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JUN 30 2017

PUBLIC SERVICE
COMMISSION

Dr. Talina R. Mathews
Executive Director
Kentucky Public Service Commission
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June 30, 2017

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 Dr. Mathews:

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 2016 and the financial audits for CAK and CAC for year ended June 30, 2016.

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

Dr. Talina R. Mathews
June 30, 2017

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 2016, CAK and CAC utilized the funds for program participants that required monthly energy assistance.

During 2016, 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, 2016.

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-16	\$106,965
Feb-16	107,939
Mar-16	108,796
Apr-16	107,889
May-16	108,307
Jun-16	108,585
Jul-16	108,347
Aug-16	109,142
Sep-16	108,262
Oct-16	108,240
Nov-16	108,101
Dec-16	108,268
Total	\$1,298,842

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2016**

	Number	County
County	Enrolled	Distribution
Adair	5	0.19%
Anderson	32	1.19%
Ballard	1	0.04%
Barren	2	0.07%
Bath	15	0.56%
Bell	226	8.38%
Bourbon	114	4.23%
Boyle	130	4.82%
Bracken	5	0.19%
Bullitt	2	0.07%
Caldwell	1	0.04%
Carroll	11	0.41%
Casey	32	1.19%
Christian	1	0.04%
Clark	54	2.00%
Clay	7	0.26%
Crittenden	0	0.00%
Estill	27	1.00%
Fayette	1,000	37.06%
Fleming	6	0.22%
Franklin	14	0.52%
Gallatin	2	0.07%
Garrard	38	1.41%
Grant	0	0.00%
Grayson	25	0.93%
Green	12	0.44%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2016**

	Number	County
County	Enrolled	Distribution
Hardin	53	1.96%
Harlan	7	0.26%
Harrison	57	2.11%
Hart	47	1.74%
Henderson	6	0.22%
Henry	5	0.19%
Hickman	8	0.30%
Hopkins	23	0.85%
Jessamine	6	0.22%
Knox	29	1.07%
Larue	17	0.63%
Laurel	9	0.33%
Lincoln	85	3.15%
Livingston	1	0.04%
Lyon	0	0.00%
Madison	23	0.85%
Marion	16	0.59%
Mason	4	0.15%
McCracken	5	0.19%
McCreary	4	0.15%
McClellan	5	0.19%
Mercer	84	3.11%
Montgomery	32	1.19%
Muhlenberg	21	0.78%
Nelson	1	0.04%
Nicholas	52	1.93%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2016**

	Number	County
County	Enrolled	Distribution
Ohio	0	0.00%
Oldham	6	0.22%
Owen	1	0.04%
Pulaski	42	1.56%
Robertson	0	0.00%
Rockcastle	13	0.48%
Rowan	36	1.33%
Russell	45	1.67%
Scott	42	1.56%
Shelby	6	0.22%
Spencer	6	0.22%
Taylor	15	0.56%
Trimble	5	0.19%
Union	1	0.04%
Washington	16	0.59%
Webster	8	0.30%
Whitley	32	1.19%
Woodford	62	2.30%
Total	2,698	100.00%

**Kentucky Utilities Company
Home Energy Assistance Program
Brown Bill Notices Issued - 2016**

Number of Customers	Number of Brown Bills Per Customer Received Annually
415	1
357	2
345	3
294	4
283	5
250	6
256	7
249	8
239	9
265	10
200	11
185	12
3,338	Total

**Kentucky Utilities Company
Home Energy Assistance Program
Number of Disconnections - 2016**

Number of Customers	Number of Disconnections Per Customer
627	1
232	2
82	3
30	4
9	5
1	6
2	7
983	Total

Community Action Kentucky, Inc.

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

For The Year Ended June 30, 2016

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, 2016, 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, 2016, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is 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 December 19, 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
December 19, 2016

Community Action, Kentucky Inc.
Statement of Financial Position
June 30, 2016

Assets	
Current Assets	
Cash & Cash Equivalents	\$ 208,209
Reimbursable Costs	1,359,657
Current Portion of Notes Receivable	8,302
Prepaid Expenses	5,489
Total Current Assets	1,581,657
Other Assets	
Investments	1,097,267
Notes Receivable	18,392
Property and Equipment	
Buildings and Equipment Net of Accumulated Depreciation	673,624
Total Assets	\$ 3,370,940
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	\$ 1,168,337
Accrued Compensation	94,877
Deferred Revenue	12,142
Notes Payable - Current Maturities	8,125
Total Current Liabilities	1,283,481
Long Term Liabilities	
Notes Payable	10,266
Total Liabilities	1,293,747
Net Assets	
Unrestricted	2,077,193
Total Net Assets	2,077,193
Total Liabilities and Net Assets	\$ 3,370,940

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Grants/Contracts	\$	\$ 44,900,071	\$ 44,900,071
Commissions	87,490		87,490
Dues	17,603		17,603
Rental Income	21,000		21,000
Investment Income	54,650		54,650
Other	48,178		48,178
Release of Restrictions of Net Assets	44,900,071	(44,900,071)	-
Total Revenue and Support	45,128,992	-	45,128,992
Expenses:			
Energy assistance	39,032,389		39,032,389
CSBG	150,000		150,000
RCAP	421,246		421,246
OCS	385,266		385,266
Kynector	4,726,064		4,726,064
Housing	240		240
AEP	27,972		27,972
Supporting Services	384,367		384,367
Total Expenses	45,127,544	-	45,127,544
Change in Net Assets	1,448	-	1,448
Net Assets Beginning of the Year	2,075,745	-	2,075,745
Net Assets End of Year	\$ 2,077,193	\$ -	\$ 2,077,193

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash Flows From Operating Activities:	
Change in Net Assets	\$ 1,448
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) in Operating Activities:	
Depreciation	11,691
Unrealized Loss on Investments	104,916
Changes in Operating Assets and Liabilities:	
Decrease in Reimbursable Costs	(136,801)
Decrease in Sub-recipient Receivables	-
Decrease in Prepaid Expenses	(1,421)
Increase in Accounts Payable	184,917
Decrease in Other Receivables	425
Increase in Deferred Revenue	12,142
Increase in Accrued Expenses	4,412
Total Adjustments	<u>180,281</u>
Net Cash (Used) In Operating Activities	<u>181,729</u>
Cash Flows From Investing Activities:	
Collections of Notes Receivable	8,124
Cash proceeds from Investments	561,802
Purchases of Investments	(566,596)
Purchases of Property and Equipment	(31,015)
Net Cash Flows Provided by Investing Activities	<u>(27,685)</u>
Cash flows From Financing Activities:	
Payments on Debt	(8,125)
Cash Flows (Used) In Financing Activities	<u>(8,125)</u>
Net Decrease in Cash	145,919
Cash and Cash Equivalents at Beginning of Year	<u>62,290</u>
Cash and Cash Equivalents at End of Year	<u>\$ 208,209</u>

See accompanying notes.

Community Action, Kentucky Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2016

	RCAP	Housing	Energy	AEP	OCS/ CSBG	Kynector	Program Services Total	Supporting Services	2016 Totals
Salaries	\$ 228,903	\$ -	\$ 229,630	\$ 2,216	\$ 150,079	\$ 60,596	\$ 671,424	\$ 43,977	\$ 715,401
Fringe Benefits	84,009	-	84,501	813	56,092	22,533	247,948	15,198	263,146
Professional Services	100	-	3,618	-	-	-	3,718	15,609	19,327
Consultants	1,890	-	28,966	-	264,239	18,225	313,320	56,506	369,826
Education	500	-	232	-	6,702	-	7,434	3,740	11,174
Travel	33,312	-	1,622	-	20,314	1,758	57,006	25,999	83,005
Meeting	-	-	-	-	-	-	-	42,083	42,083
Telephone	145	-	57	-	304	71	577	330	907
Postage	49	-	-	-	-	-	49	-	49
Office Exp & Supplies	22,136	-	-	-	70	-	22,206	1,339	23,545
Publications	-	-	-	-	-	-	-	-	-
Dues/Fees	51	-	-	-	(2)	-	49	18,401	18,450
Insurance	-	-	64,986	-	-	-	64,986	204	65,190
Printing	78	-	2,766	-	2,289	-	5,133	-	5,133
Marketing/Advertising	-	-	-	-	-	-	-	9,965	9,965
Utilities	-	-	-	-	-	-	-	-	-
Repairs & Maintenance	724	-	13,671	-	5,567	-	19,962	12,104	32,066
Depreciation	-	-	-	-	-	-	-	11,691	11,691
Interest	-	240	-	-	-	-	240	-	240
Other	-	-	-	-	-	-	-	11,282	11,282
Indirect	49,349	-	38,544	365	29,612	11,174	129,044	11,023	140,067
Subrecipients	-	-	38,563,796	24,578	-	4,611,707	43,200,081	-	43,200,081
Total	\$ 421,246	\$ 240	\$ 39,032,389	\$ 27,972	\$ 535,266	\$ 4,726,064	\$ 44,743,177	\$ 384,367	\$ 45,127,544

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.

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, 2016, CAK had unpaid annual leave and salary of \$94,878.

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, 2016, 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 2014, 2013, and 2012 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, 2016:

	Cost	Fair Value
Bond Funds by Fund Type		
Core Plus Bond	83,834	85,992
Income	84,691	86,426
High Yield	63,462	57,561
Aggregate Bond	81,135	83,222
Emerging Local Bond	6,074	23,204
Bond Hedged	56,410	54,298
Inflation Protected Secs	20,892	21,575
	<u>396,498</u>	<u>412,278</u>
Mutual Funds by Fund Type		
Growth	61,501	64,746
Value Equity	71,752	77,524
Small Cap Core	61,501	68,936
International Stock	85,405	89,048
Emerging Markets	57,846	58,237
Blended Research Core	71,335	77,420
MLP	70,679	59,045
International Growth	88,241	84,539
Glad Real Estate	42,228	46,167
Emerging Markets Equity	51,251	59,327
	<u>661,739</u>	<u>684,989</u>
Total	<u>1,058,237</u>	<u>1,097,267</u>

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. All investment are Level 1 investments.

At June 30, 2016, the Organization’s trading securities had a fair value of \$1,097,267, 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, 2016 are reported in the accompanying income statement as follow:

Interest & Dividend Income	\$	48,068
Realized Gains(Losses)		6,582
Unrealized Gains(Losses)		(104,916)
Total Investment Income	\$	(50,266)

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, 2016 the unpaid balances were comprised of 11 individual loans to four separate Community Action Agencies and 3 revolving loans totaling \$26,694 and -, 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>		
2017	\$	16,428
2018		5,133
2019		<u>5,133</u>
Total	\$	<u><u>26,694</u></u>

Interest revenue amounted to \$213 for the year ended June 30, 2016.

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, 2016:

Land	\$	105,287
Office Equipment		151,728
Building		<u>766,845</u>
Total Depreciable Assets		1,023,860
Less: Accumulated Depreciation		<u>(350,236)</u>
Net Property, Plant & Equipment	\$	<u><u>673,624</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 \$30,176 for the year ended June 30, 2016.

Note 8 – Notes Payable

Notes Payable arise from the conduct of CAK’s housing program. Notes Payable at June 30, 2016 consisted of the following:

Note payable to KHC (NHPR 06/07), Interest at 1% annual payments of \$1,159 through July, 2026	\$ 2,991
Note payable to KHC (NHPR 08/09), Interest at 1% annual payments of \$5,921 through July, 2028	15,400
Total	18,391
Less: Current Maturities	8,125
Total Long-Term Debt	\$ 10,266

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	
2017	8,125
2018	2,141
Total	\$ 10,266

Interest paid during 2015-2016 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, 2015, 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, 2015, 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, 2016 is approximately \$725,999. 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, 2016 was 17.06%, respectively, for the year ended June 30, 2016. 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, 2015 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	\$ 298,565,550	\$ 108,070,676
<hr/>		
Total employer pension and insurance contributions in the Statement of Changes in Plan Net Position	<u>\$ 298,565,550</u>	<u>\$ 108,070,676</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.

	<u>2015-2016</u>
CAK's proportion of the net pension liability	0.0028405%
CAK's proportionate share of the net pension liability	\$ 1,221,289
CAK's covered-employee payroll	\$ 725,999
CAK's proportionate share of the net pension liability as a percentage of its covered-employee payroll	168%
Plan Fiduciary net position as a percentage of the total pension liability	66.75%

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.

	<u>2015-2016</u>
Contractually required contribution	\$ 123,856
Contribution in relation to the contractually required contribution	123,856
Contribution deficiency (excess)	\$ -
CAK's covered-employee payroll	\$ 725,999
Contributions as a percentage of covered- employee payroll	17.06%

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 7.50%. 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 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, 2015, used to the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
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	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, 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)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Combined Equity	44.00%	5.00%
Combined Fixed Income	19.00%	2.00%
Real Return(Diversified Inflation Strategies)	10.00%	4.00%
Real Estate	5.00%	5.00%
Absolute Return(Diversified Hedge Funds)	10.00%	4.00%
Private Equity	10.00%	9.00%
Cash Equivalent	<u>2.00%</u>	-25.00%
	<u>100.00%</u>	

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50 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 7.50 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 (6.50) and 1-percentage point higher (8.50) than the current rate:

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Nonhazardous	\$ 1,559,127	\$ 1,221,289	\$ 931,961
CERS's net pension liability	<u>\$ 1,559,127</u>	<u>\$ 1,221,289</u>	<u>\$ 931,961</u>

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 if such audits arise, all steps have been followed to ensure compliance with each grantor or donor restrictions as defined by contractual agreements as of June 30, 2016.

Note 11 – Operating Lease

CAK is the lessee of office equipment under an operating lease expiring during fiscal year end 2016. Lease expense during 2015-2016 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 \$15,603 for the year ended June 30, 2016. 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 \$43,200,081 for the year ended June 30, 2016.

Note 13 – Subsequent Events

Management did not indicate financially impacting information regarding subsequent events. Subsequent events were evaluated through December 19, 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, 2016 as listed in the table of contents.



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Partners
James E. Clouse, CPA
Greg Miklavcic, 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, 2016, 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 December 19, 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such

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

Purpose of this Report

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

Charles T. Mitchell Co.

Frankfort, Kentucky

December 19, 2016



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Independent Auditor's Report on Compliance for Each
Major Program and on Internal Control Internal Control Over Compliance
Required By the Uniform Guidance

Board of Directors
Community Action Kentucky, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Action, Kentucky Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Action, Kentucky Inc.'s major federal programs for the year ended June 30, 2016. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Action, Kentucky Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Community Action, Kentucky Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Community Action, Kentucky Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning

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

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

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

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

Charles T. Mitchell Co.

Frankfort, Kentucky
December 19, 2016

Community Action, Kentucky Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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	736-15000013131	6/30/16	\$ 150,000
Low Income Home Energy Assistance Program	KY Cabinet for Health & Family Services	93.568	736-15000013131	6/30/16	38,826,378
LIHEAP-Weatherization	Kentucky Housing Corporation	93.568	LH16-0073-02	6/30/16	42,694
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 14/15	9/30/15	30,483
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 15/16	9/30/16	103,523
RPIC	Office of Community Services	93.570	90ET0439-01-00	9/29/15	97,517
RPIC	Office of Community Services	93.570	90EQ0244-02-00	9/29/16	287,749
Total Department of Health and Human Services					<u>39,538,344</u>
<i>U.S. Department of Energy:</i>					
Weatherization - Regular	Kentucky Housing Corporation	81.042	WX16-0373-02	6/30/16	49,665
Total Department of Energy					<u>49,665</u>
<i>U.S. Department of Agriculture:</i>					
RCDI-RCAP	W.S.O.S Community Action Comm.	10.446	PY 14/16	9/30/14	20,992
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 14/15	9/30/15	18,151
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 15/16	9/30/14	83,916
Solid Waste 1	W.S.O.S Community Action Comm.	10.762	PY 13/15	9/30/16	22,631
Solid Waste 2	W.S.O.S Community Action Comm.	10.762	PY 14/15	9/30/15	28,379
Solid Waste 3	W.S.O.S Community Action Comm.	10.762	PE 15/16	9/30/15	50,434
Total Department of Agriculture					<u>224,503</u>
<i>Environmental Protection Agency:</i>					
EPA - RCAP	W.S.O.S Community Action Comm.	66.606	PY 15/17	10/31/15	56,000
Private Wells-RCAP	W.S.O.S Community Action Comm.	66.436	PY 14/15	10/31/15	1,145
Total Environmental Protection Agency					<u>57,145</u>
Total Expenditures of Federal Awards					<u>\$ 39,869,657</u>

See accompanying notes to the Schedule of Federal Awards.

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2016.

Community Action, Kentucky Inc.
Schedule of Subrecipient Expenditures
For the Year Ended June 30, 2016

	LIHEAP	Kynector	KU	AEP	Total
	93.568	93.525			
Audubon Area	\$ 1,687,603	\$ 453,082	\$	\$	\$ 2,140,685
Bell-Whitley CAA	1,062,478				1,062,478
Big Sandy CAP	2,808,631			9,095	2,817,726
Blue Grass CAA	1,834,367	331,646			2,166,013
Central Ky CAA	1,829,410				1,829,410
Daniel Boone CAA	2,122,752				2,122,752
Gateway CAA	1,073,508	173,227		664	1,247,399
Harlan Co CAA	569,066				569,066
KCEOC CAP	705,502				705,502
Foothills CAP	1,613,149	146,314			1,759,463
LKLP CAA	2,271,661			6,384	2,278,045
Lake Cumberland CAA	2,685,942	461,349			3,147,291
CAC - Lexington	2,232,195	438,943	112,870		2,784,008
Licking Valley CAP	757,454	118,041			875,495
Louisville Metro	4,013,230				4,013,230
Middle Ky CAP	1,449,884			776	1,450,660
Multi-Purpose CAA	404,209				404,209
Northeast Ky CAA	2,247,145	288,784		7,659	2,543,588
Northern Ky CAC	1,532,988	806,125			2,339,113
Pennyrile Allied	1,637,316	502,662			2,139,978
CAA of Southern Ky	2,101,276	334,080			2,435,356
Tri-County CAA	290,585				290,585
West Ky Allied	1,520,575	557,454			2,078,029
	<u>\$ 38,450,926</u>	<u>\$ 4,611,707</u>	<u>\$ 112,870</u>	<u>\$ 24,578</u>	<u>\$ 43,200,081</u>

See accompanying notes to the Schedule of Federal Awards.

*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, 2016. The information in this schedule and is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule presents only a selected portion of the operations of CAK; it is not intended to and does not present the financial position, changes in net assets 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 Uniform Guidance, the U.S. Department of Health and Human Services is the Oversight Agency for CAK. The Single Audit Act provides that the Oversight Agency shall have the following responsibilities

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

Note 4 – Indirect Cost Rate—CAK has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____yes ___X___no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 1,196,090

Auditee qualified as low-risk auditee? ___X___yes _____no

Findings Required to be Reported under Generally Accepted Government Auditing Standards

None.

Findings and Questioned Costs for Major Federal Award Programs

None.

Prior Year 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.

This finding was not repeated in the current year.

Community Action, Kentucky Inc.
Statement of Activity by Program
For the Year Ended June 30, 2016

Revenues	Housing	Total RCAP	CDAP	RCDI 14/16	LIHEAP	WX	CSBG	Total OCS	Kynector	Total AEP	KU Energy		Total
											07/12	Treasury	
Grant Revenue	\$ -	\$ 394,662	\$ 5,592	\$ 20,992	\$ 38,826,378	\$ 92,359	\$ 150,000	\$ 385,266	\$ 4,879,134	\$ 32,036	\$ 113,652	\$ -	\$ 44,900,071
Rental Income												21,000	21,000
Interest Income	213											47,855	48,068
Dues												17,603	17,603
Commission												87,490	87,490
Realized Loss On Inv												-	-
Unrealized Loss On Inv												6,582	6,582
Other Income												48,178	48,178
Total Revenues	\$ 213	\$ 394,662	\$ 5,592	\$ 20,992	\$ 38,826,378	\$ 92,359	\$ 150,000	\$ 385,266	\$ 4,879,134	\$ 32,036	\$ 113,652	\$ 228,708	45,128,992
Expenses													
Salaries	\$ -	\$ 216,447	\$ 3,091	\$ 9,365	\$ 214,829	\$ 14,292	\$ 83,477	\$ 66,602	\$ 60,596	\$ 2,216	\$ 509	\$ 43,977	\$ 715,401
Fringe Benefits	-	79,438	1,134	3,437	79,064	5,250	31,631	24,461	22,533	813	187	15,198	263,146
Professional Services	-	100	-	-	3,618	-	-	-	-	-	-	15,609	19,327
Consultants	-	1,890	-	-	28,966	-	-	264,239	18,225	-	-	56,506	369,826
Education	-	500	-	-	116	116	1,901	4,801	-	-	-	3,740	11,174
Travel	-	31,887	575	850	1,544	78	9,648	10,666	1,758	-	-	25,999	83,005
Meeting	-	-	-	-	-	-	-	-	-	-	-	42,083	42,083
Telephone	-	73	-	72	49	8	74	230	71	-	-	330	907
Postage	-	49	-	-	-	-	-	-	-	-	-	-	49
Office Exp & Supplies	-	17,099	-	5,037	-	-	70	-	-	-	-	1,339	23,545
Publications	-	-	-	-	-	-	-	-	-	-	-	-	-
Dues/Fees	-	51	-	-	-	-	(2)	-	-	-	-	18,401	18,450
Insurance	-	-	-	-	-	64,986	-	-	-	-	-	204	65,190
Pollution Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing	-	78	-	-	2,766	-	2,289	-	-	-	-	-	5,133
Marketing/Advertising	-	-	-	-	-	-	-	-	-	-	-	9,965	9,965
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs & Maintenance	-	724	-	-	8,103	5,568	5,567	-	-	-	-	12,104	32,066
Depreciation	-	-	-	-	-	-	-	-	-	-	-	11,691	11,691
Interest	240	-	-	-	-	-	-	-	-	-	-	-	240
Bad Debts	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	11,282	11,282
Loss on Investments	-	-	-	-	-	-	-	-	-	-	-	104,916	104,916
Indirect	-	46,326	792	2,231	36,397	2,061	15,345	14,267	11,174	365	86	11,023	140,067
Subrecipients	-	-	-	-	38,450,926	-	-	-	4,611,707	24,578	112,870	-	43,200,081
Total Expenses	240	394,662	5,592	20,992	38,826,378	92,359	150,000	385,266	4,726,064	27,972	113,652	384,367	45,127,544
Change in Net Assets	\$ (27)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,070	\$ 4,064	\$ -	\$ (155,659)	\$ 1,448

See Independent Auditor's Report

Community Action, Kentucky Inc.
LIHEAP Grant – CFDA 93.568
Contract #736-15000013131
Statement of Budget to Actual
For the Period July 01, 2015 through June 30, 2016

Payments to Subrecipients		
Agency Subsidy Benefits (CAK records)	\$	11,330,706
Agency Crisis Benefits (CAK records)		23,701,049
Agency Prior Year Adjustments (CAK records)		857
Agency Administration (CAK records)		3,418,314
		<hr/>
Total Payments To Subrecipients	\$	<u>38,450,926</u>
CAK Administration		
Salaries		220,704
Fringe Benefits		81,222
Professional Services		8,895
Consultants		28,966
Education		116
Travel		1,648
Telephone		6,567
Meeting		920
Postage		233
Office Exp & Supplies		1,713
Publications		17
Dues/Fees		136
Insurance		(1,548)
Printing		2,990
Utilities		2,276
Repairs & Maintenance		15,550
Depreciation		5,047
		<hr/>
Total CAK Administration		<u>375,452</u>
Total Expenditures		<u>38,826,378</u>
Questioned Costs (See Schedule)		-
Allowable Cost		38,826,378
Amount Received From CHFS - HEAP		38,825,704
Accounts Receivable From Funding Sources		674
		<hr/>
Excess (Shortage) Receipts over Expenditures	\$	<u><u>-</u></u>

See Independent Auditor's Report

Community Action, Kentucky Inc.
LIHEAP Grant – CFDA 93.568
Contract #736-15000013131
Statement of Budget to Actual
For the Period July 01, 2015 through June 30, 2016

Cost Category	Budget	Actual	(Over)/Under Budget
Administrative Cost			
Subrecipient	\$ 3,533,707	\$ 3,418,314	\$ 115,393
Community Action Kentucky	392,623	375,452	17,171
Total Administrative	<u>3,926,330</u>	<u>3,793,766</u>	<u>132,564</u>
Benefits - Direct Assistance			
Subsidy	11,341,121	11,330,706	10,415
Crisis	<u>25,896,059</u>	<u>23,701,049</u>	<u>2,195,010</u>
Total Benefits	<u>37,237,180</u>	<u>35,031,755</u>	<u>2,205,425</u>
Other Expenditures			
Prior Year Adjustments	-	857	(857)
Total Other	<u>-</u>	<u>857</u>	<u>(857)</u>
Total Contract	<u>\$ 41,163,510</u>	<u>\$ 38,826,378</u>	<u>\$ 2,337,132</u>

See Independent Auditor's Report

Community Action, Kentucky Inc.
LIHEAP Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 01, 2015 through June 30, 2016

CAK Administration		
Salaries	\$	2,258
Fringe Benefits		899
Professional Services		21
Travel		-
Meeting		3
Telephone		25
Postage		1
Supplies		6
Dues/Fees		1
Insurance		(6)
Pollution Insurance		38,992
Printing		1
Utilities		9
Repairs & Main		465
Depreciation		19
Total CAK Administration		<u>42,694</u>
Total Expenditures		42,694
Questioned Costs (See Schedule)		<u>-</u>
Allowable Cost		42,694
Amount Received From KHC-WX		42,694
Accounts Receivable From Funding Sources		<u>-</u>
Excess (Shortage) Receipts over Expenditures	\$	<u><u>-</u></u>

See Independent Auditor's Report

Community Action, Kentucky Inc.
Regular Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 01, 2015 through June 30, 2016

CAK Administration		
Salaries	\$	12,367
Fringe Benefits		4,473
Professional Services		278
Education		116
Travel		84
Meeting		49
Telephone		351
Postage		12
Supplies		91
Publications		1
Dues/Fees		7
Insurance		(81)
Pollution Insurance		25,995
Printing		12
Utilities		120
Repairs & Main		5,524
Depreciation		266
Total CAK Administration		<u>49,665</u>
Total Expenditures		49,665
Questioned Costs (See Schedule)		<u>-</u>
Allowable Cost		49,665
Amount Received From KHC - WX		44,012
Accounts Receivable From Funding Sources		<u>5,653</u>
Excess (Shortage) Receipts over Expenditures	\$	<u><u>-</u></u>

See Independent Auditor's Report

Community Action, Kentucky Inc.
 CSBG Grant
 Contract #736-15000013131
 Statement of Program Expenses
 For the Period July 01, 2015 through June 30, 2016

Kentucky Housing Corporation(Federal)		
Department of Health and Human Services		
Contract Award		<u>\$ 150,000</u>
Expenditures		
Salaries	\$ 85,954	
Fringe Benefits	32,541	
Professional Services	2,225	
Education	1,901	
Travel	9,692	
Meeting	388	
Telephone	2,821	
Postage	98	
Office Exp & Supplies	792	
Dues/Fees	7	
Publications	57	
Insurance	(653)	
Printing	2,384	
Utilities	960	
Repairs & Maintenance	8,706	
Depreciation	<u>2,127</u>	
Total Expenditures		<u>150,000</u>
Questioned Cost (See Schedule)		-
Adjusted Cost		<u>150,000</u>
Contract Payment Received		145,297
Accounts Receivable from Funding Sources		<u>4,703</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

See Independent Auditor's Report

Community Action, Kentucky Inc.
 WSOS Community Action Commission, Inc. RCAP Grant
 Contract PE 14/15
 (For Contracts Ending September 30, 2015)
 Statement of Program Expenses
 For the Period July 01, 2015 through June 30, 2016

HHS-CFDA 93.570	\$	106,835
Technitrain-CFDA 10.761		100,154
Private Wells		1,983
Solid Waste CFDA 10.762		60,000
Contract Awards	<u>\$</u>	<u>268,972</u>

Expenditures	Actual 2015	Actual 2016	Total
Salaries	\$ 107,290	\$ 43,440	\$ 150,730
Fringe Benefits	38,924	17,830	56,754
Professional Services	3,235	562	3,797
Consultant/Contract	-	-	-
Education	25	267	292
Travel	16,118	6,033	22,151
Meeting	534	98	632
Telephone	4,302	693	4,995
Postage	191	40	231
Supplies	6,330	6,947	13,277
Publications	11	2	13
Dues/Fees	86	15	101
Insurance	4,095	(165)	3,930
Printing	52	102	154
Advertising	69	-	69
Utilities	1,657	242	1,899
Repairs & Main	4,686	1,516	6,202
Depreciation	3,209	536	3,745
Total Expenditures	<u>190,814</u>	<u>78,158</u>	<u>268,972</u>
Questioned Costs (See Schedule)	-	-	-
Adjusted Costs	190,814	78,158	268,972
Contract Payments Received	190,814	78,158	268,972
Excess (Shortage) Receipts over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

Community Action, Kentucky Inc.
 WSOS Community Action Commission, Inc. RCAP Grant
 Contract PE 15/16
 (For Contracts Ending September 30, 2016)
 Statement of Program Expenses
 For the Period July 01, 2015 through June 30, 2016

HHS-CFDA 93.570		\$	103,523
#REF!			83,916
EPA-CFDA 66.606			56,000
Solid Waste 2-CFDA 10.762			50,434
Contract Award			<u>293,873</u>
Expenditures			
Salaries	\$		167,748
Fringe Benefits			59,294
Professional Services			6,256
Consultant/Contract			-
Education			233
Travel			23,044
Meeting			1,073
Telephone			7,675
Postage			306
Supplies			12,332
Publications			20
Dues/Fees			211
Insurance			(1,806)
Printing			262
Advertising			-
Utilities			2,655
Repairs & Main			8,686
Depreciation			5,884
Total Expenditures			<u>293,873</u>
Questioned Cost (See Schedule)			-
Adjusted Cost			<u>293,873</u>
Contract Payment Received			173,510
Accounts Receivable from Funding Source			<u>120,363</u>
Excess (Shortage) Receipts over Expenditures		\$	<u>-</u>

See Independent Auditor's Report

*These funds are temporarily restricted until the contract ends SEPTEMBER 30, 2016.

Community Action, Kentucky Inc.
OCS
Contract #90ET0439-01-00
(For Contracts Ending September 29, 2015)
For the Period July 01, 2015 through June 30, 2016

RPIC-CFDA 93.570

Contract Award			\$ 400,000
Expenditures	Actual 2015	Actual 2016	Total
Salaries	\$ 46,849	\$ 16,479	\$ 63,328
Fringe Benefits	16,484	6,553	23,037
Professional Services	1,744	-	1,744
Consultants	217,887	70,949	288,836
Education	1,870	788	2,658
Travel	6,013	2,710	8,723
Meeting	288	-	288
Telephone	2,518	38	2,556
Postage	85	-	85
Supplies	589	-	589
Publications	666	-	666
Dues/Fees	46	-	46
Insurance	2,267	-	2,267
Printing	28	-	28
Utilities	893	-	893
Repairs & Main	2,526	-	2,526
Depreciation	1,730	-	1,730
Total Expenditures	302,483	97,517	400,000
Questioned Cost (See Schedule)	-	-	-
Adjusted Cost	302,483	97,517	400,000
Contract Payment Received	302,483	97,517	400,000
Accounts Receivable from Funding Sources	-	-	-
Excess (Shortage) Receipts over Expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report

Community Action, Kentucky Inc.
OCS
Contract #90ET0439-01-00
(For Contracts Ending September 29, 2016)
For the Period July 01, 2015 through June 30, 2016

RPIC-CFDA 93.570		
Contract Award		<u>\$ 287,749</u>
Expenditures		
Salaries	\$ 52,426	
Fringe Benefits	18,754	
Professional Services	2,069	
Consultants/Contracts	193,290	
Education	4,013	
Travel	7,997	
Meeting	361	
Telephone	2,747	
Postage	91	
Supplies	672	
Publications	7	
Dues/Fees	53	
Insurance	(607)	
Printing	88	
Utilities	892	
Repairs & Main	2,919	
Depreciation	<u>1,977</u>	
Total Expenditures		<u>287,749</u>
Questioned Cost (See Schedule)		-
Adjusted Cost		<u>287,749</u>
Contract Payment Received		281,460
Accounts Receivable from Funding Source		<u>6,289</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

See Independent Auditor's Report

*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2016.

**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, 2016

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

Consolidated Financial Statements and Supplementary Information
Year Ended June 30, 2016

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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, 2016, 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, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.


Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedules on pages 23 to 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 November 21, 2016, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliate 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 Affiliate internal control over financial reporting and compliance.


Wipfli LLP

November 21, 2016
Madison, Wisconsin

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

Consolidated Statement of Financial Position

June 30, 2016

<i>Assets</i>	
Current assets:	
Cash	\$ 772,639
Restricted deposits	20,289
Investments	2,243,644
Grants receivable	1,697,927
Accounts receivable	225,374
Other assets	157,134
Total current assets	5,117,007
Long-term assets:	
Beneficial interest in assets held by others	86,908
Other assets	60,241
Total long-term assets	147,149
Property and equipment, net	6,098,673
TOTAL ASSETS	\$ 11,362,829
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 274,229
Accounts payable	506,393
Accrued payroll and related expenses	1,087,332
Grant funds received in advance	20,313
Total current liabilities	1,888,267
Long-term liabilities:	
Notes payable	1,586,057
Fair value of interest rate swap agreement	151,975
Tenant security deposits	3,975
Capital advance - HUD	1,061,800
Total long-term liabilities	2,803,807
Total liabilities	4,692,074
Net assets:	
Unrestricted:	
Undesignated	4,292,258
Board designated for endowment	69,791
Total unrestricted net assets	4,362,049
Temporarily restricted	2,308,706
Total net assets	6,670,755
TOTAL LIABILITIES AND NET ASSETS	\$ 11,362,829

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, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Grant revenue	\$ 21,638,819	\$ 627,794	\$ 22,266,613
Investment income	12,152	0	12,152
Other income	3,001,645	21,508	3,023,153
In-kind contributions	322,593	0	322,593
Net assets released from restriction through satisfaction of program restrictions	93,576	(93,576)	0
Total revenue	25,068,785	555,726	25,624,511
Expenses:			
Program activities:			
Child education	15,914,572	0	15,914,572
Community services	2,457,644	0	2,457,644
Weatherization services	4,105,850	0	4,105,850
Senior programs	332,760	0	332,760
Total program activities	22,810,826	0	22,810,826
Fund-raising	61,168	0	61,168
Management and general expenses	2,144,091	0	2,144,091
Total expenses	25,016,085	0	25,016,085
Change in net assets	52,700	555,726	608,426
Net assets - Beginning of year	4,309,349	1,752,980	6,062,329
Net assets - End of year	\$ 4,362,049	\$ 2,308,706	\$ 6,670,755

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

Consolidated Statement of Functional Expenses

Year Ended June 30, 2016

	Child Education	Community Services	Weatherization Services	Senior Programs	Total Program Activities	Management and General Expenses	Fund-raising	Total Expenses
EXPENSES								
Salaries	\$ 6,569,600	\$ 876,304	\$ 527,603	\$ 80,782	\$ 8,054,289	\$ 1,078,372	\$ 24,906	\$ 9,157,567
Fringe benefits	2,820,433	332,033	229,830	38,391	3,420,687	398,143	4,973	3,823,803
Consultant/contractual	3,399,991	120,979	510,267	0	4,031,237	157,155	22,485	4,210,877
Space	940,743	177,066	46,494	81,153	1,245,456	261,291	2,029	1,508,776
Supplies	959,754	25,781	75,897	3,044	1,064,476	20,294	117	1,084,887
Travel	205,045	27,995	11,178	7,861	252,079	24,646	432	277,157
Communications and IT	209,958	30,551	7,813	2,141	250,463	82,004	2,635	335,102
Beneficiary assistance	55,424	824,691	2,675,529	9,746	3,565,390	0	0	3,565,390
Other	452,880	20,956	21,239	109,081	604,156	122,186	3,591	729,933
In-kind expenses	300,744	21,288	0	561	322,593	0	0	322,593
TOTAL EXPENSES	\$ 15,914,572	\$ 2,457,644	\$ 4,105,850	\$ 332,760	\$ 22,810,826	\$ 2,144,091	\$ 61,168	\$ 25,016,085

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, 2016

Increase (decrease) in cash:	
Cash flows from operating activities:	
Change in net assets	\$ 608,426
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	441,265
Net realized and unrealized loss on investments	5,137
Net realized and unrealized loss on beneficial interest in assets held by others	1,587
Change in fair value of interest rate swap agreement	(2,885)
Changes in operating assets and liabilities:	
Restricted deposits	26,562
Grants receivable	193,203
Accounts receivable	(16,867)
Other assets	(91,768)
Accounts payable	45,047
Accrued payroll and related expenses	96,817
Grant funds received in advance	20,313
Tenant security deposits	(521)
Net cash provided by operating activities	1,326,316
Cash flows from investing activities:	
Purchase of investments	(594,519)
Distribution from beneficial interest in assets held by others	589
Purchase of property and equipment	(49,126)
Net cash used in investing activities	(643,056)
Cash flows from financing activities:	
Payments on notes payable	(413,639)
Net cash used in financing activities	(413,639)
Change in cash	269,621
Cash - Beginning of year	503,018
Cash - End of year	\$ 772,639
Supplemental schedule of operating activities:	
Interest paid and expensed	\$ 121,516
Supplemental schedule of investing and financing activities:	
Equipment acquired with financing	\$ 116,028

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Nature of Operations

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC), a nonprofit organization, was established in 1965. CAC studies the causes and effects of poverty and, in turn, creates opportunities for individuals and families, which enable them to become self-sufficient members of the community. Approximately 73% 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

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

Principles of Consolidation

These financial statements are consolidated and include the accounts of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., Shepherd Place, Inc., 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 \$5,292,838 at June 30, 2016.

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 received in-kind contributions from partner agencies for teaching staff, space, transportation, and other operating costs that were not reimbursed by CAC. CAC also received in-kind contributions for nonprofessional volunteers, food, and clothing during the year with a value of approximately \$3,415,000, 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 November 21, 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, 2016, are composed of the following:

Escrow fund	\$	6,148
Reserve for replacement		10,166
Tenant security deposits		3,975
<hr/>		
Total	\$	20,289

Note 4 Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2016, as follows:

Direct federal programs	\$	836,333
State and local programs		861,594
<hr/>		
Total	\$	1,697,927

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, 2016, was 9% money market funds, and 91% in mutual funds. The health insurance trust investments of \$1,019,719 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, 2016, was \$1,223,925 and represents approximately 18% of the pooled investment total. The fair value of the investment pool at June 30, 2016, was \$6,738,795. The allocation of the investments in the pool at June 30, 2016, was 44% equities, 13% fixed income, and 43% in mutual funds.

Investment income for the year ended June 30, 2016, included dividends of \$18,648 and a net realized and unrealized loss of \$5,137 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

When assets are held by an unrelated, not-for-profit organization solely for the benefit of another not-for-profit (beneficiary) organization, an asset is recorded on the beneficiary not-for-profit organization's financial statements. The Blue Grass Community Foundation holds assets for the benefit of CAC. CAC has recorded these assets on the consolidated statement of financial position as a long-term asset with a corresponding 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, 2016, consists of the following:

Community Action Council RSVP	\$	17,118
Community Action Council		69,790
<hr/>		
Total	\$	86,908

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 follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it is the relevant state law governing its endowment funds. The Board of Directors has interpreted UPMIFA as allowing the appropriation for expenditures for the purposes for which 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, 2015	\$ 71,399	\$ 17,685	\$ 89,084
Distributions	(341)	(248)	(589)
Net depreciation	(1,267)	(320)	(1,587)
<u>Endowments at June 30, 2016</u>	<u>\$ 69,791</u>	<u>\$ 17,117</u>	<u>\$ 86,908</u>

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	2,749,527
Subtotal	12,031,330
Accumulated depreciation	(5,932,657)
<u>Total</u>	<u>\$ 6,098,673</u>

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 December 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, 2016. There was no balance on the line of credit as of June 30, 2016. The line of credit is secured by three properties.

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, 2016, 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.	\$ 5,379
Note payable at a variable interest rate, (rate at June 30, 2016, is 4%), with monthly principal and interest payments of \$1,789, due November 2018. The note is secured by two school buses.	45,742
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.	1,345,000
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. Note was refinanced in September 2016 at 4.25% interest, with monthly payments of \$1,751, and matures September 2021.	97,090
Note payable at a fixed rate of 5% interest, with monthly payments of \$4,467, due December 2016. The note is unsecured.	21,573
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.	136,538
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.	13,808

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 5.5 %, interest, with monthly payments of \$2,297, due August 2019. The note is secured by all available assets of CAC.	90,730
Note payable with interest at 0% and monthly payments of \$1,934, due February 2020. The note is secured by phone equipment.	104,426
Total notes payable	1,860,286
Current portion	(274,229)
<u>Long-term notes payable</u>	<u>\$ 1,586,057</u>

The future maturities of notes payable, including the refinanced note payable, at June 30, 2016 are as follows:

2016	\$ 274,229
2017	357,046
2018	233,757
2019	231,647
2020	193,608
Thereafter	569,999
<u>Total long-term notes payable</u>	<u>\$ 1,860,286</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, 2016, the interest rate swap had a notional amount of \$1,345,000 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, 2016 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 \$151,975. 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, 2016, consist of the following:

Self-funded health insurance trust	\$	869,541
Unemployment insurance trust		1,227,661
Beneficial interest in assets held by others		17,118
Other		194,386
<u>Total temporarily restricted net assets</u>		<u>\$ 2,308,706</u>

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, 2016, was \$131,407. Future minimum lease payments beyond 2016 are as follows:

2017	\$	89,235
2018		34,425
2019		25,802
2020		21,502
<u>Total</u>		<u>\$ 170,964</u>

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, 2016, were \$555,999.

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, 2016, 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	\$ 521,936	\$ 521,936	\$ 0	\$ 0
Fixed income	156,152	156,152	0	0
Equities	545,837	545,837	0	0
Investments held by health trust:				
Money market	87,956	0	87,956	0
Mutual funds	931,763	931,763	0	0
Total investments	2,243,644	2,155,688	87,956	0
Endowment funds held by Foundation	86,908	0	0	86,908
Total assets	\$ 2,330,552	\$ 2,155,688	\$ 87,956	\$ 86,908
Liability – Interest rate swap	\$ 151,975	\$ 0	\$ 151,975	\$ 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, 2016:

Endowment funds – Beginning of year	\$	89,084
Distributions	(589)
<u>Net realized and unrealized loss</u>	(<u>1,587)</u>
<u>Endowments funds – End of year</u>	\$	<u>86,908</u>

Note 17 Grant Awards

At June 30, 2016, CAC had commitments under various ongoing grant awards of approximately \$3,900,000. 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.

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, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE			
Passed-Through the Kentucky Department of Education			
Child and Adult Care Food Program	10.558	034-D30-999	\$ 411,848
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through the Lexington-Fayette Urban County Government			
CDBG/Wx	14.218	LF00121499	21,778
Direct Funding			
Project Independence	14.235	KY0088L4I021306	7,211
Project Independence		KY0088L4I021407	40,485
Samaritan - Fayette		KY0103L4I021305	5,270
Samaritan - Fayette		KY0103L4I021406	41,733
Passed-Through the Kentucky Housing Corporation			
Continuum of Care/Bourbon County		KY0008L4I001306	35,065
Continuum of Care/Bourbon County		KY0008L4I001407	169,943
Samaritan		KY0022L4I001306	5,704
Samaritan		KY0022L4I001407	87,926
Public Housing - Bonus		KY0113L4I001301	115,313
Public Housing - Bonus		KY0113L4I001402	209,654
Total Federal Expenditures CFDA #14.235			718,304
Passed-Through the Kentucky Housing Corporation			
TBRA	14.239	TTB14-0553-01	85,928
Passed-Through the Lexington-Fayette Urban County Government			
TBRA LFUCG		R175-2013	31,040
Total Federal Expenditures CFDA #14.239			116,968
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS			857,050
DEPARTMENT OF LABOR			
Passed-Through Bluegrass Area Development District			
LEEP	17.259	16-002Y	84,343
LEEP Rural		16-003Y	59,915
Total Federal Expenditures WIA Cluster CFDA #17.258, 17.259, 17.278			144,258
DEPARTMENT OF ENERGY			
Passed-Through the Kentucky Association of Community Action Agencies			
DOE-Weatherization Assistance	81.042	WX16-0603-02	195,729

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, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through the Kentucky Association of Community Action Agencies			
KyNector	93.525	15000018021	438,943
Passed-Through the Kentucky Association of Community Action Agencies			
Low-Income Home Energy Assistance Program	93.568	736-1500001313 1	2,232,195
Passed-Through the Kentucky Housing Corporation			
Low-Income Home Weatherization Assistance Program		LH16-0603-02	300,785
Total Federal Expenditures CFDA #93.568			2,532,980
Passed-Through the Kentucky Cabinet for Health and Family Services			
Community Services Block Grant	93.569	PON273615 1294	633,307
Project Life	93.674	PON27361400003070	487,296
Direct Funding			
Head Start	93.600	04CH4754/01	685,542
Head Start		04CH4754/02	6,711,875
Early Head Start		04CH4754/01	387,620
Early Head Start		04CH4754/02	3,467,407
Migrant Head Start		90CM9820/01	567,166
Migrant Head Start		90CM9820/02	2,286,974
Partnering for Excellence		04HP0030/01	2,136,582
Total Federal Expenditures CFDA #93.600			16,243,166
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS			20,335,692
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
Direct Funding			
Retired Senior Volunteer Program 2015	94.002	14RSKY002	58,942
Retired Senior Volunteer Program 2016		14RSKY002	24,975
Total Federal Expenditures CFDA #94.002			83,917
Direct Funding			
Foster Grandparents Program 2015	94.011	14SFSKY001	66,328
Foster Grandparents Program 2016		14SFSKY001	66,581
Total Federal Expenditures Foster Grandparent/Senior Companion Cluster CFDA #94.011, 94.016			132,909
TOTAL CORPORATION FOR NATIONAL & COMMUNITY SERVICE PROGRAMS			216,826
TOTAL FEDERAL EXPENDITURES			\$ 22,161,403

See Independent Auditor's Report.

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, 2016

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.

Note 2 - Summary of Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

Note 4 - Subrecipients

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. does not have any subrecipients or subrecipient expenditures as of June 30, 2016.

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

Schedule B

Consolidating Statement of Financial Position

June 30, 2016

	Community Action Council	Shepherd Place	WinterCare Energy Fund	Eliminations	Consolidated Balance
Current assets:					
Cash	\$ 737,956	\$ 4,254	\$ 30,429	\$ 0	\$ 772,639
Restricted deposits	0	20,289	0	0	20,289
Investments	2,243,644	0	0	0	2,243,644
Grants receivable	1,697,927	0	0	0	1,697,927
Accounts receivable	113,606	0	132,602	(20,834)	225,374
Other assets	152,813	4,321	0	0	157,134
Total current assets	4,945,946	28,864	163,031	(20,834)	5,117,007
Long-term assets:					
Beneficial interest in assets held by others	86,908	0	0	0	86,908
Other assets	60,241	0	0	0	60,241
Total long-term assets	147,149	0	0	0	147,149
Property and equipment, net	5,704,451	394,222	0	0	6,098,673
TOTAL ASSETS	\$ 10,797,546	\$ 423,086	\$ 163,031	(\$ 20,834)	\$ 11,362,829
Current liabilities:					
Current portion of notes payable	\$ 274,229	\$ 0	\$ 0	\$ 0	\$ 274,229
Accounts payable	505,913	4,207	17,107	(20,834)	506,393
Accrued payroll and related expenses	1,087,332	0	0	0	1,087,332
Grant funds received in advance	20,313	0	0	0	20,313
Total current liabilities	1,887,787	4,207	17,107	(20,834)	1,888,267
Long-term liabilities:					
Notes payable	1,586,057	0	0	0	1,586,057
Fair value of interest rate swap agreement	151,975	0	0	0	151,975
Tenant security deposits	0	3,975	0	0	3,975
Capital advance - HUD	0	1,061,800	0	0	1,061,800
Total long-term liabilities	1,738,032	1,065,775	0	0	2,803,807
Total liabilities	3,625,819	1,069,982	17,107	(20,834)	4,692,074
Net assets:					
Unrestricted (deficit)	4,862,455	(646,896)	145,924	0	4,361,483
Temporarily restricted	2,309,272	0	0	0	2,309,272
Total net assets (deficit)	7,171,727	(646,896)	145,924	0	6,670,755
TOTAL LIABILITIES AND NET ASSETS	\$ 10,797,546	\$ 423,086	\$ 163,031	(\$ 20,834)	\$ 11,362,829

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

Schedule C

Consolidating Statement of Activities

Year Ended June 30, 2016

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Consolidated Balance
Revenue:					
Grant revenue	\$ 22,266,613	\$ 0	\$ 0	\$ 0	\$ 22,266,613
Investment income	12,119	33	0	0	12,152
Other income	2,762,799	104,881	280,674	(125,201)	3,023,153
In-kind contributions	322,593	0	0	0	322,593
Total revenue	25,364,124	104,914	280,674	(125,201)	25,624,511
Expenses:					
Salaries	9,157,566	0	0	0	9,157,566
Fringe benefits	3,823,804	0	0	0	3,823,804
Consultants/contractual	4,210,878	0	0	0	4,210,878
Space	1,434,659	74,115	0	0	1,508,774
Supplies	1,084,887	0	0	0	1,084,887
Travel	277,157	0	0	0	277,157
Communications and IT	335,103	0	0	0	335,103
Beneficiary assistance	3,439,000	0	198,511	(72,121)	3,565,390
Other	693,681	72,559	16,773	(53,080)	729,933
In-kind expenses	322,593	0	0	0	322,593
Total expenses	24,779,328	146,674	215,284	(125,201)	25,016,085
Change in net assets	584,796	(41,760)	65,390	0	608,426
Net assets (deficit) - Beginning of year	6,586,931	(605,136)	80,534	0	6,062,329
Net assets (deficit) - End of year	\$ 7,171,727	(\$ 646,896)	\$ 145,924	\$ 0	\$ 6,670,755

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-1500001313 1
Sub Contract # LIHEAP-013**

Schedule of Budget and Actual Expenses

For the Year Ended June 30, 2016

Cost Category	Budget	Actual	(Over) Under Budget
ADMINISTRATIVE			
Indirect Cost Allocation	\$ 224,444	\$ 222,548	\$ 1,896
BENEFITS			
Subsidy	547,440	547,440	-
Crisis	1,817,702	1,462,207	355,495
TOTAL	<u>\$ 2,589,586</u>	<u>\$ 2,232,195</u>	<u>\$ 357,391</u>

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-150001313 1
Sub Contract # LIHEAP-013**

Schedule of Program Expenses

For the Year Ended June 30, 2016

Cost Category	Amount
ADMINISTRATIVE	
Indirect Cost Allocation	\$ 222,548
BENEFITS	
Subsidy	547,440
Crisis	
Benefits	1,397,612
Energy Counseling	64,595
	<hr/>
TOTAL EXPENSES	2,232,195
LESS QUESTIONED COSTS	<hr/> -
TOTAL ALLOWABLE COSTS	2,232,195
CONTRACT PAYMENT RECEIVED as of JUNE 30, 2016	<hr/> 2,232,195
UNDER/OVER PAYMENT	<hr/> <hr/> \$ -

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-1500001313 1
Sub Contract # LIHEAP-013**

Schedule of Questioned Costs

For the Year Ended June 30, 2016

Cost Category	Actual Expenses	Questioned Costs	Allowable Costs
ADMINISTRATIVE			
Indirect Cost Allocation	\$ 222,548	\$ -	\$ 222,548
BENEFITS			
Subsidy	547,440	-	547,440
Crisis	1,462,207	-	1,462,207
TOTAL	<u>\$ 2,232,195</u>	<u>\$ -</u>	<u>\$ 2,232,195</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, 2016, and the related consolidated statement of activities, functional expenses and cash flows for the year ended June 30, 2016, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 21, 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 of the consolidated financial statements, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wipfli LLP

Wipfli LLP

November 21, 2016
Madison, Wisconsin



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

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

Report on Compliance for Each Major Federal Program

We have audited Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s consolidated financial statements include Shepherd Place, Inc., a related entity, which had expenditures greater than \$750,000 in federal awards during the year ended June 30, 2016, and has a separate single audit, which is not included in this single audit. Therefore, our audit, described below, did not include the operations of Shepherd Place, Inc.

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Opinion

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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 a 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Wipfli LLP

Wipfli LLP

November 21, 2016
Madison, Wisconsin

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major federal programs:

Name of Federal Major Program

CFDA No.

Low-Income Home Energy Assistance	93.568
Head Start	93.600

Dollar threshold used to distinguish between Type A and Type B programs:	
Federal	\$750,000

Auditee qualified as low-risk auditee?	Yes
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Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliates

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Year Findings

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. CAC executed a piecemeal approach to bringing forward balances into the new system which resulted in not having the ability to report from one general ledger system during a portion of the year. CAC also experienced turnover in the finance department which further reduced CAC's ability to make timely and accurate corrections in the accounting system. We determined this deficiency to be a significant deficiency in internal control over financial reporting.

Recommendation

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

Current Status

Information for current year operations was captured under the new accounting software and reconciliations have been performed. Positions in the Office of Fiscal Operations that were vacant during the conversion process have now been filled by qualified candidates.