

**KENNEBEC VALLEY
COMMUNITY ACTION PROGRAM**

Financial Statements

September 30, 2008 and 2007



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, 2008 and 2007, 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, 2008 and 2007, 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 24, 2009, 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 important for assessing the results of our audit.

Gibson, Leclair & Martin, LLC

February 24, 2009
Augusta, Maine

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Financial Position
September 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Temporarily Restricted	Permanently Restricted	
			Total	Total			Total	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 174,595	70,972	132,576	378,143	88,915	61,634	127,407	277,956
Accounts and grants receivable	1,406,872	-	-	1,406,872	1,238,381	-	-	1,238,381
Inventories	24,350	-	-	24,350	22,947	-	-	22,947
Current portion of loans receivable, net	429	1,128	169	1,726	-	1,503	555	2,058
Prepaid expenses	50,364	-	-	50,364	72,897	-	-	72,897
Work in progress	721,037	-	-	721,037	644,325	-	-	644,325
Total current assets	<u>2,377,647</u>	<u>72,100</u>	<u>132,745</u>	<u>2,582,492</u>	<u>2,067,465</u>	<u>63,137</u>	<u>127,962</u>	<u>2,258,564</u>
Property and equipment:								
Land	75,100	-	-	75,100	75,100	-	-	75,100
Buildings and improvements	2,162,935	-	-	2,162,935	2,226,641	-	-	2,226,641
Equipment and fixtures	770,813	-	-	770,813	792,597	-	-	792,597
Vehicles	626,130	-	-	626,130	892,937	-	-	892,937
Total property and equipment	3,634,978	-	-	3,634,978	3,987,275	-	-	3,987,275
Less: Accumulated depreciation	(1,831,529)	-	-	(1,831,529)	(2,046,663)	-	-	(2,046,663)
Net property and equipment	<u>1,803,449</u>	<u>-</u>	<u>-</u>	<u>1,803,449</u>	<u>1,940,612</u>	<u>-</u>	<u>-</u>	<u>1,940,612</u>
Other assets:								
Investments	420,056	-	144,770	564,826	384,474	-	144,770	529,244
Loans receivable, net of current portion	157,848	42,547	37,255	237,650	190,032	51,510	42,038	283,580
Total other assets	<u>577,904</u>	<u>42,547</u>	<u>182,025</u>	<u>802,476</u>	<u>574,506</u>	<u>51,510</u>	<u>186,808</u>	<u>812,824</u>
Total assets	\$ 4,759,000	114,647	314,770	5,188,417	4,582,583	114,647	314,770	5,012,000
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	102,243	-	-	102,243	185,845	-	-	185,845
Current portion of obligation under capital lease	25,088	-	-	25,088	19,884	-	-	19,884
Accounts payable	366,267	-	-	366,267	217,634	-	-	217,634
Short-term notes payable/lines of credit	681,300	-	-	681,300	496,700	-	-	496,700
Accrued expenses	556,789	-	-	556,789	518,469	-	-	518,469
Reserves	84,564	-	-	84,564	86,319	-	-	86,319
Due to funding sources	49,008	-	-	49,008	40,912	-	-	40,912
Deferred revenue	351,234	-	-	351,234	410,021	-	-	410,021
Total current liabilities	<u>2,216,493</u>	<u>-</u>	<u>-</u>	<u>2,216,493</u>	<u>1,975,784</u>	<u>-</u>	<u>-</u>	<u>1,975,784</u>
Non-current liabilities:								
Obligation under capital lease, net of current portion	75,398	-	-	75,398	83,247	-	-	83,247
Long-term debt, net of current portion	487,844	-	-	487,844	506,797	-	-	506,797
Total non-current liabilities	<u>563,242</u>	<u>-</u>	<u>-</u>	<u>563,242</u>	<u>590,044</u>	<u>-</u>	<u>-</u>	<u>590,044</u>
Total liabilities	<u>2,779,735</u>	<u>-</u>	<u>-</u>	<u>2,779,735</u>	<u>2,565,828</u>	<u>-</u>	<u>-</u>	<u>2,565,828</u>
Net assets invested in fixed assets	1,112,876	-	-	1,112,876	1,144,839	-	-	1,144,839
Net assets - other	866,389	114,647	314,770	1,295,806	871,916	114,647	314,770	1,301,333
Total net assets	<u>1,979,265</u>	<u>114,647</u>	<u>314,770</u>	<u>2,408,682</u>	<u>2,016,755</u>	<u>114,647</u>	<u>314,770</u>	<u>2,446,172</u>
Total liabilities and net assets	\$ 4,759,000	114,647	314,770	5,188,417	4,582,583	114,647	314,770	5,012,000

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Activities
Years ended September 30, 2008 and 2007

	2008			2007				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Grants and contracts	\$ 9,094,737	-	-	9,094,737	8,699,032	-	44,770	8,743,802
Program revenue	6,967,172	-	-	6,967,172	6,602,620	-	-	6,602,620
Other revenue	523,727	-	-	523,727	359,550	-	-	359,550
In-kind	582,135	-	-	582,135	248,022	-	-	248,022
Total revenues, gains and other support	17,167,771	-	-	17,167,771	15,909,224	-	44,770	15,953,994
Expenses:								
Program services:								
Community services	7,600,694	-	-	7,600,694	6,515,904	-	-	6,515,904
Energy services	2,787,709	-	-	2,787,709	2,750,856	-	-	2,750,856
Child & family services	4,685,419	-	-	4,685,419	4,439,221	-	-	4,439,221
Housing services	763,508	-	-	763,508	685,771	-	-	685,771
Agency services	113,543	-	-	113,543	103,803	-	-	103,803
Total program expenses	15,950,873	-	-	15,950,873	14,495,555	-	-	14,495,555
Supporting services:								
Management & general	1,254,388	-	-	1,254,388	1,200,364	-	-	1,200,364
Total expenses	17,205,261	-	-	17,205,261	15,695,919	-	-	15,695,919
Change in net assets	(37,490)	-	-	(37,490)	213,305	-	44,770	258,075
Net assets, beginning of year	2,016,755	114,647	314,770	2,446,172	1,803,450	114,647	270,000	2,188,097
Net assets, end of year	\$ 1,979,265	114,647	314,770	2,408,682	2,016,755	114,647	314,770	2,446,172

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year ended September 30, 2008

	Program Services						Supporting Services		Total
	Community services	Energy services	Child & Family services	Housing services	Agency services	Total program	Management and general		
Personnel	\$ 2,181,156	670,699	2,450,784	106,193	871	5,409,703	767,418	6,177,121	
Payroll taxes and employee benefits	521,553	162,252	605,116	16,892	493	1,306,306	164,971	1,471,277	
Staff development	15,137	4,354	36,769	3,188	3,802	63,250	22,931	86,181	
Travel	79,127	6,688	37,312	4,175	-	127,302	24,106	151,408	
Office costs	55,085	33,372	34,390	5,236	-	128,083	52,923	181,006	
Insurance	5,419	2,662	7,242	9,387	-	24,710	19,251	43,961	
Telecommunications	55,752	14,819	31,696	2,095	363	104,725	17,220	121,945	
Space and occupancy	127,080	153,396	241,640	25,186	-	547,302	82,605	629,907	
Contract services	58,041	1,341,776	411,619	184,086	7,933	2,003,455	23,000	2,026,455	
Vehicle operation/maintenance	637,065	23,432	-	3,908	-	664,405	-	664,405	
Housing property costs	-	-	-	184,453	-	184,453	-	184,453	
Material & supplies	112,938	334,777	176,155	176,873	13,514	814,257	15,138	829,395	
Direct client assistance	3,390,467	-	1,888	-	-	3,392,355	979	3,393,334	
Administration	7,278	1,987	8,178	354	3	17,800	-	17,800	
Interest	10,436	4,799	17,992	31,153	7,626	72,006	5,973	77,979	
Depreciation	16,261	18,719	13,141	1,218	76,994	126,333	11,748	138,081	
Provision for loan losses	-	-	-	6,817	-	6,817	-	6,817	
Common carrier	270,875	-	-	-	-	270,875	-	270,875	
Other	57,024	13,977	29,362	2,294	1,944	104,601	46,125	150,726	
In-kind	-	582,135	-	-	-	582,135	-	582,135	
Total before general and administrative	7,600,694	2,787,709	4,685,419	763,508	113,543	15,950,873	1,254,388	17,205,261	
General and administrative	512,952	139,934	576,330	24,975	197	1,254,388	(1,254,388)	-	
Total expenses	\$ 8,113,646	2,927,643	5,261,749	788,483	113,740	17,205,261	-	17,205,261	

See accompanying notes to financial statements.

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

	Program Services							Total program	Agency services	Housing services	Child & Family services	Energy services	Supporting Services	
	Community services	Energy services	Child & Family services	Housing services	Agency services	Management	and general							
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 operation/maintenance	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

Statements of Cash Flows

Years ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (37,490)	258,075
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	177,570	190,444
Unrealized gain on investment	(561)	(1,384)
Provision for loan losses	6,817	4,134
(Increase) decrease in:		
Accounts and grants receivable	(168,491)	304,946
Loans receivable	39,444	125,775
Inventories	(1,403)	(2,168)
Prepaid expenses	22,533	57,219
Work in progress	(76,712)	(116,393)
Increase (decrease) in:		
Accounts payable	148,633	(155,103)
Accrued expenses	38,320	61,538
Reserves	(1,755)	15,947
Due to funding sources	8,096	(216,286)
Deferred revenue	(58,787)	(155,252)
Net cash provided by operating activities	96,214	371,492
Cash flows from investing activities:		
Investment in subsidiary	(35,021)	(387,455)
Purchase of property and equipment, net of retirements	(40,406)	(60,100)
Net cash used in investing activities	(75,427)	(447,555)
Cash flows from financing activities:		
Payments on obligation under capital lease	(2,645)	(6,384)
Proceeds from (repayment of) long-term debt, net	(102,555)	(117,121)
Proceeds from short-term debt, lines of credit, net	184,600	143,900
Net cash provided by financing activities	79,400	20,395
Increase (decrease) in cash and cash equivalents	100,187	(55,668)
Cash and cash equivalents, beginning of year	277,956	333,624
Cash and cash equivalents, end of year	\$ 378,143	277,956
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 77,979	66,700
Non-cash operating, investing and financing activities:		
During the year ended September 30, 2008, the Organization acquired equipment through a capital lease in the amount of \$20,280.		
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

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, 2008 and 2007, \$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, 2008 and 2007, \$314,770 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. Also included are materials used for weatherization projects by crews employed by the agency.

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 \$76,435 and \$97,081 for the years ended September 30, 2008 and 2007, 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 \$101,135 and \$93,363 for the years ended September 30, 2008 and 2007, 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 no capital grant for the year ended September 30, 2008 and a \$44,770 capital grant during the year ended September 30, 2007, for a capital project. The 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 \$107,005 and \$571,883 worth of non-professional volunteer services during the years ended September 30, 2008 and 2007, respectively. These amounts are not included in the amount recognized in the financial statements at September 30, 2008 and 2007.

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 the Waterville area, 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, 2008 and 2007, 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>2008</u>	<u>2007</u>
<u>Common and preferred stock</u>	<u>\$ 14,529</u>	<u>13,968</u>

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

	<u>2008</u>	<u>2007</u>
<u>Unrealized gains</u>	<u>\$ 561</u>	<u>1,384</u>

The investment in Cony Village, LLC, which KVCAP has a 50% interest, totaled \$550,297 and \$515,275 as September 30, 2008 and 2007, 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 \$24,803 and \$38,093 at September 30, 2008 and 2007, respectively. No allowance is considered necessary as management feels all amounts will be collected.

K.V.C.A.P. also receives grant funds from MaineHousing, 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 \$482,713, less \$268,140 reserve for uncollectible loans at September 30, 2008, and totaled \$521,582, less \$274,038 reserve for uncollectible loans at September 30, 2007.

LINES OF CREDIT

At September 30, 2008 and 2007, 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 September 18, 2009, and can be renewed. Balances at September 30, 2008 and 2007 were \$125,000 and \$200,000, 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 expires July 31, 2009, and can be renewed. The following is the detail of open lines of credit at September 30, 2008 and 2007:

Housing line of credit for Cony Street, in Augusta, Maine in the amount of \$125,600. The balance at September 30, 2008 and 2007 was \$0 and \$125,600, respectively.

Housing line of credit for 134 Martin Stream Road in Norridgewock, Maine in the amount of \$118,000. The balance at September 30, 2008 and 2007 was \$118,000 and \$0, respectively.

Housing line of credit for 58 Village Circle, in Augusta, Maine in the amount of \$149,200. The balance at September 30, 2008 and 2007 was \$149,200 and \$0, respectively.

Housing line of credit for 61 Village Circle, in Augusta, Maine in the amount of \$148,000. The balance at September 30, 2008 and 2007 was \$148,000 and \$0, respectively.

Housing line of credit for 134 Martin Stream Road, in Norridgewock, Maine in the amount of \$30,000. The balance at September 30, 2008 and 2007 was \$0 and \$30,000, respectively.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

LINES OF CREDIT, CONTINUED

Housing guidance line of credit with a bank in the amount of \$1,000,000. The guidance line permits advances to be used exclusively for the purchase and construction of real estate in the Mill Run subdivision of Oakland, Maine of which the bank will hold the first mortgage. Advances to purchase real estate will not exceed 85% of the appraised value. The line of credit expires July 31, 2009, and can be renewed. The following is the detail of the open line of credit at September 30, 2008 and 2007:

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, 2008 and 2007 was \$141,100 and \$141,100, respectively.

LONG-TERM DEBT

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

	<u>2008</u>	<u>2007</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.	22,549	27,417
\$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.	27,059	31,734
\$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.	22,402	24,526
\$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.	250,427	257,089
\$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.	66,562	71,383
\$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.	62,527	126,614

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

LONG-TERM DEBT, CONTINUED

\$ 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 \$48,950 is to be forgiven at the end of 10 years and the remaining shall be forgiven at 1/10 for years ten through twenty.	44,055	48,950
\$ 28,997 note payable to Ford Credit, payable in monthly installments of \$483 with 0% interest through December, 2011, secured by truck.	17,881	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	35,000
\$ 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 \$46,250 is to be forgiven at the end of 10 years and the remaining shall be forgiven at 1/10 for years ten through twenty.	41,625	46,250
	590,087	692,642
Less current portion	102,243	185,845
	\$ 487,844	506,797

Maturities on long-term debt are as follows:

<u>Fiscal year</u>	
2009	\$ 102,243
2010	98,013
2011	39,002
2012	36,370
2013	32,960
Thereafter	281,499
Total	\$ 590,087

CHANGE IN NET ASSETS

For the year ended September 30, 2008, the change in net assets of (\$37,490) was arrived at as follows:

Excess revenue over expenses (before depreciation and agency reserves)	\$ 188,643	
Less: Annual depreciation	(177,570)	
Net surplus from operations	\$11,073	
Less: Expenses on agency reserves	(48,563)	
Total change in net assets	\$ (37,490)	

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

OPERATING LEASES

The Organization leases a parking lot on Gold Street in Waterville under an operating lease which expires December, 2011. It also leased equipment under operating leases which expired during the year ended September 30, 2008.

Future minimum payments are as follows:

Year ended September 30:		
2009	\$	4,800
2010		4,800
2011		4,800
2012		<u>1,200</u>
Total future minimum lease payments		<u>\$ 415,600</u>

Lease expense for the years ended September 30, 2008 and 2007 was \$5,200 and \$30,952, respectively.

CAPITAL LEASES

The Organization entered into a capital lease for equipment (copiers) during the year ended September 30, 2007. The economic substance of the leases 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, 2008:

Year ended September 30:		
2009	\$	25,180
2010		25,180
2011		25,180
2012		<u>16,786</u>
Total minimum lease payments		92,326
Less amount representing interest		<u>9,078</u>
Present value of minimum lease payments		<u>\$ 83,248</u>

The Organization entered into a capital lease for equipment (postage machine) during the year ended September 30, 2008. The economic substance of the lease is that the Organization is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the Organization's assets and liabilities.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

CAPITAL LEASES, CONTINUED

The following is a schedule by years of future minimum payments required under the lease together with its present value as of September 30, 2008:

Year ended September 30:		
2009	\$	4,056
2010		4,056
2011		4,056
2012		4,056
2013		1,014
<u>Total minimum lease payments</u>		<u>17,238</u>
<u>Less amount representing interest</u>		<u>-</u>
<u>Present value of minimum lease payments</u>		<u>\$ 17,238</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, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 52,713	25,000
Fiscal year additions	-	41,637
<u>Equipment purchased</u>	<u>(22,023)</u>	<u>(13,924)</u>
<u>Balance, end of year</u>	<u>\$ 30,687</u>	<u>52,713</u>

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

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

RESTRICTIONS ON NET ASSETS

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

	<u>2008</u>	<u>2007</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>2008</u>	<u>2007</u>
NeighborWorks America Loan/Capital Funds	\$ 314,770	314,770

CONCENTRATION OF REVENUE

Of the revenues received by the Organization in fiscal year 2008 and 2007, approximately 53% and 56% 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.

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.

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 has implemented a system to better

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

COMMITMENTS AND CONTINGENCIES/SUBSEQUENT EVENT, CONTINUED

document these activities to meet the grant's requirements. It was expected that MH would grant this waiver and therefore no liability was recorded at September 30, 2007 for the potential repayment of these charges.

As of September 30, 2008, this matter was still being negotiated with MH. All requests for documentation and payroll information had been provided to MH. In November, 2008 a settlement was made for \$45,372. Discussions with MH have been ongoing regarding this matter. In February, 2009 a meeting was held between MH and other Maine Community Action Agencies to discuss this matter and it is possible that MH may reverse their decision regarding the repayment of these funds and therefore no liability was recorded at September 30, 2008.

RESTATEMENT

The prior year financial statements have been restated to reflect an adjustment that should have been included at September 30, 2007. The restatement increased assets, change in net assets and revenues by \$13,433.