



a PPL company

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

RECEIVED
JUN 28 2011
PUBLIC SERVICE
COMMISSION

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 Affairs
T 502-627-3780
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June 28, 2011

Re: ***In the Matter of: Joint Application of Kentucky Utilities Company, Kentucky Association for Community Action, Inc., and Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. for the Establishment of a Home Energy Assistance Program, Case No. 2007-00338***

Dear Mr. DeRouen:

On September 14, 2007, the Commission approved the Joint Application of Kentucky Utilities Company (“KU”), the Kentucky Association for Community Action, Inc. (“KACA”), and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicolas Counties, Inc. (“CAC”), (collectively “Joint Applicants”) for a five year Home Energy Assistance (“HEA”) program. The term of the HEA program was extended for an additional three years (through September 30, 2015) in Case No. 2010-00204. Pursuant to Ordering Paragraph No. 4 of the Commission’s Order in Case No. 2007-00338, KU is filing the HEA program information for calendar year 2010 and the financial audits for KACA and CAC for year ended June 30, 2010.

For the twelve month period ending December 2010, KU collected \$772,281 from residential electric customers (See Exhibit 1).

As of the December 31, 2010 reporting period, there were 2,596 residential customers enrolled in the HEA program representing 70 counties throughout the KU service territory (See Exhibit 2).

Mr. Jeff DeRouen
June 28, 2011

For the calendar year 2010, 3,413 brown bills (See Exhibit 3) were sent to HEA clients. Additionally, there were 1,150 disconnections (See Exhibit 4) of HEA clients during 2010.

In the aforementioned Order, KU was authorized to utilize up to five percent of the total HEA funds collected to provide discretionary energy assistance. The Order specifies that the funds could be used to pay down arrearages or to provide energy assistance in crisis situations. During 2010, KACA and CAC utilized the funds for program participants that required monthly energy assistance.

During 2010, there was no change to the monthly or annual benefit amount after approval of the aforementioned Order.

Lastly, KU has enclosed the financial audits conducted by independent auditors for KACA and CAC for the period ending June 30, 2010.

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

Sincerely,

A handwritten signature in black ink that reads "Rick E. Lovekamp". The signature is written in a cursive, slightly slanted style.

Rick E. Lovekamp

Kentucky Utilities Company
Home Energy Assistance Program
Total Funds Collected

Month/Year	Amount
Jan-10	\$63,705
Feb-10	63,718
Mar-10	64,062
Apr-10	63,849
May-10	63,831
Jun-10	64,511
Jul-10	64,880
Aug-10	68,423
Sep-10	63,999
Oct-10	63,885
Nov-10	63,828
Dec-10	63,589
Total	\$772,281

Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2010

	Number	County
County	Enrolled	Distribution
Adair	7	0.27%
Anderson	26	1.00%
Ballard	3	0.12%
Barren	4	0.15%
Bath	10	0.39%
Bell	132	5.08%
Bourbon	122	4.70%
Boyle	27	1.04%
Bracken	15	0.58%
Bullitt	5	0.19%
Caldwell	1	0.04%
Carroll	17	0.65%
Casey	34	1.31%
Christian	1	0.04%
Clark	37	1.43%
Clay	7	0.27%
Crittenden	5	0.19%
Estill	4	0.15%
Fayette	1,073	41.33%
Fleming	10	0.39%
Franklin	8	0.31%
Gallatin	11	0.42%
Garrard	34	1.31%
Grant	1	0.04%
Grayson	11	0.42%
Green	21	0.81%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2010**

	Number	County
County	Enrolled	Distribution
Hardin	15	0.58%
Harlan	20	0.77%
Harrison	44	1.69%
Hart	39	1.50%
Henderson	14	0.54%
Henry	6	0.23%
Hickman	3	0.12%
Hopkins	32	1.23%
Jessamine	10	0.39%
Knox	10	0.39%
Larue	63	2.43%
Laurel	23	0.89%
Lincoln	71	2.73%
Livingston	4	0.15%
Lyon	3	0.12%
Madison	32	1.23%
Marion	24	0.92%
Mason	12	0.46%
McClean	8	0.31%
McCracken	2	0.08%
McCreary	7	0.27%
Mercer	79	3.04%
Montgomery	40	1.54%
Muhlenberg	48	1.85%
Nelson	5	0.19%
Nicholas	60	2.31%

**Kentucky Utilities Company
Home Energy Assistance Program
Customer Enrollment by County
As of December 31, 2010**

	Number	County
County	Enrolled	Distribution
Ohio	3	0.12%
Oldham	2	0.08%
Owen	4	0.15%
Pendleton	1	0.04%
Pulaski	51	1.96%
Rockcastle	14	0.54%
Rowan	31	1.19%
Russell	14	0.54%
Scott	23	0.89%
Shelby	11	0.42%
Spencer	13	0.50%
Taylor	19	0.73%
Trimble	9	0.35%
Union	5	0.19%
Washington	3	0.12%
Webster	16	0.62%
Whitley	39	1.50%
Woodford	38	1.46%
Total	2,596	100.00%

**Kentucky Utilities Company
Home Energy Assistance Program
Brown Bill Notices Issued - 2010**

Number of Customers	Number of Brown Bills Per Customer Received Annually
545	1
446	2
456	3
383	4
362	5
293	6
302	7
257	8
200	9
114	10
37	11
18	12
3,413	Total

**Kentucky Utilities Company
Home Energy Assistance Program
Number of Disconnections - 2010**

Number of Customers	Number of Disconnections Per Customer
747	1
284	2
83	3
30	4
5	5
1	6
0	7
1,150	Total

Community Action, Kentucky Inc.

Audited Financial Statements
And
Other Financial Information

For The Year Ended June 30, 2010

Table Of Contents

	Page
Financial Statements:	
Independent Auditor's Report	1-2
Statement of Financial Position	3-4
Statement of Activity	5
Statement of Cash Flows	6
Statement of Functional Expenses	7
Notes to Financial Statements	8
Report on Compliance and Internal Control Over Financial Reporting	15
Single Audit:	
Report on Compliance with Requirements Applicable To Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	17
Schedule of Federal Financial Assistance	19
Schedule of Subrecipient Expenditures	20
Notes to the Schedule of Federal Financial Assistance	21
Schedule of Findings and Questioned Costs	22
Schedule of Prior Year Audit Findings	23
Supplemental Information	24-35

Independent Auditor's Report

Board of Directors
Community Action, Kentucky Inc.

We have audited the accompanying statement of financial position of Community Action, Kentucky Inc. ("CAK," nonprofit organization) as of June 30, 2010 and the related statements of activity, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of CAK's management. Our responsibility is to express an opinion on these financial statements based on my audit.

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

In our opinion, the financial statements referred to about present fairly, in all material respects, the financial position of CAK as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2010, on our consideration of CAK's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on CAK's basic financial statements, taken as a whole. The accompanying schedule of federal financial assistance (page 19) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The supplemental information (page 24-35) is presented for purposes of additional analysis pursuant to contractual agreements with grantors. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic

financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Charles T. Mitchell Co.

November 25, 2010

Community Action Kentucky, Inc.
Statement of Financial Position
June 30, 2010

Assets

Current Assets

Cash	\$ 409,656
Receivables	
Reimbursable costs	3,747,864
Due from sub-recipients	6,749
Current portion of Notes Receivable	57,341
Prepaid Expenses	<u>6,601</u>

Total Current Assets 4,228,211

Other Assets

Investments	738,343
Notes Receivable	157,700
Other Receivables	8,862

Property and Equipment

Buildings and equipment, less accumulated depreciation of \$198,739	<u>760,330</u>
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Total Assets \$ 5,893,446

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

Community Action Kentucky, Inc.
Statement of Financial Position
June 30, 2010

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 21,149
Accrued compensation	127,307
Due to Sub-recipients	3,605,935
Due to Funding Sources	4,876
Notes Payable - current maturities	<u>47,036</u>

Total Current Liabilities

3,806,303

Long Term Liabilities

Notes Payable	<u>195,494</u>
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Total Liabilities

4,001,797

Net Assets

Unrestricted	<u>1,891,649</u>
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Total Net Assets

1,891,649

Total Liabilities and Net Assets

\$ 5,893,446

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

Community Action Kentucky, Inc.
Statement of Activities
For The Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Grants/contracts	\$	\$ 89,177,467	\$ 89,177,467
Comissions	179,182		179,182
Program Services		94,216	94,216
Dues	18,605		18,605
Rental Income	14,460		14,460
Investment Income	95,015		95,015
Other	29,155		29,155
Release of restrictions of net assets	<u>89,271,683</u>	<u>(89,271,683)</u>	<u>-</u>
Total Revenue	<u>89,608,100</u>	<u>-</u>	<u>89,608,100</u>
Expenses:			
Energy assistance	88,449,440		88,449,440
CSBG/OCS	441,967		441,967
RCAP	383,980		383,980
Housing	51,781		51,781
AEP	14,048		14,048
Supporing Services	<u>132,980</u>		<u>132,980</u>
Total Expenses	<u>89,474,196</u>	<u>-</u>	<u>89,474,196</u>
Increase in net assets	133,904	-	133,904
Net assets beginning of the year	<u>1,757,745</u>	<u>-</u>	<u>1,757,745</u>
Net assets end of year	<u>\$ 1,891,649</u>	<u>\$ -</u>	<u>\$ 1,891,649</u>

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

Community Action Kentucky, Inc.
Statement of Cash Flows
For The Year Ended June 30, 2010

Cash flows from operating activities:	
Increase (Decrease) in net assets	\$ 133,904
Adjustments to reconcile decrease in net assets to net cash used for operating activities:	
Depreciation and amortization	27,917
Unrealized gains/losses on investments	(61,201)
Changes in operating assets and liabilities	
(Increase) Decrease in reimbursable costs	(1,490,600)
(Increase) Decrease in subrecipient receivables	148,076
(Increase) Decrease in prepaid expenses	(565)
Increase (Decrease) in accounts payable	7,389
Increase (Decrease) in due to sub-recipients	1,393,635
Increase (Decrease) in due funding sources	4,876
Increase (Decrease) in accrued expenses	(221)
Net adjustments	<u>29,306</u>
Net cash from (used in) operating activities	<u>163,210</u>
Cash flows from (used in) investing activities:	
Collections of notes receivable	45,329
Purchase of investments	(27,239)
Purchases of property and equipment	(18,283)
Net cash flows from (used in) investing activities	<u>(193)</u>
Cash flows from (used in) financing activities:	
Payment on long-term debt	(37,492)
Net cash flows from (used in) financing activities	<u>(37,492)</u>
Net increase (decrease) in cash	125,525
Cash at Beginning of Year	<u>284,131</u>
Cash at End of Year	<u>\$ 409,656</u>

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

Community Action Kentucky, Inc.
Statement of Functional Expenses
For The Year Ended June 30, 2010

	RCAP	Housing	Energy	AEP	OCS/ CSBG	Program Services Total	Supporting Services	2010 Totals
Salaries	\$ 197,724	\$ 1,331	\$ 359,186	\$ 1,193	\$ 190,600	\$ 750,034	\$ 15,018	\$ 765,052
Fringe Benefits	68,067	462	123,242	416	65,201	257,388	5,238	262,626
Professional Services	3,066	15	23,330	-	3,052	29,463	10,122	39,585
Consultants	-	-	106,357	-	52,700	159,057	7,450	166,507
Education	170	-	2,711	-	3,665	6,546	1,200	7,746
Travel	34,790	-	18,434	-	7,010	60,234	18,764	78,998
Telephone	7,061	35	12,742	-	7,142	26,980	1,201	28,181
Office Expense and Supplies	42,095	27	13,551	-	7,268	62,941	3,215	66,156
Dues and Fees	180	-	179	-	9	368	1,815	2,183
Insurance	7,652	37	24,589	-	7,636	39,914	1,288	41,202
Pollution Insurance	-	-	228,738	-	-	228,738	-	228,738
Postage	1,079	5	2,492	-	1,019	4,595	346	4,941
Printing	371	1	6,444	-	5,980	12,796	761	13,557
Publications	1,329	-	540	-	2,368	4,237	1,706	5,943
Marketing	-	-	-	-	-	-	6,962	6,962
Advertising	5,425	4	4,801	-	1,540	11,770	974	12,744
Utilities	1,782	9	2,792	-	1,776	6,359	214	6,573
Repairs and Maintenance	6,071	30	11,434	-	6,115	23,650	8,111	31,761
Meeting Expense	1,911	9	4,961	-	18,203	25,084	38,869	63,953
Depreciation	5,207	26	8,152	-	5,183	18,568	9,349	27,917
Interest	-	2,580	-	-	-	2,580	-	2,580
Other	-	-	1	-	-	1	377	378
Loss On Investments	-	12,700	-	-	-	12,700	-	12,700
Subrecipients	-	34,510	87,494,764	12,439	55,500	87,597,213	-	87,597,213
Total	\$ 383,980	\$ 51,781	\$ 88,449,440	\$ 14,048	\$ 441,967	\$ 89,341,216	\$ 132,980	\$ 89,474,196

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

Note 1 – Organization and Nature of the Operations

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

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

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

The following programs are administered by CAK:

LOW INCOME HOME ENERGY ASSISTANCE

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

DEMAND SIDE MANAGEMENT PROGRAM

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

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

Note 1 – Organization and Nature of Operations (Continued)

Rural Network, Inc., has contracted with Community Action, Kentucky Inc. to assist low-income families, small communities, and local officials to deal with water and wastewater problems affecting the poor. The water and wastewater program has activities in Illinois, Indiana, Kentucky, Michigan, Ohio, West Virginia, and Wisconsin.

HOUSING PROGRAM

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

KU ENERGY ASSISTANCE PROGRAM

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

AMERICAN ELECTRIC POWER

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

WEATHERIZATION

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

Note 2 – Significant Accounting Principles

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

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

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

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

Revenue Recognition:

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

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

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

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

Note 2 – Significant Accounting Policies (continued)

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

Accrued Leave – It is the policy of the association that annual leave time is accrued and payable on termination of employment and sick leave is not accrued since it is not paid upon termination of employment. As of June 30, 2010, the association had unpaid annual leave of \$78,346.

Note 3 – Concentrations of Credit Risk

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

Note 4 – Investments

Investments are presented at their fair value as determined by reference to quoted market prices. Related realized and unrealized gains and losses are reflected in the statement of activities. Investments consisted of the following at June 30, 2010:

	Cost	Fair Value
Stocks	\$ 128,788	\$ 82,022
Mutual Funds	559,367	656,321
Total	\$ 688,155	\$ 738,343

Realized and unrealized gains and losses included in net income for the year ended June 30, 2010 are reported in the accompanying income statement as follow:

Interest & Dividend Income	\$	27,238
Recognized Gains(Losses)		-
Unrealized Gains(Losses)		67,777
Total Investment Income	\$	95,015

Note 5 – Notes Receivable

Notes receivable arise from the conduct of CAK’s housing program wherein funds are borrowed from the Kentucky Housing Corporation (see Note 1) and re-loaned to the Community Action Agencies. The balance at June 30, 2010 was comprised of 21 individual loans made to 5 of these agencies. The interest rates on all notes is 1%. This rate is consistent with the related borrowing rate (see Note 9) and is restricted contractually.

Maturities of these notes receivables are as follows:

<u>Year Ended</u>	
2011	\$ 49,255
2012	46,936
2013	32,026
2014	26,101
2015	20,851
Thereafter	<u>31,786</u>
Total	<u>\$ 206,955</u>

Note 6 – Property and Equipment

Property and equipment consisted of the following at June 30, 2010.

Land	\$ 105,287
Office Equipment	95,837
Building	<u>757,945</u>
	959,069
Less: Accumulated Depreciation	<u>(198,739)</u>
Net Property, Plant & Equipment	<u>\$ 760,330</u>

Note 7 – Retirement Plan

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

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

Note 7 – Retirement Plan (continued)

Employer contributions for the year ended June 30, 2010 were \$166,669. The contributions for the year consisted of \$121,789 from the Association and \$44,880 from the employees.

Note 8 – Notes Payable

Notes Payable arise from the conduct of CAK’s housing program as described in notes 1 and 5. The note payable at June 30, 2010 consisted of the following.

Note payable to KHC (NHPR 02/03), Interest at 1% annual payments of \$14,909 through July, 2022	\$ 44,728
Note payable to KHC (NHPR 03/04), Interest at 1% annual payments of \$5,925 through July, 2023	23,700
Note payable to KHC (NHPR 04/05), Interest at 1% annual payments of \$5,250 through July, 2024	26,250
Note payable to KHC (NHPR 05/06), Interest at 1% annual payments of \$10,650 through July, 2025	63,900
Note payable to KHC (NHPR 06/07), Interest at 1% annual payments of \$1,159 through July, 2026	30,660
Note payable to KHC (NHPR 08/09), Interest at 1% annual payments of \$5,921 through July, 2028	<u>53,292</u>
Total	242,530
Less: Current Maturities	<u>47,036</u>
Total Long-Term Debt	<u><u>\$ 195,494</u></u>

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

Expected future principal repayments are as follows:

Year Ended	
2011	\$ 47,036
2012	47,036
2013	47,036
2014	32,126
2015	26,201
Thereafter	<u>43,095</u>
Total	<u><u>\$ 242,530</u></u>

Note 9 – Income Taxes

CAK is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code.

Note 10 – Risks and Uncertainties

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

Note 11 – Fair Value Measurements

SFAS No. 157 requires companies to determine fair value based on the price that would be received to see the asset or paid to transfer the liability to a market participant. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include the following categories:

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The standard requires certain valuation methodologies be used for instruments measured at fair value on a recurring basis and recognized in the Organization's balance sheet, as well as the general classification of such instruments pursuant to the above valuation hierarchy. The Organization believes the standard applies to its investment securities which on the accompanying balance sheet.

At June 30, 2010, the Organization's trading securities had a fair value of \$738,343, all of which was determined based on quoted prices in active markets for identical assets (Level 1).

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 the financial statements of the Community Action, Kentucky Inc. (“CAK”, a Kentucky nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon November 25, 2010. We conducted my audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CAK’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of CAK’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CAK’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than inconsequential will not be prevented or detected by the organization’s internal control.

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

Compliance and Other Matters

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

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

Charles T. Mitchell Co.

November 25, 2010

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Board of Directors
Community Action, Kentucky Inc.

We have audited the financial statements of the Community Action, Kentucky Inc. ("CAK", a Kentucky nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. CAK's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CAK management. Our responsibility is to express an opinion on CAK's compliance based on our audit.

Compliance

We conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that 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 CAK'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 my opinion. Our audit does not provide a legal determination of CAK's compliance with those requirements.

In our opinion, CAK complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

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

control over compliance. Accordingly, we do not express an opinion on the effectiveness of CAK's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any certain deficiency in internal control over compliance that we consider to be a material weakness as defined above.

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

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

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

Charles T. Mitchell Co.

November 25, 2010

Community Action Kentucky, Inc.
Schedule Of Federal Financial Assistance.
For The Year Ended June 30, 2010

Grant	Pass-Through Grantor	Federal CFDA Number	Pass Through Grant Number	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>				
Community Services Block Grant	KY Cabinet for Health & Family Services	93.569	736-08000084111	\$ 132,647
Low Income Home Energy Assistance Program	KY Cabinet for Health & Family Services	93.568	736-08000084111	66,663,169
HHS - RCAP	W.S.O.S Community Action Comm.	93.570	PY 09/10	45,870
HHS - RCAP	W.S.O.S Community Action Comm.	93.570	PY 09/10	108,185
Safety & Security - RCAP	W.S.O.S Community Action Comm.	93.570	PY 09/10	1,828
Training and Technical Assistance	Office of Community Services	93.570	90EQ0171/01	28,700
Promoting Healthy Marriage	Office of Community Services	93.569	90ET0376/02	31,079
EITC	Office of Community Services	93.569	90ET0362/02	3,692
Training and Technical Assistance	Office of Community Services	93.570	90EQ0171/02	58,052
Promoting Healthy Marriage	Office of Community Services	93.569	90ET0376/03	79,843
EITC	Office of Community Services	93.569	90ET0362/03	46,717
Capacity Building - Part 1	Office of Community Services	93.570	90EQ0203/01	23,160
Capacity Building - Part 2 - ARRA	Office of Community Services	93.710	90SQ0020/01	38,077
Total Department of Health and Human Services				67,261,019
<u>U.S. Department of Energy:</u>				
Weatherization - Regular	Kentucky Housing Corporation	81.042	WX10-0534-08	5,819,657
Weatherization - ARRA	Kentucky Housing Corporation	81.042	WX10-0534-04	15,893,552
Total Department of Energy				21,713,209
<u>U.S. Department of Agriculture:</u>				
RCDI - RCAP	W.S.O.S Community Action Comm.	10.446	PY 09/10	5,615
Technitrain - RCAP	W.S.O.S Community Action Comm.	10.761	PY 09/10	34,723
RCDI - RCAP	W.S.O.S Community Action Comm.	10.446	PY 09/10	19,914
Technitrain - RCAP	W.S.O.S Community Action Comm.	10.761	PY 09/10	113,328
Total Department of Agriculture				173,580
<u>Environmental Protection Agency:</u>				
EPAW - RCAP	W.S.O.S Community Action Comm.	66.606	PY 09/10	8,338
SDWA - RCAP	W.S.O.S Community Action Comm.	66.607	PY 09/10	11,684
EPAW - RCAP	W.S.O.S Community Action Comm.	66.606	PY 09/10	11,796
SDWA - RCAP	W.S.O.S Community Action Comm.	66.607	PY 09/10	19,871
Total Environmental Protection Agency				51,689
Total Expenditures of Federal Awards				\$ 89,199,497

Community Action Kentucky, Inc.
Schedule of Subrecipient Expenditures
For The Year Ended June 30, 2010

	LIHEAP 93.568	Regular Weatherization 81.042	ARRA Weatherization 81.042	Healthy Marriage/EITC 93.569	Total
Audubon Area	\$ 2,185,668	\$ 202,271	\$ 526,008	\$ 1,000	\$ 2,914,947
Bell-Whitley Caa	2,111,076	188,866	587,978	5,500	2,893,420
Big Sandy CAP	6,186,607	373,601	882,897	7,500	7,450,605
Blue Grass CAA	2,984,334	201,003	757,721		3,943,058
Central Ky CAA	2,926,768	199,055	681,648		3,807,471
Daniel Boone CAA	4,090,660	301,587	614,736	4,500	5,011,483
Gateway CAA	1,838,705	283,444	570,450		2,692,599
Harlan Co CAA	1,040,215	108,359	352,718		1,501,292
KCEOC CAP	1,806,886	167,618	474,639	1,000	2,450,143
Foothills CAP	2,774,725	166,165	744,227	4,000	3,689,117
LKLP CAA	3,731,680	272,102	896,357	5,500	4,905,639
Lake Cumberland CAA	5,053,541	292,042	1,261,119		6,606,702
CAC - Lexington	2,846,448	210,980	706,082		3,763,510
Licking Valley CAP	1,205,425	304,256	743,867	4,500	2,258,048
Louisville Metro	6,585,678			4,500	6,590,178
Middle Ky CAP	1,865,523	162,719	345,739		2,373,981
Multi-Purpose CAA	762,649	129,444	323,685	4,500	1,220,278
Northeast Ky CAA	4,143,729	307,265	925,095		5,376,089
Northern Ky CAC	2,755,704	237,764	898,019		3,891,487
Pennyrile Allied	3,186,803	363,935	603,084		4,153,822
CAA of Southern Ky	3,246,887	453,144	1,065,547	8,500	4,774,078
Tri-County CAA	446,882	134,330	347,390	4,500	933,102
West Ky Allied	2,570,175	287,973	437,772		3,295,920
Dept of Housing		372,168	608,242		980,410
	<u>\$ 66,346,768</u>	<u>\$ 5,720,091</u>	<u>\$ 15,355,020</u>	<u>\$ 55,500</u>	<u>\$ 87,477,379</u>

Community Action, Kentucky Inc.
Notes To The Schedule Of Federal Financial Assistance
For The Year Ended June 30, 2010

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Action, Kentucky Inc. ("CAK") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

Note 2 – Sub-recipient Expenditures

A substantial amount of expenditures included on the Schedule of Federal Financial Assistance are passed through to various sub-recipients of CAK. The Schedule of Sub-recipient Expenditures on page 20 provides a summary of this activity by sub-recipient and federal program.

Community Action, Kentucky Inc.
 Schedule Of Findings And Questioned Costs
 For The Year Ended June 30, 2010

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 2,675,985

Auditee qualified as low-risk auditee? yes no

II. Financial Statement Findings

None.

III. Federal Awards Findings And Questioned Costs

None.

Finding 09-01 Lack of Segregation of Duties

Condition:

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

Effect:

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

Recommendations:

Prior auditor recommend CAK consider hiring additional staff and continue to evaluate opportunities to segregate duties among existing employees.

Status:

Management hired an internal compliance officer and implemented a number of additional accounting and administrative controls.

Community Action Kentucky, Inc.
Statement of Activity by Program
For The Year Ended June 30, 2010

Revenues	Housing	RCAP 08/09	RCAP 09/10	SWP 08/09	LIHEAP	WX	CSBG	OCS 08/09	OCS 09/10	AEP 08/10	KU Energy		Total
											07/12	Treasury	
Grant Revenue	\$ 34,510	\$ 106,230	\$ 274,922	\$ 2,820	\$ 66,663,169	\$ 21,653,849	\$ 132,647	\$ 63,471	\$ 245,849	\$ -	\$ -	\$ -	\$ 89,177,467
Comission												179,182	179,182
Program Income	2,724									14,043	77,449	-	94,216
Dues												18,605	18,605
Rental Income												14,460	14,460
Investment Income												95,015	95,015
Other Income												29,155	29,155
Total Revenues	37,234	106,230	274,922	2,820	66,663,169	21,653,849	132,647	63,471	245,849	14,043	77,449	336,417	89,608,100
Expenses													
Salaries	1,301	41,730	148,221	1,685	175,343	174,194	56,564	36,364	91,608	1,193	115	14,288	742,606
Fringe Benefits	454	15,741	50,102	584	60,635	60,001	19,677	11,972	31,921	416	40	5,042	256,585
Professional Services	-	-	-	-	8,530	10,000	-	-	-	-	-	9,755	28,285
Consultants	-	-	-	-	9,832	96,525	12,200	6,500	34,000	-	-	7,450	166,507
Education	-	-	170	-	375	2,336	1,190	-	2,475	-	-	1,200	7,746
Travel	-	14,026	20,582	112	3,552	14,774	4,810	22	2,109	-	-	18,756	78,743
Telephone	-	-	-	-	527	1,159	101	9	1	-	-	355	2,152
Office Exp & Supplies	-	26,811	9,590	165	3,877	1,017	622	786	354	-	(1)	2,552	45,773
Dues/Fees	-	34	137	-	165	(1)	-	-	-	-	-	1,814	2,149
Insurance	-	-	42	-	8,834	3,841	17	-	40	-	-	376	13,150
Pollution Insurance	-	-	-	-	-	228,738	-	-	-	-	-	-	228,738
Postage	-	71	19	1	60	885	26	-	8	-	-	227	1,297
Printing	-	43	91	-	2,858	3,215	5,697	-	46	-	-	733	12,683
Publications	-	319	994	-	300	216	1,428	925	-	-	-	1,704	5,886
Marketing	-	-	-	-	-	-	-	-	-	-	-	6,962	6,962
Advertising	-	-	4,600	-	389	3,121	-	-	719	-	-	875	9,704
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs & Maintenance	-	-	-	-	1,670	259	1	1	70	-	-	7,383	9,384
Meeting Expense	-	-	-	-	1,967	-	16,299	-	-	-	-	38,640	56,906
Depreciation	-	1	1	-	1	(1)	2	(1)	-	-	1	8,725	8,729
Interest	2,580	-	-	-	-	-	-	-	-	-	-	-	2,580
Bad Debts	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	1	-	-	-	-	-	-	377	378
Loss on Investments	12,700	-	-	-	-	-	-	-	-	-	-	-	12,700
Indirect	236	7,454	40,373	281	37,485	37,819	14,013	6,893	26,998	-	22	5,766	177,340
Subrecipients	34,510	-	-	-	66,346,768	21,075,111	-	-	55,500	12,439	72,885	-	87,597,213
Total Expenses	51,781	106,230	274,922	2,828	66,663,169	21,713,209	132,647	63,471	245,849	14,048	73,062	132,980	89,474,196
Change in Net Assets	\$ (14,547)	\$ -	\$ -	\$ (8)	\$ -	\$ (59,360)	\$ -	\$ -	\$ -	\$ (5)	\$ 4,387	\$ 203,437	\$ 133,904

Community Action Kentucky, Inc.
 LIHEAP Grant - CFDA 93.568
 Contract #736-0900012751-1
 Statement of Program Expenses
 For the Period July 1, 2009 Through June 30, 2010

Agency Subsidy Benefits (CAK records)	\$	16,998,865
Agency Crisis Benefits (CAK records)		44,368,524
Agency Prior Year Adjustments (CAK records)		(28,259)
Agency Administration (CAK records)		<u>5,007,638</u>
Total Payments To Subrecipients		<u>66,346,768</u>
CAK Administration		
Salaries	180,087	
Fringe Benefits	61,912	
Professional Services	10,919	
Consultants	9,832	
Education	375	
Travel	3,606	
Meeting	3,457	
Telephone	6,029	
Postage	830	
Supplies	8,185	
Publications	312	
Dues/Fees	172	
Insurance	14,763	
Printing	3,043	
Advertising	1,032	
Utilities	1,389	
Repairs & Main	6,400	
Depreciation	4,057	
Other	<u>1</u>	
Total CAK Administration		<u>316,401</u>
Total Expenditures		<u>66,663,169</u>
Questioned Costs (See Schedule)		<u>-</u>
Allowable Cost		66,663,169
Amount Received From CHFS - HEAP		66,642,235
Accounts Receivable From Funding Sources		20,934
Accounts Payable To Funding Sources		<u>-</u>
Excess Receipts Over Expenditures	\$	<u><u>-</u></u>

Community Action Kentucky, Inc.
LIHEAP Grant - CFDA 93.568
Contract #736-0900012751-1
Statement of Program Expenses
For the Period July 1, 2009 Through June 30, 2010

Cost Category	<u>Budget</u>	<u>Actual</u>	<u>(Over)/ Under Budget</u>
Administrative Cost			
Subrecipient	\$ 6,266,511	\$ 5,007,638	\$ 1,258,873
Community Action Kentucky	<u>666,279</u>	<u>299,986</u>	<u>366,293</u>
Total Administrative	<u>6,932,790</u>	<u>5,307,624</u>	<u>1,625,166</u>
Benefits - Direct Assistance			
Subsidy	17,019,093	16,998,865	20,228
Crisis	<u>47,574,717</u>	<u>44,368,524</u>	<u>3,206,193</u>
Total Benefits	<u>64,593,810</u>	<u>61,367,389</u>	<u>3,226,421</u>
Other Expenditures			
DSM	30,000	16,415	13,585
Prior Year Adjustments	<u>-</u>	<u>(28,259)</u>	<u>28,259</u>
Total Other	<u>30,000</u>	<u>(11,844)</u>	<u>41,844</u>
Total Contract	<u>\$ 71,556,600</u>	<u>\$ 66,663,169</u>	<u>\$ 4,893,431</u>

Community Action Kentucky, Inc.
Regular Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 1, 2009 Through June 30, 2010

Payments To Subrecipients		
Department of Energy	\$	5,720,091
Total Payments To Subrecipients		\$ 5,720,091
CAK Administration		
Salaries		29,787
Fringe Benefits		10,197
Professional Services		2,007
Consultants		13,204
Education		317
Travel		2,407
Meeting		254
Telephone		1,138
Postage		206
Supplies		911
Publications		2
Dues/Fees		1
Insurance		1,624
Pollution Insurance		34,717
Printing		412
Advertising		609
Utilities		237
Repairs & Main		847
Depreciation		690
Total CAK Administration		99,567
Total Expenditures		5,819,658
Questioned Costs (See Schedule)		-
Allowable Cost		5,819,658
Amount Received From KHC - WX		5,659,788
Accounts Receivable From Funding Sources		155,896
Accounts Payable To Funding Sources		4,876
Excess Receipts Over Expenditures	\$	(8,850)

Community Action Kentucky, Inc.
Regular Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 1, 2009 Through June 30, 2010

Kentucky Housing Corporation(Federal)			
Department of Energy		<u>\$ 5,810,808</u>	
			(Over)/ Under
Cost Category	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
CAK Admin	<u>\$ 90,717</u>	<u>\$ 99,567</u>	<u>\$ (8,850)</u>
Subrecipient Agencies			
Administration	566,501	500,112	66,389
Materials	1,202,484	918,040	284,444
Program Support	996,348	850,558	145,790
Labor	1,585,518	1,388,183	197,335
Health & Safety	1,268,372	1,078,108	190,264
Vehicles/Equipment	653,431	644,150	9,281
Liability Insurance	57,915	49,696	8,219
Audit	26,902	26,692	210
Training	<u>952,443</u>	<u>264,552</u>	<u>687,891</u>
Total Subrecipient Agencies	<u>7,309,914</u>	<u>5,720,091</u>	<u>1,589,823</u>
Total	<u>\$ 7,400,631</u>	<u>\$ 5,819,658</u>	<u>\$ 1,580,973</u>

Community Action Kentucky, Inc.
ARRA Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 1, 2009 Through June 30, 2010

Payments To Subrecipients		
Department of Energy	\$	<u>15,355,020</u>
Total Payments To Subrecipients		\$ <u>15,355,020</u>
CAK Administration		
Salaries	149,194	
Fringe Benefits	51,092	
Professional Services	10,403	
Consultants	83,321	
Education	2,019	
Travel	12,421	
Meeting	1,249	
Telephone	5,572	
Postage	1,456	
Supplies	4,453	
Publications	226	
Dues/Fees	6	
Insurance	8,199	
Pollution Insurance	194,021	
Printing	2,989	
Advertising	3,160	
Utilities	1,165	
Repairs & Main	4,184	
Depreciation	<u>3,401</u>	
Total CAK Administration		<u>538,531</u>
Total Expenditures		<u>15,893,551</u>
Questioned Costs (See Schedule)		<u>-</u>
Allowable Cost		15,893,551
Amount Received From KHC - WX		12,400,238
Accounts Receivable From Funding Sources		3,442,803
Accounts Payable To Funding Sources		-
Excess Receipts Over Expenditures	\$	<u>(50,510)</u>

Community Action Kentucky, Inc.
ARRA Weatherization Grant
Contract: Kentucky Housing Corporation
Statement of Program Expenses
For the Period July 1, 2009 Through June 30, 2010

Kentucky Housing Corporation(Federal(<u>\$ 15,843,041</u>	
Department of Energy			(Over)/
			Under
Cost Category	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
CAK Admin	\$ 488,021	\$ 538,531	\$ (50,510)
Subrecipient Agencies			
Administration	1,181,896	941,069	240,827
Materials	5,328,156	3,126,930	2,201,226
Program Support	3,694,226	2,807,658	886,568
Labor	5,564,884	3,749,335	1,815,549
Health & Safety	4,342,436	2,784,406	1,558,030
Vehicles/Equipment	1,530,387	1,466,548	63,839
Liability Insurance	96,058	59,875	36,183
Audit	73,780	37,820	35,960
Training	<u>1,273,056</u>	<u>381,379</u>	<u>891,677</u>
Total Subrecipient Agencies	<u>23,084,879</u>	<u>15,355,020</u>	<u>7,729,859</u>
Total	<u>\$ 23,572,900</u>	<u>\$ 15,893,551</u>	<u>\$ 7,679,349</u>

Community Action Kentucky, Inc.
 CSBG Grant
 Contract #736-0900012751-1
 Statement of Program Expenses
 For the Period July 1, 2009 Through June 30, 2010

Expenditures

Salaries	\$	58,338
Fringe Benefits		20,154
Professional Services		893
Consultants		12,200
Education		1,190
Travel		4,830
Meeting		16,856
Telephone		2,158
Postage		314
Supplies		2,233
Publications		1,432
Dues/Fees		3
Insurance		2,235
Printing		5,767
Advertising		240
Utilities		519
Repairs & Main		1,768
Depreciation		<u>1,517</u>
 Total Expenditures		 <u>132,647</u>
 Questioned Costs (See Schedule)		 <u>-</u>
 Allowable Cost		 <u>132,647</u>
 Amount Received From CHFS - CSBG		 116,482
Accounts Receivable From Funding Sources		16,165
Accounts Payable To Funding Sources		<u>-</u>
Excess Receipts Over Expenditures	\$	<u><u>-</u></u>

Community Action Kentucky, Inc.
 WSOS Community Action Commission, Inc. RCAP Grant
 Contract PE 08/09
 (For Contracts Ending September 30, 2009)
 Statement of Program Expenses
 For the Period July 1, 2009 Through June 30, 2010

HHS	93,570	\$	122,705
RCDI	10,446		8,034
Technitrain	10,761		112,524
EPAW	66,606		15,000
SDWA	66,607		25,000
Contract Award			283,263

Expenditures	Actual 6/30/2009	Actual 6/30/2010	Total
Salaries	\$ 100,548	\$ 42,673	\$ 143,221
Fringe Benefits	32,102	15,995	48,097
Professional Services	1,970	475	2,445
Education	228	-	228
Travel	13,950	14,037	27,987
Meeting	796	296	1,092
Telephone	4,008	1,094	5,102
Postage	581	224	805
Supplies	6,581	27,668	34,249
Publications	1,364	322	1,686
Dues/Fees	121	35	156
Insurance	4,911	1,179	6,090
Printing	439	80	519
Advertising	453	128	581
Utilities	1,007	276	1,283
Repairs & Main	4,537	941	5,478
Depreciation	3,437	807	4,244
Total Expenditures	177,033	106,230	283,263
Questioned Costs(See Schedule)	-	-	-
Adjusted Cost	177,033	106,230	283,263
Contract Payments Received	160,709	122,554	283,263
Excess Receipts over Expenditures	-	-	\$ -

Community Action Kentucky, Inc.
 WSOS Community Action Commission, Inc. RCAP Grant
 Contract PE 09/10
 (For Contracts Ending September 30, 2010)
 Statement of Program Expenses
 For the Period July 1, 2009 Through June 30, 2010

HHS	93.570	\$	118,142
RCDI	10.446		9,957
Technitrain	10.761		113,328
EPAW	66.606		11,796
SDWA	66.607		19,871
Safety & Security			<u>1,828</u>
Contract Award			<u>274,922</u>
Expenditures			
Salaries	\$	153,330	
Fringe Benefits		51,478	
Professional Services		2,573	
Education		170	
Travel		20,640	
Meeting		1,604	
Telephone		5,926	
Postage		849	
Supplies		14,230	
Publications		1,007	
Dues/Fees		145	
Insurance		6,428	
Printing		290	
Advertising		5,292	
Utilities		1,496	
Repairs & Main		5,094	
Depreciation		<u>4,370</u>	
Total Expenditures			<u>274,922</u>
Questioned Costs(See Schedule)			<u>-</u>
Adjusted Cost			274,922
Contract Payments Received			243,772
Accounts Receivable From Funding Sources			<u>31,150</u>
Excess Receipts over Expenditures		\$	<u>-</u>

Community Action Kentucky, Inc.
OCS
Contract #90EQ0171/01, #90ET0376/02, & #90ET0362/02
(For Contracts Ending September 29, 2009)
For the Period July 1, 2009 Through June 30, 2010

Receipts			
Promoting Healthy Marriage	93,569	\$	100,000
SAI/CSBG	93,570		75,000
EITC	93,569		<u>50,000</u>
Contract Award			<u>225,000</u>

Expenditures	Actual 6/30/2009	Actual 6/30/2010	Total
Salaries	\$ 40,257	\$ 37,237	\$ 77,494
Fringe Benefits	12,857	12,207	25,064
Professional Services	801	439	1,240
Consultants	25,000	6,500	31,500
Education	1,810	-	1,810
Travel	9,594	32	9,626
Meeting	1,237	274	1,511
Telephone	1,802	1,021	2,823
Postage	233	142	375
Supplies	1,353	1,578	2,931
Publications	325	927	1,252
Dues/Fees	9	1	10
Insurance	1,944	1,090	3,034
Printing	119	34	153
Advertising		118	118
Utilities	38	256	294
Repairs & Main	409	870	1,279
Depreciation	1,844	745	2,589
Other	1,397	-	1,397
Subrecipients	<u>60,500</u>	<u>-</u>	<u>60,500</u>
Total Expenditures	<u>161,529</u>	<u>63,471</u>	<u>225,000</u>
Questioned Costs(See Schedule)	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Cost	161,529	63,471	225,000
Contract Payments Received	<u>161,529</u>	<u>63,471</u>	<u>225,000</u>
Excess Receipts over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Community Action Kentucky, Inc.
OCS
Contracts #90EQ0171/02, #90ET0376/03,
#90ET0362/03, 90EQ0203/01, 90SQ0020/01
(For Contracts Ending September 29, 2009)
For the Period July 1, 2008 Through June 30, 2009

Receipts			
SAI/CSBG	93.570	\$	47,600
Promoting Healthy Marriage	93.569		77,700
EITC	93.569		46,100
Capacity Building Part 1	93.570		22,000
Capacity Building Part 2	93.710		36,200
Contract Award			<u>229,600</u>
Expenditures			
Salaries	95,025		
Fringe Benefits	32,840		
Professional Services	1,720		
Consultants	34,000		
Education	2,475		
Travel	2,148		
Meeting	1,073		
Telephone	3,963		
Postage	563		
Supplies	3,457		
Publications	9		
Dues/Fees	5		
Insurance	4,311		
Printing	179		
Advertising	1,182		
Utilities	1,001		
Repairs & Main	3,477		
Depreciation	2,921		
Subrecipients	<u>55,500</u>		
Total Expenditures			<u>245,849</u>
Questioned Costs(See Schedule)			<u>-</u>
Adjusted Cost			245,849
Contract Payments Received			229,600
Accounts Receivable From Funding Sources			<u>16,249</u>
Excess Receipts over Expenditures		\$	<u>-</u>

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

Lexington, Kentucky

Combined Financial Statements and
Additional Information

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

Combined Financial Statements and Additional Information
Year Ended June 30, 2010

Table of Contents

Independent Auditor's Report	1
Financial Statements	
Combined Statement of Financial Position.....	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7
Additional Information	
Schedule of Expenditures of Federal Awards.....	20
Combining Statement of Financial Position	23
Combining Statement of Activities	24
Weatherization Supplemental Schedules.....	25
ARRA Weatherization Supplemental Schedules	28
LIHEAP Supplemental Schedules	31
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	34
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	36
Schedule of Findings and Questioned Costs	38



Independent Auditor's Report

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

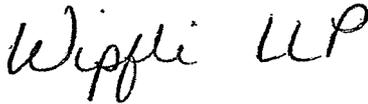
We have audited the accompanying combined statement of financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities as of June 30, 2010, and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These combined financial statements are the responsibility of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

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

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities as of June 30, 2010, and the combined statements of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010, on our consideration of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic combined financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities taken as a whole. The accompanying schedule of expenditures of federal awards, Schedules A-1 to A-3, which includes the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedules B, C, and pages 25-33 are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

December 21, 2010
Madison, Wisconsin

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

Combined Statement of Financial Position

June 30, 2010

<i>Assets</i>	
Current assets:	
Cash	\$ 209,047
Restricted deposits	30,787
Investments	1,921,331
Grants receivable	1,397,086
Accounts receivable	143,106
Other assets	14,469
Total current assets	3,715,826
Long-term assets:	
Beneficial interest in assets held by others	72,459
Notes receivable	62,943
Total long-term assets	135,402
Property and equipment, net	5,870,663
TOTAL ASSETS	\$ 9,721,891
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current portion of notes payable	\$ 565,379
Current portion of capital leases payable	71,639
Line of credit	335,000
Accounts payable	648,901
Accrued payroll and related expenses	764,376
Total current liabilities	2,385,295
Long-term liabilities:	
Notes payable	2,842,413
Fair value of interest rate swap agreement	181,979
Capital leases payable	186,392
Tenant security deposits	4,058
Refundable advance HUD grant	1,061,800
Total long-term liabilities	4,276,642
Total liabilities	6,661,937
Net assets:	
Unrestricted	1,061,740
Temporarily restricted	1,998,214
Total net assets	3,059,954
TOTAL LIABILITIES AND NET ASSETS	\$ 9,721,891

See accompanying notes to the combined financial statements.

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

Combined Statement of Activities

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Grant revenue	\$ 19,942,432	\$ 0	\$ 19,942,432
Investment income	61,528	110,708	172,236
Other income	2,348,064	17,829	2,365,893
In-kind contributions	2,290,712	0	2,290,712
Net assets released from restriction through satisfaction of program restrictions	71,137	(71,137)	0
Total revenue	24,713,873	57,400	24,771,273
Expenses:			
Program activities:			
Child education	15,226,673	0	15,226,673
Transportation	456,612	0	456,612
Community services	3,154,937	0	3,154,937
Weatherization services	3,479,965	0	3,479,965
Senior programs	390,338	0	390,338
Total program activities	22,708,525	0	22,708,525
Fund-raising	51,157	0	51,157
Management and general expenses	1,867,470	0	1,867,470
Total expenses	24,627,152	0	24,627,152
Change in net assets	86,721	57,400	144,121
Net assets - Beginning of year	975,019	1,940,814	2,915,833
Net assets - End of year	\$ 1,061,740	\$ 1,998,214	\$ 3,059,954

See accompanying notes to the combined financial statements.

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

Combined Statement of Functional Expenses Year Ended June 30, 2010

	<u>Child Education</u>	<u>Transportation</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>
EXPENSES									
Salaries	\$ 5,939,364	\$ 206,687	\$ 1,048,206	\$ 175,398	\$ 98,677	\$ 7,468,332	\$ 1,040,500	\$ 5,706	\$ 8,514,538
Fringe benefits	2,403,672	113,250	387,126	80,413	41,156	3,025,617	297,020	1,667	3,324,304
Consultant/contractual	2,573,594	20,368	205,243	76,851	648	2,876,704	180,435	18,640	3,075,779
Space	1,110,642	230	60,580	30	66,252	1,237,734	126,173	389	1,364,296
Supplies	446,653	3,787	107,070	19,527	2,939	579,976	9,222	186	589,384
Travel	67,242	102,077	21,497	1,380	16,170	208,366	32,203	132	240,701
Communications and IT	239,265	3,489	52,856	1,075	5,422	302,107	98,815	200	401,122
Beneficiary assistance	22,471	0	1,139,999	3,110,381	16,816	4,289,667	0	0	4,289,667
Other	138,744	6,724	129,752	14,910	139,180	429,310	83,102	24,237	536,649
In-kind expenses	2,285,026	0	2,608	0	3,078	2,290,712	0	0	2,290,712
TOTAL EXPENSES	<u>\$ 15,226,673</u>	<u>\$ 456,612</u>	<u>\$ 3,154,937</u>	<u>\$ 3,479,965</u>	<u>\$ 390,338</u>	<u>\$ 22,708,525</u>	<u>\$ 1,867,470</u>	<u>\$ 51,157</u>	<u>\$ 24,627,152</u>

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

Combined Statement of Cash Flows Year Ended June 30, 2010

Increase (decrease) in cash:	
Cash flows from operating activities:	
Change in net assets	\$ 144,121
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	423,673
Net realized and unrealized gain on investments	(94,228)
Net realized and unrealized gain on beneficial interest in assets held by others	(8,772)
Change in fair value of interest rate swap agreement	66,021
Changes in operating assets and liabilities:	
Restricted deposits	(7,118)
Grants receivable	(448,464)
Accounts receivable	(46,725)
Other assets	49,888
Net withdrawals from trust accounts	10,143
Accounts payable	173,772
Accrued payroll and related expenses	47,850
Tenant security deposits	(250)
Net cash provided by operating activities	309,911
Cash flows from investing activities:	
Collections on notes receivable	3,360
Purchase of property and equipment	(145,241)
Net cash used in investing activities	(141,881)
Cash flows from financing activities:	
Net proceeds from line of credit	335,000
Payments on capital leases	(68,477)
Payments on notes payable	(317,965)
Net cash used in financing activities	(51,442)
Change in cash	116,588
Cash - Beginning of year	92,459
Cash - End of year	\$ 209,047
Supplemental schedule of operating activities:	
Interest paid and expensed	\$ 221,911
Supplemental schedule of noncash investing and operating activities:	
Capital expenditures in accounts payable	\$ 79,200

See accompanying notes to combined financial statements.

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

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies

Nature of Operations

Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC), a nonprofit organization, was established in 1965. CAC studies the causes and effects of poverty and, in turn, creates opportunities for individuals and families, which enable them to become self-sufficient members of the community. Approximately 62% of CAC's grant funding is received under its federal Head Start grant.

Shepherd Place, Inc. (the "Project") is a 20-unit apartment facility for the elderly and handicapped located in Carlisle, Kentucky. It is operated under Section 202 of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project also receives Section 8 Housing Assistance payments from HUD. A significant portion of the Project's rental income is received from HUD.

WinterCare Energy Fund, Inc. ("WinterCare") was formed in 1983 to provide energy assistance to individuals demonstrating need in Kentucky. Program funding is by donations from individuals and utility companies.

Basis of Presentation

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

Principles of Combination

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

Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organizations and changes therein are classified and reported as follows:

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

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

Notes to Combined Financial Statements

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

Classification of Net Assets (Continued)

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

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

Revenue Recognition

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

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

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

A. Grant Awards that are Contributions

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

B. Grant Awards that are Exchange Transactions

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

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

Notes to Combined Financial Statements

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

Investments

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

Accounts Receivable

Accounts receivable consist primarily of various amounts due from other entities. Receivables are reviewed for collectability by management, and an allowance for doubtful accounts is recorded as needed based on collection history and customer attributes. Management considers these receivables to be collectible, and therefore, no allowance for uncollectible amounts has been recorded. If an amount becomes delinquent after all collection efforts have failed, the account is written off.

Use of Estimates

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

Property and Equipment

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

Property and equipment purchased with grant funds are owned by the Organizations while used in the program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. Property and equipment purchased with grant funds, net of depreciation, was \$551,753 at June 30, 2010.

Capital Leases

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

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

Notes to Combined Financial Statements

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

Income Taxes

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

The Organizations are required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organizations have determined there are no amounts to record as assets or liabilities related to uncertain tax positions. Federal returns for the tax years 2006, 2007, and 2008 remain subject to examination by the Internal Revenue Service.

In-Kind Contributions

CAC has recorded in-kind contributions for space, supplies, and professional services in the combined statement of activities in accordance with generally accepted accounting principles (GAAP). GAAP requires that only contributions of service received which create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of GAAP are different than the in-kind requirements of several of CAC's grant awards. CAC also received in-kind contributions for nonprofessional volunteers, food, and clothing during the year with a value of \$1,426,594, primarily for its Head Start program, which is not recorded in the combined statement of activities.

Derivative Instrument

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

Cost Allocation

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

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

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through December 21, 2010, which is the date the financial statements were available to be issued.

Note 2 Concentration of Credit Risk

CAC maintains cash balances at several financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At one of the financial institutions, balances in excess of \$75,000 are swept by the bank into a repurchase agreement, invested in a U.S. Government security. The government security has a par value of \$141,503 and matures January 1, 2036. At June 30, 2010, there were no balances in excess of FDIC insurance that were not in the repurchase agreement.

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, 2010, are composed of the following:

Escrow fund	\$	6,336
Reserve for replacement		18,671
Residual receipts		1,722
Tenant security deposit		4,058
<hr/>		
Total	\$	30,787

Note 4 Grants Receivable

The grants receivable balance represents amounts due as of June 30, 2010, as follows:

Direct federal programs	\$	347,511
State and local programs		1,049,575
<hr/>		
Total	\$	1,397,086

Note 5 Investments

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

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

Notes to Combined Financial Statements

Note 5 Investments (Continued)

CAC also participates in an investment pool with seven other nonprofits to self-fund unemployment insurance claims. The fair value of the investment pool at June 30, 2010 was \$4,872,734. The allocation of the investments in the pool at June 30, 2010, was 42% equities, 45% fixed income, and 13% money market. CAC's portion of the fair value of the pooled investments was approximately 20.4% at June 30, 2010.

As of June 30, 2010, investments consist of the following:

Health trust:	
Equities	\$ 76,848
Fixed income	651,806
Money market	197,958
CAC share of unemployment investment pool	994,719
<u>Total</u>	<u>\$ 1,921,331</u>

Included in investment income for the year ended June 30, 2010, were interest and dividends of \$78,008 and a net realized and unrealized gain of \$94,228 on the above investments.

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

Note 6 Beneficial Interest in Assets Held by Others

GAAP requires that assets held by an unrelated, not-for-profit organization solely for the benefit of another not-for-profit (beneficiary) organization be recorded on the beneficiary not-for-profit organization's financial statements. The value of the assets is to be recorded on the statement of financial position as a long-term asset with a corresponding restricted net asset for the Community Action Council RSVP balance and unrestricted net asset for the Community Action Council balance. Any change in the net asset value during the fiscal period is to be recorded in the statement of activities as an increase or decrease in net assets.

The balance at June 30, 2010, consists of the following:

Community Action Council RSVP	\$ 15,115
Community Action Council	57,344
<u>Total</u>	<u>\$ 72,459</u>

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

Notes to Combined Financial Statements

Note 7 Endowments

The Board of Directors believes the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is the relevant state law governing its endowment funds. The Board of Directors has interpreted UPMIFA as allowing the appropriation for expenditures for the purposes for which an endowment is established the net appreciation, realized and unrealized, in the fair value of an endowment fund over the historic dollar value of the fund as is prudent under ordinary business care considering the facts and circumstances prevailing at the time action is taken.

The RSVP endowment fund was established by a previous RSVP volunteer. This endowment is for the benefit of the grantee of the RSVP grant. CAC transferred \$55,000 to Blue Grass Community Foundation (BGCF) to establish the second fund, with the anticipation that other donations received by BGCF would be added to this fund. CAC's agreement with BGCF states that BGCF is responsible for the investment and administration of the funds. Each January, 5% of the rolling 12-month average is placed in liquid funds that may be withdrawn or reinvested.

Changes in endowment funds were as follows:

	Board-Designated (Unrestricted)	Donor-Designated (Temporarily Restricted)	Total
Endowments at July 1, 2009	\$ 50,402	\$ 13,285	\$ 63,687
Net appreciation	6,942	1,830	8,772
Endowments at June 30, 2010	\$ 57,344	\$ 15,115	\$ 72,459

Note 8 Property and Equipment

A summary of property and equipment is as follows:

Land	\$ 599,250
Land improvements	160,443
Building and improvements	6,631,443
Leasehold improvements	451,971
Equipment	2,399,810
	10,242,917
Accumulated depreciation	(4,372,254)
Total	\$ 5,870,663

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

Notes to Combined Financial Statements

Note 9 Related Party

CAC's Executive Director and a CAC employee are two of four board members in a joint venture, the Russell School Project (the "Venture"). The other two board members of the Venture are from another organization. The Venture was formed to purchase and renovate a building to be operated by CAC and the other organization. The Venture purchased the building for \$300,000 through financing from a bank, which is secured by the building. CAC has not guaranteed any of the debt. Effective May 2010, CAC signed a 60-month lease agreement with the Venture for \$1 per month. Renovations to the building will be done during the lease term, with construction starting in August 2010. The lease agreement contains an option to purchase at an agreed-upon price by both parties. When the option to purchase is exercised, the building will be subdivided between the two organizations. CAC has incurred expenses through June 30, 2010, of \$116,267 in connection with the Venture, which is included in accounts receivable. Once the other organization secures funds for its portion of the venture, which is expected to take place in fiscal year 2011, the accounts receivable of \$116,267 will be settled.

Note 10 Line of Credit

CAC has an available line of credit in the amount of \$400,000 with PNC Bank. The line of credit matures on December 21, 2010, with a variable interest rate; the rate is 3.25% at June 30, 2010. The line of credit is unsecured. The balance on the line of credit at June 30, 2010, is \$335,000.

Note 11 Refundable Advance

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

Note 12 Notes Payable

A summary of notes payable at June 30, 2010, is as follows:

Loan for housing remodeling for qualified individuals, payable in annual payments of \$12,051, with variable interest payments quarterly, due December 2018.	\$ 59,184
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Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. and Related Entities

Notes to Combined Financial Statements

Note 12 Notes Payable (Continued)

Revenue bonds payable, series 2000B, with interest at 6.71%. Monthly payments of \$13,766 until December 2015, secured by real estate.	755,993
Note payable at a variable interest rate, (rate at June 30, 2010 is 5%), with monthly principal and interest payments of \$1,789, due November 2018. The note is secured by two school buses.	146,853
Revenue bonds payable, series 2000A, annual principal and semiannual interest payments until December 2015, interest at 7% to 7.6%, secured by real estate.	135,000
Revenue bond payable, fixed at 3.74% through an interest rate swap agreement with quarterly payments, due November 2023. The bond is secured by real estate.	2,025,000
Note payable at 6.35% interest, with monthly payments of \$5,663, due December 2010. The note is unsecured.	285,762
Total notes payable	3,407,792
Current portion	(565,379)
<u>Long-term notes payable</u>	<u>\$ 2,842,413</u>

The future maturities of notes payable at June 30, 2010, are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 565,379
2012	292,599
2013	301,167
2014	315,026
2015	338,064
Thereafter	1,595,557
<u>Total long-term notes payable</u>	<u>\$ 3,407,792</u>

Note 13 Derivative Instrument

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

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

Notes to Combined Financial Statements

Note 13 Derivative Instrument (Continued)

At June 30, 2010, the interest rate swap had a notional amount of \$2,025,000, with interest fixed at 3.74%, and expires November 2023.

The interest rate swap was issued at market terms and, therefore, had no fair value at inception. The notional amount changes with quarterly payments. The carrying amounts of the interest rate swap has been adjusted to fair value as of June 30, 2010 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 \$181,979. Adjustments to the carrying amount of the interest rate swap are reported in other expense.

Note 14 Capital Leases Payable

In May 1996, CAC entered into a lease that qualifies as a capital lease. The cost of the property is \$542,500. The accumulated amortization on this property at June 30, 2010, is \$183,365. The leasing arrangement expires January 2011.

In December 1996, CAC entered into a lease that qualifies as a capital lease. The cost of the property is \$243,779. The accumulated amortization on this property at June, 30, 2010, is \$110,377. The leasing arrangement expires December 2026.

CAC renovated a facility in December 2002 at a cost of \$127,396. CAC is a sublessee of this property and the sublease stipulates that the property will transfer at the end of the lease. Accumulated amortization on this property at June 30, 2010, is \$95,549. The leasing arrangement expires January 2013.

The minimum future lease payments required under the capital leases as of June 30, 2010, and for each of the next five years and in the aggregate are as follows:

2011	\$ 80,012
2012	28,373
2013	28,171
2014	13,300
2015	13,300
<u>Thereafter</u>	<u>152,950</u>
Total minimum lease payments	316,106
<u>Amount representing interest</u>	<u>(58,075)</u>
Present value of minimum lease payments	258,031
<u>Current maturity of capital lease</u>	<u>(71,639)</u>
<u>Long-term capital lease</u>	<u>\$ 186,392</u>

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

Notes to Combined Financial Statements

Note 15 Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010, consist of the following:

Self-funded health insurance trust	\$ 901,966
Unemployment insurance trust	994,719
Beneficial interest in assets held by others	15,115
Other	86,414
<u>Total temporarily restricted net assets</u>	<u>\$ 1,998,214</u>

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

Note 16 Operating Leases

CAC leases various facilities and equipment for the operation of its programs under operating leases. Rent expense for the year ended June 30, 2010, was \$177,880. Future minimum lease payments beyond 2010 are as follows:

2011	\$ 154,608
2012	59,613
2013	11,000
2014	9,458
2015	9,457
Thereafter	18,922
<u>Total</u>	<u>\$ 263,058</u>

Note 17 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, 2010, were \$529,771.

Note 18 Grant Awards

At June 30, 2010, CAC had commitments under various ongoing grant awards of approximately \$4,980,000. The revenue relating to these grants is not recognized in the accompanying combined financial statements because the revenue recognition is conditional on the incurrence of expenditures or the performance of services in the next fiscal year.

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

Notes to Combined Financial Statements

Note 19 **Contingencies**

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

Note 20 **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 Related Entities

Notes to Combined Financial Statements

Note 20 Fair Value Measurements (Continued)

Information regarding the fair value of assets measured at fair value on a recurring basis as of June 30, 2010, is as follows:

	Recurring Fair Value Measurements Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 926,612	\$ 926,612	\$ 0	\$ 0
Investments held by trust	994,719	994,719	0	0
Endowment funds held by Foundation	72,459	0	0	72,459
Total assets	\$ 1,993,790	\$ 1,921,331	\$ 0	\$ 72,459
Liability - Derivative	\$ 181,979	\$ 0	\$ 181,979	\$ 0

Changes in the fair value of the investments held by trust endowment funds are recorded as investment income in the statement of activities. The following is a reconciliation of the beginning and ending 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, 2010:

Endowment funds – Beginning of year	\$ 63,687
Unrealized gain	8,772
Endowments funds – End of year	\$ 72,459

Additional Information

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

Schedule A-1 Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through the Kentucky Department of Education			
Child and Adult Care Food Program	10.558	034-D30-999	\$ <u>405,427</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through the Lexington-Fayette Urban County Housing Authority			
Section 8 Housing Assistance Payments	14.195	N/A	<u>45,406</u>
Passed-Through the Lexington-Fayette Urban County Housing Authority			
CDBG/R	14.218	N/A	11,825
CDBG/WX		R-424-2003	7,880
Total Federal Expenditures CFDA #14.218			<u>19,705</u>
Passed-Through the Kentucky Department for Local Government			
Neighborhood Stabilization Grant	14.228	09-N020 NSP	<u>79,200</u>
Passed-Through the Kentucky Housing Corporation			
Project Independence	14.235	KY36B70-2006	11,735
Project Independence		KY088B4I020801	49,221
Continuum of Care/Bourbon County		KY36B70-0022	25,234
Continuum of Care/Bourbon County		KY0008B4I000801	98,251
Samaritian		KY0014B4I000801	23,692
Samaritian		KY022B4I000801	136,544
Kentucky Clean Energy		N/A	65,407
Total Federal Expenditures CFDA #14.235			<u>410,084</u>
Passed-Through the Kentucky Housing Corporation			
HOME	14.239	HR08-0128-01	56,865
AHTF		HR08-0128-01	69,644
GAP		GF10-0533-01	1,414
TBRA LFUCG		N/A	51,435
TBRA		TB09-0128-01	52,029
Total Federal Expenditures CFDA #14.239			<u>231,387</u>
Passed-Through the Kentucky Housing Corporation			
ARRA - HEARTH - Fayette	14.257-ARRA	KH09-0533-02	43,206
ARRA - HEARTH - Rural		KH09-0533-01	248,612
Total Federal Expenditures CFDA #14.257-ARRA			<u>291,818</u>

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

Schedule A-2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Direct Funding			
ARRA - Youth Build	17.274-ARRA	YB-16878-YAO	<u>154,073</u>
Passed-Through Big Sandy Area Development District			
Workforce Investment Act	17.277	N/A	33,552
Passed-Through Northern Kentucky Area Development District			
Workforce Investment Act		N/A	13,539
Total Federal Expenditures CFDA #17.277			<u><u>47,091</u></u>
U.S. DEPARTMENT OF ENERGY			
Passed-Through the Kentucky Association of Community Action Agencies			
DOE-Weatherization Assistance	81.042	WX10-0534-04	<u>210,980</u>
ARRA - DOE-Weatherization Assistance	81.042-ARRA	WX10-0534-08	<u>706,082</u>
Total Federal Expenditures CFDA #81.042 & #81.042-ARRA Cluster			<u><u>917,062</u></u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through the Kentucky Association of Community Action Agencies			
Low-Income Home Energy Assistance Program	93.568	736-090001275-1	<u>2,846,448</u>
Passed-Through the Kentucky Cabinet for Health and Family Services			
Community Services Block Grant	93.569	PON2 736 0900012131	<u>626,565</u>
ARRA - Community Services Block Grant	93.710-ARRA	PON2 736 0900012327	<u>630,038</u>
Total Federal Expenditures CFDA #93.569 & #93.710-ARRA Cluster			<u><u>1,256,603</u></u>
Direct Funding			
SAMSHA	93.243	1H79T1020483-01	93,574
SAMSHA		5H79T1020483-02	126,906
Total Federal Expenditures CFDA #93.243			<u><u>220,480</u></u>

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

Schedule A-3

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Direct Funding			
Head Start	93.600	04CH2750/40	586,642
Head Start		04CH2750/41	6,107,683
Early Head Start		04CH2750/40	221,094
Early Head Start		04CH2750/41	2,279,454
Migrant Head Start		90CM9789/07	329,610
Migrant Head Start		90CM9789/08	2,275,205
	Total Federal Expenditures CFDA #93.600		11,799,688
Head Start Expansion - ARRA	93.708 - ARRA	04SH2750/01	81,336
Head Start COLA & Quality Improvement - ARRA		04SE2750/01	130,705
Early Head Start COLA & Quality Improvement - ARRA		04SE2750-01	63,547
Migrant Head Start COLA & Quality Improvement - ARRA		90SE9789/01	57,614
	Total Federal Expenditures CFDA #93.708-ARRA		333,202
Early Head Start Expansion - ARRA	93.709 - ARRA	04SA2750/01	318,932
	Total Federal Expenditures CFDA #93.600, #93.708-ARRA, and #93.709-ARRA Cluster		12,451,822
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
Direct Funding			
Retired Senior Volunteer Program	94.002	08SRSKY001	51,426
Retired Senior Volunteer Program		08SRSKY001	58,338
	Total Federal Expenditures CFDA #94.002		109,764
Foster Grandparents Program	94.011	08SFSKY001	80,994
Foster Grandparents Program		08SFSKY001	67,298
	Total Federal Expenditures CFDA #94.011		148,292
DEPARTMENT OF HOMELAND SECURITY			
Passed-Through Emergency Food and Shelter National Board			
Emergency Food & Shelter Program/Nicholas County	97.024	28-3502	8,247
Passed-Through Emergency Food and Shelter National Board			
Emergency Food & Shelter Program/Harrison County - ARRA	97.114 - ARRA	AR-3414-00	5,747
	Total Federal Expenditures CFDA #97.024 and #97.114-ARRA Cluster		13,994
TOTAL FEDERAL EXPENDITURES			\$ 19,648,656

Note to Schedule of Expenditures of Federal Awards

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

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

Schedule B Combining Statement of Financial Position June 30, 2010

	Community Action Council	Shepherd Place	WinterCare Energy Fund	Eliminations	Combined Balance
Current assets:					
Cash	\$ 155,078	\$ 8,905	\$ 45,064	\$ 0	\$ 209,047
Restricted deposits	0	30,787	0	0	30,787
Investments	1,921,331	0	0	0	1,921,331
Grants receivable	1,397,086	0	0	0	1,397,086
Accounts receivable	117,175	0	41,043	(15,112)	143,106
Other assets	14,469	0	0	0	14,469
Total current assets	3,605,139	39,692	86,107	(15,112)	3,715,826
Long-term assets:					
Beneficial interest in assets held by others	72,459	0	0	0	72,459
Notes receivable	62,943	0	0	0	62,943
Total long-term assets	135,402	0	0	0	135,402
Property and equipment, net	5,325,171	545,492	0	0	5,870,663
TOTAL ASSETS	\$ 9,065,712	\$ 585,184	\$ 86,107	(\$ 15,112)	\$ 9,721,891
Current liabilities:					
Current portion of notes payable	\$ 565,379	\$ 0	\$ 0	\$ 0	\$ 565,379
Current portion of capital leases payable	71,639	0	0	0	71,639
Line of credit	335,000	0	0	0	335,000
Accounts payable	647,064	4,942	12,007	(15,112)	648,901
Accrued payroll and related expenses	764,376	0	0	0	764,376
Total current liabilities	2,383,458	4,942	12,007	(15,112)	2,385,295
Long-term liabilities:					
Notes payable	2,842,413	0	0	0	2,842,413
Fair value of interest rate swap agreement	181,979	0	0	0	181,979
Capital leases payable	186,392	0	0	0	186,392
Tenant security deposits	0	4,058	0	0	4,058
Refundable advance HUD grant	0	1,061,800	0	0	1,061,800
Total long-term liabilities	3,210,784	1,065,858	0	0	4,276,642
Total liabilities	5,594,242	1,070,800	12,007	(15,112)	6,661,937
Net assets:					
Unrestricted (deficit)	1,473,256	(485,616)	74,100	0	1,061,740
Temporarily restricted	1,998,214	0	0	0	1,998,214
Total net assets (deficit)	3,471,470	(485,616)	74,100	0	3,059,954
TOTAL LIABILITIES AND NET ASSETS	\$ 9,065,712	\$ 585,184	\$ 86,107	(\$ 15,112)	\$ 9,721,891

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

Schedule C

Combining Statement of Activities

Year Ended June 30, 2010

	Community Action Council	Shepherd Place	Wintercare Energy Fund	Eliminations	Combined Balance
Revenue:					
Grant revenue	\$ 19,844,654	\$ 97,778	\$ 0	\$ 0	\$ 19,942,432
Investment income	172,164	31	41	0	172,236
Other income	2,247,647	22,484	248,934	(153,172)	2,365,893
In-kind contributions	2,290,712	0	0	0	2,290,712
Total revenue	24,555,177	120,293	248,975	(153,172)	24,771,273
Expenses:					
Salaries	8,514,538	0	0	0	8,514,538
Fringe benefits	3,324,304	0	0	0	3,324,304
Consultants/contractual	3,075,779	0	0	0	3,075,779
Space	1,305,264	59,032	0	0	1,364,296
Supplies	589,384	0	0	0	589,384
Travel	240,701	0	0	0	240,701
Communications and IT	401,122	0	0	0	401,122
Beneficiary assistance	4,180,964	0	212,001	(103,298)	4,289,667
Other	493,383	81,133	12,007	(49,874)	536,649
In-kind expenses	2,290,712	0	0	0	2,290,712
Total expenses	24,416,151	140,165	224,008	(153,172)	24,627,152
Change in net assets	139,026	(19,872)	24,967	0	144,121
Net assets (deficit) - Beginning of year	3,332,444	(465,744)	49,133	0	2,915,833
Net assets (deficit) - End of year	\$ 3,471,470	(\$ 485,616)	\$ 74,100	\$ 0	\$ 3,059,954

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

**Weatherization Program
Contract # WX10-0534-04
Sub Contract # 13**

Schedule of Budget and Actual Expenses

For the Year Ended June 30,2010

Cost Category	Budget	Actual	(Over) Under Budget
EXPENSES			
Administration	\$ 22,483	\$ 17,984	\$ 4,499
WX Materials	47,456	40,697	6,759
WX Support	59,327	60,543	(1,216)
WX Labor	41,536	27,174	14,362
H&S Materials	12,288	13,103	(815)
H&S Support	15,360	14,056	1,304
H&S Labor	10,752	11,085	(333)
Liability Insurance	2,050	2,084	(34)
Training	49,744	8,089	41,655
Equipment/Vehicles	16,165	16,165	-
TOTAL	\$ 277,161	\$ 210,980	\$ 66,181

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

**Weatherization Program
Contract # WX10-0534-04
Sub Contract # 13**

Schedule of Program Expenses

For the Year Ended June 30,2010

Cost Category	Amount
EXPENSES	
Administration	\$ 17,984
WX Materials	40,697
WX Support	60,543
WX Labor	27,174
H&S Materials	13,103
H&S Support	14,056
H&S Labor	11,085
Liability Insurance	2,084
Training	8,089
Vehicles & Equipment	16,165
TOTAL	<u>210,980</u>
LESS QUESTIONED COSTS	<u>-</u>
ALLOWABLE EXPENSES	210,980
LESS: CONTRACT PAYMENTS RECEIVED as of JUNE 30, 2010	<u>210,980</u>
UNDER / (OVER) PAYMENT DUE AGENCY	<u><u>\$ -</u></u>

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

Weatherization Program
Contract # WX10-0534-04
Sub Contract # 13

Schedule of Questioned Costs

For the Year Ended June 30,2010

Cost Category	Actual Expenses	Questioned Costs	Allowable Costs
EXPENSES			
Administration	\$ 17,984	\$ -	\$ 17,984
WX Materials	40,697	-	40,697
WX Support	60,543	-	60,543
WX Labor	27,174	-	27,174
H&S Materials	13,103	-	13,103
H&S Support	14,056	-	14,056
H&S Labor	11,085	-	11,085
Liability Insurance	2,084	-	2,084
Program Development	-	-	-
Training	8,089	-	8,089
Vehicles/Equipment	16,165	-	16,165
TOTAL	\$ 210,980	\$ -	\$ 210,980

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

ARRA Weatherization Program
Contract # WX10-0534-08
Sub Contract # 13

Schedule of Budget and Actual Expenses

For the Year Ended June 30,2010

Cost Category	Budget	Actual	(Over) Under Budget
EXPENSES			
Administration	\$ 46,370	\$ 36,784	\$ 9,586
WX Materials	188,732	163,232	25,500
WX Support	219,855	194,923	24,932
WX Labor	199,056	143,598	55,458
H&S Materials	43,384	40,529	2,855
H&S Support	50,376	45,391	4,985
H&S Labor	45,472	22,414	23,058
Liability Insurance	1,419	1,419	-
Training	51,134	20,078	31,056
Vehicles/Equipment	37,714	37,714	-
TOTAL	\$ 883,512	\$ 706,082	\$ 177,430

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

ARRA Weatherization Program
Contract # WX10-0534-08
Sub Contract # 13

Schedule of Program Expenses

For the Year Ended June 30,2010

Cost Category	Amount
EXPENSES	
Administration	\$ 36,784
WX Materials	163,232
WX Support	194,923
WX Labor	143,598
H&S Materials	40,529
H&S Support	45,391
H&S Labor	22,414
Liability Insurance	1,419
Training	20,078
Vehicles/Equipment	37,714
TOTAL	<u>706,082</u>
LESS QUESTIONED COSTS	<u>-</u>
ALLOWABLE EXPENSES	706,082
LESS: CONTRACT PAYMENTS RECEIVED as of JUNE 30, 2010	<u>\$ 706,082</u>
UNDER / (OVER) PAYMENT DUE AGENCY	<u><u>\$ -</u></u>

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

**ARRA Weatherization Program
Contract # WX10-0534-08
Sub Contract # 13**

Schedule of Questioned Costs

For the Year Ended June 30,2010

Cost Category	Actual Expenses	Questioned Costs	Allowable Costs
EXPENSES			
Administration	\$ 36,784	\$ -	\$ 36,784
WX Materials	163,232	-	163,232
WX Support	194,923	-	194,923
WX Labor	143,598	-	143,598
H&S Materials	40,529	-	40,529
H&S Support	45,391	-	45,391
H&S Labor	22,414	-	22,414
Liability Insurance	1,419	-	1,419
Training	20,078	-	20,078
Vehicles/Equipment	37,714	-	37,714
TOTAL	\$ 706,082	\$ -	\$ 706,082

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-090001275-1
Sub Contract # 13**

Schedule of Budget and Actual Expenses

For the Year Ended June 30,2010

Cost Category	Budget	Actual	(Over) Under Budget
Administrative	\$ 298,655	\$ 251,691	\$ 46,964
Benefits			
Subsidy	613,146	613,146	-
Crisis	2,465,324	1,981,611	483,713
TOTAL	<u>\$ 3,377,125</u>	<u>\$ 2,846,448</u>	<u>\$ 530,677</u>

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-090001275-1
Sub Contract # 13**

Schedule of Program Expenses

For the Year Ended June 30,2010

Cost Category		Amount	
ADMINISTRATIVE			
Indirect Cost Allocation		\$	251,691
BENEFITS			
Subsidy		613,146	
Crisis			
Benefits	1,890,654		
Energy Counseling	90,957	1,981,611	2,594,757
TOTAL EXPENSES			2,846,448
LESS QUESTIONED COSTS			-
TOTAL ALLOWABLE COSTS			2,846,448
CONTRACT PAYMENT RECEIVED as of JUNE 30, 2010		\$	2,846,448
UNDER/OVER PAYMENT			0

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

**Low Income Housing Energy Assistance Program (LIHEAP)
Contract # 736-090001275-1
Sub Contract # 13**

Schedule of Questioned Costs

For the Year Ended June 30,2010

Cost Category	Actual Expenses	Questioned Costs	Allowable Costs
ADMINISTRATIVE			
Indirect Cost Allocation	\$ 251,691	\$ -	\$ 251,691
BENEFITS			
Subsidy	613,146	-	613,146
Crisis	1,981,611	-	1,981,611
TOTAL	\$ 2,846,448	\$ -	\$ 2,846,448



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

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

We have audited the financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

December 21, 2010
Madison, Wisconsin



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

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

Compliance

We have audited 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) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s management. Our responsibility is to express an opinion on Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s compliance based on our audit.

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

In our opinion, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

The management of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.'s internal control over compliance.

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

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

We noted a certain matter that we reported to management of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. in a separate letter dated December 21, 2010.

The auditee's combined financial statements include Shepherd Place, Inc., a related entity, which expensed greater than \$500,000 in federal awards in the year ended June 30, 2010, and has had a separate single audit, which is not included in this audit.

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



Wipfli LLP

December 21, 2010
Madison, Wisconsin

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

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (CAC).
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of CAC were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for CAC expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for CAC.
7. The programs tested as major programs were the Department of Housing and Urban Development, Homeless Prevention and Rapid Re-housing, CFDA #14.257-ARRA; the Department of Energy, Weatherization cluster, CFDA #81.042 and #81.042-ARRA; the Department of Health and Human Services, Community Services Block Grant, CFDA #93.569 and #93.710-ARRA; and Head Start cluster, CFDA #93.600, #93.708-ARRA, and #93.709-ARRA.
8. The threshold for distinguishing Types A and B programs was \$589,460.
9. CAC was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

There were no findings.

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

Findings: None

Questioned Costs: None

D. Prior-Year Findings: None