

VOLUNTEERS OF AMERICA CHESAPEAKE, INC., AND SUBSIDIARIES

LANHAM, MARYLAND

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY CONSOLIDATING INFORMATION**

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Volunteers of America Chesapeake, Inc., and Subsidiaries

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Independent Auditors' Report

The Board of Directors
Volunteers of America Chesapeake, Inc.
Lanham, Maryland

We have audited the accompanying consolidated statements of financial position of Volunteers of America Chesapeake, Inc., and Subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We did not audit the financial statements of Volunteers of America - Virginia Beach M/R, a local affiliate, which the statements reflect total assets of \$402,481 and \$413,906, respectively, as of June 30, 2012 and 2011, and total support and revenues of \$105,393 and \$97,762, respectively, for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Volunteers of America - Virginia Beach M/R, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Volunteers of America Chesapeake, Inc., and Subsidiaries as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Board of Directors
Volunteers of America Chesapeake, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2012 and 2011 consolidating information set forth on pages 44 through 49 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, or results of operations of the individual entities, and it is not a required part of the consolidated financial statements. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 2012 and 2011 consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling the consolidating information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 and 2011 consolidating information is fairly stated in all material respects in relation to the 2012 and 2011 consolidated financial statements as a whole.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
November 16, 2012

Certified Public Accountants

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidated Statements of Financial Position
June 30, 2012 and 2011**

| | <u>2012</u> | <u>2011</u> | | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|--|----------------------|----------------------|
| Assets | | | Liabilities and Net Assets | | |
| Current Assets | | | Current Liabilities | | |
| Cash and Cash Equivalents | \$ 2,989,601 | \$ 2,517,850 | Accounts Payable | \$ 345,361 | \$ 229,852 |
| Accounts Receivable (Net of Allowance) | 3,408,670 | 3,147,869 | Current Portion of Notes and Mortgages Payable | 228,513 | 318,399 |
| Other Receivable | 305 | 1,503 | Accrued Expenses | 1,882,258 | 2,256,288 |
| Due from Related Parties | 133,000 | 133,000 | Contract/Grant Advances | 63,992 | 45,833 |
| Prepaid Expenses | 183,131 | 73,332 | Due to Related Parties | 316,514 | 291,206 |
| | | | Client Escrow Funds | 86,847 | 80,433 |
| Total Current Assets | <u>6,714,707</u> | <u>5,873,554</u> | Total Current Liabilities | <u>2,923,485</u> | <u>3,222,011</u> |
| Land, Buildings, and Equipment (Net) | <u>16,917,775</u> | <u>16,721,517</u> | | | |
| Other Assets | | | Other Liabilities | | |
| Designated and Restricted Cash | 1,902,881 | 2,216,250 | Notes and Mortgages Payable, Non-Current | 10,047,597 | 9,361,412 |
| Long-Term Investments | 1,366,517 | 1,348,165 | Tenant Security Deposits | 38,287 | 41,961 |
| Unamortized Mortgage Costs | 143,177 | 148,536 | Refundable Advances | 1,639,004 | 1,551,738 |
| Deposits | 31,897 | 18,290 | Postretirement Benefit Liability | 608,490 | 669,382 |
| Beneficial Interest in Perpetual Trust | 43,022 | 43,866 | Underfunded Pension Obligation | 1,156,443 | 515,910 |
| Contribution Receivable from Charitable Remainder Trust | 527,696 | 530,347 | Total Other Liabilities | <u>13,489,821</u> | <u>12,140,403</u> |
| Total Other Assets | <u>4,015,190</u> | <u>4,305,454</u> | Total Liabilities | <u>16,413,306</u> | <u>15,362,414</u> |
| Total Assets | <u>\$ 27,647,672</u> | <u>\$ 26,900,525</u> | Net Assets | | |
| | | | Unrestricted | | |
| | | | Controlling Interest | 8,236,651 | 8,421,079 |
| | | | Noncontrolling Interest in Subsidiaries | 2,426,997 | 2,540,231 |
| | | | Total Unrestricted | <u>10,663,648</u> | <u>10,961,310</u> |
| | | | Temporarily Restricted | 527,696 | 530,347 |
| | | | Permanently Restricted | 43,022 | 46,454 |
| | | | Total Net Assets | <u>11,234,366</u> | <u>11,538,111</u> |
| | | | Total Liabilities and Net Assets | <u>\$ 27,647,672</u> | <u>\$ 26,900,525</u> |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Noncontrolling Interest | Total |
|--|--------------|---------------------------|---------------------------|----------------------------|------------|
| Revenues and Support | | | | | |
| Public Support | | | | | |
| Public Support Received Directly | | | | | |
| Contributions - Cash | \$ 309,737 | \$ - | \$ - | \$ - | \$ 309,737 |
| Contributions - In-Kind | 286,585 | - | - | - | 286,585 |
| Special Events (Net of Direct Benefit Costs) | | | | | |
| | 18,110 | - | - | - | 18,110 |
| Public Support Received Indirectly | | | | | |
| United Way | 8,921 | - | - | - | 8,921 |
| Total Public Support | 623,353 | - | - | - | 623,353 |
| Government Revenues and Grants | 21,454,500 | - | - | - | 21,454,500 |
| Other Revenues | | | | | |
| Program Service Fees | 2,950,061 | - | - | - | 2,950,061 |
| Sales of Materials and Services, Net | 22,216 | - | - | - | 22,216 |
| Other Operating Revenues | 135,287 | - | - | - | 135,287 |
| Total Other Revenues | 3,107,564 | - | - | - | 3,107,564 |
| Total Revenues and Support | 25,185,417 | - | - | - | 25,185,417 |
| Expenses | | | | | |
| Program Services | | | | | |
| Encouraging Positive Development | 54,957 | - | - | - | 54,957 |
| Fostering Independence | 11,340,769 | - | - | - | 11,340,769 |
| Promoting Self-Sufficiency | 9,532,086 | - | - | - | 9,532,086 |
| Total Program Services | 20,927,812 | - | - | - | 20,927,812 |
| Supporting Services | | | | | |
| Management and General | 3,303,801 | - | - | - | 3,303,801 |
| Fund-Raising | 469,878 | - | - | - | 469,878 |
| Administrative Fees Paid to VOA, Inc. | 499,124 | - | - | - | 499,124 |
| Total Supporting Services | 4,272,803 | - | - | - | 4,272,803 |
| Total Program and Supporting Services Expenses | 25,200,615 | - | - | - | 25,200,615 |
| Decrease in Net Assets from Operations | (15,198) | - | - | - | (15,198) |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Noncontrolling Interest | Total |
|---|---------------------|---------------------------|---------------------------|----------------------------|----------------------|
| Non-Operating Gains and Other Revenues | | | | | |
| Interest and Dividends | \$ 16,374 | \$ - | \$ - | \$ - | \$ 16,374 |
| Unrealized Losses on Investments | (36,701) | - | - | - | (36,701) |
| Loss on Sale of Equipment | (5,929) | - | - | - | (5,929) |
| Change in Pension Obligation | (668,326) | - | - | - | (668,326) |
| Recovery of Bad Debt | 368,000 | - | - | - | 368,000 |
| Other Revenues | 44,118 | - | - | - | 44,118 |
| Change in Value of Split-Interest Agreements | - | (2,651) | (3,432) | - | (6,083) |
| Total Non-Operating Gains and Other Revenues (Losses) | <u>(282,464)</u> | <u>(2,651)</u> | <u>(3,432)</u> | <u>-</u> | <u>(288,547)</u> |
| Decrease in Net Assets before Noncontrolling Interest | (297,662) | (2,651) | (3,432) | - | (303,745) |
| Increase (Decrease) in Net Assets Attributable to Noncontrolling Interest | <u>113,234</u> | <u>-</u> | <u>-</u> | <u>(113,234)</u> | <u>-</u> |
| Total Decrease in Net Assets | (184,428) | (2,651) | (3,432) | (113,234) | (303,745) |
| Net Assets at Beginning of Year | <u>8,421,079</u> | <u>530,347</u> | <u>46,454</u> | <u>2,540,231</u> | <u>11,538,111</u> |
| Net Assets at End of Year | <u>\$ 8,236,651</u> | <u>\$ 527,696</u> | <u>\$ 43,022</u> | <u>\$ 2,426,997</u> | <u>\$ 11,234,366</u> |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Noncontrolling Interest | Total |
|--|--------------|---------------------------|---------------------------|----------------------------|------------|
| Revenues and Support | | | | | |
| Public Support | | | | | |
| Public Support Received Directly | | | | | |
| Contributions - Cash | \$ 279,436 | \$ - | \$ - | \$ - | \$ 279,436 |
| Contributions - In-Kind | 305,072 | - | - | - | 305,072 |
| Sales to Public | 9,816 | - | - | - | 9,816 |
| Special Events (Net of Direct Benefit Costs) | 28,729 | - | - | - | 28,729 |
| Legacies and Bequests | 1,270 | - | - | - | 1,270 |
| Public Support Received Indirectly United Way | 4,267 | - | - | - | 4,267 |
| Total Public Support | 628,590 | - | - | - | 628,590 |
| Government Revenues and Grants | 21,912,211 | - | - | - | 21,912,211 |
| Other Revenues | | | | | |
| Program Service Fees | 1,784,034 | - | - | - | 1,784,034 |
| Sales of Materials and Services, Net | 1,587 | - | - | - | 1,587 |
| Other Operating Revenues | 324,666 | - | - | - | 324,666 |
| Total Other Revenues | 2,110,287 | - | - | - | 2,110,287 |
| Total Revenues and Support | 24,651,088 | - | - | - | 24,651,088 |
| Expenses | | | | | |
| Program Services | | | | | |
| Encouraging Positive Development | 40,928 | - | - | - | 40,928 |
| Fostering Independence | 10,971,579 | - | - | - | 10,971,579 |
| Promoting Self-Sufficiency | 10,208,376 | - | - | - | 10,208,376 |
| Total Program Services | 21,220,883 | - | - | - | 21,220,883 |
| Supporting Services | | | | | |
| Management and General | 3,130,158 | - | - | - | 3,130,158 |
| Fund-Raising | 499,710 | - | - | - | 499,710 |
| Administrative Fees Paid to VOA, Inc. | 489,019 | - | - | - | 489,019 |
| Total Supporting Services | 4,118,887 | - | - | - | 4,118,887 |
| Total Program and Supporting Services Expenses | 25,339,770 | - | - | - | 25,339,770 |
| Decrease in Net Assets from Operations | (688,682) | - | - | - | (688,682) |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Noncontrolling Interest | Total |
|---|---------------------|---------------------------|---------------------------|----------------------------|----------------------|
| Non-Operating Gains and Other Revenues | | | | | |
| Interest and Dividends | \$ 123,145 | \$ - | \$ - | \$ - | \$ 123,145 |
| Unrealized Gains on Investments | 131,016 | - | - | - | 131,016 |
| Change in Pension Obligation | 373,910 | - | - | - | 373,910 |
| Change in Value of Split-Interest Agreements | - | 86,390 | 10,498 | - | 96,888 |
| Total Non-Operating Gains and Other Revenues | 628,071 | 86,390 | 10,498 | - | 724,959 |
| (Decrease) Increase in Net Assets before Noncontrolling Interest | (60,611) | 86,390 | 10,498 | - | 36,277 |
| Increase (Decrease) in Net Assets Attributable to Noncontrolling Interest | 368,058 | - | - | (368,058) | - |
| Total (Decrease) Increase in Net Assets | 307,447 | 86,390 | 10,498 | (368,058) | 36,277 |
| Net Assets at Beginning of Year | 8,113,632 | 443,957 | 35,956 | 2,908,289 | 11,501,834 |
| Net Assets at End of Year | \$ 8,421,079 | \$ 530,347 | \$ 46,454 | \$ 2,540,231 | \$ 11,538,111 |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2012**

| | Program Services | | | | Supporting Services | | | 2012 Total |
|----------------------------------|--|---------------------------|-----------------------------------|----------------------|------------------------------|-------------------|---------------------|----------------------|
| | Encouraging Positive Development | Fostering Independence | Promoting Self- Sufficiency | Total | Management and General | Fund-Raising | Total | |
| Salaries | \$ 37,712 | \$ 6,844,560 | \$ 4,659,541 | \$ 11,541,813 | \$ 1,737,534 | \$ 299,974 | \$ 2,037,508 | \$ 13,579,321 |
| Pension Expense | 251 | 82,268 | 64,178 | 146,697 | 25,434 | 1,402 | 26,836 | 173,533 |
| Other Employee Benefits | 6,695 | 546,161 | 479,677 | 1,032,533 | 136,989 | 16,044 | 153,033 | 1,185,566 |
| Payroll Taxes | 2,846 | 489,556 | 347,221 | 839,623 | 89,394 | 14,690 | 104,084 | 943,707 |
| Legal Fees | - | 107,432 | 56,910 | 164,342 | 49,607 | 1,933 | 51,540 | 215,882 |
| Accounting Fees | - | - | 30,413 | 30,413 | 63,073 | - | 63,073 | 93,486 |
| Other Professional Fees | 46 | 168,798 | 353,540 | 522,384 | 587,363 | 56,907 | 644,270 | 1,166,654 |
| Supplies | 2,088 | 393,470 | 592,603 | 988,161 | 82,479 | 11,346 | 93,825 | 1,081,986 |
| Telecommunications | 3,713 | 135,898 | 84,967 | 224,578 | 64,155 | 1,436 | 65,591 | 290,169 |
| Postage | 4 | 2,805 | 2,971 | 5,780 | 21,590 | 387 | 21,977 | 27,757 |
| Occupancy Expense | - | 1,529,376 | 1,170,675 | 2,700,051 | 167,937 | 560 | 168,497 | 2,868,548 |
| Interest | - | 93,713 | 265,686 | 359,399 | 12,908 | - | 12,908 | 372,307 |
| Insurance | 665 | 204,099 | 218,829 | 423,593 | 80,363 | 1,263 | 81,626 | 505,219 |
| Equipment Rental and Maintenance | - | 28,316 | 87,741 | 116,057 | 32,162 | - | 32,162 | 148,219 |
| Printing and Publications | - | 8,913 | 8,513 | 17,426 | 6,105 | 45,857 | 51,962 | 69,388 |
| Travel and Transportation | 302 | 284,117 | 79,802 | 364,221 | 31,832 | 5,033 | 36,865 | 401,086 |
| Conferences and Meetings | 224 | 41,987 | 30,849 | 73,060 | 40,437 | 9,244 | 49,681 | 122,741 |
| Specific Assistance | 250 | 94,955 | 240,548 | 335,753 | 598 | 69 | 667 | 336,420 |
| Other | 161 | 108,052 | 31,085 | 139,298 | 118,743 | 3,733 | 122,476 | 261,774 |
| Depreciation and Amortization | - | 176,293 | 726,337 | 902,630 | (44,902) | - | (44,902) | 857,728 |
| Total Functional Expenses | 54,957 | 11,340,769 | 9,532,086 | 20,927,812 | 3,303,801 | 469,878 | 3,773,679 | 24,701,491 |
| Administrative Fees - VOA, Inc. | - | - | - | - | 499,124 | - | 499,124 | 499,124 |
| Total Expenses | \$ 54,957 | \$ 11,340,769 | \$ 9,532,086 | \$ 20,927,812 | \$ 3,802,925 | \$ 469,878 | \$ 4,272,803 | \$ 25,200,615 |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2011**

| | Program Services | | | | Supporting Services | | | 2011 Total |
|----------------------------------|--|---------------------------|-----------------------------------|----------------------|------------------------------|-------------------|---------------------|----------------------|
| | Encouraging Positive Development | Fostering Independence | Promoting Self- Sufficiency | Total | Management and General | Fund-Raising | Total | |
| Salaries | \$ 30,429 | \$ 6,560,210 | \$ 5,268,764 | \$ 11,859,403 | \$ 1,604,388 | \$ 233,585 | \$ 1,837,973 | \$ 13,697,376 |
| Pension Expense | 548 | 91,375 | 89,944 | 181,867 | 30,247 | 1,518 | 31,765 | 213,632 |
| Other Employee Benefits | - | 630,756 | 569,689 | 1,200,445 | 131,074 | 6,439 | 137,513 | 1,337,958 |
| Payroll Taxes | 2,351 | 446,579 | 381,120 | 830,050 | 96,386 | 15,957 | 112,343 | 942,393 |
| Legal Fees | - | 11,993 | 25,355 | 37,348 | 39,649 | 313 | 39,962 | 77,310 |
| Accounting Fees | - | - | 54,630 | 54,630 | 66,816 | - | 66,816 | 121,446 |
| Other Professional Fees | 50 | 200,945 | 356,979 | 557,974 | 510,337 | 150,444 | 660,781 | 1,218,755 |
| Supplies | 2,539 | 355,277 | 651,309 | 1,009,125 | 95,100 | 1,158 | 96,258 | 1,105,383 |
| Telecommunications | 3,922 | 137,821 | 86,425 | 228,168 | 47,094 | 549 | 47,643 | 275,811 |
| Postage | 14 | 3,660 | 2,953 | 6,627 | 25,461 | 2,502 | 27,963 | 34,590 |
| Occupancy Expense | - | 1,419,444 | 1,070,861 | 2,490,305 | 85,424 | 80 | 85,504 | 2,575,809 |
| Interest | - | 115,199 | 222,292 | 337,491 | 12,305 | - | 12,305 | 349,796 |
| Insurance | 608 | 150,679 | 220,063 | 371,350 | 50,831 | 1,500 | 52,331 | 423,681 |
| Equipment Rental and Maintenance | - | 21,493 | 75,359 | 96,852 | 34,061 | 1,177 | 35,238 | 132,090 |
| Printing and Publications | 66 | 5,261 | 4,996 | 10,323 | 11,472 | 12,355 | 23,827 | 34,150 |
| Travel and Transportation | - | 222,822 | 71,691 | 294,513 | 20,227 | 819 | 21,046 | 315,559 |
| Conferences and Meetings | - | 19,887 | 20,371 | 40,258 | 35,913 | 5,353 | 41,266 | 81,524 |
| Specific Assistance | 176 | 94,644 | 290,414 | 385,234 | - | - | - | 385,234 |
| Other | 225 | 321,950 | 90,369 | 412,544 | 74,135 | 65,961 | 140,096 | 552,640 |
| Depreciation and Amortization | - | 161,584 | 654,792 | 816,376 | 159,238 | - | 159,238 | 975,614 |
| Total Functional Expenses | 40,928 | 10,971,579 | 10,208,376 | 21,220,883 | 3,130,158 | 499,710 | 3,629,868 | 24,850,751 |
| Administrative Fees - VOA, Inc. | - | - | - | - | 489,019 | - | 489,019 | 489,019 |
| Total Expenses | \$ 40,928 | \$ 10,971,579 | \$ 10,208,376 | \$ 21,220,883 | \$ 3,619,177 | \$ 499,710 | \$ 4,118,887 | \$ 25,339,770 |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|----------------|------------------|
| Cash Flows from Operating Activities | | |
| Increase (Decrease) in Net Assets Attributable to the Controlling Interest | \$ (190,511) | \$ 404,335 |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities | | |
| Loss Attributable to the Noncontrolling Interest | (113,234) | (368,058) |
| Depreciation | 852,369 | 969,427 |
| Loss on Impairment of Real Property | - | - |
| Loss on Disposal of Assets | 5,929 | - |
| Amortization of Mortgage Costs | 5,359 | 6,187 |
| Bad Debts | - | 269,148 |
| Net Unrealized (Gains) Losses on Investment Holdings | 32,093 | (131,016) |
| Change in Value of Split-Interest Agreements | 3,495 | (94,299) |
| Underfunded Pension Obligation | 640,533 | (370,073) |
| <u>(Increase) Decrease in Assets</u> | | |
| Accounts Receivable | (260,801) | (277,185) |
| Other Receivables | 1,198 | 20,166 |
| Prepaid Expenses | (109,799) | 47,660 |
| Designated and Restricted Cash | 313,369 | 219,455 |
| Deposits | (13,607) | (8,164) |
| <u>Increase (Decrease) in Liabilities</u> | | |
| Accounts Payable | 115,509 | (190,745) |
| Accrued Expenses | (374,030) | 154,689 |
| Post Retirement Benefit Liability | (60,892) | (60,833) |
| Contract/Grant Advances | 18,159 | 36,487 |
| Client Escrow Funds | 6,414 | (10,920) |
| Tenant Security Deposits | (3,674) | (4,862) |
| Refundable Advances | 87,266 | 406,162 |
| | 955,145 | 1,017,561 |
| Net Cash Provided by Operating Activities | 955,145 | 1,017,561 |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Cash Flows from Investing Activities | | |
| Purchases of Land, Buildings, and Equipment | \$ (1,054,556) | \$ (2,487,072) |
| Net Advances Due from/to Related Parties | 25,308 | (27,377) |
| Purchase of Investments | <u>(50,445)</u> | <u>(73,473)</u> |
| Net Cash Used in Investing Activities | <u>(1,079,693)</u> | <u>(2,587,922)</u> |
| Cash Flows from Financing Activities | | |
| Proceeds of Notes and Mortgages Payable | 939,920 | 1,200,000 |
| Repayments of Notes and Mortgages Payable | <u>(343,621)</u> | <u>(299,540)</u> |
| Net Cash Provided by Financing Activities | <u>596,299</u> | <u>900,460</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 471,751 | (669,901) |
| Cash and Cash Equivalents, Beginning of Year | <u>2,517,850</u> | <u>3,187,751</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,989,601</u> | <u>\$ 2,517,850</u> |
| Supplementary Disclosure of Cash Flow Information | | |
| Interest Paid | \$ 408,466 | \$ 385,955 |
| Noncash Transactions from Investing and Financing Activities | | |
| Amount of Vehicle Acquisitions Financed by Bank | \$ - | \$ 22,292 |
| Imputed Interest on Noninterest-Bearing Note to Purchase Building | 2,593 | 2,593 |
| Noncash Transaction from Operating Activities | | |
| In-Kind Contributions, Received and Used | \$ 286,585 | \$ 305,072 |

See accompanying Notes to Consolidated Financial Statements.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

1. ORGANIZATION

Volunteers of America Chesapeake, Inc., (VOAC), founded in 1896, is a non-profit, spiritually-based, human services organization recognized as a church, incorporated in Maryland. VOAC provides social services within Maryland, Washington, D.C., and Virginia as an affiliate of Volunteers of America, Inc., (VOA, Inc.) a national non-profit, spiritually-based organization providing local human service programs and opportunities for individual and community involvement. VOAC provides services to children in order to encourage positive development. VOAC also provides services to individuals with mental health problems, those that are developmentally disabled, and elderly members of the community, which help in fostering their independence. Finally, VOAC provides substance abuse treatment and community corrections services. Affiliated organizations controlled by VOAC include Volunteers of America Chesapeake Holding Corporation (Holding Corp), Volunteers of America - Virginia Beach M/R (Baker House), VOA PACA House, Inc., PACA Housing Limited Partnership II (PACA House), Pratt Street Housing Corporation, Pratt Street Housing Limited Partnership (Pratt Street), VOA Irvington Woods Housing Corp., Inc. (Irvington Woods Corp), and VOA Irvington Woods Limited Partnership (Irvington Woods) (collectively, the "Organization").

In 2011, VOAC nominated 15 new Board of Director Members from the region and the VOA, Inc. The VOA, Inc. Board of Directors approved the nomination of all 15 Board of Director Members. As of June 26, 2012, VOAC has expanded the Board of Directors to 18 members serving staggered three year terms. VOAC has requested the reinstatement of the affiliate's charter and once the concerns that were identified during the 2008 charter review are satisfactorily resolved, VOAC will be rechartered this fiscal year.

A substantial portion of support for the Organization is provided by fees and grants from federal, state, and local governmental agencies. The Organization relies on continued funding in order to provide ongoing and continued programs.

Volunteers of America Chesapeake Holding Corporation (Holding Corp) was incorporated in 1993 in the State of Maryland. The Organization is recognized as a church operating as a subsidiary of VOAC. Holding Corp's primary purpose is to purchase, sell, and lease property as a 501(c)(3) corporation. Holding Corp is a nonstock corporation whose directors are predominately employees of VOAC.

Volunteers of America - Virginia Beach M/R (Baker House) was organized in December 1979 and operates as a program of VOAC. Baker House was organized to construct and operate an apartment project of 12 units in Virginia Beach, Virginia, under Section 8 of the National Housing Act. Baker House is regulated by the Virginia Housing and Development Authority (VHDA). Baker House is a nonstock corporation controlled by VOAC through having the same director.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

1. ORGANIZATION (CONTINUED)

VOA PACA House, Inc., was incorporated in 1994 under the laws of the State of Maryland to be the general, 0.10% partner in PACA House. VOA PACA House, Inc.'s only income or loss is the result of its investment in PACA House. VOAC is the sole shareholder in VOA PACA House, Inc.

PACA Housing Limited Partnership II (PACA House) was formed as a limited partnership under the laws of the State of Maryland in July 1994 for the purpose of constructing and operating single room occupancy (SRO) and efficiency housing for the homeless and elderly, under regulations defined by the Community Development Administration (CDA) of the Maryland Department of Housing and Community Development (DHCD). All leases between PACA House and tenants of the property are operating leases. PACA House consists of 76 SRO units and 30 efficiency apartments located in Baltimore, Maryland. Operations are conducted under the name of PACA House.

Cash distributions related to operations from PACA House are limited by agreements between PACA House and CDA to \$375,049 per year (10% of the initial equity investment as defined by CDA) to the extent of surplus cash as defined by CDA. Undistributed amounts are cumulative and may be distributed in subsequent years if future operations provide surplus cash in excess of current requirements.

PACA House has qualified for and been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42), which regulates the use of PACA House as to occupant eligibility and unit gross rents, among other requirements. PACA House must meet the provisions of these regulations during each of fifteen consecutive years in order to continue to qualify to receive tax credits. In addition, PACA House has executed an Extended Low-Income Housing Covenant with CDA, which requires the utilization of the housing units pursuant to Section 42 for a minimum of 40 years, even after the disposition of the housing units by PACA House.

During 2012, PACA House's partnership agreement was terminated and the entity was assigned to PACA Supportive Housing, Inc., a Maryland non-stock corporation, which is 100% owned by VOAC.

Pratt Street Housing Corporation was incorporated in December 1998 under the laws of the State of Maryland to be the general partner in Pratt Street. Pratt Street Housing Corporation's primary income or loss is the result of its investment in Pratt Street. Pratt Street's operations commenced in December 2001. VOAC is the sole member of Pratt Street Housing Corporation.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

1. ORGANIZATION (CONTINUED)

Pratt Street Housing Limited Partnership (Pratt Street) was formed as a limited partnership under the laws of the State of Maryland in December 1998 for the purpose of constructing and operating 35 units located in Baltimore, Maryland, for the homeless and elderly. Pratt Street Housing Corporation is the .01% general partner, of which VOAC is the sole member. Rehabilitation of the building in which Pratt Street rents units was completed in December 2001. At that time, Pratt Street began operating as a low-income rental housing provider. Pratt Street has qualified for and been allocated low-income housing tax credits pursuant to Section 42, as discussed above for PACA House. In addition, Pratt Street is required by a regulatory agreement with DHCD to maintain certain operating and replacement reserves under a loan agreement.

VOA Irvington Woods Housing Corp., Inc., (Irvington Woods Corp) was incorporated in 2005 under the laws of the State of Maryland to be the general, .01% partner in Irvington Woods. Irvington Woods Corp's only income or loss is the result of its investment in Irvington Woods. VOAC is the sole shareholder in Irvington Woods Corp.

VOA Irvington Woods Limited Partnership (Irvington Woods) was formed as a limited partnership under the laws of the State of Maryland on September 15, 2005, for the purpose of acquiring, owning, developing, constructing, and/or rehabilitating, leasing, managing, and operating a low-income housing project under regulations defined by CDA. Irvington Woods consists of 71 units located in Baltimore, Maryland, and is currently operating under the name of Irving Woods Apartments.

Cash distributions related to operations are limited by agreements between Irvington Woods and CDA to the extent of surplus cash as defined by CDA. Undistributed amounts are cumulative and may be distributed in subsequent years if future operations provide surplus cash in excess of current requirements.

Irvington Woods has qualified for and been allocated low-income housing tax credits pursuant to Section 42, as discussed above for PACA House. In addition, Irvington Woods has executed an Extended Low-Income Housing Covenant with CDA, which requires the utilization of the housing units pursuant to Section 42 for a minimum of 30 years, even after the disposition of the housing units by Irvington Woods.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities.

Principles of Consolidation

The consolidated financial statements include the accounts of VOAC and its wholly-owned nonprofit subsidiaries, Holding Corp, Baker House, VOA PACA House, Inc., Pratt Street Housing Corporation, Irvington Woods Corp, and the for-profit entities PACA House, Pratt Street, and Irvington Woods in which VOAC has a controlling financial interest. All material interorganizational transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Corporation considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents. Designated and restricted deposits are not considered cash on the consolidated statements of cash flows.

Allowance for Doubtful Accounts

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on grant and fee for service receivables using the allowance method. The allowance is based on experience, a review of each individual receivable, and the Organization's history of uncollectible accounts. The Organization considers accounts to be past due based on management's determination. The Organization's policy is to charge off accounts receivable when management determines the receivables will not be collected.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost with the exception mentioned in the next paragraph, and are depreciated on the straight-line method over their estimated useful lives ranging from three to twenty-seven years for financial reporting purposes. Construction in progress is capitalized as costs are incurred and is depreciated beginning in the period when placed in service. The policy of the Organization is to capitalize equipment costing over \$2,000 and having a useful life of over one year. Depreciation expense amounted to \$852,369 and \$969,427 for the years ended June 30, 2012 and 2011, respectively.

During the year ended June 30, 2010, the Organization recorded an impairment loss of \$2,362,885 on the Pratt Street Property. Accordingly, the cost exceeds carrying value.

Long-Term Investments

Investments in all debt and equity securities with readily determinable fair values are reported at their fair values.

Investment income, gains, and losses are reported as increases or decreases in unrestricted net assets, unless a donor or law temporarily or permanently restricts their use.

Unamortized Mortgage Costs

Gross mortgage costs totaled \$212,655 at June 30, 2012 and 2011, and are amortized using the straight-line method of accounting over the term of the associated debt upon the commencement of the permanent loan period. Accumulated amortization totaled \$69,478 and \$64,119 at June 30, 2012 and 2011, respectively. Amortization expense amounted to \$5,359 and \$6,187 for the years ended June 30, 2012 and 2011, respectively.

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 statements of activities and changes in net assets as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purposes. The Organization's policy is to treat as unrestricted the temporarily restricted contributions for which the restrictions were satisfied in the year received.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

Net Assets (Continued)

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

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donors for future periods or specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

As required by the *Transfers of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others* Topic for Not-for-Profit Entities of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958-605-25-24), the Organization recognized in its consolidated financial statements gross support received and the related expenses incurred associated with its direct mail program conducted through VOA, Inc.

Contributions-In-Kind

Contributions-in-kind are recorded at their estimated value at date of receipt. No amounts are recognized for donated services since they do not meet the support recognition criteria of the *Contributed Services* Topic of FASB ASC (958-605-25-16). Donated materials are reflected as contributions-in-kind, consisting of food and clothing, on the statements of activities and as specific assistance on the statement of functional expenses.

Rental Revenue and Requirements

Rental revenue is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Organization and tenants are operating leases.

Buildings and rental units in Baker House, PACA House, Pratt Street, and Irvington Woods are subject to regulation by governmental agencies as to rents and operating methods.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

Advertising Costs

Non-direct response advertising costs are expensed as incurred. Total non-direct advertising costs for the years ended June 30, 2012 and 2011, were \$61,183 and \$59,812, respectively.

There were no direct response advertising costs for the years ended June 30, 2012 and 2011.

Operations

The Organization defines operations as all program and supporting services activities undertaken. Revenues and support that result from these activities and their related expenses are reported as operating activities that produce changes in net assets from operations. Investment income, gains, and losses, other revenues or expenses that result from ancillary activities, such as disposing of assets, changes in the values of split-interest agreements, changes in the amount of the underfunded pension obligation, and recoveries of debts written-off in prior years as a result of administrative efforts are reported as non-operating activities.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a nonprofit, tax-exempt organization. The income of the partnerships are included in the tax returns of the partners.

Uncertainty in Income Taxes

The Organization follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2012, 2011, the Organization had no uncertain tax positions that qualified for either recognition or disclosure in its financial statements.

The Organization's policy would be to recognize interest and penalties on tax positions related to its unrecognized tax benefits in income tax expense in the financial statements. Through June 30, 2012, there have been no matters that would have resulted in an accrual for interest and/or penalties.

As of June 30, 2012, the Organization's information returns filed with the Internal Revenue Service for the years ended June 30, 2011, 2010, and 2009, remain open for examination.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 consolidated financial statements presentation.

3. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at several financial institutions in Maryland and Virginia that are insured by the Federal Deposit Insurance Corporation. The Organization is exposed to concentrations of credit risk when cash balances exceed the FDIC limit. At June 30, 2012 and 2011, the Organization's uninsured cash balances totaled \$56,159 and \$55,876, respectively. Management believes that the Organization is not exposed to significant risk of loss from uninsured balances.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 and 2011, consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------|---------------------|---------------------|
| Grants and Contracts | \$ 1,097,461 | \$ 703,561 |
| Fees for Services | 2,282,760 | 2,397,911 |
| Rents Receivable | 36,368 | 49,392 |
| | <u>3,416,589</u> | <u>3,150,864</u> |
| Less Allowance for Doubtful Accounts | <u>(7,919)</u> | <u>(2,995)</u> |
| Net Accounts Receivable | <u>\$ 3,408,670</u> | <u>\$ 3,147,869</u> |

5. DUE FROM RELATED PARTIES

Due from affiliates totaled \$133,000 at June 30, 2012 and 2011, respectively. The balances consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Management Fees (VOA Eastern Avenue) | \$ 120,000 | \$ 120,000 |
| Operating Advance (VOA Eastern Avenue) | 13,000 | 13,000 |
| Total | <u>\$ 133,000</u> | <u>\$ 133,000</u> |

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

5. DUE FROM RELATED PARTIES (CONTINUED)

These receivables are noninterest-bearing and due on demand, except for receivables relating to VOA Eastern Avenue, which are subject to regulatory approval.

6. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are recorded at cost and consisted of the following at June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|------------------------------------|----------------------|----------------------|
| Land | \$ 2,924,776 | \$ 2,694,467 |
| Buildings and Improvements | 20,252,905 | 19,527,203 |
| Construction in Progress | 770,454 | 605,615 |
| Furniture and Equipment | 1,462,277 | 1,349,450 |
| Vehicles | <u>942,682</u> | <u>1,003,155</u> |
| Total Cost | 26,353,094 | 25,179,890 |
| Less Accumulated Depreciation | <u>(9,435,319)</u> | <u>(8,458,373)</u> |
| Net Land, Buildings, and Equipment | <u>\$ 16,917,775</u> | <u>\$ 16,721,517</u> |

Construction in progress represents pre-development costs incurred in connection with the acquisition and development of real estate located at 4900 East Monument Street in Baltimore, Maryland, for a residential re-entry program. No interest was incurred in connection with the program. The real estate was placed in service in July 2012.

Certain land, buildings, improvements, furniture, and equipment are restricted as to use and disposition by various regulatory agencies as disclosed in Notes 1 and 12.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

7. DESIGNATED AND RESTRICTED ASSETS

The Organization, through its subsidiaries, has agreements with several agencies that require funded reserves and the restriction of certain deposits. The designated and restricted assets are in separate cash accounts with financial institutions.

Virginia Housing Development Authority (VHDA) holds a mortgage on certain properties belonging to Baker House. Under terms of the mortgage, payments include, in addition to monthly principal and interest payments, amounts necessary to cover real estate taxes, insurance, and operating and replacement reserves. The balance of the mortgage escrow deposit was \$77,880 and \$128,139 as of June 30, 2012 and 2011, respectively.

The Baker House operating and replacement reserves are regulated by VHDA. Withdrawals must be approved by VHDA and may only be used for the purposes designated by the agreement between Baker House and VHDA. The replacement reserve is funded at \$247 per month and is available for repairs and significant replacements. There were no monies withdrawn from the replacement reserve for the years ended June 30, 2012 and 2011. The balance in the replacement reserve at June 30, 2012 and 2011, was \$41,141 and \$38,352, respectively. The operating reserve was funded at \$187,280 and \$195,619 for the years ended June 30, 2012 and 2011, respectively, and is available to pay for apartment complex amenities and any replacement and repair costs in excess of funds on deposit in the replacement reserve. There were \$8,639 and \$-0- withdrawn from the operating reserve during the years ended June 30, 2012 and 2011, respectively.

Under the provisions of the regulatory agreement with the U.S. Department of Housing and Urban Development (HUD), Baker House is required to establish a residual receipts account for its surplus cash, if any. Disbursements and withdrawals may be made from this account only with prior HUD approval. At June 30, 2012 and 2011, no residual receipts account was required for Baker House.

PACA House has several reserve commitments with DHCD. PACA House is required to maintain a replacement reserve, a working capital fund, a social services reserve, and an operating reserve.

Upon commencement of the permanent loan period, PACA House was required to establish a replacement reserve by depositing an initial amount of \$26,496 (twelve monthly installments of \$2,208) which is increased three percent (3%) per annum. The balance in this account was \$212,675 and \$186,773 at June 30, 2012 and 2011, respectively.

PACA House maintains a general operating reserve in the initial amount of \$375,000 and a Section 8 reserve in the initial amount of \$725,000. Investment and disbursement of the reserves are detailed in the second addendum to the regulatory agreement, dated May 13, 1996. As of June 30, 2012 and 2011, the combined balances in these reserves account totaled \$953,058 and \$951,241, respectively.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

7. DESIGNATED AND RESTRICTED ASSETS (CONTINUED)

Pratt Street has several reserve commitments as stipulated in the Agreement of Limited Partnership and required by DHCD's Regulatory Agreement, as amended and restated. Pratt Street is required to establish and maintain an operating reserve and a replacement reserve. Pratt Street shall establish an operating reserve of at least \$137,000 as specified in the partnership agreement and required by DHCD's Regulatory Agreement. The account was fully funded at June 30, 2003. DHCD approved a withdrawal of \$39,609 during the year ended June 30, 2011. The balance in this account at June 30, 2012 and 2011, was \$102,623 and \$102,714, respectively. Pratt Street shall also fund a replacement reserve in the amount of \$250 per unit per year, increasing at 4% per annum. Funds in this account shall be used for major repairs, capital expenditures, and the replacement of capital items in the property. The limited partner must approve expenditures costing \$5,000 or more before they are made. The balance in this account at June 30, 2012 and 2011, was \$47,227 and \$35,556, respectively.

Under the terms of DHCD's Regulatory Agreement, Irvington Woods is required to place tenant deposits into separate accounts. It is also required to set aside specified amounts for the replacement of property and other project expenditures, as approved by DHCD, and to maintain an escrow account with a mortgage company.

Pursuant to DHCD's Loan and Regulatory Agreement, Irvington Woods is required to establish a reserve for replacements and must make annual payments to this reserve beginning on the date of achievement of 100% qualified occupancy. Monthly payments of \$1,479 are required during the first year after this achievement. Thereafter, the monthly payment amount should be increased by 3% each year, compounded annually. DHCD approved withdrawals of \$9,269 and \$36,235 for the years ended June 30, 2012 and 2011. The balances in this account at June 30, 2012 and 2011, amounted to \$55,578 and \$37,043, respectively.

Irvington Woods maintains an operating reserve to be held by Irvington Woods, in an initial amount of \$131,761. Under the terms of the partnership agreement, Irvington Woods is required to set aside specified amounts in the operating reserve that cannot be accessed without the express written approval of the limited partner. The balance in this account at June 30, 2012 and 2011, was \$136,927 and \$136,904, respectively.

Irvington Woods maintains a transition reserve to be held by Irvington Woods, in an initial amount of \$30,000. The balance in this account at June 30, 2012 and 2011, was \$31,177 and \$31,107, respectively.

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

7. DESIGNATED AND RESTRICTED ASSETS (CONTINUED)

Balances in the designated and restricted accounts at June 30, are as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|-----------------------------|-----------------------------|
| Mortgage Escrow Deposit | \$ 77,880 | \$ 138,139 |
| Client Escrow Funds | 14,979 | 80,433 |
| Replacement Reserves | 356,621 | 297,724 |
| Operating Reserves | 1,377,358 | 1,388,779 |
| Transition Reserve | 31,177 | 32,343 |
| Tenant Security Deposits | 44,866 | 42,906 |
| Net Worth Reserve | - | 235,926 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 1,902,881</u> | <u>\$ 2,216,250</u> |

8. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization's investments split-interest agreements and post-retirement benefit obligation are recorded at fair value on a recurring basis and are summarized below at June 30, 2012:

| | <u>Level 1</u> <u>Inputs</u> | <u>Level 2</u> <u>Inputs</u> | <u>Level 3</u> <u>Inputs</u> | <u>Total</u> |
|--|---------------------------------|---------------------------------|---------------------------------|-----------------------------|
| <u>June 30, 2012</u> | | | | |
| Marketable Equities | \$ 14,702 | \$ 989,470 | \$ - | \$1,004,172 |
| Fixed Income Funds | - | 373,470 | - | 373,470 |
| Beneficial Interest in Perpetual Trust | - | - | 43,022 | 43,022 |
| Contribution Receivable from Charitable Remainder Trust | - | 527,696 | - | 527,696 |
| Post Retirement Benefit Obligation | - | (608,490) | - | (608,490) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 14,702</u> | <u>\$1,282,146</u> | <u>\$ 43,022</u> | <u>\$1,339,870</u> |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The Organization's investments, split-interest agreements, and post retirement benefits are recorded at fair value on a recurring basis and are summarized below at June 30, 2011:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
|--|-------------------|--------------------|-------------------|--------------------|
| <u>June 30, 2011</u> | | | | |
| Marketable Equities | \$ 15,155 | \$ 778,108 | \$ - | \$ 793,263 |
| Fixed Income Funds | - | 554,902 | - | 554,902 |
| Beneficial Interest in Perpetual Trust | - | - | 43,866 | 43,866 |
| Contribution Receivable from Charitable Remainder Trust | - | 530,347 | - | 530,347 |
| Post Retirement Benefit Obligation | - | (669,322) | - | (669,322) |
| Total | \$ 15,155 | \$1,194,035 | \$ 43,866 | \$1,253,056 |

Investment return is summarized for the years ended June 30, 2012 and 2011, as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|--------------------|-------------------|
| Interest and Dividends | \$ 16,374 | \$ 77,539 |
| Net Unrealized Gains (Losses) | (33,543) | 180,607 |
| | (17,169) | 258,146 |
| Less Investment Expenses | (3,158) | (3,985) |
| Net Investment Return | \$ (20,327) | \$ 254,161 |

Expenses relating to investment revenues, consisting of custodial fees and investment advisory fees, amounted to \$3,158 and \$3,985 for the years ended June 30, 2012 and 2011, respectively, and have been netted against investment revenues in the accompanying consolidated statements of activities and changes in net assets.

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Activity within Level 3 Inputs is as follows:

| | |
|------------------------|-------------------------|
| Balance, July 1, 2010 | \$ 35,957 |
| Gains | <u>7,909</u> |
| Balance, June 30, 2011 | 43,866 |
| Losses | <u>(844)</u> |
| Balance, June 30, 2012 | <u><u>\$ 43,022</u></u> |

The Organization presents its financial assets and liabilities required to be measured at fair value on a recurring basis by the *Fair Value Measurements and Disclosures* Topic of FASB ASC (820) using the following hierarchy:

- Level 1 Inputs - Values are based on quoted prices for identical investments in active markets as of the reporting date. This designation includes unrestricted securities listed on active exchanges.
- Level 2 Inputs - Values are based on observable market-based inputs or unobservable inputs that are corroborated by market data. This designation would include options and real estate investments.
- Level 3 Inputs - Values are based on unobservable inputs that are significant to the valuation of particular assets or liabilities. The inputs into the determination of fair value in this level require significant management judgment or estimates.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

In determining the appropriate levels for assets or liabilities, management performs a detailed analysis of the assets and liabilities that are subject to the standard. In some instances, assets or liabilities may be valued using a combination of inputs. In such instances, the assets or liabilities are to be classified based on the lowest significant level used in the valuation. Management's assessment of the significance of a particular input in the fair value measurement of assets or liabilities requires judgment and considers factors specific to the assets or liabilities. Split-interest agreements are valued at the fair values of the assets underlying the agreements, as provided by the trustees holding the assets.

9. SPLIT-INTEREST AGREEMENTS

The Organization is the beneficiary under a perpetual trust administered by a bank. The perpetual trust provides for the total distribution of the trust's earnings annually to various designated beneficiaries. The Organization is entitled to receive 0.5% of the annual distribution. The income received from the trust by the Organization amounted to \$1,134 and \$1,098 for the years ended June 30, 2012 and 2011, respectively, and was recorded as change in value of split-interest agreements. The assets held in the perpetual trust are non-distributable and permanently restricted. The Organization reports in its consolidated statements of financial position the Organization's proportionate share of the fair value of the trust's assets as an estimate of the present value of the Organization's future cash distributions from the trust. The Organization's proportionate share of the fair value of the trust's assets was \$43,022 and \$43,866 at June 30, 2012 and 2011, respectively.

The Organization is also the beneficiary under a charitable remainder trust administered by a bank. Under terms of the split-interest agreement, the Organization receives 33% of monthly income earned by the trust after designated dollar payments to other beneficiaries. After the death of the last beneficiary receiving designated dollar payments, the trust is terminated and the corpus is distributed, with VOAC receiving 33% of the corpus. Trust assets are adjusted annually based on the current fair market value of the underlying assets.

The Organization's share of assets held in the trust, which are reflected in temporarily restricted net assets, amounted to \$527,696 and \$530,347 at June 30, 2012 and 2011, respectively. Income received from the trust was reported as change in value of split-interest agreements and amounted to \$6,861 and \$9,121 for the years ended June 30, 2012 and 2011, respectively.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

9. SPLIT-INTEREST AGREEMENTS (CONTINUED)

All investments from the split interest agreements are measured within Level 2 of the fair value hierarchy and are classified at June 30, 2012 and 2011, as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|-------------------|-------------------|
| Cash and Cash Equivalents | \$ 14,295 | \$ 2,679 |
| Marketable Equities | 348,318 | 189,392 |
| Fixed Income Funds | <u>208,105</u> | <u>382,142</u> |
| Total | <u>\$ 570,718</u> | <u>\$ 574,213</u> |

10. LINE OF CREDIT

The Organization secured a line of credit from a bank in the amount of \$1.5 million in May 2011. Interest is payable monthly at the prime rate plus one percent, with a minimum interest rate of 5.25%. The Organization must maintain a tangible net worth of \$9.5 million, a debt to worth ratio of not greater than 2.0 and a debt service coverage ratio of at least 1.2. The security for the line of credit is the accounts receivable, and equipment of the Organization. No amount was outstanding under the line of credit at June 30, 2012.

11. ACCRUED EXPENSES

Accrued expenses consisted of the following at June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|---------------------|---------------------|
| Accrued Vacation | \$ 268,124 | \$ 287,325 |
| Accrued Salaries | 573,035 | 539,791 |
| Accrued Interest | 881,414 | 883,162 |
| Other Payables and Accrued Expenses | <u>159,685</u> | <u>546,010</u> |
| Total | <u>\$ 1,882,258</u> | <u>\$ 2,256,288</u> |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

11. ACCRUED EXPENSES (CONTINUED)

As of February 1, 2011, the vacation accrual policy allows a rollover of 160 hours and lower based on years of service. Vacation time vests with the employees and, accordingly, a liability in the amount shown above for each year is reflected in the accompanying consolidated financial statements.

Accrued interest payable of \$881,414 and \$883,162 at June 30, 2012 and 2011, respectively, related to PACA House and Pratt Street. This accrued interest is only payable if PACA House and Pratt Street have surplus cash at the end of the calendar year as defined in the regulatory agreements.

12. NOTES AND MORTGAGES PAYABLE

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|
| Mortgage payable to bank. Original due in 60 monthly installments of \$1,358 (including interest at 6.56% per annum). Original note had a 30-year amortization period with a balloon payment due in five years. Original note matured in October 2004 and was refinanced. Refinanced payable is due in 120 monthly payments of \$1,349 (including interest of 6.125% per annum). Note was modified in January 2010. Modified payable is due in 73 monthly installments of \$872 (including interest at 6.0% per annum). Secured by real estate | \$ 38,269 | \$ 45,929 |
| Mortgage payable to bank. Due in 180 monthly installments of \$1,271 (including interest at 8% per annum), modified in December 2004 to lower rate to 6.125%). Secured by real estate on Sheridan Street in Riverdale, Maryland. Matures in April 2017. Loan was modified in December 2009 to lower interest rate to 6% and change payment \$1,173. Loan was paid and refinanced with another bank in 2012 | - | 69,532 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following: (Continued)

| | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| Note to bank. Due in 60 monthly installments of \$2,977 (including interest of 4.7% per annum). Matures in September 2016. Secured by property at Leegate Road in Washington, D.C. | \$ 448,395 | \$ - |
| Note to bank. Due in 60 monthly installments of \$2,367 (including interest of 5.25% per annum). Matures in November 2016. Secured by property in Riverdale, Bowie, and Baltimore, Maryland | 407,015 | - |
| Refinanced mortgage payable to bank in October 2006 for \$77,148. Due in 120 monthly installments of \$920 (including interest at 7.61% per annum). The loan was modified in December 2009, in which the interest rate was decreased to 6% per annum. All other terms remain unchanged. Secured by real estate at 12611 Kemmerton Lane in Bowie, Maryland. Loan was repaid and refinanced with another bank in 2012 | - | 47,120 |
| Note Payable to Foundation. Payment was made full in September 2012. Interest accrued at 12%. The note is secured by pooled investments managed by VOA, Inc. | 1,200,000 | 1,200,000 |
| Mortgage payable to bank. Secured by Evergreen property. Payment is due on transfer of the property and not due if property is not transferred within 15 years, interest accrues at 0% | 19,725 | 19,725 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following: (Continued)

| | <u>2012</u> | <u>2011</u> |
|---|----------------|-------------|
| Mortgage payable to bank. Due in 178 monthly installments of \$1,270 (including interest at 8% per annum, modified in December 2004 to lower rate to 6.125%). The loan was modified in December 2009 in which the interest rate was decreased to 6% and the monthly payment was decreased to \$1,175. Secured by real estate on Sequoia Avenue in Baltimore, Maryland. Loan was repaid and refinanced with another bank in 2012 | \$ - | \$ 72,254 |
| Mortgage payable to bank. Due in 180 monthly installments of \$474 (including interest at 6.25% per annum). Secured by real estate on Aurora Drive. Matures in June 2018 | 24,328 | 28,335 |
| Mortgage payable to bank. Due in 180 monthly installments of \$1,725 (including interest at 6.25% per annum). The loan was modified in December 2009 in which the interest rate was decreased to 6% and the monthly payment was decreased to \$1,699. All other terms remain the same. Secured by real estate on Evergreen Drive. Matures in May 2018 | 103,095 | 116,280 |
| Mortgage payable to a charitable organization. Due in 120 monthly installments of \$1,250 (0% APR per note, 5.25% APR imputed per annum). Secured by real estate on Aurora Drive. Matures in June 2013 | 30,021 | 45,021 |
| Mortgage payable to Virginia Housing Development Authority. Due in monthly installments of \$2,421 (including interest at 8.1478% per annum). Secured by real property owned by Baker House. Matures in January 2020 | 163,930 | 178,592 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following: (Continued)

| | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|
| Mortgage payable to bank. Due in 83 payments of \$2,496. Interest accrues at the prime rate, but not below 4%. Principal balance is due and payable March 2017. Rate at June 30, 2012 and 2011, is 4%. Secured by real estate at Blagden Avenue. The prime rate at June 30, 2012 and 2011, is 3.25% | \$ 444,427 | \$ 467,256 |
| Mortgage payable to bank. Due in 59 payments of \$3,107. Interest accrues at the prime rate plus 0.25%, but not below 6.125%. Principal balance is due and payable November 2014. Rate at June 30, 2012 and 2011, is 6.125%. Secured by real estate at Kensington Avenue. The prime rate at June 30, 2012 and 2011, is 3.25% | 535,285 | 551,224 |
| Mortgage payable to bank. Due in 59 payments of \$3,803. Interest accrues at the prime rate plus .50%, but not below 4.75%. Principal balance is due and payable June 2015. Rate at June 30, 2012 and 2011, is 4.75%. The prime rate at June 30, 2012 and 2011, is 3.25%. Secured by real estate at Verbena Avenue | 548,414 | 567,327 |
| Mortgage payable to bank. Due in 59 payments of \$1,755. Interest accrues at the prime rate plus .50%, but not below 4.75%. Principal balance is due and payable June 2015. Rate at June 30, 2012 and 2011, is 4.75%. The prime rate at June 30, 2012 and 2011, is 3.25%. Secured by real estate at Frost Avenue | 253,114 | 261,725 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following: (Continued)

| | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| Mortgage payable to DHCD. Annual stated interest rate of 1.0%. Minimum annual payments of \$45,514 are required. Matures in 2037. Secured by real property owned by PACA House. In addition, a payment equal to the amount due on a 20-year amortization schedule shall be paid to the extent of surplus cash | \$ 776,619 | \$ 784,699 |
| Mortgage payable to City of Baltimore. Annual stated interest rate of 1.0% with interest only payable to the extent of surplus cash. Repayment of principal is deferred until maturity in 2020. Secured by real property owned by PACA House | 2,075,791 | 2,075,791 |
| Mortgage payable to Maryland DHCD. The loan was interest-free through construction completion or August 21, 2004, whichever occurred first. The mortgage is secured by Pratt Street real estate and matures in 2043. The interest rate is the annual applicable federal rate. Annual principal and interest payments shall be made upon commencement of the permanent loan period if the Organization has surplus cash, which is defined in the loan agreement. Any principal and interest not paid due to insufficient surplus cash shall be deferred and paid on the next annual payment date to the extent there is sufficient surplus cash. Outstanding principal and accrued interest shall be due and payable on the maturity date. The rate at June 30, 2012 and 2011, was 3.89% and 4.05%, respectively | 700,000 | 700,000 |
| Various loans secured by vehicles with rates ranging from 4.25% to 7.5% and maturing up to May 2015 | 171,496 | 272,244 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following: (Continued)

| | 2012 | 2011 |
|---|-------------------|-------------------|
| <p>A mortgage payable was obtained from Maryland DHCD. The loan was interest-free through May 31, 2004. Interest then accrues at 4% per annum. Interest and principal are due in annual installments commencing April 1, 2005, in an amount equal to the lesser of surplus cash or scheduled payments. If the scheduled payments are greater than surplus cash, the unpaid difference shall be deferred and all accrued and unpaid interest shall be added to the principal amount of the note and shall accrue interest at 4% per annum. During 2012, DHCD agreed to add interest accrued to the principal balance. On June 1, 2042, the entire indebtedness shall be due and payable. The loan is secured by Pratt Street real estate</p> | \$ 681,292 | \$ 470,098 |
| <p>Mortgage payable to bank. Due in monthly installments of \$2,950 (including interest at 6.56% per annum). Secured by real property on Annapolis Road. Mortgage was refinanced in August 2005. Revised terms are monthly payments of principal and interest of \$2,940 at 6.125% per annum. The loan was modified in December 2009 to lower the interest rate to 6% per annum and the monthly payment to \$2,918 per month. The loan matures in November 2013</p> | 50,649 | 81,713 |
| <p>Permanent mortgage payable to Enterprise Mortgage Investments, Inc., was settled on August 1, 2007, for \$1,592,000. The loan paid off the construction loan with BB&T. Interest is computed at 7.13% per annum and matures 30 years after the closing date of the loan. The Mortgage requires monthly principal and interest payments of \$10,371. Secured by real property located on Potter Street</p> | 1,504,245 | 1,524,946 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Obligations under notes and mortgages payable at June 30, 2012 and 2011, consisted of the following: (Continued)

| | 2012 | 2011 |
|--|-----------------------------|----------------------------|
| <p>A mortgage payable was obtained from Maryland DHCD under its Housing Opportunities for Persons with AIDS program. The loan was interest-free through construction completion or August 21, 2004, whichever occurred first. The note is secured by Pratt Street real estate and matures in 2043. The permanent loan interest rate is the annual applicable federal rate. Annual principal and interest payments shall be made upon commencement of the permanent loan period if the Organization has surplus cash, which is defined in the note. Any principal and interest not paid because of insufficient surplus cash shall be deferred and paid on the next annual payment date to the extent there is sufficient surplus cash. Outstanding principal and accrued interest shall be due and payable on the maturity date. The rate at June 30, 2012 and 2011, was 3.89% and 4.05%, respectively</p> | \$ 100,000 | \$ 100,000 |
| Total Long-Term Debt | 10,276,110 | 9,679,811 |
| Less Current Portion | (228,513) | (318,399) |
| Net Long-Term Portion | <u>\$ 10,047,597</u> | <u>\$ 9,361,412</u> |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

12. NOTES AND MORTGAGES PAYABLE (CONTINUED)

Annual maturities for the long-term debt at June 30, 2012, are as follows:

| <u>For the Years Ending June 30,</u> | |
|--------------------------------------|----------------------|
| 2013 | \$ 228,513 |
| 2014 | 326,115 |
| 2015 | 1,487,884 |
| 2016 | 127,330 |
| 2017 | 765,626 |
| Thereafter | <u>7,340,842</u> |
| Total | <u>\$ 10,276,310</u> |

Mortgages payable from surplus cash are assumed payable at loan maturity for purposes of this schedule.

The Organization agreed to maintain a minimum tangible net worth and a debt service coverage ratio regarding its mortgage and real estate loans with one bank. Per the terms of the loan agreements, tangible net worth shall not be less than \$9.5 million as exhibited in the annual consolidated financial audit. Tangible net worth is defined as net worth, plus obligations contractually subordinated to debts owed to the bank, minus goodwill, contract rights, and assets representing claims on stockholders or affiliated entities. The debt service coverage ratio shall not be less than 1.2X for the respective programs that are the end users of the related properties. Cash flow is defined as net profit before taxes, plus depreciation, amortization, and interest, minus owner withdrawals and advances to stockholders. Debt service is defined as current maturities of long-term debt plus interest expense. If the loans were deemed in default by the bank, then the bank has the option to declare the balances on the notes immediately due and payable, require the Organization to pledge additional collateral, take immediate possession and foreclose on the properties, and/or charge a default rate of interest on the mortgages, which is defined as the prime rate plus 5%. At June 30, 2012 and 2011, the Organization met both the minimum tangible net worth and debt service coverage ratio requirements.

13. REFUNDABLE ADVANCES

The Organization records grant awards accounted for as exchange transactions as refundable advances until related services are performed, at which time they are recognized as revenue. Refundable advances for grant awards received but not yet earned as of June 30, 2012 and 2011, amounted to \$493,428 and \$406,162, respectively.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

13. REFUNDABLE ADVANCES (CONTINUED)

Pratt Street Housing Corporation has entered into an agreement with DHCD to receive a shelter and transitional housing facilities grant totaling \$970,576 in connection with the construction and renovation of the Pratt Street building. There shall be no interest charged on the financial assistance. Pratt Street Housing Corporation has agreed that all units in the facility will be occupied by homeless residents whose length of stay may not exceed two years. Repayment is not required as long as Pratt Street Housing Corporation complies with these requirements for 15 years. Therefore, these amounts are recorded as refundable advances, until the possibility of repayment is remote.

Pratt Street Housing Corporation has entered into an affordable housing program agreement with a bank and the Federal Home Loan Bank of Atlanta in which Pratt Street Housing Corporation received a \$175,000 subsidy to be used for construction of the Pratt Street building. Pratt Street Housing Corporation has agreed to restrict housing in the building as to type, number of housing units, and affordability levels of tenants for a period of 15 years. If the building is sold or not in compliance with the agreed use prior to the expiration of the 15-year period, then Pratt Street Housing Corporation may be obligated to reimburse the full amount of the subsidy. Therefore, this subsidy is recorded as refundable advances, until the possibility of repayment is remote.

14. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets represent support from a charitable remainder trust in the form of investments held by a third-party trustee under a split-interest agreement totaling \$527,696 and \$530,347 at June 30, 2012 and 2011, respectively, as described in Note 9. The trust corpus will be distributed to the Organization upon the death of the last beneficiary receiving a stipulated monthly amount. The variance in the Organization's share of trust assets from year to year is recorded in the consolidated statements of activities and changes in net assets as "change in value of split-interest agreements."

Permanently restricted net assets represent support from a perpetual trust in the form of investments administered by a bank and totaled \$43,022 and \$46,454 at June 30, 2012 and 2011, respectively. Changes in value are recorded in the consolidated statements of activities and changes in net assets as "change in value of split-interest agreements."

The cash distributions received from both trusts are recorded gain on investments.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

15. NONCONTROLLING INTERESTS

Noncontrolling interests represents the 99.99% limited partnership interests in Pratt Street and Irvington Woods.

16. RELATED PARTY TRANSACTIONS

VOAC is a locally incorporated affiliate of VOA, Inc., a national Christian human services organization. VOAC incurred administrative fees to VOA, Inc., totaling \$499,124 and \$489,019 for the years ended June 30, 2012 and 2011, respectively. VOAC owed VOA, Inc.'s affiliate \$51,476 and \$58,709 related to these fees as of June 30, 2012 and 2011, respectively.

In July 1998, VOAC entered into a twenty-four month contract with VOA, Inc., which allowed VOA, Inc., to operate the enterprise program. Per the terms of the agreement, the contract could be renewed at the end of the term by VOAC. Under this arrangement, VOAC received 75% of net revenue. Net revenue is defined as gross receipts and vehicle towing donations, less all local program operating expenses. Effective March 1, 2009, VOA, Inc., updated this agreement. For an initial period of four months, VOAC will receive 50% of the net revenue, while VOA, Inc., will retain the balance. Any operating deficits will be funded by VOA, Inc., and cumulative losses at the end of the period will be applied against subsequent net revenues. At the end of this initial period, VOA, Inc., decided to continue operating the local program. Therefore, the agreement automatically renewed for an additional five-year period and will continue to renew annually thereafter, unless terminated earlier by either party for reasons indicated in the agreement. At June 30, 2012 and 2011, VOAC is owed \$13,589 and \$-0- by VOA, Inc., respectively.

The net revenues under this agreement totaled \$-0- and \$9,816 for the years ended June 30, 2012 and 2011, respectively. These revenues are reported as contributions support.

VOAC owes VOA, Inc., \$278,627 and \$232,497 in operating advances that are noninterest-bearing and are due on demand as of June 30, 2012 and 2011, respectively.

VOA Eastern Avenue Housing Corporation (Eastern Avenue Corp) is a non-stock corporation with two directors appointed by VOA, Inc., and two directors appointed by VOAC. Eastern Avenue Corp is the 1% general partner in VOA Eastern Avenue Limited Partnership (VOA Eastern Avenue). VOA Eastern Avenue's purpose is to own and operate an apartment project.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

16. RELATED PARTY TRANSACTIONS (CONTINUED)

VOA Eastern Avenue entered into various agreements with Eastern Avenue Corp concerning management, development, and social services. VOAC accounts for its investment in Eastern Avenue Corp by the equity method of accounting, which was \$-0- at June 30, 2012 and 2011. VOAC recognized \$60,000 in management fee revenue for each of the years ended June 30, 2012 and 2011, which are both still receivable at June 30, 2012. In fiscal year 2010, VOAC paid \$13,000 to Eastern Avenue Corp as a noninterest-bearing operating advance. It remains unpaid at both June 30, 2012 and 2011.

17. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

18. OPERATING LEASES - LEASEE

The Organization has several noncancellable operating leases, primarily for administrative and residential real estate, that expire at various dates through June 2015. Leases have renewal options of up to five years. Rental expenses for these leases totaled \$372,850 and \$429,870 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2012, are as follows:

| <u>For the Years Ending June 30,</u> | |
|--------------------------------------|-------------------|
| 2013 | \$ 175,319 |
| 2014 | 78,318 |
| 2015 | <u>63,918</u> |
| Total | <u>\$ 317,555</u> |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS

Defined Benefit Plans

The Organization sponsors a non-contributory defined benefit plan covering all full-time employees at least 21 years of age who are not commissioned ministers with VOAC and subsidiaries. The benefits are based on actuarial recommendations as to funding requirements. The board of directors froze the defined benefit pension plan as of May 31, 2010. No new participants will be enrolled in the Plan. Additional contributions may be required to meet the projected future benefit obligations of the Plan.

The following table sets forth the Plan's funded status and amounts recognized in the Organization's consolidated financial statements as of and for the years ended June 30:

| | 2012 | 2011 |
|---|---------------------|--------------|
| Benefit Obligation | | |
| Benefit Obligation at Beginning of Year | \$ 5,593,196 | \$ 5,295,547 |
| Service Cost | - | - |
| Interest Cost | 340,200 | 321,597 |
| Actuarial (Gain) Loss | 229,643 | 193,517 |
| Benefits Paid | (257,089) | (217,525) |
| Benefit Obligation at End of Year | 5,905,950 | 5,593,136 |
| Plan Assets | | |
| Fair Market Value at Beginning of Year | 5,077,226 | 4,409,504 |
| Contributions | - | - |
| Benefits Paid | (257,089) | (217,525) |
| Gains (Losses) | (70,630) | 885,247 |
| Fair Market Value at End of Year | 4,749,507 | 5,077,226 |
| Funded Status at End of Year | (1,156,443) | (515,910) |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS (CONTINUED)

Defined Benefit Plans (Continued)

| | 2012 | 2011 |
|---|-----------------------|--------------|
| Amounts Recognized in the Statements of Financial Position | | |
| Non-Current Liabilities | \$ (1,156,443) | \$ (515,910) |
| Amounts Not Yet Reflected in Net Periodic Pension Cost and Included in Unrestricted Assets | | |
| Accumulated Gain | (1,116,336) | (475,863) |
| Net Periodic Pension Cost | | |
| Service Cost | - | - |
| Interest Cost | 340,200 | 321,597 |
| Expected Return on Assets | 369,178 | 317,760 |
| Amortizations | - | - |
| Net Periodic Pension Cost | (28,978) | 3,837 |
| Other Changes Recognized in Changes in Unrestricted Net Assets | | |
| Net Gain (Loss) | 668,326 | (250,450) |
| Amortization of Net Gain (Loss) | - | - |
| Total Recognized in Changes in Unrestricted Net Assets | 668,326 | (250,450) |
| Net Recognized in Net Periodic Pension Cost and Changes in Unrestricted Net Assets | 639,348 | (246,613) |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS (CONTINUED)

Defined Benefit Plans (Continued)

| | 2012 | 2011 |
|---|---------------------|--------------|
| Amortization | | |
| Greater of Benefit Obligation or Plan Assets | \$ 5,905,950 | \$ 5,593,196 |
| 10 Percent | 590,595 | 559,320 |
| Unrecognized (Gains) Losses | (1,116,336) | (475,863) |
| (Gains) Losses Subject to Amortization | - | - |
| Average Future Service Period | 6.09 | 7.80 |
| Minimum Required Amortization for Next Year | - | - |
| Plan Asset Allocation | | |
| Cash and Cash Equivalents | 0.0% | 0.2% |
| Debt Securities | 24.0% | 23.8% |
| Equity Securities | 62.4% | 62.4% |
| Real Estate | 2.9% | 2.9% |
| Other | 10.7% | 10.7% |
| | 100.00% | 100.00% |
| Expected Contribution for Next Plan Year | | |
| (2013 and 2012) | - | 125,000 |
| Expected Benefits Payments | | |
| 2013/2012 | \$ 300,000 | \$ 300,000 |
| 2014/2013 | 370,000 | 310,000 |
| 2015/2014 | 400,000 | 350,000 |
| 2016/2015 | 410,000 | 370,000 |
| 2017/2016 | 440,000 | 390,000 |
| Next 5 Years | 2,870,000 | 2,380,000 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS (CONTINUED)

Defined Benefit Plans (Continued)

| | 2012 | 2011 |
|---|--------------|-------|
| Assumptions | | |
| <i>Weighted-Average Assumptions Used to Benefit Obligation at Year End</i> | | |
| Discount Rate | 6.25% | 6.25% |
| Rate of Compensation Increase | 0.00% | 0.00% |
| <i>Weighted-Average Assumptions Used to Net Periodic Benefit Cost for Years Ended</i> | | |
| Discount Rate | 6.25% | 6.25% |
| Expected Long-Term Return on Plan Assets | 8.00% | 8.00% |
| Rate of Compensation Increase | 0.00% | 0.00% |

Measurement Date

The measurement date for each fiscal year is the year end date. The values of assets and liabilities are calculated at this date.

The Organization's expected rate of return on plan assets was developed by combining a long-term inflation component, the risk adjusted rate of return, and the associated risk premium. A weighted-average rate was developed based on those overall rates and the target asset allocation of the Plan.

Plan Assets

The Organization's investment strategy encompasses a long-term, risk-controlled approach using diversified investment options with a minimal exposure to volatile investment options like derivatives. The strategy utilizes a diversified allocation of equity, debt, and real estate.

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS (CONTINUED)

Defined Benefit Plans (Continued)

Plan Assets (Continued)

Fair Value of Plan Assets - Beginning in 2009, the rules related to accounting for postretirement benefit plans under accounting principles generally accepted in the United States of America require certain fair value disclosures related to postretirement benefit plan assets, even though those assets are not included on the consolidated statements of financial position. The following table presents the fair values of the assets of the Organization's qualified defined benefit pension plan by asset category and their levels within the fair value hierarchy. See Note 8 for the description of each level within the fair value hierarchy.

| | <u>Level 1 Inputs</u> | <u>Level 2 Inputs</u> | <u>Level 3 Inputs</u> | <u>Total</u> |
|--|---------------------------|---------------------------|---------------------------|---------------------|
| <u>June 30, 2012</u> | | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ - |
| Equity - Mutual Funds | 2,965,592 | - | - | 2,965,592 |
| Fixed Income - Corporate Debt Securities | 1,138,457 | - | - | 1,138,457 |
| Fixed Income - U.S. Government Securities | 508,197 | - | - | 508,197 |
| Real Estate | 137,261 | - | - | 137,261 |
| Total | <u>\$ 4,749,507</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,749,507</u> |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS (CONTINUED)

Defined Benefit Plans (Continued)

Plan Assets (Continued)

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
|---|-------------------|-------------------|-------------------|--------------|
| <u>June 30, 2011</u> | | | | |
| Cash and Cash Equivalents | \$ 9,647 | \$ - | \$ - | \$ 9,647 |
| Equity - Mutual Funds | 3,170,220 | - | - | 3,170,220 |
| Fixed Income - Corporate Debt Securities | 1,207,364 | - | - | 1,207,364 |
| Fixed Income - U.S. Government Securities | 543,263 | - | - | 543,263 |
| Real Estate | 146,732 | - | - | 146,732 |
| Total | \$ 5,077,226 | \$ - | \$ - | \$ 5,077,226 |

Valuation Techniques - Cash equivalents mostly consist of short-term money-market instruments and are valued at cost, which approximates fair value.

U.S. equity securities and international equity securities, fixed income securities, and real estate based securities are categorized as Level 1 and are traded on national and international exchanges and are valued at their closing prices on the last day of the year.

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

19. RETIREMENT PLANS (CONTINUED)

Tax Deferred Annuity Plans

The Organization maintains two separate tax-deferred annuity plans qualified under Section 403(b) of the Internal Revenue Code. One plan is for full-time employees at least 21 years of age employed as ministers of VOAC. The employer matches contributions at 5% of salary for the ministers. The second plan is available for all employees of the Organization and has no required employer matching contribution. Effective June 1, 2010, the Organization amended the second 403(b) plan to require a 2% employer contribution and up to a 3% discretionary profit sharing contribution after one year of service and 1,500 hours worked. Employer contributions vest at 20% for each year of service. Participants enrolled in the Plan as of January 1, 2010, and who have been with the Organization for over one year and have completed 2,000 hours of service will be grandfathered into the match and will not have to wait for the additional year. Plan expenses amounted to \$15,102 and \$14,936 for the years ended June 30, 2012 and 2011, respectively.

Participation in VOA, Inc., Defined Benefit Plan

VOA, Inc. participates with its local offices, including VOAC, in a non-contributory defined benefit pension and retirement plan, called The Volunteers of America National Pension Plan. The plan's employer identification number is 13-1692595 and the plan year end is December 31. This plan is a multi-employer plan and is not required to record the unfunded pension liability in its financials. The plan's disclosure information regarding the projected benefit obligation and unfunded status as they relate solely to VOA, Inc. is not available, which is typical for multi-employer plans. Because this plan is a church plan and not subject to the Employment Retirement Security Act of 1974 (ERISA), VOA, Inc. is not required to file a Form 5500. This unfunded liability is collectively the liability of all participating employers. If there were any cash shortfalls in the plan, the plan would look towards the participating employers to fund these amounts. As the participating employers of this plan are affiliated with VOA, Inc., it is not anticipated that any employer will choose to stop participating.

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

19. RETIREMENT PLANS (CONTINUED)

Participation in VOA, Inc., Defined Benefit Plan (Continued)

The financial health of the multi-employer pension plan is indicated by the zone status, as defined by the Pension Protection Act of 2006, which represents the funded status of the plan as certified by the plan's actuary. Plans in the red zone are less than 65% funded, the yellow zone are between 65% and 80% funded, and the green zone are at least 80% funded. Because the plan is not subject to ERISA, a funding improvement plan is not required; however, VOA, Inc. has voluntarily implemented a contribution assessment, as of January 1, 2012 and 2011, as follows:

| | <u>1/1/2012</u> | <u>1/1/2011</u> |
|---|-----------------------------|-----------------------------|
| Market value of plan assets | \$ 37,283,000 | \$ 37,465,000 |
| Present value of accumulated plan benefits | 56,235,000 | 54,073,000 |
| | | |
| Actuarial valuation of the unfunded pension liability | <u>\$ 18,952,000</u> | <u>\$ 16,608,000</u> |
| | | |
| | Fiscal Year | Fiscal Year |
| | 2012 | 2011 |
| Zone Status | Red | Red |
| Employer's contribution to the plan | 1,049,000 | 980,000 |
| Total contribution >5% of total contributions to the plan | 3,619,000 | 3,218,000 |
| | Yes | Yes |
| Total fair value of plan assets at year end | \$ 38,917,000 | \$ 39,169,000 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2012 and 2011**

20. POSTRETIREMENT BENEFIT

The Organization provides a self-funded, non-qualified postretirement benefit to two retired chief executive officers. In one case, the benefit consists of a housing allowance and term life insurance. In the second case, the benefit consists of annual health insurance and level premium and term life insurance. The liability for the benefit obligation is determined as the present value of the future cash requirements for the life expectancies of the beneficiaries at the current U.S. Treasury 20-year interest rate. In the case of the health insurance, an escalator of six percent is used for expected future health insurance increases, and Medicare supplemental insurance is assumed at age 65. The postretirement benefit obligation at June 30, 2012 and 2011, was \$608,490 and \$669,322, respectively.

21. OPERATING LEASES - LESSOR

Baker House, PACA House, Pratt Street, and Irvington Woods rent units in apartment buildings to tenants under agreements with governmental agencies. All leases are on a month-to-month basis

Cost and depreciation/impairment of the apartment buildings for the years ended June 30, 2012 and 2011, is as follows:

| | <u>Cost</u> | <u>Depreciation/ Impairment</u> | <u>Net</u> |
|-----------------------------|-------------|-------------------------------------|------------|
| <u>June 30, 2012</u> | | | |
| Baker House | \$ 464,762 | \$ 319,933 | \$ 144,829 |
| PACA House | 6,893,525 | 3,819,788 | 3,073,737 |
| Pratt Street | 3,827,762 | 2,743,423 | 1,084,339 |
| Irvington Woods | 6,905,437 | 1,656,735 | 5,248,702 |
| | | | |
| <u>June 30, 2011</u> | | | |
| Baker House | \$ 464,762 | \$ 310,638 | \$ 154,124 |
| PACA House | 6,827,981 | 3,683,228 | 3,144,753 |
| Pratt Street | 3,813,067 | 2,721,511 | 1,091,556 |
| Irvington Woods | 6,905,437 | 1,526,213 | 5,379,224 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012 and 2011

22. CONTINGENCIES

PACA House's, Pratt Street's, and Irvington Woods' low-income housing tax credits are contingent on their ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rents, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the limited partners.

VOAC is required to make certain operating deficit contributions to Pratt Street as defined in the partnership agreement. The Organization has agreed to advance funds up to a cumulative maximum of \$335,000 to Pratt Street to cover any operating deficits. No such contributions were required during fiscal years 2012 and 2011. The cumulative operating deficit contributions remitted were \$214,050 through June 30, 2012.

VOAC is required to make certain operating deficit contributions to Irvington Woods as defined in the partnership agreement. The general partner, pursuant to the terms of the partnership agreement, is required to fund additional capital contributions for any operating deficits through the stabilization date. The general partner's obligation after the stabilization date to make operating deficit contributions that are not funded from the operating reserves is limited to \$280,000. To the extent the general partner cannot meet this obligation, VOAC has provided a guarantee to advance funds to the general partner to cover any shortfall. As of June 30, 2012 and 2011, no such contribution has been requested or required.

Financial assistance from federal, state, and local government entities in the form of grants are subject to special audit procedures. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

23. SUBSEQUENT EVENTS

VOAC closed on a new market tax credit renovation project located in Baltimore, Maryland on July 6, 2012. VOAC borrowed funds for construction in the amount of \$7,000,000, which was guaranteed by VOA, Inc. The note is amortized over 18 years at 5.25% with a balloon payment of \$5,171,272 due July 6, 2019. VOAC then loaned the borrowed funds along with an additional \$828,904 to Chase NMTC VOA Chesapeake Investment Fund, LLC. The \$7,000,000 note receivable is an interest only loan at 5.25% and matures on July 6, 2019. The \$828,904 note receivable is an interest only loan at 1% until July 31, 2019, when the loan begins to be amortized until it matures on July 6, 2042.

The Organization has evaluated subsequent events through November 16, 2012, the date on which the financial statements were available to be issued.

Supplementary Information

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidating Schedule of Financial Position Information
June 30, 2012**

| | VOAC | Holding Corp | Baker House | PACA House, Inc. | PACA House | Pratt Street Housing | Pratt Street | Irvington Woods Corp | Irvington Woods | Total | Eliminations | Consolidated Total |
|---|----------------------|-------------------|-------------------|-------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|-----------------------|----------------------|
| Assets | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$ 2,883,101 | \$ 1,739 | \$ 13,847 | \$ - | \$ 4,146 | \$ - | \$ 1,970 | \$ - | \$ 84,798 | \$ 2,989,601 | \$ - | \$ 2,989,601 |
| Accounts Receivable (Net of Allowance) | 3,380,221 | 431,406 | - | - | 20,430 | - | 572 | - | 7,447 | 3,840,076 | (431,406) | 3,408,670 |
| Other Receivables | - | - | - | - | - | - | 305 | - | - | 305 | - | 305 |
| Due from Related Parties | 1,475,330 | - | - | - | - | 230,132 | - | - | 100 | 1,705,562 | (1,572,562) | 133,000 |
| Prepaid Expenses | 137,504 | - | 3,384 | - | 19,825 | - | 9,698 | - | 12,720 | 183,131 | - | 183,131 |
| Land, Buildings, and Equipment (Net) | 7,526,411 | 344,392 | 156,654 | - | 3,335,569 | - | 1,285,315 | - | 5,460,308 | 18,108,649 | (1,190,874) | 16,917,775 |
| Designated and Restricted Cash | - | - | 228,596 | - | 1,187,402 | - | 168,337 | - | 318,546 | 1,902,881 | - | 1,902,881 |
| Long-Term Investments | 1,366,517 | - | - | - | - | - | - | - | - | 1,366,517 | - | 1,366,517 |
| Unamortized Mortgage Costs | - | - | - | - | 49,160 | - | 47,327 | - | 46,690 | 143,177 | - | 143,177 |
| Deposits | 31,897 | - | - | - | - | - | - | - | - | 31,897 | - | 31,897 |
| Beneficial Interest in Perpetual Trust | 43,022 | - | - | - | - | - | - | - | - | 43,022 | - | 43,022 |
| Investment in Partnerships | 1,266,493 | - | - | 119,812 | - | 970,576 | - | 100 | - | 2,356,981 | (2,356,981) | - |
| Contribution Receivable from Charitable Remainder Trust | 527,696 | - | - | - | - | - | - | - | - | 527,696 | - | 527,696 |
| Notes Receivable from Affiliates | 892,965 | - | - | - | - | - | - | 1,266,293 | - | 2,159,258 | (2,159,258) | - |
| Total Assets | \$ 19,531,157 | \$ 777,537 | \$ 402,481 | \$ 119,812 | \$ 4,616,532 | \$ 1,200,708 | \$ 1,513,524 | \$ 1,266,393 | \$ 5,930,609 | \$ 35,358,753 | \$ (7,711,081) | \$ 27,647,672 |
| Liabilities and Net Assets | | | | | | | | | | | | |
| Accounts Payable | \$ 278,014 | \$ (782) | \$ 2,866 | \$ - | \$ 35,292 | \$ - | \$ 22,355 | \$ - | \$ 7,616 | \$ 345,361 | \$ - | \$ 345,361 |
| Long-Term Debt | 4,192,834 | 73,877 | 163,930 | - | 3,275,132 | - | 1,656,292 | - | 1,504,245 | 10,866,310 | (590,200) | 10,276,110 |
| Accrued Expenses | 934,903 | - | 1,113 | - | 800,823 | - | 546,667 | - | 30,158 | 2,313,664 | (431,406) | 1,882,258 |
| Post-Retirement Benefit Liability | 608,490 | - | - | - | - | - | - | - | - | 608,490 | - | 608,490 |
| Underfunded Pension Obligation | 1,156,443 | - | - | - | - | - | - | - | - | 1,156,443 | - | 1,156,443 |
| Contract/Grant Advances | 63,992 | - | - | - | - | - | - | - | - | 63,992 | - | 63,992 |
| Due to Related Parties | 779,570 | - | - | - | 572,238 | - | 173,718 | - | 1,932,708 | 3,458,234 | (3,141,720) | 316,514 |
| Client Escrow Funds | 86,847 | - | - | - | - | - | - | - | - | 86,847 | - | 86,847 |
| Tenant Security Deposits | - | - | 1,169 | - | 4,621 | - | 1,650 | - | 30,847 | 38,287 | - | 38,287 |
| Refundable Advances | 477,334 | - | - | - | 12,286 | 1,145,576 | 5,681 | - | (1,873) | 1,639,004 | - | 1,639,004 |
| Total Liabilities | 8,578,427 | 73,095 | 169,078 | - | 4,700,392 | 1,145,576 | 2,406,363 | - | 3,503,701 | 20,576,632 | (4,163,326) | 16,413,306 |
| Net Assets | | | | | | | | | | | | |
| Unrestricted | | | | | | | | | | | | |
| Controlling Interest | 10,382,012 | 704,442 | 233,403 | 119,812 | (83,860) | 55,132 | (892,839) | 1,266,393 | (89) | 11,784,406 | (3,547,755) | 8,236,651 |
| Noncontrolling Interest | - | - | - | - | - | - | - | - | 2,426,997 | 2,426,997 | - | 2,426,997 |
| Total Unrestricted | 10,382,012 | 704,442 | 233,403 | 119,812 | (83,860) | 55,132 | (892,839) | 1,266,393 | 2,426,908 | 14,211,403 | (3,547,755) | 10,663,648 |
| Temporarily Restricted | 527,696 | - | - | - | - | - | - | - | - | 527,696 | - | 527,696 |
| Permanently Restricted | 43,022 | - | - | - | - | - | - | - | - | 43,022 | - | 43,022 |
| Total Net Assets | 10,952,730 | 704,442 | 233,403 | 119,812 | (83,860) | 55,132 | (892,839) | 1,266,393 | 2,426,908 | 14,782,121 | (3,547,755) | 11,234,366 |
| Total Liabilities and Net Assets | \$ 19,531,157 | \$ 777,537 | \$ 402,481 | \$ 119,812 | \$ 4,616,532 | \$ 1,200,708 | \$ 1,513,524 | \$ 1,266,393 | \$ 5,930,609 | \$ 35,358,753 | \$ (7,711,081) | \$ 27,647,672 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidating Schedule of Financial Position Information
June 30, 2011**

| | VOAC | Holding Corp | Baker House | PACA House, Inc. | PACA House | Pratt Street Housing | Pratt Street | Irvington Woods Corp | Irvington Woods | Total | Eliminations | Consolidated Total |
|---|---------------------|-------------------|-------------------|-------------------|---------------------|----------------------|---------------------|----------------------|---------------------|---------------------|-----------------------|---------------------|
| Assets | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$ 2,439,254 | \$ (424) | \$ 9,828 | \$ - | \$ 20,613 | \$ - | \$ 33,151 | \$ - | \$ 15,428 | \$ 2,517,850 | \$ - | \$ 2,517,850 |
| Accounts Receivable (Net) | 3,134,832 | 33,360 | 240 | - | 2,020 | - | 2,488 | - | 8,289 | 3,181,229 | (33,360) | 3,147,869 |
| Other Receivables | 3,355 | - | - | - | - | - | 313 | - | 3,668 | 2,165 | (2,165) | 1,503 |
| Due from Related Parties | 935,470 | - | - | - | - | 224,882 | - | - | 100 | 1,160,452 | (1,027,452) | 133,000 |
| Prepaid Expenses | 38,047 | - | 3,135 | - | 18,500 | - | - | - | 13,650 | 73,332 | - | 73,332 |
| Land, Buildings, and Equipment | 6,896,750 | 332,394 | 163,618 | - | 3,485,322 | - | 1,292,562 | - | 5,741,745 | 17,912,391 | (1,190,874) | 16,721,517 |
| Designated and Restricted Cash | 316,359 | - | 237,085 | - | 1,191,513 | - | 172,481 | - | 298,812 | 2,216,250 | - | 2,216,250 |
| Long-Term Investments | 1,347,317 | - | - | - | 848 | - | - | - | - | 1,348,165 | - | 1,348,165 |
| Unamortized Mortgage Costs | - | - | - | - | 51,051 | - | 48,932 | - | 48,553 | 148,536 | - | 148,536 |
| Deposits | 18,290 | - | - | - | - | - | - | - | 18,290 | - | - | 18,290 |
| Beneficial Interest in Perpetual Trust | 43,866 | - | - | - | - | - | - | - | 43,866 | - | - | 43,866 |
| Investment in Partnerships | 1,266,393 | - | - | 119,812 | - | 970,576 | - | 100 | - | 2,356,881 | (2,356,881) | - |
| Contribution Receivable from Charitable Remainder Trust | 530,347 | - | - | - | - | - | - | - | - | 530,347 | - | 530,347 |
| Notes Receivable from Affiliates | 846,741 | - | - | - | - | - | - | 1,266,293 | - | 2,113,034 | (2,113,034) | - |
| Total Assets | \$17,817,021 | \$ 365,330 | \$ 413,906 | \$ 119,812 | \$ 4,769,867 | \$ 1,195,458 | \$ 1,549,927 | \$ 1,266,393 | \$ 6,126,577 | \$33,624,291 | \$ (6,723,766) | \$26,900,525 |
| Liabilities and Net Assets | | | | | | | | | | | | |
| Accounts Payable | \$ 190,332 | \$ 2,606 | \$ 3,866 | \$ - | \$ 19,292 | \$ - | \$ 4,889 | \$ - | \$ 42,227 | \$ 263,212 | \$ (33,360) | \$ 229,852 |
| Long-Term Debt | 3,706,984 | 138,341 | 178,952 | - | 3,275,690 | - | 1,445,098 | - | 1,524,946 | 10,270,011 | (590,200) | 9,679,811 |
| Accrued Expenses | 1,276,733 | - | 3,605 | - | 762,748 | - | 640,566 | - | 48,352 | 2,732,004 | (475,716) | 2,256,288 |
| Post-Retirement Benefit Liability | 669,322 | - | - | - | - | - | - | - | 669,322 | - | - | 669,322 |
| Underfunded Pension Obligation | 515,970 | - | - | - | - | - | - | - | 515,970 | - | - | 515,970 |
| Contract/Grant Advances | 45,833 | - | - | - | - | - | - | - | 45,833 | - | - | 45,833 |
| Due to Related Parties | 49,277 | (405,837) | - | - | 586,368 | - | 200,752 | - | 1,937,381 | 2,367,941 | (2,076,735) | 291,206 |
| Client Escrow Funds | 80,433 | - | - | - | - | - | - | - | 80,433 | - | - | 80,433 |
| Tenant Security Deposits | - | - | 827 | - | 3,826 | - | 4,349 | - | 32,959 | 41,961 | - | 41,961 |
| Refundable Advances | 408,271 | - | 71 | - | 2,131 | 1,145,576 | (4,870) | - | 559 | 1,551,738 | - | 1,551,738 |
| Total Liabilities | 6,943,155 | (264,890) | 187,321 | - | 4,650,055 | 1,145,576 | 2,290,784 | - | 3,586,424 | 18,538,425 | (3,176,011) | 15,362,414 |
| Net Assets | | | | | | | | | | | | |
| Unrestricted | | | | | | | | | | | | |
| Controlling Interest | 10,297,065 | 630,220 | 226,585 | 119,812 | 119,812 | 49,882 | (740,857) | 1,266,393 | (78) | 11,968,834 | (3,547,755) | 8,421,079 |
| Noncontrolling Interest | - | - | - | - | - | - | - | - | 2,540,231 | 2,540,231 | - | 2,540,231 |
| Total Unrestricted | 10,297,065 | 630,220 | 226,585 | 119,812 | 119,812 | 49,882 | (740,857) | 1,266,393 | 2,540,153 | 14,509,065 | (3,547,755) | 10,961,310 |
| Temporarily Restricted | 530,347 | - | - | - | - | - | - | - | - | 530,347 | - | 530,347 |
| Permanently Restricted | 46,454 | - | - | - | - | - | - | - | 46,454 | - | - | 46,454 |
| Total Net Assets | 10,873,866 | 630,220 | 226,585 | 119,812 | 119,812 | 49,882 | (740,857) | 1,266,393 | 2,540,153 | 15,085,866 | (3,547,755) | 11,538,111 |
| Total Liabilities and Net Assets | \$17,817,021 | \$ 365,330 | \$ 413,906 | \$ 119,812 | \$ 4,769,867 | \$ 1,195,458 | \$ 1,549,927 | \$ 1,266,393 | \$ 6,126,577 | \$33,624,291 | \$ (6,723,766) | \$26,900,525 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidating Schedule of Unrestricted Activities Information
For the Year Ended June 30, 2012**

| | VOAC | Holding Corp | Baker House | PACA House, Inc. | PACA House | Pratt Street Housing | Pratt Street | Irvington Woods Corp | Irvington Woods | Total | Eliminations | Consolidated Total |
|---|----------------------|-------------------|-------------------|-------------------|--------------------|----------------------|---------------------|----------------------|-----------------|----------------------|-----------------------|---------------------|
| Revenues and Support | | | | | | | | | | | | |
| Contributions | \$ 309,737 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 309,737 | \$ - | \$ 309,737 |
| Contributions, In-Kind | 286,585 | - | - | - | - | - | - | - | - | 286,585 | - | 286,585 |
| Special Events | 18,110 | - | - | - | - | - | - | - | - | 18,110 | - | 18,110 |
| United Way | 8,921 | - | - | - | - | - | - | - | - | 8,921 | - | 8,921 |
| Government Revenues and Grants | 21,454,500 | - | - | - | - | - | - | - | - | 21,454,500 | - | 21,454,500 |
| Program Service Fees | 1,217,049 | - | 104,718 | - | 654,141 | - | 352,671 | - | 621,482 | 2,950,061 | - | 2,950,061 |
| Sales of Materials and Services | - | - | - | - | - | - | - | - | 22,216 | 22,216 | - | 22,216 |
| Other Operating Revenues | 74,971 | 695 | 26 | - | 38,023 | - | 22,000 | - | (428) | 135,287 | - | 135,287 |
| Interest and Dividends | 42,492 | - | 649 | - | 3,542 | 5,250 | 511 | - | 89 | 52,533 | (36,159) | 16,374 |
| Unrealized Loss on Investments | (36,701) | - | - | - | - | - | - | - | - | (36,701) | - | (36,701) |
| Gain (Loss) on Disposal of Assets | (8,864) | 2,935 | - | - | - | - | - | - | - | (5,929) | - | (5,929) |
| Rental Revenue | - | 172,800 | - | - | - | - | - | - | - | 172,800 | (172,800) | - |
| Vehicle Lease | - | 13,940 | - | - | - | - | - | - | - | 13,940 | (13,940) | - |
| Other Revenues | 412,118 | - | - | - | - | - | - | - | - | 412,118 | - | 412,118 |
| Total Revenues and Support | 23,778,918 | 190,370 | 105,393 | - | 695,706 | 5,250 | 375,182 | - | 643,359 | 25,794,178 | (222,899) | 25,571,279 |
| Expenses | 23,025,645 | 116,148 | 98,575 | - | 899,378 | - | 527,164 | - | 756,604 | 25,423,514 | (222,899) | 25,200,615 |
| Change in Pension Obligation | (668,326) | - | - | - | - | - | - | - | - | (668,326) | - | (668,326) |
| (Decrease) Increase in Unrestricted Net Assets Before Noncontrolling Interest | 84,947 | 74,222 | 6,818 | - | (203,672) | 5,250 | (151,982) | - | (113,245) | (297,662) | - | (297,662) |
| Increase in Net Assets Attributable to Noncontrolling Interest in Subsidiary | - | - | - | - | - | - | - | - | 113,234 | 113,234 | - | 113,234 |
| (Decrease) Increase in Unrestricted Net Assets | 84,947 | 74,222 | 6,818 | - | (203,672) | 5,250 | (151,982) | - | (11) | (184,428) | - | (184,428) |
| Unrestricted Net Assets - Beginning of Year | 10,297,065 | 630,220 | 226,585 | 119,812 | 119,812 | 49,882 | (740,857) | 1,266,393 | (78) | 11,968,834 | (3,547,755) | 8,421,079 |
| Unrestricted Net Assets - End of Year | \$ 10,382,012 | \$ 704,442 | \$ 233,403 | \$ 119,812 | \$ (83,860) | \$ 55,132 | \$ (892,839) | \$ 1,266,393 | \$ (89) | \$ 11,784,406 | \$ (3,547,755) | \$ 8,236,651 |

Volunteers of America Chesapeake, Inc., and Subsidiaries

**Consolidating Schedule of Unrestricted Activities Information
For the Year Ended June 30, 2011**

| | VOAC | Holding Corp | Baker House | PACA House, Inc. | PACA House | Pratt Street Housing | Pratt Street | Irvington Woods Corp | Irvington Woods | Total | Eliminations | Consolidated Total |
|---|----------------------|-------------------|-------------------|-------------------|-------------------|----------------------|---------------------|----------------------|-----------------|----------------------|-----------------------|---------------------|
| Revenues and Support | | | | | | | | | | | | |
| Contributions | \$ 279,436 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 279,436 | \$ - | \$ 279,436 |
| Contributions, In-Kind | 305,072 | - | - | - | - | - | - | - | - | 305,072 | - | 305,072 |
| Sales to Public | 9,816 | - | - | - | - | - | - | - | - | 9,816 | - | 9,816 |
| Special Events | 28,729 | - | - | - | - | - | - | - | - | 28,729 | - | 28,729 |
| Legacies and Bequests | 1,270 | - | - | - | - | - | - | - | - | 1,270 | - | 1,270 |
| United Way | 4,267 | - | - | - | - | - | - | - | - | 4,267 | - | 4,267 |
| Government Revenues and Grants | 21,035,182 | - | - | - | 357,603 | - | 244,381 | - | 324,567 | 21,961,733 | (49,522) | 21,912,211 |
| Program Service Fees | 1,076,712 | - | 96,971 | - | 261,545 | - | 129,001 | - | 219,805 | 1,784,034 | - | 1,784,034 |
| Sales of Materials and Services | 3,493 | - | - | - | - | - | - | - | (1,906) | 1,587 | - | 1,587 |
| Other Operating Revenues | 307,618 | 84 | 22 | - | 8,899 | - | 3,106 | - | 4,937 | 324,666 | - | 324,666 |
| Interest and Dividends | 111,319 | - | 769 | - | (3,982) | 5,250 | 256 | - | 86 | 113,698 | (36,159) | 77,539 |
| Unrealized Gains on Investments | 176,622 | - | - | - | - | - | - | - | - | 176,622 | - | 176,622 |
| Gain on Disposal of Assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Rental Revenue | - | 151,716 | - | - | - | - | - | - | - | 151,716 | (151,716) | - |
| Vehicle Lease | - | 25,504 | - | - | - | - | - | - | - | 25,504 | (25,504) | - |
| Income from Investments | - | - | - | (282,313) | - | - | - | - | - | (282,313) | 282,313 | - |
| Net Assets Released from Restrictions | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Revenues and Support | 23,339,536 | 177,304 | 97,762 | (282,313) | 624,065 | 5,250 | 376,744 | - | 547,489 | 24,885,837 | 19,412 | 24,905,249 |
| Expenses | 23,066,579 | 172,598 | 104,790 | - | 906,378 | - | 514,861 | - | 915,585 | 25,680,791 | (341,021) | 25,339,770 |
| Change in Pension Obligation | 373,910 | - | - | - | - | - | - | - | - | 373,910 | - | 373,910 |
| (Decrease) Increase in Unrestricted Net Assets Before | | | | | | | | | | | | |
| Noncontrolling Interest | 646,867 | 4,706 | (7,028) | (282,313) | (282,313) | 5,250 | (138,117) | - | (368,096) | (421,044) | 360,433 | (60,611) |
| Increase in Net Assets Attributable to Noncontrolling Interests in Subsidiary | - | - | - | - | - | - | - | - | 368,058 | 368,058 | - | 368,058 |
| (Decrease) Increase in Unrestricted Net Assets | 646,867 | 4,706 | (7,028) | (282,313) | (282,313) | 5,250 | (138,117) | - | (38) | (52,986) | 360,433 | 307,447 |
| Unrestricted Net Assets - Beginning of Year | 9,650,198 | 625,514 | 233,613 | 402,125 | 402,125 | 44,632 | (602,740) | 1,266,393 | (40) | 12,021,820 | (3,908,188) | 8,113,632 |
| Unrestricted Net Assets - End of Year | \$ 10,297,065 | \$ 630,220 | \$ 226,585 | \$ 119,812 | \$ 119,812 | \$ 49,882 | \$ (740,857) | \$ 1,266,393 | \$ (78) | \$ 11,968,834 | \$ (3,547,755) | \$ 8,421,079 |

Volunteer of America Chesapeake, Inc., and Subsidiaries

**Consolidating Schedule of Expenses
For the Year Ended June 30, 2012**

| | VOAC | Holding Corp | Baker House | PACA House | Pratt Street | Irvington Woods | Total | Eliminations | Total |
|----------------------------------|----------------------|-------------------|------------------|-------------------|-------------------|-------------------|----------------------|---------------------|----------------------|
| Salaries | \$ 13,215,637 | \$ - | \$ 2,808 | \$ 158,085 | \$ 135,077 | \$ 67,714 | \$ 13,579,321 | \$ - | \$ 13,579,321 |
| Pension Expense | 173,533 | - | - | - | - | - | 173,533 | - | 173,533 |
| Other Employee Benefits | 1,168,421 | - | - | 8,721 | 4,281 | 4,143 | 1,185,566 | - | 1,185,566 |
| Payroll Taxes | 917,094 | - | - | 11,701 | 9,813 | 5,099 | 943,707 | - | 943,707 |
| Legal Fees | 166,308 | - | - | 22,285 | 12,586 | 14,703 | 215,882 | - | 215,882 |
| Accounting Fees | 63,070 | - | 6,824 | 1,829 | 13,268 | 8,495 | 93,486 | - | 93,486 |
| Other Professional Fees | 961,966 | 65,118 | 6,300 | 61,070 | 27,175 | 45,025 | 1,166,654 | - | 1,166,654 |
| Supplies | 1,072,909 | 180 | 4,345 | 172 | 3,376 | 1,004 | 1,081,986 | - | 1,081,986 |
| Telecommunications | 269,631 | - | - | 10,106 | 1,322 | 9,110 | 290,169 | - | 290,169 |
| Postage | 26,980 | - | - | 282 | 305 | 190 | 27,757 | - | 27,757 |
| Occupancy Expense | 2,327,805 | 116,039 | 40,324 | 242,339 | 135,840 | 179,001 | 3,041,348 | (172,800) | 2,868,548 |
| Interest | 113,822 | 61 | 13,926 | 54,419 | 115,899 | 110,339 | 408,466 | (36,159) | 372,307 |
| Insurance | 413,060 | (125) | 8,652 | 49,537 | 30,597 | 3,498 | 505,219 | - | 505,219 |
| Equipment Rental and Maintenance | 120,266 | 4,798 | - | 17,460 | 12,880 | 6,755 | 162,159 | (13,940) | 148,219 |
| Printing and Publications | 69,388 | - | - | - | - | - | 69,388 | - | 69,388 |
| Travel and Transportation | 401,059 | - | - | 27 | - | - | 401,086 | - | 401,086 |
| Conferences and Meetings | 120,961 | - | - | 385 | 970 | 425 | 122,741 | - | 122,741 |
| Specific Assistance | 312,904 | - | - | 10,678 | (2,000) | 14,838 | 336,420 | - | 336,420 |
| Other | 259,136 | 215 | 165 | - | 2,258 | - | 261,774 | - | 261,774 |
| Depreciation and Amortization | 352,571 | (70,138) | 15,231 | 250,282 | 23,517 | 286,265 | 857,728 | - | 857,728 |
| Administrative Fees - VOA, Inc. | 499,124 | - | - | - | - | - | 499,124 | - | 499,124 |
| Total Expenses | \$ 23,025,645 | \$ 116,148 | \$ 98,575 | \$ 899,378 | \$ 527,164 | \$ 756,604 | \$ 25,423,514 | \$ (222,899) | \$ 25,200,615 |

Volunteer of America Chesapeake, Inc., and Subsidiaries

**Consolidating Schedule of Expenses
For the Year Ended June 30, 2011**

| | VOAC | Holding Corp | Baker House | PACA House | Pratt Street | Irvington Woods | Total | Eliminations | Total |
|-------------------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|--------------------|----------------------|---------------------|----------------------|
| Salaries | \$ 13,314,978 | \$ - | \$ 3,167 | \$ 143,247 | \$ 143,780 | \$ 92,203 | \$ 13,697,375 | \$ - | \$ 13,697,375 |
| Pension Expense | 213,632 | - | - | - | - | - | 213,632 | - | 213,632 |
| Other Employee Benefits | 1,318,886 | - | - | 21,224 | 6,104 | 4,219 | 1,350,433 | - | 1,350,433 |
| Payroll Taxes | 892,213 | - | 9,810 | 16,833 | 14,013 | 9,524 | 942,393 | - | 942,393 |
| Legal Fees | 77,310 | - | - | - | - | - | 77,310 | - | 77,310 |
| Accounting Fees | 66,731 | 85 | 324 | 20,085 | 19,231 | 14,990 | 121,446 | - | 121,446 |
| Other Professional Fees | 1,007,217 | 32,452 | 12,800 | 61,820 | 17,897 | 58,271 | 1,190,457 | - | 1,190,457 |
| Supplies | 1,140,440 | 75 | 2,397 | 1,233 | 1,780 | 1,204 | 1,147,129 | - | 1,147,129 |
| Telecommunications | 258,096 | (1,690) | - | 9,224 | 1,749 | 8,432 | 275,811 | - | 275,811 |
| Postage | 34,590 | - | - | - | - | - | 34,590 | - | 34,590 |
| Occupancy Expense | 2,041,619 | 1,312 | 43,253 | 286,760 | 147,754 | 211,161 | 2,731,859 | (151,716) | 2,580,143 |
| Interest | 123,425 | 9,663 | 15,106 | 59,687 | 67,783 | 110,291 | 385,955 | (36,159) | 349,796 |
| Insurance | 339,084 | - | - | 47,617 | 18,897 | 18,083 | 423,681 | - | 423,681 |
| Equipment Rental and Maintenance | 128,743 | - | - | - | - | - | 128,743 | - | 128,743 |
| Printing and Publications | 34,150 | - | - | - | - | - | 34,150 | - | 34,150 |
| Travel and Transportation | 370,568 | - | - | - | - | - | 370,568 | (25,504) | 345,064 |
| Conferences and Meetings | 37,201 | - | - | - | - | - | 37,201 | - | 37,201 |
| Specific Assistance | 385,533 | - | - | - | - | - | 385,533 | - | 385,533 |
| Other | 492,536 | 214 | 2,647 | (812) | 13,249 | 32,416 | 540,250 | - | 540,250 |
| Depreciation and Amortization | 300,608 | 130,487 | 15,286 | 239,460 | 62,624 | 305,269 | 1,053,734 | (78,120) | 975,614 |
| Administrative Fees - VOA, Inc. | 489,019 | - | - | - | - | 49,522 | 538,541 | (49,522) | 489,019 |
| Total Expenses | \$ 23,066,579 | \$ 172,598 | \$ 104,790 | \$ 906,378 | \$ 514,861 | \$ 915,585 | \$ 25,680,791 | \$ (341,021) | \$ 25,339,770 |