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PUBLIC SERVICE  
COMMISSION

Ms. Gwen R. Pinson  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P. O. Box 615  
Frankfort, KY 40602-0615

**Louisville Gas and Electric  
Company**  
State Regulation and Rates  
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February 21, 2018

Re: ***In the Matter of: Joint Application of Louisville Gas and Electric Company, Association of Community Ministries, Inc., People Organized and Working For Energy Reform, and Kentucky Association for Community Action, Inc. For The Establishment of a Home Energy Assistance Program, Case No. 2007-00337***

Dear Ms. Pinson:

On June 30, 2017, Louisville Gas and Electric Company ("LG&E") filed pursuant to Ordering Paragraph No. 4 of the Commission's Order in Case No. 2007-00337, the Home Energy Assistance ("HEA") program information for calendar year 2016. At the time of the filing, LG&E had not received the Financial Statements and Independent Auditor's Report from the Affordable Energy Corporation ("AEC"). On February 19, 2018, LG&E was provided the signed report from AEC and is subsequently filing the report with the Commission. With the filing of this report, LG&E has fully complied with the provisions of Ordering Paragraph No. 4 of the Commission's Order.

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

October 17, 2017

To the Board of Directors  
of Affordable Energy Corporation

In planning and performing our audit of the financial statements of Affordable Energy Corporation as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Affordable Energy Corporation's internal control over financial reporting (internal control) 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in Affordable Energy Corporation's internal control to be a material weakness:

#### **Financial Statement Preparation**

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to financial statements. Management reviewed, approved and accepted responsibility for those financial statements prior to their issuance; however, management does not have the ability to evaluate the completeness of financial statement disclosures. The absence of this control procedure is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the organization's internal control.

A significant deficiency is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in Affordable Energy Corporation's internal control to be a significant deficiency:

#### **Credit Card**

Credit card usage and expense reimbursements by the Executive Director for business expenses should be reviewed and approved by a board member to ensure supporting documentation is

provided and that all credit card charges are appropriate. The documentation should consist of original receipts and should agree to the amount on the credit card. This documentation should be attached to the credit card and retained. This can be done after the bill is paid, while attending a finance or board meeting.

As a reminder, all original receipts must be attached to the charge card statements. This will avoid payment of unauthorized purchases and duplicate payment if the same receipt was also submitted as reimbursement from petty cash. All original receipts must be turned in to bookkeeping timely, matched to the expenditure and attached to the credit card and vendor statements. The employee credit card statements, after being reconciled, should be reviewed by the Executive Director and / or Board member.

This communication is intended solely for the information and use of management, the board of directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Baldwin CPAs, PLLC*



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October 17, 2017

To the Board of Directors  
Affordable Energy Corporation

We have audited the financial statements of Affordable Energy Corporation for the year ended December 31, 2016, and have issued our report thereon dated October 17, 2017. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 25, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

#### **Significant Audit Findings**

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Affordable Energy Corporation are described in Note 1 to the financial statements. We want to emphasize one accounting policy:

The financial statements of Affordable Energy Corporation have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A schedule of these audit adjustments is attached.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 17, 2017.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the finance committee, board of directors, and management of Affordable Energy Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Baldwin CPAs, PLLC*

**Client:** AFFORDABLE ENERGY CORPORATION  
**Report:** Journal Entry

Account	Description	Workpaper Reference	Debit	Credit	Net Income Effect
<b>1</b>		<b>300</b>			
	Write off old checks and deposits and balance net assets				
1000.00	Cash - PNC Bank		27.00	0.00	
3900.00	Unrestricted		43.00	0.00	
5500.00	General Office:Training and/ or Conferences		0.00	70.00	
<b>Total</b>			<b>70.00</b>	<b>70.00</b>	<b>70.00</b>
<b>2</b>					
	Correct Humana posting				
2000.00	Accounts Payable		0.00	488.00	
5150.01	Fringe Benefits:Health Ins:Employee 2		488.00	0.00	
<b>Total</b>			<b>488.00</b>	<b>488.00</b>	<b>(488.00)</b>
<b>3</b>		<b>377</b>			
	Reclass HSA contributions to correct account				
5100.00	Personnel:Retirement 1		0.00	125.00	
5150.02	Fringe Benefits:HSA-AEC contribution #1		125.00	0.00	
5100.01	Personnel:Retirement 2		0.00	125.00	
5150.03	Fringe Benefits:HSA-AEC contribution #2		125.00	0.00	
5100.03	Personnel:Retirement 3		0.00	125.00	
5150.04	Fringe Benefits:HSA-AEC Contribution #3		125.00	0.00	
<b>Total</b>			<b>375.00</b>	<b>375.00</b>	<b>0.00</b>
<b>GRAND TOTAL</b>			<b>933.00</b>	<b>933.00</b>	<b>(418.00)</b>



**Affordable Energy Corporation**

Independent Auditors' Report

And Financial Statements

For the Years Ended

December 31, 2016 and 2015

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## **Independent Auditors' Report**

The Board of Directors  
Affordable Energy Corporation

We have audited the accompanying financial statements of Affordable Energy Corporation, (a nonprofit organization) which comprise the statements of assets, liabilities and net assets - modified cash basis as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and other changes in net assets - modified cash basis for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the 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, 2016 and 2015, and the revenues, expenses, and other changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*Baldwin CPAs, PLLC*

Louisville, Kentucky  
October 17, 2017

**Affordable Energy Corporation**  
**Statements of Assets, Liabilities and Net Assets – Modified Cash Basis**  
**December 31, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Cash - checking	\$ 108,562	\$ 114,981
Cash - savings	7,662	7,661
Total assets	\$ 116,224	\$ 122,642
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Credit card payable	\$ -	\$ 514
<b>Net Assets</b>		
Unrestricted	116,224	122,128
Total liabilities and net assets	\$ 116,224	\$ 122,642

**Affordable Energy Corporation**  
**Statements of Revenues, Expenses and Other**  
**Changes in Net Assets – Modified Cash Basis**  
**For the Years Ended December 31, 2016 and 2015**

<b>Changes in Unrestricted Net Assets</b>	<u>2016</u>	<u>2015</u>
Revenue and support		
Administrative fee	\$ 188,500	\$ 159,500
Interest income	1	1
	<u>188,501</u>	<u>159,501</u>
Expenses		
Salaries	93,509	72,154
Payroll taxes and benefits	34,218	18,193
Computer assistance	8,224	7,910
Contract services	2,187	2,366
Insurance	2,528	2,205
Intake training	8,070	7,716
Office supplies and expense	15,293	12,008
Postage	9,098	4,815
Professional fees	7,775	8,238
Rent	7,150	6,600
Telephone and internet	6,353	6,801
	<u>194,405</u>	<u>149,004</u>
Increase (decrease) in unrestricted net assets	(5,904)	10,497
Net assets, beginning of year	<u>122,128</u>	<u>111,631</u>
Net assets, end of year	<u>\$ 116,224</u>	<u>\$ 122,128</u>

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

**Affordable Energy Corporation**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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 Company 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. 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 Company.

**Basis of Accounting**

The financial statements of the Organization have been prepared on the modified 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. Modifications to the cash basis of accounting include recording amounts charged and owed on a credit card. 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 (FASB) Accounting Standards Codification (ASC) with regards to financial statements of Not-for-Profit Organizations. Under this guidance, 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. A description of the three net assets categories follows:

Unrestricted net assets: include the portion of expendable funds that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: include gifts for which donor-imposed restrictions have not been met.

Permanently restricted net assets: include amounts which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

**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).

**Affordable Energy Corporation**  
**Notes to Financial Statements - Continued**  
**December 31, 2016 and 2015**

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions.

**Note 2 – Concentration of Credit Risk**

The Organization receives 100% of its total program revenues from Louisville Gas & Electric by contractual agreement. Reductions in funding of this program by Louisville Gas & Electric could have an adverse effect on the operations of the Organization.

**Note 3 – Lease**

The Organization receives donated office space in Louisville, Kentucky. The Organization pays an unspecified amount each month to help cover utility costs and classifies the costs as rent expense.

The rent expense for the years ended December 31, 2016 and 2015 was \$7,150 and \$6,600, respectively.

	2016	2015
Rent Expense	<u>\$ 7,150</u>	<u>\$ 6,600</u>

**Note 4 – 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:

	2016	2015
Program services	\$ 174,965	\$ 134,104
Management and general	19,440	14,900
	<u>\$ 194,405</u>	<u>\$ 149,004</u>

**Note 5 – Subsequent Events**

Management has evaluated subsequent events for recognition or disclosure in the financial statements through October 17, 2017, which was the date at which the financial statements were available to be issued.