

Consolidated Financial Statements
and Consolidating Financial Statements

2013

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012



Strothman+Co

Consolidated Financial Statements
and Consolidating Financial Statements

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

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Independent Auditors' Report



To the Board of Directors and Management
Volunteers of America of Kentucky, Inc. and Affiliates
Louisville, Kentucky

We have audited the accompanying consolidated financial statements of Volunteers of America of Kentucky, Inc. and Affiliates (the "Organization"), which are comprised of the consolidated statements of financial position as of June 30, 2013 and 2012, the related consolidated statements of activities, functional expenses, and cash flows 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 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 audits 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 auditors consider 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Volunteers of America of Kentucky, Inc. and Affiliates as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were made for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 23 to 36 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements.

Stratton & Company PSC

Louisville, Kentucky
October 23, 2013

Consolidated Statements of Financial Position

Volunteers of America of Kentucky, Inc. and Affiliates

| | June 30 | |
|---|----------------------|---------------------|
| | 2013 | 2012 |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 442,955 | \$ 284,516 |
| Investments | 974,145 | 597,359 |
| Accounts receivable, less allowance for doubtful accounts of \$363,377 (2013) and \$308,085 (2012) | 3,201,248 | 2,278,248 |
| Grants receivable and other unconditional promises to give | 309,117 | 741,450 |
| Pledges receivable | 81,376 | 145,602 |
| Prepaid expenses and other current assets | 282,484 | 253,976 |
| Total Current Assets | 5,291,325 | 4,301,151 |
| Property and Equipment , net of accumulated depreciation | 4,519,360 | 4,440,257 |
| Other Assets | | |
| Investments, restricted | 37,063 | 29,965 |
| Restricted deposits and funded reserves | 76,116 | 84,089 |
| Pledges receivable, less current portion, less discount of \$33,797 (2013) and \$27,251 (2012) | 390,639 | 286,963 |
| Intangible asset | 131,651 | 158,795 |
| Due from related parties | 37,410 | 54,899 |
| Total Other Assets | 672,879 | 614,711 |
| | \$ 10,483,564 | \$ 9,356,119 |
| Current Liabilities | | |
| Lines of credit | \$ 998,083 | \$ 223,074 |
| Accounts payable | 561,986 | 348,921 |
| Accrued expenses | 1,223,378 | 1,319,225 |
| Other current liabilities | 173,802 | 142,360 |
| Current maturities of long-term debt | 114,713 | 178,648 |
| Total Current Liabilities | 3,071,962 | 2,212,228 |
| Long-Term Debt , less current maturities | 844,767 | 989,639 |
| Payable to National Organization | 131,651 | 158,795 |
| Net Assets | | |
| Unrestricted | 4,777,407 | 4,261,880 |
| Temporarily restricted | 1,620,714 | 1,703,612 |
| Permanently restricted | 37,063 | 29,965 |
| Total Net Assets | 6,435,184 | 5,995,457 |
| | \$ 10,483,564 | \$ 9,356,119 |

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

Volunteers of America of Kentucky, Inc. and Affiliates

| | Year Ended June 30, 2013 | | | Year Ended June 30, 2012 |
|--|--------------------------|---------------------------|---------------------------|-----------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and Revenues From Operations | | | | |
| Public Support Received Directly | | | | |
| Contributions | \$ 865,114 | \$ 309,117 | | \$ 1,174,231 |
| Contributions, in-kind | 613,377 | | | 613,377 |
| Public support: capital and bequests | 157,531 | | | 157,531 |
| Special events | 105,559 | | | 105,559 |
| Public Support Received Indirectly | | | | |
| United Way allocation | 100,024 | | | 100,024 |
| Volunteers of America awards and grants | 58,393 | | | 58,393 |
| Total Support | 1,899,998 | 309,117 | | 2,209,115 |
| Revenue and Grants from Governmental Agencies | | | | |
| Fee-for-service | 15,752,136 | | | 15,752,136 |
| Federal and state grants | 7,143,783 | | | 7,143,783 |
| Total Revenue and Grants from Governmental Agencies | 22,895,919 | | | 22,895,919 |
| Other Revenue | | | | |
| Program service fees | 798,551 | | | 798,551 |
| Rental income | 245,278 | | | 245,278 |
| Miscellaneous revenue | 196,899 | | | 196,899 |
| Total Other Revenue | 1,240,728 | | | 1,240,728 |
| Net assets released from restrictions, satisfaction of program activities | 392,015 | (392,015) | | |
| Total Support and Revenues From Operations | 26,428,660 | (82,898) | | 26,345,762 |
| Operating Expenses | | | | |
| Program Services: | | | | |
| Fostering independence | 16,747,925 | | | 16,747,925 |
| Promoting self-sufficiency | 5,551,428 | | | 5,551,428 |
| Total Program Services | 22,299,353 | | | 22,299,353 |
| Support Services and Fundraising: | | | | |
| Management and general | 2,325,036 | | | 2,325,036 |
| Fundraising | 868,875 | | | 868,875 |
| Administrative fees paid to National Organization | 530,196 | | | 530,196 |
| Total Support Services and Fundraising | 3,724,107 | | | 3,724,107 |
| Total Operating Expenses | 26,023,460 | | | 26,023,460 |
| Increase (Decrease) in Net Assets Before Other Changes | 405,200 | (82,898) | | 322,302 |
| Nonoperating Gains and Other Income | | | | |
| Gain on sale of real estate | 18,650 | | | 18,650 |
| Interest and dividend income | 31,357 | | | 31,357 |
| Gain on acquisition of program | | | | |
| Capital advances | | | | |
| Realized gain on investments | 1,936 | | | 1,936 |
| Unrealized gain (loss) on investments | 58,384 | | \$ 7,098 | 65,482 |
| Nonoperating Gains and Other Income | 110,327 | | 7,098 | 117,425 |
| Increase (Decrease) in Net Assets | 515,527 | (82,898) | 7,098 | 439,727 |
| Net Assets Beginning of Year | 4,261,880 | 1,703,612 | 29,965 | 5,995,457 |
| Net Assets End of Year | \$ 4,777,407 | \$ 1,620,714 | \$ 37,063 | \$ 6,435,184 |

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2013

| | PROGRAM SERVICES | | | SUPPORT SERVICES | | | Total Operating Expenses |
|--|---------------------------|-------------------------------|----------------------|---------------------------|-------------------|---------------------|--------------------------------|
| | Fostering Independence | Promoting Self-Sufficiency | TOTAL | Management and General | Fundraising | TOTAL | |
| Salaries | \$ 10,952,947 | \$ 2,641,228 | \$ 13,594,175 | \$ 1,374,258 | \$ 405,821 | \$ 1,780,079 | \$ 15,374,254 |
| Pension expense | | 20,424 | 20,424 | 330 | 39 | 369 | 20,793 |
| Other employee benefits | 361,845 | 129,270 | 491,115 | 5,879 | 43,912 | 49,791 | 540,906 |
| Payroll taxes | 1,132,592 | 234,970 | 1,367,562 | 12,666 | 40,543 | 53,209 | 1,420,771 |
| Legal fees | 641 | 1,541 | 2,182 | 51,002 | | 51,002 | 53,184 |
| Accounting fees | 13,495 | | 13,495 | 57,950 | | 57,950 | 71,445 |
| Other professional fees | 612,569 | 26,568 | 639,137 | 168,719 | 153,786 | 322,505 | 961,642 |
| Supplies and expenses | 207,913 | 238,893 | 446,806 | 117,201 | 11,953 | 129,154 | 575,960 |
| Telecommunications | 105,712 | 51,325 | 157,037 | 34,610 | 4,107 | 38,717 | 195,754 |
| Postage | 7,233 | 876 | 8,109 | 27,957 | 19,420 | 47,377 | 55,486 |
| Occupancy expense | 991,249 | 1,020,321 | 2,011,570 | 24,836 | 16,311 | 41,147 | 2,052,717 |
| Interest | 71,848 | | 71,848 | 19,802 | | 19,802 | 91,650 |
| Insurance | 255,720 | 106,824 | 362,544 | (1,158) | | (1,158) | 361,386 |
| Equipment rental and maintenance | 42,339 | 41,196 | 83,535 | 13,682 | 404 | 14,086 | 97,621 |
| Printing and publications | 21,022 | 28,025 | 49,047 | 186,057 | 76,859 | 262,916 | 311,963 |
| Travel and transportation | 422,104 | 100,886 | 522,990 | 75,603 | 20,385 | 95,988 | 618,978 |
| Conferences and meetings | 18,177 | 65,758 | 83,935 | 17,931 | 26,443 | 44,374 | 128,309 |
| Specific assistance to individuals | 1,163,184 | 798,972 | 1,962,156 | | | | 1,962,156 |
| Other | 3,039 | 3,672 | 6,711 | 55,856 | 48,892 | 104,748 | 111,459 |
| Depreciation and amortization | 364,296 | 40,679 | 404,975 | 81,855 | | 81,855 | 486,830 |
| Total Functional Expenses | \$ 16,747,925 | \$ 5,551,428 | \$ 22,299,353 | \$ 2,325,036 | \$ 868,875 | \$ 3,193,911 | 25,493,264 |
| Administrative Fees Paid To National Organization | | | | | | | 530,196 |
| Total Operating Expenses | | | | | | | \$ 26,023,460 |

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2012

| | PROGRAM SERVICES | | | SUPPORT SERVICES | | |
|--|------------------------|----------------------------|----------------------|------------------------|---------------------|----------------------|
| | Fostering Independence | Promoting Self-Sufficiency | TOTAL | Management and General | Fundraising | TOTAL |
| Salaries | \$ 11,886,327 | \$ 2,881,900 | \$ 14,768,227 | \$ 1,419,936 | \$ 351,371 | \$ 1,771,307 |
| Pension expense | | 9,426 | 9,426 | 10,974 | | 10,974 |
| Other employee benefits | 405,621 | 132,805 | 538,426 | 12,063 | 36,963 | 49,026 |
| Payroll taxes | 1,096,537 | 224,063 | 1,320,600 | 82,804 | 32,751 | 115,555 |
| Legal and accounting fees | 2,012 | | 2,012 | 22,261 | | 22,261 |
| Other professional fees | 580,397 | 16,129 | 596,526 | 173,271 | 88,423 | 261,694 |
| Supplies and expenses | 254,523 | 537,168 | 791,691 | 123,822 | 7,194 | 131,016 |
| Telecommunications | 115,562 | 62,723 | 178,285 | 38,755 | 5,653 | 44,408 |
| Postage | 4,926 | 999 | 5,925 | 28,739 | 20,033 | 48,772 |
| Occupancy expense | 914,125 | 1,029,332 | 1,943,457 | 22,645 | 27,453 | 50,098 |
| Interest | 91,528 | | 91,528 | 23,855 | | 23,855 |
| Insurance | 217,473 | 97,982 | 315,455 | (15,097) | 6,000 | (9,097) |
| Equipment rental and maintenance | 42,546 | 21,024 | 63,570 | 9,187 | 1,403 | 10,590 |
| Printing and publications | 33,439 | 19,929 | 53,368 | 230,536 | 386,775 | 617,311 |
| Travel and transportation | 492,278 | 83,584 | 575,862 | 50,966 | 10,344 | 61,310 |
| Conferences and meetings | 39,800 | 74,481 | 114,281 | 45,871 | 27,995 | 73,866 |
| Specific assistance to individuals | 960,902 | 587,960 | 1,548,862 | | | |
| Other | 10,302 | 9,591 | 19,893 | (8,483) | 6,583 | (1,900) |
| Depreciation and amortization | 353,357 | 42,779 | 396,136 | 91,650 | | 91,650 |
| Total Functional Expenses | \$ 17,501,655 | \$ 5,831,875 | \$ 23,333,530 | \$ 2,363,755 | \$ 1,008,941 | \$ 3,372,696 |
| Administrative Fees Paid To National Organization | | | | | | |
| | | | | | | 569,292 |
| Total Operating Expenses | | | | | | \$ 27,275,518 |

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Volunteers of America of Kentucky, Inc. and Affiliates

| | Year Ended June 30 | |
|--|---------------------------|----------------|
| | 2013 | 2012 |
| Operating Activities | | |
| Increase in net assets | \$ 439,727 | \$ 2,443,356 |
| Adjustments | | |
| Depreciation and amortization | 491,777 | 487,786 |
| Bad debt expense | | (10,000) |
| Gain on debt forgiveness | (27,144) | (26,550) |
| Discount on pledges receivable | 6,546 | 1,019 |
| Allowance for uncollectible pledges receivable | 11,696 | 11,508 |
| Allowance for doubtful accounts receivable | 55,292 | (46,917) |
| Realized/unrealized (gain) loss on investments | (67,418) | 18,818 |
| Gain on sale of real estate | (18,650) | |
| Gain on acquisition of programs | | (427,480) |
| Capital advances | | (1,311,597) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (978,292) | 513,634 |
| Grants receivable and other unconditional promises to give | 432,333 | (741,450) |
| Pledges receivable | (57,692) | (114,441) |
| Prepaid expenses and other current assets | (28,508) | (4,559) |
| Accounts payable | 213,065 | (211,206) |
| Accrued expenses | (95,847) | 5,866 |
| Other current liabilities | 31,442 | (114,943) |
| Net Cash Provided By Operating Activities | 408,327 | 472,844 |
| Investing Activities | | |
| Purchases of property and equipment | (795,761) | (182,542) |
| Proceeds from sale of real estate | 270,675 | |
| Purchase of investments | (325,790) | (255,232) |
| Proceeds from sale of investments | 9,324 | 241,008 |
| Changes in restricted deposits and funded reserves, net | 7,973 | (11,513) |
| Changes in amounts due from related parties | 17,489 | 12,158 |
| Acquisition of programs | | 331,241 |
| Net Cash Provided By (Used In) Investing Activities | (816,090) | 135,120 |

Continued

Consolidated Statements of Cash Flows--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

| | Year Ended June 30 | |
|--|---------------------------|-------------------|
| | 2013 | 2012 |
| Financing Activities | | |
| Net activity on lines of credit | 775,009 | (124,526) |
| Proceeds from mortgages payable | | 180,000 |
| Payments on mortgages payable | (208,807) | (503,519) |
| Net Cash Provided By (Used In) Financing Activities | 566,202 | (448,045) |
| Net Increase In Cash and Cash Equivalents | 158,439 | 159,919 |
| Cash and Cash Equivalents Beginning of Year | 284,516 | 124,597 |
| Cash and Cash Equivalents End of Year | \$ 442,955 | \$ 284,516 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | \$ 59,617 | \$ 73,900 |
| Supplemental Disclosure of Non-Cash Activities | | |
| Net assets acquired on acquisition of programs | | \$ 1,739,077 |

See Notes to Consolidated Financial Statements

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note A--Description of Organization

Description of Organization--Volunteers of America of Kentucky, Inc. is a nonprofit spiritually based human services organization, incorporated in Kentucky that provides social services within Kentucky, Indiana, and Tennessee under a charter from Volunteers of America, Inc. (the "National Organization"), a national nonprofit spiritually based organization providing local human service programs, and opportunities for individual and community involvement. The Organization has the following significant impact areas:

Encouraging Positive Development--The Organization provides services to encourage positive development for trouble and at-risk children and youth, while also promoting healthy development of all 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.

Fostering Independence--The Organization fosters the health and independence of the elderly and persons with disabilities, mental illness, and HIV/AIDS through quality affordable housing, health care services and a wide range of community services. Program categories and services are as follows:

- Disabilities services--residential care
- Elderly services--service coordination in affordable housing
- Health care services--HIV/AIDS services
- Housing--disabled and elderly housing

Promoting Self-sufficiency--The Organization promotes self-sufficiency for individuals and families who have experienced homelessness, or other personal crisis, including chemical dependency, involvement with the corrections system and unemployment. The Organization focuses on solution-oriented approaches using a continuum of services from prevention to intervention to long-term support. Program categories and services are as follows:

- Correctional services--community sanctions center
- Homeless services--emergency shelter, eviction prevention, housing placement, supportive services, transitional housing
- Substance abuse--residential treatment

On July 1, 2011, the Organization acquired disabilities services programs of Volunteers of America Ohio River Valley, Inc. ("VOA-ORV"). The Organization formed a new corporation, Volunteers of America of Northern Kentucky, Inc. ("VOA-NKY"). The Organization also acquired six HUD-financed properties which were previously controlled by VOA-ORV, and appointed a new board of directors and management team. This change in ownership resulted in the step-up of assets and liabilities to their respective fair values at the date of acquisition.

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note A--Description of Organization--Continued

The six HUD-financed properties ("Various HUD Properties") include:

- VOAKY Autumn Ridge, Inc.
- VOAKY Bunker Hill Court, Inc.
- VOAKY Hopeful Road, Inc.
- VOAKY Madison Pike, Inc.
- VOAKY Morningside Drive, Inc.
- VOAKY River Road, Inc.

The various HUD properties were formed to provide housing under programs as defined by the National Housing Act. Such projects are regulated by the U.S. Department of Housing and Urban Development ("HUD") as to rent charges and operating methods. Each project receives monthly rent subsidies from HUD.

Note B--Summary of Significant Accounting Policies

The Organization follows generally accepted accounting principles as outlined in the Financial Accounting Standards Board's Accounting Standards Codification ("ASC"). Significant accounting policies are as follows:

Principles of Consolidation--The consolidated financial statements include the accounts of Volunteers of America of Kentucky, Inc., VOA Property Corporation of Louisville, Inc., VOA of Northern Kentucky, Inc., and the Various HUD Properties, which are collectively referred to as the "Organization". All material transactions and balances with consolidated affiliates have been eliminated.

Net Assets--The Organization classifies net assets 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 as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. At June 30, 2013 and 2012, temporarily restricted net assets consist of grants for various purposes for which the Organization has not disbursed all proceeds.

Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions.

Operations--The Organization defines operations 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 results from ancillary activities, such as investing liquid assets and disposing of other assets, are reported as non-operating.

Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note B--Summary of Significant Accounting Policies--Continued

Cash Equivalents--Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise designated or restricted.

Accounts Receivable--The Organization reports accounts receivable for services rendered at net realizable amounts from third-party payers, clients and others. Management of the Organization provides an allowance for doubtful accounts based upon its review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Property and Equipment--Land, buildings and equipment purchased by the Organization are recorded at cost. The Organization follows the practice of capitalizing all expenditures for land, buildings and equipment in excess of \$1,000 and with a useful life of at least one year. Repairs and maintenance are expensed as incurred. The fair value of donated assets is similarly capitalized using the fair market value of the asset as of the date donated. Depreciation expense was \$464,633 and \$461,236 for the years ended June 30, 2013 and 2012, respectively. Depreciation expense is computed on the straight-line method based upon the following estimated useful lives of the assets:

| | |
|----------------------------|--------------|
| Buildings and improvements | 7 - 40 years |
| Furniture and equipment | 3 - 10 years |
| Vehicles | 5 years |

Impairment of Long-Lived Assets--Management of the Organization reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

There were no charges for impairment of long-lived assets during 2013 or 2012.

Government Grants--Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, could be adjusted. Certain restricted grant revenues received and earned within the same period are recorded as unrestricted revenues.

Contributions--Contributions are generally recorded upon receipt. Unconditional promises to give that are expected to be collected in future years are recorded at the 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 available for unrestricted use unless specifically restricted by the donor.

Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note B--Summary of Significant Accounting Policies--Continued

In-Kind Contributions--The Organization recognizes revenue and expense for contributed goods and services at the fair value of those goods and services, provided those goods and services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The value of contributed goods and services recognized was \$613,377 and \$912,707 for the years ended June 30, 2013 and 2012, respectively.

Fee-for-Service Revenues--Revenues from services billed under Medicaid are recognized on a fee-for-service basis using rates established by the various states' agencies. Although rates are determined prospectively, the regulatory agencies retain the authority to adjust amounts due the Organization under certain circumstances. Other client service revenues are recorded at rates established by the Organization.

Income Taxes--Under provision of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the state of Kentucky, the Organization is exempt from income taxes, as a subordinate unit of Volunteers of America, Inc. Volunteers of America, Inc. (the "National Organization") is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code as a religious organization described in Section 501(c)(3). There were no unrelated business activities in the fiscal years ended June 30, 2013 and 2012, and accordingly, no tax expense was incurred during these years.

Generally accepted accounting principles prescribe a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There is no impact on the Organization's consolidated financial statements as a result of the implementation of these accounting principles.

The Organization's income tax returns for the fiscal years ended June 30, 2010 through 2012 are subject to examination by the Internal Revenue Service.

Fair Value of Financial Instruments--The carrying amounts for current assets and liabilities, other than due to/from related parties, approximate their fair values due to their short maturity. The fair value of related party amounts cannot be reasonably and practicably estimated due to the unique nature of the related underlying transactions and terms. If these financial instruments were with unrelated parties, interest rates and payment terms could be different than their currently stated rates and terms. The carrying amounts of long-term debt approximate their fair values based upon current interest rates available for similar types of instruments. The carrying amount of non-current pledges receivable are discounted to present value using a market rate of interest.

Valuation of Investments--Investments in marketable securities with readily determinable fair values and all investments in debt and equity securities are reported at their fair values. Purchases and sales are recorded on a trade-date basis. Realized and unrealized gains and losses are included in the consolidated statement of activities. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$189,573 and \$365,207 for the years ended June 30, 2013 and 2012, respectively, and are included in printing and publications in the consolidated statements of functional expenses.

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note B--Summary of Significant Accounting Policies--Continued

Allocation of Functional Expenses--The costs of providing the various program services and supporting activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the various functions.

Use of Estimates--The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues, support and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events--In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 23, 2013, the date the consolidated financial statements were available to be issued.

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

Note C--Pledges Receivable

Pledges receivable represent future contributions resulting from fund raisers to support future operations of the Organization. Pledges receivable are summarized as follows:

| | June 30 | |
|--|-------------------|-------------------|
| | 2013 | 2012 |
| Pledges receivable | \$ 568,599 | \$ 510,907 |
| Less current portion | 81,376 | 145,602 |
| | 487,223 | 365,305 |
| Less unamortized discount | 33,797 | 27,251 |
| Less allowance for uncollectible pledges | 62,787 | 51,091 |
| | <u>\$ 390,639</u> | <u>\$ 286,963</u> |
| Amounts due in: | | |
| Less than one year | \$ 81,376 | \$ 145,602 |
| One to five years | 487,223 | 365,305 |
| | <u>\$ 568,599</u> | <u>\$ 510,907</u> |

The discount rate used on long-term pledges at June 30, 2013 and 2012 is 3.25%.

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note D--Property and Equipment

Property and equipment consists of the following:

| | June 30 | |
|-------------------------------|---------------------|---------------------|
| | 2013 | 2012 |
| Land | \$ 480,864 | \$ 480,864 |
| Buildings and improvements | 6,751,001 | 6,551,967 |
| Vehicles | 1,719,135 | 1,452,983 |
| Furniture and equipment | 1,491,156 | 1,431,208 |
| | 10,442,156 | 9,917,022 |
| Less accumulated depreciation | 5,922,796 | 5,476,765 |
| | <u>\$ 4,519,360</u> | <u>\$ 4,440,257</u> |

Note E--Investments and Fair Value Measurements

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: *Level 1* inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and *Level 3* inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using *Level 1* inputs because they generally provide the most reliable evidence of fair value. *Level 3* inputs were only used when *Level 1* or *Level 2* inputs were not available.

Level 1 Fair Value Measurements - The fair value of mutual funds is based on quoted net asset values of the shares held by the Organization at year end.

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note E--Investments and Fair Value Measurements--Continued

The following table presents the fair value of investments:

| | June 30 | | | |
|--------------------------|---------------------|--|-------------------|--|
| | 2013 | | 2012 | |
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) |
| Money market funds | \$ 77,528 | \$ 77,528 | \$ 18,487 | \$ 18,487 |
| Mutual Funds | | | | |
| Fixed income | 244,071 | 244,071 | 153,106 | 153,106 |
| Equity | 636,901 | 636,901 | 425,633 | 425,633 |
| Real estate trust shares | 52,708 | 52,708 | 30,098 | 30,098 |
| | <u>\$ 1,011,208</u> | <u>\$ 1,011,208</u> | <u>\$ 627,324</u> | <u>\$ 627,324</u> |

Unrealized gains are as follows:

| | Fair Value | Cost | Unrealized Gain (Loss) |
|--------------------------|---------------------|-------------------|------------------------|
| June 30, 2013 | | | |
| Money market funds | \$ 77,528 | \$ 77,528 | |
| Mutual funds | | | |
| Fixed income | 244,071 | 245,511 | \$ (1,440) |
| Equity | 636,901 | 533,900 | 103,001 |
| Real estate trust shares | 52,708 | 49,277 | 3,431 |
| Total Investments | <u>\$ 1,011,208</u> | <u>\$ 906,216</u> | <u>\$ 104,992</u> |
| June 30, 2012 | | | |
| Money market funds | \$ 18,487 | \$ 18,487 | |
| Mutual funds | | | |
| Fixed income | 153,106 | 144,534 | \$ 8,572 |
| Equity | 425,633 | 395,435 | 30,198 |
| Real estate trust shares | 30,098 | 28,723 | 1,375 |
| Total Investments | <u>\$ 627,324</u> | <u>\$ 587,179</u> | <u>\$ 40,145</u> |

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note E--Investments and Fair Value Measurements--Continued

Included in investments is \$105,260 and \$94,041 at June 30, 2013 and 2012, respectively, which is invested in a fund at The Community Foundation of Louisville. Terms of the fund allow the Organization to have access to \$68,197 and \$64,076 of these investments at June 30, 2013 and 2012, respectively, with the balance restricted for permanent endowment purposes.

Note F--Intangible Asset

An intangible asset has been recorded for the value of the right to provide management services to the Mental Retardation and Developmentally Disabled Program ("MRDD") from Volunteers of America of Indiana. Under the related agreement, the Organization assumed management of the MRDD Program in Southern Indiana in exchange for assuming debt from Volunteers of America of Indiana payable to the National Organization related to this program.

The debt assumed in connection with this transaction is being forgiven by the National Organization based on a percentage of excess revenues generated from this MRDD program. Debt forgiveness granted by the National Organization amounted to \$27,144 and \$26,550 for the fiscal years ended June 30, 2013 and 2012, respectively. The value assigned to the acquisition and rights to the MRDD Program are correspondingly reduced by the amount of this debt forgiveness.

Note G--Lines of Credit

The Organization has a line of credit with PNC Bank which provides for borrowings up to \$2,000,000. Outstanding balances bear interest at 3.25%. The line is secured by real estate and expires December 31, 2013. Outstanding borrowings were \$993,157 and \$213,148 at June 30, 2013 and 2012, respectively.

The Organization has an additional line of credit with Fifth Third Bank which provides for borrowings up to \$300,000. The line is secured by investments held at Fifth Third Institutional Services. Outstanding borrowings bear interest at the LIBOR rate plus 1.5% (1.75% at June 30, 2013). The line of credit expires February 28, 2014. Outstanding borrowings were \$4,926 and \$9,926 at June 30, 2013 and 2012, respectively.

Note H--Compensated Absences

The Organization allows up to a maximum of 240 hours of annual leave to be accumulated, which is payable upon separation of employment or used by the employee. Accrued annual leave was \$518,045 and \$554,316 as of June 30, 2013 and 2012, respectively, and is included in accrued expenses on the accompanying consolidated statements of financial position.

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note I--Long-Term Debt

Long-term debt consists of the following:

| | June 30 | |
|--|----------------|-------------|
| | 2013 | 2012 |
| Mortgage payable to Fifth Third Bank, interest rate of 7.88%, payable in monthly principal and interest installments of \$1,746 through August 2014 | \$ 55,033 | \$ 155,836 |
| Mortgage payable to First Tennessee Bank, interest rate of 6.45%, payable in monthly principal and interest installments of \$658 through June 2018 | 59,355 | 63,341 |
| Mortgage payable to First Tennessee Bank, interest rate of 6.1%, payable in monthly principal and interest installments of \$1,647 through October 2013 | 7,101 | 25,795 |
| Mortgage payable to First Tennessee Bank, interest rate of 5.6%, payable in monthly principal and interest installments of \$4,004 through August 2015 | 280,412 | 312,594 |
| Mortgage payable to PNC Bank, interest rate of 5.5%, payable in monthly principal and interest installments of \$1,654 through January 2015 | 97,315 | 110,189 |
| Mortgage payable to Regions Bank, interest rate of 7.4%, payable in monthly principal and interest installments of \$888 through June 2014 | 59,424 | 65,373 |
| Mortgage payable to PNC Bank, interest rate of 4.4%, payable in monthly principal and interest installments of \$1,374 through October 2016 | 165,415 | 174,304 |
| Mortgage payable to U. S. Department of Housing and Urban Development, interest rate of 9.25%, payable in monthly principal and interest installments of \$2,132 through August 2022 | 85,274 | 100,744 |

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note I--Long-Term Debt--Continued

| | June 30 | |
|---|-------------------|-------------------|
| | 2013 | 2012 |
| Mortgage payable to U. S. Department of Housing and Urban Development, interest rate of 9.25%, payable in monthly principal and interest installments of \$2,030 through May 2022 | 150,151 | 160,111 |
| | 959,480 | 1,168,287 |
| Less current maturities | 114,713 | 178,648 |
| | <u>\$ 844,767</u> | <u>\$ 989,639</u> |

The mortgages above are collateralized by the various real estate assets of the Organization.

Mortgages payable are scheduled to be repaid as follows:

| <u>Year Ending June 30</u> | |
|----------------------------|-------------------|
| 2014 | \$ 114,713 |
| 2015 | 262,364 |
| 2016 | 264,140 |
| 2017 | 180,504 |
| 2018 | 54,153 |
| 2019 and thereafter | 83,606 |
| | <u>\$ 959,480</u> |

Note J--Related Party Transactions

The Organization is affiliated with the National Organization, which provides support services to the Organization for a fee. Affiliate fees paid during the fiscal years ended June 30, 2013 and 2012 totaled \$530,196 and \$569,292, respectively. The Organization had service fees due the National Organization totaling \$38,865 and \$66,466 as of June 30, 2013 and 2012, respectively, which are included in other current liabilities on the consolidated statements of financial position.

The Organization also contributed \$20,793 and \$20,400 for the years ended June 30, 2013 and 2012, respectively, to fund the defined benefit pension plan of the National Organization covering all commissioned ministers.

The Organization had additional amounts due the National Organization of \$131,651 and \$158,795 as of June 30, 2013 and 2012, respectively, relating to debt assumed in connection with the acquisition of the MRDD Program in Southern Indiana (see Note F).

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note J--Related Party Transactions--Continued

The Organization had \$37,410 and \$54,899 due from six HUD-financed properties which were formerly managed by the Organization, as of June 30, 2013 and 2012, respectively. Management believes all amounts due will be collected and no reserve for uncollectible accounts is necessary. The amounts due are expected to be collected at a time beyond one year, therefore, management has classified these receivables as long-term on the accompanying consolidated statements of financial position.

Note K--Pension Plan

The Organization participates in a defined contribution pension plan in which only full time employees can participate. The Organization contributes up to one-half of six percent of employee compensation, up to Internal Revenue Service limits. Plan expense for the years ended June 30, 2013 and 2012 was \$58,352 and \$67,143 respectively.

Note L--Risk Management and Litigation

The Organization is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization currently carries property and general liability insurance to offset these risks.

The Organization is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition and ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial statements of the Organization.

Note M--Lease Commitments

The Organization leases properties in Kentucky, Tennessee and Indiana for various group homes and offices with monthly rents totaling \$33,126. These leases expire at various dates through November 30, 2018. The Organization also leases multiple properties on a month-to-month basis. Total lease expense for the years ended June 30, 2013 and 2012 was \$1,099,697 and \$1,143,114, respectively.

The aggregate future minimum lease payments as of June 30, 2013 are as follows:

| <u>Year Ending June 30</u> | |
|----------------------------|--------------|
| 2014 | \$ 448,682 |
| 2015 | 371,036 |
| 2016 | 334,031 |
| 2017 | 151,110 |
| 2018 and thereafter | 134,838 |
| | <hr/> |
| | \$ 1,439,697 |

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note N--Restrictions on Net Assets

Temporarily restricted net assets consists of the following:

| | June 30 | |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| Family Emergency Shelter - operations | \$ 200,000 | \$ 300,000 |
| Shelby Street - facility improvements | 88,167 | 78,306 |
| Purchase of vehicles | | 13,709 |
| Neighborhood Development Fund | 20,950 | |
| Total temporarily restricted by donors | 309,117 | 392,015 |
| HUD capital advances | 1,311,597 | 1,311,597 |
| | <u>\$ 1,620,714</u> | <u>\$ 1,703,612</u> |

The following entities have capital advances from HUD as of June 30, 2013 and 2012:

| | |
|--|---------------------|
| VOAKY Autumn Ridge, Inc. (Release from restriction in September 2043) | \$ 217,400 |
| VOAKY Bunker Hill Court, Inc. (Release from restriction in January 2048) | 521,697 |
| VOAKY Madison Pike, Inc. (Release from restriction in May 2045) | 296,600 |
| VOAKY Morningside Drive, Inc. (Release from restriction in January 2045) | 275,900 |
| | <u>\$ 1,311,597</u> |

In connection with the acquisition of Various HUD Properties discussed in Note A, the Organization benefited from HUD capital advances as listed above, which were recognized in the 2012 consolidated statement of activities as temporarily restricted other income. These capital advances bear no interest and repayment is not required so long as regulatory requirements are met. The capital advances are collateralized by a mortgage on the related property and are included in temporarily restricted net assets.

Permanently restricted net assets consist of a portion of the funds that are invested with The Community Foundation of Louisville. The amount of permanently restricted net assets was \$37,063 and \$29,965 at June 30, 2013 and 2012, respectively (see Note E).

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note O--Contingencies

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in funding, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Organization.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Organization's ability to maintain sufficient liquidity.

The Organization receives funding from federal and state government agencies, which funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the Organization for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Organization's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the Organization operates in a heavily regulated environment. The operations of the Organization are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Health and Human Services, the U.S. Department of Housing and Urban Development and the Kentucky Cabinet for Health and Family Services. Such administrative directives, rules and regulations are subject to change by an act of Congress, the Kentucky General Assembly or an administrative change mandated by various government bodies. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013 and 2012

Note P--Acquisition of Programs

On July 1, 2011, the Organization acquired certain programs located in northern Kentucky, which were previously operated by VOA-ORV. In connection with the programs acquisition, the Organization acquired assets and assumed liabilities of six HUD-financed properties, apartment buildings and various programs that provided housing and services to developmentally disabled adults. The programs were transferred from VOA-ORV to the Organization for no consideration.

Assets acquired and liabilities assumed were as follows:

Assets

| | |
|------------------------|------------------|
| Cash | \$ 331,241 |
| Accounts receivable | 220,366 |
| Restricted deposits | 72,576 |
| Property and equipment | <u>1,857,999</u> |

| | |
|------------------------------|------------------|
| Total Assets Acquired | 2,482,182 |
|------------------------------|------------------|

Liabilities

| | |
|-----------------------------|----------------|
| Accounts payable | 172,521 |
| Accrued expenses | 74,228 |
| Other current liabilities | 14,971 |
| Other loans payable | 24,438 |
| Mortgages and notes payable | <u>456,947</u> |

| | |
|----------------------------------|-----------------------|
| Total Liabilities Assumed | <u>743,105</u> |
|----------------------------------|-----------------------|

| | |
|----------------------------|----------------------------|
| Net Assets Acquired | <u>\$ 1,739,077</u> |
|----------------------------|----------------------------|

Net assets acquired were reported in the consolidated statement of activities for the fiscal year ended June 30, 2012 as follows:

| | |
|--|----------------------------|
| Capital advances, temporarily restricted contributions | \$ 1,311,597 |
| Gain on acquisition | <u>427,480</u> |
| Total | <u>\$ 1,739,077</u> |

Consolidating Financial Statements

Consolidating Statement of Financial Position

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013

| Assets | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|-------------------------------------|---|---|-----------------------------------|-----------------------|--------------------------------|
| Current Assets | | | | | | |
| Cash and cash equivalents | \$ 114,254 | \$ 22,522 | \$ 269,618 | \$ 36,561 | | \$ 442,955 |
| Investments | 974,145 | | | | | 974,145 |
| Accounts receivable, net | 3,192,061 | 62,663 | 377,417 | | \$ (430,893) | 3,201,248 |
| Grants receivable and other unconditional promises to give | 309,117 | | | | | 309,117 |
| Pledges receivable | 81,376 | | | | | 81,376 |
| Prepaid expenses and other current assets | 304,786 | 1,039,372 | 4,983 | | (1,066,657) | 282,484 |
| Total Current Assets | 4,975,739 | 1,124,557 | 652,018 | 36,561 | (1,497,550) | 5,291,325 |
| Property and Equipment, | | | | | | |
| Land and buildings | 482,714 | 4,851,224 | 259,900 | 1,638,028 | | 7,231,866 |
| Furniture and equipment | 1,635,448 | 1,554,786 | 11,544 | 8,512 | | 3,210,290 |
| Less accumulated depreciation | (1,797,229) | (3,959,622) | (18,839) | (147,106) | | (5,922,796) |
| Property and Equipment, less accumulated depreciation | 320,933 | 2,446,388 | 252,605 | 1,499,434 | | 4,519,360 |
| Other Assets | | | | | | |
| Investments, restricted | 37,063 | | | | | 37,063 |
| Restricted deposits and funded reserves | | | | 76,116 | | 76,116 |
| Pledges receivable, net | 390,639 | | | | | 390,639 |
| Intangible asset | 131,651 | | | | | 131,651 |
| Due from related parties | 37,410 | | | | | 37,410 |
| Total Other Assets | 596,763 | | | 76,116 | | 672,879 |
| | \$ 5,893,435 | \$ 3,570,945 | \$ 904,623 | \$ 1,612,111 | \$ (1,497,550) | \$ 10,483,564 |

Continued

Consolidating Statement of Financial Position--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2013

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|---|----------------------------|---|---|---------------------------|--------------------|------------------------|
| Current Liabilities | | | | | | |
| Lines of credit | \$ 993,157 | \$ 4,926 | \$ 25,437 | \$ 70,481 | \$ (57,697) | \$ 998,083 |
| Accounts payable | 388,248 | 135,517 | 119,827 | 1,615 | | 561,986 |
| Accrued expenses | 1,101,936 | 13,871 | 373,666 | 14,044 | (1,439,853) | 1,223,378 |
| Other current liabilities | 1,212,074 | 75,684 | 9,620 | 29,409 | | 173,802 |
| Current maturities of long-term debt | | | | | | 114,713 |
| Total Current Liabilities | 3,695,415 | 229,998 | 528,550 | 115,549 | (1,497,550) | 3,071,962 |
| Long-Term Debt, less current maturities | | 482,956 | 155,795 | 206,016 | | 844,767 |
| Payable to National Organization | 131,651 | | | | | 131,651 |
| Net Assets | | | | | | |
| Unrestricted | 1,720,189 | 2,857,991 | 220,278 | (21,051) | | 4,777,407 |
| Temporarily restricted | 309,117 | | | 1,311,597 | | 1,620,714 |
| Permanently restricted | 37,063 | | | | | 37,063 |
| Total Net Assets | 2,066,369 | 2,857,991 | 220,278 | 1,290,546 | | 6,435,184 |
| | \$ 5,893,435 | \$ 3,570,945 | \$ 904,623 | \$ 1,612,111 | \$ (1,497,550) | \$ 10,483,564 |

See Independent Auditors' Report

Consolidated Statement of Financial Position

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2012

| Assets | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|-------------------------------------|---|---|-----------------------------------|---------------------|--------------------------------|
| Current Assets | | | | | | |
| Cash and cash equivalents | \$ 63,484 | \$ 54,270 | \$ 134,306 | \$ 32,456 | | \$ 284,516 |
| Investments | 597,359 | | | | | 597,359 |
| Accounts receivable, net | 2,063,102 | 39,079 | 218,018 | | \$ (41,951) | 2,278,248 |
| Grants receivable and other unconditional promises to give | 741,450 | | | | | 741,450 |
| Pledges receivable | 145,602 | | | | | 145,602 |
| Prepaid expenses and other current assets | 253,976 | 1,048,492 | | | (1,048,492) | 253,976 |
| Total Current Assets | 3,864,973 | 1,141,841 | 352,324 | 32,456 | (1,090,443) | 4,301,151 |
| Property and Equipment, | | | | | | |
| Land and buildings | 482,714 | 4,694,701 | 259,900 | 1,595,516 | | 7,032,831 |
| Furniture and equipment | 1,601,644 | 1,268,635 | 5,400 | 8,512 | | 2,884,191 |
| Less accumulated depreciation | (1,683,736) | (3,731,657) | (9,726) | (51,646) | | (5,476,765) |
| Property and Equipment, less accumulated depreciation | 400,622 | 2,231,679 | 255,574 | 1,552,382 | | 4,440,257 |
| Other Assets | | | | | | |
| Investments | 29,965 | | | | | 29,965 |
| Restricted deposits and funded reserves | | | | 84,089 | | 84,089 |
| Pledges receivable, net | 286,963 | | | | | 286,963 |
| Intangible asset | 158,795 | | | | | 158,795 |
| Due from related parties | 81,683 | | | | (26,784) | 54,899 |
| Total Other Assets | 557,406 | | | 84,089 | (26,784) | 614,711 |
| | \$ 4,823,001 | \$ 3,373,520 | \$ 607,898 | \$ 1,668,927 | \$ (1,117,227) | \$ 9,356,119 |

Continued

Consolidating Statement of Financial Position-Continued

Volunteers of America of Kentucky, Inc. and Affiliates

June 30, 2012

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|---|----------------------------|---|---|---------------------------|--------------------|------------------------|
| Current Liabilities | | | | | | |
| Lines of credit | \$ 213,148 | \$ 9,926 | \$ 13,101 | \$ 44,728 | \$ (44,291) | \$ 223,074 |
| Accounts payable | 335,383 | | 111,082 | 2,530 | | 348,921 |
| Accrued expenses | 1,205,613 | | | 24,438 | (24,438) | 1,319,225 |
| Other loans payable | | | | 12,530 | (1,048,498) | 142,360 |
| Other current liabilities | 1,175,197 | 2,655 | 476 | 26,928 | | 178,648 |
| Current maturities of long-term debt | | 142,831 | 8,889 | | | |
| Total Current Liabilities | 2,929,341 | 155,412 | 133,548 | 111,154 | (1,117,227) | 2,212,228 |
| Long-Term Debt, less current maturities | | 590,297 | 165,415 | 233,927 | | 989,639 |
| Payable to National Organization | 158,795 | | | | | 158,795 |
| Net Assets | | | | | | |
| Unrestricted | 1,312,885 | 2,627,811 | 308,935 | 12,249 | | 4,261,880 |
| Temporarily restricted | 392,015 | | | 1,311,597 | | 1,703,612 |
| Permanently restricted | 29,965 | | | | | 29,965 |
| Total Net Assets | 1,734,865 | 2,627,811 | 308,935 | 1,323,846 | | 5,995,457 |
| | \$ 4,823,001 | \$ 3,373,520 | \$ 607,898 | \$ 1,668,927 | \$ (1,117,227) | \$ 9,356,119 |

See Independent Auditors' Report

Consolidating Statement of Activities

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2013

| | VOA of Kentucky, Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|-----------------------------|---|---|------------------------------|--------------|------------------------|
| Unrestricted Net Assets | | | | | | |
| Support and Revenues From Operations | | | | | | |
| Public Support Received Directly | | | | | | |
| Contributions | \$ 865,114 | | | | | \$ 865,114 |
| Contributions, in-kind | 613,377 | | | | | 613,377 |
| Public support: capital and bequests | 157,531 | | | | | 157,531 |
| Special events | 105,559 | | | | | 105,559 |
| Public Support Received Indirectly | | | | | | |
| United Way allocation | 22 | | \$ 100,002 | | | 100,024 |
| Volunteers of America awards and grants | 58,393 | | | | | 58,393 |
| Total Support | 1,799,996 | | 100,002 | | | 1,899,998 |
| Revenue and Grants from Governmental Agencies | | | | | | |
| Fee-for-service | 13,472,964 | | 2,279,172 | | | 15,752,136 |
| Federal and state grants | 7,143,783 | | | | | 7,143,783 |
| Total Revenue and Grants from Governmental Agencies | 20,616,747 | | 2,279,172 | | | 22,895,919 |
| Other Revenue | | | | | | |
| Program service fees | 113,116 | \$ 922,268 | 124,767 | | \$ (361,600) | 798,551 |
| Rental income | | 135,168 | | \$ 195,733 | (85,623) | 245,278 |
| Miscellaneous revenue | 2,889,117 | | 7,919 | | (2,700,137) | 196,899 |
| Total Other Revenue | 3,002,233 | 1,057,436 | 132,686 | 195,733 | (3,147,360) | 1,240,728 |

Continued

Consolidating Statement of Activities--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2013

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|----------------------------|---|---|------------------------------|--------------|------------------------|
| Net assets released from restrictions, satisfaction of program activities | 392,015 | | | | | 392,015 |
| Total Support and Revenues From Operations | 25,810,991 | 1,057,436 | 2,511,860 | 195,733 | (3,147,360) | 26,428,660 |
| Operating Expenses | | | | | | |
| Program Services: | | | | | | |
| Fostering independence | 13,881,842 | 845,906 | 2,281,847 | 229,051 | (490,721) | 16,747,925 |
| Promoting self-sufficiency | 5,551,428 | | | | | 5,551,428 |
| Total Program Services | 19,433,270 | 845,906 | 2,281,847 | 229,051 | (490,721) | 22,299,353 |
| Support Services and Fundraising: | | | | | | |
| Management and general | 4,663,005 | | 318,670 | | (2,656,639) | 2,325,036 |
| Fundraising | 868,875 | | | | | 868,875 |
| Administrative fees paid to National Organization | 530,196 | | | | | 530,196 |
| Total Support Services and Fundraising | 6,062,076 | | 318,670 | | (2,656,639) | 3,724,107 |
| Total Operating Expenses | 25,495,346 | 845,906 | 2,600,517 | 229,051 | (3,147,360) | 26,023,460 |
| Increase (Decrease) in Net Assets Before Other Changes | 315,645 | 211,530 | (88,657) | (33,318) | | 405,200 |

Continued

Consolidating Statement of Activities--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2013

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|----------------------------|---|---|---------------------------|--------------|------------------------|
| Nonoperating Gains and Other Income | | | | | | |
| Interest and dividend income | 31,339 | | | 18 | | 31,357 |
| Gain on sale of real estate | | 18,650 | | | | 18,650 |
| Realized gain on investments | 1,936 | | | | | 1,936 |
| Unrealized gains on investments | 58,384 | | | | | 58,384 |
| Nonoperating Gains and Other Income | <u>91,659</u> | <u>18,650</u> | | <u>18</u> | | <u>110,327</u> |
| Increase (Decrease) in Unrestricted Net Assets | 407,304 | 230,180 | (88,657) | (33,300) | | 515,527 |
| Temporarily Restricted Net Assets | | | | | | |
| Contributions | 309,117 | | | | | 309,117 |
| Net assets released from restrictions, satisfaction of program activities | <u>(392,015)</u> | | | | | <u>(392,015)</u> |
| Increase in Temporarily Restricted Net Assets | <u>(82,898)</u> | | | | | <u>(82,898)</u> |
| Permanently Restricted Net Assets | | | | | | |
| Unrealized losses on investments | <u>7,098</u> | | | | | <u>7,098</u> |
| Increase (Decrease) in Net Assets | <u>331,504</u> | <u>230,180</u> | <u>(88,657)</u> | <u>(33,300)</u> | | <u>439,727</u> |
| Net Assets Beginning of Year | <u>1,734,865</u> | <u>2,627,811</u> | <u>308,935</u> | <u>1,323,846</u> | | <u>5,995,457</u> |
| Net Assets End of Year | <u>\$ 2,066,369</u> | <u>\$ 2,857,991</u> | <u>\$ 220,278</u> | <u>\$ 1,290,546</u> | <u>\$</u> | <u>\$ 6,435,184</u> |

See Independent Auditors' Report

Consolidating Statement of Activities

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2012

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|----------------------------|---|---|------------------------------|--------------|------------------------|
| Unrestricted Net Assets | | | | | | |
| Support and Revenues From Operations | | | | | | |
| Public Support Received Directly | | | | | | |
| Contributions | \$ 1,161,396 | \$ 94,720 | | | | \$ 1,256,116 |
| Contributions, in-kind | 912,707 | | | | | 912,707 |
| Public support: capital and bequests | 388,115 | | | | | 388,115 |
| Special events | 74,493 | | | | | 74,493 |
| Public Support Received Indirectly | | | | | | |
| United Way allocation | 90,224 | | \$ 105,000 | | | 195,224 |
| Volunteers of America awards and grants | 161,538 | | | | | 161,538 |
| Total Support | 2,788,473 | 94,720 | 105,000 | | | 2,988,193 |
| Revenue and Grants from Governmental Agencies | | | | | | |
| Fee-for-service | 14,483,020 | | 2,136,102 | | | 16,619,122 |
| Federal and state grants | 6,630,196 | | | | | 6,630,196 |
| Total Revenue and Grants from Governmental Agencies | 21,113,216 | | 2,136,102 | | | 23,249,318 |
| Other Revenue | | | | | | |
| Program service fees | 95,488 | 971,182 | 134,272 | | \$ (362,650) | 838,292 |
| Rental income | | 135,168 | | \$ 192,074 | (91,116) | 236,126 |
| Miscellaneous revenue | 3,066,221 | | 8,268 | | (2,795,550) | 278,939 |
| Total Other Revenue | 3,161,709 | 1,106,350 | 142,540 | 192,074 | (3,249,316) | 1,353,357 |

Continued

Consolidating Statement of Activities--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2012

| | VOA of Kentucky, Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|-----------------------------|---|---|------------------------------|--------------|------------------------|
| Net assets released from restrictions, satisfaction of program activities | 7,542 | | | | | 7,542 |
| Total Support and Revenues From Operations | 27,070,940 | 1,201,070 | 2,383,642 | 192,074 | (3,249,316) | 27,598,410 |
| Operating Expenses | | | | | | |
| Program Services: | | | | | | |
| Fostering independence | 14,745,314 | 845,693 | 2,208,644 | 200,265 | (498,261) | 17,501,655 |
| Promoting self-sufficiency | 5,831,875 | | | | | 5,831,875 |
| Total Program Services | 20,577,189 | 845,693 | 2,208,644 | 200,265 | (498,261) | 23,333,530 |
| Support Services and Fundraising: | | | | | | |
| Management and general | 4,841,686 | | 273,124 | | (2,751,055) | 2,363,755 |
| Fundraising | 1,008,941 | | | | | 1,008,941 |
| Administrative fees paid to National Organization | 569,292 | | | | | 569,292 |
| Total Support Services and Fundraising | 6,419,919 | | 273,124 | | (2,751,055) | 3,941,988 |
| Total Operating Expenses | 26,997,108 | 845,693 | 2,481,768 | 200,265 | (3,249,316) | 27,275,518 |
| Increase (Decrease) in Net Assets Before Other Changes | 73,832 | 355,377 | (98,126) | (8,191) | | 322,892 |

Continued

Consolidating Statement of Activities--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

Year ended June 30, 2012

| | VOA of Kentucky, Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|-----------------------------|---|---|------------------------------|--------------|------------------------|
| Nonoperating Gains and Other Income | | | | | | |
| Gain on acquisition of program | | | 407,061 | 20,419 | | 427,480 |
| Interest and dividend income | 15,711 | | | 21 | | 15,732 |
| Realized gain on investments | 18,243 | | | | | 18,243 |
| Unrealized loss on investments | (34,989) | | | | | (34,989) |
| Nonoperating Gains and Other Income | <u>(1,035)</u> | | <u>407,061</u> | <u>20,440</u> | | <u>426,466</u> |
| Increase in Unrestricted Net Assets | 72,797 | 355,377 | 308,935 | 12,249 | | 749,358 |
| Temporarily Restricted Net Assets | | | | | | |
| Contributions | | | | | | |
| Capital advances | 392,015 | | | 1,311,597 | | 392,015 |
| Net assets released from restrictions, satisfaction of program activities | <u>(7,542)</u> | | | | | <u>(7,542)</u> |
| Increase in Temporarily Restricted Net Assets | 384,473 | | | 1,311,597 | | 1,696,070 |
| Permanently Restricted Net Assets | | | | | | |
| Unrealized losses on investments | <u>(2,072)</u> | | | | | <u>(2,072)</u> |
| Increase in Net Assets | 455,198 | 355,377 | 308,935 | 1,323,846 | | 2,443,356 |
| Net Assets Beginning of Year | <u>1,279,667</u> | <u>2,272,434</u> | | | | <u>3,552,101</u> |
| Net Assets End of Year | <u>\$ 1,734,865</u> | <u>\$ 2,627,811</u> | <u>\$ 308,935</u> | <u>\$ 1,323,846</u> | <u>\$</u> | <u>\$ 5,995,457</u> |

See Independent Auditors' Report

Consolidating Statement of Cash Flows

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2013

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|----------------------------|---|---|------------------------------|--------------|------------------------|
| Operating Activities | | | | | | |
| Increase (decrease) in net assets Adjustments | \$ 331,504 | \$ 230,180 | \$ (88,657) | \$ (33,300) | | \$ 439,727 |
| Depreciation and amortization | 140,638 | 289,194 | 9,114 | 52,831 | | 491,777 |
| Bad debt expense | | | | | | |
| Gain on forgiveness of debt | (27,144) | | | | | (27,144) |
| Discount on pledges receivable | 6,546 | | | | | 6,546 |
| Allowance for uncollectible pledges receivable | 11,696 | | | | | 11,696 |
| Allowance for doubtful accounts receivable | 55,292 | | | | | 55,292 |
| Realized/unrealized gain on investments | (67,418) | (18,650) | | | | (67,418) |
| Gain on sale of real estate | | | | | | (18,650) |
| Changes in operating assets and liabilities | | | | | | |
| Accounts receivable | (1,184,251) | (23,584) | (159,399) | | \$ (388,942) | (978,292) |
| Grants receivable and other unconditional promises to give | 432,333 | | | | | 432,333 |
| Pledges receivable | (57,692) | | | | | (57,692) |
| Prepaid expenses and other current assets | (50,810) | 9,120 | (4,983) | | (18,165) | (28,508) |
| Accounts payable | 52,865 | 135,517 | 12,336 | 25,753 | 13,406 | 213,065 |
| Accrued expenses | (103,677) | | 8,745 | (915) | | (95,847) |
| Prepaid revenue | | | | | | |
| Other current liabilities | 36,877 | 11,216 | 373,190 | 1,514 | 391,355 | 31,442 |
| Net Cash Provided By (Used In) Operating Activities | (423,241) | 632,993 | 150,346 | 45,883 | (2,346) | 408,327 |

Continued

Consolidating Statement of Cash Flows--Continued

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2013

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|---|----------------------------|---|---|------------------------------|--------------|------------------------|
| Investing Activities | | | | | | |
| Purchases of property and equipment | (33,805) | (755,928) | (6,028) | | | (795,761) |
| Proceeds from sale of real estate | | 270,675 | | | | 270,675 |
| Purchase of investments | (325,790) | | | | | (325,790) |
| Proceeds from sale of investments | 9,324 | | | | | 9,324 |
| Changes in restricted deposits and funded reserves, net | | | | 7,973 | | 7,973 |
| Changes in amounts due from related parties | 44,273 | | | (24,438) | 2,346 | 17,489 |
| Net Cash Provided By (Used In) Investing Activities | (305,998) | (485,253) | (6,028) | (16,465) | 2,346 | (816,090) |
| Financing Activities | | | | | | |
| Net activity on lines of credit | 780,009 | (5,000) | | | | 775,009 |
| Payments on capital leases | | | | | | |
| Payments on mortgages and note payable | | (174,488) | (9,006) | (25,313) | | (208,807) |
| Net Cash Provided By (Used In) Financing Activities | 780,009 | (179,488) | (9,006) | (25,313) | | 566,202 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 50,770 | (31,748) | 135,312 | 4,105 | | 158,439 |
| Cash and Cash Equivalents Beginning of Year | 63,484 | 54,270 | 134,306 | 32,456 | | 284,516 |
| Cash and Cash Equivalents End of Year | \$ 114,254 | \$ 22,522 | \$ 269,618 | \$ 36,561 | \$ | \$ 442,955 |

See Independent Auditors' Report

Consolidating Statement of Cash Flows

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2012

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|--|----------------------------|---|---|------------------------------|--------------|------------------------|
| Operating Activities | | | | | | |
| Increase in net assets | \$ 455,198 | \$ 355,377 | \$ 308,935 | \$ 1,323,846 | | \$ 2,443,356 |
| Adjustments | | | | | | |
| Depreciation and amortization | 147,162 | 279,249 | 9,726 | 51,649 | | 487,786 |
| Bad debt expense | (10,000) | | | | | (10,000) |
| Gain on forgiveness of debt | (26,550) | | | | | (26,550) |
| Discount on pledges receivable | 1,019 | | | | | 1,019 |
| Allowance for uncollectible pledges receivable | 11,508 | | (10,000) | | | 11,508 |
| Allowance for doubtful accounts receivable | (36,917) | | | | | (46,917) |
| Realized/unrealized loss on investments | 18,818 | | (407,061) | (20,419) | | 18,818 |
| Gain on acquisition of program | | | | (1,311,597) | | (427,480) |
| Capital advances | | | | | | (1,311,597) |
| Changes in operating assets and liabilities | | | | | | |
| Accounts receivable | 468,692 | (9,357) | 9,924 | 2,424 | \$ (41,951) | 513,634 |
| Grants receivable and other unconditional | | | | | | |
| promises to give | (741,450) | | | | | (741,450) |
| Pledges receivable | (114,441) | | | | | (114,441) |
| Prepaid expenses and | | | | | | |
| other current assets | (4,559) | (421,583) | | | (421,583) | (4,559) |
| Accounts payable | (51,813) | (410) | (105,166) | (9,526) | 44,291 | (211,206) |
| Accrued expenses | (33,518) | | 39,384 | | | 5,866 |
| Other current liabilities | 308,611 | | (6,641) | 4,676 | 421,589 | (114,943) |
| Net Cash Provided By (Used In) | | | | | | |
| Operating Activities | 391,760 | 203,276 | (160,899) | 41,053 | 2,346 | 472,844 |

Continued

Consolidating Statement of Cash Flows-Continued

Volunteers of America of Kentucky, Inc. and Affiliates

Year Ended June 30, 2012

| | VOA of Kentucky Inc. | VOA Property Corporation of Louisville, Inc. | VOA of Northern Kentucky, Inc. | Various HUD Properties | Eliminations | Consolidated Totals |
|---|----------------------------|---|---|------------------------------|--------------|------------------------|
| Investing Activities | | | | | | |
| Purchases of property and equipment | (43,792) | (127,418) | 292,434 | (11,332) | | (182,542) |
| Acquisition of programs | | | | 38,807 | | 331,241 |
| Proceeds from sale of investments | 241,008 | | | | | 241,008 |
| Purchase of investments | (255,232) | | | | | (255,232) |
| Changes in restricted deposits funded reserves, net | | | | (11,513) | | (11,513) |
| Changes in amounts due from related parties | 9,812 | | | | (2,346) | 12,158 |
| Net Cash Provided By (Used In) Investing Activities | (48,204) | (127,418) | 292,434 | 15,962 | (2,346) | 135,120 |
| Financing Activities | | | | | | |
| Net activity on line of credit | (118,526) | (6,000) | | | | (124,526) |
| Proceeds of long-term debt | | | 180,000 | | | 180,000 |
| Payments on mortgages and note payable | (224,250) | (77,481) | (177,229) | (24,559) | | (503,519) |
| Net Cash Provided By (Used In) Financing Activities | (342,776) | (83,481) | 2,771 | (24,559) | | (448,045) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 780 | (7,623) | 134,306 | 32,456 | | 159,919 |
| Cash and Cash Equivalents Beginning of Year | 62,704 | 61,893 | | | | 124,597 |
| Cash and Cash Equivalents End of Year | <u>\$ 63,484</u> | <u>\$ 54,270</u> | <u>\$ 134,306</u> | <u>\$ 32,456</u> | <u>\$</u> | <u>\$ 284,516</u> |

See Independent Auditors' Report