



**KENNEBEC VALLEY
COMMUNITY ACTION PROGRAM**

**Financial Statements
Years Ended September 30, 2017 and 2016**



Independent Auditors' Report

To the Board of Directors of
Kennebec Valley Community Action Program

Report on the Financial Statements

We have audited the accompanying financial statements of Kennebec Valley Community Action Program (a Maine nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PFBF, CPAs

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules on pages 17-19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2018, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kennebec Valley Community Action Program's internal control over financial reporting and compliance.

Perry, Fitts, Boulette, and Fitton, CPAs

Oakland, Maine
March 12, 2018

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Financial Position
September 30, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 797,523	90,916	88,582	977,021	575,110	90,916	87,115	753,141
Designated cash and cash equivalents	1,349,456	-	-	1,349,456	1,348,807	-	-	1,348,807
Accounts and grants receivable	2,342,246	-	-	2,342,246	1,889,004	-	-	1,889,004
Current portion of loans receivable, net	-	-	1,422	1,422	-	-	1,497	1,497
Current portion of prepaid expenses	285,926	-	-	285,926	273,908	-	-	273,908
Total current assets	4,775,151	90,916	90,004	4,956,071	4,086,829	90,916	88,612	4,266,357
Property and equipment:								
Land	57,100	-	-	57,100	57,787	-	-	57,787
Buildings and improvements	4,064,791	-	-	4,064,791	3,873,851	-	-	3,873,851
Equipment and fixtures	606,592	-	-	606,592	553,473	-	-	553,473
Vehicles	1,814,986	-	-	1,814,986	2,090,182	-	-	2,090,182
Total property and equipment	6,543,479	-	-	6,543,479	6,575,293	-	-	6,575,293
Less: Accumulated depreciation	(2,463,901)	-	-	(2,463,901)	(2,685,339)	-	-	(2,685,339)
Net property and equipment	4,079,578	-	-	4,079,578	3,889,954	-	-	3,889,954
Other assets:								
Work in progress	273,492	-	-	273,492	402,442	-	-	402,442
Investments	559,289	-	108,577	667,866	464,811	-	108,577	573,388
Loans receivable, net of current portion	137,077	23,731	37,496	198,304	170,055	23,731	38,888	232,674
Prepaid expenses, net of current portion	8,043,805	-	-	8,043,805	8,182,491	-	-	8,182,491
Total other assets	9,013,663	23,731	146,073	9,183,467	9,219,799	23,731	147,465	9,390,995
Total assets	\$ 17,868,392	114,647	236,077	18,219,116	17,196,582	114,647	236,077	17,547,306
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	58,434	-	-	58,434	32,010	-	-	32,010
Current portion of obligation under capital lease	2,156	-	-	2,156	2,807	-	-	2,807
Accounts payable	617,657	-	-	617,657	684,489	-	-	684,489
Accrued expenses	999,386	-	-	999,386	871,564	-	-	871,564
Reserves	166,049	-	-	166,049	136,840	-	-	136,840
Deferred revenue	1,588,616	-	-	1,588,616	997,306	-	-	997,306
Total current liabilities	3,432,298	-	-	3,432,298	2,725,016	-	-	2,725,016
Non-current liabilities:								
Obligation under capital lease, net of current portion	-	-	-	-	2,156	-	-	2,156
Long-term debt, net of current portion	12,619,563	-	-	12,619,563	12,371,468	-	-	12,371,468
Total non-current liabilities	12,619,563	-	-	12,619,563	12,373,624	-	-	12,373,624
Total liabilities	16,051,861	-	-	16,051,861	15,098,640	-	-	15,098,640
Net assets	1,816,531	114,647	236,077	2,167,255	2,097,942	114,647	236,077	2,448,666
Total liabilities and net assets	\$ 17,868,392	114,647	236,077	18,219,116	17,196,582	114,647	236,077	17,547,306

See auditors' report and accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Activities
Years ended September 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently
		Restricted	Restricted		Restricted	Restricted
Total	Total	Total	Total	Total	Total	
Revenues, gains, and other support:						
Grants and contracts	\$ 14,195,796	-	-	14,195,796	-	-
Program revenue	9,633,557	-	-	9,633,557	-	-
Other revenue	395,500	-	-	403,271	-	-
In-kind	976,143	-	-	976,143	-	-
Total revenues, gains, and other support	25,200,996	-	-	25,200,996	-	-
Expenses:						
Program services:						
Community services	11,262,460	-	-	11,262,460	-	-
Energy services	3,011,951	-	-	3,011,951	-	-
Child & family services	9,026,855	-	-	9,026,855	-	-
Agency services	267,123	-	-	267,123	-	-
Total program expenses	23,568,389	-	-	23,568,389	-	-
Supporting services:						
Management & general	1,893,187	-	-	1,893,187	-	-
Fundraising	20,831	-	-	20,831	-	-
Total supporting services	1,914,018	-	-	1,914,018	-	-
Total expenses	25,482,407	-	-	25,482,407	-	-
Change in net assets	(281,411)	-	-	(281,411)	-	-
Net assets, beginning of year	2,097,942	114,647	236,077	2,448,666	114,647	236,077
Net assets, end of year	\$ 1,816,531	114,647	236,077	2,167,255	114,647	236,077

See auditors' report and accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year ended September 30, 2017

	Program Services					Supporting Services		Total	
	Community services	Energy & Housing services	Child & Family services	Agency services	Total program	Management and general	Fundraising		Total supporting services
Personnel	\$ 2,878,342	689,468	4,453,774	8,170	8,039,754	1,188,317	10,133	1,198,450	9,238,204
Payroll taxes and employee benefits	846,855	236,204	1,399,852	3,317	2,486,228	256,696	3,188	259,884	2,746,112
Staff development	16,049	9,500	83,179	132	108,860	38,127	-	38,127	146,987
Travel	65,566	35,688	109,848	-	211,102	33,739	165	33,904	245,006
Direct client assistance - common carrier	2,542,969	-	-	-	2,542,969	-	-	-	2,542,969
Direct client assistance - other	3,598,075	1,659,631	11,164	-	5,268,870	-	-	-	5,268,870
Office costs	46,694	35,342	71,844	1,166	155,046	65,574	877	66,451	221,497
Insurance	714	4,011	12,556	2,745	20,026	44,004	-	44,004	64,030
Telecommunications	77,001	18,491	44,655	655	140,802	16,123	-	16,123	156,925
Space and occupancy	196,898	116,162	136,675	26,079	475,814	435	1,046	1,481	477,295
Space and occupancy - in-kind	-	-	959,081	-	959,081	-	-	-	959,081
Contract services	149,872	142,224	1,015,117	8,964	1,316,177	107,850	-	107,850	1,424,027
Contract services - in-kind	-	-	8,478	-	8,478	-	-	-	8,478
Vehicle	626,684	9,854	-	-	636,538	-	-	-	636,538
Housing property costs	-	217	-	14,120	14,337	-	-	-	14,337
Material & supplies	34,960	10,047	340,711	559	386,277	49,121	2,240	51,361	437,638
Material & supplies - in-kind	-	-	8,584	-	8,584	-	-	-	8,584
Administration	8,790	2,193	13,374	24	24,381	-	30	30	24,411
Interest	5,800	4,281	256,334	8,695	275,110	20	-	20	275,130
Depreciation	87,431	18,963	25,179	180,278	311,851	15,950	-	15,950	327,801
Provision for bad debts/loan losses	-	-	-	4,014	4,014	-	71	71	4,085
Other	79,760	9,675	76,450	8,205	174,090	77,231	3,081	80,312	254,402
Total expenses	\$ 11,262,460	3,011,951	9,026,855	267,123	23,568,389	1,893,187	20,831	1,914,018	25,482,407

See auditors' report and accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year ended September 30, 2016

	Program Services					Supporting Services			Total
	Community services	Energy & Housing services	Child & Family services	Agency services	Total program	Management and general	Fundraising	Total supporting services	
Personnel	\$ 2,591,098	702,440	4,165,915	9,447	7,468,900	1,083,471	11,098	1,094,569	8,563,469
Payroll taxes and employee benefits	809,400	226,106	1,330,489	3,705	2,369,700	255,461	3,395	258,856	2,628,556
Staff development	17,997	11,820	98,290	-	128,007	19,401	-	19,401	147,408
Travel	69,130	30,999	99,707	106	199,942	32,859	139	32,998	232,940
Direct client assistance - common carrier	2,092,228	-	-	-	2,092,228	-	-	-	2,092,228
Direct client assistance - other	3,696,455	1,984,510	9,775	-	5,690,740	-	-	-	5,690,740
Office costs	38,946	29,329	62,707	2,170	133,152	59,623	883	60,506	193,658
Insurance	756	5,719	12,696	2,742	21,913	31,020	-	31,020	52,933
Telecommunications	70,201	17,637	39,043	590	127,471	16,432	-	16,432	143,903
Space and occupancy	158,167	126,981	129,095	25,997	440,240	-	-	-	440,240
Space and occupancy - in-kind	-	-	876,270	-	876,270	-	-	-	876,270
Contract services	93,180	176,728	850,352	20,527	1,140,787	56,094	-	56,094	1,196,881
Contract services - in-kind	-	-	5,779	-	5,779	-	-	-	5,779
Vehicle	577,856	15,333	-	-	593,189	-	-	-	593,189
Housing property costs	-	146	-	2,643	2,789	-	-	-	2,789
Material & supplies	43,285	70,091	277,679	285	391,340	122,634	-	122,634	513,974
Material & supplies - in-kind	-	-	7,107	-	7,107	-	-	-	7,107
Administration	(673)	(186)	(1,065)	(2)	(1,926)	-	(3)	(3)	(1,929)
Interest	3,029	2,229	256,283	12,287	273,828	42	-	42	273,870
Depreciation	69,860	4,494	25,623	128,160	228,137	7,851	-	7,851	235,988
Provision for bad debts/loan losses	-	-	-	-	-	-	-	-	-
Other	72,949	14,279	66,184	1,243	154,655	96,027	10,239	106,266	260,921
Total expenses	\$ 10,403,764	3,418,655	8,311,929	209,900	22,344,248	1,780,915	25,751	1,806,666	24,150,914

See auditors' report and accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Statements of Cash Flows

Years ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (281,411)	(337,424)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	382,360	280,401
Unrealized (gain)/loss on investment	(99,731)	(632)
Gain on disposal	(11,302)	(11,424)
Forgiveness of debt	(9,520)	(9,520)
Change in investment in Cony Village, LLC	18,253	197,133
(Increase) decrease in:		
Accounts and grants receivable	(453,242)	(138,986)
Loans receivable	34,445	1,418
Prepaid expenses	126,668	251,417
Work in progress	128,950	(109,188)
Increase (decrease) in:		
Accounts payable	(66,832)	35,037
Accrued expenses	127,822	243,646
Reserves	29,209	(40,583)
Due to funding sources	-	(43,095)
Deferred revenue	591,310	(370,060)
Net cash provided by (used in) operating activities	516,979	(51,860)
Cash flows from investing activities:		
Investment in Cony Village, LLC	(13,000)	-
Proceeds on sale of fixed asset	144,578	11,424
Purchase of property and equipment, net of retirements	(465,880)	(284,109)
Net cash used in investing activities	(334,302)	(272,685)
Cash flows from financing activities:		
Proceeds from/payments on obligations under capital leases, net	(2,807)	(2,867)
Proceeds from/payments on long-term debt, net	44,659	(40,242)
Net cash provided by (used in) financing activities	41,852	(43,109)
Increase (decrease) in cash and cash equivalents	224,529	(367,654)
Cash and cash equivalents, beginning of year	2,101,948	2,469,602
Cash and cash equivalents, end of year	\$ 2,326,477	2,101,948
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 275,130	273,870
Cash paid during the year for taxes	-	-
Non-cash investing and financing activities:		
Cost of vehicles and equipment purchased during the year	\$ 241,849	\$ -
Amount financed through long-term debt	(239,380)	-
Cash paid for vehicles and equipment	\$ 2,469	\$ -

See auditors' report and accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements

NOTE1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Kennebec Valley Community Action Program (KVCAP) 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 is required to report information regarding its financial position and activities according to three classes of net assets 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, 2017 and 2016, \$114,647 of the Organization's net assets was 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, 2017 and 2016, \$236,077 of the Organization's net assets was 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). The Organization believes it has no uncertain tax positions with the Internal Revenue Service that require disclosure in the financial statements.

The Organization's federal Return of Organization Exempt from Income Tax (Form 990) for 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all checking and escrow accounts, and 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments - The Organization carries investments in marketable securities with readily determinable fair values at their fair values in the statements of financial position. 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, which is accounted for under the equity method of accounting in its financial statements. It also has an investment in KVCAP Real Estate Development, Inc., a for-profit entity which began in 2012. The effect on the financial statements for 2017 and 2016 is immaterial, but it may require consolidation into the financial statements of KVCAP in future periods.

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

Work in Process – Work in progress consists of expenditures on agency projects which have not been completed during the fiscal year. These will be either capitalized (building renovations) or sold (affordable housing development projects) at completion.

Property and Equipment - Property and equipment acquisitions with a unit cost of \$5,000 or more 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 20-40 years for buildings, 5-40 years for building renovations, 5-10 years for equipment, and 5-15 years for vehicles. 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 \$169,571 and \$113,073 for the years ended September 30, 2017 and 2016, 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 40 years for buildings, 5-40 years for building renovations, 5-10 years for equipment, and 5-15 years for vehicles. 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 \$212,789 and \$167,501 for the years ended September 30, 2017 and 2016, respectively.

Depreciation expense for agency facilities totaled \$54,560 and \$44,586 for the years ended September 30, 2017 and 2016, respectively. These amounts are recognized as part of the space and occupancy expense line on the Statement of Functional Expenses.

Leased property and equipment under capital leases is being depreciated over the lives of the various leases, as described in the Capital Leases note.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

NeighborWorks America provided no capital grants for the years ended September 30, 2017 and 2016 for capital projects. Any such amounts are permanently restricted, although proceeds on the capital projects, 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 projects 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. KVCAP received \$134,801 and \$138,658 worth of non-professional volunteer services during the years ended September 30, 2017 and 2016, respectively. These amounts are not included in the amount recognized in the financial statements at September 30, 2017 and 2016.

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

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.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standard (IFRS). The core principle of the guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for all nonpublic entities' annual periods beginning after December 15, 2018. Management is currently evaluating the impact of adoption on its financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. This new standard will provide users of the financial statements a more accurate picture of the assets and the long-term financial obligations of companies that lease. The standard is for a dual-model approach; a lessee will account for most existing capital leases as Type A leases, and most existing operating leases as Type B leases. Both will be reported on the statement of financial position of the company for leases with a term exceeding 12 months. Lessors will see some changes, too, largely made to align with the revised lease model. For nonpublic companies, the new leasing standard will apply for fiscal years beginning after December 15, 2019. The standard requires retroactive application to previously issued financial statements for 2019 and 2018, if presented. Management is currently evaluating the impact of adoption on its financial statements.

Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, to amend current reporting requirements to make several improvements including reducing complexities of information presented within Not-for-Profit financial statements. A main provision of this update is that a Not-for-Profit entity will report two classes of net assets (amounts for net assets with donor restrictions and net assets without donor restrictions), rather than the currently required three classes. The guidance is effective for annual periods beginning after December 15, 2017, with early application permitted. This standard requires retroactive application to previously issued financial statements for 2018 and 2017, if presented. Management is currently evaluating the impact of adoption on its financial statements.

NOTE 2 - DESCRIPTION OF PROGRAMS

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

Energy & Housing Services - The Energy & Housing Services department provides home weatherization and other energy saving services in Kennebec, Somerset, Lincoln, and Sagadahoc Counties; as well as providing home energy and telephone assistance services, and operating home repair/loan programs. The department also provides a comprehensive home buyer education course, individual pre- and post-purchase counseling services, foreclosure prevention counseling, credit counseling, and develops homeownership opportunities through new construction and purchase/rehab activities.

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. All services are provided through partnerships with area school districts, home care providers, other non-profits, and Educare Central Maine in order to reach the most children in the Organization's service area.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 2 - DESCRIPTION OF PROGRAMS, CONTINUED

Agency Services - The Agency Services department offers programs designed to increase the operations and efficiency of the Organization in regards to providing all other program services.

NOTE 3 - 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, with the exception of a reserve account established at the close of a New Market Tax Credit transaction for Educare Central Maine programming and operations and held at the investor bank's facility in Minnesota. The Federal Deposit Insurance Corporation insures balances up to \$250,000 for all accounts. 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, 2017 and 2016, the Organization's cash balances were either insured by federal depository agencies or within the bank's collateralized agreement.

NOTE 4 - INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
<u>Common and preferred stock</u>	<u>\$ 134,586</u>	<u>34,855</u>

On September 29, 2017, there was a stock donation of \$99,726, which was subsequently sold on October 2, 2017, bringing the value back down to \$34,861.

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

	<u>2017</u>	<u>2016</u>
<u>Unrealized gains (losses)</u>	<u>\$ 5</u>	<u>632</u>

At September 30, 2016, KVCAP had a 50% interest in Cony Village, LLC, which totaled \$537,533. On May 31, 2017, there was a disassociation of the partnership with Bread of Life Ministries, and KVCAP now has 100% interest in Cony Village, LLC, which totaled \$532,280 at September 30, 2017.

The investment in KVCAP Real Estate Development, Inc., which KVCAP has a 100% interest, totaled \$1,000 at September 30, 2017 and 2016.

NOTE 5 - LOANS RECEIVABLE

KVCAP 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 \$11,753 and \$13,220 at September 30, 2017 and 2016, respectively. No allowance is considered necessary as management feels all amounts will be collected.

KVCAP 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

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 5 - LOANS RECEIVABLE, CONTINUED

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 \$405,848, less a \$232,874 reserve for uncollectible loans at September 30, 2017 and 2016.

KVCAP served as the developer for the Gerald Senior Residence project in Fairfield, Maine. At the time of closing, there were certain obligations that were not funded due to the cash flow of the project. KVCAP signed three promissory notes with Gerald Hotel Associates LP to provide funding for these obligations. Payment is due as funding becomes available. The amount of these loan receivables totaled \$14,999 and \$47,977 at September 30, 2017 and 2016, respectively.

NOTE 6 - LINES OF CREDIT

At September 30, 2017 and 2016, the Organization had the following lines of credit available for use:

Working capital line of credit agreement with a bank in the amount of \$500,000. Advances are payable on demand including interest at the base borrowing rate, as the Highest Prime rate as quoted in the Wall Street Journal and are unsecured. The line of credit agreement expires April 1, 2018, and it can be renewed. There was no outstanding balance on this line of credit at September 30, 2017 and 2016.

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, 2018, and it can be renewed. There were no outstanding balances on these lines of credit at September 30, 2017 and 2016.

NOTE 7 - LONG-TERM DEBT

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

	<u>2017</u>	<u>2016</u>
\$300,000 note payable to Skowhegan Savings Bank, payable in monthly installments of \$2,156 including interest at 7.75% through October, 2018, secured by the Boulette Building in Skowhegan, Maine.	\$ 157,060	180,175
\$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.	-	4,895
\$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.	-	4,625

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 7 - LONG-TERM DEBT, CONTINUED

<p>\$9,505,755 note payable to CCM Community Development XXIV LLC. Secured by a leasehold mortgage on the Educare Central Maine Center, 56 Drummond Avenue, Waterville, Maine. Repayment of principal is deferred and unallowable for the first seven years with quarterly interest-only payments at .961% through January 1, 2019. On April 1, 2019, quarterly interest and principal payments of \$84,666 will commence through October 1, 2051, secured by leasehold mortgage on Educare Central Maine Center, 56 Drummond Ave., Waterville.</p>	9,505,755	9,505,755
<p>\$2,649,245 note payable to CCM Community Development XXIV LLC. Secured by a leasehold mortgage on the Educare Central Maine Center, 56 Drummond Avenue, Waterville, Maine. Repayment of principal is deferred and unallowable for the first seven years with quarterly interest only payments at .961% through January 1, 2019. On April 1, 2019, quarterly interest and principal payments of \$23,596 will commence through October 1, 2051, secured by leasehold mortgage on Educare Central Maine Center, 56 Drummond Ave., Waterville.</p>	2,649,245	2,649,245
<p>\$108,000 note payable to Skowhegan Savings Bank, payable in monthly installments of \$1,159 including interest at a fixed rate of 5.25% through July 17, 2018. On July 17, 2018, interest will be based on the 5 year FHLB rate + 3.5% through July 28, 2021, secured by the property located at 58 Village Circle, Augusta, Maine.</p>	-	58,783
<p>\$85,170 note payable to Kennebec Savings Bank, payable in monthly installments of \$1,568 including interest at a fixed rate of 3.99% through November 9, 2020, secured by agency vehicles.</p>	72,124	-
<p>\$94,210 note payable to Kennebec Savings Bank, payable in monthly installments of \$1,735 including interest at a fixed rate of 3.99% through November 21, 2020, secured by agency vehicles.</p>	79,780	-
<p>\$300,000 note payable to Kennebec Savings Bank, payable in monthly installments of interest only for the first 12 months at a fixed rate of 4.79%. On October 6, 2018, the note will be payable in monthly installments of \$3,151 including interest at a fixed rate of 4.79%. On October 6, 1023, the note will be payable in monthly installments of \$3,167 including interest based on Wall Street Journal Prime + 0.75% and may change annually through September 6, 2028, secured by instrument on the property located at 101 Water Street, Waterville, Maine and 97 Water Street, Waterville, Maine.</p>	154,033	-

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 7 - LONG-TERM DEBT, CONTINUED

\$60,000 note payable to Kennebec Savings Bank, payable in monthly installments of \$1,132 including interest at a fixed rate of 4.99% through September 6, 2022, secured by agency copiers.

	60,000	-
	12,677,997	12,403,478
Less current portion	58,434	32,010
Long-term debt	\$ 12,619,563	12,371,468

Maturities on long-term debt are as follows:

<u>Fiscal year</u>	
2018	\$ 58,434
2019	214,594
2020	74,138
2021	84,052
2022	40,887
Thereafter	12,205,892
Total	\$ 12,677,997

NOTE 8 - CHANGE IN NET ASSETS

For the year ended September 30, 2017, the change in net assets of (\$281,411) was arrived at as follows:

Excess expenses over revenue (before depreciation and agency reserves)	\$ 102,292	
Less: Annual depreciation	(382,361)	
Net deficit from operations	(280,069)	
Less: Expenses on agency reserves	(1,342)	
Total change in net assets	\$ (281,411)	

The total change in nets assets of (\$281,411) includes the non-cash expenses related to the New Markets Tax Credit transaction for the long-term lease of the Educare Central Maine facility.

For the year ended September 30, 2016, the change in net assets of (\$337,424) was arrived at as follows:

Excess expenses over revenue (before depreciation and agency reserves)	\$ (55,508)	
Less: Annual depreciation	(280,574)	
Net deficit from operations	(336,082)	
Less: Expenses on agency reserves	(1,342)	
Total change in net assets	\$ (337,424)	

The total change in nets assets of (\$337,424) includes the non-cash expenses related to the New Markets Tax Credit transaction for the long-term lease of the Educare Central Maine facility.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 9 - OPERATING LEASES

The Organization leases a postage machine in its Augusta office. The lease for the Augusta postage machine was extended to June 2018. Future minimum payments are \$624 due in the subsequent fiscal year. Lease expense for the years ended September 30, 2017 and 2016, were \$832.

NOTE 10 - CAPITAL LEASES

The Organization entered into a capital lease for equipment (postage machine) during the year ended September 30, 2013. 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.

The following is a schedule by years of future minimum payments required under the lease together with its present value as of September 30, 2017:

Year ended September 30:		
2018	\$	2,182
<hr/>		
Total minimum lease payments		2,182
Less amount representing interest		(26)
<hr/>		
Present value of minimum lease payments	\$	2,156

The following is a schedule by years of future minimum payments required under the lease together with its present value as of September 30, 2016:

Year ended September 30:		
2017	\$	2,880
2018		2,191
<hr/>		
Total minimum lease payments		5,071
Less amount representing interest		(108)
<hr/>		
Present value of minimum lease payments	\$	4,963

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

In 2011, KVCAP also entered into a capital lease arrangement for real estate including a building, land, furniture, and fixtures. The lease term is sixty-five years and a single, lump-sum rental payment was made totaling \$9,025,984. In addition to the lump-sum payment, other costs related to the lease and related financing totaled \$1,277,226. At a discount rate of 3.25% for the lease term, the present value and capitalized fair value of the building and land is \$1,288,601. The balance of the costs, \$8,182,491 at September 30, 2017, and \$8,321,177 at September 30, 2016, is presented as prepaid interest. Both the leased building and the prepaid interest are being amortized over the lease term.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 11 - RETIREMENT PLAN

The Organization sponsors a defined contribution plan covering all eligible employees. If an employee does not contribute to the plan, the Organization contributes 2% of the employee's compensation to the Plan. If an employee contributes at least 1% of their compensation, the Organization will match 3% of the employee's compensation. Contributions are determined as a percentage of each employee's salary and amounted to \$253,752 and \$237,043 for the years ended September 30, 2017 and 2016, respectively.

NOTE 12 - RESTRICTIONS ON NET ASSETS

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

		<u>2017</u>	<u>2016</u>
MSHA housing preservation revolving loan fund	\$	<u>114,647</u>	<u>114,647</u>

Permanently restricted net assets consist of the following:

		<u>2017</u>	<u>2016</u>
NeighborWorks America Loan/Capital Funds	\$	<u>236,077</u>	<u>236,077</u>

NOTE 13 - CONCENTRATION IN REVENUE

Of the revenues received by the Organization in fiscal year 2017 and 2016, approximately 82% and 79%, respectively, were from state and federal funded grants, contracts, and fee agreements. Changes in reimbursement methods or reductions in available funds could adversely affect operations if alternative funding sources are not readily available.

NOTE 14 - EDUCARE AND NON-EDUCARE FINANCIAL STATEMENTS/ NEW MARKETS TAX CREDIT TRANSACTION

In 2011, the Organization entered into a New Markets Tax Credit transaction to help fund the development and early childhood services provided at the Educare Central Maine Center in Waterville, Maine. As part of this transaction, the Organization is required to provide annual financial statements that separate financial information based on that provided by the New Markets Tax Credit transaction, as reflected on the schedule on page 17-19.

NOTE 15 - COMMITMENTS AND CONTINGENCIES/ SUBSEQUENT EVENTS

In March 2014, notification was received of a potential complaint being filed against the Organization. The complaint was being brought forth by a former contractor of the agency's weatherization program alleging discrimination for not providing promised work to the contractor which resulted in significant losses and closure of operations. Counsel has been engaged to address this matter. In November 2014, a formal suit was filed against the Organization. In April, 2016, this matter was settled with no financial effect to the agency.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

NOTE 15 - COMMITMENTS AND CONTINGENCIES/ SUBSEQUENT EVENTS, CONTINUED

Financial assistance from federal and state governmental entities in the form of grants and fees 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 October 2017, notification was received from the Maine Human Rights Commission indicating that a complaint had been filed against the organization alleging discrimination under the Maine Human Rights Act due to a physical disability on the basis of public accommodation and/or employment discrimination. The complaint was filed by a former employee. Counsel has been engaged to address this matter, and a motion to dismiss the claim was filed on December 2017. Further action on this matter is pending, and any effect on the financial statements of the organization is unknown at this time.

Subsequent events were evaluated through the date of this report, which is the date the financial statements were available to be issued, and no events occurred other than those disclosed elsewhere in the notes to the financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Financial Position
Educare and Non-Educare Portion
September 30, 2017

	KVCAP Educare	KVCAP Non-Educare	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 158,511	818,510	977,021
Designated cash and cash equivalents	1,349,456	-	1,349,456
Accounts and grants receivable	76,132	2,266,114	2,342,246
Due (to)/from KVCAP Non Educare Programs	940,116	(940,116)	-
Current portion of loans receivable, net	-	1,422	1,422
Current portion of prepaid expenses	167,888	118,038	285,926
Total current assets	2,692,103	2,263,968	4,956,071
Property and equipment:			
Land	-	57,100	57,100
Buildings and improvements	1,288,601	2,776,190	4,064,791
Equipment and fixtures	-	606,592	606,592
Vehicles	-	1,814,996	1,814,996
Total property and equipment	1,288,601	5,254,878	6,543,479
Less: Accumulated depreciation	(117,296)	(2,346,605)	(2,463,901)
Net property and equipment	1,171,305	2,908,273	4,079,578
Other assets:			
Work in progress	-	273,492	273,492
Investments	-	667,866	667,866
Loans receivable, net of current portion	-	198,304	198,304
Prepaid expenses, net of current portion	8,043,805	-	8,043,805
Total other assets	8,043,805	1,139,662	9,183,467
Total assets	\$ 11,907,213	6,311,903	18,219,116
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion of long-term debt	-	58,434	58,434
Current portion of obligation under capital lease	-	2,156	2,156
Accounts payable	-	617,657	617,657
Accrued expenses	-	999,386	999,386
Reserves	61,277	104,772	166,049
Deferred revenue	-	1,588,616	1,588,616
Total current liabilities	61,277	3,371,021	3,432,298
Non-current liabilities:			
Obligation under capital lease, net of current portion	-	-	-
Long-term debt, net of current portion	12,155,000	464,563	12,619,563
Total non-current liabilities	12,155,000	464,563	12,619,563
Total liabilities	12,216,277	3,835,584	16,051,861
Net assets	(309,064)	2,476,319	2,167,255
Total liabilities and net assets	\$ 11,907,213	6,311,903	18,219,116

See auditors' report.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Activities
Educare and Non-Educare Portion
Year ended September 30, 2017

	KVCAP Educare	KVCAP Non-Educare	Total
Revenues:			
Grants and contracts	\$ 3,173,307	11,022,489	14,195,796
Program revenue	1,170,704	8,462,853	9,633,557
Other revenue	114,468	281,032	395,500
In-kind	-	976,143	976,143
Total revenues	4,458,479	20,742,517	25,200,996
Expenses:			
Personnel	2,183,151	7,055,053	9,238,204
Payroll taxes and employee benefits	708,469	2,037,643	2,746,112
Staff development	21,830	125,157	146,987
Travel	27,117	217,889	245,006
Direct client services - common carrier	-	2,542,969	2,542,969
Direct client services - other	-	5,268,870	5,268,870
Office costs	28,913	192,584	221,497
Insurance	8,183	55,847	64,030
Telecommunications	23,054	133,871	156,925
Space and occupancy	94,922	382,373	477,295
Space and occupancy - in-kind	-	959,081	959,081
Contract services	296,504	1,127,523	1,424,027
Contract services - in-kind	-	8,478	8,478
Vehicle	-	636,538	636,538
Housing property costs	-	14,337	14,337
Material & supplies	183,891	253,747	437,638
Material & supplies - in-kind	-	8,584	8,584
Administration	6,546	17,865	24,411
Interest	255,761	19,369	275,130
Depreciation	21,913	305,888	327,801
Provision for loan losses	-	4,085	4,085
Other	23,818	230,584	254,402
Total before general and administrative	3,884,072	21,598,335	25,482,407
General and administrative	506,494	(506,494)	-
Total expenses	4,390,566	21,091,841	25,482,407
Change in Net Assets	\$ 67,913	(349,324)	(281,411)

See auditors' report.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Cash Flows
Educare and Non-Educare Portion
Year ended September 30, 2017

	KVCAP Educare	KVCAP Non-Educare	Total
Cash flows from operating activities:			
Change in net assets	\$ 67,913	(349,324)	(281,411)
Adjustments to reconcile change in net assets to cash flows provided by operating activities:			
Depreciation	19,825	362,535	382,360
Unrealized (gain)/loss on investment	-	(99,731)	(99,731)
(Gain)/loss on disposal	-	(11,302)	(11,302)
Forgiveness of debt	-	(9,520)	(9,520)
Change in investment in Cony Village, LLC	-	5,253	5,253
(Increase) decrease in:			
Accounts and grants receivable	60,925	(514,167)	(453,242)
Due (to)/from KVCAP Non-Educare	(302,509)	302,509	-
Loans receivable	-	34,445	34,445
Prepaid expenses	153,955	(27,287)	126,668
Work in progress	-	128,950	128,950
Increase (decrease) in:			
Accounts payable	-	(66,832)	(66,832)
Accrued expenses	-	127,822	127,822
Reserves	540	28,669	29,209
Deferred revenue	-	591,310	591,310
Net cash provided by operating activities	649	503,330	503,979
Cash flows from investing activities:			
Proceeds from sale of fixed assets	-	144,578	144,578
Purchase of property and equipment, net of retirements	-	(705,260)	(705,260)
Net cash used in investing activities	-	(560,682)	(560,682)
Cash flows from financing activities:			
Proceeds from/payment on obligations under capital leases, net	-	(2,807)	(2,807)
Proceeds from/payment on long-term debt, net	-	284,039	284,039
Net cash provided by financing activities	-	281,232	281,232
Increase in cash and cash equivalents	649	223,880	224,529
Cash and cash equivalents, beginning of year	1,507,318	594,630	2,101,948
Cash and cash equivalents, end of year	\$ 1,507,967	818,510	2,326,477
Supplemental cash flow disclosures:			
Cash paid during the year for interest	\$ 255,761	19,369	275,130
Cash paid during the year for taxes	-	-	-

See auditors' report.