

**KENNEBEC VALLEY
COMMUNITY ACTION PROGRAM**

Financial Statements

September 30, 2007 and 2006



Independent Auditor's Report

Board of Directors
Kennebec Valley Community Action Program

We have audited the accompanying statements of financial position of Kennebec Valley Community Action Program (a Maine nonprofit corporation) as of September 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of Kennebec Valley Community Action Program. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kennebec Valley Community Action Program as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years 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 February 15, 2008, on our consideration of Kennebec Valley Community Action Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Gibson, LeClair & Martin, LLC

February 15, 2008
Augusta, Maine

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Financial Position
September 30, 2007 and 2006

	2007			2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 88,915	61,634	127,407	277,956	197,380	58,425	77,819	333,624
Accounts and grants receivable	1,224,948	-	-	1,224,948	1,543,327	-	-	1,543,327
Inventories	22,947	-	-	22,947	20,779	-	-	20,779
Current portion of loans receivable, net	-	1,503	555	2,058	-	1,800	3,000	4,800
Prepaid expenses	72,897	-	-	72,897	130,116	-	-	130,116
Work in progress	644,325	-	-	644,325	527,932	-	-	527,932
Total current assets	2,054,032	63,137	127,962	2,245,131	2,419,534	60,225	80,819	2,560,578
Property and equipment:								
Land	75,100	-	-	75,100	75,100	-	-	75,100
Buildings and improvements	2,226,641	-	-	2,226,641	2,217,680	-	-	2,217,680
Equipment and fixtures	792,597	-	-	792,597	662,372	-	-	662,372
Vehicles	892,937	-	-	892,937	863,940	-	-	863,940
Total property and equipment	3,987,275	-	-	3,987,275	3,819,092	-	-	3,819,092
Less: Accumulated depreciation	(2,046,663)	-	-	(2,046,663)	(1,857,651)	-	-	(1,857,651)
Net property and equipment	1,940,612	-	-	1,940,612	1,961,441	-	-	1,961,441
Other assets:								
Investments	384,474	-	144,770	529,244	40,405	-	100,000	140,405
Loans receivable, net of current portion	190,032	51,510	42,038	283,580	267,144	54,422	89,181	410,747
Total other assets	574,506	51,510	186,808	812,824	307,549	54,422	189,181	551,152
Total assets	\$ 4,569,150	114,647	314,770	4,998,567	4,688,524	114,647	270,000	5,073,171
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	185,845	-	-	185,845	174,443	-	-	174,443
Current portion of obligation under capital lease	19,884	-	-	19,884	-	-	-	-
Accounts payable	217,634	-	-	217,634	372,737	-	-	372,737
Short-term notes payable/lines of credit	496,700	-	-	496,700	352,800	-	-	352,800
Accrued expenses	518,469	-	-	518,469	456,931	-	-	456,931
Reserves	86,319	-	-	86,319	70,372	-	-	70,372
Due to funding sources	40,912	-	-	40,912	257,198	-	-	257,198
Deferred revenue	410,021	-	-	410,021	565,273	-	-	565,273
Total current liabilities	1,975,784	-	-	1,975,784	2,249,754	-	-	2,249,754
Non-current liabilities:								
Obligation under capital lease, net of current portion	83,247	-	-	83,247	-	-	-	-
Long-term debt, net of current portion	506,797	-	-	506,797	635,320	-	-	635,320
Total non-current liabilities	590,044	-	-	590,044	635,320	-	-	635,320
Total liabilities	2,565,828	-	-	2,565,828	2,885,074	-	-	2,885,074
Net assets invested in fixed assets	1,144,839	-	-	1,144,839	1,151,678	-	-	1,151,678
Net assets - other	858,483	114,647	314,770	1,287,900	651,772	114,647	270,000	1,036,419
Total net assets	2,003,322	114,647	314,770	2,432,739	1,803,450	114,647	270,000	2,188,097
Total liabilities and net assets	\$ 4,569,150	114,647	314,770	4,998,567	4,688,524	114,647	270,000	5,073,171

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Statements of Activities

Years ended September 30, 2007 and 2006

	2007			2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Grants and contracts	\$ 8,685,599	-	44,770	8,730,369	8,277,923	-	50,000	8,327,923
Program revenue	6,602,620	-	-	6,602,620	5,994,632	-	-	5,994,632
Other revenue	359,550	-	-	359,550	464,771	-	-	464,771
In-kind	248,022	-	-	248,022	24,776	-	-	24,776
Total revenues, gains and other support	15,895,791	-	44,770	15,940,561	14,762,102	-	50,000	14,812,102
Net assets released from restrictions:								
Restrictions satisfied by payments	-	-	-	-	45,000	(45,000)	-	-
Total earned revenue, contributed support and reclassifications	15,895,791	-	44,770	15,940,561	14,807,102	(45,000)	50,000	14,812,102
Expenses:								
Program services:								
Community services	6,515,904	-	-	6,515,904	5,983,508	-	-	5,983,508
Energy services	2,750,856	-	-	2,750,856	2,419,783	-	-	2,419,783
Child & family services	4,439,221	-	-	4,439,221	4,256,958	-	-	4,256,958
Housing services	685,771	-	-	685,771	575,599	-	-	575,599
Agency services	103,803	-	-	103,803	116,047	-	-	116,047
Total program expenses	14,495,555	-	-	14,495,555	13,351,895	-	-	13,351,895
Supporting services:								
Management & general	1,200,364	-	-	1,200,364	1,185,562	-	-	1,185,562
Total expenses	15,695,919	-	-	15,695,919	14,537,457	-	-	14,537,457
Change in net assets from operations	199,872	-	44,770	244,642	269,645	(45,000)	50,000	274,645
Net assets, beginning of year:								
As previously reported	1,803,450	114,647	270,000	2,188,097	2,781,401	159,647	170,000	3,111,048
Adjustment to net assets	-	-	-	-	(1,247,596)	-	50,000	(1,197,596)
Balance, beginning of year, as restated	1,803,450	114,647	270,000	2,188,097	1,533,805	159,647	220,000	1,913,452
Net assets, end of year	\$ 2,003,322	114,647	314,770	2,432,739	1,803,450	114,647	270,000	2,188,097

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year ended September 30, 2007

	Program Services						Supporting Services		Total
	Community services	Energy services	Child & Family services	Housing services	Agency services	Total program	Management and general	Total	
Personnel	\$ 2,010,967	642,202	2,335,246	110,837	-	5,099,252	702,263	5,801,515	
Payroll taxes and employee benefits	512,070	155,746	589,603	21,377	-	1,278,796	154,270	1,433,066	
Staff development	19,091	7,853	39,891	1,619	-	68,454	10,332	78,786	
Travel	69,562	12,971	39,192	5,456	-	127,181	26,972	154,153	
Office costs	80,531	53,390	98,819	9,304	-	242,044	37,749	279,793	
Insurance	6,995	3,323	6,065	8,556	-	24,939	31,219	56,158	
Telecommunications	28,804	3,438	9,617	422	-	42,281	6,422	48,703	
Space and occupancy	132,455	58,618	277,603	18,436	(1,049)	486,063	122,332	608,395	
Contract services	21,076	1,355,031	503,205	175,265	-	2,054,577	29,769	2,084,346	
Vehicle	474,767	21,867	-	4,623	-	501,257	-	501,257	
Housing property costs	-	-	-	192,110	-	192,110	-	192,110	
Material & supplies	89,561	404,929	234,860	107,433	-	836,783	16,696	853,479	
Direct client assistance	2,747,779	-	1,098	-	-	2,748,877	-	2,748,877	
Administration	(261)	(76)	(302)	(14)	-	(653)	-	(653)	
Interest	16,659	7,385	13,491	22,640	5,809	65,984	716	66,700	
Depreciation	15,061	14,111	10,695	972	97,665	138,504	10,845	149,349	
Provision for loan losses	-	-	-	3,802	332	4,134	-	4,134	
Common carrier	247,575	-	-	-	-	247,575	-	247,575	
Other	43,212	10,068	32,116	2,933	1,046	89,375	50,779	140,154	
In-kind	-	-	248,022	-	-	248,022	-	248,022	
Total before general and administrative	6,515,904	2,750,856	4,439,221	685,771	103,803	14,495,555	1,200,364	15,695,919	
General and administrative	480,538	135,315	558,026	26,485	-	1,200,364	(1,200,364)	-	
Total expenses	\$ 6,996,442	2,886,171	4,997,247	712,256	103,803	15,695,919	-	15,695,919	

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year ended September 30, 2006

	Program Services							Supporting Services		Total
								Management and general		
	Community services	Energy services	Child & Family services	Housing services	Agency services	Total program	Total	Total		
Personnel	\$ 1,978,548	575,118	2,363,522	100,916	-	5,018,104	661,441	5,679,545		
Payroll taxes and employee benefits	494,485	141,000	587,688	16,867	-	1,240,040	175,187	1,415,227		
Staff development	11,407	11,439	41,253	908	5	65,012	14,692	79,704		
Travel	60,004	7,459	54,512	4,051	-	126,026	18,934	144,960		
Office costs	78,300	50,613	109,847	8,314	234	247,308	71,320	318,628		
Insurance	7,219	6,067	5,811	9,512	-	28,609	29,945	58,554		
Telecommunications	28,388	3,457	13,899	452	-	46,196	2,416	48,612		
Space and occupancy	117,561	98,709	254,472	12,953	(47)	483,648	85,406	569,054		
Contract services	45,947	921,689	496,408	185,618	-	1,649,662	12,503	1,662,165		
Vehicle	347,590	19,955	-	3,289	-	370,834	-	370,834		
Housing property costs	-	-	-	179,290	-	179,290	-	179,290		
Material & supplies	80,942	540,633	239,440	32,155	-	893,170	20,956	914,126		
Direct client assistance	2,349,320	-	451	-	-	2,349,771	-	2,349,771		
Administration	101	28	121	6	-	256	-	256		
Interest	19,458	21,954	13,832	16,423	6,926	78,593	320	78,913		
Depreciation	14,998	13,619	9,222	655	100,215	138,709	12,167	150,876		
Provision for loan losses	-	-	-	1,592	-	1,592	-	1,592		
Common carrier	300,240	-	-	-	-	300,240	-	300,240		
Other	49,000	8,043	41,704	2,598	8,714	110,059	80,275	190,334		
In-kind	-	-	24,776	-	-	24,776	-	24,776		
Total before general and administrative	5,983,508	2,419,783	4,256,958	575,599	116,047	13,351,895	1,185,562	14,537,457		
General and administrative	469,600	130,186	561,748	24,028	-	1,185,562	(1,185,562)	-		
Total expenses	\$ 6,453,108	2,549,969	4,818,706	599,627	116,047	14,537,457	-	14,537,457		

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Cash Flows
Years ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 244,642	274,645
Adjustments to reconcile change in net assets to cash flows provided by (used in) operating activities:		
Depreciation	190,444	190,838
Unrealized gain on investment	(1,384)	(665)
Provision for loan losses	4,134	1,592
Debt forgiveness	(95,200)	-
Gain on sale of property	-	(131,550)
(Increase) decrease in:		
Accounts and grants receivable	318,379	(196,520)
Loans receivable	125,775	(55,803)
Inventories	(2,168)	(5,321)
Prepaid expenses	57,219	30,526
Work in progress	(116,393)	(258,740)
Increase (decrease) in:		
Accounts payable	(155,103)	84,969
Accrued expenses	61,538	(995)
Reserves	15,947	70,372
Due to funding sources	(216,286)	(247,810)
Deferred revenue	(155,252)	25,957
Net cash provided by (used in) operating activities	276,292	(218,505)
Cash flows from investing activities:		
Investment in subsidiary	(387,455)	(87,618)
Proceeds from sale of property	-	138,855
Purchase of property and equipment, net of retirements	(60,100)	(42,551)
Net cash provided by (used in) investing activities	(447,555)	8,686
Cash flows from financing activities:		
Payments on obligation under capital lease	(6,384)	-
Proceeds from (repayment of) long-term debt, net	(21,921)	(113,949)
Proceeds from short-term debt, lines of credit, net	143,900	114,400
Net cash provided by financing activities	115,595	451
Decrease in cash and cash equivalents	(55,668)	(209,368)
Cash and cash equivalents, beginning of year	333,624	542,992
Cash and cash equivalents, end of year	\$ 277,956	333,624
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 66,700	78,913
Non-cash operating, investing and financing activities:		
During the year ended September 30, 2006, the Organization sold three transition houses. Mortgage loans totalling \$246,045 were paid off directly from the proceeds of sales.		
As of September 30, 2006, loans receivable totalling \$1,197,596 were written off and net assets reduced by the same amount in order to comply with federal regulations.		
During the year ended September 30, 2007, the Organization acquired equipment through a capital lease in the amount of \$109,515.		

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Kennebec Valley Community Action Program is a nonprofit agency organized to provide a focal point for anti-poverty and other social service efforts throughout the communities of the Kennebec Valley area. The accounting practices of the Organization are designed primarily to demonstrate stewardship of the funds entrusted to it, compliance with prescribed grant conditions and other special requirements, including the furnishing of certain amounts of cash or non-cash contributions to programs from nonfederal sources.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation - The Organization prepares its financial statements in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements for Not-For-Profit Organizations" (SFAS No. 117). Under this provision, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. For the years ending September 30, 2007 and 2006, \$114,647 of the Organization's net assets were temporarily restricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. For the years ending September 30, 2007 and 2006, \$314,770 and \$270,000, respectively, of the Organization's net assets were permanently restricted. The permanently restricted net assets represent funds provided by NeighborWorks America for making loans and for capital projects. All resources granted to this fund must be maintained permanently. The Organization is permitted to transfer or expend only the income (or other economic benefits) derived from capital assets in excess of the Capital Fund Agreement (corpus).

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments - The Organization carries investments in marketable securities with readily determinable fair values. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. The Organization also has an investment in Cony Village, LLC, a housing project in Augusta, Maine.

Accounts and Grants Receivable - Accounts and grants receivable consists primarily of revenue from various government grants and contracts. No allowance for uncollectible accounts and grants has been established for Kennebec Valley Community Action Program as all accounts and grants receivable are believed to be collectible.

Inventory - Supplies for distribution or sale to clients of the Family Planning clinic are stated at replacement value.

Property and Equipment - Property and equipment acquisitions are recorded in unrestricted net assets. Assets acquired with grant funds have been reported to funding sources as being acquired with specific award funds and charged as expenditures to the source. These assets are separately identified so as to preclude charging subsequent awards for depreciation on those items. Depreciation is recorded on these assets ratably over estimated useful lives, which range from 33-1/3 years for buildings, 5-10 years for building renovations and 3-5 years for equipment. Depreciation expense for grant-funded assets is presented only within "Agency services" and is not allocated as an expense among grant-funded program activities. Depreciation expense on funded assets totaled \$97,081 and \$100,215 for the years ended September 30, 2007 and 2006, respectively.

Other assets have been purchased with unrestricted funds and are being utilized in the various program activities. These are referred to as "unfunded assets". These assets are being depreciated ratably over their estimated useful lives, which range from 33-1/3 years for buildings, 5-10 years for building renovations and 3-5 years for equipment. The related expense is charged directly to the program utilizing the asset or to the appropriate shared cost pool, which in turn is allocated among programs. Depreciation expense for unfunded assets totaled \$86,063 and \$90,622 for the years ended September 30, 2007 and 2006, respectively.

Restricted and Unrestricted Revenue and Support - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is unrestricted by the donor is reported as an increase in unrestricted net assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are classified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted and Unrestricted Revenue and Support, Continued - NeighborWorks America provided a \$44,770 and a \$50,000 capital grant during the years ended September 30, 2007 and 2006, respectively for a capital project. These amounts are permanently restricted although proceeds on the capital project, or interest earned, over and above the corpus may be transferred to unrestricted net assets for furthering the Organization's mission. However, should the Organization become defunct, all remaining interest earnings, capital project proceeds, and the capital projects portfolios representing the use of these funds will revert to NeighborWorks America.

In-kind Contributions and Expenses - Consulting services, space and supplies used for program purposes are presented in the financial statements at estimated market value and recorded when received. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization in its Child and Family Services programs. K.V.C.A.P. received \$571,883 and \$1,069,082 worth of non-professional volunteer services during the years ended September 30, 2007 and 2006, respectively. These amounts are not included in the amount recognized in the financial statements at September 30, 2007 and 2006.

Deferred Revenue - The Organization records unexpended grant awards that were received prior to year end as deferred revenue until related services are performed, at which time they are recognized as revenue.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year. There was no effect on total net assets.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DESCRIPTION OF PROGRAMS

Community Services – This department is comprised of two divisions. The Health and Social Services division offers programming to first-time parents, provides support services to pregnant and parenting teens, operates two family planning clinics, participates in a program to prevent child abuse and neglect, and maintains a walk-in teen center. The Transportation division has two components: operating public transit services in Augusta and Waterville, and providing door-to-door transportation services through a network of volunteers for medical and social service appointments.

Child & Family Services - The Child & Family Services department operates Head Start and Early Head Start programs throughout northern Kennebec and all of Somerset Counties, provides high-quality childcare services to families with children ages 6 weeks to 5 years old, and offers comprehensive Head Start and child care services in family child care homes (HomeStart.)

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

DESCRIPTION OF PROGRAMS, CONTINUED

Energy Services - The Energy Services department provides home weatherization and other energy saving services, provides home energy and telephone assistance services, operates, home repair/loan programs, and coordinates the distribution of food commodities through a network of 48 food pantries and soup kitchens in Kennebec and Somerset Counties.

Housing Services - The Affordable Housing department provides a comprehensive homebuyer education course, individual pre-and post-purchase counseling services, foreclosure prevention counseling, credit counseling, a down payment and closing cost assistance loan program, and develops homeownership opportunities through new construction and purchase/rehab activities.

CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Organization maintains their cash balances consisting of checking accounts and savings accounts in financial institutions located in Maine. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. In addition, one bank has entered into an agreement with the Organization, which provides a collateralized perfected interest in certain securities held by the bank for the checking account balances. As of September 30, 2007 and 2006, the Organization's cash balances were either insured by federal depository agencies or within the bank's collateralized agreement.

INVESTMENTS

Marketable investments are stated at fair value and consist of the following:

<u>Market</u>	<u>2007</u>	<u>2006</u>
<u>Common and preferred stock</u>	<u>\$ 13,968</u>	<u>12,584</u>

Investment return for KVCAP on the above stocks and bonds is summarized as follows:

	<u>2007</u>	<u>2006</u>
<u>Unrealized gains</u>	<u>\$ 1,384</u>	<u>665</u>

The investment in Cony Village, LLC, which KVCAP has a 50% interest, totaled \$515,2756 and \$127,821 as September 30, 2007 and 2006, respectively.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

LOANS RECEIVABLE

K.V.C.A.P. receives funds under housing programs where funds are loaned to qualified low-income individuals. Repayments of loans are returned to the revolving fund to allow for additional loans. The loans receivable totaled \$38,093 and \$99,181 at September 30, 2007 and 2006, respectively. No allowance is considered necessary as management feels all amounts will be collected.

K.V.C.A.P. also receives grant funds from The Maine State Housing Authority, Federal Home Loan Bank, and other funding sources to lend to qualified low-income individuals. These loans are not required to be repaid unless certain provisions of the agreements are not met or followed over a pre-determined amount of time. The time constraints range from 5-20 years depending on the note and the funding source. The amount of these loans receivable totaled \$521,582, less \$274,038 reserve for uncollectible loans at September 30, 2007, and totaled \$624,752, less \$308,386 reserve for uncollectible loans at September 30, 2006.

LINE OF CREDIT

At September 30, 2007 and 2006, the Organization had the following lines of credit available for use:

Working capital line of credit with a bank in the amount of \$450,000. Advances are payable on demand including interest at the base borrowing rate, as published in the Money rates section of the Wall Street Journal, plus one percent and are unsecured. The line of credit agreement expires May 17, 2008, and can be renewed. Balances at September 30, 2007 and 2006 were \$200,000 and \$42,000 respectively.

Housing guidance line(s) of credit with a bank in the amount of \$500,000. The guidance line permits advances to be used exclusively for the purchase of real estate of which the bank will hold the first mortgage. Advances to purchase real estate will not exceed 80% of the appraised value. The line of credit is renewed annually. The following is the detail of open lines of credit at September 30, 2007 and 2006:

Housing line of credit for Pleasant Hill Road in Augusta, Maine in the amount of \$147,200. The balances at September 30, 2007 and 2006 were \$0 and \$147,200, respectively.

Housing line of credit for the Scott Subdivision on Martin Stream Road in Norridgewock, Maine in the amount of \$40,000. The balance at September 30, 2007 and 2006 was \$30,000. A portion of this line was paid down in fiscal year 2006 and a new line opened for construction in the amount of \$133,600. The balance at September 30, 2007 and 2006 was \$0 and \$133,600, respectively.

Housing line of credit for Cony Street, in Augusta, Maine in the amount of \$125,600. The balance at September 30, 2007 and 2006 was \$125,600 and \$0, respectively.

Housing line of credit for Lot 3 of the Mill Run Subdivision, in Oakland, Maine in the amount of \$141,100. The balance at September 30, 2007 and 2006 was \$141,100 and \$0, respectively.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

LONG-TERM DEBT

At September 30, long-term debt consisted of the following:

	<u>2007</u>	<u>2006</u>
\$67,400 note payable to Skowhegan Savings Bank, payable in monthly installments of \$585 including interest at 8.5% through March, 2012, secured by 5 Libby Court, Waterville, Maine.	27,417	31,892
\$64,400 note payable to Kennebec Federal Savings, payable in monthly installments of \$539 including interest at 8.0% through July, 2014, secured by 7 Libby Court, Waterville, Maine.	31,734	35,471
\$40,000 note payable to Skowhegan Savings Bank, payable in monthly installments of \$329 including interest at 7.75% through August, 2016, secured by the Skowhegan Child Development Center, Skowhegan, Maine.	24,526	26,640
\$300,000 note payable to Skowhegan Savings Bank, payable in monthly installments of \$2,156 including interest at 7.75% through October, 2016, secured by the Boulette Building in Skowhegan, Maine.	257,089	262,793
\$89,500 note payable to Key Bank, payable in monthly installments of \$842 including interest at 9.5% through September, 2010, with one final payment of remaining balance due at maturity. Amount is secured by 49 King Street, Waterville, Maine.	71,383	75,870
\$300,000 note payable to Key Bank, payable in monthly installments of \$5,870 including interest at 6.41% through July, 2009, secured by Agency assets.	126,614	186,696
\$ 97,900 interest-free forgivable note to the Maine State Housing Authority due May, 2017, secured by Augusta T-house. Repayment is deferred until the earlier of a default, sale, transfer, or forgiven at 1/10 for years ten through twenty.	48,950	97,900
\$ 28,997 note payable to Ford Credit, payable in monthly installments of \$483 with 0% interest through December, 2011, secured by truck.	23,681	-
\$ 35,000 interest-free forgivable note to WHA, Inc. Repayment is deferred until the earlier of a default, sale or transfer.	35,000	-

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

LONG-TERM DEBT, CONTINUED

\$ 92,500 interest-free forgivable note to the Maine State Housing Authority due May, 2017, secured by the Augusta T-house. Repayment is deferred until the earlier of a default, sale, transfer, or forgiven at 1/10 for years ten through twenty.	46,250	92,500
	692,642	809,763
Less current portion	185,845	174,443
Long-term debt	\$ 506,797	635,320

Maturities on long-term debt are as follows:

<u>Fiscal year</u>		
2008	\$	185,845
2009		90,435
2010		90,768
2011		27,833
2012		22,600
Thereafter		275,161
Total	\$	692,642

OPERATING LEASES

The Organization leases parking lots under operating leases which expire at various times through October, 2009.

Future minimum payments are as follows:

Year ended September 30:		
2008	\$	4,397
2009		222
Total future minimum lease payments	\$	4,619

Lease expense for the years ended September 30, 2007 and 2006 was \$30,952 and \$44,571, respectively.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

CAPITAL LEASE

The Organization entered into a capital lease for equipment during the year ended September 30, 2007. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the leases, and, accordingly, they are recorded in the Organization's assets and liabilities.

The following is a schedule by years of future minimum payments required under the lease together with its present value as of September 30, 2007:

Year ended September 30:		
2008	\$	25,180
2009		25,180
2010		25,180
2011		25,180
2012		16,786
Total minimum lease payments		117,506
<u>Less amount representing interest</u>		<u>14,375</u>
<u>Present value of minimum lease payments</u>	\$	<u>103,131</u>

Amortization of the asset held under the capital lease is included with depreciation expense.

VEHICLE RESERVE

A principal funding source for certain transportation programs, the Maine Department of Transportation allows the Board of Directors of K.V.C.A.P. to designate amounts from program operations to be set aside as a vehicle reserve. The purpose of the reserve is to accumulate any excess of revenues over expenditures from those transportation programs over a period of time and to use the amounts for future outlays for facilities, vehicles, and equipment.

The Department of Transportation provides further guidance for the use of the reserve. The Organization must use the reserve to match costs of capital acquisitions and/or replacements funded through its grants to the Organization. Contributions and support restricted by donors for capital use must also be placed in the reserve. Any planned additions to the reserve are required to be approved by the Organization's Board of Directors and be reflected in its budget with the Department of Transportation.

The activity of the Vehicle Reserve account for the years ended September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 25,000	25,000
Fiscal year additions	41,637-	
Equipment purchased	<u>(13,924)</u>	<u>-</u>
<u>Balance, end of year</u>	\$ 52,713	25,000

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

VEHICLE RESERVE, CONTINUED

The Vehicle Reserve is included as part of unrestricted "Net assets – other" in the statements of financial position.

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of the following revolving loan funds:

	<u>2007</u>	<u>2006</u>
MSHA housing preservation	\$ 114,647	114,647

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. If the stipulation is not satisfied, the donor may require the Organization to return the balance.

Permanently restricted net assets consist of the following:

	<u>2007</u>	<u>2006</u>
NeighborWorks America Loan/Capital Funds	\$ 314,770	270,000

CONCENTRATION OF REVENUE

Of the revenues received by the Organization in fiscal year 2007 and 2006, approximately 56% and 52% were from state and federal funded grants and contracts. Changes in reimbursement methods or reductions in available funds could adversely affect operations if alternative funding sources are not readily available.

COMMITMENTS AND CONTINGENCIES/SUBSEQUENT EVENT

Financial assistance from federal and state governmental entities in the form of grants is subject to adjustment by the grantor. Such adjustments could result in claims against the Organization. No provision has been made for any liabilities that may arise from such grantor adjustments since the amounts, if any cannot be determined at this date. At September 30, 2006, the Organization had an unrecorded contingency with the State of Maine in the amount of \$104,921, in relation to the State's review of its State grant compliance in fiscal year 2002. The Organization appealed the repayment of this amount. There are no other known unrecorded contingent liabilities relating to compliance with the rules and regulations governing the funds. In January 2007, the Organization was notified that the questioned costs under appeal were allowable and will not have to be repaid.

In addition, the Organization was notified on January 17, 2008 by MaineHousing (MH) that it was in violation of a LIHEAP statute (Public Law 103-252) pertaining to Other Benefits charged to the program. MH states that a substantial portion of Other Benefits, \$169,229, billed to MH between October 2005 and October 2007 cannot be substantiated by supporting documentation. The required corrective action is that the Organization must provide MH with documentation to support the charges to this grant from October 2005-2007 or the Organization will have to repay \$169,229.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

COMMITMENTS AND CONTINGENCIES/SUBSEQUENT EVENT, CONTINUED

The Organization responded to MH's finding on February 19, 2008. The Organization recognized the need to document Other Benefits activities as it relates to the intake process when providing counseling to HEAP clients. LIHEAP staff has and continue to counsel and assist clients with energy conservation measures, Margin Over Rack/Discount off Retail as well as many other topics. Upon the suggestion of the program administrator at MH, the Organization has respectfully requested a waiver on providing Other Benefits documentation from October 2005 – 2007 and is in the process of implementing a system to better document these activities to meet the grant's requirements. It is expected that MH will grant this waiver and therefore no liability has been recorded at September 30, 2007 for the potential repayment of these charges.

ADJUSTMENT TO NET ASSETS

The Organization wrote off \$1,197,596 of soft-second mortgage loans receivable that had been written since the end of 1997 that were funded with federal funds. These loans included programs funded by HUD, FHLBB, and MSHA's CHODO program. The adjustment was made effective 9/30/06 in order to comply with the federal regulations surrounding the lending of the funds.