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PUBLIC SERVICE
COMMISSION

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

June 17, 2016

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 Executive Director:

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

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

Executive Director
June 17, 2016

In the September 14, 2007 Order, KU was authorized to utilize up to five percent of the total HEA funds collected to provide discretionary energy assistance. The Order specifies that the funds could be used to pay down arrearages or to provide energy assistance in crisis situations. During 2015, CAK and CAC utilized the funds for program participants that required monthly energy assistance.

During 2015, there was no change to the monthly or annual benefit amount.

KU has enclosed the financial audits conducted by independent auditors for CAK and CAC for the period ending June 30, 2015.

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 blue ink that reads "Rick E. Lovekamp". The signature is written in a cursive style with a large initial "R".

Rick E. Lovekamp

Kentucky Utilities Company
Home Energy Assistance Program
Total Funds Collected

Month/Year	Amount
Jan-15	\$107,192
Feb-15	106,213
Mar-15	108,575
Apr-15	107,586
May-15	107,268
Jun-15	108,012
Jul-15	108,218
Aug-15	108,075
Sep-15	107,624
Oct-15	107,582
Nov-15	106,582
Dec-15	108,440
Total	\$1,291,364

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2015**

	Number	County
County	Enrolled	Distribution
Adair	6	0.22%
Anderson	33	1.23%
Ballard	1	0.04%
Barren	2	0.07%
Bath	16	0.59%
Bell	176	6.54%
Bourbon	104	3.86%
Boyle	136	5.05%
Bracken	8	0.30%
Bullitt	3	0.11%
Caldwell	1	0.04%
Carroll	13	0.48%
Casey	36	1.34%
Christian	2	0.07%
Clark	52	1.93%
Clay	9	0.33%
Crittenden	2	0.07%
Estill	34	1.26%
Fayette	1,013	37.66%
Fleming	7	0.26%
Franklin	12	0.45%
Gallatin	4	0.15%
Garrard	41	1.52%
Grant	0	0.00%
Grayson	25	0.93%
Green	13	0.48%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2015**

	Number	County
County	Enrolled	Distribution
Hardin	63	2.34%
Harlan	10	0.37%
Harrison	45	1.67%
Hart	38	1.41%
Henderson	7	0.26%
Henry	4	0.15%
Hickman	8	0.30%
Hopkins	14	0.52%
Jessamine	4	0.15%
Knox	14	0.52%
Larue	30	1.11%
Laurel	10	0.37%
Lincoln	107	3.98%
Livingston	1	0.04%
Lyon	1	0.04%
Madison	25	0.93%
Marion	18	0.67%
Mason	5	0.19%
McCracken	6	0.22%
McCreary	6	0.22%
McClellan	4	0.15%
Mercer	95	3.53%
Montgomery	30	1.11%
Muhlenberg	22	0.82%
Nelson	1	0.04%
Nicholas	56	2.08%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2015**

	Number	County
County	Enrolled	Distribution
Ohio	0	0.00%
Oldham	9	0.33%
Owen	1	0.04%
Pulaski	43	1.60%
Robertson	2	0.07%
Rockcastle	15	0.56%
Rowan	32	1.19%
Russell	36	1.34%
Scott	30	1.11%
Shelby	14	0.52%
Spencer	8	0.30%
Taylor	18	0.67%
Trimble	5	0.19%
Union	1	0.04%
Washington	11	0.41%
Webster	11	0.41%
Whitley	24	0.89%
Woodford	58	2.16%
Total	2,691	100.00%

**Kentucky Utilities Company
Home Energy Assistance Program
Brown Bill Notices Issued - 2015**

Number of Customers	Number of Brown Bills Per Customer Received Annually
354	1
337	2
333	3
282	4
306	5
280	6
276	7
274	8
260	9
310	10
275	11
173	12
3,460	Total

**Kentucky Utilities Company
Home Energy Assistance Program
Number of Disconnections - 2015**

Number of Customers	Number of Disconnections Per Customer
674	1
230	2
94	3
32	4
13	5
6	6
2	7
2	8
1,053	Total

Community Action Kentucky, Inc.

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

For The Year Ended June 30, 2015

Community Action, Kentucky Inc.
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Independent Auditor's Report

Board of Directors
Community Action Kentucky, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action, Kentucky Inc., (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Action, Kentucky Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of Community Action, Kentucky Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action, Kentucky Inc.'s internal control over financial reporting and compliance.

Charles T. Mitchell Co.

Frankfort, Kentucky
January 25, 2016

Community Action, Kentucky Inc.
Statement of Financial Position
June 30, 2015

Assets	
Current Assets	
Cash & Cash Equivalents	\$ 62,290
Reimbursable Costs	1,222,856
Current Portion of Notes Receivable	8,302
Prepaid Expenses	4,068
Total Current Assets	1,297,516
Other Assets	
Investments	1,197,389
Notes Receivable	26,516
Other Receivables	425
Property and Equipment	
Buildings and Equipment Net of Accumulated Depreciation	654,300
Total Assets	\$ 3,176,146
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	\$ 983,420
Accrued Compensation	90,465
Notes Payable - Current Maturities	8,125
Total Current Liabilities	1,082,010
Long Term Liabilities	
Notes Payable	18,391
Total Liabilities	1,100,401
Net Assets	
Unrestricted	2,075,745
Total Net Assets	2,075,745
Total Liabilities and Net Assets	\$ 3,176,146

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Grants/Contracts	\$	\$ 50,650,469	\$ 50,650,469
Commissions	175,596		175,596
Dues	17,508		17,508
Rental Income	17,400		17,400
Investment Income	(50,310)		(50,310)
Other	39,112		39,112
Release of Restrictions of Net Assets	50,650,469	(50,650,469)	-
Total Revenue and Support	50,849,775	-	50,849,775
Expenses:			
Energy assistance	43,774,068		43,774,068
CSBG/OCS	150,000		150,000
RCAP	353,710		353,710
OCS	410,693		410,693
Kynector	5,840,132		5,840,132
Housing	456		456
AEP	38,309		38,309
Supporting Services	264,489		264,489
Total Expenses	50,831,857	-	50,831,857
Change in Net Assets	17,918	-	17,918
Net Assets Beginning of the Year	2,057,827	-	2,057,827
Net Assets End of Year	\$ 2,075,745	\$ -	\$ 2,075,745

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash Flows From Operating Activities:	
Change in Net Assets	\$ 17,918
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) in Operating Activities:	
Depreciation	6,736
Unrealized Loss on Investments	(62,033)
Changes in Operating Assets and Liabilities:	
Decrease in Reimbursable Costs	2,342,035
Decrease in Sub-recipient Receivables	6,487
Decrease in Prepaid Expenses	1,504
Increase in Accounts Payable	921,642
Decrease in Due to Sub-recipients	(3,350,770)
Increase in Accrued Expenses	9,705
Total Adjustments	<u>(124,694)</u>
Net Cash (Used) In Operating Activities	<u>(106,776)</u>
Cash Flows From Investing Activities:	
Collections of Notes Receivable	10,473
Cash proceeds from Investments	433,400
Purchases of Investments	(317,023)
Purchases of Property and Equipment	(23,887)
Net Cash Flows Provided by Investing Activities	<u>102,963</u>
Cash flows From Financing Activities:	
Payments on Debt	(29,425)
Cash Flows (Used) In Financing Activities	<u>(29,425)</u>
Net Decrease in Cash	(33,238)
Cash and Cash Equivalents at Beginning of Year	<u>95,528</u>
Cash and Cash Equivalents at End of Year	<u>\$ 62,290</u>

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2015

	RCAP	Housing	Energy	AEP	OCS/ CSBG	Kynector	Program Services Total	Supporting Services	2015 Totals
Salaries	\$ 195,113	\$ -	\$ 227,923	\$ 3,572	\$ 151,178	\$ 91,126	\$ 668,912	\$ 36,381	\$ 705,293
Fringe Benefits	72,286	-	84,200	1,322	55,955	34,328	248,091	13,376	261,467
Professional Services	-	-	51,327	-	-	2,328	53,655	59,359	113,014
Consultants	-	-	-	-	285,387	15,084	300,471	42,000	342,471
Education	25	-	399	-	4,549	-	4,973	1,765	6,738
Travel	25,073	-	2,499	-	15,747	2,895	46,214	24,696	70,910
Meeting	-	-	-	-	351	-	351	35,837	36,188
Telephone	-	-	113	-	533	323	969	112	1,081
Postage	66	-	352	12	-	6	436	20	456
Office Exp & Supplies	8,094	-	7	-	581	-	8,682	1,268	9,950
Publications	23	-	-	-	988	-	1,011	1,000	2,011
Dues/Fees	-	-	-	-	-	-	-	19,136	19,136
Insurance	129	-	11,425	-	128	1,111	12,793	407	13,200
Printing	4,994	-	3,756	-	2,183	44	10,977	-	10,977
Marketing/Advertising	103	-	-	-	-	-	103	5,262	5,365
Repairs & Maintenance	854	-	3,106	-	1,422	-	5,382	1,407	6,789
Depreciation	-	-	-	-	-	-	-	6,736	6,736
Interest	-	456	-	-	-	-	456	-	456
Other	-	-	-	-	-	-	-	3,279	3,279
Indirect	46,950	-	50,055	979	41,691	25,448	165,123	12,448	177,571
Subrecipients	-	-	43,338,906	32,424	-	5,667,439	49,038,769	-	49,038,769
Total	\$ 353,710	\$ 456	\$ 43,774,068	\$ 38,309	\$ 560,693	\$ 5,840,132	\$ 50,567,368	\$ 264,489	\$ 50,831,857

See accompanying notes.

Note 1 – Organization and Nature of the Operations

Community Action Kentucky, Inc. (a Kentucky nonprofit organization) is a multi-funded association of twenty-three (23) Community Action Agencies in Kentucky. Each of these twenty-three CAA's has an Executive Director, or its equivalent, who serve as board members for Community Action Kentucky, Inc. The CAA's are the predominate recipients of pass through funds from Community Action Kentucky, Inc. and thus related parties (See page 17 of this report for further details). CAK was formed in 1968 to provide a link between the CAA's to better accomplish mutual goals and objectives. The responsibilities of CAK include the development and administration of grants and contracts providing services in areas such as housing, water, wastewater management, crisis intervention, and low-income home improvements.

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

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

The following programs are administered by CAK:

Low Income Home Energy Assistance (LIHEAP)

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

Water and Wastewater Program (RCAP)

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

Housing Program

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

KU Energy Assistance Program

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

American Electric Power

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

Note 1 – Organization and Nature of the Operations (continued)

Weatherization

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

Note 2 – Summary of Significant Accounting Principles

Basis of Presentation – CAK previously adopted ASC 958-210-45-9 and 45-10; 558-210-50-3, of which, defines standards for external financial reporting and requires that resources be classified into three net asset categories according to externally (donor) imposed restrictions. Further description over the ASC defined and required net asset categories are as 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 or the passage of time
- Permanently Restricted – net assets subject to permanent donor-imposed restrictions; however, certain instances, as defined by donor, 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 conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reported period. Actual events and results could differ from those assumptions and estimates.

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

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

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

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

Accrued Compensation – It is the policy of CAK that annual leave time is accrued and payable on termination of employment and sick leave is not accrued since it is not paid upon termination of employment. As of June 30, 2015, CAK had unpaid annual leave and salary of \$90,465.

Note 2 – Summary of Significant Accounting Principles (continued)

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

Note 3 – Concentrations of Credit Risk

In the current year, a significant amount of funding was provided by a few major contributors. It is always considered reasonably possible that grantors might be lost or funding could be reallocated in the near term. Approximately 99% of CAK’s revenue was earned under various contracts (grants), approximately 87% from US Department of Health and Human Services. CAK’s market is concentrated in the geographic area of Kentucky.

At no time during the year, at each months end, did CAK have 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.

Note 4 – Income Taxes

CAK is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code, except from income derived from unrelated business activities. At June 30, 2015, CAK has no estimated liability on unrelated business activities. CAK believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements. CAK’s federal Exempt Organization Business Income Tax Return (Form 990) for 2013, 2012, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

Note 5 – Investments

Community Action, Kentucky Inc. determines fair value based on the price that would be received to see the asset or paid to transfer the liability to a market participant. As such, 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, 2015:

	Cost	Fair Value
Bond by Rating		
AAA	64,486	60,996
BBB	158,650	150,522
B	113,192	110,496
NR	146,663	135,538
	482,991	457,552
Mutual Funds by Fund Type		
Large Growth	328,665	357,922
Large Value	104,337	135,528
Large Blend	32,063	36,974
Mid Blend	69,500	70,897
Small Blend	62,353	62,013
Commodities Broad Basket	109,630	76,504
	706,549	739,837
Total	1,189,540	1,197,389

Note 5 – Investments (continued)

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

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

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

At June 30, 2015, the Organization’s trading securities had a fair value of \$1,197,389, of which, all was determined based on quoted prices in active markets for identical assets (Level 1). Realized and unrealized gains and losses included in the change in net assets for the year ended June 30, 2015 are reported in the accompanying income statement as follow:

Interest & Dividend Income	\$	32,062
Realized Gains(Losses)		(20,339)
Unrealized Gains(Losses)		(62,033)
Total Investment Income	\$	(50,310)

Note 6 – Notes Receivable

Notes receivable represent funds advanced from the conduct of CAK’s housing program wherein funds are borrowed from the Kentucky Housing Corporation (see Note 1) and re-loaned to Community Action Agencies and loans made for rehab home improvements. Loans are stated at unpaid balances. At June 30, 2015 the unpaid balances were comprised of 17 individual loans to four separate Community Action Agencies and 3 revolving loans totaling \$34,818 and \$425, respectively. This rate is consistent with the related borrowing rate (see Note 8) and is contractually restricted. Interest rate for KHC notes is fixed at 1%.

Note 6 – Notes Receivable (continued)

At the date of agreement the interest rate for the revolving notes was 3%; interest is no longer being charged and is considered non-current. Management considers each note outstanding to be fully collectible. Thus, no allowance for loan losses is estimated. Maturities of these notes receivables are as follows:

<u>Year Ended</u>		
2016	\$	8,302
2017		8,125
2018		8,125
2019		5,133
2020		<u>5,133</u>
Total	\$	<u><u>34,818</u></u>

Interest revenue amounted to \$490 for the year ended June 30, 2015.

Note 7 – Property and Equipment

Property and equipment acquired with unrestricted revenues are stated at cost, if purchased or at fair value at the date of gift, if donated, less accumulated depreciation. Additions with a cost of fair value of less than \$500 are expensed. Property and equipment consisted of the following at June 30, 2015:

Office Equipment	125,537
Building	<u>757,945</u>
Total Depreciable Assets	988,769
Less: Accumulated Depreciation	<u>(334,469)</u>
Net Property, Plant & Equipment	<u><u>\$ 654,300</u></u>

Depreciation is computed using the straight-line method over the estimated useful life of the respective asset. Depreciation and amortization expenses amounted to \$6,736 for the year ended June 30, 2015.

Note 8 – Notes Payable

Notes Payable arise from the conduct of CAK’s housing program. Notes Payable at June 30, 2015 consisted of the following:

Note payable to KHC (NHPR 06/07), Interest at 1% annual payments of \$1,159 through July, 2026	\$ 5,982
Note payable to KHC (NHPR 08/09), Interest at 1% annual payments of \$5,921 through July, 2028	20,534
	26,516
Total	26,516
Less: Current Maturities	8,125
	\$ 18,391

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 ten 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	
2016	\$ 8,125
2017	8,125
2018	2,141
Total	\$ 18,391

Interest paid during 2014-2015 totaled \$9,011.

Note 9 – Contingency of Defined Benefit Pension Plan Liability

Plan Description

Community Action, Kentucky Inc. has elected to participate in the Kentucky Employees Retirement System (KERS), a multiple-employer defined benefit plan pursuant to KRS 78.530. The plan is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in KERS. There are three different pension benefit tiers within the defined benefit plan. The tier under which an employee falls is determined by the employee’s participation date. The benefits an employee receives under a specific tier depend upon various factors such as the employee’s age, length of service, classification, total compensation, etc.

Plan Membership

All employees of Community Action, Kentucky Inc. and other participating entities (other than those who work less than the required number of hours) are members of the County Employees Retirement System(CERS). Members are vested after 60 months of contributed service. The Plan has two classifications of members.

Non-hazardous employees: At June 30, 2014, there were 81,115 active members, 10,329 terminated members entitled to but not yet receiving benefits and 49,935 retired members currently receiving benefits.

Note 9 – Contingency of Defined Benefit Pension Plan Liability (continued)

Hazardous employees: At June 30, 2014, there were 9,194 active members, 588 terminated members entitled to but not yet receiving benefits and 7,646 retired members currently receiving benefits.

Contributions

The total payroll for employees covered by the CERS for the year ended June 30, 2015 is approximately \$724,180. Covered non-hazardous and hazardous employees are required by statute to contribute 5.00% and 8.00% respectively of their salaries to the plan. Covered non-hazardous and hazardous employees are required by Kentucky Revised Statute to contribute an additional 1% of their salaries to the plan if their participation date is on or after September 1, 2008. CAK's contribution rate for the year ended June 30, 2015 was 17.67%, respectively, for the year ended June 30, 2015. These percentages are inclusive of both pension and insurance payments for employees. Administrative costs of KRS are financed through employer contributions and investment earnings.

Benefits Provided

Benefits for employees with participation dates prior to September 1, 2008: Non-hazardous employees who retire at or after age 65 with at least 48 months of credit service are entitled to a normal retirement benefit, payable monthly for life, equal to 2.00% to 2.20% of their final-average salary (final compensation) multiplied by their years of service. Hazardous employees who retire at or after age 55 with at least 60 months of credited service are entitled to a normal retirement benefit, payable monthly for life, equal to 2.50% of their final-average salary (final compensation) multiplied by their years of service. Final average salary is the employee's average of the three fiscal years (for hazardous employee) or five fiscal years (for a non-hazardous employee) during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested non-hazardous employees may retire after 27 years of service regardless of age and receive full benefits or retire after age 55 and receive reduced retirement benefits. Vested hazardous employees may retire after age 55 and receive reduced retirement benefits. CERS also provides death and disability benefits that were established by Kentucky State statutes.

Reconciliation of Employer Contributions

The reconciliation between the employer contributions used for the Schedule of Employer Allocations and the combining Statements of Changes in plan Net Position as of June 30, 2014 is presented below:

	<u>CERS</u> <u>Non-Hazardous</u>	<u>CERS</u> <u>Hazardous</u>
Employer Contributions included in the Schedule of Employer Allocations	\$ 433,366,911	\$ 180,818,751
Transfers	7,308,686	6,595,570
Other employer Contributions	4,813,264	2,141,961
Write Off	<u>(96,784)</u>	<u>(51,675)</u>
Total employer pension and insurance contributions in the Statement of Changes in Plan Net Position	<u>\$ 445,392,077</u>	<u>\$ 189,504,607</u>

Employer insurance contributions are included in the above as part of the total employer contributions to calculate the proportionate shares.

Note 9 – Contingency of Defined Benefit Pension Plan Liability (continued)

Pension Plan Fiduciary Net Position

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

The schedule of CAK's proportionate share of the net pension liability is presented below. CAK is presenting on the current year due to this being the year that GASB 68 has been implemented and will be added to the presentation, to show ten years of information, as it becomes available.

CAK's proportion of the net pension liability		0.000288840
CAK's proportionate share of the net pension liability	\$	937,000
CAK's covered-employee payroll	\$	724,180
CAK's proportionate share of the net pension liability as a percentage of its covered-employee payroll		1.2939
Plan Fiduciary net position as a percentage of the total pension liability		0.137296742

The Schedule of the CAK's contribution is presented below. Community Action, Kentucky Inc. is presenting on the current year only; as this is the implementation year for GASB 68.

Contractually required contribution	\$	128,176
Contribution in relation to the contractually required contribution		128,176
Contribution deficiency (excess)	\$	-
CAK's covered-employee payroll	\$	724,180
Contributions as a percentage of covered- employee payroll		17.70%

Note 9 – Contingency of Defined Benefit Pension Plan Liability (continued)

Actuarial Methods and Assumptions

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Commission will be made at contractually required rates, actuarially determined. Based on the those assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The financial reporting actuarial valuation as of June 30, 2014, used to the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 - June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The Rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimates ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding period plans which covers a longer time frame. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 9 – Contingency of Defined Benefit Pension Plan Liability (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	30.00%	8.45%
International equity	22.00%	8.85%
Emerging market Equity	5.00%	10.50%
Private equity	7.00%	11.25%
Real estate	5.00%	7.00%
Core US fixed income	10.00%	5.25%
High yield US fixed income	5.00%	7.25%
Non US fixed income	5.00%	5.50%
Commodities	5.00%	7.75%
TIPS	5.00%	5.00%
Cash	1.00%	3.25%
	100.00%	

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.75 percent based on the blending of the factors described above.

The following presents the net pension liability of the CERS pension plan, calculated using the discount rate of 7.75 percent, as well as what the CERS's net pension liability would be if it were calculated using the discount rate that is 1-percentage point lower (6.75) and 1-percentage point higher (8.75) than the current rate:

CAK has not accrued the unfunded liability calculated and presented above.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Nonhazardous	\$ 114,379,930	\$ 87,790,184	\$ 62,657,111
Hazardous	35,876,118	27,424,894	20,249,114
CERS's net pension liability	\$ 150,256,048	\$ 115,215,078	\$ 82,906,225

Detailed information about the pension plan's fiduciary net position is available in the KERS financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 696-8800.

Note 10 – Non-Compliance with Grantor or Donor Restrictions

Financial awards from federal, state, and local governmental entities in the form of grants are subject to specific audit. Such audits could result in claims against CAK for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. However, management believes that such audits do arise, all steps have been followed to ensure compliance with each grantor or donor restrictions as defined by contractual agreements as of June 30, 2015.

Note 11 – Operating Lease

CAK is the lessee of office equipment under an operating lease expiring during fiscal year end 2016. Future minimum lease payments due under the lease are as follows:

<u>Year Ended</u>	
2016	<u>840</u>
Total	<u>\$ 3,360</u>

Lease expense during 2014-2015 totaled \$840.

Note 12 – Related Entities

There are 23 Community Action Agencies that make of 6 congressional districts. Community Action, Kentucky Inc.'s Board of Directors is also the executive director or an authorized agent of one of these 23 community action agencies. CAK provides technical support, lobbying and administrative support and in return receives membership dues totaling \$17,508 for the year ended June 30, 2015. CAK has no ownership or voting interests in these local chapters with limited control over how the local chapters carry out certain activities by means of subcontract agreements. Subcontract expense passed-through to related community action agencies totaled \$49,038,769 for the year ended June 30, 2015.

Note 13 – Subsequent Events

Management did not indicate financially impacting information regarding subsequent events. Subsequent events were evaluated through January 25, 2016, which is the date the financial statements were available to be issued. No events were found to be, or have, a material impact regarding the accompanying financial statements of the Community Action, Kentucky Inc. as of and for the year ended June 30, 2015 as listed in the table of contents.



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Partners
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Greg Miklaveic, CPA
Rick Yates, CPA
Ryan Moore, CPA

Consultants
Don C. Giles, CPA
William G. Johnson, CPA
Kim Field, CPA

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

Board of Directors
Community Action Kentucky, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Action, Kentucky Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Charles T. Mitchell Co.

Frankfort, Kentucky
January 25, 2016



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Independent Auditor's Report on Compliance with Requirements that could have a
Direct and Material Effect on Each Major Program and on Internal Control Internal
Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Community Action Kentucky, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Action, Kentucky Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Action, Kentucky Inc.'s major federal programs for the year ended June 30, 2015. Community Action, Kentucky Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Community Action, Kentucky Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and the 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, Kentucky Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Community Action, Kentucky Inc.'s compliance.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

Opinion on Each Major Federal Program

In our opinion, Community Action, Kentucky Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Community Action, Kentucky Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Action, Kentucky Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action, Kentucky Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-1 to be significant deficiencies.

Community Action, Kentucky Inc.'s responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and question costs. Community Action, Kentucky Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Charles T. Mitchell Co.

Frankfort, Kentucky
January 25, 2016

Community Action, Kentucky Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Grant	Pass-Through Grantor	Federal CFDA Number	Pass Through Grant Number	Grant Period Ending	Federal Award Expenditures
<i>U.S. Department of Health and Human Services:</i>					
Community Service Block Grant	KY Cabinet for Health & Family Services	93.569	736-1400001443	6/30/15	\$ 150,000
Low Income Home Energy Assistance Program	KY Cabinet for Health & Family Services	93.568	736-1400001443	6/30/15	41,102,349
LIHEAP-Weatherization	Kentucky Housing Corporation	93.568	LH13-0073-01	6/30/14	2,460,752
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 13/14	9/30/01	19,327
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 14/15	9/30/14	76,351
RPIC	Office of Community Services	93.570	90EQ0244-02-00	9/29/13	108,210
RPIC	Office of Community Services	93.570	90ET0439-01-00	9/29/14	302,483
Total Department of Health and Human Services					<u>44,219,472</u>
<i>U.S. Department of Energy:</i>					
Weatherization - Regular	Kentucky Housing Corporation	81.042	W14-0373-02	6/30/14	78,119
Total Department of Energy					<u>78,119</u>
<i>U.S. Department of Agriculture:</i>					
RCAP-Technitrain	WSOS-Technitrain	10.761	PY 13/14	9/30/14	7,234
RCAP-Technitrain	WSOS-Technitrain	10.761	PY 14/15	9/30/15	82,003
RCDI-RCAP	RCDI-RCAP	10.446	PY 12/14	9/30/14	14,118
RCDI-RCAP	RCDI-RCAP	10.446	PY 14/16	9/30/16	14,376
Solid Waste	Solid Waste 1	10.762	PY 13/15	9/30/15	40,236
Solid Waste	Solid Waste 2	10.762	PE 14/15	9/30/15	31,621
Total Department of Agriculture					<u>189,588</u>
<i>Environmental Protection Agency:</i>					
EPA - RCAP	W.S.O.S Community Action Comm.	66.606	PY 14/15	9/30/15	67,250
Private Wells-RCAP	WSOS EPA-RCAP	66.436	PY 14/15	9/30/15	838
Total Environmental Protection Agency					<u>68,088</u>
Total Expenditures of Federal Awards					<u>\$ 44,555,267</u>

See accompanying notes to the Schedule of Federal Awards.

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2015.

Community Action, Kentucky Inc.
Schedule of Subrecipient Expenditures
For the Year Ended June 30, 2015

	LIHEAP	Regular WX	LIHEAP WX	WX	Kynector			
	93.568	81.042	93.568	Total	93.525	KU	AEP	Total
Audubon Area	\$ 1,705,892	\$ 895	\$ 88,778	\$ 89,673	\$ 572,182	\$	\$	\$ 2,367,747
Bell-Whitley CAA	1,121,842	2,552	108,467	111,019				1,232,861
Big Sandy CAP	2,897,979		192,479	192,479			12,312	3,102,770
Blue Grass CAA	1,926,812	2,941	57,053	59,994	418,346			2,405,152
Central Ky CAA	1,986,108	1,302	200,399	201,701				2,187,809
Daniel Boone CAA	2,158,321	8,567	168,916	177,483				2,335,804
Gateway CAA	1,118,964	278	122,087	122,365	219,744		93	1,461,166
Harlan Co CAA	562,798	1,462	97,829	99,291				662,089
KCEOC CAP	720,536		129,197	129,197				849,733
Foothills CAP	1,583,354	520	122,973	123,493	184,564			1,891,411
LKLP CAA	2,026,115	1,866	167,749	169,615			8,648	2,204,378
Lake Cumberland CAA	2,786,715		127,273	127,273	583,149			3,497,137
CAC - Lexington	2,508,719	3,727	177,574	181,301	553,693	132,051		3,375,764
Licking Valley CAP	759,603	4,462	97,715	102,177	149,982			1,011,762
Louisville Metro	4,567,567		41,688	41,688				4,609,255
Middle Ky CAP	1,377,329	891	80,068	80,959			1,077	1,459,365
Multi-Purpose CAA	463,353	700	15,684	16,384				479,737
Northeast Ky CAA	2,421,672	6,757	141,018	147,775	366,927		10,294	2,946,668
Northern Ky CAC	1,794,824	4,411	23,187	27,598	854,972			2,677,394
Pennyrite Allied	1,879,808	345	81,482	81,827	635,185			2,596,820
CAA of Southern Ky	2,344,628	2,104	47,528	49,632	422,280			2,816,540
Tri-County CAA	309,320	397	8,371	8,768				318,088
West Ky Allied	1,690,444		152,460	152,460	706,415			2,549,319
	<u>\$ 40,712,703</u>	<u>\$ 44,177</u>	<u>\$ 2,449,975</u>	<u>\$ 2,494,152</u>	<u>\$ 5,667,439</u>	<u>\$ 132,051</u>	<u>\$ 32,424</u>	<u>\$ 49,038,769</u>

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2015.

Note 1 – Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Action Kentucky, Inc. (“CAK”) under programs of the federal government for the year ended June 30, 2015. The information in this schedule and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule presents only a selected portion of the operations of CAK; it is not intended to and does not present the financial position, changes in net assets of cash flows of CAK. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

Note 3 – Oversight Agency – In accordance with the Single Audit Act Amendment of 1996 and Circular A-133, the U.S. Department of Health and Human Services is the Oversight Agency for CAK. The Single Audit Act provides that the Oversight Agency shall have the following responsibilities

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

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____yes X no
- Significant deficiency identified that are not considered to be material weaknesses _____yes X no

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____yes X no
- Significant deficiency identified that are not considered to be material weaknesses X yes _____no

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 1,336,658

Auditee qualified as low-risk auditee? X yes _____no

Findings Required to be Reported under Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Major Federal Award Programs

Finding 2015-001:

The Department of Health and Human Services, from the Office for Children and Families, awarded funding under the Low-Income Home Energy Assistance program, aptly named LIHEAP, numbered CFDA 93.568; passed-through to local community action agencies from CAK; of which, received from the Kentucky Cabinet for Health and Family Services Program. Management oversights, including applicable controls, have been implemented in such a way as to provide sufficient oversight and ensure compliance over subrecipient monitoring per OMB Circular A-133.

Criteria: Per OMB A-133 a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contract, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and provisions of contract or grants and that performance goal(s) are achieved and that supervisory reviews were performed to determine the adequacy of subrecipient monitoring. During testing of controls we noted that there is no oversight performed that would indicate appropriate reviews and approvals for monitoring of subrecipients by management. Monitoring was performed but not reviewed by higher level management.

Cause: Communications between CAK and subrecipients were performed by staff but without approval by a member of management with sufficient knowledge and oversight to determine the adequacy of monitoring performance.

Effect: Significant deficiency in controls over subrecipient monitoring compliance component

Recommendation: Management should review and approve monitoring reports prior to finalization. Communications between subrecipients and CAK should be addressed by an appropriate level of management, such as the executive director, or an approved agent.

Views of Responsible Officials: The Executive Director will review monitoring reports and oversee communications between CAK and subrecipients.

Community Action, Kentucky Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015

No prior audit findings were noted.

Community Action, Kentucky Inc.
Statement of Activity by Program
For the Year Ended June 30, 2015

Revenues	Housing	RCAP 12/13	RCAP 13/14	RCAP 14/15	CDAP	RCDI 14/16	LIHEAP	WX	CSBG	OCS 13/14	OCS 14/15	Kynector	AEP 13/14	AEP 14/15	KU Energy 07/12	Treasury	Total	
Grant Revenue	\$ -	\$ 14,118	\$ 66,797	\$ 258,063	0	14,376	\$ 41,102,349	\$ 2,538,871	\$ 150,000	\$ 108,210	\$ 302,483	\$ 5,934,867	\$ 9,000	\$ 30,693	\$ 120,642	\$ -	\$ 50,650,469	
Rental Income																	17,400	17,400
Interest Income	410																31,652	32,062
Dues																	17,508	17,508
Commission																	175,596	175,596
Realized Loss On Inv																	(20,339)	(20,339)
Unrealized Loss On Inv																	(62,033)	(62,033)
Other Income																	39,112	39,112
Total Revenues	\$ 410	\$ 14,118	\$ 66,797	\$ 258,063	\$ -	\$ 14,376	\$ 41,102,349	\$ 2,538,871	\$ 150,000	\$ 108,210	\$ 302,483	\$ 5,934,867	\$ 9,000	\$ 30,693	\$ 120,642	\$ 198,896	50,849,775	
Expenses																		
Salaries	\$ -	\$ 7,779	\$ 38,865	\$ 140,142	\$ 260	\$ 8,067	\$ 203,218	\$ 24,207	\$ 83,623	\$ 23,412	\$ 44,143	\$ 91,126	\$ 366	\$ 3,206	\$ 498	\$ 36,381	\$ 705,293	
Fringe Benefits	-	3,217	15,154	51,173	96	2,646	75,013	9,003	30,942	9,530	15,483	34,328	136	1,186	184	13,376	261,467	
Professional Services	-	-	-	-	-	-	50,906	421	-	-	-	2,328	-	-	-	59,359	113,014	
Consultants	-	-	-	-	-	-	-	-	-	67,500	217,887	15,084	-	-	-	42,000	342,471	
Education	-	-	-	25	-	-	399	-	1,690	989	1,870	-	-	-	-	1,765	6,738	
Travel	-	651	4,114	20,025	-	283	2,286	213	6,760	3,014	5,973	2,895	-	-	-	24,696	70,910	
Meeting	-	-	-	-	-	-	-	-	351	-	-	-	-	-	-	35,837	36,188	
Telephone	-	-	-	-	-	-	113	-	218	116	199	323	-	-	-	112	1,081	
Postage	-	6	6	33	-	21	19	333	-	-	-	6	12	-	-	20	456	
Office Exp & Supplies	-	113	395	7,586	-	-	7	-	446	-	135	-	-	-	-	1,268	9,950	
Publications	-	-	-	23	-	-	-	-	330	-	658	-	-	-	-	1,000	2,011	
Dues/Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,136	19,136	
Insurance	-	-	-	129	-	-	8,344	3,081	-	-	128	1,111	-	-	-	407	13,200	
Pollution Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Printing	-	-	4,994	-	-	-	3,156	600	2,183	-	-	44	-	-	-	-	10,977	
Marketing/Advertising	-	-	-	103	-	-	-	-	-	-	-	-	-	-	-	5,262	5,365	
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Repairs & Maintenance	-	350	351	153	-	-	1,682	1,424	1,422	-	-	-	-	-	-	1,407	6,789	
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,736	
Interest	456	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	456	
Bad Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,279	3,279	
Indirect	-	2,002	2,918	38,671	-	3,359	44,503	5,437	22,035	3,649	16,007	25,448	102	877	115	12,448	177,571	
Subrecipients	-	-	-	-	-	-	40,712,703	2,494,152	-	-	-	5,667,439	7,000	25,424	132,051	-	49,038,769	
Total Expenses	456	14,118	66,797	258,063	356	14,376	41,102,349	2,538,871	150,000	108,210	302,483	5,840,132	7,616	30,693	132,848	264,489	50,831,857	
Change in Net Assets	\$ (49)	\$ -	\$ -	\$ -	\$ (356)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,735	\$ 1,384	\$ -	\$ (12,206)	\$ (65,593)	\$ 17,918	

Community Action, Kentucky Inc.
 LIHEAP Grant – CFDA 93.568
 Contract #736-14000014431
 Statement of Program Expenses
 For the Period July 01, 2014 through June 30, 2015

Payments to Subrecipients		
Agency Subsidy Benefits (CAK records)	\$ 13,225,680	
Agency Crisis Benefits (CAK records)	23,995,515	
Agency Prior Year Adjustments (CAK records)	2,580	
Agency Administration (CAK records)	3,488,928	
Total Payments To Subrecipients		<u>\$ 40,712,703</u>
CAK Administration		
Salaries	210,743	
Fringe Benefits	77,797	
Professional Services	55,756	
Consultants	-	
Education	399	
Travel	2,397	
Telephone	6,562	
Meeting	801	
Postage	256	
Office Exp & Supplies	1,268	
Publications	17	
Dues/Fees	129	
Insurance	14,290	
Printing	3,232	
Utilities	2,484	
Repairs & Maintenance	8,706	
Depreciation	4,809	
Total CAK Administration		<u>389,646</u>
Total Expenditures		<u>41,102,349</u>
Questioned Costs (See Schedule)		-
Allowable Cost		41,102,349
Amount Received From CHFS - HEAP		41,046,485
Accounts Receivable From Funding Sources		<u>55,864</u>
Excess (Shortage) Receipts over Expenditures		<u><u>\$ -</u></u>

Community Action, Kentucky Inc.
LIHEAP Grant – CFDA 93.568
Contract #736-14000014431
Statement of Budget to Actual
For the Period July 01, 2014 through June 30, 2015

Cost Category	Budget	Actual	(Over)/Under Budget
Administrative Cost			
Subrecipient	\$ 3,653,327	\$ 3,488,928	\$ 164,399
Community Action Kentucky	375,933	375,933	-
Total Administrative	4,029,260	3,864,861	164,399
Benefits - Direct Assistance			
Subsidy	13,243,701	13,225,680	18,021
Crisis	24,996,135	23,995,515	1,000,620
Total Benefits	38,239,836	37,221,195	1,018,641
Other Expenditures			
DSM	30,000	13,713	16,287
Prior Year Adjustments	-	2,580	(2,580)
Total Other	30,000	16,293	13,707
Total Contract	\$ 42,299,096	\$ 41,102,349	\$ 1,196,747

Community Action, Kentucky Inc.
LIHEAP Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 01, 2014 through June 30, 2015

Payments to Subrecipients		
HHS		<u>\$ 2,449,975</u>
CAK Administration		
Salaries	\$ 6,944	
Fringe Benefits	2,662	
Professional Services	109	
Travel	3	
Meeting	18	
Telephone	145	
Postage	5	
Supplies	29	
Dues/Fees	3	
Insurance	134	
Printing	2	
Utilities	56	
Repairs & Main	559	
Depreciation	<u>108</u>	
Total CAK Administration		<u>10,777</u>
Total Expenditures		2,460,752
Questioned Costs (See Schedule)		<u>-</u>
Allowable Cost		2,460,752
Amount Received From KHC-WX		2,460,752
Accounts Receivable From Funding Sources		<u>-</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

Community Action, Kentucky Inc.
 LIHEAP Weatherization Grant
 Contract: Kentucky Housing Corporation
 Statement of Budget to Actual
 For the Period July 01, 2014 through June 30, 2015

Kentucky Housing Corporation(Federal)
 Department of Health & Human Services

Cost Category	<u>\$ 2,460,752</u>		(Over)/ Under Budget
	Budget	Actual	
CAK Admin	\$ 10,777	\$ 10,777	\$ -
Subrecipient Agencies:			
Administration	277,458	127,627	149,831
Program Operations:			
Materials	-	474,110	-
Program Support	-	761,167	-
Labor	-	584,475	-
Health & Safety		419,138	
Liability Ins	-	83,458	-
Total Program Operations	4,525,879	2,322,348	2,203,531
	4,803,337	2,449,975	2,353,362
Total	<u>\$ 4,814,114</u>	<u>\$ 2,460,752</u>	<u>\$ 2,353,362</u>

Community Action, Kentucky Inc.
Regular Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 01, 2014 through June 30, 2015

Payments To Subrecipients		
Department of Energy		<u>\$ 44,177</u>
CAK Administration		
Salaries	\$ 18,182	
Fringe Benefits	6,681	
Professional Services	904	
Travel	224	
Meeting	80	
Telephone	642	
Postage	357	
Supplies	126	
Publications	2	
Dues/Fees	13	
Insurance	3,673	
Printing	608	
Utilities	248	
Repairs & Main	1,723	
Depreciation	<u>479</u>	
Total CAK Administration		<u>33,942</u>
Total Expenditures		<u>78,119</u>
Questioned Costs (See Schedule)		<u>-</u>
Allowable Cost		78,119
Amount Received From KHC - WX		69,172
Accounts Receivable From Funding Sources		<u>8,947</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

Community Action, Kentucky Inc.
 Regular Weatherization Grant
 Contract: Kentucky Housing Corporation
 Statement of Budget to Actual
 For the Period July 01, 2014 through June 30, 2015

Kentucky Housing Corporation(Federal)
 Department of Energy

		<u>\$ 78,119</u>	
Cost Category	Budget	Actual	(Over)/ Under Budget
CAK Admin	\$ 83,000	\$ 33,942	\$ 49,058
Subrecipient Agencies:			
Training	44,177	44,177	-
Total	<u>\$ 127,177</u>	<u>\$ 78,119</u>	<u>\$ 49,058</u>

Community Action, Kentucky Inc.
 CSBG Grant
 Contract #736-14000014431
 Statement of Program Expenses
 For the Period July 01, 2014 through June 30, 2015

Kentucky Housing Corporation(Federal)		
Department of Health and Human Services		
Contract Award		<u>\$ 150,000</u>
Expenditures		
Salaries	\$ 87,349	
Fringe Benefits	32,321	
Professional Services	2,401	
Education	1,690	
Travel	6,815	
Meeting	747	
Telephone	3,411	
Postage	117	
Office Exp & Supplies	1,071	
Dues/Fees	338	
Publications	64	
Insurance	2,944	
Printing	2,221	
Utilities	1,230	
Repairs & Maintenance	4,900	
Depreciation	<u>2,381</u>	
Total Expenditures		<u>150,000</u>
Questioned Cost (See Schedule)		-
Adjusted Cost		<u>150,000</u>
Contract Payment Received		100,471
Accounts Receivable from Funding Sources		<u>49,529</u>
Excess (Shortage) Receipts over Expenditures		<u><u>\$ -</u></u>

Community Action, Kentucky Inc.
 WSOS Community Action, Inc. RCAP Grant
 Contract PE 12/13
 (For Contracts Ending September 30, 2013)
 Statement of Program Expenses
 For the Period July 01, 2014 through June 30, 2015

HHS-CFDA 93.570	\$	88,238
RCDI-CFDA 10.446		95,000
Technitrain-CFDA 10.761		107,000
EPA-CFDA 66.606		32,000
Contract Awards	<u>\$</u>	<u>322,238</u>

Expenditures	Actual 2014	Actual 2015	Total
Salaries	\$ 166,787	\$ 8,117	\$ 174,904
Fringe Benefits	68,121	3,342	71,463
Professional Services	4,650	218	4,868
Consultant/Contract	357	-	357
Education	6,740	-	6,740
Travel	26,365	657	27,022
Meeting	917	36	953
Telephone	6,386	290	6,676
Postage	478	17	495
Supplies	4,303	170	4,473
Publications	17	1	18
Dues/Fees	337	6	343
Insurance	6,109	267	6,376
Printing	113	3	116
Advertising	6	-	6
Utilities	2,713	112	2,825
Repairs & Main	8,772	666	9,438
Depreciation	4,949	216	5,165
Total Expenditures	<u>308,120</u>	<u>14,118</u>	<u>322,238</u>
Questioned Costs (See Schedule)	-	-	-
Adjusted Costs	<u>308,120</u>	<u>14,118</u>	<u>322,238</u>
Contract Payments Received	<u>308,120</u>	<u>14,118</u>	<u>322,238</u>
Excess (Shortage) Receipts over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Community Action, Kentucky Inc.
 WSOS Community Action, Inc. RCAP Grant
 Contract PE 13/14
 (For Contracts Ending September 30, 2014)
 Statement of Program Expenses
 For the Period July 01, 2014 through June 30, 2015

HHS-CFDA 93.570	\$	82,414		
Technitrain-CFDA 10.761		95,800		
Solid Waste-CFDA 10.762		<u>67,369</u>		
Contract Award			<u>\$</u>	<u>245,583</u>
Expenditures				
Expenditures		Actual 2014	Actual 2015	Total
Salaries	\$	102,310	\$ 39,358	\$ 141,668
Fringe Benefits		38,083	15,337	53,420
Professional Services		2,893	318	3,211
Consultant/Contract		2,018	-	2,018
Education		-	-	-
Travel		15,333	4,121	19,454
Meeting		632	53	685
Telephone		3,585	423	4,008
Postage		171	22	193
Supplies		1,125	478	1,603
Publications		10	1	11
Dues/Fees		242	8	250
Insurance		3,623	390	4,013
Printing		127	4,999	5,126
Advertising		-	-	-
Utilities		1,663	163	1,826
Repairs & Main		4,102	811	4,913
Depreciation		<u>2,869</u>	<u>315</u>	<u>3,184</u>
Total Expenditures		<u>178,786</u>	<u>66,797</u>	<u>245,583</u>
Questioned Costs (See Schedule)		<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Costs		178,786	66,797	245,583
Contract Payments Received		178,786	56,803	235,589
Excess (Shortage) Receipts over Expenditures	\$	<u>-</u>	<u>\$ 9,994</u>	<u>\$ 9,994</u>

Community Action, Kentucky Inc.
 WSOS Community Action, Inc. RCAP Grant
 Contract PE 14/15
 (For Contracts Ending September 30, 2015)
 Statement of Program Expenses
 For the Period July 01, 2014 through June 30, 2015

HHS-CFDA 93.570		\$	76,351
RCDI-CFDA 10.446			82,003
EPA-CFDA 66.606			67,250
Private Wells			838
Solid Waste 2-CFDA 10.762			31,621
Contract Award			258,063
Expenditures			
Salaries	\$		146,681
Fringe Benefits			53,592
Professional Services			4,214
Consultant/Contract			-
Education			25
Travel			20,121
Meeting			696
Telephone			5,604
Postage			239
Supplies			8,682
Publications			39
Dues/Fees			112
Insurance			5,295
Printing			67
Advertising			103
Utilities			2,158
Repairs & Main			6,256
Depreciation			4,179
Total Expenditures			258,063
Questioned Cost (See Schedule)			-
Adjusted Cost			258,063
Contract Payment Received			150,640
Accounts Receivable from Funding Source			107,423
Excess (Shortage) Receipts over Expenditures		\$	-

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2015.

Community Action, Kentucky Inc.
OCS
Contract #90EQ0244-02-00
(For Contracts Ending September 29, 2014)
For the Period July 01, 2014 through June 30, 2015

RPIC-CFDA 93.570			
Contract Award			<u>\$ 400,000</u>
Expenditures	Actual <u>2014</u>	Actual <u>2015</u>	Total
Salaries	\$ 43,905	\$ 24,029	\$ 67,934
Fringe Benefits	16,043	9,758	25,801
Professional Services	1,579	398	1,977
Consultants	211,474	67,500	278,974
Education	1,765	989	2,754
Travel	6,914	3,023	9,937
Meeting	345	66	411
Telephone	2,181	645	2,826
Postage	84	19	103
Supplies	483	103	586
Publications	5	1	6
Dues/Fees	193	11	204
Insurance	2,036	488	2,524
Printing	70	6	76
Utilities	908	204	1,112
Repairs & Main	2,239	576	2,815
Depreciation	1,566	394	1,960
Total Expenditures	<u>291,790</u>	<u>108,210</u>	<u>400,000</u>
Questioned Cost (See Schedule)	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Cost	<u>291,790</u>	<u>108,210</u>	<u>400,000</u>
Contract Payment Received	291,790	108,210	400,000
Accounts Receivable from Funding Sources	-	-	-
Excess (Shortage) Receipts over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Community Action, Kentucky Inc.
OCS
Contract #90ET0439-01-00
(For Contracts Ending September 29, 2015)
For the Period July 01, 2014 through June 30, 2015

RPIC-CFDA 93.570	
Contract Award	\$ 302,483
Expenditures	
Salaries	\$ 46,849
Fringe Benefits	16,484
Professional Services	1,744
Consultants/Contracts	217,887
Education	1,870
Travel	6,013
Meeting	288
Telephone	2,518
Postage	85
Supplies	589
Publications	666
Dues/Fees	46
Insurance	2,267
Printing	28
Utilities	893
Repairs & Main	2,526
Depreciation	1,730
Total Expenditures	302,483
Questioned Cost (See Schedule)	-
Adjusted Cost	302,483
Contract Payment Received	301,534
Accounts Receivable from Funding Source	949
Excess (Shortage) Receipts over Expenditures	\$ -

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2015.

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

Consolidated Financial Statements and
Supplementary Information
Year Ended June 30, 2015

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

Consolidated Financial Statements and Supplementary Information
Year Ended June 30, 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedules on pages 23 to 27 are presented for purposes of additional analysis, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates' 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* in considering Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates' internal control over financial reporting and compliance. The financial statements of WinterCare Energy Fund, Inc., an affiliate, were not audited in accordance with *Government Auditing Standards* as they did not receive any federal funding.

Wipfli LLP
Wipfli LLP

March 30, 2016
Madison, Wisconsin

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

Consolidated Statement of Financial Position

June 30, 2015

<i>Assets</i>	
Current assets:	
Cash	\$ 503,018
Restricted deposits	46,851
Investments	1,654,262
Grants receivable	1,891,130
Accounts receivable	208,507
Other assets	64,526
Total current assets	4,368,294
Long-term assets:	
Beneficial interest in assets held by others	89,084
Other assets	61,081
Total long-term assets	150,165
Property and equipment, net	6,374,784
TOTAL ASSETS	\$ 10,893,243
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 402,144
Accounts payable	461,346
Accrued payroll and related expenses	990,515
Total current liabilities	1,854,005
Long-term liabilities:	
Notes payable	1,755,753
Fair value of interest rate swap agreement	154,860
Tenant security deposits	4,496
Capital advance - HUD	1,061,800
Total long-term liabilities	2,976,909
Total liabilities	4,830,914
Net assets:	
Unrestricted:	
Undesignated	4,237,950
Board designated for endowment	71,399
Total unrestricted net assets	4,309,349
Temporarily restricted	1,752,980
Total net assets	6,062,329
TOTAL LIABILITIES AND NET ASSETS	\$ 10,893,243

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Grant revenue	\$ 20,457,501	\$ 34,336	\$ 20,491,837
Investment income	37,163	36,194	73,357
Other income	3,573,261	4,365	3,577,626
In-kind contributions	2,314,246	0	2,314,246
Net assets released from restriction through satisfaction of program restrictions	69,940	(69,940)	0
Total revenue	26,452,111	4,955	26,457,066
Expenses:			
Program activities:			
Child education	15,682,329	0	15,682,329
Community services	2,542,066	0	2,542,066
Weatherization services	4,745,831	0	4,745,831
Senior programs	382,211	0	382,211
Total program activities	23,352,437	0	23,352,437
Fund-raising	82,110	0	82,110
Management and general expenses	1,977,676	0	1,977,676
Total expenses	25,412,223	0	25,412,223
Change in net assets	1,039,888	4,955	1,044,843
Net assets - Beginning of year	3,269,461	1,748,025	5,017,486
Net assets - End of year	\$ 4,309,349	\$ 1,752,980	\$ 6,062,329

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

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2015**

	Child Education	Community Services	Weatherization Services	Senior Programs	Total Program Activities	Management and General Expenses	Fund-raising	Total Expenses
EXPENSES								
Salaries	6,149,035	951,264	552,212	82,086	\$ 7,734,597	\$ 1,048,062	37,409	\$ 8,820,068
Fringe benefits	2,485,062	325,289	214,968	33,450	3,058,769	360,811	7,022	3,426,602
Consultant/contractual	2,818,656	189,186	489,507	0	3,497,349	93,803	19,242	3,610,394
Space	1,002,220	124,084	36,843	42,734	1,205,881	232,672	5,057	1,443,610
Supplies	373,053	17,380	154,165	1,457	546,055	42,445	0	588,500
Travel	177,219	21,702	18,204	6,411	223,536	15,189	313	239,038
Communications and IT	186,644	37,794	12,435	3,424	240,297	112,393	3,569	356,259
Beneficiary assistance	29,408	832,190	3,244,680	9,324	4,115,602	0	0	4,115,602
Other	147,245	43,177	22,817	202,866	416,105	72,301	9,498	497,904
In-kind expenses	2,313,787	0	0	459	2,314,246	0	0	2,314,246
TOTAL EXPENSES	\$ 15,682,329	\$ 2,542,066	\$ 4,745,831	\$ 382,211	\$ 23,352,437	\$ 1,977,676	\$ 82,110	\$ 25,412,223

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year Ended June 30, 2015

Increase (decrease) in cash:	
Cash flows from operating activities:	
Change in net assets	\$ 1,044,843
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	454,071
Net realized and unrealized gain on investments	(13,035)
Net realized and unrealized loss on beneficial interest in assets held by others	2,893
Change in fair value of interest rate swap agreement	(14,343)
Changes in operating assets and liabilities:	
Restricted deposits	(5,622)
Grants receivable	(197,248)
Accounts receivable	(50,210)
Other assets	(49,557)
Accounts payable	(51,614)
Accrued payroll and related expenses	125,658
Tenant security deposits	70
Net cash provided by operating activities	1,245,906
Cash flows from investing activities:	
Proceeds from sale of investments	78,158
Purchase of property and equipment	(190,194)
Net cash used in investing activities	(112,036)
Cash flows from financing activities:	
Net principal payments on line of credit	(350,000)
Proceeds from borrowing	120,000
Payments on notes payable	(483,679)
Net cash used in financing activities	(713,679)
Change in cash	420,191
Cash - Beginning of year	82,827
Cash - End of year	\$ 503,018
Supplemental schedule of operating activities:	
Interest paid and expensed	\$ 156,087

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

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Nature of Operations

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC), a nonprofit organization, was established in 1965. CAC studies the causes and effects of poverty and, in turn, creates opportunities for individuals and families, which enable them to become self-sufficient members of the community. Approximately 68% of CAC's grant funding is received under its 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 Consolidation

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

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 Affiliates

Notes to Consolidated 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 consolidated 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 consolidated statement of activities as net assets released from restriction.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants are recorded as either contributions or exchange transactions based on criteria contained in the grant award.

A. Grant Awards That Are Contributions

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

B. Grant Awards That Are Exchange Transactions

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

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

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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

Investments

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

Accounts Receivable

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

Use of Estimates

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

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 \$5,571,244 at June 30, 2015.

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

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

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.

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

In-Kind Contributions

CAC has recorded in-kind contributions for space, supplies, and professional services in the consolidated statement of activities in accordance with generally accepted accounting principles (GAAP). GAAP requires that only contributions of service received which create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of GAAP are different than the in-kind requirements of several of CAC's grant awards. CAC also received in-kind contributions for nonprofessional volunteers, food, and clothing during the year with a value of \$556,549, primarily for its Head Start program, which is not recorded in the consolidated 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 consolidated statement of activities. CAC documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. CAC's interest rate risk management strategy is to stabilize cash flow requirements by maintaining an interest rate swap contract to convert variable-rate debt to a fixed rate.

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).

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

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through March 30, 2016, which is the date the financial statements were available to be issued.

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. During the year, balances at one bank exceeded FDIC coverage. Management believes this financial institution has a strong credit rating and credit risk related to these deposits is minimal.

Note 3 Restricted Deposits

Under the terms of the Regulatory Agreement the Project has with HUD, the Project is required to set aside specified amounts for the replacement of property and other project expenditures as approved by HUD. Restricted funds at June 30, 2015, are composed of the following:

Escrow fund	\$	4,905
Reserve for replacement		37,450
Tenant security deposits		4,496
<u>Total</u>	\$	<u>46,851</u>

Note 4 Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2015, as follows:

Direct federal programs	\$	1,029,983
State and local programs		861,147
<u>Total</u>	\$	<u>1,891,130</u>

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

Notes to Consolidated Financial Statements

Note 5 Investments

CAC has a health insurance trust for self-funded health insurance costs of CAC. The allocation of investments in the trust at June 30, 2015, was 21% money market funds, and 79% in a variety of mutual funds. The health insurance trust investments of \$396,514 are carried at fair value.

CAC also participates in an investment pool with seven other nonprofits to self-fund unemployment insurance claims. The fair value of CAC's portion of the investment pool at June 30, 2015, was \$1,257,748 and represents approximately 18% of the pooled investment total. The fair value of the investment pool at June 30, 2015, was \$6,842,471. The allocation of the investments in the pool at June 30, 2015, was 43% equities, 20% fixed income, and 37% in a variety of mutual funds.

Investment income for the year ended June 30, 2015, included interest and dividends of \$62,842 and a net realized and unrealized gain of \$13,035 for these 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 consolidated financial statements.

Note 6 Beneficial Interest in Assets Held by Others

GAAP requires that assets held by an unrelated, not-for-profit organization solely for the benefit of another not-for-profit (beneficiary) organization be recorded on the beneficiary not-for-profit organization's financial statements. The value of the assets is recorded on the consolidated statement of financial position as a long-term asset with a corresponding temporarily 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 consolidated statement of activities as an increase or decrease in net assets.

The balance at June 30, 2015, consists of the following:

Community Action Council RSVP	\$	17,685
<u>Community Action Council</u>		<u>71,399</u>
<u>Total</u>	\$	<u>89,084</u>

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

Notes to Consolidated Financial Statements

Note 7 Endowments

The Board of Directors believes the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is the relevant state law governing its endowment funds. The Board of Directors has interpreted UPMIFA as allowing the appropriation for expenditures for the purposes for which 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 that may be withdrawn or reinvested.

Changes in endowment funds were as follows:

	Board-Designated (Unrestricted)	Donor-Designated (Temporarily Restricted)	Total
Endowments at July 1, 2014	\$ 73,590	\$ 18,387	\$ 91,977
Net depreciation	(2,191)	(702)	(2,893)
Endowments at June 30, 2015	\$ 71,399	\$ 17,685	\$ 89,084

Note 8 Property and Equipment

A summary of property and equipment is as follows:

Land	\$ 586,250
Land improvements	160,443
Building and improvements	8,347,633
Leasehold improvements	187,477
Equipment	2,651,732
Subtotal	11,933,535
Accumulated depreciation	(5,558,751)
Total	\$ 6,374,784

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

Notes to Consolidated Financial Statements

Note 9 **Line of Credit**

CAC has an available line of credit in the amount of \$750,000 with Central Bank & Trust Co. with a maturity date of February 25, 2016. The interest rate on the line of credit is variable at the prime rate with a floor of 5%. The rate is 5% at June 30, 2015. There was no balance on the line of credit as of June 30, 2015. The line of credit is secured by three properties. As of the date of this report, the line of credit has not been renewed.

Note 10 **Capital Advance - HUD**

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

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

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

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

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

Notes to Consolidated Financial Statements

Note 11

Notes Payable

A summary of notes payable at June 30, 2015, is as follows:

Loan for housing remodeling for qualified individuals, payable in annual payments of \$6,932 with variable interest payments quarterly, due December 2018.	\$ 8,066
Revenue bonds payable, series 2000B, with fixed interest at 6.5%. Monthly payments of \$13,967 until December 2015, secured by real estate identified as the Winburn Center located on Winburn Drive in Lexington, Kentucky.	109,627
Note payable at a variable interest rate, (rate at June 30, 2015, is 3.75%), with monthly principal and interest payments of \$1,789, due November 2018. The note is secured by two school buses.	64,154
Revenue bond payable, fixed at 3.74% through an interest rate swap agreement with interest paid quarterly and principal paid annually, due November 2023. The bond is secured by real estate known as Administrative and Support Services Center located on High Street in Lexington Kentucky and the Fayette West Center located on Cambridge Drive in Lexington, Kentucky.	1,485,000
Note payable at 5.5% interest, with monthly payments of \$403, due January 2016. The note is secured by a vehicle.	2,763
Note payable at 6.25% interest, with monthly payments of \$1,842, due August 2016. The note is secured by real estate Russell School Community Services Center located on Toner Street in Lexington, Kentucky.	112,492
Note payable at a fixed rate of 5% interest, with monthly payments of \$4,467, due December 2016. The note is unsecured.	72,870
Note payable at a fixed rate of 5.75%, with monthly principal and interest payments of \$2,004, due September 2017. The note is secured by two school buses.	152,102
Note payable at a fixed rate of 5.25%, with monthly principal and interest payments of \$899, due September 2017. The note is secured by agency assets.	23,577

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

Notes to Consolidated Financial Statements

Note 11 Notes Payable (Continued)

Note payable at a fixed rate of 6.25 %, interest, with monthly payments of \$2,493, due December 2015. The note is secured by furniture and equipment.	14,699
Note payable at a fixed rate of 5.5 %, interest, with monthly payments of \$2,297, due August 2019. The note is secured by all available assets of CAC.	112,547
Total notes payable	2,157,897
Current portion	(402,144)
<u>Long-term notes payable</u>	<u>\$ 1,755,753</u>

The future maturities of notes payable subsequent to June 30, 2015 are as follows:

2016	\$ 402,144
2017	331,126
2018	315,911
2019	191,411
2020	177,185
Thereafter	740,120
<u>Total long-term notes payable</u>	<u>\$ 2,157,897</u>

Note 12 Derivative Instrument

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

At June 30, 2015, the interest rate swap had a notional amount of \$1,485,000 with interest fixed at 3.74%, and expires November 2023.

The interest rate swap was issued at market terms; therefore, had no fair value at inception. The notional amount changes with quarterly payments. The carrying amounts of the interest rate swap has been adjusted to fair value as of June 30, 2015 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 \$154,860. Adjustments to the carrying amount of the interest rate swap are reported as other income.

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

Notes to Consolidated Financial Statements

Note 13 Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2015, consist of the following:

Self-funded health insurance trust	\$	287,958
Unemployment insurance trust		1,257,748
Beneficial interest in assets held by others		17,685
Other		189,589
<hr/>		
Total temporarily restricted net assets	\$	1,752,980

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

Note 14 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, 2015, was \$118,862. Future minimum lease payments beyond 2015 are as follows:

2016	\$	121,325
2017		60,281
2018		8,634
<hr/>		
Total	\$	190,240

Note 15 Retirement

CAC offers its employees a defined contribution retirement plan. The plan is open to all employees. An employee may begin contributions to the plan upon employment. CAC contributes 8% of gross wages to the plan for qualified employees after one year of employment. CAC's contribution vests over a period of five years. CAC's contributions to the plan for the year ended June 30, 2015, were \$578,463.

Note 16 Fair Value Measurements

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

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

Notes to Consolidated Financial Statements

Note 16 Fair Value Measurements (Continued)

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

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

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

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

Information regarding the fair value of assets measured at fair value on a recurring basis as of June 30, 2015, is as follows:

	Recurring Fair Value Measurements Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CAC share of unemployment investment pool:				
Mutual funds	\$ 465,366	\$ 465,366	\$ 0	\$ 0
Fixed income	251,550	251,550	0	0
Equities	540,832	540,832	0	0
Investments held by health trust:				
Money Market	84,484	0	84,484	0
Mutual funds	312,030	312,030	0	0
Total investments	1,654,262	1,569,778	84,484	0
Endowment funds held by Foundation	89,084	0	0	89,084
Total assets	\$ 1,743,346	\$ 1,569,778	\$ 84,484	\$ 89,084
Liability -- Interest rate swap	\$ 154,860	\$ 0	\$ 154,860	\$ 0

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

Notes to Consolidated Financial Statements

Note 16 Fair Value Measurements (Continued)

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

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

Changes in the fair value of the investments held by trust endowment funds are recorded as investment income in the consolidated statement of activities. The following is a reconciliation of the beginning and ending balances of CAC's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2015:

Endowment funds – Beginning of year	\$	91,977
Net realized and unrealized loss	(2,893)
<u>Endowments funds – End of year</u>	<u>\$</u>	<u>89,084</u>

Note 17 Grant Awards

At June 30, 2014, CAC had commitments under various ongoing grant awards of approximately \$4,900,000. The revenue relating to these grants is not recognized in the accompanying consolidated financial statements because the revenue recognition is conditional on the incurrence of expenditures or the performance of services in the next fiscal year.

Note 18 Contingencies

CAC is involved in legal matters arising in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not be material to CAC's financial statements.

Note 19 Program Operations

CAC's Migrant Head Start program has been selected by the Department of Health and Human Services for competitive bid. CAC has submitted a bid to continue operating the program. For the year ended June 30, 2015, CAC's Migrant Head Start program received approximately \$2,800,000 of grant funding.

Supplementary Information

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

Schedule A-1 Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

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	\$ 375,402
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through the Lexington-Fayette Urban County Government			
CDBG/Wx	14.218	LF00121499	9,133
Direct Funding			
Project Independence	14.235	KY0088L4I021205	7,553
Project Independence		KY0088L4I021306	54,951
Samaritan - Fayette		KY0103L4I021204	10,732
Samaritan - Fayette		KY0103L4I021305	44,616
Passed-Through the Kentucky Housing Corporation			
Continuum of Care/Bourbon County		KY0088L4I001205	28,675
Continuum of Care/Bourbon County		KY0088L4I021306	141,558
Samaritan		KY0022L4I001205	8,052
Samaritan		KY0022L4I001306	94,846
Public Housing - Bonus		KY0113B4I001000	190,456
Public Housing - Bonus		KY0113L4I001301	205,950
Total Federal Expenditures CFDA #14.235			787,389
Passed-Through the Kentucky Housing Corporation			
TBRA	14.239	TTB12-0553-01	32,806
TBRA		TTB14-0553-01	55,771
Passed-Through the Lexington-Fayette Urban County Government			
TBRA LFUCG		N/A	42,582
Total Federal Expenditures CFDA #14.239			131,159
Passed-Through the Kentucky Cabinet for Health and Family Services			
Lead Base Paint	14.900	PON2 728 1200003605 1	137,145

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

Schedule A-2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Passed-Through Bluegrass Area Development District			
LEEP	17.259	15-001 Y	83,734
LEEP Rural		15-006 Y	39,919
Total Federal Expenditures CFDA #17.259			123,653
U.S. DEPARTMENT OF ENERGY			
Passed-Through the Kentucky Association of Community Action Agencies			
DOE-Weatherization Assistance	81.042	WX15-0603-02	168,345
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through the Louisville/Jefferson County Metro Government			
Senior Medicare Patrol	93.048	90MP0135/03	2,272
Passed-Through the Kentucky Association of Community Action Agencies			
KyNector	93.525	KNP-R502 1400001919 1	553,693
Passed-Through the Kentucky Association of Community Action Agencies			
Low-Income Home Energy Assistance Program	93.568	736-1400001443 1	2,508,719
Passed-Through the Kentucky Housing Corporation			
Low-Income Home Weatherization Assistance Program		LWX-006-01	177,574
Low-Income Home Weatherization Assistance Program		LH15-0603-02	135,587
Total Federal Expenditures CFDA #93.568			2,821,880
Passed-Through the Kentucky Cabinet for Health and Family Services			
Community Services Block Grant	93.569	PON2 736 1400001449	617,992
Project Life	93.674	PON2 736 1400003070	391,996
Direct Funding			
Head Start	93.600	04CH2750/45	592,449
Head Start		04CH4754/01	6,662,395
Early Head Start		04CH2750/45	378,359
Early Head Start		04CH4754/01	3,356,599
Migrant Head Start		90CM9789/12	2,824,364
Partnering for Excellence		04HP003001	128,437
Total Federal Expenditures CFDA #93.600			13,942,603

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

Schedule A-3

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
Direct Funding			
Retired Senior Volunteer Program 2014	94.002	14SRSKY001	47,000
Retired Senior Volunteer Program 2015		14SRSKY001	20,550
		Total Federal Expenditures CFDA #94.002	67,550
Direct Funding			
Foster Grandparents Program 2014	94.011	14SRSKY001	67,345
Foster Grandparents Program 2015		14SRSKY001	78,135
		Total Federal Expenditures CFDA #94.011	145,480
TOTAL FEDERAL EXPENDITURES			\$ 20,275,692

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations or Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance")*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

Schedule B

Consolidating Statement of Financial Position

June 30, 2015

	Community Action Council	Shepherd Place	WinterCare Energy Fund	Eliminations	Consolidated Balance
Current assets:					
Cash	\$ 441,400	\$ 9,882	\$ 51,736	\$ 0	\$ 503,018
Restricted deposits	0	46,851	0	0	46,851
Investments	1,654,262	0	0	0	1,654,262
Grants receivable	1,891,130	0	0	0	1,891,130
Accounts receivable	189,409	0	51,586	(32,488)	208,507
Other assets	64,526	0	0	0	64,526
Total current assets	4,240,727	56,733	103,322	(32,488)	4,368,294
Long-term assets:					
Beneficial interest in assets held by others	89,084	0	0	0	89,084
Other assets	61,081	0	0	0	61,081
Total long-term assets	150,165	0	0	0	150,165
Property and equipment, net	5,959,887	414,897	0	0	6,374,784
TOTAL ASSETS	\$ 10,350,779	\$ 471,630	\$ 103,322	(\$ 32,488)	\$ 10,893,243
Current liabilities:					
Current portion of notes payable	\$ 402,144	\$ 0	\$ 0	\$ 0	\$ 402,144
Accounts payable	460,576	10,470	22,788	(32,488)	461,346
Accrued payroll and related expenses	990,515	0	0	0	990,515
Total current liabilities	1,853,235	10,470	22,788	(32,488)	1,854,005
Long-term liabilities:					
Notes payable	1,755,753	0	0	0	1,755,753
Fair value of interest rate swap agreement	154,860	0	0	0	154,860
Tenant security deposits	0	4,496	0	0	4,496
Capital advance - HUD	0	1,061,800	0	0	1,061,800
Total long-term liabilities	1,910,613	1,066,296	0	0	2,976,909
Total liabilities	3,763,848	1,076,766	22,788	(32,488)	4,830,914
Net assets:					
Unrestricted (deficit)	4,838,906	(605,136)	80,534	0	4,314,304
Temporarily restricted	1,748,025	0	0	0	1,748,025
Total net assets (deficit)	6,586,931	(605,136)	80,534	0	6,062,329
TOTAL LIABILITIES AND NET ASSETS	\$ 10,350,779	\$ 471,630	\$ 103,322	(\$ 32,488)	\$ 10,893,243

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

Schedule C

Consolidating Statement of Activities

Year Ended June 30, 2015

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Consolidated Balance
Revenue:					
Grant revenue	\$ 20,491,837	\$ 0	\$ 0	\$ 0	\$ 20,491,837
Investment income	73,332	25	0	0	73,357
Other income	3,307,591	100,552	318,417	(148,934)	3,577,626
In-kind contributions	2,314,246	0	0	0	2,314,246
Total revenue	26,187,006	100,577	318,417	(148,934)	26,457,066
Expenses:					
Salaries	8,820,068	0	0	0	8,820,068
Fringe benefits	3,426,602	0	0	0	3,426,602
Consultants/contractual	3,610,394	0	0	0	3,610,394
Space	1,406,050	37,560	0	0	1,443,610
Supplies	588,500	0	0	0	588,500
Travel	239,038	0	0	0	239,038
Communications and IT	356,259	0	0	0	356,259
Beneficiary assistance	3,964,540	0	267,507	(116,445)	4,115,602
Other	441,755	66,618	22,020	(32,489)	497,904
In-kind expenses	2,314,246	0	0	0	2,314,246
Total expenses	25,167,452	104,178	289,527	(148,934)	25,412,223
Change in net assets	1,019,554	(3,601)	28,890	0	1,044,843
Net assets (deficit) - Beginning of year	5,567,377	(601,535)	51,644	0	5,017,486
Net assets (deficit) - End of year	\$ 6,586,931	(\$ 605,136)	\$ 80,534	\$ 0	\$ 6,062,329

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-1400001443 1
Sub Contract # LIHEAP-006**

Schedule of Budget and Actual Expenses

For the Year Ended June 30, 2015

Cost Category	Budget	Actual	(Over) Under Budget
ADMINISTRATIVE			
Indirect Cost Allocation	\$ 219,076	\$ 219,076	\$ -
BENEFITS			
Subsidy	612,443	612,443	-
Crisis	1,680,601	1,677,200	3,401
TOTAL	<u>\$ 2,512,120</u>	<u>\$ 2,508,719</u>	<u>\$ 3,401</u>

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-1400001443 1
Sub Contract # LIHEAP-006**

Schedule of Program Expenses

For the Year Ended June 30, 2015

Cost Category	Amount
ADMINISTRATIVE	
Indirect Cost Allocation	\$ 219,076
BENEFITS	
Subsidy	612,443
Crisis	
Benefits	1,593,170
Energy Counseling	84,030
	<u>1,677,200</u>
TOTAL EXPENSES	2,508,719
LESS QUESTIONED COSTS	<u>-</u>
TOTAL ALLOWABLE COSTS	2,508,719
CONTRACT PAYMENT RECEIVED as of JUNE 30, 2015	<u>2,511,900</u>
UNDER/OVER PAYMENT	<u>\$ (3,181)</u>

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-1400001443 1
Sub Contract # LIHEAP-006**

Schedule of Questioned Costs

For the Year Ended June 30, 2015

Cost Category	Actual Expenses	Questioned Costs	Allowable Costs
ADMINISTRATIVE			
Indirect Cost Allocation	\$ 219,076	\$ -	\$ 219,076
BENEFITS			
Subsidy	612,443	-	612,443
Crisis	1,677,200	-	1,677,200
TOTAL	<u>\$ 2,508,719</u>	<u>\$ -</u>	<u>\$ 2,508,719</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2016. The financial statements of WinterCare Energy Fund, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with that entity.

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency, which is described in the accompanying schedule of findings and questioned costs as item 2015-001.

Compliance and Other Matters

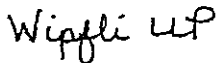
As part of obtaining reasonable assurance about whether Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,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

Response to Finding

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Wipfli LLP

March 30, 2016
Madison, Wisconsin



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

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

Report on Compliance for Each Major Federal Program

We have audited Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2015. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s consolidated financial statements include Shepherd Place, Inc., a related entity, which had expenditures greater than \$500,000 in federal awards during the year ended June 30, 2015, and has a separate single audit, which is not included in this single audit. Therefore, our audit, described below, did not include the operations of Shepherd Place, Inc.

Management's Responsibility for Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 on compliance for the major federal program. However, our audit does not provide legal determination on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance.

Opinion

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

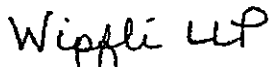
Report on Internal Control Over Compliance

Management of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Wipfli LLP

March 30, 2016
Madison, Wisconsin

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

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC) and Affiliates.
2. A significant deficiency relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. The significant deficiency was not determined to be a material weakness.
3. No instances of noncompliance material to the financial statements of CAC were disclosed during the audit.
4. No material weaknesses or significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.
5. The auditor's report on compliance for the major federal award programs for CAC expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs for CAC.
7. The program tested as a major program was the Department of Health and Human Services Head Start Program, CFDA #93.600.
8. The threshold for distinguishing Types A and B programs was \$608,271.
9. CAC was determined to be a low-risk auditee.

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

Schedule of Findings and Questioned Costs

B. Findings – Financial Statements Audit

Finding:

INTERNAL CONTROL OVER FINANCIAL REPORTING (2015-001)

Condition

During the year ended June 30, 2015 Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC) converted their accounting software. As part of the conversion, the grant expenditure activity was brought over from the old accounting software to the new accounting software in a timely manner to ensure that spending under grant programs was monitored and grant reporting was accurate. Several balance sheet accounts, primarily property and equipment and debt, were not recorded in the new accounting system on a timely basis. CAC then experienced turnover in the finance department which further reduced CAC's ability to make timely and accurate corrections in the new accounting system. During the audit process the remaining balances were brought forward into the new accounting system. However, the piecemeal approach to bringing forward balances into the new system resulted in not having the ability to report from one general ledger system during a portion of the year.

Criteria

OMB Circular A-110, Subpart C.21(b)(3), requires that the grant recipient has *effective control over and accountability for all funds, property, and other assets*.

Effect

A significant deficiency in internal control over financial reporting exists due to the above matter.

Recommendation

We recommend CAC ensure that going forward all accounts are reconciled on a timely basis in the new accounting system.

Management Response

Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (the Council) has a long and exemplary history of maintaining strict fiscal controls over all funding streams. In order to meet evolving financial demands and adhere to changing industry standards, the Council transitioned to a new fund accounting software system during the audited program year. The magnitude of this conversion, coupled with the retirement of personnel in several key positions in the Council's Office of Fiscal Operations, resulted in delays in the conversion process. Although the Council enlisted the assistance of professionals in completing the conversion, crucial timelines that would ensure reporting from a single software during the full course of the audited year were not met. While the Council may have been unable to report from a single accounting software system over the full course of the audited year, at no time were fiscal controls over any funding stream jeopardized.

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

Schedule of Findings and Questioned Costs

B. Findings – Financial Statements Audit (Continued)

Finding:

INTERNAL CONTROL OVER FINANCIAL REPORTING (2015-001) (Continued)

Management Response (Continued)

Furthermore, the majority of positions in the Office of Fiscal Operations that were vacant during the conversion process have now been filled by qualified candidates. The Council's experience in transitioning between accounting software systems has provided critical lessons to improve the data transfer process in the event of future conversions. At present, the Council does not anticipate the need for further software conversions in the foreseeable future.

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

Findings: None

Questioned Costs: None

D. Prior-Year Findings: None