FINANCIAL STATEMENTS, FEDERAL FINANCIAL ASSISTANCE AND OTHER REPORTS

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES

JUNE 30, 2005

CONTENTS

BASIC FINANCIAL STATEMENTS

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, 2005 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 2004 financial statements and, in our report dated October 19, 2004, 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, 2005 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 October 4, 2005, 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 performed 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.

Louisville, Kentucky
October 4, 2005

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005
(with comparative summarized information from 2004)

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.

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, 2005 and 2004. 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.

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.

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 2005 or 2004. Accordingly, no tax expense was incurred during the years ending June 30, 2005 and June 30, 2004, respectively.

Statement of Cash Flows - Cash paid for interest during the years ended June 30, 2005 and 2004 amounted to $121,386 and $114,111 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 2004 – 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, 2004, 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 2004 amounts have been reclassified to conform to the 2005 financial statement presentation.

NOTE B - MORTGAGES AND NOTES PAYABLE

	2005
Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of $7,574 payable in monthly installments of $568 including principal and interest at 3.15%; maturity date September 9, 2006.	$ 8,350
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.	953
Note payable to PNC Bank collateralized by real estate with a carrying value of $176,779 payable in monthly installments of $1,868 including principal and interest at a variable rate, currently 5.25% and a balloon payment at maturity; maturity date December 22, 2009.	190,260
Note payable to First Tennessee Bank collateralized by real estate with a carrying value of $106,930 payable in monthly installments of $854 including principal and interest at 6.45%; maturity date April 30, 2008.	88,806
Note payable to Fifth Third Bank collateralized by vehicles with a carrying value of $20,013 payable in monthly installments of $1,022 including principal and interest at 4.2%; maturity date August 15, 2006.	13,743
Note payable to AmSouth Bank collateralized by real estate with a carrying value of $482,623 payable in monthly installments of $4,095 including principal and interest at 6.97%; maturity date February 1, 2007.	388,709
Note payable to PNC Bank collateralized by vehicles with a carrying value of $14,874 payable in monthly installments of $1,087 including principal and interest at 5%; maturity date December 12, 2005.	6,433
Note payable to First Tennessee Bank collateralized by real estate with a carrying value of $123,244 payable in monthly installments of $949 including principal and interest at 6.1%; maturity date September 1, 2008.	102,746

NOTE B - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Note payable to AMSOUTH BANK collateralized by real estate with a carrying value of $130,235 payable in monthly installments of $875 including principal and interest at 6.0%; maturity date June 7, 2019.	$ 99,127
Note payable to First Tennessee Bank collateralized by real estate with a carrying value of $381,958 payable in monthly installments of $4,180 including principal and interest at 6.6%; maturity date June 1, 2010.	473,233
Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of $29,340 payable in monthly installments of $667 including principal and interest at 3.90%; maturity date December 1, 2009.	31,955
Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of $15,845 payable in monthly installments of $315 including principal and interest at 3.90%; maturity date December 1, 2009.	15,088
Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of $4,861 payable in monthly installments of $204 including principal and interest at 3.90%; maturity date December 1, 2009.	5,471
Note payable to Fifth Third Bank, collateralized by vehicles with a carrying value of $27,074 payable in monthly installments of $590 including principal and interest at 3.90%; maturity date December 1, 2009.	28,341
Note payable to Fifth Third Bank, collateralized by vehicle with a carrying value of $21,225 payable in monthly installments of $491 including principal and interest at 3.90%; maturity date December 1, 2009.	23,583

NOTE B - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Note payable to Fifth Third Bank collateralized by real estate with a carrying value of $230,917 payable in monthly installments of $1,565 including principal at 6.0%; maturity date May 1, 2008.	$ 206,310
	1,683,108
Amount due in one year or less	(124,275)
	$1,558,833

Mortgages and notes payable as of June 30, 2005 are scheduled to be repaid as follows:

During the year ended June 30,	Scheduled Principal Repayments
2006	$ 124,275
2007	449,383
2008	342,915
2009	153,728
2010	612,807
Thereafter	-0-
Total	$1,683,108

NOTE C - LEASE COMMITMENTS

Property is being leased at 1400 North Forbes Road in Lexington, Kentucky for $1,622 per month. The lease will expire March 31, 2006. A car auction lot in Louisville, Kentucky is being leased at a monthly rate of $1,800. The lease will expire May 31, 2007. Property is also being leased in Frankfort, Kentucky, Louisville, Kentucky, Pikeville, Kentucky, Memphis, Tennessee, Nashville, Tennessee and Knoxville, Tennessee for various group homes and offices with monthly rents totaling $21,967. The leases will expire between July 31, 2005 and June 30, 2010.

In addition a copier is being leased with the lease expiring August 21, 2005 and monthly rent totaling $149. This lease is being accounted for as an operating lease.

NOTE C - LEASE COMMITMENTS (CONTINUED)

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

During the year ending June 30,	Amount
2006	$271,027
2007	158,750
2008	118,000
2009	79,950
2010	40,850
Total	$668,577

NOTE D – CAPITAL LEASES PAYABLE

A summary of leases payable follows:

38 month lease payable to Corporate Fleet Services, Inc. due on the 10th of each month in installments of $422.21 at a fixed interest rate of 4.599% for a Ford Van.	$ 10,323
39 month lease payable to Corporate Fleet Services, Inc. due on the 10th of each month in installments of $475.75 at a fixed interest rate of 4.599% for a Ford Van.	12,003
43 month lease payable to Corporate Fleet Services, Inc. due on the 10th of each month in installments of $627.57 at a fixed interest rate of 4.599% for a Chevrolet Van.	17,780
	$ 40,106

NOTE D – CAPITAL LEASES PAYABLE (CONTINUED)

Required minimum future capital lease payments are estimated as follows:

Year ending June 30,	
2006	$ 18,309
2007	18,309
2008	9,716
2009	-0-
2010 & Thereafter	-0-
Net minimum lease payments	46,334
Less amount representing interest	(6,228)
Present value of net minimum lease payments	$ 40,106

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, 2005 and 2004 was $47,073 and $50,889 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 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, 2005 and 2004 was $44,882 and $46,266 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, 2005 totaled $325,171. Amounts due to Volunteers of America, Inc. at June 30, 2005 were as follows:

NOTE F - RELATED PARTY TRANSACTIONS (CONTINUED)

	June 30, 2005
Administrative Fees	$ 80,233
National MR/DD Initiative Loan	327,040
Total	$407,273

NOTE G - INVESTMENTS

Long-term investments are stated at fair value. Fair values and unrealized appreciation (depreciation) at June 30, 2005 are as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Investments Unrestricted:			
Money Market Funds	$ 187,502	$ 187,502	$ -0-
Bonds and Bond Funds	159,985	161,675	1,690
Equity Securities	997,302	1,036,975	39,673
	$1,344,789	$1,386,152	$41,363

NOTE H - FUNDS AND INVESTMENTS

At June 30, 2005 and 2004, Volunteers of America of Kentucky, Inc. and Subsidiaries had a cash and cash equivalents balance of $434,509 and $98,375 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, 2005 and 2004, $192,419 and $-0- respectively is 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, 2005 and 2004, was $290,850 and $226,722 respectively.

NOTE K – LINE OF CREDIT

Line of credit at June 30, 2005 consists of $1,471,641 payable to PNC Bank at 4.25% interest secured by real estate located at 1436 South Shelby Street. As of June 30, 2005 Volunteers of America of Kentucky, Inc. and Subsidiaries had $28,359 of unused lines of credit with PNC Bank to be drawn upon as needed at 4.25% interest.

NOTE L - ENCUMBERED ASSETS

At June 30, 2005 and 2004, encumbered assets included the following donor restrictions, legal agreements and board designations:

	2005	2004
Temporarily restricted net assets	$810,807	$849,734
Permanently restricted net assets	32,770	32,946
	$843,577	$882,680

At June 30, 2005 and 2004, encumbered assets included the following classes of assets:

	2005	2004
Building renovations	$784,947	$849,734
Contributions	25,860	-0-
Investments at fair value	32,770	32,946
	$843,577	$882,680

SUPPLEMENTARY SCHEDULES

FEDERAL FINANCIAL ASSISTANCE

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005

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 Subsidiaries 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

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

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

We have audited the financial statements of Volunteers of America of Kentucky, Inc. and Subsidiaries as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2005. 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 Subsidiaries' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which are described in the accompanying schedule of findings and questioned costs as item 05-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Volunteers of America of Kentucky, Inc. and Subsidiaries' 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.

Louisville, Kentucky
October 4, 2005

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

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

Compliance

We have audited the compliance of Volunteers of America of Kentucky, Inc. and Subsidiaries 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 each of its major federal programs for the year ended June 30, 2005. Volunteers of America of Kentucky, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's 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 Subsidiaries management. Our responsibility is to express an opinion on Volunteers of America of Kentucky, Inc. and Subsidiaries 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 Subsidiaries' 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 Subsidiaries' compliance with those requirements.

In our opinion, Volunteers of America of Kentucky, Inc. and Subsidiaries 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, 2005.

Internal Control Over Compliance

The management of Volunteers of America of Kentucky, Inc. and Subsidiaries 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 Subsidiaries' 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

Louisville, Kentucky
October 4, 2005

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

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 Subsidiaries.

Internal Control Over Financial Reporting:

• Material weakness(es) identified?	___yes	_x_no
• Reportable condition(s) identified that are not considered to be material weaknesses?	___yes	_x_none reported
Noncompliance material to financial statements noted?	___yes	_x_no

Federal Awards

Internal Control Over Major Programs:

• Material weakness(es) identified?	___yes	_x_no
• Reportable condition(s) identified that are not considered to be material weaknesses?	___yes	_x_none reported

The auditors' report on compliance for the major federal award programs for Volunteers of America of Kentucky, Inc. and Subsidiaries 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	_x_no
Auditee qualified as low risk auditee?	_x_yes	___no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
16.593	Halfway Back
93.550	Administration for Children and Families
93.940	STOP
93.959	Freedom House/Third Step

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

SECTION II – FINANCIAL STATEMENT FINDINGS

1. Finding 05-1

Statement of Condition: It was noted that a disbursement was made to a vendor based on a letter of agreement to perform services and not actual invoices for services performed.

Criteria: Sound internal control requires that transactions should be supported by appropriate documentation such as vendor invoices.

Effect of Condition: Funds were disbursed without an appropriate vendor invoice.

Cause of Condition: The letter of agreement was mistaken for an invoice supporting the services performed.

Recommendation: Management should carefully review all documentation before authorizing any payments.

Response: Management agrees with our conclusion and will carefully review requests for disbursements to insure that all payments to vendors are supported by appropriate documentation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
CONSOLIDATED CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005

Volunteers of America of Kentucky, Inc. and Subsidiaries respectfully submits the following corrective action plan for the year ended June 30, 2005.

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

Audit period: Year ended June 30, 2005

FINDING – FINANCIAL STATEMENT

1. Finding 05-1

Recommendation: Management should carefully review all documentation before authorizing any payments.

Current Status: Management agrees with the recommendation and will convey the importance of carefully reviewing requests for disbursements to insure that all payments to vendors are supported by appropriate documentation.

VOLUNTEERS OF AMERICA OF KENTUCKY, INC. AND SUBSIDIARIES
CONSOLIDATED SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF HEALTH AND HUMAN SERVICES

2004 FINDING 04-01

Condition: It was noted that a disbursement was made to a vendor based on a letter of agreement to perform services and not actual invoices for services performed.

Recommendation: Management should carefully review all documentation before authorizing any payments.

Current Status: During testing for the current audit, it was noted that the condition is unresolved.