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

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PUBLIC SERVICE  
COMMISSION

June 28, 2019

**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  
Strategy/Policy  
T 502-627-3780  
rick.lovekamp@lge-ku.com

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 2018:

- 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 28, 2019

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 2018, CAK and CAC utilized the funds for program participants that required monthly energy assistance.

During 2018, 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, 2018.

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-18	\$138,635
Feb-18	123,901
Mar-18	131,216
Apr-18	131,486
May-18	131,807
Jun-18	131,358
Jul-18	132,387
Aug-18	132,267
Sep-18	136,462
Oct-18	131,760
Nov-18	131,391
Dec-18	130,199
Total	\$1,582,869

**Kentucky Utilities Company  
Home Energy Assistance Program  
Customer Enrollment by County  
As of December 31, 2018**

	<b>Number</b>	<b>County</b>
<b>County</b>	<b>Enrolled</b>	<b>Distribution</b>
Adair	2	0.07%
Anderson	30	1.11%
Ballard	1	0.04%
Barren	9	0.33%
Bath	13	0.48%
Bell	241	8.96%
Bourbon	126	4.68%
Boyle	144	5.35%
Bracken	5	0.19%
Bullitt	2	0.07%
Caldwell	2	0.07%
Carroll	6	0.22%
Casey	30	1.11%
Christian	1	0.04%
Clark	60	2.23%
Clay	8	0.30%
Estill	20	0.74%
Fayette	969	36.01%
Fleming	3	0.11%
Franklin	18	0.67%
Gallatin	2	0.07%
Garrard	29	1.08%
Grayson	15	0.56%
Green	11	0.41%
Hardin	52	1.93%
Harlan	7	0.26%



**Kentucky Utilities Company  
Home Energy Assistance Program  
Customer Enrollment by County  
As of December 31, 2018**

	<b>Number</b>	<b>County</b>
<b>County</b>	<b>Enrolled</b>	<b>Distribution</b>
Harrison	70	2.60%
Hart	45	1.67%
Henderson	4	0.15%
Henry	4	0.15%
Hickman	4	0.15%
Hopkins	26	0.97%
Jessamine	6	0.22%
Knox	33	1.23%
Larue	5	0.19%
Laurel	7	0.26%
Lincoln	67	2.49%
Livingston	1	0.04%
Lyon	1	0.04%
Madison	30	1.11%
Marion	12	0.45%
Mason	4	0.15%
McCracken	4	0.15%
McCreary	4	0.15%
McClellan	11	0.41%
Mercer	81	3.01%
Montgomery	26	0.97%
Muhlenberg	18	0.67%
Nelson	1	0.04%
Nicholas	53	1.97%
Oldham	4	0.15%
Owen	1	0.04%

**Kentucky Utilities Company  
Home Energy Assistance Program  
Customer Enrollment by County  
As of December 31, 2018**

	<b>Number</b>	<b>County</b>
<b>County</b>	<b>Enrolled</b>	<b>Distribution</b>
Pulaski	52	1.93%
Rockcastle	9	0.33%
Rowan	63	2.34%
Russell	65	2.42%
Scott	34	1.26%
Shelby	6	0.22%
Spencer	6	0.22%
Taylor	6	0.22%
Trimble	4	0.15%
Union	0	0.00%
Washington	12	0.45%
Webster	1	0.04%
Whitley	39	1.45%
Woodford	66	2.45%

**Kentucky Utilities Company  
Home Energy Assistance Program  
Brown Bill Notices Issued - 2018**

<b>Number of Customers</b>	<b>Number of Brown Bills Per Customer Received Annually</b>
558	1
410	2
388	3
321	4
356	5
310	6
312	7
303	8
351	9
393	10
367	11
215	12
4,284	Total

**Kentucky Utilities Company  
Home Energy Assistance Program  
Number of Disconnections - 2018**

<b>Number of Customers</b>	<b>Number of Disconnections Per Customer</b>
851	1
298	2
123	3
43	4
20	5
10	6
0	7
1	8
1	9
1,347	Total

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

Lexington, Kentucky

Consolidated Financial Statements and  
Supplementary Information  
Year Ended June 30, 2018

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

Consolidated Financial Statements and Supplementary Information  
Year Ended June 30, 2018

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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, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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, 2018, 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 30 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 February 6, 2019, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP

February 6, 2019  
Madison, Wisconsin



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

## Consolidated Statement of Financial Position

June 30, 2018

<i>Assets</i>	
Current assets:	
Cash	\$ 1,684,640
Restricted deposits	41,368
Investments	3,042,140
Grants receivable	1,260,343
Accounts receivable	288,691
Other assets	173,600
<b>Total current assets</b>	<b>6,490,782</b>
Long-term assets:	
Beneficial interest in assets held by others	103,170
Other assets	104,901
<b>Total long-term assets</b>	<b>208,071</b>
Property and equipment, net	5,635,915
<b>TOTAL ASSETS</b>	<b>\$ 12,334,768</b>
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 283,216
Accounts payable	349,442
Accrued payroll and related expenses	968,965
Grant funds received in advance	143,055
<b>Total current liabilities</b>	<b>1,744,678</b>
Long-term liabilities:	
Notes payable	1,114,538
Fair value of interest rate swap agreement	50,058
Tenant security deposits	5,434
Capital advance - HUD	1,061,800
<b>Total long-term liabilities</b>	<b>2,231,830</b>
<b>Total liabilities</b>	<b>3,976,508</b>
Net assets:	
Unrestricted:	
Undesignated	2,983,241
Board designated	2,006,611
Board designated for endowment	82,669
<b>Total unrestricted net assets</b>	<b>5,072,521</b>
Temporarily restricted	3,285,739
<b>Total net assets</b>	<b>8,358,260</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,334,768</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, 2018

	Unrestricted	Temporarily Restricted	Total
<b>Revenue:</b>			
Grant revenue	\$ 21,042,458	\$ 475,340	\$ 21,517,798
Investment income	117,768	63,015	180,783
Other income	3,308,987	17,574	3,326,561
In-kind contributions	369,388	0	369,388
Net assets released from restriction through satisfaction of program restrictions	80,459	( 80,459)	0
<b>Total revenue</b>	<b>24,919,060</b>	<b>475,470</b>	<b>25,394,530</b>
<b>Expenses:</b>			
<b>Program activities:</b>			
Child education	16,223,947	0	16,223,947
Community services	2,418,843	0	2,418,843
Weatherization services	3,751,346	0	3,751,346
Senior programs	305,309	0	305,309
<b>Total program activities</b>	<b>22,699,445</b>	<b>0</b>	<b>22,699,445</b>
Fund-raising	68,258	0	68,258
Management and general expenses	2,038,214	0	2,038,214
<b>Total expenses</b>	<b>24,805,917</b>	<b>0</b>	<b>24,805,917</b>
Change in net assets	113,143	475,470	588,613
Net assets - Beginning of year	4,959,378	2,810,269	7,769,647
<b>Net assets - End of year</b>	<b>\$ 5,072,521</b>	<b>\$ 3,285,739</b>	<b>\$ 8,358,260</b>

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

## Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	<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	\$ 6,841,298	\$ 763,099	\$ 301,733	\$ 71,182	\$ 7,977,312	\$ 1,078,099	\$ 22,802	\$ 9,078,213
Fringe benefits	2,946,279	313,343	132,027	33,017	3,424,666	283,697	10,061	3,718,424
Consultant/contractual	3,387,935	126,866	601,060	0	4,115,861	120,062	21,629	4,257,552
Space	890,373	157,154	40,162	54,626	1,142,315	248,610	4,306	1,395,231
Supplies	942,568	32,965	83,085	2,723	1,061,341	7,094	0	1,068,435
Travel	227,896	70,534	5,575	15,159	319,164	60,283	528	379,975
Communications and IT	245,199	49,448	18,069	2,866	315,582	107,719	234	423,535
Beneficiary assistance	26,296	854,426	2,563,586	3,643	3,447,951	0	0	3,447,951
Other	352,369	45,355	6,049	122,093	525,866	132,650	8,698	667,214
In-kind expenses	363,734	5,653	0	0	369,387	0	0	369,387
<b>TOTAL EXPENSES</b>	<b>\$ 16,223,947</b>	<b>\$ 2,418,843</b>	<b>\$ 3,751,346</b>	<b>\$ 305,309</b>	<b>\$ 22,699,445</b>	<b>\$ 2,038,214</b>	<b>\$ 68,258</b>	<b>\$ 24,805,917</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, 2018

Increase (decrease) in cash:

Cash flows from operating activities:	
Change in net assets	\$ 588,613
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	399,997
Net realized and unrealized gain on investments	( 135,840)
Net realized and unrealized gain on beneficial interest in assets held by others	( 8,253)
Change in fair value of interest rate swap agreement	( 39,474)
Changes in operating assets and liabilities:	
Restricted deposits	( 8,840)
Grants receivable	( 326,135)
Accounts receivable	25,768
Other assets	( 36,512)
Accounts payable	122,545
Accrued payroll and related expenses	( 135,973)
Grant funds received in advance	127,555
Tenant security deposits	1,075
<b>Net cash provided by operating activities</b>	<b>574,526</b>
Cash flows from investing activities:	
Purchase of investments	( 298,756)
Distribution from beneficial interest in assets held by others	655
Purchase of property and equipment	( 29,036)
<b>Net cash used in investing activities</b>	<b>( 327,137)</b>
Cash flows from financing activities:	
Payments on notes payable	( 271,625)
<b>Net cash used in financing activities</b>	<b>( 271,625)</b>
Change in cash	( 24,236)
Cash - Beginning of year	1,708,876
<b>Cash - End of year</b>	<b>\$ 1,684,640</b>

### Supplemental schedule of operating activities:

Interest paid and expensed	\$ 86,821
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# 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.

CAC Holdings, Inc. is a wholly owned subsidiary of CAC formed March 27, 2018. CAC Holdings, Inc. had no assets as of June 30, 2018 nor any activity for the period March 27, 2018 to June 30, 2018.

#### **Basis of Presentation**

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

#### **Principles of Consolidation**

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

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

#### **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 \$5,000,998 at June 30, 2018.

#### **Income Taxes**

CAC, Shepherd Place and Wintercare 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. CAC Holdings, Inc. is a wholly owned LLC and for tax purposes is treated as a disregarded entity and is included on CAC's tax return.

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

# 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 \$3,500,000, primarily for its Head Start, Community Service Block Grant, and Housing 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).

### **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, 2018, are composed of the following:

Escrow fund	\$ 8,532
Reserve for replacement	27,355
Residual receipts	47
<u>Tenant security deposits</u>	<u>5,434</u>
<u>Total</u>	<u>\$ 41,368</u>

### Note 4: Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2018, as follows:

Direct federal programs	\$ 602,441
<u>State and local programs</u>	<u>872,994</u>
<u>Total</u>	<u>\$ 1,475,435</u>

### 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, 2018, was 1% money market, 59% fixed income, and 40% in equities. The health insurance trust investments of \$1,651,523 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, 2018, was \$1,390,617 and represents approximately 17% of the pooled investment total. The fair value of the investment pool at June 30, 2018, was \$8,127,472. The allocation of the investments in the pool at June 30, 2018, was 1% money market, 1% in a real estate investment trust, 38% fixed income, and 60% equities.

Investment income for the year ended June 30, 2018, included interest and dividends of \$39,187 and a net realized and unrealized gain of \$135,840 for these investments and \$8,253 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, 2018, consists of the following:

Community Action Council RSVP	\$	20,501
Community Action Council		82,669
<b>Total</b>	<b>\$</b>	<b>103,170</b>

### 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, 2017	\$ 76,888	\$ 18,684	\$ 95,572
Distributions	( 400)	( 255)	( 655)
Net appreciation	6,181	2,072	8,253
<b>Endowments at June 30, 2018</b>	<b>\$ 82,669</b>	<b>\$ 20,501</b>	<b>\$ 103,170</b>

# 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		7,554,922
Leasehold improvements		248,170
<u>Equipment</u>		<u>2,993,013</u>
Subtotal		11,542,798
<u>Accumulated depreciation</u>	(	<u>5,906,883</u> )
<u>Total</u>	\$	<u>5,635,915</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, 2018. The interest rate on the line of credit is variable at the prime rate with a floor of 5%. The rate was 5.25% at June 30, 2018. There was no outstanding balance on the line of credit as of June 30, 2018. 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

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### Note 11: Notes Payable

A summary of notes payable at June 30, 2018, 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.	\$ 9,047
Revenue bond payable, fixed at 3.74% through an interest rate swap agreement with interest paid quarterly and principal paid annually, due November 2023. The bond is secured by real estate known as the Administrative and Support Services Center located on High Street in Lexington Kentucky and the Fayette West Center located on Cambridge Drive in Lexington, Kentucky.	1,065,000
Note payable at 4.25% interest, with monthly payments of \$1,751, due September 2021. The note is secured by real estate Russell School Community Services Center located on Toner Street in Lexington, Kentucky.	62,065
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.	101,113
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.	43,245
Note payable with interest at 0% and monthly payments of \$1,934, due February 2020. The note is secured by phone equipment.	56,854
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.	20,505
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.	12,596
Note payable at a fixed rate of 3.3% interest, with monthly payments of \$621, due May 2022. The note is secured by a vehicle.	27,329
<b>Total notes payable</b>	<b>1,397,754</b>
<b>Current portion</b>	<b>( 283,216)</b>
<b>Long-term notes payable</b>	<b>\$ 1,114,538</b>

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

## Notes to Consolidated Financial Statements

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### Note 11: Notes Payable (Continued)

The future maturities of notes payable at June 30, 2018 are as follows:

2019	\$	283,216
2020		265,759
2021		225,189
2022		217,145
2023		186,445
Thereafter		220,000
<hr/>		
<b>Total long-term notes payable</b>	<b>\$</b>	<b>1,397,754</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, 2018, the interest rate swap had a notional amount of \$990,000 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, 2018 which, because of changes in forecasted levels of The Bond Market Association, Municipal Swap Index, resulted in reporting a liability for the fair value of the future net payments forecasted under the interest rate swap of \$50,058. 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, 2018, consist of the following:

Self-funded health insurance trust	\$	1,725,252
Unemployment insurance trust		1,394,353
Beneficial interest in assets held by others		20,501
Other		145,633
<hr/>		
<b>Total temporarily restricted net assets</b>	<b>\$</b>	<b>3,285,739</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, 2018, was \$104,222. Future minimum lease payments beyond 2018 are as follows:

2019	\$	68,354
2020		68,352
2021		42,551
2022		38,551
2023		25,056
Thereafter		65,712
<hr/>		
Total	\$	308,576

### 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, 2018, were \$628,489.

### 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, 2018, 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	\$ 7,287	\$ 0	\$ 7,287	\$ 0
Fixed income	541,605	541,605	0	0
REIT	15,036	15,036	0	0
Equities	826,689	826,689	0	0
Investments held by health trust:				
Money market	20,129	0	20,129	0
Fixed income	961,133	961,133	0	0
Equities	670,261	670,261	0	0
<b>Total investments</b>	<b>3,042,140</b>	<b>3,014,724</b>	<b>27,416</b>	<b>0</b>
Endowment funds held by Foundation	103,170	0	0	103,170
<b>Total assets</b>	<b>\$ 3,145,310</b>	<b>\$ 3,014,724</b>	<b>\$ 27,416</b>	<b>\$ 103,170</b>
Liability – Interest rate swap	\$ 50,058	\$ 0	\$ 50,058	\$ 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, 2018:

Endowment funds – Beginning of year	\$	95,572
Distributions	(	655)
<u>Net realized and unrealized gain</u>		<u>8,253</u>
<u>Endowments funds – End of year</u>	\$	<u>103,170</u>

### Note 17: Commitments and Contingencies

At June 30, 2018, CAC had commitments under various ongoing grant awards of approximately \$3,350,000. The revenue relating to these grants is not recognized in the accompanying consolidated financial statements because the revenue recognition is conditional on the incurrence of expenditures or the performance of services in the next fiscal year.

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

### Note 18: Subsequent Events

Subsequent events have been evaluated through February 6, 2019 which is the date the financial statements were available to be issued. The following information summarizes significant events that occurred after June 30, 2018.

On January 1, 2019, CAC began operating a head start grant in Clark, Estill, Gerrard, Jackson, Laurel, Madison, Powell, and Rockcastle counties in Kentucky. The Office of Head Start grant award of \$8,558,975 covers the 2019 calendar 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, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Subrecipients	Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE</b>				
Passed-Through the Kentucky Department of Education				
Child and Adult Care Food Program	10.558		\$ 0	\$ 425,147
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
<b>Direct Funding</b>				
Project Independence	14.267	KY0165L4I021500	0	126,693
Project Independence		KY0165L4I021601	0	156,580
			0	283,273
<b>Direct Funding</b>				
Samaritan - Fayette	14.235	KY0103L4I021507	0	17,603
<b>Passed-Through the Kentucky Housing Corporation</b>				
Continuum of Care/Bourbon County		KY0008L4I001407	0	57,979
Continuum of Care/Bourbon County		KY008L4I001609	0	128,748
Samaritan		KY0103L4I021406	0	22,533
Samaritan		KY0022L4I001609	0	90,356
Public Housing - Bonus		KY0113L4I001402	0	176,290
Public Housing - Bonus		KY0008L4I001609	0	149,686
<b>Total Federal Expenditures CFDA #14.235</b>			<b>0</b>	<b>643,195</b>
<b>Passed-Through the Kentucky Housing Corporation</b>				
TBRA	14.239	TB16-0553-01	0	39,090
TBRA		TB18-0553-01	0	38,023
<b>Total Federal Expenditures CFDA #14.239</b>			<b>0</b>	<b>77,113</b>
<b>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<b>0</b>	<b>1,003,581</b>
<b>DEPARTMENT OF LABOR</b>				
<b>Passed-Through Bluegrass Area Development District</b>				
WIOA Cluster				
LEEP	17.259	16-003Y	0	13,099
LEEP - RURAL		16-002Y	0	10,351
<b>Total Federal Expenditures CFDA #17.258, 17.259, 17.278</b>			<b>0</b>	<b>23,450</b>
<b>DEPARTMENT OF ENERGY</b>				
<b>Passed-Through the Kentucky Housing Corporation</b>				
DOE-Weatherization Assistance	81.042	WX18-0603-02	0	129,371

# 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, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Subrecipients	Federal Expenditures
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<b>Passed-Through the Kentucky Association of Community Action Agencies</b>				
Application Assistors	93.332	HBAP-R5-2	0	309,786
<b>Passed-Through Community Action Kentucky</b>				
Low-Income Home Energy Assistance	93.568	736-1700002734 3	0	1,769,790
<b>Passed-Through the Kentucky Housing Corporation</b>				
Low-Income Home Weatherization Assistance Program		LH18-0603-02	0	168,568
<b>Total Federal Expenditures CFDA #93.568</b>			<b>0</b>	<b>1,938,358</b>
<b>Passed-Through the Kentucky Cabinet for Health and Family Services</b>				
Community Services Block Grant	93.569	PON2 736 1700002530	0	665,687
Project Life	93.674	PON2 736 160000200001	0	487,296
<b>Direct Funding</b>				
Head Start	93.600	04CH475403	0	615,887
Head Start		04CH475404	0	6,816,981
Early Head Start		04CH475403	0	226,718
Early Head Start		04CH475404	0	3,366,833
Migrant Head Start		90CM982002	0	486,468
Migrant Head Start		90CM982003	0	2,364,734
Partnering for Excellence		04HP003002	0	549,517
Partnering for Excellence		04HP003003	0	1,766,831
<b>Total Federal Expenditures CFDA #93.600</b>			<b>0</b>	<b>16,193,969</b>
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>0</b>	<b>19,595,096</b>
<b>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE</b>				
<b>Direct Funding</b>				
Retired Senior Volunteer Program 2017	94.002	17RSKY001	0	54,256
Retired Senior Volunteer Program 2018		17RSKY001	0	19,990
<b>Total Federal Expenditures CFDA #94.002</b>			<b>0</b>	<b>74,246</b>
<b>Direct Funding</b>				
<b>Foster Grandparent/Senior Companion Cluster</b>				
Foster Grandparents Program 2017	94.011	17SFSKY001	0	55,183
Foster Grandparents Program 2018		17SFSKY001	0	55,261
<b>Total Federal Expenditures CFDA #94.011, 94.016</b>			<b>0</b>	<b>110,444</b>
<b>TOTAL CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE</b>			<b>0</b>	<b>184,690</b>
<b>TOTAL FEDERAL EXPENDITURES</b>			<b>\$ 0</b>	<b>\$ 21,361,335</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, 2018

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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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.

### Note 2 - Summary of Significant Accounting Policies

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

### Note 3 - Indirect Cost Rate

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

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

## Schedule B

### Consolidating Statement of Financial Position

June 30, 2018

	Community Action Council	Shepherd Place	WinterCare Energy Fund	Eliminations	Consolidated Balance
<b>Current assets:</b>					
Cash	\$ 1,608,110	\$ 5,279	\$ 71,251	\$ 0	\$ 1,684,640
Restricted deposits	0	41,368	0	0	41,368
Investments	3,042,140	0	0	0	3,042,140
Grants receivable	1,260,343	0	0	0	1,260,343
Accounts receivable	242,665	0	57,583	( 11,557)	288,691
Other assets	173,600	0	0	0	173,600
<b>Total current assets</b>	<b>6,326,858</b>	<b>46,647</b>	<b>128,834</b>	<b>( 11,557)</b>	<b>6,490,782</b>
<b>Long-term assets:</b>					
Beneficial interest in assets held by others	103,170	0	0	0	103,170
Other assets	104,901	0	0	0	104,901
<b>Total long-term assets</b>	<b>208,071</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>208,071</b>
<b>Property and equipment, net</b>	<b>5,283,043</b>	<b>352,872</b>	<b>0</b>	<b>0</b>	<b>5,635,915</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,817,972</b>	<b>\$ 399,519</b>	<b>\$ 128,834</b>	<b>(\$ 11,557)</b>	<b>\$ 12,334,768</b>
<b>Current liabilities:</b>					
Current portion of notes payable	\$ 283,216	\$ 0	\$ 0	\$ 0	\$ 283,216
Accounts payable	311,858	10,198	38,943	( 11,557)	349,442
Accrued payroll and related expenses	968,965	0	0	0	968,965
Grant funds received in advance	143,055	0	0	0	143,055
<b>Total current liabilities</b>	<b>1,707,094</b>	<b>10,198</b>	<b>38,943</b>	<b>( 11,557)</b>	<b>1,744,678</b>
<b>Long-term liabilities:</b>					
Notes payable	1,114,538	0	0	0	1,114,538
Fair value of interest rate swap agreement	50,058	0	0	0	50,058
Tenant security deposits	0	5,434	0	0	5,434
Capital advance - HUD	0	1,061,800	0	0	1,061,800
<b>Total long-term liabilities</b>	<b>1,164,596</b>	<b>1,067,234</b>	<b>0</b>	<b>0</b>	<b>2,231,830</b>
<b>Total liabilities</b>	<b>2,871,690</b>	<b>1,077,432</b>	<b>38,943</b>	<b>( 11,557)</b>	<b>3,976,508</b>
<b>Net assets:</b>					
Unrestricted (deficit)	5,660,543	( 677,913)	89,891	0	5,072,521
Temporarily restricted	3,285,739	0	0	0	3,285,739
<b>Total net assets (deficit)</b>	<b>8,946,282</b>	<b>( 677,913)</b>	<b>89,891</b>	<b>0</b>	<b>8,358,260</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,817,972</b>	<b>\$ 399,519</b>	<b>\$ 128,834</b>	<b>(\$ 11,557)</b>	<b>\$ 12,334,768</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, 2018

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Consolidated Balance
<b>Revenue:</b>					
Grant revenue	\$ 21,517,798	\$ 0	\$ 0	\$ 0	\$ 21,517,798
Investment income	180,724	59	0	0	180,783
Other income	3,062,327	99,815	364,067	( 199,648)	3,326,561
In-kind contributions	369,388	0	0	0	369,388
<b>Total revenue</b>	<b>25,130,237</b>	<b>99,874</b>	<b>364,067</b>	<b>( 199,648)</b>	<b>25,394,530</b>
<b>Expenses:</b>					
Salaries	9,078,213	0	0	0	9,078,213
Fringe benefits	3,718,424	0	0	0	3,718,424
Consultants/contractual	4,257,552	0	0	0	4,257,552
Space	1,352,557	42,674	0	0	1,395,231
Supplies	1,068,435	0	0	0	1,068,435
Travel	379,975	0	0	0	379,975
Communications and IT	423,535	0	0	0	423,535
Beneficiary assistance	3,237,949	0	364,378	( 154,376)	3,447,951
Other	621,338	76,538	14,610	( 45,272)	667,214
In-kind expenses	369,387	0	0	0	369,387
<b>Total expenses</b>	<b>24,507,365</b>	<b>119,212</b>	<b>378,988</b>	<b>( 199,648)</b>	<b>24,805,917</b>
Change in net assets	622,872	( 19,338)	( 14,921)	0	588,613
Net assets (deficit) - Beginning of year	8,323,410	( 658,575)	104,812	0	7,769,647
<b>Net assets (deficit) - End of year</b>	<b>\$ 8,946,282</b>	<b>(\$ 677,913)</b>	<b>\$ 89,891</b>	<b>\$ 0</b>	<b>\$ 8,358,260</b>

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

**Low Income Housing Energy Assistance Program (LIHEAP)**

**Contract # 736 1700002734 3**

**Sub Contract # LIHEAP-013**

**CFDA # 93.568**

**Schedule of Budget and Actual Expenses**

**For the Year Ended June 30, 2018**

<b>Cost Category</b>	<b>Budget</b>	<b>Actual</b>	<b>(Over) Under Budget</b>
<b>ADMINISTRATIVE</b>			
<b>Indirect Cost Allocation</b>	\$ 161,111	\$ 161,111	\$ -
<b>BENEFITS</b>			
<b>Subsidy</b>	333,909	333,909	-
<b>Crisis</b>	1,277,204	1,274,770	2,434
<b>TOTAL</b>	<u>\$ 1,772,224</u>	<u>\$ 1,769,790</u>	<u>\$ 2,434</u>

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

**Low Income Housing Energy Assistance Program (LIHEAP)  
Contract # 736 1700002734 3  
Sub Contract # LIHEAP-013**

**Schedule of Program Expenses**

**For the Year Ended June 30, 2018**

<b>Cost Category</b>	<b>Amount</b>
<b>ADMINISTRATIVE</b>	
<b>Indirect Cost Allocation</b>	\$ 161,111
<b>BENEFITS</b>	
<b>Subsidy</b>	333,909
<b>Crisis</b>	
<b>Benefits</b>	1,210,910
<b>Energy Counseling</b>	63,860
	<hr/>
<b>TOTAL EXPENSES</b>	1,769,790
<b>LESS QUESTIONED COSTS</b>	<hr/> -
<b>TOTAL ALLOWABLE COSTS</b>	1,769,790
<b>CONTRACT PAYMENT RECEIVED as of JUNE 30, 2018</b>	<hr/> 1,771,743
<b>UNDER/(OVER) PAYMENT</b>	<hr/> <hr/> \$ (1,953)



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

**Low Income Housing Energy Assistance Program (LIHEAP)  
Contract # 736 1700002734 3  
Sub Contract # LIHEAP-013**

**Schedule of Questioned Costs**

**For the Year Ended June 30, 2018**

<b>Cost Category</b>	<b>Actual Expenses</b>	<b>Questioned Costs</b>	<b>Allowable Costs</b>
<b>ADMINISTRATIVE</b>			
<b>Indirect Cost Allocation</b>	\$ 161,111	\$ -	\$ 161,111
<b>BENEFITS</b>			
<b>Subsidy</b>	333,909	-	333,909
<b>Crisis</b>	1,274,770	-	1,274,770
<b>TOTAL</b>	<u>\$ 1,769,790</u>	<u>\$ -</u>	<u>\$ 1,769,790</u>

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

**LIHEAP Weatherization  
Contract # LH18-0603-02  
Sub Contract # LHWX-013  
CFDA # 93.568**

**Schedule of Budget and Actual Expenses**

**For the Year Ended June 30, 2018**

<b>Cost Category</b>	<b>Budget</b>	<b>Actual</b>	<b>(Over) Under Budget</b>
Administration	\$ 16,250	\$ 15,303	\$ 947
Wx Materials	32,000	23,421	8,579
Wx Program Support	111,855	53,848	58,007
Wx Labor	41,800	29,987	11,813
H&S Materials	27,200	20,385	6,815
H&S Labor	31,771	25,624	6,147
Vehicles/Equipment	-	-	-
Liability Insurance	3,076	-	3,076
Financial Audit	-	-	-
T&TA	-	-	-
<b>TOTAL</b>	<b>\$ 263,952</b>	<b>\$ 168,568</b>	<b>\$ 95,384</b>
Expenses Not Yet Invoiced at 06/30/2018		(54,478)	
Invoiced and Paid at 06/30/2018		<u>\$ 114,090</u>	

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

**Department of Energy Weatherization  
Contract # WX18-0603-02  
Sub Contract # DOEWX-013  
CFDA # 81.042  
Schedule of Budget and Actual Expenses**

**For the Year Ended June 30, 2018**

<b>Cost Category</b>	<b>Budget</b>	<b>Actual</b>	<b>(Over) Under Budget</b>
Administration	\$ 18,780	\$ 13,939	\$ 4,841
Wx Materials	24,379	21,689	2,690
Wx Program Support	47,917	40,843	7,074
Wx Labor	35,858	32,803	3,055
H&S Materials	8,271	5,145	3,126
H&S Labor	15,760	11,945	3,815
Vehicles/Equipment	-	-	-
Liability Insurance	4,565	-	4,565
Financial Audit	3,913	-	3,913
T&TA	13,026	3,007	10,019
<b>TOTAL</b>	<b>\$ 172,469</b>	<b>\$ 129,371</b>	<b>\$ 43,098</b>
Expenses Not Yet Invoiced at 06/30/2018		(39,803)	
Invoiced and Paid at 06/30/2018		<u>\$ 89,568</u>	

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

**Application Assisters  
Contract # PON2 713 170000740 3  
Sub Contract # HBAP-R5-2  
CFDA # 93.332  
Schedule of Budget and Actual Expenses**

**For the Year Ended June 30, 2018**

<b>Cost Category</b>	<b>Budget</b>	<b>Actual</b>	<b>(Over) Under Budget</b>
Salaries & Fringe	\$ 236,269	\$ 184,035	\$ 52,234
Occupancy Costs	60,952	68,163	(7,211)
Contract Expense	40,800	-	40,800
Other Expenses	24,691	24,027	664
Administration	43,888	33,561	10,327
<b>TOTAL</b>	<b>\$ 406,600</b>	<b>\$ 309,786</b>	<b>\$ 96,814</b>

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

**Schedule of Lexington-Fayette Urban County Government (LFUCG) Funded Awards  
Schedule of Awards and Expenditures  
For the Year Ended June 30, 2018**

<b>Fund</b>	<b>Program Name / Funding Department</b>	<b>Award Amount</b>	<b>Expenditures Prior to July 1, 2017</b>	<b>June 30, 2018 Expenditures</b>	<b>Unspent Award</b>
4359	OHPI - Emergency Family Housing (2 year award)	\$ 237,000	\$ 182,080	\$ 54,920	\$ -
4360	ESR - Emergency Family Housing	92,000	-	56,276	35,724
4400	Healthy Meals on a Budget	11,040	-	2,512	8,528
<b>TOTAL</b>		<b>\$ 340,040</b>	<b>\$ 182,080</b>	<b>\$ 113,708</b>	<b>\$ 44,252</b>



## **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, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year ended June 30, 2018, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 6, 2019. The financial statements of WinterCare Energy Fund, Inc. and CAC Holdings, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Wipfli LLP*

Wipfli LLP

February 6, 2019  
Madison, Wisconsin



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

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

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

We have audited Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2018. 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, 2018, and has a separate single audit, which is not included in this single audit. Therefore, our audit, described below, did not include the operations of Shepherd Place, Inc.

### **Management's Responsibility for Compliance**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal 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, 2018.

## **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 in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Wipfli LLP*

Wipfli LLP

February 6, 2019  
Madison, Wisconsin

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

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018

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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:

<b><u>Name of Federal Major Program</u></b>	<b><u>CFDA No.</u></b>
Head Start	93.600
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

## Section II - Financial Statement Findings

None

## Section III - Federal Award Findings and Questioned Costs

None

## Section IV - Prior Year Findings

None

Community Action, Kentucky, Inc.

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

For the Year Ended June 30, 2018

Community Action, Kentucky Inc.  
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Charles T. Mitchell Company, PLLC  
ctmcpa.com

**Partners**  
James E. Clouse, CPA  
Greg Miklavcic, CPA  
Rick Yates, CPA  
Ryan Moore, CPA

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

## Independent Auditor's Report

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, 2018, 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of Community Action, Kentucky Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action, Kentucky Inc.'s internal control over financial reporting and compliance.

*Charles T. Mitchell Co.*

Frankfort, Kentucky  
December 14, 2018

Community Action, Kentucky Inc.  
Statement of Financial Position  
June 30, 2018

Assets	
Current Assets	
Cash & Cash Equivalents	\$ 724,589
Reimbursable Costs	929,016
Prepaid Expenses	3,509
Total Current Assets	1,657,114
Other Assets	
Investments	969,197
Notes Receivable, (Noncurrent)	8,202
Property and Equipment	
Property and Equipment Net of Accumulated Depreciation	860,867
Total Assets	\$ 3,495,380
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	\$ 741,166
Accrued Compensation	99,814
Deferred Revenue	158,480
Total Current Liabilities	999,460
Total Liabilities	999,460
Net Assets	
Unrestricted	2,495,920
Total Net Assets	2,495,920
Total Liabilities and Net Assets	\$ 3,495,380

See accompanying notes.

Community Action, Kentucky Inc.  
Statement of Activities  
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and Support:</b>			
Grants/Contracts	\$	\$ 41,400,582	\$ 41,400,582
Commissions	101,382		101,382
Dues	18,692		18,692
Rental Income	21,000		21,000
Investment Income	90,512		90,512
Other	307,382		307,382
Release of Restrictions of Net Assets	41,400,582	(41,400,582)	-
<b>Total Revenue and Support</b>	<u>41,939,550</u>	<u>-</u>	<u>41,939,550</u>
<b>Expenses:</b>			
RCAP	639,155		639,155
LIHEAP	36,248,961		36,248,961
WX	80,308		80,308
CSBG	202,700		202,700
OCS	424,211		424,211
Kynect	3,619,319		3,619,319
Other	174,819		174,819
Supporting Services	292,768		292,768
<b>Total Expenses</b>	<u>41,682,241</u>	<u>-</u>	<u>41,682,241</u>
Change in Net Assets	257,309	-	257,309
Net Assets Beginning of the Year	2,238,611	-	2,238,611
<b>Net Assets End of Year</b>	<u>\$ 2,495,920</u>	<u>\$ -</u>	<u>\$ 2,495,920</u>

See accompanying notes.



Community Action, Kentucky Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2018

Cash Flows From Operating Activities:	
Change in Net Assets	\$ 257,309
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	34,042
Unrealized Loss on Investments	32,292
Changes in Operating Assets and Liabilities:	
Decrease in Reimbursable Costs	194,670
Increase in Sub-recipient Receivables	86,201
Decrease in Prepaid Expenses	(1,487)
Decrease in Accounts Payable	(317,427)
Increase in Deferred Revenue	125,001
Decrease in Accrued Expenses	8,380
Total Adjustments	161,672
Net Cash Provided by Operating Activities	418,981
Cash Flows From Investing Activities:	
Collections of Notes Receivable	7,553
Cash proceeds from Investments	885,210
Purchases of Investments	(603,145)
Purchases of Property and Equipment	(236,276)
Net Cash Flows (Used) in Investing Activities	53,342
Cash flows From Financing Activities:	
Payments on Debt	(10,266)
Cash Flows (Used) In Financing Activities	(10,266)
Net Increase in Cash	462,057
Cash and Cash Equivalents at Beginning of Year	262,532
Cash and Cash Equivalents at End of Year	\$ 724,589

See accompanying notes.

Community Action, Kentucky Inc.  
Statement of Functional Expenses  
For the Year Ended June 30, 2018

	RCAP	LIHEAP	WX	CSBG	OCS	Kynect	Other	Treasury	Totals
Salaries	\$ 229,116	\$ 144,433	\$ 7,369	\$ 107,512	\$ 51,756	\$ 77,346	\$ 1,499	\$ 38,388	\$ 657,419
Fringe Benefits	86,588	55,663	2,842	41,480	19,938	29,797	577	14,816	251,701
Professional Services	-	2,532	-	-	-	-	-	38,859	41,391
Consultants / Contracts	-	-	-	4,664	323,420	-	18,939	39,541	386,564
Education	-	107	747	4,172	4,303	-	-	1,777	11,106
Travel In State	26,570	3,836	1,957	14,425	14,909	364	-	31,722	93,783
Travel Out of State	11,850	-	-	-	-	-	-	-	11,850
Meeting	-	-	-	-	-	-	-	51,856	51,856
Telephone	240	-	-	-	253	161	-	52	706
Postage	8	-	-	-	8	-	-	82	98
Office Exp & Supplies	12,059	-	-	582	264	-	-	3,417	16,322
Publications	128	-	-	-	-	-	-	-	128
Dues/Fees	322	-	-	-	-	-	-	20,357	20,679
Insurance	-	-	-	-	-	-	-	324	324
Pollution Insurance	-	-	63,906	-	-	-	-	-	63,906
Printing	-	2,478	-	348	-	-	-	(17)	2,809
Marketing/Advertising	-	-	-	-	-	5,162	-	7,380	12,542
Utilities	-	-	-	-	-	-	-	-	-
Repairs & Maintenance	-	-	-	-	-	-	-	8,288	8,288
IT Repairs & Maintenance	1,233	1,878	1,878	1,878	-	-	-	4,299	11,166
Depreciation	-	-	-	-	-	-	-	14,282	14,282
Equipment	15,232	-	-	-	-	-	-	-	15,232
Interest	-	-	-	-	-	-	26	-	26
Other	187,631	-	-	-	-	-	-	6,976	194,607
Indirect	68,178	34,204	1,609	27,639	9,360	18,657	292	10,369	170,308
Subrecipients	-	36,003,830	-	-	-	3,487,832	153,486	-	39,645,148
<b>Total Expenses</b>	<b>\$ 639,155</b>	<b>\$ 36,248,961</b>	<b>\$ 80,308</b>	<b>\$ 202,700</b>	<b>\$ 424,211</b>	<b>\$ 3,619,319</b>	<b>\$ 174,819</b>	<b>\$ 292,768</b>	<b>\$ 41,682,241</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 19 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 2400 households with subsidy benefits for seven months during the year. The program is funded with a 10 cent per meter monthly charge on residential electric customers of Kentucky Power/AEP.

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

### *Weatherization*

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

## **Note 2 – Summary of Significant Accounting Principles**

Basis of Presentation – CAK previously adopted ASC 958-210-45-9 and 45-10; 558-210-50-3, of which, defines standards for external financial reporting and requires that resources be classified into three net asset categories according to externally (donor) imposed restrictions. Further description 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

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

employment. As of June 30, 2018, CAK had unpaid annual leave and salary of \$99,257 and \$557 of withheld employee flexible savings.

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

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

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

**Note 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 89% 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, 2018, 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 2016, 2015, and 2014 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.

**Note 5 – Investments (continued)**

Investments consisted of the following at June 30, 2018:

	Cost	Fair Value
Bond Funds	\$ 133,932	\$ 127,037
Equity Funds	785,360	842,160
	<u>919,292</u>	<u>969,197</u>
Bond Funds by Fund Type		
RUSSELL INVT (RFCTX)	133,932	127,037
Mutual Funds by Fund Type		
RUSSELL INVT CO (RMYSX)	97,035	96,639
RUSSELL INVT CO (RGISX)	25,299	24,736
RUSSELL INVT CO (RCCSX)	28,655	29,347
RUSSELL INVT CO (RMGSX)	177,175	176,683
RUSSELL INVT (REMSX)	67,121	78,531
RUSSELL INVT (RFATX)	60,668	58,731
RUSSELL INVT (RLESX)	81,318	93,936
RUSSELL INVT (RINTX)	107,426	124,597
RUSSELL INVT CO (RSESX)	140,663	158,750
Sweep Account		210
Total	<u>\$ 919,292</u>	<u>\$ 969,197</u>

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, 2018, the Organization's trading securities had a fair value of \$969,197, of which, all was determined based on quoted prices in active markets for identical assets (Level 1).

**Note 5 – Investments (continued)**

Realized and unrealized gains and losses included in the change in net assets for the year ended June 30, 2018 are reported in the accompanying statement of activities as follow:

Interest & Dividend Income	\$	55,773
Realized Gains(Losses)		66,976
Unrealized Gains(Losses)		(32,292)
Total Investment Income	\$	90,457

**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, 2018 the loans obtained by CAK for Community Action Agencies were paid in full and the related unpaid notes receivable balances were comprised of 3 revolving loans totaling \$8,202 and management considers these to be noncurrent. Interest revenue on the related notes receivable amounted to \$55 for the year ended June 30, 2018.

**Note 7 – Property and Equipment**

Property and equipment consisted of the following at June 30, 2018:

Land	\$	105,287
Office Equipment		388,229
Building		780,540
Total Depreciable Assets		1,274,056
Less: Accumulated Depreciation		(413,189)
Net Property, Plant & Equipment	\$	860,867

Depreciation is computed using the straight-line method over the estimated useful life of the respective asset. Depreciation expense amounted to \$34,042 of which \$15,232 was direct and \$18,810 was included in indirect expenses for the year ended June 30, 2018.

**Note 8 – Notes Payable**

Notes Payable arise from the conduct of CAK’s Housing program. Total payments amounted to \$10,266. Interest paid during 2017-2018 on the related notes payable totaled \$26.

**Note 9 – Retirement Plan and Other Post-Employment Benefits and Contingencies**

Plan Description

County Employees’ Retirement System (CERS)

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

**Note 9 – Retirement Plan and Other Post-Employment Benefits and Contingencies (Continued)**

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

*Contributions* – For the year ended June 30, 2018 plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board based on an annual valuation last proceeding the July 1 of a new biennium, if it is determined based on a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages, which is equal to the actuarial determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The CAK contributed \$127,027 for the year ended June 30, 2018, or 100% of the required contribution.

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



**Note 9 – Retirement Plan and Other Post-Employment Benefits and Contingencies (Continued)**

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

Cost of living adjustments are provided at the discretion of the General Assembly of the State of Kentucky. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Pension Liabilities*

CAK does not report under report under Governmental Accounting Standards Board (GASB). Because of the reporting standards under Financial Accounting Standards Board, as June 30, 2018, CAK did not report a liability of \$1,314,185 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. CAK's proportion of the net pension liability was based on a projection of CAK's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017 CAK's proportion was .0022452% percent. CAK also did not report Deferred Inflows and Outflows of Resources as required by GASB.

*Actuarial Methods and Assumptions*

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were

**Note 9 – Retirement Plan and Other Post-Employment Benefits and Contingencies (Continued)**

based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan’s fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary’s valuation results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of the GRS’ replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

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

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

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

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

**Note 9 – Retirement Plan and Other Post-Employment Benefits and Contingencies (continued)**

Asset Class	Long-Term Expected Rate of Return	Target Allocation
US Equity	5.97%	17.5%
International Equity	7.85%	17.5%
Global Bonds	2.63%	4.0%
Global Credit	3.63%	2.0%
High Yield	5.75%	7.0%
Emerging Market Debt	5.50%	5.0%
Private Credit	8.75%	10.0%
Real Estate	0.11%	5.0%
Absolute Return	5.63%	10.0%
Real Return	6.13%	10.0%
Private Equity	8.25%	10.0%
Cash	<u>1.88%</u>	<u>2.0%</u>
	<u>6.56%</u>	<u>100.00%</u>

*Discount Rate*

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Nonhazardous	\$ 1,657,471	\$ 1,314,185	\$ 1,027,029
CERS's net pension liability	\$ 1,657,471	\$ 1,314,185	\$ 1,027,029

*Pension Plan Fiduciary Net Position*

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

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

**Note 9 – Retirement Plan and Other Post-Employment Benefits and Contingencies (continued)**

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

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

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

The contribution as a % includes the % for insurance.

**Note 10 – Post-Employment Benefits Other Than Pensions (OPEB)**

*Plan Description*

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

*Benefits Provided*

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

*Contributions*

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. CAK has contractually required contribution rate for the year ended June 30, 2018 was

**Note 10 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)**

4.70% of covered payroll. Contributions to the Insurance Fund from the Association were \$25,857 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

*Net OPEB Liability*

For financial reporting, the actuarial valuation as of June 30, 2017 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The rollforward is based on the results of GRS' replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2017
Payroll Growth Rate	2.0% for CERS Non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of
Pre-65	4.05% over a period of 13 years
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of
	4.05% over a period of 11 years

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

*Discount Rate*

The projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost association with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years

**Note 10 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)**

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

Asset Class	Long-Term Expected Rate of Return	Target Allocation
US Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	<u>6.56%</u>	<u>100.00%</u>

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

The Net OPEB liability of CAK, as well as what the CAK's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.84%) or one percentage point higher (6.84%) follows:

	1% Decrease (4.84%)	Current Discount Rate (5.84%)	1% Increase (6.84%)
Nonhazardous	\$ 574,333	\$ 451,362	\$ 349,031
	<u>\$ 574,333</u>	<u>\$ 451,362</u>	<u>\$ 349,031</u>

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

The net OPEB liability of CAK, as well as what CAK's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.84%) or one percentage point higher (6.84%) that the current healthcare cost trend rates follows:

**Note 10 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)**

	1% Decrease (4.84%)	Current Discount Rate (5.84%)	1% Increase (6.84%)
Nonhazardous	\$ 346,218	\$ 451,362	\$ 588,043
	<u>\$ 346,218</u>	<u>\$ 451,362</u>	<u>\$ 588,043</u>

*Pension Plan Fiduciary Net Position*

The schedule of CAK's proportionate share of the net OPEB liability is presented below. CAK is presenting on the current year due to this being the year that GASB 75 has been implemented and will be added to the presentation, to show ten years of information, as it becomes available.

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

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

**Note 11 – 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, 2018.

**Note 12 – Operating Lease**

CAK is the lessee of office equipment under an operating lease during fiscal year end 2018. Lease expense during 2017-2018 totaled \$750.

**Note 13 – 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 \$16,892 for the year ended June 30, 2018. 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 \$39,645,148 for the year ended June 30, 2018.

**Note 14 – Subsequent Events**

Management did not indicate financially impacting information regarding subsequent events. Subsequent events were evaluated through December 14, 2018, 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, 2018 as listed in the table of contents.





Charles T. Mitchell Company, PLLC  
ctmcpa.com

**Partners**  
James E. Clouse, CPA  
Greg Miklavcic, CPA  
Rick Yates, CPA  
Ryan Moore, CPA

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

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

**Board of Directors**  
Community Action, Kentucky, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Action, Kentucky Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 14, 2018.

**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 14, 2018



Charles T. Mitchell Company, PLLC  
ctmcpa.com

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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, 2018. 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, 2018.

**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 14, 2018

Community Action, Kentucky Inc.  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

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	736-17000027341	6/30/18	\$	\$ 202,700
RPIC	Office of Community Services	93.569	90ET0463-02-00	9/29/18		294,847
RPIC	Office of Community Services	93.569	90ET0463-01-00	9/29/17		129,364
				Total 93.569	-	626,911
Low Income Home Energy Assistance Program	KY Cabinet for Health & Family Services	93.568	736-17000027341	6/30/18	36,003,830	36,248,961
LIHEAP-Weatherization	Kentucky Housing Corporation	93.568	LH17-0073-02	6/30/18		38,107
				Total 93.568	36,003,830	36,287,068
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 17/18	9/30/18		94,470
HHS-RCAP	W.S.O.S Community Action Comm.	93.570	PY 16/17	9/30/17		29,234
				Total 93.570	-	123,704
Total Department of Health and Human Services					36,003,830	37,037,683
<i>U.S. Department of Energy:</i>						
Weatherization - DOE	Kentucky Housing Corporation	81.042	WX17-0373-02	6/30/18		42,201
Total Department of Energy					-	42,201
<i>U.S. Department of Agriculture:</i>						
RCDI-RCAP		10.446	PY 16/19	6/14/19		39,257
RCDI-RCAP		10.446	PY 14/16	9/30/17		1,813
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 17/18	8/31/18		97,703
RCAP-Technitrain	W.S.O.S Community Action Comm.	10.761	PY 16/17	8/31/07		20,076
				Total 10.761	-	158,849
Solid Waste 1 - RCAP		10.762	PY 16/18	6/30/18		69,001
Solid Waste 2 - RCAP	W.S.O.S Community Action Comm.	10.762	PE 17/18	9/30/18		25,425
Solid Waste 2 - RCAP	W.S.O.S Community Action Comm.	10.762	PE 16/17	9/30/17		13,413
Community Facilities		10.766	PY 17/20	9/21/20		6,829
				Total 10.762	-	114,668
Total Department of Agriculture					-	273,517
<i>Environmental Protection Agency:</i>						
EPA - RCAP	W.S.O.S Community Action Comm.	66.606	PY 16/18	1/31/18		2,220
EPA - DW	W.S.O.S Community Action Comm.	66.424	PY 17/19	3/31/19		33,596
EPA - WW	W.S.O.S Community Action Comm.	66.436	PY 17/19	3/31/19		16,083
Total Environmental Protection Agency					-	51,899
Total Expenditures of Federal Awards					\$ 36,003,830	\$ 37,405,300

See accompanying notes to the Schedule of Federal Awards.



Community Action, Kentucky Inc.  
Schedule of Subrecipient Expenditures  
For the Year Ended June 30, 2018

	LIHEAP	Non-Federal			Total
	93.568	Kynector	KU	AEP	
Audubon Area	\$ 1,646,303	\$ 486,997	\$	\$	\$ 2,133,300
Bell-Whitley CAA	971,344				971,344
Big Sandy CAP	2,650,587			18,974	2,669,561
Blue Grass CAA	1,629,830	253,196			1,883,026
Central Ky CAA	1,771,897				1,771,897
Daniel Boone CAA	1,854,911				1,854,911
Gateway CAA	959,600	96,824		415	1,056,839
Harlan Co CAA	498,158				498,158
KCEOC CAP	629,946				629,946
Foothills CAP	1,357,882	183,552			1,541,434
LKLP CAA	1,862,620			12,544	1,875,164
Lake Cumberland CAA	2,648,968	254,955			2,903,923
CAC - Lexington	1,769,790	309,786	104,243		2,183,819
Licking Valley CAP	717,137	128,418			845,555
Louisville Metro	4,245,711				4,245,711
Middle Ky CAP	1,418,872			1,539	1,420,411
Multi-Purpose CAA	438,972				438,972
Northeast Ky CAA	2,053,267	220,708		15,771	2,289,746
Northern Ky CAC	1,729,756	635,338			2,365,094
Pennyrile Allied	1,477,469	277,818			1,755,287
CAA of Southern Ky	2,064,854	176,474			2,241,328
Tri-County CAA	280,632				280,632
West Ky Allied	1,325,324	463,766			1,789,090
	<u>\$ 36,003,830</u>	<u>\$ 3,487,832</u>	<u>\$ 104,243</u>	<u>\$ 49,243</u>	<u>\$ 39,645,148</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, 2018. 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 \$ 1,122,159

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, 2018

Revenues	RCAP	IJHEAP	WX	CSBG	OCS	Kynect	Other	Treasury	Total
Grant Revenue	\$ 639,155	\$ 36,248,961	\$ 80,308	\$ 202,700	\$ 424,211	\$ 3,619,319	\$ 185,928	\$ -	\$ 41,400,582
Rental Income	-	-	-	-	-	-	-	21,000	21,000
Interest Income	-	-	-	-	-	-	55	55,773	55,828
Dues	-	-	-	-	-	-	-	18,692	18,692
Commission	-	-	-	-	-	-	-	101,382	101,382
Realized Gain On Inv	-	-	-	-	-	-	-	66,976	66,976
Unrealized Loss On Inv	-	-	-	-	-	-	-	(32,292)	(32,292)
Other Income	-	-	-	-	-	-	-	307,382	307,382
<b>Total Revenues</b>	<b>\$ 639,155</b>	<b>\$ 36,248,961</b>	<b>\$ 80,308</b>	<b>\$ 202,700</b>	<b>\$ 424,211</b>	<b>\$ 3,619,319</b>	<b>\$ 185,983</b>	<b>\$ 538,913</b>	<b>\$ 41,939,550</b>
<b>Expenses</b>									
Salaries	229,116	144,433	7,369	107,512	51,756	77,346	1,499	38,388	657,419
Fringe Benefits	86,588	55,663	2,842	41,480	19,938	29,797	577	14,816	251,701
Professional Services	-	2,532	-	-	-	-	-	38,859	41,391
Consultants / Contracts	-	-	-	4,664	323,420	-	18,939	39,541	386,564
Education	-	107	747	4,172	4,303	-	-	1,777	11,106
Travel In State	26,570	3,836	1,957	14,425	14,909	364	-	31,722	93,783
Travel Out of State	11,850	-	-	-	-	-	-	-	11,850
Meeting	-	-	-	-	-	-	-	51,856	51,856
Telephone	240	-	-	-	253	161	-	52	706
Postage	8	-	-	-	8	-	-	82	98
Office Exp & Supplies	12,059	-	-	582	264	-	-	3,417	16,322
Publications	128	-	-	-	-	-	-	-	128
Dues/Fees	322	-	-	-	-	-	-	20,357	20,679
Insurance	-	-	-	-	-	-	-	324	324
Pollution Insurance	-	-	63,906	-	-	-	-	-	63,906
Printing	-	2,478	-	348	-	-	-	(17)	2,809
Marketing/Advertising	-	-	-	-	-	5,162	-	7,380	12,542
Utilities	-	-	-	-	-	-	-	-	-
Repairs & Maintenance	-	-	-	-	-	-	-	8,288	8,288
IT Repairs & Maintenance	1,233	1,878	1,878	1,878	-	-	-	4,299	11,166
Depreciation	-	-	-	-	-	-	-	14,282	14,282
Equipment	15,232	-	-	-	-	-	-	-	15,232
Interest	-	-	-	-	-	-	26	-	26
Other	187,631	-	-	-	-	-	-	6,976	194,607
Indirect	68,178	34,204	1,609	27,639	9,360	18,657	292	10,369	170,308
Subrecipients	-	36,003,830	-	-	-	3,487,832	153,486	-	39,645,148
<b>Total Expenses</b>	<b>639,155</b>	<b>36,248,961</b>	<b>80,308</b>	<b>202,700</b>	<b>424,211</b>	<b>3,619,319</b>	<b>174,819</b>	<b>292,768</b>	<b>41,682,241</b>
<b>Change in Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,164</b>	<b>\$ 246,145</b>	<b>\$ 257,309</b>

See Independent Auditor's Report

Community Action, Kentucky Inc.  
 LIHEAP Grant – CFDA 93.568  
 Contract #736-1700002734-1  
 Statement of Program Expenses  
 For the Period July 1, 2017 Through June 30, 2018

Payments to Subrecipients		
Agency Subsidy Benefits (CAK records)	\$ 11,227,701	
Agency Crisis Benefits (CAK records)	21,558,157	
Agency Prior Year Adjustments (CAK records)	(13,107)	
Agency Administration (CAK records)	3,231,079	
	<hr/>	
Total Payments To Subrecipients		<u>\$ 36,003,830</u>
CAK Administration		
Salaries	148,024	
Fringe Benefits	57,046	
Professional Services	5,996	
Consultants	-	
Education	317	
Travel	4,183	
Telephone	4,252	
Meeting	590	
Postage	149	
Office Exp & Supplies	879	
Publications	40	
Dues/Fees	131	
Insurance	3,573	
Printing	2,524	
Advertising	0	
Utilities	1,872	
Repairs & Maintenance	11,586	
Depreciation	3,969	
	<hr/>	
Total CAK Administration		<u>245,131</u>
Total Expenditures		<u>36,248,961</u>
Questioned Costs		-
Allowable Cost		36,248,961
Amount Received From CHFS -LIHEAP		36,234,483
Accounts Receivable From Funding Sources		14,478
		<hr/>
Excess (Shortage) Receipts over Expenditures		<u><u>\$ -</u></u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
 LIHEAP Grant – CFDA 93.568  
 Contract #736-170002734-1  
 Statement of Budget to Actual  
 For the Period July 1, 2017 Through June 30, 2018

Cost Category	Budget	Actual	(Over)/Under Budget
Administrative Cost			
Subrecipient	\$ 3,281,231	\$ 3,231,079	\$ 50,152
Community Action Kentucky	364,616	245,131	119,485
Total Administrative	<u>3,645,847</u>	<u>3,476,210</u>	<u>169,637</u>
Benefits - Direct Assistance			
Subsidy	11,234,570	11,227,701	6,869
Crisis	<u>21,581,247</u>	<u>21,558,157</u>	<u>23,090</u>
Total Benefits	<u>32,815,817</u>	<u>32,785,858</u>	<u>29,959</u>
Other Expenditures			
Prior Year Adjustments	-	(13,107)	13,107
Total Other	<u>-</u>	<u>(13,107)</u>	<u>13,107</u>
Total Contract	<u>\$ 36,461,664</u>	<u>\$ 36,248,961</u>	<u>\$ 212,703</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, 2017 Through June 30, 2018

	DOE	LIHEAP	Total
CAK Administration			
Salaries	\$ 7,538	\$ -	\$ 7,538
Fringe Benefits	2,907	-	2,907
Professional Services	163	-	163
Education	757	-	757
Travel	1,973	-	1,973
Meeting	28	-	28
Telephone	200	-	200
Postage	7	-	7
Supplies	41	-	41
Publications	2	-	2
Dues/Fees	6	-	6
Insurance	168	-	168
Pollution Insurance	25,799	38,107	63,906
Printing	2	-	2
Utilities	88	-	88
Repairs & Main	2,335	-	2,335
Depreciation	187	-	187
Total Expenditures	42,201	38,107	80,308
Questioned Costs	-	-	-
Allowable Cost	42,201	38,107	80,308
Amount Received from KHC	41,211	38,107	79,318
Accounts Receivable from Funding Sources	990	-	990
Excess (Shortage) Receipts over Expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report.

Cabinet for Health and Family Services

Expenditures	
Salaries	\$ 110,414
Fringe Benefits	42,598
Professional Services	7,464
Education	4,341
Travel	14,706
Meeting	477
Telephone	3,436
Postage	121
Office Exp & Supplies	1,292
Publications	32
Dues/Fees	106
Insurance	2,887
Printing	385
Utilities	1,512
Repairs & Maintenance	9,722
Depreciation	3,207
Total Expenditures	<u>202,700</u>
Questioned Cost	-
Adjusted Cost	<u>202,700</u>
Contract Payment Received	168,711
Accounts Receivable from Funding Sources	<u>33,989</u>
Excess (Shortage) Receipts over Expenditures	<u><u>\$ -</u></u>

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
 WSOS Community Action Commission, Inc. RCAP Grant  
 Contract PE 16/17  
 (For Contracts Ending June 30, 2018)  
 Statement of Program Expenses  
 For the Period July 1, 2017 Through June 30, 2018

HHS - CFDA 93.570	\$ 113,300
Technitrain - CFDA 10.761	135,000
EPA - CFDA 66.606	60,000
Solid Waste 1 - CFDA 10.762	80,000
Solid Waste 2 - CFDA 10.762	50,000
Contract Awards	\$ 438,300

	Actual 2017	Actual 2018	Total
Expenditures			
Salaries	\$ 165,875	\$ 63,167	\$ 229,042
Fringe Benefits	59,231	26,060	85,291
Professional Services	6,106	2,038	8,144
Education	1,374	123	1,497
Travel	31,226	11,686	42,912
Meeting	894	347	1,241
Telephone	8,974	2,428	11,402
Postage	202	76	278
Supplies	4,598	16,586	21,184
Publications	-	24	24
Dues/Fees	188	77	265
Insurance	5,322	2,102	7,424
Printing	71	27	98
Advertising	179	-	179
Utilities	2,606	1,102	3,708
Repairs & Main	11,551	5,766	17,317
Depreciation	5,959	2,335	8,294
Total Expenditures	304,356	133,944	438,300
Questioned Costs	-	-	-
Adjusted Costs	304,356	133,944	438,300
Contract Payments Received	304,356	114,729	419,085
Accounts Receivable from Funding Sources	\$ -	\$ 19,215	\$ 19,215
Excess (Shortage) Receipts over Expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report.

Community Action, Kentucky Inc.  
 WSOS Community Action Commission, Inc. RCAP Grant  
 Contract PE 17/18  
 (For Contracts Ending September 30, 2018)  
 Statement of Program Expenses  
 For the Period July 1, 2017 through June30, 2018

HHS-CFDA 93.570	\$	94,470
Technitrain - CFDA 10.761		97,703
EPA-DW - CFDA 66.424		33,596
Solid Waste 2 - CFDA 10.762		25,425
Community Facilities - CFDA 10.766		6,829
EPA-WW - CFDA 66.436		16,082
Contract Award	\$	<u>274,105</u>
<b>Expenditures</b>		
Salaries	\$	151,130
Fringe Benefits		55,316
Professional Services		4,105
Education		248
Travel		26,301
Meeting		699
Telephone		5,139
Postage		185
Supplies		6,919
Publications		176
Dues/Fees		438
Insurance		4,234
Printing		55
Utilities		2,218
Repairs & Main		12,239
Depreciation		<u>4,703</u>
Total Expenditures		<u>274,105</u>
Questioned Cost		-
Adjusted Cost		<u>274,105</u>
Contract Payment Received		185,710
Accounts Receivable from Funding Source		<u>88,395</u>
Excess (Shortage) Receipts over Expenditures	\$	<u>-</u>

\*These funds are temporarily restricted until the contract ends SEPTEMBER 30, 2018.

See Independent Auditor's Report.

Community Action Kentucky, Inc.  
OCS  
Contract #90ET463-01-00  
(For Contracts Ending September 29, 2017)  
For the Period July 1, 2017 Through June 30, 2018

RPIC-CFDA 93.570			<u>\$ 374,285</u>
Contract Award			
	Actual	Actual	
	2017	2018	Total
Expenditures			
Salaries	\$ 31,246	\$ 21,069	\$ 52,315
Fringe Benefits	11,380	9,135	20,515
Professional Services	707	349	1,056
Consultants	190,207	92,540	282,747
Education	2,746	21	2,767
Travel	3,530	3,601	7,131
Meeting	103	60	163
Telephone	1,170	530	1,700
Postage	22	23	45
Supplies	323	88	411
Publications	-	4	4
Dues/Fees	17	13	30
Insurance	616	360	976
Printing	381	5	386
Advertising	1	-	1
Utilities	302	189	491
Repairs & Main	1,481	977	2,458
Depreciation	689	400	1,089
Total Expenditures	<u>244,921</u>	<u>129,364</u>	<u>374,285</u>
Questioned Cost	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Cost	<u>244,921</u>	<u>129,364</u>	<u>374,285</u>
Contract Payment Received	244,921	129,364	374,285
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 #90ET463-02-00  
(For Contracts Ending September 29, 2018)  
For the Period July 1, 2017 Through June 30, 2018

RPIC-CFDA 93.570		
Contract Award		<u>\$ 272,480</u>
Expenditures		
Salaries	\$ 31,670	
Fringe Benefits	11,181	
Professional Services	599	
Consultants/Contracts	230,880	
Education	4,339	
Travel	11,403	
Meeting	102	
Telephone	887	
Postage	26	
Supplies	416	
Publications	7	
Dues/Fees	23	
Insurance	618	
Printing	8	
Utilities	324	
Repairs & Main	1,678	
Depreciation	<u>686</u>	
Total Expenditures		<u>294,847</u>
Questioned Cost		-
Adjusted Cost		<u>294,847</u>
Contract Payment Received		272,480
Accounts Receivable from Funding Source		<u>22,367</u>
Excess (Shortage) Receipts over Expenditures		<u>\$ -</u>

\*These funds are temporarily restricted until the contract ends SEPTEMBER 29, 2018.

See Independent Auditor's Report.