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PUBLIC SERVICE
COMMISSION

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602-0615

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Rick E. Lovekamp
Manager - Regulatory Affairs
T 502-627-3780
F 502-627-3213
rick.lovekamp@eon-us.com

July 31, 2008

Re: ***In the Matter of: Joint Application of Kentucky Utilities Company, Kentucky Association for Community Action, Inc., and Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. for the Establishment of a Home Energy Assistance Program, Case No. 2007-00338***

Dear Ms. Stumbo:

On September 14, 2007, the Commission approved the Joint Application of Kentucky Utilities Company ("KU"), the Kentucky Association for Community Action, Inc. ("KACA"), and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicolas Counties, Inc. ("CAC"), (collectively "Joint Applicants") for a five year Home Energy Assistance ("HEA") program. Pursuant to Ordering Paragraph No. 4 of the Commission's Order, KU is filing the additional HEA program information as stipulated for calendar year 2007 and the financial audits for KACA and CAC for year ended June 30, 2007.

For the twelve month period ending December 2007, based on the 10 cents per meter charge, KU collected \$506,195 from residential electric customers (See Exhibit 1).

As of the December 31, 2007 reporting period, there were 1,465 residential electric customers enrolled in the HEA program representing 77 counties throughout the KU service territory (See Exhibit 2).

Ms. Stephanie L. Stumbo
July 31, 2008

For the calendar year 2007, the number of HEA clients receiving brown bills was 1,131 (See Exhibit 3). The number of HEA customers receiving five or fewer brown bill notices throughout 2007 was 632 or 56% of clients. Additionally, 341 HEA clients were disconnected during 2007 with 87% receiving two or fewer disconnections during the year (See Exhibit 4).

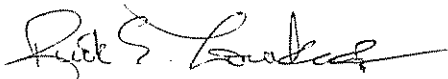
In the aforementioned Order, KU was authorized to utilize up to five percent of the total HEA funds collected to provide discretionary energy assistance. The Order specifies that the funds could be used to pay down arrearages or to provide energy assistance in crisis situations. During 2007, KACA and CAC utilized the funds for program participants that required monthly energy assistance.

During 2007, there was no change to the monthly or annual benefit amount after approval of the aforementioned Order.

Lastly, KU has enclosed the financial audits conducted by independent auditors for KACA and CAC for the period ending June 30, 2007.

Please confirm your receipt of this filing by placing the stamp of your Office with date received on the extra copy and returning to me in the enclosed envelope. Should you have any questions regarding this information, please contact me or Don Harris at 502-627-2021.

Sincerely,



Rick E. Lovekamp

Kentucky Utilities Company
Home Energy Assistance Program
Total Funds Collected

Month/Year	Amount
Jan-07	\$42,000
Feb-07	41,972
Mar-07	42,140
Apr-07	42,078
May-07	42,233
Jun-07	42,200
Jul-07	42,411
Aug-07	42,492
Sep-07	42,125
Oct-07	42,270
Nov-07	42,174
Dec-07	42,101
Total	\$506,195

Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2007

	Number	County
County	Enrolled	Distribution
Adair	9	0.61%
Anderson	14	0.96%
Ballard	3	0.20%
Barren	4	0.27%
Bath	5	0.34%
Bell	64	4.37%
Bourbon	61	4.16%
Boyle	17	1.16%
Bracken	17	1.16%
Bullitt	9	0.61%
Caldwell	3	0.20%
Carroll	9	0.61%
Casey	8	0.55%
Christian	2	0.14%
Clark	26	1.77%
Clay	6	0.41%
Crittenden	9	0.61%
Estill	7	0.48%
Fayette	395	26.96%
Fleming	16	1.09%
Franklin	6	0.41%
Gallatin	2	0.14%
Garrard	15	1.02%
Grant	2	0.14%
Grayson	12	0.82%
Green	10	0.68%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2007**

	Number	County
County	Enrolled	Distribution
Hardin	35	2.39%
Harlan	27	1.84%
Harrison	17	1.16%
Hart	40	2.73%
Henderson	7	0.48%
Henry	7	0.48%
Hickman	3	0.20%
Hopkins	59	4.03%
Jessamine	14	0.96%
Knox	10	0.68%
Larue	45	3.07%
Laurel	33	2.25%
Lincoln	15	1.02%
Livingston.	1	0.07%
Lyon	7	0.48%
Madison	47	3.21%
Marion	29	1.98%
Mason	12	0.82%
McClellan	7	0.48%
McCracken	1	0.07%
McCreary	9	0.61%
Mercer	11	0.75%
Montgomery	24	1.64%
Muhlenberg	41	2.80%
Nelson	10	0.68%
Nicholas	29	1.98%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2007**

	Number	County
County	Enrolled	Distribution
Ohio	6	0.41%
Oldham	2	0.14%
Owen	2	0.14%
Pendleton	1	0.07%
Pulaski	32	2.18%
Robertson	0	0.00%
Rockcastle	6	0.41%
Rowan	19	1.30%
Russell	9	0.61%
Scott	26	1.77%
Shelby	6	0.41%
Spencer	12	0.82%
Taylor	10	0.68%
Trimble	5	0.34%
Union	10	0.68%
Washington	7	0.48%
Webster	11	0.75%
Whitley	6	0.41%
Woodford	24	1.64%
Total	1,465	100.00%

**Kentucky Utilities Company
Home Energy Assistance Program
Brown Bill Notices Issued - 2007**

Number of Customers	Number of Brown Bills Per Customer Received Annually
169	1
139	2
131	3
94	4
81	5
85	6
73	7
61	8
52	9
45	10
55	11
52	12
1,037	Total

**Kentucky Utilities Company
Home Energy Assistance Program
Number of Disconnections - 2007**

Number of Customers	Number of Disconnections Per Customer
177	1
57	2
20	3
13	4
3	5
2	6
1	7
273	Total

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.

COMPREHENSIVE AUDIT REPORT

June 30, 2007

LARRY T. WILLIAMS

CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 4130

FRANKFORT, KENTUCKY 40604

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Larry J. Williams, CPA

940 Louisville Road Suite A

P. O. Box 4130

Frankfort, KY 40604

Telephone (502) 352-2800

Fax (502) 352-2802

INDEPENDENT AUDITOR'S REPORT

Kentucky Association for Community Action, Inc.
Frankfort, Kentucky

We have audited the accompanying combined statement of financial position of the Kentucky Association for Community Action, Inc. as of June 30, 2007 and the related combined statements of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Association for Community Action, Inc. as of June 30, 2007 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We did not audit the subgrantee financial statements of the LIHEAP & Weatherization Program Grants for the year ended June 30, 2007. Those sub-grantee statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it is related to the amounts included for the subgrantee LIHEAP & Weatherization Program Grants, is based solely on the report of the other auditors. However, we have examined the LIHEAP & Weatherization Program Grant records of Kentucky Association for Community Action, Inc. and reconciled those records to the audit reports furnished to us.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Association for Community Action, Inc. as of June 30, 2007 and the results of its activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 28, 2007 on our consideration of Kentucky Association for Community Action, Inc.'s internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards, and in considering the results of the audit, should be read along with the auditor's report on the financial statements.

This audit has been performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and supplemental schedules on pages 12 through 38 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

L. J. Williams, CPA

December 28, 2007

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 COMBINED STATEMENT OF FINANCIAL POSITION
 June 30, 2007

ASSETS

CURRENT ASSETS

Cash in Bank	\$ 276,141	
Receivables		
Subrecipients	63,948	
Funding Sources	1,602,873	
Housing Loans	39,867	
Notes Receivable	62,407	
Prepaid Expenses	<u>6,167</u>	
 Total Current Assets		 \$ 2,051,403

OTHER ASSETS

Investments	878,371	
Notes Receivable – Non Current	<u>404,020</u>	
 Total Other Assets		 1,282,391

PLANT, PROPERTY AND EQUIPMENT

Property and Equipment	925,657	
Accumulated Depreciation	<u>(128,500)</u>	
 Net Property, Plant and Equipment		 <u>797,157</u>

TOTAL ASSETS

\$ 4,130,951

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 65,652	
Accrued Salaries	17,968	
Accrued Annual Leave	89,168	
Notes Payable	50,589	
Due to Subrecipients	<u>1,530,470</u>	
 Total Current Liabilities		 1,753,847

OTHER LIABILITIES

Notes Payable – Non Current	<u>300,567</u>	
 Total Other Liabilities		 300,567

NET ASSETS

Unrestricted	2,074,365	
Temporarily Restricted/Restricted	<u>2,172</u>	
 Total Net Assets		 <u>2,076,537</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 4,130,951

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 COMBINED STATEMENT OF ACTIVITY
 For the Year Ended June 30, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED/ RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Support			
Federal/State Funds	\$ 368,053	\$ 44,725,040	\$ 45,093,093
Total Support	368,053	44,725,040	45,093,093
Revenue			
Rental Income	15,000	-	15,000
Interest Income – Client	3,352	-	3,352
Interest Income – Investment	9,918	-	9,918
Dues	17,755	-	17,755
Commission	155,363	-	155,363
Other Income	20,672	78,879	99,551
Unrecognized Gain on Investments	109,609	-	109,609
Net Assets Released from Restrictions			
Satisfaction of Purpose Restrictions	44,848,606	(44,848,606)	-
Total Revenue	45,180,275	(44,769,727)	410,548
TOTAL SUPPORT AND REVENUE	45,548,328	(44,687)	45,503,641
EXPENDITURES			
Program Services	1,118,187		1,118,187
Management & General	143,736		143,736
Payments to Subrecipients	44,087,405		44,087,405
TOTAL EXPENDITURES	45,349,328	-	45,349,328
Change in Net Assets	199,000	(44,687)	154,313
Transfer of Funds	(16,903)	16,903	-
Net Assets, Beginning of Year	1,892,268	29,956	1,922,224
NET ASSETS, END OF YEAR	\$ 2,074,365	\$ 2,172	\$ 2,076,537

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 For the Year Ended June 30, 2007

	PROGRAM SERVICES	MANAGEMENT & GENERAL	TOTAL
Salaries	\$ 535,226	\$ 29,141	\$ 564,367
Fringe Benefits	174,300	9,522	183,822
Professional Services	9,470	9,688	19,158
Consultants	92,796	5,579	98,375
Education	7,534	3,176	10,710
Travel	50,864	13,291	64,155
Meeting Expense	25,809	30,847	56,656
Telephone	20,196	1,000	21,196
Postage	3,872	804	4,676
Rent	3,500	-	3,500
Supplies	39,790	2,331	42,121
Publications and Subscriptions	5,447	1,832	7,279
Dues/Fees	711	4,950	5,661
Insurance	96,951	1,523	98,474
Printing	8,075	194	8,269
Advertising	1,082	152	1,234
Utilities	4,306	216	4,522
Repairs & Maintenance	16,554	1,821	18,375
Depreciation	18,269	5,691	23,960
Marketing	-	21,000	21,000
Interest Expense	3,435	-	3,435
Other Expenditures	-	978	978
	<hr/>	<hr/>	<hr/>
Total Expenditures	<u>\$ 1,118,187</u>	<u>\$ 143,736</u>	<u>\$ 1,261,923</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 COMBINED STATEMENT OF CASH FLOWS
 For the Year Ended June 30, 2007

CASH FLOW USED BY OPERATING ACTIVITIES

Change in Net Assets \$ 154,313

Depreciation 23,960

Adjustments to reconcile change in net assets
 to net cash used for operating activities:

(Increase)Decrease in Receivables (620,179)

(Increase)Decrease in Prepaid Expenses (1,689)

Increase(Decrease) in Accounts Payable 54,059

Increase(Decrease) in Accrued Salaries (4,241)

Increase(Decrease) in Accrued Vacation Pay 3,288

Increase(Decrease) in Due to Subrecipients 674,734

Increase(Decrease) in Notes Payable (519)

Net Cash Used by Operating Activities \$ 283,726

CASH FLOWS USED BY INVESTING ACTIVITIES

Net (Purchases)/Disposals of Capital Assets (9,300)

Net (Purchases)/Disposals of Investments (225,685)

Net Cash Used by Investing Activities (234,985)

NET INCREASE IN CASH AND CASH EQUIVALENTS

48,741

Cash and Cash Equivalents – June 30, 2006

227,400

Cash and Cash Equivalents – June 30, 2007

\$ 276,141

*The Association considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

NOTE 1 – HISTORY OF ASSOCIATION

The Kentucky Association for Community Action, Inc. is a multi-funded association for the twenty-three (23) Community Action Agencies in Kentucky. The Association was formed in 1968 to provide a link between the Community Action Agencies to better accomplish mutual goals and objectives. The responsibilities of the Association include the development and administration of grants and contracts providing services in areas such as housing, water/waste water management, crisis intervention, and low-income home improvements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The Kentucky Association for Community Action, Inc. maintains their records on the accrual basis of accounting. This conforms to accounting principles generally accepted in the United States of America.

NOTE 3 – PROGRAM DESCRIPTIONS

1. LOW INCOME HOME ENERGY ASSISTANCE – Benefit Component

The LIHEAP Grant is provided by the Kentucky Cabinet for Health and Family Services, Department of Social Insurance for the following services:

- A. Fuel
- B. Heaters
- C. Blankets
- D. and/or Sleeping Bags
- E. Vouchers to purchase these items or the repair of the heating system as necessary to alleviate the crisis are provided to eligible low-income households.

Kentucky Association for Community Action, Inc. has delegate agreements to administer the LIHEAP Grant through twenty-three (23) affiliated Community Action Agencies subcontracted to implement the Crisis Component.

2. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM – Administration Grant

The LIHEAP Administration Grant is provided by the Kentucky Cabinet for Health and Family Services, Department of Social Insurance to perform administrative tasks necessary for the development of the Benefits Component.

3. DEMAND SIDE MANAGEMENT PROGRAM

The DSM Grant is provided by the Cabinet for Health and Family Services to engage in leveraging activities known as DSM. The grant is part of the LIHEAP contract, but the services provided are different. Kentucky Association for Community Action, Inc. provides technical assistance to ongoing utility funded partnerships with Weatherization agencies and works toward the creation of other new programs. Kentucky Association for Community Action, Inc. also holds quarterly meetings to allow those involved in DSM to come together and exchange information and ideas. Kentucky Association for Community Action, Inc. also tracks federal and state legislation that affect utility industry restructuring and how that would affect DSM programs in Kentucky.

4. WATER AND WASTEWATER PROGRAM (RCAP)

The RCAP Grant is funded by an award from the U.S. Department of Health and Human Services, Office of Community Services. The W.S.O.S. Community Action Commission, Inc., sponsor for the Great Lakes Rural Network, Inc., has contracted with Kentucky Association for Community Action, Inc. to assist low-income families, small communities, and local officials to deal with water and wastewater problems affecting the poor. The water and wastewater program has activities in Illinois, Indiana, Kentucky, Michigan, Ohio, West Virginia, and Wisconsin.

5. COMMUNITY SERVICES BLOCK GRANT PROGRAM (OPE)

The OPE Grant is provided by the Office for Performance Enhancement to help with the implementation of outcome based measures and to provide technical assistance on this subject to local Community Action Agencies. Kentucky Association for Community Action, Inc. helps coordinate training, develop forms, and helps agencies as they transition to outcome based measures with their CSBG programs.

6. HEAD START GRANTEE UNEMPLOYMENT INSURANCE TRUST

Kentucky Association for Community Action, Inc. provides staff support to the Kentucky Head Start Grantees Unemployment Insurance Trust for a fee of \$250 a month. The Trust is composed of nine Head Start Grantees, eight of which are Community Action Agencies. Trust members pay a percentage of their payroll into an individual account under the Trust umbrella, which is responsible for paying unemployment claims. Kentucky Association for Community Action, Inc. plans Trust meetings (usually 4 to 6 a year), takes minutes, sends out meeting announcements, works with the Trust's legal counsel and investment portfolio manager, and handles other administrative tasks for the Trust. Kentucky Association for Community Action, Inc. began providing the service in 1996-1997.

NOTE 3 – PROGRAM DESCRIPTIONS (Continued)

7. HOUSING PROGRAM

The Housing Program is funded by a loan from the Kentucky Housing Corporation to make and disburse mortgage loans to eligible persons and families of lower income, for single-family dwellings to provide safe, decent and sanitary family dwellings in the Commonwealth of Kentucky.

8. COMPASSION CAPITAL FUND

Compassion Capital Fund was a three-year pilot program funded by the Dept. for Health & Human Services to build the capacity of small community -based organizations to achieve results. The three-year program ended on September 30, 2006, and helped over 200 small non-profit organizations in eastern Kentucky. KACA partnered with Foothills CAP in Richmond, who was the actual grantee, and worked with five other Community Action Agencies in Eastern Kentucky on this program.

9. KU Energy Assistance Program

KACA, in conjunction with Community Action Council, operates an energy assistance program that helps approximately 1,300 households with a subsidy benefit for seven months during the year. The program is funded with a 10 cent per meter monthly charge on residential electric customers of Kentucky Utilities.

10. AEP

KACA, in conjunction with five Community Action Agencies in Eastern Kentucky, operates an energy assistance program that helps approximately 800 households with a subsidy benefits for seven months during the year. The program is funded with a 10 cent per meter monthly charge on residential electric customers of Kentucky Power/AEP.

NOTE 4 – CASH IN BANK

At June 30, 2007 cash in bank totaled \$276,141 consisting of the following accounts:

Cash in Farmers Bank – Checking	\$ 98,872
Cash in Hilliard & Lyons – Money Market Accounts	<u>177,269</u>
 Total	 <u><u>\$ 276,141</u></u>

NOTE 5 – ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE – SUBRECIPIENTS AND FUNDING SOURCES

Agencies owe KACA	<u>\$ 63,948</u>
A/R Subrecipients	<u><u>\$ 63,948</u></u>
 CHFS owes KACA (M-01607251)	 \$ 442,395
CHFS owes KACA (M-01607251)	878,644
CHFS owes KACA (M-01607251)	61,325
CHFS owes KACA (M-01607251)	92,435
UI Trust owes KACA	750
WSOS owes KACA	102,005
KU owes KACA	<u>25,319</u>
 A/R Funding Sources	 <u><u>\$ 1,602,873</u></u>
 KACA owes Agencies	 \$ 1,530,470
 Due to Subrecipients	 <u><u>\$ 1,530,470</u></u>

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2007

NOTE 6 – HOUSING LOANS

Several loans in the housing program are either slow or non-paying. All loans in the program are protected and secured by liens on the mortgaged property. These liens are enforceable but may not guarantee full reimbursement of the debt. On an annual basis, management reviews and systematically writes off those loans when all collection procedures are exhausted.

NOTE 7 – LONG TERM INVESTMENTS

The long-term investments consist of cash and money market funds, stocks, mutual funds, and taxable fixed income. The investments are held by Hilliard & Lyons. The investments are as follows:

	Cost Basis	Market Value
Stocks	\$ 112,235	\$ 125,036
Mutual Funds	559,367	753,335
Total	\$ 671,602	\$ 878,371

NOTE 8 – NET ASSETS

Net assets exist as a result of an excess of receipts over expenses since inception of the organization, plus or minus certain adjustments. The net assets consist of a temporarily restricted segment (predominately housing projects) and an unrestricted portion (available for general treasury use). Assuming all assets are worth their book value, upon liquidation of the organization, there would be an amount left over corresponding to the net assets.

NOTE 9 – INCOME TAXES

Kentucky Association for Community Action, Inc. is a nonprofit corporation exempt from income taxes under the Internal Revenue Code, Section 501(c)(3).

NOTE 10 – ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures 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.

NOTE 11 – EMPLOYEE PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System was authorized by the board beginning October 1, 1987. All of its full-time employees are covered under the non-hazardous plan. The System is a cost sharing, multi-employer public employee retirement system.

A member may elect to retire upon: 1) attaining age 65 for non-hazardous positions or attaining age 55 for hazardous positions, and 2) having contributed to the System. Upon completion of 30 years of service credit, or completion of 20 years of service credit for hazardous positions, a member may elect to retire with an unreduced benefit. A member may elect to retire before the normal retirement date at any time after: 1) for non-hazardous positions, attainment of age 55 and completion of 60 months of service credit or at any age after 25 years of service, or 2) for hazardous positions, attainment of age 50 and completion of 15 years of service credit. A member is vested after 5 years of service. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits. A monthly benefit equal to 2.00% of the member's final compensation multiplied by his service will be payable for non-hazardous positions, upon attainment of age 65 and completion of 48 months of service. For hazardous positions, a monthly benefit equal to 2.5% of the member's final compensation multiplied by his service will be payable upon attainment of age 55 and completion of 60 months of service. A member, with less than 48 months for non-hazardous and with less than 60 months for hazardous, who retires or after the normal retirement date is entitled to a retirement allowance which pays the actuarial equivalent of twice the member's accumulated contributions for life. A member who elects early retirement is entitled to a monthly benefit reduced for each month. There are also provisions for disability and death benefits and medical insurance.

Members contribute 5.00% of gross compensation. The Association pays 13.19%. On each June 30, interest is credited at the rate determined by the Board on the accumulated contribution the member had in his account on the previous June 30. Upon termination a member may withdraw the contributions with interest, but will be entitled to no benefit payments.

The payroll for employees covered under CERS was \$559,634. The contribution for the year ended June 30, 2007 was \$101,797. The contributions for the year consisted of \$73,816, from the Association and \$27,981 from the employees.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2007

NOTE 12 – NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2007:

Note payable to KHC (NHPL 97/98), Interest at 1% annual payments of \$3,312 through July, 2017	\$ 2,596
Note payable to KHC (NHPL 98/99), Interest at 1% annual payments of \$2,500 through July, 2018	1,111
Note payable to KHC (NHPL 99/00), Interest at 1% annual payments of \$5,744 through July, 2019	17,232
Note payable to KHC (NHRL 99/00), Interest at 1% annual payments of \$4,804 through July, 2019	6,726
Note payable to KHC (NHPR 00/01), Interest at 1% annual payments of \$750 through July, 2020	3,000
Note payable to KHC (NHPR 01/02), Interest at 1% annual payments of \$5,175 through July, 2021	12,291
Note payable to KHC (NHPR 02/03), Interest at 1% annual payments of \$15,225 through July, 2022	89,456
Note payable to KHC (NHPR 03/04), Interest at 1% annual payments of \$5,925 through July, 2023	41,475
Note payable to KHC (NHPR 04/05), Interest at 1% annual payments of \$5,250 through July, 2024	42,000
Note payable to KHC (NHPR 05/06), Interest at 1% annual payments of \$10,650 through July, 2025	95,850
Note payable to KHC (NHPR 06/07), Interest at 1% annual payments of \$4,380 through Aug, 2026	39,420
Total	\$ 351,157
Less: Current Maturities	<u>50,589</u>
Long-Term Notes Payable	<u>\$ 300,568</u>
Year Ending June 30,	
2008	\$ 50,589
2009	50,098
2010	44,354
2011	42,113
2012	41,363
Thereafter	<u>122,640</u>
Total	<u>\$ 351,157</u>

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2007

NOTE 13 – NOTES RECEIVABLE

Notes receivable consisted of the following as of June 30, 2007:

Note receivable from Harlan, LKLP (NHPL 97/98), Interest at 1%, annual payments of \$718 through June, 2007	\$ 1,190
Note receivable from Harlan (NHPL 98/99), Interest at 1%, annual payments of \$556 through June 2,008	1,111
Note receivable from Harlan, LKLP, Lexington (NHRL 99/00), Interest at 1%, annual payments of \$2,242 through June, 2009	6,085
Note receivable from KCEOC, LKLP (NHPL 99/00), Interest at 1%, annual payments of \$5,744 through June, 2009	15,181
Note receivable from Lexington (NHPR 00/01), Interest at 1%, annual payments of \$750 through June, 2010	2,250
Note receivable from Harlan, KCEOC, LKLP, Lexington (NHPR 01/02), Interest at 1%, annual payments of \$2,458 through June, 2011	11,817
Note receivable from Daniel Boone, LKLP, Lexington (NHPR 02/03), Interest at 1%, annual payments of \$14,909 through June, 2012	77,657
Note receivable from KCEOC, LKLP, Lexington (NHPR 03/04), Interest at 1%, annual payments of \$5,925 through June, 2013	38,775
Note receivable from KCEOC, LKLP, Lexington (NHPR 04/05), Interest at 1%, annual payments of \$5,250 through June, 2014	38,782
Note receivable from Bell-Whitley, KCEOC, LKLP, Lexington (NHPR 05/06) Interest at 1%, annual payments of \$10,650 through June, 2015	90,154
Note receivable from Bell-Whitley, Daniel Boone, KCEOC, LKLP, Lexington (NHPR 06/07), Interest at 1%, annual payments of \$14,474 through August, 2016	39,420
Notes Receivable from Big Sandy, Blue Grass, Central, Harlan, KCEOC, Foothills, LKLP, Lake Cumberland, Louisville, Middle Ky., Northeast, Northern, Pennyrile, & West Ky. for Castinet Software System Interest at 0%, annual payments of \$34,532 through June, 2010	<u>144,005</u>
Less: Current Maturities	<u>\$ 466,427</u> <u>62,407</u>
Long-Term Notes Receivable	<u><u>\$ 404,020</u></u>

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2007

NOTE 13 – NOTES RECEIVABLE (Continued)

Aggregate annual principal requirements are as follows:

Year Ending June 30,	
2008	\$ 88,208
2009	87,490
2010	62,402
2011	60,160
2012	54,416
Thereafter	<u>113,751</u>
Total	<u>\$ 466,427</u>

NOTE 14 – PROPERTY AND EQUIPMENT

Individual components of the property and equipment heading are as follows:

	Cost	Accumulated Depreciation
Office Equipment	\$ 62,425	\$ 52,516
Building	757,945	75,984
Land	<u>105,287</u>	<u>-</u>
Total	<u>\$ 925,657</u>	<u>\$ 128,500</u>

NOTE 15 – ACCRUED LEAVE

It is the policy of the agency that annual leave time is accrued and payable on termination of employment and sick leave is not accrued since it is not paid upon termination of employment. As of June 30, 2007 the agency had unpaid annual leave of \$ 89,168.

SUPPLEMENTAL INFORMATION

	LIHEAP	RCAP Grant 06-07	RCAP Grant 05-06	Community Service Block Grant	Weatherization	UI Trust
REVENUES						
Grant Revenues	\$ 35,039,171	\$ 184,087	\$ 164,414	\$ 125,000	\$ 9,278,882	\$ 3,000
Rental Income	-	-	-	-	-	-
Interest Income – Client	-	-	-	-	-	-
Interest Income – Investment	-	-	-	-	-	-
Dues	-	-	-	-	-	-
Commission	-	-	-	-	-	-
Other Income	-	-	-	-	-	-
Unrecognized Gain/(Loss) on Investments	-	-	-	-	-	-
Total Revenues	35,039,171	184,087	164,414	125,000	9,278,882	3,000
EXPENSES						
Salaries	147,775	116,419	95,392	62,338	26,612	2,154
Fringe Benefits	47,973	36,543	32,725	20,164	8,703	705
Professional Services	3,563	2,240	469	1,199	378	20
Consultants	39,558	89	19	12,368	2,167	1
Education	1,615	83	127	1,194	164	1
Travel	5,221	14,508	10,004	4,528	1,834	22
Meeting Expense	3,494	1,530	321	4,287	3,812	13
Telephone	7,035	5,020	1,052	2,788	847	44
Postage	1,635	851	176	450	142	8
Rent	-	-	3,500	-	-	-
Supplies	5,420	3,479	3,452	2,150	559	29
Publications and Subscriptions	-	-	4,489	957	-	-
Dues/Fees	166	1	280	-	-	-
Insurance	17,006	6,684	1,375	3,512	63,755	58
Printing	2,751	141	29	3,730	259	1
Advertising	714	142	30	76	24	1
Utilities	1,329	1,151	241	616	194	10
Repairs & Maintenance	4,931	3,793	795	2,030	640	33
Depreciation	5,639	4,884	1,024	2,613	824	43
Marketing	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-
Other Expenditures	-	-	-	-	-	-
Payments to Subrecipients	34,743,346	-	-	-	9,167,968	-
Total Expenditures	35,039,171	197,558	155,500	125,000	9,278,882	3,143
Change in Net Assets	-	(13,471)	8,914	-	-	(143)
Unrestricted	-	-	8,914	-	-	(143)
Temporarily Restricted/Restricted	-	(13,471)	-	-	-	-
Total	\$ -	\$ (13,471)	\$ 8,914	\$ -	\$ -	\$ (143)

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
STATEMENT OF ACTIVITY
INDIVIDUAL GRANT PROGRAMS
For the Year Ended June 30, 2007

Housing Program	OCS 05-06	OCS 06-07	AEP 06-08	CCF 05-06	KU Energy 06-07	KU Energy 05-06	Treasury	Total
\$ 29,830	\$ 74,000	\$ 97,900	\$ -	\$ 96,809	\$ -	\$ -	\$ -	\$ 45,093,093
-	-	-	-	-	-	-	15,000	15,000
3,352	-	-	-	-	-	-	-	3,352
-	-	-	-	-	-	-	9,918	9,918
-	-	-	-	-	-	-	17,755	17,755
-	-	-	-	-	-	-	155,363	155,363
-	-	-	5,800	-	53,179	19,900	20,672	99,551
-	-	-	-	-	-	-	109,609	109,609
<u>33,182</u>	<u>74,000</u>	<u>97,900</u>	<u>5,800</u>	<u>96,809</u>	<u>53,179</u>	<u>19,900</u>	<u>328,317</u>	<u>45,503,641</u>
2,042	31,589	44,429	1,070	1,504	3,672	230	29,141	564,367
668	11,399	13,285	350	509	1,201	75	9,522	183,822
26	385	1,021	113	10	43	3	9,688	19,158
1	7,094	11,815	18,707	975	2	-	5,579	98,375
1	1,137	2,851	-	360	1	-	3,176	10,710
30	4,183	10,400	-	62	71	1	13,291	64,155
17	2,144	8,778	-	1,382	29	2	30,847	56,656
57	940	2,287	-	23	96	7	1,000	21,196
10	167	412	-	4	16	1	804	4,676
-	-	-	-	-	-	-	-	3,500
38	1,762	1,783	-	21,051	63	4	2,331	42,121
-	-	-	-	1	-	-	1,832	7,279
264	-	-	-	-	-	-	4,950	5,661
278	1,129	2,990	-	30	125	9	1,523	98,474
2	24	64	-	1,071	3	-	194	8,269
2	24	65	-	1	3	-	152	1,234
13	198	525	-	5	22	2	216	4,522
43	1,707	2,488	-	17	72	5	1,821	18,375
55	840	2,225	-	22	93	7	5,691	23,960
-	-	-	-	-	-	-	21,000	21,000
3,435	-	-	-	-	-	-	-	3,435
-	-	-	-	-	-	-	978	978
<u>29,830</u>	<u>-</u>	<u>-</u>	<u>5,475</u>	<u>69,782</u>	<u>60,913</u>	<u>10,091</u>	<u>-</u>	<u>44,087,405</u>
<u>36,812</u>	<u>64,722</u>	<u>105,418</u>	<u>25,715</u>	<u>96,809</u>	<u>66,425</u>	<u>10,437</u>	<u>143,736</u>	<u>45,349,328</u>
(3,630)	9,278	(7,518)	(19,915)	-	(13,246)	9,463	184,581	154,313
(3,630)	9,278	-	-	-	-	-	184,581	199,000
-	-	(7,518)	(19,915)	-	(13,246)	9,463	-	(44,687)
<u>\$ (3,630)</u>	<u>\$ 9,278</u>	<u>\$ (7,518)</u>	<u>\$ (19,915)</u>	<u>\$ -</u>	<u>\$ (13,246)</u>	<u>\$ 9,463</u>	<u>\$ 184,581</u>	<u>\$ 154,313</u>

The accompanying notes are an integral part of these financial statements.

LIHEAP
SUPPLEMENTAL SCHEDULES

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 LIHEAP GRANT
 CONTRACT #M-06107251
 STATEMENT OF PROGRAM EXPENSE
 For the Period July 1, 2006 Through June 30, 2007

Agency Subsidy benefits (KACA records)	\$ 10,786,972
Agency Crisis benefits (KACA records)	21,330,255
Agency Prior Year Adjustments (KACA records)	(31,052)
Agency Administration (KACA records)	<u>2,657,171</u>
 TOTAL PAYMENTS TO SUBRECIPIENTS	 \$ 34,743,346

KACA ADMINISTRATION:

Salaries	\$ 130,709
Fringe Benefits	42,392
Professional Services	2,367
Consultants	39,549
Education	1,206
Travel	4,116
Meeting Expense	3,344
Telephone	6,545
Postage	1,553
Supplies	5,097
Dues/Fees	166
Insurance	16,364
Printing	2,738
Advertising	700
Utilities	1,217
Repairs & Maintenance	4,560
Depreciation	<u>5,162</u>

Total KACA Administration 267,785

DSM Expenses 28,040

TOTAL EXPENDITURES 35,039,171

QUESTIONED COSTS (See Schedule) -

ALLOWABLE COST 35,039,171

AMOUNT RECEIVED FROM CHFS - HEAP (35,070,866)

(ACCOUNTS RECEIVABLE)/PAYABLE FROM FUNDING SOURCES 31,695

EXCESS RECEIPTS OVER EXPENDITURES \$ -

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 LIHEAP GRANT
 CONTRACT #M-06107251
 SCHEDULE OF BUDGET AND ACTUAL EXPENSES
 For the Period July 1, 2006 Through June 30, 2007

Cost Category	<u>Budget</u>	<u>Actual</u>	(Over) / Under <u>Budget</u>
Administrative Cost	\$ 3,212,247	\$ 2,924,956	\$ 287,291
Benefits Cost			
Subsidy	10,786,972	10,786,972	-
Crisis	<u>23,307,130</u>	<u>21,330,255</u>	<u>1,976,875</u>
Total Benefits Cost	<u>37,306,349</u>	<u>35,042,183</u>	<u>2,264,166</u>
Other Benefits			
Prior Year Adjustments	-	(31,052)	31,052
DSM	<u>30,000</u>	<u>28,040</u>	<u>1,960</u>
Total Other Payments	<u>30,000</u>	<u>(3,012)</u>	<u>33,012</u>
TOTAL CONTRACT	<u><u>\$ 37,336,349</u></u>	<u><u>\$ 35,039,171</u></u>	<u><u>\$ 2,297,178</u></u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 LIHEAP GRANT
 CONTRACT #M-06107251
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2006 Through June 30, 2007

	<u>ACTUAL</u>	<u>QUESTIONED COST</u>	<u>BALANCE</u>
Agency Subsidy Benefits (1)	10,786,972	-	10,786,972
Agency Crisis Benefits (1)	21,330,255	-	21,330,255
Agency Administration (1)	2,657,171	-	2,657,171
Agency Prior Year Adjustments (1)	(31,052)	-	(31,052)
KACA Administration (1)	267,785	-	267,785
DSM Expenditures (1)	28,040	-	28,040
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>35,039,171</u>	<u>-</u>	<u>35,039,171</u>

(1) Taken from KACA payment records

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
LIHEAP- COMPARISON OF KACA PAYMENTS TO PAYMENTS
PER AGENCY AUDITS FOR CONTRACT #M-06107251
SCHEDULE OF QUESTIONED COSTS
For the Period July 1, 2006 Through June 30, 2007

	Payments Per KACA Records Through 6/30/07	Allowable Costs Per Agency Audits	Questioned Cost	FY 05-06 Audit Over/(Under)	** FY 06-07 Audit Over/(Under)	Accounts Receivable From Agencies	Accounts Payable To Agencies
Audubon *	\$ 1,030,177		\$ -	\$ (304)	\$ -	\$ 304	\$ 1,383
Bell Whitley	1,215,185	1,215,185	-	-	-	-	-
Big Sandy *	3,519,119		-	-	-	-	-
Bluegrass	1,082,203	1,082,203	-	-	-	-	-
Central KY	1,612,752	1,639,712	-	-	-	-	26,960
Daniel Boone	2,276,617	2,291,659	-	-	-	-	15,042
Gateway	999,190	999,190	-	-	-	-	-
Harlan Co *	608,606		-	-	-	8,234	-
KCEOC *	671,483		-	(210)	-	-	24,086
KY River Foothills	1,100,688	1,097,414	-	(3,473)	(3,274)	-	-
LKLP *	2,542,649		-	(20,768)	-	-	-
Lake Cumberland	3,091,041	3,090,716	-	-	(325)	-	-
Lex-Fayette *	905,681		-	-	-	-	-
Licking Valley	557,325	557,325	-	-	-	-	-
Louisville *	3,068,115		-	(1,093)	-	44,113	-
Middle KY River	1,155,437	1,155,437	-	-	-	-	-
Multi-Purpose	321,276	321,276	-	-	-	-	-
Northeast KY *	2,596,033		-	-	-	-	-
Northern KY *	1,405,649		-	-	-	-	7,676
Pennyrite	1,643,861	1,643,861	-	-	-	-	-
Southern KY *	1,493,816		-	(5,204)	-	2,584	-
Tri-County	197,415	197,415	-	-	-	-	-
West KY Allied	1,657,267	1,660,168	-	-	-	-	2,901
SUBTOTALS	\$ 34,751,585	\$ 16,951,561	\$ -	\$ (31,052)	\$ (3,599)	\$ 55,235	\$ 78,048
Add Accounts Payable	78,048						
Deduct Accounts Receivable	(55,235)						
Subtotal	34,774,398						
05/06 Audit (Over)/Under KACA Admin KACA DSM	(31,052) 267,785 28,040						
TOTAL COSTS FY 07	\$ 35,039,171						
06-07 Audit Over/(Under) as of Audit Date	(3,599)						
REVISED TOTAL (Audit Date)	\$ 35,035,572						

*These subcontractee agencies have yet to issue KACA a final independent audit.
However, we have performed other procedures to verify the figures provided by KACA.

** FY 2007 Audit Over/(Under) is as of Audit Report Date

The accompanying notes are an integral part of these financial statements.

RCAP
SUPPLEMENTAL SCHEDULES

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACTS PY 05-06
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2006)
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2006 Through June 30, 2007

Technitrain	\$ 125,550
SDWA	31,300
HHS	133,951
RCDI	46,357
EPAW	18,450
SOLID WASTE	<u>95,000</u>
 CONTRACT AWARD	 <u><u>\$ 450,608</u></u>

EXPENDITURES

	<u>Actual</u> <u>6/30/06</u>	<u>Actual</u> <u>6/30/07</u>	<u>Total</u>
Salaries	\$ 179,001	\$ 95,392	\$ 274,393
Fringe Benefits	54,891	32,725	87,616
Professional Services	1,871	469	2,340
Consultants		19	19
Education	482	127	609
Travel	27,013	10,004	37,017
Meeting Expense	939	321	1,260
Telephone	4,906	1,052	5,958
Postage	961	176	1,137
Rent	750	3,500	4,250
Supplies	3,217	3,452	6,669
Publications and Subscriptions	401	4,489	4,890
Dues/Fees	361	280	641
Insurance	10,777	1,375	12,152
Printing	302	29	331
Advertising	-	30	30
Utilities	1,045	241	1,286
Repairs & Maintenance	3,704	795	4,499
Depreciation	<u>4,487</u>	<u>1,024</u>	<u>5,511</u>
 Total Expenditures	 <u>\$ 295,108</u>	 <u>\$ 155,500</u>	 <u>\$ 450,608</u>
 QUESTIONED COSTS	 <u>-</u>	 <u>-</u>	 <u>-</u>
 ADJUSTED COST	 295,108	 155,500	 450,608
 CONTRACT PAYMENTS RECEIVED	 <u>286,194</u>	 <u>164,414</u>	 <u>450,608</u>
 EXCESS AVAILABLE FOR TRANSFER TO TREASURY FUND	 <u><u>\$ (8,914)</u></u>	 <u><u>\$ 8,914</u></u>	 <u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACTS PY 05-06
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2006)
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2006 Through June 30, 2007

	<u>UNADJUSTED</u> <u>COST</u>	<u>QUESTIONED</u> <u>COST</u>	<u>ADJUSTED</u> <u>COST</u>
Salaries	\$ 95,392	\$ -	\$ 95,392
Fringe Benefits	32,725	-	32,725
Professional Services	469	-	469
Consultants	19	-	19
Education	127	-	127
Travel	10,004	-	10,004
Meeting Expense	321	-	321
Telephone	1,052	-	1,052
Postage	176	-	176
Rent	3,500	-	3,500
Supplies	3,452	-	3,452
Publications and Subscriptions	4,489	-	4,489
Dues/Fees	280	-	280
Insurance	1,375	-	1,375
Printing	29	-	29
Advertising	30	-	30
Utilities	241	-	241
Repairs & Maintenance	795	-	795
Depreciation	1,024	-	1,024
	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 155,500</u>	<u>\$ -</u>	<u>\$ 155,500</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACTS # PY 06-07
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2007)
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2006 Through June 30, 2007

RECEIPTS

Technitrain	\$ 77,950
SDWA	33,106
HHS	<u>73,031</u>

CONTRACT AWARD

\$ 184,087

EXPENDITURES

Salaries	\$ 116,419	
Fringe Benefits	36,543	
Professional Services	2,240	
Consultants	89	
Education	83	
Travel	14,508	
Meeting Expense	1,530	
Telephone	5,020	
Postage	851	
Supplies	3,479	
Dues/Fees	1	
Insurance	6,684	
Printing	141	
Advertising	142	
Utilities	1,151	
Repairs & Maintenance	3,793	
Depreciation	<u>4,884</u>	
 Total Expenditures		 \$ 197,558

QUESTIONED COSTS

-

ADJUSTED COST

197,558

CONTRACT PAYMENTS RECEIVED

85,564

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES

98,523

EXCESS RECEIPTS OVER EXPENDITURES *

\$ (13,471)

* These funds are temporarily restricted until the contract ends September 30, 2006.

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACTS # PY 06-07
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2007)
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2006 Through June 30, 2007

	<u>UNADJUSTED</u> <u>COST</u>	<u>QUESTIONED</u> <u>COST</u>	<u>ADJUSTED</u> <u>COST</u>
Salaries	\$ 116,419	\$ -	\$ 116,419
Fringe Benefits	36,543	-	36,543
Professional Services	2,240	-	2,240
Consultants	89	-	89
Education	83	-	83
Travel	14,508	-	14,508
Meeting Expense	1,530	-	1,530
Telephone	5,020	-	5,020
Postage	851	-	851
Supplies	3,479	-	3,479
Dues/Fees	1	-	1
Insurance	6,684	-	6,684
Printing	141	-	141
Advertising	142	-	142
Utilities	1,151	-	1,151
Repairs & Maintenance	3,793	-	3,793
Depreciation	4,884	-	4,884
	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 197,558</u>	<u>\$ -</u>	<u>\$ 197,558</u>

The accompanying notes are an integral part of these financial statements.

OTHER
SUPPLEMENTAL SCHEDULES

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 CSBG GRANT
 CONTRACT # M-06107251
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2006 Through June 30, 2007

EXPENDITURES

Salaries	\$ 62,338
Fringe Benefits	20,164
Professional Services	1,199
Consultants	12,368
Education	1,194
Travel	4,528
Meeting Expense	4,287
Telephone	2,788
Postage	450
Supplies	2,150
Publications and Subscriptions	957
Insurance	3,512
Printing	3,730
Advertising	76
Utilities	616
Repairs & Maintenance	2,030
Depreciation	<u>2,613</u>

Total Expenditures 125,000

QUESTIONED COSTS -

ADJUSTED COST 125,000

CONTRACT PAYMENTS RECEIVED 112,161

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES 12,839

EXCESS RECEIPTS OVER EXPENDITURES \$ -

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 UNEMPLOYMENT INSURANCE TRUST PROGRAM
 STATEMENT OF RECEIPTS AND EXPENDITURES
 For the Period July 1, 2006 Through June 30, 2007

RECEIPTS

Contract Payments Received	\$ 2,250
Accounts Receivable from Funding Sources	<u>750</u>
 Total Receipts	 \$ 3,000

EXPENDITURES

Salaries	\$ 2,154
Fringe Benefits	705
Professional Services	20
Consultants	1
Education	1
Travel	22
Meeting Expense	13
Telephone	44
Postage	8
Supplies	29
Insurance	58
Printing	1
Advertising	1
Utilities	10
Repairs & Maintenance	33
Depreciation	<u>43</u>
 Total Expenditures	 <u>\$ 3,143</u>

EXCESS RECEIPTS OVER EXPENDITURES	<u><u>\$ (143)</u></u>
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The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 KENTUCKY HOUSING CORPORATION
 REVOLVING LOAN PROGRAM
 STATEMENT OF RECEIPTS AND EXPENDITURES
 For the Period July 1, 2006 Through June 30, 2007

RECEIPTS

Grant Revenue - KHC (NHPR)	\$ 29,830
Client Interest Income	<u>3,352</u>
 Total Receipts	 33,182

EXPENDITURES

Salaries	2,042
Fringe Benefits	668
Professional Services	26
Consultants	1
Education	1
Travel	30
Meeting Expense	17
Telephone	57
Postage	10
Supplies	38
Dues/Fees	264
Insurance	278
Printing	2
Advertising	2
Utilities	13
Repairs & Maintenance	43
Depreciation	55
Interest Expense	3,435
Payments to Subrecipients	<u>29,830</u>
 Total Expenditures	 <u>36,812</u>

EXCESS RECEIPTS OVER EXPENDITURES \$ (3,630)

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
OCS
CONTRACT #90ET0306/01, 90EQ0090/02
(FOR CONTRACTS ENDING SEPTEMBER 29, 2006)
For the Period July 1, 2006 Through June 30, 2007

RECEIPTS

Promoting Healthy Marriage	\$ 50,000
SAI- CSBG	<u>100,000</u>

CONTRACT AWARD	<u>\$ 150,000</u>
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	<u>ACTUAL</u> <u>6/30/06</u>	<u>ACTUAL</u> <u>6/30/07</u>	<u>TOTAL</u>
EXPENDITURES			
Salaries	\$ 39,342	\$ 31,589	\$ 70,931
Fringe Benefits	11,636	11,399	23,035
Professional Services	667	385	1,052
Consultants	13,733	7,094	20,827
Education	859	1,137	1,996
Travel	5,515	4,183	9,698
Meeting Expense	1,575	2,144	3,719
Telephone	1,698	940	2,638
Postage	355	167	522
Supplies	1,194	1,762	2,956
Publications and Subscriptions	5	-	5
Dues/Fees	4	-	4
Insurance	3,797	1,129	4,926
Printing	1,607	24	1,631
Advertising	-	24	24
Utilities	372	198	570
Repairs & Maintenance	1,320	1,707	3,027
Depreciation	<u>1,599</u>	<u>840</u>	<u>2,439</u>
 Total Expenditures	 85,278	 64,722	 150,000
 QUESTIONED COSTS	 <u>-</u>	 <u>-</u>	 <u>-</u>
 ADJUSTED COST	 85,278	 64,722	 150,000
 CONTRACT PAYMENTS RECEIVED	 <u>(76,000)</u>	 <u>(74,000)</u>	 <u>(150,000)</u>
 EXCESS AVAILABLE FOR TRANSFER TO TREASURY FUND	 <u>\$ (9,278)</u>	 <u>\$ 9,278</u>	 <u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.

OCS

CONTRACTS # 90ET0336/01, 90EQ0090/02
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2007)
 For the Period July 1, 2006 Through June 30, 2007

RECEIPTS

Promoting Healthy Marriage	\$ 57,200
SAI- CSBG	<u>40,700</u>

CONTRACT AWARD

\$ 97,900

EXPENDITURES

Salaries	\$ 44,429
Fringe Benefits	13,285
Professional Services	1,021
Consultants	11,815
Education	2,851
Travel	10,400
Meeting Expense	8,778
Telephone	2,287
Postage	412
Supplies	1,783
Insurance	2,990
Printing	64
Advertising	65
Utilities	525
Repairs & Maintenance	2,488
Depreciation	<u>2,225</u>

Total Expenditures	105,418
--------------------	---------

QUESTIONED COSTS

-

ADJUSTED COST

105,418

CONTRACT PAYMENTS RECEIVED

(97,900)

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES

-

EXCESS RECEIPTS OVER EXPENDITURES *

\$ (7,518)

* These funds are temporarily restricted until the contract ends September 30, 2007.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 COMPASSION CAPITOL FUND
 STATEMENT OF PROGRAM EXPENSES
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2006)
 For the Period July 1, 2006 Through June 30, 2007

RECEIPTS

Compassion Capitol Agencies		\$ 59,612
		<u>417,286</u>

CONTRACT AWARD

\$ 476,898

	<u>ACTUAL</u> <u>6/30/06</u>	<u>ACTUAL</u> <u>6/30/07</u>	<u>TOTAL</u>
PAYMENTS to SUBRECIPIENTS			
Big Sandy CAP	\$ 78,563	\$ 16,101	\$ 94,664
Daniel Boone Development Council	70,599	22,635	93,234
Gateway CAA	121,343	14,096	135,439
LKLP CAA	<u>76,999</u>	<u>16,950</u>	<u>93,949</u>
 Total Payments to Subrecipients	 347,504	 69,782	 417,286

EXPENDITURES

Salaries	\$ 18,943	\$ 1,504	\$ 20,447
Fringe Benefits	5,685	509	6,194
Professional Services	354	10	364
Consultants	22	975	997
Education	371	360	731
Travel	1,835	62	1,897
Meeting Expense	187	1,382	1,569
Telephone	862	23	885
Postage	171	4	175
Supplies	446	21,051	21,497
Publications and Subscriptions	2	1	3
Dues/Fees	2	-	2
Insurance	2,260	30	2,290
Printing	34	1,071	1,105
Advertising	-	1	1
Utilities	198	5	203
Repairs & Maintenance	701	17	718
Depreciation	<u>850</u>	<u>22</u>	<u>872</u>

Total KACA Administration	<u>32,923</u>	<u>27,027</u>	<u>59,950</u>
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Total Expenditures	380,427	96,809	477,236
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QUESTIONED COSTS

	<u>-</u>	<u>-</u>	<u>-</u>
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ADJUSTED COST

	380,427	96,809	477,236
--	---------	--------	---------

CONTRACT PAYMENTS RECEIVED

	<u>(380,427)</u>	<u>(96,809)</u>	<u>(477,236)</u>
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EXCESS AVAILABLE FOR TRANSFER TO TREASURY FUND

	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
--	-------------	-------------	-------------

The accompanying notes are an integral part of these financial statements.

**Community Action Council for Lexington-
Fayette, Bourbon, Harrison, and Nicholas
Counties, Inc. and Related Entities**

Lexington, Kentucky

Combined Financial Statements and
Additional Information
Year Ended June 30, 2007

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Combined Financial Statements and Additional Information
Year Ended June 30, 2007

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Independent Auditor's Report

Board of Directors
Community Action Council for Lexington-Fayette, Bourbon,
Harrison, and Nicholas Counties, Inc.
Lexington, Kentucky

We have audited the accompanying combined statement of financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities as of June 30, 2007, and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These combined financial statements are the responsibility of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities as of June 30, 2007, and the combined statements of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic combined financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities taken as a whole. The accompanying schedule of expenditures of federal awards, Schedule A-1 to A-2, which includes the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Schedules B and C are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

November 30, 2007
Madison, Wisconsin

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Combined Statement of Financial Position
June 30, 2007

<i>Assets</i>	
Current assets:	
Cash	\$ 395,604
Restricted deposits	22,127
Investments	2,168,459
Grants receivable	928,762
Accounts receivable	74,732
Other assets	50,044
Total current assets	3,639,728
Long-term assets:	
Beneficial interest in assets held by others	89,360
Notes receivable	63,301
Total long-term assets	152,661
Property and equipment, net	6,378,674
TOTAL ASSETS	\$ 10,171,063
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 468,705
Current portion of capital leases payable	62,216
Accounts payable	233,798
Accrued payroll and related expenses	614,952
Total current liabilities	1,379,671
Long-term liabilities:	
Notes payable	4,053,656
Capital leases payable	391,345
Tenant security deposits	3,018
Refundable advance HUD grant	1,061,800
Total long-term liabilities	5,509,819
Total liabilities	6,889,490
Net assets:	
Unrestricted	824,473
Temporarily restricted	2,457,100
Total net assets	3,281,573
TOTAL LIABILITIES AND NET ASSETS	\$ 10,171,063

See accompanying notes to the combined financial statements.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Combined Statement of Functional Expenses

Year Ended June 30, 2007

	<u>Child Education</u>	<u>Transportation</u>	<u>Community Services</u>	<u>Weatherization Services</u>	<u>Senior Programs</u>	<u>Total Program Activities</u>	<u>Management and General Expenses</u>	<u>Total Expenses</u>
EXPENSES								
Salaries	\$ 5,044,440	\$ 229,827	\$ 654,121	\$ 170,539	\$ 99,560	\$ 6,198,487	\$ 844,734	\$ 7,043,221
Fringe benefits	1,658,840	104,293	259,333	56,750	19,438	2,098,654	218,999	2,317,653
Consultant/contractual	1,829,820	73,933	693,064	13,880	0	2,610,697	132,223	2,742,920
Space	875,346	13,154	105,053	13,000	66,016	1,072,569	239,294	1,311,863
Supplies	497,452	2,173	74,947	5,917	14,339	594,828	25,152	619,980
Travel	36,567	147,395	6,928	7,323	10,380	208,593	16,391	224,984
Communications and IT	230,216	18,584	101,821	12,209	13,103	375,933	105,132	481,065
Beneficiary assistance	55,567	0	443,253	1,640,316	4,244	2,143,380	0	2,143,380
Other	145,436	1,810	270,802	(2,856)	176,113	591,305	95,708	687,013
In-kind expenses	2,669,297	2,766	141,984	0	28,148	2,842,195	0	2,842,195
TOTAL EXPENSES	<u>\$ 13,042,981</u>	<u>\$ 593,935</u>	<u>\$ 2,751,306</u>	<u>\$ 1,917,078</u>	<u>\$ 431,341</u>	<u>\$ 18,736,641</u>	<u>\$ 1,677,633</u>	<u>\$ 20,414,274</u>

See accompanying notes to the combined financial statements.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Combined Statement of Cash Flows

Year Ended June 30, 2007

Increase (decrease) in cash:

Cash flows from operating activities:

Change in net assets	\$	238,071
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Adjustments to reconcile change in net assets to net cash provided by operating activities:

Depreciation		404,210
Loss on disposal of equipment		343,251
Net realized and unrealized gain on investments	(153,233)
Changes in operating assets and liabilities:		
Restricted deposits		5,773
Grants receivable	(341,765)
Accounts receivable		75,675
Other assets		39,622
Accounts payable		236
Accrued payroll and related expenses		21,955
Tenant security deposits		521

Net cash provided by operating activities		634,316
-------------------------------------------	--	---------

Cash flows from investing activities:

Issuance on notes receivable	(22,718)
Purchase of investments	(95,401)
Repayments on notes receivable		4,111
Purchase of property and equipment	(91,638)

Net cash used in investing activities	(205,646)
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Cash flows from financing activities:

Proceeds from borrowing		16,937
Payments on line of credit	(215,000)
Payments on capital leases	(59,615)
Payments on notes payable	(451,053)

Net cash used in financing activities	(708,731)
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Change in cash	(280,061)
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Cash - June 30, 2006		675,665
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Cash - June 30, 2007	\$	395,604
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Supplemental schedule of operating activities:

Interest expensed	\$	238,043
Interest paid		275,233

See accompanying notes to combined financial statements.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Investments

Investments are recorded at fair value as determined in an active market. Realized and unrealized gains and losses are recognized as investment income in the combined statement of activities.

Accounts Receivable

Accounts receivable consist primarily of amounts due from other organizations for the Wintercare program. Receivables are reviewed for collectibility by management and an allowance for doubtful accounts is recorded as needed based on collection history and customer attributes. Management considers these receivables to be collectible and, therefore, no allowance for uncollectible amounts has been recorded. If an amount becomes delinquent after all collection efforts have failed, the account is written off.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are capitalized at cost and depreciated over their estimated useful life using the straight-line method. Leasehold improvements are depreciated over the lesser of the lease term or the economic useful life of the improvement using the straight-line method. The Organizations consider property and equipment to be items with a cost of \$5,000 or more and a useful life of over one year.

Property and equipment purchased with grant funds are owned by the Organizations while used in the program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. Property and equipment purchased with grant funds net of depreciation was \$251,861 at June 30, 2007.

Capital Leases

CAC is the lessee of assets under capital leases. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lease term. Amortization of assets under capital leases is included in depreciation expense.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organizations are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organizations are also exempt from Kentucky state income tax.

In-Kind Contributions

CAC has recorded in-kind contributions for space, supplies, and professional services in the combined statement of activities in accordance with Financial Accounting Standard No. 116 (FAS 116), *Accounting for Contributions Received and Contributions Made*. FAS 116 requires that only contributions of service received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of FAS 116 are different than the in-kind requirements of several of CAC's grant awards. CAC also received in-kind contributions for nonprofessional volunteers, parent transportation, food, and clothing during the year with a value of \$567,392 primarily for its Head Start and CSBG programs, which are not recorded in the combined statement of activities.

Derivative Instrument

CAC holds a derivative financial instrument to manage risk related to interest rate movements. The interest rate swap contract designated and qualifying as a cash flow hedge is reported at fair value. The gain or loss on the effective portion of the hedge initially is included in the combined statement of activities. CAC documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. CAC's interest rate risk management strategy is to stabilize cash flow requirements by maintaining an interest rate swap contract to convert variable rate debt to a fixed rate.

Cost Allocation

Joint costs are allocated to benefiting programs using an indirect cost rate. Joint costs are those costs incurred for the common benefit of all the Organizations' programs that cannot be readily identified with a final cost objective. The indirect cost allocation plan has been approved by the U.S. Department of Health and Human Services (DHHS).

Note 2 Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2007, as follows:

Direct federal programs	\$	347,032
State and local programs		581,730
<u>Total</u>	<u>\$</u>	<u>928,762</u>

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 3 Restricted Deposits

Under the terms of the Regulatory Agreement that the Project has with HUD, the Project is required to set aside specified amounts for the replacement of property and other project expenditures as approved by HUD. Restricted funds at June 30, 2007, are comprised of the following:

Escrow fund	\$	4,635
Reserve for replacement		14,474
Tenant security deposit		3,018
<hr/>		
Total	\$	22,127

Note 4 Investments

CAC has a health insurance trust for self-funded health insurance costs of CAC. As noted below, the trusts hold a variety of investments in order to limit their market risk. The investments are carried at fair value.

CAC also participates in an investment pool with seven other nonprofits to self-fund unemployment insurance claims. The fair value of the investment pool at June 30, 2007, was \$4,964,304. The allocation of the investments in the pool at June 30, 2007, was 50.1% equities, 48.9% fixed income, and 1.0% money market. CAC's portion of the fair value of the pooled investments was approximately 23.8% at June 30, 2007.

As of June 30, 2007, investments consist of the following:

Health insurance trust:		
Equities	\$	197,760
Fixed income		646,794
Money market		141,344
CAC share of unemployment investment pool		1,182,561
<hr/>		
Total	\$	2,168,459

Included in investment income for the year ended June 30, 2007, was interest and dividends of \$81,691 and a net realized and unrealized gain of \$153,233 earned on the above investments.

Note 5 Beneficial Interest in Assets Held by Others

CAC has adopted Statement of Financial Accounting Standards No. 136, *Transfer of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (SFAS No. 136). Accordingly, CAC has recorded the fair market value of two funds held at the Blue Grass Community Foundation as an asset on the combined statement of financial position.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 5 Beneficial Interest in Assets Held by Others (Continued)

The balance at June 30, 2007, consists of the following:

Community Action Council RSVP	\$ 18,718
Community Action Council	70,642
<u>Total</u>	<u>\$ 89,360</u>

Note 6 Property and Equipment

A summary of property and equipment is as follows:

Land	\$ 599,250
Land improvements	160,443
Building and improvements	6,539,020
Leasehold improvements	415,260
Equipment	1,739,694
	<u>9,453,667</u>
Accumulated depreciation	<u>(3,074,993)</u>
<u>Total</u>	<u>\$ 6,378,674</u>

Note 7 Refundable Advance

On September 30, 1992, the Project entered into a capital advance agreement under Section 202 of the Housing Act of 1959 to construct a 20-unit apartment facility for the elderly and handicapped. Pursuant to that agreement, HUD advanced \$1,061,800 secured by a note and mortgage on the Project 20-unit apartment facility located in Carlisle, Kentucky. The note and mortgage bear no interest and repayment is not required so long as the housing remains available for very low-income elderly persons or very low-income persons with disabilities. The note and mortgage have a final maturity of February 1, 2034. Therefore, the Project has recorded the \$1,061,800 as a refundable advance until the maturity date of the note and mortgage.

Note 8 Line of Credit

CAC has an available line of credit in the amount of \$400,000 at the National City Bank. The line of credit matures on February 28, 2008, with a variable interest rate; the rate is 8.25% at June 30, 2007. The line of credit is unsecured. There were no draws on the line of credit at June 30, 2007.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 9	Notes Payable	
	Note payable at 7.76% interest with monthly payments of \$4,213, due November 2009. The note is secured by real estate.	\$ 110,894
	Loan obligation for housing remodeling for qualified individuals, payable in annual payments of \$645, with variable interest payments monthly, through January 2015.	82,863
	Revenue bonds payable, series 2000B with interest at 6.71%. Monthly payments of \$13,766 until December 2015, secured by real estate.	1,063,673
	Note payable at a variable interest rate, rate at June 30, 2006, is 8.25%, with monthly principal payments of \$3,357 plus interest, due February 2009. The note is unsecured.	121,064
	Revenue bonds payable, series 2000A, annual principal and semi annual interest payments until December 2016, interest at 7% to 7.6%, secured by real estate.	180,000
	Revenue bond payable fixed at 3.74% through an interest rate swap agreement with quarterly payments, due November 2023. The bond is secured by real estate and various equipment.	2,540,000
	Note payable at 6.35% interest with monthly payments of \$5,663, due June 2010. The note is unsecured.	423,867
	Total notes payable	4,522,361
	Current portion	(468,705)
	<u>Long-term notes payable</u>	<u>\$ 4,053,656</u>
	The future maturities of notes payable at June 30, 2007, are as follows:	
	<u>Year</u>	<u>Amount</u>
	2008	\$ 468,705
	2009	492,985
	2010	598,155
	2011	896,886
	2012	145,682
	<u>Thereafter</u>	<u>1,919,948</u>
	<u>Total long-term notes payable</u>	<u>\$ 4,522,361</u>

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 10 Capital Leases Payable

CAC entered into a lease that qualifies as a capital lease in May 1996. The cost of the property is \$542,500. The accumulated depreciation on this property at June 30, 2007, is \$144,305. The leasing arrangement expires April 2011.

CAC entered into a lease that qualifies as a capital lease in December 1996. The cost of the property is \$243,779. The accumulated depreciation on this property at June, 30, 2007, is \$85,999. The leasing arrangement expires December 2026.

CAC renovated a facility in December of 2002 at a cost of \$127,396. CAC is a sublessee of this property and the sublease stipulates that the property will transfer at the end of the lease. Accumulated depreciation at June 30, 2007, on this property is \$57,329. The leasing arrangement expires January 2013.

The minimum future lease payments required under the capital leases as of June 30, 2007, and for each of the next five years and in the aggregate are as follows:

2008	\$ 80,336
2009	79,909
2010	80,327
2011	80,123
2012	28,570
Thereafter	221,686
<hr/>	
Total minimum lease payments	570,951
Amount representing interest	(117,390)
<hr/>	
Present value of minimum lease payments	453,561
Current maturity of capital lease	(62,216)
<hr/>	
Long-term capital lease	\$ 391,345

Note 11 Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2007, consist of the following:

Self-funded health insurance trust	\$ 914,435
Unemployment insurance trust	1,182,561
Knight Foundation	144,292
Beneficial interest in assets held by others	89,360
Other	126,452
<hr/>	
Total temporarily restricted net assets	\$ 2,457,100

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 11 Temporarily Restricted Net Assets (Continued)

These net assets are either restricted by time or purpose. When the restriction is met, the net assets are released from restriction.

Note 12 Operating Leases

CAC leases various facilities and equipment for the operation of its programs under operating leases. Rent expense for the year ended June 30, 2007, was \$134,763. Future minimum lease payments beyond 2007 are as follows:

2008	\$ 143,916
2009	109,461
2010	91,014
2011	90,411
2012	46,892
<u>Total</u>	<u>\$ 481,694</u>

Note 13 Derivative Instrument

CAC maintains an interest rate swap agreement with a financial institution. Under the terms of this arrangement, the parties, in effect, pay each other's interest cost on the underlying debt. The arrangement has the effect of controlling CAC's interest rate risk in a rising interest rate environment.

At June 30, 2007, the interest rate swap had a notional amount of \$2,540,000 with interest fixed at 3.74% and expires November 2023.

The interest rate swap was issued at market terms and, therefore, had no fair value at inception. The notional amount changes with quarterly payments. The carrying amounts of the interest rate swap has been adjusted to fair value as of June 30, 2007, which, because of changes in forecasted levels of London InterBank Offered Rate (LIBOR), resulted in reporting an asset for the fair value of the future net payments forecasted under the interest rate swap of \$42,320. This amount is included in other assets on the combined statement of financial position. Adjustments to the carrying amount of the interest rate swap are reported in other expense.

Note 14 Concentration of Credit Risk

CAC maintains cash balances at various financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At one of the banks, the balance in excess of FDIC is swept by the bank into a repurchase agreement, invested in a U.S. Government security. The government security has a par value of \$427,328 and matures November 1, 2011. At June 30, 2007, there were no balances in excess of FDIC insurance that were not collateralized by the U.S. Government security.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 15 Retirement

CAC offers its employees a defined contribution retirement plan. The plan is open to all employees who have been employed by CAC for one year. CAC contributes 8% of gross wages to the plan for qualified employees. CAC's contribution vests over a period of five years. CAC's contributions to the plan for the year ended June 30, 2007, were \$415,953.

Note 16 Grant Awards

At June 30, 2007, CAC had commitments under various ongoing grant awards of approximately \$2,400,000. The revenue relating to these grants is not recognized in the accompanying combined financial statements as the revenue recognition is conditional on the incurrence of expenditures or the performance of services in the next fiscal year.

Note 17 Contingencies

CAC is a defendant in several lawsuits filed by former employees arising from employment and dismissal. CAC believes the suits are without merit and intends to vigorously defend its position. As such, no accrual has been made in these combined financial statements.

CAC is a defendant in a lawsuit filed by a former employee for alleged discrimination. The suit asks for \$2,000,000. The case is set for trial; however, the trial court sustained CAC's pre-trial motion for a favorable summary judgment and the case was dismissed. The plaintiff has appealed the dismissal. Outside counsel for CAC has advised that at this stage of the proceeding he cannot offer an opinion as to the probable outcome. CAC believes the suit is without merit and intends to vigorously defend its position. As such, no accrual has been made in these combined financial statements.

Additional Information

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Schedule A-1

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through the Kentucky Department of Education			
Child and Adult Care Food Program	10 558	034-D30-999	\$ 338,403
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through the Kentucky Association of Community Action Agencies			
Nonprofit Housing & Production Repair Program	14 157	N/A	8,415
Passed-Through the Lexington-Fayette Urban County Housing Authority			
Section 8 Housing Assistance Payments	14 195	N/A	35,658
Passed-Through the Lexington-Fayette Urban County Housing Authority			
CDBG/WX	14 218	R-424-2003	28,248
CDBG/Young Builders Challenge		B30MC-21-0004	34,504
	Total CFDA #14.218		62,752
Passed-Through the Kentucky Housing Corporation			
Project Independence	14 235	KY36B50-2007	59,848
Continuum of Care/Bourbon County		KY36B50-0012	167,236
	Total CFDA #14.235		227,084
Passed-Through the Kentucky Housing Corporation			
HOME Program	14 239	HR05-0128-01	248,187
TBRA LFUCG		N/A	18,573
TBRA		TB04-0128-01	34,985
	Total CFDA #14.239		301,745
U.S. DEPARTMENT OF TRANSPORTATION			
Passed-Through the Kentucky Transportation Cabinet			
Section 5311 Public Transportation	20 511	MASS-KY-1823720	31,932
U.S. DEPARTMENT OF ENERGY			
Passed-Through the Kentucky Association of Community Action Agencies			
DOE-Weatherization Assistance	81 042	M-06107251	190,489
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through the Kentucky Association of Community Action Agencies			
Low-Income Home Energy Assistance Program	93 568	M-06107251	905,680
Low-Income Home Energy Assistance Program-WX		M-06107251	197,769
	Total CFDA #93 568		1,103,449
Passed-Through the Kentucky Cabinet for Health and Family Services			
Community Services Block Grant	93 569	M-06066945	567,416

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Schedule A-2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Direct Funding			
Early Learning Opportunities	93 577	90L00165/01	633,827
Head Start	93 600	04CH2750/37	621,758
Head Start		04CH2750/38	5,849,508
Early Head Start		04CH2750/08	287,761
Early Head Start		04CH2750/09	2,148,864
Migrant Head Start		90CM9789/04	291,888
Migrant Head Start		90CM9789/05	1,597,206
Passed-Through the University of Kentucky			
Head Start (Project Link)		N/A	12,520
	Total CFDA #93.600		10,809,505
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
Direct Funding			
Retired Senior Volunteer Program	94 002	05SFKY001	68,922
Retired Senior Volunteer Program		05SFKY001	54,103
	Total CFDA #94.002		123,025
Foster Grandparents Program	94 011	05SFSKY001	74,298
Foster Grandparents Program		05SFSKY001	77,127
	Total CFDA #94.011		151,425
DEPARTMENT OF HOMELAND SECURITY			
Direct Funding			
Emergency Food & Shelter Program/Nicholas County	97 024	25-3502	12,047
Emergency Food & Shelter Program/Harrison County		24-3414	4,628
Emergency Food & Shelter Program/Harrison County		25-3414	5,710
	Total CFDA #97.024		22,385
TOTAL FEDERAL EXPENDITURES			\$ 14,607,510

Note to Schedule of Expenditures of Federal Awards

This schedule includes the federal grant activity of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Schedule B
Combining Statement of Financial Position
June 30, 2007

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Combined Balance
Current assets:					
Cash	\$ 353,262	\$ 1,299	\$ 41,043	\$ 0	\$ 395,604
Restricted deposits	0	22,127	0	0	22,127
Investments	2,168,459	0	0	0	2,168,459
Grants receivable	928,762	0	0	0	928,762
Accounts receivable	37,079	0	59,562	(21,909)	74,732
Other assets	50,044	0	0	0	50,044
Total current assets	3,537,606	23,426	100,605	(21,909)	3,639,728
Long-term assets:					
Beneficial interest in assets held by others	89,360	0	0	0	89,360
Notes receivable	63,301	0	0	0	63,301
Total long-term assets	152,661	0	0	0	152,661
Property and equipment, net	5,744,799	633,875	0	0	6,378,674
TOTAL ASSETS	\$ 9,435,066	\$ 657,301	\$ 100,605	(\$ 21,909)	\$ 10,171,063
Current liabilities:					
Current portion of notes payable	\$ 468,705	\$ 0	\$ 0	\$ 0	\$ 468,705
Current portion of capital leases payable	62,216	0	0	0	62,216
Accounts payable	228,976	6,631	20,100	(21,909)	233,798
Accrued payroll and related expenses	614,952	0	0	0	614,952
Total current liabilities	1,374,849	6,631	20,100	(21,909)	1,379,671
Long-term liabilities:					
Notes payable	4,053,656	0	0	0	4,053,656
Capital leases payable	391,345	0	0	0	391,345
Tenant security deposits	0	3,018	0	0	3,018
Refundable advance HUD grant	0	1,061,800	0	0	1,061,800
Total long-term liabilities	4,445,001	1,064,818	0	0	5,509,819
Total liabilities	5,819,850	1,071,449	20,100	(21,909)	6,889,490
Net assets:					
Unrestricted (deficit)	1,158,116	(414,148)	80,505	0	824,473
Temporarily restricted	2,457,100	0	0	0	2,457,100
Total net assets (deficit)	3,615,216	(414,148)	80,505	0	3,281,573
TOTAL LIABILITIES AND NET ASSETS	\$ 9,435,066	\$ 657,301	\$ 100,605	(\$ 21,909)	\$ 10,171,063

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Schedule C
Combining Statement of Activities
Year Ended June 30, 2007

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Combined Balance
Revenue:					
Grant revenue	\$ 16,131,092	\$ 0	\$ 0	\$ 0	\$ 16,131,092
Investment income	256,547	128	489	0	257,164
Other income	1,166,021	77,860	381,144	(203,131)	1,421,894
In-kind contributions	2,842,195	0	0	0	2,842,195
Total revenue	20,395,855	77,988	381,633	(203,131)	20,652,345
Expenses:					
Salaries	7,043,221	0	0	0	7,043,221
Fringe benefits	2,317,653	0	0	0	2,317,653
Consultants/contractual	2,742,920	0	0	0	2,742,920
Space	1,267,721	44,142	0	0	1,311,863
Supplies	619,980	0	0	0	619,980
Travel	224,984	0	0	0	224,984
Communications and IT	481,065	0	0	0	481,065
Beneficiary assistance	1,815,026	0	500,086	(171,732)	2,143,380
Other	643,915	67,563	6,934	(31,399)	687,013
In-kind expenses	2,842,195	0	0	0	2,842,195
Total expenses	19,998,680	111,705	507,020	(203,131)	20,414,274
Change in net assets	397,175	(33,717)	(125,387)	0	238,071
Net assets (deficit) - June 30, 2006	3,218,041	(380,431)	205,892	0	3,043,502
Net assets (deficit) - June 30, 2007	\$ 3,615,216	(\$ 414,148)	\$ 80,505	\$ 0	\$ 3,281,573



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Community Action Council for Lexington-Fayette, Bourbon,
Harrison, and Nicholas Counties, Inc.
Lexington, Kentucky

We have audited the financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli WP

Wipfli LLP

November 30, 2007
Madison, Wisconsin



Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Community Action Council for Lexington-Fayette, Bourbon,
Harrison, and Nicholas Counties, Inc.
Lexington, Kentucky

Compliance

We have audited the compliance of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s management. Our responsibility is to express an opinion on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with those requirements.

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance.

A control deficiency in an organization's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

Wipfli LLP

November 30, 2007
Madison, Wisconsin

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC).
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of CAC were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for CAC expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for CAC.
7. The programs tested as major programs were the Department of Health and Human Services, CFDA #93.577 and #93.600.
8. The threshold for distinguishing Types A and B programs was \$438,225.
9. CAC was determined to not be a low-risk auditee.

B. Findings – Financial Statements Audit

There were no findings.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Findings: None

Questioned Costs: None