

UNITED FAMILY SERVICES, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND 2006

**UNITED FAMILY SERVICES, INC.
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YEARS ENDED JUNE 30, 2007 AND 2006**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United Family Services, Inc.
Charlotte, North Carolina

We have audited the accompanying statements of financial position of United Family Services, Inc. (the "Agency") as of June 30, 2007 and 2006, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Family Services, Inc. as of June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8 to the financial statements, the Agency adopted the provisions of Statement of Financial Accounting Standard No. 158, *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans* in 2007.


LarsonAllen LLP

Charlotte, North Carolina
October 18, 2007



UNITED FAMILY SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 381,909	\$ 160,732
Investments	302,571	208,675
Beneficial Interest in Assets Held by Trustee	9,979	8,465
Accounts Receivable		
United Way Allocation	1,621,175	1,536,605
Grants and Pledges Receivable, Net	901,856	1,062,480
Other	49,753	42,936
Prepaid Expenses	130,419	161,076
Prepaid Pension Costs	1,027,236	778,456
Furniture, Fixtures and Equipment, Net	98,060	92,219
	\$ 4,522,958	\$ 4,051,644
Total Assets	\$ 4,522,958	\$ 4,051,644
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 92,937	\$ 50,232
Accrued Payroll and Benefits	155,639	152,003
Deferred Revenue	17,052	12,925
	265,628	215,160
Total Liabilities	265,628	215,160
NET ASSETS		
Unrestricted	1,653,113	1,139,245
Unrestricted - Board Designated for Equipment	56,504	62,346
Temporarily Restricted	2,537,734	2,626,428
Permanently Restricted	9,979	8,465
Total Net Assets	4,257,330	3,836,484
Total Liabilities and Net Assets	\$ 4,522,958	\$ 4,051,644

See accompanying Notes to Financial Statements.

UNITED FAMILY SERVICES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Program Fees	\$ 1,268,674	\$ -	\$ -	\$ 1,268,674
Public Support				
United Way	-	1,706,899	-	1,706,899
Government	-	1,904,286	-	1,904,286
Other Contributions & Grants	422,627	557,719	1,514	981,860
Interest	13,418	-	-	13,418
Other Income	2,578	-	-	2,578
Gain on Pension Curtailment	317,841	-	-	317,841
Revenues and Other Support	<u>2,025,138</u>	<u>4,168,904</u>	<u>1,514</u>	<u>6,195,556</u>
Net Assets Released from Restrictions				
United Way	1,622,329	(1,622,329)	-	-
Government	1,931,381	(1,931,381)	-	-
Other Contributions & Grants	703,888	(703,888)	-	-
Total Net Assets Released from Restrictions	<u>4,257,598</u>	<u>(4,257,598)</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	6,282,736	(88,694)	1,514	6,195,556
EXPENSES				
Program Services:				
Counseling and Education	1,490,690	-	-	1,490,690
Crisis Intervention & Advocacy	848,777	-	-	848,777
Domestic Violence	1,470,216	-	-	1,470,216
Employee Assistance Program	110,893	-	-	110,893
Economic Independence	866,528	-	-	866,528
Total Program Services	<u>4,787,104</u>	<u>-</u>	<u>-</u>	<u>4,787,104</u>
Supporting Services:				
Administrative	750,998	-	-	750,998
Fundraising	236,608	-	-	236,608
Total Supporting Services	<u>987,606</u>	<u>-</u>	<u>-</u>	<u>987,606</u>
Total Expenses	<u>5,774,710</u>	<u>-</u>	<u>-</u>	<u>5,774,710</u>
INCREASE (DECREASE) IN NET ASSETS	508,026	(88,694)	1,514	420,846
Net Assets - Beginning of Year	<u>1,201,591</u>	<u>2,626,428</u>	<u>8,465</u>	<u>3,836,484</u>
NET ASSETS - END OF YEAR	<u>\$ 1,709,617</u>	<u>\$ 2,537,734</u>	<u>\$ 9,979</u>	<u>\$ 4,257,330</u>

See accompanying Notes to Financial Statements.

UNITED FAMILY SERVICES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Program Fees	\$ 1,191,069	\$ -	\$ -	\$ 1,191,069
Public Support				
United Way	-	1,536,605	-	1,536,605
Government	-	1,195,843	-	1,195,843
Other Contributions & Grants	485,881	372,814	8,192	866,887
Interest	13,156	-	273	13,429
Other Income	13,970	-	-	13,970
Revenues and Other Support	1,704,076	3,105,262	8,465	4,817,803
 Net Assets Released from Restrictions				
United Way	1,504,526	(1,504,526)	-	-
Government	1,363,952	(1,363,952)	-	-
Other Contributions & Grants	276,737	(276,737)	-	-
Total Net Assets Released from Restrictions	3,145,215	(3,145,215)	-	-
 Total Revenues and Other Support				
	4,849,291	(39,953)	8,465	4,817,803
 EXPENSES				
Program Services:				
Counseling and Education	1,178,199	-	-	1,178,199
Crisis Intervention & Advocacy	738,630	-	-	738,630
Domestic Violence	1,243,591	-	-	1,243,591
Employee Assistance Program	105,238	-	-	105,238
Economic Independence	855,329	-	-	855,329
Total Program Services	4,120,987	-	-	4,120,987
 Supporting Services:				
Administrative	713,189	-	-	713,189
Fundraising	215,142	-	-	215,142
Total Supporting Services	928,331	-	-	928,331
 Total Expenses				
	5,049,318	-	-	5,049,318
 INCREASE (DECREASE) IN NET ASSETS				
	(200,027)	(39,953)	8,465	(231,515)
 Net Assets - Beginning of Year				
	1,401,618	2,666,381	-	4,067,999
 NET ASSETS - END OF YEAR				
	\$ 1,201,591	\$ 2,626,428	\$ 8,465	\$ 3,836,484

See accompanying Notes to Financial Statements.

**UNITED FAMILY SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 420,846	\$ (231,515)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	50,196	109,800
Change in Permanent Endowments	(1,514)	(8,465)
Changes in Operating Assets and Liabilities		
Accounts Receivable	69,237	91,871
Prepaid Expenses	(218,123)	6,427
Accounts Payable	42,705	(37,185)
Accrued Payroll and Benefits	3,636	24,797
Deferred Revenue	4,127	(4,196)
Net Cash Provided by (Used in) Operating Activities	371,110	(48,466)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Furniture, Fixtures and Equipment	(56,037)	(47,241)
Purchase of Investments	(411,686)	(308,675)
Sales of Investments	317,790	407,447
Net Cash Provided by (Used In) Investing Activities	(149,933)	51,531
NET INCREASE IN CASH AND CASH EQUIVALENTS	221,177	3,065
Cash and Cash Equivalents - Beginning of Year	160,732	157,667
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 381,909	\$ 160,732

See accompanying Notes to Financial Statements.

UNITED FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

	Counseling & Education	Crisis Intervention & Advocacy	Domestic Violence	Employee Assistance Program
Salaries	\$ 804,279	\$ 507,672	\$ 794,202	\$ 60,550
Employee Benefits	163,832	83,220	161,477	13,911
Payroll Taxes	65,297	42,462	66,050	4,990
Total Salaries & Related Expenses	1,033,408	633,354	1,021,729	79,451
Contracted & Professional Services	191,253	42,941	233,140	6,116
Food, Printing, Office & Program Supplies	23,755	23,043	57,368	1,453
Telephone & Internet	12,984	12,241	14,418	8,637
Postage & Shipping	3,425	2,209	718	190
Rent & Utilities	139,139	65,993	25,946	5,662
Insurance	7,109	4,110	6,852	354
Equipment & Maintenance	19,622	10,308	14,257	656
Subscriptions & Publications	223	527	865	898
Travel, Training & Conferences	15,082	17,732	23,436	2,465
Dues	2,998	2,291	2,762	1,040
Financial Assistance	36	6	37,730	-
In-Kind & Miscellaneous	30,549	22,878	24,207	3,507
Total Other Expenses	446,175	204,279	441,699	30,978
Total Expenses Before Depreciation	1,479,583	837,633	1,463,428	110,429
Depreciation	11,107	11,144	6,788	464
Total Expenses	\$ 1,490,690	\$ 848,777	\$ 1,470,216	\$ 110,893

See accompanying Notes to Financial Statements.

<u>Economic Independence</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
\$ 409,321	\$ 422,391	\$ 107,351	\$ 3,105,766
101,127	78,846	28,378	630,791
<u>33,694</u>	<u>32,951</u>	<u>8,610</u>	<u>254,054</u>
544,142	534,188	144,339	3,990,611
126,222	52,772	3,407	655,851
14,270	31,326	24,810	176,025
10,032	3,178	317	61,807
2,500	6,791	11,342	27,175
83,345	39,136	9,348	368,569
4,174	7,157	561	30,317
14,887	17,566	4,481	81,777
1,106	2,620	-	6,239
11,002	9,308	-	79,025
20,066	6,015	354	35,526
-	10	-	37,782
<u>28,996</u>	<u>27,773</u>	<u>35,900</u>	<u>173,810</u>
<u>316,600</u>	<u>203,652</u>	<u>90,520</u>	<u>1,733,903</u>
860,742	737,840	234,859	5,724,514
<u>5,786</u>	<u>13,158</u>	<u>1,749</u>	<u>50,196</u>
<u>\$ 866,528</u>	<u>\$ 750,998</u>	<u>\$ 236,608</u>	<u>\$ 5,774,710</u>

UNITED FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006

	Counseling & Education	Crisis Intervention & Advocacy	Domestic Violence	Employee Assistance Program
Salaries	\$ 691,558	\$ 483,381	\$ 748,956	\$ 56,343
Employee Benefits	133,757	48,960	138,596	14,643
Payroll Taxes	55,306	39,673	60,741	4,725
Total Salaries & Related Expenses	880,621	572,014	948,293	75,711
Contracted & Professional Services	46,145	12,126	64,294	4,100
Food, Printing, Office & Program Supplies	16,284	17,980	71,926	3,163
Telephone & Internet	9,631	10,419	15,296	8,090
Postage & Shipping	3,829	2,593	1,560	134
Rent & Utilities	121,899	52,459	14,741	5,375
Insurance	7,362	3,877	8,115	417
Equipment & Maintenance	18,925	9,460	11,142	564
Subscriptions & Publications	663	168	3,385	1,605
Travel, Training & Conferences	9,512	16,406	12,684	1,692
Dues	3,083	3,858	2,884	479
Financial Assistance	370	3	35,468	-
In-Kind & Miscellaneous	31,214	20,938	38,581	3,144
Total Other Expenses	268,917	150,287	280,076	28,763
Total Expenses Before Depreciation	1,149,538	722,301	1,228,369	104,474
Depreciation	28,661	16,329	15,222	764
Total Expenses	\$ 1,178,199	\$ 738,630	\$ 1,243,591	\$ 105,238

See accompanying Notes to Financial Statements.

<u>Economic Independence</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
\$ 378,343	\$ 368,347	\$ 124,272	\$ 2,851,200
83,709	89,508	26,783	535,956
30,084	27,943	9,026	227,498
<u>492,136</u>	<u>485,798</u>	<u>160,081</u>	<u>3,614,654</u>
121,855	57,518	2,527	308,565
11,941	24,946	32,233	178,473
10,547	4,124	168	58,275
3,104	7,939	2,650	21,809
110,869	41,773	6,288	353,404
6,484	7,902	281	34,438
16,278	14,257	1,170	71,796
1,061	1,195	-	8,077
10,865	12,580	4	63,743
19,426	2,873	96	32,699
-	-	-	35,841
<u>28,723</u>	<u>29,222</u>	<u>5,922</u>	<u>157,744</u>
<u>341,153</u>	<u>204,329</u>	<u>51,339</u>	<u>1,324,864</u>
833,289	690,127	211,420	4,939,518
<u>22,040</u>	<u>23,062</u>	<u>3,722</u>	<u>109,800</u>
<u>\$ 855,329</u>	<u>\$ 713,189</u>	<u>\$ 215,142</u>	<u>\$ 5,049,318</u>

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 ORGANIZATION AND PURPOSE

United Family Services, Inc. (the "Agency") provides various counseling services and support for families and individuals in Mecklenburg, South Iredell, Cabarrus and Union Counties in North Carolina. The Agency is a non-stock, nonprofit corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Program services are provided in the following areas:

Counseling & Education

Counseling

- Individual, couple, group, and family therapy

Parent Education

- Discipline for elementary-age children
- Parenting adolescents
- Balancing work and family
- Divorce education and support

Crisis Intervention & Advocacy

Child Abuse Prevention

- Child abuse prevention, awareness and education

Rape Crisis

- 24-hour, seven-day-a-week rape crisis response and counseling

Victim Assistance

- Advocacy, counseling and support for the victims and families affected by crime
- Crime victim's compensation guidance

Domestic Violence Services

- 24-hour domestic violence hotline
- Temporary residence for domestic violence survivors
- Domestic violence counseling, education and survivor support
- Advocacy, counseling and support for victims and families affected by domestic assault

Employee Assistance Program

- Employer, employee counseling and consultation

Economic Independence

Consumer Credit Counseling

- Money management, budgeting assistance, debt repayment
- Credit education, counseling

Housing Services

- Rent, mortgage delinquency counseling
- Reverse equity mortgage counseling

**UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

NOTE 2 ACCOUNTING POLICIES

The more significant accounting policies followed by the Agency are as follows:

Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The Agency reports 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.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Fee Revenue

Program fee revenue consists of fee for service charges to clients and third-party payors such as insurance companies and companies contracting for the Employee Assistance Program (EAP) clients. These amounts also include contributions from creditors of a percentage of the debt owed returned to them through consumer credit debt management plans. These funds are recorded on a cash basis during the year and a receivable is calculated at year-end along with an estimated allowance for uncollectible amounts.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investment accounts with original maturities less than three months. The Agency maintains bank accounts at various financial institutions covered by the FDIC. At times throughout the year, the Agency may maintain bank account balances in excess of the FDIC insured limit. Due to the strong credit rating of these financial institutions, the Agency believes it is not exposed to any significant cash credit risk.

Investments

Investments include Certificates of Deposit with original maturity dates greater than three months. These investments are carried at an amount that approximates fair market value.

Accounts Receivable

Accounts receivable include trade accounts receivable generated through program services provided, unconditional pledges, and amounts due under various grants.

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Continued)

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

Furniture, Fixtures and Equipment

Purchased furniture, fixtures and equipment are carried at cost and donated assets are recorded at their fair market value at the date of the gift. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Maintenance, repair costs and minor replacements are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any gain or loss is reflected in current operations.

Deferred Revenue

Deferred revenue is comprised of cash collected in advance for employee assistance contracts for services that will be provided subsequent to year end.

Net Assets

Net assets and related revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of United Family Services and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained by United Family Services. Donors of these assets stipulate that all, or part of, the income earned on related investments be used for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Estimates

Management of the Agency has made a number of estimates and assumptions relating to reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting activities, primarily by full-time equivalents (FTEs).

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation for comparative purposes with no effect on previously reported increase (decrease) in net assets.

NOTE 3 FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment at June 30, 2007 and 2006 is summarized as follows:

	2007	2006
Furniture and Fixtures	\$ 26,693	\$ 25,980
Equipment	286,939	260,039
Leasehold Improvements	48,204	42,926
Computer Software	229,558	289,059
	591,394	618,004
Less: Accumulated Depreciation	(493,334)	(525,785)
	\$ 98,060	\$ 92,219

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable, which are included in accounts receivable –grants and pledges receivable, net in the Statements of Financial Position, consisted of the following at June 30, 2007 and 2006:

	2007	2006
Due in Less than One Year	\$ 18,795	\$ 31,705
Due in Two to Five Years	72,950	51,250
	91,745	82,955
Less: Discount to Present Value (5.5%)	(26,225)	(9,954)
Less: Allowance for Uncollectible Pledges	(25,565)	(21,974)
Pledges Receivable, Net	\$ 39,955	\$ 51,027

**UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

NOTE 5 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
United Family Services Endowment	\$ 1,782	\$ 1,512
Shelter for Battered Women Endowment	8,197	6,953
	<u>\$ 9,979</u>	<u>\$ 8,465</u>

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
United Way Allocation for the Subsequent Year	\$ 1,621,175	\$ 1,536,605
Grant Allocations for the Subsequent Year	785,263	788,948
Pledges Receivable, Net	39,955	51,027
Shelter for Battered Women		
Kim Thomas Fund	3,435	3,435
Rent Subsidy Program	6,101	22,343
General Funds	726	6,026
Phillip Morris Silent Witness	1,924	1,923
Children's Counseling	-	25,146
Cabarrus County		
Cannon	-	1,559
Bank of America Technology Grant	73,902	184,163
Jim Johnson Funds	5,253	5,253
	<u>\$ 2,537,734</u>	<u>\$ 2,626,428</u>

**UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

NOTE 7 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions for the years ended June 30, 2007 and 2006 are summarized as follows:

	2007	2006
Program Restrictions		
Shelter for Battered Women	\$ 46,687	\$ 54,699
Bank of America Technology Fund	110,261	15,837
Cannon Fund	26,559	-
Total Program Restrictions	183,507	70,536
Time Restrictions		
United Way	1,622,329	1,504,526
Contributions and Grants	2,451,762	1,570,153
Total Time Restrictions	4,074,091	3,074,679
Total Net Assets Released from Restrictions	\$ 4,257,598	\$ 3,145,215

NOTE 8 RETIREMENT PLANS

Defined Benefit Retirement Plan

The Agency provides a noncontributory defined benefit retirement plan (the "Plan") which is administered by Mutual of America Life Insurance Company, Inc. The Plan covers substantially all employees and provides retirement benefits generally based on years of service and the average of the highest earnings over any 36 consecutive months during the last ten years of employment. The Agency's funding policy provides that payments to the plan shall be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Employer contributions for the years ended June 30, 2007 and 2006 were approximately \$86,000 and \$87,000, respectively. Net periodic benefit cost for the years ended June 30, 2007 and 2006 was approximately \$155,000 and \$121,000, respectively. Benefits paid were approximately \$254,000 and \$376,000 for the years ended June 30, 2007 and 2006, respectively.

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 RETIREMENT PLANS (CONTINUED)

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). This Statement requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through unrestricted net assets. The adoption of SFAS No. 158 did not have a significant impact on the Agency's financial statements.

The following table sets forth the Plan's funded status and amounts recognized in the statements of financial position at June 30, 2007 and 2006:

	2007	2006
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ 3,789,067	\$ 3,956,432
Service Cost	252,143	245,598
Interest Cost	244,314	221,155
Change Due to Assumption Change(s)	495,240	(230,825)
Actuarial Gain (Loss)	26,913	(13,809)
Expense Charges	(19,504)	(13,018)
Benefits Disbursed	(254,160)	(376,466)
Effects of Plan Curtailment	(438,441)	-
Benefit Obligation at End of Year	\$ 4,095,572	\$ 3,789,067
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	\$ 4,685,798	\$ 4,716,998
Actual Return on Plan Assets	624,662	271,658
Employer Contributions	86,012	86,626
Benefits Paid	(273,664)	(389,484)
Fair Value of Plan Assets at End of Year	\$ 5,122,808	\$ 4,685,798
Funded Status:		
Fair Value of Plan Assets	\$ 5,122,808	\$ 4,685,798
Projected Benefit Obligation	(4,095,572)	(3,789,067)
Funded Status	\$ 1,027,236	\$ 896,731
Amounts Recognized in Balance Sheets:		
Prepaid Benefit Cost	\$ 1,027,236	\$ 778,456

The accumulated benefit obligation was approximately \$4,096,000 and \$3,109,000 for the years ended June 30, 2007 and 2006, respectively.

**UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Additional Information

On May 1, 2007, the Agency approved a plan amendment freezing the Plan effective June 30, 2007. The intent is to terminate the Plan as soon as is administratively feasible. The investment objective of the Plan, taking into account the projected termination was to transfer all investments to money market funds to preserve the assets of the Plan and to reduce investment volatility.

The discount rate was changed from 6.25% to 4.75% in order to reflect an estimate of the current level of investment results in fixed income investments. Also, the assumed rate of annual compensation was decreased from 6.00% to 3.00%. These changes are related to the much shorter time horizon for the Plan due to the Plan freeze and the intention of the Plan sponsor to terminate the Plan as soon as administratively possible.

Weighted average assumptions used to determine the benefit obligation are as follows:

	<u>2007</u>	<u>2006</u>
Discount Rate	4.75%	6.25%
Rate of Compensation Increase	3.00%	6.00%

Weighted average assumptions used to determine the net benefit cost are as follows:

	<u>2007</u>	<u>2006</u>
Discount Rate	6.25%	5.50%
Expected Long-Term Return on Plan Assets	7.50%	7.50%
Rate of Compensation Increase	6.00%	6.00%

The Agency selects the expected long-term rate of return on plan assets assumption in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience, which may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the Plan is assumed to continue in force and not terminate during the period for which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses typically paid from plan assets.

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 RETIREMENT PLANS (CONTINUED)

Additional Information (Continued)

The Plan's weighted average asset allocation by category at June 30, 2007 and 2006 was as follows:

Asset Category:	2007	2006
Equity Securities	0.8%	50.4%
Fixed Income	98.9%	49.3%
General Account	0.3%	0.3%
	100.0%	100.0%

Future Contributions

The Agency has frozen the Plan as of June 30, 2007 and thus does not expect to make future contributions.

Future Benefit Payments

Pension benefits to be paid subsequent to June 30, 2007, which reflect expected future service, are as follows:

2008	\$ 475,000
2009	595,000
2010	187,000
2011	149,000
2012	190,000
2013-2017	3,106,000

Reconciliation of Items Not Yet Reflected in Net Periodic Benefit Cost

	July 1, 2006	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	Before Curtailment June 30, 2007	Effect of Curtailment	After Curtailment June 30, 2007
Transition Obligation or (Asset)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Prior Service Cost or Credit	7,957	(1,121)	-	6,836	(6,836)	-
Net (Gain) or Loss	(126,232)	-	239,996	113,764	(113,764)	-

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 RETIREMENT PLANS (CONTINUED)

No plan assets are expected to be returned to the Agency during July 1, 2007 to June 30, 2008. However, once the Plan termination is completed, the excess assets over plan termination liabilities will be returned to the Agency. It is the current intent of the Board of Directors to utilize a significant portion of any excess assets to make additional contributions to the 403(b) defined contribution plan for those employees most affected by the Plan termination.

Defined Contribution Retirement Plan

The Agency has a 403(b) defined contribution plan for the benefit of its employees. The Plan covers substantially all employees over the age of twenty-one. Eligible employees may make tax deferred contributions immediately. Employees that have completed at least two years of service are eligible for employer matching contributions at a rate of 50% of the employee's contribution up to 4% of the employee's salary. Agency contributions to the Plan were approximately \$25,000 and \$20,000 for the years ended June 30, 2007 and 2006, respectively.

Effective with the freeze of defined benefit plan benefit accruals, the Agency added a 3.0% base contribution for all qualified employees with no requirement for a matching employee contribution. The Agency also reduced the service eligibility for employer matching contributions from two years to one year.

NOTE 9 COMMITMENTS AND CONTINGENCIES

The Agency rents one facility from Mecklenburg County under a month-to-month agreement. Rental expense under this agreement was approximately \$24,000 for the years ended June 30, 2007 and 2006. Mecklenburg County waived the rent for the last five months of 2006 with the understanding that the Agency would use the money to purchase a new phone system for the building. The waived rent was recorded as an in-kind contribution and expense.

The Agency receives free use of facilities for its Victim Assistance Program on a month-to-month basis. The use of these facilities is recorded as an in-kind contribution and expense at estimated fair market value of approximately \$23,400 for the years ended June 30, 2007 and 2006.

On March 31, 2003, the Agency entered into an operating lease agreement for office space with an original term of 10 years. The agreement contains the right to extend the term of the lease for up to four additional periods of ten years each. Base Rent is \$20,357 per month and may be reduced by credits or rebates which are subject to the landlord's discretion. For the years ended June 30, 2007 and 2006, the base rent was reduced by approximately \$102,000 and \$114,000, respectively, and has been recorded as an in-kind contribution. The Base Rent may also increase to reflect changes in financing terms, operating costs or other factors during the term of the lease. Additional rent is payable under the lease agreement for certain improvements made to the premises on behalf of the Agency. The additional rent is payable in 36 monthly installments of \$2,500 beginning on the commencement date. The final additional rent payment was made in March, 2006. Rent expense is reported using the straight-line method.

UNITED FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Agency leases additional office space and equipment under operating leases that expire through June 2013. Future minimum payments as of June 30, 2007 are as follows:

2008	\$ 370,013
2009	311,652
2010	311,652
2011	311,652
2012	306,788
Thereafter	<u>189,963</u>
	<u><u>\$ 1,801,720</u></u>

Rent expense under these agreements was approximately \$369,000 and \$393,000 for the years ended June 30, 2007 and 2006, respectively.

The Agency also has non-cancellable obligations for service contracts. Future minimum payments under these contract agreements as of June 30, 2007 are as follows:

2008	\$ 227,904
2009	<u>9,206</u>
	<u><u>\$ 237,110</u></u>