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COMMISSION



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Kent A. Chandler
Executive Director
Kentucky Public Service Commission
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Frankfort, KY 40602-0615

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State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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Rick E. Lovekamp
Manager – Regulatory
Strategy/Policy
T 502-627-3780
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June 30, 2020

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

Dear Mr. Chandler:

On September 14, 2007, the Commission approved the Joint Application of Kentucky Utilities Company (“KU”), Community Action Kentucky, Inc. (“CAK”), and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicolas Counties, Inc. (“CAC”), (collectively “Joint Applicants”) for a five year Home Energy Assistance (“HEA”) program. The term of the HEA program has been extended several times in various cases. However, pursuant to the Settlement Terms and the Commission’s Order in Case No. 2014-00371, effective June 30, 2015, the HEA program was established as a permanent program. Additionally, pursuant to Ordering Paragraph No. 4 of the Commission’s Order in Case No. 2007-00338, KU is filing the following HEA program information for calendar year 2019:

- Exhibit 1: Total Funds Collected
- Exhibit 2: Customer Enrollment by County
- Exhibit 3: Brown Bill Notices Issued
- Exhibit 4: Number of Disconnections

Kent A. Chandler, Executive Director
June 30, 2020

In the September 14, 2007 Order, KU was authorized to utilize up to five percent of the total HEA funds collected to provide discretionary energy assistance. The Order specifies that the funds could be used to pay down arrearages or to provide energy assistance in crisis situations. During 2019, CAK and CAC utilized the funds for program participants that required monthly energy assistance. Also, during 2019, KU and the program administrator (CAC) agreed to temporarily increase the number of slots to 3,500 program participants to help in distributing unspent HEA funds.

During 2019, there was no change to the monthly or annual benefit amount.

KU has enclosed the financial audits conducted by independent auditors for CAC and CAK for the period ending June 30, 2019.

This report submitted by KU shall serve as the final annual report under the aforementioned order. On May 4, 2020, in Case No. 2019-00366, the Commission issued an order revising the reporting requirements for KU. As a result, KU will file future annual reports with the Commission no later than July 15, 2021 as prescribed in Appendix B of the Commission's order for Case No. 2019-00366.

Lastly, pursuant to the Commission's Order dated March 16, 2020 for Case No. 2020-00085, specifically Ordering Paragraph No. 4, the Companies are submitting this information via e-mail to PSCED@ky.gov. Should you have any questions regarding this information, please contact me or Don Harris at 502-627-2021.

Sincerely,



Rick E. Lovekamp

Kentucky Utilities Company
Home Energy Assistance Program
Total Funds Collected

Month/Year	Amount
Jan-19	\$132,810
Feb-19	131,131
Mar-19	132,023
Apr-19	131,741
May-19	131,755
Jun-19	131,455
Jul-19	132,227
Aug-19	132,055
Sep-19	131,339
Oct-19	131,648
Nov-19	131,242
Dec-19	131,889
Total	\$1,581,315

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2019**

	Number	County
County	Enrolled	Distribution
Adair	2	0.07%
Anderson	25	0.86%
Barren	4	0.14%
Bath	7	0.24%
Bell	244	8.44%
Bourbon	129	4.46%
Boyle	116	4.01%
Bracken	2	0.07%
Bullitt	2	0.07%
Caldwell	4	0.14%
Carroll	5	0.17%
Casey	28	0.97%
Christian	2	0.07%
Clark	44	1.52%
Clay	33	1.14%
Crittenden	2	0.07%
Estill	38	1.31%
Fayette	1,076	37.22%
Fleming	11	0.38%
Franklin	10	0.35%
Garrard	16	0.55%
Graves	5	0.17%
Grayson	17	0.59%
Green	18	0.62%
Hardin	85	2.94%
Harlan	10	0.35%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2019**

	Number	County
County	Enrolled	Distribution
Harrison	68	2.35%
Hart	49	1.69%
Henry	15	0.52%
Hickman	2	0.07%
Hopkins	19	0.66%
Jessamine	10	0.35%
Knox	26	0.90%
Larue	55	1.90%
Lincoln	49	1.69%
Livingston	1	0.03%
Madison	40	1.38%
Marion	8	0.28%
McCracken	2	0.07%
McCreary	3	0.10%
McClellan	2	0.07%
Mercer	78	2.70%
Montgomery	19	0.66%
Muhlenberg	22	0.76%
Nicholas	92	3.18%
Oldham	5	0.17%
Owen	11	0.38%
Pulaski	112	3.87%
Rowan	45	1.56%
Russell	85	2.94%
Scott	29	1.00%
Shelby	2	0.07%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2019**

	Number	County
County	Enrolled	Distribution
Taylor	4	0.14%
Trimble	4	0.14%
Washington	18	0.62%
Webster	1	0.03%
Whitley	45	1.56%
Woodford	35	1.21%

**Kentucky Utilities Company
Home Energy Assistance Program
Brown Bill Notices Issued - 2019**

Number of Customers	Number of Brown Bills Per Customer Received Annually
366	1
313	2
295	3
241	4
240	5
204	6
205	7
208	8
233	9
199	10
176	11
85	12
1	13 *
2,766	Total

* One customer received two dunning notices in January (One for December 2018 bill and one for January 2019 bill)

**Kentucky Utilities Company
Home Energy Assistance Program
Number of Disconnections - 2019**

Number of Customers	Number of Disconnections Per Customer
443	1
118	2
46	3
5	4
2	5
614	Total

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

Consolidated Financial Statements and
Supplementary Information
Year Ended June 30, 2019

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

Consolidated Financial Statements and Supplementary Information
Year Ended June 30, 2019

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of WinterCare Energy Fund, Inc. and CAC Holdings, Inc., were not audited in accordance with *Government Auditing Standards* as they did not receive any federal funding. Shepherd Place, Inc. had a separate audit completed that was in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates adopted the amendments in Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements for Not-for-Profit Entities*, as of and for the year ended June 30, 2019.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedules on pages 23 to 34 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

November 25, 2019
Madison, Wisconsin

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

Consolidated Statement of Financial Position

June 30, 2019

<i>Assets</i>	
Current assets:	
Cash	\$ 861,632
Restricted deposits	48,772
Certificates of deposit	501,944
Investments	3,580,335
Grants receivable	2,066,371
Accounts receivable	259,883
Other assets	31,121
Total current assets	7,350,058
Long-term assets:	
Beneficial interest in assets held by others	109,299
Other assets	107,987
Total long-term assets	217,286
Property and equipment, net	6,159,000
TOTAL ASSETS	\$ 13,726,344
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 228,795
Accounts payable	316,697
Accrued payroll and related expenses	1,252,153
Grant funds received in advance	44,959
Total current liabilities	1,842,604
Long-term liabilities:	
Notes payable	830,031
Fair value of interest rate swap agreement	50,635
Tenant security deposits	5,599
Capital advance - HUD	1,061,800
Total long-term liabilities	1,948,065
Total liabilities	3,790,669
Net assets:	
Without donor restrictions:	
Undesignated	4,085,104
Board designated	2,006,901
Board designated for endowment	88,307
Total net assets without donor restrictions	6,180,312
With donor restrictions	3,755,363
Total net assets	9,935,675
TOTAL LIABILITIES AND NET ASSETS	\$ 13,726,344

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Grant revenue	\$ 25,475,587	\$ 499,530	\$ 25,975,117
Investment income	208,405	33,235	241,640
Other income	3,053,445	3,212	3,056,657
Donation of property and equipment	629,209	0	629,209
In-kind contributions	354,158	0	354,158
Net assets released from restriction	66,353	(66,353)	0
Total revenue	29,787,157	469,624	30,256,781
Expenses:			
Program activities:			
Child education	19,528,327	0	19,528,327
Community services	2,936,243	0	2,936,243
Weatherization services	3,376,696	0	3,376,696
Senior programs	241,702	0	241,702
Total program activities	26,082,968	0	26,082,968
Fund-raising	72,906	0	72,906
Management and general expenses	2,523,492	0	2,523,492
Total expenses	28,679,366	0	28,679,366
Change in net assets	1,107,791	469,624	1,577,415
Net assets - Beginning of year	5,072,521	3,285,739	8,358,260
Net assets - End of year	\$ 6,180,312	\$ 3,755,363	\$ 9,935,675

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	<u>Child Education</u>	<u>Community Services</u>	<u>Weatherization Services</u>	<u>Senior Programs</u>	<u>Total Program Activities</u>	<u>Management and General Expenses</u>	<u>Fund-raising</u>	<u>Total Expenses</u>
EXPENSES								
Salaries	\$ 8,112,765	\$ 924,618	\$ 333,132	\$ 67,028	\$ 9,437,543	\$ 1,312,532	\$ 25,619	\$ 10,775,694
Fringe benefits	3,311,637	468,717	142,445	32,140	3,954,939	371,304	11,635	4,337,878
Consultant/contractual	4,084,812	117,464	562,480	0	4,764,756	220,829	22,975	5,008,560
Space	994,260	154,226	38,054	51,615	1,238,155	312,563	5,926	1,556,644
Supplies	1,338,485	39,308	54,468	3,481	1,435,742	27,512	2,516	1,465,770
Travel	287,479	96,997	1,394	18,086	403,956	42,763	473	447,192
Communications and IT	281,134	57,696	12,681	1,465	352,976	135,488	1,367	489,831
Beneficiary assistance	57,892	1,057,815	2,231,645	12,654	3,360,006	0	200	3,360,206
Other	718,739	7,109	397	54,492	780,737	100,501	2,195	883,433
In-kind expenses	341,124	12,293	0	741	354,158	0	0	354,158
TOTAL EXPENSES	\$ 19,528,327	\$ 2,936,243	\$ 3,376,696	\$ 241,702	\$ 26,082,968	\$ 2,523,492	\$ 72,906	\$ 28,679,366

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year Ended June 30, 2019

Increase (decrease) in cash:	
Cash flows from operating activities:	
Change in net assets	\$ 1,577,415
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	416,214
Donated property and equipment	(629,209)
Loss on disposal of equipment	57,672
Net realized and unrealized gain on investments	(171,653)
Net realized and unrealized gain on beneficial interest in assets held by others	(6,658)
Change in fair value of interest rate swap agreement	577
Changes in operating assets and liabilities:	
Restricted deposits	(7,404)
Grants receivable	(806,028)
Accounts receivable	28,808
Other assets	139,393
Accounts payable	(32,745)
Accrued payroll and related expenses	283,188
Grant funds received in advance	(98,096)
Tenant security deposits	165
Net cash provided by operating activities	751,639
Cash flows from investing activities:	
Purchase of investments	(366,542)
Purchase of certificates of deposit	(501,944)
Distribution from beneficial interest in assets held by others	529
Purchase of property and equipment	(367,762)
Net cash used in investing activities	(1,235,719)
Cash flows from financing activities:	
Payments on notes payable	(338,928)
Net cash used in financing activities	(338,928)
Change in cash	(823,008)
Cash - Beginning of year	1,684,640
Cash - End of year	\$ 861,632
Supplemental schedule of operating activities:	
Interest paid and expensed	\$ 71,152

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC), a nonprofit organization, was established in 1965. CAC studies the causes and effects of poverty and, in turn, creates opportunities for individuals and families, which enable them to become self-sufficient members of the community. Approximately 77% of CAC's grant funding is received under its federal Head Start grants.

Shepherd Place, Inc. (the "Project") is a 20-unit apartment facility for the elderly and handicapped located in Carlisle, Kentucky. It is operated under Section 202 of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project also receives Section 8 Housing Assistance payments from HUD. A significant portion of the Project's rental income is received from HUD.

WinterCare Energy Fund, Inc. ("WinterCare") was formed in 1983 to provide energy assistance to individuals demonstrating need in Kentucky. Program funding is by donations from individuals and utility companies.

CAC Holdings, Inc. is a wholly owned subsidiary of CAC formed in 2018. CAC Holdings, Inc. had no assets as of June 30, 2019, or any activity during the fiscal year ended to June 30, 2019.

Basis of Presentation

The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Principles of Consolidation

These financial statements are consolidated and include the accounts of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., Shepherd Place, Inc., WinterCare Energy Fund, Inc., and CAC Holdings, Inc. (the "Organizations"). CAC Holdings, Inc. is wholly owned by CAC. The other Organizations are nonprofits that share some common board members with CAC and are operated by the management team of CAC. All material intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates

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

Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organizations and changes therein are classified and reported as follows:

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Net Assets (Continued)

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution. The governing board has designated, from net assets without donor restrictions, a board-designated endowment and a board-designated reserve to be used for future operations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Organizations and/or the passage of time. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are transferred to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Currently, the Organizations do not have any net assets that are perpetual in nature.

Revenue Recognition

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restriction. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Grants are recorded as either contributions or exchange transactions based on criteria contained in the grant award.

A. Grant Awards That Are Contributions

Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related expenses are incurred. Amounts received in excess of expenses are reflected as grant funds received in advance.

B. Grant Awards That Are Exchange Transactions

Exchange transactions reimburse based on a predetermined rate for services performed. The revenue is recognized in the period the service is performed. Amounts received in excess of those earned are reflected as deferred revenue.

Other income primarily consists of daycare revenue, and amounts received from individuals, companies, and governmental sources in conjunction with grant activities and are reported as revenue when earned.

Investments

Investments are recorded at fair value as determined in an active market. Realized and unrealized gains and losses are recognized as investment income in the consolidated statement of activities. Investment fees, if any, are netted with return.

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable consist primarily of various amounts due from other entities. Receivables are reviewed for collectability by management, and an allowance for doubtful accounts is recorded as needed based on collection history and customer attributes. Management considers these receivables to be collectible; therefore, no allowance for uncollectible amounts has been recorded.

Property and Equipment

Property and equipment are capitalized at cost and depreciated over their estimated useful life using the straight-line method. Leasehold improvements are depreciated over the lesser of the lease term or the economic useful life of the improvement using the straight-line method. The Organizations consider property and equipment to be items with a cost of \$5,000 or more and a useful life of over one year. During the year ended June 30, 2019, CAC also recorded a donation of property of \$629,209 for buildings and equipment received as part of the new Head Start grant award for 8 new counties in Kentucky. The former recipient of the Head Start program in those counties transferred certain property that they had purchased with Head Start funding. The donation was recorded at fair value.

Property and equipment purchased with grant funds are owned by the Organizations while used in the program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. Property and equipment purchased with grant funds, net of depreciation, was \$5,598,375 at June 30, 2019.

Income Taxes

CAC, Shepherd Place and Wintercare are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and are also exempt from Kentucky state income tax. CAC Holdings, Inc. is a wholly owned LLC and for tax purposes is treated as a disregarded entity and is included on CAC's tax return.

The Organizations are required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the consolidated financial statements. The Organizations have determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

Derivative Instrument

CAC holds a derivative financial instrument to manage risk related to interest rate movements. The interest rate swap contract, designated and qualifying as a cash flow hedge, is reported at fair value. The gain or loss on the effective portion of the hedge is included in the consolidated statement of activities. CAC documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

CAC's interest rate risk management strategy is to stabilize cash flow requirements by maintaining an interest rate swap contract to convert variable-rate debt to a fixed rate.

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

In-Kind Contributions

CAC has recorded in-kind contributions for space, supplies, and professional services in the consolidated statement of activities in accordance with generally accepted accounting principles (GAAP). Those standards require that only contributions of service received which create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of GAAP are different than the in-kind requirements of several of CAC's grant awards. CAC received in-kind contributions from partner agencies for teaching staff, space, transportation, and other operating costs that were not reimbursed by CAC. CAC also received in-kind contributions for nonprofessional volunteers, food, and clothing during the year with a value of approximately \$3,500,000, primarily for its Head Start, Senior Services, Community Service Block Grant, and Housing programs, which is not recorded in the consolidated statement of activities.

Functional Allocation of Costs

The cost of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Personnel costs are allocated based on time and effort reporting. Space and related costs are allocated based on square footage. Communications and IT costs are allocated based on devices by program and by location.

Change in Accounting Policy

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958). This ASU provides certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance was adopted effective July 1, 2018.

New Accounting Pronouncements

In 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard replaces the current revenue recognition requirements and most industry-specific guidance. When adopted, the amendments in this ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. CAC is currently evaluating the impact of the provisions of ASU Topic 606.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments for transactions in which the entity serves as the resource recipient are applicable to annual periods beginning after December 15, 2018, and the amendments for transactions in which the entity serves as resource provider are applicable to annual periods beginning after December 15, 2019. CAC is currently evaluating the impact of the provisions of ASU Topic 958.

Note 2: Concentration of Credit Risk

The Organizations maintain cash balances at several financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. During the year, balances at one bank exceeded FDIC coverage. Management believes this financial institution has a strong credit rating and credit risk related to these deposits is minimal. In addition, CAC's certificates of deposit are in different financial institutions with each certificate of deposit covered by FDIC.

Note 3: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the consolidated statement of financial position date, comprise the following as of June 30, 2019:

Cash	\$ 687,236
Certificates of deposit	501,944
Grants receivable	2,066,372
Accounts receivable	259,883
Subtotal financial assets	3,515,435
Less: Liabilities to be paid with available financial assets	(1,378,348)
Less: Grant funds received in advance	(44,959)
Less: Restricted program contributions included in cash	(82,038)
Less: Board designated operating reserves	(1,976,901)
Total	\$ 33,189

CAC does not have a formal liquidity policy. However, the board has designated \$2,006,901 of reserves which approximate one month of operating expenses. The board can approve the use of these designated reserves if they are needed. The Board of Directors for CAC has given authority to the Executive Director and CFO, acting jointly, to access \$30,000 of the board designated reserve for situations that may arise which are outside the course of normal operations and traditional funding parameters. CAC has the ability to rely on a lower cash balance as they are primarily funded with cost reimbursement grants. Under cost reimbursement grants, once expenses are incurred, an organization can request reimbursement from the funding source. Their grants have varying renewal dates. CAC has grant commitments for future expenses over \$15,000,000. In addition, CAC has one line of credit available for cash flow needs up to \$750,000 as further described in Note 10.

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

Notes to Consolidated Financial Statements

Note 4: Restricted Deposits

Under the terms of the Regulatory Agreement the Project has with HUD, the Project is required to set aside specified amounts for the replacement of property and other project expenditures as approved by HUD. Restricted funds at June 30, 2019, are composed of the following:

Escrow fund	\$	4,895
Reserve for replacement		38,231
Residual receipts		47
Tenant security deposits		5,599
<hr/>		
Total	\$	48,772

Note 5: Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2019, as follows:

Direct federal programs	\$	1,094,176
State and local programs		972,195
<hr/>		
Total	\$	2,066,371

Note 6: Investments

CAC has a health insurance trust for self-funded health insurance costs of CAC. The allocation of investments in the trust at June 30, 2019, was less than 1% in a money market fund, 59% fixed income, 2% in a real estate investment trust, and 39% in equities. The health insurance trust investments of \$2,156,521 are carried at fair value.

CAC also participates in an investment pool with seven other nonprofits to self-fund unemployment insurance claims. The fair value of CAC's portion of the investment pool at June 30, 2019, was \$1,423,814 and represents approximately 17% of the pooled investment total. The fair value of the investment pool at June 30, 2019, was \$8,626,406. The allocation of the investments in the pool at June 30, 2019, was less than 1% in a money market fund, 6% in a real estate investment trust, 40% fixed income, and 54% equities.

Investment income for the year ended June 30, 2019, included interest and dividends of \$56,493 and a net realized and unrealized gain of \$171,653 for these investments and \$6,658 of unrealized gain related to the endowments disclosed in Note 7. In addition, interest income on cash and certificates of deposit was \$6,836 for the year ended June 30, 2019.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

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

Notes to Consolidated Financial Statements

Note 7: Beneficial Interest in Assets Held by Others

When assets are held by an unrelated, not-for-profit organization solely for the benefit of another not-for-profit (beneficiary) organization, an asset is recorded on the beneficiary not-for-profit organization's financial statements. The Blue Grass Community Foundation holds assets for the benefit of CAC. CAC has recorded these assets on the consolidated statement of financial position as a long-term asset with a corresponding net asset with donor restrictions for the Community Action Council RSVP balance and net asset without donor restrictions for the Community Action Council balance. Any change in the net asset value during the fiscal period is to be recorded in the consolidated statement of activities as an increase or decrease in net assets.

The balance at June 30, 2019, consists of the following:

Community Action Council RSVP	\$	20,992
Community Action Council		88,307
<u>Total</u>	<u>\$</u>	<u>109,299</u>

Note 8: Endowments

The Board of Directors follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it is the relevant state law governing its endowment funds. The Board of Directors has interpreted UPMIFA as allowing the appropriation for expenditures for the purposes for which the endowment was established, the net appreciation, realized and unrealized, in the fair value of the endowment fund over the historic dollar value of the fund. The Board of Directors believes this is prudent under ordinary business care considering the facts and considers circumstances prevailing at the time action is taken.

The RSVP endowment fund was established by a previous RSVP volunteer. This endowment is for the benefit of the grantee of the RSVP grant. CAC transferred \$55,000 to Blue Grass Community Foundation (BGCF) to establish the second fund, with the anticipation that other donations received by BGCF would be added to this fund. CAC's agreement with BGCF states that BGCF is responsible for the investment and administration of the funds. Each January, 5% of the rolling 12-month average is placed in liquid funds that may be withdrawn or reinvested.

Changes in endowment funds were as follows:

	Board-Designated (Without Donor Restriction)	Donor-Designated (With Donor Restriction)	Total
Endowments at July 1, 2018	\$ 82,669	\$ 20,501	\$ 103,170
Distributions	(427)	(102)	(529)
Net appreciation	6,065	593	6,658
<u>Endowments at June 30, 2019</u>	<u>\$ 88,307</u>	<u>\$ 20,992</u>	<u>\$ 109,299</u>

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

Notes to Consolidated Financial Statements

Note 9: Property and Equipment

A summary of property and equipment is as follows:

Land	\$ 636,250
Land improvements	160,443
Building and improvements	8,012,402
Equipment	1,422,027
Subtotal	10,231,122
Accumulated depreciation	(4,072,122)
<u>Total</u>	<u>\$ 6,159,000</u>

Note 10: Line of Credit

CAC has an available line of credit in the amount of \$750,000 with Central Bank & Trust Co. with a maturity date of December 25, 2019. The interest rate on the line of credit is variable at the prime rate with a floor of 5%. The rate was 5.25% at June 30, 2019. There was no outstanding balance on the line of credit as of June 30, 2019. The line of credit is secured by three properties.

Note 11: Capital Advance - HUD

The Project was financed principally by a HUD capital advance mortgage note ("Note") in the amount of \$1,061,800, payable to HUD. The Note bears no interest and repayment is not required so long as the housing remains available for very low-income elderly persons in accordance with the regulatory agreements and regulations.

The Note may not be prepaid prior to the maturity date without the prior written approval of HUD. Provided that (1) the housing has remained available for occupancy by eligible persons until the maturity date of the Note, and (2) the Note has not otherwise become due and payable by reason of default under the Note, mortgage or regulatory agreement or regulations, the Note will be considered to be paid in full and discharged at maturity, February 1, 2034.

If the Note is considered in default under the terms of the Note, mortgage, the regulatory agreement or the regulations, at the option of the holder of the Note, HUD may take possession of the project, collect all rents and charges in connection of the project, declare the entire principal due and foreclose on the mortgage, apply any court, Federal or State, sanctions, and/or terminate the Project Rental Assistance Contract. The holder of the Note is required to give written notice of such default and the Project has 30 days to correct such default. If the default is not corrected within 30 days, HUD may proceed to correct the violation.

The Note, in its principal amount, is reflected on the consolidated statement of financial position as long-term debt until such time as the HUD capital advance Note expires. Although management currently intends to comply with all Note provisions over the term of the Note, management believes that the possibility that repayment may occur is other than remote; therefore, believes recognition of the Note as long-term debt is the appropriate treatment.

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

Notes to Consolidated Financial Statements

Note 12: Derivative Instrument

CAC maintains an interest rate swap agreement with a financial institution. Under the terms of this arrangement; the parties, in effect, pay each other's interest cost on the underlying debt. The arrangement has the effect of controlling CAC's interest rate risk in a rising interest rate environment. At June 30, 2019, the interest rate swap had a notional amount of \$790,000 with interest fixed at 3.74% and expires November 2023.

The interest rate swap was issued at market terms; therefore, had no fair value at inception. The notional amount changes with quarterly payments. The carrying amounts of the interest rate swap has been adjusted to fair value as of June 30, 2019 which, because of changes in forecasted levels of The Bond Market Association, Municipal Swap Index, resulted in reporting a liability for the fair value of the future net payments forecasted under the interest rate swap of \$50,635. Adjustments to the carrying amount of the interest rate swap are reported as other income.

Note 13: Notes Payable

A summary of notes payable at June 30, 2019, is as follows:

Revenue bond payable, fixed at 3.74% through an interest rate swap agreement with interest paid quarterly and principal paid annually, due November 2023. The bond is secured by real estate known as the Administrative and Support Services Center located on High Street in Lexington Kentucky and the Fayette West Center located on Cambridge Drive in Lexington, Kentucky.	\$ 910,000
Note payable at a fixed rate of 4.25%, with monthly principal and interest payments of \$2,004, due September 2022. The note is secured by two school buses.	78,948
Note payable with interest at 0% and monthly payments of \$1,934, due February 2020. The note is secured by phone equipment.	33,648
Note payable at a fixed rate of 3.3% interest, with monthly payments of \$466, due May 2022. The note is secured by a vehicle.	15,531
Note payable at a fixed rate of 3.3% interest, with monthly payments of \$621, due May 2022. The note is secured by a vehicle.	20,699
Total notes payable	1,058,826
Current portion	(228,795)
Long-term notes payable	\$ 830,031

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

Notes to Consolidated Financial Statements

Note 13: Notes Payable (Continued)

The future maturities of notes payable at June 30, 2019 are as follows:

2020	\$	228,795
2021		201,581
2022		217,004
2023		186,446
2024		225,000
<u>Total long-term notes payable</u>		<u>\$ 1,058,826</u>

Note 14: Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2019, consist of the following:

Self-funded health insurance trust	\$	2,224,782
Unemployment insurance trust		1,427,550
Beneficial interest in assets held by others		20,992
Other		82,039
<u>Total net assets with donor restrictions</u>		<u>\$ 3,755,363</u>

These net assets are either restricted by time or purpose. When the restriction is met, the net assets are released from restriction. For the year ended June 30, 2019, \$66,353 was released from restriction with the purpose restrictions were met.

Note 15: Operating Leases

CAC leases various facilities and equipment for the operation of its programs under operating leases. Rent expense for the year ended June 30, 2019, was \$117,063. Future minimum lease payments beyond 2019 are as follows:

2020	\$	98,901
2021		57,551
2022		51,851
2023		43,704
2024		37,056
Thereafter		53,956
<u>Total</u>		<u>\$ 343,019</u>

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

Notes to Consolidated Financial Statements

Note 16: Retirement

CAC offers its employees a defined contribution retirement plan. The plan is open to all employees. An employee may begin contributions to the plan upon employment. CAC contributes 8% of gross wages to the plan for qualified employees after one year of employment. CAC's contribution vests over a period of five years. CAC's contributions to the plan for the year ended June 30, 2019, were \$648,281.

Note 17: Fair Value Measurements

Financial accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, CAC uses various valuation methods including the market, income, and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market-corroborated, or generally unobservable inputs.

Whenever possible CAC attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods, CAC is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable, market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

Following is a description of the valuation methodology used for each asset and liability measured at fair value on a recurring basis:

- Money market funds are valued using other market data.
- The interest rate swap was valued using a discounted cash flow model that utilizes observable market data, such as market interest rates and interest rate curves.
- Endowment funds held by Foundation are valued using amounts provided by the Blue Grass Community Foundation.

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

Notes to Consolidated Financial Statements

Note 17: Fair Value Measurements (Continued)

Information regarding the fair value of assets measured at fair value on a recurring basis as of June 30, 2019, is as follows:

	Recurring Fair Value Measurements Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CAC share of unemployment investment pool:				
Money market	\$ 9,576	\$ 0	\$ 9,576	\$ 0
Fixed income	566,369	566,369	0	0
REIT	83,679	83,679	0	0
Equities	764,190	764,190	0	0
Investments held by health trust:				
Money market	10,297	0	10,297	0
Fixed income	1,272,804	1,272,804	0	0
REIT	41,779	41,779	0	0
Equities	831,641	831,641	0	0
Total investments	3,580,335	3,560,462	19,873	0
Endowment funds held by Foundation	109,299	0	0	109,299
Total assets	\$ 3,689,634	\$ 3,560,462	\$ 19,873	\$ 109,299
Liability – Interest rate swap	\$ 50,635	\$ 0	\$ 50,635	\$ 0

Changes in the fair value of the investments held by trust endowment funds are recorded as investment income in the consolidated statement of activities. The following is a reconciliation of the beginning and ending balances of CAC's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2019:

Endowment funds – Beginning of year	\$ 103,170
Distributions	(529)
Net realized and unrealized gain	6,658
Endowments funds – End of year	\$ 109,299

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

Notes to Consolidated Financial Statements

Note 18: Commitments and Contingencies

At June 30, 2019, CAC had commitments under various ongoing grant awards of approximately \$15,000,000. The revenue relating to these grants is not recognized in the accompanying consolidated financial statements because the revenue recognition is conditional on the incurrence of expenditures or the performance of services in the next fiscal year.

CAC is subject to various claims and legal matters arising in the normal course of business. In the opinion of management, all such matters are adequately covered by insurance and, if not so covered, are without merit or would not have a material adverse effect on the financial statements if an unfavorable settlement was reached.

CAC entered into a \$366,550 contract for construction contract administration services at Winburn Drive. As of June 30, 2019, CAC has recorded approximately \$19,125 of expenses relating to the construction contract administration services.

Note 19: Subsequent Events

Subsequent events have been evaluated through November 25, 2019, which is the date the financial statements were available to be issued. The following information summarizes significant events that occurred after June 30, 2019.

In September 2019, CAC entered into a construction contract for renovations at 1169 Winburn Drive. The renovation costs will be paid for with Office of Head Start grant award funds.

Supplementary Information

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

Schedule A-1 Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Subrecipients	Federal Expenditures
DEPARTMENT OF AGRICULTURE				
Passed-Through the Kentucky Department of Education				
Child and Adult Care Food Program	10.558	N/A	\$ 0	\$ 534,578
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Funding				
Project Independence	14.267	KY0165L4I021601	0	170,767
Project Independence		KY0165L4I021702	0	165,456
Crisis Housing Support - Youth		KY0182L4I001700	0	5,219
Crisis Housing Support - Rural		KY0212L4I021800	0	9,492
Total Federal Expenditures CFDA #14.267			0	350,934
Passed-Through the Kentucky Housing Corporation				
Continuum of Care/Bourbon County	14.235	KY0008L4I001609	0	46,386
Continuum of Care/Bourbon County		KY0008L4I001710	0	162,115
Samaritan		KY0022L4I001609	0	23,677
Samaritan		KY0022L4I001710	0	94,296
Public Housing - Bonus		KY0113L4I001604	0	178,402
Public Housing - Bonus		KY0113L4I001705	0	207,494
Total Federal Expenditures CFDA #14.235			0	712,370
Passed-Through the Kentucky Housing Corporation				
TBRA	14.239	TB18-0553-01	0	43,195
TBRA		TB18-0553-01	0	25,455
Total Federal Expenditures CFDA #14.239			0	68,650
Passed-Through Lexington Fayette Urban County Government				
Emergency Shelter Grant	14.231	ES15-0128-01	0	7,358
Passed-Through the Kentucky Housing Corporation				
Emergency Shelter Grant - Rural		ES17-0128-01	0	11,873
Total Federal Expenditures CFDA #14.231			0	19,231
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			0	1,151,185
DEPARTMENT OF ENERGY				
Passed-Through the Kentucky Housing Corporation				
DOE-Weatherization Assistance	81.042	WX19-0603-02	0	232,641
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed-Through Community Action Kentucky				
Low-Income Home Energy Assistance	93.568	736-1800001946	0	1,627,487
Passed-Through the Kentucky Housing Corporation				
Low-Income Home Weatherization Assistance Program		LH19-0603-02	0	328,325
Total Federal Expenditures CFDA #93.568			0	1,955,812

See Independent Auditor's Report.

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

Schedule A-2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Subrecipients	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Passed-Through the Kentucky Cabinet for Health and Family Services				
Community Services Block Grant	93.569	PON2 736 1800001929	0	665,687
Project Life	93.674	PON2 736 1800001787	0	607,296
Direct Funding				
Head Start	93.600	04CH475404	0	1,029,072
Head Start		04CH475405	0	6,898,726
Early Head Start		04CH475404	0	480,785
Early Head Start		04CH475405	0	3,436,419
Migrant Head Start		90CM982003	0	629,040
Migrant Head Start		90CM982004	0	2,455,749
EHS-CCP (Partnering for Excellence)		04HP003003	0	550,164
EHS-CCP (Partnering for Excellence)		04HP003004	0	1,699,220
South Central Head Start		04CH010721	0	1,877,149
South Central Early Head Start		04CH010721	0	826,859
Migrant and Seasonal Head Start Expansion		90HM000012	0	5,161
Total Federal Expenditures CFDA #93.600			0	19,888,344
Direct Funding				
SAMHSA	93.243	17TI080386	0	90,903
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			0	23,208,042
CORPORATION FOR NATIONAL & COMMUNITY SERVICE				
Direct Funding				
Retired Senior Volunteer Program 2018	94.002	17RSKY001	0	54,734
Retired Senior Volunteer Program 2019		17RSKY001	0	19,837
Total Federal Expenditures CFDA #94.002			0	74,571
Direct Funding				
Foster Grandparent/Senior Companion Cluster				
Foster Grandparents Program 2018	94.011	17SFSKY001	0	91,898
Foster Grandparents Program 2019		17SFSKY001	0	33,122
Total Federal Expenditures CFDA #94.011, 94.016			0	125,020
TOTAL CORPORATION FOR NATIONAL & COMMUNITY SERVICE			0	199,591
TOTAL FEDERAL EXPENDITURES			\$ 0	\$ 25,326,037

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

Schedule A-3

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Indirect Cost Rate

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. has an indirect rate that has been approved by the U.S. Department of Health and Human Services (DHHS).

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

Schedule B

Consolidating Statement of Financial Position

June 30, 2019

	Community Action Council	Shepherd Place	WinterCare Energy Fund	Eliminations	Consolidated Balance
Current assets:					
Cash	\$ 770,006	\$ 17,067	\$ 74,559	\$ 0	\$ 861,632
Restricted deposits	0	48,772	0	0	48,772
Certificates of deposit	501,944	0	0	0	501,944
Investments	3,580,335	0	0	0	3,580,335
Grants receivable	2,066,371	0	0	0	2,066,371
Accounts receivable	151,245	0	110,295	(1,657)	259,883
Other assets	31,121	0	0	0	31,121
Total current assets	7,101,022	65,839	184,854	(1,657)	7,350,058
Long-term assets:					
Beneficial interest in assets held by others	109,299	0	0	0	109,299
Other assets	107,987	0	0	0	107,987
Total long-term assets	217,286	0	0	0	217,286
Property and equipment, net	5,826,803	332,197	0	0	6,159,000
TOTAL ASSETS	\$ 13,145,111	\$ 398,036	\$ 184,854	(\$ 1,657)	\$ 13,726,344
Current liabilities:					
Current portion of notes payable	\$ 228,795	\$ 0	\$ 0	\$ 0	\$ 228,795
Accounts payable	276,658	18,723	22,973	(1,657)	316,697
Accrued payroll and related expenses	1,252,153	0	0	0	1,252,153
Grant funds received in advance	44,959	0	0	0	44,959
Total current liabilities	1,802,565	18,723	22,973	(1,657)	1,842,604
Long-term liabilities:					
Notes payable	830,031	0	0	0	830,031
Fair value of interest rate swap agreement	50,635	0	0	0	50,635
Tenant security deposits	0	5,599	0	0	5,599
Capital advance - HUD	0	1,061,800	0	0	1,061,800
Total long-term liabilities	880,666	1,067,399	0	0	1,948,065
Total liabilities	2,683,231	1,086,122	22,973	(1,657)	3,790,669
Net assets:					
Without donor restrictions (deficit)	6,706,517	(688,086)	161,881	0	6,180,312
With donor restriction	3,755,363	0	0	0	3,755,363
Total net assets (deficit)	10,461,880	(688,086)	161,881	0	9,935,675
TOTAL LIABILITIES AND NET ASSETS	\$ 13,145,111	\$ 398,036	\$ 184,854	(\$ 1,657)	\$ 13,726,344

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

Schedule C

Consolidating Statement of Activities

Year Ended June 30, 2019

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Consolidated Balance
Revenue:					
Grant revenue	\$ 25,975,117	\$ 0	\$ 0	\$ 0	\$ 25,975,117
Investment income	241,556	84	0	0	241,640
Other income	2,767,701	109,998	325,808	(146,850)	3,056,657
Donation of property and equipment	629,209	0	0	0	629,209
In-kind contributions	354,158	0	0	0	354,158
Total revenue	29,967,741	110,082	325,808	(146,850)	30,256,781
Expenses:					
Salaries	10,775,694	0	0	0	10,775,694
Fringe benefits	4,337,878	0	0	0	4,337,878
Consultants/contractual	5,008,560	0	0	0	5,008,560
Space	1,508,041	48,603	0	0	1,556,644
Supplies	1,465,770	0	0	0	1,465,770
Travel	447,192	0	0	0	447,192
Communications and IT	489,831	0	0	0	489,831
Beneficiary assistance	3,215,888	0	230,782	(86,464)	3,360,206
Other	849,131	71,652	23,036	(60,386)	883,433
In-kind expenses	354,158	0	0	0	354,158
Total expenses	28,452,143	120,255	253,818	(146,850)	28,679,366
Change in net assets	1,515,598	(10,173)	71,990	0	1,577,415
Net assets (deficit) - Beginning of year	8,946,282	(677,913)	89,891	0	8,358,260
Net assets (deficit) - End of year	\$ 10,461,880	(\$ 688,086)	\$ 161,881	\$ 0	\$ 9,935,675

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

Low Income Housing Energy Assistance Program (LIHEAP)

Contract # 736 1800001946

Sub Contract # LIHEAP-013

CFDA # 93.568

Schedule of Budget and Actual Expenses

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
ADMINISTRATIVE			
Indirect cost allocation	\$ 291,830	\$ 143,068	\$ 148,762
BENEFITS			
Subsidy	355,352	355,352	-
Crisis	2,563,253	1,129,067	1,434,186
TOTAL	\$ 3,210,435	\$ 1,627,487	\$ 1,582,948

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736 1800001946
Sub Contract # LIHEAP-013
CFDA # 93.568
Schedule of Program Expenses**

For the Year Ended June 30, 2019

Cost Category	Amount
ADMINISTRATIVE	
Indirect cost allocation	\$ 143,068
BENEFITS	
Subsidy	355,352
Crisis	
Benefits	1,075,314
Energy counseling	53,753
	<hr/>
TOTAL EXPENSES	1,627,487
LESS QUESTIONED COSTS	<hr/> -
TOTAL ALLOWABLE COSTS	1,627,487
CONTRACT PAYMENT RECEIVED as of JUNE 30, 2019	<hr/> 1,627,487
UNDER/(OVER) PAYMENT	<hr/> <hr/> \$ -

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736 1800001946
Sub Contract # LIHEAP-013
CFDA # 93.568
Schedule of Questioned Costs**

For the Year Ended June 30, 2019

Cost Category	Actual Expenses	Questioned Costs	Allowable Costs
ADMINISTRATIVE			
Indirect cost allocation	\$ 143,068	\$ -	\$ 143,068
BENEFITS			
Subsidy	355,352	-	355,352
Crisis	1,129,067	-	1,129,067
TOTAL	\$ 1,627,487	\$ -	\$ 1,627,487

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**LIHEAP Weatherization
Contract # LH19-0603-02
Sub Contract # LHWX-013
CFDA # 93.568**

Schedule of Budget and Actual Expenses

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
Administration	\$ 38,329	\$ 31,198	\$ 7,131
Wx materials	125,000	31,606	93,394
Wx program support	180,000	143,133	36,867
Wx labor	178,595	33,669	144,926
H&S materials	80,000	40,378	39,622
H&S labor	109,728	52,765	56,963
Liability insurance	3,076	-	3,076
TOTAL	\$ 714,728	\$ 332,749	\$ 381,979
Refund Due to LIHEAP Wx at 06/30/2019		4,424	
Invoiced and Paid at 06/30/2019		<u>\$ 328,325</u>	

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

Department of Energy Weatherization
Contract # WX19-0603-02
Sub Contract # DOEWX-013
CFDA # 81.042

Schedule of Budget and Actual Expenses

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
Administration	\$ 28,810	\$ 28,346	\$ 464
Wx materials	63,000	59,231	3,769
Wx program support	70,000	66,343	3,657
Wx labor	65,911	64,840	1,071
H&S materials	9,250	7,112	2,138
H&S labor	10,750	9,010	1,740
T&TA	23,131	1,616	21,515
TOTAL	\$ 270,852	\$ 236,498	\$ 34,354
Refund Due to LIHEAP Wx at 06/30/2019		3,857	
Invoiced and Paid at 06/30/2019		<u>\$ 232,641</u>	

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**Healthy Meals on a Budget
Fund 4400**

**Through Contract with LFUCG
Schedule of Budget and Actual Expenses**

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
Carryover from Prior Year	\$ 8,528	\$ -	\$ 8,528
Salaries & fringe	2,547	6,348	(3,801)
Occupancy costs	478	337	141
Program supplies	7,700	12,526	(4,826)
Other expenses	315	357	(42)
TOTAL	\$ 19,568	\$ 19,568	\$ -

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**ECCO Plus
Fund 4358**

**Through Contract with LFUCG
Schedule of Budget and Actual Expenses**

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
Salaries & fringe	\$ 4,585	\$ 2,998	\$ 1,587
Travel	6,000	4,510	1,490
Program supplies	155	288	(133)
Client benefits	3,060	2,578	482
Insurance & bonding	50	-	50
Training expenses	11,920	15,626	(3,706)
Other costs	230	-	230
TOTAL	\$ 26,000	\$ 26,000	\$ -

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**Housing Navigator
Fund 4350**

**Through Contract with LFUCG
Schedule of Budget and Actual Expenses**

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
Salaries & fringe	\$ 119,446	\$ 80,336	\$ 39,110
Travel	2,616	1,992	624
Program supplies	5,400	471	4,929
Contracts	6,500	6,935	(435)
Client benefits	4,050	2,057	1,993
Insurance & bonding	1,466	-	1,466
Training expenses	1,000	-	1,000
Indirect costs	19,014	13,356	5,658
Other costs	16,667	13,196	3,471
TOTAL	\$ 176,159	\$ 118,343	\$ 57,816

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**LFUCG Emergency Family Housing Grant
Fund 4360**

**Through Contract with LFUCG
Schedule of Budget and Actual Expenses**

For the Year Ended June 30, 2019

Cost Category	Budget	Actual	(Over) Under Budget
Prior Year Carryover of Funds	\$ 35,724	\$ -	\$ 35,724
Salaries & Fringe	16,954	23,638	(6,684)
Travel	650	1,203	(553)
Program supplies	2,650	1,230	1,420
Client benefits	48,525	69,058	(20,533)
Insurance & bonding	286	518	(232)
Training expenses	2,835	1,800	1,035
Indirect costs	14,084	16,306	(2,222)
Other costs	6,016	13,971	(7,955)
TOTAL	\$ 127,724	\$ 127,724	\$ -

**Community Action Council for Lexington-Fayette
Bourbon, Harrison & Nicholas Counties, Inc.**

**Emergency Shelter Grant
ES15-0128-01
FUND 2351 - Year 1 of a 2 Year Award
CFDA 14.231
Through Contract with LFUCG
Schedule of Budget and Actual Expenses
For the Year Ended June 30, 2019**

Cost Category	Budget	Actual	(Over) Under Budget
Salaries & Fringe	\$ 21,774	\$ 1,925	\$ 19,849
Client benefits	36,183	4,604	31,579
Insurance & bonding	409	-	409
Indirect costs	7,162	829	6,333
Other costs	2,339	-	2,339
TOTAL	\$ 67,867	\$ 7,358	\$ 60,509



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year ended June 30, 2019, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 25, 2019. The financial statements of WinterCare Energy Fund, Inc. and CAC Holdings, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control.

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

November 25, 2019
Madison, Wisconsin



Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

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

Report on Compliance for Each Major Federal Program

We have audited Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s consolidated financial statements include Shepherd Place, Inc., a related entity, which had expenditures greater than \$750,000 in federal awards during the year ended June 30, 2019, and has a separate single audit, which is not included in this single audit. Therefore, our audit, described below, did not include the operations of Shepherd Place, Inc.

Management's Responsibility for Compliance

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance.

Opinion

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

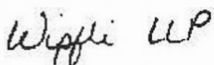
Report on Internal Control Over Compliance

Management of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance; such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

November 25, 2019
Madison, Wisconsin

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over federal programs:	
Material weakness identified?	No
Significant deficiency identified?	No
Type of auditor's report issued on compliance for major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]?	No

Identification of major federal programs:

<u>Name of Federal Major Program</u>	<u>CFDA No.</u>
Low-Income Home Energy Assistance	93.568
Head Start	93.600

Dollar threshold used to distinguish between Type A and Type B programs	\$759,781
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Prior Year Findings

None

Community Action, Kentucky, Inc.

Independent Auditor's Report
with
Audited Financial Statements
and
Supplementary Information

For the Year Ended June 30, 2019

Community Action, Kentucky Inc.
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Partners
James E. Clouse, CPA
Greg Miklavcic, CPA
Ryan Moore, CPA

Charles T. Mitchell Company, PLLC
ctmcpa.com

Independent Auditor's Report

Board of Directors

Community Action, Kentucky, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action, Kentucky Inc., (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from 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 financial position of Community Action, Kentucky Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 29 to 37 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also not a required part of the financial statements. The accompanying supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2019, on our consideration of Community Action, Kentucky Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action, Kentucky Inc.'s internal control over financial reporting and compliance.

Charles T. Mitchell Co.

Frankfort, Kentucky
November 1, 2019

Community Action, Kentucky Inc.
Statement of Financial Position
June 30, 2019

Assets	
Current Assets	
Cash & Cash Equivalents	\$ 259,251
Reimbursable Costs	1,591,861
Due from Sub-recipients	23,496
Current Portion of Notes Receivable	5,191
Prepaid Expenses	230
Total Current Assets	1,880,029
Other Assets	
Investments	985,587
Property and Equipment	
Property and Equipment Net of Accumulated Depreciation	1,545,226
Total Assets	\$ 4,410,842
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	\$ 1,531,746
Accrued Compensation	109,167
Deferred Revenue	138,183
Total Current Liabilities	1,779,096
Total Liabilities	1,779,096
Net Assets	
Without Donor Restrictions	2,631,746
Total Net Assets	2,631,746
Total Liabilities and Net Assets	\$ 4,410,842

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Activities
For the Year Ended June 30, 2019

Revenue and Support:	
Grants/Contracts	\$ 46,338,570
Commissions	115,511
Dues	19,253
Rental Income	22,800
Investment Income	26,521
Other	402,409
Total Revenue and Support	46,925,064
Expenses:	
Programs	
RCAP	575,456
LIHEAP	41,294,799
WX	116,645
CSBG	200,000
OCS	397,068
Kynect	3,539,671
Other	207,952
Supporting Services	457,647
Total Expenses	46,789,238
Change in Net Assets	135,826
Net Assets Beginning of the Year	2,495,920
Net Assets End of Year	\$ 2,631,746

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash Flows From Operating Activities:	
Change in Net Assets	\$ 135,826
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	96,305
Unrealized Loss on Investments	38,454
Changes in Operating Assets and Liabilities:	
Increase in Reimbursable Costs	(662,845)
Increase in Sub-recipient Receivables	(23,496)
Decrease in Prepaid Expenses	3,279
Increase in Accounts Payable	790,023
Decrease in Deferred Revenue	(20,297)
Increase in Accrued Expenses	9,911
Total Adjustments	<u>231,334</u>
Net Cash Provided by Operating Activities	<u>367,160</u>
Cash Flows From Investing Activities:	
Collections of Notes Receivable	3,011
Cash proceeds from Investments	12,326
Purchases of Investments	(67,172)
Purchases of Property and Equipment	(780,663)
Net Cash Flows (Used) in Investing Activities	<u>(832,498)</u>
Cash flows From Financing Activities:	
Payments on Debt	-
Cash Flows (Used) In Financing Activities	<u>-</u>
Net Decrease in Cash	(465,338)
Cash and Cash Equivalents at Beginning of Year	<u>724,589</u>
Cash and Cash Equivalents at End of Year	<u>\$ 259,251</u>

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2019

	RCAP	LIHEAP	WX	CSBG	OCS	Kynect	Other	Treasury	Totals
Salaries	\$ 248,962	\$ 162,398	\$ 10,632	\$ 106,635	\$ 61,254	\$ 76,355	\$ 7,316	\$ 33,068	\$ 706,620
Fringe Benefits	100,391	64,009	4,233	42,038	25,665	30,069	2,881	7,820	277,106
Professional Services	673	-	-	73	-	-	8,445	67,081	76,272
Consultants / Contracts	-	-	5,890	2,882	271,417	-	-	42,875	323,064
Education	6,125	2,996	-	2,340	2,798	-	-	1,210	15,469
Travel In State	29,789	5,098	192	8,954	18,893	410	-	23,201	86,537
Travel Out of State	10,447	-	-	-	-	-	-	-	10,447
Meeting	-	-	-	-	-	-	-	57,319	57,319
Telephone	269	-	-	-	29	-	-	13	311
Postage	-	-	-	-	-	-	1	25	26
Office Exp & Supplies	6,379	-	-	-	206	-	-	4,481	11,066
Publications	-	-	-	-	714	-	-	180	894
Dues/Fees	1,363	-	-	-	-	-	-	16,884	18,247
Insurance	-	-	-	-	-	-	-	204	204
Pollution Insurance	-	-	64,260	-	-	-	-	-	64,260
Printing	1,354	2,474	-	31	-	-	-	1	3,860
Marketing/Advertising	969	-	1,436	-	-	541	-	28,294	31,240
Utilities	-	-	1	-	-	-	-	-	1
Repairs & Maintenance	-	-	1	-	-	-	-	18,304	18,305
IT Repairs & Maintenance	1,836	131,836	28,262	14,199	-	-	326	57,601	234,060
Depreciation	-	1	-	-	2	-	-	76,543	76,546
Equipment	5,752	-	-	-	-	-	-	-	5,752
Interest	-	-	-	-	-	-	-	-	-
Other	91,398	-	-	-	-	-	-	15,382	106,780
Indirect	69,749	34,570	1,738	22,848	16,090	16,805	254	4,175	166,229
Loan Write-Off	-	-	-	-	-	-	-	2,986	2,986
Subrecipients	-	40,891,417	-	-	-	3,415,491	188,729	-	44,495,637
Total Expenses	\$ 575,456	\$ 41,294,799	\$ 116,645	\$ 200,000	\$ 397,068	\$ 3,539,671	\$ 207,952	\$ 457,647	\$ 46,789,238

See accompanying notes.

Note 1 – Organization and Nature of the Operations

Community Action, Kentucky, Inc. (a Kentucky nonprofit organization) is a multi-funded association of twenty-three (23) Community Action Agencies (CAA) in Kentucky. Each of these twenty-three CAA's has an Executive Director, or its equivalent, who serve as board members for Community Action Kentucky, Inc. The CAA's are the predominate recipients of pass through funds from Community Action Kentucky, Inc. and thus related parties (See Note 12 of this report for further details). CAK was formed in 1968 to provide a link between the CAA's to better accomplish mutual goals and objectives. The responsibilities of CAK include the development and administration of grants and contracts providing services in areas such as housing, water, wastewater management, crisis intervention, and low-income home improvements.

In prior years, the organization conducted its activities as Kentucky Association for Community Action, Inc. (KACA). In October 2007, the board approved and the state granted a change of name to Community Action, Kentucky, Inc. (CAK).

The primary sources for flow through of funds are Cabinet for Health and Family Services and Kentucky Housing Corporation, State of Kentucky and W.S.O.S. Community Action Commission.

The following programs are administered by CAK:

Low Income Home Energy Assistance (LIHEAP)

The LIHEAP Grant is provided by the Kentucky Cabinet for Health and Family Services, Department of Social Insurance to provide energy services including assistance with payment of utility bills, limited repairs of heating systems and provision of fuel, heaters, blankets and certain other commodities. CAK serves as a pass-through agency with the program services being provided by 23 sub-recipient organizations.

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 WSOS Community Action, Inc., sponsor for the Great Lakes Rural Network, Inc., has contracted with Community Action, Kentucky, 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.

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.

KU Energy Assistance Program

CAK, in conjunction with Community Action Council, operates an energy assistance program that helps households with a subsidy benefit during the year.

American Electric Power

CAK, in conjunction with five Community Action Agencies in Eastern Kentucky, operates an energy assistance program that helps households with subsidy benefits during the year.

Weatherization

The Weatherization program is funded by the federal Department of Energy (DOE) and, upon approval by CHFS, by a 15% transfer from the Low-Income Home Energy Assistance Program (LIHEAP) to Weatherization. The program is administered by the Kentucky Housing Corporation.

Note 2 – Summary of Significant Accounting Principles

Basis of Presentation – The financial statements are prepared using the accrual basis of accounting. Revenues and the related assets are recognized when earned rather than when received. Expense and the related liabilities are recognized when incurred rather than when the disbursements are made.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reported period. Actual events and results could differ from those assumptions and estimates.

Expenses – Expenses are reported using the accrual basis of accounting.

Revenue Recognition – Program service revenue is considered available for CAK's general programs unless specifically restricted by donors or grantors. Interest income related to housing notes is recorded when received. Accrued interest on such notes is considered immaterial and is not disclosed. Grant and contract revenue under cost reimbursement grants or contracts is recorded when an expense is incurred for specific grant or contract supported programs or projects in a manner defined by applicable grants or contracts. Grant or contract funding received that does not meet the criteria for revenue recognition described above are deferred using the deposit method. Under the deposit method, cash received from grants or contracts is classified as deferred revenue (a refundable deposit) in the liability section of the statements of financial position, and revenue recognition is deferred until the requirements detailed above are met.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Accounts and Notes Receivable – Accounts and notes receivable are stated at their outstanding principal. Both accounts and notes receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluated the financial condition of the borrowers, the estimated value of the any underlying collateral and current economic conditions. Based on management's assessment of the credit history and current, CAK, believes realization of losses, if any, will be immaterial.

Accrued Compensation – It is the policy of CAK 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, 2019, CAK had unpaid annual leave and salary of \$108,377 and \$790 of withheld employee flexible savings.

Functional Expenses – Directly identified expenses are charged to programs and support services. CAK adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, salaries, fringe benefits, professional fees, supplies and other expenses have been allocated to functional classifications based on various factors.

Investments – Investments are presented at their fair value as determined by reference to quoted market prices. Related realized and unrealized gains and losses are reflected in the statement of activities.

Property & Equipment – Property and equipment acquired with unrestricted revenues are stated at cost, if purchased or at fair value at the date of gift, if donated, less accumulated depreciation. Additions with a cost of fair value of less than \$500 are expensed.

Note 2 – Summary of Significant Accounting Principles (continued)

Change in Accounting Principal – CAK implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards changed the following aspects for the financial statements:

The unrestricted net asset class has been renamed net assets without donor restrictions.

The financial statements include a disclosure on liquidity and availability of resources (Note 13).

The changes have the following effect on net assets as of July 1, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption</u>
Net Assets Unrestricted	\$ 2,495,920	
Net Assets Without Donor Restrictions		\$ 2,495,920

Note 3 – Concentrations of Credit Risk

In the current year, a significant amount of funding was provided by a few major contributors. It is always considered reasonably possible that grantors might be lost or funding could be reallocated in the near term. Approximately 99% of CAK’s revenue was earned under various contracts (grants), approximately 91% from US Department of Health and Human Services. CAK’s market is concentrated in the geographic area of Kentucky.

During the fiscal year, at each month’s end, CAK had on deposit with a local bank an amount in excess of FDIC insurance limits. As of June 30, 2019 CAK exceeded FDIC insurance limits in the amount of \$42,964.

Note 4 – Income Taxes

CAK is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code, except from income derived from unrelated business activities. At June 30, 2019, CAK has no estimated liability on unrelated business activities. CAK believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements. CAK’s federal Exempt Organization Business Income Tax Return (Form 990) for 2017, 2016, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

Note 5 – Investments

Community Action, Kentucky Inc. determines fair value based on the price that would be received to see the asset or paid to transfer the liability to a market participant. Investments consisted of the following at June 30, 2019:

	Cost	Fair Value
Bond Funds	\$ 133,847	\$ 133,883
Equity Funds	840,499	851,704
	\$ 974,346	\$ 985,587
Bond Funds by Fund Type:		
RUSSELL INVT (RFCTX)	\$ 133,847	\$ 133,883
RUSSELL INVT CO (RMYSX)	100,359	100,346
RUSSELL INVT CO (RGISX)	24,029	24,430
RUSSELL INVT CO (RCCSX)	28,964	26,816
RUSSELL INVT CO (RMGSX)	181,067	180,213
RUSSELL INVT (REMSX)	70,210	78,828
RUSSELL INVT (RLESX)	92,902	90,434
RUSSELL INVT (RINTX)	116,231	122,409
RUSSELL INVT (RFATX)	62,247	63,218
RUSSELL INVT CO (RSESX)	164,490	165,010
Total	\$ 974,346	\$ 985,587

A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which the transaction for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data, such as quoted prices for similar assets or liabilities or model-derived valuations.
- Level 3: Unobservable inputs that are not corroborated by market data. These inputs reflect an Organization’s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The standard requires certain valuation methodologies be used for instruments measured at fair value on a recurring basis and recognized in the Organization’s statement of financial position, as well as the general classification of such instruments pursuant to the above valuation hierarchy. All investments are Level 1 investments.

At June 30, 2019, the Organization’s trading securities had a fair value of \$985,587, of which, all was determined based on quoted prices in active markets for identical assets (Level 1).

Note 5 – Investments (continued)

Realized and unrealized gains and losses included in the change in net assets for the year ended June 30, 2019 are reported in the accompanying statement of activities as follow:

Interest & Dividend Income	\$	64,800
Realized Gains(Losses)		175
Unrealized Gains(Losses)		(38,454)
Total Investment Income	\$	26,521

Note 6 – Notes Receivable

The unpaid notes receivable balances were comprised of 2 revolving loans totaling \$5,191 and management considers these to be noncurrent. During the fiscal year CAK charged off one revolving loan.

Note 7 – Property and Equipment

Property and equipment consisted of the following at June 30, 2019:

Land	\$	105,287
Office Equipment		1,158,789
Building		780,540
Total Depreciable Assets		2,044,616
Less: Accumulated Depreciation		(499,390)
Net Property, Plant & Equipment	\$	1,545,226

Depreciation is computed using the straight-line method over the estimated useful life of the respective asset. Depreciation expense amounted to \$96,305 of which \$76,546 was direct and \$19,759 was included in indirect expenses for the year ended June 30, 2019.

Note 8 – Retirement Plan and Other Post-Employment Benefits and Contingencies

Plan Description

County Employees’ Retirement System (CERS)

Community Action, Kentucky Inc. (CAK) is a participating employer of the County Employees’ Retirement System. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements, which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2019 plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an

Note 8 – Retirement Plan and Other Post-Employment Benefits and Contingencies (Continued)

additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board based on an annual valuation last proceeding the July 1 of a new biennium, if it is determined based on a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 21.48% of each employee’s wages, which is equal to the actuarial determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The CAK contributed \$149,062 for the year ended June 30, 2019, or 100% of the required contribution.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1 Participation date	Before September 1, 2008
Unreduced retirement	27 years' service or 65 years old
Reduced Retirement	At least 5 years' service and 55 years old 25 years' service and any age
Tier 2 Participation date	September 1, 2008 - December 31, 2013
Unreduced retirement	At least 5 years' service and 65 years old or age 57+ with sum of service years plus age equal 87+ At least 10 years' service and 60 years old
Tier 3 Participation date	After December 31, 2013
Unreduced retirement	At least 5 years' service and 65 years old or age 57+ with sum of service years plus age equal 87+
Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly of the State of Kentucky. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death.

Note 8 – Retirement Plan and Other Post-Employment Benefits and Contingencies (Continued)

The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

Pension Liabilities

CAK does not report under report under Governmental Accounting Standards Board (GASB). Because of the reporting standards under Financial Accounting Standards Board, as June 30, 2019, CAK did not report a liability of \$1,392,609 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. CAK’s proportion of the net pension liability was based on a projection of CAK’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018 CAK’s proportion was .0022866% percent. CAK also did not report Deferred Inflows and Outflows of Resources as required by GASB.

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan’s fiscal year ending June 30, 2018, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary’s valuation results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of the GRS’ replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

Note 8 – Retirement Plan and Other Post-Employment Benefits and Contingencies (Continued)

Long Term Rate of Return: The long term expected return on plan assets is reviewed as part of the regular experience studies prepared every five year for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates or arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined

Note 8 – Retirement Plan and Other Post-Employment Benefits and Contingencies (continued)

contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the Association’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents CAK’s proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the Association’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Nonhazardous	\$ 1,753,150	\$ 1,392,609	\$ 1,090,538
CERS's net pension liability	\$ 1,753,150	\$ 1,392,609	\$ 1,090,538

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the Kentucky Retirement Systems.

The schedule of CAK’s proportionate share of the net pension liability is presented below. CAK is presenting on the prior four years only; as 2016 was the implementation year for GASB 68 and will add to the presentation, to show ten years of information, as it becomes available.

	2017-2018	2016-2017	2015-2016	2014-2015
CAK's proportion of the net pension liability	0.0022866%	0.0022452%	0.0027740%	0.2840500%
CAK's proportionate share of the net pension liability	\$ 1,392,609	\$ 1,314,185	\$ 1,365,666	\$ 1,221,289
CAK's covered-employee payroll	\$ 713,593	\$ 667,971	\$ 613,715	\$ 725,999
CAK's proportionate share of the net pension liability as a percentage of its covered-employee payroll	195%	197%	223%	168%
Plan Fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	66.75%

Note 8 – Retirement Plan and Other Post-Employment Benefits and Contingencies (continued)

The Schedule of CAK’s contribution is presented below. CAK is presenting on the prior four years only; as 2016 was the implementation year for GASB 68 and will add to the presentation, to show ten years of information, as it becomes available.

	2018-2019	2017-2018	2016-2017	2015-2016
Contractually required contribution	\$ 149,062	\$ 127,027	\$ 141,921	\$ 123,856
Contribution in relation to the contractually required contribution	\$ 149,062	\$ 127,027	141,921	123,856
Contribution deficiency (excess)	\$ -	\$ -	-	-
CAK's covered-employee payroll	\$ 713,593	\$ 667,971	\$ 613,715	\$ 725,999
Contributions as a percentage of covered-employee payroll	21.48%	19.18%	18.68%	17.06%

The contribution as a % includes the % for insurance.

Note 9 – Post-Employment Benefits Other Than Pensions (OPEB)

Plan Description

Retired employees of CAK are provided hospital and medical insurance through the Kentucky Retirement Systems’ Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. CAK has contractually required contribution rate for the year ended June 30, 2019 was 4.70% of covered payroll. Contributions to the Insurance Fund from the Association were \$26,637 for the year ended June 30, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2018 was performed by Mike Harmon, Kentucky Auditor or Public Accounts. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled

Note 9 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

forward from the valuation date (June 30, 2016) to the plan’s fiscal year ending June 30, 2018, using generally accepted actuarial principles. Mike Harmon did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary’s valuations results on the same assumption, methods, and data, as of that date. The roll forward is based on the results of Mike Harmons’ replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Payroll Growth Rate	2.0% for CERS Non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Pre-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years
Post-65	

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (setback 1 year for females).

Discount Rate

The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20 – Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost association with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net investment expense and inflation) were developed by the investment consultant for each major asset class (see chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and then adding expected inflation. The capital market assumption developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future year.

Note 9 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The Net OPEB liability of CAK, as well as what the CAK's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) follows:

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
Nonhazardous	\$ 527,282	\$ 405,964	\$ 302,623
	<u>\$ 527,282</u>	<u>\$ 405,964</u>	<u>\$ 302,623</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of CAK, as well as what CAK's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.85%) or one percentage point higher (6.85%) that the current healthcare cost trend rates follows:

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
Nonhazardous	\$ 302,244	\$ 405,964	\$ 528,219
	<u>\$ 302,244</u>	<u>\$ 405,964</u>	<u>\$ 528,219</u>

Note 9 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Pension Plan Fiduciary Net Position

The schedule of CAK's proportionate share of the net OPEB liability is presented below. CAK is presenting on the prior two years only; as 2018 was the implementation year for GASB 75 and will add to the presentation, to show ten years of information, as it becomes available.

CAK's proportion of the net pension liability	<u>2018-2019</u>	<u>2017-2018</u>
CAK's proportion of the net pension liability	0.022865%	0.022452%
CAK's proportionate share of the net pension liability	\$405,964	\$451,362
CAK's covered-employee payroll	\$ 713,593	\$ 667,971
CAK's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57%	68%
Plan Fiduciary net position as a percentage of the total pension liability	52.4%	52.4%

The schedule of CAK's contribution is presented below. CAK is presenting on the prior two years only; as 2018 was the implementation year for GASB 75 and will add to the presentation, to show ten years of information, as it becomes available.

	<u>2018-2019</u>	<u>2017-2018</u>
Contractually required contribution	\$26,637	\$25,857
Contribution in relation to the contractually required contribution	(26,637)	(25,857)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
CAK's covered-employee payroll	\$ 713,593	\$ 667,971
Contributions as a percentage of covered- employee payroll	3.73%	3.87%

The previous notes are reported as contingencies for CAK. No liability for the Unfunded Pension Liability and OPEB Liability are reported.

Note 10 – Non-Compliance with Grantor or Donor Restrictions

Financial awards from federal, state, and local governmental entities in the form of grants are subject to specific audit. Such audits could result in claims against CAK for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. However, management believes that if such audits arise, all steps have been followed to ensure compliance with each grantor or donor restrictions as defined by contractual agreements as of June 30, 2019.

Note 11 – Operating Lease

CAK is the lessee of office equipment under an operating lease during fiscal year end 2019. Lease expense during 2018-2019 totaled \$750.

Note 12 – Related Entities

There are 23 Community Action Agencies that make up 6 congressional districts. Community Action, Kentucky Inc.’s Board of Directors is also the executive director or an authorized agent of one of these 23 community action agencies. CAK provides technical support, lobbying and administrative support and in return receives membership dues totaling \$17,453 for the year ended June 30, 2019. CAK has no ownership or voting interests in these local chapters with limited control over how the local chapters carry out certain activities by means of subcontract agreements. Subcontract expense passed-through to related community action agencies totaled \$44,495,637 for the year ended June 30, 2019.

Note 13 – Liquidity

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 are:

Financial Assets	
Cash & Cash Equivalents	\$ 259,251
Reimbursable Costs	1,591,861
Due from Sub-recipients	23,496
Current Portion of Notes Receivable	5,191
Prepaid Expenses	230
Investments	985,587
Total Financial Assets	\$ 2,865,616
Less financial assets held to meet donor imposed restrictions	-
Less financial assets not avialable within one year	-
Less board designated funds	-
Amounts available for general expenses within one year	\$ 2,865,616

Note 14 – Subsequent Events

Management did not indicate financially impacting information regarding subsequent events. Subsequent events were evaluated through November 1, 2019, which is the date the financial statements were available to be issued. No events were found to be, or have, a material impact regarding the accompanying financial statements of the Community Action, Kentucky Inc. as of and for the year ended June 30, 2019 as listed in the table of contents.



Partners
James E. Clouse, CPA
Greg Miklavcic, CPA
Ryan Moore, CPA

Charles T. Mitchell Company, PLLC
ctmcpa.com

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

Board of Directors
Community Action, Kentucky, Inc.

We have audited, in accordance with the 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, the financial statements of Community Action, Kentucky Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Action, Kentucky Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Action, Kentucky Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Action, Kentucky Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such

an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles T. Mitchell Co.

Frankfort, Kentucky

November 1, 2019



Partners
James E. Clouse, CPA
Greg Miklavcic, CPA
Ryan Moore, CPA

Charles T. Mitchell Company, PLLC
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Independent Auditor's Report on Compliance for Each
Major Program and on Internal Control Over Compliance
Required by the Uniform Guidance

Board of Directors
Community Action, Kentucky, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Action, Kentucky Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Action, Kentucky Inc.'s major federal programs for the year ended June 30, 2019. Community Action, Kentucky Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms of and conditions applicable to its federal award programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Community Action, Kentucky Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Action, Kentucky 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Community Action, Kentucky Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Community Action, Kentucky Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Community Action, Kentucky Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Action, Kentucky Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action, Kentucky Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Charles T. Mitchell Co.

Frankfort, Kentucky
November 1, 2019

Community Action, Kentucky Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Grant	Pass-Through Grantor	Federal CFDA Number	Pass Through Grant Number	Grant Period Ending	Sub-recipients	Federal Award Expenditures
<i>U.S. Department of Health and Human Services:</i>						
Community Service Block Grant	KY Cabinet for Health & Family Services	93.569	736-1800001946	6/30/19	\$	\$ 200,000
RPIC	Office of Community Services	93.569	90ET0463-03-01	9/29/19		266,200
RPIC	Office of Community Services	93.569	90ET0463-02-01	9/29/18		130,868
				Total 93.569	-	597,068
Low Income Home Energy Assistance Program	KY Cabinet for Health & Family Services	93.568	736-1800001946	6/30/19	40,891,417	41,294,799
LIHEAP-Weatherization	Kentucky Housing Corporation	93.568	LH18-0073-02	6/30/19		59,274
				Total 93.568	40,891,417	41,354,073
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 18/19	9/30/19		112,360
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 17/18	9/30/18		33,830
				Total 93.570	-	146,190
Total Department of Health and Human Services					40,891,417	42,097,331
<i>U.S. Department of Energy:</i>						
Weatherization - DOE	Kentucky Housing Corporation	81.042	WX19-0373-02	6/30/19		57,371
Total Department of Energy					-	57,371
<i>U.S. Department of Agriculture:</i>						
RCDI-RCAP		10.446	PY 16/19	6/14/19		30,621
				Total 10.446	-	30,621
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 18/19	8/31/19		115,994
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 17/18	8/31/18		42,297
RIAD	W.S.O.S Community Action Comm.	10.761	PY 18/19	6/30/19		24,788
				Total 10.761	-	183,079
Solid Waste 2 - RCAP	W.S.O.S Community Action Comm.	10.762	18/19	9/30/19		32,336
Solid Waste 2 - RCAP	W.S.O.S Community Action Comm.	10.762	17/18	9/30/18		26,575
				Total 10.762	-	58,911
Community Facilities		10.766	PY 17/20	9/21/20		9,488
				Total 10.766	-	9,488
Total Department of Agriculture					-	282,099
<i>Environmental Protection Agency:</i>						
EPA - DW	W.S.O.S Community Action Comm.	66.424	PY 18/21	9/30/21		8,652
EPA - DW	W.S.O.S Community Action Comm.	66.424	PY 17/19	3/31/19		28,904
				Total 66.424	-	37,556
EPA - WW	W.S.O.S Community Action Comm.	66.436	PY 18/21	9/30/21		2,694
EPA - WW	W.S.O.S Community Action Comm.	66.436	PY 17/19	3/31/19		3,917
				Total 66.436	-	6,611
Total Environmental Protection Agency					-	44,167
Total Expenditures of Federal Awards					\$ 40,891,417	\$ 42,480,968

See accompanying notes to the Schedule of Federal Awards.

Community Action, Kentucky Inc.
Schedule of Subrecipient Expenditures
For the Year Ended June 30, 2019

	LIHEAP	Non-Federal			Total
	93.568	Kynector	KU	AEP	
Audubon Area	\$ 1,761,978	\$ 421,128	\$ -	\$ -	\$ 2,183,106
Bell-Whitley CAA	1,264,627				1,264,627
Big Sandy CAP	2,851,441			7,581	2,859,022
Blue Grass CAA	1,708,188	252,854			1,961,042
Central Ky CAA	1,736,126				1,736,126
Daniel Boone CAA	2,320,759				2,320,759
Gateway CAA	1,098,414	96,824		829	1,196,067
Harlan Co CAA	618,082				618,082
KCEOC CAP	881,591				881,591
Foothills CAP	1,441,527	183,552			1,625,079
LKLP CAA	2,307,984			19,084	2,327,068
Lake Cumberland CAA	3,016,839	252,977			3,269,816
CAC - Lexington	1,627,487	321,933	151,661		2,101,081
Licking Valley CAP	874,642	81,928			956,570
Louisville Metro	5,150,563				5,150,563
Middle Ky CAP	1,642,672			364	1,643,036
Multi-Purpose CAA	407,869				407,869
Northeast Ky CAA	2,245,550	223,021		9,210	2,477,781
Northern Ky CAC	2,041,436	633,220			2,674,656
Pennyryle Allied	1,718,043	336,812			2,054,855
CAA of Southern Ky	2,306,983	145,881			2,452,864
Tri-County CAA	252,699				252,699
West Ky Allied	1,615,917	465,361			2,081,278
	<u>\$ 40,891,417</u>	<u>\$ 3,415,491</u>	<u>\$ 151,661</u>	<u>\$ 37,068</u>	<u>\$ 44,495,637</u>

See accompanying notes to the Schedule of Federal Awards.

Note 1 – Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Action, Kentucky, Inc. (“CAK”) under programs of the federal government for the year ended June 30, 2019. The information in this schedule and is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule presents only a selected portion of the operations of CAK; it is not intended to and does not present the financial position, changes in net assets and cash flows of CAK. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 – Sub-recipient Expenditures – Expenditures reported in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Oversight Agency – In accordance with the Single Audit Act Amendment of 1996 and Uniform Guidance, the U.S. Department of Health and Human Services is the Oversight Agency for CAK. The Single Audit Act provides that the Oversight Agency shall have the following responsibilities

- a. Shall provide technical advice to auditees and auditors as requested
- b. May assume all or some of the responsibilities performed by a cognizant agency for audit which include:
 - i. Provide technical audit advice and liaison to auditees and auditors
 - ii. Consider auditee requests for extension to the report submission due date
 - iii. Obtain or conduct quality control reviews of selected auditees made by non-federal auditors, and provide the results, when appropriate, to other interested organizations
 - iv. Promptly inform other affected federal agencies and appropriate federal law enforcement officials of any direct reporting by the auditee or its auditor of irregularities or illegal acts, as required by generally accepted government auditing standards or laws and regulations
 - v. Advise the auditor and, where appropriate, the auditee of and deficiencies found in the audits when the deficiencies require corrective action by the auditor; when advices of deficiencies, the auditee shall work with the auditor to take corrective action; if not, the cognizant agency for audit shall notify the auditor, the auditee and applicable federal awarding agencies and pass-through entities of the facts and make recommendations for follow up action, major inadequacies or repetitive standard performance by auditors shall be referred to appropriate state licensing agencies and professional bodies for disciplinary action
 - vi. Coordinate, to the extent practical, audits, or reviews made by or for federal agencies that are in addition to the audits made pursuant to this part, so that the additional audits or reviews build upon audits performed in accordance with this part
 - vii. Coordinate a management decision for audit findings that affect the federal programs of more than one agency
 - viii. Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit

Note 4 – Indirect Cost Rate—CAK has elected an indirect cost plan which allocates indirect costs based on direct charged payroll. CAK did not elect to use the 10% de minimis indirect cost rate.

Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____yes ___X___no
- Significant deficiency identified that are not considered to be material weaknesses _____yes ___X___no

Noncompliance material to financial statements noted? _____yes ___X___no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____yes ___X___no
- Significant deficiency identified that are not considered to be material weaknesses _____yes ___X___no

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance _____yes ___X___no

Identification of major programs:

CFDA Number	Name of Federal Program of Cluster
93.568	LIHEAP
93.569	CSBG

Dollar threshold used to distinguish between type A and type B programs \$ 1,274,429

Auditee qualified as low-risk auditee? ___X___yes _____no

Findings Required to be Reported under Generally Accepted Government Auditing Standards

None.

Findings and Questioned Costs for Major Federal Award Programs

None.

Community Action, Kentucky Inc.
Statement of Activity by Program
For the Year Ended June 30, 2019

Revenues	RCAP	LIHEAP	WX	CSBG	OCS	Kynect	Other	Treasury	Total
Grant Revenue	\$ 575,456	\$ 41,294,799	\$ 116,645	\$ 200,000	\$ 397,068	\$ 3,539,671	\$ 214,931	\$ -	\$ 46,338,570
Rental Income	-	-	-	-	-	-	-	22,800	22,800
Interest Income	-	-	-	-	-	-	-	64,800	64,800
Dues	-	-	-	-	-	-	-	19,253	19,253
Commission	-	-	-	-	-	-	-	115,511	115,511
Realized Gain On Inv	-	-	-	-	-	-	-	175	175
Unrealized Loss On Inv	-	-	-	-	-	-	-	(38,454)	(38,454)
Other Income	-	-	-	-	-	-	-	402,409	402,409
Total Revenues	\$ 575,456	\$ 41,294,799	\$ 116,645	\$ 200,000	\$ 397,068	\$ 3,539,671	\$ 214,931	\$ 586,494	\$ 46,925,064
Expenses									
Salaries	248,962	162,398	10,632	106,635	61,254	76,355	7,316	33,068	706,620
Fringe Benefits	100,391	64,009	4,233	42,038	25,665	30,069	2,881	7,820	277,106
Professional Services	673	-	-	73	-	-	8,445	67,081	76,272
Consultants / Contracts	-	-	5,890	2,882	271,417	-	-	42,875	323,064
Education	6,125	2,996	-	2,340	2,798	-	-	1,210	15,469
Travel In State	29,789	5,098	192	8,954	18,893	410	-	23,201	86,537
Travel Out of State	10,447	-	-	-	-	-	-	-	10,447
Meeting	-	-	-	-	-	-	-	57,319	57,319
Telephone	269	-	-	-	29	-	-	13	311
Postage	-	-	-	-	-	-	1	25	26
Office Exp & Supplies	6,379	-	-	-	206	-	-	4,481	11,066
Publications	-	-	-	-	714	-	-	180	894
Dues/Fees	1,363	-	-	-	-	-	-	16,884	18,247
Insurance	-	-	-	-	-	-	-	204	204
Pollution Insurance	-	-	64,260	-	-	-	-	-	64,260
Printing	1,354	2,474	-	31	-	-	-	1	3,860
Marketing/Advertising	969	-	1,436	-	-	541	-	28,294	31,240
Utilities	-	-	1	-	-	-	-	-	1
Repairs & Maintenance	-	-	1	-	-	-	-	18,304	18,305
IT Repairs & Maintenance	1,836	131,836	28,262	14,199	-	-	326	57,601	234,060
Depreciation	-	1	-	-	2	-	-	76,543	76,546
Equipment	5,752	-	-	-	-	-	-	-	5,752
Interest	-	-	-	-	-	-	-	-	-
Other	91,398	-	-	-	-	-	-	15,382	106,780
Indirect	69,749	34,570	1,738	22,848	16,090	16,805	254	4,175	166,229
Loan Write-Off	-	-	-	-	-	-	-	2,986	2,986
Subrecipients	-	40,891,417	-	-	-	3,415,491	188,729	-	44,495,637
Total Expenses	575,456	41,294,799	116,645	200,000	397,068	3,539,671	207,952	457,647	46,789,238
Change in Net Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,979	\$ 128,847	\$ 135,826

See Independent Auditor's Report

Community Action, Kentucky Inc.
LIHEAP Grant – CFDA 93.568
Contract #736-1800001946
Statement of Program Expenses
For the Period July 1, 2018 Through June 30, 2019

Payments to Subrecipients		
Agency Subsidy Benefits (CAK records)	\$	10,764,234
Agency Crisis Benefits (CAK records)		25,818,360
Agency Prior Year Adjustments (CAK records)		1,306
Agency Administration (CAK records)		4,307,517
		<hr/>
Total Payments To Subrecipients	\$	<u>40,891,417</u>
CAK Administration		
Salaries		165,019
Fringe Benefits		65,041
Professional Services		4,061
Education		2,996
Travel		5,270
Meeting		717
Telephone		4,647
Postage		94
Supplies		1,192
Dues/Fees		104
Insurance		3,836
Printing		2,549
Utilities		1,763
Repairs & Main		141,983
Depreciation		4,110
		<hr/>
Total CAK Administration		<u>403,382</u>
Total Expenditures		<u>41,294,799</u>
Questioned Costs		-
Allowable Cost		41,294,799
Amount Received From CHFS -LIHEAP		40,636,123
Accounts Receivable From Funding Sources		682,086
Accounts Payable to Funding Sources		23,410
		<hr/>
Excess (Shortage) Receipts over Expenditures	\$	<u><u>-</u></u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.
 LIHEAP Grant – CFDA 93.568
 Contract #736-1800001946
 Statement of Budget to Actual
 For the Period July 1, 2018 Through June 30, 2019

Cost Category	Budget	Actual	(Over)/Under Budget
Administrative Cost			
Subrecipient	\$ 5,204,446	\$ 4,307,517	\$ 896,929
Community Action Kentucky	578,879	403,382	175,497
Total Administrative	<u>5,783,325</u>	<u>4,710,899</u>	<u>1,072,426</u>
Benefits - Direct Assistance			
Direct Assistance	<u>52,049,930</u>	<u>36,582,594</u>	<u>15,467,336</u>
Total Benefits	<u>52,049,930</u>	<u>36,582,594</u>	<u>15,467,336</u>
Other Expenditures			
Prior Year Adjustments	-	1,306	(1,306)
Total Other	<u>-</u>	<u>1,306</u>	<u>(1,306)</u>
Total Contract	<u>\$ 57,833,255</u>	<u>\$ 41,294,799</u>	<u>\$ 16,538,456</u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.
Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 1, 2018 Through June 30, 2019

CAK Administration		
Salaries	\$	10,765
Fringe Benefits		4,285
Professional Services		204
Consultant/Contract		5,890
Travel		201
Meeting		36
Telephone		234
Postage		5
Supplies		60
Dues/Fees		5
Insurance		193
Pollution Insurance		64,260
Printing		4
Advertising		30
Utilities		89
Repairs & Main		28,772
Marketing		1,406
Depreciation		<u>206</u>
Total Expenditures		116,645
Questioned Costs		<u>-</u>
Allowable Cost		116,645
Amount Received from KHC - DOE		51,185
Amount Received from KHC - LIHEAP		40,584
Accounts Receivable from Funding Sources - DOE		6,186
Accounts Receivable from Funding Sources - LIHEAP		<u>18,690</u>
Excess (Shortage) Receipts over Expenditures	<u>\$</u>	<u>-</u>

See Independent Auditor's Report.

Cabinet for Health and Family Services

Expenditures		
Salaries	\$	108,367
Fringe Benefits		42,720
Professional Services		2,759
Consultant/Contract		2,882
Education		2,340
Travel		9,067
Meeting		474
Telephone		3,071
Postage		62
Supplies		788
Dues/Fees		68
Insurance		2,535
Printing		81
Utilities		1,165
Repairs & Main		20,905
Depreciation		2,716
		<hr/>
Total Expenditures		200,000
		<hr/>
Questioned Cost		-
Allowable Cost		200,000
		<hr/>
Contract Payment Received From CHFS - CSBG		171,884
Accounts Receivable from Funding Sources		28,116
Accounts Payable to Funding Sources		-
		<hr/>
Excess (Shortage) Receipts over Expenditures	\$	-
		<hr/> <hr/>

See Independent Auditor's Report.

Community Action, Kentucky Inc.
 WSOS Community Action Commission, Inc. RCAP Grant
 Contract PE 17/18
 (For Contracts Ending September 30, 2018)
 Statement of Program Expenses
 For the Period July 1, 2018 Through June 30, 2019

HHS - CFDA 93.570	\$ 128,300
Technitrain - CFDA 10.761	140,000
EPA - CFDA 66.424	62,500
Solid Waste 2 - CFDA 10.762	52,000
Community Facilities - CFDA 10.766	16,317
EPA-WW - CFDA 66.436	20,000
Contract Awards	\$ 419,117

	Actual 2018	Actual 2019	Total
Expenditures			
Salaries	\$ 151,130	\$ 68,114	\$ 219,244
Fringe Benefits	55,316	30,828	86,144
Professional Services	4,105	2,429	6,534
Education	248	1,678	1,926
Travel	26,301	15,080	41,381
Meeting	699	429	1,128
Telephone	5,139	2,809	7,948
Postage	185	56	241
Supplies	6,919	9,006	15,925
Publications	176	-	176
Dues/Fees	438	521	959
Insurance	4,234	2,294	6,528
Printing	55	1,012	1,067
Utilities	2,218	1,054	3,272
Repairs & Main	12,239	7,243	19,482
Depreciation	4,703	2,459	7,162
Total Expenditures	274,105	145,012	419,117
Questioned Costs	-	-	-
Allowable Costs	274,105	145,012	419,117
Contract Payments Received	185,710	141,244	326,954
Accounts Receivable from Funding Sources	\$ 88,395	\$ 3,768	\$ 92,163
Excess (Shortage) Receipts over Expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report.

Community Action, Kentucky Inc.
 WSOS Community Action Commission, Inc. RCAP Grant
 Contract PE 18/19
 (For Contracts Ending September 30, 2019)
 Statement of Program Expenses
 For the Period July 1, 2018 through June 30, 2019

HHS-CFDA 93.570	\$	112,360
RIAD - CFDI 10.761		24,788
Technitrain - CFDA 10.761		115,994
EPA-DW - CFDA 66.424		8,652
Solid Waste 2 - CFDA 10.762		32,336
EPA-WW - CFDA 66.436		2,694
Contract Award	\$	<u>296,824</u>
Expenditures		
Salaries	\$	160,802
Fringe Benefits		62,076
Professional Services		5,748
Education		4,447
Travel		23,944
Meeting		895
Telephone		5,911
Postage		118
Supplies		5,297
Dues/Fees		995
Insurance		4,793
Printing		481
Advertising		969
Utilities		2,203
Repairs & Main		13,010
Depreciation		<u>5,135</u>
Total Expenditures		<u>296,824</u>
Questioned Cost		-
Allowable Cost		<u>296,824</u>
Contract Payment Received		156,625
Accounts Receivable from Funding Source		<u>140,199</u>
Excess (Shortage) Receipts over Expenditures	\$	<u><u>-</u></u>

*These funds are temporarily restricted until the contract ends SEPTEMBER 30, 2019.

See Independent Auditor's Report.

Community Action Kentucky, Inc.
OCS
Contract #90ET463-02-01
(For Contracts Ending September 29, 2018)
For the Period July 1, 2018 Through June 30, 2019

RPIC-CFDA 93.570

Contract Award			\$ 425,715
Expenditures	Actual 2018	Actual 2019	Total
Salaries	\$ 31,670	\$ 23,379	\$ 55,049
Fringe Benefits	11,181	10,749	21,930
Professional Services	599	804	1,403
Consultants	230,880	83,551	314,431
Education	4,339	788	5,127
Travel	11,403	6,078	17,481
Meeting	102	142	244
Telephone	887	949	1,836
Postage	26	19	45
Supplies	416	442	858
Publications	7		7
Dues/Fees	23	21	44
Insurance	618	759	1,377
Printing	8	15	23
Utilities	324	349	673
Repairs & Main	1,678	2,009	3,687
Depreciation	686	814	1,500
Total Expenditures	294,847	130,868	425,715
Questioned Cost	-	-	-
Allowable Cost	294,847	130,868	425,715
Contract Payment Received	294,847	130,868	425,715
Accounts Receivable from Funding Sources	-	-	-
Excess (Shortage) Receipts over Expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report.

Community Action Kentucky, Inc.
OCS
Contract #90ET463-03-01
(For Contracts Ending September 29, 2019)
For the Period July 1, 2018 Through June 30, 2019

RPIC-CFDA 93.570		
Contract Award		<u>\$ 266,200</u>
Expenditures		
Salaries	\$ 39,095	
Fringe Benefits	15,396	
Professional Services	1,086	
Consultants/Contracts	187,866	
Education	2,010	
Travel	12,895	
Meeting	192	
Telephone	1,243	
Postage	25	
Supplies	319	
Publications	714	
Dues/Fees	28	
Insurance	1,026	
Printing	20	
Utilities	472	
Repairs & Main	2,714	
Depreciation	<u>1,099</u>	
Total Expenditures		<u>266,200</u>
Questioned Cost		-
Allowable Cost		<u>266,200</u>
Contract Payment Received		259,900
Accounts Receivable from Funding Source		<u>6,300</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2019.

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