.10	1.72	1.33	1.71	2.26
Rows entitled, "Maximum Annual Debt Service Requirements on the Prior Bonds" and "Historical Debt Service Coverage Ratios" are no longer meaningful now that UMRC's indebtedness relating to the Prior Bonds has been extinguished, and has been eliminated from this table.					

<i>Heritage Foundation Investments</i> At December 31, 2006 (000s omitted from Market Values) [replaces table on OS Page A-31]								
	<i>Large-Cap Equity</i>	<i>Mid-Cap Equity</i>	<i>Small-Cap Equity</i>	<i>Int'l Equity</i>	<i>Fixed Income</i>	<i>Cash</i>	<i>Donated Equities</i>	<i>Market Value</i>
Target Allocation Range	25.0% to 45.0%	7.5% to 17.5%	7.5% to 17.5%	0.0% to 15.0%	25.0% to 40.0%	0.0% to 10.0%	N/A	
Market Value	\$5,527	\$1,951	\$1,991	\$1,691	\$4,566	\$33	\$46	\$15,805
Actual Allocation	35.0%	12.3%	12.6%	10.7%	28.9%	0.2%	0.3%	

MUNICIPAL SECONDARY MARKET DISCLOSURE
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<i>Investment Performance</i> <i>[replaces table on OS Page A-32]</i>								
				<i>Annualized</i>				
	<i>Performance by</i>	<i>Quarter</i>	<i>1 Year</i>	<i>3 Year</i>	<i>5 Year</i>	<i>7 Year</i>	<i>Since Inception</i>	<i>Incep'n Date</i>
Composite	Composite	5.0%	13.5%	9.0%	5.9%	3.4%	8.8%	6/95
	Benchmark 1	5.8%	13.6%	10.4%	8.0%	4.6%	10.1%	
Large-Cap Equity	Manager	5.6%	17.4%	8.2%	3.9%	2.1%	10.1%	6/95
	Benchmark 2	6.7%	15.8%	10.4%	6.2%	1.1%	10.5%	
Mid-Cap Equity	Growth Fund	0.2%	0.2%	N/A	N/A	N/A	6.4%	12/04
	Benchmark 3	7.7%	15.3%	N/A	N/A	N/A	13.9%	
	Benchmark 4	6.9%	10.7%	N/A	N/A	N/A	11.4%	
Mid-Cap Equity	Value Manager	9.4%	25.7%	14.0%	N/A	N/A	17.2%	8/02
	Benchmark 5	7.7%	15.3%	16.0%	N/A	N/A	19.2%	
	Benchmark 6	8.5%	20.2%	18.8%	N/A	N/A	20.3%	
Small-Cap Equity	Growth Fund	7.1%	10.9%	9.2%	N/A	N/A	19.5%	2/03
	Benchmark 7	8.9%	18.4%	13.6%	N/A	N/A	24.1%	
	Benchmark 8	8.8%	13.3%	10.5%	N/A	N/A	21.6%	
Small-Cap Equity	Value Fund	7.4%	15.8%	12.8%	N/A	N/A	16.2%	8/02
	Benchmark 9	8.9%	18.4%	13.6%	N/A	N/A	19.0%	
	Benchmark 10	9.0%	23.5%	16.5%	N/A	N/A	20.6%	
Int'l Equity	Fund 1	10.6%	25.6%	19.8%	N/A	N/A	17.8%	8/02
	Benchmark 11	10.4%	26.9%	20.4%	N/A	N/A	21.3%	
Int'l Equity	Fund 2	13.8%	32.7%	N/A	N/A	N/A	27.3%	6/04
	Benchmark 11	10.4%	26.9%	N/A	N/A	N/A	22.6%	
Fixed Income	Fund	0.9%	4.0%	4.0%	N/A	N/A	4.9%	8/02
	Benchmark 12	1.2%	4.3%	3.7%	N/A	N/A	4.3%	

Manager refers to an investment manager; Fund refers to a mutual fund

MUNICIPAL SECONDARY MARKET DISCLOSURE
The Economic Development Corporation of the Village of Chelsea /
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<i>Investment Benchmarks</i> <i>[new]</i>		
<i>Benchmark</i>		
	S&P 500 Index	35.0%
	S&P MidCap 400 Index	12.5%
	Russell 2000 Index	12.5%
	MSCI EAFE Index	5.0%
1	Lehman Brothers Aggregate Bond Index	35.0%
2	S&P 500 Index	
3	S&P MidCap 400 Index	
4	Russell MidCap Growth Index	
5	S&P MidCap 400 Index	
6	Russell MidCap Value Index	
7	Russell 2000 Index	
8	Russell 2000 Growth Index	
9	Russell 2000 Index	
10	Russell 2000 Value Index	
11	MSCI EAFE Index	
12	Lehman Brothers Aggregate Bond Index	

<i>Results of Annual Giving Campaign</i> <i>(\$000s omitted)</i> <i>[OS Page A-32]</i>	
<i>Fiscal Year</i>	<i>Proceeds</i>
2006	339
2005	273
2004	230
2003	430
2002	230

<i>Estimated Debt Service Requirements on the SMOC Bonds</i> <i>(\$000s omitted)</i> <i>[OS Page A-35]</i>
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The Corporation's partial guarantee of obligations under the bank letter of credit reimbursement agreement relating to the SMOC Bonds was released during FY2002. This table will no longer be presented, unless such guarantee were to be restored.

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

**Consolidated Financial Report
with Additional Information
December 31, 2006**

United Methodist Retirement Communities, Inc. and Subsidiary

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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 as of December 31, 2006 and 2005 and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Methodist Retirement Communities, Inc. and Subsidiary at December 31, 2006 and 2005 and the consolidated results of their activities, changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the consolidated financial statements, the Organization adopted the provisions of Emerging Issues Tax Force (EITF) 04-5, *Determining whether a General Partner, or the General Partner as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, as of January 1, 2006.

Plante & Moran, PLLC

April 11, 2007

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Balance Sheet

	December 31, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,890,309	\$ 1,607,787
Investments (Note 3)	2,025,231	1,985,332
Accounts receivable - Less allowance for doubtful accounts of \$522,000 and \$562,000 in 2006 and 2005, respectively	3,078,209	2,720,316
Contributions receivable (Note 4)	1,533,915	244,432
Assets limited as to use (Note 8)	866,362	375,876
Prepaid expenses and other current assets	639,954	714,197
	<hr/>	<hr/>
Total current assets	10,033,980	7,647,940
Assets Limited as to Use (Note 8)	1,864,290	1,810,882
Property and Equipment (Note 5)	40,249,426	34,438,273
Beneficial Interest in Perpetual Trust	387,791	367,710
Other		
Investments (Note 3)	14,867,824	13,998,009
Contributions receivable - Net of current portion (Note 4)	877,207	455,891
Investment in joint venture (Note 1)	213,963	-
Beneficial interest in Van Dusen endowment (Note 6)	2,889,341	2,613,500
Bond issue costs	496,980	520,740
	<hr/>	<hr/>
Total assets	\$ 71,880,802	\$ 61,852,945
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,528,271	\$ 1,331,095
Current portion of long-term debt (Note 8)	529,174	1,085,000
Due to third party	141,876	41,956
Liability accrued under split-interest agreements	52,723	69,398
Accrued liabilities and other	2,303,519	2,082,783
	<hr/>	<hr/>
Total current liabilities	4,555,563	4,610,232
Long-term Debt - Net of current portion (Note 8)	22,020,757	15,375,000
Liability Under Split-interest Agreements (Note 7)	316,371	394,479
Net Assets		
Unrestricted:		
Controlling interest	40,246,373	36,347,804
Noncontrolling interest	(1,041,541)	-
Temporarily restricted (Note 9)	1,347,102	1,345,207
Permanently restricted (Note 9)	4,436,177	3,780,223
	<hr/>	<hr/>
Total net assets	44,988,111	41,473,234
	<hr/>	<hr/>
Total liabilities and net assets	\$ 71,880,802	\$ 61,852,945

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Statement of Activities

	Year Ended	
	December 31, 2006	December 31, 2005
Operating Revenue		
Net service revenue	\$ 32,375,480	\$ 29,516,087
Rental revenue	966,513	-
Other	306,585	271,167
Total operating revenue	33,648,578	29,787,254
Operating Expenses		
Health care	32,633,844	29,676,454
General and administrative - Executive office expenses	2,033,465	1,319,623
Total operating expenses	34,667,309	30,996,077
Operating Loss - Before other operating activities	(1,018,731)	(1,208,823)
Other Operating Activities		
Investment income	990,959	727,332
Contributions	2,733,182	684,649
Gain on sale of investments	431,411	573,822
Other gains	-	36,084
Income from investment in joint venture	213,963	-
Equity distributions from noncontrolling interest	(100,058)	-
Fund-raising - Promotion and development expenses	(385,816)	(638,627)
Total other operating activities	3,883,641	1,383,260
Operating Income	2,864,910	174,437
Changes in Unrealized Gain (Loss) on Investments	573,839	(672,803)
Net Assets Released from Restriction	253,305	135,528
Increase (Decrease) in Net Assets Before Change in Accounting Principle	3,692,054	(362,838)
Cumulative Effect of Change in Accounting Principle (Note 12)	(835,026)	-
Consolidated Net Income (Loss)	2,857,028	(362,838)
Less Consolidated Net Loss Attributable to Noncontrolling Interest	(1,041,541)	-
Increase (Decrease) in Unrestricted Net Assets Attributable to Controlling Interest	\$ 3,898,569	\$ (362,838)

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Statement of Changes in Net Assets

	Year Ended	
	December 31, 2006	December 31, 2005
Unrestricted Net Assets		
Controlling interests	\$ 3,898,569	\$ (362,838)
Noncontrolling interests	(1,041,541)	-
Increase (Decrease) in Unrestricted Net Assets	2,857,028	(362,838)
Temporarily Restricted Net Assets		
Contributions	193,152	658,082
Change in value of split-interest agreements	62,048	(14,243)
Net assets released from restriction	(253,305)	(135,528)
Increase in Temporarily Restricted Net Assets	1,895	508,311
Permanently Restricted Net Assets		
Restricted contributions	245,000	249,350
Gain on beneficial interest in Van Dusen endowment	275,841	151,339
Gain on beneficial interest in perpetual trust	135,113	13,771
Increase in Permanently Restricted Net Assets	655,954	414,460
Increase in Net Assets	3,514,877	559,933
Net Assets - Beginning of year	41,473,234	40,913,301
Net Assets - End of year	\$ 44,988,111	\$ 41,473,234

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2006	December 31, 2005
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,514,877	\$ 559,933
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	2,674,104	2,245,887
Amortization of bond issue costs	23,760	23,760
Realized and unrealized gains and losses on investments	(1,005,250)	98,981
Contributions restricted for long-term purposes	(438,152)	(983,691)
Cumulative effect in change in accounting principle	835,026	-
Distributions to partners	100,058	-
Bad debt expense	231,194	305,285
Change in value of split-interest agreements	62,048	14,243
Change in value of beneficial interest in perpetual trust	(275,841)	(151,339)
Equity in the losses of joint venture	(213,963)	-
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(589,087)	(390,831)
Contribution receivable	(1,772,847)	(296,442)
Prepaid expenses and other current assets	79,994	(50,793)
Accounts payable	189,426	48,584
Accrued and other liabilities	69,814	(174,437)
Due to third party	21,729	(10,419)
Liability under split-interest agreement	(94,783)	(67,224)
Net cash provided by operating activities	3,412,107	1,171,497
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,624,048)	(996,302)
Purchase of investments	(1,640,898)	(2,037,634)
Proceeds from sale of investments	1,736,434	2,541,468
Change in assets limited as to use	(20,081)	(24,206)
Net cash used in investing activities	(2,548,593)	(516,674)
Cash Flows from Financing Activities		
Principal payment on long-term debt	(1,193,618)	(1,035,000)
Principal from restricted contributions	438,152	983,691
Distributions to partners	(100,058)	-
Net cash used in financing activities	(855,524)	(51,309)
Net Increase in Cash and Cash Equivalents	7,990	603,514
Cash and Cash Equivalents - Beginning of year	1,882,319	1,004,273
Cash and Cash Equivalents - End of year	<u>\$ 1,890,309</u>	<u>\$ 1,607,787</u>
Supplemental Cash Flow Information - Cash paid for interest	<u>\$ 1,051,839</u>	<u>\$ 800,794</u>

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies

United Methodist Retirement Communities, Inc. and Subsidiary (UMRC) are Michigan nonprofit organizations. UMRC, governed by a board of trustees, provides housing, health care, and other related services to residents through the operation of a continuing care retirement community in Chelsea, Michigan and a skilled nursing facility in Detroit, Michigan. Revenue for these services is primarily paid by individuals and third-party payors.

During 1998, UMRC formed the UMRC Heritage Foundation (the "Foundation"). The primary purpose of the Foundation is the management, stewardship, and allocation of funds; development and implementation of long- and short-term fund development plans; donor communication; and the recognition of certain activities and programs. UMRC and the Foundation (collectively, the "Organization") are related through common board control; as a result, the activities of the two are consolidated and all intercompany activity has been eliminated.

UMRC is a 50 percent sponsor in Silver Maples of Chelsea (SMOC), a not-for-profit retirement facility which provides independent and assisted-living housing and services to residents in Chelsea, Michigan. The Organization's investment in SMOC was \$213,963 and \$0 at December 31, 2006 and 2005, respectively.

The Organization is also the operating member and 1 percent owner of Sylvan Pines Limited Dividend Housing Association LLC (Sylvan Pines), an entity established to provide affordable housing to the elderly under the low-income housing tax credit program. Sylvan Pines is consolidated in its entirety as disclosed in Note 12. During the year ended December 31, 2005, the Organization received management fees of \$36,084 from Sylvan Pines. Management fees relating to the year ended December 31, 2006 have been eliminated in consolidation.

Principle of Consolidation - The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All material intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable - The Organization's accounts receivable are comprised of net invoice amounts due from residents. An allowance for doubtful accounts is established on an aggregate basis, computed using loss-rate factors based on historical loss experience and adjusted for economic conditions and other trends affecting the Organization's ability to collect outstanding amounts. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

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

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Fair value is based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from income from operations.

Contributions Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment - Additions to property and equipment are recorded at cost and depreciation is provided using the straight-line method over the following asset lives:

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

Bond Issue Cost - Bond issue costs are 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 interest method. Accumulated amortization was \$308,436 and \$284,676 at December 31, 2006 and 2005, respectively.

Operating Income - The consolidated statement of activities includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from operating income, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

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

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

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

	Percent	
	2006	2005
Private	51	52
Medicaid	15	18
Medicare	34	30

The Medicare payment methodology is based on clinical assessments that are subject to review and final approval. Any adjustment resulting from this final review and approval will be recorded in the period in which the adjustment was made.

The Medicaid payment is a cost-based reimbursement system that also includes a Quality Assurance Supplement (QAS). The QAS is a reimbursement based on Medicaid occupancy and is related to the provider bed tax assessed to nursing homes.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Benevolent Care - The Organization provides care to residents who meet certain criteria under its benevolent care policy at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as benevolent care, they are not reported as revenue. The Organization provided benevolent care totaling approximately \$371,000 and \$111,000 for the years ended December 31, 2006 and 2005, respectively.

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

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

Contributions - Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Board-designated Assets - These net assets are intended to be used to protect the long-term interests of the Organization. Board-designated net assets totaled \$16,274,457 and \$13,804,326 as of December 31, 2006 and 2005, respectively, and are included in unrestricted net assets in the consolidated balance sheet.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Internal Revenue Service has ruled that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Sylvan Pines is a limited liability company which does not pay federal income taxes at the entity level under the Internal Revenue Code. Accordingly, there is no provision for income taxes included in the consolidated financial statements.

Reclassifications - Certain prior year classifications have been changed to correspond with 2006 classifications.

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

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

Statement of Cash Flows - The 2006 consolidated statement of cash flows has been adjusted to include the cumulative beginning balance sheet of Sylvan Pines (see Note 12), including the following:

Assets:

Cash	\$ 274,532
Escrows	471,454
Property, plant, and equipment	<u>5,861,209</u>
Total assets	<u>\$ 6,607,195</u>

Liabilities and deficiency in net assets:

Current liabilities	\$ 158,672
Mortgage payable	7,283,549
Deficiency in net assets	<u>(835,026)</u>
Total liabilities and deficiency in net assets	<u>\$ 6,607,195</u>

Note 2 - Accounts Receivable

The Organization provides services without collateral to its patients, most of whom are local residents of these communities and are insured under third-party payor agreements. The percentage of receivables from patients and third-party payors at year end is as follows:

	Percent	
	2006	2005
Medicaid	26	26
Medicare	42	43
Patients and other third-party payors	<u>32</u>	<u>31</u>
Total	<u>100</u>	<u>100</u>

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 3 - Investments

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

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 574,758	\$ 1,521,243
Bonds	4,546,273	4,400,006
Stocks	11,772,024	10,027,528
Other	-	34,564
	<u>16,893,055</u>	<u>15,983,341</u>
Total investments		
Less short-term portion of investments	<u>2,025,231</u>	<u>1,985,332</u>
Total long-term investments	<u>\$ 14,867,824</u>	<u>\$ 13,998,009</u>

Investments include endowment assets totaling \$1,159,045 and \$799,073 at December 31, 2006 and 2005, respectively. The corpus on these assets is to be held in perpetuity, with the income expendable to support the continuing care of residents. Split-interest agreements are described in Note 7.

Note 4 - Contributions Receivable

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

	<u>2006</u>	<u>2005</u>
Contributions receivable:		
Due in less than one year	\$ 1,533,905	\$ 247,481
Due in one to five years	70,832	416,490
Due in more than five years	1,081,316	278,898
	<u>2,686,053</u>	<u>942,869</u>
Total contributions receivable		
Unamortized discount	(270,715)	(137,546)
Less allowance for uncollectible amounts	<u>(4,216)</u>	<u>(105,000)</u>
Subtotal	(274,931)	(242,546)
Less current portion	<u>(1,533,915)</u>	<u>(244,432)</u>
Long-term portion	<u>\$ 877,207</u>	<u>\$ 455,891</u>

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2006	2005
Land	\$ 1,903,235	\$ 945,898
Land improvements	4,025,995	2,204,184
Buildings	46,066,669	40,596,253
Building improvements	10,561,703	10,157,798
Transportation equipment	220,747	220,747
Furniture, fixtures, and equipment	13,086,801	11,534,231
Construction in progress	742,091	-
Total cost	76,607,241	65,659,111
Accumulated depreciation	36,357,815	31,220,838
Net carrying amount	<u>\$ 40,249,426</u>	<u>\$ 34,438,273</u>

Depreciation expense on property and equipment totaled \$2,674,104 and \$2,245,887 at December 31, 2006 and 2005, respectively.

Note 6 - Beneficial Interest in Van Dusen Endowment

The Organization has a beneficial interest in the net assets of the Van Dusen endowment held by the Community Foundation for Southeastern Michigan. All funds generated through this program are held and managed in commingled funds by the Community Foundation for Southeastern Michigan. Income from the funds is paid annually to the Organization at a rate of 5 percent of the market value of the assets. An asset has been recorded for the present value of future cash flows related to this endowment in the amount of \$2,889,341 and \$2,613,500 at December 31, 2006 and 2005, respectively.

Note 7 - Split-interest Agreements

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

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 8 - Long-term Debt

During 1998, the Organization issued \$22,980,000 (\$15,375,000 and \$16,460,000 due at December 31, 2006 and 2005, respectively) of 30-year Term Limited Obligation Revenue Refunding Bonds through the Economic Development Corporation of the Village of Chelsea (EDC). The bond proceeds were lent by the EDC to the Organization for the purpose of refinancing the EDC's November 1, 1993 Limited Obligation Revenue Bonds and for the construction of a dementia facility in Chelsea, Michigan.

Principal payments on the bonds are due annually through November 15, 2027, the maturity date of the bonds. Interest on the bonds is payable semiannually each November 15 and May 15 through the maturity date of the bonds. The bonds are collateralized by gross revenue and other certain assets of the Organization. Principal payments and interest rates vary annually and range from \$415,000 to \$1,175,000 and 4.80 percent to 5.58 percent, respectively. Interest expense for the years ended December 31, 2006 and 2005 were \$728,569 and \$794,794, respectively. The bonds have restrictive financial and other covenants.

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

In 2001, Sylvan Pines entered into a loan totaling \$7,766,000 (\$7,174,931 due at December 31, 2006) with the Michigan State Housing Development Authority to support the development of Sylvan Pines. The loan carries a fixed rate of interest at 5 percent per annum, is secured by real property of Sylvan Pines, and is repayable in monthly installments of principal and interest of \$39,194 through November 2035. Interest expense for the year ended December 31, 2006 totaled \$361,258. In accordance with the loan agreement, certain escrow revenues have been funded for real estate taxes, property insurance, replacement reserves, and operating assurance.

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 8 - Long-term Debt (Continued)

The following is a summary of assets limited as to use supporting the Organization's debt:

	<u>2006</u>	<u>2005</u>
Debt Service Reserve Fund	\$ 1,864,290	\$ 1,810,882
Bond Payment Fund	362,345	375,872
Project Fund	4	4
Noncontrolling interest and escrows	<u>504,013</u>	<u>-</u>
Total assets limited as to use	2,730,652	2,186,758
Less assets limited as to use - Expected to be expended in 2007	<u>866,362</u>	<u>375,876</u>
Long-term assets limited as to use	<u><u>\$ 1,864,290</u></u>	<u><u>\$ 1,810,882</u></u>

Principal payments on long-term debt as of December 31, 2006 are due as follows:

2007	\$ 529,174
2008	555,016
2009	586,156
2010	612,610
2011	649,395
Thereafter	<u>19,617,580</u>
Subtotal	22,549,931
Less current portion	<u>(529,174)</u>
Total	<u><u>\$ 22,020,757</u></u>

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 9 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Health care services:		
Assets under split-interest agreement	\$ 473,244	\$ 406,360
Contributions restricted for future capital improvements	143,273	117,255
Contributions restricted for future charitable care	285,002	339,411
Contributions restricted for other future uses by donor	<u>445,583</u>	<u>482,181</u>
Total temporarily restricted net assets	<u>\$ 1,347,102</u>	<u>\$ 1,345,207</u>

Permanently restricted net assets at December 31, 2006 and 2005 are restricted by the following:

	<u>2006</u>	<u>2005</u>
Van Dusen Endowment	\$ 2,889,341	\$ 2,613,500
Beneficial interest in perpetual trusts	387,791	367,710
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>1,159,045</u>	<u>799,013</u>
Total permanently restricted	<u>\$ 4,436,177</u>	<u>\$ 3,780,223</u>

Note 10 - 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 2006 and 2005, the Organization contributed \$197,567 and \$172,084, respectively, to the plan.

United Methodist Retirement Communities, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 11 - Workers' Compensation

The Organization is self-insured for a substantial portion of its workers' compensation claims. The Organization has obtained stop-loss insurance coverage for claims in excess of \$300,000 per employee or per accident and for aggregate claims in excess of \$1,000,000 in a two-year period. The Organization's stop-loss coverage is limited to \$5,000,000 in aggregate for the same two-year period. Total workers' compensation expense approximated \$409,000 and \$387,000 in 2006 and 2005, respectively. Accruals of approximately \$409,000 and \$455,000 were recorded for unsettled and incurred but not reported claims at December 31, 2006 and 2005, respectively.

Note 12 - Change in Accounting Principle

On June 29, 2005, the Financial Accounting Standards Board (FASB) reached consensus on Emerging Issues Task Force (EITF) 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Similar Rights*. Under EITF 04-5, the limited partnership (or similar entity, such as a limited liability company, with Sylvan Pines hereinafter referred to as the "LLC") is assumed to control that LLC regardless of the extent of the managing member's ownership interest in the entity. With this, EITF 04-5 provides a new framework for determining when a managing member should consolidate an LLC. The Organization adopted the provisions of EITF 04-5 as of January 1, 2006.

In general, EITF 04-5 requires an entity to be consolidated under the presumption of control unless the non-managing members have substantial kick-out rights, substantive participating rights, or buy-out rights. EITF 04-5 became effective for fiscal years after December 15, 2006.

In accordance with the transition provisions of EITF 04-5, the assets, liabilities, and noncontrolling interests of the newly consolidated entity were initially recorded at the amounts at which they would have been carried in the consolidated financial statements if EITF 04-5 had been effective at the origination of the LLC. The difference between the net amount added to the Organization's consolidated balance sheet and the amount of any previously recognized interest in the newly consolidated entity was a loss of \$835,026 and was recognized as a cumulative effect of a change in accounting principle as of January 1, 2006. The adoption of EITF 04-5 also resulted in an increase of total assets and total liabilities of \$6,282,901 and \$7,324,442, respectively, as of December 31, 2006. Prior periods were not restated.

Additional Information

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 as of December 31, 2006 and 2005. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheet and consolidating statement of operating activities information is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic consolidated financial statements. The accompanying consolidating information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Morse, PLLC

April 11, 2007

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidating Balance Sheet December 31, 2006

	United Methodist Retirement Communities, Inc.	Sylvan Pines Limited Division Housing Association, LLC	Eliminations	Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,615,178	\$ 275,131	\$ -	\$ 1,890,309
Investments	2,025,231	-	-	2,025,231
Accounts receivable - Less allowance for doubtful accounts	3,078,209	-	-	3,078,209
Contributions receivable	1,533,915	-	-	1,533,915
Assets limited as to use	362,349	504,013	-	866,362
Prepaid expenses and other current assets	646,196	4,929	(11,171)	639,954
Total current assets	9,261,078	784,073	(11,171)	10,033,980
Assets Limited as to Use	1,864,290	-	-	1,864,290
Property and Equipment	34,750,598	5,498,828	-	40,249,426
Beneficial Interest in Perpetual Trust	387,791	-	-	387,791
Other				
Investments	14,867,824	-	-	14,867,824
Contributions receivable - Net of current portion	877,207	-	-	877,207
Investment in joint venture	213,963	-	-	213,963
Beneficial interest in Van Dusen endowment	2,889,341	-	-	2,889,341
Bond issue costs	496,980	-	-	496,980
Total assets	<u>\$ 65,609,072</u>	<u>\$ 6,282,901</u>	<u>\$ (11,171)</u>	<u>\$ 71,880,802</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 1,526,548	\$ 1,723	\$ -	\$ 1,528,271
Current portion of long-term debt	415,000	114,174	-	529,174
Due to third party	141,876	-	-	141,876
Liability accrued under split-interest agreements	52,723	-	-	52,723
Accrued liabilities and other	2,166,902	147,788	(11,171)	2,303,519
Total current liabilities	4,303,049	263,685	(11,171)	4,555,563
Long-term Debt - Net of current portion	14,960,000	7,060,757	-	22,020,757
Liability Under Split-interest Agreements	316,371	-	-	316,371
Net Assets				
Unrestricted	40,246,373	(1,041,541)	-	39,204,832
Temporarily restricted	1,347,102	-	-	1,347,102
Permanently restricted	4,436,177	-	-	4,436,177
Total net assets	46,029,652	(1,041,541)	-	44,988,111
Total liabilities and net assets	<u>\$ 65,609,072</u>	<u>\$ 6,282,901</u>	<u>\$ (11,171)</u>	<u>\$ 71,880,802</u>

United Methodist Retirement Communities, Inc. and Subsidiary

Consolidating Statement of Operating Activities Year Ended December 31, 2006

	Chelsea Retirement Community	Boulevard Temple	Sylvan Pines Limited Dividend Housing Association LLC	Eliminations	Totals
Operating Revenue					
Net service revenue	\$ 21,472,408	\$ 10,903,072	\$ -	\$ -	\$ 32,375,480
Rental revenue	-	-	966,513	-	966,513
Other	233,922	3,482	69,181	-	306,585
Total operating revenue	21,706,330	10,906,554	1,035,694	-	33,648,578
Operating Expenses					
Salaries, wages, and purchased labor	11,295,793	6,573,591	81,003	-	17,950,387
Employee benefits	2,087,351	940,422	23,519	-	3,051,292
Food	803,102	209,898	-	-	1,013,000
Medical care	741,582	847,505	-	-	1,589,087
Management fee	-	-	37,043	(37,043)	-
Repairs and maintenance	556,586	385,558	93,009	-	1,035,153
Laundry and housekeeping	14,436	16,770	-	-	31,206
Utilities	912,879	557,578	89,629	-	1,560,086
Supplies	468,115	151,192	-	-	619,307
Depreciation	1,877,837	408,460	387,807	-	2,674,104
Interest	683,579	-	361,258	-	1,044,837
Real estate taxes	249,521	-	34,778	-	284,299
Provider tax	313,549	426,233	-	-	739,782
Bad debts	59,794	171,400	-	-	231,194
Miscellaneous	442,899	333,106	34,105	-	810,110
General and administrative - Executive office expense	1,369,437	664,028	-	-	2,033,465
Total operating expenses	21,876,460	11,685,741	1,142,151	(37,043)	34,667,309
Operating Loss	\$ (170,130)	\$ (779,187)	\$ (106,457)	\$ 37,043	\$ (1,018,731)