

United Methodist Retirement Communities, Inc. & Porter Hills Obligated Group 2nd Quarter 2022 *Unaudited* Management Discussion of Financial Performance and Position

The following is a brief Management Discussion of the UMRC Obligated Group's (OG) financial activities, performance, and position **as of and for the six months ended December 31, 2021.**

Disclaimer: This release contains forward-looking statements that involve risks, uncertainties and assumptions. If such risks or uncertainties materialize or such assumptions prove incorrect, the results of this organization could differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to statements of the plans, strategies and objectives of management for future operations; any statements concerning expected development, performance or market share relating to products and services; anticipated operational and financial results; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the achievement of expected results and other risks that are described from time to time in quarterly reports. This organization assumes no obligation and does not intend to update these forward-looking statements.

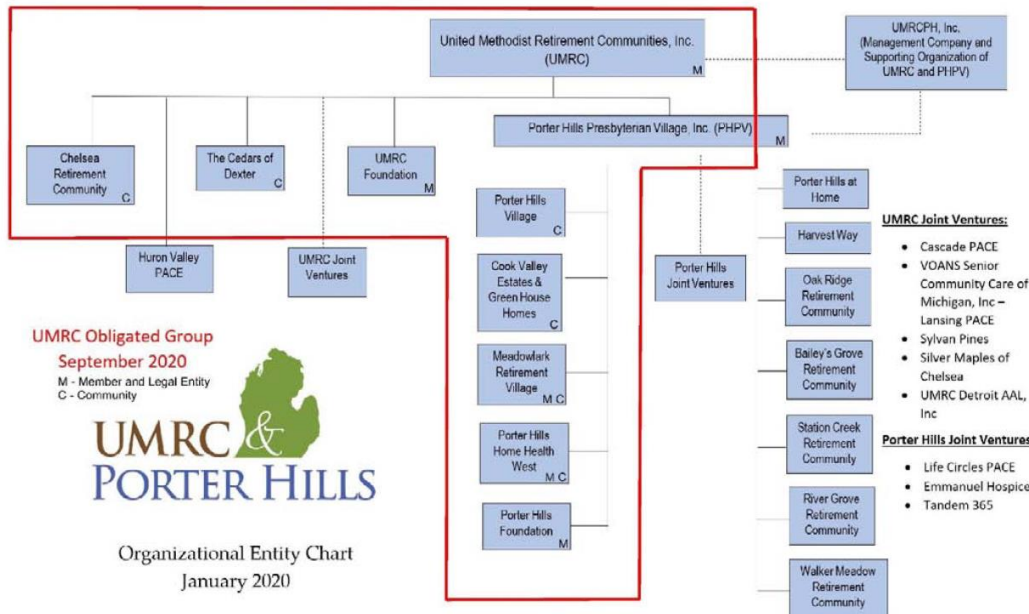
Organization Overview

United Methodist Retirement Communities, Inc. (UMRC) is a Michigan nonprofit organization governed by a board of trustees that provides housing, healthcare, and other related senior services. The Obligated Group (OG) special purpose combined financials statements are prepared for the combined entities for the purpose of complying with the reporting requirements set forth in the master trust indenture agreements between U.S. Bank, National Association and UMRC.

On March 1, 2019, United Methodist Retirement Communities, Inc. ("UMRC") entered into an Affiliation Agreement with Porter Hills Presbyterian Villages, Inc. ("Porter Hills") and its sole shareholder, Westminster Presbyterian Church. The Affiliation Agreement is an agreement providing for an affiliation relationship between UMRC and Porter Hills (called the "Affiliation" below). In a closing on March 1, 2019, pursuant to the Affiliation Agreement, Westminster Presbyterian Church transferred to UMRC the single outstanding share of stock of Porter Hills, and UMRC thereby became and now is the sole shareholder of Porter Hills.

In September 2020, the Obligated Group issued supplemental trust indentures as part of a bond issuance, which added the former Porter Hills Presbyterian Village, Inc. Obligated Group previously reported separately. These new Obligated Group members have been added to the listing below.

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The Obligated Group consists of the following entities

- Chelsea Retirement Community is a life plan community in Chelsea, Michigan that includes skilled nursing, dementia care, assisted living and independent living services.
- Cedars of Dexter, located in Dexter, Michigan, includes independent living cottages.
- UMRC Foundation has a primary purpose of management, stewardship and allocation of funds; creation and implementation of long and short-term fund development plans; donor communication; and recognition of certain activities and programs. UMRC is the sole corporate member of the Foundation.
- UMRC Corporate Office provides the leadership and administrative oversight and support services for the UMRC Obligated Group. Additionally, the UMRC Corporate Office provides leadership and administrative oversight to related or affiliated entities outside of the obligated group with management and/or development fees charged for services provided.
- Porter Hills Presbyterian Village, Inc. (Porter Hills) is a life plan community located in Grand Rapids, Michigan that includes skilled nursing, dementia care, assisted living and independent living services.
- Porter Hills Home Health Services West was established to provide skilled home care services to the residents of the Western Michigan area.
- Porter Hills Foundation was established to raise funds, invest assets, and monitor growth to ensure the operating entities of Porter Hills are able to continue as in-depth, innovative, and inclusive senior living and services resource.
- Cook Valley Estates was established to provide independent housing for the elderly in Grand Rapids, MI. Cook Valley Estates functions under Porter Hills Presbyterian Village, Inc.’s federal ID.
- Meadowlark Retirement Community provides assisted living and independent living for the elderly in Sparta, Michigan.

Effective July 1, 2021, the two Foundations listed above merged into one organization.

The following entities would typically be consolidated in accordance with generally accepted accounting principles but are excluded from the Obligated Group according to the Master Trust Indenture:

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- UMRC is the sole stockholder in UMRC Detroit AAL, Inc., which holds a .051 % general partner interest in Detroit Affordable Assisted Living Limited Dividend Housing Association Limited Partnership (DAAL). DAAL is an 80-unit elderly affordable assisted-living facility in Detroit, Michigan under the low-income housing tax credit program. The investment in this entity is accounted for under the equity method.
- UMRC is a 50% sponsor of Rivertown Neighborhood Senior Non-profit Housing Corporation (Rivertown Senior Apartments) which is a HUD 202 low income housing project with 50 independent living apartments.
- UMRC is a 50 % member in Silver Maples of Chelsea (SMOC), a not-for-profit retirement facility which provides independent and assisted living housing and services to the residents in Chelsea, Michigan. The investment in SMOC is accounted for under the equity method.
- UMRC is a 1 % member of Sylvan Pines Limited Dividend Housing Associated, LLC (Sylvan Pines), an affordable housing project in Chelsea, Michigan with which UMRC has a management agreement, and is accounted for under the equity method.
- UMRC is involved in three PACE programs. These programs operate as Programs of All-inclusive Care for the Elderly (PACE). Once an individual has been enrolled in the PACE program, all of his or her medical needs must be provided, according to the participant plan, through the staff of the PACE and its network of providers. The PACE programs UMRC is involved with, and accounts for under the equity method, include:
 - UMRC has a 100% controlling financial interest, as of September 1, 2017, in Washtenaw PACE, Inc. d/b/a Huron Valley PACE that is located in Ypsilanti, Michigan. Prior to that date UMRC had an 80% controlling interest. Huron Valley PACE serves Washtenaw and Monroe Counties as well as parts of Oakland, Wayne and Livingston Counties.
 - UMRC has a 20% financial interest in Senior CommUnity Care of Michigan, located in Lansing, MI. Senior CommUnity Care operates a PACE program serving Ingham, Clinton and Eaton Counties and opened Spring 2015.
 - UMRC has an 80% controlling financial interest in The Cascade PACE, Inc. d/b/a Thome PACE that is located in Jackson, Michigan. Thome PACE operates a PACE program serving in Jackson, Lenawee and Hillsdale Counties and opened March 2016.
- Outside of the UMRC Obligated Group, PHPV wholly owns six entities that operate affordable housing communities in metropolitan Grand Rapids:
 - Bailey's Grove Retirement Community, Inc.
 - Sparta Retirement Community, Inc. (d/b/a Harvest Way Retirement Community)
 - Senora Woods Retirement Community, Inc. (d/b/a Oak Ridge Retirement Community)
 - River Grove Retirement Community, Inc.
 - Station Creek Retirement Community, Inc.
 - Walker Meadow Retirement Community, Inc.
- In addition, PHPV has the following ownership in entities that are outside of the UMRC Obligated Group:
 - Avenues by Porter Hills – a life-plan community without walls wholly owned by PH
 - LifeCircles – a PACE program in which PHPV owns 53.2% of with two other unrelated partners.
 - Emmanuel Hospice – A hospice program partnership among PHPV and several other unrelated retirement communities. PHPV owns a minority interest in Emmanuel Hospice.
 - Tandem 365 - A PACE-like coordination agency partnership among PHPV and several other unrelated organizations. PHPV owns a minority interest in Tandem 365.

Operating Results

The interim financial statements are prepared under the same methodology as the audited year-end financial statements. However, certain items in the interim financial statements may be recorded in different sections of the income statement. Typically, the only material item relates to assets released from restriction. For this report those amounts have been included.

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Census

	Fiscal Year Ended			Qtr Ending
	6/30/2019	6/30/2020	6/30/2021	12/31/2021
Independent Living				
Chelsea Retirement Community				
Available Units	173	174	172	172
Average Occupancy	149	165	156	156
Percentage Occupancy	86%	95%	91%	91%
Porter Hills Village				
Available Units	178	178	178	178
Average Occupancy	169	167	151	156
Percentage Occupancy	94.9%	93.8%	84.8%	87.6%
Cook Valley				
Available Units	134	134	134	134
Average Occupancy	128	125	122	126
Percentage Occupancy	95.5%	93.3%	91.0%	94.0%
Meadowlark				
Available Units	26	26	26	26
Average Occupancy	22	25	20	19
Percentage Occupancy	86.4%	96.2%	76.9%	74.6%
Assisted Living				
Glazier Commons				
Available Units	83	84	84	84
Average Occupancy	71	70	64	63
Percentage Occupancy	86%	83%	76%	75%
Porter Hills Village				
Available Units	67	68	68	67
Average Occupancy	58	58	56	55
Percentage Occupancy	87.1%	85.2%	82.4%	82.1%
Meadowlark				
Available Units	20	20	20	20
Average Occupancy	20	20	18	19
Percentage Occupancy	98.5%	98.8%	90.0%	95.0%
Memory Care				
Towsley Village				
Available Units	73	68	68	68
Average Occupancy	68	60	51	63
Percentage Occupancy	93%	88%	75%	93%
Porter Hills Village				
Available Units	32	32	32	34
Average Occupancy	25	28	31	32
Percentage Occupancy	78.7%	86.5%	97%	94%
Meadowlark				
Available Units	10	10	10	10
Average Occupancy	10	10	9	9.65
Percentage Occupancy	95.8%	99.1%	90.0%	96.5%
Skilled Nursing				
Kresge				
Available Units	84	82	85	85
Average Occupancy	73	63	68	73.6
Percentage Occupancy	87%	77%	80%	87%
Village HRC				
Available Units	101	101	101	101
Average Occupancy	86	87	75	76
Percentage Occupancy	85.4%	85.7%	74.3%	75.2%
Total				
Available Units	981	977	978	979
Percentage Occupancy	89.7%	89.7%	83.9%	86.7%
Home Care				
Episodes	1,984	1,935	1,829	919

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Kresge Skilled Nursing Facility Payor Mix				
	<u>Fiscal Years Ended</u>			<u>Qtr Ended</u>
	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>12/31/2021</u>
Medicare & Medicare Advantage	37%	37%	34%	34%
Medicaid	45%	45%	46%	50%
Private & Other	18%	18%	20%	16%

Porter Hills Village Skilled Nursing Payor Mix				
	<u>Fiscal Year End</u>			<u>Qtr End</u>
	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>12/31/2021</u>
Medicare/Medicare Advantage	14%	13%	7%	6%
Medicaid	52%	62%	58%	67%
Private & Other	34%	25%	45%	27%

The COVID-19 pandemic continues to put pressure on census, although current year census continues to run above national and state industry averages in most areas.

Operating Results

Summary Statement of Activities	<u>Fiscal Year-end</u>			<u>YTD - 12/31/2021</u>		
	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Net Service Revenue	56,910,883	60,488,411	58,005,767	31,032,720	32,025,815	(993,095)
Net investment income	1,719,432	334,736	3,301,817	3,596,156	366,333	3,229,823
Contributions	540,863	595,488	1,464,228	5,718,717	70,000	5,648,717
Other	12,564,218	11,866,660	17,422,737	4,878,028	4,187,981	690,047
Total Operating Revenue	71,735,396	73,285,295	80,194,549	45,225,621	36,650,129	8,575,492
Operating Expenses	61,455,683	65,379,098	64,979,722	32,773,085	32,482,991	(290,094)
Interest Expense	3,749,602	3,806,762	3,587,450	1,927,932	1,890,048	(37,884)
Depreciation	11,124,707	12,287,131	13,410,485	5,329,371	5,234,441	(94,930)
Total Operating Expenses	76,329,992	81,472,991	81,977,657	40,030,388	39,607,480	(422,908)
Sub-Total	(4,594,596)	(8,187,696)	(1,783,108)	5,195,233	(2,957,351)	8,152,584
Affiliation Acctg Appraisal - FMV Depreciation				1,488,702	1,481,713	(6,989)
Operating Income (Loss)	(4,594,596)	(8,187,696)	(1,783,108)	3,706,531	(4,439,064)	8,145,595
Change in fair value of interest rate swap	(1,509,670)	(1,286,460)	345,653	104,790	-	104,790
Gain (loss) from investment in joint ventures	(178,699)	3,700,235	8,960,431	2,415,182	2,348,422	66,760
Net assets released from restriction for capital	4,667,066	2,032,568	1,000,133	-	-	-
Other	(1,046,104)	(894,978)	3,562,927	(2,679,975)	113,725	(2,793,700)
Total Other Changes to Net Assets Without Donor Restrictions	1,932,593	3,551,365	13,869,144	(160,003)	2,462,147	(2,622,150)
Increase (Decrease) in Net Assets Without Donor Restrictions	(2,662,003)	(4,636,331)	12,086,036	3,546,528	(1,976,917)	5,523,445

¹ **Affiliation Accounting Appraisal - Fair Market Value Depreciation** relates to the increase (\$50M+) in the value of the Village, Cook Valley and Meadowlark building values as part of the affiliation accounting. The increase in value results in an increase in non-cash depreciation.

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Operating Revenue and Expenses: YTD Operating Income was \$8.2M favorable to budget.

- Net service revenue was \$993k negative to budget primarily related to the COVID pandemic impacting census in the Skilled Nursing, Assisted Living and Memory Care areas
- Unrestricted contributions were ahead of budget \$3.2M
- PPP loan of \$3.68M was forgiven in the last quarter of fiscal 2021.
- Other revenue was \$690k positive to budget, including COVID-19 CARES Act relief payments
- Operating Expenses were approximately \$290k over budget, primarily related to increased staffing costs.
- Depreciation & Amortization expenses were over budget by \$95k.

Non-Operating (Unrestricted) Results

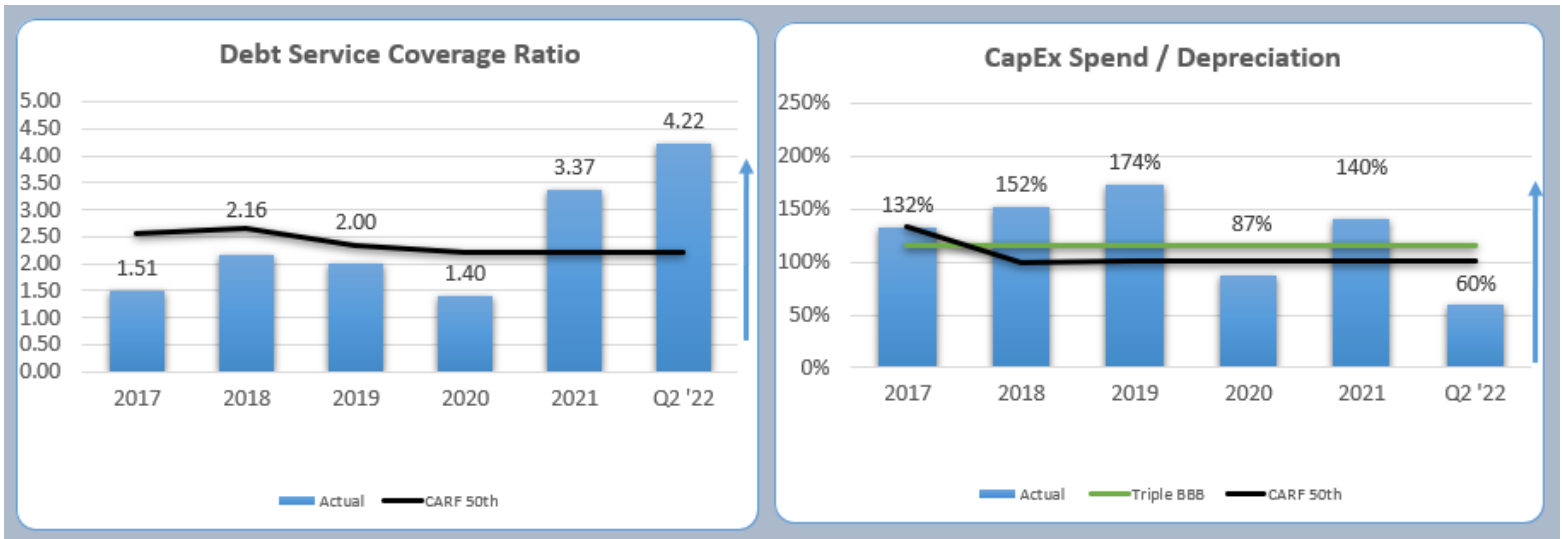
Non-operating activity was \$2.6M negative to budget, due to unrealized losses on investments.

Restricted Results

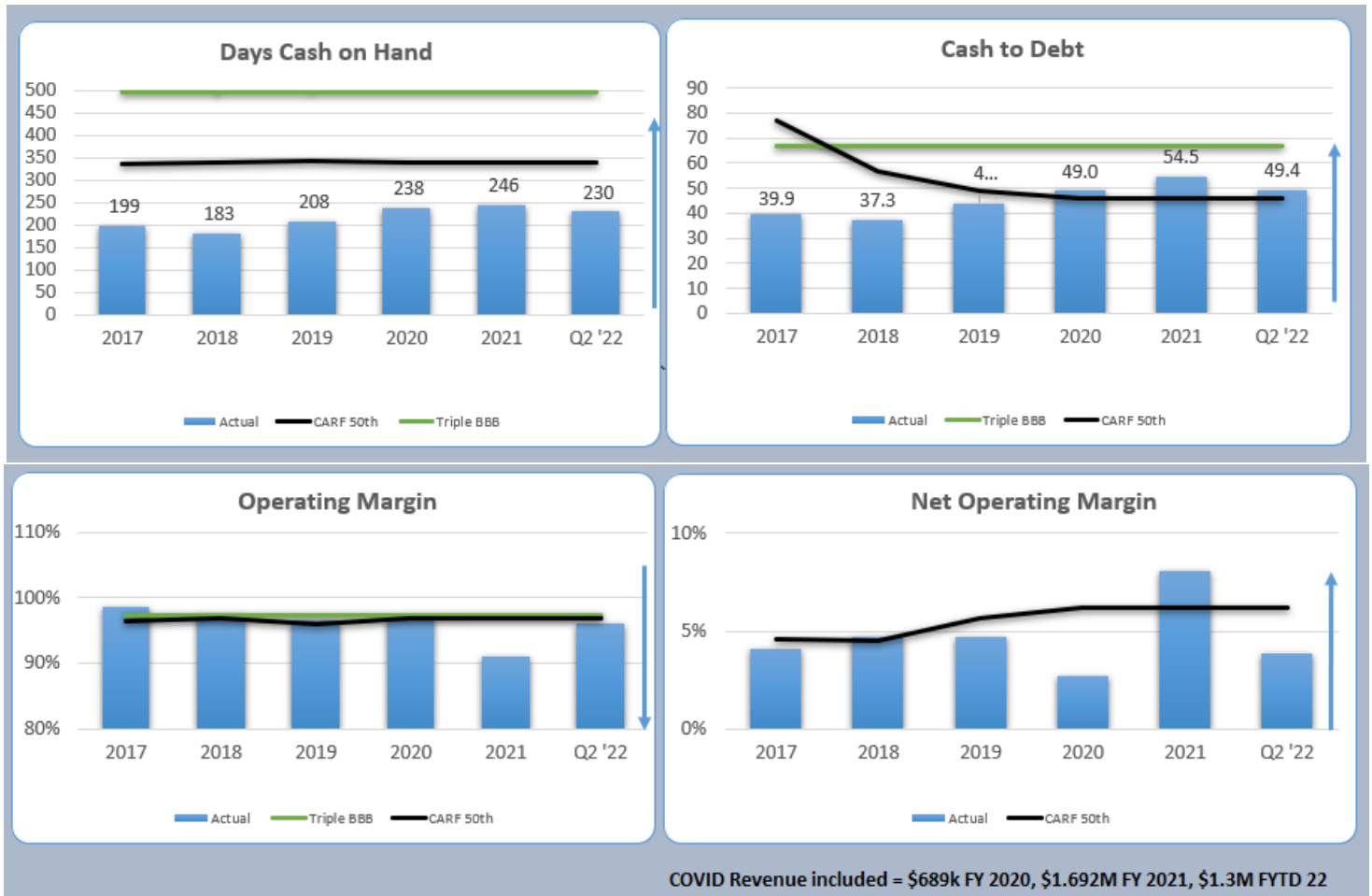
Restricted activity was approximately \$1.4M under budget due to restricted contributions, though unrestricted contributions exceeded budget as noted above.

Financial Position

The following summary includes the results of the co-obligated group of UMRC/Porter Hills:



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*Note Debt Service Coverage Ratio is calculated using a rolling 12 months, consistent with covenant requirements.

Overall financial position for the Obligated Group continues to be strong compared to peers. Key ratios show the following:

- Net Operating Margin is currently just below the CARF median and the 50th percentile, keeping in mind benchmarks are pre-pandemic. COVID-19 continues to put pressure on census and thereby impacting Net Operating Margin.
- Days Cash on Hand ratio continues to be strong, maintaining a solid cash position and significantly exceeding the thresholds required by the master trust indenture of 150.
- Debt service coverage ratio continues to exceed the master trust indenture of 1.2

Capital Financing

As of September 30, 2021, UMRC OG has the following financing arrangements:

- UMRC Series 2012 limited obligation revenue bonds with an original issuance of \$10M, with monthly principal and interest payments through the maturity date of November 15, 2027. These are variable rate bonds issued through the Economic Development Corporation of the Village of Chelsea and concurrently acquired by a financial institution as part of a bond purchase agreement. The bond purchase agreement has a mandatory tender date of November 1, 2019 that was extended to November 15, 2027 as of December 29, 2017. These bonds carry a

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variable interest rate of 65% of the combined one-month LIBOR and 115 basis points through November 15, 2017, increasing to a variable interest rate of 65% of the combined one-month LIBOR and 153 basis points thereafter. An interest rate swap was entered into that essentially fixes the interest rate at 2.2% on 50 percent of the outstanding principal balance. The interest rate swap expires November 1, 2019. A forward interest rate swap was entered into December 29, 2017, effective November 1, 2019 through November 15, 2027, that essentially fixes the interest rate at 2.83% on 50 percent of the outstanding principle amount.

- UMRC Series 2013 limited obligation revenue bonds with an original issuance of \$11M with annual principal payments and semi-annual interest payments through the maturity date of November 15, 2043. These are fixed rate bonds issued through the Michigan Strategic Fund. These bonds carry an average fixed interest rate of 6.02%. As noted below, on June 26, 2019, UMRC refinanced approximately \$4.4M of the 2013 limited obligation revenue bonds.
- UMRC Series 2014 limited obligation revenue bonds with an original issuance of \$11.5M that were used to partially fund the construction of the Cedars of Dexter. The bond purchase agreement has a mandatory tender date of December 15, 2024. The Series 2014 bonds carry a variable interest rate of 67% of one-month LIBOR plus 1.0988% payable in monthly installments of principal and interest with a maturity date of January 1, 2041. An interest swap was entered into in 2015 that essentially fixed the interest rate at 2.795 percent on 50 percent of the principal balance of the series 2014 bonds. The interest rate swap expires December 15, 2024.
- In 2014 Thome PACE closed on a \$4M loan to fund construction of the building. This borrowing is recorded on the Thome PACE financials but is guaranteed by the UMRC OG. The balance in this line of credit is \$3.3M as of December 31, 2021.
- In 2018 Huron Valley PACE closed on a \$5.5M loan to fund construction of an expansion to the existing PACE building. This borrowing will be recorded on the Huron Valley PACE financials but is guaranteed by the UMRC OG. The balance in this line of credit is \$4.4M as of December 31, 2021.
- On June 26, 2019 UMRC closed on \$17.2M of Limited Obligation Revenue and Revenue Refunding Bonds, with annual principal payments and semi-annual interest payments through the maturity date of November 2049. These are fixed rate bonds issued through the Michigan Strategic Fund, with a fixed interest rate of 4.05%. The proceeds were utilized to create a project fund to fund the remaining Kresge Skilled Nursing construction, refinance a portion of existing revolving loan agreement and refinance a portion of the 2013 limited obligation revenue bonds.
- In September 2020, the Obligated Group issued Series 2020 bonds in the par amount of \$47,145,000 to refinance the Porter Hills Series 2013 MSF Bonds, the Series 2013 EDC Bonds, the Series 2014 EDC Bonds, and the Series 2015 EDC Bonds. The Obligated Group also obtained a \$4M term loan from a bank as part of this refinancing to pay off two of the interest rate swaps related to refinanced debt. The Obligated Group also obtained a \$10M revolving loan from a bank, again as part of this refinancing, to pay off the outstanding UMRC construction revolver and an operating line of credit.

Pursuant to the Affiliation Agreement, on March 1, 2019, UMRC and Porter Hills also entered into a Subordinated Loan Agreement under which UMRC has agreed to loan to Porter Hills approximately \$3,000,000 per year for a period of five years (with a total of up to \$15,000,000) to address the most pressing deferred maintenance needs of Porter Hills. Such loans will be interest-free and will be incurred by Porter Hills as Obligations which are Subordinated Indebtedness under and as defined in the Porter Hills Master Trust Indenture. In August 2021, the UMRC and Porter Hills Governing Boards approved an amendment to the Affiliation Agreement, which allowed for a capital contribution made in the full amount of the outstanding loan (\$6,000,000). These loans are considered to have been paid in full and any future capital may be structured, in UMRC's discretion, as a capital contribution or as an interest-free loan to Porter Hills.

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The bonds and revolving loan agreement are collateralized by a mortgage on certain real estate and related buildings and land of UMRC and guaranteed by the UMRC and Porter Hills Foundations. Under the terms of the limited obligation revenue bond agreements, revolving loan agreement and master trust indenture, UMRC is limited in additional borrowings and is required to satisfy certain measures of financial performance as long as the bonds are outstanding, including minimum liquidity and minimum debt service coverage.

Questions are welcome and can be directed to:

Kim Hoppe, CFO - 616-301-6205 or khoppe@umrc.com

Attached are interim financial statements as of, and for the period ending, December 31, 2021.