Consolidated financial statements and audit of Federal Awards Performed in Accordance with U.S. Office of Management and Budget Circular A-133:

VOLUNTEERS OF AMERICA, INC. AND SUBSIDIARIES

Year ended
June 30, 2011 with comparative
financial information for 2010

Schechter Dokken Kanter
Andrews & Selcer Ltd
Suite 1600
100 Washington Avenue South
Minneapolis, MN
55401-2192
Phone 612-332-5500
Fax 612-332-1529
E-mail info@sdkcpa.com
www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT

Audit Committee and Board of Directors
Volunteers of America, Inc. and Subsidiaries
Alexandria, Virginia

We have audited the accompanying consolidated statement of financial position of Volunteers of America, Inc. and Subsidiaries as of June 30, 2011, and the related consolidated statements of activities, change in net assets, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of Volunteers of America, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Volunteers of America, Inc. and Subsidiaries' 2010 consolidated financial statements and, in our report dated October 20, 2010, we expressed an unqualified opinion on those consolidated financial 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Volunteers of America, Inc. and Subsidiaries as of June 30, 2011, and the change in their net assets and their 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 October 14, 2011, on our consideration of Volunteers of America, Inc. 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 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 audit 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.

As described in Note 16 to the consolidated financial statements, the 2010 financial statements have been restated to adopt recent accounting principle changes related to the presentation of non-controlling interests in the consolidated financial statements.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 14, 2011

	2011	2010
Assets:		
Current assets:		
Cash and cash equivalents	**$ 25,180**	$ 26,459
Accounts receivable, net of allowance for doubtful accounts (2011, $1,319 and 2010, $1,052)	**16,517**	14,459
Current portion of notes receivable	**1,088**	1,571
Short-term investments	**13,164**	10,614
Prepaid expenses	**3,237**	2,662
Other current assets, net of allowance for doubtful accounts (2011, $4,339 and 2010, $3,476)	**2,173**	2,320
Total current assets	**61,359**	58,085
Property and equipment, net of accumulated depreciation (2011, $72,759 and 2010, $67,639)	**59,661**	60,766
Other assets:		
Encumbered assets	**29,424**	28,638
Long-term investments	**11,491**	8,276
Notes receivable, net of current portion and allowance for doubtful accounts (2011, $8,379 and 2010, $7,877)	**3,334**	1,293
Reimbursable costs	**4,653**	5,728
Deferred charges and other assets, net of accumulated amortization (2011, $1,330 and 2010, $1,177)	**6,543**	6,289
Limited and general partnerships' assets	**291,618**	254,466
Total other assets	**347,063**	304,690
Total assets	**$ 468,083**	$ 423,541

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 WITH COMPARATIVE
FINANCIAL INFORMATION FOR 2010
(IN THOUSANDS)

	2011	2010
Liabilities and net assets:		
Current liabilities:		
Accounts payable	**$ 6,222**	$ 5,631
Current portion of long-term debt	**3,152**	5,706
Accrued expenses	**12,342**	11,788
Other current liabilities	**1,585**	1,615
Total current liabilities	**23,301**	24,740
Long-term liabilities:		
Long-term debt, net of current portion	**77,099**	75,669
Other long-term liabilities	**7,758**	8,303
Limited and general partnerships' liabilities	**200,200**	160,728
Total long-term liabilities	**285,057**	244,700
Total liabilities	**308,358**	269,440
Net assets:		
Unrestricted attributable to:		
Controlled limited and general partnerships	**434**	(112)
Board designated	**17,882**	17,763
Undesignated	**45,172**	40,173
Parent	**63,488**	57,824
Non-controlling interests in limited and general partnerships	**94,552**	95,052
	158,040	152,876
Temporarily restricted	**952**	558
Permanently restricted	**733**	667
Total net assets	**159,725**	154,101
Total liabilities and net assets	**$ 468,083**	$ 423,541

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE
FINANCIAL INFORMATION FOR 2010
(IN THOUSANDS)

	2011							2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Operating subtotal	Limited and general partnerships (unrestricted)	Eliminations (unrestricted)	Total	Operating	Limited and general partnerships (unrestricted)	Eliminations (unrestricted)	Total
Revenues from operations:											
Public support received directly:											
Contributions	$ 6,278	$ 1,233	$ 22	$ 7,533			$ 7,533	$ 3,926			$ 3,926
Contributions, in-kind	14,779	1,227		16,006			16,006	17,325			17,325
Total public support	21,057	2,460	22	23,539			23,539	21,251			21,251
Government grants and contracts	2,176			2,176	$ 11,529		13,705	2,076	$ 7,358		9,434
Other revenue:											
Program fees	46,376			46,376	15,544		61,920	47,129	11,980		59,109
Program fees, Medicaid and Medicare	89,521			89,521			89,521	86,011			86,011
Administrative income from Local Offices	10,678			10,678			10,678	10,498			10,498
Net rental income	66			66	83		149	159	48		207
Other operating income	10,114			10,114	338	$ (2,677)	7,775	9,970	711	$ (2,882)	7,799
Total other revenue	156,755			156,755	15,965	(2,677)	170,043	153,767	12,739	(2,882)	163,624
Net assets released from restrictions	2,066	(2,066)									
Total revenues from operations	182,054	394	22	182,470	27,494	(2,677)	207,287	177,094	20,097	(2,882)	194,309
Operating expenses:											
Program services											
Fostering independence	127,561			127,561	16,766		144,327	122,529	8,394		130,923
Promoting self sufficiency	34,755			34,755	29,356	(441)	63,670	34,222	18,518	(399)	52,341
Total program services	162,316			162,316	46,122	(441)	207,997	156,751	26,912	(399)	183,264
Support services:											
Management and general	20,037			20,037			20,037	17,505			17,505
Fundraising	87			87			87	849			849
Total support services	20,124			20,124			20,124	18,354			18,354
Total operating expenses	182,440			182,440	46,122	(441)	228,121	175,105	26,912	(399)	201,618
Change in net assets from operations	(386)	394	22	30	(18,628)	(2,236)	(20,834)	1,989	(6,815)	(2,483)	(7,309)
Non-operating items:											
Interest and dividend income	1,415			1,415	1,348		2,763	1,288	1,180		2,468
Realized net gains on investments	1,210			1,210			1,210	615			615
Net equity contributions related to limited and general partnerships					17,326		17,326		40,943	(96)	40,847
Unrealized net gains on investments	3,396		44	3,440			3,440	1,789			1,789
Other non-operating gains (losses)	1,719			1,719			1,719	(393)			(393)
Total non-operating items	7,740		44	7,784	18,674		26,458	3,299	42,123	(96)	45,326
Change in consolidated net assets	$ 7,354	$ 394	$ 66	$ 7,814	$ 46	$ (2,236)	$ 5,624	$ 5,288	$ 35,308	$ (2,579)	$ 38,017
Total change in unrestricted net assets	$ 5,164										

See notes to consolidated financial statements.

(IN THOUSANDS)

	Attributable to the parent				Attributable to the non-controlling interests	
	Unrestricted	Temporarily restricted	Permanently restricted	Subtotal	Unrestricted	Total
Balance, July 1, 2009	$ 55,246	$ 565	$ 624	$ 56,435	$ 59,649	$ 116,084
Change in net assets	2,578	(7)	43	2,614	35,403	38,017
Balance, June 30, 2010	57,824	558	667	59,049	95,052	154,101
Change in net assets	5,664	394	66	6,124	(500)	5,624
Balance, June 30, 2011	$ 63,488	$ 952	$ 733	65,173	$ 94,552	159,725

(IN THOUSANDS)

	2011	2010
Cash flows from operating activities:		
Change in consolidated net assets	**$ 5,624**	$ 38,017
Adjustments to reconcile change in consolidated net assets to net cash provided by operating activities:		
Non-controlling interest in limited and general partnerships	**500**	(35,403)
Change in limited and general partnerships	**1,820**	3,892
Increase (decrease) in allowances for doubtful accounts	**1,632**	(912)
Depreciation and amortization	**5,321**	5,278
Original issue discount accretion	**17**	18
Gain on sale of tax credits	**(1,025)**	
Loss (gain) on disposal of property and equipment	**12**	(80)
Net realized and unrealized investment gains	**(4,650)**	(2,404)
Permanently restricted contributions and investment income	**(66)**	(43)
(Increase) decrease in operating assets:		
Accounts receivable	**(2,325)**	1,555
Prepaid expenses	**(575)**	(949)
Other current assets	**(716)**	5,550
Increase (decrease) in operating liabilities:		
Accounts payable	**591**	(961)
Accrued expenses	**554**	918
Other liabilities	**(575)**	1,082
Net cash provided by operating activities	**6,139**	15,558
Cash flows from investing activities:		
Purchase of property and equipment	**(4,089)**	(3,019)
Proceeds from sale of property and equipment	**10**	238
(Increase) decrease in:		
Notes receivable	**(2,060)**	(1,077)
Reimbursable costs	**1,075**	(2,356)
Change in investments	**(2,403)**	(3,450)
Net cash used in investing activities	**(7,467)**	(9,664)
Cash flows from financing activities:		
Permanently restricted contributions and investment income	**66**	43
Note and mortgages payable:		
Proceeds	**2,990**	1,103
Payments	**(4,131)**	(7,859)
Decrease in bond trust funds	**502**	6,525
Net payments on lines of credit		(2,772)
Increase in deferred charges and other assets	**(403)**	(632)
Proceeds from sale of tax credits, net of fees	**1,025**	
Net cash provided by (used in) financing activities	**49**	(3,592)
Net (decrease) increase in cash and cash equivalents	**(1,279)**	2,302
Cash and cash equivalents, beginning	**26,459**	24,157
Cash and cash equivalents, ending	**$ 25,180**	$ 26,459
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ 14,241**	$ 11,012

See notes to consolidated financial statements.

(IN THOUSANDS)

	2011												2010		
	Program services			**Support services**				**Limited and general partnerships**							
	Fostering independence	**Promoting self sufficiency**	**Total program services**	**Management and general**	**Fundraising**	**Total support services**	**Operating subtotal**	**Fostering independence**	**Promoting self sufficiency**	**Total program services**	**Eliminations**	**Total**	Operating	Limited and general partnerships total and eliminations	Total
Salaries	**$ 63,831**	**$ 4,768**	**$ 68,599**	**$ 7,888**		**$ 7,888**	**$ 76,487**	**$ 1,311**	**$ 2,032**	**$ 3,343**		**$ 79,830**	$ 75,874	$ 2,793	$ 78,667
Pension expense	**770**	**303**	**1,073**	**1,751**		**1,751**	**2,824**					**2,824**	2,374		2,374
Other employee benefits	**9,043**	**581**	**9,624**	**1,239**		**1,239**	**10,863**	**156**	**204**	**360**		**11,223**	8,350	314	8,664
Payroll taxes	**5,166**	**324**	**5,490**	**602**		**602**	**6,092**	**206**	**322**	**528**		**6,620**	6,101	341	6,442
Legal fees	**65**	**3**	**68**	**186**		**186**	**254**	**14**	**59**	**73**		**327**	493	88	581
Accounting fees	**220**	**18**	**238**	**584**	**$ 5**	**589**	**827**	**225**	**297**	**522**		**1,349**	794	422	1,216
Other professional fees	**4,266**	**20,609**	**24,875**	**2,308**	**41**	**2,349**	**27,224**	**790**	**447**	**1,237**		**28,461**	26,830	819	27,649
Supplies and office expenses	**2,768**	**369**	**3,137**	**603**		**603**	**3,740**	**419**	**543**	**962**		**4,702**	3,731	997	4,728
Telecommunications	**729**	**122**	**851**	**222**		**222**	**1,073**	**35**	**63**	**98**		**1,171**	1,111		1,111
Postage	**125**	**329**	**454**	**53**		**53**	**507**					**507**	500		500
Occupancy expenses	**4,794**	**457**	**5,251**	**226**		**226**	**5,477**	**3,544**	**4,820**	**8,364**		**13,841**	5,295	5,574	10,869
Interest	**4,132**	**555**	**4,687**	**145**		**145**	**4,832**	**5,117**	**4,288**	**9,405**		**14,237**	4,851	5,962	10,813
Insurance	**1,396**	**96**	**1,492**	**151**	**17**	**168**	**1,660**					**1,660**	1,594		1,594
Equipment rental and maintenance	**1,940**	**114**	**2,054**	**98**		**98**	**2,152**					**2,152**	1,952		1,952
Printing and publications	**87**	**335**	**422**	**23**		**23**	**445**					**445**	492		492
Travel and transportation	**614**	**1,120**	**1,734**	**627**		**627**	**2,361**	**2**	**3**	**5**		**2,366**	2,078	15	2,093
Conferences and meetings	**101**	**124**	**225**	**112**		**112**	**337**	**42**	**66**	**108**		**445**	278	117	395
Specific assistance to individuals	**16,996**	**466**	**17,462**				**17,462**					**17,462**	15,201		15,201
Awards and grants to affiliates:															
Development awards		**1,610**	**1,610**				**1,610**					**1,610**	1,963		1,963
Endowment awards		**1,309**	**1,309**				**1,309**					**1,309**	578		578
Other	**5,885**	**697**	**6,582**	**2,977**	**24**	**3,001**	**9,583**	**839**	**1,571**	**2,410**	**$ (441)**	**11,552**	9,387	1,504	10,891
Depreciation and amortization	**4,633**	**446**	**5,079**	**242**		**242**	**5,321**	**4,066**	**5,059**	**9,125**		**14,446**	5,278	7,567	12,845
Impairment of long-lived assets									**9,582**	**9,582**		**9,582**			-
	$ 127,561	**$ 34,755**	**$ 162,316**	**$ 20,037**	**$ 87**	**$ 20,124**	**$ 182,440**	**$ 16,766**	**$ 29,356**	**$ 46,122**	**$ (441)**	**$ 228,121**	$ 175,105	$ 26,513	$ 201,618

See notes to consolidated financial statements.

1. Organization and reporting entity:

Volunteers of America, Inc. ("National Organization") is an interdenominational church, and a national non-profit human service organization that demonstrates its faith through acts of compassion, local service programs, and opportunities for individual and community involvement. Established in 1896 by Christian social reformers Ballington and Maud Booth, the National Organization provides administrative and management services to 37 locally chartered and unchartered corporations ("Local Offices") authorized to operate under the name of Volunteers of America. The Local Offices provide a wide variety of human service programs to help people in need. Volunteers of America is one of the nation's most comprehensive human service charities.

Volunteers of America National Services ("National Services"), a subsidiary of the National Organization, includes the accounts of National Services and its wholly-owned subsidiaries: Volunteers of America Care Facilities; VOA Care Centers, Minnesota; Volunteers of America National Services Foundation; Volunteers of America Assisted Living Communities; Volunteers of America Home Health Services; Volunteers of America National Services Development Corporation; VOA National Housing Corporation; The Homestead at Boulder City, Inc., an 80% owned subsidiary; VOANS Health Services Corporation; VOA Anoka Care Center, Inc.; The Homestead at Montrose, Inc.; Sleepy Eye Area Home Health; Volunteers of America Homestead 2000, Inc.; VOANS PACE, Inc.; VOANS Senior CommUnity Meals, Inc.; and certain real estate general and limited partnerships.

Volunteers of America Correctional Services, a subsidiary, includes Volunteers of America Puerto Rico RRC, Inc., its wholly-owned subsidiary.

Volunteers of America Foundation is a subsidiary of the National Organization.

Volunteers of America, Inc., Volunteers of America National Services, Volunteers of America Correctional Services and Volunteers of America Foundation are referred to collectively as the Organization.

Principles of consolidation:

All significant intercompany balances and transactions have been eliminated in consolidation. Intercompany guarantees that are eliminated in consolidation are not disclosed in the notes to the consolidated financial statements as the related obligations are recorded on the consolidated statement of financial position.

Intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services were $2,677,000 and $2,882,000 for the years ended June 30, 2011 and 2010, respectively. The cumulative amount of intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services since inception was $13,530,000 and $10,853,000 at June 30, 2011 and 2010, respectively.

There are approximately 179 HUD financed properties and general partnership entities that the Organization controls or in which it has economic interest, but not both. The Organization also has economic interests in all chartered local offices but does not possess control. However, the Organization has control over unchartered local offices but does not have economic interest. Therefore, the Organization is not required to consolidate these HUD properties, general partnership entities or the 37 and 38 local offices for the fiscal year ended June 30, 2011 and 2010, respectively.

1. Organization and reporting entity (continued):

Program services provided by the National Organization and National Services are described as follows:

Fostering Independence -

Through programs designed to provide care where needed while supporting independence to the degree possible, National Services offers services to the elderly and to those with disabilities, mental illness and HIV/AIDS.

Health Care and Elderly Services:

National Services promotes the well being of individuals through health education and screening, home health care, adult day care, transitional senior housing, assisted living facilities, nursing home care and program of all inclusive care for the elderly (PACE). Nursing home care provides skilled and intermediate nursing care, secure special care units for persons with memory loss, and rehabilitation. The PACE program provides a full range of care to seniors with chronic care needs while allowing them to remain in their own homes for as long as possible.

Promoting Self-Sufficiency -

Housing – Disabled and Elderly Housing:

National Services affords individuals and families an opportunity to live in safe, well-maintained, service-enriched rental housing. This program offers residents an array of activities and services that respond to the needs and interests of residents. Elderly housing offers recreational, social and health services. Housing for persons with disabilities have specifically designed services that support the residents' independent functioning.

The National Organization works to promote the self-sufficiency of those who have experienced homelessness or other personal crisis, including chemical dependency, involvement with the corrections system and unemployment.

Housing – Single Adults and Families:

National Services affords individuals and families an opportunity to live in safe, well-maintained, service-enriched rental housing. This program offers residents an array of activities and services that respond to the needs and interests of residents.

National Services is the sponsor for certain Single Asset Entities (SAE's) and is developing additional affordable housing sites to be organized as SAE's. The SAE's are stand alone entities and are not consolidated with the Organization. See Note 2 regarding reimbursable costs for the 25 individual and family properties currently under development at June 30, 2011.

1. Organization and reporting entity (continued):

Promoting Self-Sufficiency – (continued):

Community Enhancement:

The National Organization provides administrative and management services to the Local Offices from its headquarters office located in Alexandria, Virginia.

- Mission focus:
  The National Organization provides management, program expertise and leadership to its Local Offices and ensures that the work of the Organization fulfills the mission of providing programs and services that help abused and neglected children, youth at risk, the elderly, persons with disabilities, homeless individuals and families, and many others. It facilitates development of an organization-wide plan. It commissions and ordains ministers and fosters the spiritual growth of leadership across the Organization. It articulates the mission of Volunteers of America and updates this message to keep it timely and meaningful. It promotes organizational values that instill pride and unite the Organization.

  The National Organization establishes effective partnerships with government, businesses, churches, community organizations, and participates in the national dialogue affecting the work of Volunteers of America.

- Advocacy and government relations:
  The National Organization advocates on a local, national, and international level for those groups served by Volunteers of America, maintains effective federal government relations, and encourages Local Offices to maintain effective state and local government relations. It informs Local Offices of legislative and regulatory proposals affecting their work and analyzes their impact and identifies national public policy initiatives and works towards their fulfillment.

- Board development:
  The National Organization and Local Office boards of directors provide leadership and direction for the Organization as they work with national and local staff. This program establishes a model for board effectiveness, provides training, communicates regularly with local boards, administers charters, and works to expand the Organization nationally and internationally.

- Communications:
  The National Organization provides publication, public relations, marketing, graphic, internet, and other information support for the Organization. It conveys the mission and messages of Volunteers of America, maintains a national awareness campaign, and develops and ensures proper use of Volunteers of America trademarks. The program also provides professional, technical, and operational support to the Local Offices. These communication efforts are designed to build public awareness and to enhance the Organization's programs and services for people in need.

1. Organization and reporting entity (continued):

Promoting Self-Sufficiency – (continued):

Community Enhancement:

- Service development:

  The National Organization gathers and analyzes national data and trends on the types of services provided and forecasts needs and opportunities for additional services. It participates in the risk for new models of service delivery and launches national initiatives for service delivery.

  The National Organization also establishes expectations of the Organization's leadership and a program to develop leadership skills. It invites individuals who share the values of Volunteers of America to volunteer for, commit to, and participate in the work of the Organization. It identifies and supports national leadership for the Organization's primary service areas. It provides technical assistance to Local Offices on legal, financial and accounting, human resources, planning, and other management areas.

- Financial development:

  The National Organization facilitates the Organization's access to capital and raises funds for national and local initiatives. It makes training and supporting materials for financial development available to Local Offices. It creates national relationships with corporate partners. It develops enterprises that generate revenue to fund the work of the Organization. It monitors the financial condition of Local Offices and offers assistance when applicable.

2. Significant accounting policies:

Cash and cash equivalents:

Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered (see Note 4). The carrying amount approximates fair value because of the short maturity of those instruments.

Notes and accounts receivable:

Notes and accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debts based on its assessment of the current status of individual account balances that are still outstanding. After management has used exhaustive collection efforts, uncollectible notes and accounts receivable balances are charged to the provision for bad debts.

Notes receivable, net of current portion, generally bear no interest and result from activity with managed apartment complexes and affiliates, from development activity with affiliates and from loans to Local Offices for operations (see Note 12).

2. Significant accounting policies (continued):

Investments:

Investments consist primarily of stocks, bonds, and cash reserve funds. They are recorded at fair value based on quoted market prices. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value rather than historical cost. The fair value of short-term investments is based on the underlying value of the securities and will fluctuate based on overall changes in market conditions. Investment income or loss (including realized gains and losses on investments, interest and dividends) and change in unrealized gains and losses on investments are excluded from the change in net assets from operations.

Fair value measurements:

The Organization's financial instruments are measured at estimated fair value using inputs from among the three levels of the fair value hierarchy set forth in ASC 820 as follows:

Level 1 inputs: Quoted prices in active markets for identical assets or liabilities, which prices are available at the measurement date.

Level 2 inputs: Includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e. interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 inputs: Unobservable inputs that reflect management's estimates about the assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including internally-developed data.

Property and equipment and depreciation method:

Land, buildings, and equipment are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of gift.

Depreciation and amortization are computed on the straight-line method based generally upon the following estimated useful lives:

Land improvements	10 years
Buildings	30 – 40 years
Building improvements	10 – 15 years
Furniture and equipment	3 – 10 years
Transportation vehicles	3 – 5 years

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

2. Significant accounting policies (continued):

Encumbered assets:

Encumbered assets represent the total of all assets that are encumbered by donor restrictions, legal agreements, and Board designation and are otherwise unavailable for the general use of the Organization. This category includes temporarily and permanently restricted assets, Board designated assets, equity investments and escrow deposits required by funding sources in the development of low-income housing (see Note 4).

Reimbursable costs:

Reimbursable costs are funds advanced for the construction of various low-income housing projects sponsored by the National Services that will be managed by a Local Office or National Services. These projects are developed under a number of housing programs of HUD including 202 (elderly) and 811 (handicapped), as well as low income housing tax credits ("LIHTC"), and tax-exempt bond financing. Prior to receiving funding, the sponsor advances funds for options and other due diligence costs related to the acquisition and development of these projects. The majority of these advances are reimbursed within 18 to 24 months of being incurred upon satisfactory completion of the due diligence process. Thereafter, additional advances may be necessary to provide cash flow between the time a cost has been incurred and approved for reimbursement, and the receipt of the reimbursement.

Deferred charges and other assets:

Financing costs are being amortized principally by a method which relates such costs to the outstanding debt. Amortization expense is estimated to be approximately $132,000 in each of the next five years.

Limited and general partnerships:

Under generally accepted accounting standards, general partners in limited partnerships that keep substantive participating rights are presumed to control the limited partnerships regardless of the extent of their ownership interest; therefore, the limited partnerships' financial statements should be consolidated with those of the general partners regardless of the percentage ownership in the limited partnerships.

The Organization usually creates a limited partnership for tax credit properties where it is the general partner or wholly owns the general partner, and receives tax credits, which it in turn sells to an investor or to a limited partner. Overall, the Organization's ownership percentage of the limited partnerships is generally less than one percent. These housing projects serve family and single adults, the elderly and disabled, or individuals with HIV/AIDS.

Assets and liabilities of the limited partnerships consist principally of buildings, construction-in-progress and long-term debt. Non-controlled interests in the limited partnerships of $94,552,000 and $95,052,000 in 2011 and 2010, respectively, represents the ownership by the limited partners and not that of the general partners that is required under generally accepted accounting standards to be included in the consolidated financial statements and is not an asset of the Organization.

The Organization, through several of the majority-owned general partnerships, has notes receivable from the related limited partnerships totaling approximately $3,993,000 and $3,897,000 at June 30, 2011 and 2010, respectively. These notes are carried at $0, because the Organization believes that the related properties will not yield any financial return and collectability of the notes is uncertain. If cash is received for these notes in the future, revenues and gains may be recognized.

2. Significant accounting policies (continued):

Limited and general partnerships (continued):

Net equity contributions (distributions) to related limited and general partnerships for the years ended June 30, 2011 and June 30, 2010 are composed of the following:

	2011	2010
	(in thousands)	
Contributions	**$ 17,326**	$ 41,013
Distributions		(166)
	$ 17,326	$ 40,847

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. One property in one of the underlying partnerships recorded an impairment loss of $9,582,000 for the year ended June 30, 2011, based upon an appraisal performed on behalf of the related partnership.

Net assets:

Net assets are classified into three categories: unrestricted, temporarily restricted, and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities when net assets are released from restrictions, when the time restrictions expire or the contributions are used for their restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting unrestricted use of all or part of the investment income earned on the corpus.

Operations:

Operations are defined as all program and supporting service activities undertaken. Revenues that result from these activities and their related expenses are reported as operations. Gains, losses, and other revenue that result from ancillary activities, such as investing liquid assets and disposing of other assets, are reported as non-operating. Operating revenues consist primarily of net patient services revenues, which are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, administrative fees from Local Offices, fees earned through the management and development of affordable housing and rental income for the limited and partnership interests.

Contributions:

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law.

2. Significant accounting policies (continued):

Contributions in-kind:

The Organization recognizes contribution revenue for certain goods and services received at the fair value of those gifts.

Program fee revenue:

Medicaid and Medicare program fees are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of National Services.

The National Organization manages a direct mail fundraising program under contracts with some of the Local Offices. As amounts are received from the direct mail program and associated direct costs of running this program are incurred, they are recognized as contributions and program services operating expenses, respectively, on the consolidated statement of activities of the National Organization. Net program surpluses are then distributed to the participating Local Offices quarterly, and if there are net program shortfalls, the participating Local Offices reimburse the National Organization in full for shortfalls quarterly.

The National Organization manages a vehicle donation program under contracts with some of the Local Offices. As agency transactions occur, gross amounts collected from the sale of these vehicles and costs of their disposition are recognized as increases in assets and liabilities on the statement of financial position of the National Organization. Net program surpluses are distributed to the participating Local Offices monthly, and if there are net program shortfalls, the participating Local Offices reimburse the National Organization in full for shortfalls three times a year. All fundraising revenues and expenses generated from this program are recorded at the Local Office level. In addition, there are eight participating Local Offices who entered into a modified vehicle donation pilot program with the National Organization on March 1, 2009 and October 1, 2009. Under this modified pilot program, the National Organization operates the Local Office’s vehicle donation program and records both revenues and expenses on the statement of activities of the National Organization. The National Organization equally shares net program surpluses with the eight participating Local Offices only after reimbursing the National Organization for all cumulative net program shortfalls.

Developer Fee Revenue:

The Organization recognizes developer fee revenue when the earnings process is complete and specific benchmarks have been reached. Developer fee revenue is included as part of operating revenues in the consolidated statement of activities.

Cumulative costs associated with earning this revenue are capitalized until the revenue can be matched with the associated net expenses. This resulted in capitalizing approximately $611,000 and $357,000 of developer fee costs onto the consolidated statement of activities as reimbursable costs for the fiscal years ended June 30, 2011 and 2010, respectively. The reimbursable costs will be matched with future developer fee revenues.

Deferred developer fee revenues and HUD consulting fee revenues are not recognized until actually paid due to the uncertainty of their collectability.

2. Significant accounting policies (continued):

Major sources of revenue:

The Organization received approximately 43% and 44% of its revenues from operations from Medicare and Medicaid for the years ended June 30, 2011 and 2010, respectively.

Allocation of functional expenses:

Program and support service expenses are specifically identified with or allocated to the various functions. Expenses requiring allocation include services provided by the National Organization to its Local Offices and are based on time spent or actual usage.

Use of estimates:

The timely preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Significant estimates include revenues from third-party payors, group health insurance reserve, allowance for doubtful accounts, and liabilities for workers' compensation. Workers' compensation policies and revenues received under cost reimbursement agreements are subject to audit and retroactive adjustment. The Organization evaluates the allowance for doubtful accounts using current year account activity, historical trend information and specific account identification. The Organization participates in a self-insured health plan sponsored by National Services. Any adjustments to rates, claims or insurance policies are recognized as an adjustment to revenue or expense when the effect becomes reasonably determinable, including in certain cases, the lapsing of statute of limitations.

Income taxes:

Under provision of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the applicable states, the Organization is a public charity and exempt from income taxes. The Organization has evaluated its tax positions for uncertainty and has no unrecognized tax matters that are required to be disclosed.

With few exceptions, the National Organization is no longer subject to income tax examinations by federal, state or local tax authorities before tax year 2007.

Concentration of credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, notes receivable, investments and third-party payor and patient receivables. The Organization places its cash and cash equivalents and investments with high credit quality financial institutions. At times, such amounts may be in excess of the FDIC insurance limits.

Reclassifications:

Certain minor reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

2. Significant accounting policies (continued):

Subsequent events:

The Organization evaluated for subsequent events through October 14, 2011, the date the financial statements were available for issuance.

3. Property and equipment:

	2011	2010
	(in thousands)	
Land and improvements	**$ 9,735**	$ 9,673
Building and improvements	**95,796**	93,848
Furniture and equipment	**26,889**	24,884
	132,420	128,405
Less accumulated depreciation	**72,759**	67,639
	$ 59,661	$ 60,766

Depreciation expense for the years ended June 30, 2011 and 2010, was $5,109,000 and $5,066,000, respectively.

4. Encumbered assets:

At June 30, 2011 and 2010, encumbered assets included the following donor restrictions, legal agreements and board designations:

	2011	2010
	(in thousands)	
Restricted assets:		
Temporarily	**$ 952**	$ 558
Permanently	**733**	667
Board designated	**17,882**	17,763
Bonds:		
Trust funds	**5,731**	6,233
Trust escrow	**2,622**	2,834
Advance and interest funds	**170**	162
Money market funds held as collateral		382
Certificates of deposit held as collateral	**1,334**	39
Encumbered assets	**$ 29,424**	$ 28,638

4. Encumbered assets (continued):

Bond trust funds:

Bond trust funds consist of assets held by trustees under various indenture agreements. Amounts held in bond trust funds in excess of amounts required under the indenture agreements are classified as short-term investments whose use is limited.

At June 30, 2011 and 2010, encumbered assets consisted of the following classes of assets:

	2011	2010
	(in thousands)	
Cash and cash equivalents	**$ 2,367**	$ 1,809
Investments (see below)	**21,326**	20,596
Bond trust funds	**5,731**	6,233
Encumbered assets	**$ 29,424**	$ 28,638

	2011	2010
	(in thousands)	
Investments included in encumbered assets:		
Cash held for re-investment	**$ 3,988**	$ 4,566
Certificates of deposit	**1,334**	39
Government and agency bonds (see Note 6)	**4,390**	4,365
Corporate bonds (see Note 6)	**3,923**	1,974
Common and preferred stocks (see Note 6)	**15,809**	15,057
	29,444	26,001
Unencumbered securities held with encumbered assets	**(8,118)**	(5,405)
Investments included in encumbered assets	**$ 21,326**	$ 20,596

Board designated net assets include the VOA Trust for $6,000,000, and VOA Irrevocable Trust for $6,000,000. The two trusts were created by the Board of Directors using the proceeds of a settlement and the net proceeds from a syndication of certain Department of Housing and Urban Development ("HUD") financed projects. The trusts are exempt from federal and state income taxes and are all considered unrestricted.

4. Encumbered assets (continued):

The terms of both trusts are irrevocable and vest the trustees, who are the members of the Finance Committee, with all powers over investment, management, and distribution of the principal assets. These trusts are invested with the National Pooled Investment program which is monitored by the Investment Committee. The Organization desires to invest in companies whose business conduct is consistent with the Organization's goals and beliefs. Therefore, the investment manager will use its best efforts to avoid investing directly in the securities of any company known to participate in businesses the Organization deems to be morally offensive. The assets must be invested with the care, skill and diligence that a prudent person acting in this capacity would undertake. All investments will be made within the guidelines of quality, marketability and diversification mandated by controlling statutes. The target asset class investment mix for the board designated endowment funds is to have 40% of the endowment invested in fixed income securities and 60% in equities.

The objectives of the account should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk, with a total targeted return of 7% annually. Understanding that a long-term positive correlation exists between performance volatility (risk) and expected returns in the securities markets and the short-term investment objective is for the portfolio to minimize the likelihood of low or negative total returns.

For the years ended June 30, 2011 and 2010, the National Organization has a policy of appropriating endowment assets available for expenditure each year no greater than 4%, respectively, of the market value of the funds at the end of the preceding fiscal year. In establishing this policy, the National Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the National Organization expects the current appropriation policy to allow its endowment to grow at an average of 7% annually. This is consistent with the National Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as, to provide additional real growth through investment return.

Unrestricted board designated endowment funds at June 30, 2011 and 2010 are as follows:

	2011	2010
	(in thousands)	
Beginning balance, July 1	**$ 19,951**	$ 18,782
Investment net gains	**3,545**	2,169
Reduction of endowment assets to pay awards	**(1,000)**	(1,000)
Ending balance, June 30	**$ 22,496**	$ 19,951
Appropriation of endowment assets available	**$ 1,309**	$ 578

5. Investments:

At June 30, 2011 and 2010, investments were as follows:

	2011	2010
	(in thousands)	
Unencumbered:		
Cash held for re-investment	**$ 609**	$ 318
Certificates of deposit	**6,532**	2,959
Government and agency bonds (see Note 6)	**1,794**	3,682
Corporate bonds (see Note 6)	**1,792**	853
Common and preferred stocks (see Note 6)	**5,810**	5,673
	16,537	13,485
Unencumbered securities held with encumbered assets	**8,118**	5,405
	$ 24,655	$ 18,890

	2011	2010
	(in thousands)	
Statement of financial position classification:		
Short-term investments	**$ 13,164**	$ 10,614
Long-term investments	**11,491**	8,276
	$ 24,655	$ 18,890

6. Fair Value Measurements:

In accordance with ASC 820, the Organization has categorized its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. This fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), observable market based inputs or unobservable inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs (Level 3). Financial assets that are carried at estimated fair value are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2011 and 2010:

	2011			
Financial Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Government and agency bonds	**$ 6,184**			**$ 6,184**
Corporate bonds	**5,715**			**5,715**
Common and preferred stocks	**17,996**	**$ 3,623**		**21,619**
Total	**$ 29,895**	**$ 3,623**	**$ 0**	**$ 33,518**
Interest rate swap liability	**$ 0**	**$ 388**	**$ 0**	**$ 388**

6. Fair Value Measurements (continued):

Financial Asset Category	2010 Level 1	Level 2	Level 3	Total
	(in thousands)			
Government and agency bonds	$ 8,047			$ 8,047
Corporate bonds	2,827			2,827
Common and preferred stocks	17,214	$ 3,516		20,730
Total	$ 28,088	$ 3,516	$ 0	$ 31,604
Interest rate swap liability	$ 0	$ 468	$ 0	$ 468

7. Deferred charges and other assets:

The following items are included in deferred charges and other assets:

Membership rights in trust:

The National Organization has a one-fifth membership interest in National Affordable Housing Trust, Inc. (NAHT), a not-for-profit organization incorporated in the state of Ohio and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Trust has, as its purpose, to facilitate the development of safe, affordable, low-income housing through securing debt and equity capital, providing development consulting, facilitating joint ventures, acquiring existing low-income properties, providing asset management and monitoring financial performance. The membership rights are valued at approximately $203,000, which was the initial amount the National Organization paid to become a member of NAHT. The National Organization receives certain surplus amounts from NAHT in accordance with the membership agreement which are recorded in interest and dividend income.

Investments in joint ventures:

National Services has a fifty-percent ownership interest with an unrelated party in GSS/VOA, LLC to invest in a home-monitoring software development company. GSS/VOA, LLC was formed in November 2006, and as of June 30, 2011, the Organization has invested approximately $955,000 in GSS/VOA, LLC. The Organization uses the equity method to account for this investment and accordingly has reduced the investment to approximately $430,000. The Organization's share of the losses for the years ended June 30, 2011 and 2010 were $1,000 and $57,000, respectively.

National Services has a one-third ownership interest with two unrelated parties in Alliance Technology Solutions Holding Company, LLC to invest in a company whose purpose is to develop and deal with computer and software technology focused upon the elderly and their care providers. As of June 30, 2011, the Organization has invested approximately $270,000 in Alliance Technology Solutions Holding Company, LLC. The Organization uses the equity method to account for this investment and accordingly has reduced the investment to approximately $221,000. The Organization's share of gains for the year ended June 30, 2011 was $26,000, and the share of losses for the year ended June 30, 2010 was $13,000.

8. Lines of credit:

The National Organization has an existing bank line of credit of $5,000,000 which expires on January 30, 2012, whereby $5,000,000 remains available. The line is unsecured and bears interest at an annual rate equal to 2.50% plus the LIBOR daily floating rate, which was 2.69% and 2.85% at June 30, 2011 and 2010, respectively. Additionally, the bank charges 0.5% on any unused portion of the line of credit. There were no borrowings outstanding under this line of credit arrangement as of June 30, 2011 and 2010.

The National Organization also has a line of credit with their investment institution secured by their investments in the National Pooled Investment program, where they can borrow up to fifty percent against their investment value. At June 30, 2011 and 2010, no amounts were outstanding.

On June 4, 2010, National Services entered into a line of credit agreement in an amount of $1,000,000 with VOANS Holding Company, a related party, for working capital to be used for current development projects. National Services is related through its ability to appoint the board of VOANS Holding Company. Interest is charged at a rate of the one-month LIBOR plus 100 basis points. At June 30, 2010, the entire balance of the line of credit was available to National Services. The line of credit expired on December 4, 2010.

National Services has entered into a Revolving Credit Agreement for working capital in the amount of $1,500,000. The unpaid principal balance bears interest at an annual rate equal to 2.0% plus the one-month LIBOR rate quoted by U.S. Bank, N.A., reset each banking day. The interest rate was 2.19% and 2.35% at June 30, 2011 and 2010, respectively. No collateral is required. At June 30, 2011 and 2010, the full amount of the Revolving Credit Agreement was available to National Services. In addition, National Services has a short-term note in the amount of $596,000 at June 30, 2011 and 2010, respectively, which is included in the current portion of long-term debt. The note bears interest at an annual rate equal to 2.00% plus the one-month LIBOR rate quoted by U.S. Bank, N.A., reset each banking day. The interest rate was 2.19% and 2.35% at June 30, 2011 and 2010, respectively.

9. Long-term debt:

	2011	2010
	(in thousands)	
Real estate notes and mortgages, interest varies based on bank rates due in varying amounts through 2012	**$ 5,868**	$ 6,528
Revenue bonds and mortgages, 5% to 7%, due in varying amounts through 2037	**74,616**	75,098
	80,484	81,626
Less unamortized discount	**233**	251
	80,251	81,375
Less current portion	**3,152**	5,706
	$ 77,099	$ 75,669

9. Long-term debt (continued):

Future annual maturities of long-term debt for the years ending June 30 are as follows:

	Amount (in thousands)
2012	$ 3,152
2013	3,280
2014	3,486
2015	2,127
2016	2,246
Thereafter	66,193
	$ 80,484

At June 30, 2011 and 2010, substantially all property and equipment is pledged as collateral for the long-term debt. The terms of these certain types of long-term debt agreements include various covenants including financial and other non-financial matters with which the National Organization and National Services must comply.

10. Interest rate swap agreement:

The National Organization used variable rate debt to finance the acquisition of its headquarters office building. Management believes it is prudent to limit the effects of varying interest rates and has established an objective of reducing the variability of 75% of its tax-exempt interest payments.

The National Organization entered into an interest rate swap agreement, a derivative instrument, with Bank of America, N.A., whereby the National Organization agreed to pay Bank of America a 5.02% fixed rate of interest on $3,500,000 in exchange for the receipt of a floating interest payment based on 65% of the 30-day LIBOR rate. This agreement is to continue in effect until January 1, 2015.

The National Organization reflected this derivative instrument within non-operating unrealized net gains/(losses) on investments in the amount of $80,000 and $(8,000) within the accompanying financial statements for the years ended June 30, 2011 and 2010, respectively. This derivative instrument is also stated at fair value and reflected as a liability in other long-term liabilities in the amount of $388,000 and $468,000 as of June 30, 2011 and 2010, respectively.

11. Commitments:

Pension plans:

The Organization participates in defined contribution retirement plans. The plans cover all employees who have met certain employment requirements. For the years ended June 30, 2011 and 2010, the Organization paid $936,000 and $900,000, respectively, to these plans.

11. Commitments (continued):

Pension plans (continued):

The National Organization participates with its Local Offices and National Services in a non-contributory defined benefit pension and retirement plan, which is not subject to ASC 715 reporting or disclosure requirements, as it is a multi-employer plan. If ASC 715 was required to be followed, the National Organization would be required to record the unfunded pension liability in its financials. The plan's disclosure information regarding the projected benefit obligation and unfunded status as they relate solely to the National Organization is not available, which is typical for multi-employer plans. This unfunded liability is collectively the liability of all participating employers. If there were any cash shortfalls in the plan, the National Organization would look towards the participating employers to help fund these amounts. The overall plan's estimated unfunded pension liability is approximately $16,000,000 and $18,000,000 as of June 30, in 2011 and 2010, respectively. Net contributions to the plan in fiscal year 2011 were $364,000 more than the amount paid out in benefits to plan participants and plan expenses. This includes gross cash contributions into the plan of $3,218,000 and disbursements out of the plan for benefit payments of $2,854,000. The Organization's pension plan expense was $980,000 and $912,000 for the years ended June 30, 2011 and 2010, respectively.

National Services has a separate defined benefit plan which is a single employer plan, and is recognized and disclosed under ASC 715. ASC 715 requires organizations to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the change occurs through a separate line item within the change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic costs. For years ended June 30, 2011 and 2010, the funded status reported on the consolidated statement of financial position is included in other long-term liabilities and was measured as the difference between the fair value of plan assets and the benefit obligation as of June 30, 2011 and 2010, respectively.

The following table presents certain information with respect to the plan for nonminister employees at June 30, 2011 and 2010:

	2011	2010
	(in thousands)	
Projected benefit obligation	**$ 5,305**	$ 5,253
Plan assets, at fair value	**4,084**	3,453
Unfunded status	**$ 1,221**	$ 1,800
Net periodic benefit cost	**$ 259**	$ 255
Employer contributions	**$ 202**	$ 243
Benefits paid	**$ 204**	$ 171

11. Commitments (continued):

Pension plans (continued):

	2011	2010
	(in thousands)	
Weighted average assumptions used to determine benefit obligation at June 30:		
Discount Rate	**5.45%**	5.33%
Expected return on plan assets	**N/A**	N/A
Rate of compensation increase	**4.00%**	4.00%
Expected return on plan assets	**7.25%**	7.25%
Rate of compensation increase	**4.00%**	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the years ended at June 30:		
Discount Rate	**5.33%**	6.25%

The expected long-term rate of return for the plan's total assets is based on both National Services' historical rate of return and the expected rate of return on National Services' asset classes, weighted based on target allocations for each class.

The amount not recognized as a component of net periodic benefits cost was $0 for the years ended June 30, 2011 and 2010. The net gain recognized in the year ended June 30, 2011 was approximately $636,000 and the net loss recognized in the year ended June 30, 2010 was approximately $283,000. The net loss expected to be recognized as a component of net periodic pension cost over the next twelve months is $84,000.

The accumulated benefit obligation was $5,207,000 and $5,091,000 at June 30, 2011 and 2010, respectively.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

	Amount (in thousands)
2012	$ 248
2013	258
2014	267
2015	285
2016	304
2017- 2021	1,755

11. Commitments (continued):

Pension plans (continued):

National Services uses the 2000 Separate Annuitants and Non-Annuitants Mortality Tables projected with Scales AA to 2010 with additional 7 years and 15 years projections for Annuitants and Non-Annuitants, respectively, for males and females.

The expected rates of return on pension plan assets are based on the historical rate of return of the plan, industry trends and current market trends. The decisions have traditionally been conservative in nature.

National Services employs a global allocation model by investing in two mutual funds. The funds are allowed to move between various asset classes predicated on the fund manager's assessment of over/under valued markets or sectors. Therefore, there are no set target allocations percentages or ranges for the classes of plan assets. This investment strategy is reviewed quarterly by National Services.

The fair values of National Services' postretirement plan assets at June 30, by asset category, are as follows:

	2011	2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
	(in thousands)	
Global asset allocation mutual funds	**$ 4,059**	$ 3,422

The National Organization maintains an executive deferred compensation plan. The plan is open to qualified employees and is based on amounts designated by the plan administrator. The assets are maintained within a trust and are held for eventual payment of the liability. The trust is recorded in deferred charges and other assets and in other long-term liabilities in the amount of $854,000 and $598,000 as of June 30, 2011 and 2010, respectively, at its fair value.

Guarantees:

National Services has entered into a Guaranty Agreement for the benefit of the Chateau Carre Apartments Limited Partnership, which received debt and tax credit equity financing for purposes of the acquisition and rehabilitation of a 150 unit affordable housing project located in New Orleans, LA. Guaranty exposure during the operating deficit guaranty period is limited to $727,000. National Services and two related parties are the joint and several guarantors during the operating deficit guaranty period. The operating deficit guaranty will expire five years after the achievement of breakeven operations. The limited partnership has funded an operating reserve of $727,000 which is available to meet operating deficits. National Services has not been required to make any payments as a result of the guarantee.

11. Commitments (continued):

Guarantees (continued):

National Services has entered into a Guaranty Agreement for the benefit of the New Covington Apartments LP and Renaissance Neighborhood Development Corporation, which received debt and tax credit equity financing for purposes of the acquisition, site development and construction of a 94 unit affordable housing project located in Covington, LA. Guaranty exposure during the construction period is primarily limited to the successful completion of site development work and the construction of the project, total development costs are approximately $20,285,000. National Services has agreed to fund 50% of all guaranty payments with Volunteers of America of Greater New Orleans, Inc. assuming the remaining 50%. Upon completion of construction and the pay down of construction debt, guaranty exposure to National Services will be reduced to operational and credit delivery guarantees related to the low income housing tax credits only. No payments have been required as a result of the guarantee.

National Services has entered into a Guaranty Agreement for the benefit of Renaissance Neighborhood Development Corporation, which received a loan of $2,415,000 for the purpose of acquiring property at 1770 Tchoupitoulas Street in New Orleans, LA. National Services has agreed to fund 50% of all guaranty payments related to the indebtedness not to exceed $1,207,000. The Guaranty Agreement will remain in place until the indebtedness has been paid in full. No payments have been required as a result of the guarantee.

National Services has entered into a Guaranty Agreement for the benefit of Durango Volunteers of America Elderly Housing II, Inc., which received a $257,000 Community Development Block Grant from the City of Durango. National Services has provided an indemnification for the benefit of the City of Durango with respect to any damages, penalties, losses or claims incurred by the City of Durango as a result of the failure to comply with the terms, conditions and provisions of the grant. No payments have been required as a result of the guarantee.

National Services has entered into a Guaranty Agreement for the benefit of the West Side Veterans Housing, L.P., which received debt and tax credit equity financing for purposes of the acquisition and rehabilitation of a 50 unit affordable housing project located in Chicago, IL. Guaranty exposure during the construction period is primarily limited to the successful completion of construction of the project. Total development costs are approximately $14,672,000. Upon completion of construction and the pay down of construction debt, guaranty exposure to National Services will be reduced to operational and credit delivery guarantees related to the low income housing tax credits only. No payments have been required as a result of the guarantee.

National Services has entered into a Limited Guaranty for the Third Restated Promissory Note between VOANS Orono Woods, Inc., and Dunbar Development Corporation. The guarantee requires prompt and timely payment of principal due in the event of payment default by VOANS Orono Woods, Inc. The amount of the guaranty is limited to $50,000. The guarantee will remain in effect until the balance of Promissory Note is paid in full. No payments have been required as a result of the guarantee.

National Services has entered into a Guarantee for 50% of the City of Orono, Minnesota, Senior Housing Refunding Revenue Bonds (Orono Woods Apartment Project) Series 2006B. The guarantee requires prompt and timely payment of the principal and interest due in the event of payment default by Orono Senior Housing, LLC., in an amount equal to 50% of the payment due. The outstanding principal balance of the bonds at June 30, 2011, was $680,000. The guarantee will remain in effect until the bonds have been repaid. No payments have been required as a result of the guarantee.

11. Commitments (continued):

Leases:

The National Organization entered into a capital lease for a building during 2008, which expires on June 1, 2023. The building is recorded at fair value on the lease commencement date as the present value of the minimum lease payments exceeded the fair value.

The rent for each succeeding lease year shall be adjusted by the annual increase in the Consumer Price Index ("CPI") for the calendar month of the commencement date preceding such lease anniversary year. Thus, the January CPI is to be used in determining the percent increase in rent, effective for the February rent payment. The increase in rent for 2011 and 2010 was 1.6% and 2.6% respectively.

The cost and accumulated amortization related to assets that were held under capital leases are as follows:

	2011	2010
	(in thousands)	
Building cost	**$ 723**	$ 723
Equipment cost	**70**	70
	793	793
Less accumulated amortization	**194**	133
Net book value	**$ 599**	$ 660

Amortization expense relating to the capital leases, which is included in depreciation expense was $61,000 for 2011 and 2010 respectively. Future principal and interest payments under capital leases as of June 30, 2011, are as follows:

Year ending June 30,	Amount (in thousands)
2012	$ 313
2013	313
2014	306
2015	297
2016	297
Thereafter	2,104
	3,630
Less amount representing interest	2,946
Present value of net minimum lease obligation payments, which is recorded in other long-term liabilities	$ 684

12. Related party transactions:

Administrative income from local offices and program fees:

Administrative fees from the Local Offices are calculated based on a Board-approved formula, whereby approximately 2.175% and 2.125% for 2011 and 2010, respectively, of all unrestricted revenues received by the Local Offices, subject to certain maximum thresholds, are paid to the National Organization to provide funding for programs, supporting services and additional pension contributions.

Administrative income from local offices and program fees (continued):

Other services are also provided to Local Offices in exchange for negotiated "program fees." These services for assistance in programs include vehicle donations, direct mail fundraising and low-income housing development.

Notes and advances to Local Offices:

Notes receivable from Local Offices are generally unsecured, carry no interest, and are due within one to fifteen years. Specific repayment plans are negotiated with each Local Office based on their local Board-approved business plan and cash flow forecasts.

Awards and grants to Local Offices:

In the years ended June 30, 2011 and 2010, the National Organization awarded approximately $3,385,000 and $3,047,000, respectively, to various Local Offices for development purposes. *Endowment awards* are made on the basis of specific criteria determined by the Board of Directors and on the basis of competitive proposals submitted by the Local Offices. *Grants to Local Offices* are made on the basis of a local board-approved business plan specifically addressing development objectives and future sources of revenue and working capital.

Volunteers of America Affordable Housing Fund:

The National Organization has a voting interest in Volunteers of America Affordable Housing Fund, Inc. (the Fund), an unconsolidated entity incorporated in the state of Ohio and exempt from income taxes under Section 50l(c)(3) of the Internal Revenue Code. The Fund has as its specific purpose to foster the ongoing development, preservation, acquisition, and management of affordable housing for low and moderate-income families, seniors, and special needs populations.

The National Organization executed an account control agreement in January 2001 with the Fund that established a security interest in marketable securities held in a custodial account. The agreement allows for the active trading of securities held in the account, but prohibits all withdrawals from the account without the specific written consent of the Fund. As of June 30, 2011 and 2010, the account consisted of government and agency securities with a fair value of $1,530,000 and $1,525,000, respectively, and is reported within encumbered assets.

Renaissance Neighborhood Development Corporation (RNDC):

National Services has a fifty-percent ownership with a related party in RNDC. RNDC was formed to respond to the devastation of Hurricane Katrina so as to construct, rehabilitate, or acquire housing in the greater New Orleans, Louisiana area that is affordable to very low, low and moderate income families. As of June 30, 2011, the Organization has not recorded any activity related to RNDC.

12. Related party transactions (continued):

On Lok:

National Services has a fifty-percent ownership with an unrelated party in On Lok/VOANS, Inc. to participate in, support, or operate as a qualified provider in the Program of All-Inclusive Care for the Elderly ("PACE"). Included in long-term notes receivable is a revolving credit agreement with On Lok/VOANS, Inc. not to exceed $1,875,000 that expires January 1, 2013, without interest. Amounts drawn against this agreement totaled approximately $1,242,000 and $551,000 at June 30, 2011 and 2010, respectively.

13. Restricted net assets:

At June 30, 2011 and 2010, temporarily restricted net assets could be expended for the following:

	2011	2010
	(in thousands)	
Awards of Volunteers of America Local Offices and other program services	**$ 918**	$ 527
Scholarships to Volunteers of America employees	**34**	31
	$ 952	$ 558

Temporarily restricted net assets were released from restriction during the years ended June 30, 2011 and 2010, fulfilling donor stipulations for the following purposes:

	2011	2010
	(in thousands)	
Donated goods designated for Local Offices	**$ 678**	$ 400
Awards to Volunteers of America Local Offices and other program services	**1,388**	1,197
	$ 2,066	$ 1,597

Permanently restricted net assets of $733,000 and $667,000 as of June 30, 2011 and 2010, respectively, relate to contributions received from individuals to be maintained in perpetuity.

14. Contributions in-kind:

For the years ended June 30, 2011 and 2010, the National Organization received $677,000 and $400,000, respectively, in various goods, which its participating Local Offices use in its program services. In addition, the National Organization received $15,086,000 and $16,737,000 in public service advertising for the years ended June 30, 2011 and 2010, respectively. Additionally, National Services received $243,000 and $188,000 in various goods for the years ended June 30, 2011 and 2010, respectively. These amounts are reflected as revenue and expense in the accompanying financial statements.

15. Non-operating item – Tax credit proceeds:

On November 17, 2010, Volunteers of America Puerto Rico RRC, Inc transferred tax credits to R.B. Construction Group resulting in non-operating revenue of $1,073,000. The proceeds net of closing fees of $48,000 totaled $1,025,000, of which $1,022,000 was applied to the interest only loan balance of $1,380,000 on November 23, 2011.

Volunteers of America Puerto Rico RRC, Inc considers this transaction non-recurring in nature, as there is no expectation of additional tax credit proceeds to be received in future fiscal years.

16. Non-controlling interests:

The Financial Accounting Standards Board issued guidance that establishes accounting and reporting standards for a non-controlling interest in a subsidiary which became effective for the Organization on July 1, 2010. As required by this guidance, the Organization has recast the presentation of non-controlling interests in the 2010 financial statements so that they are comparable to those of 2011. Non-controlling interests of $95,052,000 as of June 30, 2010, were reclassified to be a component of unrestricted net assets as reflected in the accompanying consolidated statement of financial position. For the year ended June 30, 2010, non-controlling income of $35,403,000 is excluded from change in net assets attributable to the parent in the accompanying consolidated statement of activities, however, it is included in the consolidated change in net assets.

The change to the 2010 financial statements are as follows:

	As previously reported	Adjustment to restate	Restated
Consolidated statement of financial position:			
Non-controlling interests in limited and general partnerships	$ 95,052	$ (95,052)	$ 0
Unrestricted net assets attributable to:			
Parent	$ 57,824		$ 57,824
Non-controlling interests in limited and general partnerships		$ 95,052	95,052
Total unrestricted net assets	$ 57,824	$ 95,052	$ 152,876

	Federal CFDA number	Federal expenditures
Department of Justice:		
Federal Bureau of Prisons, Residential Reentry Center Services	DJB200926	$ 2,015,707
Department of Health and Human Services:		
Pass-through Region 10 Area Agency on Aging:		
Special programs for the Aging Cluster:		
Special Programs for the Aging – Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	28,741
Special Programs for the Aging – Title III, Part C - Nutrition Services	93.045	322,400
Nutrition Services Incentive Program	93.053	79,841
Total Department of Health and Human Services		430,982
Total federal expenditures		$ 2,446,689

See notes to schedule of expenditures of federal awards.

1. General:

The National Office of Volunteers of America, Inc. and Subsidiaries is required to comply with the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The schedule of expenditures of federal awards presents the activity of all federal award programs carried out by Volunteers of America, Inc. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. This schedule does not include federal awards received and expended by separately incorporated Local Offices of Volunteers of America, Inc.

2. Basis of accounting:

The accompanying schedule of expenditures of federal awards was prepared using the accrual basis of accounting. Expenses are recognized as incurred using the cost accounting principles contained in the OMB Circular A-122, *Cost Principles for Non-Profit Organizations.* Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

100 Washington Avenue South

Minneapolis, MN

55401-2192

Phone 612-332-5500

Fax 612-332-1529

E-mail info@sdkcpa.com

www.sdkcpa.com

INDEPENDENT AUDITOR'S 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
Volunteers of America, Inc. and Subsidiaries
Alexandria, Virginia

We have audited the financial statements of Volunteers of America, Inc. and Subsidiaries as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 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 Volunteers of America, Inc. and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Volunteers of America, Inc. and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Volunteers of America, Inc. 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 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 Volunteers of America, Inc. and Subsidiaries' 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 Board of Directors, Audit Committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 14, 2011

Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

100 Washington Avenue South

Minneapolis, MN

55401-2192

Phone 612-332-5500

Fax 612-332-1529

E-mail info@sdkcpa.com

www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Volunteers of America, Inc. and Subsidiaries
Alexandria, Virginia

Compliance

We have audited the compliance of Volunteers of America, Inc. and Subsidiaries 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 its major federal programs for the year ended June 30, 2011. Volunteers of America, Inc. 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 Volunteers of America, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on Volunteers of America, Inc. 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 Volunteers of America, Inc. 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 on Volunteers of America, Inc. and Subsidiaries' compliance with those requirements.

In our opinion, Volunteers of America, Inc. and Subsidiaries complied, in all material respects, with the compliance 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 2011-1.

Internal Control Over Compliance

The management of Volunteers of America, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Volunteers of America, Inc. and Subsidiaries' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Volunteers of America, Inc. 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 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Volunteers of America, Inc. and Subsidiaries' response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit Volunteers of America, Inc. and Subsidiaries' response and, accordingly, we express no opinion on it.

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

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 14, 2011

Section 1 - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:		Unqualified
Internal control over financial reporting: Material weakness identified?		No
Significant deficiencies identified that are not considered to be material weaknesses?		None reported
Noncompliance material to financial statements noted?		No
Federal Awards		
Internal control over major programs: Material weakness identified?		No
Significant deficiencies identified that are not considered to be material weaknesses?		None reported
Type of auditor's report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-l33?		Yes
Identification of major programs:	CFDA#:	Federal Program:
	DJB200926	Residential Reentry Center Services
	93.044	Special Programs for the Aging Cluster (includes CFDA #'s 93.045 and 93.053)
Dollar threshold used to distinguish between type A and type B programs:		$300,000
Auditee qualified as low-risk auditee?		No

Section II - Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings reported related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended June 30, 2011.

Section III - Findings and Questioned Costs For Federal Awards

Current year finding:

2011-1– Special Programs for the Aging – Title III, Part C – Nutrition Services CFDA #93.045

Criteria: State Unit on Aging Policy and Procedure Manual requires that every six months a Consumer Assessment form be completed to evidence delivered nutrition services program participant eligibility.

Condition: Consumer Assessment forms have not been completed for all delivered nutrition services program participants every six months.

Effect: Some of the delivered nutrition services program participants could be ineligible. This compliance finding had no effect on the program federal expenditures for the year ended June 30, 2011.

Recommendation: The Organization should complete Consumer Assessment forms every six months for all delivered nutrition services program participants to ensure compliance with eligibility requirements.

Response: When the Organization took over the program in June 2009, the Consumer Assessment reporting process had no systems in place and virtually no completed forms. The Area Agency on Aging (AAA) gave the Organization an extended period of time to get the reporting current. As of August 31, 2010, AAA was very pleased with the progress. Both management and the AAA expected that several more months would be needed to bring the program back in compliance with the eligibility requirements. Since these agreed upon corrective measures lasted into the first half of fiscal year 2011, the Consumer Assessment forms were not in compliance for the full year and thus the eligibility reporting compliance condition existed. A process is now in place to ensure the Organization remains current and stays in compliance with the eligibility requirements.

Prior year findings:

2010-1 – Residential Reentry Center Services CFDA #DJB200926

Criteria: U.S. Department of Labor requires the Organization to pay program employees working in Puerto Rico health and welfare benefits of $3.16 per hour for a 40 hour week.

Condition: Program employees were not all paid the required health and welfare benefits of $3.16 per hour for a 40 hour week due to a misinterpretation that used total compensation as the compliance attribute versus using salaries and benefits separately.

Recommendation: We recommended the Organization update its understanding of compliance requirements related to salaries and benefit requirements.

Current status: The recommendation was adopted in the year ended June 30, 2010. No similar findings were noted in the year ended June 30, 2011 audit.

Prior year findings (continued):

2010-2 – Special Programs for the Aging – Title III, Part C – Nutrition Services CFDA #93.045

Criteria: State Unit on Aging Policy and Procedure Manual requires that every six months a Consumer Assessment form be completed to evidence delivered nutrition services program participant eligibility.

Condition: Consumer Assessment forms have not been completed for all delivered nutrition services program participants every six months.

Effect: Some of the delivered nutrition services program participants could be ineligible. This compliance finding had no effect on the program federal expenditures for the year ended June 30, 2010.

Recommendation: The Organization should complete Consumer Assessment forms every six months for all delivered nutrition services program participants to ensure compliance with eligibility requirements.

Current status: Finding 2011-1 also applies to this finding.

Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

100 Washington Avenue South

Minneapolis, MN

55401-2192

Phone 612-332-5500

Fax 612-332-1529

E-mail info@sdkcpa.com

www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING INFORMATION

Audit Committee and Board of Directors
Volunteers of America, Inc. and Subsidiaries
Alexandria, Virginia

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The June 30, 2011, consolidating statement of financial position, and statements of activities, cash flows and functional expenses contained on pages 42 through 45 are presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position changes in net assets, cash flows and functional expenses of the individual organizations. This 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.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 14, 2011

(IN THOUSANDS)

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

	Volunteers of America, Inc.	Volunteers of America Foundation	Volunteers of America Correctional Services	Volunteers of America National Services	Eliminations	Total
Assets:						
Current assets:						
Cash and cash equivalents	$ 5,443		$ 141	$ 19,596		$ 25,180
Accounts receivable, net	2,559		392	14,616	$ (1,050)	16,517
Current portion of notes receivable	168			920		1,088
Short-term investments				13,164		13,164
Prepaid expenses			72	3,165		3,237
Other current assets, net	83			2,090		2,173
Total current assets	8,253		605	53,551	(1,050)	61,359
Property and equipment, net	5,218		3,107	51,336		59,661
Other assets:						
Encumbered assets	19,736			9,688		29,424
Long-term investments	11,491					11,491
Notes receivable, net and net of current portion	1,814			4,464	(2,944)	3,334
Reimbursable costs				4,653		4,653
Deferred charges and other assets, net	1,804		54	4,685		6,543
Limited and general partnerships' assets				291,618		291,618
Total other assets	34,845		54	315,108	(2,944)	347,063
Total assets	$ 48,316		$ 3,766	$ 419,995	$ (3,994)	$ 468,083
Liabilities and net assets:						
Current liabilities:						
Accounts payable	$ 2,332		$ 59	$ 4,547	$ (716)	$ 6,222
Current portion of long-term debt	205		69	2,878		3,152
Accrued expenses	1,312		461	10,903	(334)	12,342
Other current liabilities	47		2	1,536		1,585
Total current liabilities	3,896		591	19,864	(1,050)	23,301
Long-term liabilities:						
Long-term debt, net of current portion	3,513		1,534	72,052		77,099
Other long-term liabililties	4,825		1,845	4,032	(2,944)	7,758
Limited and general partnerships' liabilities				200,200		200,200
Total other liabilities	8,338		3,379	276,284	(2,944)	285,057
Total liabilities	12,234		3,970	296,148	(3,994)	308,358
Net assets (accumulated deficit):						
Unrestricted attributable to:						
Controlled limited and general partnerships				434		434
Operations	34,397		(204)	28,861		63,054
Parent	34,397		(204)	29,295		63,488
Non-controlling interests in limited and general partnerships				94,552		94,552
	34,397		(204)	123,847		158,040
Temporarily restricted	952					952
Permanently restricted	733					733
Total net assets (accumulated deficit)	36,082		(204)	123,847		159,725
Total liabilities and net assets (accumulated deficit)	$ 48,316		$ 3,766	$ 419,995	$ (3,994)	$ 468,083

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	Volunteers of America, Inc.			Volunteers of America Foundation	Volunteers of America Correctional Services	Volunteers of America National Services			Limited and general partnerships		
	Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Unrestricted	Unrestricted	Eliminations	Operating subtotal	Unrestricted	Eliminations	Total
Revenue from operations:											
Public support received directly:											
Contributions	$ 3,769	$ 1,233	$ 22	$ 814		$ 3,993	$ (2,298)	$ 7,533			$ 7,533
Contributions, in-kind	14,536	1,227				243		16,006			16,006
Total public support	18,305	2,460	22	814		4,236	(2,298)	23,539			23,539
Government grants and contracts					$ 2,176			2,176	$ 11,529		13,705
Other revenue:											
Program fees	5,045					43,382	(2,051)	46,376	15,544		61,920
Program fees, Medicaid and Medicare						89,521		89,521			89,521
Administrative income from Local Offices	10,933						(255)	10,678			10,678
Net rental income	29					37		66	83		149
Other operating income	75					10,039		10,114	338	$ (2,677)	7,775
Total other revenue	16,082					142,979	(2,306)	156,755	15,965	(2,677)	170,043
Net assets released from restrictions	2,066	(2,066)									
Total revenues from operations	36,453	394	22	814	2,176	147,215	(4,604)	182,470	27,494	(2,677)	207,287
Operating expenses:											
Program services:											
Fostering independence						127,561		127,561	16,766		144,327
Promoting self sufficiency	32,272				2,483		(258)	34,497	29,356	(441)	63,412
Total program services	32,272				2,483	127,561	(258)	162,058	46,122	(441)	207,739
Support services:											
Management and general	5,520			814		18,307	(4,346)	20,295			20,295
Fundraising	17					70		87			87
Total support services	5,537			814		18,377	(4,346)	20,382			20,382
Total operating expenses	37,809			814	2,483	145,938	(4,604)	182,440	46,122	(441)	228,121
Change in net assets from operations	(1,356)	394	22		(307)	1,277		30	(18,628)	(2,236)	(20,834)
Non-operating items:											
Interest and dividend income	933					482		1,415	1,348		2,763
Realized net gains on investments	995					215		1,210			1,210
Net equity contributions related to limited and general partnerships									17,326		17,326
Unrealized net gains on investments	2,772		44			624		3,440			3,440
Other non-operating gain					1,025	694		1,719			1,719
Total non-operating items	4,700		44		1,025	2,015		7,784	18,674		26,458
Change in consolidated net assets (accumulated deficit)	$ 3,344	$ 394	$ 66		$ 718	$ 3,292		$ 7,814	$ 46	$ (2,236)	$ 5,624

(IN THOUSANDS)

**VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES**

	Volunteers of America, Inc.	Volunteers of America Foundation	Volunteers of America Correctional Services	Volunteers of America National Services	Eliminations	Total
Cash flows from operating activities:						
Change in consolidated net assets	$ 3,804		$ 718	$ 1,102		$ 5,624
Adjustments to reconcile change in consolidated net assets to net cash provided by operating activities:						
Non-controlling interest in limited and general partnerships				500		500
Change in limited and general partnerships				1,820		1,820
Increase in allowances for doubtful accounts	425			1,207		1,632
Depreciation and amortization	349		257	4,715		5,321
Original issue discount accretion				17		17
Gain on sale of tax credits			(1,025)			(1,025)
Loss on disposal of property and equipment				12		12
Net realized and unrealized investment gains	(3,811)			(839)		(4,650)
Permanently restricted contributions and investment income	(66)					(66)
(Increase) decrease in operating assets:						
Accounts receivable	69		(64)	(2,278)	$ (52)	(2,325)
Prepaid expenses			(72)	(503)		(575)
Other current assets	26		56	(798)		(716)
Increase (decrease) in operating liabilities:						
Accounts payable	152		18	150	271	591
Accrued expenses	(6)		133	646	(219)	554
Other liabilities	890		114	(1,057)	(522)	(575)
Net cash provided by operating activities	1,832		135	4,694	(522)	6,139
Cash flows from investing activities:						
Purchase of property and equipment	(208)			(3,881)		(4,089)
Proceeds from sale of property and equipment				10		10
(Increase) decrease in:						
Notes receivable	(194)			(2,388)	522	(2,060)
Reimbursable costs				1,075		1,075
Change in investments	9			(2,412)		(2,403)
Net cash used in investing activities	(393)			(7,596)	522	(7,467)
Cash flows from financing activities:						
Permanently restricted contributions and investment income	66					66
Note and mortgages payable:						
Proceeds				2,990		2,990
Payments	(195)		(1,094)	(2,842)		(4,131)
Decrease in bond trust funds				502		502
Increase in deferred charges and other assets	(176)			(227)		(403)
Proceeds from sale of tax credits, net of fees			1,025			1,025
Net cash (used in) provided by financing activities	(305)		(69)	423		49
Net increase (decrease) in cash and cash equivalents	1,134		66	(2,479)		(1,279)
Cash and cash equivalents, beginning	4,309		75	22,075		26,459
Cash and cash equivalents, ending	$ 5,443		$ 141	$ 19,596		$ 25,180
Supplemental disclosures of cash flow information:						
Cash paid for interest	$ 247		$ 400	$ 13,594		$ 14,241

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	Volunteers of America, Inc.							Volunteers of America Foundation			Volunteers of America Correctional Services		
	Program services			Support services				Support services			Program services		
	Fostering independence	Promoting self sufficiency	Total program services	Management and general	Fundraising	Total support services	Subtotal	Management and general	Fundraising	Total support services	Fostering independence	Promoting self sufficiency	Total program services
Salaries		$ 4,262	$ 4,262	$ 2,114		$ 2,114	$ 6,376					$ 506	$ 506
Pension expense		303	303	1,283		1,283	1,586						
Other employee benefits		454	454	251		251	705					127	127
Payroll taxes		272	272	148		148	420					52	52
Legal fees				131		131	131					3	3
Accounting fees				110		110	110					18	18
Other professional fees		20,590	20,590	147		147	20,737					19	19
Supplies and office expenses		346	346	484		484	830					23	23
Telecommunications		80	80	86		86	166					42	42
Postage		327	327	28		28	355					2	2
Occupancy expenses		191	191	117		117	308					266	266
Interest		155	155	92		92	247					400	400
Insurance		33	33	139	$ 17	156	189					63	63
Equipment rental and maintenance		72	72	72		72	144					42	42
Printing and publications		335	335	13		13	348						
Travel and transportation		1,113	1,113	81		81	1,194					7	7
Conferences and meetings		124	124	6		6	130						
Specific assistance to individuals		466	466				466						
Awards and grants to affiliates:													
Development awards		1,610	1,610				1,610	$ 814		$ 814			
Endowment awards		1,309	1,309				1,309						
Other		41	41	58		58	99					656	656
Depreciation and amortization		189	189	160		160	349					257	257
		$ 32,272	$ 32,272	$ 5,520	$ 17	$ 5,537	$ 37,809	$ 814		$ 814		$ 2,483	$ 2,483

	Volunteers of America National Service											
	Program services			Support services								
	Fostering independence	Promoting self sufficiency	Total program services	Management and general	Fundraising	Total support services	Subtotal	Eliminations	Consolidated operating subtotal	Limited and general partnerships	Eliminations	Consolidated total
Salaries	$ 63,831		$ 63,831	$ 5,774		$ 5,774	$ 69,605		$ 76,487	$ 3,343		$ 79,830
Pension expense	770		770	723		723	1,493	$ (255)	2,824			2,824
Other employee benefits	9,043		9,043	988		988	10,031		10,863	360		11,223
Payroll taxes	5,166		5,166	454		454	5,620		6,092	528		6,620
Legal fees	65		65	55		55	120		254	73		327
Accounting fees	220		220	474	$ 5	479	699		827	522		1,349
Other professional fees	4,266		4,266	3,645	41	3,686	7,952	(1,484)	27,224	1,237		28,461
Supplies and office expenses	2,768		2,768	119		119	2,887		3,740	962		4,702
Telecommunications	729		729	136		136	865		1,073	98		1,171
Postage	125		125	25		25	150		507			507
Occupancy expenses	4,794		4,794	109		109	4,903		5,477	8,364		13,841
Interest	4,132		4,132	53		53	4,185		4,832	9,405		14,237
Insurance	1,396		1,396	12		12	1,408		1,660			1,660
Equipment rental and maintenance	1,940		1,940	26		26	1,966		2,152			2,152
Printing and publications	87		87	10		10	97		445			445
Travel and transportation	614		614	546		546	1,160		2,361	5		2,366
Conferences and meetings	101		101	106		106	207		337	108		445
Specific assistance to individuals	16,996		16,996				16,996		17,462			17,462
Awards and grants to affiliates:												
Development awards								(814)	1,610			1,610
Endowment awards									1,309			1,309
Other	5,885		5,885	4,970	24	4,994	10,879	(2,051)	9,583	2,410	$ (441)	11,552
Depreciation and amortization	4,633		4,633	82		82	4,715		5,321	9,125		14,446
Impairment of long-lived assets										9,582		9,582
	$ 127,561		$ 127,561	$ 18,307	$ 70	$ 18,377	$ 145,938	$ (4,604)	$ 182,440	$ 46,122	$ (441)	$ 228,121