



Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602-0615

RECEIVED

JUN 16 2010

PUBLIC SERVICE
COMMISSION

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

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

June 15, 2010

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. DeRouen:

On September 14, 2007, the Commission approved the Joint Application of Kentucky Utilities Company ("KU"), the Kentucky Association for Community Action, Inc. ("KACA"), and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicolas Counties, Inc. ("CAC"), (collectively "Joint Applicants") for a five year Home Energy Assistance ("HEA") program. Pursuant to Ordering Paragraph No. 4 of the Commission's Order, KU is filing the additional HEA program information as stipulated for calendar year 2009 and the financial audits for KACA and CAC for year ended June 30, 2009.

For the twelve month period ending December 2009, KU collected \$735,216 from residential electric customers (See Exhibit 1).

As of the December 31, 2009 reporting period, there were 2,598 residential customers enrolled in the HEA program representing 70 counties throughout the KU service territory (See Exhibit 2).

Mr. Jeff DeRouen
June 15, 2010

For the calendar year 2009, 3,638 brown bills (See Exhibit 3) were sent to HEA clients. Additionally, there were 543 disconnections (See Exhibit 4) of HEA clients during 2009.

In the aforementioned Order, KU was authorized to utilize up to five percent of the total HEA funds collected to provide discretionary energy assistance. The Order specifies that the funds could be used to pay down arrearages or to provide energy assistance in crisis situations. During 2009, KACA and CAC utilized the funds for program participants that required monthly energy assistance.

During 2009, there was no change to the monthly or annual benefit amount after approval of the aforementioned Order.

Lastly, KU has enclosed the financial audits conducted by independent auditors for KACA and CAC for the period ending June 30, 2009.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Rick E. Lovekamp". The signature is fluid and cursive, with the first name "Rick" being the most prominent.

Rick E. Lovekamp

Kentucky Utilities Company
Home Energy Assistance Program
Total Funds Collected

Month/Year	Amount
Jan-09	\$42,086
Feb-09	58,506
Mar-09	60,624
Apr-09	63,215
May-09	63,399
Jun-09	63,750
Jul-09	63,899
Aug-09	64,327
Sep-09	64,218
Oct-09	63,689
Nov-09	63,698
Dec-09	63,805
Total	\$735,216

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2009**

	Number	County
County	Enrolled	Distribution
Adair	7	0.27%
Anderson	13	0.50%
Ballard	3	0.12%
Barren	4	0.15%
Bath	10	0.38%
Bell	86	3.31%
Bourbon	152	5.85%
Boyle	12	0.46%
Bracken	17	0.65%
Bullitt	7	0.27%
Caldwell	2	0.08%
Carroll	25	0.96%
Casey	22	0.85%
Christian	2	0.08%
Clark	37	1.42%
Clay	5	0.19%
Crittenden	8	0.31%
Estill	8	0.31%
Fayette	1,237	47.61%
Fleming	18	0.69%
Franklin	5	0.19%
Gallatin	14	0.54%
Garrard	22	0.85%
Grant	2	0.08%
Grayson	11	0.42%
Green	17	0.65%

Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2009

	Number	County
County	Enrolled	Distribution
Hardin	21	0.81%
Harlan	17	0.65%
Harrison	48	1.85%
Hart	46	1.77%
Henderson	20	0.77%
Henry	7	0.27%
Hickman	4	0.15%
Hopkins	47	1.81%
Jessamine	11	0.42%
Knox	12	0.46%
Larue	51	1.96%
Laurel	25	0.96%
Lincoln	22	0.85%
Lyon	5	0.19%
Madison	43	1.66%
Marion	23	0.89%
Mason	14	0.54%
McClellan	11	0.42%
McCracken	3	0.12%
McCreary	13	0.50%
Mercer	11	0.42%
Montgomery	36	1.39%
Muhlenberg	32	1.23%
Nelson	7	0.27%
Nicholas	64	2.46%
Ohio	9	0.35%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2009**

	Number	County
County	Enrolled	Distribution
Oldham	8	0.31%
Owen	5	0.19%
Pendleton	1	0.04%
Pulaski	46	1.77%
Robertson	1	0.04%
Rockcastle	5	0.19%
Rowan	27	1.04%
Russell	14	0.54%
Scott	14	0.54%
Shelby	6	0.23%
Spencer	18	0.69%
Taylor	13	0.50%
Trimble	5	0.19%
Union	6	0.23%
Washington	4	0.15%
Webster	19	0.73%
Whitley	30	1.15%
Woodford	28	1.08%
Total	2,598	100.00%

**Kentucky Utilities Company
Home Energy Assistance Program
Brown Bill Notices Issued - 2009**

Number of Customers	Number of Brown Bills Per Customer Received Annually
757	1
1,165	2
727	3
251	4
221	5
197	6
143	7
96	8
49	9
23	10
9	11
0	12
3,638	Total

**Kentucky Utilities Company
Home Energy Assistance Program
Number of Disconnections - 2009**

Number of Customers	Number of Disconnections Per Customer
420	1
94	2
18	3
5	4
5	5
1	6
0	7
543	Total

COMMUNITY ACTION KENTUCKY, INC.

**AUDITED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2009

J. DAVID REED, CPA
Louisville, Kentucky

TABLE OF CONTENTS

	Page
Financial Statements:	
Independent Auditor's Report	2
Statement of Financial Position	4
Statement of Activity	5
Statement of Cash Flows	6
Statement of Functional Expenses	7
Notes to Financial Statements	8
Report on Compliance and Internal Control Over Financial Reporting	16
Single Audit:	
Report on Compliance with Requirements Applicable To Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	18
Schedule of Federal Financial Assistance	20
Schedule of Findings and Questioned Costs	23
Schedule of Prior Year Audit Findings	27
Supplemental Information:	
Revenue and Expenditures Summary	28
Passed Through Cabinet for Health & Family Service	29
Passed through W.S.O.S. Community Action Commission	34
Direct Federal Programs	37

FINANCIAL STATEMENTS

J. David Reed, CPA

4504 Chenoweth Run Rd
Louisville, KY 40299
Phone: (502) 802-8880
Fax: (502) 240-0416
e-mail: jdreed@insightbb.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Action Kentucky, Inc.

I have audited the accompanying statement of financial position of Community Action Kentucky, Inc. ("CAK," nonprofit organization) as of June 30, 2009 and the related statements of activity, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of CAK'S management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAK as of June 30, 2009 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated January 11, 2009, on my consideration of CAK'S internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Page 2
Board of Directors

My audit was performed for the purpose of forming an opinion on CAK'S basic financial statements, taken as a whole. The accompanying schedule of federal assistance (page 20) is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The supplemental information (pages 28-38) is presented for purposes of additional analysis pursuant to contractual agreements with grantors. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Louisville, Kentucky
January 11, 2010

COMMUNITY ACTION KENTUCKY, INC.
STATEMENT OF FINANCIAL POSITION
As Of June 30, 2009

ASSETS

CURRENT ASSETS	
Cash	\$ 284,131
Receivables:	
Reimbursable costs	2,257,263
Due from sub-recipients	154,824
Current portion of Notes Receivable	20,141
Prepaid expenses	6,036
Total Current Assets	<u>2,722,396</u>
OTHER ASSETS	
Investments	649,903
Notes Receivable	227,453
Other Receivables	21,638
PROPERTY AND EQUIPMENT	
Buildings and equipment, less accumulated depreciation of \$ 172,014 and \$146,379	<u>769,964</u>
TOTAL ASSETS	\$ <u>4,391,354</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 13,760
Accrued compensation	127,528
Due to Sub-recipients	2,212,300
Notes Payable - current maturities	54,549
Total Current Liabilities	<u>2,408,137</u>
LONG-TERM LIABILITIES	
Notes Payable	<u>225,472</u>
TOTAL LIABILITIES	2,633,608
NET ASSETS	
Unrestricted	1,757,745
Temporarily restricted	-
TOTAL NET ASSETS	<u>1,757,745</u>
	\$ <u>4,391,354</u>

The accompanying notes are an integral part of the financial statement.

COMMUNITY ACTION KENTUCKY, INC.
STATEMENT OF ACTIVITY
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2009</u>
Revenue and Support:			
Grants/contracts	\$ 73,577,697	\$ -	\$ 73,577,697
Commissions	164,147	-	164,147
Program services	122,757	-	122,757
Dues	18,042	-	18,042
Rental Income	15,000	-	15,000
Interest and dividends	34,122	-	34,122
Other	5,625	-	5,625
Investment gains (losses)	(196,480)	-	(196,480)
Release of temporarily restricted net assets	643	(643)	-
Total Revenue	<u>73,741,553</u>	<u>(643)</u>	<u>73,740,909</u>
Expenses:			
Energy assistance	72,985,711	-	72,985,711
CSBG/OCS	271,380	-	271,380
RCAP	255,206	-	255,206
UI Trust	1,462	-	1,462
Housing	25,549	-	25,549
AEP	38,361	-	38,361
Supporting Services	377,625	-	377,625
Total Expenses	<u>73,955,295</u>	<u>-</u>	<u>73,955,295</u>
Increase in net assets	(213,742)	(643)	(214,385)
Net assets beginning of year	1,971,487	643	1,972,131
Net assets end of year	<u>\$ 1,757,745</u>	<u>\$ -</u>	<u>\$ 1,757,745</u>

The accompanying notes are an integral part of the financial statements

COMMUNITY ACTION KENTUCKY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Increase (Decrease) in net assets	\$ (214,385)
Adjustments to reconcile decrease in net assets to net cash used for operating activities:	
Depreciation and amortization	26,961
Unrealized gains/losses on investments	196,480
Changes in operating assets and liabilities:	
(Increase) Decrease in reimbursable costs	(448,406)
(Increase) Decrease in subrecipient receivables	(95,236)
(Increase) Decrease in prepaid expenses	(1,075)
Increase (Decrease) in accounts payable	12,015
Increase (Decrease) in Due to subs	583,513
Increase (Decrease) in accrued expenses	<u>9,348</u>
Net adjustments	<u>283,599</u>
Net cash from (used in) operating activities	69,214
Cash flows from (used in) investing activities:	
Collections of notes receivable	20,061
Disposition of Investments	-
Purchase of Investments	(25,135)
Purchases of property and equipment	<u>(1,029)</u>
Net cash flows from (used in) investing activities	(6,103)
Cash flows from (used in) financing activities:	
Payment on long-term debt	<u>30,324</u>
Net cash flows from (used in) financing activities	<u>30,324</u>
Net increase (decrease) in cash	93,434
Cash at Beginning of Year	<u>190,697</u>
Cash at End of Year	<u><u>\$ 284,131</u></u>

The accompanying notes are an intergeal part of the financial statements

COMMUNITY ACTION KENTUCKY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	<u>RCAP</u>	<u>UI Trust</u>	<u>Housing</u>	<u>Energy</u>	<u>AEP</u>	<u>CSBG</u>	<u>Program Services Total</u>	<u>Supporting Services</u>	<u>2009 Totals</u>
Salaries	\$ 160,392	\$ 1,108	\$ 4,170	\$ 315,708	\$ 11,290	\$ 113,943	\$ 606,611	\$ 28,816	\$ 635,427
Fringe	53,098	354	1,331	100,198	3,631	37,422	196,034	6,880	202,914
Professional services	-	-	-	26,332	-	36,961	63,294	22,752	86,046
Subrecipient awards	-	-	7,660	72,505,152	23,425	60,500	72,596,737	-	72,596,737
Education, Training	420	-	-	1,045	-	1,195	2,660	3,729	6,389
Office	9,764	-	-	6,060	-	824	16,648	17,015	33,663
Utilities	-	-	-	-	-	-	-	5,623	5,623
Depreciation and	-	-	-	-	-	-	-	26,961	26,961
Telephone	-	-	-	311	-	250	562	22,494	23,056
Insurance	128	-	-	12,675	-	-	12,803	28,031	40,834
Dues, Publications	1,689	-	426	171	-	1,484	3,770	7,423	11,193
Meeting Expense	-	-	-	3,369	-	1,063	4,431	49,387	53,818
Travel	23,902	-	114	9,497	-	13,664	47,176	25,938	73,114
Repairs and Maintenance	-	-	-	1,343	-	92	1,434	27,247	28,681
Marketing	360	-	-	419	-	-	779	98,215	98,993
Interest	-	-	2,636	-	-	-	2,636	-	2,636
Other	-	-	9,212	-	-	-	9,212	1,501	10,713
Postage and Printing	5,454	-	-	3,430	15	3,983	12,882	5,613	18,495
Totals	255,206	1,462	25,549	72,985,711	38,361	271,380	73,577,670	377,625	73,955,295

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

**COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 1 – Organization and Nature of Operations

Community Action Kentucky, Inc. (a Kentucky nonprofit organization) is a multi-funded association of twenty-two Community Action Agencies (CAAs) in Kentucky. The Association was formed in 1968 to provide a link between the CAAs to better accomplish mutual goals and objectives. The responsibilities of the Association include the development and administration of grants and contracts providing services in areas such as housing, water, wastewater management, crisis intervention, and low-income home improvements. CAK is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code.

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

The LIHEAP Grant is provided by the Kentucky Cabinet for Health and Family Services, Department of Social Insurance to provided 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.

DEMAND SIDE MANAGEMENT PROGRAM

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

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.

**COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 1 – Organization and Nature of Operations (Continued)

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.

HEAD START GRANTEES UNEMPLOYMENT INSURANCE TRUST

Community Action Kentucky, Inc. provides staff support to the Kentucky Head Start Grantees Unemployment Insurance Trust for a fee of \$250 a month. The Trust is composed of nine Head Start Grantees, eight of which are Community Action Agencies. Trust members pay a percentage of their payroll into an individual account under the Trust umbrella, which is responsible for paying unemployment claims. Community Action Kentucky, Inc. plans Trust meetings (usually 4 to 6 a year), takes minutes, sends out meeting announcements, works with the Trust's legal counsel and investment portfolio manager, and handles other administrative tasks for the Trust. Community Action Kentucky, Inc. began providing the service in 1996-1997. This program service was terminated in 2009.

KU ENERGY ASSISTANCE PROGRAM

Community Action Kentucky works with Community Action Council to administer an energy assistance program for Kentucky Utilities. It is funded by a monthly per meter per month charge on residential customers. In 2008 the company agreed to increase the amount from 10 cents per meter per month to 15 cents per meter per month.

AMERICAN ELECTRIC POWER

Community Action Kentucky operates an energy assistance program from AEP that provides a subsidy to households at or below 130% of the federal poverty guidelines. The program is funded by a 10 cent per meter month charge on residential customers. As part of the settlement agreement in the rate case that created the program, for the first two years (06-07 and 07-08) of the program the company matched the amount raised with a contribution from shareholder profits. That arrangement was not part of the third year of the program (08-09) and as a result the number of slots in the program was reduced.

**COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 1 – Organization and Nature of Operations (Continued)

WEATHERIZATION

Since 2001 Community Action Kentucky has operated the Weatherization program on behalf of the Cabinet for Health and Family Services through a network of 22 Community Action Agencies and one unit of local government. The program is funded by the federal Department of Energy (DOE) and by a 15% transfer from the Low Income Home Energy Assistance Program (LIHEAP) to weatherization. The program provides energy conservation services for low income households at or below 150% of the federal poverty guidelines (it has since been raised to 200% of the federal poverty guidelines). The services provided include providing a home energy audit, adding attic insulation, duct sealing, floor insulation, heat system repair, wall insulation, and in some instances heat system replacement. The average cost per home was approximately \$3,000 not including health safety measures. The program's health and safety measures could go up to an average \$1,000 per home. They include carbon monoxide detection, smoke detectors, fixing leaking appliances and other heat system work. In 2009 the program was moved from the Cabinet for Health and Family Services to the Finance and Administration Cabinet where it would be overseen and administered by the Kentucky Housing Corporation.

Note 2 – Significant Accounting Policies

Basis of Presentation – CAK has adopted Statement of Financial Accounting Standards (SFAS) No. 117 “Financial Statements of Not-for-Profit Organizations”. SFAS No. 117 establishes standards for external financial reporting and requires that resources be classified into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows.

- Unrestricted – net assets that are not subject to any donor-imposed restrictions
- Temporarily Restricted – net assets subject to donor-imposed restrictions that can be met either by actions of CAK and/or the passage of time
- Permanently Restricted – net assets subject to donor-imposed restrictions that they be maintained permanently, but permit CAK to use or expend part or all of the income derived from the donated assets.

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

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

COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

Note 2 – Significant Accounting Policies (continued)

Revenue Recognition:

Grant and contract revenue - Revenue under cost reimbursement grants/contracts is recorded when an expense is incurred for the grant/contract supported programs or projects in the manner specified by the applicable grant/contract. Any excess of grant/contract funds received over expenses incurred is accounted for as deferred revenue until requirements for support recognition are met or is accounted for as funds to be returned to grantor agencies.

Program service revenue – Fees for program services rendered are recorded when earned. Interest income related to housing notes receivable is recorded when received. Accrued interest on such notes is not material.

Equipment - Equipment acquired with unrestricted funds is capitalized and reported at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the respective asset.

Cash and Cash Equivalents -- CAK management regards any highly liquid instrument with a maturity of three months or less when purchased to be cash.

Accounts and Notes Receivable - Accounts and notes receivable are stated at amounts management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history and current relationship with clients having outstanding balances, it believes realization of losses, if any, will be immaterial.

Accrued Leave - It is the policy of the association 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, 2009, the association had unpaid annual leave of \$98,395.

Note 3 – Concentrations of Credit Risk

At times during the year, CAK had on deposit with a local bank amounts in excess of FDIC insurance limits. As part of its cash management and investment practices, the agency monitors bank balances on an almost daily basis and transfers funds as necessary to mitigate associated risks associated. Consequently, management believes there is no significant risk of loss.

**COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 4 -- 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. Investments consisted of the following at June 30, 2009.

	Cost	Fair Value
Stocks	\$128,789	62,941
Mutual Funds	610,836	586,962
 Total	 \$739,625	 \$649,903

Realized and unrealized gains and losses included in net income for the year ended June 30, 2009 are reported in the accompanying income statement as follow:

Recognized gains (losses)	\$ -0-
Unrealized gains (losses)	<u>(196,480)</u>
	\$ <u>(196,480)</u>

Note 5 -- Notes Receivable

Notes receivable arise from the conduct of CAK's housing program wherein funds are borrowed from the Kentucky Housing Corporation (see Note 1) and re-loaned to the Community Action Agencies. The balance at June 30, 2009 was comprised of 29 individual loans made to 5 of these agencies. The interest rates on all notes is 1%. This rate is consistent with the related borrowing rate (see Note 9) and is restricted contractually.

Maturities of these notes receivable are as follows:

Year Ended June 30	
2009	\$ 20,141
2010	34,946
2011	32,627
2012	17,718
2013	11,793
Thereafter	130,369
	\$ 247,594

COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

Note 6 - Fair Value Measurements

SFAS No. 157 requires companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. SFAS No. 157 establishes a three-tier fair value hierarchy, which 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 a 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 balance sheet, as well as the general classification of such instruments pursuant to the above valuation hierarchy. The Organization believes the standard applies to its investment securities which on the accompanying balance sheet.

At June 30, 2009, the Organization's trading securities had a fair value of \$ 649,903, all of which was determined based on quoted prices in active markets for identical assets (Level 1).

Note 7 – Property and Equipment

Property and equipment consisted of the following at June 30, 2009.

Office Equipment	\$ 78,746
Building	757,945
Land	<u>105,287</u>
	941,978
Less Accumulated Depreciation	<u>(172,014)</u>
	<u>\$769,964</u>

**COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 8 – Notes Payable

Notes payable arise from the conduct of CAK's housing program as described in notes 1 and 6. The note payable at June 30, 2009 consisted of the following.

Note payable to KHC (NHPL 99/00), Interest at 1% annual payments of \$5,744 through July, 2019	\$ 5,744
Note payable to KHC (NHRL 99/00), Interest at 1% annual payments of \$1,921 through July, 2019	1,921
Note payable to KHC (NHPR 00/01), Interest at 1% annual payments of \$750 through July, 2020	1,500
Note payable to KHC (NHPR 01/02), Interest at 1% annual payments of \$2,319 through July, 2021	6,957
Note payable to KHC (NHPR 02/03), Interest at 1% annual payments of \$14,909 through July, 2022	59,637
Note payable to KHC (NHPR 03/04), Interest at 1% annual payments of \$5,925 through July, 2023	29,625
Note payable to KHC (NHPR 04/05), Interest at 1% annual payments of \$5,250 through July, 2024	31,500
Note payable to KHC (NHPR 05/06), Interest at 1% annual payments of \$10,650 through July, 2025	74,550
Note payable to KHC (NHPR 06/07), Interest at 1% annual payments of \$1,159 through Aug, 2026	35,040
Note payable to KHC (NHPR 08/09), Interest at 1% annual payments of \$5,921 through Oct, 2028	<u>33,546</u>
Total	280,020
Less: Current Maturities	<u>54,549</u>
	<u>\$ 225,471</u>

The note agreements provide CAK the opportunity to amortize the above loans over a twenty year period. However, management has elected to pay off the notes in approximately the same manner as the related notes receivable are being repaid by the borrowers, which is over a 10 year period. As such, there is an accelerated repayment of the above notes as compared to the formal note terms.

Expected future principal repayments are as follows

Year Ended June 30	
2010	\$ 54,549
2010	46,884
2011	46,134
2012	43,815
2013	28,906
Thereafter	<u>59,732</u>
	<u>\$ 280,020</u>

**COMMUNITY ACTION KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 9 – Retirement Plan

CAK participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS). The System is a cost sharing, multi-employer public employee retirement system. All of CAK's full-time employees are covered under the non-hazardous plan.

Members contribute 5% of gross compensation, while CAK pays the designated employer rate. On each June 30, interest is credited at the rate determined by CERS on the accumulated contribution the member had in his account on the previous June 30. Upon termination, a member may withdraw the contributions with interest, but will be entitled to no benefit payments.

Employer contributions for the year ended June 30, 2009 were \$83,961.

Note 10 - Risks and Uncertainties

Under the terms of federal and state grants and contracts, periodic audits are required of the Organization's accounting records. These audits may result in costs being questioned as not being appropriate expenditures under the terms of the grant. Any disallowed claims may be required to be repaid to the grantor. Management expects such disallowed amounts, if any, to be immaterial.

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING

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.

I have audited the financial statements of the Community Action Kentucky, Inc. ("CAK", a Kentucky nonprofit organization) as of and for the year ended June 30, 2009, and have issued my report thereon dated January 11, 2008. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered CAK'S internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CAK'S internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the CAK'S internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the deficiency described in the accompanying schedule of findings and questioned costs (Finding 09-01) to be a significant deficiency in internal control over financial reporting.

Board of Directors

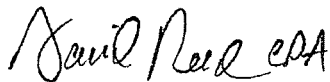
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control. My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. I believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CAK'S financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CAK'S response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit CAK'S response and, accordingly, I express no opinion on it. This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Louisville, Kentucky
January 11, 2008

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

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

Board of Directors
Community Action Kentucky, Inc.

I have audited the financial statements of the Community Action Kentucky, Inc. ("CAK", a Kentucky nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. CAK's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CAK management. My responsibility is to express an opinion on CAK's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 CAK's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of CAK's compliance with those requirements.

In my opinion, CAK complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of CAK is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered CAK's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of CAK's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified a certain deficiency in internal control over compliance that I consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. The significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs is not considered to be a material weakness.

CAK's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit CAK's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Louisville, Kentucky
January 11, 2008

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMUNITY ACTION KENTUCKY, INC.
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 FOR THE YEAR ENDED June 30, 2009

<u>Federal Grantor/Program</u>	<u>Pass Through Entity (if applicable)</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
Technical Assistance and Training Grants	W.S.O.S. Community Action	10.761	PY 07/08	21,843
Technical Assistance and Training Grants	W.S.O.S. Community Action	10.761	PY 08/09	77,801
				<u>99,644</u>
Rural Community Development Initiative (RCDI)		10.446	PY 08/09	10,452
Solid Waste Management Grants		10.762	PY 07/08	40,845
Total U.S. Department of Agriculture				<u>150,942</u>
<u>Environmental Protection Agency:</u>				
Safe Drinking Water	W.S.O.S. Community Action	66.607	PY 08/09	13,316
EPA Wastewater	W.S.O.S. Community Action	66.606	PY 08/09	6,662
NESC/RCAP (SMART)	W.S.O.S. Community Action	66.424	PY 08/09	20,869
Total Environmental Protection Agency				<u>40,847</u>
<u>U.S. Department of Energy:</u>				
Weatherization Assistance for Low-Income Persons	Kentucky Housing Corporation	81.042		250,366
Weatherization Assistance for Low-Income Persons	Kentucky Cabinet for Health and Family Services	81.042	736-08000084115	3,828,961
Total Department of Energy				<u>4,079,327</u>
<u>U.S. Department of Health and Human Services:</u>				
Low-Income Home Energy Assistance/Weatherization	Kentucky Housing Corporation	93.568		4,047,627
Low-Income Home Energy Assistance/Weatherization	Kentucky Cabinet for Health and Family Services	93.568	736-08000084115	3,300,357
Low-Income Home Energy Assistance	Kentucky Cabinet for Health and Family Services	93.568	736-08000084115	61,497,088
				<u>68,845,072</u>
Community Services Block Grant	Kentucky Cabinet for Health and Family Services	93.569	736-08000084115	130,000
Community Services Block Grant/Healthy Marriage		93.569	90ET0376/01	8,828
Community Services Block Grant/Healthy Marriage		93.569	90ET0376/02	68,921
Community Services Block Grant/EITC		93.569	90ET0362/01	412
Community Services Block Grant/EITC		93.569	90ET0362/02	46,308
				<u>254,470</u>
Community Services Block Grant-Discretionary		93.570	90EQ0171/01	46,300
Community Services Block Grant-Discretionary		93.570	90EQ0148/01	4,626
Community Services Block Grant-Discretionary	W.S.O.S. Community Action	93.570	PY 07/08	30,002
Community Services Block Grant-Discretionary	W.S.O.S. Community Action	93.570	PY 08/09	68,801
				<u>149,730</u>
Total Department of Health and Human Services				<u>69,249,272</u>
Total Expenditures of Federal Awards				<u>\$ 73,520,388</u>

Community Action Kentucky, Inc.
Schedule of Subrecipient Expenditures
For the year ended June 30, 2009

	LIHEAP <u>93.568</u>	Home Weatherization <u>93.568</u>	Home Weatherization <u>81.042</u>	Healthy Marriage/EITC <u>93.569</u>	<u>Total</u>
Audubon Area	1,978,645	162,847	171,677	1,000	2,314,169
Bell-Whitley Caa	1,975,048	205,375	150,741	5,500	2,336,664
Big Sandy CAP	5,515,113	428,444	268,285	7,500	6,219,342
Blue Grass CAA	2,376,579	288,853	153,093		2,818,525
Central Ky CAA	2,838,343	419,574	189,608		3,447,525
Daniel Boone CAA	3,817,698	389,380	181,440	4,500	4,393,018
Gateway CAA	1,695,554	239,359	156,634		2,091,547
Harlan Co CAA	833,725	147,817	103,979		1,085,521
KCEOC CAP	1,478,152	210,269	80,003	1,000	1,769,424
Foothills CAP	2,391,607	369,452	141,861	4,000	2,906,920
LKLP CAA	3,327,038	491,817	219,704	5,500	4,044,059
Lake Cumberland CA/	4,879,695	520,730	294,327	4,000	5,698,752
CAC - Lexington	2,598,102	339,268	148,826	1,000	3,087,196
Licking Valley CAP	1,085,934	299,807	145,441	4,500	1,535,682
Louisville Metro	6,564,986			4,500	6,569,486
Middle Ky CAP	1,610,160	121,324	90,225		1,821,709
Multi-Purpose CAA	693,366	198,635	82,082	4,500	978,583
Northeast Ky CAA	3,854,757	430,655	210,683		4,496,095
Northern Ky CAC	2,617,776	354,373	226,561		3,198,710
Pennyrile Allied	2,880,293	406,626	230,558		3,517,477
CAA of Southern Ky	3,188,094	605,327	254,086	8,500	4,056,007
Tri-County CAA	388,284	88,410	82,433	4,500	563,627
West Ky Allied	2,495,206	210,241	165,489		2,870,936
Dept of Housing		362,606	307,941		670,547
	<u>61,084,155</u>	<u>7,291,189</u>	<u>4,055,677</u>	<u>60,500</u>	<u>72,491,521</u>

**COMMUNITY ACTION KENTUCKY, INC.
SCHEDULE OF EXPENDITURES 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”) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

Note 2 – Sub-recipient Expenditures

A substantial amount of expenditures included on the Schedule of Federal Financial Assistance are passed through to various sub-recipients of CAK. The Schedule of Sub-recipient Expenditures on page 21 provides a summary of this activity by sub-recipient and federal program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMUNITY ACTION KENTUCKY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
93.568	LIHEAP
81.042	Weatherization

**Dollar threshold used to distinguish
between type A and type B programs** **\$ 2,205,600**

Auditee qualified as low-risk auditee? X yes no

II. FINANCIAL STATEMENT FINDINGS

Finding 09-1 -- See following

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 09-01 in section II of this Schedule.

**COMMUNITY ACTION KENTUCKY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Finding 09-01 Lack of Staff and Segregation

Criteria:

Organizations are required to establish and maintain a system of internal controls to ensure adherence to generally accepted accounting principles. In addition, Organizations expending federal funds are required to maintain a system of administrative controls that ensure compliance with various federal requirements.

Condition/Cause:

The lack of staff does not permit CAK to fully segregate duties or establish a full complement of supervisory reviews. The lack of available staff time makes it difficult for the organization to fully execute certain responsibilities as they relate to the conduct of federally-funded programs.

Specific conditions we noted include:

Duties in the organization's grant receipt and sub-recipient disbursement cycle could not be fully segregated

The organization's policy of reconciliation of the LIHEAP programmatic reporting system (Castinet) to its financial management system was not formalized and its execution not thoroughly documented.

Monitoring tests applied to LIHEAP sub-recipient administrative cost were not thoroughly documented and the conclusion reached not clearly stated.

CAK's investigation and resolution of sub-recipient audit findings was not thoroughly documented.

Perspective:

The finding is systemic in nature.

Effect:

While we noted no material errors with regard to processes where duties were not fully segregated, these processes can nevertheless be completed without full review. The condition also impairs CAK's ability to fully demonstrate its adherence to federal requirements, particularly as they relate to sub-recipient monitoring.

**COMMUNITY ACTION KENTUCKY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Finding 09-01 (continued)

Federal Programs Affected:

CFDA 93.568	LIHEAP- HHS
CFDA 81.042/93.568	Weatherization- DOE/HHS

Recommendation:

We recommend that CAK consider hiring additional staff. Management should also continue to evaluate opportunities to segregate duties among existing employees, add compensating controls, institute supervisory reviews, and better coordinate the efforts of program and fiscal staff.

We further recommend that CAK staff obtain additional training on a variety of key topics including OMB A-133, Single Audit Act, and other applicable regulations as they related to sub-recipient monitoring.

Management Response:

The agency is cognizant of the lack of full segregation of duties inherent in having a limited fiscal staff. Management conducts ongoing reviews of its control procedures and makes every practical effort to utilize existing staff to achieve segregation.

During the period covered by this audit, management instituted additional procedures to address certain of the existing segregation issues in both financial accounting and grant compliance. Financial accounting enhancements included additional reviews and approvals of sub-grant disbursements, reconciliation of the grant receipt and related sub-grant disbursement cycle, and additional controls over reconciliation of sub-recipient program expenditures. Compliance improvements included additional procedures to document the review of Weatherization monitoring and monitoring of LIHEAP sub-recipient administrative cost.

Subsequent to year-end, management hired an internal compliance officer and a weatherization technical assistance provider to further enhance grant compliance. Management has also implemented a number of additional accounting and administrative controls. This includes more frequent Castinet/GMS reconciliations, enhanced controls over cash disbursements, and automated budget-to-actual comparisons of sub-recipient expenditures.

We will be looking at adding additional fiscal staff to help manage the various audit and reporting requirements and provide additional training for CAK staff. CAK presently reviews its state contract to examine its responsibilities but will make that review process more formal.

COMMUNITY ACTION KENTUCKY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 08-01 - Segregation of Duties

Condition:

Because of staffing and budgeting constraints, CAK is unable to achieve adequate segregation of duties.

Effect:

While no errors or irregularities were noted with regard to transaction classes where segregation was lacking, these transactions can be processed without full supervisory review.

Recommendation:

CAK management should, where possible, utilize existing staff to support the fiscal officer in the performance of duties. If duties cannot be segregated, management should consider instituting compensating controls such as periodically rotating duties or having other employees perform periodic and detailed reviews of work performed.

Status:

Although included as an element of finding 9-01, substantial improvements have been made. Management conducts ongoing reviews of its control procedures and makes every practical effort to utilize existing staff to achieve segregation.

More employees are now involved with the segregation of duties. Another signatory now regularly prepares direct deposit batches for distribution for sub recipients and the executive director now reconciles direct deposit batches to sub recipients with invoices submitted to grantor agencies. Presently at least six of 14 employees are involved the financial segregation of duties at CAK.

During the period covered by this audit, management instituted additional procedures to address certain of the existing segregation issues in both financial accounting and grant compliance. Financial accounting enhancements included additional reviews and approvals of sub-grant disbursements, reconciliation of the grant receipt and related sub-grant disbursement cycle, and additional controls over reconciliation of sub-recipient program expenditures. Compliance improvements included additional procedures to document the review of Weatherization monitoring and monitoring of LIHEAP sub-recipient administrative cost.

Management hired an internal compliance officer and a weatherization technical assistance provider to further enhance grant compliance. The internal compliance auditor is now handling the audit review process whereby CAK reviews the audits of the sub grantee organizations. Management has also implemented a number of additional accounting and administrative controls. This includes more frequent Castinet/GMS reconciliations, enhanced controls over cash disbursements, and automated budget-to-actual comparisons of sub-recipient expenditures.

Supplemental Information

Community Action Kentucky, Inc.
Statement of Activity By Program
For the Year Ended June 30, 2009

	Housing	RCAP 07/08	RCAP 08/09	SWP 08/09	LIHEAP	WX	CDBG	U.I.Trust	OCS 07/08	OCS 08/09	AEP 06/08	AEP 08/10	KU Energy 07/12	Treasury	Total
REVENUES															
Grant Revenue	7,660	91,281	177,033	20,869	61,497,088	11,478,371	130,000	-	13,867	161,529	-	-	-	-	73,577,697
Commission														164,147	164,147
Program Income	2,377							1,500			20,269	18,085	56,545	23,981	122,757
Dues														18,042	18,042
Rental Income														15,000	15,000
Investment Income														(162,358)	(162,358)
Other Income														5,625	5,625
Total Revenues	10,037	91,281	177,033	20,869	61,497,088	11,478,371	130,000	1,500	13,867	161,529	20,269	18,085	56,545	64,436	73,740,909
EXPENSES															
Salaries	4,170	51,028	97,197	12,167	238,177	76,628	68,843	1,108	6,204	38,895	5,161	6,130	903	10,102	616,713
Fringe Benefits	1,331	18,182	31,092	3,865	75,976	23,934	22,696	354	2,303	12,422	1,674	1,957	288	905	196,939
Professional Services	-	-	-	-	15,967	10,365	5,961	-	6,000	25,000	-	-	-	11,752	75,046
Education	-	150	270	-	445	600	845	-	(1,435)	1,785	-	-	-	3,379	6,039
Travel	114	9,153	13,693	1,056	7,017	2,480	3,262	-	870	9,532	-	-	-	25,087	72,263
Telephone	-	-	-	-	106	205	77	-	-	173	-	-	-	116	678
Office Expense and Supplie	-	5,627	4,137	-	4,746	1,313	454	-	10	360	-	-	-	3,367	20,015
Dues/Fees	426	225	1,464	-	165	6	1,159	-	-	325	-	-	-	7,305	11,074
Insurance	-	-	128	-	10,498	2,177	-	-	(85)	-	-	-	-	1,326	14,129
Printing and postage	-	5,301	153	-	3,400	30	4,068	-	-	-	15	-	-	773	13,655
Marketing and Advertising	-	-	360	-	-	419	-	-	-	-	-	-	-	97,690	98,469
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs & Main	-	-	-	-	1,111	232	92	-	-	-	-	-	-	1,916	3,350
Meeting Expense	-	-	-	-	2,715	654	149	-	-	913	-	-	-	44,940	49,371
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	7,773	7,773
Interest	2,636	-	-	-	-	-	-	-	-	-	-	-	-	-	2,636
Bad Debts	9,212	-	-	-	-	-	-	-	-	-	-	-	-	-	9,212
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	1,501	1,501
Indirect	759	1,616	28,600	3,753	52,608	12,463	22,392	167	-	11,623	-	-	145	25,568	159,694
Subrecipients	7,660	-	-	-	61,084,155	11,346,866	-	-	-	60,500	13,425	10,000	74,131	-	72,596,737
Total Expenses	26,308	91,282	177,033	20,861	61,497,088	11,478,371	130,000	1,629	13,867	161,529	20,275	18,086	75,467	243,499	73,955,295
Change in Net Assets	(16,271)	(0)	(0)	8	-	-	-	(129)	0	-	(6)	(1)	(18,923)	(179,063)	(214,385)

Supplemental Information

Pass Through from Kentucky

Cabinet for Health and Family Services
and Kentucky Housing Corporation

COMMUNITY ACTION KENTUCKY, INC.
 LIHEAP GRANT - CFDA 93.568
 CONTRACT #736-08000084111
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2008 Through June 30, 2009

Agency Subsidy Benefits (CAK records)	17,142,040
Agency Crisis Benefits (CAK records)	39,239,799
Agency Prior Year Adjustments (CAK records)	(10,238)
Agency Administration (CAK records)	<u>4,712,554</u>

TOTAL PAYMENTS TO SUBRECIPIENTS 61,084,155

CAK ADMINISTRATION

Salaries	244,342
Fringe Benefits	77,944
Professional Services	12,441
Consultants	7,150
Education	560
Travel	7,298
Meeting	4,180
Telephone	7,478
Postage	1,089
Supplies	9,242
Publications	
Dues/Fees	204
Insurance	19,296
Printing	3,906
Advertising	173
Utilities	1,853
Repairs & Main	9,456
Depreciation	6,321

Total CAK Administration 412,933

TOTAL EXPENDITURES 61,497,088

QUESTIONED COSTS (See Schedule) -

ALLOWABLE COST 61,497,088

AMOUNT RECEIVED FROM CHFS - HEAP 61,485,905

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES 11,183

ACCOUNTS PAYABLE TO FUNDING SOURCES -

EXCESS RECEIPTS OVER EXPENDITURES -

COMMUNITY ACTION KENTUCKY, INC.
 LIHEAP GRANT - CFDA 93.568
 CONTRACT #736-08000084111
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2008 Through June 30, 2009

Cost Category	<u>Budget</u>	<u>Actual</u>	(Over)/ Under <u>Budget</u>
Administrative Cost			
Subrecipient	5,945,928	4,712,554	1,233,374
Community Action Kentucky	<u>630,659</u>	<u>382,933</u>	<u>247,726</u>
Total Administrative	6,576,587	5,095,487	1,481,100
Benefits - Direct Assistance			
Subsidy	17,142,040	17,142,040	0
Crisis	<u>43,519,275</u>	<u>39,239,799</u>	<u>4,279,476</u>
Total Benefits	60,661,315	56,381,839	4,279,476
Other Expenditures			
DSM	30,000	30,000	0
Prior Year Adjustments	<u>0</u>	<u>-10,238</u>	<u>10,238</u>
Total Other	<u>30,000</u>	<u>19,762</u>	<u>10,238</u>
Total Contract	<u><u>67,267,902</u></u>	<u><u>61,497,088</u></u>	<u><u>5,770,814</u></u>

COMMUNITY ACTION KENTUCKY, INC.
WEATHERIZATION GRANT
CONTRACT #736-08000084111
STATEMENT OF PROGRAM EXPENSES
For the Period July 1, 2008 Through June 30, 2009

PAYMENTS TO SUBRECIPIENTS

Department of Energy	4,055,677
LIHEAP	<u>7,291,189</u>

TOTAL PAYMENTS TO SUBRECIPIENTS 11,346,866

CAK ADMINISTRATION

Salaries	78,089
Fringe Benefits	24,400
Professional Services	9,823
Consultants	1,400
Education	627
Travel	2,546
Meeting	1,001
Telephone	1,951
Postage	250
Supplies	2,379
Dues/Fees	15
Insurance	4,261
Printing	158
Advertising	460
Utilities	439
Repairs & Main	2,208
Depreciation	1,498

Total CAK Administration 131,505

TOTAL EXPENDITURES 11,478,371

QUESTIONED COSTS (See Schedule) -

ALLOWABLE COST 11,478,371

AMOUNT RECEIVED FROM CHFS 7,129,318

AMOUNT RECEIVED FROM KHC 2,227,216

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES 2,121,837

ACCOUNTS PAYABLE TO FUNDING SOURCES -

EXCESS RECEIPTS OVER EXPENDITURES -

COMMUNITY ACTION KENTUCKY, INC.
 WEATHERIZATION GRANT - CFDA 93.568
 CHFS CONTRACT #736-08000084111
 and KHC Contract dated April 23, 2009
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2008 Through June 30, 2009

Cabinet for Health and Family Services	7,129,318
Kentucky Housing Corporation (Federal)	4,297,993
Kentucky Housing Corporation (Non-Federal)	<u>51,060</u>
	<u><u>11,478,371</u></u>

	<u>Budget</u>	<u>Actual</u>	(Over)/Under <u>Budget</u>
CAK Admin	177,533	131,505	46,028
Sub-recipient Agencies			
Admin	1,306,388	1,102,220	204,168
Materials	2,837,980	2,244,112	593,868
Program Support	2,097,402	1,912,420	184,982
Labor	3,413,182	3,003,052	410,130
Health & Safety	3,159,555	2,337,794	821,761
Vehicles/Equipment	604,084	514,919	89,165
Liability Insurance	107,910	103,240	4,670
Audit	54,090	48,420	5,670
Training	187,515	80,689	106,826
	<u>13,768,106</u>	<u>11,346,866</u>	<u>2,421,240</u>
Total	<u><u>13,945,639</u></u>	<u><u>11,478,371</u></u>	<u><u>2,467,268</u></u>

COMMUNITY ACTION KENTUCKY, INC.
 CSBG GRANT
 CONTRACT #736-08000084111
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2008 Through June 30, 2009

EXPENDITURES

Salaries	71,467
Fringe Benefits	23,534
Professional Services	1,542
Consultants	5,961
Education	894
Travel	3,381
Meeting	773
Telephone	3,215
Postage	459
Supplies	2,368
Publications	1,159
Dues/Fees	17
Insurance	3,745
Printing	4,288
Advertising	74
Utilities	789
Repairs & Main	3,643
Depreciation	2,691
TOTAL EXPENDITURES	<u>130,000</u>
QUESTIONED COSTS (See Schedule)	<u>-</u>
ALLOWABLE COST	130,000
AMOUNT RECEIVED FROM CHFS - CSBG	128,435
ACCOUNTS RECEIVABLE FROM FUNDING SOURCES	1,565
ACCOUNTS PAYABLE TO FUNDING SOURCES	<u>-</u>
EXCESS RECEIPTS OVER EXPENDITURES	<u><u>-</u></u>

Supplemental Information

Pass Through from W.S.O.S.Community
Action Agency (RCAP)

COMMUNITY ACTION KENTUCKY, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACT PY 07/08
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2008)
 STATEMENT OF PROGRAM EXPENSES

HHS	93,570	\$97,705
Safety & Security	66,424	3,100
Technitrain	10,761	104,173
Solid Waste	10,762	<u>95,000</u>

CONTRACT AWARD \$299,978

EXPENDITURES	<u>Actual</u> <u>6/30/08</u>	<u>Actual</u> <u>6/30/09</u>	<u>Total</u>
Salaries	127,044	51,217	178,261
Fringe Benefits	45,092	18,243	63,335
Professional Services	1,566	111	1,677
Education	-	153	153
Travel	11,618	9,161	20,779
Meeting	687	45	732
Telephone	3,744	226	3,970
Postage	538	33	571
Supplies	7,223	5,765	12,988
Publications	97	-	97
Dues/Fees	33	226	259
Insurance	4,645	271	4,916
Printing	115	5,317	5,432
Advertising	-	5	5
Utilities	893	57	950
Repairs & Main	2,035	257	2,292
Depreciation	<u>3,367</u>	<u>194</u>	<u>3,561</u>

TOTAL EXPENDITURES 208,697 91,281 299,978

QUESTIONED COSTS (See Schedule) - - -

ADJUSTED COST 208,697 91,281 299,978

CONTRACT PAYMENTS RECEIVED 142,811 157,167 299,978

EXCESS RECEIPTS OVER EXPENDITURES - - -

COMMUNITY ACTION KENTUCKY, INC.
 WSOS COMMUNITY ACTION COMMISSION, INC. RCAP GRANT
 CONTRACT PY 08/09
 (FOR CONTRACTS ENDING SEPTEMBER 30, 2009)
 STATEMENT OF PROGRAM EXPENSES
 For the Period July 1, 2008 Through June 30, 2009

HHS	68,817
RCDI	10,455
Technitrain	66,457
EPAW	5,531
SDWA	<u>9,449</u>
 CONTRACT AWARD	 160,709
 EXPENDITURES	
Salaries	100,548
Fringe Benefits	32,102
Professional Services	1,970
Education	228
Travel	13,950
Meeting	796
Telephone	4,008
Postage	581
Supplies	6,581
Publications	1,364
Dues/Fees	121
Insurance	4,911
Printing	439
Advertising	453
Utilities	1,007
Repairs & Main	4,537
Depreciation	<u>3,437</u>
 TOTAL EXPENDITURES	 177,033
 QUESTIONED COSTS (See Schedule)	 <u>-</u>
 ADJUSTED COST	 177,033
 CONTRACT PAYMENTS RECEIVED	 81,472
 ACCOUNTS RECEIVABLE FROM FUNDING SOURCES	 95,561
 EXCESS RECEIPTS OVER EXPENDITURES	 <u><u>-</u></u>

Supplemental Information

Direct Federal Programs

COMMUNITY ACTION KENTUCKY, INC.
OCS
CONTRACT #90EQ0148/01, #90ET0376/01, & #90ET0362/01
(FOR CONTRACTS ENDING SEPTEMBER 29, 2008)

RECEIPTS

Promoting Healthy Marriage	93,569	100,000
SAI/CSBG	93,570	75,000
EITC	93,569	<u>50,000</u>

CONTRACT AWARD

225,000

EXPENDITURES

	<u>Actual</u> <u>6/30/08</u>	<u>Actual</u> <u>6/30/09</u>	<u>Total</u>
Salaries	64,258	6,204	70,462
Fringe Benefits	22,820	2,303	25,123
Professional Services	1,330	-	1,330
Consultants	25,800	6,000	31,800
Education	3,435	(1,435)	2,000
Travel	5,019	870	5,889
Meeting	8,133	-	8,133
Telephone	3,687	-	3,687
Postage	551	(85)	466
Supplies	1,417	10	1,427
Publications	460	-	460
Dues/Fees	378	-	378
Insurance	3,964	-	3,964
Printing	384	-	384
Utilities	759	-	759
Repairs & Main	4,878	-	4,878
Depreciation	2,860	-	2,860
Other	500	-	500
Subrecipients	<u>60,500</u>	<u>-</u>	<u>60,500</u>

TOTAL EXPENDITURES

211,133 13,867 225,000

QUESTIONED COSTS (See Schedule)

- - -

ADJUSTED COST

211,133 13,867 225,000

CONTRACT PAYMENTS RECEIVED

211,133 13,867 225,000

EXCESS RECEIPTS OVER EXPENDITURES

- - -

COMMUNITY ACTION KENTUCKY, INC.
OCS
CONTRACT #90EQ0171/01, #90ET0376/02, & #90ET0362/02
(FOR CONTRACTS ENDING SEPTEMBER 29, 2009)
For the Period July 1, 2008 Through June 30, 2009

RECEIPTS

Promoting Healthy Marriage	93.569	67,000
SAI/CSBG	93.570	37,000
EITC	93.569	<u>45,000</u>

CONTRACT AWARD

149,000

EXPENDITURES

Salaries	40,257
Fringe Benefits	12,857
Professional Services	801
Consultants	25,000
Education	1,810
Travel	9,594
Meeting	1,237
Telephone	1,802
Postage	233
Supplies	1,353
Publications	325
Dues/Fees	9
Insurance	1,944
Printing	119
Advertising	38
Utilities	409
Repairs & Main	1,844
Depreciation	1,397
Subrecipients	<u>60,500</u>

TOTAL EXPENDITURES

161,529

QUESTIONED COSTS (See Schedule)

-

ADJUSTED COST

161,529

CONTRACT PAYMENTS RECEIVED

149,000

ACCOUNTS RECEIVABLE FROM FUNDING SOURCES

12,529

EXCESS RECEIPTS OVER EXPENDITURES

-

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

Lexington, Kentucky

Combined Financial Statements and
Additional Information
Year Ended June 30, 2009

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

Combined Financial Statements and Additional Information
Year Ended June 30, 2009

Table of Contents

Independent Auditor's Report	1
Financial Statements	
Combined Statement of Financial Position.....	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses.....	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7
Additional Information	
Schedule of Expenditures of Federal Awards.....	21
Combining Statement of Financial Position.....	23
Combining Statement of Activities	24
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 <i>Government Auditing Standards</i>	25
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	27
Schedule of Findings and Questioned Costs.....	29



Independent Auditor's Report

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

We have audited the accompanying combined statement of financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities as of June 30, 2009, and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These combined financial statements are the responsibility of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities as of June 30, 2009, and the combined statements of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2009, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Wipfli LLP

Wipfli LLP

November 11, 2009
Madison, Wisconsin

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

Combined Statement of Financial Position June 30, 2009

<i>Assets</i>	
Current assets:	
Cash	\$ 92,459
Restricted deposits	23,669
Investments	1,837,246
Grants receivable	948,622
Accounts receivable	96,381
Other assets	64,357
Total current assets	3,062,734
Long-term assets:	
Beneficial interest in assets held by others	63,687
Notes receivable	66,303
Total long-term assets	129,990
Property and equipment, net	6,069,895
TOTAL ASSETS	\$ 9,262,619
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 610,198
Current portion of capital leases payable	68,477
Accounts payable	395,929
Accrued payroll and related expenses	716,526
Total current liabilities	1,791,130
Long-term liabilities:	
Notes payable	3,115,559
Fair value of interest rate swap agreement	115,958
Capital leases payable	258,031
Tenant security deposits	4,308
Refundable advance HUD grant	1,061,800
Total long-term liabilities	4,555,656
Total liabilities	6,346,786
Net assets:	
Unrestricted	975,019
Temporarily restricted	1,940,814
Total net assets	2,915,833
TOTAL LIABILITIES AND NET ASSETS	\$ 9,262,619

See accompanying notes to the combined financial statements.

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

Combined Statement of Activities Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Grant revenue	\$ 16,448,779	\$ 0	\$ 16,448,779
Investment income (loss)	13,761	(142,292)	(128,531)
Other income	2,043,809	69,246	2,113,055
In-kind contributions	2,378,696	0	2,378,696
Net assets released from restriction through satisfaction of program restrictions	266,030	(266,030)	0
Total revenue	21,151,075	(339,076)	20,811,999
Expenses:			
Program activities:			
Child education	13,601,106	0	13,601,106
Transportation	508,888	0	508,888
Community services	1,486,147	0	1,486,147
Weatherization services	3,467,955	0	3,467,955
Senior programs	376,749	0	376,749
Total program activities	19,440,845	0	19,440,845
Fundraising	30,649	0	30,649
Management and general expenses	1,691,627	0	1,691,627
Total expenses	21,163,121	0	21,163,121
Change in net assets	(12,046)	(339,076)	(351,122)
Net assets - Beginning of year	987,065	2,279,890	3,266,955
Net assets - End of year	\$ 975,019	\$ 1,940,814	\$ 2,915,833

See accompanying notes to the combined financial statements.

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

Combined Statement of Functional Expenses

Year Ended June 30, 2009

	Child Education	Transportation	Community Services	Weatherization Services	Senior Programs	Total Program Activities	Management and General Expenses	Fundraising	Total
EXPENSES									
Salaries	\$ 5,518,346	\$ 214,507	\$ 652,296	\$ 243,986	\$ 98,927	\$ 6,728,062	\$ 881,078	\$ 12,934	\$ 7,622,074
Fringe benefits	2,150,302	106,151	225,194	95,005	37,478	2,614,130	250,037	3,685	2,867,852
Consultant/contractual	1,809,954	26,082	73,350	48,614	24	1,958,024	134,826	6,250	2,099,100
Space	901,467	31,824	95,302	33,448	52,238	1,114,279	170,673	0	1,284,952
Supplies	440,620	3,384	20,097	25,333	6,794	496,228	11,072	0	507,300
Travel	53,651	112,454	15,560	4,873	15,732	202,270	41,986	0	244,256
Communications and IT	207,120	7,186	23,091	15,679	3,826	256,902	87,276	0	344,178
Beneficiary assistance	32,866	0	269,747	3,000,465	5,823	3,308,901	0	0	3,308,901
Other	121,136	7,300	106,030	552	148,335	383,353	114,679	7,780	505,812
In-kind expenses	2,365,644	0	5,480	0	7,572	2,378,696	0	0	2,378,696
TOTAL EXPENSES	\$ 13,601,106	\$ 508,888	\$ 1,486,147	\$ 3,467,955	\$ 376,749	\$ 19,440,845	\$ 1,691,627	\$ 30,649	\$ 21,163,121

See accompanying notes to the combined financial statements.

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

Combined Statement of Cash Flows Year Ended June 30, 2009

Increase (decrease) in cash:	
Cash flows from operating activities:	
Change in net assets	(\$ 351,122)
<hr/>	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	444,787
Loss on disposal of equipment	9,800
Net realized and unrealized loss on investments	203,581
Net realized and unrealized loss on beneficial interest in assets held by others	15,549
Change in fair value of interest rate swap agreement	67,168
Changes in operating assets and liabilities:	
Restricted deposits	(6,003)
Grants receivable	36,746
Accounts receivable	18,286
Other assets	980
Net withdrawals from trust accounts	(5,656)
Accounts payable	(7,709)
Accrued payroll and related expenses	84,515
Tenant security deposits	1,179
<hr/>	
Net cash provided by operating activities	512,101
<hr/>	
Cash flows from investing activities:	
Issuance on notes receivable	1,748
Purchase of property and equipment	(209,001)
<hr/>	
Net cash used in investing activities	(207,253)
<hr/>	
Cash flows from financing activities:	
Proceeds from borrowing	175,175
Payments on capital leases	(64,837)
Payments on notes payable	(455,152)
<hr/>	
Net cash used in financing activities	(344,814)
<hr/>	
Change in cash	(39,966)
Cash - Beginning of year	132,425
<hr/>	
Cash - End of year	\$ 92,459
<hr/>	
Supplemental schedule of operating activities:	
Interest paid	\$ 250,294

See accompanying notes to combined financial statements.

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

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies**

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 62% of CAC's grant funding is received under their federal Head Start grant.

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.

Basis of Presentation

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

Principles of Combination

These financial statements are combined and include the accounts of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., Shepherd Place, Inc., and Wintercare Energy Fund, Inc. (the "Organizations"). The Organizations are nonprofits which 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 the combination.

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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution.

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

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Classification of Net Assets (Continued)

Temporarily Restricted Net Assets - 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. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organizations. Generally, the donors of these assets permit the Organizations to use all or part of the income earned on any related investments for general or specific purposes. Currently, the Organizations do not have any permanently restricted net assets.

Revenue Recognition

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

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

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Investments

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

Accounts Receivable

Accounts receivable consist primarily of 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 and, therefore, no allowance for uncollectible amounts has been recorded. If an amount becomes delinquent after all collection efforts have failed, the account is written off.

Use of Estimates

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

Property and Equipment

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

Property and equipment purchased with grant funds are owned by the Organizations while used in the program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. Property and equipment purchased with grant funds, net of depreciation, was \$490,227 at June 30, 2009.

Capital Leases

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

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

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Income Taxes

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

In-Kind Contributions

CAC has recorded in-kind contributions for space, supplies, and professional services in the combined statement of activities in accordance with Financial Accounting Standard No. 116 (FAS 116), *Accounting for Contributions Received and Contributions Made*. FAS 116 requires that only contributions of service received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of FAS 116 are different than the in-kind requirements of several of CAC's grant awards. CAC also received in-kind contributions for nonprofessional volunteers, food, and clothing during the year with a value of \$866,753 primarily for its Head Start and CSBG programs, which are not recorded in the combined statement of activities.

Derivative Instrument

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

Cost Allocation

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

New Accounting Pronouncements

Effective July 1, 2008, the Organizations adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies how organizations are required to use a fair value measure for recognition and disclosure by establishing a common definition of fair value, creating a framework for measuring fair value, and expanding disclosures about fair value measurements. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted

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

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

New Accounting Pronouncements (Continued)

market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The adoption of SFAS No. 157 did not have a material impact on the Organization's results of operations or financial position.

In addition, the Organizations were required to adopt Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations*, for the year ended June 30, 2009. FSP No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Organizations are not currently subject to UPMIFA; accordingly, the requirements of FSP No. 117-1 regarding net asset classification are not applicable to the Organizations. However, FSP No. 117-1 also requires additional disclosures for organizations whether or not they are subject to UPMIFA to enable users of the financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of an organization's endowment funds, both donor-restricted and board-designated. The disclosures are required for each period presented and are included in Note 7 to the financial statements. The adoption of FSP No. 117-1 had no effect on the Organization's total net assets or the net asset classifications.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued. The adoption of SFAS 165 did not result in any material change to our policies.

Note 2 **Concentration of Credit Risk**

CAC maintains cash balances at several financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. In addition, low interest or non interest bearing accounts have unlimited FDIC coverage. During the year, there were no balances in excess of FDIC coverage that were not collateralized by the U.S. Government security.

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

Notes to Combined Financial Statements

Note 3 Restricted Deposits

Under the terms of the Regulatory Agreement that the Project has with HUD, the Project is required to set aside specified amounts for the replacement of property and other project expenditures as approved by HUD. Restricted funds at June 30, 2009, are comprised of the following:

Escrow fund	\$ 5,719
Reserve for replacement	13,642
<u>Tenant security deposit</u>	<u>4,308</u>
 <u>Total</u>	 <u>\$ 23,669</u>

Note 4 Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2009, as follows:

Direct federal programs	\$ 426,101
<u>State and local programs</u>	<u>522,521</u>
 <u>Total</u>	 <u>\$ 948,622</u>

Note 5 Investments

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

CAC also participates in an investment pool with seven other nonprofits to self-fund unemployment insurance claims. The fair value of the investment pool at June 30, 2009, was \$4,297,255. The allocation of the investments in the pool at June 30, 2009, was 37% equities, 44% fixed income, and 19% money market. CAC's portion of the fair value of the pooled investments was approximately 22.6% at June 30, 2009.

As of June 30, 2009, investments consist of the following:

Health Trust:	
Equities	\$ 75,104
Fixed income	707,826
Money market	80,317
<u>CAC share of unemployment investment pool</u>	<u>973,999</u>
 <u>Total</u>	 <u>\$ 1,837,246</u>

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

Notes to Combined Financial Statements

Note 5 Investments (Continued)

Included in investment income for the year ended June 30, 2009, was interest and dividends of \$75,050 and a net realized and unrealized loss of \$203,581 on the above investments.

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 combined financial statements.

Note 6 Beneficial interest in Assets Held by Others

SFAS No. 136, *Transfer of Assets to a Not-for-Profit or Charitable Trust That Raises or Holds Contributions for Others*, requires, among other things, that assets held by an unrelated not-for-profit solely for the benefit of another not-for-profit (beneficiary) be recorded on the beneficiary not-for-profit's financial statements. The value of the assets is to be recorded on the statement of financial position as a long-term asset with a corresponding restricted net asset for the Community Action Council RSVP balance and unrestricted net asset for the Community Action Council balance. Any change in the net asset value during the fiscal period is to be recorded in the statement of activities as an increase or decrease in net assets.

The balance at June 30, 2009, consists of the following:

Community Action Council RSVP	\$	13,285
Community Action Council		50,402
<hr/>		
Total	\$	63,687

Note 7 Endowments

The Board of Directors believes Uniform Management of Institutional Funds Act (UMIFA) is the relevant state law governing its endowment funds. The Board of Directors has interpreted the UMIFA as allowing the appropriation for expenditures for the purposes for which an endowment is established the net appreciation, realized and unrealized, in the fair value of an endowment fund over the historic dollar value of the fund as is prudent under ordinary business care considering the facts and 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 which may be withdrawn or reinvested.

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

Notes to Combined Financial Statements

Note 7 Endowments (Continued)

Changes in endowment funds were as follows:

	Board Designated (Unrestricted)	Donor Designated (Temporarily Restricted)	Total
Endowments at July 1, 2008	\$ 62,706	\$ 16,530	\$ 79,236
Net depreciation	(12,304)	(3,245)	(15,549)
<u>Endowments at June 30, 2009</u>	<u>\$ 50,402</u>	<u>\$ 13,285</u>	<u>\$ 63,687</u>

Note 8 Property and Equipment

A summary of property and equipment is as follows:

Land	\$ 599,250
Land improvements	160,443
Building and improvements	6,581,508
Leasehold improvements	372,772
Equipment	2,319,499
	10,033,472
<u>Accumulated depreciation</u>	<u>(3,963,577)</u>
<u>Total</u>	<u>\$ 6,069,895</u>

Note 9 Related Party

CAC's Executive Director and a CAC employee are two of four board members in a joint venture, the Russell School Project (the "Venture"). The other two board members of the Venture are from another organization. The Venture was formed to purchase and renovate a building to be operated by CAC and the other organization. The Venture purchased the building for \$300,000 through financing from a bank which is secured by the building. CAC has not guaranteed any of the debt. The Venture is in the process of obtaining funds for renovation of the building. CAC has incurred expenses through June 30, 2009 of \$83,886 in connection with the Venture which is included in accounts receivable.

Note 10 Line of Credit

CAC has an available line of credit in the amount of \$400,000 at the National City Bank. The line of credit matures on February 28, 2010, with a variable interest rate; the rate is 3.25% at June 30, 2009. The line of credit is unsecured. There were no draws on the line of credit at June 30, 2009.

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

Notes to Combined Financial Statements

Note 11 Refundable Advance

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

Note 12 Notes Payable

A summary of notes payable at June 30, 2009 is as follows:

Note payable at 7.76% interest with monthly payments of \$4,213, due November 2009. The note is secured by real estate.	\$ 20,638
Loan for housing remodeling for qualified individuals, payable in annual payments of \$12,327, with variable interest payments quarterly, due October 2018.	65,243
Revenue bonds payable, series 2000B with interest at 6.71%. Monthly payments of \$13,766 until December 2015, secured by real estate.	865,813
Note payable at a variable interest rate, rate at June 30, 2009 is 5%, with monthly principal payments of \$1,134 plus interest, due November 2018. The note is secured by two school buses.	160,471
Revenue bonds payable, series 2000A, annual principal and semi annual interest payments until December 2015, interest at 7% to 7.6%, secured by real estate.	150,000
Revenue bond payable fixed at 3.74% through an interest rate swap agreement with quarterly payments, due November 2023. The bond is secured by real estate and various equipment.	2,130,000
Note payable at 6.35% interest with monthly payments of \$5,663, due June 2010. The note is unsecured.	333,592
Total notes payable	3,725,757
Current portion	(610,198)
Long-term notes payable	\$ 3,115,559

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

Notes to Combined Financial Statements

Note 12 Notes Payable (Continued)

The future maturities of notes payable at June 30, 2009, are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 610,198
2011	278,170
2012	291,156
2013	299,367
2014	310,665
Thereafter	1,936,201
<u>Total long-term notes payable</u>	<u>\$ 3,725,757</u>

Interest expense for the year ended June 30, 2009 was \$317,642.

Note 13 Derivative Instrument

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

At June 30, 2009, the interest rate swap had a notional amount of \$2,130,000 with interest fixed at 3.74% and expires November 2023.

The interest rate swap was issued at market terms and, therefore, had no fair value at inception. The notional amount changes with quarterly payments. The carrying amounts of the interest rate swap has been adjusted to fair value as of June 30, 2009 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 \$115,958. Adjustments to the carrying amount of the interest rate swap are reported in other expense.

Note 14 Capital Leases Payable

CAC entered into a lease that qualifies as a capital lease in May 1996. The cost of the property is \$542,500. The accumulated depreciation on this property at June 30, 2009, is \$170,345. The leasing arrangement expires January 2011.

CAC entered into a lease that qualifies as a capital lease in December 1996. The cost of the property is \$243,779. The accumulated depreciation on this property at June, 30, 2009, is \$102,252. The leasing arrangement expires December 2026.

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

Notes to Combined Financial Statements

Note 14 Capital Leases Payable (Continued)

CAC renovated a facility in December of 2002 at a cost of \$127,396. CAC is a sub-lessee of this property and the sublease stipulates that the property will transfer at the end of the lease. Accumulated depreciation at June 30, 2009, on this property is \$82,809. The leasing arrangement expires January 2013.

The minimum future lease payments required under the capital leases as of June 30, 2009, and for each of the next five years and in the aggregate are as follows:

2010	\$	79,829
2011		79,806
2012		28,372
2013		28,171
2014		13,300
<u>Thereafter</u>		<u>166,250</u>
Total minimum lease payments		395,728
<u>Amount representing interest</u>		<u>(69,220)</u>
Present value of minimum lease payments		326,508
<u>Current maturity of capital lease</u>		<u>(68,477)</u>
<u>Long-term capital lease</u>		<u>\$ 258,031</u>

Note 15 Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2009 consist of the following:

Self-funded health insurance trust	\$	813,808
Unemployment insurance trust		973,999
Beneficial interest in assets held by others		13,285
<u>Other</u>		<u>139,722</u>
<u>Total temporarily restricted net assets</u>		<u>\$ 1,940,814</u>

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

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

Notes to Combined Financial Statements

Note 16 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, 2009, was \$154,809. Future minimum lease payments beyond 2009 are as follows:

2010	\$ 162,765
2011	96,292
2012	55,644
2013	9,458
2014	9,457
Thereafter	28,368
<hr/>	
Total	\$ 361,984

Note 17 Retirement

CAC offers its employees a defined contribution retirement plan. The plan is open to all employees who have been employed by CAC for one year. CAC contributes 8% of gross wages to the plan for qualified employees. CAC's contribution vests over a period of five years. CAC's contributions to the plan for the year ended June 30, 2009, were \$471,059.

Note 18 Grant Awards

At June 30, 2009, CAC had commitments under various ongoing grant awards of approximately \$2,112,000. The revenue relating to these grants is not recognized in the accompanying combined financial statements as the revenue recognition is conditional on the incurrence of expenditures or the performance of services in the next fiscal year.

Note 19 Contingencies

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

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

Notes to Combined Financial Statements

Note 20 Fair Value Measurements

As discussed in Note 1, the Organizations adopted SFAS No. 157, Fair Value Measurements, effective July 1, 2008. SFAS No. 157 did not materially affect the Organization's financial position or net assets; however, additional disclosures are now required. This statement describes a fair value hierarchy that includes three levels of inputs to be used to measure fair value. In general, the Organizations determine fair values determined by Level 1 inputs utilizing quoted market prices in active markets and fair values determined by Level 2 inputs utilizing market information that is observable, such as quoted market prices for similar items, broker/dealer quotes, or models using market interest rates or yield curves.

Information regarding the fair value of assets measured at fair value on a recurring basis as of June 30, 2009, 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)
Investments	\$ 863,247	\$ 863,247	\$ 0	\$ 0
Investments held by Trust	973,999	973,999	0	0
Endowment Funds held by Foundation	63,687	0	0	63,687
Total Assets	\$ 1,900,933	\$ 1,837,246	\$ 0	\$ 63,687
Liability - derivative	\$ 115,958	\$ 0	\$ 115,958	\$ 0

Changes in the fair value of the investments held by trust endowment funds are recorded as investment income in the statement of activities. The following is a reconciliation of the beginning and ending balance of CAC's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2009:

Trust endowment funds -- Beginning of year	\$ 79,236
Unrealized loss	(15,549)
Trust endowments funds -- End of year	\$ 63,687

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

Notes to Combined Financial Statements

Note 21 Subsequent Events

We have evaluated events occurring subsequent to the date of our financial statements through November 11, 2009, which is the date our financial statements were issued. We have recognized the effects of all subsequent events that provide additional evidence about conditions that existed at our statement of financial position date of June 30, 2009, including estimates inherent in the process of preparing our financial statements. There were no nonrecognized subsequent events to be disclosed in our financial statements.

Additional Information

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

Schedule A-1

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through the Kentucky Department of Education Child and Adult Care Food Program	10.558	034-D30-999	\$ <u>368,389</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through the Lexington-Fayette Urban County Housing Authority Section 8 Housing Assistance Payments	14.195	N/A	<u>50,921</u>
Passed-Through the Lexington-Fayette Urban County Housing Authority CDBG/WX	14.218	N/A	<u>21,405</u>
Project Independence	14.235	KY36B60-2002	12,117
Project Independence		KY36B70-2006	52,374
Continuum of Care/Bourbon County		KY36B60-0015	21,216
Continuum of Care/Bourbon County		KY36B70-0022	96,036
Samaritan		KY36B60-0001	17,388
Kentucky Clean Energy		N/A	129,150
	Total CFDA #14.235		<u>328,281</u>
Passed-Through the Kentucky Housing Corporation TBRA LFUCG	14.239	N/A	38,971
TBRA		TB06-0128-01	14,827
TBRA		TB09-0128-01	16,381
	Total CFDA #14.239		<u>70,179</u>
U.S. DEPARTMENT OF LABOR			
Youth Build	17.274	YB-16878-08-210	241,806
Youth Build		YB-16878-YAO	53,673
	Total CFDA #17.274		<u>295,479</u>
U.S. DEPARTMENT OF ENERGY			
Passed-Through the Kentucky Association of Community Action Agencies DOE-Weatherization Assistance	81.042	M-06107251	<u>148,826</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through the Kentucky Association of Community Action Agencies Low-Income Home Energy Assistance Program	93.568	M-06107251	2,598,102
Low-Income Home Energy Assistance Program-WX		M-06107251	339,268
	Total CFDA #93.568		<u>2,937,370</u>
Passed-Through the Kentucky Cabinet for Health and Family Services Community Services Block Grant	93.569	M-06066945	624,941
	Total CFDA #93.569		<u>624,941</u>

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

Schedule A-2 Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Direct Funding			
SAMSHA	93.243	1H79T1020483-01	66,991
Head Start	93.600	04CH2750/39	602,105
Head Start		04CH2750/40	6,048,237
Early Head Start		04CH2750/39	257,030
Early Head Start		04CH2750/40	2,221,974
Migrant Head Start		90CM9789/06	347,162
Migrant Head Start		90CM9789/07	1,488,268
	Total CFDA #93.600		10,964,776
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
Direct Funding			
Retired Senior Volunteer Program	94.002	08SRSKY001	49,557
Retired Senior Volunteer Program		08SRSKY001	57,195
	Total CFDA #94.002		106,752
Foster Grandparents Program	94.011	08SFSKY001	77,555
Foster Grandparents Program		08SFSKY001	67,540
	Total CFDA #94.011		145,095
DEPARTMENT OF HOMELAND SECURITY			
Passed-Through Emergency Food and Shelter National Board			
Emergency Food & Shelter Program/Nicholas County	97.024	27-3502	15,693
Emergency Food & Shelter Program/Harrison County		27-3414	6,714
	Total CFDA #97.024		22,407
TOTAL FEDERAL EXPENDITURES			\$ 16,151,812

Note to Schedule of Expenditures of Federal Awards

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

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

Schedule B Combining Statement of Financial Position June 30, 2009

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Combined Balance
Current assets:					
Cash	\$ 51,851	\$ 5,521	\$ 35,087	\$ 0	\$ 92,459
Restricted deposits	0	23,669	0	0	23,669
Investments	1,837,246	0	0	0	1,837,246
Grants receivable	948,622	0	0	0	948,622
Accounts receivable	85,245	0	27,791	(16,655)	96,381
Other assets	64,357	0	0	0	64,357
Total current assets	2,987,321	29,190	62,878	(16,655)	3,062,734
Long-term assets:					
Beneficial interest in assets held by others	63,687	0	0	0	63,687
Notes receivable	66,303	0	0	0	66,303
Total long-term assets	129,990	0	0	0	129,990
Property and equipment, net	5,494,942	574,953	0	0	6,069,895
TOTAL ASSETS	\$ 8,612,253	\$ 604,143	\$ 62,878	(\$ 16,655)	\$ 9,262,619
Current liabilities:					
Current portion of notes payable	\$ 610,198	\$ 0	\$ 0	\$ 0	\$ 610,198
Current portion of capital leases payable	68,477	0	0	0	68,477
Accounts payable	395,060	3,779	13,745	(16,655)	395,929
Accrued payroll and related expenses	716,526	0	0	0	716,526
Total current liabilities	1,790,261	3,779	13,745	(16,655)	1,791,130
Long-term liabilities:					
Notes payable	3,115,559	0	0	0	3,115,559
Fair value of interest rate swap agreement	115,958	0	0	0	115,958
Capital leases payable	258,031	0	0	0	258,031
Tenant security deposits	0	4,308	0	0	4,308
Refundable advance HUD grant	0	1,061,800	0	0	1,061,800
Total long-term liabilities	3,489,548	1,066,108	0	0	4,555,656
Total liabilities	5,279,809	1,069,887	13,745	(16,655)	6,346,786
Net assets:					
Unrestricted (deficit)	1,391,630	(465,744)	49,133	0	975,019
Temporarily restricted	1,940,814	0	0	0	1,940,814
Total net assets (deficit)	3,332,444	(465,744)	49,133	0	2,915,833
TOTAL LIABILITIES AND NET ASSETS	\$ 8,612,253	\$ 604,143	\$ 62,878	(\$ 16,655)	\$ 9,262,619

See Independent Auditor's Report.

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

Schedule C
Combining Statement of Activities
Year Ended June 30, 2009

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Combined Balance
Revenue:					
Grant revenue	\$ 16,448,779	\$ 0	\$ 0	\$ 0	\$ 16,448,779
Investment income (loss)	(128,702)	35	136	0	(128,531)
Other income	1,921,208	94,148	274,393	(176,694)	2,113,055
In-kind contributions	2,378,696	0	0	0	2,378,696
Total revenue	20,619,981	94,183	274,529	(176,694)	20,811,999
Expenses:					
Salaries	7,622,074	0	0	0	7,622,074
Fringe benefits	2,867,852	0	0	0	2,867,852
Consultants/contractual	2,099,100	0	0	0	2,099,100
Space	1,250,541	34,411	0	0	1,284,952
Supplies	507,300	0	0	0	507,300
Travel	244,256	0	0	0	244,256
Communications and IT	344,178	0	0	0	344,178
Beneficiary assistance	3,158,549	0	272,469	(122,117)	3,308,901
Other	468,202	78,782	13,405	(54,577)	505,812
In-kind expenses	2,378,696	0	0	0	2,378,696
Total expenses	20,940,748	113,193	285,874	(176,694)	21,163,121
Change in net assets	(320,767)	(19,010)	(11,345)	0	(351,122)
Net assets (deficit) - Beginning of year	3,653,211	(446,734)	60,478	0	3,266,955
Net assets (deficit) - End of year	\$ 3,332,444	(\$ 465,744)	\$ 49,133	\$ 0	\$ 2,915,833



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

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

We have audited the financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Handwritten signature of Wipfli LLP in black ink.

Wipfli LLP

November 11, 2009
Madison, Wisconsin



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

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

Compliance

We have audited the compliance of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s management. Our responsibility is to express an opinion on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance based on our audit.

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

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

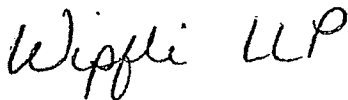
A control deficiency in an organization's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of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

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

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

The auditee's combined financial statements include Shepherd Place, Inc., a related entity, that expensed greater than \$500,000 in federal awards in the year ended June 30, 2009, and has had a separate single audit, which is not included in this audit.

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



Wipfli LLP

November 11, 2009
Madison, Wisconsin

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

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC).
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of CAC were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for CAC expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for CAC.
7. The programs tested as major programs were the Department of Agriculture, CFDA #10.558 and the Department of Health and Human Services, CFDA #93.600.
8. The threshold for distinguishing Types A and B programs was \$484,554.
9. CAC was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

There were no findings.

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

Findings: None

Questioned Costs: None