

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

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

JUNE 30, 2006

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BASIC FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Volunteers of America of Kentucky, Inc. and Subsidiaries (a non-profit organization) as of June 30, 2006 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 2005 financial statements and, in our report dated October 4, 2005, 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 Subsidiaries as of June 30, 2006 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 15, 2006, on our consideration of Volunteers of America of Kentucky, Inc. and Subsidiaries' 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 should be considered in 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 Subsidiaries 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 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 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 15, 2006

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

JUNE 30, 2006

(with comparative summarized information from 2005)

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 173,079	\$ 434,509
Accounts receivable, net	2,029,856	2,623,241
Short-term investments	-0-	222,679
Prepaid expenses	195,756	157,924
Total Current Assets	<u>2,398,691</u>	<u>3,438,353</u>
Property and Equipment		
Land and buildings	5,125,321	5,104,648
Furniture and equipment	2,187,280	1,879,508
Fixed assets held under capital leases	53,321	53,321
Less: Accumulated depreciation	<u>(3,441,922)</u>	<u>(2,991,846)</u>
Total Property and Equipment	<u>3,924,000</u>	<u>4,045,631</u>
Other Assets		
Long-term investments	1,265,721	1,163,473
Other	<u>247,855</u>	<u>301,308</u>
Total Other Assets	<u>1,513,576</u>	<u>1,464,781</u>
 TOTAL ASSETS	 <u>\$ 7,836,267</u>	 <u>\$ 8,948,765</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 350,440	\$ 337,706
Line of credit	875,446	1,471,641
Mortgages and notes payable, due in one year	449,075	124,275
Obligations under capital leases, due in one year	20,429	15,857
Accrued payroll	509,954	405,735
Accrued annual leave	304,704	290,850
Other current liabilities	<u>340,843</u>	<u>577,395</u>
Total Current Liabilities	<u>2,850,891</u>	<u>3,223,459</u>
Long-Term Liabilities		
Mortgages and notes payable, non-current	1,112,883	1,558,833
Obligations under capital leases, non-current	5,139	24,249
Payable to affiliate	<u>110,046</u>	<u>327,040</u>
Total Long-Term Liabilities	<u>1,228,068</u>	<u>1,910,122</u>
Net Assets		
Unrestricted	3,006,636	2,971,607
Temporarily restricted	718,184	810,807
Permanently restricted	<u>32,488</u>	<u>32,770</u>
Total Net Assets	<u>3,757,308</u>	<u>3,815,184</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 7,836,267</u>	 <u>\$ 8,948,765</u>

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

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006
(with comparative summarized information from 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2005 Total
REVENUES FROM OPERATIONS					
Public Support Received Directly					
Contributions	\$ 1,675,969	\$ -0-	\$ -0-	\$ 1,675,969	\$ 2,257,566
Public Support: Capital & Bequests	452,561	-0-	-0-	452,561	90,285
Special Events, Net of Direct Donor Costs	27,441	-0-	-0-	27,441	120,198
Public Support Received Indirectly					
United Way Allocation	23,500	-0-	-0-	23,500	17,000
Volunteers of America Awards and Grants	41,562	-0-	-0-	41,562	84,881
Total Public Support	<u>2,221,033</u>	<u>-0-</u>	<u>-0-</u>	<u>2,221,033</u>	<u>2,569,930</u>
Revenue and Grants From Governmental Agencies	18,753,985	-0-	-0-	18,753,985	16,148,037
Other Revenue					
Program Service Fees	42,207	-0-	-0-	42,207	52,959
Rental Income	496,785	-0-	-0-	496,785	408,163
Miscellaneous Revenue	134,817	-0-	-0-	134,817	135,415
Total Other Revenue	<u>673,809</u>	<u>-0-</u>	<u>-0-</u>	<u>673,809</u>	<u>596,537</u>
Total Revenues From Operations	<u>21,648,827</u>	<u>-0-</u>	<u>-0-</u>	<u>21,648,827</u>	<u>19,314,504</u>
Net Assets Released from Restrictions					
Satisfaction of Program Restrictions	92,623	(92,623)	-0-	-0-	-0-
Total Revenue and Other Support	<u>21,741,450</u>	<u>(92,623)</u>	<u>-0-</u>	<u>21,648,827</u>	<u>19,314,504</u>
OPERATING EXPENSES					
Program Services:					
Children & Youth	35,000	-0-	-0-	35,000	57,500
Developmental Disability	10,546,264	-0-	-0-	10,546,264	8,378,122
Health Care Services	1,960,800	-0-	-0-	1,960,800	1,981,968
Housing	39,439	-0-	-0-	39,439	37,785
VOA Property Corporation of Louisville	814,438	-0-	-0-	814,438	653,806
Community Enhancement	61,105	-0-	-0-	61,105	49,193
Correctional Services	367,991	-0-	-0-	367,991	584,174
Homeless Services	3,217,790	-0-	-0-	3,217,790	3,341,557
Substance Abuse	2,132,052	-0-	-0-	2,132,052	1,430,959
Total Program Services	<u>19,174,879</u>	<u>-0-</u>	<u>-0-</u>	<u>19,174,879</u>	<u>16,515,064</u>
Support Services:					
Management and General	2,018,038	-0-	-0-	2,018,038	1,787,580
Fund Raising	448,603	-0-	-0-	448,603	721,845
Administrative Fees Paid to National Organization	236,917	-0-	-0-	236,917	325,171
Total Supporting Services	<u>2,703,558</u>	<u>-0-</u>	<u>-0-</u>	<u>2,703,558</u>	<u>2,834,596</u>
TOTAL OPERATING EXPENSES	<u>21,878,437</u>	<u>-0-</u>	<u>-0-</u>	<u>21,878,437</u>	<u>19,349,660</u>
EXCESS (DEFICIT) FROM OPERATIONS	<u>(136,987)</u>	<u>(92,623)</u>	<u>-0-</u>	<u>(229,610)</u>	<u>(35,156)</u>
NON-OPERATING GAINS (LOSSES) AND OTHER REVENUE					
Interest and Dividend Income	21,522	-0-	-0-	21,522	16,964
Gains (Losses) on Disposition of Fixed Assets	68,863	-0-	-0-	68,863	56,374
Gains (Losses) on Investments	81,631	-0-	(282)	81,349	61,477
SURPLUS FROM OTHER ACTIVITIES	<u>172,016</u>	<u>-0-</u>	<u>(282)</u>	<u>171,734</u>	<u>134,815</u>
CHANGE IN NET ASSETS	<u>35,029</u>	<u>(92,623)</u>	<u>(282)</u>	<u>(57,876)</u>	<u>99,659</u>
NET ASSETS AT BEGINNING OF YEAR	<u>2,971,607</u>	<u>810,807</u>	<u>32,770</u>	<u>3,815,184</u>	<u>3,715,525</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,006,636</u>	<u>\$ 718,184</u>	<u>\$ 32,488</u>	<u>\$ 3,757,308</u>	<u>\$ 3,815,184</u>

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

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

(with comparative summarized information from 2005)

	2006	2005
OPERATING ACTIVITIES		
Change in Net Assets	\$ (57,876)	\$ 99,659
Adjustments to Reconcile Change in Net Assets to		
Cash (Used) Provided by Operating Activities:		
Depreciation and amortization	472,740	384,863
Realized/unrealized (gain) loss on investments	(81,349)	(61,477)
Loss on disposal of fixed assets	-0-	-0-
Gain on disposal of fixed assets	(68,863)	(56,374)
(Increase) decrease in:		
Accounts receivable	593,385	(840,032)
Other assets	310,633	183,460
Increase (decrease) in:		
Accounts payable	12,734	(45,523)
Other liabilities	(413,491)	113,067
NET CASH USED		
BY OPERATING ACTIVITIES	767,913	(222,357)
INVESTING ACTIVITIES		
(Increase) decrease in investments	201,780	(43,216)
Proceeds from sale of land and building	76,929	472,593
Purchases of land and building	(23,873)	(743,228)
Proceeds from sale of property and equipment	-0-	-0-
Purchases of property and equipment	(335,301)	(329,959)
NET CASH USED BY		
INVESTING ACTIVITIES	(80,465)	(643,810)
FINANCING ACTIVITIES		
Proceeds of line of credit	-0-	1,151,525
Payments on line of credit	(596,195)	(479,000)
Proceeds of capital leases	-0-	53,321
Payments on capital leases	(14,539)	(13,215)
Proceeds of long-term debt	-0-	787,164
Payments on long-term debt	(338,144)	(297,494)
NET CASH (USED) PROVIDED		
BY FINANCING ACTIVITIES	(948,878)	1,202,301
NET (DECREASE) INCREASE IN CASH	(261,430)	336,134
CASH AT BEGINNING OF YEAR	434,509	98,375
CASH AT END OF YEAR	\$ 173,079	\$ 434,509

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

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(with comparative summarized information from 2005)

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

ORGANIZATION

The consolidated financial statements for Volunteers of America of Kentucky, Inc. and Subsidiaries 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. The Organization prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

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 SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006
(with comparative summarized information from 2005)

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

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Bad Debts - Management considers all accounts receivable to be fully collectible as of June 30, 2006 and 2005. The Organization's accounts receivable are presented net of an allowance for doubtful accounts of \$-0-. 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 \$9,000 for the year ended June 30, 2006.

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 SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006
(with comparative summarized information from 2005)

**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 Subsidiaries 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 2006 or 2005. Accordingly, no tax expense was incurred during the years ending June 30, 2006 and June 30, 2005, respectively.

Statement of Cash Flows - Cash paid for interest during the years ended June 30, 2006 and 2005 amounted to \$180,855 and \$121,386 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 2005 – 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, 2005, 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 2005 amounts have been reclassified to conform to the 2006 financial statement presentation.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006
(with comparative summarized information from 2005)

NOTE B - MORTGAGES AND NOTES PAYABLE

	<u>2006</u>
Note payable to Santa Claus Land, Inc. at a rate of 9.5%, and payable in monthly installments of \$30, including principal and interest; maturity date December 3, 2008.	\$ 688
Note payable to PNC Bank collateralized by real estate with a carrying value of \$164,944 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.	181,260
Note payable to First Tennessee Bank collateralized by real estate with a carrying value of \$101,287 payable in monthly installments of \$854 including principal and interest at 6.45%; maturity date April 30, 2008.	84,561
Note payable to Fifth Third Bank collateralized by vehicles with a carrying value of \$13,152 payable in monthly installments of \$1,022 including principal and interest at 4.2%; maturity date August 15, 2006.	1,843
Note payable to AmSouth Bank collateralized by real estate with a carrying value of \$463,824 payable in monthly installments of \$4,095 including principal and interest at 6.97%; maturity date February 1, 2007.	366,528
Note payable to First Tennessee Bank collateralized by real estate with a carrying value of \$118,085 payable in monthly installments of \$949 including principal and interest at 6.1%; maturity date September 1, 2008.	97,574
Note payable to AmSouth Bank collateralized by real estate with a carrying value of \$123,879 payable in monthly installments of \$875 including principal and interest at 6.0%; maturity date June 7, 2019.	94,651
Note payable to First Tennessee Bank collateralized by real estate with a carrying value of \$506,577 payable in monthly installments of \$4,180 including principal and interest at 6.6%; maturity date June 1, 2010.	454,253

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

JUNE 30, 2006

(with comparative summarized information from 2005)

NOTE B - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of \$22,155 payable in monthly installments of \$667 including principal and interest at 3.90%; maturity date December 1, 2009. \$ 25,187

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$10,454 payable in monthly installments of \$315 including principal and interest at 3.90%; maturity date December 1, 2009. 11,893

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$2,618 payable in monthly installments of \$204 including principal and interest at 3.90%; maturity date December 1, 2009. 3,271

Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of \$20,704 payable in monthly installments of \$590 including principal and interest at 3.90%; maturity date December 1, 2009. 22,323

Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of \$15,919 payable in monthly installments of \$491 including principal and interest at 3.90%; maturity date December 1, 2009. 18,579

Note payable to Fifth Third Bank collateralized by real estate with a carrying value of \$218,511 payable in monthly installments of \$1,565 including principal and interest at 6.0%; maturity date May 1, 2008. 199,347
1,561,958

Amount due in one year or less (449,075)
\$1,112,883

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006
(with comparative summarized information from 2005)

NOTE B - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Mortgages and notes payable as of June 30, 2006 are scheduled to be repaid as follows:

<u>During the year ended June 30,</u>	<u>Scheduled Principal Repayments</u>
2007	\$ 449,075
2008	342,953
2009	153,739
2010	543,289
2011	6,300
Thereafter	<u>66,602</u>
Total	<u>\$1,561,958</u>

NOTE C - LEASE COMMITMENTS

Properties are being leased in Kentucky, Tennessee and Indiana for various group homes and offices with monthly rents totaling \$53,322. The leases will expire between July 31, 2006 and August 31, 2011.

In addition copiers are being leased in Kentucky and Tennessee with the leases expiring between December 31, 2006 and December 31, 2009 and monthly rents totaling \$516. These leases are being accounted for as operating leases.

The aggregate future minimum payments as of June 30, 2006 are as follows:

<u>During the year ending June 30,</u>	<u>Amount</u>
2007	\$ 531,725
2008	347,434
2009	296,310
2010	232,704
2011	136,236
Thereafter	<u>7,700</u>
Total	<u>\$1,552,109</u>

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

JUNE 30, 2006

(with comparative summarized information from 2005)

NOTE D – CAPITAL LEASES PAYABLE

A summary of leases payable follows:

38 month lease payable to Corporate Fleet Services, Inc. due on the 10 th of each month in installments of \$422.21 at a fixed interest rate of 4.599% for a Ford Van	\$ 6,268
39 month lease payable to Corporate Fleet Services, Inc. due on the 10 th of each month in installments of \$475.75 at a fixed interest rate of 4.599% for a Ford Van.	7,447
43 month lease payable to Corporate Fleet Services, Inc. due on the 10 th of each month in installments of \$627.57 at a fixed interest rate of 4.599% for a Chevrolet Van.	<u>11,853</u>
	<u>\$25,568</u>

Required minimum future capital lease payments are estimated as follows:

Year ending	
<u>June 30,</u>	
2007	\$19,834
2008	9,714
2009	-0-
2010	-0-
2011 & Thereafter	<u>-0-</u>
Net minimum lease payments	29,548
Less amount representing interest	<u>(3,980)</u>
Present value of net minimum lease payments	<u>\$25,568</u>

NOTE E - PENSION PLAN

Volunteers of America of Kentucky, Inc. and Subsidiaries 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, 2006 and 2005 was \$30,312 and \$47,073 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 Subsidiaries is not readily available.

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

JUNE 30, 2006

(with comparative summarized information from 2005)

NOTE E - PENSION PLAN (CONTINUED)

Volunteers of America of Kentucky, Inc. and Subsidiaries participate in a defined contribution pension in which only full time employees can participate and the company starts contributing if 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, 2006 and 2005 was \$37,985 and \$44,882 respectively.

NOTE F - RELATED PARTY TRANSACTIONS

Volunteers of America of Kentucky, Inc. and Subsidiaries are affiliated with Volunteers of America, Inc., which provides administrative services to the agency for a fee. Administrative fees for the fiscal year ended June 30, 2006 totaled \$236,917. Amounts due to Volunteers of America, Inc. at June 30, 2006 were as follows:

	<u>June 30, 2006</u>
Administrative Fees	\$ 93,830
National MR/DD Initiative Loan	<u>110,046</u>
Total	<u>\$ 203,876</u>

NOTE G - INVESTMENTS

Long-term investments are stated at fair value. Fair values and unrealized appreciation (depreciation) at June 30, 2006 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Investments Unrestricted:			
Money Market Funds	\$ 171,237	\$ 171,237	\$ -0-
Bonds and Bond Funds	169,464	165,832	(3,632)
Equity Securities	<u>899,062</u>	<u>928,652</u>	<u>29,590</u>
	<u>\$1,239,763</u>	<u>\$1,265,721</u>	<u>\$25,958</u>

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

JUNE 30, 2006

(with comparative summarized information from 2005)

NOTE H - FUNDS AND INVESTMENTS

At June 30, 2006 and 2005, Volunteers of America of Kentucky, Inc. and Subsidiaries had a cash and cash equivalents balance of \$173,079 and \$434,509 respectively on deposit at various financial institutions. Federal Deposit Insurance Corporation (FDIC) insurance is limited to \$100,000 per financial institution. Accordingly, at June 30, 2006 and 2005, \$105,135 and \$192,419 respectively was not covered by FDIC Insurance.

NOTE I - RISK MANAGEMENT

Volunteers of America of Kentucky, Inc. and Subsidiaries 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 J - COMPENSATED ABSENCES

The Organization allows up to a maximum of 204 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, 2006 and 2005, was \$304,704 and \$290,850 respectively.

NOTE K - LINE OF CREDIT

Line of credit at June 30, 2006 consists of \$875,446 payable to PNC Bank at 8.25% interest secured by real estate located at 1436 South Shelby Street. As of June 30, 2006 Volunteers of America of Kentucky, Inc. and Subsidiaries had \$624,554 of unused lines of credit with PNC Bank to be drawn upon as needed at 8.25% interest.

NOTE L - ENCUMBERED ASSETS

At June 30, 2006 and 2005, encumbered assets included the following donor restrictions, legal agreements and board designations:

	<u>2006</u>	<u>2005</u>
Temporarily restricted net assets	\$718,184	\$810,807
Permanently restricted net assets	<u>32,488</u>	<u>32,770</u>
	<u>\$750,672</u>	<u>\$843,577</u>

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006
(with comparative summarized information from 2005)

NOTE L - ENCUMBERED ASSETS (CONTINUED)

At June 30, 2006 and 2005, encumbered assets included the following classes of assets:

	<u>2006</u>	<u>2005</u>
Building renovations	\$718,184	\$784,947
Contributions	-0-	25,860
Investments at fair value	<u>32,488</u>	<u>32,770</u>
	<u>\$750,672</u>	<u>\$843,577</u>

SUPPLEMENTARY SCHEDULES

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
SCHEDULE I - CONSOLIDATING BALANCE SHEETS
JUNE 30, 2006

	VOA of KY Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
ASSETS				
Current Assets				
Cash and cash equivalents	\$ (37,424)	\$ 210,503	\$ -0-	\$ 173,079
Accounts receivable, net	1,968,750	61,106	-0-	2,029,856
Prepaid expenses	192,629	3,127	-0-	195,756
Other current assets	438,778	13,331	(452,109)	-0-
Total Current Assets	2,562,733	288,067	(452,109)	2,398,691
Property and Equipment				
Land and buildings	461,353	4,663,968	-0-	5,125,321
Furniture and equipment	1,512,635	674,645	-0-	2,187,280
Fixed assets held under capital leases	-0-	53,321	-0-	53,321
Less: Accumulated depreciation	(1,398,719)	(2,043,203)	-0-	(3,441,922)
Total Property and Equipment	575,269	3,348,731	-0-	3,924,000
Other Assets				
Long-term investments	1,265,721	-0-	-0-	1,265,721
Other	247,855	-0-	-0-	247,855
Total Other Assets	1,513,576	-0-	-0-	1,513,576
TOTAL ASSETS	\$ 4,651,578	\$ 3,636,798	\$ (452,109)	\$ 7,836,267
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 350,149	\$ 13,622	\$ (13,331)	\$ 350,440
Line of credit	875,446	0	-0-	875,446
Mortgages and notes payable, due in one year	304	448,771	-0-	449,075
Obligations under capital leases, due in one year	-0-	20,429	-0-	20,429
Accrued payroll	509,954	-0-	-0-	509,954
Accrued annual leave	304,704	-0-	-0-	304,704
Other current liabilities	340,843	438,778	(438,778)	340,843
Total Current Liabilities	2,381,400	921,600	(452,109)	2,850,891
Long-Term Liabilities				
Mortgages and notes payable, non-current	384	1,112,499	-0-	1,112,883
Obligations under capital leases, non-current	-0-	5,139	-0-	5,139
Payable to affiliate	110,046	-0-	-0-	110,046
Total Long-Term Liabilities	110,430	1,117,638	-0-	1,228,068
Net Assets				
Unrestricted	2,127,260	879,376	-0-	3,006,636
Temporarily restricted	-0-	718,184	-0-	718,184
Permanently restricted	32,488	-0-	-0-	32,488
Total Net Assets	2,159,748	1,597,560	-0-	3,757,308
TOTAL LIABILITIES AND NET ASSETS	\$ 4,651,578	\$ 3,636,798	\$ (452,109)	\$ 7,836,267

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