

C

VIA OVERNIGHT UPS

Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

October 25, 2006

Re: Home Energy Assistance Annual Audit Reports – Louisville Gas and Electric Company and Kentucky Utilities Company

Dear Ms. O'Donnell:

Pursuant to the Commission's Orders of November 24, 2004 in Case Nos. 2004-00303 and 2004-00304, I am enclosing the annual audit reports for the Home Energy Assistance programs of Louisville Gas and Electric Company and Kentucky Utilities Company, as well as letters from some of the agencies who deal directly with HEA participants.

We apologize for the delay in filing the independent auditors' reports and the additional information set forth in the Commission's Orders. However, we will be expanding our interviews to include each person who works in the 14-county overlap area, as well as people who deal directly with potential HEA participants in KU's program, and will file the summaries of those interviews when they are complete. We are also working with RLW Analytics, Inc. to develop a comprehensive assessment of the two Home Energy Assistance programs that will be filed next year.

Should you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,

Allyson K. Sturgeon

AKS/kmw

Enclosures

- C: Jack Burch
Kip Bowmar
Lisa Kilkelly
Dennis Howard

RECEIVED

OCT 26 2006

**PUBLIC SERVICE
COMMISSION**

**Louisville Gas and Electric
Company**

Corporate Law Department
220 W. Main Street
P.O. Box 32030
Louisville, Ky 40232
www.eon-us.com

Allyson K. Sturgeon
Corporate Attorney
T 502-627-2088
F 502-627-3367
Allyson.sturgeon@eon-us.com



Tri-County Community Action Agency, Inc.

Administration Offices
1015 Dispatcher's Way
LaGrange, KY 40031

Phone (502) 222-1349 • FAX (502) 222-0968
info@tricountycaaky.org

October 18, 2006

Paula Ratliff
Affordable Energy Corporation
10617 Taylorsville Road
Louisville, KY 40299

RE: Letter of Support

To Whom It May Concern:

Tri-County Community Action Agency (TCCAA) is writing in support of Affordable Energy's utility assistance program. TCCAA considers Affordable Energy to be a community partner in addressing the needs of low-income families and the provision of utility assistance. In the past TCCAA and Affordable Energy have worked closely together in providing these services in the rural counties served by TCCAA.

We encourage continuation of the utility assistance program services provided by Affordable Energy as they enhance the quality of life for those families in need of financial assistance.

Sincerely,

Rusty Newton
Rusty Newton
Executive Director



**Multi-Purpose Community Action Agency, Inc.**

213 Washington Street • P.O. Box 305

Shelbyville, KY 40066-0305

Phone (502) 633-7162 • Fax (502) 633-7254

www.mpcaa.org

October 18, 2006

Paula Ratliff
Affordable Energy Corporation
10617 Taylorsville Road
Louisville, KY 40299

RE: Letter of Support

To Whom It May Concern:

Multi-Purpose Community Action Agency (MPCAA) is writing in support of Affordable Energy's utility assistance program. MPCAA considers Affordable Energy to be a community partner in addressing the needs of low-income families and the provision of utility assistance. In the past MPCAA and Affordable Energy have worked closely together in providing these services in the rural counties served by MPCAA. An MPCAA staff member serves on the Advisory Board of Affordable Energy.

We encourage continuation of the utility assistance program services provided by Affordable Energy as they enhance the quality of life for those families in need of financial assistance.

Sincerely,

A handwritten signature in black ink that reads "Rusty Newton".

Rusty Newton
Executive Director



Area Code (502) • Family Service Centers: Bullitt County 543-4077
Shelby County 633-6371 • Spencer County 477-8296
Adult Day Care 633-6371 • Family Preservation 633-2591 • Family Support 633-7162
Lebanon Junction 833-2532 • Shepherdsville 543-3455





Tri-County Community Action Agency, Inc.

1015 Dispatcher's Way
LaGrange, KY 40031

Phone (502) 222-1349 • FAX (502) 222-0968
info@tricountycaaky.org

08-18-2006

Dear Andi Martin,

Thank you for the wonderful service that LG&E (ASAP) provides to many low income families in Oldham County.

Also the KU (IRIS) program helps local families in Oldham County also. Your availability and generous sharing of knowledge has always been appreciated.

Sincerely yours,

Sherrill Leffel

Oldham County Heating Admins.

Allyson Sturgeon
627-3367



Serving: Henry County (502) 845-7808 • Oldham County (502) 222-1349 • Trimble County (502) 255-7514

Central Kentucky Community Action Council, Inc.
1-270-692-2136

August 17, 2006

Andi Martin
LG&E

Dear Andi,

Just a note to give my opinion of the HEA and All Seasons programs.

The **All Seasons Program** is by far the easier of the two. I was able to e-mail Paula Ratliff the Access Database of LIHEAP Subsidy clients. From that information, she sent back copies of the letters that had been sent to the selected clients with the amount of the benefit listed. Our agency must keep track of the expected savings of the program, so these letters were critical in the calculation.

Staff members from our Agency assisted Paula with the Meeting with clients to explain the program to them.

Clients are re-certified when they apply for LIHEAP. We are now using the Castinet Program. Programmers are presently working on data transfer features.

The **KU HEA** Program has many more steps. The client must make the initial application in our offices. Once approved, the client must sign a recertification form each year.

Clients are removed from the program if the electric service is disconnected. The constant "bumping off" of clients makes it confusing for staff to keep slots filled. Now, there are recerts due throughout the year, not just with LIHEAP. We also try to maintain a waiting list so that clients can be moved up as needed. So staff must continually monitor the participants, not just during LIHEAP.

All client information must be entered into the IRIS database through Community Action of Lexington. This is a web-based site and the data entry is time consuming. Even though we are paid \$25.00 for each new application and \$15.00 for each recert, this barely covers the cost of administering the program.

In closing, both programs are very beneficial to our families of low-income, providing approximately \$60,000 in electric and natural gas assistance. We want to continue to be a part of the programs in any way we can be of assistance.

Please contact me with any questions or concerns.

Sincerely,
Lynne Robey

Community Services/LIHEAP Director

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

AFFORDABLE ENERGY CORPORATION

DECEMBER 31, 2005

Anderson
Bryant
Lasky & Winslow
PSC

Certified Public Accountants

CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS	4
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS - CASH BASIS	5
NOTES TO FINANCIAL STATEMENTS	6

Providing timely, accurate, useful information to decision makers

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Affordable Energy Corporation
1113 South Fourth Street
Louisville, Kentucky 40203

We have audited the accompanying statement of assets, liabilities and net assets - cash basis of Affordable Energy Corporation (a nonprofit corporation) as of December 31, 2005 and the related statements of revenues, expenses, and other changes in net assets - cash basis for the fifteen months then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

As described in Note 1, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Affordable Energy Corporation as of December 31, 2005 and its revenue and expenses and changes in net assets for the fifteen months then ended, on the basis of accounting described in Note 1.

Anderson, Bryant, Lasky + Winslow, P.S.C.

Louisville, Kentucky
April 21, 2006

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
AFFORDABLE ENERGY CORPORATION
DECEMBER 31, 2005

ASSETS	
Cash	<u>\$37,372</u>
Total assets	<u>\$37,372</u>
LIABILITIES AND NET ASSETS	
NET ASSETS	
Unrestricted	<u>\$37,372</u>
Total liabilities and net assets	<u>\$37,372</u>

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

**STATEMENT OF REVENUES, EXPENSES AND OTHER
CHANGES IN NET ASSETS - CASH BASIS
AFFORDABLE ENERGY CORPORATION
FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2005**

CHANGES IN UNRESTRICTED NET ASSETS

Revenue and support	
Administrative fee	\$94,740
Interest income	<u>29</u>
Total unrestricted revenue and support	<u>94,769</u>
Expenses	
Salaries	30,769
Payroll taxes and benefits	5,917
Computer assistance	9,671
Contract services	1,373
Insurance	1,976
Intake training	1,250
Office supplies and expense	3,861
Postage	3,100
Printing	1,379
Professional fees	165
Rent	2,821
Advertising	1,191
Telephone	940
Membership dues	219
Travel	<u>161</u>
Total expenses	<u>64,793</u>
Increase (decrease) in unrestricted net assets	29,976
Net assets, beginning of year	<u>7,396</u>
Net assets, end of year	<u>\$37,372</u>

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

**NOTES TO FINANCIAL STATEMENTS
AFFORDABLE ENERGY CORPORATION
DECEMBER 31, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Affordable Energy Corporation (the Organization) was organized in 1992 to provide financial and other forms of assistance to low-income households in order to ensure that their basic energy needs are met, that the crisis of disconnection is avoided and that energy is conserved whenever possible. Affordable Energy Corporation works to gather and create the resources to accomplish these goals and works cooperatively with government, utility and social service agencies where appropriate. The Organization serves customers in the Louisville Gas & Electric service area that includes Louisville, KY and the surrounding counties.

The Organization is paid an administrative fee by Louisville Gas & Electric to administer the program through December 31, 2007. The financial statements of the Organization report only the administrative expenses of the program – the utility assistance payments are made directly by Louisville Gas & Electric.

Basis of Accounting

The financial statements of the Organization have been prepared on the cash basis of accounting. Under this basis, revenue is recorded when collected rather than when earned and expenditures are recorded when paid rather than when incurred. Consequently, these financial statements are not intended to present financial position or the results of operations in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

NOTE 2. LEASE

The Organization leases its office space from Metro Human Needs Alliance for \$256 per month, expiring December 31, 2007. The rent expense for the fifteen months ended December 31, 2005 was \$2,821. Future minimum lease payments under noncancelable operating leases at December 31, 2005 are as follows:

2006	\$3,072
2007	<u>3,072</u>
Total	<u>\$6,144</u>

NOTE 3. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses are allocated to program and management and general on the basis of time spent. Expenses by function were as follows:

Program services	\$58,314
Management and general	<u>6,479</u>
	<u>\$64,793</u>

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
COMPREHENSIVE AUDIT REPORT
June 30, 2005

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
COMBINED FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activity	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-10
SUPPLEMENTAL INFORMATION	
Individual Programs Statement of Activity	11-12
LIHEAP - #M-04237132	13-16
RCAP Grant Program	17-18
RCAP Grant Program	19-20
OPE (CSBG) Grant Program – Contract #M-04237132	21
REACH	22
Unemployment Trust Program	23
Revolving Loan Program	24
State Association Initiative – Contract #90EQ0043/05	25
OCS – Contracts #90ET0276/01, 90ET0258/01, 90ET0256/01, 90ET0259/01	26
OCS – Contracts #90ET0305/01, 90EQ0090/01	27
KU Energy Assistance	28
Weatherization	29-32
OMB A-133 DISCLOSURES	
Independent Auditor's Reports on Compliance and Internal Controls	33-34
Schedule of Expenditures of Federal Awards	35
Schedule of Findings and Questioned Costs	36



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, 2005 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.

As described in the notes to the financial statements, Kentucky Association for Community Action, Inc. reports expenditures for equipment according to prescribed procedures of grant contract terms. These procedures differ from generally accepted accounting principles as the equipment expenditures are not depreciated. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations on conformity with accounting principles generally accepted in the United States of America.

We did not audit the subgrantee financial statements of the LIHEAP Program Grant for the year ended June 30, 2005. 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 Grant, is based solely on the report of the other auditors. However, we have examined the LIHEAP 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, 2005 and the results of its activities and cash flows for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued a report dated December 15, 2005 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. 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 34 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 15, 2005

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 COMBINED STATEMENT OF FINANCIAL POSITION
 June 30, 2005

ASSETS		
CURRENT ASSETS		
Cash in Bank	\$ 324,553	
Receivables		
Subrecipients	30,625	
Funding Sources	728,798	
Housing Loans	49,218	
Notes Receivable	62,248	
Prepaid Expenses	<u>4,465</u>	
Total Current Assets		\$ 1,199,907
OTHER ASSETS		
Investments	558,385	
Notes Receivable – Non Current	<u>439,539</u>	
Total Other Assets		997,924
PLANT, PROPERTY AND EQUIPMENT		
Property and Equipment	923,027	
Accumulated Depreciation	<u>(93,787)</u>	
Net Property, Plant and Equipment		<u>829,240</u>
TOTAL ASSETS		<u><u>\$ 3,027,071</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 162,718	
Accrued Salaries	19,400	
Accrued Annual Leave	77,452	
Notes Payable	48,505	
Due to Subrecipients	643,345	
Due to Funding Sources	<u>3,156</u>	
Total Current Liabilities		954,576
OTHER LIABILITIES		
Notes Payable – Non Current	280,143	
Anthem Stock Distributable	<u>-</u>	
Total Other Liabilities		280,143
NET ASSETS		
Unrestricted	1,700,512	
Temporarily Restricted	<u>91,840</u>	
Total Net Assets		<u>1,792,352</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 3,027,071</u></u>

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, 2005

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Support			
Federal/State Funds	\$ 270,742	\$ 35,177,646	\$ 35,448,388
Total Support	<u>270,742</u>	<u>35,177,646</u>	<u>35,448,388</u>
Revenue			
Rental Income	10,260	-	10,260
Interest Income -- Client	3,304	-	3,304
Interest Income -- Investment	8,384	-	8,384
Dues	18,300	-	18,300
BC/BS Insurance Program	155,183	-	155,183
Other Income	264,029	32,400	296,429
Unrecognized Gain on Investments	30,432	-	30,432
Net Assets Released from Restrictions			
Satisfaction of Purpose Restrictions	<u>35,167,880</u>	<u>(35,167,880)</u>	<u>-</u>
Total Revenue	<u>35,657,772</u>	<u>(35,135,480)</u>	<u>522,292</u>
TOTAL SUPPORT AND REVENUE	35,928,514	42,166	35,970,680
EXPENDITURES			
Program Services	992,575		992,575
Management & General	379,403		379,403
Payments to Subrecipients	<u>34,469,203</u>		<u>34,469,203</u>
TOTAL EXPENDITURES	<u>35,841,181</u>	<u>-</u>	<u>35,841,181</u>
Change in Net Assets	87,333	42,166	129,499
Transfer of Funds	(22,375)	22,375	-
Net Assets, Beginning of Year	<u>1,635,554</u>	<u>27,299</u>	<u>1,662,853</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,700,512</u></u>	<u><u>\$ 91,840</u></u>	<u><u>\$ 1,792,352</u></u>

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, 2005

	PROGRAM SERVICES	MANAGEMENT & GENERAL	TOTAL
Salaries	\$ 525,064	\$ 25,813	\$ 550,877
Fringe Benefits	170,177	9,079	179,256
Professional Services	9,360	802	10,162
Consultants	23,925	265,038	288,963
Education	7,600	4,320	11,920
Travel	53,150	17,677	70,827
Meeting Expense	20,453	20,633	41,086
Telephone	16,041	1,064	17,105
Postage	5,744	576	6,320
Rent	2,750	-	2,750
Supplies	17,719	18,967	36,686
Publications and Subscriptions	1,304	2,053	3,357
Dues/Fees	435	1,164	1,599
Insurance	83,719	808	84,527
Printing	7,697	1,840	9,537
Advertising	582	500	1,082
Utilities	3,077	190	3,267
Repairs & Maintenance	17,110	1,055	18,165
Depreciation	17,711	6,373	24,084
Marketing	-	1,234	1,234
Interest Expense	3,064	-	3,064
Bad Debt Expense – Housing Loans	5,893	-	5,893
Other Expenditures	-	217	217
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 992,575</u>	<u>\$ 379,403</u>	<u>\$ 1,371,978</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, 2005

CASH FLOW USED BY OPERATING ACTIVITIES

Change in Net Assets \$ 129,499

Depreciation 24,084

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

(Increase)Decrease in Receivables (192,868)

(Increase)Decrease in Prepaid Expenses (3,104)

Increase(Decrease) in Accounts Payable 169,581

Increase(Decrease) in Accrued Salaries 1,371

Increase(Decrease) in Accrued Vacation Pay 13,510

Increase(Decrease) in Due to Subrecipients 2,274

Increase(Decrease) in Due to Funding Sources (27,917)

Increase(Decrease) in Notes Payable 10,967

Net Cash Used by Operating Activities \$ 127,397

CASH FLOWS USED BY INVESTING ACTIVITIES

Net (Purchases)/Disposals of Capital Assets (9,932)

Net (Purchases)/Disposals of Investments (125,412)

Net Cash Used by Investing Activities (135,344)

NET INCREASE IN CASH AND CASH EQUIVALENTS (7,947)

Cash and Cash Equivalents – June 30, 2004 332,500

Cash and Cash Equivalents – June 30, 2005 \$ 324,553

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

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

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 using the modified cash basis of accounting. Disbursements for materials and equipment are shown as expenditures at the time of purchase. These procedures are applied accordingly to grant contract terms, but do differ from generally accepted accounting principles in some instances.

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.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2005

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.

NOTE 4 – CASH IN BANK

At June 30, 2005 cash in bank totaled \$332,500 consisting of the following accounts:

Cash in Farmers Bank – Checking	\$ 189,240
Cash in Hilliard & Lyons – Money Market Accounts	<u>135,313</u>
Total	<u>\$ 324,553</u>

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

Agencies owe KACA	<u>\$ 30,625</u>
A/R Subrecipients	<u>\$ 30,625</u>
CHFS owes KACA (M-04237132)	\$ 23,817
CHFS owes KACA (M-04237132)	22,159
WSOS owes KACA	41,921
Kentucky River Foothills Development Council owes KACA	61,268
UI Trust owes KACA	<u>850</u>
A/R Funding Sources	<u>\$ 728,798</u>
KACA owes Agencies	<u>\$ 641,071</u>
Due to Subrecipients	<u>\$ 641,071</u>
KACA owes CHFS (M-04237132 Liheap 03-04)	<u>\$ 3,156</u>
A/P Funding Sources	<u>\$ 3,156</u>

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	\$ 67,002	\$ 68,551
Mutual Funds	<u>458,006</u>	<u>489,834</u>
Total	<u>\$ 525,008</u>	<u>\$ 558,385</u>

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 8.48%. 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 \$534,999. The contribution for the year ended June 30, 2005 was \$45,453. The contributions for the year consisted of \$37,360 from the Association and \$26,800 from the employees.

NOTE 12 – NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2005:

Note payable to the Kentucky Housing Corporation (NHPL 97/98), Interest at 1%, annual payments of \$3,132 through July, 2017	\$ 10,488
Note payable to the Kentucky Housing Corporation (NHPL 98/99), Interest at 1%, annual payments of \$2,500 through July, 2018	10,000
Note payable to the Kentucky Housing Corporation (NHPL 99/00), Interest at 1%, annual payments of \$5,744 through July 2019	28,720
Note payable to the Kentucky Housing Corporation (NHRL 99/00), Interest at 1%, annual payments of \$4,804 through July, 2019	21,137
Note payable to the Kentucky Housing Corporation (NHPRL 00/01), Interest at 1%, annual payments of \$750 through July, 2020	4,500
Note payable to the Kentucky Housing Corporation (NHPRL 01/02), Interest at 1%, annual payments of \$5,175 through July, 2021	33,954
Note payable to the Kentucky Housing Corporation (NHPRL 02/03), Interest at 1%, annual payments of \$ 15,225 through July, 2022	119,274
Note payable to the Kentucky Housing Corporation (NHPRL 03/04), Interest at 1%, annual payments of \$ 5,925 through July, 2023	53,325
Note payable to the Kentucky Housing Corporation (NHPRL 04/05), Interest at 1%, annual payments of \$ 5,250 through July, 2024	<u>47,250</u>

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2005

NOTE 12 – NOTES PAYABLE (Continued)

Total	\$ 328,648
Less: Current Maturities	<u>(48,505)</u>
Long-term Notes Payable	<u>\$ 280,143</u>

Aggregate annual principal requirements are as follows:

Year Ending <u>June 30,</u>	
2006	\$ 48,505
2007	48,505
2008	48,505
2009	46,464
2010	39,991
Thereafter	<u>96,678</u>
Total	<u>\$ 328,648</u>

NOTE 13 – NOTES RECEIVABLE

Notes receivable consisted of the following as of June 30, 2005:

Note receivable from Daniel Boone, Harlan, LKLP (NHPL 97/98), Interest at 1%, annual payments of \$3,132 through June, 2017	\$ 7,415
Note receivable from Daniel Boone, Harlan (NHPL 98/99), Interest at 1%, annual payments of \$2,500 through June, 2018	8,056
Note receivable from KCEOC, LKLP (NHPL 99/00), Interest at 1%, annual payments of \$5,744 through June 2019	25,027
Note receivable from Daniel Boone, Harlan, Ky. River, LKLP, Lexington, Southern (NHRL 99/00), Interest at 1%, annual payments of \$4,804 through June, 2019	17,229
Note receivable from Lexington (NHPR 00/01) Interest at 1%, annual payments of \$750 through July, 2020	3,750
Note receivable from Daniel Boone, Harlan, KCEOC, LKLP, Lexington, Southern (NHPR 01/02) Interest at 1%, annual payments of \$5,175 through June 2021	29,462
Note receivable from Daniel Boone, LKLP, Lexington (NHPR 02/03) Interest at 1%, annual payments of \$15,225 through June 2022	104,365
Note receivable from KCEOC, LKLP, Lexington (NHPR 03/04) Interest at 1%, annual payments of \$ 5,925 through June 2023	47,580
Note receivable from KCEOC, LKLP, Lexington (NHPR 04/05) Interest at 1%, annual payments of \$ 5,925 through June 2024	44,940
Notes Receivable from Daniel Boone, Gateway, KCEOC, Southern KY, and Tri-County for Castinet Software System Interest at 0%, annual payments of \$ 20,653 through June 2007	41,305
Notes Receivable from Big Sandy, Blue Grass, Central KY, Harlan, KY River Foothills, LKLP, Lake Cumberland, Louisville, Middle KY Middle KY, Northeast KY, Northern KY, Pennyryle, and Western KY for Castinet Software System Interest at 0%, annual payments of \$ 34,532 through June 2010	<u>172,658</u>
Total	501,787
Less: Current Maturities	<u>(62,248)</u>
Long-term Notes Receivable	<u>\$ 439,539</u>

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2005

NOTE 13 – NOTES RECEIVABLE (Continued)

Aggregate annual principal requirements are as follows:

Year Ending <u>June 30,</u>	
2006	\$ 103,826
2007	102,698
2008	79,407
2009	76,188
2010	68,176
Thereafter	<u>71,492</u>
Total	<u>\$ 501,787</u>

NOTE 14 – PROPERTY AND EQUIPMENT

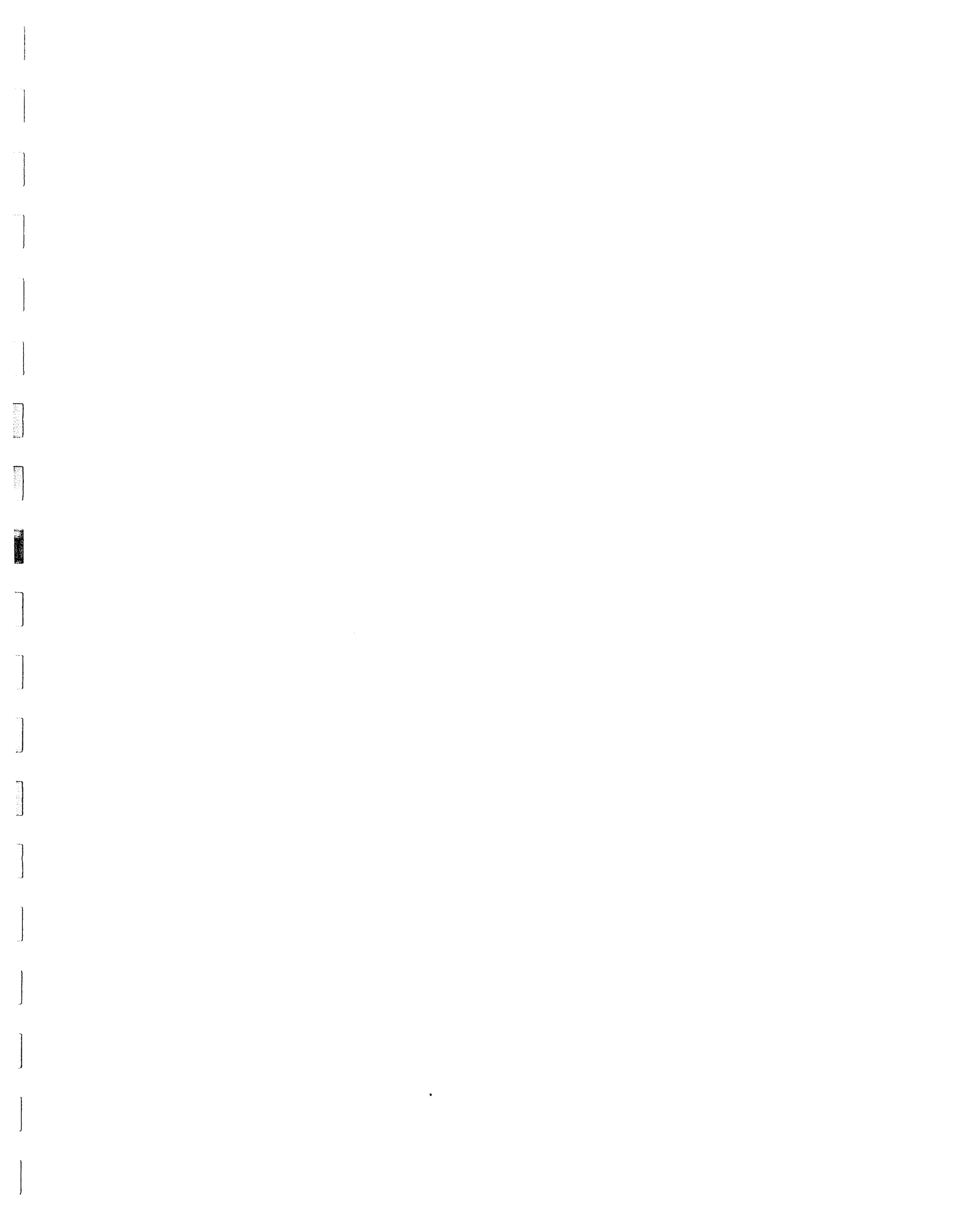
Individual components of the property and equipment heading are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Office Equipment	\$ 75,008	\$ 56,180
Building	742,732	37,607
Land	<u>105,287</u>	<u> </u>
Total	<u>\$ 923,027</u>	<u>\$ 93,787</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, 2005 the agency had unpaid annual leave of \$ 77,452 and unpaid sick leave of \$ 84,310.

SUPPLEMENTAL INFORMATION



KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
STATEMENT OF ACTIVITY
INDIVIDUAL GRANT PROGRAMS
For the Year Ended June 30, 2005

UI Trust	Housing Program	OCS 04-05	OCS 03-04	CCF 04-05	SAI 03-04	KU Energy 04-05	Treasury	Total
\$ 3,100	\$ 17,725	\$ 50,000	\$ 100,419	\$ 435,038	\$ 32,000	\$ -	\$ -	\$ 35,448,388
-	-	-	-	-	-	-	10,260	10,260
-	3,304	-	-	-	-	-	-	3,304
-	-	-	-	-	-	-	8,384	8,384
-	-	-	-	-	-	-	18,300	18,300
-	-	-	-	-	-	-	155,183	155,183
-	-	-	-	-	-	32,400	264,029	296,429
-	-	-	-	-	-	-	30,432	30,432
<u>3,100</u>	<u>21,029</u>	<u>50,000</u>	<u>100,419</u>	<u>435,038</u>	<u>32,000</u>	<u>32,400</u>	<u>486,588</u>	<u>35,970,680</u>
2,259	1,579	19,428	17,487	37,268	8,523	998	25,813	550,877
735	514	6,721	5,824	11,586	2,116	325	9,079	179,256
20	18	298	213	763	131	9	802	10,162
-	-	3,320	-	-	-	-	265,038	288,963
-	-	300	495	-	2,975	-	4,320	11,920
48	51	6,206	2,799	1,932	1,204	-	17,677	70,827
171	4	9,047	42	374	(96)	2	20,633	41,086
43	37	755	447	1,603	275	19	1,064	17,105
11	9	201	112	400	68	5	576	6,320
-	-	-	-	-	-	-	-	2,750
34	30	1,912	402	1,479	295	15	18,967	36,686
-	-	-	-	-	660	-	2,053	3,357
-	-	3	1	6	1	-	1,164	1,599
4	5	76	202	317	34	2	808	84,527
1	2	691	19	381	11	1	1,840	9,537
-	-	-	-	-	-	-	500	1,082
8	7	122	87	311	53	4	190	3,267
46	40	676	483	1,732	297	20	1,055	18,165
48	42	700	500	1,792	307	21	6,373	24,084
-	-	-	-	-	-	-	1,234	1,234
-	3,064	-	-	-	-	-	-	3,064
-	5,893	-	-	-	-	-	-	5,893
-	-	-	-	-	-	-	217	217
-	17,725	-	55,174	376,138	-	38,370	-	34,469,203
<u>3,428</u>	<u>29,020</u>	<u>50,456</u>	<u>84,287</u>	<u>436,082</u>	<u>16,854</u>	<u>39,791</u>	<u>379,403</u>	<u>35,841,181</u>
(328)	(7,991)	(456)	16,132	(1,044)	15,146	(7,391)	107,185	129,499
(328)	(7,991)				15,146		107,185	71,201
		(456)	16,132	(1,044)		(7,391)		58,298
<u>\$ (328)</u>	<u>\$ (7,991)</u>	<u>\$ (456)</u>	<u>\$ 16,132</u>	<u>\$ (1,044)</u>	<u>\$ 15,146</u>	<u>\$ (7,391)</u>	<u>\$ 107,185</u>	<u>\$ 129,499</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-04237132
 STATEMENT OF PROGRAM EXPENSE
 For the Period July 1, 2004 Through June 30, 2005

Agency Subsidy benefits (KACA records)		\$ 11,184,364
Agency Crisis benefits (KACA records)		12,422,581
Agency Leveraging (KACA records)		30,122
Agency Prior Year Adjustments (KACA records)		(3,156)
Agency Administration (KACA records)		<u>2,101,874</u>
 TOTAL PAYMENTS TO SUBRECIPIENTS		 \$ 25,735,785
 KACA ADMINISTRATION:		
Salaries	\$ 120,497	
Fringe Benefits	38,255	
Professional Services	4,423	
Travel	3,756	
Meeting Expense	6,336	
Telephone	5,488	
Postage	1,831	
Supplies	5,454	
Dues/Fees	171	
Insurance	19,875	
Printing	3,141	
Advertising	291	
Utilities	1,061	
Repairs & Maintenance	5,901	
Depreciation	<u>6,108</u>	
 Total KACA Administration		 222,588
 DSM Expenses		 <u>24,221</u>
 TOTAL EXPENDITURES		 25,982,594
 QUESTIONED COSTS (See Schedule)		 <u>-</u>
 ALLOWABLE COST		 25,982,594
 AMOUNT RECEIVED FROM CHFS - HEAP		 (25,961,933)
 ACCOUNTS RECEIVABLE FROM FUNDING SOURCES		 (23,817)
 ACCOUNTS PAYABLE TO FUNDING SOURCES		 <u>3,156</u>
 EXCESS RECEIPTS OVER EXPENDITURES		 <u><u>\$ -</u></u>

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 LIHEAP GRANT
 CONTRACT #M-04237132
 SCHEDULE OF BUDGET AND ACTUAL EXPENSES
 For the Period July 1, 2004 Through June 30, 2005

Cost Category	<u>Budget</u>	<u>Actual</u>	(Over) / Under <u>Budget</u>
Administrative Cost	\$ 2,382,058	\$ 2,324,462	\$ 57,596
Benefits Cost			
Subsidy	11,184,215	11,184,364	(149)
Crisis	12,948,488	12,422,581	525,907
Summer Cooling	-	-	-
Leveraging	<u>30,122</u>	<u>30,122</u>	<u>-</u>
Total Benefits Cost	<u>26,544,883</u>	<u>25,961,529</u>	<u>583,354</u>
Other Benefits			
Prior Year Adjustments	-	(3,156)	3,156
DSM	<u>30,000</u>	<u>24,221</u>	<u>5,779</u>
Total Other Payments	<u>30,000</u>	<u>21,065</u>	<u>8,935</u>
TOTAL CONTRACT	<u><u>\$ 26,574,883</u></u>	<u><u>\$ 25,982,594</u></u>	<u><u>\$ 592,289</u></u>

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.

LIHEAP GRANT

CONTRACT #M-04237132

SCHEDULE OF QUESTIONED COSTS

For the Period July 1, 2004 Through June 30, 2005

	<u>ACTUAL</u>	<u>QUESTIONED COST</u>	<u>BALANCE</u>
Agency Subsidy Benefits (1)	11,184,364	-	11,184,364
Agency Crisis Benefits (1)	12,422,581	-	12,422,581
Agency Leveraging (1)	30,122	-	30,122
Agency Administration (1)	2,101,874	-	2,101,874
Agency Prior Year Adjustments (1)	(3,156)	-	(3,156)
KACA Administration (1)	222,588	-	222,588
DSM Expenditures (1)	24,221	-	24,221
	<u>25,982,594</u>	<u>-</u>	<u>25,982,594</u>
TOTAL EXPENSES	<u>25,982,594</u>	<u>-</u>	<u>25,982,594</u>

(1) Taken from KACA payment records

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
LIHEAP- COMPARISON OF KACA PAYMENTS TO PAYMENTS
PER AGENCY AUDITS FOR CONTRACT #M-04237132
SCHEDULE OF QUESTIONED COSTS
For the Period July 1, 2004 Through June 30, 2005

	Payments Per KACA Records Through 6/30/05	Allowable Costs Per Agency Audits	Questioned Cost	Accounts Receivable From Agencies	Accounts Payable To Agencies
Audubon *	\$ 722,063		\$ -	\$ -	\$ -
Bell Whitley	991,399	991,399	-	-	-
Big Sandy *	2,627,375		-	-	-
Bluegrass	813,205	813,205	-	-	-
Central KY	1,196,298	1,196,298	-	-	-
Daniel Boone *	1,789,732		-	-	-
Gateway	796,306	795,239	-	1,067	-
Harlan Co. *	532,498		-	-	-
KCEOC *	556,036		-	-	-
KY River Foothills *	783,228		-	6,205	-
LKLP *	1,873,758		-	-	-
Lake Cumberland *	2,320,109		-	-	-
Lex-Fayette *	648,414		-	-	-
Licking Valley	407,471	407,471	-	-	-
Louisville *	2,157,914		-	-	-
Middle KY River	961,364	961,364	-	-	-
Multi-Purpose	216,508	216,507	-	-	-
Northeast KY *	1,857,866		-	-	-
Northern KY *	1,048,004		-	-	-
Pennyrile	1,086,860	1,086,860	-	-	-
Southern KY *	1,095,141		-	-	-
Tri-County	126,694	126,694	-	-	-
West KY Allied	1,124,158	1,124,770	-	-	612
Louisville Metro *	10,044		-	-	-
SUBTOTALS	\$ 25,742,445	\$ 7,719,807	\$ -	\$ 7,272	\$ 612
Add Accounts Payable	612				
Deduct Accounts Receivable	<u>(7,272)</u>				
TOTALS	<u>\$ 25,735,785</u>				

*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.

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 #1, 08-03, 10-03, 14-03, 22-03
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2004)
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2004 Through June 30, 2005

Technitrain		\$ 123,780
SDWA		42,500
HHS		124,120
RCDI		91,232
EPAW		<u>21,250</u>
 CONTRACT AWARD		 <u><u>\$ 402,882</u></u>

EXPENDITURES

	<u>Actual</u> <u>6/30/04</u>	<u>Actual</u> <u>6/30/05</u>	<u>Total</u>
Salaries	\$ 164,261	\$ 103,013	\$ 267,274
Fringe Benefits	49,553	34,004	83,557
Professional Services	2,367	615	2,982
Education	835	1,684	2,519
Travel	26,535	9,662	36,197
Meeting Expense	1,130	121	1,251
Telephone	6,113	1,292	7,405
Postage	1,362	1,359	2,721
Rent	3,000	2,750	5,750
Supplies	5,965	1,596	7,561
Publications and Subscriptions	117	522	639
Dues/Fees	305	230	535
Insurance	628	305	933
Printing	426	64	490
Advertising	316	-	316
Data Processing	536	-	536
Utilities	919	251	1,170
Repairs & Maintenance	3,840	1,396	5,236
Depreciation	7,336	1,445	8,781
Other Expenditures	<u>584</u>	<u>-</u>	<u>584</u>
 Total Expenditures	 \$ 276,128	 \$ 160,309	 \$ 436,437
 QUESTIONED COSTS	 <u>-</u>	 <u>-</u>	 <u>-</u>
 ADJUSTED COST	 276,128	 160,309	 436,437
 CONTRACT PAYMENTS RECEIVED	 <u>277,484</u>	 <u>117,498</u>	 <u>394,982</u>
 EXCESS AVAILABLE FOR TRANSFER TO TREASURY FUND	 <u>\$ 1,356</u>	 <u>\$ (42,811)</u>	 <u>\$ (41,455)</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 #1, 08-03, 10-03, 14-03, 22-03
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2004)
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2004 Through June 30, 2005

	UNADJUSTED <u>COST</u>	QUESTIONED <u>COST</u>	ADJUSTED <u>COST</u>
Salaries	\$ 103,013	\$ -	\$ 103,013
Fringe Benefits	34,004	-	34,004
Professional Services	615	-	615
Education	1,684	-	1,684
Travel	9,662	-	9,662
Meeting Expense	121	-	121
Telephone	1,292	-	1,292
Postage	1,359	-	1,359
Rent	2,750	-	2,750
Supplies	1,596	-	1,596
Publications and Subscriptions	522	-	522
Dues/Fees	230	-	230
Insurance	305	-	305
Printing	64	-	64
Utilities	251	-	251
Repairs & Maintenance	1,396	-	1,396
Depreciation	1,445	-	1,445
	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 160,309</u>	<u>\$ -</u>	<u>\$ 160,309</u>

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACTS # PY 04-05
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2005)
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2004 Through June 30, 2005

RECEIPTS

Technitrain	\$ 89,907
SDWA	25,172
HHS	93,196
EPAW	<u>14,016</u>

CONTRACT AWARD

\$ 222,291

EXPENDITURES

Salaries	\$ 102,971
Fringe Benefits	33,001
Professional Services	1,787
Education	526
Travel	14,502
Meeting Expense	352
Telephone	3,756
Postage	966
Supplies	3,546
Publications and Subscriptions	85
Dues/Fees	15
Insurance	579
Printing	162
Utilities	730
Repairs & Maintenance	4,057
Depreciation	<u>4,199</u>

Total Expenditures	\$ 171,234
--------------------	------------

QUESTIONED COSTS

-

ADJUSTED COST

171,234

CONTRACT PAYMENTS RECEIVED

180,370

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES

41,921

EXCESS RECEIPTS OVER EXPENDITURES *

\$ 51,057

* These funds are temporarily restricted until the contract ends September 30, 2005.

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 04-05
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2005)
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2004 Through June 30, 2005

	UNADJUSTED <u>COST</u>	QUESTIONED <u>COST</u>	ADJUSTED <u>COST</u>
Salaries	\$ 102,971	\$ -	\$ 102,971
Fringe Benefits	33,001	-	33,001
Professional Services	1,787	-	1,787
Education	526	-	526
Travel	14,502	-	14,502
Meeting Expense	352	-	352
Telephone	3,756	-	3,756
Postage	966	-	966
Supplies	3,546	-	3,546
Publications and Subscriptions	85	-	85
Dues/Fees	15	-	15
Insurance	579	-	579
Printing	162	-	162
Utilities	730	-	730
Repairs & Maintenance	4,057	-	4,057
Depreciation	4,199	-	4,199
	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 171,234</u>	<u>\$ -</u>	<u>\$ 171,234</u>

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

OTHER
SUPPLEMENTAL SCHEDULES

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 OPE (CSBG) GRANT
 CONTRACT # M-04237132
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2004 Through June 30, 2005

EXPENDITURES	
Salaries	\$ 63,311
Fringe Benefits	21,571
Professional Services	499
Education	945
Travel	10,610
Meeting Expense	122
Telephone	1,095
Postage	434
Rent	-
Supplies	1,088
Publications and Subscriptions	24
Dues/Fees	4
Insurance	203
Printing	2,586
Advertising	-
Data Processing	-
Utilities	204
Repairs & Maintenance	1,132
Depreciation	1,172
Other Expense	-
	<hr/>
Total Expenditures	105,000
QUESTIONED COSTS	<hr/>
ADJUSTED COST	105,000
CONTRACT PAYMENTS RECEIVED	105,000
ACCOUNTS RECEIVABLE FROM FUNDING SOURCES	<hr/> -
EXCESS RECEIPTS OVER EXPENDITURES	<hr/> <u>\$ -</u>

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 KENTUCKY DEPARTMENT OF EDUCATION
 REACH
 CONTRACT # M-04237132
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2004 Through June 30, 2005

PAYMENTS to SUBRECIPIENTS		
Lexington	\$ 139,274	
Louisville	<u>308,409</u>	
Total Payments to Subrecipients		\$ 447,683
KACA ADMINISTRATION:		
Salaries	\$ 3,850	
Fringe Benefits	1,252	
Professional Services	49	
Consultants	15,477	
Travel	134	
Meeting Expense	10	
Telephone	104	
Postage	26	
Supplies	84	
Insurance	550	
Printing	3	
Utilities	20	
Repairs & Maintenance	112	
Depreciation	<u>116</u>	
Total KACA Administration		<u>21,787</u>
TOTAL EXPENDITURES		469,470
QUESTIONED COSTS		<u>-</u>
ADJUSTED COST		469,470
CONTRACT PAYMENTS RECEIVED		(447,311)
ACCOUNTS RECEIVABLE FROM FUNDING SOURCES		(22,159)
ACCOUNTS PAYABLE TO FUNDING SOURCES		<u>-</u>
EXCESS RECEIPTS OVER EXPENDITURES		<u><u>\$ -</u></u>

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
UNEMPLOYMENT INSURANCE TRUST PROGRAM
STATEMENT OF RECEIPTS AND EXPENDITURES
For the Period July 1, 2004 Through June 30, 2005

RECEIPTS

Contract Payments Received	\$ 2,250
Accounts Receivable from Funding Sources	<u>850</u>
Total Receipts	\$ 3,100

EXPENDITURES

Salaries	\$ 2,259
Fringe Benefits	735
Professional Services	20
Travel	48
Meeting Expense	171
Telephone	43
Postage	11
Supplies	34
Insurance	4
Printing	1
Utilities	8
Repairs & Maintenance	46
Depreciation	<u>48</u>
Total Expenditures	<u>\$ 3,428</u>

EXCESS RECEIPTS OVER EXPENDITURES

\$ (328)

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, 2004 Through June 30, 2005

RECEIPTS

Grant Revenue - KHC (NHPR)	\$ 17,725
Client Interest Income	<u>3,304</u>
 Total Receipts	 21,029

EXPENDITURES

Salaries	1,579
Fringe Benefits	514
Professional Services	18
Travel	51
Meeting Expense	4
Telephone	37
Postage	9
Supplies	30
Insurance	5
Printing	2
Utilities	7
Repairs & Maintenance	40
Depreciation	42
Interest Expense	3,064
Bad Debt Expense -- Housing Loans	5,893
Payments to Subrecipients	<u>17,725</u>
 Total Expenditures	 <u>29,020</u>

EXCESS RECEIPTS OVER EXPENDITURES

\$ (7,991)

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
STATE ASSOCIATION INITIATIVE-OCS
CONTRACT #90EQ0043/05
(FOR CONTRACTS ENDING AUGUST 31, 2004)
For the Period July 1, 2004 Through June 30, 2005

OCS			\$ 50,000
CONTRACT AWARD			<u>\$ 50,000</u>
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>TOTAL</u>
	<u>6/30/04</u>	<u>6/30/05</u>	
EXPENDITURES			
Salaries	\$ 13,367	\$ 8,523	\$ 21,890
Fringe Benefits	4,106	2,116	6,222
Professional Services	180	131	311
Education	2,568	2,975	5,543
Travel	6,737	1,204	7,941
Meeting Expense	1,479	(96)	1,383
Telephone	485	275	760
Postage	90	68	158
Supplies	340	295	635
Publications and Subscriptions	2,702	660	3,362
Dues/Fees	6	1	7
Insurance	37	34	71
Printing	40	11	51
Advertising	2	-	2
Data Processing	41	-	41
Utilities	70	53	123
Repairs & Maintenance	292	297	589
Depreciation	559	307	866
Other Expenditures	45	-	45
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 33,146	\$ 16,854	\$ 50,000
QUESTIONED COSTS	<u>-</u>	<u>-</u>	<u>-</u>
ADJUSTED COST	33,146	16,854	50,000
CONTRACT PAYMENTS RECEIVED	<u>18,000</u>	<u>32,000</u>	<u>50,000</u>
EXCESS AVAILABLE FOR TRANSFER TO TREASURY FUND	<u>\$ (15,146)</u>	<u>\$ 15,146</u>	<u>\$ -</u>

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
OCS
CONTRACTS #90ET0276/01, 90ET0258/01, 90ET0256/01, 90ET0259/01
STATEMENT OF PROGRAM EXPENSES
(FOR CONTRACTS ENDING SEPTEMBER 29, 2004)
For the Period July 1, 2004 Through June 30, 2005

RECEIPTS

Board Development	\$ 20,000
Child Care	5,000
Housing	5,000
Transportation	5,000
Compassion Capitol	<u>323,953</u>

CONTRACT AWARD

\$ 358,953

	<u>ACTUAL</u> <u>6/30/04</u>	<u>ACTUAL</u> <u>6/30/05</u>	<u>TOTAL</u>
PAYMENTS to SUBRECIPIENTS			
Big Sandy CAP	\$ 74,768	\$ 5,770	\$ 80,538
Gateway CSO	60,889	21,671	82,560
LKLP CAA	<u>64,550</u>	<u>27,733</u>	<u>92,283</u>
 Total Payments to Subrecipients	 200,207	 55,174	 255,381.00

EXPENDITURES

Salaries	\$ 42,239	\$ 17,487	\$ 59,726
Fringe Benefits	12,976	5,824	18,800
Professional Services	850	213	1,063
Education	634	495	1,129
Travel	4,525	2,799	7,324
Meeting Expense	533	42	575
Telephone	2,244	447	2,691
Postage	469	112	581
Supplies	3,626	402	4,028
Publications and Subscriptions	360	-	360
Dues/Fees	29	1	30
Insurance	314	202	516
Printing	213	19	232
Advertising	726	-	726
Data Processing	193	-	193
Utilities	330	87	417
Repairs & Maintenance	1,379	483	1,862
Depreciation	2,635	500	3,135
Other Expenditures	<u>210</u>	<u>-</u>	<u>210</u>
 Total KACA Administration	 <u>74,485</u>	 <u>29,113</u>	 <u>103,598</u>
 Total Expenditures	 274,692	 84,287	 358,979

QUESTIONED COSTS

- - -

ADJUSTED COST

274,692 84,287 358,979

CONTRACT PAYMENTS RECEIVED

(258,534) (100,419) (358,953)

EXCESS AVAILABLE FOR TRANSFER TO TREASURY FUND

\$ (16,158) \$ 16,132 \$ (26)

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.

OCS

CONTRACTS # -90ET0305/01, 90EQ0090/01

STATEMENT OF PROGRAM EXPENSES

(FOR CONTRACTS ENDING SEPTEMBER 29, 2005)

For the Period July 1, 2004 Through June 30, 2005

RECEIPTS

Capacity Building	\$ 25,000
SAI- CSBG	<u>25,000</u>

CONTRACT AWARD

\$ 50,000

EXPENDITURES

Salaries	\$ 19,428
Fringe Benefits	6,721
Professional Services	298
Consultants	3,320
Education	300
Travel	6,206
Meeting Expense	9,047
Telephone	755
Postage	201
Supplies	1,912
Dues/Fees	3
Insurance	76
Printing	691
Utilities	122
Repairs & Maintenance	676
Depreciation	<u>700</u>

Total Expenditures	50,456
--------------------	--------

QUESTIONED COSTS

-

ADJUSTED COST

50,456

CONTRACT PAYMENTS RECEIVED

(50,000)

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES

-

EXCESS RECEIPTS OVER EXPENDITURES *

\$ (456)

* These funds are temporarily restricted until the contract ends September 29, 2005.

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
 COMPASSION CAPITOL FUND
 STATEMENT OF PROGRAM EXPENSES
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2005)
 For the Period July 1, 2004 Through June 30, 2005

RECEIPTS

Compassion Capitol Agencies	\$	58,900
		376,138

CONTRACT AWARD

\$ 435,038

PAYMENTS to SUBRECIPIENTS

Big Sandy CAP	\$	77,273
Daniel Boone Development Council		60,625
Gateway CAA		118,595
LKLP CAA		83,472
Middle KY River CAA		36,173

Total Payments to Subrecipients		376,138
---------------------------------	--	---------

EXPENDITURES

Salaries	\$	37,268
Fringe Benefits		11,586
Professional Services		763
Travel		1,932
Meeting Expense		374
Telephone		1,603
Postage		400
Supplies		1,479
Dues/Fees		6
Insurance		317
Printing		381
Utilities		311
Repairs & Maintenance		1,732
Depreciation		1,792

Total KACA Administration		59,944
---------------------------	--	--------

Total Expenditures		436,082
--------------------	--	---------

QUESTIONED COSTS

-

ADJUSTED COST

436,082

CONTRACT PAYMENTS RECEIVED

(373,770)

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES

(61,268)

EXCESS RECEIPTS OVER EXPENDITURES *

\$ (1,044)

* These funds are temporarily restricted until the contract ends September 30, 2005.

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 KENTUCKY UTILITIES ENERGY ASSISTANCE
 STATEMENT OF RECEIPTS AND EXPENDITURES
 (FOR CONTRACT ENDING NOVEMBER 30, 2005)
 For the Period July 1, 2004 Through June 30, 2005

RECEIPTS		
Kentucky Utilities		\$ 32,400
PAYMENTS to SUBRECIPIENTS		
CAC - Lexington/Fayette	<u>\$ 38,370</u>	
Total Payments to Subrecipients		38,370
EXPENDITURES		
Salaries	\$ 998	
Fringe Benefits	325	
Professional Services	9	
Meeting Expense	2	
Telephone	19	
Postage	5	
Supplies	15	
Insurance	2	
Advertising	1	
Utilities	4	
Repairs & Maintenance	20	
Depreciation	<u>21</u>	
Total KACA Administration		<u>1,421</u>
Total Expenditures		39,791
QUESTIONED COSTS		<u>-</u>
ADJUSTED COST		39,791
CONTRACT PAYMENTS RECEIVED		<u>(32,400)</u>
EXCESS RECEIPTS OVER EXPENDITURES *		<u><u>\$ (7,391)</u></u>

* These funds are temporarily restricted until the contract ends November 30, 2005.

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
 WEATHERIZATION GRANT
 CONTRACT #M-04237132
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2004 Through June 30, 2005

PAYMENTS to SUBRECIPIENTS

Department of Energy	\$ 4,270,964	
Liheap	<u>3,527,364</u>	
 Total Payments to Subrecipients		 \$ 7,798,328

KACA ADMINISTRATION:

Salaries	\$ 32,125	
Fringe Benefits	10,450	
Professional Services	431	
Travel	901	
Meeting Expense	3,948	
Telephone	908	
Postage	234	
Supplies	1,607	
Dues/Fees	3	
Insurance	61,540	
Printing	314	
Advertising	291	
Utilities	176	
Repairs & Maintenance	981	
Depreciation	<u>1,016</u>	
 Total KACA Administration		 <u>114,925</u>

TOTAL EXPENDITURES 7,913,253

QUESTIONED COSTS (See Schedule) -

ALLOWABLE COST 7,913,253

AMOUNT RECEIVED FROM CHFS - HEAP (7,334,470)

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES (578,783)

ACCOUNTS PAYABLE TO FUNDING SOURCES -

EXCESS RECEIPTS OVER EXPENDITURES \$ -

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
WEATHERIZATION GRANT
CONTRACT #M-04237132
SCHEDULE OF BUDGET AND ACTUAL EXPENSES
For the Period July 1, 2004 Through June 30, 2005

Cost Category	<u>Budget</u>	<u>Actual</u>	(Over) / Under <u>Budget</u>
Administrative Cost	\$ 841,132	\$ 736,059	\$ 105,073
Department of Energy			
Materials	602,171	602,296	(125)
Program Support	650,474	647,920	2,554
Labor	1,221,160	1,252,083	(30,923)
Health & Safety	773,794	779,805	(6,011)
Vehicles & Equipment	321,398	303,607	17,791
Liability Insurance	65,711	60,622	5,089
Audit	26,162	26,212	(50)
Training	178,701	147,649	31,052
	<u>4,680,703</u>	<u>4,556,253</u>	<u>124,450</u>
Total DOE Benefits			
LIHEAP			
Materials	661,197	568,588	92,609
Program Support	632,963	582,199	50,764
Labor	1,052,793	1,066,098	(13,305)
Health & Safety	1,121,230	1,006,813	114,417
Liability Insurance	36,645	88,578	(51,933)
Audit	10,797	10,516	281
Vehicles & Equipment	35,000	34,208	792
	<u>3,550,625</u>	<u>3,357,000</u>	<u>193,625</u>
Total Liheap Benefits			
TOTAL CONTRACT	<u>\$ 8,231,328</u>	<u>\$ 7,913,253</u>	<u>\$ 318,075</u>

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

KENTUCKYASSOCIATION FOR COMMUNITY ACTION, INC.
 WEATHERIZATION GRANT
 CONTRACT #M-04237132
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2004 Through June 30, 2005

	<u>ACTUAL</u>	<u>QUESTIONED COST</u>	<u>BALANCE</u>
Agency DOE Benefits (1)	\$ 4,270,964	\$ -	\$ 4,270,964
Agency Liheap Benefits (1)	3,527,364	-	3,527,364
KACA Administration (1)	<u>114,925</u>	<u>-</u>	<u>114,925</u>
 TOTAL EXPENSES	 <u>\$ 7,913,253</u>	 <u>\$ -</u>	 <u>\$ 7,913,253</u>

(1) Taken from KACA payment records

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

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 WEATHERIZATION-COMPARISON OF KACA PAYMENTS TO PAYMENTS
 PER AGENCY AUDITS FOR CONTRACT #M-04237132
 SCHEDULE OF QUESTIONED COSTS
 For the Period July 1, 2004 Through June 30, 2005

	Payments Per KACA Records Through 6/30/05	Allowable Costs Per Agency Audits	Questioned Cost	Accounts Receivable From Agencies	Accounts Payable To Agencies
Audubon *	\$ 299,500		\$ -	\$ -	\$ 5,855
Bell Whitley	224,132	232,093	-	540	8,501
Big Sandy *	482,873		-	-	-
Bluegrass	304,112	317,190	-	-	13,078
Central KY	362,430	379,365	-	-	16,935
Daniel Boone *	282,745		-	-	50,734
Gateway	303,868	316,453	-	-	12,585
Harlan Co. *	181,241		-	-	15,146
KCEOC *	155,099		-	-	21,042
KY River Foothills *	307,854		-	-	12,447
LKLP *	353,578		-	-	69,665
Lake Cumberland *	406,772		-	-	61,870
Lex-Fayette *	251,610		-	-	60,829
Licking Valley	276,709	298,069	-	-	21,360
Middle KY River	164,275	169,700	-	-	5,425
Multi-Purpose	158,619	185,881	-	-	27,262
Northeast KY *	375,615		-	-	-
Northern KY *	462,499		-	-	2,499
Pennyrile	436,520	436,520	-	-	-
Southern KY *	461,153		-	-	14,577
Tri-County	158,468	167,783	-	-	9,315
West KY Allied	344,775	344,775	-	-	-
Louisville Metro *	468,070		-	-	147,226
SUBTOTALS	\$ 7,222,517	\$ 2,847,829	\$ -	\$ 540	\$ 576,351
Add Accounts Payable	576,351				
Deduct Accounts Receivable	(540)				
TOTALS	\$ 7,798,328				

*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.

OMB A-133 DISCLOSURES



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

To the Board of Directors
Kentucky Association for Community Action, Inc.
Frankfort, Kentucky

We have audited the financial statements of Kentucky Association for Community Actions, Inc. as of and for the year ended June 30, 2005 and have issued our report thereon dated December 15, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Association for Community Action, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Association for Community Action, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal award agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

L. J. Williams, CPA

December 15, 2005



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

To the Board of Directors
Kentucky Association for Community Action, Inc.
Frankfort, Kentucky

Compliance

We have audited the compliance of Kentucky Association for Community Action, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Kentucky Association for Community Action, 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 Kentucky Association for Community Action, Inc.'s management. Our responsibility is to express an opinion on Kentucky Association for Community Action, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Kentucky Association for Community Action, 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 Kentucky Association for Community Action, Inc.'s compliance with those requirements.

In our opinion, Kentucky Association for Community Action, 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, 2005.

Internal Control Over Compliance

The management of Kentucky Association for Community Action, 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 Kentucky Association for Community Action, 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

L. J. Williams, CPA

December 15, 2005

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 SCHEDULE OF FEDERAL AWARDS
 For the Year Ended June 30, 2005

	<u>Grant</u>	<u>Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant Number</u>	<u>Grant Period Ending</u>	<u>Federal Award Expenditures as of 6/30/05</u>
U.S. Department of Health and Human Services						
Community Services Block Grant		Office for Performance Enhancement	93.569	M-04237312	6/30/05	\$ 105,000
Home Energy Assistance Program			93.568	M-04237312	6/30/05	25,982,594
Weatherization			81.042	M-04237312	6/30/05	7,334,470
Rural Community Assistance Program		W.S.O.S. Community Action Comm.				
RCDI			10.446	01	9/30/04	50,678
EPAW			66.606	08-03	9/30/04	4,680
SDWA			66.607	10-03	9/30/04	9,360
Technitrain			10.761	14-03	9/30/04	28,080
OCS			93.570	22-03	9/30/04	24,700
Rural Community Assistance Program		W.S.O.S. Community Action Comm.				
EPAW			66.606	PY 04-05	9/30/05	14,016
SDWA			66.607	PY 04-05	9/30/05	25,172
Technitrain			10.761	PY 04-05	9/30/05	89,907
OCS			93.570	PY 04-05	9/30/05	93,196
Capacity Building Training and Technical Assistance		Office of Community Services	93.570	90ET0305/01	9/29/05	25,000
Training and Technical Assistance			93.002	90EQ0090/01	9/29/05	25,000
Training and Technical Assistance			93.002	90EQ0043/05	8/31/04	32,000
Compassion Capital		Kentucky River Foothills Development Council	93.647		9/29/04	77,419
Compassion Capital			93.647		9/29/05	435,038
Reach		Cabinet for Health and Family Services	93.568	M-04237312	6/30/05	469,470
TOTALS						\$ 34,825,780

See accompanying Notes to the Financial Statements for Significant accounting policies.

KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2005

SECTION I -- SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued		Unqualified
Internal control over financial reporting		
Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable conditions identified not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs		
Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable conditions identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major programs?		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.568	Heating and Energy Assistance Program
81.042	Weatherization

Dollar threshold used to distinguish between Type A and Type B programs		<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

SECTION II -- FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III -- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.