

*Consolidated Financial Statements of*

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

Year ended  
June 30, 2016

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## INDEPENDENT AUDITORS' REPORT

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

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Volunteers of America, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, 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 consolidated financial statements.

### ***Management's Responsibility for the Consolidated 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of VOANS Holding Company and Volunteers of America Texas, Inc., entities whose financial statements are required to be consolidated with the Organization, whose statements reflect total assets constituting approximately 10 percent of the consolidated total assets at June 30, 2016 and total revenues constituting approximately 8 percent of the consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for VOANS Holding Company and Volunteers of America Texas, Inc. is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 Organization'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 Organization'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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Volunteers of America, Inc. and Subsidiaries as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 19 to the consolidated financial statements, net assets as of July 1, 2015 has been restated to correct a misstatement. Our opinion is not modified with the respect to this matter.

### ***Other Matters***

#### *Report on Consolidating Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 39-45 is presented for purposes of additional analysis rather than to present the financial position, results of operations, functional expenses, and cash flows of the Organization, and it 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 consolidating information, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Tysons, Virginia  
October 31, 2016

<b>VOLUNTEERS OF AMERICA, INC. AND SUBSIDIARIES</b>	CONSOLIDATED STATEMENT OF FINANCIAL POSITION JUNE 30, 2016 (IN THOUSANDS)
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*Assets:*

Current assets:

Cash and cash equivalents	\$ 49,089
Accounts receivable, net of allowance for doubtful accounts	24,760
Current portion of notes receivable	725
Short-term investments	13,551
Prepaid expenses	3,118
Other current assets, net of allowance for doubtful accounts	<u>3,792</u>

Total current assets	<u>95,035</u>
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Property and equipment, net of accumulated depreciation	<u>167,063</u>
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Other assets:

Encumbered assets	74,069
Long-term investments	11,839
Notes receivable, net of current portion and allowance for doubtful accounts	3,982
Reimbursable costs	5,702
Property held for sale	804
Deferred charges and other assets, net of accumulated amortization	13,698
Limited and general partnerships' assets	<u>495,588</u>

Total other assets	<u>605,682</u>
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Total assets	<u><u>\$ 867,780</u></u>
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**VOLUNTEERS OF AMERICA, INC.  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016  
(IN THOUSANDS)

*Liabilities and net assets:*

Current liabilities:

Accounts payable	\$	8,344
Accrued expenses		18,041
Current portion of long-term debt		3,287
Other current liabilities		10,100

Total current liabilities 39,772

Long-term liabilities:

Long-term debt, net of current portion		225,479
Other long-term liabilities		17,188
Limited and general partnerships' liabilities		297,223

Total long-term liabilities 539,890

Total liabilities 579,662

Net assets:

Unrestricted attributable to:

Controlled limited and general partnerships		4,021
Board designated		16,461
Undesignated		120,059
Parent		140,541
Non-controlling interests in limited and general partnerships and other programs		141,780

282,321

Temporarily restricted 4,857

Permanently restricted 940

Total net assets 288,118

Total liabilities and net assets \$ 867,780

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

CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016  
(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	\$ 15,769	\$ 6,372	\$ -	\$ 22,141	\$ -	\$ -	\$ 22,141
Contributions, in-kind	42,439	-	-	42,439	-	-	42,439
Total public support	58,208	6,372	-	64,580	-	-	64,580
Government grants and contracts	22,491	-	-	22,491	20,506	-	42,997
Other revenue:							
Program fees	54,170	-	-	54,170	20,202	(120)	74,252
Program fees, Medicaid and Medicare	105,025	-	-	105,025	-	-	105,025
Administrative income from Local Offices	12,417	-	-	12,417	-	-	12,417
Net rental income	79	-	-	79	521	-	600
Other operating income	16,577	-	-	16,577	2,670	(7,308)	11,939
Total other revenue	188,268	-	-	188,268	23,393	(7,428)	204,233
Net assets released from restrictions	4,382	(4,382)	-	-	-	-	-
Total revenues from operations	273,349	1,990	-	275,339	43,899	(7,428)	311,810
Operating expenses:							
Program services:							
Fostering independence	166,184	-	-	166,184	32,107	-	198,291
Promoting self sufficiency	72,398	-	-	72,398	28,342	(2,574)	98,166
Encouraging positive development	481	-	-	481	-	-	481
Total program services	239,063	-	-	239,063	60,449	(2,574)	296,938
Support services:							
Management and general	29,513	-	-	29,513	-	(636)	28,877
Fundraising	1,837	-	-	1,837	-	-	1,837
Total support services	31,350	-	-	31,350	-	(636)	30,714
Total operating expenses	270,413	-	-	270,413	60,449	(3,210)	327,652
Change in net assets from operations	2,936	1,990	-	4,926	(16,550)	(4,218)	(15,842)
Non-operating items:							
Interest and dividend income	1,510	-	-	1,510	-	-	1,510
Net realized gains on investments	215	-	-	215	-	-	215
Net unrealized gains on investments	(1,357)	-	20	(1,337)	-	-	(1,337)
Other non-operating	411	-	-	411	33,360	-	33,771
Total non-operating items	779	-	20	799	33,360	-	34,159
Change in net assets before discontinued operations	3,715	1,990	20	5,725	16,810	(4,218)	18,317
Gain on discontinued operations including gain	(451)	-	-	(451)	-	-	(451)
Change in net assets	3,264	1,990	20	5,274	16,810	(4,218)	17,866
Less change in net assets attributable to the non-controlling interest in limited and general partnerships and other programs	(729)	-	-	(729)	15,829	-	15,100
Change in net assets attributable to the parent	\$ 3,993	\$ 1,990	\$ 20	\$ 6,003	\$ 981	\$ (4,218)	\$ 2,766

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Attributable to the parent			Subtotal	Attributable to the non-controlling interests	Total
	Unrestricted	Temporarily restricted	Permanently restricted		Unrestricted	
Balance, July 1, 2015 (Restated)	\$ 139,785	\$ 2,867	\$ 920	\$ 143,572	\$ 126,680	\$ 270,252
Change in net assets	<u>756</u>	<u>1,990</u>	<u>20</u>	<u>2,766</u>	<u>15,100</u>	<u>17,866</u>
Balance, June 30, 2016	<u>\$ 140,541</u>	<u>\$ 4,857</u>	<u>\$ 940</u>	<u>\$ 146,338</u>	<u>\$ 141,780</u>	<u>\$ 288,118</u>



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

CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

Cash flows from operating activities:	
Change in net assets	\$ 17,866
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Non-controlling interest in limited and general partnerships and other programs	(15,100)
Change in limited and general partnerships	(6,321)
Increase in allowance for doubtful accounts	178
Depreciation and amortization	8,472
Original issue discount accretion	62
Loss (gain) on:	
Disposal of discontinued operations	10
Sale of property and equipment	(5)
Net realized and unrealized investment gains	1,169
Contribution of stock in joint venture	(612)
Permanently restricted contributions and investment income	(20)
(Increase) decrease in operating assets:	
Accounts receivable	(3,857)
Prepaid expenses	(606)
Other current assets	57
Deferred charges and other assets	67
(Decrease) increase in operating liabilities:	
Accounts payable	2,821
Accrued expenses	3
Other liabilities	254
Net cash provided by operating activities	<u>4,438</u>
Cash flows from investing activities:	
Purchase of property and equipment	(32,234)
Proceeds from sale of property and equipment	52
Notes receivable:	
Advances	(2,483)
Payments	413
Decrease in reimbursable costs	1,424
Cash proceeds withdrawn from investments	2,011
Change in investments including encumbered assets	<u>(2,575)</u>
Net cash used in investing activities	<u>(33,392)</u>
Cash flows from financing activities:	
Permanently restricted contributions and investment income	20
Proceeds from line of credit	1,527
Long-term debt:	
Proceeds	41,036
Payments	(4,758)
Increase in:	
Deferred charges and other assets	(1,044)
Bond trust funds	<u>(2,294)</u>
Net cash provided by financing activities	<u>34,488</u>
Net increase in cash and cash equivalents	5,534
Cash and cash equivalents, beginning	<u>43,555</u>
Cash and cash equivalents, ending	<u>\$ 49,089</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30 2016  
(IN THOUSANDS)

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Supplemental disclosures of cash flow information:

Cash paid for interest \$ 20,858

Non-cash financing activity:

Property and equipment financed through debt \$ 511

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Program services				Support services			Consolidated operating subtotal	Limited and general partnerships			Eliminations	Total
	Fostering independence	Promoting self sufficiency	Encouraging positive development	Total program services	Management and general	Fundraising	Total support services		Fostering independence	Promoting self sufficiency	Total program services		
Salaries	\$ 74,019	\$ 10,257	\$ 301	\$ 84,577	\$ 12,895	\$ 506	\$ 13,401	\$ 97,978	\$ 2,833	\$ 2,619	\$ 5,452	\$ -	\$ 103,430
Pension	598	400	-	998	2,836	3	2,839	3,837	-	-	-	-	3,837
Other employee benefits	9,759	1,808	52	11,619	1,655	60	1,715	13,334	468	403	871	-	14,205
Payroll taxes	5,338	872	28	6,238	942	27	969	7,207	321	400	721	-	7,928
Legal fees	168	26	1	195	345	5	350	545	70	219	289	-	834
Accounting fees	409	7	-	416	942	7	949	1,365	547	448	995	-	2,360
Other professional fees	11,662	6,573	2	18,237	2,860	445	3,305	21,542	1,867	648	2,515	-	24,057
Other professional fees - In-kind	-	42,000	-	42,000	-	-	-	42,000	-	-	-	-	42,000
Supplies and office	2,946	1,722	29	4,697	626	12	638	5,335	930	753	1,683	-	7,018
Telecommunications	1,418	170	3	1,591	299	12	311	1,902	15	20	35	-	1,937
Postage	137	281	-	418	43	213	256	674	-	-	-	-	674
Occupancy	5,860	944	26	6,830	783	27	810	7,640	5,718	6,086	11,804	-	19,444
Interest	9,752	317	-	10,069	199	-	199	10,268	8,107	6,055	14,162	(2,454)	21,976
Insurance	1,492	140	2	1,634	346	20	366	2,000	-	452	452	-	2,452
Equipment rental and maintenance	2,559	260	4	2,823	79	6	85	2,908	-	309	309	-	3,217
Printing and publications	97	193	2	292	25	162	187	479	-	300	300	-	779
Travel and transportation	1,384	1,843	10	3,237	963	21	984	4,221	4	6	10	-	4,231
Conferences and meetings	256	205	10	471	280	6	286	757	136	80	216	-	973
Specific assistance to individuals	25,241	792	11	26,044	1	6	7	26,051	-	-	-	-	26,051
Awards and grants to affiliates:													
Development awards	-	2,805	-	2,805	-	-	-	2,805	-	-	-	-	2,805
Endowment awards	-	(274)	-	(274)	-	-	-	(274)	-	-	-	-	(274)
Other	5,831	333	-	6,164	2,915	299	3,214	9,378	1,369	2,111	3,480	(756)	12,102
Depreciation and amortization	7,258	724	-	7,982	479	-	479	8,461	9,722	7,433	17,155	-	25,616
	<u>\$ 166,184</u>	<u>\$ 72,398</u>	<u>\$ 481</u>	<u>\$ 239,063</u>	<u>\$ 29,513</u>	<u>\$ 1,837</u>	<u>\$ 31,350</u>	<u>\$ 270,413</u>	<u>\$ 32,107</u>	<u>\$ 28,342</u>	<u>\$ 60,449</u>	<u>\$ (3,210)</u>	<u>\$ 327,652</u>

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 33 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 and Subsidiary; VOA Care Centers, Minnesota and Subsidiary; 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; The Homestead at Montrose, Inc.; Sleepy Eye Area Home Health; Volunteers of America Homestead 2000, Inc.; VOA Rehabilitation Centers, Inc.; VOANS Senior Community Meals, Inc.; VOANS PACE Holding Company and Subsidiaries, including a 60% owned subsidiary; Essex St. Commercial, LLC.; Edina Senior Living, LLC, an 80% owned subsidiary; Volunteers of America of Washington; VOANS Holding Company; VOANS Insurance Company, Inc.; Summit VOANS, LLC, 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 Texas, Inc. (VOAT) is an unchartered Local Office. VOAT includes the accounts for Volunteers of America Texas Development Corporation, Inc., Volunteers of America Texas Foundation, and certain real estate limited partnerships.

Volunteers of America, Inc., Volunteers of America National Services, VOAT, and 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 \$4,854,000 for the year ended June 30, 2016. The cumulative amount of intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services was \$33,270,000 at June 30, 2016.

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.

There are 181 Housing and Urban Development (HUD) financed properties and general partnership entities that National Services controls or in which it has economic interest, but not both. National 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 32 Local Offices for the fiscal year ended June 30, 2016. On June 30, 2015, the Organization has issued loans to VOAT, an unchartered Local Office, creating economic interest. Since both criteria are met, VOAT is consolidated in the Organization's consolidated financial statements for fiscal year ended June 30, 2016.

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.

**Encouraging Positive Development** - VOAT provides services to encourage positive development for troubled and at-risk children, adolescents, and their families. The programs provide a continuum of care and support for young people ages birth to 21 through prevention, early intervention, crisis intervention, and long-term services.

Children and Youth:

VOAT provides educational programs to facilitate healthy behaviors for youth, including prevention of pregnancy, HIV infection and substance abuse, programs promoting youth leadership, community service and volunteerism, and encouraging the pursuit of higher education.

**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 8 individual and family properties under development at June 30, 2016.

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.

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. Summary of 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. At June 30, 2016, the allowance for doubtful accounts for accounts receivable was \$2,097,000.

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).

Investments:

Investments consist of: (a) cash and cash equivalents; (b) guaranteed investment contracts; (c) certificates of deposits, and (d) deposits that have been pooled with those of other affiliates of the Organization (pooled investments). The pooled investments are maintained in accounts consisting primarily of marketable securities (Note 6). The pooled investments 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.

Although the Organization's investments are invested in a variety of financial instruments managed by investment advisors, the fair values reported in the consolidated financial statements are subject to various market risks including changes in the equity markets, the interest rate environment, and economic conditions. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the fair value of investments reported in the accompanying consolidated statement of financial position could change materially in the near term.

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.

Charitable gift annuity:

The National Organization manages a charitable gift annuity program available to the Organization, its affiliates, and subsidiaries. Affiliates and subsidiaries who referred individuals to be program participants under contract shall receive the residual amount, if any, at the end of the contract term. On June 7, 2016, a third-party assumed all assets, liabilities, and estimated liabilities for the program as well as the administration of the gift annuities.

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 and improvements	10-40 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.

Impairment of property and equipment:

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. There were no impairment losses recognized during the year ended June 30, 2016.

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, bond trust funds, 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 Section 202 (elderly) and Section 811 (physically disabled), 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 financing costs:

Financing costs are being amortized principally by a method which relates such costs to the outstanding debt.

Limited and general partnerships:

The Organization usually creates a limited partnership for tax credit properties where it is the general partner or wholly owns the general partner, and receives tax credits, which it in turn sells to an investor or to a limited partner. Overall, the Organization's ownership percentage of the limited partnerships is generally less than 1%. 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 (See further detail in Note 16). Non-controlled interests in the limited partnerships of \$143,599,000 at June 30, 2016 represents the ownership by the limited partners and not that of the general partners that is required under generally accepted accounting principles in the United States of America to be included in the consolidated financial statements.

The Organization, through several of the majority-owned general partnerships, has notes receivable from the related limited partnerships totaling approximately \$5,987,000 at June 30, 2016. These notes are carried at \$0, because the Organization believes 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 consolidated 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.

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.

Program fee revenue:

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; and fees earned through the management and development of affordable housing and rental income for the limited and partnership interests.

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 Organization received approximately 33% of its operating revenues from Medicare and Medicaid for the year ended June 30, 2016.

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 \$300,000 of developer fees as reimbursable costs for the fiscal year ended June 30, 2016. The reimbursable costs are 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.

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.

Discontinued operations:

VOAT discontinued residential treatment services at two facilities located in Fort Worth and Houston, Texas. The results of operations for the two facilities have been reclassified to loss on discontinued operations for the year ended June 30, 2016 in the accompanying consolidated statement of activities. Additionally, these two facilities are included in property held for sale in the consolidated statement of financial position at June 30, 2016.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, other than VOANS Insurance Company, Inc., 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. National Services recognized income tax expense of \$75,000, but there were no cash payments for income taxes in 2016.

Concentration of credit risk:

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

The Organization places its cash and cash equivalents, investments, and encumbered assets with high credit quality financial institutions. At times, such amounts may be in excess of the Federal Deposit Insurance Company (FDIC) insurance limits. The Organization has not experienced any loss associated with this practice.

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

Subsequent events:

Management has evaluated for subsequent events through October 31, 2016, the date the consolidated financial statements were available for issuance.

3. Property and equipment:

Property and equipment consists of the following at June 30:

	<u>2016</u> <u>(in thousands)</u>
Land and improvements	\$ 14,943
Building and improvements	209,453
Furniture and equipment	<u>41,293</u>
	265,689
Less accumulated depreciation	<u>98,626</u>
	<u>\$ 167,063</u>

Depreciation expense for the year ended June 30, 2016, was \$8,128,000.

Construction costs are included in building and improvements. National Services incurred interest costs totaling \$23,743,000, of which approximately \$2,292,000 was capitalized during the year ended June 30, 2016.

4. Notes receivable:

Notes receivable consist of the following at June 30:

	<u>2016</u> <u>(in thousands)</u>
Notes receivable	\$ 11,401
Less current portion	<u>725</u>
	10,676
Less allowance	<u>6,994</u>
	<u>\$ 3,982</u>

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

	<u>2016</u> <u>(in thousands)</u>
Balance at beginning of year	\$ 5,916
Provision for losses	868
Recoveries	<u>(90)</u>
Balance at end of year	<u>\$ 6,694</u>

5. Encumbered assets:

At June 30, 2016, encumbered assets included the following donor restrictions, legal agreements, and board designations:

	VOA, Inc.	VOAT	VOANS	2016
	(in thousands)			
Restricted assets:				
Temporarily	\$ 3,884	\$ 58	\$ -	\$ 3,942
Permanently	940	-	-	940
Board designated	16,461	-	-	16,461
Bonds:				
Trust funds	-	-	41,127	41,127
Trust escrow	-	-	8,534	8,534
Certificates of deposit held as collateral	-	-	1,360	1,360
Cash collateral account	-	-	1,705	1,705
Encumbered assets	<u>\$ 21,285</u>	<u>\$ 58</u>	<u>\$ 52,726</u>	<u>\$ 74,069</u>

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

At June 30, 2016, encumbered assets consisted of the following classes of assets:

	VOA, Inc.	VOAT	VOANS	2016
	(in thousands)			
Cash and cash equivalents	\$ 4,132	\$ 58	\$ 10,239	\$ 14,429
Investments (see below)	17,153	-	1,360	18,513
Bond trust funds	-	-	41,127	41,127
Encumbered assets	<u>\$ 21,285</u>	<u>\$ 58</u>	<u>\$ 52,726</u>	<u>\$ 74,069</u>

	VOA, Inc.	VOAT	VOANS	2016
	(in thousands)			
Investments included in encumbered assets:				
Cash held for re-investment	\$ 699	\$ -	\$ -	\$ 699
Certificates of deposit	-	-	1,360	1,360
Fixed income (see Note 7)	8,958	-	-	8,958
Equities (see Note 7)	10,231	-	-	10,231
Other (see Note 7)	4,733	-	-	4,733
	24,621	-	1,360	25,981
Unencumbered securities held with encumbered assets	(7,468)	-	-	(7,468)
Investments included in encumbered assets	\$ 17,153	\$ -	\$ 1,360	\$ 18,513

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 remaining board designated net assets include a bequest fund and additional contributions to the board designated fund. The board designated net assets are not designated for a specific purpose other than to support the mission of the Organization to be used at the discretion of the Board of Directors.

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 Organization's 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.

For the year ended June 30, 2016, the National Organization has a policy of appropriating endowment assets available for expenditure each year no greater than 4% 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 funds (in thousands) at June 30, 2016 are as follows:

	Board Designated Endowment (Encumbered)	Other Board Designated (Encumbered)	Total Board Designated (Encumbered)	Earnings (Unencumbered)
Beginning balance, July 1	\$ 15,484	\$ 1,010	\$ 16,494	\$ 9,959
Investment net losses	-	-	-	(261)
Appropriation of endowment assets per spending policy	-	-	-	(1,244)
Reduction of other board designated assets to pay for new program (board approved)	-	(600)	(600)	-
Reduction of endowment assets to fund new programs (board approved)	-	-	-	(356)
Transfers	630	(63)	567	(630)
Ending balance, June 30	<u>\$ 16,114</u>	<u>\$ 347</u>	<u>\$ 16,461</u>	<u>\$ 7,468</u>
Appropriation of endowment assets available for current year				<u>\$ 920</u>

6. Investments:

At June 30, 2016, investments were as follows:

	VOA, Inc.	VOAT	VOANS	2016
	(in thousands)			
Unencumbered:				
Cash held for re-investment	\$ 123	\$ -	\$ 239	\$ 362
Certificates of deposit	-	-	4,829	4,829
Fixed income (see Note 7)	1,494	-	2,822	4,316
Equities (see Note 7)	1,909	-	3,698	5,607
Other (see Note 7)	845	316	1,647	2,808
	4,371	316	13,235	17,922
Unencumbered securities held with encumbered assets	7,468	-	-	7,468
	<u>\$ 11,839</u>	<u>\$ 316</u>	<u>\$ 13,235</u>	<u>\$ 25,390</u>
Statement of financial position classification:				
Short-term investments	\$ -	\$ 316	\$ 13,235	\$ 13,551
Long-term investments	11,839	-	-	11,839
	<u>\$ 11,839</u>	<u>\$ 316</u>	<u>\$ 13,235</u>	<u>\$ 25,390</u>



The National Organization sponsors the National Organization Pooled Investment program open to eligible Local Offices and subsidiaries. The combined fair value of the program's assets is approximately \$60,458,000 at June 30, 2016. There were 11 active Local Office participants, National Services, and two subsidiaries of National Services in the program at June 30, 2016. Local Offices, National Services, and subsidiaries account for 53% of the total portfolio. Each participant has ownership of its allocated assets and recognizes its allocated earnings. The National Office records the portion of other participants' investment (\$32,120,000 at June 30, 2016) as assets and equal offsetting liabilities, netted within the investment line on the consolidated statement of financial position.

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, 2016. There were no financial instruments valued using Level 3 inputs at June 30, 2016.

	<u>2016</u>
<u>Financial Assets Category</u>	
Level 1 Assets	
Fixed income	\$ 13,274
Equities	
Common stock	15,838
Mutual funds	<u>5,658</u>
Total Level 1 Assets:	34,770
Investment measured at net assets value (a)	<u>1,884</u>
Total Investments	<u>\$ 36,654</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheet.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

The carrying amount of cash and cash equivalents included within investments approximates fair value due to the short-term nature of these instruments.

Mutual funds and common stock are valued at fair value based on quoted market prices for identical securities in active markets that the Organization has the ability to access at the measurement date.

Fixed income securities are valued at fair value based on quoted market prices for similar securities in active markets that the Organization has the ability to access at the measurement date.

The Organization has investments in entities that are calculated using net asset value per share (A&Q: Long/Short Strategies LLC). 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, 2016.

8. Deferred charges and other assets:

Deferred charges and other assets are composed of the following:

	2016		
	Gross carrying amount	Accumulated amortization	Net
		(in thousands)	
Deferred financing costs	\$ 8,034	\$ (1,895)	\$ 6,139
Bed rights	795	-	795
Security deposits and other	3,964	(170)	3,794
Investments in joint ventures	2,970	-	2,970
	<u>\$ 15,763</u>	<u>\$ (2,065)</u>	<u>\$ 13,698</u>

Amortization expense was approximately \$274,000 for the year ended June 30, 2016. Additionally, in fiscal year 2016, \$86,000 of amortization was capitalized related to buildings under construction. Amortization expense is estimated to be approximately, \$356,000 in 2017, \$351,000 in 2018, \$341,000 in 2019, \$323,000 in 2020, and \$308,000 in 2021.

Included in deferred charges and other assets are the following investments in joint ventures:

National Services has a 50% 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, 2016, 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 \$222,000. National Services' share of the net loss for the year ended June 30, 2016 was \$1,000.

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, 2016, 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 \$14,000. National Services' share of the net income was \$442,000 for the year ended June 30, 2016.

National Services is a 50% owner of the outstanding shares of Essential Decisions, Inc. (EDI). National Services uses the equity method to account for this investment, and accordingly has increased the investment to approximately \$2,515,000 at June 30, 2016. National Services share of the net income was \$171,000 for the year ended June 30, 2016.

National Services has a 10% interest in VOANS-CDT JV, LLC and uses the cost method to account for this investment. National Services has invested \$219,000 in VOANS-CDT JV, LLC at June 30, 2016.

9. Lines of credit:

In fiscal year 2015, the National Organization entered into a Revolving Credit Agreement for working capital in the amount of \$6,500,000, of which \$1,500,000 is available to National Services. The agreement expires January 26, 2017. The unpaid principal balance bears interest at an annual rate equal to 1.5% plus the one-month LIBOR rate. The interest rate was 1.97% at June 30, 2016. No collateral is required. At June 30, 2016, the full amount of the Revolving Credit Agreement was available to the Organization.

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 50% against their investment value. At June 30, 2016, no amounts were outstanding from National Organization. Other participants in the National Pooled Investment program also have access to this line of credit. At June 30, 2016, \$2,475,000 was outstanding from other National Pooled Investment participants, where the balance is collateralized by their investments.

VOAT has a \$600,000 line of credit with a bank bearing interest at the Wall Street Journal prime rate (3.5% at June 30, 2016) maturing in November 2016. The line of credit is collateralized by accounts receivable, equipment, and other property. There was no amount outstanding under the line of credit at June 30, 2016.

10. Long-term debt:

	<u>2016</u> (in thousands)
Real estate notes and mortgages, 0% to 6%, due in varying amounts through 2041	\$ 25,878
Revenue bonds, mortgages, 2% to 8%, due in varying amounts through 2050	<u>204,465</u>
	230,343
Less unamortized discount	<u>1,577</u>
	228,766
Less current portion	<u>3,287</u>
	<u>\$ 225,479</u>

Future annual maturities of long-term debt for the year ended June 30, 2016 are as follows:

	<u>Amount</u> (in thousands)
2017	\$ 3,157
2018	5,286
2019	8,048
2020	6,625
2021	9,403
Thereafter	<u>197,824</u>
	<u>\$ 230,343</u>

At June 30, 2016 substantially all property and equipment is pledged as collateral for the long-term debt. The terms of these certain types of long-term debt agreements include various covenants including financial and other non-financial matters with which the National Organization and National Services must comply.

11. Retirement plans:

Defined contribution plans:

The Organization participates in defined contribution retirement plans. The plans cover all employees who have met certain employment requirements. The Organization authorized contributions of \$892,000 for the year ended June 30, 2016.

Defined benefit plans:

The National Organization participates with its Local Offices and National Services in a non-contributory defined benefit pension and retirement plan, called The Volunteers of America National Pension Plan. The plan's employer identification number is 13-1692595 and the plan year end is December 31. This plan is a multi-employer plan and thus the National Organization 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, 2016
	<hr/>
Market value of plan assets	\$ 52,265,000
Present value of accumulated plan benefits	<hr/> 64,179,000
Actuarial valuation of the unfunded pension liability	<hr/> \$ 11,914,000
	<hr/>
	Fiscal year 2016
	<hr/>
Funded status	Less than 65%
Employer's contribution to the plan	\$ 1,217,000
Total contributions received by the plan	\$ 4,023,000
Employer's contribution >5% of total contributions to the plan	Yes
Total fair value of plan assets at year end	\$ 53,424,000

VOA National Housing Corporation has a separate defined benefit plan which is a single employer plan and recognizes the funded status of the defined benefit pension plan as a net asset or liability and recognizes changes in the funded status in the year in which the change occurs through a separate line item within the change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic pension costs. For the year ended June 30, 2016, 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:

	2016
	(in thousands)
Projected benefit obligation	\$ 7,652
Plan assets, at fair value	4,801
Unfunded status	\$ 2,851
Net periodic benefit cost	\$ 405
Employer contributions	\$ 313
Benefits paid	\$ 210
Weighted average assumptions used to determine benefit obligation at June 30, 2016:	
Discount rate	4.25%
Expected return on plan assets	N/A
Rate of compensation increase	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the year ended at June 30, 2016:	
Discount rate	4.50%
Expected return on plan assets	7.25%
Rate of compensation increase	4.00%

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

The amount not recognized as a component of net periodic pension cost was \$0 for the year ended June 30, 2016. The net loss recognized in the year ended June 30, 2016 was approximately \$117,000. The net loss expected to be recognized as a component of net periodic pension cost over the next 12 months is \$271,000.

The accumulated benefit obligation was \$7,294,000 at June 30, 2016.

VOA National Housing Corporation uses the RP-2014 Mortality Tables projected with Scales MP-2014 and projected forward with Scale MP-2015 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.

VOA National Housing Corporation 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.

The fair values of VOA National Housing Corporation’s postretirement plan assets at June 30, by asset category (Note 7), are as follows:

	2016
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
	(in thousands)
Global asset allocation mutual funds	<u>\$ 4,801</u>

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

	Amount
	(in thousands)
2017	\$ 311
2018	331
2019	352
2020	366
2021	392
2022-2026	2,279

Deferred compensation plan:

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 \$2,781,000 as of June 30, 2016 at its fair value.

12. 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
National Organization	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	\$611,000	Three years after break-even operations are established	Operating deficit	Remote	None	Beneficiary has funded an operating reserve of \$305,000



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

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016

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	Orono Senior Housing, LLC for City of Orono, Minnesota, Senior Housing Refunding Revenues Bonds Series 2006B	50% of \$630,000 bond principal outstanding	November 1, 2041	Failure of beneficiary to make timely principal and interest payments	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: a) 1770 Tchoupitoulas LLC, New Orleans, LA; b)VOA Chesapeake RRC, QALICB, LLC, Baltimore, MD; c) CommCare Avoyelles, Mansura, LA; and d) RHCHC Realty, LLC, Springfield, OH	\$624,000; \$902,000; \$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	

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

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016

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
<u>In favor of State of Louisiana Office of Community Development</u>							
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) Iberia Bank	\$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	
<u>In favor of U.S. Bankcorp Community Development</u>							
		\$5,199,000	July 2, 2012 to July 1, 2019	Failure of project to meet payment, performance, IRR and recapture benchmarks set out in agreements	Remote	None	
<u>In favor of Iberia Bank</u>							
		\$3,232,000 term loan	July 2, 2012 to July 2, 2019 term loan	Loan default	Remote	None	

13. Leases:

Edina Senior Living, LLC has entered into a 30 year agreement with an unrelated third party to lease land, a building, and improvements. The lease will commence when the base improvements and tenant improvements are substantially complete, which is estimated to be December 1, 2016. The lease includes two 15 year extension options. Annual base rent will range from \$1,790,000 to \$7,479,000 over the initial term of the lease.

VOAT leases office space and equipment under non-cancelable operating lease agreements expiring at various times through November 2020. Operating lease expense relating to office space and equipment totaled \$290,000 for the year ended June 30, 2016.

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. There was a 1.4% increase in rent during 2016.

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

	2016
	(in thousands)
Buildings cost	\$ 723
Equipment costs	70
	<u>793</u>
Less accumulated depreciation	<u>464</u>
Net book value	<u>\$ 328</u>

Amortization expense relating to the capital leases, which is included in depreciation expense was \$49,000 for 2016. Future principal and interest payments under capital leases as of June 30, 2016, are as follows:

	Amount <u>(in thousands)</u>
2017	\$ 210
2018	210
2019	210
2020	210
2021	210
Thereafter	<u>423</u>
	1,473
Less amount representing interest	<u>841</u>
Present value of net minimum lease obligation payments	632
Less current portion	<u>33</u>
Present value of net minimum lease obligation payments, recorded in other long-term liabilities	<u><u>\$ 599</u></u>

14. 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 2016 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. Total administrative fees charged were \$12,417,000 during the year ended June 30, 2016.

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. Total fees charged were \$1,599,000 during the year ended June 30, 2016.

Notes and advances to Local Offices:

Notes receivable from Local Offices are generally unsecured, carry no interest, and are due within 1 to 15 years. Specific repayment plans are negotiated with each Local Office based on their local Board-approved business plan and cash flow forecasts. Notes receivable from Local Offices was \$1,468,000 at June 30, 2016.

Notes receivable:

National Services was assigned a note receivable in 2013, which was originally associated with the sale of a related housing property. The original note included an obligation to pay a portion to Volunteers of America Chesapeake, Inc. The amount owed as of June 30, 2016 is \$1,366,000.

Awards and grants to Local Offices:

In the year ended June 30, 2016 the National Organization awarded approximately \$3,115,000 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.

15. Restricted net assets:

At June 30, 2016 temporarily restricted net assets could be expended for the following:

	<u>2016</u>
	(in thousands)
Awards of Volunteers of America Local Offices and other program services	\$ 4,814
Scholarships to Volunteers of America employees	<u>43</u>
	<u>\$ 4,857</u>

Temporarily restricted net assets were released from restriction during the year ended June 30, 2016 fulfilling donor stipulations for the following purposes:

	<u>2016</u>
	(in thousands)
Awards of Volunteers of America Local Offices and other program services	\$ <u>4,382</u>

Permanently restricted net assets of \$940,000 as of June 30, 2016 relate to contributions received from donors to be maintained in perpetuity.

16. Limited and general partnerships' assets and liabilities:

The Organization has elected to present the assets and liabilities of the real estate limited and general partnerships on a non-classified basis in the consolidated balance sheet, in accordance with industry practice for real estate companies. The assets and liabilities are composed of the following at June 30, 2016:

	(in thousands)
Current assets:	
Cash and cash equivalents	\$ 17,669
Accounts receivable, net	347
Prepaid expenses	<u>1,997</u>
Total current assets	<u>20,013</u>
Property and equipment, net	<u>481,019</u>
Other long-term assets:	
Encumbered assets	30,168
Long-term investments	13,569
Deferred charges and other assets, net	<u>487</u>
Total other long-term assets	<u>44,224</u>
Total assets before eliminations	545,256
Eliminations	<u>(49,668)</u>
Total limited and general partnerships' assets	<u>\$ 495,588</u>
Current liabilities:	
Accounts payable	\$ 6,675
Accrued expenses	22,621
Other current liabilities	<u>488</u>
Total current liabilities	<u>29,874</u>
Long-term liabilities:	
Long-term debt, net of current portion	352,906
Other long-term liabilities	<u>14,947</u>
Total long-term liabilities	<u>367,853</u>
Total liabilities before eliminations	397,637
Eliminations	<u>(100,414)</u>
Total limited and general partnerships' liabilities	<u>\$ 297,223</u>

17. Contributions in-kind:

For the year ended June 30, 2016, the National Organization received \$226,000 in various goods, which its participating Local Offices use in its program services. The National Organization received \$42,151,000 in professional services, and public service advertising and branding for the year ended June 30, 2016. Additionally, National Services received \$62,000 in various goods for the year ended June 30, 2016. These amounts are reflected as revenue and expense in the accompanying consolidated financial statements.

18. Commitments and Contingencies

Sponsorship:

On August 14, 2015, Volunteers of America, Inc. entered into a Title Sponsorship Agreement with the Ladies Professional Golf Association, Inc. for \$1,300,000 each year over a 3 year period from 2016 to 2018. This is part of the National Organization's Branding Initiative. The Organization also has an agreement for approximately \$1,000,000 each year over a 3 year period from April 2016 to March 2019 for advertising.

Self-insured medical benefits:

The Organization has a self-insured employee health plan. It contracts with an administrative service company to supervise and administer the program and act as its representative. The Organization insures for excessive and unexpected claims and is liable for claims with limits determined through actuarial reports. Claims up to the insurance limit will be funded by the Organization. The Organization has stop-loss insurance to cover excess claims over \$200,000 per individual. Estimated future claims for incurred medical and dental services of approximately \$3,258,000 were recorded as part of accrued expenses on the consolidated balance sheet at June 30, 2016.

Industry developments:

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments for resident services previously billed.

Legal:

The Company is party to various legal actions arising in the ordinary course of business. While it is not feasible for management to determine the outcome of these actions, information available at this time, including management's discussions with legal counsel, does not indicate that these matters will have a material adverse effect on the Company's combined financial position or future results of operations.

19. Restatement and reconciliation of net assets:

The Organization restated its beginning net assets to reflect the consolidation of VOANS Holding Company and also to correct its controlling and non-controlling interest in The Homestead at Boulder City, Inc.

	Unrestricted net assets (in thousands)		
	Attributable to the parent	Attributable to the non-controlling interests	Total
Balance, July 1, 2015 - as previously reported	\$ 74,776	\$ 125,689	\$ 200,465
Restatement – consolidation of VOANS Holding Company	62,110	-	62,110
Restatement – consolidation of VOAT	6,267	-	6,267
Restatement – correction of interest in The Homestead at Boulder City, Inc.	419	(419)	-
Balance, July 1, 2015 – as restated	143,572	126,680	270,252
Change in net assets	2,766	15,100	17,866
Balance, June 30, 2016	<u>\$ 146,338</u>	<u>\$ 141,780</u>	<u>\$ 288,188</u>



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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016  
(IN THOUSANDS)

	Volunteers of America, Inc.	Volunteers of America Correctional Services	Volunteers of America Texas, Inc.	Volunteers of America National Services	Eliminations	Total
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 4,168	\$ 199	\$ -	\$ 44,722	\$ -	\$ 49,089
Accounts receivable, net	5,388	759	2,504	17,541	(1,432)	24,760
Current portion of notes receivable	823	-	-	-	(98)	725
Short-term investments	-	-	316	13,235	-	13,551
Prepaid expenses	170	65	41	2,842	-	3,118
Other current assets, net	151	-	-	3,641	-	3,792
Total current assets	10,700	1,023	2,861	81,981	(1,530)	95,035
Property and equipment, net	5,324	2,043	5,237	154,459	-	167,063
Other assets:						
Encumbered assets	21,285	-	58	52,726	-	74,069
Long-term investments	11,839	-	-	-	-	11,839
Notes receivable, net of current portion	2,130	-	770	4,318	(3,236)	3,982
Reimbursable costs	-	-	-	5,702	-	5,702
Property held for sale	-	-	804	-	-	804
Deferred charges and other assets, net	2,782	54	19	10,843	-	13,698
Limited and general partnerships' assets	-	-	8,394	487,194	-	495,588
Total other assets	38,036	54	10,045	560,783	(3,236)	605,682
Total assets	\$ 54,060	\$ 3,120	\$ 18,143	\$ 797,223	(4,766)	\$ 867,780
<b>Liabilities and net assets:</b>						
Current liabilities:						
Accounts payable	\$ 2,214	\$ 12	\$ 471	\$ 6,808	\$ (1,161)	\$ 8,344
Accrued expenses	1,825	139	863	15,288	(74)	18,041
Current portion of long-term debt	337	98	153	2,797	(98)	3,287
Other current liabilities	1,602	33	120	8,345	-	10,100
Total current liabilities	5,978	282	1,607	33,238	(1,333)	39,772
Long-term liabilities:						
Long-term debt, net of current portion	5,160	1,111	2,522	219,922	(3,236)	225,479
Other long-term liabilities	4,095	598	214	12,478	(197)	17,188
Limited and general partnerships' liabilities	-	-	7,202	290,021	-	297,223
Total long-term liabilities	9,255	1,709	9,938	522,421	(3,433)	539,890
Total liabilities	15,233	1,991	11,545	555,659	(4,766)	579,662
Net assets:						
Unrestricted attributable to:						
Controlled limited and general partnerships	-	-	-	4,021	-	4,021
Board designated	16,461	-	-	-	-	16,461
Undesignated	16,587	1,129	5,528	96,815	-	120,059
Parent	33,048	1,129	5,528	100,836	-	140,541
Non-controlling interests in limited and general partnerships and other programs	-	-	1,052	140,728	-	141,780
Temporarily restricted	33,048	1,129	6,580	241,564	-	282,321
Permanently restricted	4,839	-	18	-	-	4,857
	940	-	-	-	-	940
Total net assets	38,827	1,129	6,598	241,564	-	288,118
Total liabilities and net assets	\$ 54,060	\$ 3,120	\$ 18,143	\$ 797,223	\$ (4,766)	\$ 867,780

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

CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Volunteers of America, Inc.			Volunteers of America Correctional	Volunteers of America Texas, Inc.		Volunteers of America National	Eliminations	Operating subtotal	Limited and general	Limited and general	Unrestricted	Eliminations	Total
	Unrestricted	Temporarily restricted	Permanently restricted	Services	Unrestricted	Temporarily restricted	Services			partnerships VOA Texas	partnerships VOANS	Limited and general partnerships Total		
Revenue from operations:														
Public support received directly:														
Contributions	\$ 2,589	\$ 6,372	\$ -	\$ -	\$ 896	\$ -	\$ 12,624	\$ (340)	\$ 22,141	\$ -	\$ -	\$ -	\$ -	\$ 22,141
Contributions, in-kind	42,377	-	-	-	-	-	62	-	42,439	-	-	-	-	42,439
Total public support	44,966	6,372	-	-	896	-	12,686	(340)	64,580	-	-	-	-	64,580
Government grants and contracts	-	-	-	4,633	17,440	-	418	-	22,491	1,206	19,300	20,506	-	42,997
Other revenue:														
Program fees	3,928	-	-	-	1,990	-	50,581	(2,329)	54,170	-	20,202	20,202	(120)	74,252
Program fees, Medicaid and Medicare	-	-	-	-	-	-	105,025	-	105,025	-	-	-	-	105,025
Administrative income from Local Offices	13,119	-	-	-	-	-	-	(702)	12,417	-	-	-	-	12,417
Net rental income	221	-	-	-	59	-	2	(203)	79	427	94	521	-	600
Other operating income	16	-	-	-	160	-	16,481	(80)	16,577	22	2,648	2,670	(7,308)	11,939
Total other revenue	17,284	-	-	-	2,209	-	172,089	(3,314)	188,268	449	22,944	23,393	(7,428)	204,233
Net assets released from restrictions	4,374	(4,374)	-	-	8	(8)	-	-	-	-	-	-	-	-
Total revenues from operations	66,624	1,998	-	4,633	20,553	(8)	185,193	(3,654)	275,339	1,655	42,244	43,899	(7,428)	311,810
Operating expenses:														
Program services:														
Fostering independence	98	-	-	-	6,754	-	159,332	-	166,184	-	32,107	32,107	-	198,291
Promoting self sufficiency	60,350	-	-	3,195	9,677	-	58	(882)	72,398	2,012	26,330	28,342	(2,574)	98,166
Encouraging positive development	-	-	-	-	481	-	-	-	481	-	-	-	-	481
Total program services	60,448	-	-	3,195	16,912	-	159,390	(882)	239,063	2,012	58,437	60,449	(2,574)	296,938
Support services:														
Management and general	6,407	-	-	551	3,252	-	21,865	(2,562)	29,513	-	-	-	(636)	28,877
Fundraising	786	-	-	-	661	-	390	-	1,837	-	-	-	-	1,837
Total support services	7,193	-	-	551	3,913	-	22,255	(2,562)	31,350	-	-	-	(636)	30,714
Total operating expenses	67,641	-	-	3,746	20,825	-	181,645	(3,444)	270,413	2,012	58,437	60,449	(3,210)	327,652
Change in net assets from operations	(1,017)	1,998	-	887	(272)	(8)	3,548	(210)	4,926	(357)	(16,193)	(16,550)	(4,218)	(15,842)
Non-operating items:														
Interest and dividend income	642	1	-	-	10	-	857	-	1,510	-	-	-	-	1,510
Net realized gains on investments	166	-	-	-	-	-	49	-	215	-	-	-	-	215
Equity contributions related to limited and general partnerships	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net unrealized (losses) gains on investments	(1,102)	(1)	20	-	(1)	-	(253)	-	(1,337)	-	-	-	-	(1,337)
Other non-operating gains (losses)	1	-	-	(215)	(5)	-	420	210	411	-	33,360	33,360	-	33,771
Total non-operating items	(293)	-	20	(215)	4	-	1,073	210	799	-	33,360	33,360	-	34,159
Change in net assets before discontinued operations	(1,310)	1,998	20	672	(268)	(8)	4,621	-	5,725	(357)	17,167	16,810	(4,218)	18,317
Gain on discontinued operations including gain	-	-	-	-	(451)	-	-	-	(451)	-	-	-	-	(451)
Change in net assets	\$ (1,310)	\$ 1,998	\$ 20	\$ 672	\$ (719)	\$ (8)	\$ 4,621	\$ -	\$ 5,274	\$ (357)	\$ 17,167	\$ 16,810	\$ (4,218)	\$ 17,866

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

CONSOLIDATING STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Volunteers of America, Inc.	Volunteers of America Correctional Services	Volunteers of America Texas, Inc.	Volunteers of America National Services	Eliminations	Total
Cash flows from operating activities:						
Change in net assets	\$ 708	\$ 672	\$ (1,082)	\$ 17,568	\$ -	\$ 17,866
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:						
Non-controlling interest in limited and general partnerships and other programs	-	-	356	(15,456)	-	(15,100)
Change in limited and general partnerships	-	-	(141)	(6,180)	-	(6,321)
Increase (decrease) in allowance for doubtful accounts	601	-	(152)	(271)	-	178
Depreciation and amortization	568	302	343	7,259	-	8,472
Original issue discount accretion	-	-	-	62	-	62
Loss (gain) on:						
Disposal of discontinued operations	-	5	5	-	-	10
Sale of property and equipment	-	-	-	(5)	-	(5)
Contribution of stocks in joint venture	-	-	-	(612)	-	(612)
Net realized and unrealized investment losses	915	-	1	253	-	1,169
Permanently restricted contributions and investment income	(20)	-	-	-	-	(20)
(Increase) decrease in operating assets:						
Accounts receivable	(2,017)	(400)	227	(2,148)	481	(3,857)
Prepaid expenses	10	(7)	31	(640)	-	(606)
Other current assets	582	-	(15)	(10)	(500)	57
Deferred charges in other assets	(201)	-	-	268	-	67
(Decrease) increase in operating liabilities:						
Accounts payable	(162)	(18)	(105)	2,849	257	2,821
Accrued expenses	83	(5)	(103)	-	28	3
Other liabilities	(130)	25	34	591	(266)	254
Net cash provided by (used in) operating activities	937	574	(601)	3,528	-	4,438
Cash flows from investing activities:						
Purchase of property and equipment	(369)	(124)	(342)	(31,399)	-	(32,234)
Proceeds from:						
Disposal of discontinued operations	-	-	-	-	-	-
Sale of property and equipment	-	-	45	7	-	52
Notes receivable:						
Advances	(1,161)	-	(173)	(1,899)	750	(2,483)
Payments	830	-	-	90	(507)	413
Increase in reimbursable costs and other long term liabilities	-	-	-	1,424	-	1,424
Cash proceeds withdrawn from investments	2,020	-	(9)	-	-	2,011
Change in investments including encumbered assets	(2,900)	-	-	325	-	(2,575)
Net cash (used in) provided by investing activities	(1,580)	(124)	(479)	(31,452)	243	(33,392)
Cash flows from financing activities:						
Permanently restricted contributions and investment income	20	-	-	-	-	20
Increase in lines of credit	-	-	-	1,527	-	1,527
Long-term debt:						
Proceeds	-	-	750	41,036	(750)	41,036
Payments	(448)	(454)	(392)	(3,971)	507	(4,758)
Increase in deferred charges and other assets	-	-	18	(1,062)	-	(1,044)
Increase in bond trust funds	-	-	-	(2,294)	-	(2,294)
Net cash (used in) provided by financing activities	(427)	(454)	376	35,236	(243)	34,488
Net (decrease) increase in cash and cash equivalents	(1,070)	(4)	(704)	7,312	-	5,534
Cash and cash equivalents, beginning	5,238	203	704	37,410	-	43,555
Cash and cash equivalents, ending	\$ 4,168	\$ 199	\$ -	\$ 44,722	\$ -	\$ 49,089
Supplemental disclosures of cash flow information:						
Cash paid for interest	\$ 112	\$ 237	\$ 120	\$ 20,389	\$ -	\$ 20,858
Non-cash financing activity:						
Property and equipment financed through debt	\$ -	\$ -	\$ 115	\$ 396	\$ -	\$ 511

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Volunteers of America, Inc.						Volunteers of America Correctional Services			
	Program services			Support services			Program services	Support services		Subtotal
	Fostering independence	Promoting self sufficiency	Total program services	Management and general	Fundraising	Total support services	Promoting self sufficiency	Management and general		
Salaries	\$ 21	\$ 4,103	\$ 4,124	\$ 1,996	\$ 135	\$ 2,131	\$ 897	\$ -	\$ 897	
Pension	-	370	370	1,923	-	1,923	-	-	-	
Other employee benefits	-	530	530	257	-	257	217	-	217	
Payroll taxes	-	281	281	128	-	128	96	-	96	
Legal fees	-	25	25	153	-	153	-	-	-	
Accounting fees	-	-	-	94	-	94	7	-	7	
Other professional fees	-	6,473	6,473	128	288	416	29	-	29	
Other professional fees - In-kind	-	42,000	42,000	-	-	-	-	-	-	
Supplies and office	-	427	427	351	-	351	54	-	54	
Telecommunications	-	50	50	114	1	115	24	-	24	
Postage	-	272	272	16	208	224	2	-	2	
Occupancy	9	147	156	134	-	134	342	-	342	
Interest	8	77	85	35	-	35	237	-	237	
Insurance	12	19	31	193	16	209	60	-	60	
Equipment rental and maintenance	30	141	171	25	-	25	32	-	32	
Printing and publications	-	176	176	8	138	146	12	-	12	
Travel and transportation	-	1,543	1,543	99	-	99	105	-	105	
Conferences and meetings	-	180	180	13	-	13	5	-	5	
Specific assistance to individuals	-	455	455	-	-	-	-	-	-	
Awards and grants to affiliates:										
Development awards	-	2,935	2,935	-	-	-	-	-	-	
Endowment awards	-	(274)	(274)	-	-	-	-	-	-	
Other	-	58	58	552	-	552	774	551	1,325	
Depreciation and amortization	18	362	380	188	-	188	302	-	302	
	<u>\$ 98</u>	<u>\$ 60,350</u>	<u>\$ 60,448</u>	<u>\$ 6,407</u>	<u>\$ 786</u>	<u>\$ 7,193</u>	<u>\$ 67,641</u>	<u>\$ 3,195</u>	<u>\$ 551</u>	<u>\$ 3,746</u>

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Volunteers of America Texas, Inc.							Subtotal
	Program services			Total program services	Support services			
	Promoting self sufficiency	Fostering independence	Encouraging positive development			Management and general	Fundraising	Total support services
Salaries	\$ 5,257	\$ 1,627	\$ 301	\$ 7,185	\$ 1,249	\$ 371	\$ 1,620	\$ 8,805
Pension	30	3	-	33	74	3	77	110
Other employee benefits	1,061	246	52	1,359	133	60	193	1,552
Payroll taxes	495	146	28	669	128	27	155	824
Legal fees	1	-	1	2	9	5	14	16
Accounting fees	-	-	-	-	188	-	188	188
Other professional fees	71	3,775	2	3,848	352	63	415	4,263
Other professional fees - In-kind	-	-	-	-	-	-	-	-
Supplies and office	1,183	119	29	1,331	108	12	120	1,451
Telecommunications	96	42	3	141	21	11	32	173
Postage	7	6	-	13	5	5	10	23
Occupancy	658	197	26	881	50	27	77	958
Interest	3	-	-	3	117	-	117	120
Insurance	61	45	2	108	101	4	105	213
Equipment rental and maintenance	87	12	4	103	16	6	22	125
Printing and publications	5	1	2	8	4	24	28	36
Travel and transportation	195	154	10	359	54	21	75	434
Conferences and meetings	20	11	10	41	18	6	24	65
Specific assistance to individuals	337	315	11	663	1	6	7	670
Awards and grants to affiliates:								
Development awards	-	-	-	-	-	-	-	-
Endowment awards	-	-	-	-	-	-	-	-
Other	50	-	-	50	407	10	417	467
Depreciation and amortization	60	55	-	115	217	-	217	332
	<u>\$ 9,677</u>	<u>\$ 6,754</u>	<u>\$ 481</u>	<u>\$ 16,912</u>	<u>\$ 3,252</u>	<u>\$ 661</u>	<u>\$ 3,913</u>	<u>\$ 20,825</u>

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	Volunteers of America National Services								
	Program services			Support services			Subtotal	Eliminations	Consolidated operating subtotal
	Fostering independence	Promoting self sufficiency	Total program services	Management and general	Fundraising	Total support services			
Salaries	\$ 72,371	\$ -	\$ 72,371	\$ 9,650	\$ -	\$ 9,650	\$ 82,021	\$ -	\$ 97,978
Pension	595	-	595	839	-	839	1,434	-	3,837
Other employee benefits	9,513	-	9,513	1,265	-	1,265	10,778	-	13,334
Payroll taxes	5,192	-	5,192	686	-	686	5,878	-	7,207
Legal fees	168	-	168	183	-	183	351	-	545
Accounting fees	409	-	409	660	7	667	1,076	-	1,365
Other professional fees	7,887	-	7,887	2,380	94	2,474	10,361	-	21,542
Other professional fees - In-kind	-	-	-	-	-	-	-	-	42,000
Supplies and office	2,827	58	2,885	167	-	167	3,052	-	5,335
Telecommunications	1,376	-	1,376	164	-	164	1,540	-	1,902
Postage	131	-	131	22	-	22	153	-	674
Occupancy	5,654	-	5,654	599	-	599	6,253	(203)	7,640
Interest	9,744	-	9,744	127	-	127	9,871	(80)	10,268
Insurance	1,435	-	1,435	52	-	52	1,487	-	2,000
Equipment rental and maintenance	2,517	-	2,517	38	-	38	2,555	-	2,908
Printing and publications	96	-	96	13	-	13	109	-	479
Travel and transportation	1,230	-	1,230	810	-	810	2,040	-	4,221
Conferences and meetings	245	-	245	249	-	249	494	-	757
Specific assistance to individuals	24,926	-	24,926	-	-	-	24,926	-	26,051
Awards and grants to affiliates:									
Development awards	-	-	-	-	-	-	-	(130)	2,805
Endowment awards	-	-	-	-	-	-	-	-	(274)
Other	5,831	-	5,831	3,887	289	4,176	10,007	(3,031)	9,378
Depreciation and amortization	7,185	-	7,185	74	-	74	7,259	-	8,461
	<u>\$ 159,332</u>	<u>\$ 58</u>	<u>\$ 159,390</u>	<u>\$ 21,865</u>	<u>\$ 390</u>	<u>\$ 22,255</u>	<u>\$ 181,645</u>	<u>\$ (3,444)</u>	<u>\$ 270,413</u>

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)  
YEAR ENDED JUNE 30, 2016  
(IN THOUSANDS)

	VOAT Limited and general partnerships	VOANS Limited and general partnerships	Total Limited and general partnerships	Eliminations	Consolidated total
Salaries	\$ -	\$ 5,452	\$ 5,452	\$ -	\$ 103,430
Pension	-	-	-	-	3,837
Other employee benefits	73	798	871	-	14,205
Payroll taxes	-	721	721	-	7,928
Legal fees	-	289	289	-	834
Accounting fees	-	995	995	-	2,360
Other professional fees	-	2,515	2,515	-	24,057
Other professional fees - In-kind	-	-	-	-	42,000
Supplies and office	15	1,668	1,683	-	7,018
Telecommunications	-	35	35	-	1,937
Postage	-	-	-	-	674
Occupancy	-	11,804	11,804	-	19,444
Interest	129	14,033	14,162	(2,454)	21,976
Insurance	452	-	452	-	2,452
Equipment rental and maintenance	309	-	309	-	3,217
Printing and publications	300	-	300	-	779
Travel and transportation	-	10	10	-	4,231
Conferences and meetings	-	216	216	-	973
Specific assistance to individuals	-	-	-	-	26,051
Awards and grants to affiliates:					
Development awards	-	-	-	-	2,805
Endowment awards	-	-	-	-	(274)
Other	390	3,090	3,480	(756)	12,102
Depreciation and amortization	344	16,811	17,155	-	25,616
	<u>\$ 2,012</u>	<u>\$ 58,437</u>	<u>\$ 60,449</u>	<u>\$ (3,210)</u>	<u>\$ 327,652</u>