

**FINANCIAL STATEMENTS,
FEDERAL FINANCIAL ASSISTANCE
AND OTHER REPORTS**

**VOLUNTEERS OF AMERICA
OF KENTUCKY, INC. AND SUBSIDIARY**

JUNE 30, 2009

CONTENTS

BASIC FINANCIAL STATEMENTS

Independent Auditors' Report on Basic Financial Statements	PAGE 4
Consolidated Balance Sheet.....	5
Consolidated Statement of Activities and Functional Expenses	6
Consolidated Statement of Functional Expenses.....	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9

SUPPLEMENTARY SCHEDULES

Schedule I - Consolidating Balance Sheets.....	19
Schedule II - Consolidating Statements of Activities and Functional Expenses.....	20
Schedule III - Consolidating Statements of Cash Flows.....	21

FEDERAL FINANCIAL ASSISTANCE

Consolidated Schedule of Expenditures of Federal Awards- Not-For-Profit Organization	23
Notes to the Consolidated Schedule of Expenditures of Federal Awards...	26

OTHER REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	30
Consolidated Schedule of Findings and Questioned Costs	32
Consolidated Corrective Action Plan.....	35
Consolidated Summary Schedule of Prior Audit Findings.....	36

BASIC FINANCIAL STATEMENTS

**Richardson
Pennington
& Skinner, PSC**

C E R T I F I E D P U B L I C A C C O U N T A N T S

William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Volunteers of America of Kentucky, Inc. and Subsidiary (a non-profit organization) as of June 30, 2009 and the related consolidated statement of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements and, in our report dated November 5, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Volunteers of America of Kentucky, Inc. and Subsidiary as of June 30, 2009 and the changes in their net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2009, on our consideration of Volunteers of America of Kentucky, Inc. and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Volunteers of America of Kentucky, Inc. and Subsidiary taken as a whole. The information included in the accompanying Supplementary Schedules I, II and III is presented only for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

Richardson, Pennington & Skinner, PSC

Louisville, Kentucky
November 3, 2009

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

JUNE 30, 2009

(with comparative summarized information from 2008)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 121,378	\$ 195,897
Accounts receivable, net	2,508,223	3,663,128
Prepaid expenses	208,234	167,606
Total Current Assets	<u>2,837,835</u>	<u>4,026,631</u>
Property and Equipment		
Land and buildings	4,785,840	4,724,242
Furniture and equipment	2,851,261	2,781,850
Less: Accumulated depreciation	<u>(4,710,823)</u>	<u>(4,295,059)</u>
Total Property and Equipment	<u>2,926,278</u>	<u>3,211,033</u>
Other Assets		
Long-term investments	420,520	1,369,063
Goodwill	247,952	282,395
Other	75,722	132,255
Total Other Assets	<u>744,194</u>	<u>1,783,713</u>
TOTAL ASSETS	<u><u>\$ 6,508,307</u></u>	<u><u>\$ 9,021,377</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Bank overdraft	\$ 136,920	\$ -0-
Accounts payable	254,614	349,967
Line of credit	-0-	2,408,072
Mortgages and notes payable, due in one year	1,322,994	714,135
Accrued payroll	720,208	720,208
Accrued annual leave	491,237	437,239
Other current liabilities	300,113	174,774
Total Current Liabilities	<u>3,226,086</u>	<u>4,804,395</u>
Long-Term Liabilities		
Mortgages and notes payable, non-current	945,061	2,025,274
Payable to affiliate	249,353	288,281
Total Long-Term Liabilities	<u>1,194,414</u>	<u>2,313,555</u>
Net Assets		
Unrestricted	1,534,421	1,288,454
Temporarily restricted	538,775	584,658
Permanently restricted	14,611	30,315
Total Net Assets	<u>2,087,807</u>	<u>1,903,427</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,508,307</u></u>	<u><u>\$ 9,021,377</u></u>

The accompanying notes are an integral part of the financial statements.

Richardson, Pennington & Skinner, PSC

CERTIFIED PUBLIC ACCOUNTANTS

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009
(with comparative summarized information from 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
REVENUES FROM OPERATIONS					
Public Support Received Directly					
Contributions	\$ 1,789,210	\$ -0-	\$ -0-	\$ 1,789,210	\$ 2,126,039
Public Support: Capital & Bequests	35,838	-0-	-0-	35,838	87,067
Special Events, Net of Direct Donor Costs	152,355	-0-	-0-	152,355	73,047
Public Support Received Indirectly					
United Way Allocation	-0-	-0-	-0-	-0-	4,250
Volunteers of America Awards and Grants	73,909	-0-	-0-	73,909	86,712
Total Public Support	<u>2,051,312</u>	<u>-0-</u>	<u>-0-</u>	<u>2,051,312</u>	<u>2,377,115</u>
Revenue and Grants From Governmental Agencies	23,775,498	-0-	-0-	23,775,498	23,666,049
Other Revenue					
Program Service Fees	136,177	-0-	-0-	136,177	106,091
Rental Income	694,971	-0-	-0-	694,971	685,279
Miscellaneous Revenue	232,275	-0-	-0-	232,275	211,388
Total Other Revenue	<u>1,063,423</u>	<u>-0-</u>	<u>-0-</u>	<u>1,063,423</u>	<u>1,002,758</u>
Total Revenues From Operations	<u>26,890,233</u>	<u>-0-</u>	<u>-0-</u>	<u>26,890,233</u>	<u>27,045,922</u>
Net Assets Released from Restrictions					
Satisfaction of Program Restrictions	45,883	(45,883)	-0-	-0-	-0-
Total Revenue and Other Support	<u>26,936,116</u>	<u>(45,883)</u>	<u>-0-</u>	<u>26,890,233</u>	<u>27,045,922</u>
OPERATING EXPENSES					
Program Services:					
Children & Youth	-0-	-0-	-0-	-0-	25,000
Disabilities Services	14,276,339	-0-	-0-	14,276,339	14,139,902
Housing	40,720	-0-	-0-	40,720	41,172
VOA Property Corporation of Louisville	902,459	-0-	-0-	902,459	1,226,699
Health Care Services	1,976,600	-0-	-0-	1,976,600	1,997,811
Community Enhancement	-0-	-0-	-0-	-0-	301,157
Correctional Services	553,101	-0-	-0-	553,101	554,543
Homeless Services	3,171,841	-0-	-0-	3,171,841	2,913,333
Substance Abuse	1,831,857	-0-	-0-	1,831,857	2,248,289
Total Program Services	<u>22,752,917</u>	<u>-0-</u>	<u>-0-</u>	<u>22,752,917</u>	<u>23,447,906</u>
Support Services:					
Management and General	1,779,305	-0-	-0-	1,779,305	2,917,385
Fund Raising	1,352,750	-0-	-0-	1,352,750	752,231
Administrative Fees Paid to National Organization	459,525	-0-	-0-	459,525	377,725
Total Supporting Services	<u>3,591,580</u>	<u>-0-</u>	<u>-0-</u>	<u>3,591,580</u>	<u>4,047,341</u>
TOTAL OPERATING EXPENSES	<u>26,344,497</u>	<u>-0-</u>	<u>-0-</u>	<u>26,344,497</u>	<u>27,495,247</u>
EXCESS (DEFICIT) FROM OPERATIONS	<u>591,619</u>	<u>(45,883)</u>	<u>-0-</u>	<u>545,736</u>	<u>(449,325)</u>
NON-OPERATING GAINS (LOSSES) AND OTHER REVENUE					
Interest and Dividend Income	20,381	-0-	-0-	20,381	88,162
Gain on Disposition of Fixed Assets	5,950	-0-	-0-	5,950	-0-
Losses on Investments	(371,983)	-0-	(15,704)	(387,687)	(178,492)
DEFICIT FROM OTHER ACTIVITIES	<u>(345,652)</u>	<u>-0-</u>	<u>(15,704)</u>	<u>(361,356)</u>	<u>(90,330)</u>
CHANGE IN NET ASSETS	<u>245,967</u>	<u>(45,883)</u>	<u>(15,704)</u>	<u>184,380</u>	<u>(539,655)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>1,288,454</u>	<u>584,658</u>	<u>30,315</u>	<u>1,903,427</u>	<u>2,443,082</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,534,421</u>	<u>\$ 538,775</u>	<u>\$ 14,611</u>	<u>\$ 2,087,807</u>	<u>\$ 1,903,427</u>

The accompanying notes are an integral part of the financial statements.
Richardson, Pennington & Skinner, PSC

CERTIFIED PUBLIC ACCOUNTANTS

(with comparative summarized information from 2008)

The accompanying notes are an integral part of the financial statements.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(with comparative summarized information from 2008)

	2009	2008
OPERATING ACTIVITIES		
Change in Net Assets	\$ 184,380	\$ (539,655)
Adjustments to Reconcile Change in Net Assets to		
Cash (Used) Provided by Operating Activities:		
Depreciation and amortization	466,623	535,354
Realized/unrealized (gain) loss on investments	387,687	178,492
Gain on disposal of fixed assets	(5,750)	14,334
(Increase) decrease in:		
Accounts receivable	1,154,905	(1,053,907)
Other assets	(213,666)	229,004
Increase (decrease) in:		
Bank overdraft	136,920	-0-
Accounts payable	(95,353)	(284,894)
Other liabilities	404,423	(732,472)
NET CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES	2,420,169	(1,653,744)
INVESTING ACTIVITIES		
Proceeds from sale of investments	560,856	-0-
Purchase of investments	-0-	(82,813)
Proceeds from retirement/sale of property and equipment	5,750	57,141
Purchases of land and building	(61,598)	(140,532)
Purchases of property and equipment	(85,827)	(259,966)
NET CASH PROVIDED		
(USED) BY INVESTING ACTIVITIES	419,181	(426,170)
FINANCING ACTIVITIES		
Proceeds of line of credit	-0-	1,217,261
Payments on line of credit	(2,408,072)	(300,000)
Payments on capital leases	-0-	(7,260)
Proceeds of long-term debt	101,700	1,542,251
Payments on long-term debt	(607,497)	(194,106)
NET CASH (USED) PROVIDED BY		
FINANCING ACTIVITIES	(2,913,869)	2,258,146
NET (DECREASE) INCREASE IN CASH	(74,519)	178,232
CASH AT BEGINNING OF YEAR	195,897	17,665
CASH AT END OF YEAR	<u>\$ 121,378</u>	<u>\$ 195,897</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Forgiveness of debt to VOA National Office	<u>\$ 34,443</u>	<u>\$ 74,895</u>

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(with comparative summarized information from 2008)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The consolidated financial statements for Volunteers of America of Kentucky, Inc. and Subsidiary include Volunteers of America of Kentucky, Inc. and VOA Property Corporation of Louisville, Inc., which collectively are referred to as the Organization. Volunteers of America of Kentucky, Inc. is a nonprofit spiritually based human services organization, incorporated in Kentucky, that provides social services within Kentucky and Tennessee under a charter from Volunteers of America, Inc., a national, nonprofit spiritually based organization providing local human service programs, and opportunities for individual and community involvement.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Organization conform to U.S. generally accepted accounting principles as applicable to voluntary health and welfare organizations. The more significant accounting policies of the Organization are described below:

Principles of Consolidation - The consolidated financial statements include the accounts of Volunteers of America of Kentucky, Inc., and VOA Property Corporation of Louisville, Inc. All material inter-organization transactions have been eliminated.

Basis of Accounting - The accounting policies of the Organization conform to U.S. generally accepted accounting principles as applicable to voluntary health and welfare organizations.

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 statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. 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 fixed or other assets, are reported as non-operating.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009
(with comparative summarized information from 2008)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Bad Debts – Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. The Organization's accounts receivable are presented net of an allowance for doubtful accounts of \$270,000. The allowance is estimated based on management's experience and review of the accounts and contractual rights at the end of each year.

Property and Equipment - Land, buildings and equipment purchased by the agency are recorded at cost. This agency follows the practice of capitalizing all expenditures for land, buildings, and equipment in excess of \$500; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed on the straight-line method based upon the following estimated useful lives of the assets:

Furniture and equipment	3 - 10 years
Buildings and improvements	7 - 40 years

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. The carrying amount approximates fair value because of the short maturity of those instruments.

Contributions - Contributions are generally recorded only upon receipt, unless evidence or 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 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.

Contributed Services - The organization recognizes contribution revenue for certain services received at the fair value of those services provided those 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 services recognized totaled \$-0- for the year ended June 30, 2009.

Restricted and Designated Assets – Restricted and designated assets represent the total of all assets that are encumbered by donor restrictions, legal agreements, and board designation or are otherwise unavailable for the general use of the Organization. This category generally includes client/custodial funds, escrow/reserve funds, temporarily and permanently restricted assets, and securities that are pledged and held by the lender as collateral for financing.

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

JUNE 30, 2009

(with comparative summarized information from 2008)

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes – Under provision of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the state of Kentucky, Volunteers of America of Kentucky, Inc. and Subsidiary are exempt from income taxes, except for net income from unrelated business income, as a subordinate unit of Volunteers of America, Inc. Volunteers of America, Inc. 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 2009 or 2008. Accordingly, no tax expense was incurred during the years ending June 30, 2009 and June 30, 2008, respectively.

Statement of Cash Flows - Cash paid for interest during the years ended June 30, 2009 and 2008 amounted to \$123,700 and \$247,331 respectively.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments - Investments consist primarily of stocks, bonds and cash reserve funds. They are recorded at fair value based on quoted market prices. All other investments are reported at historical cost, if purchased, or, if contributed, at fair value at the date of contribution.

Summary Financial Information for 2008 – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

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

Reclassification – Certain 2008 amounts have been reclassified to conform to the 2009 financial statement presentation.

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

JUNE 30, 2009

(with comparative summarized information from 2008)

NOTE B - MORTGAGES AND NOTES PAYABLE

2009

Note payable to Fifth Third Bank. at a rate of 5.9%, collateralized by vehicles with a carrying value of \$77,970 and payable in monthly installments of \$1,965, including principal and interest; maturity date July 25, 2013. \$ 85,151

Note payable to PNC Bank collateralized by real estate with a carrying value of \$133,612 payable in monthly installments of \$1,868 including principal and interest at a variable rate, currently 7.75% and a balloon payment at maturity; maturity date December 22, 2009. 146,967

Note payable to First Tennessee Bank collateralized by real estate with a carrying value of \$84,357 payable in monthly installments of \$658 including principal and interest at 6.45%; maturity date June 30, 2013. 73,846

Note payable to First Tennessee Bank collateralized by real estate with a carrying value of \$102,611 payable in monthly installments of \$949 including principal and interest at 6.1%; maturity date September 1, 2009. 75,416

Note payable to Regions Bank collateralized by real estate with a carrying value of \$104,811 payable in monthly installments of \$875 including principal and interest at 6.0%; maturity date June 7, 2019. 79,905

Note payable to First Tennessee Bank collateralized by real estate with a carrying value of \$438,308 payable in monthly installments of \$4,180 including principal and interest at 6.6%; maturity date June 1, 2010. 388,064

Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of \$43,350 payable in monthly installments of \$2,112 including principal and interest at 7.20%; maturity date November 27, 2011. 56,065

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$14,250 payable in monthly installments of \$570 including principal and interest at 7.38%; maturity date January 23, 2012. 15,344

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009

(with comparative summarized information from 2008)

NOTE B - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of \$599 payable in monthly installments of \$667 including principal and interest at 3.90%; maturity date December 1, 2009. \$ 3,068

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$282 payable in monthly installments of \$315 including principal and interest at 3.90%; maturity date December 1, 2009. 1,446

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$13,875 payable in monthly installments of \$450 including principal and interest at 6.87%; maturity date September 18, 2012. 15,457

Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of \$1,593 payable in monthly installments of \$590 including principal and interest at 3.90%; maturity date December 1, 2009. 2,707

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$0- payable in monthly installments of \$491 including principal and interest at 3.90%; maturity date December 1, 2009. 2,262

Note payable to Fifth Third Bank collateralized by real estate with a carrying value of \$181,290 payable in monthly installments of \$1,605 including principal and interest at 6.2%; maturity date August 1, 2009. 177,979

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$11,042 payable in monthly installments of \$415 including principal and interest at 7.33%; maturity date February 27, 2012. 11,601

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$31,900 payable in monthly installments of \$1,155 including principal and interest at 7.16%; maturity date April 23, 2012. 35,273

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009
(with comparative summarized information from 2008)

NOTE B - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Note payable to the State of Tennessee with no stated terms.
There is an agreement to repay \$42,213 per month during fiscal
year 2009-10.

	<u>\$1,097,504</u>
	2,268,055
Amount due in one year or less	<u>(1,322,994)</u>
	<u>\$ 945,061</u>

Mortgages and notes payable as of June 30, 2009 are scheduled to be repaid as follows:

<u>During the year</u> <u>ended June 30,</u>	<u>Scheduled Principal</u> <u>Repayments</u>
2010	\$1,322,994
2011	605,116
2012	167,440
2013	107,999
2014	19,234
Thereafter	<u>45,272</u>
Total	<u>\$2,268,055</u>

NOTE C - ENCUMBERED ASSETS

At June 30, 2009 and 2008, encumbered assets included the following donor restrictions, legal agreements and board designations:

	<u>2009</u>	<u>2008</u>
Temporarily restricted net assets	\$538,775	\$584,658
Permanently restricted net assets	<u>14,611</u>	<u>30,315</u>
	<u>\$553,386</u>	<u>\$614,973</u>

At June 30, 2009 and 2008, encumbered assets included the following classes of assets:

	<u>2009</u>	<u>2008</u>
Building renovations	\$538,775	\$584,658
Investments at fair value	<u>14,611</u>	<u>30,315</u>
	<u>\$553,386</u>	<u>\$614,973</u>

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009

(with comparative summarized information from 2008)

NOTE D - PENSION PLAN

Volunteers of America of Kentucky, Inc. and Subsidiary participate in a non-contributory defined benefit pension and retirement plan. The plan is administered through a commercial insurance company and covers all commissioned ministers. Pension plan expense for the years ended June 30, 2009 and 2008 was \$17,421 and \$13,502 respectively. Because the plan is a multi-employer plan, the accumulated benefits and net assets available for benefits as they relate solely to Volunteers of America of Kentucky, Inc. and Subsidiary is not readily available.

Volunteers of America of Kentucky, Inc. and Subsidiary participate in a defined contribution pension in which only full time employees can participate and the company starts contributing if the employee chooses to participate 12 months after hire date. The employee can choose to start participating as of the next enrollment period after date of hire. The company contributes up to one-half of six percent. Thrift plan expense for the years ended June 30, 2009 and 2008 was \$55,274 and \$50,737 respectively.

NOTE E - RELATED PARTY TRANSACTIONS

Volunteers of America of Kentucky, Inc. and Subsidiary are affiliated with Volunteers of America, Inc., which provides support services to the agency for a fee. Affiliate fees for the fiscal year ended June 30, 2009 totaled \$459,525. Amounts due to Volunteers of America, Inc. at June 30, 2009 were as follows:

	<u>June 30, 2009</u>
Affiliate Fees	\$101,685
National MR/DD Initiative Loan	<u>249,353</u>
Total	<u>\$351,038</u>

NOTE F - INVESTMENTS

Long-term investments are stated at fair value. Fair values and unrealized depreciation at June 30, 2009 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Investments Unrestricted:			
Money Market Funds	\$112,601	\$112,601	\$ -0-
Bonds and Bond Funds	59,220	59,585	365
Equity Securities	<u>307,699</u>	<u>248,334</u>	<u>(59,365)</u>
	<u>\$479,520</u>	<u>\$420,520</u>	<u>\$(59,000)</u>

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

JUNE 30, 2009

(with comparative summarized information from 2008)

NOTE G - FUNDS AND INVESTMENTS

At June 30, 2009 and 2008, Volunteers of America of Kentucky, Inc. and Subsidiary had a cash and cash equivalents balance of \$-0- and \$195,897 respectively on deposit at various financial institutions. Federal Deposit Insurance Corporation (FDIC) insurance is limited to \$250,000 per financial institution at June 30, 2009 and \$100,000 per financial institution at June 30, 2008. Accordingly, at June 30, 2009 and 2008, \$-0- and \$-0- respectively was not covered by FDIC Insurance.

NOTE H - RISK MANAGEMENT

Volunteers of America of Kentucky, Inc. and Subsidiary are 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 through Cincinnati Insurance Company and Lexington Insurance Company. Workman's Compensation insurance is carried through the Seneca Insurance Company.

NOTE I - 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. There is no allowance for accumulated sick leave. Accrued annual leave pay as of June 30, 2009 and 2008, was \$491,237 and \$437,239 respectively.

NOTE J - LINE OF CREDIT

Line of credit balances at June 30, 2009 are -0-. As of June 30, 2009 Volunteers of America of Kentucky, Inc. and Subsidiary had \$2,000,000 of unused lines of credit with PNC Bank to be drawn upon as needed at prime plus .5% interest and \$300,000 of unused lines of credit with Fifth Third Bank to be drawn upon as needed at the 30 day LIBOR rate plus 4.5%.

NOTE K - GOODWILL

Goodwill has been recorded in connection with the acquisition of management services over the MRDD Program from Volunteers of America of Indiana. Under the agreement, Volunteers of America of Kentucky has assumed management of the MRDD Program in Southern Indiana in exchange for assuming debt from Volunteers of America of Indiana to the National Volunteers of America Office.

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009
(with comparative summarized information from 2008)

NOTE L - LEASE COMMITMENTS

Properties are being leased in Kentucky, Tennessee and Indiana for various group homes and offices with monthly rents totaling \$70,158. The leases will expire between July 14, 2009 and April 30, 2012. Several leases are on a month-to-month basis.

In addition copiers are being leased in Kentucky and Tennessee with the leases expiring between July 13, 2009 and December 31, 2009 and monthly rents totaling \$369. These leases are being accounted for as operating leases.

The aggregate future minimum payments as of June 30, 2009 are as follows:

<u>During the year ending June 30,</u>	<u>Amount</u>
2010	\$ 618,079
2011	471,063
2012	195,278
2013	-0-
2014	-0-
Thereafter	-0-
Total	<u>\$1,284,420</u>

SUPPLEMENTARY SCHEDULES

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
SCHEDULE 1 - CONSOLIDATING BALANCE SHEETS
JUNE 30, 2009

	VOA of KY Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 87,084	\$ 34,294	\$ -0-	\$ 121,378
Accounts receivable, net	2,489,418	18,805	-0-	2,508,223
Prepaid expenses	208,234	-0-	-0-	208,234
Other current assets	-0-	321,543	(321,543)	-0-
Total Current Assets	2,784,736	374,642	(321,543)	2,837,835
Property and Equipment				
Land and buildings	469,018	4,316,822	-0-	4,785,840
Furniture and equipment	1,825,174	1,026,087	-0-	2,851,261
Less: Accumulated depreciation	(1,827,555)	(2,883,268)	-0-	(4,710,823)
Total Property and Equipment	466,637	2,459,641	-0-	2,926,278
Other Assets				
Long-term investments	420,520	-0-	-0-	420,520
Goodwill	247,952	-0-	-0-	247,952
Other	75,722	-0-	-0-	75,722
Total Other Assets	744,194	-0-	-0-	744,194
TOTAL ASSETS	\$ 3,995,567	\$ 2,834,283	\$ (321,543)	\$ 6,508,307
LIABILITIES AND NET ASSETS				
Current Liabilities				
Bank overdraft	\$ 136,920	\$ -0-	\$ -0-	\$ 136,920
Accounts payable	253,944	670	-0-	254,614
Mortgages and notes payable, due in one year	506,556	816,438	-0-	1,322,994
Accrued payroll	720,208	-0-	-0-	720,208
Accrued annual leave	491,237	-0-	-0-	491,237
Other current liabilities	621,656	-0-	(321,543)	300,113
Total Current Liabilities	2,730,521	817,108	(321,543)	3,226,086
Long-Term Liabilities				
Mortgages and notes payable, non-current	590,948	354,113	-0-	945,061
Payable to affiliate	249,353	-0-	-0-	249,353
Total Long-Term Liabilities	840,301	354,113	-0-	1,194,414
Net Assets				
Unrestricted	410,134	1,124,287	-0-	1,534,421
Temporarily restricted	-0-	538,775	-0-	538,775
Permanently restricted	14,611	-0-	-0-	14,611
Total Net Assets	424,745	1,663,062	-0-	2,087,807
TOTAL LIABILITIES AND NET ASSETS	\$ 3,995,567	\$ 2,834,283	\$ (321,543)	\$ 6,508,307

The accompanying notes are an integral part of the financial statements.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
SCHEDULE II - CONSOLIDATING STATEMENTS OF ACTIVITIES AND FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009

	VOA of Kentucky Inc.		VOA Property Corporation of Louisville		Eliminations	Consolidated Totals		2009
	Unrestricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted	Temporarily Restricted	Total
REVENUES FROM OPERATIONS								
Public Support Received Directly								
Contributions	\$ 1,789,210	\$ -	\$ -	\$ -	\$ -	\$ 1,789,210	\$ -	\$ 1,789,210
Public Support: Capital & Bequests	35,838	-	-	-	-	35,838	-	35,838
Special Events, Net of Direct Donor Costs	152,355	-	-	-	-	152,355	-	152,355
Public Support Received Indirectly	-	-	-	-	-	-	-	-
United Way Allocation	-	-	-	-	-	-	-	-
Volunteers of America Awards and Grants	73,909	-	-	-	-	73,909	-	73,909
Total Public Support	2,051,312	-	-	-	-	2,051,312	-	2,051,312
Revenue and Grants From Governmental Agencies								
Other Revenue	23,743,988	-	31,510	-	-	23,775,498	-	23,775,498
Program Service Fees	136,177	-	-	-	-	136,177	-	136,177
Rental Income	-	-	1,103,339	-	(408,368)	694,971	-	694,971
Miscellaneous Revenue	257,330	-	3,745	-	(28,800)	232,275	-	232,275
Total Other Revenue	593,507	-	1,107,084	-	(437,168)	1,063,423	-	1,063,423
Total Revenues From Operations	26,188,807	-	1,138,594	-	(437,168)	26,890,233	-	26,890,233
Net Assets Released from Restrictions	-	-	45,883	(45,883)	-	45,883	(45,883)	-
Satisfaction of Program Restrictions	-	-	-	-	-	-	-	-
Total Revenue and Other Support	26,188,807	-	1,184,477	(45,883)	(437,168)	26,936,116	(45,883)	26,890,233
OPERATING EXPENSES								
Program Services:								
Disabilities Services	14,593,589	-	-	-	(317,250)	14,276,339	-	14,276,339
Housing	40,720	-	-	-	-	40,720	-	40,720
VOA Property Corporation of Louisville	-	-	-	-	(28,800)	902,459	-	902,459
Health Care Services	1,984,100	-	931,259	-	(7,500)	1,976,600	-	1,976,600
Correctional Services	563,301	-	-	-	(10,200)	553,101	-	553,101
Homeless Services	3,181,741	-	-	-	(9,900)	3,171,841	-	3,171,841
Substance Abuse	1,895,375	-	-	-	(63,518)	1,831,857	-	1,831,857
Total Program Services	22,258,826	-	931,259	-	(437,168)	22,752,917	-	22,752,917
Support Services:								
Management and General	1,779,305	-	-	-	-	1,779,305	-	1,779,305
Fund Raising	1,352,750	-	-	-	-	1,352,750	-	1,352,750
Administrative Fees Paid to National Organization	459,525	-	-	-	-	459,525	-	459,525
Total Supporting Services	3,591,580	-	-	-	-	3,591,580	-	3,591,580
TOTAL OPERATING EXPENSES	25,850,406	-	931,259	-	(437,168)	26,344,497	-	26,344,497
EXCESS (DEFICIT) FROM OPERATIONS	338,401	-	253,218	(45,883)	-	591,619	(45,883)	545,736
NON-OPERATING GAINS (LOSSES) AND OTHER REVENUE								
Interest and Dividend Income	20,381	-	-	-	-	20,381	-	20,381
Gain (Loss) on Disposition of Fixed Assets	-	-	5,950	-	-	5,950	-	5,950
Gain (Loss) on Investments	(371,983)	(15,704)	-	-	-	(387,687)	(15,704)	(403,391)
SURPLUS FROM OTHER ACTIVITIES	(351,602)	(15,704)	5,950	-	-	(345,652)	(15,704)	(361,356)
CHANGE IN NET ASSETS	(13,201)	(15,704)	259,168	(45,883)	-	245,967	(45,883)	199,084
NET ASSETS AT BEGINNING OF YEAR	423,335	30,315	865,119	584,658	-	1,884,454	584,658	2,469,112
NET ASSETS AT END OF YEAR	\$ 410,134	\$ 14,611	\$ 1,124,287	\$ 538,775	\$ -	\$ 1,534,421	\$ 538,775	\$ 2,073,196

The accompanying notes are an integral part of the financial statements.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
SCHEDULE III - CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

	VOA of KY, Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
OPERATING ACTIVITIES				
Change in Net Assets	\$ (28,905)	\$ 213,285	\$ -0-	\$ 184,380
Adjustments to Reconcile Change in Net Assets to				
Cash (Used) Provided by Operating Activities:				
Depreciation and amortization	165,068	301,555	-0-	466,623
Realized/unrealized loss on investments	387,687	-0-	-0-	387,687
Gain disposal of fixed assets	-0-	(5,750)	-0-	(5,750)
(Increase) decrease in:				
Accounts receivable	1,135,772	19,133	-0-	1,154,905
Other assets	107,877	(321,543)	-0-	(213,666)
Increase (decrease) in:				
Bank overdraft	136,920	-0-	-0-	136,920
Accounts payable	(59,042)	(36,311)	-0-	(95,353)
Other liabilities	496,395	(91,972)	-0-	404,423
NET CASH (USED) PROVIDED BY	2,341,772	78,397	-0-	2,420,169
OPERATING ACTIVITIES				
INVESTING ACTIVITIES				
Proceeds from sale of investments	560,856	-0-	-0-	560,856
Proceeds from retirement of property and equipment	-0-	5,750	-0-	5,750
Purchases of land and building	-0-	(61,598)	-0-	(61,598)
Purchases of property and equipment	(76,074)	(9,753)	-0-	(85,827)
NET CASH USED BY	484,762	(65,601)	-0-	419,161
INVESTING ACTIVITIES				
FINANCING ACTIVITIES				
Payments on line of credit	(2,408,072)	-0-	-0-	(2,408,072)
Proceeds of long-term debt	-0-	101,700	-0-	101,700
Payments on long-term debt	(456,647)	(130,850)	-0-	(607,497)
NET CASH (USED) PROVIDED BY	(2,864,719)	(49,150)	-0-	(2,913,869)
FINANCING ACTIVITIES				
NET INCREASE IN CASH	(38,165)	(36,554)	-0-	(74,719)
CASH AT BEGINNING OF YEAR	125,249	70,648	-0-	195,897
CASH AT END OF YEAR	\$ 87,084	\$ 34,294	\$ -0-	\$ 121,378
SUPPLEMENTAL DISCLOSURE OF				
NONCASH FINANCING ACTIVITIES				
Forgiveness of debt to VOA National Office	\$ 34,443			\$ 34,443

The accompanying notes are an integral part of the financial statements.

FEDERAL FINANCIAL ASSISTANCE

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Labor</u>			
West Virginia Veterans	17.805	HV-16445-07-60-5-54	\$ 193,418
Knoxville Veterans	17.805	E-9-5-6-0038	296,843
Clarksburg Veterans	17.805	E-9-5-6-0056	201,241
HVRP Louisville	17.805	HV-17615-08-60-5-21	209,850
TOTAL DEPARTMENT OF LABOR			901,352
<u>U.S. Department of Veterans Affairs</u>			
Lexington Vets Per Diem	64.024	01-82-KY	455,333
TOTAL DEPARTMENT OF VETERANS AFFAIRS			455,333
<u>Department of Housing and Urban Development</u>			
Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)			
Direct program			
Transitional Housing Shelters	14.235	KY36B60-1004	367,269
Follow-up For Success	14.235	KY36B70-1003	140,789
Lexington Permanent Housing	14.235	KY36B60-2002	202,504
Shelby Men's Center	14.235	KY36B70-1010	91,414
Passed Through Kentucky Housing Corp			
Emergency Housing Shelters - SAF-3	14.235	KY36B60-1010	167,981
Housing Opportunities For Persons With AIDS (HOPWA)	14.235	KYH070012	47,731
Passed through City of Louisville			
Housing Opportunities For Persons With AIDS (HOPWA)	14.235	KYH04-F001H3	98,238
Passed through Lexington Fayette County			
Emergency Shelter	14.231	CDBG	50,964
Passed through St. Vincent dePaul	14.235	KY36B70-1007	16,291
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			1,183,181

See accompanying notes to the schedule of expenditures of federal awards.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
<u>United States Department of Agriculture</u>			
Passed through state of Kentucky PES	10.569	03-21-21620-00-0	\$ 24,021
TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE			24,021
<u>Federal Emergency Management Agency (FEMA)</u>			
Family Emergency Shelter	97.024		40,515
Family Emergency Shelter	97.114		6,272
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			46,787
<u>Department of Health and Human Services</u>			
Direct Program			
Administration for children and families	93.550	04CX0649/01	173,722
Administration for children and families	93.009	901U078401	36,196
Substance abuse & mental health services administration	93.230	5-H79-T114491-05	132,455
Substance abuse & mental health services administration	93.243	5-H79-T116859-03	232,207
Passed through Kentucky Cabinet for Human Resources, Department of Health & Human Services to Seven Counties Services			
Freedom House	93.959	PON2 729 0800008006 1	435,175
Third Step Program	93.959	PON2 729 0800008006 2	172,329
Passed through Kentucky Cabinet for Health Services			
Ryan White Care Coordinator Program	93.917	M-061833854	1,412,186
Passed through Seven Counties Services			
Shelby Men's Center	93.150	PON2 527 0800007625 1	70,729
Shelby Men's Center - Ex-Offender Program	93.958	PON2 729 0800008006 1	52,454
Passed through Lexington Health Department			
STOP - Eastern Kentucky	93.940	PON2 728 08000084161	357,200
STOP	93.940	PON2 728 0800007238-1	188,053
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			3,262,706

See accompanying notes to the schedule of expenditures of federal awards.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
Department of Justice Halfway Back	16.593	MA 758 0600000352 4	\$ 609,017
TOTAL DEPARTMENT OF JUSTICE			609,017
TOTAL FEDERAL AWARDS			\$ 6,482,397

See accompanying notes to the schedule of expenditures of federal awards.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2009

NOTE –1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activity of Volunteers of America of Kentucky, Inc. and Subsidiary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

OTHER REPORTS

William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

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

We have audited the financial statements of Volunteers of America of Kentucky, Inc. and Subsidiary (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 3, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Volunteers of America of Kentucky, Inc. and Subsidiary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Volunteers of America of Kentucky, Inc. and Subsidiary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Volunteers of America of Kentucky, Inc. and Subsidiary's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Volunteers of America of Kentucky, Inc. and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richardson, Pennington & Skinner, PSC

Louisville, Kentucky
November 3, 2009

William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

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

Compliance

We have audited the compliance of Volunteers of America of Kentucky, Inc. and Subsidiary with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2009. Volunteers of America of Kentucky, Inc. and Subsidiary's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Volunteers of America of Kentucky, Inc. and Subsidiary's management. Our responsibility is to express an opinion on Volunteers of America of Kentucky, Inc. and Subsidiary's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Volunteers of America of Kentucky, Inc. and Subsidiary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Volunteers of America of Kentucky, Inc. and Subsidiary's compliance with those requirements.

In our opinion, Volunteers of America of Kentucky, Inc. and Subsidiary complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 09-1.

Internal Control Over Compliance

The management of Volunteers of America of Kentucky, Inc. and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Volunteers of America of Kentucky, Inc. and Subsidiary's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Volunteers of America of Kentucky, Inc. and Subsidiary's internal control over compliance.

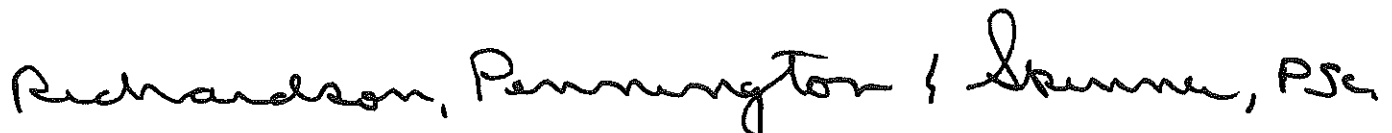
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Volunteers of America of Kentucky, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Volunteers of America of Kentucky Inc.'s response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Richardson, Pennington & Skinner, PSC". The signature is written in a cursive, flowing style.

Louisville, Kentucky
November 3, 2009

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

The auditors' report expresses an unqualified opinion on the financial statements of Volunteers of America of Kentucky, Inc. and Subsidiary.

Internal Control Over Financial Reporting:

- Material Weakness(es) identified? ☐ yes ☒ no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal Control Over Major Programs:

- Material Weakness(es) identified? ☐ yes ☒ no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

The auditors' report on compliance for the major federal award programs for Volunteers of America of Kentucky, Inc. and Subsidiary expresses an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ yes ☐ no

Auditee qualified as low risk auditee?

☐ yes ☒ no

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
17.805	Homeless Veterans Re-integration Project
14.235	Supportive Housing Programs
93.917	HIV Care Formula Grants
64.024	Veterans Per Diem Program

Dollar Threshold used to distinguish
between type A and type B programs: \$300,000

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. Homeless Veterans Re-integration Project Program finding 09-1

Statement of Condition: An incident of fraud was discovered by Volunteers of America of Kentucky, Inc. and Subsidiary in which approximately \$18,000 in rent payments were mis-appropriated over a three year period. The incident was brought to management's attention through their whistleblower policy.

Criteria: Management is responsible for establishing and maintaining effective internal control.

Effect of Condition: Funds were fraudulently diverted from the intended program.

Context: A program employee was creating check requests for rents to fictitious landlords for program participants. Approximately \$18,000 was misappropriated to the fictitious landlords over a three year period.

Cause of Condition: A lack of proper internal control at the program level allowed a program employee to create check requests to fictitious landlords. The program manager who approved the check requests failed to verify the information on the request. Procedures were not in place to verify that the clients whose names were on the check requests should have received such benefits.

Recommendation: Management should review controls over disbursing rents for this program to insure that all disbursements are properly documented and to legitimate landlords.

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Homeless Veterans Re-integration Project Program finding 09-1 (Continued)

Response: Management will review internal controls and processes at the program level to ensure that weaknesses do not exist which allows misappropriations to occur. Accounting staff will enhance its internal controls by making random program site visits to inspect their activities in an effort to minimize organizational risks.

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2009**

Volunteers of America of Kentucky, Inc. and Subsidiary, respectfully submits the following corrective action plan for the year ended June 30, 2009.

Audit Firm: Richardson, Pennington & Skinner, PSC
513 South Second Street
Louisville, Kentucky 40202

Audit Period: Year ended June 30, 2009

FINDINGS – FEDERAL AWARDS PROGRAMS

Homeless Veterans Re-integration Project Finding 09-1.

Recommendation: Management should review controls over disbursing rents for this program to insure that all disbursements are properly documented and to legitimate landlords.

Current Status: Agency documents have been released to local authorities for investigative purposes. The program employee alleged to have misappropriated funds and the supervisor who approved the check requests have been terminated. The federal funding which supported this program expired June 30, 2009 and the services ended on that date.

**VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARY
CONSOLIDATED SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

There were no prior audit findings