*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, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 24, 2014 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 24, 2014

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

| | 2014 | 2013 |
|---|---|---|
| ***Assets:*** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 30,650** | $ 22,488 |
| Accounts receivable, net of allowance for doubtful accounts (2014, $2,147 and 2013, $1,474) | **16,073** | 16,738 |
| Current portion of notes receivable | **838** | 1,225 |
| Short-term investments | **11,770** | 14,004 |
| Prepaid expenses | **1,620** | 1,631 |
| Other current assets, net of allowance for doubtful accounts (2014, $1,954 and 2013, $3,067) | **4,352** | 3,190 |
| Total current assets | **65,303** | 59,276 |
| Property and equipment, net of accumulated depreciation (2014, $77,915 and 2013, $80,953) | **114,999** | 116,004 |
| Other assets: | | |
| Encumbered assets | **56,180** | 34,510 |
| Long-term investments | **14,893** | 11,530 |
| Notes receivable, net of current portion and allowance for doubtful accounts (2014, $4,940 and 2013, $4,168) | **3,128** | 2,342 |
| Reimbursable costs | **4,971** | 5,295 |
| Deferred charges and other assets, net of accumulated amortization (2014, $2,082 and 2013, $1,757) | **8,079** | 7,432 |
| Limited and general partnerships' assets | **406,497** | 349,418 |
| Total other assets | **493,748** | 410,527 |
| Total assets | **$ 674,050** | $ 585,807 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30
(IN THOUSANDS)

| | 2014 | 2013 |
|---|---|---|
| ***Liabilities and net assets:*** | | |
| Current liabilities: | | |
| Accounts payable | **$ 7,674** | $ 6,469 |
| Current portion of long-term debt | **2,008** | 4,144 |
| Accrued expenses | **14,925** | 14,251 |
| Other current liabilities | **5,845** | 4,744 |
| Total current liabilities | **30,452** | 29,608 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion | **149,846** | 121,851 |
| Other long-term liabilities | **10,482** | 12,660 |
| Limited and general partnerships' liabilities | **294,635** | 250,673 |
| Total long-term liabilities | **454,963** | 385,184 |
| Total liabilities | **485,415** | 414,792 |
| Net assets: | | |
| Unrestricted attributable to: | | |
| Controlled limited and general partnerships | **2,827** | 1,335 |
| Board designated | **17,097** | 17,600 |
| Undesignated | **51,087** | 48,051 |
| Parent | **71,011** | 66,986 |
| Non-controlling interests in limited and general partnerships | **115,926** | 102,458 |
| | **186,937** | 169,444 |
| Temporarily restricted | **816** | 725 |
| Permanently restricted | **882** | 846 |
| Total net assets | **188,635** | 171,015 |
| Total liabilities and net assets | **$ 674,050** | $ 585,807 |

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

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(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 | $ 6,708 | $ 3,331 | | $ 10,039 | | | $ 10,039 |
| Contributions, in-kind | 53,719 | | | 53,719 | | | 53,719 |
| Total public support | 60,427 | 3,331 | | 63,758 | | | 63,758 |
| Government grants and contracts | 3,910 | | | 3,910 | $ 14,457 | | 18,367 |
| Other revenue: | | | | | | | |
| Program fees | 48,180 | | | 48,180 | 17,228 | | 65,408 |
| Program fees, Medicaid and Medicare | 83,644 | | | 83,644 | | | 83,644 |
| Administrative income from Local Offices | 11,781 | | | 11,781 | | | 11,781 |
| Net rental income | 369 | | | 369 | 88 | | 457 |
| Other operating income | 12,571 | | | 12,571 | 4,562 | $ (4,459) | 12,674 |
| Total other revenue | 156,545 | | | 156,545 | 21,878 | (4,459) | 173,964 |
| Net assets released from restrictions | 3,245 | (3,245) | | | | | |
| Total revenues from operations | 224,127 | 86 | | 224,213 | 36,335 | (4,459) | 256,089 |
| Operating expenses: | | | | | | | |
| Program services: | | | | | | | |
| Fostering independence | 127,051 | | | 127,051 | 21,361 | | 148,412 |
| Promoting self sufficiency | 74,114 | | | 74,114 | 25,086 | (1,731) | 97,469 |
| Total program services | 201,165 | | | 201,165 | 46,447 | (1,731) | 245,881 |
| Support services: | | | | | | | |
| Management and general | 25,117 | | | 25,117 | | | 25,117 |
| Fundraising | 309 | | | 309 | | | 309 |
| Total support services | 25,426 | | | 25,426 | | | 25,426 |
| Total operating expenses | 226,591 | | | 226,591 | 46,447 | (1,731) | 271,307 |
| Change in net assets from operations | (2,464) | 86 | | (2,378) | (10,112) | (2,728) | (15,218) |
| Non-operating items: | | | | | | | |
| Interest and dividend income | 2,141 | 1 | | 2,142 | | | 2,142 |
| Realized net gains on investments | 1,940 | 2 | | 1,942 | | | 1,942 |
| Equity contributions related to limited and general partnerships | | | | | 25,153 | | 25,153 |
| Unrealized net gains on investments | 2,272 | 2 | $ 36 | 2,310 | | | 2,310 |
| Other non-operating (losses) | (468) | | | (468) | | | (468) |
| Total non-operating items | 5,885 | 5 | 36 | 5,926 | 25,153 | | 31,079 |
| Change in net assets before discontinued operations | 3,421 | 91 | 36 | 3,548 | 15,041 | (2,728) | 15,861 |
| Gain on discontinued operations including gain on disposal of $3,273 in 2014 | 1,759 | | | 1,759 | | | 1,759 |
| Change in net assets | $ 5,180 | $ 91 | $ 36 | $ 5,307 | $ 15,041 | $ (2,728) | $ 17,620 |
| Total change in unrestricted net assets | $ 17,493 | | | | | | |

See notes to consolidated financial statements.

**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 | $ 14,799 | $ 4,170 | $ 9 | $ 18,978 | | | $ 18,978 |
| Contributions, in-kind | 41,040 | | | 41,040 | | | 41,040 |
| Total public support | 55,839 | 4,170 | 9 | 60,018 | | | 60,018 |
| Government grants and contracts | 2,697 | | | 2,697 | $ 12,952 | | 15,649 |
| Other revenue: | | | | | | | |
| Program fees | 44,971 | | | 44,971 | 15,602 | | 60,573 |
| Program fees, Medicaid and Medicare | 73,125 | | | 73,125 | | | 73,125 |
| Administrative income from Local Offices | 11,282 | | | 11,282 | | | 11,282 |
| Net rental income | 1,908 | | | 1,908 | 225 | | 2,133 |
| Other operating income | 3,903 | | | 3,903 | 1,900 | $ (2,855) | 2,948 |
| Total other revenue | 135,189 | | | 135,189 | 17,727 | (2,855) | 150,061 |
| Net assets released from restrictions | 5,016 | (5,016) | | | | | |
| Total revenues from operations | 198,741 | (846) | 9 | 197,904 | 30,679 | (2,855) | 225,728 |
| Operating expenses: | | | | | | | |
| Program services: | | | | | | | |
| Fostering independence | 119,043 | | | 119,043 | 19,043 | | 138,086 |
| Promoting self sufficiency | 59,479 | | | 59,479 | 18,934 | (1,251) | 77,162 |
| Total program services | 178,522 | | | 178,522 | 37,977 | (1,251) | 215,248 |
| Support services: | | | | | | | |
| Management and general | 24,725 | | | 24,725 | | | 24,725 |
| Fundraising | 587 | | | 587 | | | 587 |
| Total support services | 25,312 | | | 25,312 | | | 25,312 |
| Total operating expenses | 203,834 | | | 203,834 | 37,977 | (1,251) | 240,560 |
| Change in net assets from operations | (5,093) | (846) | 9 | (5,930) | (7,298) | (1,604) | (14,832) |
| Non-operating items: | | | | | | | |
| Interest and dividend income | 1,484 | 1 | | 1,485 | | | 1,485 |
| 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 | 11,428 | 4 | 48 | 11,480 | 18,605 | | 30,085 |
| Change in net assets before discontinued operations | 6,335 | (842) | 57 | 5,550 | 11,307 | (1,604) | 15,253 |
| Gain (loss) on discontinued operations incuding gain on disposal of $3,985 in 2013 | 200 | | | 200 | (2,076) | | (1,876) |
| 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.

| | Attributable to the parent | | | | Attributable to the non-controlling interests | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Subtotal | Unrestricted | Total |
| Balance, July 1, 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 |
| Change in net assets | **4,025** | **91** | **36** | **4,152** | **13,468** | **17,620** |
| Balance, June 30, 2014 | **$ 71,011** | **$ 816** | **$ 882** | **$ 72,709** | **$ 115,926** | **$ 188,635** |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30
(IN THOUSANDS)

| | **2014** | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 17,620** | $ 13,377 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Non-controlling interest in limited and general partnerships | **(13,468)** | (8,468) |
| Change in limited and general partnerships | **351** | 136 |
| Loss on deconsolidation of certain entities | | 1,479 |
| Increase (decrease) in allowance for doubtful accounts | **504** | (1,494) |
| Depreciation and amortization | **7,222** | 6,821 |
| Original issue discount accretion | **62** | 30 |
| Gain on disposal of discontinued operations | **(3,273)** | (3,985) |
| Gain on previously held interest on acquired entity | | (6,536) |
| Inherent contribution from acquisition | | (5,186) |
| Loss on sale of property | **776** | |
| Forgiveness of notes receivable | | 3,797 |
| Net realized and unrealized investment gains | **(4,252)** | (3,384) |
| Permanently restricted contributions and investment income | **(36)** | (57) |
| Decrease (increase) in operating assets: | | |
| Accounts receivable | **1,262** | 495 |
| Prepaid expenses | **11** | 125 |
| Other current assets | **(771)** | 1,924 |
| Deferred charges and other assets | **(349)** | (185) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | **1,258** | 337 |
| Accrued expenses | **919** | 1,340 |
| Other liabilities | **(985)** | (1,449) |
| Net cash provided by (used in) operating activities | **6,851** | (883) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | **(10,546)** | (20,661) |
| Proceeds from sale of property and equipment of discontinued operations | **6,625** | 7,037 |
| Notes receivable: | | |
| Advances | **(2,864)** | (4,474) |
| Payments | **1,715** | 2,050 |
| Decrease in reimbursable costs | **324** | 1,626 |
| Acquisition of entity | | (1,350) |
| Cash acquired with acquisition of entity | | 43 |
| Cash relinquished in deconsolidation of certain entities | | (365) |
| Cash proceeds withdrawn from investments | **1,921** | |
| Change in investments including encumbered assets | **(3,056)** | 5,596 |
| Net cash used in investing activities | **(5,881)** | (10,498) |
| Cash flows from financing activities: | | |
| Permanently restricted contributions and investment income | **36** | 57 |
| Long-term debt: | | |
| Proceeds | **55,764** | 1,301 |
| Payments | **(29,915)** | (8,392) |
| Increase in deferred charges and other assets | **(1,281)** | |
| (Increase) decrease in bond trust funds | **(17,412)** | 13,950 |
| Net cash provided by financing activities | **7,192** | 6,916 |
| Net increase (decrease) in cash and cash equivalents | **8,162** | (4,465) |
| Cash and cash equivalents, beginning | **22,488** | 26,953 |
| Cash and cash equivalents, ending | **$ 30,650** | $ 22,488 |

See notes to consolidated financial statements.

| | **2014** | 2013 |
|---|---|---|
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | **$ 18,727** | $ 14,646 |
| 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 |

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
(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 | $ 58,784 | $ 4,936 | $ 63,720 | $ 10,521 | $ 79 | $ 10,600 | $ 74,320 | $ 1,866 | $ 2,414 | $ 4,280 | | $ 78,600 |
| Pension expense | 244 | 363 | 607 | 2,620 | 6 | 2,626 | 3,233 | | | | | 3,233 |
| Other employee benefits | 7,371 | 597 | 7,968 | 1,035 | 12 | 1,047 | 9,015 | 297 | 259 | 556 | | 9,571 |
| Payroll taxes | 4,550 | 365 | 4,915 | 679 | 6 | 685 | 5,600 | 255 | 355 | 610 | | 6,210 |
| Legal fees | 159 | 25 | 184 | 408 | | 408 | 592 | 97 | 71 | 168 | | 760 |
| Accounting fees | 223 | 10 | 233 | 674 | 6 | 680 | 913 | 276 | 357 | 633 | | 1,546 |
| Other professional fees | 5,270 | 58,332 | 63,602 | 2,654 | 135 | 2,789 | 66,391 | 824 | 585 | 1,409 | | 67,800 |
| Supplies and office expenses | 2,360 | 371 | 2,731 | 529 | | 529 | 3,260 | 544 | 678 | 1,222 | | 4,482 |
| Telecommunications | 960 | 125 | 1,085 | 270 | | 270 | 1,355 | 29 | 45 | 74 | | 1,429 |
| Postage | 105 | 357 | 462 | 44 | 29 | 73 | 535 | | | | | 535 |
| Occupancy expenses | 4,975 | 343 | 5,318 | 269 | | 269 | 5,587 | 3,988 | 5,739 | 9,727 | | 15,314 |
| Interest | 7,089 | 445 | 7,534 | 123 | | 123 | 7,657 | 5,543 | 6,528 | 12,071 | | 19,728 |
| Insurance | 1,630 | 81 | 1,711 | 299 | 1 | 300 | 2,011 | | | | | 2,011 |
| Equipment rental and maintenance | 2,062 | 121 | 2,183 | 65 | | 65 | 2,248 | | | | | 2,248 |
| Printing and publications | 87 | 242 | 329 | 45 | 15 | 60 | 389 | | | | | 389 |
| Travel and transportation | 902 | 1,043 | 1,945 | 669 | | 669 | 2,614 | 10 | 5 | 15 | | 2,629 |
| Conferences and meetings | 181 | 154 | 335 | 204 | | 204 | 539 | 104 | 72 | 176 | | 715 |
| Specific assistance to individuals | 18,951 | 453 | 19,404 | 4 | | 4 | 19,408 | | | | | 19,408 |
| Awards and grants to affiliates: | | | | | | | | | | | | |
| Development awards | | 4,282 | 4,282 | | | | 4,282 | | | | | 4,282 |
| Endowment awards | | 370 | 370 | | | | 370 | | | | | 370 |
| Other | 4,984 | 632 | 5,616 | 3,745 | 20 | 3,765 | 9,381 | 931 | 1,610 | 2,541 | $ (1,731) | 10,191 |
| Depreciation and amortization | 6,164 | 467 | 6,631 | 260 | | 260 | 6,891 | 6,597 | 6,368 | 12,965 | | 19,856 |
| | $ 127,051 | $ 74,114 | $ 201,165 | $ 25,117 | $ 309 | $ 25,426 | $ 226,591 | $ 21,361 | $ 25,086 | $ 46,447 | $ (1,731) | $ 271,307 |

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013
(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 | $ 54,545 | $ 4,826 | $ 59,371 | $ 10,166 | | $ 10,166 | $ 69,537 | $ 1,755 | $ 2,147 | $ 3,902 | | $ 73,439 |
| Pension expense | 546 | 48 | 594 | 2,184 | | 2,184 | 2,778 | | | | | 2,778 |
| Other employee benefits | 8,071 | 649 | 8,720 | 1,266 | | 1,266 | 9,986 | 298 | 300 | 598 | | 10,584 |
| Payroll taxes | 4,291 | 345 | 4,636 | 658 | | 658 | 5,294 | 302 | 346 | 648 | | 5,942 |
| Legal fees | 232 | 10 | 242 | 183 | | 183 | 425 | 64 | 61 | 125 | | 550 |
| Accounting fees | 225 | 6 | 231 | 572 | $ 7 | 579 | 810 | 232 | 310 | 542 | | 1,352 |
| Other professional fees | 4,827 | 41,205 | 46,032 | 1,485 | 50 | 1,535 | 47,567 | 891 | 393 | 1,284 | | 48,851 |
| Supplies and office expenses | 2,336 | 457 | 2,793 | 523 | | 523 | 3,316 | 526 | 679 | 1,205 | | 4,521 |
| Telecommunications | 834 | 68 | 902 | 236 | | 236 | 1,138 | 31 | 47 | 78 | | 1,216 |
| Postage | 122 | 320 | 442 | 37 | | 37 | 479 | | | | | 479 |
| Occupancy expenses | 5,461 | 539 | 6,000 | 237 | | 237 | 6,237 | 3,558 | 4,685 | 8,243 | | 14,480 |
| Interest | 4,918 | 576 | 5,494 | 130 | 4 | 134 | 5,628 | 4,449 | 3,424 | 7,873 | | 13,501 |
| Insurance | 1,620 | 77 | 1,697 | 223 | 17 | 240 | 1,937 | | | | | 1,937 |
| Equipment rental and maintenance | 2,070 | 132 | 2,202 | 39 | | 39 | 2,241 | | | | | 2,241 |
| Printing and publications | 97 | 473 | 570 | 55 | | 55 | 625 | | | | | 625 |
| Travel and transportation | 679 | 1,119 | 1,798 | 780 | | 780 | 2,578 | 4 | 20 | 24 | | 2,602 |
| Conferences and meetings | 185 | 120 | 305 | 175 | | 175 | 480 | 101 | 74 | 175 | | 655 |
| Specific assistance to individuals | 16,112 | 547 | 16,659 | | | | 16,659 | | | | | 16,659 |
| Awards and grants to affiliates: | | | | | | | | | | | | |
| Development awards | | 5,809 | 5,809 | | | | 5,809 | | | | | 5,809 |
| Endowment awards | | 885 | 885 | | | | 885 | | | | | 885 |
| Other | 6,338 | 750 | 7,088 | 5,545 | 509 | 6,054 | 13,142 | 956 | 1,304 | 2,260 | $ (1,251) | 14,151 |
| Depreciation and amortization | 5,534 | 518 | 6,052 | 231 | | 231 | 6,283 | 5,876 | 5,144 | 11,020 | | 17,303 |
| | $ 119,043 | $ 59,479 | $ 178,522 | $ 24,725 | $ 587 | $ 25,312 | $ 203,834 | $ 19,043 | $ 18,934 | $ 37,977 | $ (1,251) | $ 240,560 |

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 34 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.; VOANS PACE Holding Company and its 60% owned subsidiary, Essex St. Commercial, LLC.; Volunteers of America Washington and certain real estate general and limited partnerships.

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

Volunteers of America, Inc., Volunteers of America National Services, Volunteers of America Correctional Services 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 eliminated on the consolidated statement of financial position.

Intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services were $4,459,000 and $2,855,000 for the years ended June 30, 2014 and 2013, respectively. The cumulative amount of intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services was $24,154,000 and $19,696,000 at June 30, 2014 and 2013, 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 are 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 185 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 34 and 35 Local Offices for the fiscal years ended June 30, 2014 and 2013, 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 12 and 17 individual and family properties under development at June 30, 2014 and 2013, 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 12).

2. Significant accounting policies (continued):

Investments:

Investments consist primarily of stocks, bonds, and cash reserve funds. They are recorded at fair value based on quoted market prices. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. 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 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 $293,000 and $196,000 for the years ended June 30, 2014 and 2013, respectively. Amortization expense is estimated to be approximately $207,000 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 is included in other long-term liabilities at June 30, 2013. As of June 30, 2014, the entire $5,000,000 has been recognized as revenue.

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 $115,926,000 and $102,458,000 at June 30, 2014 and 2013, respectively, represents the ownership by the limited partners and not that of the general partners.

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 $3,907,000 and $3,919,000 at June 30, 2014 and 2013, 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 would 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 capitalizing approximately $325,000 of developer fees as reimbursable costs for the fiscal year ended June 30, 2014 and reducing reimbursable costs and increasing expense by $599,000 for the fiscal year ended June 30, 2013. 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 33% and 34% of its operating revenues from Medicare and Medicaid for the years ended June 30, 2014 and 2013, respectively.

Allocation of functional expenses:

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

2. Significant accounting policies (continued):

Discontinued operations:

On December 20, 2013, the Organization sold two skilled nursing facilities located in Minnesota to an unrelated party. The sales price was $9,000,000. The Organization recorded a gain of approximately $3,273,000. The Organization also holds for sale an affordable housing complex located in Washington. A sale is pending, with an expected closing date during fiscal year 2015. The results of operations for the three facilities have been reclassified to gain (loss) on discontinued operations. Included in gain (loss) on discontinued operations are operating revenues of approximately $7,000,000 and $13,000,000 for the years ended June 30, 2014 and 2013, respectively.

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 gain on discontinued operations. Included in gain on discontinued operations are operating revenues of $3,131,000 for the year ended June 30, 2013.

Acquisition:

In July 2013 the Organization became the sole member of Volunteers of America of Washington in place of its parent, Volunteers of America, Inc. Accordingly, the Organization recorded a net asset transfer from parent of $353,000.

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.

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

2. Significant accounting policies (continued):

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's federal tax returns generally remaining open for examination are the last three years from the filing date and tax filings are current.

Concentration of credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments, notes receivable 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.

With respect to third-party payor and patient receivables, the Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Reclassifications:

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

Subsequent events:

Management has evaluated for subsequent events through October 24, 2014, the date the financial statements were available for issuance.

3. Property and equipment:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Land and improvements | **$ 12,591** | $ 13,102 |
| Building and improvements | **149,995** | 152,968 |
| Furniture and equipment | **30,328** | 30,887 |
| | **192,914** | 196,957 |
| Less accumulated depreciation | **77,915** | 80,953 |
| | **$ 114,999** | $ 116,004 |

Depreciation expense for the years ended June 30, 2014 and 2013, was $6,683,000 and $6,415,000, respectively.

4. Notes receivable allowance for doubtful accounts:

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

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Balance at beginning of year | **$ 4,168** | $ 3,606 |
| Provision for losses | **1,058** | 631 |
| Charge-offs | **(249)** | (69) |
| Recoveries | **(37)** | |
| Balance at end of year | **$ 4,940** | $ 4,168 |

5. Encumbered assets:

At June 30, 2014 and 2013, encumbered assets included the following donor restrictions, legal agreements and board designations:

| | **VOA, Inc.** | **VOANS** | **2014** | 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Restricted assets: | | | | |
| Temporarily | **$ 619** | | **$ 619** | $ 432 |
| Permanently | **882** | | **882** | 846 |
| Board designated | **17,097** | | **17,097** | 17,600 |
| Bonds: | | | | |
| Trust funds | | **$ 28,370** | **28,370** | 10,958 |
| Trust escrow | | **7,831** | **7,831** | 3,143 |
| Advance and interest funds | | | | 182 |
| Certificates of deposit held as collateral | | **1,381** | **1,381** | 1,349 |
| Encumbered assets | **$ 18,598** | **$ 37,582** | **$ 56,180** | $ 34,510 |

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.

5. Encumbered assets (continued):

At June 30, 2014 and 2013, encumbered assets consisted of the following classes of assets:

| | VOA, Inc. | VOANS | 2014 | 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Cash and cash equivalents | $ 1,049 | $ 7,831 | $ 8,880 | $ 3,833 |
| Investments (see below) | 17,549 | 1,381 | 18,930 | 19,719 |
| Bond trust funds | | 28,370 | 28,370 | 10,958 |
| Encumbered assets | $ 18,598 | $ 37,582 | $ 56,180 | $ 34,510 |

| | VOA, Inc. | VOANS | 2014 | 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Investments included in encumbered assets: | | | | |
| Cash held for re-investment | $ 1,874 | | $ 1,874 | $ 834 |
| Certificates of deposit | | $ 1,381 | 1,381 | 1,349 |
| Fixed income (see Note 7) | 8,794 | | 8,794 | 7,758 |
| Equities (see Note 7) | 11,976 | | 11,976 | 12,823 |
| Other (see Note 7) | 5,586 | | 5,586 | 4,835 |
| | 28,230 | 1,381 | 29,611 | 27,599 |
| Unencumbered securities held with encumbered assets | (10,681) | | (10,681) | (7,880) |
| Investments included in encumbered assets | $ 17,549 | $ 1,381 | $ 18,930 | $ 19,719 |

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, 2014 and 2013, 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, 2014 and 2013 are as follows:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Beginning balance, July 1 | **$ 23,127** | $ 20,942 |
| Investment net gains | **3,674** | 3,290 |
| Transfer | **1,536** | |
| Reduction of endowment assets to pay awards | **(1,527)** | (1,105) |
| Ending balance, June 30 | **26,810** | 23,127 |
| Less unrestricted growth of endowment funds | **(10,681)** | (8,197) |
| Other board designated net assets other than endowment funds | **968** | 2,670 |
| Unrestricted board designated net assets | **$ 17,097** | $ 17,600 |
| Appropriation of endowment assets available | **$ 890** | $ 885 |

6. Investments:

At June 30, 2014 and 2013, investments were as follows:

| | **VOA, Inc.** | **VOANS** | **2014** | 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Unencumbered: | | | | |
| Cash held for re-investment | **$ 296** | **$ 555** | **$ 851** | $ 371 |
| Certificates of deposit | | **3,481** | **3,481** | 6,818 |
| Fixed income (see Note 7) | **1,322** | **2,424** | **3,746** | 3,161 |
| Equities (see Note 7) | **1,827** | **3,664** | **5,491** | 5,072 |
| Other (see Note 7) | **767** | **1,646** | **2,413** | 2,232 |
| | **4,212** | **11,770** | **15,982** | 17,654 |
| Unencumbered securities held with encumbered assets | **10,681** | | **10,681** | 7,880 |
| | **$ 14,893** | **$ 11,770** | **$ 26,663** | $ 25,534 |

6. Investments (continued):

| | VOA, Inc. | VOANS | 2014 | 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Statement of financial position classification: | | | | |
| Short-term investments | | $ 11,770 | $ 11,770 | $ 14,004 |
| Long-term investments | $ 14,893 | | 14,893 | 11,530 |
| | $ 14,893 | $ 11,770 | $ 26,663 | $ 25,534 |

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, 2014 and 2013:

| | 2014 | | | |
|---|---|---|---|---|
| Financial Asset Category | Level 1 | Level 2 | Level 3 | Total |
| | | (in thousands) | | |
| Fixed income: | | | | |
| Asset backed securities | $ 1,740 | | | $ 1,740 |
| Mutual funds | 4,681 | | | 4,681 |
| Government and agency bonds | 4,375 | | | 4,375 |
| Corporate bonds | 1,744 | | | 1,744 |
| Equities: | | | | |
| Common stock: | | | | |
| Large Cap Growth | 2,354 | | | 2,354 |
| Large Cap Value | 2,704 | | | 2,704 |
| All Cap Growth | 3,935 | | | 3,935 |
| All Cap Value | 3,816 | | | 3,816 |
| International | 4,627 | | | 4,627 |
| Preferred stock, international | 31 | | | 31 |
| Other: | | | | |
| Hedge funds | | $ 2,008 | | 2,008 |
| Mutual funds: | | | | |
| Tactical Allocation | 2,002 | | | 2,002 |
| Global Allocation | 3,989 | | | 3,989 |
| Total | $ 35,998 | $ 2,008 | $ 0 | $ 38,006 |

7. Fair Value Measurements (continued):

| | 2013 | | | |
|---|---|---|---|---|
| Financial Asset Category | Level 1 | Level 2 | Level 3 | Total |
| | | (in thousands) | | |
| Fixed income: | | | | |
| Asset backed securities | $ 2,174 | | | $ 2,174 |
| Mutual funds | 3,063 | | | 3,063 |
| Government and agency bonds | 4,041 | | | 4,041 |
| Corporate bonds | 1,641 | | | 1,641 |
| Equities: | | | | |
| Common stock: | | | | |
| Large Cap Growth | 2,178 | | | 2,178 |
| Large Cap Value | 2,572 | | | 2,572 |
| All Cap Growth | 5,156 | | | 5,156 |
| All Cap Value | 3,625 | | | 3,625 |
| International | 4,336 | | | 4,336 |
| Preferred stock, international | 28 | | | 28 |
| Other: | | | | |
| Hedge funds | | $ 1,711 | | 1,711 |
| Annuities | | 291 | | 291 |
| Mutual funds: | | | | |
| Tactical Allocation | 1,326 | | | 1,326 |
| Global Allocation | 3,739 | | | 3,739 |
| Total | $ 33,879 | $ 2,002 | $ 0 | $ 35,881 |
| Interest rate swap liability | | $ 185 | $ 0 | $ 185 |

At June 30, 2014 and 2013, the Organization had approximately $1,837,000 and $1,100,000, respectively, of investments in entities that are calculated using net asset value per share (A&Q: 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 45-90 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 a 60 day redemption notice period and are available to be redeemed with no restrictions. There were no unfunded capital commitments as of June 30, 2014 and 2013.

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, 2014, National Services has invested approximately $1,198,000 in GSS/VOA, LLC. National Services uses the equity method to account for this investment and accordingly has reduced the investment to approximately $224,000. National Services share of the losses for the years ended June 30, 2014 and 2013 were $0 and $449,000, respectively.

National Services has a one-third ownership interest with two unrelated parties in Alliance Technology Solutions Holding Company, LLC to invest in a company whose purpose is to develop and deal with computer and software technology focused upon the elderly and their care providers. As of June 30, 2014, 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 $215,000. National Services' share of gains for each of the years ended June 30, 2014 and 2013 were $16,000 and $9,000, respectively.

9. Lines of credit:

The National Organization has an existing bank line of credit of $5,000,000 which expires on January 31, 2015, whereby $5,000,000 remains available. The line is unsecured and bears interest at an annual rate equal to 1.8% for fiscal year 2014 and 2.5% for fiscal year 2013 plus the LIBOR daily floating rate, which was 1.95% and 2.69% at June 30, 2014 and 2013, respectively. Additionally, the bank charges 0.2% on any unused portion of the line of credit. There were no borrowings outstanding under this line of credit arrangement as of June 30, 2014 and 2013.

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, 2014 and 2013, no amounts were outstanding.

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 2.25% and 2.29% at June 30, 2014 and 2013, respectively. Additionally, the bank charges .4% on any unused portion of the line of credit. No collateral is required. At June 30, 2014 and 2013, the full amount of the Revolving Credit Agreement was available to National Services.

10. Long-term debt:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Real estate notes and mortgages, 2% to 6%, due in varying amounts through 2040 | **$ 10,895** | $ 7,410 |
| Revenue bonds and mortgages, 3.8% to 9.0%, due in varying amounts through 2046 | **142,115** | 119,103 |
| | **153,010** | 126,513 |
| Less unamortized discount | **1,156** | 518 |
| | **151,854** | 125,995 |
| Less current portion | **2,008** | 4,144 |
| | **$ 149,846** | $ 121,851 |

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

| | Amount |
|---|---|
| | (in thousands) |
| 2015 | $ 2,008 |
| 2016 | 3,743 |
| 2017 | 2,539 |
| 2018 | 3,656 |
| 2019 | 5,282 |
| Thereafter | 135,782 |
| | $ 153,010 |

At June 30, 2014 and 2013, 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.

On July 30, 2014, VOA Rehabilitation Centers, Inc., who subsequent to the year ended June 30, 2014, became a wholly-owned subsidiary of National Services, issued $17,190,000 in tax-exempt revenue bonds for the purpose of the acquisition, development, construction, and equipping of a transitional care skilled nursing facility and a geriatric psychiatric facility to be located in Tiffin, Ohio and $1,025,000 in taxable revenue bonds to be used for issuance costs. The bonds are due on July 1, 2049, and are secured by the transitional care skilled nursing and geriatric psychiatric facilities and related equipment and furnishings. The fixed interest rates range from 5.625% to 8%.

## 11. 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, 2014 and 2013, the National Organization paid $679,000 and $897,000, respectively, to these 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 National 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 National Organization, it is not anticipated that any employer will choose to stop participating.

The financial health of the multi-employer 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, 2014** | January 1, 2013 |
|---|---|---|
| Market value of plan assets | **$ 49,422,000** | $ 41,252,000 |
| Present value of accumulated plan benefits | **56,991,000** | 54,543,000 |
| Actuarial valuation of the unfunded pension liability | **$ 7,569,000** | $ 13,291,000 |

| | **Fiscal year 2014** | Fiscal year 2013 |
|---|---|---|
| Funded status | **Less than 65%** | Less than 65% |
| Employer's contribution to the plan | **$ 1,115,000** | $ 1,028,000 |
| Total contributions received by the plan | **3,890,000** | 3,738,000 |
| Employer's contribution >5% of total contributions to the plan | **Yes** | Yes |
| Total fair value of plan assets at year end | **52,249,000** | 44,334,000 |

11. Commitments (continued):

Pension plans (continued):

Defined benefit plans (continued):

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 the years ended June 30, 2014 and 2013, 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.

The following table presents certain information with respect to the plan for non-minister employees at June 30, 2014 and 2013:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Projected benefit obligation | **$ 6,446** | $ 6,305 |
| Plan assets, at fair value | **4,768** | 4,366 |
| Unfunded status | **$ 1,678** | $ 1,939 |
| Net periodic benefit cost | **$ 254** | $ 363 |
| Employer contributions | **$ 223** | $ 241 |
| Benefits paid | **$ 269** | $ 220 |

| | | |
|---|---|---|
| Weighted average assumptions used to determine benefit obligation at June 30: | | |
| Discount Rate | **4.50%** | 4.50% |
| 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 | **4.50%** | 4.15% |
| 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, 2014 and 2013. The net gain recognized in the years ended June 30, 2014 and 2013 was approximately $294,000 and $644,000, respectively. The net loss expected to be recognized as a component of net periodic pension cost over the next twelve months is $128,000.

11. Commitments (continued):

Pension plans (continued):

Defined benefit plans (continued):

The accumulated benefit obligation was $6,239,000 and $6,117,000 at June 30, 2014 and 2013, respectively.

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

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

National Services employs a global allocation model by investing in two mutual funds. The funds are allowed to move between various asset classes predicated on the fund manager's assessment of over/under valued markets or sectors. Therefore, there are no set target 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:

| | **2014** | 2013 |
|---|---|---|
| | **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 | **$ 4,729** | $ 4,280 |

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

| | Amount (in thousands) |
|---|---|
| 2015 | 272 |
| 2016 | 297 |
| 2017 | 311 |
| 2018 | 328 |
| 2019 | 346 |
| 2020 - 2024 | 1,994 |

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 $2,060,000 and $1,584,000 as of June 30, 2014 and 2013, respectively, at its fair value.

11. Commitments (continued):

Guarantees and indemnifications:

The Organization has guarantees and indemnifications, which are contingent commitments. Since these remote guarantees are with entities under common control, they are excluded from the recognition and measurement requirements, but are disclosed.

| | | Guarantee risk details | | | | | |
|---|---|---|---|---|---|---|---|
| Guarantor(s) | Beneficiary and purpose | Amount | Term | Trigger(s) for guarantor performance | Likelihood of future payments | Guarantor payments made to date | Other comments |
| Volunteers of America, Inc. | Volunteers of America Chesapeake, Inc. for acquisition and renovation of 150-bed building for Federal Bureau of Prisons program | $7,000,000 | July 6, 2012 to July 6, 2019 | Loan default by beneficiary | Remote | None | |
| Volunteers of America National Services (on joint and several basis with two related parties) | Chateau Carre Apartments Limited Partnership for rehabilitation of 150 unit affordable housing project in New Orleans, LA during operating deficit period | $727,000 | Five years after break-even operations are established | Operating deficit | Remote | None | Beneficiary has funded an operating reserve of $727,000 |
| Volunteers of America National Services (on joint and several basis with two related parties) | New Covington Apartments LP and Renaissance Neighborhood Development Corporation for acquisition, construction and operation of a 94 unit affordable housing project in Covington, LA during operating deficit period | $695,000 | July 2015 | Operating deficit | Remote | None | Beneficiary has funded an operating reserve of $305,000 |
| Volunteers of America National Services | Orono Senior Housing, LLC for City of Orono, Minnesota, Senior Housing Refunding Revenues Bonds Series 2006B | 50% of $650,000 bond principal outstanding | November 1, 2014 | Failure of beneficiary to make timely principal and interest payments | Remote | None | |

11. Commitments (continued):

Guarantees and indemnifications:

| | | Guarantee risk details | | | | | |
|---|---|---|---|---|---|---|---|
| Guarantor(s) | Beneficiary and purpose | Amount | Term | Trigger(s) for guarantor performance | Likelihood of future payments | Guarantor payments made to date | Other comments |
| Volunteers of America National Services | VOA Sunset Housing, LP for acquisition and rehabilitation of a 242 unit affordable housing project located in Denver, CO | $1,260,000 | January 1, 2007 to December 31, 2021 | Failure of beneficiary to deliver tax credits | Remote | None | |
| Volunteers of America National Services | VOANS CDE Inc. for indemnity against recapture of the New Markets Tax Credit investments of VOANS CDE, Inc for projects:<br>a) 1770 Tchoupitoulas LLC, New Orleans, LA; b)VOA Chesapeake RRC, QALICB, LLC, , Baltimore, MD; c) CommCare Avoyelles, Mansura, LA; and<br>d) RHCHC Realty, LLC, Springfield, OH | $624,200; $902,500; $525,000, and $630,000 for each project | Through July 1, 2019; July 5, 2019; December 3, 2019, and December 16, 2019 for each project | Failure to maintain CDE status and meet requirement of the NMTC allocation | Remote | None | |

11. Commitments (continued):

Guarantees and indemnifications (continued):

| | | Guarantee risk details | | | | | |
|---|---|---|---|---|---|---|---|
| Guarantor(s) | Beneficiary and purpose | Amount | Term | Trigger(s) for guarantor performance | Likelihood of future payments | Guarantor payments made to date | Other comments |
| | | In favor of State of Louisiana Office of Community Development | | | | | |
| Volunteers of America National Services (on joint and several basis with Renaissance Neighborhood Development Corporation and Volunteers of America of Greater New Orleans, Inc.) | Renaissance Neighborhood Development Corporation and 1770 Tchoupitoulas LLC Community Development Corporation in favor of: a) State of Louisiana Office of Community Development; b) U.S. Bankcorp Community Development; and c) IberiaBank | $3,457,000 | July 2, 2012 to July 2, 2037 | Failure of beneficiary to complete construction or default or non-compliance on debt and grant | Remote | None | |
| | | In favor of U.S. Bankcorp Community Development | | | | | |
| | | $5,199,213 | July 2, 2012 to July 1, 2019 | Failure of project to meet payment, performance, IRR and recapture benchmarks set out in agreements | Remote | None | |
| | | In favor of IberiaBank | | | | | |
| | | $3,232,032 term loan and $8,985,459 bridge loan | July 2, 2012 to July 2, 2019 term loan and July 2, 2012 to July 2, 2014 bridge loan | Failure of beneficiary to complete construction or for loan default | Remote | None | |

11. Commitments (continued):

Guarantees and indemnifications (continued):

| | | Guarantee risk details | | | | | |
|---|---|---|---|---|---|---|---|
| Guarantor(s) | Beneficiary and purpose | Amount | Term | Trigger(s) for guarantor performance | Likelihood of future payments | Guarantor payments made to date | Other comments |
| Volunteers of America National Services | 1100 Tulane LLC for acquiring property at 1100 Tulane Ave in New Orleans, LA. | 50% of all guaranty, NTE $1,207,500 | June 21, 2013 to July 21, 2015 | Loan default by beneficiary | Remote | None | |

11. 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 was 1.6% in both 2014 and 2013.

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

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Building cost | **$ 723** | $ 723 |
| Equipment cost | **70** | 70 |
| | **793** | 793 |
| Less accumulated amortization | **369** | 314 |
| Net book value | **$ 424** | $ 479 |

Amortization expense relating to the capital leases, which is included in depreciation expense was $55,000 and $61,000 for 2014 and 2013, respectively. Future principal and interest payments under capital leases as of June 30, 2014, are as follows:

| Year ending June 30, | Amount (in thousands) |
|---|---|
| 2015 | $ 318 |
| 2016 | 318 |
| 2017 | 318 |
| 2018 | 318 |
| 2019 | 318 |
| Thereafter | 1,272 |
| | 2,862 |
| Less amount representing interest | 2,177 |
| Present value of net minimum lease obligation payments, which is recorded in other current and other long-term liabilities | $ 685 |

12. Related party transactions:

Administrative income from local offices and program fees:

Administrative fees from the Local Offices are calculated based on a Board-approved formula, whereby approximately 2.25% for 2014 and 2013, 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, 2014 and 2013, the National Organization awarded approximately $5,105,000 and $7,241,000, 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.

Renaissance Neighborhood Development Corporation (RNDC):

National Services has a fifty-percent ownership in RNDC. RNDC was formed to respond to the devastation of Hurricane Katrina so as to construct, rehabilitate, or acquire housing in the greater New Orleans, Louisiana area that is affordable to very low, low and moderate income families. As of June 30, 2014 and 2013, the Organization has not recorded any activity related to RNDC.

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, 2014 and 2013, VOANS 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.

## 13. Restricted net assets:

At June 30, 2014 and 2013, temporarily restricted net assets could be expended for the following:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Awards of Volunteers of America Local Offices and other program services | **$ 774** | $ 688 |
| Scholarships to Volunteers of America employees | **42** | 37 |
| | **$ 816** | $ 725 |

Temporarily restricted net assets were released from restriction during the years ended June 30, 2014 and 2013, fulfilling donor stipulations for the following purposes:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Awards to Volunteers of America Local Offices and other program services | **$ 3,245** | $ 5,016 |

Permanently restricted net assets of $882,000 and $846,000 as of June 30, 2014 and 2013, respectively, relate to contributions received from donors to be maintained in perpetuity.

## 14. Contributions in-kind:

For the years ended June 30, 2014 and 2013, the National Organization received $312,000 and $229,000, respectively, in various goods, which its participating Local Offices use in its program services. The National Organization received $53,266,000 and $35,436,000 in public service advertising and branding for the years ended June 30, 2014 and 2013, respectively. Additionally, National Services received $141,000 and $204,000 in various goods for the years ended June 30, 2014 and 2013, 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).

| | Federal CFDA number | Federal expenditures |
|---|---|---|
| Department of Justice: | | |
| Federal Bureau of Prisons, Residential Reentry Center Services | DJB200926, DJB200155 | $ 3,391,321 |
| 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 | 276,085 |
| Nutrition Services Incentive Program | 93.053 | 83,929 |
| | | 360,014 |
| Pass-through State of Colorado: | | |
| Pass-through Connect for Health Colorado: | | |
| State Planning and Establishment Grants for the Affordable Care Act Exchanges | 93.525 | 127,070 |
| Total Department of Health and Human Services | | 487,084 |
| Department of Treasury: | | |
| Capital Magnet Fund | 21.011 | 1,639,432 |
| Total federal expenditures | | $ 5,517,837 |

See notes to schedule of expenditures of federal awards.

1. Basis of presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Volunteers of America, Inc. and Subsidiaries under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Volunteers of America, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Volunteers of America, Inc. and Subsidiaries. This schedule does not include federal awards received and expended by separately incorporated Local Offices of Volunteers of America, Inc.

2. Summary of significant accounting policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principals for Not-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Subrecipients:

Of the federal expenditures presented in this Schedule, Volunteers of America, Inc. and Subsidiaries provided federal awards to subrecipients as follows:

| Program title | Federal CFDA number | Amount provided to subrecipients |
|---|---|---|
| Capital Magnet Fund | 21.011 | $ 1,500,000 |

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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, 2014, 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 24, 2014.

### 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

October 24, 2014

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

INDEPENDENT AUDITOR'S REPORT

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, 2014. 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, 2014.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**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. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-01, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 24, 2014

**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 deficiency identified? | None reported |
| Noncompliance material to financial statements noted? | No |

*Federal Awards*

| | |
|---|---|
| Internal control over major program: | |
| Material weakness identified? | No |
| Significant deficiency identified? | Yes |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-l33? | Yes |

| Identification of major programs: | CFDA#: | Federal Program: |
|---|---|---|
| | DJB200926, DJB200155 | Residential Reentry Center Services |
| | 93.045, 93.053 | Special Programs for the Aging Cluster: Special Programs for the Aging–Title III, Part C – Nutrition Services; Nutrition Services Incentive Program |
| | 93.525 | State Planning and Establishment Grants for the Affordable Care Act Exchanges |

| | |
|---|---|
| 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**

2014-01 Incomplete Schedule of Expenditures of Federal Awards
*Federal Agency and Program Name*: Department of Health and Human Services, Pass-through State of Colorado, Pass-through Connect for Health Colorado: State Planning and Establishment Grants for the Affordable Care Act Exchanges
*CFDA: 93.525*

*Criteria* – OMB Circular No. A-133 requirements state that it is the auditee's responsibility to identify all federal awards received and expended and the federal programs under which they were received and to prepare the schedule of expenditures of federal awards (SEFA). The SEFA at a minimum needs to include the total federal awards expended from each individual federal program.

*Condition* – There was one error identified during the audit which required management to correct the SEFA.

*Questioned costs* – N/A

*Cause* – Currently not all contracts and grants are reviewed to ensure compliance with A-133 requirements and to ensure completeness of the SEFA before it is submitted to the auditors.

*Context* – One federal award was added to the SEFA from its original completion totaling $127,070.

*Effect* - The original SEFA was incomplete and the total amount of federal expenditures was under reported by $127,070.

*Recommendation* – We recommend the Organization develop a formal review process of contracts and grants. The Vice President Chief Accounting Officer (VP-CAO) should review all contracts and grants upon receipt to ensure compliance with A-133 requirements, if applicable, and to ensure completeness of the SEFA.

*Management response* – Though the revenue from federal awards represented .05% of the total revenue from operations of VOA, Inc. and its Subsidiaries for the year ended June 30, 2014, management is putting into place a process that would strengthen the existing process. The Organization's accounting leaders shall continue to review each new grant and contract. They shall maintain a master list of grants and contracts for the fiscal year identifying the donor / parties to the contract, period of agreement, the total grant / contract amount, and the federal department and the CFDA number for agreements subject to A-133 audit.

A file server folder shall be set up to store copies of the agreements and the master list for each group. This shall be reviewed on a quarterly basis by the VP-CAO or her designee to ensure that all federal awards are appropriately identified and reported in the SEFA.

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(IN THOUSANDS)

| | Volunteers of America, Inc. | Volunteers of America Correctional Services | Volunteers of America National Services | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 5,924 | $ 25 | $ 24,701 | | $ 30,650 |
| Accounts receivable, net | 2,550 | 363 | 14,466 | $ (1,306) | 16,073 |
| Current portion of notes receivable | 862 | | 74 | (98) | 838 |
| Short-term investments | | | 11,770 | | 11,770 |
| Prepaid expenses | 185 | 35 | 1,400 | | 1,620 |
| Other current assets, net | 475 | | 3,877 | | 4,352 |
| Total current assets | 9,996 | 423 | 56,288 | (1,404) | 65,303 |
| Property and equipment, net | 5,564 | 2,416 | 107,019 | | 114,999 |
| Other assets: | | | | | |
| Encumbered assets | 18,598 | | 37,582 | | 56,180 |
| Long-term investments | 14,893 | | | | 14,893 |
| Notes receivable, net and net of current portion | 3,821 | | 3,421 | (4,114) | 3,128 |
| Reimbursable costs | | | 4,971 | | 4,971 |
| Deferred charges and other assets, net | 2,382 | 54 | 5,643 | | 8,079 |
| Limited and general partnerships' assets | | | 406,497 | | 406,497 |
| Total other assets | 39,694 | 54 | 458,114 | (4,114) | 493,748 |
| Total assets | $ 55,254 | $ 2,893 | $ 621,421 | $ (5,518) | $ 674,050 |
| **Liabilities and net assets:** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 2,518 | $ 51 | $ 6,372 | $ (1,267) | $ 7,674 |
| Current portion of long-term debt | 356 | 98 | 1,652 | (98) | 2,008 |
| Accrued expenses | 1,646 | 251 | 13,067 | (39) | 14,925 |
| Other current liabilities | 1,568 | 7 | 4,270 | | 5,845 |
| Total current liabilities | 6,088 | 407 | 25,361 | (1,404) | 30,452 |
| Long-term liabilities: | | | | | |
| Long-term debt, net of current portion | 5,944 | 1,366 | 143,902 | (1,366) | 149,846 |
| Other long-term liabililties | 5,215 | 1,426 | 6,589 | (2,748) | 10,482 |
| Limited and general partnerships' liabilities | | | 294,635 | | 294,635 |
| Total long-term liabilities | 11,159 | 2,792 | 445,126 | (4,114) | 454,963 |
| Total liabilities | 17,247 | 3,199 | 470,487 | (5,518) | 485,415 |
| Net assets (accumulated deficit): | | | | | |
| Unrestricted attributable to: | | | | | |
| Controlled limited and general partnerships | | | 2,827 | | 2,827 |
| Operations | 36,309 | (306) | 32,181 | | 68,184 |
| Parent | 36,309 | (306) | 35,008 | | 71,011 |
| Non-controlling interests in limited and general partnerships | | | 115,926 | | 115,926 |
| | 36,309 | (306) | 150,934 | | 186,937 |
| Temporarily restricted | 816 | | | | 816 |
| Permanently restricted | 882 | | | | 882 |
| Total net assets (accumulated deficit) | 38,007 | (306) | 150,934 | | 188,635 |
| Total liabilities and net assets (accumulated deficit) | $ 55,254 | $ 2,893 | $ 621,421 | $ (5,518) | $ 674,050 |

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

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

| | 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 | $ 2,676 | $ 3,331 | | | | $ 4,032 | | $ 10,039 | | | $ 10,039 |
| Contributions, in-kind | 53,578 | | | | | 141 | | 53,719 | | | 53,719 |
| Total public support | 56,254 | 3,331 | | | | 4,173 | | 63,758 | | | 63,758 |
| Government grants and contracts | | | | $ 3,531 | | 379 | | 3,910 | $ 14,457 | | 18,367 |
| Other revenue: | | | | | | | | | | | |
| Program fees | 4,280 | | | | | 46,111 | $ (2,211) | 48,180 | 17,228 | | 65,408 |
| Program fees, Medicaid and Medicare | | | | | | 83,644 | | 83,644 | | | 83,644 |
| Administrative income from Local Offices | 12,141 | | | | | | (360) | 11,781 | | | 11,781 |
| Net rental income | 204 | | | | | 165 | | 369 | 88 | | 457 |
| Other operating income | 24 | | | | | 12,547 | | 12,571 | 4,562 | $ (4,459) | 12,674 |
| Total other revenue | 16,649 | | | | | 142,467 | (2,571) | 156,545 | 21,878 | (4,459) | 173,964 |
| Net assets released from restrictions | 3,245 | (3,245) | | | | | | | | | |
| Total revenues from operations | 76,148 | 86 | | 3,531 | | 147,019 | (2,571) | 224,213 | 36,335 | (4,459) | 256,089 |
| Operating expenses: | | | | | | | | | | | |
| Program services: | | | | | | | | | | | |
| Fostering independence | 107 | | | | | 127,304 | (360) | 127,051 | 21,361 | | 148,412 |
| Promoting self sufficiency | 71,467 | | | 2,581 | | 66 | | 74,114 | 25,086 | (1,731) | 97,469 |
| Total program services | 71,574 | | | 2,581 | | 127,370 | (360) | 201,165 | 46,447 | (1,731) | 245,881 |
| Support services: | | | | | | | | | | | |
| Management and general | 6,425 | | | 417 | | 20,486 | (2,211) | 25,117 | | | 25,117 |
| Fundraising | 252 | | | | | 57 | | 309 | | | 309 |
| Total support services | 6,677 | | | 417 | | 20,543 | (2,211) | 25,426 | | | 25,426 |
| Total operating expenses | 78,251 | | | 2,998 | | 147,913 | (2,571) | 226,591 | 46,447 | (1,731) | 271,307 |
| Change in net assets from operations | (2,103) | 86 | | 533 | | (894) | - | (2,378) | (10,112) | (2,728) | (15,218) |
| Non-operating items: | | | | | | | | | | | |
| Interest and dividend income | 704 | 1 | | | | 1,437 | | 2,142 | | | 2,142 |
| Realized net gains on investments | 1,940 | 2 | | | | | | 1,942 | | | 1,942 |
| Equity contributions related to limited and general partnerships | | | | | | | | | 25,153 | | 25,153 |
| Unrealized net gains on investments | 1,822 | 2 | $ 36 | | | 450 | | 2,310 | | | 2,310 |
| Other non-operating gains (losses) | | | | | $ 720 | (114) | (1,074) | (468) | | | (468) |
| Total non-operating items | 4,466 | 5 | 36 | | 720 | 1,773 | (1,074) | 5,926 | 25,153 | | 31,079 |
| Change in net assets before discontinued operations | 2,363 | 91 | 36 | 533 | 720 | 879 | (1,074) | 3,548 | 15,041 | (2,728) | 15,861 |
| Gain on discontinued operations including gain on disposal of $3,273 in 2014 | | | | | | 1,759 | | 1,759 | | | 1,759 |
| Change in net assets | $ 2,363 | $ 91 | $ 36 | $ 533 | $ 720 | $ 2,638 | $ (1,074) | $ 5,307 | $ 15,041 | $ (2,728) | $ 17,620 |

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

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

| | 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 | $ 2,490 | $ 533 | $ 720 | $ 14,951 | $ (1,074) | $ 17,620 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | | | | | |
| Non-controlling interest in limited and general partnerships | | | | (13,468) | | (13,468) |
| Change in limited and general partnerships | | | | 351 | | 351 |
| Loss on deconsolidation of certain entities | | | | | | |
| Increase (decrease) in allowance for doubtful accounts | 413 | | | (999) | 1,090 | 504 |
| Depreciation and amortization | 410 | 270 | | 6,542 | | 7,222 |
| Original issue discount accretion | | | | 62 | | 62 |
| Gain on disposal of discontinued operations | | | | (3,273) | | (3,273) |
| Gain on previously held interest on acquired entity | | | | | | |
| Inherent contribution from acquisition | | | | | | |
| Loss on sale of property | | | | 776 | | 776 |
| Net realized and unrealized investment gains | (3,802) | | | (450) | | (4,252) |
| Permanently restricted contributions and investment income | (36) | | | | | (36) |
| Decrease (increase) in operating assets: | | | | | | |
| Accounts receivable | 745 | (134) | | 471 | 180 | 1,262 |
| Prepaid expenses | (181) | 19 | | 173 | | 11 |
| Other current assets | (475) | | (720) | 424 | | (771) |
| Deferred charges in other assets | (452) | | | 103 | | (349) |
| Increase (decrease) in operating liabilities: | | | | | | |
| Accounts payable | 558 | (8) | | 1,183 | (475) | 1,258 |
| Accrued expenses | 81 | (357) | | 916 | 279 | 919 |
| Other liabilities | (144) | 2 | | (720) | (123) | (985) |
| Net cash (used in) provided by operating activities | (393) | 325 | 0 | 7,042 | (123) | 6,851 |
| Cash flows from investing activities: | | | | | | |
| Purchase of property and equipment | (1,095) | (80) | | (9,371) | | (10,546) |
| Proceeds from sale of property and equipment of discontinued operations | | | | 6,625 | | 6,625 |
| Notes receivable: | | | | | | |
| Advances | (1,377) | | | (1,610) | 123 | (2,864) |
| Payments | 1,586 | | | 606 | (477) | 1,715 |
| Decrease in reimbursable costs | | | | 324 | | 324 |
| Acquisition of entity | | | | | | |
| Cash acquired with acquisition of entity | | | | | | |
| Cash relinquished in deconsolidation of certain entities | | | | | | |
| Cash proceeds withdrawn from investments | 1,921 | | | | | 1,921 |
| Change in investments including encumbered assets | (1,020) | | | (2,036) | | (3,056) |
| Net cash (used in) provided by investing activities | 15 | (80) | | (5,462) | (354) | (5,881) |
| Cash flows from financing activities: | | | | | | |
| Permanently restricted contributions and investment income | 36 | | | | | 36 |
| Long-term debt: | | | | | | |
| Proceeds | 6,170 | | | 49,594 | | 55,764 |
| Payments | (4,877) | (484) | | (25,031) | 477 | (29,915) |
| Increase in deferred charges and other assets | | | | (1,281) | | (1,281) |
| Increase in bond trust funds | | | | (17,412) | | (17,412) |
| Net cash provided by (used in) financing activities | 1,329 | (484) | | 5,870 | 477 | 7,192 |
| Net increase (decrease) in cash and cash equivalents | 951 | (239) | | 7,450 | | 8,162 |
| Cash and cash equivalents, beginning | 4,973 | 264 | | 17,251 | | 22,488 |
| Cash and cash equivalents, ending | $ 5,924 | $ 25 | $ 0 | $ 24,701 | | $ 30,650 |
| Supplemental disclosures of cash flow information: | | | | | | |
| Cash paid for interest | $ 127 | $ 367 | | $ 18,233 | | $ 18,727 |

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

| | Volunteers of America, Inc. | | | | | | | Volunteers of America Correctional Services | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Program services | | | Support services | | | | Program services | Support services | |
| | Fostering independence | Promoting self sufficiency | Total program services | Management and general | Fundraising | Total support services | Subtotal | Promoting self sufficiency | Management and general | Subtotal |
| Salaries | $ 26 | $ 4,253 | $ 4,279 | $ 1,977 | $ 79 | $ 2,056 | $ 6,335 | $ 683 | | $ 683 |
| Pension expense | | 363 | 363 | 1,824 | 6 | 1,830 | 2,193 | | | |
| Other employee benefits | | 448 | 448 | 34 | 12 | 46 | 494 | 149 | | 149 |
| Payroll taxes | | 280 | 280 | 127 | 6 | 133 | 413 | 85 | | 85 |
| Legal fees | | | | 150 | | 150 | 150 | 20 | | 20 |
| Accounting fees | 11 | | 11 | 141 | | 141 | 152 | 10 | | 10 |
| Other professional fees | | 58,323 | 58,323 | 216 | 105 | 321 | 58,644 | 9 | | 9 |
| Supplies and office expenses | | 326 | 326 | 402 | | 402 | 728 | 45 | | 45 |
| Telecommunications | | 42 | 42 | 123 | | 123 | 165 | 23 | | 23 |
| Postage | | 355 | 355 | 16 | 29 | 45 | 400 | 2 | | 2 |
| Occupancy expenses | 18 | 141 | 159 | 144 | | 144 | 303 | 201 | | 201 |
| Interest | | 78 | 78 | 49 | | 49 | 127 | 367 | | 367 |
| Insurance | 12 | 14 | 26 | 195 | | 195 | 221 | 67 | | 67 |
| Equipment rental and maintenance | 24 | 89 | 113 | 16 | | 16 | 129 | 32 | | 32 |
| Printing and publications | | 239 | 239 | 32 | 15 | 47 | 286 | 3 | | 3 |
| Travel and transportation | | 1,012 | 1,012 | 50 | | 50 | 1,062 | 31 | | 31 |
| Conferences and meetings | | 148 | 148 | | | | 148 | 6 | | 6 |
| Specific assistance to individuals | | 453 | 453 | | | | 453 | | | |
| Awards and grants to affiliates: | | | | | | | | | | |
| Development awards | | 4,282 | 4,282 | | | | 4,282 | | | |
| Endowment awards | | 370 | 370 | | | | 370 | | | |
| Other | | 54 | 54 | 732 | | 732 | 786 | 578 | $ 417 | 995 |
| Depreciation and amortization | 16 | 197 | 213 | 197 | | 197 | 410 | 270 | | 270 |
| | $ 107 | $ 71,467 | $ 71,574 | $ 6,425 | $ 252 | $ 6,677 | $ 78,251 | $ 2,581 | $ 417 | $ 2,998 |

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2014
(IN THOUSANDS)

| | 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 | $ 58,758 | | $ 58,758 | $ 8,544 | | $ 8,544 | $ 67,302 | | $ 74,320 | $ 4,280 | | $ 78,600 |
| Pension expense | 604 | | 604 | 796 | | 796 | 1,400 | $ (360) | 3,233 | | | 3,233 |
| Other employee benefits | 7,371 | | 7,371 | 1,001 | | 1,001 | 8,372 | | 9,015 | 556 | | 9,571 |
| Payroll taxes | 4,550 | | 4,550 | 552 | | 552 | 5,102 | | 5,600 | 610 | | 6,210 |
| Legal fees | 159 | $ 5 | 164 | 258 | | 258 | 422 | | 592 | 168 | | 760 |
| Accounting fees | 212 | | 212 | 533 | $ 6 | 539 | 751 | | 913 | 633 | | 1,546 |
| Other professional fees | 5,270 | | 5,270 | 2,438 | 30 | 2,468 | 7,738 | | 66,391 | 1,409 | | 67,800 |
| Supplies and office expenses | 2,360 | | 2,360 | 127 | | 127 | 2,487 | | 3,260 | 1,222 | | 4,482 |
| Telecommunications | 960 | 60 | 1,020 | 147 | | 147 | 1,167 | | 1,355 | 74 | | 1,429 |
| Postage | 105 | | 105 | 28 | | 28 | 133 | | 535 | | | 535 |
| Occupancy expenses | 4,957 | 1 | 4,958 | 125 | | 125 | 5,083 | | 5,587 | 9,727 | | 15,314 |
| Interest | 7,089 | | 7,089 | 74 | | 74 | 7,163 | | 7,657 | 12,071 | | 19,728 |
| Insurance | 1,618 | | 1,618 | 104 | 1 | 105 | 1,723 | | 2,011 | | | 2,011 |
| Equipment rental and maintenance | 2,038 | | 2,038 | 49 | | 49 | 2,087 | | 2,248 | | | 2,248 |
| Printing and publications | 87 | | 87 | 13 | | 13 | 100 | | 389 | | | 389 |
| Travel and transportation | 902 | | 902 | 619 | | 619 | 1,521 | | 2,614 | 15 | | 2,629 |
| Conferences and meetings | 181 | | 181 | 204 | | 204 | 385 | | 539 | 176 | | 715 |
| Specific assistance to individuals | 18,951 | | 18,951 | 4 | | 4 | 18,955 | | 19,408 | | | 19,408 |
| Awards and grants to affiliates: | | | | | | | | | | | | |
| Development awards | | | | | | | | | 4,282 | | | 4,282 |
| Endowment awards | | | | | | | | | 370 | | | 370 |
| Other | 4,984 | | 4,984 | 4,807 | 20 | 4,827 | 9,811 | (2,211) | 9,381 | 2,541 | $ (1,731) | 10,191 |
| Depreciation and amortization | 6,148 | | 6,148 | 63 | | 63 | 6,211 | | 6,891 | 12,965 | | 19,856 |
| | $ 127,304 | $ 66 | $ 127,370 | $ 20,486 | $ 57 | $ 20,543 | $ 147,913 | $ (2,571) | $ 226,591 | $ 46,447 | $ (1,731) | $ 271,307 |