

Strothman & Company P S C

Certified Public Accountants & Advisors



Consolidated Financial Statements
and Consolidating Financial Statements

**Volunteers of America of Kentucky,
Inc. and Subsidiary**

May 31, 2010

Consolidated Financial Statements
and Consolidating Financial Statements

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

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Independent Auditors' Report



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

We have audited the accompanying consolidated statement of financial position of Volunteers of America of Kentucky, Inc. and Subsidiary (the "Organization") as of June 30, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 16 to 19 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Strothman & Company PSC

Louisville, Kentucky
October 28, 2010

Consolidated Statement of Financial Position

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Assets

Current Assets

Cash and cash equivalents	\$	615,766
Accounts receivable, less allowance for uncollectible accounts of \$236,123		2,123,051
Pledges receivable, less allowance for uncollectible pledges and present value discount		22,918
Prepaid expenses and other current assets		<u>204,927</u>

Total Current Assets 2,966,662

Property and Equipment

Land and buildings	4,888,696
Furniture and equipment	2,883,646
Less accumulated depreciation	<u>(5,077,908)</u>

Total Property and Equipment 2,694,434

Other Assets

Investments	479,731
Pledges receivable, noncurrent net of present value discount	183,943
Intangible asset	215,565
Due from related parties	<u>105,211</u>

Total Other Assets 984,450

\$ 6,645,546

Current Liabilities

Line of credit	\$	20,926
Accounts payable		306,819
Accrued expenses		1,274,724
Other current liabilities		212,219
Current maturities of mortgages and note payable		<u>580,135</u>

Total Current Liabilities 2,394,823

Mortgages and note payable, less current maturities 1,144,047

Payable to Affiliate 215,565

Net Assets

Unrestricted	2,803,557
Temporarily restricted	68,397
Permanently restricted	<u>19,157</u>

Total Net Assets 2,891,111

\$ 6,645,546

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

Volunteers of America of Kentucky, Inc. and Subsidiary

Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
Support and Revenues From Operations				
Public Support Received Directly				
Contributions	\$ 1,828,964	\$ 68,397		\$ 1,897,361
Contributions, in-kind	465,952			465,952
Public support: capital and bequests	19,335			19,335
Special events	47,661			47,661
Public Support Received Indirectly				
United Way allocation	49,534			49,534
Volunteers of America awards and grants	87,012			87,012
Total Support	<u>2,498,458</u>	<u>68,397</u>		<u>2,566,855</u>
Revenue and Grants From Governmental Agencies	22,498,188			22,498,188
Other Revenue				
Program service fees	775,015			775,015
Rental income	44,052			44,052
Miscellaneous revenue	315,065			315,065
Total Other Revenue	<u>1,134,132</u>			<u>1,134,132</u>
Total Support and Revenues From Operations	<u>26,130,778</u>	<u>68,397</u>		<u>26,199,175</u>
Operating Expenses				
Program Services:				
Elderly services	46,573			46,573
Disabilities services	12,700,181			12,700,181
Housing	502,458			502,458
Property operations	821,998			821,998
Health care services	1,591,355			1,591,355
Correctional services	666,161			666,161
Homeless services	3,352,453			3,352,453
Substance abuse	1,763,820			1,763,820
Total Program Services	<u>21,444,999</u>			<u>21,444,999</u>
Support Services:				
Management and general	2,116,322			2,116,322
Fund raising	1,401,679			1,401,679
Administrative fees paid to National Organization	492,037			492,037
Total Support Services	<u>4,010,038</u>			<u>4,010,038</u>
Total Operating Expenses	<u>25,455,037</u>			<u>25,455,037</u>
Increase in Net Assets Before Other Changes	675,741	68,397		744,138
Nonoperating Gains (Losses) and Other Revenue				
Interest and dividend income	10,379			10,379
Realized loss on investments	(116)			(116)
Unrealized gains on investments	44,357		\$ 4,546	48,903
Nonoperating Gains and Other Revenue	<u>54,620</u>		<u>4,546</u>	<u>59,166</u>
Increase in Net Assets	730,361	68,397	4,546	803,304
Net Assets Beginning of Year, as Restated	<u>2,073,196</u>		<u>14,611</u>	<u>2,087,807</u>
Net Assets End of Year	<u>\$ 2,803,557</u>	<u>\$ 68,397</u>	<u>\$ 19,157</u>	<u>\$ 2,891,111</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

Volunteers of America of Kentucky, Inc. and Subsidiary

Year Ended June 30, 2010

	PROGRAM SERVICES			SUPPORT SERVICES			
	Fostering Independence	Promoting Self- Sufficiency	TOTAL	Management and General	Fund Raising	TOTAL	2010
Salaries	\$ 11,200,586	\$ 2,864,207	\$ 14,064,793	\$ 1,309,324	\$ 524,682	\$ 1,834,006	\$ 15,898,799
Pension expense		8,890	8,890	9,130		9,130	18,020
Other employee benefits	355,862	151,101	506,963	1,877	25,018	26,895	533,858
Payroll taxes	1,003,273	209,097	1,212,370	49,793	28,126	77,919	1,290,289
Legal fees	848		848	2,423		2,423	3,271
Accounting fees				13,075		13,075	13,075
Other professional fees	132,681	17,616	150,297	151,066	173,859	324,925	475,222
Supplies and expenses	227,971	244,295	472,266	140,165	99,728	239,893	712,159
Telecommunications	96,945	78,796	175,741	24,249	12,120	36,369	212,110
Postage	4,702	2,211	6,913	33,349	9,436	42,785	49,698
Occupancy expense	833,621	839,400	1,673,021	14,813	160,427	175,240	1,848,261
Interest	72,470		72,470	7,214		7,214	79,684
Insurance	146,345	84,562	230,907	22,936	6,000	28,936	259,843
Equipment rental and maintenance	35,286	20,979	56,265	11,329	1,217	12,546	68,811
Printing and publications	20,813	21,758	42,571	98,242	311,081	409,323	451,894
Travel and transportation	383,419	62,999	446,418	31,683	8,565	40,248	486,666
Conferences and meetings	5,932	55,579	61,511	34,381	21,868	56,249	117,760
Specific assistance to individuals	1,219,122	666,823	1,885,945				1,885,945
Other	50,971	12,406	63,377	73,898	19,552	93,450	156,827
Depreciation and amortization	275,216	38,217	313,433	87,375		87,375	400,808
TOTAL FUNCTIONAL EXPENSE	\$ 16,066,063	\$ 5,378,936	\$ 21,444,999	\$ 2,116,322	\$ 1,401,679	\$ 3,518,001	24,963,000
ADMINISTRATIVE FEES PAID TO NATIONAL ORGANIZATION							492,037
TOTAL EXPENSES							\$ 25,455,037

See Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

Volunteers of America of Kentucky, Inc. and Subsidiary

Year Ended June 30, 2010

Operating Activities

Increase in net assets	\$ 803,304
Adjustments	
Depreciation and amortization	400,808
Gain on debt forgiveness	(33,788)
Realized/unrealized gain on investments	(48,787)
Changes in operating assets and liabilities	
Accounts receivable	385,172
Pledges receivable	(206,861)
Prepaid expenses and other current assets	3,307
Due from related parties	(29,489)
Accounts payable	(84,715)
Accrued expenses	63,279
Other current liabilities	(87,894)

Net Cash Provided By Operating Activities 1,164,336

Investing Activities

Purchases of property and equipment	(136,577)
Purchase of investments	(10,424)

Net Cash Used In Investing Activities (147,001)

Financing Activities

Proceeds from line of credit, net	20,926
Payments on mortgages and note payable	(543,873)

Net Cash Used In Financing Activities (522,947)

Net Increase In Cash and Cash Equivalents 494,388

Cash and Cash Equivalents Beginning of Year 121,378

Cash and Cash Equivalents End of Year \$ 615,766

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	\$ 79,684
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See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note A--Description of Business and Summary of Significant Accounting Policies

Description of Business--The consolidated financial statements 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, Indiana, and Tennessee under a charter from Volunteers of America, Inc. (the "National Organization"), a national nonprofit spiritually based organization providing local human service programs, and opportunities for individual and community involvement.

The more significant accounting policies of the Organization are described below:

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.

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.

Net Assets--The Organization classifies net assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the consolidated statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. At June 30, 2010, temporarily restricted net assets consist of grants for various purposes for which the Organization has not disbursed all proceeds. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions.

Operations--The Organization defines operations as all program and supporting service activities undertaken. Revenues that result from these activities, and their related expenses, are reported as operations. Gains, losses and other revenue that results from ancillary activities, such as investing liquid assets and disposing of fixed or other assets, are reported as non-operating.

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.

Accounts Receivable and Bad Debts--Accounts receivable are reported at the amount management expects to collect from payor sources. The Organization's accounts receivable are presented net of an allowance for doubtful accounts. The allowance is estimated based on management's experience and review of the aging of accounts receivable and contractual rights at the end of each year.

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note A--Description of Business and Summary of Significant Accounting Policies--Continued

Property and Equipment--Land, buildings and equipment purchased by the Organization are recorded at cost. The Organization follows the practice of capitalizing all expenditures for land, buildings and equipment in excess of \$1,000. Repairs and maintenance are expensed as incurred. The fair value of donated assets is similarly capitalized using the fair market value of the asset as of the date donated. Depreciation expense for the year ended June 30, 2010 was \$367,020. 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

Impairment of Long-Lived Assets--Management of the Organization reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. There were no charges for impairments of long-lived assets during the fiscal year ended June 30, 2010.

Grant Revenues--Revenues from federal, state and local grants are recognized in the same period as the expenses related to the specific grant are incurred. Certain restricted grant revenues received and earned within the same period are recorded as unrestricted revenues.

Contributions--Contributions are generally recorded upon receipt, unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the 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 and expense 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 was \$465,952 for the year ended June 30, 2010.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$343,046 during 2010.

Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note A--Description of Business and Summary of 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, the Organization is 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 the fiscal year ended June 30, 2010, and accordingly, no tax expense was incurred during that year.

The Organization's income tax returns for the fiscal years ended June 30, 2007 through 2009 are subject to examination by the Internal Revenue Service.

In June 2006, the Financial Accounting Standards Board issued Accounting Standards Codification ("ASC") 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), which prescribed a comprehensive model of how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Organization adopted ASC 740-10 as of July 1, 2009. There was no impact to the Organization's consolidated financial statements as a result of the implementation of ASC 740-10.

Fair Value of Financial Instruments--The carrying amounts for current assets and liabilities, other than due to/from related parties, approximate their fair values due to their short maturity. The fair value of related party amounts cannot be reasonably and practicably estimated due to the unique nature of the related underlying transactions and terms. If these financial instruments were with unrelated parties, interest rates and payment terms could be different than their currently stated rates and terms.

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

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

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

Subsequent Events--In preparing these consolidated financial statements, the Organization has evaluated events and disclosures for potential recognition or disclosure through October 28, 2010, the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note B--Concentrations

At June 30, 2010, the Organization had cash and cash equivalents on deposit at various financial institutions. Federal Deposit Insurance Corporation ("FDIC") insurance is limited to \$250,000 per financial institution at June 30, 2010. Accordingly, at June 30, 2010, approximately \$262,000 was not covered by FDIC Insurance.

Note C--Pledges Receivable

Pledges receivable represent future contributions resulting from a fund raiser to support future operations of the Organization. Pledges receivable as of June 30, 2010 are summarized as follows:

Expected Year of Collection: June 30,	
2011	\$ 22,918
2012	58,796
2013	57,296
2014	45,771
2015	<u>44,172</u>
	228,953
Less:	
Discount of multi-year pledges to present value	(14,893)
Allowance for uncollectible pledges	<u>(7,199)</u>
Pledges Receivable, Net of Discount and Allowance	<u>\$ 206,861</u>

The discount rate used on long-term pledges at June 30, 2010 is 3.25%.

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note D--Investments and Fair Value Measurements

Investments consist primarily of money market funds and mutual funds. The investments of the Organization are reported at fair value in the accompanying consolidated statements of financial position based on quoted market prices. The following table presents the fair value of investments:

	June 30, 2010	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Money market funds	\$ 20,731	\$ 20,731
Mutual Funds	459,000	459,000

ASC 820-10 (formerly SFAS No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: *Level 1* inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and *Level 3* inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

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

Fair values and unrealized gain (loss) at June 30, 2010 are as follows:

	June 30, 2010		
	Fair Value	Cost	Unrealized Gain (Loss)
Money market funds	\$ 20,731	\$ 20,731	
Mutual funds	459,000	469,137	\$ (10,137)
Total Investments	\$ 479,731	\$ 489,868	\$ (10,137)

Included in investments at June 30, 2010 is \$76,022 which is invested in an endowment fund at The Community Foundation of Louisville. Terms of the endowment allow the Organization to have access to \$56,865 of these investments, with the balance restricted for permanent endowment purposes.

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note E--Intangible Asset

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

The debt assumed in connection with this transaction is being forgiven by the National Organization based on a percentage of excess revenues generated from this MRDD program. Debt forgiveness granted by the National Organization amounted to \$33,788 for the fiscal year ended June 30, 2010. The value assigned to the acquisition and rights to the MRDD Program are correspondingly reduced by the amount of this debt forgiveness.

Note F--Line of Credit

The Organization has a line of credit with Fifth Third Bank which provides for borrowings up to \$300,000. Outstanding borrowings bear interest at the LIBOR rate plus 2.5% (2.85% at June 30, 2010). The line of credit will expire February 28, 2011.

The Organization has an additional line of credit with PNC Bank which provides for borrowings up to \$2,000,000. There were no borrowings against this line at June 30, 2010. Outstanding balances bear interest at the LIBOR rate plus 3.25% (3.60% at June 30, 2010). The line is secured by real estate and expires December 31, 2010.

Note G--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, 2010 was \$496,252 and is included in accrued expenses on the accompanying consolidated statement of financial position.

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note H--Mortgages and Note Payable

Mortgages and note payable as of June 30, 2010 consist of the following:

Mortgage payable to Fifth Third Bank, interest rate of 7.88%, collateralized by real estate, payable in monthly principal and interest installments of \$1,746 through August 2014		\$ 171,471
Mortgage payable to First Tennessee Bank, interest rate of 6.45%, collateralized by real estate, payable in monthly principal and interest installments of \$658 through June 2013		70,291
Mortgage payable to First Tennessee Bank, interest rate of 6.1%, collateralized by real estate, payable in monthly principal and interest installments of \$1,647 through June 2013		59,888
Mortgage payable to First Tennessee Bank, interest rate of 5.6%, collateralized by real estate, payable in monthly principal and interest installments of \$4,004 through August 1, 2015	(A)	365,720
Mortgage payable to PNC Bank, interest rate of 5.5%, collateralized by real estate, payable in monthly principal and interest installments of \$1,654 through January 2015		136,068
Mortgage payable to Regions Bank, interest rate of 7.4%, collateralized by real estate, payable in monthly principal and interest installments of \$888 through June 2014		76,003
Note payable to the State of Tennessee with no stated terms. There is an agreement to repay \$42,213 per month through February 2012		<u>844,741</u>
		1,724,182
Less current maturities		<u>580,135</u>
		<u>\$ 1,144,047</u>

(A) This mortgage was renegotiated and the terms disclosed above became effective on July 28, 2010.

Continued

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note H--Mortgages and Note Payable--Continued

Mortgages and note payable are scheduled to be repaid as follows:

<u>Year Ending June 30</u>	
2011	\$ 580,135
2012	416,613
2013	142,311
2014	71,334
2015 and thereafter	<u>513,789</u>
	<u>\$ 1,724,182</u>

Note I--Related Party Transactions

The Organization is affiliated with the National Organization, which provides support services to the Organization for a fee. Affiliate fees paid during the fiscal year ended June 30, 2010 totaled \$478,983. The Organization has service fees due the National Organization totaling \$114,739 as of June 30, 2010, which is included in other current liabilities on the consolidated statement of financial position.

The Organization has an additional amount due the National Organization of \$215,565 relating to debt assumed in connection with the acquisition of the MRDD Program in Southern Indiana (see Note E).

The Organization has \$105,211 due from various related parties. Management believes all amounts due will be collected and no reserve for uncollectible accounts is necessary. The amounts due are expected to be collected at a time beyond one year therefore management has classified these receivables as long-term on the accompanying consolidated statement of financial position.

Note J--Pension Plan

The Organization participates 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 year ended June 30, 2010 was \$18,020. Because the plan is a multi-employer plan, the accumulated benefits and net assets available for benefits as they relate solely to the Organization are not readily available.

The Organization participates in a defined contribution pension plan in which only full time employees can participate and the Organization starts contributing, if the employee chooses to participate, twelve months after hire date. The employee can choose to start participating as of the next enrollment period after date of hire. The Organization contributes up to one-half of six percent of employee compensation, up to Internal Revenue Service limits. Plan expense for the year ended June 30, 2010 was \$58,757.

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note K--Risk Management

The Organization is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization currently carries property and general liability insurance through Cincinnati Insurance Company and Lexington Insurance Company. Workman's Compensation insurance is carried through the Seneca Insurance Company.

Note L--Lease Commitments

The Organization leases properties in Kentucky, Tennessee and Indiana for various group homes and offices with monthly rents totaling \$40,053. These leases expire at various dates through December 31, 2012. The Organization also leases several properties on a month-to-month basis. Total lease expense for the year ended June 30, 2010 was \$1,177,343.

The aggregate future minimum lease payments as of June 30, 2010 are as follows:

<u>Year Ending June 30</u>	
2011	\$ 480,646
2012	203,931
2013	<u>4,326</u>
	<u>\$ 688,903</u>

Note M--Contingencies

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

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

Notes to Consolidated Financial Statements--Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

Note N--Restatement of Net Assets

Management has reconsidered the reasons for a temporarily restricted balance as of July 1, 2009. It was determined that \$538,775 of net assets previously reported as temporarily restricted at June 30, 2009, were actually unrestricted. Management reclassified this amount from temporarily restricted net assets to unrestricted net assets as of July 1, 2009.

Consolidating Financial Statements

Consolidating Statement of Financial Position

Volunteers of America of Kentucky, Inc. and Subsidiary

June 30, 2010

	VOA of Kentucky Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 539,131	\$ 76,635		\$ 615,766
Accounts receivable, net	2,107,268	15,783		2,123,051
Pledges receivable, net	22,918			22,918
Prepaid expenses and other current assets	204,927	478,084	\$ (478,084)	204,927
Total Current Assets	2,874,244	570,502	(478,084)	2,966,662
Property and Equipment,				
Land and buildings	469,018	4,419,678		4,888,696
Furniture and equipment	1,843,201	1,040,445		2,883,646
Less accumulated depreciation	(1,935,445)	(3,142,463)		(5,077,908)
Total Property and Equipment	376,774	2,317,660		2,694,434
Other Assets				
Investments	479,731			479,731
Pledges receiveable, net noncurrent	183,943			183,943
Intangible asset	215,565			215,565
Due from related parties	105,211			105,211
Total Other Assets	984,450			984,450
	<u>\$ 4,235,468</u>	<u>\$ 2,888,162</u>	<u>\$ (478,084)</u>	<u>\$ 6,645,546</u>
Current Liabilities				
Line of credit		\$ 20,926		\$ 20,926
Accounts payable	\$ 306,819			306,819
Accrued expenses	1,274,724			1,274,724
Other current liabilities	687,648	2,655	\$ (478,084)	212,219
Current maturities of mortgages and note payable	506,556	73,579		580,135
Total Current Liabilities	2,775,747	97,160	(478,084)	2,394,823
Mortgages and note payable, less current maturities	338,185	805,862		1,144,047
Payable to Affiliate	215,565			215,565
Net Assets				
Unrestricted	818,417	1,985,140		2,803,557
Temporarily restricted	68,397			68,397
Permanently restricted	19,157			19,157
Total Net Assets	905,971	1,985,140		2,891,111
	<u>\$ 4,235,468</u>	<u>\$ 2,888,162</u>	<u>\$ (478,084)</u>	<u>\$ 6,645,546</u>

See Independent Auditors' Report

Consolidating Statement of Activities

Volunteers of America of Kentucky, Inc. and Subsidiary

Year Ended June 30, 2010

	VOA of Kentucky Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
Unrestricted Net Assets				
Support and Revenues From Operations				
Public Support Received Directly				
Contributions	\$ 1,828,964			\$ 1,828,964
Contributions, in-kind	465,952			465,952
Public support: capital and bequests	19,335			19,335
Special events	47,661			47,661
Public Support Received Indirectly				
United Way allocation	49,534			49,534
Volunteers of America awards and grants	87,012			87,012
Total Support	2,498,458			2,498,458
Revenue and Grants from Governmental Agencies	22,426,861	\$ 71,327		22,498,188
Other Revenue				
Program service fees	123,080	959,885	\$ (307,950)	775,015
Rental income		135,168	(91,116)	44,052
Miscellaneous revenue	2,969,049	6,496	(2,660,480)	315,065
Total Other Revenue	3,092,129	1,101,549	(3,059,546)	1,134,132
Total Support and Revenues From Operations	28,017,448	1,172,876	(3,059,546)	26,130,778
Operating Expenses				
Program Services:				
Elderly services	48,133		(1,560)	46,573
Disabilities services	15,250,190		(2,550,009)	12,700,181
Housing	556,458		(54,000)	502,458
Property operations		850,798	(28,800)	821,998
Health care services	1,699,283		(107,928)	1,591,355
Correctional services	675,461		(9,300)	666,161
Homeless services	3,523,689		(171,236)	3,352,453
Substance abuse	1,900,533		(136,713)	1,763,820
Total Program Services	23,653,747	850,798	(3,059,546)	21,444,999

Continued

Consolidating Statement of Activities--Continued

Volunteers of America of Kentucky, Inc. and Subsidiary

Year Ended June 30, 2010

	VOA of Kentucky Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
Support Services:				
Management and general	2,116,322			2,116,322
Fund raising	1,401,679			1,401,679
Administrative fees paid to National Organization	492,037			492,037
Total Support Services	4,010,038			4,010,038
Total Operating Expenses	27,663,785	850,798	(3,059,546)	25,455,037
Increase in Net Assets Before Other Changes	353,663	322,078		675,741
Nonoperating Gains (Losses) and Other Revenue				
Interest and dividend income	10,379			10,379
Realized loss on investments	(116)			(116)
Unrealized gain on investments	44,357			44,357
Nonoperating Gains and Other Revenue	54,620			54,620
Increase in Unrestricted Net Assets	408,283	322,078		730,361
Temporarily Restricted Net Assets				
Contributions	68,397			68,397
Permanently Restricted Net Assets				
Unrealized gain on investments	4,546			4,546
Increase in Net Assets	481,226	322,078		803,304
Net Assets Beginning of Year	424,745	1,663,062		2,087,807
Net Assets End of Year	\$ 905,971	\$ 1,985,140	\$	2,891,111

See Independent Auditors' Report

Consolidating Statement of Cash Flows

Volunteers of America of Kentucky, Inc. and Subsidiary

Year Ended June 30, 2010

	VOA of Kentucky Inc.	VOA Property Corporation of Louisville	Eliminations	Consolidated Totals
Operating Activities				
Increase in net assets	\$ 481,226	\$ 322,078		\$ 803,304
Adjustments				
Depreciation and amortization	140,285	260,523		400,808
Gain on forgiveness of debt	(33,788)			(33,788)
Realized/unrealized gain on investments	(48,787)			(48,787)
Changes in operating assets and liabilities				
Accounts receivable	382,150	3,022		385,172
Pledges receivable	(206,861)			(206,861)
Prepaid expenses and other current assets	3,307	(156,541)	\$ (156,541)	3,307
Due from related parties	(29,489)			(29,489)
Accounts payable	(84,045)	(670)		(84,715)
Accrued expenses	63,279			63,279
Other current liabilities	65,992	2,655	156,541	(87,894)
Net Cash Provided By Operating Activities	733,269	431,067		1,164,336
Investing Activities				
Purchases of property and equipment	(18,035)	(118,542)		(136,577)
Purchase of investments	(10,424)			(10,424)
Net Cash Used In Investing Activities	(28,459)	(118,542)		(147,001)
Financing Activities				
Proceeds from line of credit, net		20,926		20,926
Payments on mortgages and note payable	(252,763)	(291,110)		(543,873)
Net Cash Used In Financing Activities	(252,763)	(270,184)		(522,947)
Net Increase in Cash and Cash Equivalents	452,047	42,341		494,388
Cash and Cash Equivalents Beginning of Year	87,084	34,294		121,378
Cash and Cash Equivalents End of Year	\$ 539,131	\$ 76,635	\$	\$ 615,766

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