

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2018 and 2017



HERTZBACH
certified public accountants • consultants

Volunteers of America Chesapeake, Inc. and Subsidiaries

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Independent Auditor's Report

To the Officers and Board of Directors
Volunteers of America Chesapeake, Inc. and Subsidiaries
7901 Annapolis Road
Lanham, MD 20706

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Volunteers of America Chesapeake, Inc. (a nonprofit organization) and Subsidiaries (collectively, the Organization) which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Subsidiaries were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Volunteers of America Chesapeake, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Consolidating Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating supplementary information shown on pages 42 to 49 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and change in unrestricted net assets of the individual companies and is not a required part of the consolidated financial statements. Such 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 consolidating supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such 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 consolidating supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2019, on our consideration of Volunteers of America Chesapeake, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Volunteers of America Chesapeake, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Hertzbach & Company, P.A.

Rockville, Maryland
February 25, 2019

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As of June 30, 2018 and 2017

Assets	2018	2017
Current assets		
Cash and cash equivalents	\$ 2,823,822	\$ 2,221,790
Accounts receivable (net of allowance)	6,897,097	3,960,998
Due from related parties	242,335	-
Prepaid expenses	282,186	250,110
Reimbursement receivable	155,441	157,525
Interest receivable	248,842	190,946
Other receivables	12,425	318,810
Total current assets	10,662,148	7,100,179
Property and equipment, net	25,156,809	24,946,280
Other assets		
Designated and restricted cash	1,544,933	1,429,785
Investments	56,470	1,640,706
Unamortized organizational costs, net	18,131	20,038
Deposits	40,801	140,755
Beneficial interest in perpetual trust	59,678	58,197
Beneficial interest in charitable remainder trust	736,911	710,885
Notes receivable (net of allowance)	8,143,016	8,143,016
Total other assets	10,599,940	12,143,382
Total assets	\$ 46,418,897	\$ 44,189,841

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statement of Activities (Continued)

For the Year Ended June 30, 2018

	2018	2017
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 1,299,607	\$ 1,167,289
Current maturities of long-term debt	3,394,337	1,045,062
Accrued expenses	2,896,869	2,470,102
Deferred gain on sale-leaseback, current	134,834	80,084
Due to related parties	35,350	40,372
Deferred revenue	4,186	281,045
Client escrow funds	111,419	106,216
Tenant security deposits	17,713	19,045
Refundable advances	432,893	437,307
Total current liabilities	8,327,208	5,646,522
Long-term liabilities		
Long-term debt, less current maturities	24,666,561	25,126,835
Post-retirement benefit liability	314,889	345,635
Other long-term liabilities	35,912	18,992
Deferred gain on sale-leaseback, net of current portion	794,977	573,932
Deferred rent	137,363	99,121
Underfunded pension obligation	2,989,393	2,849,913
Total long-term liabilities	28,939,095	29,014,428
Total liabilities	37,266,303	34,660,950
Net assets		
Unrestricted		
Controlling interest	9,351,777	9,719,593
Non-controlling interest	(1,887,327)	(1,608,455)
Total unrestricted	7,464,450	8,111,138
Temporarily restricted	1,628,466	1,359,556
Permanently restricted	59,678	58,197
Total net assets	9,152,594	9,528,891
Total liabilities and net assets	\$ 46,418,897	\$ 44,189,841

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statement of Activities (Continued)
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Non-controlling Interest	Total
Non-operating gains and other					
revenues (losses)					
Interest and dividends	457,049	35,619	1,867	-	494,535
Net gains on investments	34,013	-	-	-	34,013
Gain on sale of property and equipment	107,459	-	-	-	107,459
Recovery of bad debt	1,489	-	-	-	1,489
Increase in pension obligation	(139,480)	-	-	-	(139,480)
Other net revenues	14,385	-	-	-	14,385
Change in value of split-interest agreements	-	5,263	-	-	5,263
Satisfaction of program restrictions	272,358	(271,972)	(386)	-	-
Total non-operating gains and other					
revenues (losses)	747,273	(231,090)	1,481	-	517,664
Capital contributions	555,150	-	-	-	555,150
Capital distributions	(555,150)	-	-	-	(555,150)
(Decrease) increase in net assets					
before non-controlling interest	(646,688)	268,910	1,481	-	(376,297)
Increase (decrease) in net assets					
attributable to non-controlling interest	278,872	-	-	(278,872)	-
Total (decrease) increase in net assets	(367,816)	268,910	1,481	(278,872)	(376,297)
Net assets, beginning of year	9,719,593	1,359,556	58,197	(1,608,455)	9,528,891
Net assets, end of year	\$ 9,351,777	\$ 1,628,466	\$ 59,678	\$ (1,887,327)	\$ 9,152,594

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statement of Activities (Continued)

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Non-controlling Interest	Total
Revenues and support					
Public support:					
Public support received directly:					
Contributions	\$ 527,198	\$ -	\$ -	\$ -	\$ 527,198
Special events (net of direct benefit costs)	43,008	-	-	-	43,008
Public support received indirectly:					
United Way	8,093	-	-	-	8,093
Total public support	578,299	-	-	-	578,299
Government revenues and grants	31,224,458	-	-	-	31,224,458
Other revenues:					
Program service fees	2,950,151	-	-	-	2,950,151
Rental revenue	100,092	-	-	-	100,092
Other operating revenues	25,449	-	-	-	25,449
Total other revenues	3,075,692	-	-	-	3,075,692
Total revenues and support	34,878,449	-	-	-	34,878,449
Expenses					
Program services:					
Encouraging positive development	153,863	-	-	-	153,863
Fostering independence	20,520,338	-	-	-	20,520,338
Promoting self-sufficiency	9,912,890	-	-	-	9,912,890
Total program services	30,587,091	-	-	-	30,587,091
Supporting services:					
Management and general	5,290,449	-	-	-	5,290,449
Fundraising	428,377	-	-	-	428,377
Administrative fees paid to VOA, Inc.	745,903	-	-	-	745,903
Total supporting services	6,464,729	-	-	-	6,464,729
Total program and supporting services	37,051,820	-	-	-	37,051,820
Decrease in net assets from operations	(2,173,371)	-	-	-	(2,173,371)

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statement of Activities (Continued)

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Non-controlling Interest	Total
Non-operating gains and other revenues (losses)					
Interest and dividends	461,356	15,641	996	-	477,993
Net losses on investments	114,413	-	-	-	114,413
Gain on sale of property and equipment	80,084	-	-	-	80,084
Recovery of bad debt	290	-	-	-	290
Increase in pension obligation	(43,750)	-	-	-	(43,750)
Other net revenues	5,078	-	-	-	5,078
Change in value of split-interest agreements	-	56,253	3,781	-	60,034
Satisfaction of program restrictions	8,578	(7,544)	(1,034)	-	-
Total non-operating gains and other revenues (losses)	626,049	64,350	3,743	-	694,142
Increase (decrease) in net assets before non-controlling interest	(1,547,322)	64,350	3,743	-	(1,479,229)
Increase (decrease) in net assets attributable to non-controlling interest	583,042	-	-	(583,042)	-
Total increase (decrease) in net assets	(964,280)	64,350	3,743	(583,042)	(1,479,229)
Net assets, beginning of year	10,683,873	1,295,206	54,454	(1,025,413)	11,008,120
Net assets, end of year	<u>\$ 9,719,593</u>	<u>\$ 1,359,556</u>	<u>\$ 58,197</u>	<u>\$ (1,608,455)</u>	<u>\$ 9,528,891</u>

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2017

	Program Services				Supporting Services			
	Encouraging Positive Development	Fostering Independence	Promoting Self-Sufficiency	Subtotal	Management and General	Fundraising	Subtotal	2018 Total
Salaries	\$ 54,915	\$ 13,891,230	\$ 5,101,233	\$ 19,047,378	\$ 3,065,846	\$ 267,259	\$ 3,333,105	\$ 22,380,483
Other employee benefits	15,477	1,340,751	519,423	1,875,651	398,405	37,760	436,165	2,311,816
Payroll taxes	4,264	969,584	369,652	1,343,500	174,948	9,873	184,821	1,528,321
Legal fees	-	100	28,986	29,086	282,657	-	282,657	311,743
Accounting fees	-	-	30,674	30,674	79,697	-	79,697	110,371
Other professional fees	78	413,536	384,912	798,526	586,808	127,820	714,628	1,513,154
Supplies	146	668,845	535,873	1,204,864	72,319	9,537	81,856	1,286,720
Telecommunications	5,772	219,258	112,792	337,822	135,713	2,476	138,189	476,011
Postage	-	2,376	8,803	11,179	10,445	35	10,480	21,659
Occupancy expense	-	2,328,979	965,331	3,294,310	422,801	4,118	426,919	3,721,229
Interest	-	193,115	662,913	856,028	446,503	7	446,510	1,302,538
Insurance	1,227	298,271	185,239	484,737	155,388	2,274	157,662	642,399
Equipment rental and maintenance	3,317	58,823	68,839	130,979	29,993	228	30,221	161,200
Printing and publications	1	3,476	7,314	10,791	17,245	45,670	62,915	73,706
Travel and transportation	132	455,995	94,529	550,656	171,964	16,947	188,911	739,567
Conferences and meetings	7	31,921	41,223	73,151	114,883	4,375	119,258	192,409
Specific assistance	-	66,492	645,708	712,200	348,829	543	349,372	1,061,572
Other	-	24,949	14,840	39,789	98,948	1,263	100,211	140,000
Depreciation and amortization	212	241,572	949,442	1,191,226	76,743	-	76,743	1,267,969
Total functional expenses	85,548	21,209,273	10,727,726	32,022,547	6,690,135	530,185	7,220,320	39,242,867
Administrative fees - VOA, Inc.	-	-	-	-	763,439	-	763,439	763,439
Total expenses	\$ 85,548	\$ 21,209,273	\$ 10,727,726	\$ 32,022,547	\$ 7,453,574	\$ 530,185	\$ 7,983,759	\$ 40,006,306

see accompanying annual report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2017

	Program Services				Supporting Services			
	Encouraging Positive Development	Fostering Independence	Promoting		Management and General	Fundraising	Subtotal	
			Self- Sufficiency	Subtotal				
Salaries	\$ 101,705	\$ 13,461,605	\$ 4,525,236	\$ 18,088,546	\$ 2,385,157	\$ 171,320	\$ 2,556,477	\$ 20,645,023
Other employee benefits	34,864	1,201,627	426,467	1,662,958	254,741	23,355	278,096	1,941,054
Payroll taxes	7,528	968,582	329,538	1,305,648	155,747	4,871	160,618	1,466,266
Legal fees	-	400	25,052	25,452	145,395	-	145,395	170,847
Accounting fees	-	-	66,750	66,750	80,620	-	80,620	147,370
Other professional fees	39	394,099	452,272	846,410	552,789	149,210	701,999	1,548,409
Supplies	45	641,002	515,020	1,156,067	113,841	1,433	115,274	1,271,341
Telecommunications	5,750	229,461	86,321	321,532	80,895	1,911	82,806	404,338
Postage	-	1,496	4,887	6,383	5,991	2,247	8,238	14,621
Occupancy expense	9	2,091,343	1,063,591	3,154,943	345,617	4,434	350,051	3,504,994
Interest	-	188,225	663,252	851,477	413,852	41	413,893	1,265,370
Insurance	1,385	367,244	186,074	554,703	115,789	1,971	117,760	672,463
Equipment rental and maintenance	2,117	42,816	78,970	123,903	27,665	-	27,665	151,568
Printing and publications	-	1,565	4,586	6,151	17,502	38,587	56,089	62,240
Travel and transportation	39	504,234	77,856	582,129	143,862	16,342	160,204	742,333
Conferences and meetings	17	35,585	27,796	63,398	126,505	6,864	133,369	196,767
Specific assistance	33	75,878	473,060	548,971	917	693	1,610	550,581
Other	49	77,900	1,794	79,743	231,553	5,098	236,651	316,394
Depreciation and amortization	283	237,276	904,368	1,141,927	92,011	-	92,011	1,233,938
Total functional expenses	153,863	20,520,338	9,912,890	30,587,091	5,290,449	428,377	5,718,826	36,305,917
Administrative fees - VOA, Inc.	-	-	-	-	745,903	-	745,903	745,903
Total expenses	\$ 153,863	\$ 20,520,338	\$ 9,912,890	\$ 30,587,091	\$ 6,036,352	\$ 428,377	\$ 6,464,729	\$ 37,051,820

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Consolidated cash flows from operating activities		
Change in net assets	\$ (97,425)	\$ (896,187)
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Loss attributable to the non-controlling interest	(278,872)	(583,042)
Depreciation	1,267,969	1,232,029
Gain on the sale-leaseback	(80,084)	(80,084)
Gain on disposal of property and equipment	(27,373)	-
Amortization of mortgage costs	27,815	27,812
Amortization of organizational costs	1,907	1,909
Gain on sale of investments	-	(36,902)
Net unrealized gains on investment holdings	(28,615)	(77,510)
Undistributed investment income	(41,098)	(44,768)
Change in value of split-interest agreements	9,593	(60,034)
Change in pension obligation	139,480	43,750
Change in operating assets:		
Accounts receivable	(2,936,099)	381,481
Due from related parties	(242,335)	-
Prepaid expenses	(32,076)	260,369
Other receivables	306,385	143,397
Reimbursement receivable	2,084	(14,945)
Interest receivable	(57,896)	(55,666)
Change in operating liabilities:		
Accounts payable	132,318	395,432
Accrued expenses	426,767	12,971
Client escrow funds	5,203	8,351
Tenant security deposits	(1,332)	(611)
Refundable advances	(4,414)	13,959
Deferred revenue	(276,859)	228,133
Other long-term liabilities	16,920	-
Post retirement benefit liability	(30,746)	(42,893)
Deferred rent	38,242	34,576
Net cash and cash equivalents (used in) provided by operating activities	<u>(1,760,541)</u>	<u>891,527</u>

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2018 and 2017

	2018	2017
Consolidated cash flows from investing activities		
Purchases of land, buildings, and equipment	\$ (2,057,514)	\$ (327,226)
Proceeds from sale of land, buildings, and equipment	962,268	-
Repayments to related parties	(5,022)	(6,755)
Proceeds from sale of investments	1,672,573	591,017
Purchase of investments	(55,724)	(582,439)
(Increase) decrease of designated and restricted cash	(115,148)	456,949
Net cash and cash equivalents provided by investing activities	401,433	131,546
Consolidated cash flows from financing activities		
Mortgage costs capitalized	(30,000)	-
Deposits received	99,954	-
Proceeds of notes payable and mortgages payable	6,199,782	3,304,000
Repayments of notes and mortgages payable	(4,308,596)	(4,127,131)
Net cash and cash equivalents provided by (used in) financing activities	1,961,140	(823,131)
Net increase in consolidated cash and cash equivalents	602,032	199,942
Consolidated cash and cash equivalents, beginning of year	2,221,790	2,021,848
Consolidated cash and cash equivalents, end of year	\$ 2,823,822	\$ 2,221,790
Supplemental disclosures of consolidated cash flow information:		
Cash paid during the year for interest	\$ 1,208,218	\$ 1,172,804
Non-cash transactions from investing and financing activities:		
Deferred gain on the sale-leaseback	\$ 107,457	\$ 80,084

See independent auditor's report and notes to consolidated financial statements.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2018 and 2017

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 under a charter from Volunteers of America, Inc., (VOA, Inc.) a national non-profit, spiritually-based organization providing local health and 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, and those that are developmentally disabled, which help in fostering their independence. Finally, VOAC provides substance abuse treatment, community corrections, and homeless services including transitional housing, emergency shelter, and supportive housing to promote self-sufficiency among those served. Affiliated organizations controlled by VOAC include VOA PACA Housing Corporation, PACA Supportive Housing, Inc. (PACA Housing, Inc.), PACA Housing Limited Partnership II (PACA House), VOA PACA House Partners, Limited Partnership (PACA Partners) VOA Pratt Street Housing Corporation, Pratt Street Housing Limited Partnership (Pratt Street), VOA Irvington Woods Housing Corp., Inc., (Irvington Woods Corp), VOA Irvington Woods Limited Partnership (Irvington Woods), VOAC RRC QALICB, LLC (RRC), and VOAC RRC, Inc. (RRC Corp), (collectively, the "Organization").

VOAC's charter was reviewed by VOA, Inc. on June 25, 2016 and was renewed for five years until June 30, 2021.

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.

VOA PACA Housing Corporation, was incorporated in 1995 under the laws of the State of Maryland to be the general, 0.10% partner in PACA House. VOA PACA Housing Corporation's only income or loss is the result of its investment in PACA House. VOAC is the sole shareholder in VOA PACA Housing Corporation.

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 affordable housing for the homeless, 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.

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.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

1) Organization (Continued)

On May 7, 2012, PACA House's partnership agreement was amended to assign the then limited partners' 99.9% interest to PACA Supportive Housing, Inc., a Maryland non-stock corporation, which is 100% controlled by VOAC.

PACA Partners was incorporated in September 2014 under the laws of the State of Delaware for the purpose of developing and operating rental real estate located in Baltimore, Maryland. VOA PACA Housing Corporation is the .004% general partner.

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 stockholder of VOA Pratt Street Housing Corporation.

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. VOA Pratt Street Housing Corporation is the .01% general partner. 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.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

1) Organization (Continued)

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.

VOAC RRC, Inc., (RRC Corp) is a not-for-profit corporation formed in June 2012 under the laws of the State of Maryland to be the member manager of VOAC RRC QALICB, LLC, with a 1% ownership and to promote the creation of the Residential Re-Entry Center in Baltimore, Maryland. VOAC is the sole shareholder in RRC Corporation.

VOAC RRC QALICB, LLC, (RRC) was formed as a limited liability company under the laws of the State of Maryland in June 2012 for the purpose of constructing a 146 bed community corrections facility located in Baltimore, Maryland, in partnership with JP Morgan Chase and Volunteers of America National Services. VOA RRC, Inc. is the member manager with 1% ownership while VOAC is the limited member with 99% ownership. VOAC will operate the community corrections program while leasing the facility from VOAC RRC QALICB, LLC.

2) Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, which recognizes income when it is earned and expenses when they are incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of VOAC and its wholly-controlled nonprofit subsidiaries VOA PACA Housing Corporation, Pratt Street Housing Corporation, Irvington Woods Corp, and RRC Corporation, and the for profit entities PACA House Inc., PACA Partners, Pratt Street, Irvington Woods, and RRC. All material inter-organizational 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 Organization considers all highly-liquid investments with maturities of three months or less when purchased, unless held for reinvestment as part of the investment portfolio, to be cash equivalents. Designated and restricted deposits are not considered cash on the consolidated statements of cash flows.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

2) Summary of Significant Accounting Policies (Continued)

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.

Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost 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 \$1,267,969 and \$1,232,029 for the years ended June 30, 2018 and 2017, respectively.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Predevelopment costs

Predevelopment costs represent costs incurred

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in operating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments other than trading securities are reported separately in the statement of activities and changes in net assets. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Organization's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the statement of financial position could change materially in the near term.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

2) Summary of Significant Accounting Policies (Continued)

Beneficial Interest in Perpetual Trusts

The Organization received as contributions a beneficial interest in various perpetual trusts. Under the perpetual trust arrangements, the Organization recorded the assets and recognized either temporarily or permanently restricted contribution revenue at the fair market value of the Organization's beneficial interest in the trust assets, depending on the nature of the donor's restrictions. Income earned on the trust assets and distributed to the Organization is recorded as investment income in the statement of activities and changes in net assets, unless otherwise restricted by the donor. Subsequent changes in fair value are recorded as valuation gain (loss) on beneficial interest in perpetual trust in either temporarily or permanently restricted net assets in the statement of activities and changes in net assets, depending on the nature of the donor's restrictions.

Board Designated Funds Policy

The Organization maintains a funded Board-Designated Operating Reserve, unencumbered and uncommitted, at a level commensurate with the future projected needs of the organization

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 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.

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.

Revenue Recognition

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.

As required by the *Transfers of Assets to a Not-for-Profit Entity of 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 fair 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). In the years ended June 30, 2018 and 2017, there were no in-kind contributions.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

2) Summary of Significant Accounting Policies (Continued)

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

Program Service Fees

Program service fees revenue is recognized when services are rendered for eligible individuals.

Advertising Costs

Total advertising costs for the years ended June 30, 2018 and 2017, were \$17,914 and \$22,324, respectively.

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

Under provision of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the State of Maryland, the Organization is exempt from income taxes, except for net income from unrelated business income, as a subordinate unit of VOA, Inc. VOA, Inc. is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code as a religious organization described in Section 501(c)(3). There were no unrelated business activities for the years ended June 30, 2018 and 2017, respectively. Accordingly, no tax expense was incurred during the years ending June 30, 2018 and 2017, respectively. No provision or benefit for income taxes on the partnerships has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually.

Compensated Absences

Employees of the Organization are entitled to paid time off depending on job classification, length of service, and other factors. The Organization has accrued \$0 and \$2,935 for paid time off as of June 30, 2018 and 2017, respectively.

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.

Designated and Restricted Cash

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

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

3) Significant Concentrations of Credit Risk

VOAC maintains its cash and investment balances at various financial institutions and at times, these balances may exceed federally insured limits. VOAC has not experienced any losses with respect to its bank and investment balances in excess of government provided insurance and management believes that there are no significant concentrations of credit risk as a result of maintaining these accounts.

4) Accounts Receivable

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Grants and contracts	\$ 601,067	\$ 230,760
Fees for services	6,337,640	4,048,141
Rents receivable	<u>39,674</u>	<u>41,251</u>
	6,978,381	4,320,152
Less: allowance for doubtful accounts	<u>(81,284)</u>	<u>(359,154)</u>
Total	<u>\$ 6,897,097</u>	<u>\$ 3,960,998</u>

5) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost and consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 4,279,756	\$ 4,349,222
Buildings and improvements	30,582,496	31,030,747
Furniture and equipment	2,304,356	2,226,252
Vehicles	1,207,546	1,207,546
Construction in progress	961,193	228,283
Predevelopment costs	<u>815,964</u>	<u>-</u>
	40,151,311	39,042,050
Less: accumulated depreciation	<u>14,994,502</u>	<u>14,095,770</u>
Net land, buildings, and equipment	<u>\$ 25,156,809</u>	<u>\$ 24,946,280</u>

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

5) Land, Buildings, and Equipment (Continued)

Construction in progress represents costs incurred in connection with phases two and three of development of real estate located at 5000 East Monument Street in Baltimore, Maryland, for a residential re-entry program.

Predevelopment costs represents costs incurred in connection with the acquisition and renovation of real estate located at 116 North Paca Street in Baltimore, Maryland. These costs will be capitalized upon completion of the redevelopment project.

Certain land, buildings, improvements, furniture, and equipment are restricted as to use and disposition by various regulatory agencies as disclosed in Notes 1 and 14.

6) Designated and Restricted Cash

The Organization has agreements with several agencies that require funded reserves and the designation of certain deposits. The designated and restricted cash are in separate cash accounts with financial institutions.

PACA House has several reserve commitments with DHCD. PACA House is required to maintain a replacement reserve, an insurance 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 \$121,466 and \$97,323 at June 30, 2018 and 2017, 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. At June 30, 2018 and 2017, the combined balances in these reserve accounts totaled \$665,625 and \$664,296, respectively.

PACA House maintains an insurance reserve, also called a mortgage escrow deposit, with a balance of \$42,845 and \$42,794 at June 30, 2018 and 2017, respectively.

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 established an operating reserve of \$137,000 as specified in the partnership agreement and required by DHCD's Regulatory Agreement. Withdrawals from the operating reserve require written consent of the limited partner. The balance in this account at June 30, 2018 and 2017, was \$21,260 and \$21,217, 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, 2018 and 2017, was \$79,446 and \$67,100, respectively.

Pratt Street maintains an insurance reserve, also called a mortgage escrow deposit, of \$36,230 and \$34,241 at June 30, 2018 and 2017, respectively.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

6) Designated and Restricted Cash (Continued)

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 \$25,253 and \$29,652 for the years ended June 30, 2018 and 2017, respectively. The balances in this account at June 30, 2018 and 2017, amounted to \$71,735 and \$46,704, 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, 2018 and 2017, was \$98,185 and \$98,096, respectively.

Irvington Woods maintains a transition reserve, also called a mortgage escrow deposit, to be held by Irvington Woods, in an initial amount of \$30,000. The balance in this account at June 30, 2018 and 2017, was \$39,512 and \$42,832, respectively.

RRC maintains a fee reserve with a balance of \$119,424 and \$129,154 at June 30, 2018 and 2017, respectively.

Balances in the designated accounts at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Mortgage escrow deposit	\$ 118,587	\$ 119,867
Replacement reserves	272,647	211,127
Operating reserves	785,070	783,609
Tenant security deposits	15,591	24,661
Client escrows	111,419	106,216
Fee reserve	119,424	129,154
Other reserves	<u>122,195</u>	<u>55,151</u>
Total designated and restricted cash	<u>\$ 1,544,933</u>	<u>\$ 1,429,785</u>

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

7) Investments and Fair Value Measurements

VOAC is a participant in a pooled investment program (the Program) which is managed by VOA, Inc. VOAC has an agreement with VOA, Inc. regarding the participation in the program and management of the investment pool. The agreement is in effect until terminated by VOAC or VOA, Inc. or either party can elect to terminate the agreement with 90 days written notice. A summary of the agreement is as follows:

VOA, Inc. Responsibilities

VOA, Inc. is responsible for determining the investment objective for each pool and for developing an appropriate investment policy and asset allocation based on a risk tolerance analysis. The Investment Committee of Volunteers of America, Inc. selects fund managers recommended by the investment advisor, reviews the performance of the managers and recommends any changes in fund management based on those reviews.

Pool Participant Responsibilities

VOAC may designate its investment into one or more sub-accounts. A participant must have a minimum of one sub-account of no less than \$25,000 and there is no limit to the number of sub-accounts that may be maintained on the behalf of each participant. If a participant no longer has a need for a designated sub-account, it must provide 30 days written notice to VOA, Inc. to eliminate the sub-account and instruct VOA, Inc. as to the disbursement or reallocation of the sub-account's assets.

Deposits, Withdrawals, and Earnings

Deposits may be made at any time. After the initial deposit, cash deposits must be a minimum of \$1,000 each. Deposits of securities may be for any amount. Partial cash withdrawals may be for any amount, however, only 1 withdrawal is permitted per quarter. Written notice must be submitted to VOA, Inc. 30 days prior to the date of withdrawal. In the event that cash is needed from invested pool assets in less than 30 days or more than once per quarter, the participant may apply to VOA, Inc. for an interest-bearing loan. All funds will earn from the date of deposit through the date of withdrawal. All interest payments dividends and VOAC realized gains are reinvested.

Valuing Investments

The values of the pooled funds will be determined monthly. That portion of the pool asset value held on behalf of each participant will be determined based on the asset values. Each participant's share will be prorated based on beginning net asset value and the daily weighting of any deposits or withdrawals made during the month.

Voting Rights

Participants may earn a right to nominate members to serve on the Investment Committee of VOA, Inc. (Committee). For each \$100,000 invested in the Program, a participant is entitled to 1 vote. Voting participants elect a slate of candidates for membership on the Committee. The VOA, Inc. Board of Directors appoints members to the Committee. Committee membership shall be no less than 3 and no more than 7 people. From time to time, the Committee may propose amendments to the operating agreement which will subsequently be forwarded to the voting members for ratification.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

7) Investments and Fair Value Measurements (Continued)

Fees

Each participant will be charged an annual fee to cover the costs of management of the Program and Committee activities, including custodial fees and printing and distribution of the monthly and quarterly reports. This fee is assessed and paid quarterly based on the participant asset value at the end of each calendar quarter. Fees are also charged for the third-party services for sub-account reporting, services provided by the investment advisor in overseeing the implementation of the investment plan and for the execution costs of all transactions, and investment services provided by the investment managers.

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 to valuation methodology are adjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Common Stock

Valued at the closing share price reported on the active market on which the individual securities are traded.

Fixed Income Funds

Valued using the present value of future income and the security value upon maturity.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

7) Investments and Fair Value Measurements (Continued)

The Organization's investments, split-interest agreements, and post-retirement benefit obligations are recorded at fair value on a recurring basis and are summarized below. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2018</u>				
Common stock	\$ 19,930	\$ 21,545	\$ -	\$ 41,475
Fixed income funds	-	13,028	-	13,028
Total investments, in the fair value hierarchy	<u>\$ 19,930</u>	<u>\$ 34,573</u>	<u>\$ -</u>	54,503
Investments measured at net asset value *				<u>798,556</u>
Total investments, at fair value				<u>\$ 853,059</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2017</u>				
Common stock	\$ 18,844	\$ 910,129	\$ -	\$ 928,973
Fixed income funds	-	630,639	-	630,639
Total investments, in the fair value hierarchy	<u>\$ 18,844</u>	<u>\$ 1,540,768</u>	<u>\$ -</u>	1,559,612
Investments measured at Net asset value *				<u>850,176</u>
Total investments, at fair value				<u>\$ 2,409,788</u>

*In accordance with FASB ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Investment return is summarized for the years ended June 30, 2018 and 2017, as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 39,231	\$ 54,532
Net gain on investments	<u>34,013</u>	<u>114,413</u>
Net investment return	<u>\$ 73,244</u>	<u>\$ 168,945</u>

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

7) Investments and Fair Value Measurements (Continued)

The following tables summarize investments for which fair value is measured using the net asset value per share practical expedient as of June 30, 2018 and 2017, respectively.

<u>June 30, 2018</u>	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Investments measured at net asset value	\$ 798,556	N/A	Daily	Daily

<u>June 30, 2017</u>	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Investments measured at net asset value	\$ 850,176	N/A	Daily	Daily

8) Split-Interest Agreements

The Organization is the beneficiary under a perpetual trust administered by a bank in which the principal is non-distributable. The perpetual trust provides for the total distribution of the trust's earnings annually to various designated beneficiaries. The Organization is entitled to receive 0.5667% of the annual distribution. The income earned on the amounts held in the trust amounted to \$1,867 and \$996 for the years ended June 30, 2018 and 2017, respectively, and was recorded as permanently restricted interest income. The amount of the annual distribution of trust funds amounted to \$386 and \$1,034 for the years ended June 30, 2018 and 2017, respectively, and was recorded as a release of permanently restricted net assets. The remaining change in the balance of funds held by the trust amounted to a \$0 and \$3,781 increase for the years ended June 30, 2018 and 2017, respectively, and was recorded as a change in value of split-interest agreements. 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 \$59,678 and \$58,197 at June 30, 2018 and 2017, 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 \$736,911 and \$710,885 at June 30, 2018 and 2017, respectively. The income earned on the amounts held in the trust amounted to \$35,619 and \$15,641 for the years ended June 30, 2018 and 2017, respectively, and was recorded as temporarily restricted interest income. The amount of the quarterly distributions of trust funds amounted to \$14,856 and \$7,544 for the years ended June 30, 2018 and 2017, respectively, and was recorded as a release of temporarily restricted net assets. The remaining change in the balance of funds held by the trust amounted to a \$5,263 and \$56,253 increase for the years ended June 30, 2018 and 2017, respectively, and was recorded as a change in value of split-interest agreements.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

9) Split-Interest Agreements (Continued)

All investments from the split-interest agreements are measured at net asset value, as noted in Note 7, and are classified at June 30, 2018 and 2017, as follows:

	2018	2017
Cash and cash equivalents	\$ 5,567	\$ 20,303
Marketable equities	551,796	504,013
Fixed income funds	237,676	243,773
Income	1,550	993
Total split-interest agreements, at fair value	<u>\$ 796,589</u>	<u>\$ 769,082</u>

10) Notes Receivable

The Organization has two notes receivable from Chase NMTC VOA Chesapeake Investment Fund, LLC (related party). The first loan of \$7,000,000 is an interest only loan at 5.25% and due in July 2019. The second loan of \$828,904 is an interest only loan payable quarterly at 1% until July 2019 at which time quarterly payments of \$10,000 including principal and interest at 1% are payable until July 2042.

The Organization has a note receivable from VOA Eastern Avenue Housing Corporation (related party) of \$1,256,449. Management has recorded an allowance of \$942,337 based on analysis and expected payments to be received on this note. Management does not expect payments before 2020. See Note 18 for more details of this note.

11) New Market Tax Credits (NMTC)

In July 2012, VOAC entered into a financial arrangement to help fund the cost of a new residential re-entry facility at 4900 East Monument Street in Baltimore, Maryland, through the use of the New Market Tax Credits. Under this arrangement, the Organization received a loan of \$7,000,000 from JP Morgan Chase. The note payable required monthly interest payments of \$30,625 at 5.25% until July 2014. Beginning in August 2014, the note payable required monthly principal and interest payments of \$50,162 at 5.25% until July 2015. Thereafter, monthly principal and interest payments of \$56,271 at 5.25% are due until July 2019, at which point the remaining principal balance of \$5,171,272 is due. The principal balance due as of June 30, 2018 and 2017 was \$5,397,842 and \$5,774,721, respectively. Another loan of \$2,240,000 from BB&T requires monthly payments of principal and interest at 4.39% until September 2022. The loans are secured by a deed of trust in the Organization's interest in the Intermediate Care Facilities ("ICF") properties and a note receivable from Chase NMTC VOA Chesapeake Investment Fund, LLC ("Chase NMTC"). The principal balance due as of June 30, 2018 and 2017 was \$1,784,559 and \$1,872,288, respectively.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

11) New Market Tax Credits (NMTC) (Continued)

In July 2012, VOAC made two loans of \$7,000,000 and \$828,904 to the Chase NMTC. The Organization does not hold any ownership interest in the Chase NMTC. The first loan (Leveraged Loan A) requires quarterly interest payments of \$91,875 at 5.25% until July 2019, at which point the principal of \$7,000,000 is due to VOAC. The principal balance due as of June 30, 2018 and 2017 was \$7,000,000. The second loan (Leveraged Loan B) requires quarterly interest payments of \$2,072 at 1% until July 2019. Thereafter, quarterly principal and interest payments of \$10,000 at 1% are due until the loan is satisfied in July 2042. The principal balance due as of June 30, 2018 and 2017 was \$828,904.

Chase Community Equity, LLC (CCE), the tax credit investor, invested \$3,289,711 in tax credits in the NMTC. The NMTC combined the funds from VOAC and CCE and invested the funds in VOANS CDE Subsidiary 2, LLC (CDE), a limited liability company organized by Volunteers of America National Services for the purpose of loaning funds to VOAC RRC QALICB, LLC (RRC) for the construction of the residential re-entry center in Baltimore, Maryland. RRC received three loans from CDE. The first loan (QALICB Loan A) for \$7,000,000 requires quarterly interest payments of \$73,135 at 4.1791% interest until July 2019 at which point the principal balance of \$7,000,000 is due. The principal balance due as of June 30, 2018 and 2017 was \$7,000,000. The second loan (QALICB Loan B) for \$814,960 requires quarterly interest payments of \$8,136 at 4.1791% until July 2019. Thereafter, quarterly principal and interest payments of \$13,655 at 4.1791% are due until the loan is satisfied in July 2042. The principal balance due as of June 30, 2018 and 2017 was \$814,960. The third loan (QALICB Loan C) for \$2,841,040 requires quarterly interest payments of \$29,683 at 4.1791% until July 2019. Thereafter, quarterly principal and interest payments of \$47,602 at 4.1791% are due until the loan is satisfied in July 2042. The principal balance due as of June 30, 2018 and 2017 was \$2,841,040.

12) Line of Credit

On May 19, 2014, the Organization signed an agreement establishing a line of credit from a bank in the amount of \$2,000,000. Interest is payable monthly at the prime rate plus one percent. The line was originally due in full on May 31, 2015. The line was subsequently renewed through January 31, 2019. The Organization must maintain a debt service ratio of not less than 1.20 to 1.00, unrestricted net assets of not less than \$9,000,000, and unrestricted liquidity of not less than \$1,500,000. The security for the line of credit is the accounts receivable of the Organization, excluding accounts receivable related to or arising from program receivables from the District of Columbia government. Amount outstanding under the line of credit at June 30, 2018 and 2017 was \$1,715,000 and \$0, respectively.

On October 17, 2013, the Organization signed an agreement establishing a line of credit from a bank in the amount of \$500,000 or up to 80% of eligible accounts receivable. Interest is payable monthly at a rate of 5.25%. The line was originally due in full on October 17, 2014. The line was subsequently renewed through February 17, 2019. The security for the line of credit is the accounts receivable related to or arising from program receivables from the District of Columbia government. No amount was outstanding under the line of credit at June 30, 2018 and 2017.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

13) Accrued Expenses

Accrued expenses consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accrued vacation	\$ -	\$ 2,935
Accrued salaries	540,297	443,428
Payroll taxes withheld	50,287	181,717
Accrued provider tax	197,858	71,400
Accrued interest	1,270,128	1,177,715
Other payables and accrued expenses	838,299	592,907
Total	<u>\$ 2,896,869</u>	<u>\$ 2,470,102</u>

Accrued interest payable of \$1,240,738 and \$1,146,312 at June 30, 2018 and 2017, 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.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

14) Notes and Mortgages Payable

Obligations under notes and mortgages payable at June 30, 2018 and 2017, consisted of the following:

Description	Maturity date	Interest rate	Monthly payment	Balance	
				2018	2017
[1] Bank note	January 1, 2019	5.65%	\$ 3,136	\$ 289,937	\$ 312,187
[2] Mortgage loan	Revolving	0.00%	\$ -	-	19,725
[3] Mortgage loan	June 28, 2018	6.00%	\$ 1,699	-	20,854
[4] Mortgage loan	July 10, 2017	5.97%	\$ 2,496	-	379,730
[5] Mortgage loan	October 20, 2025	5.00%	\$ 3,270	449,092	467,621
[6] Mortgage loan	August 13, 2025	5.00%	\$ 3,270	451,726	465,118
[7] Mortgage loan	August 13, 2025	5.00%	\$ 1,497	205,550	212,885
[8] Mortgage loan	February 1, 2037	1.00%	\$ 45,514	530,653	591,322
[9] Mortgage loan	October 1, 2021	1.00%	\$ -	2,075,791	2,075,791
[10] Mortgage loan	2043	5.48%	\$ -	700,000	700,000
[11] Bank note	March 24, 2021	4.95%	\$ 1,323	-	179,510
[12] Mortgage loan	June 1, 2021	4.00%	\$ -	731,001	731,001
[13] Mortgage loan	August 1, 2037	7.13%	\$ 10,371	1,343,685	1,375,413
[14] Mortgage loan	2043	5.48%	\$ -	100,000	100,000
[15] Corporate note	July 6, 2019	4.179%	\$ -	7,000,000	7,000,000
[16] Corporate note	July 6, 2042	4.179%	\$ -	814,960	814,960
[17] Corporate note	July 6, 2042	4.179%	\$ -	2,841,040	2,841,040
[18] Bank note	September 27, 2022	4.39%	\$ 14,114	1,784,559	1,872,288
[19] Bank note	July 6, 2019	5.250%	\$ 56,271	5,397,842	5,774,721
[20] Mortgage loan	August 1, 2021	4.95%	\$ 728	96,530	100,313
[21] Mortgage loan	January 30, 2025	5.00%	\$ 1,467	-	203,370
[22] Mortgage loan	June 1, 2018	3.50%	\$ 853	-	10,400
[23] Mortgage loan	February 28, 2037	3.98%	\$ 2,304	362,036	374,792
[24] Mortgage loan	August 2, 2027	4.59%	\$ -	374,043	-
[25] Bank note	September 30, 2038	6.25%	\$ -	500,782	-
[26] Corporate note	July 31, 2018	0.00%	\$ -	750,000	-
[27] Line of Credit	January 31, 2019	7.75%	n/a	1,715,000	-
Total notes payable				28,514,227	26,623,041
Less loan amortization and financing fees				(453,329)	(451,144)
				28,060,898	26,171,897
Less current portion				3,394,337	1,045,062
Net long-term portion				\$ 24,666,561	\$ 25,126,835

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

14) Notes and Mortgages Payable (Continued)

- [1] Due in 59 regular payments of \$3,136 and one balloon payment of \$209,046. Secured by property in Riverdale, Bowie, and Baltimore, Maryland
- [2] Secured by Evergreen property. Repaid in full in 2018.
- [3] Secured by real estate on Evergreen Drive, Virginia. Repaid in full in 2018.
- [4] Interest accrues at the prime rate, but not below 4%. The loan is secured by real estate at Blagden Terrace, Washington, D.C.
- [5] Due in 60 monthly installments of \$3,270 including interest of 5.00%, beginning November 2015 and 59 monthly installments of \$3,270 including interest of a variable amount, estimated to be 5.00%, beginning November 2020. Secured by real estate at Kensington Street, Virginia.
- [6] Due in 60 monthly installments of \$3,270 including interest of 5.00%, beginning September 2015 and 59 monthly installments of \$3,352 including interest of a variable amount, estimated to be 5.375%, beginning September 2020. Secured by real estate at Verbena Avenue, Washington, D.C.
- [7] Due in 60 monthly installments of \$1,497 including interest of 5.00%, beginning September 2015 and 59 monthly installments of \$1,534 including interest of a variable amount, estimated to be 5.375%, beginning September 2020. Secured by real estate at Frost Avenue, Maryland.
- [8] 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.
- [9] 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 October 2021. Secured by real property owned by PACA House.
- [10] The loan was interest-free through construction completion or August 21, 2004, whichever occurred first. The mortgage is secured by Pratt Street real estate. The interest rate is the annual applicable federal rate. Annual principal and interest payments shall be made upon commencement of the permanent loan. 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.
- [11] Due in monthly payments of \$1,323 and one final balloon payment estimated at \$152,595. The note is secured by property at Coventry Lane, Virginia Beach, VA.
- [12] 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.
- [13] Secured by real property located on Potter Street, Maryland.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

14) Notes and Mortgages Payable (Continued)

- [14] The note is secured by Pratt Street real estate. 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.
- [15] Note payable to VOANS CDE Subsidiary 2, LLC.
- [16] Note payable to VOANS CDE Subsidiary 2, LLC, interest payable quarterly until July 2019, monthly payments of \$13,655 including principal, thereafter until paid in July 2042.
- [17] Note payable to VOANS CDE Subsidiary 2, LLC, interest payable quarterly until 2019, monthly payments of \$47,602, including principal, thereafter until paid in July 2042.
- [18] Secured by ICF Homes.
- [19] Secured by note receivable from Chase NMTC Investment Fund.
- [20] Due in monthly installments of \$728 with one final balloon payment estimated at \$83,962 due in August 2021. Secured by real property at Glen Avenue, Baltimore, MD
- [21] Due in 60 monthly installments of \$1,467 including interest at 5.000%, beginning February 2015 and 59 installments of \$1,469 including interest at 5.125%, beginning February 2020. One final balloon payment estimated at \$138,765 due in January 2025. Secured by real property at Aurora Dr., Woodbridge, VA.
- [22] Secured by real property at Bladgen Terrace NW, Washington, D.C.
- [23] On February 28, 2017, VOAC refinanced the loan related to Leegate Road, Washington, D.C. property. Secured by real property at Leegate Road, Washington, D.C.
- [24] Secured by real property at 4900 East Monument Street, Baltimore, Maryland.
- [25] Due in 20 annual installments of \$69,071, including interest at 6.25%, beginning September 30, 2018.
- [26] The loan is secured by real estate at Blagden Terrace, Washington, D.C.
- [27] Secured by a lien on accounts receivable, excluding DC Agency Receivables.

Maturities on the above mortgages and notes payable are as follows:

For the Years Ending June 30,

2019	\$ 3,394,337
2020	12,243,989
2021	259,708
2022	350,696
2023	1,553,459
Thereafter	<u>10,712,038</u>
Total	<u>\$ 28,514,227</u>

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

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

14) Notes and Mortgages Payable (Continued)

Organization agreed to maintain a minimum tangible net worth and a debt service coverage ratio regarding its mortgage and real estate loans with various banks. Per the terms of the loan agreements, tangible net worth shall not be less than \$9,500,000 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 members or affiliated entities. The debt service coverage ratio shall not be less than 1.20X 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, 2018 and 2017, the Organization met both the minimum tangible net worth and debt service coverage ratio requirements.

15) 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. Repayment is not required as long as the Organization satisfies the requirements in the grant agreement. Refundable advances for grant awards received but not yet earned as of June 30, 2018 and 2017, amounted to \$432,893 and \$437,307, respectively.

As of June 30, 2018 and 2017, \$24,172 and \$28,586, respectively, representing rent prepaid by tenants of PACA House, Pratt Street, and Irvington Woods was included in refundable advances.

16) Deferred Revenue

The Organization records grant awards accounted for as exchange transactions as deferred revenue until related services are performed, at which time they are recognized as revenue. Deferred revenue for grant awards received, but not yet earned as of June 30, 2018 and 2017, amounted to \$0 and \$126,228, respectively.

The Organization records active treatment fees received in advance as deferred revenue until related services are performed, at which time they are recognized as revenue. Deferred revenue for active treatment fees received, but not yet earned as of June 30, 2018 and 2017, amounted to \$0 and \$150,629, respectively.

17) 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 \$736,911 and \$710,885 at June 30, 2018 and 2017, respectively, as described in Note 8. 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. Temporarily restricted net assets also include purpose restricted grants for the renovation of residential property totaling \$891,555 and 648,671 at June 30, 2018 and 2017, respectively.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

17) Restrictions on Net Assets (Continued)

Permanently restricted net assets represent support from a perpetual trust in the form of investments administered by a bank and totaled \$59,678 and \$58,197 at June 30, 2018 and 2017, 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 income earned from both trusts is recorded as interest income and the distributions from the trusts are recorded as releases of assets from restrictions.

18) Non-Controlling Interest

Non-controlling interest represents the 99.99% limited partnership interest in Irvington Woods, the 99.99% limited partnership interest in Pratt Street, and the 99.99% limited partnership interest in PACA Partners.

19) 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 \$763,439 and \$745,903 for the years ended June 30, 2018 and 2017, respectively. VOAC owed VOA, Inc.'s affiliate \$26,607 and \$57,280 related to these fees as of June 30, 2018 and 2017, respectively, which are included in the amount VOAC owes VOA, Inc., as discussed below.

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, 2018 and 2017, VOAC is owed \$0 by VOA, Inc.

The net revenues under this agreement totaled \$65,155 and \$105,804 for the years ended June 30, 2018 and 2017, respectively. These revenues are reported as contributions support.

VOAC owes VOA, Inc., \$25,573 and \$30,284 in operating advances and accrued affiliate fee that are noninterest-bearing and are due on demand as of June 30, 2018 and 2017, respectively.

VOAC is a participant in a pooled investment program managed by VOA, Inc. See Note 7 for more details of the program and related agreement between VOAC and VOA, Inc.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

19) Related Party Transactions (Continued)

VOA Eastern Avenue Housing Corporation (Eastern Avenue Corp) was a non-stock corporation with two directors appointed by VOA, Inc., and two directors appointed by VOAC. Eastern Avenue Corp was the 1% general partner in VOA Eastern Avenue Limited Partnership (VOA Eastern Avenue). VOA Eastern Avenue's purpose was to own and operate an apartment project. During 2013, Eastern Avenue Corp ceased operations and is now in the process of dissolution. VOAC is entitled to their portion (50%) of a promissory note in the principal amount of \$4,177,994. As of June 30, 2013, VOAC had no book value recorded on their portion of the promissory note as management did not believe the amount was collectible. During the year ended June 30, 2014, VOAC received a principal payment of \$832,549 which was recorded as recovery of bad debt, as well as an interest payment of \$138,897 which was recorded as interest income. As of June 30, 2018 and 2017, principal and accrued interest due to VOAC under this note was \$1,256,449 and \$248,842, respectively for 2018 and \$1,256,449 and \$190,946, respectively for 2017. As of June 30, 2018 and 2017, management has recorded an allowance of \$942,337 based on analysis and expected payments to be received on this note.

In November 2017, VOAC entered into a management services agreement with Volunteers of America of the Carolinas (VOA Carolinas). Under this agreement VOA Carolinas reimburses VOAC for all costs and expenses reasonably incurred and pays VOAC a monthly administrative fee, plus 20% of all revenues earned by VOA Carolinas during the previous month from service fees. During the year ended June 30, 2018 VOAC recognized revenue of \$1,341,163 related to the management services agreement with VOA Carolinas. At June 30, 2018 VOAC is owed \$242,335 from VOA Carolinas.

20) Operating Leases - Lessee

The Organization has several non-cancellable operating leases, primarily for administrative and residential real estate, that expire at various dates through June 2042. Leases have renewal options of up to five years. Rental expenses for these leases totaled \$1,982,228 and \$1,704,763 for the years ended June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, the Organization entered into a sale-leaseback transaction for three properties over a ten-year period. The properties were sold for a gain of \$383,254, which was deferred and will be recognized over the life of the lease.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2018 and 2017, are as follows:

For the Years Ending June 30,

2019	\$ 1,900,100
2020	730,838
2021	558,106
2022	445,075
2023	556,106
Thereafter	<u>1,010,152</u>
Total	<u>\$ 5,200,377</u>

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

21) Retirement Plans

Defined Benefit Plan

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Benefit obligation		
Benefit obligation at beginning of year	\$ 7,268,066	\$ 7,274,356
Interest cost	403,251	404,332
Actuarial loss	7,599	14,441
Benefits paid	<u>(426,317)</u>	<u>(425,063)</u>
Benefit obligation at end of the year	<u>7,252,599</u>	<u>7,268,066</u>
Plan assets		
Fair market value at beginning of year	4,418,153	4,468,193
Benefits paid	(426,317)	(425,063)
Expenses	(1,125)	(16,578)
Net gains	<u>272,495</u>	<u>391,601</u>
Fair market value at end of year	<u>4,263,206</u>	<u>4,418,153</u>
Funded status at end of year	<u>\$ 2,989,393</u>	<u>\$ 2,849,913</u>

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

21) Retirement Plans (Continued)

	<u>2018</u>	<u>2017</u>	
Amounts recognized in the statements of financial position			
Non-current liabilities	<u>\$(2,989,393)</u>	<u>\$(2,849,913)</u>	
Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets			
Accumulated loss	<u>\$ 1,129,363</u>	<u>\$ 1,188,117</u>	
Net periodic pension cost			
Interest cost	\$ 403,251	\$ 404,332	
Expected return on assets	(313,052)	(318,055)	
Amortizations	<u>108,035</u>	<u>148,878</u>	
Net periodic pension cost	<u>198,234</u>	<u>235,155</u>	
Other changes recognized in changes in unrestricted net assets			
Net gain	166,789	340,283	
Amortization of net loss	<u>(108,035)</u>	<u>(148,878)</u>	
Total recognized in changes in unrestricted net assets	<u>58,754</u>	<u>191,405</u>	
Net recognized in net periodic pension cost and changes in unrestricted net assets	<u>\$ 256,988</u>	<u>\$ 426,560</u>	
Amortization			
Greater of benefit obligation or plan assets	\$ 7,252,599	\$ 7,268,066	
10 percent	\$ 725,260	\$ 726,807	
Unrecognized losses	\$ 1,129,363	\$ 1,188,117	
Average future service period	4.28 years	4.27 years	
Minimum required amortization for next year	\$ 94,417	\$ 108,035	
Plan asset allocation			
Cash and cash equivalents	0.74%	0.79%	
Debt securities	34.70%	37.03%	
Equity securities	61.93%	59.48%	
Real estate	<u>2.63%</u>	<u>2.70%</u>	
Total	<u>100.00%</u>	<u>100.00%</u>	
	<u>Min %</u>	<u>Target %</u>	<u>Max %</u>
Plan target asset allocation (2018 and 2017)			
Cash and cash equivalents	0.00%	0.00%	20.00%
Debt securities	25.00%	35.00%	45.00%
Equity securities	35.00%	65.00%	75.00%
Expected contribution for next plan year (2019 and 2018)		\$ -	\$ -

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

21) Retirement Plans (Continued)

	2018	2017
Expected benefits payments		
2018 / 2019	\$ 535,000	\$ 510,000
2019 / 2020	\$ 585,000	\$ 535,000
2020 / 2021	\$ 620,000	\$ 585,000
2021 / 2022	\$ 640,000	\$ 620,000
2022 / 2023	\$ 655,000	\$ 640,000
Next 5 years	\$ 3,470,000	\$ 3,395,000
Assumptions		
<i>Weighted-average assumptions used to determine benefit obligation at year end</i>		
Discount rate	5.75%	5.75%
Rate of compensation increase	0.00%	0.00%
<i>Weighted-average assumptions used to determine net periodic benefit cost for years ended</i>		
Discount rate	5.75%	5.75%
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.

Plan Assets

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. 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.

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 tables present 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.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

21) Retirement Plans (Continued)

As of June 30, 2018 and 2017, the Organization has valued all of its investments held by the defined benefit pension plan at fair value using quoted prices in active markets for identical assets (Level 1 as described in Note 7 to these financial statements).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2018</u>				
Cash and cash equivalents	\$ 31,672	\$ -	\$ -	\$ 31,672
Equity - mutual funds	2,640,261	-	-	2,640,261
Fixed income - corporate debt securities	1,479,356	-	-	1,479,356
Real estate securities	111,917	-	-	111,917
	<u>\$4,263,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,263,206</u>
Total plan assets, at fair value				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2017</u>				
Cash and cash equivalents	\$ 34,871	\$ -	\$ -	\$ 34,871
Equity - mutual funds	2,627,740	-	-	2,627,740
Fixed income - corporate debt securities	1,636,261	-	-	1,636,261
Real estate securities	119,281	-	-	119,281
	<u>\$4,418,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,418,153</u>
Total plan assets, at fair value				

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.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

21) 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 makes a discretionary contribution at 5% or 2% of salary, depending on length of service, 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 a discretionary 2% employer contribution and a 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 \$0 for the years ended June 30, 2018 and 2017.

22) 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, 2018 and 2017, was \$314,889 and \$345,635, respectively.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

23) Operating Leases - Lessor

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 of the apartment buildings for the years ended June 30, 2018 and 2017, is as follows:

	Cost	Accumulated Depreciation	Net
<u>June 30, 2018</u>			
PACA House	\$ 6,957,322	\$ 5,180,171	\$ 1,777,151
Pratt Street	1,492,966	446,031	1,046,935
Irvington Woods	6,582,028	2,878,622	3,703,406
Total	<u>\$ 15,032,316</u>	<u>\$ 8,504,824</u>	<u>\$ 6,527,492</u>
	Cost	Accumulated Depreciation	Net
<u>June 30, 2017</u>			
PACA House	\$ 6,935,624	\$ 4,913,916	\$ 2,021,708
Pratt Street	1,463,822	398,736	1,065,086
Irvington Woods	6,582,028	2,638,159	3,943,869
Total	<u>\$ 14,981,474</u>	<u>\$ 7,950,811</u>	<u>\$ 7,030,663</u>

24) 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 2018 and 2017. The cumulative operating deficit contributions remitted were \$214,050 through June 30, 2018 and 2017.

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, 2018 and 2017, no such contribution has been requested or required.

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)
For the Years Ended June 30, 2018 and 2017

24) Contingencies (Continued)

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.

On June 30, 2015, a Property Purchase and Sale Agreement was signed between VOAC and VOA, Inc. to transfer Baker House, a property located in Virginia Beach, Virginia to VOAC, with an estimated fair value of \$345,077. Baker House had previously been operated as a program by VOAC on behalf of VOA, Inc. and is utilized as a multi-family rental housing facility for individuals with intellectual disabilities. Baker House is subject to a Regulatory Agreement with the United States Department of Housing and Urban Development (HUD) by and through the Virginia Housing Development Authority (VHDA) in connection with a Deed of Trust in favor of VHDA. The sale between VOAC and VOA, Inc. is contingent upon HUD approving the transfer of the Baker House Housing Assistance Payments Contract to other locations. As of June 30, 2018, HUD approval has not been obtained.

25) Subsequent Events

The Organization has evaluated events and transactions subsequent to the consolidated statement of financial position date for potential recognition or disclosure through February 25, 2019, the date the consolidated financial statements were available to be issued. There were no events that required recognition or disclosure in the consolidated financial statements, except as noted below.

Paca House Limited Partnership II – Subsequent to year end, Paca House Limited Partnership II sold real property located at 118 North Paca Street, Baltimore, Maryland to Paca House Partners, which is a subsidiary of VOAC.

DHCD Loan Issuance – Subsequent to year end, Paca House Partners obtained a building loan from DHCD in the amount of \$2,019,061 which matures 15 years after the loan is converted to a permanent loan pursuant to the conditions of the loan agreement.

Loan Extension – Subsequent to year end, VOAC received an extension on an outstanding \$289,937 loan which matured January 1, 2019. The maturity date of the loan was extended to January 1, 2020.

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Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Financial Position As of June 30, 2018

	VOAC	Paca House	Paca House Partners	Pratt Street Housing	Pratt Street	Irvington Woods Corp	Irvington Woods	RRC Corp	RRC	Total	Eliminations	Consolidated Total
Current assets												
Cash and cash equivalents	\$ 2,806,164	\$ 22,288	\$ 2,213	\$ -	\$ (13,346)	\$ -	\$ 5,081	\$ -	\$ 1,422	\$ 2,823,822	\$ -	\$ 2,823,822
Accounts receivable (net of allowance)	6,861,174	3,592	-	-	21,497	-	10,834	-	1,637,041	8,534,138	(1,637,041)	6,897,097
Due from related parties	2,124,168	-	-	261,635	-	-	-	-	-	2,385,803	(2,143,468)	242,335
Prepaid expenses	256,820	2,815	-	-	-	-	22,551	-	-	282,186	-	282,186
Other receivables	12,425	-	-	-	-	-	-	-	-	12,425	-	12,425
Reimbursement receivable	155,441	-	-	-	-	-	-	-	-	155,441	-	155,441
Interest receivable	911,503	-	-	-	-	-	-	-	-	911,503	(662,661)	248,842
Total current assets	13,127,695	28,695	2,213	261,635	8,151	-	38,466	-	1,638,463	15,105,318	(4,443,170)	10,662,148
Property and equipment, net	8,464,660	2,244,359	815,964	-	1,110,166	-	4,086,199	-	9,626,335	26,347,683	(1,190,874)	25,156,809
Other assets												
Designated and restricted cash	215,084	830,485	-	-	154,007	-	225,933	-	119,424	1,544,933	-	1,544,933
Investments	56,470	-	-	-	-	-	-	-	-	56,470	-	56,470
Unamortized organizational costs, net	-	-	-	-	-	-	-	-	18,131	18,131	-	18,131
Deposits	40,801	-	-	-	-	-	-	-	-	40,801	-	40,801
Deferred rent asset	-	-	-	-	-	-	-	-	83,828	83,828	(83,828)	-
Beneficial interest in perpetual trust	59,678	-	-	-	-	-	-	-	-	59,678	-	59,678
Investment in partnerships	630,340	-	-	970,576	-	100	-	(1,234)	-	1,599,782	(1,599,782)	-
Beneficial interest in charitable remainder trust	736,911	-	-	-	-	-	-	-	-	736,911	-	736,911
Notes receivable (net of allowance)	8,558,216	-	-	-	-	1,266,293	-	-	-	9,824,509	(1,681,493)	8,143,016
Total other assets	10,297,500	830,485	-	970,576	1,540,007	1,266,393	225,933	(1,234)	221,383	13,965,043	(3,365,103)	10,599,940
Total assets	\$ 31,889,855	\$ 3,103,539	\$ 818,177	\$ 1,232,211	\$ 1,272,324	\$ 1,266,393	\$ 4,350,598	\$ (1,234)	\$ 11,486,181	\$ 55,418,044	\$ (8,999,147)	\$ 46,418,897

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Financial Position (Continued) As of June 30, 2018

	VOAC	Paca House	Paca House Partners	Pratt Street Housing Inc.	Pratt Street LP	Pratt Street LP	Irvington Woods Corp	Irvington Woods	RRC Corp	RRC	Total	Eliminations	Consolidated Total
Current liabilities													
Accounts payable	\$ 1,036,780	\$ 21,957	\$ -	\$ -	\$ 126,284	\$ -	\$ -	\$ 114,586	\$ -	\$ -	\$ 1,299,607	\$ -	\$ 1,299,607
Current maturities of long-term debt	2,570,080	40,191	750,000	-	-	-	34,066	34,066	-	-	3,394,337	-	3,394,337
Accrued expenses	1,574,745	1,114,436	-	-	934,303	-	68,864	68,864	-	-	3,692,348	(795,479)	2,896,869
Deferred gain on sale-leaseback, current	134,834	-	-	-	-	-	-	-	-	-	134,834	-	134,834
Due to related parties	1,662,614	571,133	-	-	332,743	-	2,319,335	2,319,335	-	63,509	4,949,334	(4,913,984)	35,350
Client escrow funds	111,419	-	-	-	-	-	-	-	-	-	111,419	-	111,419
Tenant security deposits	-	4,310	-	-	864	-	12,539	12,539	-	-	17,713	-	17,713
Deferred revenue	-	4,186	-	-	-	-	-	-	-	-	4,186	-	4,186
Refundable advances	408,721	2,317	-	-	14,834	-	7,021	7,021	-	-	432,893	-	432,893
Total current liabilities	7,499,193	1,758,530	750,000	-	1,409,028	-	2,556,411	2,556,411	-	63,509	14,036,671	(5,709,463)	8,327,208
Long-term liabilities													
Long-term debt, less current maturities	8,516,235	2,943,643	-	-	1,493,533	-	1,274,093	1,274,093	-	10,854,257	25,081,761	(415,200)	24,666,561
Post-retirement benefit liability	314,889	-	-	-	-	-	-	-	-	-	314,889	-	314,889
Other long-term liabilities	-	-	35,912	-	-	-	-	-	-	-	35,912	-	35,912
Deferred gain on sale-leaseback, net of current portion	794,977	-	-	-	-	-	-	-	-	-	794,977	-	794,977
Deferred rent	221,191	-	-	-	-	-	-	-	-	-	221,191	-	221,191
Underfunded pension obligation	2,989,393	-	-	-	-	-	-	-	-	-	2,989,393	-	2,989,393
Total long-term liabilities	12,836,685	2,943,643	35,912	-	1,493,533	-	1,274,093	1,274,093	-	10,854,257	29,438,123	(495,028)	28,939,095
Total liabilities	20,335,878	4,702,173	785,912	-	2,902,561	-	3,830,504	3,830,504	-	10,917,766	43,474,794	(6,208,491)	37,266,303
Net assets													
Unrestricted													
Controlling interest	9,865,833	(1,598,634)	49,999	1,232,211	759,729	1,266,393	(279)	(279)	(1,234)	568,415	12,142,433	(2,790,656)	9,351,777
Non-controlling interest	-	-	(17,734)	-	(2,389,966)	-	520,373	520,373	-	-	(1,887,327)	-	(1,887,327)
Total unrestricted	9,865,833	(1,598,634)	32,265	1,232,211	(1,630,237)	1,266,393	520,094	520,094	(1,234)	568,415	10,255,106	(2,790,656)	7,464,450
Temporarily restricted	1,628,466	-	-	-	-	-	-	-	-	-	1,628,466	-	1,628,466
Permanently restricted	59,678	-	-	-	-	-	-	-	-	-	59,678	-	59,678
Total net assets	11,553,977	(1,598,634)	32,265	1,232,211	(1,630,237)	1,266,393	520,094	520,094	(1,234)	568,415	11,943,250	(2,790,656)	9,152,594
Total liabilities and net assets	\$ 31,889,855	\$ 3,103,539	\$ 818,177	\$ 1,232,211	\$ 1,272,324	\$ 1,266,393	\$ 4,350,598	\$ 4,350,598	\$ (1,234)	\$ 11,486,181	\$ 55,418,044	\$ (8,999,147)	\$ 46,418,897

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Financial Position (Continued) For the Years Ended June 30, 2017

	VOAC	PACA House	Pratt Street Housing	Pratt Street	Irvington Woods Corp	Irvington Woods	RRC Corp	RRC	Total	Eliminations	Consolidated Total
Current assets											
Cash and cash equivalents	\$ 2,164,269	\$ 55,909	\$ -	\$ (12,366)	\$ -	\$ 12,556	\$ -	\$ 1,422	\$ 2,221,790	\$ -	\$ 2,221,790
Accounts receivable (net of allowance)	3,925,848	870	-	19,298	-	14,982	-	1,245,345	5,206,343	(1,245,345)	3,960,998
Due from related parties	1,874,084	-	256,385	-	-	-	-	-	2,130,469	(2,130,469)	-
Prepaid expenses	228,823	-	-	-	-	21,287	-	-	250,110	-	250,110
Other receivables	318,810	-	-	-	-	-	-	-	318,810	-	318,810
Reimbursement receivable	157,525	-	-	-	-	-	-	-	157,525	-	157,525
Interest receivable	822,791	-	-	-	-	-	-	-	822,791	(631,845)	190,946
Total current assets	9,492,150	56,779	256,385	6,932	-	48,825	-	1,246,767	11,107,838	(4,007,659)	7,100,179
Property and equipment, net	9,294,467	2,500,925	-	1,068,383	-	4,325,517	-	8,947,862	26,137,154	(1,190,874)	24,946,280
Other assets											
Designated and restricted cash	117,914	809,094	-	138,528	-	235,095	-	129,154	1,429,785	-	1,429,785
Investments	1,640,706	-	-	-	-	-	-	-	1,640,706	-	1,640,706
Unamortized organizational costs, net	-	-	-	-	-	-	-	20,038	20,038	-	20,038
Deposits	140,755	-	-	-	-	-	-	-	140,755	-	140,755
Deferred rent asset	-	-	-	-	-	-	-	71,554	71,554	(71,554)	-
Beneficial interest in perpetual trust	58,197	-	-	-	-	-	-	-	58,197	-	58,197
Investment in partnerships	8,574	-	970,576	-	100	-	(1,234)	-	978,016	(978,016)	-
Beneficial interest in charitable remainder trust	710,885	-	-	-	-	-	-	-	710,885	-	710,885
Notes receivable (net of allowance)	8,558,216	-	-	-	1,266,293	-	-	-	9,824,509	(1,681,493)	8,143,016
Total other assets	11,235,247	809,094	970,576	138,528	1,266,393	235,095	(1,234)	220,746	14,874,445	(2,731,063)	12,143,382
Total assets	\$ 30,021,864	\$ 3,366,798	\$ 1,226,961	\$ 1,213,843	\$ 1,266,393	\$ 4,609,437	\$ (1,234)	\$ 10,415,375	\$ 52,119,437	\$ (7,929,596)	\$ 44,189,841

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Financial Position (Continued) For the Year Ended June 30, 2017

	VOAC	Paca House	Pratt Street Housing Inc.	Pratt Street LP	Irvington Woods Corp	Irvington Woods	RRC Corp	RRC	Total	Eliminations	Consolidated Total
Current liabilities											
Accounts payable	\$ 875,818	\$ 20,255	\$ -	\$ 149,155	\$ -	\$ 122,061	\$ -	\$ -	\$ 1,167,289	\$ -	\$ 1,167,289
Current maturities of long-term debt	973,543	39,791	-	-	-	31,728	-	-	1,045,062	-	1,045,062
Accrued expenses	1,251,715	1,062,697	-	855,290	-	59,813	-	-	3,229,515	(759,413)	2,470,102
Deferred gain on sale-leaseback, current	80,084	-	-	-	-	-	-	-	80,084	-	80,084
Due to related parties	1,302,125	571,444	-	376,028	-	2,239,557	-	65,757	4,554,911	(4,514,539)	40,372
Client escrow funds	106,216	-	-	-	-	-	-	-	106,216	-	106,216
Tenant security deposits	-	5,249	-	803	-	12,993	-	-	19,045	-	19,045
Deferred revenue	276,858	4,187	-	-	-	-	-	-	281,045	-	281,045
Refundable advances	408,721	1,876	-	16,370	-	10,340	-	-	437,307	-	437,307
Total current liabilities	5,275,080	1,705,499	-	1,397,646	-	2,476,492	-	65,757	10,920,474	(5,273,952)	5,646,522
Long-term liabilities											
Long-term debt, less current maturities	9,399,971	3,002,816	-	1,491,822	-	1,306,299	-	10,341,127	25,542,035	(415,200)	25,126,835
Post-retirement benefit liability	345,635	-	-	-	-	-	-	-	345,635	-	345,635
Other long-term liabilities	18,992	-	-	-	-	-	-	-	18,992	-	18,992
Deferred gain on sale-leaseback, net of current poi	573,932	-	-	-	-	-	-	-	573,932	-	573,932
Deferred rent	170,675	-	-	-	-	-	-	-	170,675	(71,554)	99,121
Underfunded pension obligation	2,849,913	-	-	-	-	-	-	-	2,849,913	-	2,849,913
Total long-term liabilities	13,359,118	3,002,816	-	1,491,822	-	1,306,299	-	10,341,127	29,501,182	(486,754)	29,014,428
Total liabilities	18,634,198	4,708,315	-	2,889,468	-	3,782,791	-	10,406,884	40,421,656	(5,760,706)	34,660,950
Net assets											
Unrestricted											
Controlling interest	9,969,913	(1,341,517)	1,226,961	759,724	1,266,393	(248)	(1,234)	8,491	11,888,483	(2,168,890)	9,719,593
Non-controlling interest	-	-	-	(2,435,349)	-	826,894	-	-	(1,608,455)	-	(1,608,455)
Total unrestricted	9,969,913	(1,341,517)	1,226,961	(1,675,625)	1,266,393	826,646	(1,234)	8,491	10,280,028	(2,168,890)	8,111,138
Temporarily restricted	1,359,556	-	-	-	-	-	-	-	1,359,556	-	1,359,556
Permanently restricted	58,197	-	-	-	-	-	-	-	58,197	-	58,197
Total net assets	11,387,666	(1,341,517)	1,226,961	(1,675,625)	1,266,393	826,646	(1,234)	8,491	11,697,781	(2,168,890)	9,528,891
Total liabilities and net assets	\$ 30,021,864	\$ 3,366,798	\$ 1,226,961	\$ 1,213,843	\$ 1,266,393	\$ 4,609,437	\$ (1,234)	\$ 10,415,375	\$ 52,119,437	\$ (7,929,596)	\$ 44,189,841

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Unrestricted Activities For the Year Ended June 30, 2018

	VOAC	PACA House	Paca House Partners	Pratt Street Housing, Inc.	Pratt Street LP	Irvington Woods Corp	Irvington Woods	RRC Corp	RRC	Total	Eliminations	Consolidated Total
Revenues and support												
Contributions	\$ 451,133	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 451,133	\$ -	\$ 451,133
Special events (net of direct benefit costs)	14,545	-	-	-	-	-	-	-	-	14,545	-	14,545
United way	2,546	-	-	-	-	-	-	-	-	2,546	-	2,546
Government revenues and grants	33,662,865	-	-	-	-	-	-	-	-	33,662,865	(15,174)	33,647,691
Program service fees	1,218,507	661,435	-	-	485,641	-	692,376	-	-	3,007,959	-	3,007,959
Property management fees	1,341,163	-	-	-	-	-	-	-	-	1,341,163	-	1,341,163
Other operating revenues	59,133	5,861	-	-	4,298	-	6,060	-	-	75,352	(59,133)	16,219
Interest and dividends	482,121	1,474	-	5,250	3,864	-	136	-	270	493,115	(36,066)	457,049
Net income on investments	34,013	-	-	-	-	-	-	-	-	34,013	-	34,013
Gain on disposal of equipment	107,459	-	-	-	-	-	-	-	-	107,459	-	107,459
Rental revenue	130,592	497	-	-	-	-	-	-	862,274	993,363	(862,274)	131,089
Recovery of bad debt	-	641	-	-	-	-	-	-	-	1,489	-	1,489
Other revenues	14,385	-	-	-	-	-	-	-	-	14,385	-	14,385
Satisfaction of program restrictions	272,358	-	-	-	-	-	-	-	-	272,358	-	272,358
Total revenues and support	37,790,820	669,908	-	5,250	443,803	-	699,420	-	862,544	40,471,745	(972,647)	39,499,098
Expenses												
Increase in pension obligation	37,755,420	927,025	17,735	-	509,770	-	1,005,972	-	-	40,978,953	(972,647)	40,006,306
Capital contributions	139,480	-	-	-	-	-	-	-	-	139,480	-	139,480
Capital distributions	-	-	605,150	-	111,355	-	-	-	440,411	1,176,916	(621,766)	555,150
	-	-	(555,150)	-	-	-	-	-	-	(555,150)	-	(555,150)
(Decrease) increase in unrestricted net assets (deficit) before non-controlling interest	(104,080)	(257,117)	32,265	5,250	45,388	-	(306,552)	-	-	(24,922)	(621,766)	(646,688)
Increase (decrease) in net assets (deficit) attributable to non-controlling interest in subsidiary	-	-	(17,734)	-	45,383	-	(306,521)	-	-	(278,872)	-	(278,872)
Total increase (decrease) in net assets	(104,080)	(257,117)	49,999	5,250	5	-	(31)	-	559,924	253,950	(621,766)	(367,816)
Unrestricted net assets (deficit) - beginning of year	9,969,913	(1,341,517)	-	1,226,961	759,724	1,266,393	(248)	(1,234)	8,491	11,888,483	(2,168,890)	9,719,593
Unrestricted net assets (deficit) - end of year	\$ 9,865,833	\$ (1,598,634)	\$ 49,999	\$ 1,232,211	\$ 759,729	\$ 1,266,393	\$ (279)	\$ (1,234)	\$ 568,415	\$ 12,142,433	\$ (2,790,656)	\$ 9,351,777

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Unrestricted Activities For the Year Ended June 30, 2017

	VOAC	PACA House	Pratt Street Housing, Inc.	Pratt Street, LP	Irvington Woods Corp	Irvington Woods	RRC Corp	RRC	Eliminations	Consolidated Total
Revenues and support										
Contributions - cash	\$ 527,198	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 527,198
Special events (net of direct benefit costs)	43,008	-	-	-	-	-	-	-	-	43,008
United way	8,093	-	-	-	-	-	-	-	-	8,093
Government revenues and grants	31,254,183	-	-	-	-	-	-	-	(29,725)	31,224,458
Program service fees	1,224,116	729,160	-	347,767	-	649,108	-	-	-	2,950,151
Other operating revenues	69,214	7,334	-	13,224	-	4,891	-	-	(69,214)	25,449
Interest and dividends	502,199	1,578	5,250	(3,445)	-	99	205	-	(44,530)	461,356
Net income on investments	114,413	-	-	-	-	-	-	-	-	114,413
Gain on disposal of equipment	80,084	-	-	-	-	-	-	-	-	80,084
Rental revenue	100,092	-	-	-	-	290	-	862,274	(862,274)	100,092
Recovery of bad debt	-	-	-	-	-	-	-	-	-	290
Other revenues	5,078	-	-	-	-	-	-	-	-	5,078
Satisfaction of program restrictions	8,578	-	-	-	-	-	-	-	-	8,578
Total revenues and support	33,936,256	738,072	5,250	357,546	-	654,388	-	862,479	(1,005,743)	35,548,248
Expenses										
Increase in pension obligation	43,750	-	-	-	-	-	-	-	-	43,750
(Decrease) increase in unrestricted net assets (deficit) before non-controlling interest	(836,417)	(234,433)	5,250	(313,157)	-	(269,943)	-	109,842	(1,538,858)	(1,547,322)
Increase (decrease) in net assets attributable to non-controlling interest in subsidiary	-	-	-	(313,126)	-	(269,916)	-	-	-	(583,042)
Total increase (decrease) in net assets	(836,417)	(234,433)	5,250	(31)	-	(27)	-	109,842	(8,464)	(964,280)
Unrestricted net assets (deficit) - beginning of year	10,806,330	(1,107,084)	1,221,711	759,755	1,266,393	(221)	(1,234)	(101,351)	2,844,299	10,683,873
Unrestricted net assets (deficit) - end of year	\$ 9,969,913	\$ (1,341,517)	\$ 1,226,961	\$ 759,724	\$ 1,266,393	\$ (248)	\$ (1,234)	\$ 8,491	\$ (2,168,890)	\$ 9,719,593

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Expenses For the Year Ended June 30, 2018

	VOAC	Paca House	Paca House Partners	Pratt Street, LP	Irvington Woods	RRC	Total	Eliminations	Consolidated Total
Salaries	\$ 21,897,947	\$ 187,873	\$ -	\$ 130,080	\$ 164,583	\$ -	\$ 22,380,483	\$ -	\$ 22,380,483
Other employee benefits	2,275,218	9,650	-	9,319	17,629	-	2,311,816	-	2,311,816
Payroll taxes	1,493,688	12,861	-	10,059	11,713	-	1,528,321	-	1,528,321
Legal fees	283,015	2,725	-	9,340	16,663	-	311,743	-	311,743
Accounting fees	79,697	11,050	-	(7,950)	6,850	20,724	110,371	-	110,371
Other professional fees	1,366,225	45,684	3,560	39,894	116,924	-	1,572,287	(59,133)	1,513,154
Supplies	1,265,195	2,888	-	13,371	5,266	-	1,286,720	-	1,286,720
Telecommunications	450,895	11,026	-	2,414	11,676	-	476,011	-	476,011
Postage	20,700	123	462	259	115	-	21,659	-	21,659
Occupancy expense	3,910,001	268,261	-	125,598	279,643	-	4,583,503	(862,274)	3,721,229
Interest	639,865	59,596	-	80,646	98,910	457,680	1,336,697	(36,066)	1,300,631
Insurance	548,909	35,330	-	30,787	27,373	-	642,399	-	642,399
Equipment rental and maintenance	154,646	26	-	682	5,846	-	161,200	-	161,200
Printing and publications	73,706	-	-	-	-	-	73,706	-	73,706
Travel and transportation	739,534	33	-	-	-	-	739,567	-	739,567
Conferences and meetings	191,043	720	-	363	283	-	192,409	-	192,409
Special assistance	1,061,572	915	-	12,749	1,510	-	1,076,746	(15,174)	1,061,572
Other	126,287	-	13,713	-	-	-	140,000	-	140,000
Depreciation and amortization	413,838	278,264	-	52,159	240,988	284,627	1,269,876	-	1,269,876
Administrative fees - VOA, Inc.	763,439	-	-	-	-	-	763,439	-	763,439
Total expenses	\$ 37,755,420	\$ 927,025	\$ 17,735	\$ 509,770	\$ 1,005,972	\$ 763,031	\$ 40,978,953	\$ (972,647)	\$ 40,006,306

See independent auditor's report.

Volunteers of America Chesapeake, Inc. and Subsidiaries

Consolidating Schedule of Expenses (Continued) For the Year Ended June 30, 2017

	VOAC	PACA		Pratt		Irvington		RRC	Total	Eliminations	Consolidated Total
		House	Street, LP	Street, LP	Woods	Woods					
Salaries	\$ 20,198,909	\$ 205,389	\$ 116,992	\$ 123,733	\$ -	\$ 20,645,023	\$ -	\$ 20,645,023	\$ -	\$ 20,645,023	
Other employee benefits	1,909,201	11,248	10,741	9,864	-	1,941,054	-	1,941,054	-	1,941,054	
Payroll taxes	1,432,621	15,703	9,191	8,751	-	1,466,266	-	1,466,266	-	1,466,266	
Legal fees	146,044	(5,881)	14,127	16,557	-	170,847	-	170,847	-	170,847	
Accounting fees	80,620	10,700	21,400	13,950	20,700	147,370	-	147,370	-	147,370	
Other professional fees	1,401,245	51,204	26,582	127,649	-	1,606,680	(58,271)	1,548,409	-	1,548,409	
Supplies	1,254,169	8,014	5,012	4,146	-	1,271,341	-	1,271,341	-	1,271,341	
Telecommunications	380,629	9,682	2,911	11,116	-	404,338	-	404,338	-	404,338	
Postage	13,834	197	300	290	-	14,621	-	14,621	-	14,621	
Occupancy expense	3,576,835	247,126	287,573	253,659	-	4,365,193	(862,274)	3,502,919	-	3,502,919	
Interest	602,146	59,385	80,609	101,616	457,680	1,301,436	(36,066)	1,265,370	-	1,265,370	
Insurance	578,307	35,475	30,661	28,020	-	672,463	-	672,463	-	672,463	
Equipment rental and maintenance	135,569	1,359	5,425	9,215	-	151,568	-	151,568	-	151,568	
Equipment and maintenance	-	-	-	2,075	-	2,075	-	2,075	-	2,075	
Printing and publications	62,240	-	-	-	-	62,240	-	62,240	-	62,240	
Travel and transportation	742,333	-	-	-	-	742,333	-	742,333	-	742,333	
Conferences and meetings	196,603	82	27	55	-	196,767	-	196,767	-	196,767	
Special assistance	561,524	43,696	13,636	(27,607)	-	591,249	(40,668)	550,581	-	550,581	
Other	316,429	-	-	(35)	-	316,394	-	316,394	-	316,394	
Depreciation and amortization	393,762	279,126	45,516	241,277	274,257	1,233,938	-	1,233,938	-	1,233,938	
Administrative fees - VOA, Inc.	745,903	-	-	-	-	745,903	-	745,903	-	745,903	
Total expenses	\$ 34,728,923	\$ 972,505	\$ 670,703	\$ 924,331	\$ 752,637	\$ 38,049,099	\$ (997,279)	\$ 37,051,820			

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