

*Consolidated
Financial Statements
Years Ended
June 30, 2011 and 2010*

*United Methodist Family Services
of Virginia and Subsidiaries*



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

United Methodist Family Services of Virginia and Subsidiaries

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DIXON HUGHES GOODMAN LLP
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Report of Independent Auditors

Board of Directors

United Methodist Family Services of Virginia

We have audited the accompanying consolidated statement of financial position of ***United Methodist Family Services of Virginia and Subsidiaries*** as of June 30, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of ***United Methodist Family Services of Virginia and Subsidiaries***' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of June 30, 2010 were audited by Goodman & Company, LLP, who merged into Dixon Hughes Goodman LLP as of April 1, 2011, and whose report dated January 20, 2011 expressed an unqualified opinion on those consolidated statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***United Methodist Family Services of Virginia and Subsidiaries*** as of June 30, 2011, and the changes in their consolidated net assets and their consolidated cash flows for the year 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 21, 2011, on our consideration of ***United Methodist Family Services of Virginia and Subsidiaries***' 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 2011 consolidated financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 2011 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic 2011 consolidated financial statements taken as a whole.

Dixon Hughes Goodman LLP

Richmond, Virginia
December 21, 2011

United Methodist Family Services of Virginia and Subsidiaries

Consolidated Statements of Financial Position

June 30, 2011 and 2010

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United Methodist Family Services of Virginia and Subsidiaries

Consolidated Statements of Financial Position

June 30,	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 419,455	\$ 913,418
Accounts receivable, net of allowance for doubtful accounts of \$393,450 and \$368,659 respectively	1,685,925	1,644,073
Prepaid expenses	235,182	179,884
Other current assets	9,515	117,816
Total current assets	2,350,077	2,855,191
Assets whose use is limited		
Investments internally designated by the Board of Directors	11,752,352	10,129,161
Externally restricted by donors	152,051	300,298
Total assets whose use is limited	11,904,403	10,429,459
Property, plant and equipment - net	8,580,638	5,164,795
Other assets		
Investments in Guardian Place Limited Partnerships	-	234,742
Advance receivable from Guardian Foundation	-	4,984
Security deposits and other assets	234,693	-
Total other assets	234,693	239,726
	\$ 23,069,811	\$ 18,689,171

	2011	2010
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 265,399	\$ 341,971
Employee withholdings	25,741	26,109
Accrued payroll expense	737,049	628,457
Accrued vacation expense	435,598	423,551
Due to Charterhouse School, Inc.	386,852	253,638
Line of credit	-	309,985
Estimated third-party payor settlements	475,247	482,000
Current portion of mortgage payable	61,328	-
Current portion of deferred revenue	45,600	45,600
Other current liabilities	65,215	29,975
Total current liabilities	2,498,029	2,541,286
Long-term liabilities		
Security deposits	43,400	-
Deferred revenue - less current portion	95,000	140,600
Deferred gain of sale of land	366,000	366,000
Mortgage payable - less current portion	3,221,733	-
Other	3,925	7,969
Total long-term liabilities	3,730,058	514,569
Total liabilities	6,228,087	3,055,855
Net assets		
Unrestricted	4,937,321	5,203,857
Unrestricted - Board designated	11,752,352	10,129,161
Total unrestricted net assets	16,689,673	15,333,018
Temporarily restricted	152,051	300,298
Total net assets	16,841,724	15,633,316
	\$ 23,069,811	\$ 18,689,171

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

United Methodist Family Services of Virginia and Subsidiaries

Consolidated Statement of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Treatment foster care services	\$ 5,662,588	\$ -	\$ 5,662,588
Intensive treatment services	5,583,773	-	5,583,773
Other services income	2,930,290	-	2,930,290
Investment income - net	2,055,759	265	2,056,024
Adoption services	1,083,283	-	1,083,283
Contributions	591,761	61,193	652,954
Rental and other income	463,339	-	463,339
	18,370,793	61,458	18,432,251
Net assets released from restrictions	209,705	(209,705)	-
Total revenue and support	18,580,498	(148,247)	18,432,251
Expenses			
Program services:			
Treatment foster care	5,656,782	-	5,656,782
Residential program	5,127,547	-	5,127,547
Other services	2,651,391	-	2,651,391
Adoption services	1,307,260	-	1,307,260
General and administrative	2,079,890	-	2,079,890
Fundraising	400,954	-	400,954
Total expenses	17,223,824	-	17,223,824
Other changes in net assets			
Equity in loss from Guardian Place Limited Partnerships	(19)	-	(19)
Change in net assets	1,356,655	(148,247)	1,208,408
Net assets - beginning of year	15,333,018	300,298	15,633,316
Net assets - end of year	\$ 16,689,673	\$ 152,051	\$ 16,841,724

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

United Methodist Family Services of Virginia and Subsidiaries

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.

United Methodist Family Services of Virginia and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended June 30, 2011

	Program Services					General and Administrative	Fundraising	Total
	Treatment Foster Care	Residential Program	Adoption Services	Other Services				
Salaries, wages and benefits	\$ 2,712,462	\$ 3,691,560	\$ 962,050	\$ 1,510,704	\$ 1,476,803	\$ 217,687	\$ 10,571,266	
Program support	2,352,875	479,903	177,150	397,074	21,323	90,466	3,518,791	
Plant	163,944	304,510	41,034	239,883	173,845	17,349	940,565	
Depreciation and amortization	25,144	169,005	7,783	166,672	165,898	14,831	549,333	
General and administrative	130,113	165,784	34,118	66,198	108,238	40,224	544,675	
Other	-	110	-	185,394	92,404	1,461	279,369	
Supplies	27,802	192,055	12,875	9,845	13,671	8,372	264,620	
Rent	119,417	-	42,088	5,441	-	-	166,946	
Travel and auto	56,530	18,362	17,239	52,116	10,737	3,253	158,237	
Recruitment, education and training	32,057	48,366	12,923	18,064	16,971	7,311	135,692	
Provision for doubtful accounts	36,438	57,892	-	-	-	-	94,330	
Subtotal	5,656,782	5,127,547	1,307,260	2,651,391	2,079,890	400,954	17,223,824	
Administrative overhead	713,795	647,014	164,955	218,857	(1,795,214)	50,593	-	
Maintenance overhead	113,190	102,600	26,158	34,705	(284,676)	8,023	-	
	\$ 6,483,767	\$ 5,877,161	\$ 1,498,373	\$ 2,904,953	\$ -	\$ 459,570	\$ 17,223,824	

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

United Methodist Family Services of Virginia and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended June 30, 2010

	Program Services						Total
	Treatment Foster Care	Residential Program	Adoption Services	Other Services	General and Administrative	Fundraising	
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
Recruitment, education and training	30,422	40,225	12,120	21,306	11,980	5,062	121,115
Travel and auto	38,384	20,987	15,320	33,099	9,400	3,578	120,768
Other	12	25	3	153	86,469	-	86,662
Provision for doubtful accounts	(459)	(1,679)	-	685	-	-	(1,453)
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 Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30,	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 1,208,408	216,206
Adjustments to reconcile to net cash from operating activities:		
Provision for doubtful accounts	94,330	(1,453)
Equity in loss from Guardian Place Limited Partnerships	19	83
Depreciation and amortization	549,333	405,173
Gain on sale of investments	(319,250)	(82,692)
Unrealized gain on investments	(1,441,746)	(516,220)
Deferred revenue	(45,600)	(45,600)
Change in:		
Receivables and employee advances	(27,832)	(88,983)
Prepaid expenses and other current assets	(27,216)	(82,000)
Accounts payable and withholdings	(88,499)	74,071
Accrued expenses	120,639	118,809
Other current liabilities	(13,144)	16,370
Net cash from operating activities	9,442	13,764
Cash flows from investing activities		
Purchases of property, plant and equipment	(271,235)	(250,990)
Distribution from Guardian Place Limited Partnerships	-	10,417
Net cash to purchase limited partnership interest	(285,294)	-
Purchases of investments	(7,241,289)	(7,717,839)
Sales of investments	7,527,341	8,270,759
Change in advance receivable from Guardian Foundation	4,984	(500)
Net cash from investing activities	(265,493)	311,847
Cash flows from financing activities		
Payments on mortgage payable	(53,024)	-
Payment on capital lease obligation	(8,117)	(27,872)
Change in line of credit	(309,985)	9,996
Change in due to Charterhouse School, Inc.	133,214	126,227
Net cash from financing activities	(237,912)	108,351
Net change in cash and cash equivalents	(493,963)	433,962
Cash and cash equivalents - beginning of year	913,418	479,456
Cash and cash equivalents - end of year	\$ 419,455	\$ 913,418

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

United Methodist Family Services of Virginia and Subsidiaries

Consolidated Statements of Cash Flows (continued)

Years Ended June 30,	2011	2010
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 210,734	\$ 13,591
Supplemental disclosure of noncash investing and financing activities		
Equipment financed through leases	\$ -	\$ 18,254
UMFS purchased the limited and special limited partnership interests of Guardian Place Limited Partnership for \$472,876. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired	\$ 3,905,770	\$ -
Cash paid for the partnership interests	<u>(472,876)</u>	<u>-</u>
Liabilities assumed	<u>\$ 3,432,894</u>	<u>\$ -</u>

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

United Methodist Family Services of Virginia and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

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.

Guardian Place Limited Partnership (GPLP) owns and operates a senior living facility that consists of a 120-unit apartment complex located in Richmond, Virginia. The facility, which began operations on August 1, 1994, is intended to qualify for low-income housing tax credits pursuant to section 42 of the Internal Revenue Code of 1986, as amended.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include UMFS' 100% interest in Guardian Place Corporation. Effective August 1, 2010, UMFS acquired 100% interest in Guardian Place Limited Partnership (see Note 7) and began consolidating as of that date. UMFS had previously accounted for its 1% interest under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

UMFS is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The consolidated 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 statements 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 – 40 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 consolidated 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, 2011 or 2010. These charges are not included in total revenues in the accompanying consolidated statements of activities.

The costs incurred in providing these services are included in program service expenses in the accompanying consolidated statements of activities.

Income Taxes

The organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes.

For Guardian Place Corporation, income taxes are provided for the tax effects of transactions reported in the financial statements. Deferred income taxes are provided for the estimated tax effects of differences between the financial statement carrying amounts and the tax bases of recognized assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

For Guardian Place Limited Partnership, earnings are taxed directly to the partners; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the UMFS' financial statements. UMFS has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2011. Interest and penalties related to income tax assessments, if any, are reflected in general and administrative in the accompanying consolidated statements of activities. Fiscal years ending on or after June 30, 2008 remain subject to examination by federal and state tax authorities.

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 \$443,444 and \$555,059 at June 30, 2011 and 2010, 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 December 21, 2011, the date the consolidated financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to 2010 amounts to conform to the 2011 presentation.

3. Assets Whose Use Is Limited

Accounting standards establish a framework for measuring fair value. That framework provides 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 three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Cash and cash equivalents: Valued at cost which approximates fair value.

Mutual funds: Valued at the net asset value of shares held at year-end.

Equity securities, corporate obligations, U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although UMFS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets whose use are limited are Level 1 hierarchy and consist of the following:

	June 30, 2011		June 30, 2010	
	Cost	Fair Value	Cost	Fair Value
Internally designated by the Board				
Cash and cash equivalents	\$ 317,592	\$ 317,592	\$ 251,339	\$ 251,339
Marketable equity securities:				
Energy	758,750	938,751	633,999	561,755
Materials	182,833	222,847	171,190	147,320
Industrial	806,680	946,865	874,987	790,099
Consumer discretionary	511,301	711,552	550,391	615,004
Consumer staples	315,534	385,089	334,215	355,545
Health care	599,494	751,343	534,996	573,499
Financials	780,040	884,037	728,641	691,138
Information technology	1,183,745	1,262,331	1,151,494	1,113,614
Telecommunications services	39,429	47,115	66,769	63,644
Utilities	77,241	92,297	100,457	91,631
LTD partnership and closely held	51,860	131,119	51,860	131,119
	5,306,907	6,373,346	5,198,999	5,134,368
Corporate obligations	1,633,917	1,696,660	1,297,730	1,383,390
U.S. government and agency obligations	1,613,086	1,700,295	2,061,146	2,198,714
Mutual and proprietary funds	1,559,118	1,664,459	1,439,880	1,161,350
	10,430,620	11,752,352	10,249,094	10,129,161
Externally restricted by donors				
Cash and cash equivalents	152,051	152,051	300,298	300,298
	\$ 10,582,671	\$ 11,904,403	\$ 10,549,392	\$ 10,429,459

UMFS had gross unrealized gains and (losses) on marketable equity securities of \$1,066,439 at June 30, 2011, and (\$64,631) at June 30, 2010.

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:

	2011	2010
Endowment net assets – beginning of year	\$ 10,129,161	\$ 10,242,832
Investment return:		
Investment income	293,328	295,390
Net realized and unrealized gain	1,760,997	598,912
Contributions	26,119	1,197
Appropriation for expenditure	(509,790)	(900,252)
Increase (decrease) in due to restricted funds	52,537	(108,918)
Endowment net assets – end of year	<u>\$ 11,752,352</u>	<u>\$ 10,129,161</u>

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:

	2011	2010
Land, buildings and site improvements	\$ 14,185,644	\$ 10,359,339
Equipment	1,866,260	1,783,501
Furniture and fixtures	932,651	774,285
Vehicles	547,153	547,153
Construction in progress	22,292	112,032
	<u>17,554,000</u>	<u>13,576,310</u>
	<u>(8,973,362)</u>	<u>(8,411,515)</u>
	<u>\$ 8,580,638</u>	<u>\$ 5,164,795</u>

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 historically 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.

Effective, August 1, 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 \$472,876. Cash acquired in the transaction equaled \$187,582 effectively making the amount paid \$285,294. After this transaction, UMFS effectively owns 100% of Guardian Place Limited Partnership. The following table summarizes the consideration paid for GPLP and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the controlling interest in GPLP:

Consideration	
Cash	\$ <u>472,876</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	\$ 187,582
Accounts Receivable	6,804
Prepaid Expenses	38,611
Security Deposits and Other Assets	227,764
Property, plant and equipment – net	3,690,341
Accounts Payable	(11,559)
Security Deposits and Other Current Liabilities	(85,250)
Mortgage Payable	(3,336,085)
General Partner Interest in GPLP	(245,332)
	\$ <u>472,876</u>

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. Mid-Atlantic Regional Affordable Housing Fund I and SLP, Inc. are the limited partner and special limited partner, respectively. 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. Historically, GPII is accounted for under the equity method of accounting on GPC books. The investment balance is zero at June 30, 2011.

8. Mortgage Payable

The mortgage relates to Guardian Place Limited Partnership (see Note 7) and is payable in monthly installments of \$21,699 including interest at 6.12% payable through August 2035. Substantially all of the rental property and equipment is pledged as collateral on the mortgage.

Maturities of the mortgage note in each of the next five years and thereafter are as follows:

2012	\$ 61,328
2013	65,185
2014	69,285
2015	73,643
2016	78,274
Thereafter	<u>2,935,346</u>
	<u>\$ 3,283,061</u>

9. Line of Credit

UMFS has a \$2,000,000 bank line of credit which matures March 24, 2012. 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, 2011). The line is secured by cash and investments held in accounts at the same financial institution.

10. 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 2011 and 2010, UMFS contributed approximately \$329,000 and \$322,000, respectively, to the plan.

11. Temporarily Restricted Net Assets

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

	2011	2010
Scholarships	\$ 69,999	\$ 71,937
Program services	60,321	50,987
Memorial services for children	584	583
Special needs	21,147	21,250
Capital campaign	-	155,541
	<u>\$ 152,051</u>	<u>\$ 300,298</u>

12. 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 2011 and 2010.

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

	2011	2010
Equipment	\$ 15,000	\$ 51,095
Less – accumulated amortization	(7,000)	(19,974)
	<u>\$ 8,000</u>	<u>\$ 31,121</u>

Minimum future lease payments under capital leases as of June 30, 2011, were as follows:

2012	\$ 4,550
2013	<u>3,034</u>
Total minimum lease payments	7,584
Less - amount representing interest	<u>(615)</u>
Present value of net minimum lease payments	6,969
Less current portion	<u>(4,044)</u>
	<u>\$ 2,925</u>

The interest rate on capitalized leases is 9.825% and is 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.

13. 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:

2012	\$	245,439
2013		177,614
2014		138,592
2015		84,432
2016		84,860
Thereafter		<u>74,089</u>
	\$	<u>805,026</u>

14. 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 \$355,478 and \$280,848 received from CHS for management, accounting services and rent for 2011 and 2010, 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 2011 and 2010, respectively.

15. Contingency

Estimated third-party payor settlements as reported on the consolidated statements of financial position at June 30, 2011 and 2010 represent a reserve relating to Medicaid claims which are subject to audit by the Department of Medical Assistance Services and possible retrospective adjustment.

16. Financial Markets (Unaudited)

As of November 30, 2011, the investments declined in market value by approximately \$771,000. The decline is not considered by management as permanent.

* * * * *

United Methodist Family Services of Virginia and Subsidiaries

Compliance Section

Year Ended June 30, 2011



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***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 Subsidiaries

We have audited the consolidated financial statements of ***United Methodist Family Services of Virginia and Subsidiaries*** as of and for the year ended June 30, 2011, and have issued our report thereon dated December 21, 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 Subsidiaries***' 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 Subsidiaries***' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***United Methodist Family Services of Virginia and Subsidiaries***' 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *United Methodist Family Services of Virginia and Subsidiaries*' 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.

Dixon Hughes Goodman LLP

Richmond, Virginia
December 21, 2011



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***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 Subsidiaries

Compliance

We have audited ***United Methodist Family Services of Virginia and Subsidiaries***' compliance 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 Subsidiaries***' major programs for the year ended June 30, 2011. ***United Methodist Family Services of Virginia and Subsidiaries***' 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 Subsidiaries***' management. Our responsibility is to express an opinion on ***United Methodist Family Services of Virginia and Subsidiaries***' 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 Subsidiaries***' 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 Subsidiaries***' compliance with those requirements.

In our opinion, ***United Methodist Family Services of Virginia and Subsidiaries*** complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of *United Methodist Family Services of Virginia and Subsidiaries* 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 Subsidiaries'* internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine 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 Subsidiaries'* 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.

Dixon Hughes Goodman LLP

Richmond, Virginia
December 21, 2011

United Methodist Family Services of Virginia and Subsidiaries

Schedule of Expenditures of Federal Awards

and

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

United Methodist Family Services of Virginia and Subsidiary

Schedule of Expenditures of Federal Awards

June 30, 2011

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		<u>\$ 43,332</u>
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	799,705
Special Needs Adoption	93.658	SVC-08-059-08, SVC-08-059-09	<u>192,981</u>
Total U.S. Department of Health and Human Services			<u>992,686</u>
			<u>\$ 1,036,018</u>

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 \$278,002.

* Denotes major program

United Methodist Family Services of Virginia and Subsidiaries

Schedule of Findings and Questioned Costs

June 30, 2011

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