



**VOLUNTEERS OF AMERICA
OF MASSACHUSETTS, INC.**

and

AFFILIATES

Combining Financial Statements

and

Auditors' Report

June 30, 2017 with Comparative Totals for 2016

Volunteers of America of Massachusetts, Inc. and Affiliates
June 30, 2017
With Comparative Totals for 2016

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Independent Auditors' Report

To the Board of Directors of
Volunteers of America of Massachusetts, Inc. and Affiliates

We have audited the accompanying combining financial statements of Volunteers of America of Massachusetts, Inc. and Affiliates (collectively, the Organization) which comprise the combining statement of financial position as of June 30, 2017, and the related combining statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combining 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 combining 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 combining financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combining 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 Organization'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 combining 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 combining financial statements referred to above present fairly, in all material respects, the financial position of Volunteers of America of Massachusetts, Inc. and Affiliates as of June 30, 2017, and the changes in their combining net assets and their combining cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Volunteers of America of Massachusetts, Inc. and Affiliates' 2016 combining financial statements, and we expressed an unmodified audit opinion on those audited combining financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

A handwritten signature in black ink that reads "Jarvis Kelly". The signature is written in a cursive style with a large initial "J" and a stylized "K".

October 30, 2017

Volunteers of America of Massachusetts, Inc. and Affiliates
Combining Statement of Financial Position
June 30, 2017
With Summarized Comparative Totals for 2016

	VOAMA	VOARI	VOA Ayer, Inc.	VOA Somerville	VOAC	VOA Ayer Memory Support LLC	VOA Malden Manager, Inc.	VOA Malden Assisted Living LLC	Eliminations	2017 Combined Total	2016 Combined Total
Assets											
<i>Current Assets:</i>											
Cash and cash equivalents	\$ 2,338,770	\$ -	\$ 52,358	\$ 51,141	\$ 1,449,721	\$ -	\$ -	\$ 569,295	\$ -	\$ 4,461,285	\$ 2,745,581
Accounts receivable, net	276,810	-	-	18,893	43,951	-	-	-	-	339,654	540,644
Promises to give	8,378	-	-	-	-	-	-	-	-	8,378	4,155
Investments	1,818,897	1,340,694	-	-	-	-	-	-	-	3,159,591	2,605,651
Due from affiliates	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and deposits	46,554	-	-	2,032	20,896	-	-	-	-	69,482	41,125
Total current assets	4,489,409	1,340,694	52,358	72,066	1,514,568	-	-	569,295	-	8,038,390	5,937,156
<i>Restricted Funds:</i>											
Bond funds	-	-	-	-	1,203,015	-	-	-	-	1,203,015	1,262,565
Operating reserve	-	-	-	64,611	-	-	-	-	-	64,611	79,563
Replacement reserve	-	-	-	24,779	502,308	-	-	-	-	527,087	516,687
Total restricted funds	-	-	-	89,390	1,705,323	-	-	-	-	1,794,713	1,858,815
<i>Fixed Assets:</i>											
Land	339,648	-	-	650,236	2,441,505	208,500	-	288,459	-	3,928,348	3,928,348
Construction in progress	-	-	-	-	-	-	-	13,300,104	-	13,300,104	2,797,446
Buildings and improvements	1,997,828	-	-	4,983,145	9,881,523	-	-	-	(490,911)	16,371,585	16,382,083
Furnishings and equipment	301,368	-	-	-	390,606	-	-	-	-	691,974	740,328
Motor vehicles	24,169	-	-	-	48,750	-	-	-	-	72,919	72,919
Less: accumulated depreciation	(764,215)	-	-	(436,463)	(5,262,061)	-	-	-	-	(6,462,739)	(6,176,830)
Net fixed assets	1,898,798	-	-	5,196,918	7,500,323	208,500	-	13,588,563	(490,911)	27,902,191	17,744,294
<i>Other Assets:</i>											
Due from affiliates:											
VOA Ayer Limited Partnership, principal	823,606	-	-	-	-	-	-	-	-	823,606	1,326,284
VOA Ayer Limited Partnership, accrued interest	17,166	-	-	-	-	-	-	-	-	17,166	12,104
VOA Ayer Memory Support LLC	212,872	-	-	-	-	-	-	-	(212,872)	-	-
VOA Somerville Veterans Housing, Inc.	224,405	-	-	-	-	-	-	-	(224,405)	-	-
Due from VOA Malden Assisted Living LLC	632,639	-	-	-	-	-	-	-	(632,639)	-	-
Development costs	-	-	-	-	-	4,372	-	-	-	4,372	3,924
Interest rate swap contract	-	-	-	-	-	-	-	545,395	-	545,395	-
Intangible assets, net	-	-	-	-	-	-	-	-	-	-	-
Total other assets	1,910,688	-	-	-	-	4,372	-	545,395	(1,069,916)	1,390,539	1,342,312
Total assets	\$ 8,298,895	\$ 1,340,694	\$ 52,358	\$ 5,358,374	\$ 10,720,214	\$ 212,872	\$ -	\$ 14,703,253	\$ (1,560,827)	\$ 39,125,833	\$ 26,882,577

See accompanying notes to combining financial statements.

Volunteers of America of Massachusetts, Inc. and Affiliates
Combining Statement of Financial Position - Continued
June 30, 2017
With Summarized Comparative Totals for 2016

	VOAMA	VOARI	VOA Ayer, Inc.	VOA Somerville	VOAC	VOA Ayer Memory Support LLC	VOA Malden Manager, Inc.	VOA Malden Assisted Living, Inc.	Eliminations	2017 Combined Total	2016 Combined Total
Liabilities and Net Assets											
<i>Current Liabilities:</i>											
Accounts payable	\$ 82,430	\$ -	\$ -	\$ 3,763	\$ 72,173	\$ -	\$ -	\$ 2,043,680	\$ -	\$ 2,202,046	\$ 188,103
Accrued expenses	202,107	-	-	24,678	168,134	-	-	-	-	394,919	407,501
Accrued interest	31,325	-	-	-	52,768	-	-	145,757	(31,325)	198,525	53,768
Deferred revenue	-	-	52,358	-	477,396	-	-	-	-	529,753	230,592
Due to affiliates - current	21,744	-	-	224,405	-	212,872	-	-	(438,591)	20,430	36,854
Capital lease obligation - current	-	-	-	-	12,686	-	-	-	-	12,686	-
Mortgages and notes payable - current	25,112	-	-	5,811	250,000	-	-	250,000	-	530,923	520,071
Total current liabilities	362,718	-	52,358	258,657	1,033,157	212,872	-	2,439,437	(469,916)	3,889,282	1,436,889
<i>Other Liabilities:</i>											
Investment in VOA Ayer Limited Partnership	-	-	425,000	-	-	-	-	-	(89,250)	335,750	335,750
Investment in VOA Ayer, Inc.	335,750	-	-	-	-	-	-	-	(335,750)	-	-
Total other liabilities	335,750	-	425,000	-	-	-	-	-	(425,000)	335,750	335,750
<i>Long-Term Debt:</i>											
Due to affiliates, net of current portion	-	-	-	-	-	-	-	600,000	(600,000)	-	-
Capital lease obligation, net of current portion	-	-	-	-	44,919	-	-	-	-	44,919	-
Mortgages and notes payable, net of current portion	1,272,926	-	-	1,123,463	11,985,000	-	-	11,829,744	-	26,211,133	17,506,850
Unamortized debt issuance costs	-	-	-	(327,099)	(328,263)	-	-	(611,608)	-	(1,266,970)	(1,336,125)
Total long-term debt	1,272,926	-	-	796,364	11,701,656	-	-	11,818,136	(600,000)	24,989,082	16,170,725
Total liabilities	1,971,394	-	477,358	1,055,021	12,734,813	212,872	-	14,257,573	(1,494,916)	29,214,114	17,943,364
<i>Net Assets:</i>											
<i>Unrestricted:</i>											
Board-designated endowment	1,818,897	1,340,694	-	-	-	-	-	-	-	3,159,591	2,605,651
Undesignated controlling interest	4,418,569	-	(335,750)	4,303,353	(2,014,599)	-	-	445,680	(65,911)	6,751,343	6,355,302
Minority interest	-	-	(89,250)	-	-	-	-	-	-	(89,250)	(89,250)
Total unrestricted	6,237,466	1,340,694	(425,000)	4,303,353	(2,014,599)	-	-	445,680	(65,911)	9,821,684	8,871,703
Temporarily restricted	90,035	-	-	-	-	-	-	-	-	90,035	67,510
Total net assets	6,327,501	1,340,694	(425,000)	4,303,353	(2,014,599)	-	-	445,680	(65,911)	9,911,719	8,939,213
Total liabilities and net assets	\$ 8,298,895	\$ 1,340,694	\$ 52,358	\$ 5,358,374	\$ 10,720,214	\$ 212,872	\$ -	\$ 14,703,253	\$ (1,560,827)	\$ 39,125,833	\$ 26,882,577

See accompanying notes to combining financial statements.

Volunteers of America of Massachusetts, Inc. and Affiliates
Combining Statement of Activities
For the Year Ended June 30, 2017
With Summarized Comparative Totals for 2016

	VOAMA	VOARI	VOA Ayer, Inc.	VOA Somerville	VOAC	VOA Ayer Memory Support LLC	VOA Malden Manager, Inc.	VOA Malden Assisted Living LLC	Eliminations	2017 Combined Total	2016 Combined Total
Changes in Unrestricted Net Assets:											
<i>Operating Revenue and Support:</i>											
Program fees	\$ 3,776,004	\$ -	\$ 1,232,493	\$ 470,917	\$ 6,729,823	\$ -	\$ -	\$ -	\$ -	\$ 12,209,237	\$ 11,564,737
Grants and contributions	150,001	-	-	81,879	-	-	-	102,500	(74,088)	260,292	312,305
Private client fees	814,651	-	-	-	-	-	-	-	-	814,651	717,958
Net assets released from restrictions	2,555	-	-	-	-	-	-	-	-	2,555	301,921
Total operating revenue and support	<u>4,743,211</u>	<u>-</u>	<u>1,232,493</u>	<u>552,796</u>	<u>6,729,823</u>	<u>-</u>	<u>-</u>	<u>102,500</u>	<u>(74,088)</u>	<u>13,286,735</u>	<u>12,896,921</u>
<i>Operating Expenses:</i>											
Programs	4,355,811	-	1,232,493	634,994	5,223,311	-	-	214,362	(110,247)	11,550,725	10,829,099
Management and general	1,456,373	-	-	-	-	-	-	-	-	1,456,373	1,405,385
Fundraising	184,609	-	-	-	-	-	-	-	-	184,609	273,029
Total operating expenses	<u>5,996,793</u>	<u>-</u>	<u>1,232,493</u>	<u>634,994</u>	<u>5,223,311</u>	<u>-</u>	<u>-</u>	<u>214,362</u>	<u>(110,247)</u>	<u>13,191,707</u>	<u>12,507,513</u>
Change in net assets from operations	<u>(1,253,582)</u>	<u>-</u>	<u>-</u>	<u>(82,198)</u>	<u>1,506,512</u>	<u>-</u>	<u>-</u>	<u>(111,862)</u>	<u>36,159</u>	<u>95,028</u>	<u>389,408</u>
<i>Nonoperating Income (Expenses and Losses):</i>											
Development income	1,735,901	-	-	-	-	-	-	-	(1,697,668)	38,233	48,106
Unrealized gain (loss) on interest rate swap contract	-	-	-	-	-	-	-	545,395	-	545,395	-
Realized gains (losses) on investments	1,352	1,524	-	-	-	-	-	-	-	2,876	(156,196)
Unrealized gains (losses) on investments	62,513	70,493	-	-	-	-	-	-	-	133,006	151,707
Interest and dividends	40,648	45,837	-	59	48,898	-	-	-	-	135,442	83,023
Gain (loss) on disposal of assets	-	-	-	-	-	-	-	-	-	-	4,235
Payments to affiliates	-	-	-	-	(1,630,184)	-	-	-	1,630,184	-	-
Net nonoperating income (expenses and losses)	<u>1,840,413</u>	<u>117,855</u>	<u>-</u>	<u>59</u>	<u>(1,581,286)</u>	<u>-</u>	<u>-</u>	<u>545,395</u>	<u>(67,484)</u>	<u>854,952</u>	<u>130,875</u>
Change in unrestricted net assets	<u>586,831</u>	<u>117,855</u>	<u>-</u>	<u>(82,139)</u>	<u>(74,774)</u>	<u>-</u>	<u>-</u>	<u>433,533</u>	<u>(31,325)</u>	<u>949,980</u>	<u>520,283</u>
Changes in Temporarily Restricted Net Assets:											
Grants and contributions	25,080	-	-	-	-	-	-	-	-	25,080	313,000
Net assets released from restrictions	(2,555)	-	-	-	-	-	-	-	-	(2,555)	(301,921)
Change in temporarily restricted net assets	<u>22,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,525</u>	<u>11,079</u>
Change in net assets	609,356	117,855	-	(82,139)	(74,774)	-	-	433,533	(31,325)	972,505	531,362
Net assets, beginning of year	<u>5,718,145</u>	<u>1,222,840</u>	<u>(425,000)</u>	<u>4,385,492</u>	<u>(1,939,825)</u>	<u>-</u>	<u>-</u>	<u>12,147</u>	<u>(34,586)</u>	<u>8,939,213</u>	<u>8,407,851</u>
Net assets, end of year	<u>\$ 6,327,501</u>	<u>\$ 1,340,694</u>	<u>\$ (425,000)</u>	<u>\$ 4,303,353</u>	<u>\$ (2,014,599)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 445,680</u>	<u>\$ (65,911)</u>	<u>\$ 9,911,719</u>	<u>\$ 8,939,213</u>

See accompanying notes to combining financial statements.

Volunteers of America of Massachusetts, Inc. and Affiliates
Combining Statement of Functional Expenses
For the Year Ended June 30, 2017
With Summarized Comparative Totals for 2016

Description	VOAMA				VOARI	VOA Ayer, Inc.	VOA Somerville	VOAC	VOA Ayer Memory Support LLC	VOA Malden Manager, Inc.	VOA Malden Assisted Living LLC	Eliminations	2017	2016
	Program Services	Management and General	Fund-Raising	Total	Program Services	Program Services	Program Services	Program Services	Program Services	Program Services	Program Services		Combined Total	Combined Total
Personnel expenses	\$ 2,600,174	\$ 963,258	\$ 102,436	\$ 3,665,868	\$ -	\$ 1,224,789	\$ 290,899	\$ 2,530,691	\$ -	\$ -	\$ -	\$ -	\$ 7,712,247	\$ 7,258,219
Occupancy	301,918	39,102	3,475	344,495	-	-	130,416	764,047	-	-	-	-	1,238,959	948,118
Program expense	1,268,840	353,405	74,780	1,697,025	-	7,704	33,917	516,548	-	-	-	(74,088)	2,181,106	2,415,986
Operating expenses	32,921	91,171	2,581	126,673	-	-	50,600	415,418	-	-	214,362	(32,100)	774,953	473,402
Interest	35,580	-	-	35,580	-	-	4,059	670,662	-	-	-	(4,059)	706,242	880,730
Depreciation	116,378	9,437	1,337	127,152	-	-	125,103	325,944	-	-	-	-	578,199	531,059
Total expenses	<u>\$ 4,355,811</u>	<u>\$ 1,456,373</u>	<u>\$ 184,609</u>	<u>\$ 5,996,793</u>	<u>\$ -</u>	<u>\$ 1,232,493</u>	<u>\$ 634,994</u>	<u>\$ 5,223,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,362</u>	<u>\$ (110,247)</u>	<u>\$ 13,191,707</u>	<u>\$ 12,507,513</u>

See accompanying notes to combining financial statements.

Volunteers of America of Massachusetts, Inc. and Affiliates
Combining Statement of Cash Flows
For the Year Ended June 30, 2017
With Summarized Comparative Totals for 2016

	VOAMA	VOARI	VOA Ayer, Inc.	VOA Somerville	VOAC	VOA Ayer Memory Support LLC	VOA Malden Manager, Inc.	VOA Malden Assisted Living LLC	Eliminations	2017 Combined Total	2016 Combined Total
Cash Flows From Operating Activities:											
Change in net assets	\$ 609,356	\$ 117,855	\$ -	\$ (82,139)	\$ (74,774)	\$ -	\$ -	\$ 433,533	\$ (31,325)	\$ 972,505	\$ 531,362
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:											
Development income	(1,697,668)	-	-	-	-	-	-	-	1,697,668	-	-
Payments to affiliates	-	-	-	-	1,630,184	-	-	-	(1,630,184)	-	-
(Gain) loss on disposal of assets	-	-	-	-	-	-	-	-	-	-	(4,235)
Depreciation	127,152	-	-	125,103	325,946	-	-	-	-	578,201	531,058
Amortization of debt issuance costs charged as interest expense	-	-	-	12,373	13,445	-	-	43,686	-	69,504	25,818
Bad debts	81,590	-	-	100	-	-	-	-	-	81,690	88,754
Unrealized (gain) loss on interest rate swap	-	-	-	-	-	-	-	(545,395)	-	(545,395)	-
Net realized and unrealized (gains) losses on investments	(103,161)	(72,017)	-	-	-	-	-	-	-	(175,178)	(86,232)
(Increase)/decrease in operating assets:											
Accounts receivable	77,394	-	-	15,854	26,053	-	-	-	-	119,301	(80,970)
Promises to give	(4,223)	-	-	-	-	-	-	-	-	(4,223)	-
Due from affiliates (including accrued interest)	(5,062)	-	-	-	-	-	-	-	-	(5,062)	19,816
Prepaid expenses	(26,818)	-	-	(2,032)	493	-	-	-	-	(28,358)	44,254
Increase/(decrease) in operating liabilities:											
Accounts payable	44,904	-	-	187	(40,963)	-	-	32,221	-	36,351	(186,222)
Accrued expenses	9,944	-	-	9,180	(1,383)	-	-	145,757	(31,325)	132,173	(165,876)
Due to affiliates	(15,112)	-	-	(47,744)	-	-	-	-	-	(62,856)	21,221
Deferred revenue	-	-	1,724	-	297,438	-	-	-	-	299,162	92,894
Net cash provided by (used in) operating activities	<u>(901,704)</u>	<u>45,837</u>	<u>1,724</u>	<u>30,882</u>	<u>2,176,439</u>	<u>-</u>	<u>-</u>	<u>109,802</u>	<u>4,834</u>	<u>1,467,815</u>	<u>831,642</u>
Cash Flows From Investing Activities:											
Proceeds from sale of investments	407,882	-	-	-	-	-	-	-	-	407,882	99,455
Purchase of investments	(740,807)	(45,837)	-	-	-	-	-	-	-	(786,644)	(400,647)
Deposits to bond fund	-	-	-	-	(819,665)	-	-	-	-	(819,665)	(987,201)
Withdrawals from bond fund	-	-	-	-	879,215	-	-	-	-	879,215	984,325
Withdrawals from operating reserve	-	-	-	14,952	-	-	-	-	-	14,952	4,920
Loans to (repayments from) affiliates	517,337	-	-	-	-	-	-	-	-	517,337	417,844
Development income	1,697,668	-	-	-	-	-	-	-	(1,697,668)	-	-
(Deposits) to debt service reserve and interest earned	-	-	-	-	(45,574)	-	-	-	-	(45,574)	(45,572)
Withdrawals from debt service reserve fund	-	-	-	-	45,574	-	-	-	-	45,574	45,572
Deposits to reserve for replacement and interest earned	-	-	-	(8,712)	(1,688)	-	-	-	-	(10,400)	(14,705)
Development in progress	-	-	-	-	-	(448)	-	-	448	-	754,120
Fixed assets purchases	(62,015)	-	-	-	(135,125)	-	-	(8,525,063)	62,650	(8,659,553)	(3,552,324)
Net cash provided by (used in) investing activities	<u>1,820,065</u>	<u>(45,837)</u>	<u>-</u>	<u>6,240</u>	<u>(77,263)</u>	<u>(448)</u>	<u>-</u>	<u>(8,525,063)</u>	<u>(1,634,570)</u>	<u>(8,456,876)</u>	<u>(2,694,213)</u>

See accompanying notes to combining financial statements.

Volunteers of America of Massachusetts, Inc. and Affiliates
Combining Statement of Cash Flows - *Continued*
For the Year Ended June 30, 2017
With Summarized Comparative Totals for 2016

	VOAMA	VOARI	VOA Ayer, Inc.	VOA Somerville	VOAC	VOA Ayer Memory Support LLC	VOA Malden Manager, Inc.	VOA Malden Assisted Living, Inc.	Eliminations	2017 Combined Total	2016 Combined Total
Cash Flows From Financing Activities:											
Proceeds from notes and mortgages payable	-	-	-	-	-	-	-	8,984,556	-	8,984,556	3,695,188
Finance fees payments	-	-	-	-	-	-	-	-	-	-	(655,294)
Payments to affiliate	-	-	-	-	(1,630,184)	448	-	-	1,629,736	-	-
Contributions restricted for fixed asset purchases	-	-	-	-	-	-	-	-	-	-	-
Principal payments on notes and mortgages	(23,785)	-	-	(5,636)	(240,000)	-	-	-	-	(269,421)	(258,163)
Principal payments on capital lease obligations	-	-	-	-	(10,370)	-	-	-	-	(10,370)	-
Net cash provided by (used in) financing activities	<u>(23,785)</u>	<u>-</u>	<u>-</u>	<u>(5,636)</u>	<u>(1,880,554)</u>	<u>448</u>	<u>-</u>	<u>8,984,556</u>	<u>1,629,736</u>	<u>8,704,765</u>	<u>2,781,731</u>
Net increase (decrease) in cash and cash equivalents	<u>894,577</u>	<u>-</u>	<u>1,724</u>	<u>31,486</u>	<u>218,622</u>	<u>-</u>	<u>-</u>	<u>569,295</u>	<u>-</u>	<u>1,715,704</u>	<u>919,160</u>
Cash and cash equivalents at beginning of year	<u>1,444,193</u>	<u>-</u>	<u>50,634</u>	<u>19,655</u>	<u>1,231,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,745,581</u>	<u>1,826,421</u>
Cash and cash equivalents at end of year	<u>\$ 2,338,770</u>	<u>\$ -</u>	<u>\$ 52,358</u>	<u>\$ 51,141</u>	<u>\$ 1,449,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 569,295</u>	<u>\$ -</u>	<u>\$ 4,461,285</u>	<u>\$ 2,745,581</u>
Supplemental Cash Flow Information											
Interest paid during the year, net of amount capitalized	<u>\$ 35,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,080</u>	<u>\$ 639,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 681,874</u>	<u>\$ 694,885</u>
Non-Cash Investing/ Financing Activities:											
Unpaid fixed asset additions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,977,595</u>	<u>\$ -</u>	<u>\$ 1,977,595</u>	<u>\$ 33,864</u>
Financed fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,975</u>	<u>\$ -</u>

See accompanying notes to combining financial statements.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements
June 30, 2017 with Comparative Totals for 2016

1. Principles of Combination and Organizations

The combining financial statements are not those of a separate legal entity, but include the accounts of Volunteers of America of Massachusetts, Inc. (VOAMA), VOA Ayer, Inc., Volunteers of America Rhode Island, Inc. (VOARI), VOA Concord Assisted Living, Inc. (VOAC), VOA Ayer Memory Support LLC (VOA Ayer LLC), VOA Somerville Veterans Housing, Inc. (VOA Somerville), VOA Malden Manager, Inc., and VOA Malden Assisted Living LLC (VOA Malden) (collectively, the Organization). All intercompany transactions have been eliminated in the combination. Combining financial statements are presented since, although legally separate corporations, the nature and significance of their relationship is such that separate reporting would cause the separately issued financial statements to be misleading or incomplete. Therefore, combining financial statements are more meaningful than separate statements.

VOAMA is a Massachusetts, non-profit spiritually-based human services organization incorporated in Massachusetts that provides social services within Southern New England under a charter from Volunteers of America, Inc. (VOA), a nationwide religious non-profit spiritually based organization providing local human service programs, and opportunities for individual and community involvement. VOAMA's operations are funded primarily by government contracts, Medicare and Medicaid revenue and contributions from the general public.

VOARI is a non-profit spiritually based human services organization, incorporated in Rhode Island, which provides social services within the Rhode Island area as a subsidiary corporation of VOAMA. VOARI did not engage in any operating activities during fiscal years 2017 or 2016.

VOA Ayer, Inc. is a 79% owned subsidiary of VOAMA. The principal activity of VOA Ayer, Inc. is to perform the general partner duties of VOA Ayer Limited Partnership (the Partnership), the purpose of which is to own and operate an assisted-living facility consisting of seventy-three (73) units of housing for qualified elderly individuals located in Ayer, Massachusetts. VOA Ayer, Inc. holds a 0.01% interest in the Partnership's profit and losses. VOA Ayer, Inc. serves as the employer of record for the Partnership's employees.

VOAC is a Massachusetts nonprofit corporation. VOAC's purpose is to own and operate an assisted-living facility consisting of seventy-eight (78) units of housing for qualified elderly individuals (the Project), located in Concord, Massachusetts. The Project is regulated by the Commonwealth of Massachusetts (State), Executive Office of Elder Affairs (EOEA) as to operating methods as an assisted living residence. VOAC has two members, Volunteers of America National Services, Inc., a Minnesota nonprofit corporation, and VOAMA. VOAC's operations are funded primarily by resident fees.

VOA Ayer Memory Support LLC is a Massachusetts limited liability company created to own and develop an Alzheimers unit. VOAMA is the sole member of VOA Ayer LLC.

VOA Somerville Veterans Housing, Inc. (VOA Somerville) was established as a Massachusetts nonprofit corporation in 2012. VOAMA is the sole member of VOA Somerville. VOA Somerville's purpose is to develop, own, and operate twenty-two (22) transitional and seven (7) permanent housing units for homeless veterans in Somerville, Massachusetts. VOA Somerville's operations are funded primarily by rental income and government grants.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

1. Principles of Combination and Organizations - Continued

VOA Malden Manager, Inc., a Massachusetts Corporation, was created to act as the sole member of VOA Malden Assisted Living LLC, a Massachusetts Limited Liability Company. VOAMA is the sole stockholder of VOA Malden Manager, Inc.

VOA Malden Assisted Living LLC, (VOA Malden) a Massachusetts Limited Liability Company, was created to (i) acquire, hold, develop, manage, operate, invest in, and otherwise deal with interests in real property, including an assisted living facility and memory care project located in Malden, Massachusetts. VOA Malden Manager, Inc. is the sole member of VOA Malden.

Some VOAMA and VOARI board members also serve on the boards of VOAC and VOA Somerville, along with other board members who are independent of VOAMA.

The Organization operates the following categories of service and programs:

Encouraging Positive Development for Youth at Risk

The Organization provides services to encourage positive development for troubled and at-risk youth.

Rebound Adolescent and Family Treatment Center provides treatment to young men with substance abuse histories. Total Youth Services expenses for the fiscal years ended June 30, 2017 and 2016 was \$173,146 and \$399,263, respectively.

Fostering Independence

The Organization fosters the health and independence of the elderly through a wide range of independent, health care, and assisted-living services at its Concord and Ayer assisted-living facilities. Total expenses for elderly services for the fiscal years ended June 30, 2017 and 2016 was \$7,232,846 and \$6,710,413, respectively.

The Organization fosters the health and independence of youth, adults and seniors with mental illness through its The Family Center for Counseling and Education, a licensed community health clinic that provides assessment and treatment services and operates two locations in Taunton and Quincy. Total expenses for mental health services for the fiscal years ended June 30, 2017 and 2016 was \$775,792 and \$756,500, respectively.

Promoting Self-sufficiency

The Organization promotes self-sufficiency for individuals who have experienced homelessness or other personal crisis, including chemical dependency and involvement with the corrections system. The Hello Houses at Massachusetts Avenue, Parley Vale and Mt Vernon Rd, provide residential treatment for substance abusing men and women, including veterans and individuals on probation. Next Step House provides supportive housing and aftercare for women in recovery. The Supportive Services for Veteran Families program assists very low-income Veteran families residing in or transitioning to permanent housing by providing a range of supportive services designed to promote housing stability. The Homeless Veterans Reintegration Program assists homeless veterans to obtain meaningful employment and reintegration into the labor force. Total expenses for promoting self-sufficiency through recovery services for the fiscal years ended June 30, 2017 and 2016 was \$3,389,413 and \$2,999,107, respectively.

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash Equivalents

For purposes of the statement of financial position and cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except cash equivalents held for investment.

Accounts Receivable

Accounts receivable are stated at the amount the Organization expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through a charge to bad debt expense and a credit to a valuation allowance based on historical collection experience and its assessment of current economic conditions. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are stated net of allowance for doubtful accounts. Allowance for doubtful accounts totaled \$112,665 and \$91,027, at June 30, 2017 and 2016, respectively.

Due from Affiliates (Loans Receivable)

Loans receivable from affiliated entities are carried at unpaid principal balances, less an allowance for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on its review of the affiliates' financial position and any adverse situations that may affect their ability to repay, their contractual obligations and current economic conditions. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the terms of the loan agreements. The Organization's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the affiliates' failure to meet repayment terms, the affiliates' deteriorating or deteriorated financial condition, or for other reasons.

Loans are placed on nonaccrual when management believes that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to bad debts. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies – Continued

Derivative Financial Instruments

The Organization makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert the Organization's floating rate long-term debt to a fixed rate. The differentials paid or received on interest rate swap agreements are accrued and recognized as adjustments to interest expense; gains and losses realized upon settlement of these agreements are deferred until the underlying hedged instrument is settled.

Investments

Marketable Securities

Investments in marketable securities are recorded at fair value based on quoted market prices, in accordance with the framework for fair value measurements established by the Financial Accounting Standards Board (FASB). That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Dividends, interest and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use. Dividends, interest and restricted gains whose restrictions are met in the same reporting period are reported as unrestricted support.

Investment in Limited Partnership

The Organization uses the equity method of accounting for its partnership interest in the Partnership. Under the equity method of accounting, investments are recorded at cost and increased or decreased by the Organization's share of earnings or losses, contributions or distributions. If the Organization (a) is not committed to provide further financial support for the partnership, (b) has already reduced its investment in and advances to the partnership to zero, and (c) has other investments (i.e. loans, leases, etc.) in the partnership, the Organization continues to report its share of the partnership's losses up to the adjusted basis of those other investments.

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies – Continued

Fixed Assets

Land, building and equipment purchases by the Organization are recorded at cost. The Organization follows the practice of capitalizing all expenditures for land, building and equipment over \$2,000. Repairs, maintenance, and planned major maintenance activities are charged to operations using the direct expensing method.

Donations of fixed assets are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire fixed assets are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Fixed assets are depreciated using the straight-line method. Depreciation expense for the fiscal years ended June 30, 2017 and 2016 was \$578,201 and \$531,059, respectively. The Organization's buildings are subject to mortgage liens.

Costs that relate to land development projects are capitalized as development in progress. Interest costs are capitalized while the development is in progress.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 and 2016.

Debt Issuance Costs

Debt issuance costs associated with obtaining mortgage loans are being amortized on a straight-line basis, which approximates the effective-yield method, over the corresponding term of the respective mortgage. Unamortized debt issuance costs are presented as a deduction from the carrying value of the mortgage payable. Amortization expense on deferred financing costs has been included in interest expense on the Combining Statement of Activities.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies – Continued

Net Assets

The Organization classifies net assets into three categories: unrestricted, temporarily restricted and permanently restricted. Within unrestricted net assets, the Board of Directors has further designated certain net assets that management cannot use without prior Board approval. These net assets have been classified as board-designated endowment net assets in the combining financial statements. All net assets are considered to be available for unrestricted use unless specifically restricted by a donor or by law.

Temporarily restricted net assets include contributions with donor-imposed time or purpose restrictions. When the time restriction expires or the contributions are used for the restricted purpose, temporarily restricted net assets become unrestricted and are reported in the combining statement of activities as net assets released from restrictions.

Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity. The Organization did not have any permanently restricted net assets at June 30, 2017 and 2016.

Revenue Recognition

VOAMA operates its programs under various unit rate contracts and third-party payor agreements with Medicaid, Medicare and various commercial insurance carriers, health maintenance organizations and preferred provider organizations. Revenue is generated by billing units of service delivered to pre-approved and covered individuals. Revenue is recognized as services are provided. Revenue is recorded at the estimated net realizable amounts. On cost reimbursement contracts, income equals expenses incurred; therefore, the excess (deficit) is carried as a liability (deferred revenue) or as an asset (accounts receivable up to the contract limit).

VOA Ayer, Inc.'s revenue is recognized as employee services are provided to the Partnership. Any amounts received in advance of the services provided are recorded as deferred revenue.

VOAC's revenue consists primarily of resident fees. Resident fees, principally earned from short-term residency agreements on rental units, are recognized as income as the rents become due. Payments received in advance are deferred until earned.

VOA Somerville's revenue consists primarily of rental income and government grants. Income is recognized when earned. Payments received in advance are deferred until earned. All leases between VOA Somerville and its tenants are operating leases.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies – Continued

Grants and Contributions

Grants and contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized as support when the conditions on which they depend are substantially met.

Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the grants and contributions are recognized. All other donor-restricted grants and contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on management's analysis of specific promises made.

Donated Services and In-Kind Donations

The Organization receives donated services and in-kind donations in support of its operations. Donated materials, facilities and services are recorded at fair value. Donated services that (a) create or enhance a nonfinancial asset or (b) require specialized skills that are provided by entities or persons possessing those skills and would need to be purchased if they were not donated, are recorded as contributions in the financial statements. Donated services such as fund-raising, clerical assistance or other volunteer efforts not requiring specialized skills are not recorded in the financial statements. Donated services received in support of the administrative function and in-kind donations received in support of programs totaled \$10,033 and \$27,574 respectively, for the years ended June 30, 2017 and 2016. These donations have been recorded in the Combining Statement of Activities.

Advertising and Marketing

Advertising and marketing costs are charged to operations when incurred. The Organization incurred advertising and marketing costs of \$168,129 and \$171,781, respectively, for the fiscal years ended June 30, 2017 and 2016.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies – Continued

Income Taxes

VOAMA, VOARI, VOAC, and VOA Somerville are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a subordinate of VOA and are exempt from state income taxes under Massachusetts and Rhode Island General Laws. The organizations are exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code as a religious organization described in Section 501(c)(3). Unrelated business income, of which there was none for the fiscal years ended June 30, 2017 and 2016, would be subject to Federal and state income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

VOA Ayer, Inc. and VOA Malden Manager, Inc. are taxable entities. Any provision for income taxes is included in the financial statements. VOA Ayer Memory Support LLC and VOA Malden Assisted Living LLC are single member limited liability companies that are disregarded for income tax purposes. VOA Ayer Memory Support LLC and VOA Malden Assisted Living LLC's financial activity is reported in the tax returns of their respective owners.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Combining Statement of Activities. Accordingly, costs have been allocated among the programs and services benefited.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional areas. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

2. Summary of Significant Accounting Policies – Continued

Change in Accounting Principle

During 2017, Organization adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. As a result, total assets as well as mortgages and notes payable for the year ended June 30, 2017 and 2016 have been reduced by the effect of the reclassification of unamortized debt issuance costs of \$1,266,970 and \$1,336,125, respectively, and the related amortization expense of \$28,818 per year was reclassified to interest expense.

This change had no effect on previously-reported net assets or change in net assets.

3. Leases

Lessor Relationships

Residential Leases

Resident fees from short-term operating leases with residents of VOAC's assisted living facility totaled \$6,729,826 and \$6,476,410, respectively, for the years ended June 30, 2017 and 2016.

Facility Lease

On June 21, 2017, VOA Malden entered into an operating lease agreement with VOA Malden MT LLC, an affiliate of VOA Malden Manager, Inc. VOA Malden MT LLC will lease and operate the assisted living facility for 32 years from the date of substantial completion of construction, which is estimated to be December 2017.

Facility Lease - Continued

Minimum lease payments to be received for each of the next five years and, thereafter, are as follows:

Fiscal Year	Amount
2018	\$ 100,000
2019	1,200,000
2020	1,410,000
2021	1,413,500
2022	1,417,000
Thereafter	<u>40,949,900</u>
Total	<u>\$ 46,490,400</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

3. Leases – Continued

Lessee Relationship

Program Space Lease

VOAMA occupies space located in Taunton and Quincy, Massachusetts, under various operating leases. Rent expense for all programs for the fiscal years ended June 30, 2017 and 2016 was \$79,745 and \$86,578, respectively.

The future minimum payments due under the various operating leases are as follows:

Fiscal Year	Amount
2018	\$ 68,113
2019	<u>38,155</u>
Total	<u>\$ 106,268</u>

VOA Somerville leases office equipment under a noncancelable operating lease that expires in November 2019. Lease expense for the years ended June 30, 2017 and 2019 was \$3,681 and \$3,119, respectively.

Future minimum lease payments due over the term of the lease is as follows:

Fiscal Year	Amount
2018	\$ 3,156
2019	3,156
2020	<u>789</u>
Total	<u>\$ 7,101</u>

During 2017, VOAC began leasing a telephone system under a noncancelable lease that is classified as a capital lease. The lease expires in 2021. The telephone system is being amortized over its estimated productive life. Amortization of the telephone system is included in depreciation expense and totaled \$6,978. At June 30, 2017, the gross value of the phone and the related accumulated depreciation reported in the statement of financial position totaled \$67,975 and \$6,798, respectively.

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

3. Leases – Continued

Future minimum lease payments under the capital lease are as follows:

Fiscal Year	Amount
2018	\$ 15,445
2019	15,445
2020	15,445
2021	15,445
2022	<u>3,861</u>
Total minimum lease payments	65,640
Less amount representing interest	<u>8,034</u>
Present value of minimum lease payments	<u>\$ 57,605</u>

4. Mortgages and Notes Payable

Mortgages and notes payable at June 30, 2017 and 2016 consisted of the following:

VOAC	2017	2016
<p>VOAC entered into a \$14,120,000 Mortgage Loan and Trust Agreement (Mortgage Agreement) dated May 1, 2007 with the Massachusetts Development Finance Agency (MDFA) and Wells Fargo Bank, N.A. (Bond Trustee). The mortgage was funded with proceeds from First Mortgage Revenue Refunding Bonds, VOA Concord Assisted Living, Inc. – Series 2007 (the Series 2007 Bonds). The Series 2007 Bonds were issued by MDFA to allow VOAC to refinance a previously held HUD-insured mortgage, to fund a Debt Service Reserve Fund and to fund a Replacement Reserve Fund.</p> <p>The Series 2007 Bonds are secured by a mortgage on VOAC's land and building, a security interest in its gross revenues and a security interest in its interest in all moneys and other investments established under the Mortgage Agreement. VOAMA is not obligated for the payment of debt service or performance of any financial covenant associated with the Series 2007 Bonds nor is it obligated to advance funds to VOAC for payment of debt service requirements or operating expenses.</p>	<u>\$ 12,235,000</u>	<u>\$ 12,475,000</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

4. Mortgages and Notes Payable – Continued

VOAC – Continued

The Series 2007 Bonds mature on November 1 of the following fiscal years and bear interest at the following rates per annum:

Fiscal Year	Interest Rate	Principal Amount
2017	5.000%	\$ 2,135,000
2027	5.125%	3,340,000
2041	5.200%	<u>8,645,000</u>
Total		<u>\$ 14,120,000</u>

The following are the minimum debt service payments required under the mortgage agreement for the next five fiscal years:

Fiscal Year	Principal	Interest	Total
2018	\$ 250,000	\$ 626,965	\$ 876,965
2019	265,000	613,924	878,924
2020	280,000	599,959	879,959
2021	290,000	585,352	875,352
2022	<u>305,000</u>	<u>570,106</u>	<u>875,106</u>
Total	<u>\$ 1,390,000</u>	<u>\$ 2,996,306</u>	<u>\$ 4,386,306</u>

For the fiscal years ended June 30, 2017 and 2016, interest expense, including amortization of debt issuance costs, was \$651,659 and \$663,452 respectively.

Pursuant to the Mortgage Agreement, VOAC is prohibited from disposing of any of its tangible assets, including cash and investments to any entity unless it delivers to the Bond Trustee an Accountant's Certificate demonstrating that, based on the unaudited financial statements as of any December 31, or audited financial statements as of the end of any fiscal year (1) the Debt Service Coverage Ratio for the two most recent quarterly calculation dates was at least 1.20 and (2) the number of Days Cash on Hand, as calculated after giving effect to the proposed transfer, would be at least 30. During 2017 and 2016, VOAC paid to VOAMA \$1,630,184 and \$1,509,775, respectively, after meeting the requirements for such disbursements, in accordance with the Mortgage Agreement.

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

4. Mortgages and Notes Payable – Continued

VOAMA	2017	2016
<p>20 year mortgage note payable to Eastern Bank in the original amount of \$750,000 that matures on March 3, 2035. The mortgage is collateralized by real property, a collateral assignment of leases and rents. The note is payable in monthly installments of \$4,947, based on an interest rate of 4.92% per annum through March 3, 2035.</p>	\$ 698,038	\$ 721,823
<p>Note payable to VOA National. The loan bears interest at 5.10% per annum and matures on December 31, 2020. Payments of interest only begin on December 20, 2017 and continue through the maturity date. Principal payments of \$300,000 are due December in 2019 and 2020. The loan is unsecured.</p>	600,000	600,000
<p>Line of credit with Eastern Bank in the amount of \$750,000. The line of credit bears interest at the greater of 3.99% or the bank's prime rate and is payable monthly. The line is to be used to fund working capital and capital improvements. The line is collateralized by VOAMA's investments and the principal balance is payable on demand. The line expires on February 28, 2018. The line was unused at June 30, 2017 and 2016..</p>	-	-
Total	<u>\$ 1,298,038</u>	<u>\$ 1,321,823</u>

Minimum debt service payments required for each of the next five fiscal years and thereafter are as follows:

Fiscal Year	Amount
2018	\$ 25,663
2019	26,955
2020	328,311
2021	329,736
2022	31,232
Thereafter	<u>556,141</u>
Total	<u>\$ 1,298,038</u>

Interest expense was for the year ended June 30, 2017 and 2016 was \$66,905 and \$36,623, respectively.

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

4. Mortgages and Notes Payable – Continued

VOA Somerville	2017	2016
<p>30 year mortgage note payable to Eastern Bank in the amount of \$250,000. The note matures on September 3, 2028. The mortgage is collateralized by a first mortgage on real property, all business assets, a collateral assignment of leases, rents, and public subsidies and is guaranteed by VOAMA in the event of a default. The note is payable in monthly installments of \$1,054, based on an interest rate of 3% per annum through September 3, 2028.</p>	\$ 229,711	\$ 235,347
<p>Note payable to the Community Economic Development Assistance Corporation, secured by a shared second mortgage on the property, in the original amount of \$750,000. The loan is a zero interest loan. The outstanding principal shall be payable in July 2043, the maturity date, unless gross cash receipts for the year just ended exceeds gross cash expenditures as both are defined in the agreement. Unpaid amounts when due accrues interest at 5% above the prime rate published in the Wall Street Journal.</p>	750,000	750,000
<p>Note payable to the City of Somerville, secured by a third mortgage on the property, in the original amount of \$150,000. The loan matures in July 2043. Principal and interest of \$6,697, based on a 2% interest rate is due annually beginning on January 20, 2014 or the first year in which there is available cash flows as defined in the loan agreement.</p>	<u>149,563</u>	<u>149,563</u>
Total	<u>\$ 1,129,274</u>	<u>\$ 1,134,910</u>

For the fiscal years ended June 30, 2017 and 2016, interest expense, including unamortized debt issuance costs, was \$19,453 and \$19,796, respectively.

Minimum debt service payments required for each of the next five fiscal years and thereafter are as follows:

Fiscal Year	Amount
2018	\$ 5,840
2019	6,018
2020	6,201
2021	6,389
2022	6,584
Thereafter	<u>1,098,242</u>
Total	<u>\$ 1,129,274</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

4. Mortgages and Notes Payable - Continued

VOA Malden	2017	2016
<p>Construction bridge loan payable to Eastern Bank in the original amount of \$1,750,000 that matures on June 21, 2018. The loan is collateralized by a pledge of historic tax credits, equity receivables, and marketable securities. The loan is payable in monthly interest installments of interest only based on an interest rate of prime plus 1/2 percent with all outstanding balances due at maturity.</p>	\$ 1,750,000	\$ 1,305,952
<p>Construction bridge loan payable to East Boston Savings Bank in the original amount of \$1,750,000 that matures on June 21, 2018. The loan is collateralized by a pledge of historic tax credits, equity receivables, and marketable securities. The loan is payable in monthly interest installments of interest only based on an interest rate of prime plus 1/2 percent with all outstanding balances due at maturity.</p>	1,750,000	1,305,951
<p>15 year construction loan payable to Eastern Bank in the original amount of \$10,360,000 that matures on May 20, 2031. The principal amount outstanding from time to time shall bear interest during each Interest Period until paid in full at a rate per annum equal to the sum of: (a) LIBOR plus (b) the LIB OR Margin of 1.9% per annum. Payments of interest will be due and payable on the fifteenth day of each month through the second anniversary of the date of this Note in the amount of all interest accrued during the immediately preceding Interest Period. Thereafter, one hundred and fifty-six monthly payments of principal (calculated on the basis of a twenty-eight year amortization period) commencing June 15, 2018 will be made, together with a payment of interest the sum of: (a) LIB OR plus (b) the LIB OR Margin of 1.9% per annum, with the entire principal balance with interest then accrued to be due and payable on May 20, 2031.</p>	4,048,229	-
<p>Unsecured construction bridge loan in the amount of \$483,285 payable to VOA Malden MT LLC that matures in July 2018. The loan is bears interest at the short-term Applicable Federal Rate for the month of June 2016 (.64%). If not paid sooner, all outstanding principal and accrued interest, if any, shall be paid on July 1, 2018, the maturity date.</p>	483,285	483,285

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

4. Mortgages and Notes Payable – Continued

VOA Malden	2017	2016
<p>15 year construction loan payable to East Boston Savings Bank in the original amount of \$10,360,000 that matures on May 20, 2031. The principal amount hereof outstanding from time to time shall bear interest at the rate of 4.00% per annum from the date of this Note through the tenth anniversary of the date of this Note. Thereafter, the interest rate on such Note shall bear interest at the Federal Home Loan Bank of Boston 5/20 amortizing advance rate, plus 2.00% per annum. Payments of interest will be due and payable on each Interest Payment Date through the second anniversary of the date of this Note in the amount of all interest accrued during the immediately preceding Interest Period. Thereafter, ninety-six monthly payments of principal and interest in the amount of \$51,649.22 each, followed by sixty payments of principal and interest in an amount sufficient to amortize the principal balance outstanding on the tenth anniversary of the date of this Note in two hundred and forty installments (calculated on a level payment assumption based on the then-applicable interest rate determined at the Federal Home Loan Bank of Boston 5/20 amortizing advance rate, plus 2.00% per annum and the amount of principal outstanding at the time of such calculation), with a final installment on the Maturity Date to be in the amount of all principal then outstanding hereunder, plus accrued interest at the rate provided for at the Federal Home Loan Bank of Boston 5/20 amortizing advance rate, plus 2.00% per annum.</p>	<p><u>4,048,230</u></p>	<p><u>-</u></p>
Total	<u>\$ 12,079,744</u>	<u>\$ 3,095,188</u>

Minimum debt service payments required for each of the next five fiscal years and thereafter are as follows:

Fiscal Year	Amount
2018	\$ 3,520,422
2019	1,060,653
2020	574,926
2021	598,040
2022	622,084
Thereafter	<u>5,703,619</u>
Total	<u>\$ 12,079,744</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

5. Derivative Transaction

On June 21, 2016, the Organization entered into interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. The interest rate swap agreement has a principal amount of \$10,360,000. This agreement effectively changed the Organization's interest rate exposure on its Eastern Bank \$10,360,000 floating rate note due 2031 to a fixed rate of 3.66%. The interest rate swap agreement matures at the time note matures. The Organization is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Organization does not anticipate nonperformance by the counterparty.

At June 30, 2017 and 2016, the fair value of interest rate swap was \$545,395 and \$0, respectively. The interest rate swap is categorized in Level 2 of the fair value hierarchy. The fair value was determined using an income approach. The income approach takes into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rates, prepayment speeds, and currency rates.

6. Vehicle Donations

The Organization accepts vehicle donations to enhance its program activities. The donations are recorded at the value sold at public auction and corresponding costs are recorded as a cost of sale. Revenue related to the car donations for the fiscal years ended June 30, 2017 and 2016 was \$10,450 and \$14,005, respectively. Related expenses were \$8,512 and \$14,362, respectively, resulting in net donations for the fiscal years ended June 30, 2017 and 2016 of \$1,938 and (\$357), respectively.

7. Investments

Marketable Securities

Investments measured at fair value on a recurring basis consisted of the following for the fiscal years ended June 30, 2017 and 2016:

Description	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Preferred stock - Real Estate Investment Trust	\$ -	\$ -	\$ 1,000	\$ 1,000
Equity investments				
Mutual funds	1,129,585	-	-	1,129,585
Exchange traded funds	438,772	-	-	438,772
Fixed income holdings				
Mutual funds	1,166,268	-	-	1,166,268
Exchange traded funds	288,422	-	-	288,422
Commodity investment mutual fund	-	-	-	-
Investments required to be disclosed in the fair value hierarchy	<u>\$ 3,023,047</u>	<u>\$ -</u>	<u>\$ 1,000</u>	3,024,047
Cash				<u>135,544</u>
Total investments				<u>\$ 3,159,591</u>

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

7. Investments – Continued

Marketable Securities - Continued

Description	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Preferred stock - Real Estate Investment Trust	\$ -	\$ -	\$ 1,000	\$ 1,000
Equity investments				
Mutual funds	902,834	-	-	902,834
Exchange traded funds	414,513	-	-	414,513
Fixed income holdings				
Mutual funds	1,221,413	-	-	1,221,413
Exchange traded funds	43,872	-	-	43,872
Commodity investment mutual fund	-	-	-	-
Investments required to be disclosed in the fair value hierarchy	<u>\$ 2,582,632</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>2,583,632</u>
Cash				<u>22,019</u>
Total investments				<u>\$ 2,605,651</u>

Limited Partnership

At June 30, 2017 and 2016, the value of the Organization's investment in the Partnership was as follows:

2017	Controlling Interest	Minority Interest	Total
Investment at June 30, 2016	\$ (454,701)	\$ (73,223)	\$ (527,924)
Allocated income	<u>-</u>	<u>-</u>	<u>-</u>
Investment at June 30, 2017	<u>\$ (454,701)</u>	<u>\$ (73,223)</u>	<u>\$ (527,924)</u>
Operating Deficit Guaranty	<u>\$ 335,750</u>	<u>\$ 89,250</u>	<u>\$ 425,000</u>
2016			
Investment at June 30, 2015	\$ (454,701)	\$ (73,223)	\$ (527,924)
Allocated income	<u>-</u>	<u>-</u>	<u>-</u>
Investment at June 30, 2016	<u>\$ (454,701)</u>	<u>\$ (73,223)</u>	<u>\$ (527,924)</u>
Operating Deficit Guaranty	<u>\$ 335,750</u>	<u>\$ 89,250</u>	<u>\$ 425,000</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

7. Investments - Continued

Limited Partnership - Continued

VOA Ayer, Inc. as the general partner is obligated to provide any funds needed by the Partnership up to the Operating Deficit Guaranty Amount of \$425,000. Therefore, the investment in limited partnership is reported at the Organization's share of the Operating Deficit Guaranty Amount.

8. Restricted Funds (VOAC Only)

Pursuant to the Mortgage Agreement, VOAC established the following restricted funds. The restricted funds are held in separate accounts and generally are not available for operating purposes.

Expense Fund

An Expense Fund was established to pay for the costs of issuing the bonds. Any earnings or residual amounts in the Expense Fund after payment of the bond issuance costs shall be transferred to the Bond Fund.

Bond Fund

A Bond Account and an Interest Account, collectively referred to as the Bond Fund, was established to hold principal and interest payments due for bond payments. Payments of 1/12 of the annual sinking fund requirement are being deposited monthly to the Bond and Interest Accounts. VOAC granted the Bond Trustee a security interest in all deposits of the Bond Fund for the benefit of the bond owners. Any amounts deposited for bond payments that remain unclaimed for three fiscal years following the scheduled date of such payment shall, upon written direction from VOAC, be released to VOAC.

Debt Service Reserve Fund

A Debt Service Reserve Fund was established in an amount equal to the Debt Service Fund Requirement as calculated in accordance with the Mortgage Agreement. Amounts in the Debt Service Reserve Fund shall be used to cure any deficiency in the applicable account of the Bond Fund. The Debt Service Reserve Fund is subject to valuation on each February 1, May 1, August 1, November 1, and at the request of VOAC. If on any such date, the value of the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, VOAC shall pay to the Trustee the amount of such deficiency in 24 equal monthly installments if the deficiency is the result of a withdrawal to cure a deficiency in the Bond Fund or within 120 days for any other reason. If the valuation indicates excess amounts are, or will be on deposit, VOAC may direct in writing the manner in how the excess shall be used, subject to an opinion of Bond Counsel. The Debt Service Reserve Fund was initially funded with bond proceeds of \$887,134.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

8. Restricted Funds (VOAC Only) - Continued

Replacement Reserve Fund

A Replacement Reserve Fund was established with an initial deposit of \$362,048 from the bond proceeds to fund the renewal, renovation or replacement of any part of the Project or maintenance or repair of the Project of an extraordinary and nonrecurring nature, provided, however, that any such expenditure shall be for capital expenditures in accordance with generally accepted accounting principles as certified by VOAC. Monthly deposits of \$3,320 are required to be made to the Replacement Reserve Fund until such time as the amount on deposit shall equal the Replacement Reserve Fund Requirement of \$500,000. If VOAC fails to make proper payments to the Bond Fund, the Bond Trustee shall withdraw such amounts from the Replacement Reserve Fund before making a withdrawal from the Debt Service Reserve Fund.

Activity within the restricted funds for the fiscal years ended June 30, 2017 and 2016 was as follows:

2017	Beginning Balance July 1	Additions and Interest	Withdrawals and Transfers	Ending Balance June 30
Restricted Funds				
Expense Fund	\$ 26	\$ -	\$ -	\$ 26
Bond Fund	375,405	819,665	(879,215)	315,855
Debt Service Reserve Fund	887,134	45,574	(45,574)	887,134
Replacement Reserve Fund	<u>500,620</u>	<u>1,688</u>	<u>-</u>	<u>502,308</u>
Total	<u>\$ 1,763,185</u>	<u>\$ 866,927</u>	<u>\$ (924,789)</u>	<u>\$ 1,705,323</u>
2016	Beginning Balance July 1	Additions and Interest	Withdrawals and Transfers	Ending Balance June 30
Restricted Funds				
Expense Fund	\$ 26	\$ -	\$ -	\$ 26
Bond Fund	372,529	987,201	(984,325)	375,405
Debt Service Reserve Fund	887,134	45,572	(45,572)	887,134
Replacement Reserve Fund	<u>490,384</u>	<u>10,236</u>	<u>-</u>	<u>500,620</u>
Total	<u>\$ 1,750,073</u>	<u>\$ 1,043,009</u>	<u>\$ (1,029,897)</u>	<u>\$ 1,763,185</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

8. Restricted Funds (VOAC Only) - Continued

The following is summary of the VOAC's Replacement Reserve investments at Wells Fargo Bank, N.A. that are measured at fair value on a recurring basis at June 30, 2017 and 2016:

June 30, 2017				
Description	Level 1	Level 2	Level 3	Total
Mutual funds				
Prime Investment Money Market Fund	\$ -	\$ 734,543	\$ -	\$ 734,543
Fixed income securities				
Private Debt Obligations	-	<u>887,134</u>	-	<u>887,134</u>
Total	<u>\$ -</u>	<u>\$ 1,621,677</u>	<u>\$ -</u>	<u>\$ 1,621,677</u>
Cash (deposits in transit)				<u>83,646</u>
Total				<u>\$ 1,705,323</u>

June 30, 2016				
Description	Level 1	Level 2	Level 3	Total
Mutual funds				
Prime Investment Money Market Fund	\$ -	\$ 876,050	\$ -	\$ 876,050
Fixed income securities				
Private Debt Obligations	-	<u>887,134</u>	-	<u>887,134</u>
Total	<u>\$ -</u>	<u>\$ 1,763,184</u>	<u>\$ -</u>	<u>\$ 1,763,184</u>
Cash (deposits in transit)				-
Total				<u>\$ 1,763,184</u>

The fair value of the level 2 investment was determined using the income approach. The income approach to fair value measurement estimates the fair value by calculating the present value of future cash flows that the asset is expected to generate over its lifetime. The cash flows are discounted to the measurement date at rate of return that is required to compensate with the risk associated with receipt of the future cash flows.

There was no change in valuation techniques during 2017 or 2016.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

9. Due from Affiliates

Due from VOA Ayer Limited Partnership

At June 30, 2017 and 2016 VOAMA holds a promissory note in the amount of \$510,000 from the Partnership. The note accrues interest at 5.25%. Principal and interest are due semi-annually each March and September beginning March 1, 2009. All outstanding principal and interest are due on February 1, 2046, the maturity date. Interest income for both fiscal years ended 2017 and 2016 was \$26,775 and accrued interest receivable at June 30, 2017 and 2016 was \$13,278 and \$13,350, respectively. During 2017 and 2016, VOAMA received interest payments totaling \$26,848 and \$26,635, respectively. The promissory note is secured by a fourth mortgage on the Partnership's real estate. VOAMA can only be repaid from "Surplus Cash" as defined in the Partnership's HUD regulatory agreement.

At June 30, 2017 and 2016 VOAMA holds a promissory note in the amount of \$313,606 and \$339,557, respectively, from the Partnership. The note accrues interest at 3%. Principal and interest are due semi-annually each March and September beginning March 1, 2009. All outstanding principal and interest are due on February 1, 2046, the maturity date. Interest income for fiscal years ended June 30, 2017 and 2016 was \$10,443 and \$20,914, respectively, and accrued interest receivable at June 30, 2017 and 2016 was \$3,888 and \$7,255, respectively. During 2017 and 2016, VOAMA received principal and interest payments of \$617,531 and \$468,431, respectively. The promissory note is secured by a fourth mortgage on the Partnership's real estate. VOAMA can only be repaid from "Surplus Cash" as defined in the Partnership's HUD regulatory agreement.

At June 30, 2017 and 2016, VOAMA is due \$0 and \$448,224, respectively, from the Partnership for advances made on behalf of the Partnership for the construction of its elderly housing project. The advances were non-interest bearing and were secured by a fourth mortgage on the Partnership's real estate. VOAMA was repaid from "Surplus Cash" as defined in the Partnership's HUD regulatory agreement.

VOA Ayer, Inc. is due an annual non-cumulative \$25,000 Partnership Management Fee for all years beginning on or after January 1, 2016. The fee can only be paid from "Surplus Cash" as defined in the Partnership's HUD regulatory agreement and based on the priority specified in the partnership agreement. There was no remaining "Surplus Cash" at June 30, 2017 or 2016, after providing for the higher priority items per the partnership agreement.

VOA Ayer, Inc. is due an Incentive Partnership Management Fee beginning January 1, 2016. The fee is 80% of any remaining "Surplus Cash" as defined in the Partnership's HUD regulatory agreement and based on the priority specified in the partnership agreement. There was no remaining "Surplus Cash" at June 30, 2017 or 2016, after providing for the higher priority items per the partnership agreement.

Due from VOA Somerville

VOA Somerville received a loan of \$202,959 developer fee loan from VOAMA, dated October 10, 2012. The loan bears interest at 2%. The loan is secured by a mortgage on the Project and matures on June 30, 2042. No payments have been made against this loan. As of June 30, 2017, and 2016, accrued interest totaled \$18,969 and \$14,910, respectively.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

9. Due from Affiliates - Continued

Due from VOA Somerville - Continued

VOAMA serves as the management agent of the VOA Somerville Project pursuant to a management agreement dated October 10, 2012 and will manage all aspects of project operations. VOAMA is paid a fee of 6% of all collections of the Project. The agreement is in force for a period of one year and shall continue thereafter until terminated by either party pursuant to the terms of the agreement. During 2017, VOAMA forgave current and prior year management fees totaling \$74,088. As of June 30, 2017, VOAMA was owed \$2,477 for outstanding management fees and costs incurred on behalf of the Project.

Due from VOA Ayer Memory Support LLC

As of June 30, 2017, and 2016, VOAMA has advanced \$212,872 and \$212,424, respectively, to VOA Ayer Memory Support to purchase land and study the feasibility of building an Alzheimers unit in Ayer, Massachusetts.

Due from VOA Malden Assisted Living LLC

As of June 30, 2017, and 2016, VOAMA is owed \$631,325 and \$600,000, respectively, pursuant to a promissory noted dated June 2016, for the construction of the assisted living facility and memory care project. The loan bears interest at 1%. Principal and interest is payable solely from VOA Malden's Net Cash Flow and/or Capital Proceeds as set forth in its Amended and Restated Operating Agreement dated June 21, 2017. If not sooner paid, all outstanding principal and accrued interest, if any, shall be paid on the thirty-third (33rd) anniversary of the date funds are advanced June 21, 2049 (the Maturity Date). The loan is unsecured.

10. Due to Affiliate

VOAMA is affiliated with VOA, which provides supporting services to it for a fee. Affiliate fees for the fiscal years ended June 30, 2017 and 2016 totaled \$68,323 and \$118,700, respectively. At June 30, 2017 and 2016, VOAMA owed \$21,744 and \$38,856, respectively, to VOA.

11. Rebtable Arbitrage

Pursuant to Sections 103 and 148 (f) of the Internal Revenue Code, the Corporation is subject to an arbitrage liability if the income earned on unspent bond proceeds (Expense Fund, Debt Service Reserve Fund and Replacement Reserve Fund) exceed the amount that would have been earned if they were invested at the bond yield. During 2017 a rebatable arbitrage computation engagement was performed for the period of May 16, 2007, the closing date, through May 15, 2017. The report concluded that since the investment yield was lower than the bond yield, no rebate liability existed. The next rebate computation is scheduled for May 2018.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

12. Concentrations

Revenue and Support

During 2017 and 2016, the Commonwealth of Massachusetts (the Commonwealth) provided 15% and 12%, respectively, of the Organization's total revenue and support and represented 67% and 42%, respectively, of the accounts receivable balance at June 30, 2017 and 2016. Amounts due from affiliates represent 70% and 71%, respectively, of the total receivables owed to the Organization.

Credit Risk

The Organization maintains its accounts at several financial institutions and the Bond Trustee. Accounts at the financial institutions are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. At one institution accounts are fully insured by the Securities Investor Protection Corporation (SIPC) and excess SIPC insurance for amounts in excess of the SIPC coverage. The restricted funds are held by the Bond Trustee. Accounts at the Bond Trustee are not covered by FDIC insurance. Balances in excess of insured limits at June 30, 2017 and 2016 totaled \$5,375,778 and \$2,613,659, respectively. The Organization has not experienced any losses in its accounts. The Organization believes it is not exposed to any significant credit risk on cash balances within its accounts.

Market Concentration

VOAC's and VOA Somerville's sole assets are the Projects Their operations are concentrated in the assisted living and subsidized housing markets. In addition, they operate in a heavily regulated environment. Their operations are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of government or an administrative change mandated by EOE, VA or HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

13. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 were use restricted for the following:

Use Restriction	2017	2016
Seeking safety training	\$ 1,384	\$ 1,384
Casa Isla Yoga (health and wellness awareness)	37,081	37,081
Action Team (youth volunteerism promotion)	5,216	5,136
Shiloh House	10,112	10,112
Hello House Women's Substance Abuse Treatment	9,359	11,914
Capacity building	<u>26,883</u>	<u>1,883</u>
Total	<u>\$ 90,035</u>	<u>\$ 67,510</u>

Volunteers of America of Massachusetts, Inc. and Affiliates
Notes to Combining Financial Statements - *Continued*
June 30, 2017 with Comparative Totals for 2016

14. Board-Designated Endowment

As of June 30, 2017, and 2016, the Board of Directors had designated \$3,159,591 and \$2,605,651, respectively, of unrestricted net assets as a general endowment to support the mission of the Organization.

The Organization has a spending policy of appropriating for distribution each year 4 percent of its board-designated endowment fund's average fair value for the prior quarter preceding the fiscal year in which the distribution is planned. The appropriation is used to fund capital improvements of the Organization. In addition, the Board may at times approve the use of board-designated endowment funds for the Organization's investment in new programs and projects.

In establishing this policy, the Organization considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its general endowment fund to grow at an average of 4 percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of four percent (4%), while growing the fund if possible. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately seven percent (7%) annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Composition of and changes in endowment net assets for the fiscal years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Board-designated endowment net assets, beginning of year	\$ 2,605,651	\$ 2,218,227
Contributions	450,000	450,000
Investment income	86,544	36,924
Net appreciation	135,882	(4,489)
Amounts appropriated for expenditure	<u>(118,486)</u>	<u>(95,011)</u>
Board-designated endowment net assets, end of year	<u>\$ 3,159,591</u>	<u>\$ 2,605,651</u>

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

15. Conditional Promise to Give

The Organization has an existing conditional promise to receive \$50,000, in annual installments of \$25,000 each in fiscal year 2018 and 2019. Payments are contingent upon meeting certain reporting requirements outlined in the grant agreement. The promises will be recorded as revenue when the conditions on which they depend are substantially met.

16. Contingencies

Development Loans

VOA Somerville received a 50-year \$1,000,000 zero percent interest loan to finance the development of the veterans housing project from the Massachusetts Department of Housing and Community Development. The loan matures in July 2063. Under the terms of the loan, if the project is in compliance with the terms of the loan, during the one-year period prior to the maturity date, VOA Somerville may request that the loan be extended for another 50 years to maintain the affordability of the project. The loan is secured by a third mortgage on the project. Since it is the intent and mission of VOA Somerville to maintain the project as affordable housing in perpetuity, loan proceeds, which were fully received as of June 30, 2017, have been recorded as unrestricted net assets. At June 30, 2017 VOA Somerville was in compliance with the provisions of the loan.

VOA Somerville received a 40-year \$250,000 zero percent interest loan to finance the development of the veterans housing project from the City of Somerville. The loan matures in July 2053. Under the terms of the loan, if the project is in compliance with the terms of the loan, during the one-year period prior to the maturity date, VOA Somerville may request that the loan be extended for another 40 years to maintain the affordability of the project. The loan is secured by a third mortgage on the project. Since it is the intent and mission of VOA Somerville to maintain the project as affordable housing in perpetuity, loan proceeds, which were fully received as of June 30, 2017, have been recorded as unrestricted net assets. At June 30, 2017 VOA Somerville was in compliance with the provisions of the loan.

VOA Somerville received a 30-year \$1,500,000 zero percent interest loan to finance the development of the veterans housing project from the Massachusetts Housing Finance Agency through the Massachusetts Affordable Housing Trust Fund Statute. The loan matures on July 9, 2043. The loan is secured by a mortgage on the Project. Under the terms of the loan, if the Project is in compliance with the terms of the loan, during the one-year period prior to the maturity date, VOA Somerville may request that the loan be extended for another 30 years to maintain the affordability of the Project. Since it is the intent and mission of VOA Somerville to maintain the project as affordable housing in perpetuity, loan proceeds, which were fully received as of June 30, 2017, have been recorded as unrestricted net assets. At June 30, 2017 VOA Somerville was in compliance with the provisions of the loan.

VOA Somerville received a 30-year \$350,000 zero percent interest loan to finance the development of the veterans housing project from the Massachusetts Department of Housing and Community Development under the U.S. Department of Housing and Urban Development's HOME Investment Partnership Program. The loan matures on July 9, 2043. The loan is secured by a mortgage on the Project. Since it is the intent and mission of VOA Somerville to maintain the project as affordable housing in perpetuity, loan proceeds, which were fully received as of June 30, 2017, have been recorded as unrestricted net assets. At June 30, 2017 VOA Somerville was in compliance with the provisions of the loan.

The total contingent liability not recorded in the financial statements at June 30, 2017 is \$3,100,000.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

16. Contingencies - Continued

Limited Partnership

VOA Ayer, Inc. as the general partner of the Partnership has various obligations as described in the partnership agreement, including the obligation to provide funds to cover operating deficits up to \$425,000. As of June 30, 2017, and 2016, VOA Ayer, Inc. has not been required to provide funding to the Partnership.

Contracts

VOAMA and VOA Somerville contracts with governmental agencies and third-party payors. The contracts are subject to audit by the respective funding source and could result in the recapture of previously reported revenue. Management does not believe that any such disallowance, if found, would be material to the Organization's financial statements. Accordingly, no provision for any liability that may result has been made in the financial statements.

Unemployment Insurance

VOAC has elected the reimbursable method of financing unemployment benefits under the Massachusetts Unemployment Insurance Law. As a result, VOAC does not contribute to the Massachusetts Unemployment Trust Fund and is required to reimburse the Division of Unemployment Assistance (DUA) for benefits paid to former employees. During fiscal year 2017, there were no reimbursement payments made to the DUA. VOAC does not anticipate that future claims would have a material impact on its financial position.

Litigation

From time-to-time, in the in the normal course of operations, VOAMA is the respondent in legal claims brought against it. Management is of the opinion that the ultimate liability, if any, from the final resolution of unsettled matters at June 30, 2017, will not have a material effect on the Organization's financial statements.

17. Pension Plan

VOAMA maintains a defined contribution pension plan for its employees. All full-time employees are eligible to participate in the plan. VOAMA matches participant contributions of 1% to 3% with 3% to 6% contributions based on the participant's base salary. For employees who began employment on or before June 30, 2009, they are immediately fully vested in employer contributions. For employees who began employment after June 30, 2009, they vest in employer contributions at 25% each year over a 60-month period after the first 24 months of participation.

Volunteers of America of Massachusetts, Inc. and Affiliates

Notes to Combining Financial Statements - *Continued*

June 30, 2017 with Comparative Totals for 2016

17. Pension Plan - Continued

Additionally, VOAMA participates, through VOA, in a multi-employer, non-contributory defined benefit pension and retirement plan. The plan is administered through a commercial insurance company and covers all ministers commissioned through December 31, 1999. Because the VOA plan is multi-employer, the accumulated benefits and net assets available for benefits as they relate solely to VOAMA are not readily available. Pension plan expense was \$100,055 and \$116,780, respectively, for the fiscal years ended June 30, 2017 and 2016.

18. Commitments

In June 2016, the Organization executed a promissory note to loan \$896,175 to VOA Malden MT LLC at the completion of the construction of the Malden assisted living facility.

19. Surplus Revenue Retention

Per State regulations, VOAM is entitled to retain an annual surplus, up to 20% for 2017 and up to five percent (5%) for 2016 of total revenues attributable or generated by State agreements to further its charitable purpose. The cumulative surplus amount, which can be retained, may not in total exceed twenty (20%) of its prior year's gross revenue from the State.

The surplus revenue retention calculations for 2017 and 2016 are as follows:

	2017	2016	
Calculation of SRR 20% and 5% Annual Limit:			
A	\$ 106,507	\$ 9,719	Total Surplus Attributable to Commonwealth
B	\$ 2,135,330	\$ 1,562,135	Total Commonwealth Revenue
C	4.99%	0.62%	SRR Percentage(A/B)
D	\$ 106,507	\$ 9,719	Allowed SRR Amount for Current Year (5% limit)
E	\$ -	\$ -	Liability on Annual SRR (annual amount exceeding 5% limit)
 Calculation of SRR 20% Accumulated Limit:			
F	\$ (4,292,483)	\$ (4,302,202)	Starting SRR Balance from prior year
G	\$ -	\$ -	Authorized Expenditures of SRR Balance (F)
H	\$ (4,292,483)	\$ (4,302,202)	Accumulated SRR balance adjusted for audit period expenditures (F-G)
I	\$ 106,507	\$ 9,719	Allowed SRR Accrual Amount for Current Year (D)
J	\$ (4,185,976)	\$ (4,292,483)	Accumulated SRR balance (H+I)
K	\$ 1,562,135	\$ 2,097,780	Prior Year's Comm. of Mass. Revenue
L	\$ 312,427	\$ 419,556	SRR Policy 20% Accumulated balance limit (20% of K)
M	\$ -	\$ -	Liability based SRR Policy 20% rule on accumulated SRR balance (J-L)

20. Subsequent Events

The Organization has evaluated subsequent events through October 30, 2017, which is the date the financial statements were available to be issued.