

Consolidated Financial Statements of

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

Years Ended
June 30, 2017 and 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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the 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 audits. We did not audit the financial statements of Volunteers of America Texas, Inc., VOANS Holding Company, and Edina Senior Living, LLC, entities whose financial statements are required to be consolidated with the Organization, whose statements reflect total assets constituting approximately 19 and 10 percent of the consolidated total assets at June 30, 2017 and 2016, respectively, and total revenues constituting approximately 10 and 8 percent of the consolidated total revenues for the years then ended, respectively. 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 Volunteers of America Texas, Inc., VOANS Holding Company and Edina Senior Living, LLC are based solely on the report of the other auditors. We conducted our audits 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 audits 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 Volunteers of America, Inc. and Subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 45-51 is presented for purposes of additional analysis rather than to present the financial position, results of operations, functional expenses, and cash flows of the subsidiaries, 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 23, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
<i>Assets:</i>		
Current assets:		
Cash and cash equivalents	\$ 54,053	\$ 49,086
Accounts receivable, net of allowance for doubtful accounts	27,967	23,555
Current portion of notes receivable	2,593	725
Short-term investments	25,252	13,475
Prepaid expenses	2,557	3,013
Other current assets, net of allowance for doubtful accounts	<u>4,284</u>	<u>3,781</u>
 Total current assets	 <u>116,706</u>	 <u>93,635</u>
 Property and equipment, net of accumulated depreciation	 <u>259,948</u>	 <u>166,121</u>
 Other assets:		
Encumbered assets	49,396	73,581
Long-term investments	13,614	11,839
Notes receivable, net of current portion and allowance for doubtful accounts	6,795	3,982
Reimbursable costs	6,060	5,702
Property held for sale	991	804
Deferred charges and other assets, net of accumulated amortization	8,624	10,480
Limited and general partnerships' assets	<u>558,721</u>	<u>495,588</u>
 Total other assets	 <u>644,201</u>	 <u>601,976</u>
 Total assets	 <u>\$ 1,020,855</u>	 <u>\$ 861,732</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
<i>Liabilities and net assets:</i>		
Current liabilities:		
Accounts payable	\$ 10,324	\$ 8,169
Accrued expenses	20,326	17,600
Current portion of long-term debt	3,989	3,202
Other current liabilities	<u>16,888</u>	<u>13,448</u>
Total current liabilities	<u>51,527</u>	<u>42,419</u>
Long-term liabilities:		
Long-term debt, net of current portion	221,992	216,785
Other long-term liabilities	104,972	17,188
Limited and general partnerships' liabilities	<u>322,641</u>	<u>297,223</u>
Total long-term liabilities	<u>649,605</u>	<u>531,196</u>
Total liabilities	<u>701,132</u>	<u>573,614</u>
Net assets:		
Unrestricted attributable to:		
Controlled limited and general partnerships	4,249	4,021
Board designated	16,345	16,461
Undesignated	<u>123,936</u>	<u>120,059</u>
Parent	144,530	140,541
Non-controlling interests in limited and general partnerships and other programs	<u>169,170</u>	<u>141,780</u>
Total unrestricted	313,700	282,321
Temporarily restricted	5,192	4,857
Permanently restricted	<u>831</u>	<u>940</u>
Total net assets	<u>319,723</u>	<u>288,118</u>
Total liabilities and net assets	<u>\$ 1,020,855</u>	<u>\$ 861,732</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(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	\$ 21,062	\$ 6,904	\$ -	\$ 27,966	\$ -	\$ -	\$ 27,966
Contributions, in-kind	11,760	-	-	11,760	-	-	11,760
Total public support	32,822	6,904	-	39,726	-	-	39,726
Government grants and contracts	25,607	-	-	25,607	24,326	-	49,933
Other revenue:							
Program fees	60,550	-	-	60,550	20,703	(108)	81,145
Program fees, Medicaid and Medicare	119,104	-	-	119,104	-	-	119,104
Administrative income from Local Offices	12,725	-	-	12,725	-	-	12,725
Net rental income	87	-	-	87	523	-	610
Other operating income	18,776	-	-	18,776	1,654	(8,382)	12,048
Total other revenue	211,242	-	-	211,242	22,880	(8,490)	225,632
Net assets released from restrictions	6,573	(6,573)	-	-	-	-	-
Total revenues from operations	276,244	331	-	276,575	47,206	(8,490)	315,291
Operating expenses:							
Program services:							
Fostering independence	190,339	-	-	190,339	34,436	-	224,775
Promoting self sufficiency	44,529	-	-	44,529	29,088	(3,334)	70,283
Encouraging positive development	449	-	-	449	-	-	449
Total program services	235,317	-	-	235,317	63,524	(3,334)	295,507
Support services:							
Management and general	30,680	-	-	30,680	-	(1,504)	29,176
Fundraising	2,712	-	-	2,712	-	-	2,712
Total support services	33,392	-	-	33,392	-	(1,504)	31,888
Total operating expenses	268,709	-	-	268,709	63,524	(4,838)	327,395
Change in net assets from operations	7,535	331	-	7,866	(16,318)	(3,652)	(12,104)
Non-operating items:							
Interest and dividend income	2,080	1	-	2,081	-	-	2,081
Net realized gains on investments	694	1	-	695	-	-	695
Net unrealized gains (losses) on investments	1,832	2	(109)	1,725	-	-	1,725
Equity contributions related to limited and general partnerships	-	-	-	-	44,768	-	44,768
Loss on refinancing	(6,284)	-	-	(6,284)	-	-	(6,284)
Other non-operating	381	-	-	381	-	-	381
Total non-operating items	(1,297)	4	(109)	(1,402)	44,768	-	43,366
Change in net assets before discontinued operations	6,238	335	(109)	6,464	28,450	(3,652)	31,262
Gain on discontinued operations	343	-	-	343	-	-	343
Change in net assets	6,581	335	(109)	6,807	28,450	(3,652)	31,605
Less change in net assets attributable to the non-controlling interest in limited and general partnerships and other programs	(826)	-	-	(826)	28,216	-	27,390
Change in net assets attributable to the parent	\$ 7,407	\$ 335	\$ (109)	\$ 7,633	\$ 234	\$ (3,652)	\$ 4,215

See notes to consolidated financial statements.

**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	\$ 15,210	\$ 6,372	\$ -	\$ 21,582	\$ -	\$ -	\$ 21,582
Contributions, in-kind	42,439	-	-	42,439	-	-	42,439
Total public support	57,649	6,372	-	64,021	-	-	64,021
Government grants and contracts	22,491	-	-	22,491	20,506	-	42,997
Other revenue:							
Program fees	51,581	-	-	51,581	20,202	(120)	71,663
Program fees, Medicaid and Medicare	99,088	-	-	99,088	-	-	99,088
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	179,742	-	-	179,742	23,393	(7,428)	195,707
Net assets released from restrictions	4,382	(4,382)	-	-	-	-	-
Total revenues from operations	264,264	1,990	-	266,254	43,899	(7,428)	302,725
Operating expenses:							
Program services:							
Fostering independence	156,679	-	-	156,679	32,107	-	188,786
Promoting self sufficiency	72,398	-	-	72,398	28,342	(2,574)	98,166
Encouraging positive development	481	-	-	481	-	-	481
Total program services	229,558	-	-	229,558	60,449	(2,574)	287,433
Support services:							
Management and general	29,732	-	-	29,732	-	(636)	29,096
Fundraising	1,837	-	-	1,837	-	-	1,837
Total support services	31,569	-	-	31,569	-	(636)	30,933
Total operating expenses	261,127	-	-	261,127	60,449	(3,210)	318,366
Change in net assets from operations	3,137	1,990	-	5,127	(16,550)	(4,218)	(15,641)
Non-operating items:							
Interest and dividend income	1,507	-	-	1,507	-	-	1,507
Net realized gains on investments	215	-	-	215	-	-	215
Net unrealized gains (losses) on investments	(1,357)	-	20	(1,337)	-	-	(1,337)
Equity contributions related to limited and general partnerships	-	-	-	-	33,360	-	33,360
Other non-operating	214	-	-	214	-	-	214
Total non-operating items	579	-	20	599	33,360	-	33,959
Change in net assets before discontinued operations	3,716	1,990	20	5,726	16,810	(4,218)	18,318
Loss on discontinued operations	(451)	-	-	(451)	-	-	(451)
Change in net assets	3,265	1,990	20	5,275	16,810	(4,218)	17,867
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	\$ 3,994	\$ 1,990	\$ 20	\$ 6,004	\$ 981	\$ (4,218)	\$ 2,767

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 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	\$ 139,784	\$ 2,867	\$ 920	\$ 143,571	\$ 126,680	\$ 270,251
Change in net assets	<u>757</u>	<u>1,990</u>	<u>20</u>	<u>2,767</u>	<u>15,100</u>	<u>17,867</u>
Balance, June 30, 2016	140,541	4,857	940	146,338	141,780	288,118
Change in net assets	<u>3,989</u>	<u>335</u>	<u>(109)</u>	<u>4,215</u>	<u>27,390</u>	<u>31,605</u>
Balance, June 30, 2017	<u>\$ 144,530</u>	<u>\$ 5,192</u>	<u>\$ 831</u>	<u>\$ 150,553</u>	<u>\$ 169,170</u>	<u>\$ 319,723</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 31,605	\$ 17,867
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	(27,390)	(15,100)
Change in limited and general partnerships	(10,325)	(6,321)
(Decrease) increase in allowance for doubtful accounts	(121)	178
Depreciation and amortization	10,735	8,472
Amortization of original issue discount and deferred financing costs	399	62
Loss (gain) on:		
Disposal of discontinued operations	(343)	10
Joint ventures	142	-
Refinancing	6,284	-
Sale or disposal of property and equipment	(18)	(5)
Contribution of stock in joint venture	-	(612)
Net realized and unrealized investment (gains) losses	(2,420)	1,169
Permanently restricted contributions and investment income	-	(20)
(Increase) decrease in operating assets:		
Accounts receivable	(4,003)	(3,857)
Prepaid expenses	456	(606)
Other current assets	(2,168)	57
Deferred charges and other assets	(612)	67
Increase in operating liabilities:		
Accounts payable	5,517	2,817
Accrued expenses	50	3
Other liabilities	5,828	254
Net cash provided by operating activities	<u>13,616</u>	<u>4,435</u>
Cash flows from investing activities:		
Purchase of property and equipment	(24,990)	(32,234)
Proceeds from:		
Sale of property and equipment	33	52
Reimbursable costs and other assets	(47)	-
Notes receivable:		
Advances	(5,068)	(2,483)
Payments	2,817	413
Increase in unearned revenue and other long term liabilities	810	1,424
Cash proceeds withdrawn from investments	1,375	2,011
Change in investments including encumbered assets	(8,747)	(2,575)
Net cash used in investing activities	<u>(33,817)</u>	<u>(33,392)</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	<u>2017</u>	<u>2016</u>
Cash flows from financing activities:		
Permanently restricted contributions and investment income	\$ -	\$ 20
Proceeds from line of credit	1,500	1,527
Long-term debt and capital lease liability:		
Proceeds	4,626	41,036
Payments	(5,368)	(4,758)
Increase in:		
Other long-term liabilities	4,693	(1,044)
Bond trust funds	19,718	(2,294)
	<u>25,169</u>	<u>34,488</u>
Net cash provided by financing activities		
	4,968	5,531
Net increase in cash and cash equivalents		
	49,086	43,555
Cash and cash equivalents, beginning		
	<u>\$ 54,053</u>	<u>\$ 49,086</u>
Cash and cash equivalents, ending		
	<u>\$ 22,640</u>	<u>\$ 20,858</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 22,640</u>	<u>\$ 20,858</u>
Non-cash financing activity:		
Property and equipment financed through debt	<u>\$ 79,791</u>	<u>\$ 511</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(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	\$ 79,381	\$ 10,790	\$ 281	\$ 90,452	\$ 14,581	\$ 308	\$ 14,889	\$ 105,341	\$ 3,184	\$ 2,610	\$ 5,794	\$ -	\$ 111,135
Pension	741	396	-	1,137	2,665	8	2,673	3,810	-	-	-	-	3,810
Other employee benefits	11,354	1,692	41	13,087	2,306	42	2,348	15,435	572	444	1,016	-	16,451
Payroll taxes	5,358	859	24	6,241	969	19	988	7,229	317	439	756	-	7,985
Legal fees	146	38	-	184	335	-	335	519	127	194	321	-	840
Accounting fees	310	17	-	327	917	5	922	1,249	498	408	906	-	2,155
Other professional fees	13,665	7,046	9	20,720	2,990	552	3,542	24,262	1,824	765	2,589	-	26,851
Other professional fees - In-kind	-	11,696	-	11,696	-	-	-	11,696	-	-	-	-	11,696
Supplies and office	3,467	1,647	25	5,139	627	5	632	5,771	1,066	822	1,888	-	7,659
Telecommunications	1,504	176	3	1,683	323	7	330	2,013	35	22	57	-	2,070
Postage	118	48	-	166	46	188	234	400	-	-	-	-	400
Occupancy	6,486	1,169	35	7,690	690	22	712	8,402	5,840	6,321	12,161	-	20,563
Interest	14,017	328	-	14,345	465	-	465	14,810	8,837	6,224	15,061	(3,334)	26,537
Insurance	1,737	132	4	1,873	353	34	387	2,260	-	305	305	-	2,565
Equipment rental and maintenance	2,586	364	3	2,953	79	5	84	3,037	-	337	337	-	3,374
Printing and publications	100	79	-	179	15	116	131	310	-	-	-	-	310
Travel and transportation	1,524	1,710	14	3,248	972	12	984	4,232	15	21	36	-	4,268
Conferences and meetings	280	338	4	622	245	4	249	871	178	128	306	-	1,177
Specific assistance to individuals	32,378	1,874	6	34,258	-	503	503	34,761	-	-	-	-	34,761
Awards and grants to affiliates:													
Development awards	-	2,089	-	2,089	5	147	152	2,241	-	-	-	-	2,241
Endowment awards	-	123	-	123	-	-	-	123	-	-	-	-	123
Other	5,703	1,211	-	6,914	1,553	735	2,288	9,202	1,590	2,667	4,257	(1,504)	11,955
Depreciation and amortization	9,484	707	-	10,191	544	-	544	10,735	10,353	7,381	17,734	-	28,469
	<u>\$ 190,339</u>	<u>\$ 44,529</u>	<u>\$ 449</u>	<u>\$ 235,317</u>	<u>\$ 30,680</u>	<u>\$ 2,712</u>	<u>\$ 33,392</u>	<u>\$ 268,709</u>	<u>\$ 34,436</u>	<u>\$ 29,088</u>	<u>\$ 63,524</u>	<u>\$ (4,838)</u>	<u>\$ 327,395</u>

See notes to consolidated financial statements.

**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	\$ 69,418	\$ 10,257	\$ 301	\$ 79,976	\$ 12,895	\$ 506	\$ 13,401	\$ 93,377	\$ 2,833	\$ 2,619	\$ 5,452	\$ -	\$ 98,829
Pension	569	400	-	969	2,836	3	2,839	3,808	-	-	-	-	3,808
Other employee benefits	9,090	1,808	52	10,950	1,655	60	1,715	12,665	468	403	871	-	13,536
Payroll taxes	4,995	872	28	5,895	942	27	969	6,864	321	400	721	-	7,585
Legal fees	153	26	1	180	345	5	350	530	70	219	289	-	819
Accounting fees	396	7	-	403	942	7	949	1,352	547	448	995	-	2,347
Other professional fees	10,601	6,573	2	17,176	2,860	445	3,305	20,481	1,867	648	2,515	-	22,996
Other professional fees - In-kind	-	42,000	-	42,000	-	-	-	42,000	-	-	-	-	42,000
Supplies and office	2,732	1,722	29	4,483	626	12	638	5,121	930	753	1,683	-	6,804
Telecommunications	1,355	170	3	1,528	299	12	311	1,839	15	20	35	-	1,874
Postage	131	281	-	412	43	213	256	668	-	-	-	-	668
Occupancy	5,585	944	26	6,555	783	27	810	7,365	5,718	6,086	11,804	-	19,169
Interest	9,837	317	-	10,154	221	-	221	10,375	8,107	6,055	14,162	(2,454)	22,083
Insurance	1,436	140	2	1,578	346	20	366	1,944	-	452	452	-	2,396
Equipment rental and maintenance	2,432	260	4	2,696	79	6	85	2,781	-	309	309	-	3,090
Printing and publications	91	193	2	286	25	162	187	473	-	300	300	-	773
Travel and transportation	1,374	1,843	10	3,227	963	21	984	4,211	4	6	10	-	4,221
Conferences and meetings	251	205	10	466	280	6	286	752	136	80	216	-	968
Specific assistance to individuals	24,587	792	11	25,390	1	6	7	25,397	-	-	-	-	25,397
Awards and grants to affiliates:													
Development awards	-	2,805	-	2,805	-	-	-	2,805	-	-	-	-	2,805
Endowment awards	-	(274)	-	(274)	-	-	-	(274)	-	-	-	-	(274)
Other	4,857	333	-	5,190	3,134	299	3,433	8,623	1,369	2,111	3,480	(756)	11,347
Depreciation and amortization	6,789	724	-	7,513	457	-	457	7,970	9,722	7,433	17,155	-	25,125
	<u>\$ 156,679</u>	<u>\$ 72,398</u>	<u>\$ 481</u>	<u>\$ 229,558</u>	<u>\$ 29,732</u>	<u>\$ 1,837</u>	<u>\$ 31,569</u>	<u>\$ 261,127</u>	<u>\$ 32,107</u>	<u>\$ 28,342</u>	<u>\$ 60,449</u>	<u>\$ (3,210)</u>	<u>\$ 318,366</u>

See notes to consolidated financial statements.

1. Organization and reporting entity:

Volunteers of America, Inc. (National Organization) is an interdenominational church and a national non-profit human service organization that demonstrates its faith through acts of compassion, local service programs, and opportunities for individual and community involvement. Established in 1896 by Christian social reformers Ballington and Maud Booth, the National Organization provides administrative and management services to 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; Intrepid VOA 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 Futures Fund, Inc. (VOA Futures Fund) is a wholly owned subsidiary formed in June 2017.

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, VOA Futures Fund, 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 \$5,156,000 and \$4,854,000 for the years ended June 30, 2017 and 2016, respectively. The cumulative amount of intercompany profits eliminated in consolidation related to developer fees earned and paid to National Services was \$38,426,000 and \$33,270,000 at June 30, 2017 and 2016, respectively.

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

1. Organization and reporting entity (continued):

There are 174 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 years ended June 30, 2017 and 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 years ended June 30, 2017 and 2016.

On March 6, 2017, the Organization sold a skilled nursing facility located in Edina, Minnesota to an unrelated party. The sales price was \$4,845,000. The Organization recorded a gain of approximately \$2,923,000 during the year ended June 30, 2017. The results of operations for the facility have been reclassified to gain (loss) on discontinued operations.

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, and secures 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.

1. Organization and reporting entity (continued):

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 (SAEs) and is developing additional affordable housing sites to be organized as SAEs. The SAEs are stand-alone entities and are not consolidated with the Organization. See Note 2 regarding reimbursable costs for the 6 and 8 individual and family properties under development at June 30, 2017, and 2016, respectively.

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.

1. Organization and reporting entity (continued):

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.

2. Summary of Significant accounting policies (continued):

Notes and accounts receivable:

Notes and accounts receivable consist of third-party payors and patient receivables, housing and other receivables and 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, 2017 and 2016, the allowance for doubtful accounts for accounts receivable was \$1,588,000 and \$2,097,000, respectively.

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.

2. Summary of Significant accounting policies (continued):

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 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.

Amortization of assets acquired under capital leases is included in accumulated depreciation.

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 years ended June 30, 2017 and 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).

2. Summary of Significant accounting policies (continued):

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:

Due to the Financial Accounting Standards Board's (FASB) issuance of Accounting Standards Update (ASU) No. 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, the Organization changed its method of presenting deferred financing costs. Prior to the issuance of ASU No. 2015-03, the Organization presented deferred financing costs as a long-term asset in its consolidated statements of financial position. As required by ASU No. 2015-03, the Organization now presents deferred financing costs as a direct reduction of its long-term debt. The effect of the required retrospective application of this change in presentation was to decrease the Organization's deferred financing costs and long-term debt by \$6,065,000 at June 30, 2016.

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 \$171,815,000 and \$143,599,000 at June 30, 2017 and 2016, respectively, represent 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 \$5,949,000 and \$5,987,000 at June 30, 2017 and 2016, respectively. 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.

2. Summary of Significant accounting policies (continued):

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.

For the years ended June 30, 2017 and 2016, the Organization received approximately 38% and 33%, respectively, of its operating revenues from Medicare and Medicaid.

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 fundraising operating expenses, respectively, on the consolidated statements 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.

2. Summary of Significant accounting policies (continued):

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 statements 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 statements 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 \$147,000 and \$300,000 of developer fees as reimbursable costs for the fiscal years ended June 30, 2017 and 2016, respectively. 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.

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 Edina Senior Living, LLC, and is 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. The Organization recognized income tax expense of \$100,000 and \$75,000 related to unrelated business income generated from investments in joint ventures, and there were cash payments for income taxes of \$26,000 and \$0 in 2017 and 2016, respectively.

2. Summary of Significant accounting policies (continued):

Loss on refinancing:

In February 2017, The Homestead at Anoka, Inc. issued \$40,595,000 in City of Anoka, Minnesota Series 2017 tax-exempt bonds (Series 2017 bonds). The proceeds were used to advance refund The Homestead at Anoka, Inc.'s City of Anoka, Minnesota Series 2011 tax-exempt bonds (Series 2011 bonds), which had an outstanding balance of \$34,230,000 at the time of refinancing. The Series 2011 bonds are callable on November 1, 2019, with a prepayment penalty of 1%. As a result, the proceeds from the Series 2017 bonds were also used to pay interest and the prepayment penalty on the Series 2011 bonds through the call date and to fund the costs of issuance of the Series 2017 bonds. The refinancing will provide an interest savings over the term of the bonds; however, it also resulted in a one-time non-cash loss of \$6,284,000 during the year ended June 30, 2017.

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 23, 2017, the date the consolidated financial statements were available for issuance.

In September 2017, a hurricane disrupted the operations of VOA Puerto Rico RRC, Inc. While the impact on VOA Puerto Rico RRC, Inc. is still being evaluated, management has determined that this event does not have a material impact on the accompanying consolidated financial statements.

3. Property and equipment:

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Land and improvements	\$ 15,150	\$ 14,709
Building and improvements	302,325	205,544
Furniture and equipment	<u>42,999</u>	<u>39,225</u>
	360,474	259,478
Less accumulated depreciation	<u>(100,526)</u>	<u>(93,357)</u>
	<u>\$ 259,948</u>	<u>\$ 166,121</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$10,678,000 and \$7,832,000, respectively.

Construction costs are included in building and improvements. During the years ended June 30, 2017 and 2016, National Services incurred interest costs totaling \$26,955,000 and \$23,916,000, respectively, of which approximately \$1,157,000 and \$2,386,000, respectively, was capitalized.

4. Notes receivable:

Notes receivable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Notes receivable	\$ 14,515	\$ 11,378
Accrued interest, notes receivable	1,976	23
Less current portion	<u>(2,593)</u>	<u>(725)</u>
	13,898	10,676
Less allowance	<u>7,103</u>	<u>6,694</u>
	<u>\$ 6,795</u>	<u>\$ 3,982</u>

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

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Balance at beginning of year	\$ 6,694	\$ 5,916
Provision for losses	1,162	868
Charge-offs	(203)	-
Recoveries	<u>(550)</u>	<u>(90)</u>
Balance at end of year	<u>\$ 7,103</u>	<u>\$ 6,694</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

5. Encumbered assets:

At June 30, 2017 and 2016, encumbered assets included the following donor restrictions, legal agreements, and board designations:

	<u>VOA, Inc.</u>	<u>VOAT</u>	<u>VOANS</u> (in thousands)	<u>2017</u>	<u>2016</u>
Restricted assets:					
Temporarily	\$ 1,929	\$ 70	\$ -	\$ 1,999	\$ 3,942
Permanently	831	-	-	831	940
Board designated	16,345	-	-	16,345	16,461
Bonds					
Trust funds	-	-	20,203	20,203	40,639
Trust escrow	-	-	7,149	7,149	8,534
Certificates of deposit held as collateral	-	-	1,362	1,362	1,360
Cash collateral account	-	-	1,507	1,507	1,705
Encumbered assets	<u>\$ 19,105</u>	<u>\$ 70</u>	<u>\$ 30,221</u>	<u>\$ 49,396</u>	<u>\$ 73,581</u>

5. Encumbered assets (continued):

Bond trust funds:

Bond trust funds consist of assets held by trustees under various indenture agreements. Amounts held in bond trust funds in excess of amounts required under the indenture agreements are classified as short-term investments. These investments consisting of short-term treasury funds and certificates of deposit and are recorded at cost, which approximates fair value.

At June 30, 2017 and 2016, encumbered assets consisted of the following classes of assets:

	<u>VOA, Inc.</u>	<u>VOAT</u>	<u>VOANS</u>	<u>2017</u>	<u>2016</u>
			(in thousands)		
Cash and cash equivalents	\$ 2,275	\$ 70	\$ 8,656	\$ 11,001	\$ 14,429
Investments (see below)	16,830	-	1,362	18,192	18,513
Bond trust funds	-	-	20,203	20,203	40,639
Encumbered assets	<u>\$ 19,105</u>	<u>\$ 70</u>	<u>\$ 30,221</u>	<u>\$ 49,396</u>	<u>\$ 73,581</u>
Investments included in encumbered assets:					
Cash held for re-investment	\$ 441	\$ -	\$ -	\$ 441	\$ 699
Certificates of deposit	-	-	1,362	1,362	1,360
Fixed income	6,005	-	-	6,005	8,958
Equities	14,677	-	-	14,677	10,231
Other	<u>4,386</u>	-	-	<u>4,386</u>	<u>4,733</u>
	25,509	-	1,362	26,871	25,981
Unencumbered securities held with encumbered assets	<u>(8,679)</u>	-	-	<u>(8,679)</u>	<u>(7,468)</u>
Investment included in encumbered assets	<u>\$ 16,830</u>	<u>\$ -</u>	<u>\$ 1,362</u>	<u>\$ 18,192</u>	<u>\$ 18,513</u>

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.

5. Encumbered assets (continued):

The terms of both trusts are irrevocable and vest the trustees, who are the members of the Finance Committee, with all powers over investment, management, and distribution of the principal assets. These trusts are invested with the National 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 years ended June 30, 2017 and 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 at June 30, 2017 and 2016 are as follows:

	Board Designated Endowment (Encumbered)	Other Board Designated (Encumbered)	Total Board Designated (Encumbered)	2017 Earnings (Unencumbered)	2016 Earnings (Unencumbered)
	(in thousands)				
Beginning balance, July 1	\$ 16,114	\$ 347	\$ 16,461	\$ 7,468	\$ 9,959
Investment net gains (losses)	-	-	-	2,114	(261)
Withdrawal of endowment assets per approved appropriation	-	-	-	(1,073)	(1,244)
Reduction of other board designated assets to pay for new program (board approved)	-	-	-	-	-
Reduction of endowment assets to fund new programs (board approved)	-	-	-	(24)	(356)
Transfers	(191)	75	(116)	194	(630)
Ending balance, June 30	<u>\$ 15,923</u>	<u>\$ 422</u>	<u>\$ 16,345</u>	<u>\$ 8,679</u>	<u>\$ 7,468</u>
Appropriation of endowment assets available for current year				<u>\$ 919</u>	<u>\$ 920</u>

6. Investments:

At June 30, 2017 and 2016, investments were as follows:

	<u>VOA, Inc.</u>	<u>VOAT</u>	<u>VOANS</u> (in thousands)	<u>2017</u>	<u>2016</u>
Unencumbered:					
Cash held for re-investments	\$ 85	\$ -	\$ 157	\$ 242	\$ 362
Certificates of deposit	-	-	4,546	4,546	4,829
Fixed income	1,103	-	3,082	4,185	4,320
Equities	2,879	-	4,090	6,969	5,612
Other	868	-	13,377	14,245	2,723
	<u>4,935</u>	<u>-</u>	<u>25,252</u>	<u>30,187</u>	<u>17,846</u>
Unencumbered securities held with encumbered assets	<u>8,679</u>	<u>-</u>	<u>-</u>	<u>8,679</u>	<u>7,468</u>
	<u>\$ 13,614</u>	<u>\$ -</u>	<u>\$ 25,252</u>	<u>\$ 38,866</u>	<u>\$ 25,314</u>
Statement of financial position classification:					
Short-term investments	\$ -	\$ -	\$ 25,252	\$ 25,252	\$ 13,475
Long-term investments	<u>13,614</u>	<u>-</u>	<u>-</u>	<u>13,614</u>	<u>11,839</u>
	<u>\$ 13,614</u>	<u>\$ -</u>	<u>\$ 25,252</u>	<u>\$ 38,866</u>	<u>\$ 25,314</u>

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 \$65,589,000 and \$60,458,000 at June 30, 2017 and 2016, respectively. There were 10 and 11 active Local Office participants, National Services, and two subsidiaries of National Services in the program at June 30, 2017 and 2016, respectively. Local Offices, National Services, and subsidiaries account for 54% of the total portfolio in the program at June 30, 2017. Each participant has ownership of its allocated assets and recognizes its allocated earnings. The National Office records the portion of other participants' investment (\$35,708,000 and \$32,120,000 at June 30, 2017 and 2016, respectively) as assets and equal offsetting liabilities, netted within the investment line on the consolidated statements 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).

7. Fair Value Measurements (continued):

Financial assets that are carried at estimated fair value are categorized based on the inputs to the valuation technique as follows for the years ended June 30, 2017 and 2016. There were no financial instruments valued using Level 3 inputs at June 30, 2017 and 2016.

Financial Asset Category	<u>2017</u> Total	<u>2016</u> Total
	(in thousands)	
Level 1 Assets		
Fixed income	\$ 10,190	\$ 13,278
Equities		
Common stock	21,646	15,843
Mutual funds	<u>17,016</u>	<u>5,572</u>
Total Level 1 Assets:	48,852	34,693
Investment measured at net assets value (a)	1,615	1,884
Unrestricted assets recorded at cost:		
Cash held for re-investments	242	362
Certificates of deposit	4,546	4,829
Assets whose use is limited, recorded at cost:		
Cash held for re-investment	441	699
Certificates of deposit	1,362	1,360
Cash and cash equivalents	11,001	14,429
Bond trust funds	<u>20,203</u>	<u>40,639</u>
Total short-term and long-term investments and encumbered assets	<u>\$ 88,262</u>	<u>\$ 98,895</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 statements of financial position.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2017 and 2016.

Fixed income securities, government securities, 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.

7. Fair Value Measurements (continued):

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, 2017 and 2016.

8. Deferred charges and other assets:

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, 2017 and 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 \$6,000 and \$222,000 as of June 30, 2017 and 2016, respectively. National Services' share of the net loss for the years ended June 30, 2017 and 2016 was \$216,000 and \$1,000, respectively.

National Services has a one-third ownership interest with two unrelated parties in Alliance Technology Solutions Holding Company, LLC to invest in a company whose purpose is to develop and deal with computer and software technology focused upon the elderly and their care providers. As of June 30, 2017 and 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 \$10,000 and \$14,000 as of June 30, 2017 and 2016, respectively. National Services' share of the net (loss) income was (\$4,000) and \$442,000 for the years ended June 30, 2017 and 2016, respectively.

National Services is a 45% 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 \$2,629,000 and \$2,515,000 at June 30, 2017 and 2016, respectively. National Services share of the net income was \$304,000 and \$171,000 for the years ended June 30, 2017 and 2016, respectively.

8. Deferred charges and other assets (continued):

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 \$226,000 and \$219,000 in VOANS-CDT JV, LLC at June 30, 2017 and 2016, respectively. The Organization recorded a loss on the investment during the year ended June 30, 2017 of \$226,000, which reduced the carrying value to \$0.

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 \$3,390,000 and \$2,781,000 as of June 30, 2017 and 2016, respectively, at its fair value.

9. Lines of credit:

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 December 31, 2018. The unpaid principal balance bears interest at an annual rate equal to 1.5% plus the one-month London Interbank Offered Rate ("LIBOR"). The interest rate was 2.72% and 1.97% at June 30, 2017 and 2016, respectively. No collateral is required. At June 30, 2017, 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, 2017 and 2016, \$3,980,000 and \$2,475,000, respectively, was outstanding from other National Pooled Investment participants, where the balance is collateralized by their investments. Under this program, at June 30, 2017 and 2016, National Services had an outstanding balance of \$3,000,000 and \$1,500,000, respectively.

10. Long-term debt:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Real estate notes and mortgages, 0% to 9%, due in varying amounts through 2041	\$ 28,615	\$ 25,970
Revenue bonds, mortgages, 2% to 8%, due in varying amounts through 2050	<u>204,540</u>	<u>201,648</u>
	233,155	227,618
Less unamortized discount	<u>1,572</u>	1,566
Less unamortized deferred financing costs	<u>5,602</u>	<u>6,065</u>
	225,981	219,987
Less current portion	<u>3,989</u>	<u>3,202</u>
	<u>\$ 221,992</u>	<u>\$ 216,785</u>

Future annual maturities of long-term debt for the year ended June 30, 2017 are as follows:

\$	<u>Amount</u> (in thousands)
2018	\$ 3,989
2019	9,349
2020	7,910
2021	10,040
2022	4,956
Thereafter	<u>196,911</u>
	<u>\$ 233,155</u>

At June 30, 2017 and 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 \$1,012,000 and \$892,000 for the years ended June 30, 2017 and 2016, respectively.

11. Retirement plans (continued):

Defined benefit plans:

The National Organization participates with its Local Offices and National Services in a non-contributory defined benefit pension and retirement plan, called The Volunteers of America National Pension Plan. The plan's employer identification number is 13-1692595 and the plan year end is December 31. This plan is a multi-employer plan and thus the National Organization is not required to record the unfunded pension liability in its financial statements. 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.

	January 1, 2017	January 1, 2016
	<u> </u>	<u> </u>
Market value of plan assets	\$ 54,513,000	\$ 52,265,000
Present value of accumulated plan benefits	<u>66,010,000</u>	<u>64,179,000</u>
Actuarial valuation of the unfunded pension liability	<u>\$ 11,497,000</u>	<u>\$ 11,914,000</u>

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.

	Fiscal year 2017	Fiscal year 2016
	<u> </u>	<u> </u>
Funded status	Less than 65%	Less than 65%
Employer's contribution to the plan	\$ 1,309,000	\$ 1,217,000
Total contributions received by the plan	\$ 4,196,000	\$ 4,023,000
Employer's contribution >5% of total contributions to the plan	Yes	Yes
Total fair value of plan assets at year end	\$ 59,371,000	\$ 53,424,000

11. Retirement plans (continued):

VOA National Housing Corporation has a separate defined benefit plan which is a single employer plan and recognizes the funded status of the defined benefit pension plan as a net asset or liability and recognizes changes in the funded status in the year in which the change occurs through a separate line item within the change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic pension costs. For the years ended June 30, 2017 and 2016, the funded status reported on the consolidated statements 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Projected benefit obligation	\$ 7,718	\$ 7,652
Plan assets, at fair value	<u>5,310</u>	<u>4,801</u>
Unfunded status	<u>\$ 2,408</u>	<u>\$ 2,851</u>
Net periodic benefit cost	\$ 479	\$ 405
Employer contributions	342	313
Benefits paid	334	210
Weighted average assumptions used to determine benefit obligation at June 30, 2017 and 2016:		
Discount rate	4.25%	4.25%
Rate of compensation increase	4.00%	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30, 2017 and 2016:		
Discount rate	4.25%	4.50%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	4.00%	4.00%

The expected long-term rate of return for the plan's total assets is based on both 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 years ended June 30, 2017 and 2016, respectively. The net gain (loss) recognized in the years ended June 30, 2017 and 2016 was approximately \$580,000 and \$(117,000), respectively. The net loss expected to be recognized as a component of net periodic pension cost over the next 12 months is \$212,000.

The accumulated benefit obligation was \$7,353,000 and \$7,294,000 at June 30, 2017 and 2016, respectively.

11. Retirement plans (continued):

VOA National Housing Corporation uses the RP-2014 Mortality Tables adjusted backward to 2006 with Scale MP-2014 and projected forward with Scale MP-2016 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, 2017 and 2016, by asset category (Note 7), are as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
	(in thousands)	
Global asset allocation mutual funds	<u>\$ 5,310</u>	<u>\$ 4,801</u>

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

	<u>Amount</u>
	(in thousands)
2018	\$ 330
2019	354
2020	367
2021	392
2022	419
2023-2027	2,322

12. Guarantees and indemnifications:

The Organization has guarantees and indemnifications, which are contingent commitments:

Guarantor(s)	Beneficiary and purpose	Amount	Term	Guarantee risk details			
				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	Orono Senior Housing, LLC for City of Orono, MN, Senior Housing Refunding Revenues Bonds Series 2006B	50% of \$620,000 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	

12. Guarantees and indemnifications (continued):

Guarantee risk details							
Guarantor(s)	Beneficiary and purpose	Amount	Term	Trigger(s) for guarantor performance	Likelihood of future payments	Guarantor payments made to date	Other comments
<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>							
		\$ 3,237,000	July 2, 2012 to July 2, 2019 term loan	Loan default	Remote	None	

13. Leases:

Edina Senior Living, LLC conducts its operations from a non-cancelable capital leased facility. In addition, the Organization is leasing vehicles and other equipment under capital leases recorded as equipment. The cost of the assets recorded under this capital lease agreement and related accumulated amortization is as follows at June 30:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Assets recorded under capital lease agreements	\$ 77,975	\$ 953
Less accumulated amortization (included in accumulated depreciation, Note 3)	<u>(2,006)</u>	<u>(254)</u>
	<u>\$ 75,969</u>	<u>\$ 699</u>

Future minimum payments on this capital lease are as follows:

	<u>Amount</u>
	(in thousands)
Years ending June 30:	
2018	\$ 2,268
2019	3,935
2020	5,144
2021	5,026
2022	5,078
Thereafter	<u>151,975</u>
Total lease payments	173,426
Less interest	<u>91,782</u>
Capital lease obligations	81,644
Less current portion	<u>282</u>
Long-term portion of capital lease obligations	<u>\$ 81,362</u>

VOAT leases office space and equipment under non-cancelable operating lease agreements expiring at various times through November 2022. Operating lease expense relating to office space and equipment totaled \$616,000 and \$290,000 for the years ended June 30, 2017 and 2016, respectively.

VOA Puerto Rico RRC, Inc. entered into a capital lease for a building during 2008, which expires on July 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 2.5% and 1.4% increase in rent during 2017 and 2016, respectively.

13. Leases (continued):

The cost and accumulated amortization related to assets that were held under capital leases, excluding the capital lease disclosed for Edina Senior Living, LLC, are as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Building cost	\$ 723	\$ 723
Equipment costs	<u>70</u>	<u>70</u>
	793	793
Less accumulated depreciation	<u>(511)</u>	<u>(464)</u>
Net book value	<u>\$ 282</u>	<u>\$ 329</u>

Amortization expense relating to the capital leases, excluding the capital lease disclosed for Edina Senior Living, LLC, which is included in depreciation expense was \$47,000 and \$49,000 for 2017 and 2016, respectively. Future principal and interest payments under capital leases as of June 30, 2017, are as follows:

	<u>Amount</u>
	(in thousands)
2018	\$ 210
2019	210
2020	210
2021	210
2022	210
Thereafter	<u>210</u>
	1,260
Less amount representing interest	664
Present value of net minimum lease obligation payments	596
Less current portion	<u>44</u>
Present value of net minimum lease obligation payments recorded in other long-term liabilities	<u>\$ 552</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 2017 and 2016, respectively, of all unrestricted revenues received by the Local Offices, subject to certain maximum thresholds, are paid to the National Organization to provide funding for programs, supporting services, and additional pension contributions. Total administrative fees charged were \$12,725,000 and \$12,417,000 during the years ended June 30, 2017 and 2016, respectively.

14. Related party transactions (continued):

Other services are also provided to Local Offices in exchange for negotiated “program fees.” These services for assistance in programs include vehicle donations, direct mail fundraising, website development and maintenance, and low-income housing development. Total fees charged were \$1,049,000 and \$1,599,000 during the years ended June 30, 2017 and 2016, respectively.

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 \$1,466,000 and \$1,468,000 at June 30, 2017 and 2016, respectively.

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, 2017 and 2016 is \$1,420,000 and \$1,366,000, respectively.

Awards and grants to Local Offices:

In the years ended June 30, 2017 and 2016 the National Organization awarded approximately \$2,866,000 and \$3,115,000, respectively, to various Local Offices for development purposes. *Endowment awards* are made on the basis of specific criteria determined by the Board of Directors and on the basis of competitive proposals submitted by the Local Offices. *Grants to Local Offices* are made on the basis of a local Board-approved business plan specifically addressing development objectives and future sources of revenue and working capital.

15. Restricted net assets:

At June 30, 2017 and 2016 temporarily restricted net assets could be expended for the following:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Awards of Volunteers of America Local Offices and other program services	\$ 5,145	\$ 4,814
Scholarships to Volunteers of America employees	<u>47</u>	<u>43</u>
	<u>\$ 5,192</u>	<u>\$ 4,857</u>

15. Restricted net assets (continued):

Temporarily restricted net assets were released from restriction during the years ended June 30, 2017 and 2016 fulfilling donor stipulations for the following purposes:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Awards of Volunteers of America Local Offices and other program services	<u>\$ 6,573</u>	<u>\$ 4,382</u>

Permanently restricted net assets of \$831,000 and \$940,000 as of June 30, 2017 and 2016, respectively, 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 statements of financial position, in accordance with industry practice for real estate companies. The assets and liabilities are composed of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Current assets:		
Cash and cash equivalents	\$ 11,002	\$ 17,669
Account receivable, net	335	347
Prepaid expenses	<u>2,325</u>	<u>1,997</u>
Total current assets	13,662	20,013
Property and Equipment, net	543,059	481,019
Other long-term assets:		
Encumbered assets	42,573	30,168
Long-term investments	13,978	13,569
Deferred charges and other assets, net	<u>670</u>	<u>487</u>
Total other long-term assets	57,221	44,224
Total assets before eliminations	613,942	545,256
Eliminations	<u>(55,221)</u>	<u>(49,668)</u>
Total limited and general partnerships' assets	<u>\$ 558,721</u>	<u>\$ 495,588</u>
Current liabilities:		
Accounts payable	\$ 10,058	\$ 6,675
Accrued expenses	38,269	22,621
Other current liabilities	<u>812</u>	<u>488</u>
Total current liabilities	49,139	29,784
Long-term liabilities:		
Long-term debt, net of current portion	372,221	352,906
Other long-term liabilities	<u>16,518</u>	<u>14,947</u>
Total long-term liabilities	388,739	367,853
Total liabilities before eliminations	437,878	397,637
Eliminations	<u>(115,237)</u>	<u>(100,414)</u>
Total limited and general partnerships' liabilities	<u>\$ 322,641</u>	<u>\$ 297,223</u>

17. Contributions in-kind:

For the years ended June 30, 2017 and 2016, the National Organization received \$6,000 and \$226,000, respectively, in various goods, which its participating Local Offices use in its program services. The National Organization received \$11,690,000 and \$42,151,000 in professional services, and public service advertising and branding for the years ended June 30, 2017 and 2016, respectively. Additionally, National Services received \$64,000 and \$62,000 in various goods for the years ended June 30, 2017 and 2016, respectively. 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:

National Services has a self-insured employee health plan that the National Organization is also a participant. 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 \$4,110,000 and \$3,258,000 were recorded as part of accrued expenses on the consolidated statements of financial position at June 30, 2017 and 2016, respectively.

Workers' compensation insurance:

The Organization is also self-insured for workers' compensation. Workers' compensation policies are subject to audit and retroactive adjustment. Any significant variations in anticipated claims cost could result in adjustments to health insurance and workers' compensation expense for the Organization when the effect becomes reasonably determinable.

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.

18. Commitments and Contingencies (continued):

Legal:

The Organization 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 Organization's combined financial position or future results of operations.

19. Discontinued Operations:

National Services had the following activity related to discontinued operations. Carrying amounts of major assets and liabilities of discontinued operations are as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Cash and short-term investments	\$ 2	\$ 79
Third-party payor and patient receivables, net	18	1,205
Property and equipment, net	-	1,033
Escrow related to sale	300	-
Bond trust funds	-	488
Other classes of assets that are not major	6	116
Total assets of the discontinued operations	<u>\$ 326</u>	<u>\$ 2,921</u>
Accounts payable and accrued expenses	\$ 442	\$ 589
Long-term debt	-	2,732
Other classes of liabilities that are not major	-	59
Total liabilities of the discontinued operations	<u>\$ 442</u>	<u>\$ 3,380</u>

Major classes of line items constituting gain (loss) on discontinued operations are as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Operating revenues, net	\$ 5,820	\$ 9,085
Salaries and employee benefits	(3,525)	(5,642)
Other operating expenses	(2,277)	(3,479)
Other revenue and expense items that are not major	(265)	(380)
Change in net deficit before gain on disposal and eliminations	(247)	(416)
Eliminations	(2,333)	219
Gain on disposal	<u>2,923</u>	<u>-</u>
Change in net deficit of the discontinued operations	<u>\$ 343</u>	<u>\$ (197)</u>

19. Discontinued Operations (continued):

Total operating and investing cash flows of the discontinued operations are as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 4,984	\$ (105)
Net cash used in investing activities	(322)	(15)

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 statements of financial position at June 30, 2017 and 2016.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
VOLUNTEERS OF AMERICA, INC. JUNE 30, 2017
AND SUBSIDIARIES (IN THOUSANDS)

	Volunteers of America, Inc.	Volunteers of America, Inc Futures Fund	Volunteers of America Correctional Services	Volunteers of America Texas, Inc.	Volunteers of America National Services	Eliminations	Total
Assets:							
Current assets:							
Cash and cash equivalents	\$ 6,394	\$ -	\$ 728	\$ 1,016	\$ 45,915	\$ -	\$ 54,053
Accounts receivable, net	6,389	1,500	786	2,054	21,052	(3,814)	27,967
Current portion of notes receivable	878	-	-	-	1,793	(78)	2,593
Short-term investments	-	-	-	-	25,252	-	25,252
Prepaid expenses	228	-	58	132	2,139	-	2,557
Other current assets, net	363	-	-	-	3,921	-	4,284
Total current assets	14,252	1,500	1,572	3,202	100,072	(3,892)	116,706
Property and equipment, net	5,048	-	1,767	5,595	247,538	-	259,948
Other assets:							
Encumbered assets	19,105	-	-	70	30,221	-	49,396
Long-term investments	13,614	-	-	-	-	-	13,614
Notes receivable, net of current portion	1,388	-	-	1,121	7,174	(2,888)	6,795
Reimbursable costs	-	-	-	-	6,060	-	6,060
Property held for sale	139	-	-	852	-	-	991
Deferred charges and other assets, net	3,394	-	54	11	5,165	-	8,624
Limited and general partnerships' assets	-	-	-	8,312	550,409	-	558,721
Total other assets	37,640	-	54	10,366	599,029	(2,888)	644,201
Total assets	\$ 56,940	\$ 1,500	\$ 3,393	\$ 19,163	\$ 946,639	\$ (6,780)	\$ 1,020,855
Liabilities and net assets:							
Current liabilities:							
Accounts payable	\$ 2,564	\$ -	\$ 26	\$ 656	\$ 8,922	\$ (1,844)	\$ 10,324
Accrued expenses	1,945	-	170	815	17,472	(76)	20,326
Current portion of long-term debt	315	-	98	662	3,012	(98)	3,989
Other current liabilities	1,810	-	44	202	14,832	-	16,888
Total current liabilities	6,634	-	338	2,335	44,238	(2,018)	51,527
Long-term liabilities:							
Long-term debt, net of current portion	4,774	-	892	1,861	217,353	(2,888)	221,992
Other long-term liabilities	6,054	-	554	537	99,701	(1,874)	104,972
Limited and general partnerships' liabilities	-	-	-	7,639	315,002	-	322,641
Total long-term liabilities	10,828	-	1,446	10,037	632,056	(4,762)	649,605
Total liabilities	17,462	-	1,784	12,372	676,294	(6,780)	701,132
Net assets:							
Unrestricted attributable to:							
Controlled limited and general partnerships	-	-	-	-	4,249	-	4,249
Board designated	16,345	-	-	-	-	-	16,345
Undesignated	18,645	-	1,609	6,082	97,600	-	123,936
Parent	34,990	-	1,609	6,082	101,849	-	144,530
Non-controlling interests in limited and general partnerships and other programs	-	-	-	674	168,496	-	169,170
Total unrestricted	34,990	-	1,609	6,756	270,345	-	313,700
Temporarily restricted	3,657	1,500	-	35	-	-	5,192
Permanently restricted	831	-	-	-	-	-	831
Total net assets	39,478	1,500	1,609	6,791	270,345	-	319,723
Total liabilities and net assets	\$ 56,940	\$ 1,500	\$ 3,393	\$ 19,163	\$ 946,639	\$ (6,780)	\$ 1,020,855

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

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

	Volunteers of America, Inc.			Volunteers of America, Inc Futures Fund	Volunteers of America Correctional Services	Volunteers of America Texas, Inc.		Volunteers of America National Services	Eliminations	Operating subtotal	Unrestricted limited and general partnerships			Eliminations	Total
	Unrestricted	Temporarily restricted	Permanently restricted	Temporarily restricted	Unrestricted	Unrestricted	Temporarily restricted	Unrestricted			VOA Texas	VOANS	Total		
Revenue from operations:															
Public support received directly:															
Contributions	\$ 2,615	\$ 5,369	\$ -	\$ 1,500	\$ -	\$ 980	\$ 35	\$ 19,643	\$ (2,176)	\$ 27,966	\$ -	\$ -	\$ -	\$ -	\$ 27,966
Contributions, in-kind	11,696	-	-	-	-	-	-	64	-	11,760	-	-	-	-	11,760
Total public support	14,311	5,369	-	1,500	-	980	35	19,707	(2,176)	39,726	-	-	-	-	39,726
Government grants and contracts	-	-	-	-	4,791	20,357	-	459	-	25,607	1,245	23,081	24,326	-	49,933
Other revenue:															
Program fees	3,442	-	-	-	-	1,573	-	57,935	(2,400)	60,550	-	20,703	20,703	(108)	81,145
Program fees, Medicaid and Medicare	-	-	-	-	-	-	-	119,104	-	119,104	-	-	-	-	119,104
Administrative income from Local Offices	13,619	-	-	-	-	-	-	-	(894)	12,725	-	-	-	-	12,725
Net rental income	209	-	-	-	-	73	-	8	(203)	87	447	76	523	-	610
Other operating income	17	-	-	-	-	336	-	18,544	(121)	18,776	20	1,634	1,654	(8,382)	12,048
Total other revenue	17,287	-	-	-	-	1,982	-	195,591	(3,618)	211,242	467	22,413	22,880	(8,490)	225,632
Net assets released from restrictions	6,555	(6,555)	-	-	-	18	(18)	-	-	-	-	-	-	-	-
Total revenues from operations	38,153	(1,186)	-	1,500	4,791	23,337	17	215,757	(5,794)	276,575	1,712	45,494	47,206	(8,490)	315,291
Operating expenses:															
Program services:															
Fostering independence	58	-	-	-	-	6,603	-	183,678	-	190,339	-	34,436	34,436	-	224,775
Promoting self sufficiency	31,367	-	-	-	3,444	11,733	-	63	(2,078)	44,529	2,088	27,000	29,088	(3,334)	70,283
Encouraging positive development	-	-	-	-	-	449	-	-	-	449	-	-	-	-	449
Total program services	31,425	-	-	-	3,444	18,785	-	183,741	(2,078)	235,317	2,088	61,436	63,524	(3,334)	295,507
Support services:															
Management and general	6,035	-	-	-	568	3,547	-	23,946	(3,416)	30,680	-	-	-	(1,504)	29,176
Fundraising	1,457	-	-	-	-	497	-	758	-	2,712	-	-	-	-	2,712
Total support services	7,492	-	-	-	568	4,044	-	24,704	(3,416)	33,392	-	-	-	(1,504)	31,888
Total operating expenses	38,917	-	-	-	4,012	22,829	-	208,445	(5,494)	268,709	2,088	61,436	63,524	(4,838)	327,395
Change in net assets from operations	(764)	(1,186)	-	1,500	779	508	17	7,312	(300)	7,866	(376)	(15,942)	(16,318)	(3,652)	(12,104)
Non-operating items:															
Interest and dividend income	607	1	-	-	-	1	-	1,472	-	2,081	-	-	-	-	2,081
Net realized gains on investments	694	1	-	-	-	-	-	-	-	695	-	-	-	-	695
Net unrealized gains (losses) on investments	1,400	2	(109)	-	-	2	-	430	-	1,725	-	-	-	-	1,725
Equity contributions related to limited and general partnerships	-	-	-	-	-	-	-	-	-	-	-	44,768	44,768	-	44,768
Loss on refinancing	-	-	-	-	-	-	-	(6,284)	-	(6,284)	-	-	-	-	(6,284)
Other non-operating	-	-	-	-	(300)	43	-	338	300	381	-	-	-	-	381
Total non-operating items	2,701	4	(109)	-	(300)	46	-	(4,044)	300	(1,402)	-	44,768	44,768	-	43,366
Change in net assets before discontinued operations	1,937	(1,182)	(109)	1,500	479	554	17	3,268	-	6,464	(376)	28,826	28,450	(3,652)	31,262
Gain on discontinued operations	-	-	-	-	-	-	-	343	-	343	-	-	-	-	343
Change in net assets	1,937	(1,182)	(109)	1,500	479	554	17	3,611	-	6,807	(376)	28,826	28,450	(3,652)	31,605
Less change in net assets attributable to the non-controlling interest in limited and general partnerships and other programs	-	-	-	-	-	-	-	(826)	-	(826)	(376)	28,592	28,216	-	27,390
Change in net assets attributable to the parent	\$ 1,937	\$ (1,182)	\$ (109)	\$ 1,500	\$ 479	\$ 554	\$ 17	\$ 4,437	\$ -	\$ 7,633	\$ -	\$ 234	\$ 234	\$ (3,652)	\$ 4,215

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

**CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)**

	Volunteers of America, Inc.	Volunteers of America, Inc Futures Fund	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	\$ 646	\$ 1,500	\$ 479	\$ 195	\$ 28,785	\$ -	\$ 31,605
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	-	-	-	-	(27,390)	-	(27,390)
Change in limited and general partnerships	-	-	-	519	(10,844)	-	(10,325)
Changes in allowance for doubtful accounts	459	-	-	(39)	(541)	-	(121)
Depreciation and amortization	490	-	311	412	9,522	-	10,735
Amortization of original issue discount and deferred financing	-	-	-	-	399	-	399
Disposal of discontinued operations	-	-	-	-	(343)	-	(343)
Joint ventures	-	-	-	-	142	-	142
Refinancing	-	-	-	-	6,284	-	6,284
Sale or disposal of property and equipment	-	-	-	(27)	9	-	(18)
Net realized and unrealized investment (gain) losses	(1,988)	-	-	(2)	(430)	-	(2,420)
(Increase) decrease in operating assets:							
Accounts receivable	(1,001)	(1,500)	(27)	488	(4,345)	2,382	(4,003)
Prepaid expenses	(58)	-	7	(92)	599	-	456
Other current assets	(212)	-	-	(3)	(1,953)	-	(2,168)
Deferred charges in other assets	(612)	-	-	-	-	-	(612)
Increase (decrease) in operating liabilities:							
Accounts payable	350	-	14	185	5,651	(683)	5,517
Accrued expenses	120	-	27	(95)	-	(2)	50
Other liabilities	2,169	-	5	154	3,500	-	5,828
Net cash provided by operating activities	363	-	816	1,695	9,045	1,697	13,616
Cash flows from investing activities:							
Purchase of property and equipment -net	(351)	-	(35)	(318)	(24,286)	-	(24,990)
Proceeds from:							
Sale of property and equipment	-	-	-	31	2	-	33
Reimbursable costs and other assets	-	-	-	(47)	-	-	(47)
Notes receivable:							
Advances	(1,160)	-	-	(351)	(3,537)	(20)	(5,068)
Payments	1,389	-	-	-	1,046	382	2,817
Increase in unearned revenue and other long term liabilities	-	-	-	-	2,487	(1,677)	810
Cash proceeds withdrawn from investments	1,058	-	-	317	-	-	1,375
Change in investments including encumbered assets	1,335	-	-	-	(10,082)	-	(8,747)
Net cash (used in) provided by investing activities	2,271	-	(35)	(368)	(34,370)	(1,315)	(33,817)
Cash flows from financing activities:							
Increase in lines of credit	-	-	-	-	1,500	-	1,500
Long-term debt and capital lease liability:							
Proceeds	-	-	-	(293)	4,919	-	4,626
Payments	(337)	-	(252)	-	(4,397)	(382)	(5,368)
Increase in other long-term liabilities	-	-	-	(18)	4,711	-	4,693
Increase (decrease) in bond trust funds-net of bond issue cost	(70)	-	-	-	19,788	-	19,718
Net cash (used in) provided by financing activities	(407)	-	(252)	(311)	26,521	(382)	25,169
Net increase in cash and cash equivalents	2,227	-	529	1,016	1,196	-	4,968
Cash and cash equivalents, beginning	4,168	-	199	-	44,719	-	49,086
Cash and cash equivalents, ending	\$ 6,394	\$ -	\$ 728	\$ 1,016	\$ 45,915	\$ -	\$ 54,053
Supplemental disclosures of cash flow information:							
Cash paid for interest	\$ 120	\$ -	\$ 219	\$ 126	\$ 22,175	\$ -	\$ 22,640
Non-cash financing activity:							
Property and equipment financed through debt	\$ -	\$ -	\$ -	\$ 456	\$ 79,335	\$ -	\$ 79,791

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

**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)**

	Volunteers of America, Inc.						Volunteers of America Correctional Services			
	Program services			Support services			Program services	Support services		
	Fostering independence	Promoting self sufficiency	Total program services	Management and general	Fundraising	Total support services	Subtotal	Promoting self sufficiency	Management and general	Subtotal
Salaries	\$ 13	\$ 4,265	\$ 4,278	\$ 1,904	\$ -	\$ 1,904	\$ 6,182	\$ 979	\$ -	\$ 979
Pension	-	351	351	2,008	-	2,008	2,359	-	-	-
Other employee benefits	-	485	485	132	-	132	617	259	-	259
Payroll taxes	-	268	268	124	-	124	392	98	-	98
Legal fees	-	18	18	201	-	201	219	7	-	7
Accounting fees	-	-	-	16	-	16	16	15	-	15
Other professional fees	-	6,879	6,879	186	477	663	7,542	16	-	16
Other professional fees - In-kind	-	11,696	11,696	-	-	-	11,696	-	-	-
Supplies and office	-	408	408	323	-	323	731	73	-	73
Telecommunications	-	55	55	100	-	100	155	34	-	34
Postage	-	35	35	15	182	197	232	1	-	1
Occupancy	10	130	140	135	-	135	275	364	-	364
Interest	-	107	107	66	-	66	173	219	-	219
Insurance	11	1	12	198	31	229	241	60	-	60
Equipment rental and maintenance	16	235	251	32	-	32	283	30	-	30
Printing and publications	-	61	61	7	104	111	172	10	-	10
Travel and transportation	-	1,346	1,346	111	-	111	1,457	107	-	107
Conferences and meetings	-	288	288	16	-	16	304	15	-	15
Specific assistance to individuals	-	-	-	-	501	501	501	-	-	-
Awards and grants to affiliates:										
Development awards	-	3,965	3,965	5	147	152	4,117	-	-	-
Endowment awards	-	123	123	-	-	-	123	-	-	-
Other	-	312	312	313	15	328	640	846	568	1,414
Depreciation and amortization	8	339	347	143	-	143	490	311	-	311
	<u>\$ 58</u>	<u>\$ 31,367</u>	<u>\$ 31,425</u>	<u>\$ 6,035</u>	<u>\$ 1,457</u>	<u>\$ 7,492</u>	<u>\$ 38,917</u>	<u>\$ 3,444</u>	<u>\$ 568</u>	<u>\$ 4,012</u>

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	Volunteers of America Texas, Inc.							
	Program services				Support services			
	Fostering independence	Promoting self sufficiency	Encouraging positive development	Total program services	Management and general	Fundraising	Total support services	Subtotal
Salaries	\$ 1,457	\$ 5,749	\$ 281	\$ 7,487	\$ 1,279	\$ 308	\$ 1,587	\$ 9,074
Pension	4	45	-	49	68	8	76	125
Other employee benefits	211	948	41	1,200	107	42	149	1,349
Payroll taxes	122	493	24	639	56	19	75	714
Legal fees	1	13	-	14	8	-	8	22
Accounting fees	-	2	-	2	185	-	185	187
Other professional fees	4,106	150	9	4,265	293	34	327	4,592
Other professional fees - In-kind	-	-	-	-	-	-	-	-
Supplies and office	114	1,108	25	1,247	113	5	118	1,365
Telecommunications	39	87	3	129	51	7	58	187
Postage	4	12	-	16	7	6	13	29
Occupancy	144	670	35	849	117	22	139	988
Interest	-	2	-	2	124	-	124	126
Insurance	42	71	4	117	133	3	136	253
Equipment rental and maintenance	9	99	3	111	11	5	16	127
Printing and publications	2	8	-	10	3	12	15	25
Travel and transportation	127	257	14	398	53	12	65	463
Conferences and meetings	11	35	4	50	25	4	29	79
Specific assistance to individuals	156	1,874	6	2,036	-	2	2	2,038
Awards and grants to affiliates:								
Development awards	-	-	-	-	-	-	-	-
Endowment awards	-	-	-	-	-	-	-	-
Other	-	53	-	53	613	8	621	674
Depreciation and amortization	54	57	-	111	301	-	301	412
	<u>\$ 6,603</u>	<u>\$ 11,733</u>	<u>\$ 449</u>	<u>\$ 18,785</u>	<u>\$ 3,547</u>	<u>\$ 497</u>	<u>\$ 4,044</u>	<u>\$ 22,829</u>

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	Volunteers of America National Services								Consolidated operating subtotal
	Program services			Support services			Subtotal	Eliminations	
	Fostering independence	Promoting self sufficiency	Total program services	Management and general	Fundraising	Total support services			
Salaries	\$ 77,911	\$ -	\$ 77,911	\$ 11,195	\$ -	\$ 11,195	\$ 89,106	\$ -	\$ 105,341
Pension	737	-	737	1,014	-	1,014	1,751	(425)	3,810
Other employee benefits	11,143	-	11,143	2,067	-	2,067	13,210	-	15,435
Payroll taxes	5,236	-	5,236	789	-	789	6,025	-	7,229
Legal fees	145	-	145	126	-	126	271	-	519
Accounting fees	310	-	310	716	5	721	1,031	-	1,249
Other professional fees	9,558	-	9,558	2,513	41	2,554	12,112	-	24,262
Other professional fees - In-kind	-	-	-	-	-	-	-	-	11,696
Supplies and office	3,353	58	3,411	191	-	191	3,602	-	5,771
Telecommunications	1,465	-	1,465	172	-	172	1,637	-	2,013
Postage	114	-	114	24	-	24	138	-	400
Occupancy	6,332	5	6,337	641	-	641	6,978	(203)	8,402
Interest	14,017	-	14,017	397	-	397	14,414	(122)	14,810
Insurance	1,684	-	1,684	22	-	22	1,706	-	2,260
Equipment rental and maintenance	2,561	-	2,561	36	-	36	2,597	-	3,037
Printing and publications	98	-	98	5	-	5	103	-	310
Travel and transportation	1,397	-	1,397	808	-	808	2,205	-	4,232
Conferences and meetings	269	-	269	204	-	204	473	-	871
Specific assistance to individuals	32,222	-	32,222	-	-	-	32,222	-	34,761
Awards and grants to affiliates:									
Development awards	-	-	-	-	-	-	-	(1,876)	2,241
Endowment awards	-	-	-	-	-	-	-	-	123
Other	5,704	-	5,704	2,926	712	3,638	9,342	(2,868)	9,202
Depreciation and amortization	9,422	-	9,422	100	-	100	9,522	-	10,735
	<u>\$ 183,678</u>	<u>\$ 63</u>	<u>\$ 183,741</u>	<u>\$ 23,946</u>	<u>\$ 758</u>	<u>\$ 24,704</u>	<u>\$ 208,445</u>	<u>\$ (5,494)</u>	<u>\$ 268,709</u>

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

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	Limited and General Partnerships			Eliminations	Consolidated total
	VOAT Limited and general partnerships	VOANS Limited and general partnerships	Total Limited and general partnerships		
Salaries	\$ -	\$ 5,794	\$ 5,794	\$ -	\$ 111,135
Pension	-	-	-	-	3,810
Other employee benefits	66	950	1,016	-	16,451
Payroll taxes	-	756	756	-	7,985
Legal fees	-	321	321	-	840
Accounting fees	-	906	906	-	2,155
Other professional fees	15	2,574	2,589	-	26,851
Other professional fees - In-kind	-	-	-	-	11,696
Supplies and office	-	1,888	1,888	-	7,659
Telecommunications	-	57	57	-	2,070
Postage	-	-	-	-	400
Occupancy	121	12,040	12,161	-	20,563
Interest	452	14,609	15,061	(3,334)	26,537
Insurance	305	-	305	-	2,565
Equipment rental and maintenance	337	-	337	-	3,374
Printing and publications	-	-	-	-	310
Travel and transportation	-	36	36	-	4,268
Conferences and meetings	-	306	306	-	1,177
Specific assistance to individuals	-	-	-	-	34,761
Awards and grants to affiliates:					
Development awards	-	-	-	-	2,241
Endowment awards	-	-	-	-	123
Other	520	3,737	4,257	(1,504)	11,955
Depreciation and amortization	272	17,462	17,734	-	28,469
	<u>\$ 2,088</u>	<u>\$ 61,436</u>	<u>\$ 63,524</u>	<u>\$ (4,838)</u>	<u>\$ 327,395</u>