Consolidated
Financial Statements
Years Ended
June 30, 2010 and 2009

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, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of ***United Methodist Family Services of Virginia and Subsidiary's*** management. 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, 2010 and 2009, 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 January 3, 2011, 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 should be considered in 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
January 20, 2011

4510 Cox Road, Suite 200
Glen Allen, VA 23060

ph 804.282.7636
fax 804.282.1461

United Methodist Family Services of Virginia

Consolidated Statements of Financial Position

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United Methodist Family Services of Virginia and Subsidiary

Consolidated Statements of Financial Position

June 30,	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 913,418	$ 479,456
Accounts receivable, net of allowance for doubtful accounts of $393,450 and $368,659 respectively	1,644,073	1,586,194
Prepaid expenses	179,884	106,564
Other current assets	117,816	109,136
Total current assets	2,855,191	2,281,350
Assets whose use is limited		
Investments internally designated by the Board of Directors	10,129,161	10,242,832
Externally restricted by donors	300,298	140,635
Total assets whose use is limited	10,429,459	10,383,467
Property, plant and equipment - net	5,164,795	5,300,724
Other assets		
Investments in Guardian Place Limited Partnerships	234,742	245,242
Advance receivable from Guardian Foundation	4,984	4,484
Total other assets	239,726	249,726
	$ 18,689,171	$ 18,215,267

	2010	2009
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 341,971	$ 262,842
Employee withholdings	26,109	31,167
Accrued payroll expense	628,457	533,068
Accrued vacation expense	423,551	400,131
Due to Charterhouse School, Inc.	253,638	127,411
Line of credit	309,985	299,989
Estimated third-party payor settlements	482,000	514,557
Other current liabilities	75,575	64,313
Total current liabilities	2,541,286	2,233,478
Long-term liabilities		
Deferred revenue	140,600	186,200
Deferred gain of sale of land	366,000	366,000
Other	7,969	12,479
Total long-term liabilities	514,569	564,679
Total liabilities	3,055,855	2,798,157
Net assets		
Unrestricted	5,203,857	5,033,643
Unrestricted - Board designated	10,129,161	10,242,832
Total unrestricted net assets	15,333,018	15,276,475
Temporarily restricted	300,298	140,635
Total net assets	15,633,316	15,417,110
	$ 18,689,171	$ 18,215,267

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

United Methodist Family Services of Virginia and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Treatment foster care services	$ 5,074,736	$ -	$ 5,074,736
Intensive treatment services	4,866,180	-	4,866,180
Adoption services	1,043,889	-	1,043,889
Other services income	1,672,153	-	1,672,153
Contributions	734,233	173,269	907,502
Investment income - net	898,652	744	899,396
Rental and other income	547,837	-	547,837
	14,837,680	174,013	15,011,693
Net assets released from restrictions	14,350	(14,350)	-
Total revenue and support	14,852,030	159,663	15,011,693
Expenses			
Program services:			
Treatment foster care	5,058,130	-	5,058,130
Residential program	4,607,907	-	4,607,907
Adoption services	1,281,204	-	1,281,204
Other services	1,450,025	-	1,450,025
General and administrative	2,062,263	-	2,062,263
Fundraising	335,875	-	335,875
Total expenses	14,795,404	-	14,795,404
Other changes in net assets			
Equity in loss from Guardian Place Limited Partnerships	(83)	-	(83)
Change in net assets	56,543	159,663	216,206
Net assets - beginning of year	15,276,475	140,635	15,417,110
Net assets - end of year	$ 15,333,018	$ 300,298	$ 15,633,316

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

Consolidated Statement of Activities

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Treatment foster care services	$ 5,365,289	$ -	$ 5,365,289
Intensive treatment services	4,951,037	-	4,951,037
Adoption services	1,019,604	-	1,019,604
Other services income	323,261	-	323,261
Contributions	620,689	21,181	641,870
Investment income (loss) - net	(1,789,831)	1,940	(1,787,891)
Rental and other income	426,842	-	426,842
	10,916,891	23,121	10,940,012
Net assets released from restrictions	21,420	(21,420)	-
Total revenue and support	10,938,311	1,701	10,940,012
Expenses			
Program services:			
Treatment foster care	4,999,809	-	4,999,809
Residential program	5,117,844	-	5,117,844
Adoption services	1,400,279	-	1,400,279
Other services	320,296	-	320,296
General and administrative	2,103,354	-	2,103,354
Fundraising	421,733	-	421,733
Total expenses	14,363,315	-	14,363,315
Other changes in net assets			
Equity in loss from Guardian Place Limited Partnerships	(425)	-	(425)
Change in net assets	(3,425,429)	1,701	(3,423,728)
Net assets - beginning of year	18,701,904	138,934	18,840,838
Net assets - end of year	$ 15,276,475	$ 140,635	$ 15,417,110

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, 2010

	Program Services						
	Treatment Foster Care	Residential Program	Adoption Services	Other Services	General and Administrative	Fundraising	Total
Salaries, wages and benefits	$ 2,632,225	$ 3,274,965	$ 920,791	$ 1,059,556	$ 1,459,393	$ 208,867	$ 9,555,797
Program support	1,888,408	450,448	191,550	145,485	16,697	49,171	2,741,759
Plant	155,373	301,843	46,435	111,171	177,000	14,371	806,193
General and administrative	150,463	185,219	39,979	55,591	105,434	35,806	572,492
Depreciation and amortization	21,919	168,757	9,308	9,797	179,938	15,454	405,173
Supplies	21,586	167,117	8,820	12,527	15,952	3,566	229,568
Rent	119,797	-	36,878	655	-	-	157,330
Travel and auto	38,384	20,987	15,320	33,099	9,400	3,578	120,768
Recruitment, education	30,422	40,225	12,120	21,306	11,980	5,062	121,115
and training							-
Provision for doubtful accounts	(459)	(1,679)	-	685	-	-	(1,453)
Other	12	25	3	153	86,469	-	86,662
Subtotal	5,058,130	4,607,907	1,281,204	1,450,025	2,062,263	335,875	14,795,404
Administrative overhead	698,722	636,529	176,983	197,855	(1,756,488)	46,399	-
Maintenance overhead	121,636	110,809	30,810	34,443	(305,775)	8,077	-
	$ 5,878,488	$ 5,355,245	$ 1,488,997	$ 1,682,323	$ -	$ 390,351	$ 14,795,404

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 and training	32,910	43,927	16,222	4,499	15,258	2,260	115,076
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 Statements of Cash Flows

Years Ended June 30,		2010		2009
Cash flows from operating activities				
Change in net assets	$	216,206		(3,423,728)
Adjustments to reconcile to net cash from operating activities:				
Provision for doubtful accounts		(1,453)		134,604
Equity in loss from Guardian Place Limited Partnerships		83		425
Depreciation and amortization		405,173		475,514
Gain on disposal of fixed assets		-		(250)
(Gain) loss on sale of investments		(82,692)		970,603
Unrealized (gain) loss on investments		(516,220)		1,166,785
Deferred revenue		(45,600)		(49,125)
Change in:				
Receivables and employee advances		(88,983)		281,025
Prepaid expenses and other current assets		(82,000)		311,933
Accounts payable and withholdings		74,071		(10,086)
Accrued expenses		118,809		(23,230)
Other current liabilities		16,370		989
Net cash from operating activities		13,764		(164,541)
Cash flows from investing activities				
Purchases of property, plant and equipment		(250,990)		(67,239)
Proceeds from sale of fixed assets		-		250
Distribution from Guardian Place Limited Partnerships		10,417		-
Purchases of investments		(7,717,839)		(7,505,783)
Sales of investments		8,270,759		7,497,354
Change in advance receivable from Guardian Foundation		(500)		(100)
Net cash from investing activities		311,847		(75,518)
Cash flows from financing activities				
Change in restricted pledges from donors		-		2,353
Payment on capital lease obligation		(27,872)		(8,139)
Change in line of credit		9,996		299,989
Change in due to Charterhouse School, Inc.		126,227		(116,804)
Net cash from financing activities		108,351		177,399
Net change in cash and cash equivalents		433,962		(62,660)
Cash and cash equivalents - beginning of year		479,456		542,116
Cash and cash equivalents - end of year	$	913,418	$	479,456
Supplemental disclosure of cash flow information				
Cash paid for interest	$	13,591	$	6,116
Supplemental disclosure of noncash investing and financing activities				
Equipment financed through leases	$	18,254	$	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' 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' 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 fair value, 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, 2010 or 2009. 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 $555,059 and $166,277 at June 30, 2010 and 2009, 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 consolidated financial statements, UMFS has evaluated events and transactions for potential recognition or disclosure through January 20, 2011 the date the consolidated financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to 2009 amounts to conform to the 2010 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, 2010		June 30, 2009	
	Cost	Fair Value	Cost	Fair Value
Internally designated by the Board				
Cash and cash equivalents	$ 251,339	$ 251,339	$ 1,059,411	$ 1,059,411
Marketable equity securities:				
Energy	633,999	561,755	729,945	604,398
Materials	171,190	147,320	134,342	127,823
Industrial	874,987	790,099	922,518	736,196
Consumer discretionary	550,391	615,004	518,665	504,655
Consumer staples	334,215	355,545	409,152	394,310
Health care	534,996	573,499	676,933	700,938
Financials	728,641	691,138	667,053	557,889
Information technology	1,151,494	1,113,614	1,119,174	1,060,586
Telecommunications services	66,769	63,644	104,284	88,291
Utilities	100,457	91,631	128,297	95,866
LTD partnership and closely held	51,860	131,119	51,861	131,119
	5,198,999	5,134,368	5,462,224	5,002,071
Corporate obligations	1,297,730	1,383,390	1,169,721	1,183,641
U.S. government and agency obligations	2,061,146	2,198,714	2,051,423	2,163,302
Mutual and proprietary funds	1,439,880	1,161,350	1,136,206	834,407
	10,249,094	10,129,161	10,878,985	10,242,832
Externally restricted by donors				
Cash and cash equivalents	300,298	300,298	140,635	140,635
	$ 10,549,392	$ 10,429,459	$ 11,019,620	$ 10,383,467

UMFS had gross unrealized losses on marketable equity securities of $69,738 at June 30, 2010, and $460,153 at June 30, 2009.

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. All appropriations in excess of 5 percent must receive prior approval by the UMFS Board of Directors. 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 is as follows:

	2010	2009
Endowment net assets – beginning of year	$ 10,242,832	$ 12,375,845
Investment return:		
Investment income	295,390	321,283
Net realized and unrealized gain (loss)	598,912	(2,137,388)
Contributions	1,197	-
Appropriation for expenditure	(900,252)	(314,793)
Increase in due to restricted funds	(108,918)	(2,115)
Endowment net assets – end of year	$ 10,129,161	$ 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:

	2010	2009
Land, buildings and site improvements	$ 10,359,339	$ 10,301,916
Equipment	1,783,501	1,633,713
Furniture and fixtures	774,285	776,094
Vehicles	547,153	556,130
Construction in progress	112,032	3,918
	13,576,310	13,271,771
	(8,411,515)	(7,971,047)
	$ 5,164,795	$ 5,300,724

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 that 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.

During August 2010, UMFS purchased the limited and special limited partnership interests of GPLP. The amount paid with cash and short term borrowings for these partnership interests was approximately $473,000. After this transaction UMFS effectively owns 100% of Guardian Place Limited Partnership.

8. Line of Credit

UMFS has a $2,000,000 bank line of credit which matures January 26, 2011. Amounts borrowed under this agreement bear interest at the one month London Interbank Offer Rate (LIBOR) plus 2.05% with a minimum of 3% (3% at June 30, 2010). 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, 2010 and 2009, UMFS contributed approximately $322,000 and $346,000, respectively, to the plan.

10. Temporarily Restricted Net Assets

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

	2010	2009
Scholarships	$ 71,937	$ 75,592
Program services	50,987	42,433
Memorial services for children	583	581
Special needs	21,250	22,029
Capital campaign	155,541	-
	$ 300,298	$ 140,635

11. Capital Leases

UMFS has 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 2010 and 2009.

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

	2010	2009
Equipment	$ 51,095	$ 32,842
Less – accumulated amortization	(19,974)	(5,956)
	$ 31,121	$ 26,886

Minimum future lease payments under capital leases as of June 30, 2010, were as follows:

2011	$ 9,094
2012	4,550
2013	3,033
Total minimum lease payments	16,677
Less - amount representing interest	(1,591)
Present value of net minimum lease payments	15,086
Less current portion	(8,117)
	$ 6,969

Interest rates on capitalized leases vary from 4% to 21.375% 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 certain vehicles, equipment, and its regional offices.

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

2011	$ 153,898
2012	57,861
2013	21,277
2014	13,381
2015	13,381
Thereafter	56,870
	$ 316,668

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 $280,848 and $276,920 received from CHS for management, accounting services and rent for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, respectively.

14. Contingency

Estimated third-party payor settlements as reported on the statements of financial position at June 30, 2010 and 2009 represent a reserve 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, 2010

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 and Subsidiary

We have audited the consolidated financial statements of ***United Methodist Family Services of Virginia and Subsidiary*** as of and for the year ended June 30, 2010, and have issued our report thereon dated January 20, 2011. 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 consolidated financial statements, 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 financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

4510 Cox Road, Suite 200
Glen Allen, VA 23060

ph 804.282.7636
fax 804.282.1461

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***United Methodist Family Services of Virginia and Subsidiary's*** consolidated 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, the Board of Directors, and 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
January 20, 2011

Goodman & COMPANY
Certified Public Accountants
Specialized Services
Business Solutions

Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 and Subsidiary

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 could have a direct and material effect on each of ***United Methodist Family Services of Virginia and Subsidiary's*** major programs for the year ended June 30, 2010. ***United Methodist Family Services of Virginia and Subsidiary's*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs 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 of ***United Methodist Family Services of Virginia and Subsidiary'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 each of its major federal programs for the year ended June 30, 2010.

4510 Cox Road, Suite 200
Glen Allen, VA 23060

ph 804.282.7636
fax 804.282.1461

Internal Control Over Compliance

Management of ***United Methodist Family Services of Virginia and Subsidiary*** is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ***United Methodist Family Services of Virginia and Subsidiary's*** internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 Board of Directors, 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
January 20, 2011

United Methodist Family Services of Virginia

Schedule of Expenditures of Federal Awards

and

Schedule of Findings and Questioned Costs

June 30, 2010

June 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title		Catalog of Federal Domestic Assistance Number	Contract Numbers	Expenditures
U.S. Department of Agriculture				
USDA Income		10.555		$ 32,878
U.S. Department of Health and Human Services				
Pass-through payments from:				
Virginia Department of Social Services				
Adoptive Family Preservation Services	*	93.556	SVC-09-009,GFSA-06005	773,230
Special Needs Adoption		93.658	SVC-08-059-08, SVC-08-059-09	174,168
Total U.S. Department of Health and Human Services				947,398
				$ 980,276

Notes:

1) Type A program dollar threshold - $300,000.
2) The schedule is prepared using the accrual basis of accounting.
3) The amounts shown represent federal portions of the program cost. The entire program cost may be more than shown.
4) Indirect cost have been claimed using the federal indirect cost rate.
5) Of the federal expenditures related to the Adoptive Family Preservation Services (93.556) presented in the schedule above, UMFS provided federal awards to subrecipients in the amount of $254,443.

* Denotes major program

June 30, 2010

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