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

Years ended
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Volunteers of America, Inc. and Subsidiaries (the Organization), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations, cash flows and functional expenses of the individual organizations and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 25, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 25, 2013

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

		2013		2012
Assets:				
Current assets:				
Cash and cash equivalents	**$**	**22,488**	$	26,953
Accounts receivable, net of allowance for doubtful accounts (2013, $1,474 and 2012, $1,225)		**16,738**		16,957
Current portion of notes receivable		**1,225**		1,324
Short-term investments		**14,004**		13,132
Prepaid expenses		**1,631**		1,801
Other current assets, net of allowance for doubtful accounts (2013, $3,067 and 2012, $4,874)		**3,190**		3,315
Total current assets		**59,276**		63,482
Property and equipment, net of accumulated depreciation (2013, $80,953 and 2012, $83,506)		**116,004**		80,345
Other assets:				
Encumbered assets		**34,510**		51,483
Long-term investments		**11,530**		10,095
Notes receivable, net of current portion and allowance for doubtful accounts (2013, $4,168 and 2012, $3,606)		**2,342**		4,178
Reimbursable costs		**5,295**		6,921
Deferred charges and other assets, net of accumulated amortization (2013, $1,757 and 2012, $1,513)		**7,432**		8,569
Limited and general partnerships' assets		**349,418**		290,930
Total other assets		**410,527**		372,176
Total assets	**$**	**585,807**	$	516,003

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30
(IN THOUSANDS)

		2013		2012
Liabilities and net assets:				
Current liabilities:				
Accounts payable	**$**	**6,469**	$	6,173
Current portion of long-term debt		**4,144**		7,009
Accrued expenses		**14,251**		12,693
Other current liabilities		**4,744**		3,413
Total current liabilities		**29,608**		29,288
Long-term liabilities:				
Long-term debt, net of current portion		**121,851**		115,751
Other long-term liabilities		**12,660**		12,809
Limited and general partnerships' liabilities		**250,673**		200,517
Total long-term liabilities		**385,184**		329,077
Total liabilities		**414,792**		358,365
Net assets:				
Unrestricted attributable to:				
Controlled limited and general partnerships		**1,335**		572
Board designated		**17,600**		17,237
Undesignated		**48,051**		43,483
Parent		**66,986**		61,292
Non-controlling interests in limited and general partnerships		**102,458**		93,990
		169,444		155,282
Temporarily restricted		**725**		1,567
Permanently restricted		**846**		789
Total net assets		**171,015**		157,638
Total liabilities and net assets	**$**	**585,807**	$	516,003

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(IN THOUSANDS)

	Unrestricted	Temporarily restricted	Permanently restricted	Operating subtotal	Limited and general partnerships (unrestricted)	Eliminations (unrestricted)	Total
Revenues from operations:							
Public support received directly:							
Contributions	$ 14,892	$ 4,170	$ 9	$ 19,071			$ 19,071
Contributions, in-kind	41,055			41,055			41,055
Total public support	55,947	4,170	9	60,126			60,126
Government grants and contracts	2,697			2,697	$ 12,952		15,649
Other revenue:							
Program fees	49,975			49,975	15,602		65,577
Program fees, Medicaid and Medicare	81,164			81,164			81,164
Administrative income from Local Offices	11,282			11,282			11,282
Net rental income	1,908			1,908	225		2,133
Other operating income	3,991			3,991	1,900	$ (2,855)	3,036
Total other revenue	148,320			148,320	17,727	(2,855)	163,192
Net assets released from restrictions	5,016	(5,016)					
Total revenues from operations	211,980	(846)	9	211,143	30,679	(2,855)	238,967
Operating expenses:							
Program services:							
Fostering independence	131,164			131,164	19,043		150,207
Promoting self sufficiency	59,479			59,479	18,934	(1,251)	77,162
Total program services	190,643			190,643	37,977	(1,251)	227,369
Support services:							
Management and general	27,066			27,066			27,066
Fundraising	587			587			587
Total support services	27,653			27,653			27,653
Total operating expenses	218,296			218,296	37,977	(1,251)	255,022
Change in net assets from operations	(6,316)	(846)	9	(7,153)	(7,298)	(1,604)	(16,055)
Non-operating items:							
Interest and dividend income	1,502	1		1,503			1,503
Realized net gains on investments	1,672	1		1,673			1,673
Equity contributions related to limited and general partnerships					18,605		18,605
Unrealized net gains on investments	1,661	2	48	1,711			1,711
Other non-operating gains	6,611			6,611			6,611
Total non-operating items	11,446	4	48	11,498	18,605		30,103
Change in net assets before discontinued operations	5,130	(842)	57	4,345	11,307	(1,604)	14,048
Gain (loss) on discontinued operations incuding gain on disposal of $3,985,000 in 2013	1,405			1,405	(2,076)		(671)
Change in net assets	$ 6,535	$ (842)	$ 57	$ 5,750	$ 9,231	$ (1,604)	$ 13,377
Total change in unrestricted net assets	$ 14,162						

See notes to consolidated financial statements.

(IN THOUSANDS)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Operating subtotal	Limited and general partnerships (unrestricted)	Eliminations (unrestricted)	Total
Revenues from operations:							
Public support received directly:							
Contributions	$ 6,238	$ 3,092	$ 18	$ 9,348			$ 9,348
Contributions, in-kind	45,605	27		45,632			45,632
Total public support	51,843	3,119	18	54,980			54,980
Government grants and contracts	2,309			2,309	$ 11,539		13,848
Other revenue:							
Program fees	44,612			44,612	13,585		58,197
Program fees, Medicaid and Medicare	78,974			78,974			78,974
Administrative income from Local Offices	10,791			10,791			10,791
Net rental income	3,986			3,986	141		4,127
Other operating income	10,866			10,866	2,005	$ (3,881)	8,990
Total other revenue	149,229			149,229	15,731	(3,881)	161,079
Net assets released from restrictions	2,505	(2,505)					
Total revenues from operations	205,886	614	18	206,518	27,270	(3,881)	229,907
Operating expenses:							
Program services:							
Fostering independence	120,133			120,133	14,420		134,553
Promoting self sufficiency	63,406			63,406	22,402	(1,869)	83,939
Total program services	183,539			183,539	36,822	(1,869)	218,492
Support services:							
Management and general	20,746			20,746			20,746
Fundraising	595			595			595
Total support services	21,341			21,341			21,341
Total operating expenses	204,880			204,880	36,822	(1,869)	239,833
Change in net assets from operations	1,006	614	18	1,638	(9,552)	(2,012)	(9,926)
Non-operating items:							
Interest and dividend income	864	1		865			865
Realized net losses on investments	(129)			(129)			(129)
Equity contributions related to limited and general partnerships					11,829		11,829
Unrealized net (losses) gains on investments	(872)		38	(834)			(834)
Other non-operating losses	(1,346)			(1,346)			(1,346)
Total non-operating items	(1,483)	1	38	(1,444)	11,829		10,385
Change in net assets before discontinued operations	(477)	615	56	194	2,277	(2,012)	459
(Loss) gain on discontinued operations	(1,364)			(1,364)	131		(1,233)
Change in net assets	$ (1,841)	$ 615	$ 56	$ (1,170)	$ 2,408	$ (2,012)	$ (774)
Total change in unrestricted net assets	$ (1,445)						

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, 2011	$ 65,007	$ 952	$ 733	$ 66,692	$ 91,720	$ 158,412
Change in net assets	(3,715)	615	56	(3,044)	2,270	(774)
Balance, June 30, 2012	61,292	1,567	789	63,648	93,990	157,638
Change in net assets	5,694	(842)	57	4,909	8,468	13,377
Balance, June 30, 2013	**$ 66,986**	**$ 725**	**$ 846**	**$ 68,557**	**$ 102,458**	**$ 171,015**

(IN THOUSANDS)

	2013	2012
Cash flows from operating activities:		
Change in net assets	**$ 13,377**	$ (774)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Non-controlling interest in limited and general partnerships	**(8,468)**	(2,270)
Change in limited and general partnerships	**136**	709
Loss on deconsolidation of certain entities	**1,479**	
Decrease in allowance for doubtful accounts	**(1,494)**	(4,505)
Depreciation and amortization	**6,821**	5,657
Original issue discount accretion	**30**	26
Gain on disposal of discontinued operations	**(3,985)**	
Gain on previously held interest on acquired entity	**(6,536)**	
Inherent contribution from acquisition	**(5,186)**	
Loss on disposal of property and equipment		23
Forgiveness of notes receivable	**3,797**	5,707
Net realized and unrealized investment (gains) losses	**(3,384)**	989
Permanently restricted contributions and investment income	**(57)**	(56)
(Increase) decrease in operating assets:		
Accounts receivable	**495**	(346)
Prepaid expenses	**125**	1,535
Other current assets	**1,924**	(1,752)
Deferred charges and other assets	**(185)**	(828)
Increase (decrease) in operating liabilities:		
Accounts payable	**337**	(204)
Accrued expenses	**1,340**	288
Other liabilities	**(1,449)**	6,090
Net cash (used in) provided by operating activities	**(883)**	10,289
Cash flows from investing activities:		
Purchase of property and equipment	**(20,661)**	(17,161)
Proceeds from sale of property and equipment of discontinued operations	**7,037**	
(Increase) decrease in:		
Notes receivable:		
Advances	**(4,474)**	(2,400)
Payments	**2,050**	506
Reimbursable costs	**1,626**	(2,268)
Acquisition of entity	**(1,350)**	
Cash acquired with acquisition of entity	**43**	
Cash relinquished in deconsolidation of certain entities	**(365)**	
Change in investments including encumbered assets	**5,596**	(2,443)
Net cash used in investing activities	**(10,498)**	(23,766)
Cash flows from financing activities:		
Permanently restricted contributions and investment income	**57**	56
Note and mortgages payable:		
Proceeds	**1,301**	37,468
Payments	**(8,392)**	(3,375)
Decrease (increase) in bond trust funds	**13,950**	(19,177)
Net cash provided by financing activities	**6,916**	14,972
Net (decrease) increase in cash and cash equivalents	**(4,465)**	1,495
Cash and cash equivalents, beginning	**26,953**	25,458
Cash and cash equivalents, ending	**$ 22,488**	$ 26,953

See notes to consolidated financial statements.

(IN THOUSANDS)

	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ 14,646**	$ 15,735
Fair value of net assets of acquired entity:		
Assets:		
Current assets	**$ 1,570**	
Property and equipment	**33,630**	
Other assets	**195**	
	35,395	
Less liabilities:		
Current liabilities	**1,632**	
Long-term debt	**18,910**	
Other long-term liabilities	**1,781**	
	22,323	
Net assets acquired	**13,072**	
Less cash acquired	**43**	
Net assets acquired, net of cash	**$ 13,029**	
Deconsolidation of certain entities:		
Net book value of assets	**$ 10,698**	
Less liabilities	**9,219**	
Net assets deconsolidated	**$ 1,479**	

(IN THOUSANDS)

	Program services			Support services				Limited and general partnerships				
	Fostering independence	**Promoting self sufficiency**	**Total program services**	**Management and general**	**Fundraising**	**Total support services**	**Consolidated operating subtotal**	**Fostering independence**	**Promoting self sufficiency**	**Total program services**	**Eliminations**	**Total**
Salaries	$ 60,662	$ 4,826	$ 65,488	$ 11,080		$ 11,080	$ 76,568	$ 1,755	$ 2,147	$ 3,902		$ 80,470
Pension expense	574	48	622	2,211		2,211	2,833					2,833
Other employee benefits	8,930	649	9,579	1,383		1,383	10,962	298	300	598		11,560
Payroll taxes	4,816	345	5,161	723		723	5,884	302	346	648		6,532
Legal fees	244	10	254	187		187	441	64	61	125		566
Accounting fees	232	6	238	588	$ 7	595	833	232	310	542		1,375
Other professional fees	5,494	41,205	46,699	1,662	50	1,712	48,411	891	393	1,284		49,695
Supplies and office expenses	2,640	457	3,097	542		542	3,639	526	679	1,205		4,844
Telecommunications	907	68	975	247		247	1,222	31	47	78		1,300
Postage	131	320	451	39		39	490					490
Occupancy expenses	5,887	539	6,426	246		246	6,672	3,558	4,685	8,243		14,915
Interest	5,268	576	5,844	134	4	138	5,982	4,449	3,424	7,873		13,855
Insurance	1,763	77	1,840	224	17	241	2,081					2,081
Equipment rental and maintenance	2,253	132	2,385	43		43	2,428					2,428
Printing and publications	106	473	579	56		56	635					635
Travel and transportation	689	1,119	1,808	789		789	2,597	4	20	24		2,621
Conferences and meetings	192	120	312	182		182	494	101	74	175		669
Specific assistance to individuals	17,419	547	17,966				17,966					17,966
Awards and grants to affiliates:												
Development awards		5,809	5,809				5,809					5,809
Endowment awards		885	885				885					885
Other	6,998	750	7,748	6,495	509	7,004	14,752	956	1,304	2,260	$ (1,251)	15,761
Depreciation and amortization	5,959	518	6,477	235		235	6,712	5,876	5,144	11,020		17,732
	$ 131,164	$ 59,479	$ 190,643	$ 27,066	$ 587	$ 27,653	$ 218,296	$ 19,043	$ 18,934	$ 37,977	$ (1,251)	$ 255,022

See notes to consolidated financial statements.

(IN THOUSANDS)

	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
Salaries	$ 56,858	$ 4,213	$ 61,071	$ 8,970		$ 8,970	$ 70,041	$ 1,243	$ 2,120	$ 3,363		$ 73,404
Pension expense	772	14	786	1,913		1,913	2,699					2,699
Other employee benefits	9,265	613	9,878	1,412		1,412	11,290	213	237	450		11,740
Payroll taxes	5,127	313	5,440	685		685	6,125	214	351	565		6,690
Legal fees	85	6	91	201		201	292	21	130	151		443
Accounting fees	274	17	291	559	$ 6	565	856	192	314	506		1,362
Other professional fees	4,864	49,293	54,157	1,282	35	1,317	55,474	619	330	949		56,423
Supplies and office expenses	2,855	258	3,113	744		744	3,857	466	598	1,064		4,921
Telecommunications	759	72	831	241		241	1,072	22	43	65		1,137
Postage	117	281	398	45		45	443					443
Occupancy expenses	4,471	530	5,001	261		261	5,262	3,042	4,536	7,578		12,840
Interest	4,364	544	4,908	134	1	135	5,043	4,622	5,783	10,405		15,448
Insurance	1,755	90	1,845	174	16	190	2,035					2,035
Equipment rental and maintenance	2,405	124	2,529	54		54	2,583		2	2		2,585
Printing and publications	95	363	458	42		42	500					500
Travel and transportation	627	1,058	1,685	791		791	2,476	9	9	18		2,494
Conferences and meetings	115	164	279	155		155	434	46	42	88		522
Specific assistance to individuals	18,264	406	18,670				18,670					18,670
Awards and grants to affiliates:												
Development awards		2,782	2,782	387		387	3,169					3,169
Endowment awards		908	908				908					908
Other	2,507	843	3,350	2,460	537	2,997	6,347	162	1,167	1,329	$ (1,869)	5,807
Depreciation and amortization	4,554	514	5,068	236		236	5,304	3,549	6,740	10,289		15,593
	$ 120,133	$ 63,406	$ 183,539	$ 20,746	$ 595	$ 21,341	$ 204,880	$ 14,420	$ 22,402	$ 36,822	$ (1,869)	$ 239,833

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 35 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.; VOANS Senior CommUnity Care of North Carolina, Inc.; Essex St. Commercial, LLC.; and certain real estate general and limited partnerships. The financial statements for the year ended June 30, 2012, also included the accounts of VOA Adirondacks Affordable Housing, LLC; Houston VOA Elderly Housing, Inc.; VOA Silverlake Affordable Housing Corporation. At June 30, 2013, these entities no longer met the requirements for consolidation and were deconsolidated in 2013.

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

Volunteers of America of Washington (The Theodora), is a subsidiary of the National Organization operating a 114-unit apartment project for the elderly and persons with disabilities located in Seattle, Washington.

Volunteers of America, Inc., Volunteers of America National Services, Volunteers of America Correctional Services and Volunteers of America of Washington 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 $2,855,000 and $3,881,000 for the years ended June 30, 2013 and 2012, respectively. The cumulative amount of intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services was $19,696,000 and $16,841,000 at June 30, 2013 and 2012, respectively.

Under generally accepted accounting principles in the United States of America, 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.

1. Organization and reporting entity (continued):

Principles of consolidation (continued):

There are 193 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 35 and 36 Local Offices for the fiscal years ended June 30, 2013 and 2012, respectively.

Program services provided by the Organization 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 people 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:

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

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.

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 17 and 29 individual and family properties under development at June 30, 2013 and June 30, 2012, respectively.

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, people 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, and 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, 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, online and other communications 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. National Organization communications staff also provide professional, technical, and operational support to the Local Offices. These communication efforts are designed to build public awareness and enhance the Organization's programs and services for people in need.

1. Organization and reporting entity (continued):

Promoting Self-Sufficiency – (continued):

Community Enhancement (continued):

- 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 an original 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 5). 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 Notes 4 and 13).

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. The fair value of 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 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 5).

Reimbursable costs:

Reimbursable costs are funds advanced for the construction of various low-income housing projects sponsored by National Services that will be managed by an affiliate of the Organization. These projects are developed under a number of housing programs of the Department of Housing and Urban Development (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:

National Services financing costs are being amortized principally by a method which relates such costs to the outstanding debt. Amortization expense was approximately $196,000 and $149,000 for the years ended June 30, 2013 and 2012, respectively. Amortization expense is estimated to be approximately $187,000 in each of the next five years.

Deferred revenue:

During 2012, National Services was awarded $5,000,000 in a Capital Magnet Fund (CMF) to be used primarily for housing development loans. The full $5,000,000 was initially recorded as unearned revenue upon receipt of cash. Approximately $1,639,000 and $4,128,000 is included in other long-term liabilities at June 30, 2013 and June 30, 2012, respectively.

Limited and general partnerships:

National Services 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 $102,458,000 and $93,990,000 at June 30, 2013 and 2012, respectively, represents the ownership by the limited partners and not that of the general partners that is required under generally accepted accounting principles in the United States of America to be included in the consolidated financial statements.

2. Significant accounting policies (continued):

Limited and general partnerships (continued):

National Services, through several of the majority-owned general partnerships, has notes receivable from the related limited partnerships totaling approximately $3,919,000 and $3,904,000 at June 30, 2013 and 2012, 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.

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 payers 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.

Contributions in-kind:

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

2. Significant accounting policies (continued):

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. The National Organization records both revenue and expenses related to this program on the consolidated statement of activities. The National Organization awards the net proceeds to the participating Local Offices and gets reimbursed for any net program shortfalls.

Developer Fee Revenue:

National Services 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 reducing reimbursable costs and increasing expense by $599,000 for the fiscal year ended June 30, 2013, and capitalizing approximately $1,331,000 of developer fees as reimbursable costs for the fiscal year ended June 30, 2012. The reimbursable costs is expected to 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.

Major sources of revenue:

The Organization received approximately 34% of its operating revenues from Medicare and Medicaid for the years ended June 30, 2013 and 2012.

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.

2. Significant accounting policies (continued):

Discontinued operations:

On October 1, 2012, National Services sold two skilled nursing facilities located in Ohio to an unrelated party. The sales price was $6,245,000. National Services also sold a home health agency located in Arizona and an apartment complex located in Maryland during the year ended June 30, 2013. The sales price for these two transactions was $175,000 and $5,700,000, respectively. National Services recorded a gain of approximately $3,985,000 related to these three transactions. The results of operations have been reclassified to loss on discontinued operations. Included in (loss) gain on discontinued operations are operating revenues of $3,131,000 and $12,612,000 for the years ended June 30, 2013 and 2012, respectively.

Deconsolidation:

During the year, three entities no longer met the requirements for consolidation and thus were deconsolidated.

Acquisition:

In July 2012, National Services purchased fifty percent of The Homestead at Rochester, Inc. to become the 100% owner of the entity. Accordingly, National Services recognized a gain on previously held interest of $6,536,000, the fair value at date of acquisition, which is included in other non-operating gains and also recognized an inherent contribution for the excess of the fair value over the acquisition price paid of $5,186,000, which is included in in-kind contributions. In September 2012, The Homestead at Rochester, Inc. was transferred to Volunteers of America Care Facilities.

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. 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. The National Organization evaluates the allowance for doubtful accounts using current year account activity, historical trend information and specific account identification. The National Organization participates in a self-insured health plan sponsored by National Services. Any significant variations in anticipated claims costs could result in adjustments to health insurance expense for the Organization when the effect becomes reasonably determinable.

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. The Organization is open to examination for the fiscal years 2010 through 2013.

2. Significant accounting policies (continued):

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. The Organization has not experienced any loss associated with this practice.

Reclassifications:

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Subsequent events:

Management has evaluated for subsequent events through October 25, 2013, the date the financial statements were available for issuance.

3. Property and equipment:

	2013	2012
	(in thousands)	
Construction-in-progress		$ 11,152
Land and improvements	**$ 13,102**	14,117
Building and improvements	**152,968**	109,898
Furniture and equipment	**30,887**	28,684
	196,957	163,851
Less accumulated depreciation	**80,953**	83,506
	$ 116,004	$ 80,345

Depreciation expense for the years ended June 30, 2013 and 2012, was $6,415,000 and $5,452,000, respectively.

At June 30, 2012, construction-in-progress included building and equipment costs incurred by National Services for The Homestead at Anoka. National Services incurred interest costs associated with this project totaling approximately $2,365,000 and $1,481,000, of which approximately $1,385,000 and $1,481,000 was capitalized at June 30, 2013 and 2012, respectively.

As part of the expected sale of VOA Silverlake Affordable Housing Corporation, there was approximately $5,675,000 of net property and equipment classified as long-lived assets held-for-sale included in property and equipment in the consolidated statement of financial position as of June 30, 2012. Although the sale occurred subsequent to the year ended June 30, 2013, this entity no longer met the consolidation requirements and therefore was deconsolidated in 2013.

4. Notes receivable allowance for doubtful accounts:

Activity in the allowance for doubtful accounts related to notes receivable was as follows:

	2013	2012
	(in thousands)	
Balance at beginning of year	**$ 3,606**	$ 8,499
Provision for losses	**631**	840
Charge-offs	**(69)**	(5,707)
Recoveries		(26)
Balance at end of year	**$ 4,168**	$ 3,606

5. Encumbered assets:

At June 30, 2013 and 2012, encumbered assets included the following donor restrictions, legal agreements and board designations:

	VOA, Inc.	**VOANS**	**2013**	2012
		(in thousands)		
Restricted assets:				
Temporarily	**$ 432**		**$ 432**	$ 1,567
Permanently	**846**		**846**	789
Board designated	**17,600**		**17,600**	17,237
Bonds:				
Trust funds		**$ 10,958**	**10,958**	24,908
Trust escrow		**3,143**	**3,143**	5,460
Advance and interest funds	**182**		**182**	171
Certificates of deposit held as collateral		**1,349**	**1,349**	1,351
Encumbered assets	**$ 19,060**	**$ 15,450**	**$ 34,510**	$ 51,483

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. These investments consisting of short-term treasury funds are recorded at cost, which approximates fair value.

5. Encumbered assets (continued):

At June 30, 2013 and 2012, encumbered assets consisted of the following classes of assets:

	VOA, Inc.	VOANS	2013	2012
	(in thousands)			
Cash and cash equivalents	$ 690	$ 3,143	$ 3,833	$ 7,994
Investments (see below)	18,370	1,349	19,719	18,581
Bond trust funds		10,958	10,958	24,908
Encumbered assets	$ 19,060	$ 15,450	$ 34,510	$ 51,483

	VOA, Inc.	VOANS	2013	2012
	(in thousands)			
Investments included in encumbered assets:				
Cash held for re-investment	$ 834		$ 834	$ 864
Certificates of deposit		$ 1,349	1,349	1,351
Government and agency bonds (see Note 7)	5,245		5,245	4,684
Corporate bonds (see Note 7)	3,610		3,610	4,064
Common and preferred stocks (see Note 7)	16,561		16,561	14,382
	26,250	1,349	27,599	25,345
Unencumbered securities held with encumbered assets	(7,880)		(7,880)	(6,764)
Investments included in encumbered assets	$ 18,370	$ 1,349	$ 19,719	$ 18,581

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 HUD financed projects. The trusts are exempt from federal and state income taxes and are all considered unrestricted.

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 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 6% 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.

5. Encumbered assets (continued):

For the years ended June 30, 2013 and 2012, 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, the National Organization expects the current appropriation policy to allow its endowment to grow at an average of 6% annually over a moving three (3) year period. 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, 2013 and 2012 are as follows:

	2013	2012
	(in thousands)	
Beginning balance, July 1	**$ 20,942**	$ 22,496
Investment net gains (losses)	**3,290**	(454)
Reduction of endowment assets to pay awards	**(1,105)**	(1,100)
Ending balance, June 30	**23,127**	20,942
Less unrestricted growth of endowment funds	**(8,197)**	(6,273)
Other board designated net assets other than endowment funds	**2,670**	2,568
Unrestricted board designated net assets	**$ 17,600**	$ 17,237
Appropriation of endowment assets available	**$ 885**	$ 908

6. Investments:

At June 30, 2013 and 2012, investments were as follows:

	VOA, Inc.	**VOANS**	**2013**	2012
		(in thousands)		
Unencumbered:				
Cash held for re-investment	**$ 125**	**$ 246**	**$ 371**	$ 387
Certificates of deposit		**6,818**	**6,818**	6,576
Government and agency bonds (see Note 7)	**709**	**1,393**	**2,102**	1,897
Corporate bonds (see Note 7)	**533**	**1,046**	**1,579**	1,798
Common and preferred stocks (see Note 7)	**2,283**	**4,501**	**6,784**	5,805
	3,650	**14,004**	**17,654**	16,463
Unencumbered securities held with encumbered assets	**7,880**		**7,880**	6,764
	$ 11,530	**$ 14,004**	**$ 25,534**	$ 23,227

6. Investments (continued):

	VOA, Inc.	VOANS	2013	2012
		(in thousands)		
Statement of financial position classification:				
Short-term investments		$ 14,004	$ 14,004	$ 13,132
Long-term investments	$ 11,530		11,530	10,095
	$ 11,530	$ 14,004	$ 25,534	$ 23,227

7. Fair Value Measurements:

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, 2013 and 2012:

	2013			
Financial Asset Category	Level 1	Level 2	Level 3	Total
		(in thousands)		
Government and agency bonds	$ 7,347			$ 7,347
Corporate bonds	5,189			5,189
Common and preferred stocks	21,338	$ 2,007		23,345
Total	$ 33,874	$ 2,007	$ 0	$ 35,881
Interest rate swap liability		$ 185	$ 0	$ 185

	2012			
Financial Asset Category	Level 1	Level 2	Level 3	Total
		(in thousands)		
Government and agency bonds	$ 6,581			$ 6,581
Corporate bonds	5,862			5,862
Common and preferred stocks	17,824	$ 2,363		20,187
Total	$ 30,267	$ 2,363	$ 0	$ 32,630
Interest rate swap liability	$ 0	$ 306	$ 0	$ 306

7. Fair Value Measurements (continued):

At June 30, 2013 and 2012, the Organization has approximately $1,100,000 and $1,000,000 respectively of investments in entities that are calculated using net asset value per share (O'Connor Fund of Funds: Long/Short Strategies LLC), which are included in Level 2 common and preferred stocks in the fair value measurements table above. This Fund includes equity hedged, relative value and trading strategies. Investment funds in the equity hedged strategy generally utilize fundamental analysis to invest in publicly traded equities investing in long and short positions seeking to capture perceived security mispricings. Investment funds within this strategy are generally subject to 30-90 day redemption notice periods. Investment funds in the relative value strategy, a broad category, generally encompasses strategies that are non-fundamental and non-directional, and often quantitatively driven. This strategy typically uses arbitrage to exploit mispricings and other opportunities in various asset classes, geographies, and time horizons. This strategy frequently focuses on capturing the spread between two assets, while maintaining neutrality to other factors, such as geography, changes in interest rates, equity market movement, and currencies. Investment funds within this strategy are generally subject to a 60 day redemption notice period and are available to be redeemed with no restrictions. Investment funds in the trading strategy are generally top-down in nature and often driven by econometric and macroeconomic research. Investment funds within this strategy are generally subject to 60-90 day redemption notice periods and are available to be redeemed with no restrictions. There are no unfunded capital commitments as of June 30, 2013 and 2012.

8. Deferred charges and other assets:

The following investments in joint ventures are included in deferred charges and other assets:

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, 2013, National Services has invested approximately $955,000 in GSS/VOA, LLC. National Services uses the equity method to account for this investment and accordingly has reduced the investment to approximately $200,000. National Services share of the losses for the years ended June 30, 2013 and 2012 were $449,000 and $0, 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, 2013, National Services has invested approximately $270,000 in Alliance Technology Solutions Holding Company, LLC. National Services uses the equity method to account for this investment and accordingly has reduced the investment to approximately $232,000. National Services' share of gains for each of the years ended June 30, 2013 and 2012 were $9,000 and $26,000, respectively.

9. Lines of credit:

The National Organization has an existing bank line of credit of $5,000,000 which expires on January 31, 2014, 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 2.75% at June 30, 2013 and 2012, 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, 2013 and 2012.

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, 2013 and 2012, no amounts were outstanding. On July 31, 2013, the National Organization utilized this line of credit to lend Volunteers of America Correctional Services the funds to payoff the full amount due on its existing bank loan.

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 2.1% plus the one-month LIBOR rate quoted by U.S. Bank, N.A., reset each banking day. The interest rate was 2.29% and 2.24% at June 30, 2013 and 2012, respectively. No collateral is required. At June 30, 2013 and 2012, the full amount of the Revolving Credit Agreement was available to National Services.

10. Long-term debt:

	2013	2012
	(in thousands)	
Real estate notes and mortgages, interest varies based on bank rates due in varying amounts through 2040	**$ 7,410**	$ 15,526
Revenue bonds and mortgages, 5% to 9%, due in varying amounts through 2046	**119,103**	107,782
	126,513	123,308
Less unamortized discount	**518**	548
	125,995	122,760
Less current portion	**4,144**	7,009
	$ 121,851	$ 115,751

10. Long-term debt (continued):

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

	Amount (in thousands)
2014	$ 4,144
2015	4,037
2016	19,316
2017	2,668
2018	2,808
Thereafter	93,540
	$ 126,513

At June 30, 2013 and 2012, 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.

11. 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 $121,000 and $81,000 within the accompanying financial statements for the years ended June 30, 2013 and 2012, respectively. This derivative instrument is also stated at fair value and reflected as a liability in other long-term liabilities in the amount of $185,000 and $306,000 as of June 30, 2013 and 2012, respectively.

12. Commitments:

Pension plans:

Defined contribution plans:

The National Organization participates in defined contribution retirement plans. The plans cover all employees who have met certain employment requirements. For the years ended June 30, 2013 and 2012, the National Organization paid $897,000 and $970,000, respectively, to these plans.

12. Commitments (continued):

Pension plans (continued):

Defined benefit plans:

The National Organization participates with its Local Offices and National Services in a non-contributory defined benefit pension and retirement plan, called The Volunteers of America National Pension Plan. The plan's employer identification number is 13-1692595 and the plan year end is December 31. This plan is a multi-employer plan and is not 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. Because this plan is a church plan and not subject to the Employment Retirement Security Act of 1974 (ERISA), the Organization is not required to file a Form 5500. This unfunded liability is collectively the liability of all participating employers. If there were any cash shortfalls in the plan, the plan would look towards the participating employers to help fund these amounts. As the participating employers of this plan are affiliated with the Organization, it is not anticipated that any employer will choose to stop participating.

The financial health of the multiemployer pension plan is indicated by the zone status, as defined by the Pension Protection Act of 2006, which represents the funded status of the plan as certified by the plan's actuary. Plans in the red zone are less than 65% funded, the yellow zone are between 65% and 80% funded, and the green zone are at least 80% funded. Because the plan is not subject to ERISA, a funding improvement plan is not required; however, the Organization has voluntarily implemented a contribution assessment.

	January 1, 2013	January 1, 2012
Market value of plan assets	**$ 41,252,000**	$ 37,283,000
Present value of accumulated plan benefits	**54,543,000**	56,235,000
Actuarial valuation of the unfunded pension liability	**$ 13,291,000**	$ 18,952,000
	Fiscal year 2013	Fiscal year 2012
Zone Status	**Red**	Red
Employer's contribution to the plan	**$ 1,028,000**	$ 1,049,000
Total contributions received by the plan	**3,738,000**	3,619,000
Employer's contribution >5% of total contributions to the plan	**Yes**	Yes
Total fair value of plan assets at year end	**44,334,000**	38,917,000

VOA National Housing Corporation has a separate defined benefit plan which is a single employer plan and recognizes the funded status of the defined benefit pension plan as a net asset or liability and recognizes changes in the 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, 2013 and 2012, 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.

12. Commitments (continued):

Pension plans (continued):

Defined benefit plans (continued):

The following table presents certain information with respect to the plan for non-minister employees at June 30, 2013 and 2012:

	2013	2012
	(in thousands)	
Projected benefit obligation	**$ 6,305**	$ 6,430
Plan assets, at fair value	**4,366**	3,969
Unfunded status	**$ 1,939**	$ 2,461
Net periodic benefit cost	**$ 363**	$ 160
Employer contributions	**$ 241**	$ 280
Benefits paid	**$ 220**	$ 239
Weighted average assumptions used to determine benefit obligation at June 30:		
Discount Rate	**4.50%**	4.15%
Expected return on plan assets	**N/A**	N/A
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	**4.15%**	5.45%
Expected return on plan assets	**7.25%**	7.25%
Rate of compensation increase	**4.00%**	4.00%

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 benefit cost was $0 for the years ended June 30, 2013 and 2012. The net gain recognized in the year ended June 30, 2013 was approximately $644,000 and the net loss recognized in the year ended June 30, 2012 was approximately $1,359,000. The net loss expected to be recognized as a component of net periodic pension cost over the next twelve months is $168,000.

The accumulated benefit obligation was $6,117,000 and $6,223,000 at June 30, 2013 and 2012, respectively.

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.

12. Commitments (continued):

Pension plans (continued):

Defined benefit plans (continued):

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 allocation percentages or ranges for the classes of plan assets. This investment strategy is reviewed quarterly by National Services.

Deferred compensation plan:

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

	2013	2012
	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	**$ 4,280**	$ 3,904

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

	Amount (in thousands)
2014	$ 256
2015	277
2016	301
2017	312
2018	331
2019- 2023	1,942

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 $1,584,000 and $1,086,000 as of June 30, 2013 and 2012, respectively, at its fair value.

12. Commitments (continued):

Guarantees:

On July 6, 2012, the National Organization entered into a guaranty agreement for the benefit of Volunteers of America Chesapeake, Inc., which received debt financing for purposes of financing the acquisition and renovation of a 150 bed building to house their existing Federal Bureau of Prison program. The guaranty is for $7,000,000 and expires July 6, 2019. The likelihood of payment under this guaranty is remote.

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.

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, construction and operation of a 94 unit affordable housing project located in Covington, LA. Operational Guarantees have been provided in favor of the tax credit investor and the State of Louisiana OCD. Initial construction and completion guarantees have terminated. Guaranty exposure during the operating deficit guarantee period is limited to an aggregate of 12 months of operating expense or approximately $695,000. National Services and two related parties are the joint and several guarantors during the operating deficit guarantee period. The operating deficit guaranty will expire up to five years after the achievement of breakeven operations, although may be released earlier if certain conditions are met. The limited partnership has funded an operating deficit reserve of $305,000 at June 30, 2012. National Services has not been required to make any payments as a result of the guarantee.

National Services has entered into a guarantee agreement 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, 2013, was $660,000. The guarantee will remain in effect until the bonds have been repaid. National Services has not been required to make any payments as a result of the guarantee.

National Services has entered into a guaranty agreement for the benefit of the VOA Sunset Housing, LP, which received debt and tax credit equity financing for purposes of the acquisition and rehabilitation of a 242 unit affordable housing project located in Denver, CO. National Services has provided guarantees for the payment and performance of the obligations of the general partner. Current guaranty exposure is generally limited to the delivery of tax credits. The guarantor no longer has obligations under the operating deficit portion of the guaranty, which expired 12 quarters after the achievement of break even operations. Total guaranty exposure is limited to $1,260,000. The guaranty agreement expires at the end of the 15 year compliance period in 2021. National Services has not been required to make any payments as a result of the guarantee.

12. Commitments (continued):

Guarantees (continued):

National Services has entered into guaranty agreements for the benefit of VOANS CDE Inc. National Services guarantees and indemnifies against recapture of the New Markets Tax Credit (NMTC) investments of VOANS CDE, Inc. The guaranty terminates at the end of the seven year compliance period. The maximum guaranty exposure is generally limited to the total fees earned by VOANS CDE Inc. in the transaction, excluding misappropriation and other carve outs for ‘bad acts’. NMTC recapture is limited to maintaining CDE status and meeting the requirement of the NMTC allocation. The guaranty and indemnification does not guaranty project operational performance. Guarantees are provided on behalf of the following projects; (a) 1770 Tchoupitoulas LLC (New Orleans, LA), seven year credit period end July 1, 2019, maximum guarantee $624,200, (b) VOA Chesapeake RRC QALICB, LLC (Baltimore, MD), seven year credit period end July 5, 2019, maximum guarantee $902,500, (c) CommCare Avoyelles (Mansura, LA), seven year credit period end date December 3, 2019, maximum guarantee $525,000, (d) RHCHC Realty, LLC (Springfield, OH), seven year credit period end date December 16, 2019, maximum guarantee amount $630,000. National Services has not been required to make any payments as a result of the guarantee.

National Services has entered into a guaranty agreement for the benefit of Renaissance Neighborhood Development Corporation and 1770 Tchoupitoulas LLC. Guaranty agreements are as follows: (a) National Services has entered into guarantees in favor of the State of Louisiana Office of Community Development and for debt and grant proceeds of $3,457,000. The guaranty is made for the completion of construction and payment of indebtedness and compliance with the terms of the agreements. (b) National Services has entered into guarantees in favor of U.S. Bancorp Community Development Corporation for historic tax credit equity investments, new markets tax credits, put price and environmental indemnity. National Services guarantees the payment, performance, fees, remediation, interest, penalties, IRR and recapture as defined within the agreements. Total federal historic and new markets tax credit equity estimated to be paid into the project is approximately $2,561,189 and $2,638,024, respectively. Associated new markets tax credit guarantees have been entered into in favor of ESIC New Markets Partners XLVII Limited Partnership and VOANS CDE Subsidiary 1, LLC. Additionally, state historic new markets tax credit guarantees have been entered into in favor of the Louisiana State Historic Tax Credit Acquisition Fund, L.L. for equity proceeds of 2,655,245. (c) National Services has entered into guarantees in favor of IberiaBank for the completion of construction and the full payment and indebtedness of a term loan of $3,237,032 and bridge loans of $8,985,459. Guarantees are provided on a joint and several basis by National Services and Renaissance Neighborhood Development Corporation and Volunteers of America of Greater New Orleans, Inc. National Services has not been required to make any payments as a result of the guarantee.

National Services has entered into a guaranty agreement for the benefit of 1100 Tulane LLC, which received a loan of $2,415,000 from First NBC Bank for the purpose of acquiring property at 1100 Tulane Ave in New Orleans, LA. National Services has agreed to fund 50% of all guaranty payments related to the indebtedness not to exceed $1,207,500. National Services has not been required to make any payments as a result of the guarantee.

12. Commitments (continued):

Leases:

VOA Puerto Rico RRC, Inc. 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 2013 and 2012 was 1.6% and 2.0% respectively.

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

	2013	2012
	(in thousands)	
Building cost	**$ 723**	$ 723
Equipment cost	**70**	70
	793	793
Less accumulated amortization	**314**	254
Net book value	**$ 479**	$ 539

Amortization expense relating to the capital leases, which is included in depreciation expense was $61,000 for 2013 and 2012, respectively. Future principal and interest payments under capital leases as of June 30, 2013, are as follows:

Year ending June 30,	Amount (in thousands)
2014	$ 322
2015	312
2016	312
2017	312
2018	312
Thereafter	1,562
	3,132
Less amount representing interest	2,434
Present value of net minimum lease obligation payments, which is recorded in other long-term liabilities	$ 698

13. 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 2.25% and 2.175% for 2013 and 2012 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.

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, website development and maintenance, 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, 2013 and 2012, the National Organization awarded approximately $7,242,000 and $4,483,000, 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, 2013 and 2012, the account consisted of government and agency securities with a fair value of $1,535,000 and $1,530,000 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, LA area that is affordable to very low, low and moderate income families. As of June 30, 2013 and 2012, the Organization has not recorded any activity related to RNDC.

13. Related party transactions (continued):

On Lok:

In January 2010, National Services and On Lok, Inc. (OLI) joined together to support and operate PACE Vermont, Inc. by forming a new nonprofit corporation called On Lok/VOANS, Inc. PACE Vermont, Inc. was a PACE program operating in two counties in the state of Vermont. With the encouragement and support from both federal and state regulatory agencies, VOANS and OLI assumed the operations of PACE Vermont with the goal of preserving the PACE model of care in the state of Vermont. Cash advances were made to support and strengthen the program. The frail seniors enrolled in the program received excellent integrated care over the past three years. However, slow growth and inadequate state funding prevented the program from achieving financial viability. As of December 31, 2012, a difficult decision was made jointly to discontinue the operation. Enrollees in the program were transitioned to other providers in the community, and all financial obligations were honored. As of June 30, 2013, VOANS 's share of the write-off of program development and financing costs for PACE Vermont was estimated at $3,745,000. This amount has either been used or will be needed to wind down operations for PACE Vermont. Included in this estimate are Medicare Part D adjustments which are expected in October 2013 for activity in calendar year 2012, and in October 2014 for activity in calendar year 2013.

14. Restricted net assets:

At June 30, 2013 and 2012, temporarily restricted net assets could be expended for the following:

	2013	2012
	(in thousands)	
Awards of Volunteers of America Local Offices and other program services	**$ 688**	$ 1,533
Scholarships to Volunteers of America employees	**37**	34
	$ 725	$ 1,567

Temporarily restricted net assets were released from restriction during the years ended June 30, 2013 and 2012, fulfilling donor stipulations for the following purposes:

	2013	2012
	(in thousands)	
Donated goods designated for Local Offices		$ 1,087
Awards to Volunteers of America Local Offices and other program services	**$ 5,016**	1,418
	$ 5,016	$ 2,505

Permanently restricted net assets of $846,000 and $789,000 as of June 30, 2013 and 2012, respectively, relate to contributions received from individuals to be maintained in perpetuity.

15. Contributions in-kind:

For the years ended June 30, 2013 and 2012, the National Organization received $229,000 and $1,087,000, respectively, in various goods, which its participating Local Offices use in its program services. The National Organization received $35,436,000 and $44,382,000 in public service advertising, and branding for the years ended June 30, 2013 and 2012, respectively. Additionally, National Services received $204,000 and $173,000 in various goods for the years ended June 30, 2013 and 2012, respectively. These amounts are reflected as revenue and expense in the accompanying financial statements.

For the year ended June 30, 2013, National Services recognized an inherent contribution of $5,186,000 related to the acquisition of an entity (see Note 2).

16. Subsequent events:

On October 1, 2013, the National Organization entered into a seven year fixed rate financing in the form of a tax exempt bond financing for $4,470,000 and a taxable fixed term loan for $1,700,000. The proceeds from the bond financing will be used to pay off the balance of the existing variable rate debt used in the acquisition of the headquarters office building as well as cover the cost of building improvements. The taxable term loan will mainly be used to payoff the existing variable rate long term liability of Volunteers of America Correctional Services.

	Federal CFDA number	Federal expenditures
Department of Justice:		
Federal Bureau of Prisons, Residential Reentry Center Services	DJB200926	$ 2,243,083
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 C - Nutrition Services	93.045	324,608
Nutrition Services Incentive Program	93.053	97,042
Total Department of Health and Human Services		421,650
Department of Treasury:		
Capital Magnet Fund	21.011	2,513,559
Total federal expenditures		$ 5,178,292

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.

3. Subrecipients:

Program title	Federal CFDA number	Amount provided to subrecipients
Capital Magnet Fund	21.011	$ 2,462,573

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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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the 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, the financial statements of Volunteers of America, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 25, 2013

SCHECHTER DOKKEN KANTER
CERTIFIED PUBLIC ACCOUNTANTS • ADVISORS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Volunteers of America, Inc. and Subsidiaries' (the Organization's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 25, 2013

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:		Unmodified
Internal control over financial reporting:		
Material weakness identified?		No
Significant deficiencies identified?		None reported
Noncompliance material to financial statements noted?		No
Federal Awards		
Internal control over major program:		
Material weakness identified?		No
Significant deficiencies identified?		None reported
Type of auditor's report issued on compliance for major program:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-l33?		No
Identification of major program:	CFDA#:	Federal Program:
	21.011	Capital Magnet Fund
Dollar threshold used to distinguish between type A and type B programs:		$300,000
Auditee qualified as low-risk auditee?		Yes

Section II – Financial Statement Findings

No matters were reported

Section III - Findings and Questioned Costs For Federal Awards

No matters were reported

(IN THOUSANDS)

	Volunteers of America, Inc.	Volunteers of America Foundation	Volunteers of America Correctional Services	Volunteers of America Washington	Volunteers of America National Services	Eliminations	Total
Assets:							
Current assets:							
Cash and cash equivalents	$ 4,973		$ 264	$ 22	$ 17,229		$ 22,488
Accounts receivable, net	3,295		229	44	14,264	$ (1,094)	16,738
Current portion of notes receivable	350				875		1,225
Short-term investments					14,004		14,004
Prepaid expenses	4		54		1,573		1,631
Other current assets, net				2	3,188		3,190
Total current assets	8,622		547	68	51,133	(1,094)	59,276
Property and equipment, net	4,879		2,606	630	107,889		116,004
Other assets:							
Encumbered assets	19,060				15,450		34,510
Long-term investments	11,530						11,530
Notes receivable, net and net of current portion	3,041				2,403	(3,102)	2,342
Reimbursable costs					5,295		5,295
Deferred charges and other assets, net	2,380		54	82	4,916		7,432
Limited and general partnerships' assets					349,418		349,418
Total other assets	36,011		54	82	377,482	(3,102)	410,527
Total assets	$ 49,512		$ 3,207	$ 780	$ 536,504	$ (4,196)	$ 585,807
Liabilities and net assets:							
Current liabilities:							
Accounts payable	$ 1,960		$ 59	$ 53	$ 5,189	$ (792)	$ 6,469
Current portion of long-term debt	253		1,464	56	2,371		4,144
Accrued expenses	1,565		608	245	12,151	(318)	14,251
Other current liabilities	1,155		5	63	3,521		4,744
Total current liabilities	4,933		2,136	417	23,232	(1,110)	29,608
Long-term liabilities:							
Long-term debt, net of current portion	3,290			3	118,558		121,851
Other long-term liabililties	5,772		1,910	1,080	8,058	(4,160)	12,660
Limited and general partnerships' liabilities					250,673		250,673
Total other liabilities	9,062		1,910	1,083	377,289	(4,160)	385,184
Total liabilities	13,995		4,046	1,500	400,521	(5,270)	414,792
Net assets (accumulated deficit):							
Unrestricted attributable to:							
Controlled limited and general partnerships					1,335		1,335
Operations	33,946		(839)	(720)	32,190	1,074	65,651
Parent	33,946		(839)	(720)	33,525	1,074	66,986
Non-controlling interests in limited and general partnerships					102,458		102,458
	33,946		(839)	(720)	135,983	1,074	169,444
Temporarily restricted	725						725
Permanently restricted	846						846
Total net assets (accumulated deficit)	35,517		(839)	(720)	135,983	1,074	171,015
Total liabilities and net assets (accumulated deficit)	$ 49,512		$ 3,207	$ 780	$ 536,504	$ (4,196)	$ 585,807

(IN THOUSANDS)

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

	Volunteers of America, Inc.			Volunteers of America Correctional Services	Volunteers of America Washington	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	$ 2,533	$ 4,170	$ 9			$ 12,359		$ 19,071			$ 19,071
Contributions, in-kind	35,665					5,390		41,055			41,055
Total public support	38,198	4,170	9			17,749		60,126			60,126
Government grants and contracts				$ 2,370		327		2,697	$ 12,952		15,649
Other revenue:											
Program fees	4,773					47,214	$ (2,012)	49,975	15,602		65,577
Program fees, Medicaid and Medicare						81,164		81,164			81,164
Administrative income from Local Offices	11,630						(348)	11,282			11,282
Net rental income	774				$ 1,039	95		1,908	225		2,133
Other operating income	58				28	3,905		3,991	1,900	$ (2,855)	3,036
Total other revenue	17,235				1,067	132,378	(2,360)	148,320	17,727	(2,855)	163,192
Net assets released from restrictions	5,016	(5,016)									
Total revenues from operations	60,449	(846)	9	2,370	1,067	150,454	(2,360)	211,143	30,679	(2,855)	238,967
Operating expenses:											
Program services:											
Fostering independence	447				1,641	129,076		131,164	19,043		150,207
Promoting self sufficiency	56,922			2,776		60	(279)	59,479	18,934	(1,251)	77,162
Total program services	57,369			2,776	1,641	129,136	(279)	190,643	37,977	(1,251)	227,369
Support services:											
Management and general	5,796					23,868	(2,598)	27,066			27,066
Fundraising	16					571		587			587
Total support services	5,812					24,439	(2,598)	27,653			27,653
Total operating expenses	63,181			2,776	1,641	153,575	(2,877)	218,296	37,977	(1,251)	255,022
Change in net assets from operations	(2,732)	(846)	9	(406)	(574)	(3,121)	517	(7,153)	(7,298)	(1,604)	(16,055)
Non-operating items:											
Interest and dividend income	489	1				1,013		1,503			1,503
Realized net gains on investments	1,672	1						1,673			1,673
Equity contributions related to limited and general partnerships									18,605		18,605
Unrealized net gains on investments	1,340	2	48			321		1,711			1,711
Other non-operating gain						6,611		6,611			6,611
Total non-operating items	3,501	4	48			7,945		11,498	18,605		30,103
Change in net assets before discontinued operations	769	(842)	57	(406)	(574)	4,824	517	4,345	11,307	(1,604)	14,048
Gain (loss) on discontinued operations including gain on disposal of $3,985,000 in 2013						1,405		1,405	(2,076)		(671)
Change in net assets	$ 769	$ (842)	$ 57	$ (406)	$ (574)	$ 6,229	$ 517	$ 5,750	$ 9,231	$ (1,604)	$ 13,377

(IN THOUSANDS)

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

	Volunteers of America, Inc.	Volunteers of America Correctional Services	Volunteers of America Washington	Volunteers of America National Services	Eliminations	Total
Cash flows from operating activities:						
Change in net assets	$ (16)	$ (406)	$ (574)	$ 13,856	$ 517	$ 13,377
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:						
Non-controlling interest in limited and general partnerships				(8,468)		(8,468)
Change in limited and general partnerships				136		136
Loss on deconsolidation of certain entities				1,479		1,479
Decrease in allowance for doubtful accounts				(1,494)		(1,494)
Depreciation and amortization	787	261	86	5,687		6,821
Original issue discount accretion				30		30
Gain on disposal of discontinued operations				(3,985)		(3,985)
Gain on previously held interest on acquired entity				(6,536)		(6,536)
Inherent contribution from acquisition				(5,186)		(5,186)
Loss on disposal of property and equipment						
Forgiveness of notes receivable				3,797		3,797
Net realized and unrealized investment gains	(3,063)			(321)		(3,384)
Permanently restricted contributions and investment income	(57)					(57)
(Increase) decrease in operating assets:						
Accounts receivable	(170)	133	7	467	58	495
Prepaid expenses	(4)	(26)		155		125
Other current assets	14		(2)	1,912		1,924
Deferred charges in other assets	(429)			244		(185)
Increase (decrease) in operating liabilities:						
Accounts payable	(212)	(1)	(67)	664	(47)	337
Accrued expenses	99	178	89	990	(16)	1,340
Other liabilities	2,040	94	25	(3,071)	(537)	(1,449)
Net cash (used in) provided by operating activities	(1,011)	233	(436)	356	(25)	(883)
Cash flows from investing activities:						
Purchase of property and equipment	(684)	(10)	(19)	(19,948)		(20,661)
Proceeds from sale of property and equipment of discontinued operations				7,037		7,037
(Increase) decrease in:						
Notes receivable:						
Advances	(1,935)			(2,564)	25	(4,474)
Payments	343			1,707		2,050
Reimbursable costs				1,626		1,626
Acquisition of entity				(1,350)		(1,350)
Cash acquired with acquisition of entity				43		43
Cash relinquished in deconsolidation of certain entities				(365)		(365)
Change in investments including encumbered assets	2,332		54	3,210		5,596
Net cash provided by (used in) investing activities	56	(10)	35	(10,604)	25	(10,498)
Cash flows from financing activities:						
Permanently restricted contributions and investment income	57					57
Note and mortgages payable:						
Proceeds	164		479	658		1,301
Payments	(129)	(72)	(58)	(8,133)		(8,392)
Decrease (increase) in bond trust funds				13,950		13,950
Net cash provided by (used in) financing activities	92	(72)	421	6,475		6,916
Net (decrease) increase in cash and cash equivalents	(863)	151	20	(3,773)		(4,465)
Cash and cash equivalents, beginning	5,836	113	2	21,002		26,953
Cash and cash equivalents, ending	$ 4,973	$ 264	$ 22	$ 17,229		$ 22,488
Supplemental disclosures of cash flow information:						
Cash paid for interest	$ 147	$ 483		$ 14,016		$ 14,646

(IN THOUSANDS)

VOLUNTEERS OF AMERICA, INC.
AND SUBSIDIARIES

	Volunteers of America, Inc. – Program services – Fostering independence	Volunteers of America, Inc. – Program services – Promoting self sufficiency	Volunteers of America, Inc. – Program services – Total program services	Volunteers of America, Inc. – Support services – Management and general	Volunteers of America, Inc. – Support services – Fundraising	Volunteers of America, Inc. – Support services – Total support services	Volunteers of America, Inc. – Subtotal	Volunteers of America Correctional Services – Program services – Promoting self sufficiency	Volunteers of America Correctional Services – Program services – Total program services	Volunteers of America Washington – Program services – Fostering independence	Volunteers of America Washington – Program services – Total program services
Salaries	$ 21	$ 4,279	$ 4,300	$ 2,115		$ 2,115	$ 6,415	$ 547	$ 547	$ 317	$ 317
Pension expense		327	327	1,639		1,639	1,966				
Other employee benefits		532	532	115		115	647	117	117		
Payroll taxes		284	284	152		152	436	61	61		
Legal fees				117		117	117	8	8		
Accounting fees	13		13	90		90	103	6	6	5	5
Other professional fees		41,202	41,202	220		220	41,422	3	3		
Supplies and office expenses		375	375	383		383	758	25	25		
Telecommunications		52	52	112		112	164	16	16		
Postage		318	318	18		18	336	2	2		
Occupancy expenses	19	129	148	134		134	282	409	409	124	124
Interest		93	93	54		54	147	483	483		
Insurance	9	15	24	207	$ 16	223	247	62	62	166	166
Equipment rental and maintenance	20	112	132	6		6	138	20	20	125	125
Printing and publications		473	473	48		48	521				
Travel and transportation		1,106	1,106	91		91	1,197	13	13		
Conferences and meetings		117	117	5		5	122	3	3		
Specific assistance to individuals		547	547				547				
Awards and grants to affiliates:											
Development awards		5,809	5,809				5,809				
Endowment awards		885	885				885				
Other		10	10	125		125	135	740	740	818	818
Depreciation and amortization	365	257	622	165		165	787	261	261	86	86
	$ 447	$ 56,922	$ 57,369	$ 5,796	$ 16	$ 5,812	$ 63,181	$ 2,776	$ 2,776	$ 1,641	$ 1,641

(IN THOUSANDS)

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

	Volunteers of America National Services											
	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	$ 60,324		$ 60,324	$ 8,965		$ 8,965	$ 69,289		$ 76,568	$ 3,902		$ 80,470
Pension expense	574		574	572		572	1,146	$ (279)	2,833			2,833
Other employee benefits	8,930		8,930	1,268		1,268	10,198		10,962	598		11,560
Payroll taxes	4,816		4,816	571		571	5,387		5,884	648		6,532
Legal fees	244	$ 2	246	70		70	316		441	125		566
Accounting fees	214		214	498	$ 7	505	719		833	542		1,375
Other professional fees	5,494		5,494	1,442	50	1,492	6,986		48,411	1,284		49,695
Supplies and office expenses	2,640	57	2,697	159		159	2,856		3,639	1,205		4,844
Telecommunications	907		907	135		135	1,042		1,222	78		1,300
Postage	131		131	21		21	152		490			490
Occupancy expenses	5,744	1	5,745	112		112	5,857		6,672	8,243		14,915
Interest	5,268		5,268	80	4	84	5,352		5,982	7,873		13,855
Insurance	1,588		1,588	17	1	18	1,606		2,081			2,081
Equipment rental and maintenance	2,108		2,108	37		37	2,145		2,428			2,428
Printing and publications	106		106	8		8	114		635			635
Travel and transportation	689		689	698		698	1,387		2,597	24		2,621
Conferences and meetings	192		192	177		177	369		494	175		669
Specific assistance to individuals	17,419		17,419				17,419		17,966			17,966
Awards and grants to affiliates:												
Development awards									5,809			5,809
Endowment awards									885			885
Other	6,180		6,180	8,968	509	9,477	15,657	(2,598)	14,752	2,260	$ (1,251)	15,761
Depreciation and amortization	5,508		5,508	70		70	5,578		6,712	11,020		17,732
	$ 129,076	$ 60	$ 129,136	$ 23,868	$ 571	$ 24,439	$ 153,575	$ (2,877)	$ 218,296	$ 37,977	$ (1,251)	$ 255,022