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PUBLIC SERVICE  
COMMISSION



a PPL company

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

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

Rick E. Lovekamp  
Manager - Regulatory  
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June 29, 2018

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 Ms. Pinson:

On September 14, 2007, the Commission approved the Joint Application of Kentucky Utilities Company ("KU"), Community Action Kentucky, Inc. ("CAK"), and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicolas Counties, Inc. ("CAC"), (collectively "Joint Applicants") for a five year Home Energy Assistance ("HEA") program. The term of the HEA program has been extended several times in various cases. However, pursuant to the Settlement Terms and the Commission's Order in Case No. 2014-00371, effective June 30, 2015, the HEA program was established as a permanent program. Additionally, pursuant to Ordering Paragraph No. 4 of the Commission's Order in Case No. 2007-00338, KU is filing the following HEA program information for calendar year 2017:

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

Gwen R. Pinson, Executive Director  
June 29, 2018

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 2017, CAK and CAC utilized the funds for program participants that required monthly energy assistance.

During 2017, there was no change to the monthly or annual benefit amount.

KU has enclosed the financial audits conducted by independent auditors for CAC and CAK for the period ending June 30, 2017.

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**

<b>Month/Year</b>	<b>Amount</b>
Jan-17	\$108,643
Feb-17	107,479
Mar-17	110,007
Apr-17	108,415
May-17	108,177
Jun-17	110,211
Jul-17	130,833
Aug-17	131,640
Sep-17	130,452
Oct-17	131,068
Nov-17	130,720
Dec-17	130,602
Total	\$1,438,246

**Kentucky Utilities Company  
Home Energy Assistance Program  
Customer Enrollment by County  
As of December 31, 2017**

	<b>Number</b>	<b>County</b>
<b>County</b>	<b>Enrolled</b>	<b>Distribution</b>
Adair	3	0.11%
Anderson	29	1.08%
Ballard	1	0.04%
Barren	3	0.11%
Bath	11	0.41%
Bell	237	8.79%
Bourbon	125	4.64%
Boyle	139	5.16%
Bracken	5	0.19%
Bullitt	2	0.07%
Caldwell	1	0.04%
Carroll	12	0.45%
Casey	30	1.11%
Christian	1	0.04%
Clark	65	2.41%
Clay	9	0.33%
Estill	19	0.70%
Fayette	982	36.42%
Fleming	5	0.19%
Franklin	15	0.56%
Gallatin	2	0.07%
Garrard	30	1.11%
Grayson	22	0.82%
Green	12	0.45%
Hardin	51	1.89%
Harlan	7	0.26%

**Kentucky Utilities Company  
Home Energy Assistance Program  
Customer Enrollment by County  
As of December 31, 2017**

	<b>Number</b>	<b>County</b>
<b>County</b>	<b>Enrolled</b>	<b>Distribution</b>
Harrison	63	2.34%
Hart	42	1.56%
Henderson	5	0.19%
Henry	5	0.19%
Hickman	5	0.19%
Hopkins	21	0.78%
Jessamine	3	0.11%
Knox	27	1.00%
Larue	11	0.41%
Laurel	9	0.33%
Lincoln	81	3.00%
Livingston	1	0.04%
Lyon	1	0.04%
Madison	35	1.30%
Marion	12	0.45%
Mason	5	0.19%
McCracken	4	0.15%
McCreary	3	0.11%
McClellan	5	0.19%
Mercer	76	2.82%
Montgomery	29	1.08%
Muhlenberg	15	0.56%
Nelson	1	0.04%
Nicholas	54	2.00%
Oldham	5	0.19%
Pulaski	41	1.52%

**Kentucky Utilities Company  
Home Energy Assistance Program  
Customer Enrollment by County  
As of December 31, 2017**

	<b>Number</b>	<b>County</b>
<b>County</b>	<b>Enrolled</b>	<b>Distribution</b>
Rockcastle	9	0.33%
Rowan	53	1.97%
Russell	58	2.15%
Scott	36	1.34%
Shelby	7	0.26%
Spencer	5	0.19%
Taylor	9	0.33%
Trimble	5	0.19%
Union	1	0.04%
Washington	15	0.56%
Webster	6	0.22%
Whitley	37	1.37%
Woodford	78	2.89%
<b>Total</b>	<b>2,696</b>	<b>100.00%</b>

**Kentucky Utilities Company  
Home Energy Assistance Program  
Brown Bill Notices Issued - 2017**

<b>Number of Customers</b>	<b>Number of Brown Bills Per Customer Received Annually</b>
403	1
350	2
312	3
287	4
291	5
261	6
255	7
251	8
267	9
293	10
269	11
194	12
3,433	Total

**Kentucky Utilities Company  
Home Energy Assistance Program  
Number of Disconnections - 2017**

<b>Number of Customers</b>	<b>Number of Disconnections Per Customer</b>
685	1
232	2
83	3
31	4
15	5
3	6
1,049	Total



Community Action, Kentucky, Inc.

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

For the Year Ended June 30, 2017

Community Action, Kentucky Inc.  
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June 30, 2017

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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, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 26 to 34 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also not a required part of the financial statements. The accompanying supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017, 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 F. Mitchell Co.*

Frankfort, Kentucky  
December 21, 2017

Community Action, Kentucky Inc.  
Statement of Financial Position  
June 30, 2017

Assets	
Current Assets	
Cash & Cash Equivalents	\$ 262,532
Reimbursable Costs	1,123,686
Due from Sub-recipients	86,200
Current Portion of Notes Receivable	12,028
Prepaid Expenses	2,021
<u>Total Current Assets</u>	<u>1,486,467</u>
Other Assets	
Investments	1,283,556
Notes Receivable, Less Current Portion	3,726
Property and Equipment	
Property and Equipment Net of Accumulated Depreciation	658,633
<u>Total Assets</u>	<u>\$ 3,432,382</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	\$ 1,058,592
Accrued Compensation	91,434
Deferred Revenue	33,479
Notes Payable - Current Maturities	5,133
<u>Total Current Liabilities</u>	<u>1,188,638</u>
Long Term Liabilities	
Notes Payable, Less Current Maturities	5,133
<u>Total Liabilities</u>	<u>1,193,771</u>
Net Assets	
Unrestricted	2,238,611
<u>Total Net Assets</u>	<u>2,238,611</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 3,432,382</u>

See accompanying notes.

Community Action, Kentucky Inc.  
Statement of Activities  
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and Support:</b>			
Grants/Contracts	\$	\$ 43,764,007	\$ 43,764,007
Commissions	125,632		125,632
Dues	18,058		18,058
Rental Income	21,600		21,600
Investment Income	163,469		163,469
Other	52,149		52,149
Release of Restrictions of Net Assets	43,764,007	(43,764,007)	-
<b>Total Revenue and Support</b>	<b>44,144,915</b>	<b>-</b>	<b>44,144,915</b>
<b>Expenses:</b>			
Energy assistance	39,279,220		39,279,220
CSBG	182,692		182,692
RCAP	410,245		410,245
OCS	357,172		357,172
Kynector	3,483,461		3,483,461
Housing	157		157
AEP	31,122		31,122
CNCS Training	14,657		14,657
Supporting Services	224,770		224,770
<b>Total Expenses</b>	<b>43,983,496</b>	<b>-</b>	<b>43,983,496</b>
Change in Net Assets	161,419	-	161,419
Net Assets Beginning of the Year	2,077,192	-	2,077,192
<b>Net Assets End of Year</b>	<b>\$ 2,238,611</b>	<b>\$ -</b>	<b>\$ 2,238,611</b>

See accompanying notes.

Community Action, Kentucky Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2017

Cash Flows From Operating Activities:	
Change in Net Assets	\$ 161,419
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	33,745
Unrealized Gain on Investments	(67,851)
Realized Gain on Investments	(47,930)
Changes in Operating Assets and Liabilities:	
Decrease in Reimbursable Costs	235,971
Increase in Sub-recipient Receivables	(86,200)
Decrease in Prepaid Expenses	3,468
Decrease in Accounts Payable	(109,746)
Increase in Deferred Revenue	21,337
Decrease in Accrued Expenses	(3,444)
Total Adjustments	<u>(20,650)</u>
Net Cash Provided by Operating Activities	<u>140,769</u>
Cash Flows From Investing Activities:	
Collections of Notes Receivable	10,941
Cash proceeds from Investments	1,139,077
Purchases of Investments	(1,209,585)
Purchases of Property and Equipment	(18,754)
Net Cash Flows (Used) in Investing Activities	<u>(78,321)</u>
Cash flows From Financing Activities:	
Payments on Debt	(8,125)
Cash Flows (Used) In Financing Activities	<u>(8,125)</u>
Net Increase in Cash	54,323
Cash and Cash Equivalents at Beginning of Year	<u>208,209</u>
Cash and Cash Equivalents at End of Year	<u>\$ 262,532</u>

See accompanying notes.

Community Action, Kentucky Inc.  
Statement of Functional Expenses  
For the Year Ended June 30, 2017

	RCAP	Housing	Energy	AEP	OCS/ CSBG	CNCS Training 2017	Kynector	Program Services Total	Supporting Services	Totals
Salaries	\$ 213,376	\$ -	\$ 160,243	\$ 2,317	\$ 132,760	\$ 126	\$ 56,067	\$ 564,889	\$ 31,167	\$ 596,056
Fringe Benefits	78,452	-	60,882	880	50,634	48	21,301	212,197	11,857	224,054
Professional Services	-	-	16,430	-	(145)	-	9,660	25,945	10,544	36,489
Consultants / Contracts	-	-	47,544	-	296,238	14,454	36,444	394,680	36,045	430,725
Education	1,322	-	-	-	6,370	-	-	7,692	2,043	9,735
Travel In State	30,189	-	328	-	16,657	-	85	47,259	23,167	70,426
Travel Out of State	11,480	-	-	-	-	-	-	11,480	-	11,480
Meeting	-	-	-	-	-	-	-	-	40,689	40,689
Telephone	543	-	707	-	(611)	-	47	686	1,172	1,858
Postage	77	-	7	-	7	-	-	91	88	179
Office Exp & Supplies	1,174	-	-	-	(373)	-	-	801	1,509	2,310
Publications	-	-	-	-	-	-	-	-	22	22
Dues/Fees	75	-	-	-	-	-	-	75	17,236	17,311
Insurance	-	-	-	-	-	-	-	-	207	207
Pollution Insurance	-	-	64,204	-	-	-	-	64,204	-	64,204
Printing	-	-	2,515	-	1,434	-	-	3,949	911	4,860
Marketing/Advertising	343	-	-	-	-	-	-	343	10,448	10,791
Utilities	-	-	-	-	-	-	-	-	3	3
Repairs & Maintenance	-	-	-	-	-	-	-	-	9,543	9,543
IT Repairs & Maintenance	1,283	-	2,386	-	1,420	-	-	5,089	39	5,128
Depreciation	-	-	-	-	(507)	-	-	(507)	14,493	13,986
Equipment	1,776	-	-	-	-	-	-	1,776	-	1,776
Interest	-	157	-	-	-	-	-	157	-	157
Other	-	-	-	-	-	-	-	-	7,073	7,073
Indirect	70,155	-	38,378	512	35,980	29	13,635	158,689	6,514	165,203
Subrecipients	-	-	38,885,596	27,413	-	-	3,346,222	42,259,231	-	42,259,231
<b>Total</b>	<b>\$ 410,245</b>	<b>\$ 157</b>	<b>\$ 39,279,220</b>	<b>\$ 31,122</b>	<b>\$ 539,864</b>	<b>\$ 14,657</b>	<b>\$ 3,483,461</b>	<b>\$ 43,758,726</b>	<b>\$ 224,770</b>	<b>\$ 43,983,496</b>

See accompanying notes.



**Note 1 – Organization and Nature of the Operations**

Community Action, Kentucky, Inc. (a Kentucky nonprofit organization) is a multi-funded association of twenty-three (23) Community Action Agencies(CAA) in Kentucky. Each of these twenty-three CAA's has an Executive Director, or its equivalent, who serve as board members for Community Action Kentucky, Inc. The CAA's are the predominate recipients of pass through funds from Community Action Kentucky, Inc. and thus related parties (See 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 of 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, 2017, CAK had unpaid annual leave and salary of \$91,434.

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

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

**Note 2 – Summary of Significant Accounting Principles (continued)**

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

**Note 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 94% 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 month’s 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, 2017, 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 2015, 2014, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

**Note 5 – Investments**

Community Action, Kentucky Inc. determines fair value based on the price that would be received to see the asset or paid to transfer the liability to a market participant. Investments consisted of the following at June 30, 2017:

	Cost	Fair Value
<b>Bond Funds by Fund Type</b>		
Strategic Bond Fund	\$ 174,213	\$ 168,578
	174,213	168,578
<b>Mutual Funds by Fund Type</b>		
Multi-Strategy Income	\$ 70,542	\$ 74,029
Global Infrastructure FD	48,093	51,949
Commodity Strategies FD	34,541	32,802
Global Opportunistic CR	130,085	132,591
Emerging Markets Funds	93,058	106,360
Global Real Estates secs	37,540	36,280
Global Equity Fund	136,975	147,153
US Small Cap Equity INVT	92,823	108,210
INTL Developed Markets	141,396	159,816
US Strategic Equity Fund	242,007	265,788
	1,027,060	1,114,978
<b>Total</b>	<b>\$ 1,201,273</b>	<b>\$ 1,283,556</b>

**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 investments are Level 1 investments.

At June 30, 2017, the Organization’s trading securities had a fair value of \$1,283,556, 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, 2017 are reported in the accompanying statement of activities as follow:

Interest & Dividend Income	\$	47,530
Realized Gains(Losses)		47,930
Unrealized Gains(Losses)		67,851
Total Investment Income	\$	163,311

**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, 2017 the unpaid balances were comprised of 6 individual loans to three separate Community Action Agencies and 3 revolving loans totaling \$15,754. 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>	
2018	12,028
2019	3,726
Total	<u>\$ 15,754</u>

Interest revenue on the related notes receivable amounted to \$158 for the year ended June 30, 2017.

**Note 7 – Property and Equipment**

Property and equipment consisted of the following at June 30, 2017:

Land	\$ 105,287
Office Equipment	152,867
Building	<u>780,540</u>
Total Depreciable Assets	1,038,694
Less: Accumulated Depreciation	<u>(380,061)</u>
Net Property, Plant & Equipment	<u>\$ 658,633</u>

Depreciation is computed using the straight-line method over the estimated useful life of the respective asset. Depreciation expense amounted to \$33,745 of which \$13,986 was direct and \$19,759 was included in indirect expenses for the year ended June 30, 2017.

**Note 8 – Notes Payable**

Notes Payable arise from the conduct of CAK’s housing program. Notes Payable at June 30, 2017 consisted of the following:

Note payable to KHC (NHPR 08/09), Interest at 1% annual payments of \$5,133 through July, 2028	\$ 10,266
Total	10,266
Less: Current Maturities	5,133
Total Long-Term Debt	\$ 5,133

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	
2018	\$ 5,133
2019	5,133
Total	\$ 10,266

Interest paid during 2016-2017 on the related notes payable totaled \$157.

**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, 2016, there were 80,852 active members.

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

Hazardous employees: At June 30, 2016, there were 9,172 active members.

Contributions

The total payroll for employees covered by the CERS for the year ended June 30, 2017 is approximately \$613,715. 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, 2017 was 23.12%, respectively, for the year ended June 30, 2017. 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, 2016 is presented below:

	CERS <u>Non-Hazardous</u>	CERS <u>Hazardous</u>
Employer Contributions included in the Schedule of Employer Allocations	\$ 284,105,557	\$ 105,713,184

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:

	2015-2016		2014-2015
CAK’s proportion of the net pension liability	0.0027740%		0.2840500%
CAK’s proportionate share of the net pension liability	\$ 1,365,666	\$	1,221,289
CAK’s covered-employee payroll	\$ 613,715	\$	725,999
CAK’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	223%		168%
Plan Fiduciary net position as a percentage of the total pension liability	55.50%		66.75%

The Schedule of the CAK’s contribution is presented below:

	2016-2017		2015-2016
Contractually required contribution	\$ 141,921	\$	123,856
Contribution in relation to the contractually required contribution	141,921		123,856
Contribution deficiency (excess)	\$ -	\$	-
CAK’s covered-employee payroll	\$ 613,715	\$	725,999
Contributions as a percentage of covered- employee payroll	18.68%		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, 2016, used to the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 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%	5.40%
Combined Fixed Income	19.00%	1.50%
Real Return(Diversified Inflation Strategies)	10.00%	3.50%
Real Estate	5.00%	4.50%
Absolute Return(Diversified Hedge Funds)	10.00%	4.25%
Private Equity	10.00%	8.50%
Cash Equivalent	<u>2.00%</u>	-0.25%
	<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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Nonhazardous	\$ 1,701,841	\$ 1,365,666	\$ 1,077,497
CERS's net pension liability	<u>\$ 1,701,841</u>	<u>\$ 1,365,666</u>	<u>\$ 1,077,497</u>

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

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, 2017.

**Note 11 – Operating Lease**

CAK is the lessee of office equipment under an operating lease during fiscal year end 2017. Lease expense during 2016-2017 totaled \$1,107.

**Note 12 – Related Entities**

There are 23 Community Action Agencies that make up 6 congressional districts. Community Action, Kentucky Inc.'s Board of Directors is also the executive director or an authorized agent of one of these 23 community action agencies. CAK provides technical support, lobbying and administrative support and in return receives membership dues totaling \$16,258 for the year ended June 30, 2017. 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 \$42,259,231 for the year ended June 30, 2017.

**Note 13 – Subsequent Events**

Management did not indicate financially impacting information regarding subsequent events. Subsequent events were evaluated through December 21, 2017, 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, 2017 as listed in the table of contents.



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Partners  
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Greg Miklavcic, CPA  
Rick Yates, CPA

Consultants  
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William G. Johnson, Jr., 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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2017.

**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 21, 2017



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

Board of Directors  
Community Action, Kentucky, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Community Action, Kentucky Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Action, Kentucky Inc.'s major federal programs for the year ended June 30, 2017. Community Action, Kentucky Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, Community Action, Kentucky Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**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 21, 2017

Community Action, Kentucky Inc.  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017

Grant	Pass-Through Grantor	Federal CFDA Number	Pass Through Grant Number	Grant Period Ending	Sub-recipients	Federal Award Expenditures
<i>U.S. Department of Health and Human Services:</i>						
Community Service Block Grant	KY Cabinet for Health & Family Services	93.569	736-16000019531	6/30/17	\$	\$ 182,692
RPIC	Office of Community Services	93.569	90ET0463-01-00	9/29/17		244,921
RPIC	Office of Community Services	93.569	90ET0439-02-01	9/29/16		112,251
				Total 93.569	-	539,864
Low Income Home Energy Assistance Program	KY Cabinet for Health & Family Services	93.568	736-16000019531	6/30/17	38,785,191	39,077,396
LIHEAP-Weatherization	Kentucky Housing Corporation	93.568	LH17-0073-02	6/30/17		94,204
				Total 93.568	38,785,191	39,171,600
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 16/17	9/30/17		84,066
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 15/16	9/30/16		9,799
				Total 93.570	-	93,865
Total Department of Health and Human Services					38,785,191	39,805,329
<i>U.S. Department of Energy:</i>						
Weatherization - DOE	Kentucky Housing Corporation	81.042	WX17-0373-02	6/30/17		6,406
Total Department of Energy					-	6,406
<i>U.S. Department of Agriculture:</i>						
RCDI-RCAP		10.446	PY 14/16	9/30/14		57,819
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 16/17	8/31/17		114,924
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 15/16	8/31/16		25,584
				Total 10.761	-	140,508
Solid Waste 1		10.762	PY 16/17	9/30/17		10,999
Solid Waste 2	W.S.O.S Community Action Comm.	10.762	PE 16/17	9/30/17		36,587
Solid Waste 2	W.S.O.S Community Action Comm.	10.762	PE 15/16	9/30/15		9,566
					-	57,152
Total Department of Agriculture					Total 10.762	255,479
<i>Environmental Protection Agency:</i>						
EPA - RCAP	W.S.O.S Community Action Comm.	66.606	PY 16/18	1/31/18		57,780
Total Environmental Protection Agency					-	57,780
Total Expenditures of Federal Awards					\$ 38,785,191	\$ 40,124,994

See accompanying notes to the Schedule of Federal Awards.



Community Action, Kentucky Inc.  
Schedule of Subrecipient Expenditures  
For the Year Ended June 30, 2017

	LIHEAP	Non-Federal			Total
	93.568	Kynector	KU	AEP	
Audubon Area	\$ 1,811,510	\$ 387,557	\$	\$	\$ 2,199,067
Bell-Whitley CAA	1,078,495				1,078,495
Big Sandy CAP	3,104,622			10,260	3,114,882
Blue Grass CAA	1,615,835	258,523			1,874,358
Central Ky CAA	1,850,360				1,850,360
Daniel Boone CAA	2,176,823				2,176,823
Gateway CAA	1,043,581	84,529		329	1,128,439
Harlan Co CAA	564,956				564,956
KCEOC CAP	741,002				741,002
Foothills CAP	1,567,305	145,194			1,712,499
LKLP CAA	2,460,279			7,211	2,467,490
Lake Cumberland CAA	2,875,349	235,276			3,110,625
CAC - Lexington	1,916,995	392,186	100,405		2,409,586
Licking Valley CAP	778,670	114,709			893,379
Louisville Metro	4,179,845				4,179,845
Middle Ky CAP	1,496,685			880	1,497,565
Multi-Purpose CAA	361,434				361,434
Northeast Ky CAA	2,342,672	178,763		8,733	2,530,168
Northern Ky CAC	1,539,140	559,495			2,098,635
Pennyrile Allied	1,512,131	282,480			1,794,611
CAA of Southern Ky	1,995,552	221,292			2,216,844
Tri-County CAA	257,567				257,567
West Ky Allied	1,514,383	486,218			2,000,601
	<u>\$ 38,785,191</u>	<u>\$ 3,346,222</u>	<u>\$ 100,405</u>	<u>\$ 27,413</u>	<u>\$ 42,259,231</u>

See accompanying notes to the Schedule of Federal Awards.

**Note 1 – Basis of Presentation** – The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Action, Kentucky, Inc. (“CAK”) under programs of the federal government for the year ended June 30, 2017. The information in this schedule and is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule presents only a selected portion of the operations of CAK; it is not intended to and does not present the financial position, changes in net assets and cash flows of CAK. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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

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

- a. Shall provide technical advice to auditees and auditors as requested
- b. May assume all or some of the responsibilities performed by a cognizant agency for audit which include:
  - i. Provide technical audit advice and liaison to auditees and auditors
  - ii. Consider auditee requests for extension to the report submission due date
  - iii. Obtain or conduct quality control reviews of selected auditees made by non-federal auditors, and provide the results, when appropriate, to other interested organizations
  - iv. Promptly inform other affected federal agencies and appropriate federal law enforcement officials of any direct reporting 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 an indirect cost plan which allocates indirect costs based on direct charged payroll. CAK did not elect to use the 10% de minimis indirect cost rate.

**Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

\_\_\_\_\_yes        X  no

*Federal Awards*

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance \_\_\_\_\_yes        X  no

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 1,203,750

Auditee qualified as low-risk auditee?   X  yes      \_\_\_\_\_no

**Findings Required to be Reported under Generally Accepted Government Auditing Standards**

None.

**Findings and Questioned Costs for Major Federal Award Programs**

None.

Community Action, Kentucky Inc.  
Statement of Activity by Program  
For the Year Ended June 30, 2017

Revenues	Housing	RCAP	RCAP	RCAP	RCAP	RCDI	Total	OCS			OCS			Total	AEP			AEP	Total	KU Energy	CNCS Training	Treasury	Total
		13/14	14/15	15/16	PS	14/16	RCAP	15/16	15/16	OCS	Kmector	16/17	15/16	AEP	07/12	2017							
Grant Revenue	\$ -	\$ 304,356		\$ 44,949	\$ 3,121	\$ 57,819	\$ 410,245	\$ 39,077,396	\$ 100,610	\$ 182,692	\$ 244,921	\$ 112,251	\$ 357,172	\$ 3,483,461	\$ 24,886	\$ 11,674	\$ 36,560	\$ 101,214	\$ 14,657	\$ -	\$ -	\$ -	\$ 43,764,007
Rental Income																						21,600	21,600
Interest Income	158																					47,530	47,688
Dues																						18,058	18,058
Commission																						125,632	125,632
Realized Loss On Inv																						47,930	47,930
Unrealized Loss On Inv																						67,851	67,851
Other Income																						52,149	52,149
<b>Total Revenues</b>	<b>\$ 158</b>	<b>\$ 304,356</b>	<b>\$ -</b>	<b>\$ 44,949</b>	<b>\$ 3,121</b>	<b>\$ 57,819</b>	<b>\$ 410,245</b>	<b>\$ 39,077,396</b>	<b>\$ 100,610</b>	<b>\$ 182,692</b>	<b>\$ 244,921</b>	<b>\$ 112,251</b>	<b>\$ 357,172</b>	<b>\$ 3,483,461</b>	<b>\$ 24,886</b>	<b>\$ 11,674</b>	<b>\$ 36,560</b>	<b>\$ 101,214</b>	<b>\$ 14,657</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 380,750</b>	<b>\$ 44,144,915</b>
<b>Expenses</b>																							
Salaries	\$ -	\$ 161,589		\$ 20,779	\$ 1,649	\$ 29,359	\$ 213,376	\$ 148,106	\$ 11,634	\$ 92,433	\$ 30,749	\$ 9,578	\$ 40,327	\$ 56,067	\$ 1,158	\$ 1,159	\$ 2,317	\$ 503	\$ 126	\$ -	\$ -	\$ 31,167	\$ 596,056
Fringe Benefits	-	57,602		9,885	533	10,432	78,452	56,272	4,419	35,291	11,192	4,151	15,343	21,501	440	440	880	191	48	-	-	11,857	224,054
Professional Services	-	-		-	-	-	-	15,311	1,119	(145)	-	-	-	9,660	-	-	-	-	-	-	-	10,544	36,489
Consultants / Contracts	-	-		-	-	-	-	32,251	15,293	16,031	190,207	90,000	280,207	36,444	-	-	-	-	14,454	-	-	36,045	430,725
Education	-	1,322		-	-	-	1,322	-	-	2,885	2,741	744	3,485	-	-	-	-	-	-	-	-	2,043	9,735
Travel In State	-	21,486		3,540	261	4,902	30,189	287	41	9,288	3,512	3,857	7,369	85	-	-	-	-	-	-	-	23,167	70,426
Travel Out of State	-	9,593		1,784	-	103	11,480	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,480
Meeting	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	40,689	40,689
Telephone	-	201		71	-	271	543	675	32	(784)	157	16	173	47	-	-	-	-	-	-	-	1,172	1,858
Postage	-	11		-	66	-	77	-	7	7	-	-	-	-	-	-	-	-	-	-	-	88	179
Office Exp & Supplies	-	920		123	-	131	1,174	-	-	(373)	-	-	-	-	-	-	-	-	-	-	-	1,509	2,310
Publications	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	22
Dues/Fees	-	37		-	-	38	75	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,236	17,311
Insurance	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	207	207
Pollution Insurance	-	-		-	-	-	-	-	64,204	-	-	-	-	-	-	-	-	-	-	-	-	-	64,204
Printing	-	-		-	-	-	-	2,515	-	1,063	371	-	371	-	-	-	-	-	-	-	-	911	4,860
Marketing/Advertising	-	171		-	-	172	343	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,448	10,791
Utilities	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	3
Repairs & Maintenance	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,543	9,543
IT Repairs & Maintenance	-	717		-	-	566	1,283	1,192	1,194	1,192	228	-	228	-	-	-	-	-	-	-	-	39	5,128
Depreciation	-	-		-	-	-	-	-	-	(507)	-	-	-	-	-	-	-	-	-	-	-	14,493	13,986
Equipment	-	889		-	-	887	1,776	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,776
Interest	157	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	157
Other	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,073	7,073
Indirect	-	49,818		8,767	612	10,958	70,155	35,596	2,667	26,311	5,764	3,905	9,669	13,635	276	236	512	115	29	-	-	6,514	165,203
Subrecipients	-	-		-	-	-	-	38,785,191	-	-	-	-	-	3,346,222	23,012	4,401	27,413	100,405	-	-	-	-	42,259,231
<b>Total Expenses</b>	<b>157</b>	<b>304,356</b>	<b>-</b>	<b>44,949</b>	<b>3,121</b>	<b>57,819</b>	<b>410,245</b>	<b>39,077,396</b>	<b>100,610</b>	<b>182,692</b>	<b>244,921</b>	<b>112,251</b>	<b>357,172</b>	<b>3,483,461</b>	<b>24,886</b>	<b>6,236</b>	<b>31,122</b>	<b>101,214</b>	<b>14,657</b>	<b>\$ -</b>	<b>\$ -</b>	<b>234,770</b>	<b>\$ 43,983,496</b>
Change in Net Assets	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,438	\$ 5,438	\$ -	\$ -	\$ -	\$ -	\$ 155,980	\$ 161,419

See Independent Auditor's Report

Community Action, Kentucky Inc.  
LIHEAP Grant – CFDA 93.568  
Contract #736-1600001953-5  
Statement of Program Expenses  
For the Period July 1, 2016 Through June 30, 2017

Payments to Subrecipients		
Agency Subsidy Benefits (CAK records)	\$ 11,153,047	
Agency Crisis Benefits (CAK records)	24,119,793	
Agency Prior Year Adjustments (CAK records)	(78,857)	
Agency Administration (CAK records)	3,591,208	
Total Payments To Subrecipients		<u>\$ 38,785,191</u>
CAK Administration		
Salaries	151,169	
Fringe Benefits	57,436	
Professional Services	19,674	
Consultants	32,251	
Education	37	
Travel	392	
Telephone	6,944	
Meeting	639	
Postage	136	
Office Exp & Supplies	1,993	
Publications	-	
Dues/Fees	108	
Insurance	3,802	
Printing	2,566	
Advertising	5	
Utilities	1,862	
Repairs & Maintenance	8,933	
Depreciation	4,258	
Total CAK Administration		<u>292,205</u>
Total Expenditures		<u>39,077,396</u>
Questioned Costs		-
Allowable Cost		39,077,396
Amount Received From CHFS -LIHEAP		38,538,878
Accounts Receivable From Funding Sources		538,518
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
 LIHEAP Grant – CFDA 93.568  
 Contract #736-1600001953-5  
 Statement of Budget to Actual  
 For the Period July 1, 2016 Through June 30, 2017

Cost Category	Budget	Actual	(Over)/Under Budget
Administrative Cost			
Subrecipient	\$ 3,812,196	\$ 3,591,208	\$ 220,988
Community Action Kentucky	417,967	292,205	125,762
Total Administrative	<u>4,230,163</u>	<u>3,883,413</u>	<u>346,750</u>
Benefits - Direct Assistance			
Subsidy	11,166,145	11,153,047	13,098
Crisis	<u>26,765,398</u>	<u>24,119,793</u>	<u>2,645,605</u>
Total Benefits	<u>37,931,543</u>	<u>35,272,840</u>	<u>2,658,703</u>
Other Expenditures			
Prior Year Adjustments	-	(78,857)	78,857
Total Other	<u>-</u>	<u>(78,857)</u>	<u>78,857</u>
Total Contract	<u><u>\$ 42,161,706</u></u>	<u><u>\$ 39,077,396</u></u>	<u><u>\$ 3,084,310</u></u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
Weatherization Grant  
Contract: Kentucky Housing Corporation  
Statement of Program Expenses  
For the Period July 1, 2016 Through June 30, 2017

	<u>DOE</u>	<u>LIHEAP</u>	<u>Total</u>
CAK Administration			
Salaries	\$ 4,436	\$ 7,428	\$ 11,864
Fringe Benefits	1,686	2,821	4,507
Professional Services	40	16,700	16,740
Education		3	3
Travel	1	47	48
Meeting	6	42	48
Telephone	57	444	501
Postage	1	16	17
Supplies	18	131	149
Dues/Fees	1	7	8
Insurance	34	251	285
Pollution Insurance	-	64,204	64,204
Printing	-	4	4
Utilities	17	123	140
Repairs & Main	70	1,703	1,773
Depreciation	39	280	319
Total Expenditures	6,406	94,204	100,610
Questioned Costs	-	-	-
Allowable Cost	6,406	94,204	100,610
Amount Received from KHC	1,922	88,885	90,807
Accounts Receivable from Funding Sources	4,484	5,319	9,803
Excess (Shortage) Receipts over Expenditures	-	\$ -	

See Independent Auditor's Report

Community Action, Kentucky Inc.  
 CSBG Grant – CFDA 93.569  
 Contract #736-1600001953-5  
 Statement of Program Expenses  
 For the Period July 1, 2016 Through June 30, 2017

Cabinet for Health and Family Services		
Contract Award		\$ <u>182,692</u>
Expenditures		
Salaries	\$ 94,697	
Fringe Benefits	36,151	
Professional Services	19,111	
Education	2,912	
Travel	9,366	
Meeting	472	
Telephone	3,850	
Postage	108	
Office Exp & Supplies	1,100	
Dues/Fees	80	
Publications	-	
Insurance	2,811	
Printing	1,100	
Advertising	4	
Utilities	1,376	
Repairs & Maintenance	6,914	
Depreciation	2,640	
Total Expenditures	<u>182,692</u>	
Questioned Cost		-
Adjusted Cost		<u>182,692</u>
Contract Payment Received		165,795
Accounts Receivable from Funding Sources		<u>16,897</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 15/16  
 (For Contracts Ending September 30, 2016)  
 Statement of Program Expenses  
 For the Period July 1, 2016 through June 30, 2017

HHS - CFDA 93.570	\$ 113,322
Technitrain - CFDA 10.761	109,500
EPA - CFDA 66.606	56,000
Solid Waste 2- CFDA 10.762	60,000
Contract Awards	\$ 338,822

Expenditures	Actual 2016	Actual 2017	Total
Salaries	\$ 167,748	\$ 21,532	\$ 189,280
Fringe Benefits	59,294	10,172	69,466
Professional Services	6,256	1,075	7,331
Consultant/Contract	-	-	-
Education	233	9	242
Travel	23,044	5,351	28,395
Meeting	1,073	157	1,230
Telephone	7,675	1,615	9,290
Postage	306	33	339
Supplies	12,332	614	12,946
Publications	20	-	20
Dues/Fees	211	27	238
Insurance	(1,806)	937	(869)
Printing	262	12	274
Advertising	-	1	1
Utilities	2,655	459	3,114
Repairs & Main	8,686	1,906	10,592
Depreciation	5,884	1,049	6,933
Total Expenditures	293,873	44,949	338,822
Questioned Costs	-	-	-
Adjusted Costs	293,873	44,949	338,822
Contract Payments Received	293,873	44,949	338,822
Excess (Shortage) Receipts over Expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report

Community Action, Kentucky Inc.  
 WSOS Community Action Commission, Inc. RCAP Grant  
 Contract PE 16/17  
 (For Contracts Ending September 30, 2017)  
 Statement of Program Expenses  
 For the Period July 1, 2016 through June 30, 2017

HHS-CFDA 93.570		\$	84,066
Technitrain-CFDA 10.761			114,924
EPA-CFDA 66.606			57,780
Solid Waste 1-CFDA 10.762			10,999
Solid Waste 2-CFDA 10.762			36,587
Contract Award		<u>\$</u>	<u>304,356</u>
<b>Expenditures</b>			
Salaries	\$	165,875	
Fringe Benefits		59,231	
Professional Services		6,106	
Consultant/Contract		-	
Education		1,374	
Travel		31,226	
Meeting		894	
Telephone		8,974	
Postage		202	
Supplies		4,598	
Publications		-	
Dues/Fees		188	
Insurance		5,322	
Printing		71	
Advertising		179	
Utilities		2,606	
Repairs & Main		11,551	
Depreciation		<u>5,959</u>	
Total Expenditures			<u>304,356</u>
Questioned Cost			-
Adjusted Cost			<u>304,356</u>
Contract Payment Received			238,496
Accounts Receivable from Funding Source			<u>65,860</u>
Excess (Shortage) Receipts over Expenditures		<u>\$</u>	<u>-</u>

\*These funds are temporarily restricted until the contract ends SEPTEMBER 30, 2017.

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
OCS  
Contract #90ET0439-02-01  
(For Contracts Ending September 29, 2016)  
For the Period July 1, 2016 through June 30, 2017

RPIC-CFDA 93.569			
Contract Award			<u>\$ 400,000</u>
Expenditures	Actual <u>2016</u>	Actual <u>2017</u>	<u>Total</u>
Salaries	\$ 52,426	\$ 9,914	\$ 62,340
Fringe Benefits	18,754	4,278	23,032
Professional Services	2,069	479	2,548
Consultants	193,290	90,000	283,290
Education	4,013	747	4,760
Travel	7,997	3,870	11,867
Meeting	361	70	431
Telephone	2,747	705	3,452
Postage	91	15	106
Supplies	672	219	891
Publications	7	-	7
Dues/Fees	53	12	65
Insurance	(607)	417	(190)
Printing	88	5	93
Utilities	892	204	1,096
Repairs & Main	2,919	849	3,768
Depreciation	1,977	467	2,444
Total Expenditures	<u>287,749</u>	<u>112,251</u>	<u>400,000</u>
Questioned Cost	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Cost	<u>287,749</u>	<u>112,251</u>	<u>400,000</u>
Contract Payment Received	287,749	112,251	400,000
Accounts Receivable from Funding Sources	-	-	-
Excess (Shortage) Receipts over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
OCS  
Contract #90ET0463-01-00  
(For Contracts Ending September 29, 2017)  
For the Period July 1, 2016 through June 30, 2017

RPIC-CFDA 93.569		
Contract Award		<u>\$ 244,921</u>
Expenditures		
Salaries	\$ 31,246	
Fringe Benefits	11,380	
Professional Services	707	
Consultants/Contracts	190,207	
Education	2,746	
Travel	3,530	
Meeting	103	
Telephone	1,170	
Postage	22	
Supplies	323	
Publications	-	
Dues/Fees	17	
Insurance	616	
Printing	381	
Advertising	1	
Utilities	302	
Repairs & Main	1,481	
Depreciation	<u>689</u>	
Total Expenditures		<u>244,921</u>
Questioned Cost		-
Adjusted Cost		<u>244,921</u>
Contract Payment Received		238,695
Accounts Receivable from Funding Source		<u>6,226</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

\*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2017.

See Independent Auditor's Report

**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, 2017

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

Consolidated Financial Statements and Supplementary Information  
Year Ended June 30, 2017

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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, 2017, 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, 2017, 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 22 to 26 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 December 1, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Affiliate internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP

December 1, 2017  
Madison, Wisconsin



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

## Consolidated Statement of Financial Position

June 30, 2017

<i>Assets</i>	
<b>Current assets:</b>	
Cash	\$ 1,708,876
Restricted deposits	32,528
Investments	2,607,544
Grants receivable	934,208
Accounts receivable	314,459
Other assets	182,588
<b>Total current assets</b>	<b>5,780,203</b>
<b>Long-term assets:</b>	
Beneficial interest in assets held by others	95,572
Other assets	59,401
<b>Total long-term assets</b>	<b>154,973</b>
Property and equipment, net	6,006,876
<b>TOTAL ASSETS</b>	<b>\$ 11,942,052</b>

<i>Liabilities and Net Assets</i>	
<b>Current liabilities:</b>	
Current portion of notes payable	\$ 281,772
Accounts payable	226,897
Accrued payroll and related expenses	1,104,938
Grant funds received in advance	15,500
<b>Total current liabilities</b>	<b>1,629,107</b>
<b>Long-term liabilities:</b>	
Notes payable	1,387,607
Fair value of interest rate swap agreement	89,532
Tenant security deposits	4,359
Capital advance - HUD	1,061,800
<b>Total long-term liabilities</b>	<b>2,543,298</b>
<b>Total liabilities</b>	<b>4,172,405</b>
<b>Net assets:</b>	
<b>Unrestricted:</b>	
Undesignated	4,882,490
Board designated for endowment	76,888
<b>Total unrestricted net assets</b>	<b>4,959,378</b>
Temporarily restricted	2,810,269
<b>Total net assets</b>	<b>7,769,647</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,942,052</b>

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, 2017

	Unrestricted	Temporarily Restricted	Total
<b>Revenue:</b>			
Grant revenue	\$ 22,228,480	\$ 385,916	\$ 22,614,396
Investment income	141,039	119,987	261,026
Other income	3,305,717	72,190	3,377,907
In-kind contributions	355,900	0	355,900
Net assets released from restriction through satisfaction of program restrictions	76,530	( 76,530)	0
<b>Total revenue</b>	<b>26,107,666</b>	<b>501,563</b>	<b>26,609,229</b>
<b>Expenses:</b>			
<b>Program activities:</b>			
Child education	16,860,518	0	16,860,518
Community services	2,527,417	0	2,527,417
Weatherization services	3,783,670	0	3,783,670
Senior programs	269,255	0	269,255
<b>Total program activities</b>	<b>23,440,860</b>	<b>0</b>	<b>23,440,860</b>
Fund-raising	38,676	0	38,676
Management and general expenses	2,030,801	0	2,030,801
<b>Total expenses</b>	<b>25,510,337</b>	<b>0</b>	<b>25,510,337</b>
Change in net assets	597,329	501,563	1,098,892
Net assets - Beginning of year	4,362,049	2,308,706	6,670,755
<b>Net assets - End of year</b>	<b>\$ 4,959,378</b>	<b>\$ 2,810,269</b>	<b>\$ 7,769,647</b>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2017

	<u>Child Education</u>	<u>Community Services</u>	<u>Weatherization Services</u>	<u>Senior Programs</u>	<u>Total Program Activities</u>	<u>Management and General Expenses</u>	<u>Fund-raising</u>	<u>Total Expenses</u>
<b>EXPENSES</b>								
Salaries	\$ 6,654,155	\$ 754,640	\$ 445,306	\$ 77,669	\$ 7,931,770	\$ 1,088,399	\$ 13,365	\$ 9,033,534
Fringe benefits	3,425,464	405,387	208,322	41,209	4,080,382	263,594	3,117	4,347,093
Consultant/contractual	3,392,698	208,350	448,254	0	4,049,302	92,478	10,749	4,152,529
Space	1,047,139	147,021	33,496	53,573	1,281,229	261,053	4,528	1,546,810
Supplies	1,334,788	27,304	115,945	568	1,478,605	16,006	60	1,494,671
Travel	144,177	16,623	8,158	7,198	176,156	38,521	205	214,882
Communications and IT	178,645	28,974	11,644	2,469	221,732	117,541	2,934	342,207
Beneficiary assistance	31,481	893,568	2,478,328	9,711	3,413,088	0	450	3,413,538
Other	306,615	35,006	34,217	76,858	452,696	153,209	3,268	609,173
In-kind expenses	345,356	10,544	0	0	355,900	0	0	355,900
<b>TOTAL EXPENSES</b>	<b>\$ 16,860,518</b>	<b>\$ 2,527,417</b>	<b>\$ 3,783,670</b>	<b>\$ 269,255</b>	<b>\$ 23,440,860</b>	<b>\$ 2,030,801</b>	<b>\$ 38,676</b>	<b>\$ 25,510,337</b>

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, 2017

Increase (decrease) in cash:	
Cash flows from operating activities:	
Change in net assets	\$ 1,098,892
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	358,495
Net realized and unrealized gain on investments	( 221,977)
Net realized and unrealized gain on beneficial interest in assets held by others	( 9,287)
Loss on disposal of property	36,856
Change in fair value of interest rate swap agreement	( 62,443)
Changes in operating assets and liabilities:	
Restricted deposits	( 12,239)
Grants receivable	763,719
Accounts receivable	( 89,085)
Other assets	( 24,614)
Accounts payable	( 279,496)
Accrued payroll and related expenses	17,606
Grant funds received in advance	( 4,813)
Tenant security deposits	384
<b>Net cash provided by operating activities</b>	<b>1,571,998</b>
Cash flows from investing activities:	
Purchase of investments	( 141,923)
Distribution from beneficial interest in assets held by others	623
Purchase of property and equipment	( 243,562)
<b>Net cash used in investing activities</b>	<b>( 384,862)</b>
Cash flows from financing activities:	
Proceeds from borrowing	40,533
Payments on notes payable	( 291,432)
<b>Net cash used in financing activities</b>	<b>( 250,899)</b>
Change in cash	936,237
Cash - Beginning of year	772,639
<b>Cash - End of year</b>	<b>\$ 1,708,876</b>
<b>Supplemental schedule of operating activities:</b>	
Interest paid and expensed	\$ 96,645
<b>Supplemental schedule of investing and financing activities:</b>	
Equipment acquired with financing	\$ 59,992

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**

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### **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 75% 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

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### 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.

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.

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

## Notes to Consolidated Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Investments

Investments are recorded at fair value as determined in an active market. Realized and unrealized gains and losses are recognized as investment income in the 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 \$5,248,557 at June 30, 2017.

#### 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.

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

## Notes to Consolidated Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### In-Kind Contributions

CAC has recorded in-kind contributions for space, supplies, and professional services in the consolidated statement of activities in accordance with generally accepted accounting principles (GAAP). 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 \$4,365,000, primarily for its Head Start and Community Service Block Grant programs, 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

The cost of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and consolidated statement of functional expenses. In addition, 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 rate has been approved by the U.S. Department of Health and Human Services (DHHS).

#### Subsequent Events

Subsequent events have been evaluated through December 1, 2017, 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.



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

## Notes to Consolidated Financial Statements

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### 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, 2017, are composed of the following:

Escrow fund	\$	7,145
Reserve for replacement		20,977
Residual receipts		47
Tenant security deposits		4,359
<hr/>		
Total	\$	32,528

### Note 4: Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2017, as follows:

Direct federal programs	\$	140,734
State and local programs		793,474
<hr/>		
Total	\$	934,208

### 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 3% money market, 58% fixed income, and 39% in equities. The health insurance trust investments of \$1,272,297 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, 2017, was \$1,335,247 and represents approximately 18% of the pooled investment total. The fair value of the investment pool at June 30, 2017, was \$7,538,794. The allocation of the investments in the pool at June 30, 2017, was 1% money market, 38% fixed income, and 61% equities.

Investment income for the year ended June 30, 2017, included interest and dividends of \$29,762 and a net realized and unrealized gain of \$221,977 for these investments and \$9,287 of unrealized gain related to the endowments disclosed in Note 7.

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

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

## Notes to Consolidated Financial Statements

### Note 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, 2017, consists of the following:

Community Action Council RSVP	\$	18,684
<u>Community Action Council</u>		<u>76,888</u>
<u>Total</u>	<u>\$</u>	<u>95,572</u>

### 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, 2016	\$ 69,791	\$ 17,117	\$ 86,908
Distributions	( 369)	( 254)	( 623)
Net appreciation	7,466	1,821	9,287
<u>Endowments at June 30, 2017</u>	<u>\$ 76,888</u>	<u>\$ 18,684</u>	<u>\$ 95,572</u>

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

## Notes to Consolidated Financial Statements

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### Note 8: Property and Equipment

A summary of property and equipment is as follows:

Land	\$	586,250
Land improvements		160,443
Building and improvements		7,715,116
Leasehold improvements		73,440
<u>Equipment</u>		<u>3,022,972</u>
Subtotal		11,558,221
<u>Accumulated depreciation</u>	(	<u>5,551,345)</u>
<u>Total</u>	\$	<u>6,006,876</u>

### 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, 2017. 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, 2017. There was no outstanding balance on the line of credit as of June 30, 2017. 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, 2017, is as follows:

Note payable at 5.75% interest, with monthly principal and interest payments of \$1,789, due November 2018. The note is secured by two school buses.	\$ 23,932
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.	1,205,000
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.	79,981
Note payable at a fixed rate of 5.75%, with monthly principal and interest payments of \$2,004, due September 2022. The note is secured by two school buses.	119,983
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.	3,487
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.	67,648
Note payable with interest at 0% and monthly payments of \$1,934, due February 2020. The note is secured by phone equipment.	80,639
Note payable at a fixed rate of 3.3% interest, with monthly payments of \$466, due May 2022. The note is secured by a vehicle.	24,800
Note payable at a fixed rate of 4.99% interest, with monthly payments of \$1,512, due July 2020. The note is secured by server equipment.	29,632
Note payable at a fixed rate of 3.3% interest, with monthly payments of \$621, due May 2011. The note is secured by a vehicle.	34,277
<b>Total notes payable</b>	<b>1,669,379</b>
<b>Current portion</b>	<b>( 281,772)</b>
<b>Long-term notes payable</b>	<b>\$ 1,387,607</b>

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

## Notes to Consolidated Financial Statements

### Note 11: Notes Payable (Continued)

The future maturities of notes payable at June 30, 2017 are as follows:

2018	\$	281,772
2019		277,592
2020		266,283
2021		225,189
2022		217,095
Thereafter		401,448
<b>Total long-term notes payable</b>		<b>\$ 1,669,379</b>

### 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, 2017, the interest rate swap had a notional amount of \$1,135,000 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, 2017 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 \$89,532. Adjustments to the carrying amount of the interest rate swap are reported as other income.

### Note 13: Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017, consist of the following:

Self-funded health insurance trust	\$	1,249,912
Unemployment insurance trust		1,338,983
Beneficial interest in assets held by others		18,684
Other		202,690
<b>Total temporarily restricted net assets</b>		<b>\$ 2,810,269</b>

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

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

## Notes to Consolidated Financial Statements

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### 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, 2017, was \$132,608. Future minimum lease payments beyond 2017 are as follows:

2018	\$	107,478
2019		91,734
2020		87,434
2021		65,934
2022		41,961
Thereafter		6,648
<hr/>		
Total	\$	401,189

### 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, 2017, were \$590,834.

### 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.

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.

# 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)

Information regarding the fair value of assets measured at fair value on a recurring basis as of June 30, 2017, is as follows:

	Recurring Fair Value Measurements Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CAC share of unemployment investment pool:				
Money market	\$ 10,052	\$ 0	\$ 10,052	\$ 0
Fixed income	509,530	509,530	0	0
Equities	815,665	815,665	0	0
Investments held by health trust:				
Money market	40,540	0	40,540	0
Fixed income	742,900	742,900	0	0
Equities	488,857	488,857	0	0
Total investments	2,607,544	2,556,952	50,592	0
Endowment funds held by Foundation	95,572	0	0	95,572
Total assets	\$ 2,703,116	\$ 2,556,952	\$ 50,592	\$ 95,572
Liability – Interest rate swap	\$ 89,532	\$ 0	\$ 89,532	\$ 0

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

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

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

## Notes to Consolidated Financial Statements

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### Note 16: Fair Value Measurements (Continued)

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, 2017:

Endowment funds – Beginning of year	\$	86,908
Distributions	(	623)
Net realized and unrealized gain		9,287
<hr/>		
Endowments funds – End of year	\$	95,572

### Note 17: Grant Awards

At June 30, 2017, CAC had commitments under various ongoing grant awards of approximately \$2,400,000. 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.



# **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, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE</b>			
Passed-Through the Kentucky Department of Education			
Child and Adult Care Food Program	10.558	034-D30-999	\$ 409,207
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed-Through the Lexington-Fayette Urban County Government			
CDBG Entitlement Program Cluster			
CDBG/Wx	14.218	LF00121499	18,381
<b>Direct Funding</b>			
Project Independence	14.235	KY0088L4I021408	21,677
Samaritan - Fayette		KY0103L4I021306	1,566
Samaritan - Fayette		KY0103L4I021407	41,571
Passed-Through the Kentucky Housing Corporation			
Continuum of Care/Bourbon County		KY0008L4I001307	9,913
Continuum of Care/Bourbon County		KY0008L4I001408	119,285
Samaritan		KY0022L4I001307	14,344
Samaritan		KY0022L4I001408	84,746
Public Housing - Bonus		KY0113L4I001302	122,859
Public Housing - Bonus		KY0113L4I001403	161,147
<b>Total Federal Expenditures CFDA #14.235</b>			<b>577,108</b>
Passed-Through the Kentucky Housing Corporation			
TBRA	14.239	TTB14-0553-01	87,367
Passed-Through the Lexington-Fayette Urban County Government			
TBRA LFUCG		R175-2013	3,460
<b>Total Federal Expenditures CFDA #14.239</b>			<b>90,827</b>
<b>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS</b>			<b>686,316</b>
<b>DEPARTMENT OF LABOR</b>			
Passed-Through Bluegrass Area Development District			
LEEP	17.259	16-002Y	36,759
LEEP Rural		16-003Y	26,407
<b>Total Federal Expenditures WIA Cluster CFDA #17.258, 17.259, 17.278</b>			<b>63,166</b>
<b>DEPARTMENT OF ENERGY</b>			
Passed-Through the Kentucky Association of Community Action Agencies			
DOE-Weatherization Assistance	81.042	WX16-0603-02	202,862

# 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, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>Passed-Through the Kentucky Association of Community Action Agencies</b>			
KyNector	93.525	15000018021	113,116
<b>Passed-Through the Kentucky Association of Community Action Agencies</b>			
Low-Income Home Energy Assistance Program	93.568	736-1600001953	1,916,995
<b>Passed-Through the Kentucky Housing Corporation</b>			
Low-Income Home Weatherization Assistance Program		LH16-0603-02	275,735
<b>Total Federal Expenditures CFDA #93.568</b>			<b>2,192,730</b>
<b>Passed-Through the Kentucky Cabinet for Health and Family Services</b>			
Community Services Block Grant	93.569	PON273615 1294	665,687
Project Life	93.674	PON27361400003070	487,296
<b>Direct Funding</b>			
Head Start	93.600	04CH4754/02	550,922
Head Start		04CH4754/03	6,863,063
Early Head Start		04CH4754/02	276,161
Early Head Start		04CH4754/03	3,583,691
Migrant Head Start		90CM9820/02	625,659
Migrant Head Start		90CM9820/03	2,478,017
Partnering for Excellence		04HP0030/01	930,615
Partnering for Excellence		04HP0030/02	1,744,730
<b>Total Federal Expenditures CFDA #93.600</b>			<b>17,052,858</b>
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS</b>			<b>20,511,687</b>
<b>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE</b>			
<b>Direct Funding</b>			
Retired Senior Volunteer Program 2016	94.002	14RSKY002	61,337
Retired Senior Volunteer Program 2017		14RSKY002	21,425
<b>Total Federal Expenditures CFDA #94.002</b>			<b>82,762</b>
<b>Direct Funding</b>			
Foster Grandparents Program 2016	94.011	14SFSKY001	70,461
Foster Grandparents Program 2017		14SFSKY001	76,493
<b>Total Federal Expenditures Foster Grandparent/Senior Companion Cluster CFDA #94.011, 94.016</b>			<b>146,954</b>
<b>TOTAL CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE PROGRAMS</b>			<b>229,716</b>
<b>TOTAL FEDERAL EXPENDITURES</b>			<b>\$ 22,102,954</b>

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, 2017

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### 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, 2017. 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, 2017.

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

## Schedule B

### Consolidating Statement of Financial Position

June 30, 2017

	Community Action Council	Shepherd Place	WinterCare Energy Fund	Eliminations	Consolidated Balance
<b>Current assets:</b>					
Cash	\$ 1,654,257	\$ 9,216	\$ 45,403	\$ 0	\$ 1,708,876
Restricted deposits	0	32,528	0	0	32,528
Investments	2,607,544	0	0	0	2,607,544
Grants receivable	934,208	0	0	0	934,208
Accounts receivable	240,485	1,518	88,305	( 15,849)	314,459
Other assets	182,588	0	0	0	182,588
<b>Total current assets</b>	<b>5,619,082</b>	<b>43,262</b>	<b>133,708</b>	<b>( 15,849)</b>	<b>5,780,203</b>
<b>Long-term assets:</b>					
Beneficial interest in assets held by others	95,572	0	0	0	95,572
Other assets	59,401	0	0	0	59,401
<b>Total long-term assets</b>	<b>154,973</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>154,973</b>
<b>Property and equipment, net</b>	<b>5,633,329</b>	<b>373,547</b>	<b>0</b>	<b>0</b>	<b>6,006,876</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,407,384</b>	<b>\$ 416,809</b>	<b>\$ 133,708</b>	<b>(\$ 15,849)</b>	<b>\$ 11,942,052</b>
<b>Current liabilities:</b>					
Current portion of notes payable	\$ 281,772	\$ 0	\$ 0	\$ 0	\$ 281,772
Accounts payable	204,625	9,225	28,896	( 15,849)	226,897
Accrued payroll and related expenses	1,104,938	0	0	0	1,104,938
Grant funds received in advance	15,500	0	0	0	15,500
<b>Total current liabilities</b>	<b>1,606,835</b>	<b>9,225</b>	<b>28,896</b>	<b>( 15,849)</b>	<b>1,629,107</b>
<b>Long-term liabilities:</b>					
Notes payable	1,387,607	0	0	0	1,387,607
Fair value of interest rate swap agreement	89,532	0	0	0	89,532
Tenant security deposits	0	4,359	0	0	4,359
Capital advance - HUD	0	1,061,800	0	0	1,061,800
<b>Total long-term liabilities</b>	<b>1,477,139</b>	<b>1,066,159</b>	<b>0</b>	<b>0</b>	<b>2,543,298</b>
<b>Total liabilities</b>	<b>3,083,974</b>	<b>1,075,384</b>	<b>28,896</b>	<b>( 15,849)</b>	<b>4,172,405</b>
<b>Net assets:</b>					
Unrestricted (deficit)	5,513,141	( 658,575)	104,812	0	4,959,378
Temporarily restricted	2,810,269	0	0	0	2,810,269
<b>Total net assets (deficit)</b>	<b>8,323,410</b>	<b>( 658,575)</b>	<b>104,812</b>	<b>0</b>	<b>7,769,647</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,407,384</b>	<b>\$ 416,809</b>	<b>\$ 133,708</b>	<b>(\$ 15,849)</b>	<b>\$ 11,942,052</b>

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

## Schedule C

### Consolidating Statement of Activities

Year Ended June 30, 2017

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Consolidated Balance
<b>Revenue:</b>					
Grant revenue	\$ 22,614,396	\$ 0	\$ 0	\$ 0	\$ 22,614,396
Investment income	261,008	18	0	0	261,026
Other income	3,172,433	101,603	310,741	( 206,870)	3,377,907
In-kind contributions	355,900	0	0	0	355,900
<b>Total revenue</b>	<b>26,403,737</b>	<b>101,621</b>	<b>310,741</b>	<b>( 206,870)</b>	<b>26,609,229</b>
<b>Expenses:</b>					
Salaries	9,033,534	0	0	0	9,033,534
Fringe benefits	4,347,092	0	0	0	4,347,092
Consultants/contractual	4,152,528	0	0	0	4,152,528
Space	1,503,222	43,587	0	0	1,546,809
Supplies	1,494,671	0	0	0	1,494,671
Travel	214,882	0	0	0	214,882
Communications and IT	342,208	0	0	0	342,208
Beneficiary assistance	3,236,263	0	322,003	( 144,729)	3,413,537
Other	571,753	69,713	29,850	( 62,141)	609,175
In-kind expenses	355,901	0	0	0	355,901
<b>Total expenses</b>	<b>25,252,054</b>	<b>113,300</b>	<b>351,853</b>	<b>( 206,870)</b>	<b>25,510,337</b>
Change in net assets	1,151,683	( 11,679)	( 41,112)	0	1,098,892
Net assets (deficit) - Beginning of year	7,171,727	( 646,896)	145,924	0	6,670,755
<b>Net assets (deficit) - End of year</b>	<b>\$ 8,323,410</b>	<b>(\$ 658,575)</b>	<b>\$ 104,812</b>	<b>\$ 0</b>	<b>\$ 7,769,647</b>

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

**Low Income Housing Energy Assistance Program (LIHEAP)  
Contract # 736-1600001953  
Sub Contract # LIHEAP-013**

**Schedule of Budget and Actual Expenses**

**For the Year Ended June 30, 2017**

<b>Cost Category</b>	<b>Budget</b>	<b>Actual</b>	<b>(Over) Under Budget</b>
<b>ADMINISTRATIVE</b>			
<b>Indirect Cost Allocation</b>	\$ 201,500	\$ 201,500	\$ -
<b>BENEFITS</b>			
<b>Subsidy</b>	397,279	397,279	-
<b>Crisis</b>	1,607,152	1,318,216	288,936
<b>TOTAL</b>	<u>\$ 2,205,931</u>	<u>\$ 1,916,995</u>	<u>\$ 288,936</u>

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

**Low Income Housing Energy Assistance Program (LIHEAP)  
Contract # 736-1600001953  
Sub Contract # LIHEAP-013**

**Schedule of Program Expenses**

**For the Year Ended June 30, 2017**

Cost Category	Amount
<b>ADMINISTRATIVE</b>	
Indirect Cost Allocation	\$ 201,500
<b>BENEFITS</b>	
Subsidy	397,279
Crisis	
Benefits	1,252,305
Energy Counseling	65,911
	<hr/>
<b>TOTAL EXPENSES</b>	1,916,995
<b>LESS QUESTIONED COSTS</b>	<hr/> -
<b>TOTAL ALLOWABLE COSTS</b>	1,916,995
<b>CONTRACT PAYMENT RECEIVED as of JUNE 30, 2017</b>	<hr/> 1,916,995
<b>UNDER/OVER PAYMENT</b>	<hr/> <hr/> \$ -



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

**Low Income Housing Energy Assistance Program (LIHEAP)  
Contract # 736-1600001953  
Sub Contract # LIHEAP-013**

**Schedule of Questioned Costs**

**For the Year Ended June 30, 2017**

<b>Cost Category</b>	<b>Actual Expenses</b>	<b>Questioned Costs</b>	<b>Allowable Costs</b>
<b>ADMINISTRATIVE</b>			
<b>Indirect Cost Allocation</b>	\$ 201,500	\$ -	\$ 201,500
<b>BENEFITS</b>			
<b>Subsidy</b>	397,279	-	397,279
<b>Crisis</b>	1,318,216	-	1,318,216
<b>TOTAL</b>	<u>\$ 1,916,995</u>	<u>\$ -</u>	<u>\$ 1,916,995</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, 2017, and the related consolidated statement of activities, functional expenses and cash flows for the year ended June 30, 2017, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 1, 2017. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

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

## Purpose of this Report

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

Wipfli LLP

Wipfli LLP

December 1, 2017  
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 its major federal program for the year ended June 30, 2017. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s consolidated financial statements include Shepherd Place, Inc., a related entity, which had expenditures greater than \$750,000 in federal awards during the year ended June 30, 2017, 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 program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 the major federal program. However, our audit does not provide legal determination on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance.

## Opinion

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

## 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 the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance.

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

December 1, 2017  
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, 2017

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## Section I - Summary of Auditor's Results

### Financial Statements

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

### Federal Awards

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

Identification of major federal programs:

<u>Name of Federal Major Program</u>	<u>CFDA No.</u>
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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## Section II - Financial Statement Findings

None

## Section III - Federal Award Findings and Questioned Costs

None

## Section IV - Summary Schedule of Prior Year Findings

None