*Consolidated*
*Financial Statements*
*Years Ended*
*June 30, 2009 and 2008*

# *United Methodist Family Services of Virginia and Subsidiary*

Goodman & COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

## *United Methodist Family Services of Virginia and Subsidiary*

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## *Report of Independent Auditors*

Board of Directors
*United Methodist Family Services of Virginia*

We have audited the accompanying consolidated statements of financial position of ***United Methodist Family Services of Virginia and Subsidiary*** as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of ***United Methodist Family Services of Virginia and Subsidiary***. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated 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 Family Services of Virginia and Subsidiary*** as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009, on our consideration of ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Goodman & Company LLP

Richmond, Virginia
December 15, 2009

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*United Methodist Family Services of Virginia and Subsidiary*

*Consolidated Statements of Financial Position*

| June 30, | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 479,456 | $ 542,116 |
| Accounts receivable, net of allowance for doubtful accounts of $883,216 and $757,847 respectively | 1,071,637 | 1,479,951 |
| Prepaid expenses | 106,564 | 430,683 |
| Other current assets | 109,136 | 104,265 |
| **Total current assets** | 1,766,793 | 2,557,015 |
| **Assets whose use is limited** | | |
| Investments internally designated by the Board of Directors | 10,242,832 | 12,375,845 |
| Externally restricted by donors | 140,635 | 138,934 |
| **Total assets whose use is limited** | 10,383,467 | 12,514,779 |
| **Property, plant and equipment - net** | 5,300,724 | 5,676,157 |
| **Other assets** | | |
| Investments in Guardian Place Limited Partnerships | 245,242 | 245,667 |
| Advance receivable from Guardian Foundation | 4,484 | 4,384 |
| **Total other assets** | 249,726 | 250,051 |
| | $ 17,700,710 | $ 20,998,002 |

| | 2009 | 2008 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| **Current liabilities** | | |
| Accounts payable | $ 262,842 | $ 263,123 |
| Employee withholdings | 31,167 | 40,972 |
| Accrued payroll expense | 533,068 | 555,977 |
| Accrued vacation expense | 400,131 | 389,921 |
| Due to Charterhouse School, Inc. | 127,411 | 244,215 |
| Line of credit | 299,989 | - |
| Other current liabilities | 64,313 | 60,631 |
| **Total current liabilities** | 1,718,921 | 1,554,839 |
| **Long-term liabilities** | | |
| Deferred revenue | 186,200 | 235,325 |
| Deferred gain of sale of land | 366,000 | 366,000 |
| Other | 12,479 | 1,000 |
| **Total long-term liabilities** | 564,679 | 602,325 |
| **Total liabilities** | 2,283,600 | 2,157,164 |
| **Net assets** | | |
| Unrestricted | 5,033,643 | 6,326,059 |
| Unrestricted - Board designated | 10,242,832 | 12,375,845 |
| Total unrestricted net assets | 15,276,475 | 18,701,904 |
| Temporarily restricted | 140,635 | 138,934 |
| **Total net assets** | 15,417,110 | 18,840,838 |
| | $ 17,700,710 | $ 20,998,002 |

*The accompanying notes are an integral part of these consolidated financial statements.*

*United Methodist Family Services of Virginia and Subsidiary*

*Consolidated Statements of Activities*

| Years Ended June 30, | 2009 | 2008 |
|---|---|---|
| **Revenue and unrestricted support** | | |
| Treatment foster care services | $ 5,365,289 | $ 5,035,272 |
| Intensive treatment services | 4,951,037 | 6,463,469 |
| Adoption services | 1,019,604 | 1,017,330 |
| Other services income | 323,261 | 230,507 |
| Contributions | 620,689 | 993,000 |
| Investment loss - net | (1,789,831) | (254,776) |
| Rental and other income | 426,842 | 432,896 |
| **Total revenue and unrestricted support** | 10,916,891 | 13,917,698 |
| **Expenses** | | |
| Program services: | | |
| Treatment foster care | 4,999,809 | 4,723,250 |
| Residential program | 5,117,844 | 5,701,746 |
| Adoption services | 1,400,279 | 1,292,439 |
| Other program services | 320,296 | 308,284 |
| General and administrative | 2,103,354 | 2,348,230 |
| Fundraising | 421,733 | 418,374 |
| **Total expenses** | 14,363,315 | 14,792,323 |
| **Excess of revenue and unrestricted support over expenses** | (3,446,424) | (874,625) |
| **Other changes in unrestricted net assets** | | |
| Equity inincome (loss) from Guardian Place Limited Partnerships | (425) | 1,029 |
| Net assets released from restrictions | 21,420 | 45,973 |
| **Changes in unrestricted net assets** | (3,425,429) | (827,623) |
| **Changes in temporarily restricted net assets** | | |
| Contributions | 21,181 | 18,804 |
| Investment income - net | 1,940 | 3,721 |
| Net assets released from restrictions | (21,420) | (45,973) |
| **Changes in temporarily restricted net assets** | 1,701 | (23,448) |
| **Change in net assets** | (3,423,728) | (851,071) |
| **Net assets - beginning of year** | 18,840,838 | 19,691,909 |
| **Net assets - end of year** | $ 15,417,110 | $ 18,840,838 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## *United Methodist Family Services of Virginia and Subsidiary*

## *Consolidated Statement of Functional Expenses*

**Year Ended June 30, 2009**

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | Treatment Foster Care | Residential Program | Adoption Services | Other Services | General and Administrative | Fundraising | Total |
| Salaries, wages and benefits | $ 2,533,982 | $ 3,525,324 | $ 1,026,918 | $ 250,618 | $ 1,472,783 | $ 206,162 | $ 9,015,787 |
| Program support | 1,897,409 | 490,703 | 176,113 | 6,408 | 13,664 | 135,587 | 2,719,884 |
| Plant | 159,845 | 365,637 | 47,303 | 16,487 | 150,132 | 16,979 | 756,383 |
| General and administrative | 152,272 | 225,151 | 43,837 | 13,126 | 98,205 | 37,774 | 570,365 |
| Depreciation and amortization | 21,212 | 182,939 | 12,540 | 11,807 | 231,164 | 15,852 | 475,514 |
| Supplies | 23,609 | 158,777 | 12,406 | 2,353 | 23,935 | 4,925 | 226,005 |
| Rent | 106,074 | - | 44,519 | - | - | - | 150,593 |
| Travel and auto | 33,251 | 30,027 | 20,421 | 14,998 | 9,393 | 2,194 | 110,284 |
| Recruitment, education | 32,910 | 43,927 | 16,222 | 4,499 | 15,258 | 2,260 | 115,076 |
| and training | | | | | | | - |
| Provision for doubtful accounts | 39,245 | 95,359 | - | - | - | - | 134,604 |
| Other | - | - | - | - | 88,820 | - | 88,820 |
| **Subtotal** | 4,999,809 | 5,117,844 | 1,400,279 | 320,296 | 2,103,354 | 421,733 | 14,363,315 |
| Administrative overhead | 724,381 | 741,482 | 202,875 | 44,904 | (1,774,742) | 61,100 | - |
| Maintenance overhead | 134,126 | 137,293 | 37,564 | 8,314 | (328,612) | 11,315 | - |
| | $ 5,858,316 | $ 5,996,619 | $ 1,640,718 | $ 373,514 | $ - | $ 494,148 | $ 14,363,315 |

*The accompanying notes are an integral part of these consolidated financial statements.*

*United Methodist Family Services of Virginia and Subsidiary*

## *Consolidated Statement of Functional Expenses*

**Year Ended June 30, 2008**

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | Treatment Foster Care | Residential Program | Adoption Services | Other Services | General and Administrative | Fundraising | Total |
| Salaries, wages and benefits | $ 2,479,691 | $ 4,156,457 | $ 948,216 | $ 237,162 | $ 1,604,159 | $ 193,741 | $ 9,619,426 |
| Program support | 1,746,850 | 507,416 | 160,106 | 3,731 | 76,819 | 150,668 | 2,645,590 |
| Plant | 176,437 | 370,114 | 42,679 | 18,172 | 124,666 | 18,719 | 750,787 |
| General and administrative | 109,954 | 188,792 | 30,381 | 11,369 | 115,121 | 33,105 | 488,722 |
| Depreciation and amortization | 16,292 | 198,333 | 13,242 | 11,860 | 244,607 | 16,018 | 500,352 |
| Supplies | 31,967 | 199,483 | 12,946 | 2,977 | 27,564 | 2,178 | 277,115 |
| Rent | 103,375 | 320 | 37,801 | 868 | - | - | 142,364 |
| Travel and auto | 40,527 | 35,385 | 24,563 | 15,596 | 18,240 | 1,038 | 135,349 |
| Recruitment, education and training | 32,741 | 83,105 | 22,505 | 6,549 | 39,407 | 2,907 | 187,214 |
| Provision for doubtful accounts | (14,584) | (37,666) | - | - | - | - | (52,250) |
| Other | - | 7 | - | - | 97,647 | - | 97,654 |
| **Subtotal** | 4,723,250 | 5,701,746 | 1,292,439 | 308,284 | 2,348,230 | 418,374 | 14,792,323 |
| Administrative overhead | 761,484 | 919,236 | 208,367 | 47,822 | (2,004,359) | 67,450 | - |
| Maintenance overhead | 130,641 | 157,706 | 35,748 | 8,204 | (343,871) | 11,572 | - |
| | $ 5,615,375 | $ 6,778,688 | $ 1,536,554 | $ 364,310 | $ - | $ 497,396 | $ 14,792,323 |

*The accompanying notes are an integral part of these consolidated financial statements.*

*United Methodist Family Services of Virginia and Subsidiary*

*Consolidated Statements of Cash Flows*

| Years Ended June 30, | | 2009 | | 2008 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Change in net assets | $ | (3,423,728) | | (851,071) |
| Adjustments to reconcile to net cash from operating activities: | | | | |
| Provision for doubtful accounts | | 134,604 | | (52,250) |
| Equity in loss from Guardian Place Limited Partnerships | | 425 | | 1,029 |
| Depreciation and amortization | | 475,514 | | 500,352 |
| Gain on disposal of fixed assets | | (250) | | (500) |
| (Gain) loss on sale of investments | | 970,603 | | (390,550) |
| Unrealized loss on investments | | 1,166,785 | | 1,032,089 |
| Deferred revenue | | (49,125) | | (45,600) |
| Change in: | | | | |
| Receivables and employee advances | | 281,025 | | 1,189,132 |
| Prepaid expenses and other current assets | | 311,933 | | (2,062) |
| Accounts payable and withholdings | | (10,086) | | (188,337) |
| Accrued expenses | | (23,230) | | (120,385) |
| Other current liabilities | | 989 | | (25,880) |
| **Net cash from operating activities** | | (164,541) | | 1,045,967 |
| **Cash flows from investing activities** | | | | |
| Purchases of property, plant and equipment | | (67,239) | | (287,687) |
| Proceeds from sale of fixed assets | | 250 | | 500 |
| Purchases of investments | | (7,505,783) | | (11,113,584) |
| Sales of investments | | 7,497,354 | | 10,654,192 |
| Change in advance receivable from Guardian Foundation | | (100) | | (2,000) |
| **Net cash from investing activities** | | (75,518) | | (748,579) |
| **Cash flows from financing activities** | | | | |
| Change in restricted pledges from donors | | 2,353 | | - |
| Payment on capital lease obligation | | (8,139) | | - |
| Change in line of credit | | 299,989 | | - |
| Change in due to Charterhouse School, Inc. | | (116,804) | | (47,357) |
| **Net cash from financing activities** | | 177,399 | | (47,357) |
| **Net change in cash and cash equivalents** | | (62,660) | | 250,031 |
| **Cash and cash equivalents - beginning of year** | | 542,116 | | 292,085 |
| **Cash and cash equivalents - end of year** | $ | 479,456 | $ | 542,116 |
| **Supplemental disclosure of cash flow information** | | | | |
| Cash paid for interest | $ | 6,116 | $ | - |
| **Supplemental disclosure of noncash investing and financing activities** | | | | |
| Equipment financed through leases | $ | 32,842 | $ | - |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. Organization and Nature of Activities

The primary services offered by ***United Methodist Family Services of Virginia, Inc.*** (UMFS) focus on troubled and needy youth placed in UMFS programs by various Departments of Social Services and other Virginia agencies (e.g., juvenile justice, schools).

Through its intensive treatment program, UMFS houses adolescents with behavioral and legal problems. These children, who range between the ages of twelve and seventeen, have been removed from their home environment to treat their behavioral problems. The educational needs of these adolescents are provided by Charterhouse School, Inc., a related party located on the UMFS campus. The treatment foster care program provides foster care services to children and families via five offices in the Commonwealth of Virginia. Children placed in foster care range from infants to young adults. Adoption services provided by UMFS include domestic and international placements as well as placement for special needs children via state and federal grants. Ancillary services provided throughout UMFS include counseling, therapy, mentoring and in-home services.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include UMFS's 100% interest in Guardian Place Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

### Basis of Presentation

UMFS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The financial statements report amounts separately by class of net assets as follows:

**Unrestricted** - net assets currently available at the discretion of the UMFS's Board of Directors for use in the UMFS' operations and those resources invested in property or equipment.

**Temporarily restricted** - net assets result from support and revenue whose use by UMFS is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of UMFS pursuant to those donor-imposed stipulations.

**Permanently restricted** - net assets result from support and revenue whose use by UMFS is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of UMFS. UMFS currently does not have any permanently restricted net assets.

**Allowance for Doubtful Accounts and Contractual Adjustments**

Provision for doubtful accounts is made to maintain adequate reserves to cover anticipated losses and contractual adjustments for third party payors. UMFS reviews customer accounts on an individual basis in reaching decisions regarding methods of collection and write-off of doubtful accounts.

**Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of money market funds. UMFS considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Assets Whose Use Is Limited**

Assets whose use is limited include resources externally restricted by outside parties and internally designated by the Board of Directors. Investments, which are externally restricted, include funds restricted by donor specifications and/or time stipulations. Investments restricted through internal designations include funds set aside for capital acquisition and general operating purposes. Investments are carried at market, and realized and unrealized gains and losses are reflected in the consolidated statement of activities.

**Property, Plant and Equipment**

Property, plant and equipment are reported at cost. Donated items are recorded at fair market value at the date of contribution. Depreciation and amortization are computed using the straight-line method over the estimated useful lives. Estimated useful lives for financial reporting purposes are as follows:

| | |
|---|---|
| Buildings and site improvements | 5 – 10 years |
| Equipment | 3 – 20 years |
| Furniture and fixtures | 5 – 20 years |
| Vehicles | 4 – 5 years |

**Donor-Restricted Gifts**

Unconditional promises to give cash or other assets are reported at fair value at the date the promise 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 to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met within the same year as received are reflected with revenue and unrestricted support in the accompanying financial statements.

**Charity Care**

Fees for certain services are based on a sliding scale to recognize that some individuals have less means to pay for services than others. All or a portion of the charges incurred at established rates are classified as charity by reference to certain established policies of UMFS. Essentially, these policies define charitable services as those services for which no payment is anticipated. Such charity care was not material to the consolidated financial statements for the years ended June 30, 2009 or 2008. These charges are not included in total revenues in the accompanying statement of activities. The costs incurred in providing these services are included in program service expenses in the accompanying consolidated statement of activities.

**Income Taxes**

UMFS is a qualifying nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia and therefore is exempt from federal and state income taxes.

**Estimates**

The preparation of consolidated 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 the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Concentration of Credit Risk**

Financial instruments, which potentially subject UMFS to concentrations of credit risk, consist of cash and cash equivalents, accounts receivable and investments. UMFS places its cash with a high credit quality institution and the funds are partially insured by the Federal Deposit Insurance Corporation. Amounts of cash in excess of insured limits were $166,277 and $608,721 at June 30, 2009 and 2008, respectively. Investments consist primarily of financial instruments such as marketable equity securities, corporate bonds, government-backed obligations and asset-backed securities, which, to minimize risk, are not concentrated in any one company or industry. Concentrations of credit risk with respect to receivables are limited due to the large number of individual accounts.

**Subsequent Events**

In preparing these financial statements, UMFS has evaluated events and transactions for potential recognition or disclosure through December 15, 2009 the date the financial statements were available to be issued.

**Reclassification**

Certain reclassifications have been made to 2008 amounts to conform to the 2009 presentation.

## 3. Assets Whose Use Is Limited

As of June 30, 2009, UMFS adopted an accounting standard which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets whose use is limited are shown on the statement of financial position at fair value (level 1 measurements). Assets whose use is limited are summarized as follows:

| | June 30, 2009 | | June 30, 2008 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| **Internally designated by the Board** | | | | |
| Cash and cash equivalents | $ 1,059,411 | $ 1,059,411 | $ 1,221,861 | $ 1,221,861 |
| Marketable equity securities | 5,462,224 | 5,002,071 | 5,821,810 | 6,255,489 |
| Corporate bonds | 1,169,721 | 1,183,641 | 1,360,706 | 1,329,777 |
| U. S. government and agency obligations | 2,051,423 | 2,163,302 | 2,315,158 | 2,352,663 |
| Mutual funds | 1,136,206 | 834,407 | 1,125,243 | 1,216,055 |
| | 10,878,985 | 10,242,832 | 11,844,778 | 12,375,845 |
| **Externally restricted by donors** | | | | |
| Cash and cash equivalents | 140,635 | 140,635 | 136,581 | 136,581 |
| Pledges receivable from Guardian Foundation | - | - | 2,353 | 2,353 |
| | 140,635 | 140,635 | 138,934 | 138,934 |
| | $ 11,019,620 | $ 10,383,467 | $ 11,983,712 | $ 12,514,779 |

UMFS had gross unrealized gains (losses) on marketable equity securities of ($460,153) at June 30, 2009, and $433,679 at June 30, 2008.

## 4. Endowment Investing and Spending Policies

UMFS's endowment consists solely of amounts designated by the board of directors to be held for endowment. These funds are invested with the objective to ensure, over the long-term, a level of assets that will adequately supplement the capital and operating needs of UMFS.

UMFS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to provide long-term capital appreciation. Actual returns in any given year may vary.

To satisfy its long-term objectives, UMFS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UMFS targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

UMFS has a policy of appropriating for distribution each year 5% percent of its endowment fund's average fair value over the prior twelve quarters. In establishing this policy, UMFS considered the long-term expected return on its endowment. Accordingly, over the long term, UMFS expects the current spending policy to allow for long-term capital appreciation of the endowment. This is consistent with UMFS's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

A summary of the activity in endowment funds for the year ended June 30, 2009 is as follows:

| | |
|---|---|
| Endowment net assets – beginning of year | $ 12,375,845 |
| Investment return: | |
| Investment income | 321,283 |
| Net realized and unrealized loss | (2,137,388) |
| Contributions | - |
| Appropriation for expenditure | (314,793) |
| Other changes | (2,115) |
| Endowment net assets – end of year | $ 10,242,832 |

## 5. Beneficial Interest in Trusts

UMFS has beneficial interests in multiple split-interest agreements in the form of perpetual trusts. Sufficient financial information is currently not available to record these interests; however, they are expected to be significant.

## 6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

| | 2009 | 2008 |
|---|---|---|
| Land, buildings and site improvements | $ 10,301,916 | $ 10,301,916 |
| Equipment | 1,633,713 | 1,538,977 |
| Furniture and fixtures | 776,094 | 776,094 |
| Vehicles | 556,130 | 553,840 |
| Construction in progress | 3,918 | 8,065 |
| | 13,271,771 | 13,178,892 |
| | (7,971,047) | (7,502,735) |
| | $ 5,300,724 | $ 5,676,157 |

## 7. Investments in Guardian Place Limited Partnerships

Guardian Place Limited Partnership (GPLP) was formed to acquire, construct, develop and operate an apartment complex comprised of 120 apartment units in Richmond, Virginia. The general partner of the partnership is Guardian Place Corporation (GPC) who accounts for this investment in these consolidated financial statements using the equity method. Boston Financial Tax Credit Fund VII (now known as MMA) and SLP, Inc. are the limited partner and special limited partner, respectively.

Profits and losses are allocated to the partners in accordance with the partnership agreement. Generally, operating profits and losses are allocated 1% to GPC and 99% to MMA. Gains and losses arising from a sale of the property are allocated first on the basis of the partners' capital balances. Thereafter, remaining gains and losses are allocated in proportion with the amount of distribution, which will be made as described in the partnership agreement. The most significant of the provisions in the partnership agreement provides for an allocation of losses to the limited partners in an amount not to exceed their share of "minimum gain," as defined therein.

In 1994, UMFS sold land to GPLP. As part of this transaction, GPLP entered into an 8% promissory note with UMFS for $366,000, collateralized by the property of the partnership. Interest was payable in monthly installments until maturity in 2023, at which time the principal balance would come due. In July 2005, the note payable from GPLP to UMFS was paid in full with funds generated by refinancing the initial mortgage on the property. At this time, UMFS collected the $366,000 in cash for the land and reflected a deferred gain on the sale. No gain is recognizable on the transaction until UMFS does not have a substantial continuing involvement with the property.

In the fall of 1999, Guardian Place II Limited Partnership (GPII) commenced activities to develop, own and operate a 114-unit apartment building for rental to person's age 55 and older to be constructed on land leased from UMFS. Guardian Place Corporation is the general partner of GPII and has a .01% interest. GPC receives 80% of cash flow generated by the project's operation. UMFS receives a management fee equal to 1% of gross revenues generated by the property. UMFS also has an option to acquire the property after 15 years from GPII at a price equal to the outstanding mortgage note balance plus the exit taxes of the limited partner.

GPC is obligated to fund any operating deficits up to a maximum of $50,000.

Generally, all of the obligations of GPII described above are guaranteed by UMFS. Both partnerships are accounted for under the equity method of accounting.

## 8. Line of Credit

UMFS has a $1,000,000 bank line of credit which matures January 28, 2010. Amounts borrowed under this agreement bear interest at the one month London Interbank Offer Rate (LIBOR) plus 1.65% (1.97% at June 30, 2009). The line is secured by cash and investments held in accounts at the same financial institution.

## 9. Retirement Plan

UMFS offers a 401(k) plan to all full time and most part time employees who have attained the age of 21. For the years ended June 30, 2009 and 2008, UMFS contributed approximately $346,000 and $324,000, respectively, to the plan.

## 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

| | 2009 | 2008 |
|---|---|---|
| Scholarships | $ 75,592 | $ 82,679 |
| Program services | 42,433 | 22,354 |
| Memorial services for children | 581 | 572 |
| Special needs | 22,029 | 23,068 |
| Capital campaign | - | 10,261 |
| | $ 140,635 | $ 138,934 |

## 11. Capital Leases

During 2009, UMFS entered into capital leases for office and computer equipment which expire in various years through 2013. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for 2009.

Following is a summary of property held under capital leases at June 30, 2009:

| | |
|---|---|
| Equipment | $ 32,842 |
| Less – accumulated amortization | (5,956) |
| | $ 26,886 |

Minimum future lease payments under capital leases as of June 30, 2009, were as follows:

| | |
|---|---|
| 2010 | $ 14,698 |
| 2011 | 5,607 |
| 2012 | 4,550 |
| 2013 | 3,033 |
| Total minimum lease payments | 27,888 |
| Less - amount representing interest | (3,185) |
| Present value of net minimum lease payments | 24,703 |
| Less current portion | (13,224) |
| | $ 11,479 |

Interest rates on capitalized leases vary from 4% to 9.825% and are imputed based on the lower of the UMFS' incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.
Certain capital leases provide renewal or purchase options. Generally, the lease agreements contain a bargain purchase option at the end of the lease term.

## 12. Commitments

UMFS is obligated under operating lease agreements for its regional offices.

Future minimum lease payments under the operating leases are as follows:

| | | |
|---|---|---|
| 2010 | $ | 172,295 |
| 2011 | | 82,945 |
| 2012 | | 43,329 |
| 2013 | | 17,293 |
| 2014 | | 13,381 |
| Thereafter | | 70,251 |
| | $ | 399,494 |

## 13. Related Party Transactions

UMFS provides periodic cash advances for operating purposes to Charterhouse School, Inc. (CHS) and Guardian Foundation. No interest expense is charged on these advances.

Included in rental and other income are $276,920 and $248,500 received from CHS for management, accounting services and rent for the years ended June 30, 2009 and 2008, respectively.

UMFS entered into a ground lease with Guardian Place II Limited Partnership effective August 1, 1999. The lease calls for annual rent payments from GPII of $45,600 and required a $684,000 prepayment for fifteen years rent. The initial term of the lease is forty years with an option to extend the lease for four terms of ten years each. UMFS recognized rental income from this agreement of $45,600 for the years ended June 30, 2009 and 2008, respectively.

## 14. Contingency

Included in the allowance for doubtful accounting is a reserve of approximately $515,000 and $461,000 for the years ended June 30, 2009 and 2008, respectively, relating to Medicaid claims which are subject to audit by the Department of Medical Assistance Services and possible retrospective adjustment.

* * * * *

*United Methodist Family Services of Virginia*

*Compliance Reports*

*Year Ended June 30, 2009*

Goodman & COMPANY
Certified Public Accountants
Specialized Services
Business Solutions

# *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*

Board of Directors
***United Methodist Family Services of Virginia***

We have audited the financial statements of ***United Methodist Family Services of Virginia and Subsidiary*** as of and for the year ended June 30, 2009, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose expressing an opinion on the effectiveness of ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ***United Methodist Family Services of Virginia and Subsidiary's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Goodman & Company LLP

Richmond, Virginia
December 15, 2009

Goodman & COMPANY
Certified Public Accountants
Specialized Services
Business Solutions

## *Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133*

Board of Directors
***United Methodist Family Services of Virginia***

**Compliance**

We have audited the compliance of ***United Methodist Family Services of Virginia and Subsidiary*** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. ***United Methodist Family Services of Virginia and Subsidiary's*** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of ***United Methodist Family Services of Virginia and Subsidiary's*** management. Our responsibility is to express an opinion on ***United Methodist Family Services of Virginia and Subsidiary's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ***United Methodist Family Services of Virginia and Subsidiary's*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ***United Methodist Family Services's*** compliance with those requirements.

In our opinion, ***United Methodist Family Services of Virginia and Subsidiary*** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

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**Internal Control Over Compliance**

The management of ***United Methodist Family Services of Virginia and Subsidiary*** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by ***United Methodist Family Services of Virginia and Subsidiary's*** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by ***United Methodist Family Services of Virginia and Subsidiary's*** internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee and management of ***United Methodist Family Services of Virginia and Subsidiary***, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company LLP

Richmond, Virginia
December 15, 2009

*United Methodist Family Services of Virginia*

*Schedule of Expenditures of Federal Awards*

*and*

*Schedule of Findings and Questioned Costs*

*June 30, 2009*

## *United Methodist Family Services of Virginia and Subsidiary*

## *Schedule of Expenditures of Federal Awards*

**June 30, 2009**

| Federal Grantor/ Pass-Through Grantor/ Program Title | | Catalog of Federal Domestic Assistance Number | Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| USDA Income | | 10.555 | $ 31,614 |
| **U.S. Department of Health and Human Services** | | | |
| Pass-through payments from: | | | |
| Virginia Department of Social Services | | | |
| Adoptive Family Preservation Services | * | 93.556 | 643,759 |
| Special Needs Adoption | | 93.658 | 254,863 |
| Total U.S. Department of Health and Human Services | | | 898,622 |
| | | | $ 930,236 |

Notes:

1) Type A program dollar threshold - $300,000.
2) The schedule is prepared using the accrual basis of accounting.
3) Of the federal expenditures related to Adpotive Family Preservation Services (93.556) presented in the schedule above, UMFS provided federal awards to subrecipients in the amount of $294,162.

* Denotes major program

**June 30, 2009**

## 1. Summary of Auditors' Results

a. An unqualified opinion was issued on the financial statements.
b. There were no significant deficiencies noted in internal control to disclose.
c. The audit did not disclose any material noncompliance.
d. There were no significant deficiencies noted in internal control over major programs to disclose.
e. An unqualified opinion was issued on compliance for major programs.
f. The audit did not disclose any audit findings required to be reported.
g. The major program was Adoptive Family Preservation Services (93.556).
h. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.
i. The auditee qualified as a low-risk auditee.

## 2. Findings Related to the Financial Statements Which Are Required To Be Reported in Accordance With GAGAS

a. None

## 3. Findings and Questioned Costs for Federal Awards

a. None

## 4. Disposition of Prior Year's Findings

a. None