



**KENNEBEC VALLEY
COMMUNITY ACTION PROGRAM**

Financial Statements

Years Ended September 30, 2014 and 2013



Independent Auditor's 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 financial position as of September 30, 2014 and 2013, 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.

Auditor's 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.

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, 2014 and 2013, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules on pages 18-20 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 20, 2015, 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.

Gibson & Cain, LLC

Augusta, Maine
February 20, 2015

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Financial Position
September 30, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 551,776	87,766	84,577	724,119	198,975	87,766	83,716	370,457
Designated cash and cash equivalents	1,347,484	-	-	1,347,484	1,657,337	-	-	1,657,337
Accounts and grants receivable	1,583,837	-	-	1,583,837	1,458,702	-	-	1,458,702
Current portion of loans receivable, net	-	-	1,000	1,000	-	-	970	970
Current portion of prepaid expenses	231,224	-	-	231,224	337,748	-	-	337,748
Total current assets	3,714,321	87,766	85,577	3,887,664	3,652,762	87,766	84,686	3,825,214
Property and equipment:								
Land	57,787	-	-	57,787	57,787	-	-	57,787
Buildings and improvements	3,796,484	-	-	3,796,484	3,780,485	-	-	3,780,485
Equipment and fixtures	1,054,245	-	-	1,054,245	1,038,795	-	-	1,038,795
Vehicles	1,742,203	-	-	1,742,203	1,688,969	-	-	1,688,969
Total property and equipment	6,650,719	-	-	6,650,719	6,566,036	-	-	6,566,036
Less: Accumulated depreciation	(2,656,104)	-	-	(2,656,104)	(2,388,968)	-	-	(2,388,968)
Net property and equipment	3,994,615	-	-	3,994,615	4,177,068	-	-	4,177,068
Other assets:								
Work in progress	157,230	-	-	157,230	220,679	-	-	220,679
Investments	646,379	-	108,577	754,956	643,760	-	108,577	752,337
Loans receivable, net of current portion	216,935	26,881	41,923	285,739	122,078	26,881	42,814	191,773
Prepaid expenses, net of current portion	8,652,537	-	-	8,652,537	8,633,200	-	-	8,633,200
Total other assets	9,673,081	26,881	150,500	9,850,462	9,619,717	26,881	151,391	9,797,989
Total assets	\$ 17,382,017	114,647	236,077	17,732,741	17,449,547	114,647	236,077	17,800,271
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	\$ 102,793	-	-	102,793	103,469	-	-	103,469
Current portion of obligation under capital lease	9,640	-	-	9,640	18,364	-	-	18,364
Accounts payable	599,420	-	-	599,420	567,161	-	-	567,161
Short-term notes payable/lines of credit	-	-	-	-	112,000	-	-	112,000
Accrued expenses	602,488	-	-	602,488	628,764	-	-	628,764
Reserves	214,429	-	-	214,429	81,463	-	-	81,463
Due to funding sources	26,167	-	-	26,167	117,436	-	-	117,436
Deferred revenue	802,415	-	-	802,415	544,029	-	-	544,029
Total current liabilities	2,357,352	-	-	2,357,352	2,172,686	-	-	2,172,686
Non-current liabilities:								
Obligation under capital lease, net of current portion	7,702	-	-	7,702	17,243	-	-	17,243
Long-term debt, net of current portion	12,467,574	-	-	12,467,574	12,563,702	-	-	12,563,702
Total non-current liabilities	12,475,276	-	-	12,475,276	12,580,945	-	-	12,580,945
Total liabilities	14,832,628	-	-	14,832,628	14,753,631	-	-	14,753,631
Total net assets	2,549,389	114,647	236,077	2,900,113	2,695,916	114,647	236,077	3,046,640
Total liabilities and net assets	\$ 17,382,017	114,647	236,077	17,732,741	17,449,547	114,647	236,077	17,800,271

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Activities
Years Ended September 30, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Grants and contracts	\$ 9,709,328	-	-	9,709,328	9,233,808	-	-	9,233,808
Program revenue	5,507,392	-	-	5,507,392	6,091,297	-	-	6,091,297
Other revenue	949,255	-	-	949,255	1,760,073	-	-	1,760,073
In-kind	529,350	-	-	529,350	449,602	-	-	449,602
Total revenues, gains and other support	16,695,325	-	-	16,695,325	17,534,780	-	-	17,534,780
Expenses:								
Program services:								
Community services	6,158,763	-	-	6,158,763	7,201,055	-	-	7,201,055
Energy & housing services	3,078,246	-	-	3,078,246	2,825,144	-	-	2,825,144
Child & family services	5,972,340	-	-	5,972,340	5,516,159	-	-	5,516,159
Agency services	152,553	-	-	152,553	228,989	-	-	228,989
Total program expenses	15,361,902	-	-	15,361,902	15,771,347	-	-	15,771,347
Supporting services:								
Management & general	1,479,950	-	-	1,479,950	1,480,806	-	-	1,480,806
Total expenses	16,841,852	-	-	16,841,852	17,252,153	-	-	17,252,153
Change in net assets	(146,527)	-	-	(146,527)	282,627	-	-	282,627
Net assets, beginning of year	2,695,916	114,647	236,077	3,046,640	2,413,289	114,647	236,077	2,764,013
Net assets, end of year	\$ 2,549,389	114,647	236,077	2,900,113	2,695,916	114,647	236,077	3,046,640

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year Ended September 30, 2014

	Program Services					Supporting Services	Total
	Community services	Energy & Housing services	Child & Family services	Agency services	Total program	Management and general	
Personnel	\$ 2,327,688	703,056	3,264,369	3,151	6,298,264	1,003,017	7,301,281
Payroll taxes and employee benefits	646,628	214,673	947,891	1,955	1,811,147	229,582	2,040,729
Staff development	9,840	9,726	36,183	-	55,749	22,660	78,409
Travel	66,344	10,692	40,744	459	118,239	20,629	138,868
Office costs	34,634	37,736	44,245	30	116,645	41,041	157,686
Insurance	772	6,830	7,779	4,952	20,333	28,598	48,931
Telecommunications	61,560	19,211	35,920	531	117,222	16,664	133,886
Space and occupancy	160,635	198,421	155,340	18,436	532,832	45	532,877
Space and occupancy - in-kind	-	-	523,142	-	523,142	-	523,142
Contract services	109,255	1,120,862	378,681	8,443	1,617,241	41,334	1,658,575
Contract services - in-kind	-	-	4,395	-	4,395	-	4,395
Vehicle	668,116	13,094	-	155	681,365	-	681,365
Housing property costs	-	80,268	-	2,484	82,752	-	82,752
Material & supplies	26,155	627,185	197,802	909	852,051	5,402	857,453
Material & supplies - in-kind	-	-	1,813	-	1,813	-	1,813
Direct client assistance	1,400,528	-	11,558	-	1,412,086	-	1,412,086
Administration	(2,575)	(777)	(3,610)	(4)	(6,966)	-	(6,966)
Interest	7,104	14,749	257,698	18,585	298,136	468	298,604
Depreciation	78,639	18,576	27,803	89,795	214,813	11,260	226,073
Common carrier	211,064	-	-	-	211,064	-	211,064
Other	352,376	3,944	40,587	2,672	399,579	59,250	458,829
Total before general and administrative	6,158,763	3,078,246	5,972,340	152,553	15,361,902	1,479,950	16,841,852
General and administrative	550,092	171,714	757,287	857	1,479,950	(1,479,950)	-
Total expenses	\$ 6,708,855	3,249,960	6,729,627	153,410	16,841,852	-	16,841,852

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year Ended September 30, 2013

	Program Services					Supporting Services	Total
	Community services	Energy & Housing services	Child & Family services	Agency services	Total program	Management and general	
Personnel	\$ 2,295,084	787,088	3,089,684	-	6,171,856	1,016,755	7,188,611
Payroll taxes and employee benefits	628,983	235,481	859,493	47	1,724,004	217,560	1,941,564
Staff development	15,735	6,994	61,483	-	84,212	12,134	96,346
Travel	58,265	12,794	43,825	100	114,984	22,243	137,227
Office costs	42,560	41,700	37,638	1,403	123,301	52,698	175,999
Insurance	798	6,677	16,986	1,636	26,097	19,133	45,230
Telecommunications	71,724	25,425	37,504	-	134,653	15,262	149,915
Space and occupancy	200,204	215,222	132,769	8,880	557,075	-	557,075
Space and occupancy - in-kind	-	-	440,845	-	440,845	-	440,845
Contract services	85,295	896,271	251,306	75,612	1,308,484	17,317	1,325,801
Contract services - in-kind	-	-	7,035	-	7,035	-	7,035
Vehicle	604,903	17,575	-	-	622,478	-	622,478
Housing property costs	-	10,528	-	29,960	40,488	-	40,488
Material & supplies	22,301	505,050	212,240	42,763	782,354	11,740	794,094
Material & supplies - in-kind	-	-	1,722	-	1,722	-	1,722
Direct client assistance	2,564,950	-	10,598	-	2,575,548	-	2,575,548
Administration	(9,788)	(3,365)	(13,209)	-	(26,362)	-	(26,362)
Interest	14,384	12,499	259,485	11,419	297,787	595	298,382
Depreciation	74,006	27,158	26,772	55,208	183,144	11,834	194,978
Common carrier	476,951	-	-	-	476,951	-	476,951
Other	54,700	28,047	39,983	1,961	124,691	83,535	208,226
Total before general and administrative	7,201,055	2,825,144	5,516,159	228,989	15,771,347	1,480,806	17,252,153
General and administrative	549,821	189,008	741,977	-	1,480,806	(1,480,806)	-
Total expenses	\$ 7,750,876	3,014,152	6,258,136	228,989	17,252,153	-	17,252,153

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Statements of Cash Flows

Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (146,527)	282,627
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	267,136	165,954
Unrealized gain on investments	(2,619)	(7,037)
Forgiveness of debt	(9,520)	(9,520)
Noncash contributions	-	(885,775)
(Increase) decrease in:		
Accounts and grants receivable	(125,135)	700,039
Loans receivable	(93,996)	746
Prepaid expenses	87,187	(91,479)
Work in progress	63,449	557,094
Increase (decrease) in:		
Accounts payable	32,259	(24,460)
Accrued expenses	(26,276)	35,249
Reserves	132,966	(177,991)
Due to funding sources	(91,269)	14,963
Deferred revenue	258,386	225,684
Net cash provided by operating activities	346,041	786,094
Cash flows from investing activities:		
Purchase of property and equipment, net of retirements	(84,683)	(379,622)
Net cash used in investing activities	(84,683)	(379,622)
Cash flows from financing activities:		
Payments on obligation under capital lease	(18,265)	(3,832)
Repayment of long-term debt, net	(87,284)	(12,549)
Proceeds from (repayment of) short-term debt/lines of credit, net	(112,000)	(548,400)
Net cash used in financing activities	(217,549)	(564,781)
Increase (decrease) in cash and cash equivalents	43,809	(158,309)
Cash and cash equivalents, beginning of year	2,027,794	2,186,103
Cash and cash equivalents, end of year	\$ 2,071,603	2,027,794
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 159,918	159,101
Cash paid during the year for taxes	-	-
Noncash contribution of vehicles	-	885,775

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 (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, 2014 and 2013, \$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, 2014 and 2013, \$236,077 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). 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 2013, 2012, and 2011 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

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 2014 and 2013 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 (custom software design and 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 \$74,202 and \$53,327 for the years ended September 30, 2014 and 2013, 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, 10-40 years for building renovations, 5-10 years for equipment and 5 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 \$192,934 and \$112,627 for the years ended September 30, 2014 and 2013, respectively.

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

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

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, 2014 and 2013 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. K.V.C.A.P. received \$95,135 and \$169,713 worth of non-professional volunteer services during the years ended September 30, 2014 and 2013, respectively. These amounts are not included in the amount recognized in the financial statements at September 30, 2014 and 2013.

Noncash Contributions - In December 2012, the State of Maine Department of Transportation transferred title on 26 vehicles to the Organization that were previously leased. Included in this transaction were 5 vehicles gifted to the Organization from the Go Maine program in October 2012. The fair market value of the vehicles was \$885,775, which is included in "Other revenue" in the 2013 statement of activities. Depreciation is being taken on these donated vehicles over their estimated remaining useful lives, which range from 5 years for small passenger type vehicles (i.e. Caravans) to 15 years for larger multi-passenger buses.

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.

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.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

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, 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.

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.

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 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. The department also provides a comprehensive homebuyer 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.

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.

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 two reserve accounts 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, 2014 and 2013, 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>2014</u>	<u>2013</u>
<u>Common and preferred stock</u>	<u>\$ 19,290</u>	<u>16,671</u>

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

INVESTMENTS, CONTINUED

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

	<u>2014</u>	<u>2013</u>
<u>Unrealized gains</u>	\$ 2,619	7,037

The investment in Cony Village, LLC, which KVCAP has a 50% interest, totaled \$734,666 as of September 30, 2014 and 2013.

The investment in KVCAP Real Estate Development, Inc., which KVCAP has a 100% interest, totaled \$1,000 as of September 30, 2014 and 2013.

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 \$15,758 and \$16,619 at September 30, 2014 and 2013, 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 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 \$412,148, less a \$236,024 reserve for uncollectible loans at September 30, 2014 and 2013.

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 \$94,857 and \$0 at September 30, 2014 and 2013, respectively.

LINES OF CREDIT

At September 30, 2014 and 2013, 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, 2015. There was no outstanding balance at September 30, 2014 and 2013.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

LINES OF CREDIT, CONTINUED

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 October 31, 2015, and can be renewed. The following is the detail of open lines of credit at September 30, 2014 and 2013:

Housing line of credit for 30 Village Circle, in Augusta, Maine in the amount of \$112,000. The balance at September 30, 2014 and 2013 was \$0 and \$112,000, respectively.

LONG-TERM DEBT

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

	<u>2014</u>	<u>2013</u>
\$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.	5,858	9,212
\$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.	202,146	211,944
\$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.	14,685	19,580
\$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.	13,875	18,500
\$250,000 note payable to Genesis Fund, payable in monthly installments of \$4,833 with 6% interest through September 8, 2015, secured by a mortgage deed on property located at 101 Water Street, Waterville.	56,157	109,051

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

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 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 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>\$54,240 note payable to Kennebec Savings Bank, payable in monthly installments of \$1,237 with 4.5% interest through May 21, 2016, secured by agency copiers.</p>			23,801	37,241
<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, 2023, secured by property located at 58 Village Circle, Augusta.</p>			98,845	106,643
			12,570,367	12,667,171
Less current portion			102,793	103,469
Long-term debt			\$ 12,467,574	12,563,702

Maturities on long-term debt are as follows:

<u>Fiscal year</u>	
2015	\$ 102,793
2016	222,628
2017	19,478
2018	10,494
2019	11,062
Thereafter	12,203,912
Total	\$ 12,570,367

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

CHANGE IN NET ASSETS

For the year ended September 30, 2014, the change in net assets of \$(146,527) was arrived at as follows:

Excess revenue over expenses (before depreciation and agency reserves)	\$ 121,951
Less: Annual depreciation	(267,136)
Net deficit from operations	(145,185)
Less: Expenses on agency reserves	(1,342)
Total change in net assets	\$ (146,527)

The total change in net assets of \$(146,527) includes the noncash expenses related to the New Market Tax Credit transaction for the long-term lease of the Educare Central Maine facility.

For the year ended September 30, 2013, the change in net assets of \$282,627 was arrived at as follows:

Excess revenue over expenses (before depreciation and agency reserves)	\$ 449,923
Less: Annual depreciation	(165,954)
Net surplus from operations	283,969
Less: Expenses on agency reserves	(1,342)
Total change in net assets	\$ 282,627

The total change in net assets of \$282,627 includes the noncash contribution to the agency of vehicles, offset by noncash expenses related to the New Market Tax Credit transaction for the long-term lease of the Educare Central Maine facility.

OPERATING LEASES

The Organization leases two postage machines, one in its Skowhegan office and one in its Augusta office. Both leases expired December, 2013, and the lease for the Augusta postage machine was extended to June 2017. Future minimum payments are \$832 due in the subsequent fiscal year. Lease expense for the years ended September 30, 2014 and 2013 were \$878 and \$1,848, respectively.

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.

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, 2014:

Year ended September 30:	
2015	\$ 2,880
2016	2,880
2017	2,880
2018	2,160
Total minimum lease payments	10,800
Less amount representing interest	(399)

Present value of minimum lease payments \$ 10,401

The following is a schedule by years of future minimum payments required under the lease together with its present value as of September 30, 2013:

Year ended September 30:	
2014	\$ 2,880
2015	2,880
2016	2,880
2017	2,880
2018	2,160
Total minimum lease payments	13,680
Less amount representing interest	(633)

Present value of minimum lease payments \$ 13,047

Amortization of the assets held under the capital leases is included with depreciation expense.

The Organization entered into a capital lease for equipment (telephone system upgrade) during the year ended September 30, 2010. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, 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, 2014:

Year ended:	
September 30, 2015	\$ 7,579
Less amount representing interest	(638)

Present value of minimum lease payments \$ 6,941

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, 2013:

Year ended September 30:		
2014	\$	16,796
2015		7,679
Total minimum lease payments		24,475
Less amount representing interest		(1,915)
<u>Present value of minimum lease payments</u>	\$	<u>22,560</u>

Amortization of the assets held under the capital leases 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, \$8,598,550 at September 30, 2014, and \$8,737,236 at September 30, 2013, is presented as prepaid interest. Both the leased building and the prepaid interest are being amortized over the lease term.

RESTRICTIONS ON NET ASSETS

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

		<u>2014</u>	<u>2013</u>
MSHA housing preservation revolving loan fund	\$	<u>114,647</u>	<u>114,647</u>

Permanently restricted net assets consist of the following:

		<u>2014</u>	<u>2013</u>
NeighborWorks America Loan/Capital Funds	\$	<u>236,077</u>	<u>236,077</u>

CONCENTRATION OF REVENUE

Of the revenues received by the Organization in fiscal year 2014 and 2013, approximately 81% and 82%, 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.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

COMMITMENTS AND CONTINGENCIES/SUBSEQUENT EVENTS

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 December 2011, the Organization received notification from the Maine Human Rights Commission indicating that a complaint had been filed against the Organization alleging illegal 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 volunteer driver for the Transportation program that is no longer being used to provide services to clients and who was at no time an employee of the Organization. Counsel has been engaged to address this matter and a motion to dismiss the employment discrimination claim was filed in January 2012. In August 2013, the Organization was notified by the Maine Human Rights Commission that there were reasonable grounds to believe that unlawful discrimination did occur. This matter was settled in August 2014 at no cost to the Organization.

In November 2012, notification was received that a complaint has been filed against the Organization, Maine State Housing Authority, and a contractor of the Organization. The complaint was filed by a client of the agency's weatherization program for work that was completed in 2010 alleging that the work damaged their home and requesting a replacement mobile home in settlement. This matter was settled in November 2013 at no cost to the Organization.

In December 2013, notification was received that a complaint has been filed against the Organization by a client of the energy services program. The complaint alleges that work completed by the program between 2007 and 2011 damaged the home and requesting a replacement home in settlement. This matter was closed with no settlement and no cost to the Organization.

In January 2014, notification was received that a complaint has been filed against the Organization. The complaint was filed by a consumer of the Organization's transit bus service alleging discrimination by the Organization in providing bus service. It was found that there was no basis for the claim that discrimination had occurred. This matter was dismissed in March 2014.

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, and to date no complaint has been filed against the Organization. Further action on this matter is pending, and any effect on the financial statements of the Organization is unknown at this time.

In December 2014, notification was received of a potential complaint being filed against the Organization. The complaint was being brought forth by a former employee alleging wrongful termination under the Whistleblower Act after making a claim of fraudulent activity within the program. An investigation into the claim found that no fraudulent or improper activity occurred and termination was based upon the agency's policy of Absence without Authorization. Counsel has been notified. Further action on this matter is pending, and any effect on the financial statements of the Organization is unknown at this time.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

COMMITMENTS AND CONTINGENCIES/SUBSEQUENT EVENTS, CONTINUED

Subsequent events were evaluated through February 20, 2015, 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, 2014

	KVCAP Educare	KVCAP Non-Educare	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 158,511	565,608	724,119
Designated cash and cash equivalents	1,347,484	-	1,347,484
Accounts and grants receivable	411,181	1,172,656	1,583,837
Due (to)/from KVCAP Non Educare Programs	43,065	(43,065)	-
Current portion of loans receivable, net	-	1,000	1,000
Current portion of prepaid expenses	167,888	63,336	231,224
Total current assets	2,128,129	1,759,535	3,887,664
Property and equipment:			
Land	-	57,787	57,787
Buildings and improvements	1,288,601	2,507,883	3,796,484
Equipment and fixtures	-	1,054,245	1,054,245
Vehicles	-	1,742,203	1,742,203
Total property and equipment	1,288,601	5,362,118	6,650,719
Less: Accumulated depreciation	(57,822)	(2,598,282)	(2,656,104)
Net property and equipment	1,230,779	2,763,836	3,994,615
Other assets:			
Work in progress	-	157,230	157,230
Investments	-	754,956	754,956
Loans receivable, net of current portion	-	285,739	285,739
Prepaid expenses, net of current portion	8,471,421	181,116	8,652,537
Total other assets	8,471,421	1,379,041	9,850,462
Total assets	\$ 11,830,329	5,902,412	17,732,741
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion of long-term debt	\$ -	102,793	102,793
Current portion of obligation under capital lease	-	9,640	9,640
Accounts payable	-	599,420	599,420
Accrued expenses	-	602,488	602,488
Reserves	-	214,429	214,429
Due to funding sources	-	26,167	26,167
Deferred revenue	-	802,415	802,415
Total current liabilities	-	2,357,352	2,357,352
Non-current liabilities:			
Obligation under capital lease, net of current portion	-	7,702	7,702
Long-term debt, net of current portion	12,155,000	312,574	12,467,574
Total non-current liabilities	12,155,000	320,276	12,475,276
Total liabilities	12,155,000	2,677,628	14,832,628
Net assets	(324,671)	3,224,784	2,900,113
Total liabilities and net assets	\$ 11,830,329	5,902,412	17,732,741

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Schedule of Activities

Educare and Non-Educare Portion

Year Ended September 30, 2014

	KVCAP Educare	KVCAP Non-Educare	Total
Revenues:			
Grants and contracts	\$ 2,651,424	7,057,904	9,709,328
Program revenue	990,387	4,517,005	5,507,392
Other revenue	120,616	828,639	949,255
In-kind	-	529,350	529,350
Total revenue	3,762,427	12,932,898	16,695,325
Expenses:			
Personnel	1,977,786	5,323,495	7,301,281
Payroll taxes and employee benefits	608,447	1,432,282	2,040,729
Staff development	26,630	51,779	78,409
Travel	15,551	123,317	138,868
Office costs	21,539	136,147	157,686
Insurance	2,432	46,499	48,931
Telecommunications	20,795	113,091	133,886
Space and occupancy	118,387	414,490	532,877
Space and occupancy - in-kind	-	523,142	523,142
Contract services	190,835	1,467,740	1,658,575
Contract services - in-kind	-	4,395	4,395
Vehicle	-	681,365	681,365
Housing property costs	-	82,752	82,752
Material & supplies	161,939	695,514	857,453
Material & supplies - in-kind	-	1,813	1,813
Direct client assistance	8,770	1,403,316	1,412,086
Administration	(2,187)	(4,779)	(6,966)
Interest	255,746	42,858	298,604
Depreciation	22,520	203,553	226,073
Common carrier	-	211,064	211,064
Other	21,104	437,725	458,829
Total before general and administrative	3,450,294	13,391,558	16,841,852
General and administrative	457,078	(457,078)	-
Total expenses	3,907,372	12,934,480	16,841,852

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Schedule of Cash Flows

Educare and Non-Educare Portion

Year Ended September 30, 2014

	KVCAP Educare	KVCAP Non-Educare	Total
Cash flows from operating activities:			
Change in net assets	\$ (144,945)	(1,582)	(146,527)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation	19,825	247,311	267,136
Unrealized gain on investment	-	(2,619)	(2,619)
Forgiveness of debt	-	(9,520)	(9,520)
(Increase) decrease in:			
Accounts and grants receivable	(15,045)	(110,090)	(125,135)
Due (to)/from KVCAP Non-Educare	(169,454)	169,454	-
Loans receivable	-	(93,996)	(93,996)
Prepaid expenses	109,484	(22,297)	87,187
Work in progress	-	63,449	63,449
Increase (decrease) in:			
Accounts payable	-	32,259	32,259
Accrued expenses	-	(26,276)	(26,276)
Reserves	(12,322)	145,288	132,966
Due to funding sources	-	(91,269)	(91,269)
Deferred revenue	(5,000)	263,386	258,386
Net cash provided by (used in) operating activities	(217,457)	563,498	346,041
Cash flows from investing activities:			
Purchase of property and equipment, net of retirements	-	(84,683)	(84,683)
Net cash used in investing activities	-	(84,683)	(84,683)
Cash flows from financing activities:			
Payments on obligations under capital leases, net	-	(18,265)	(18,265)
Proceeds from (repayment of) long-term debt, net	-	(87,284)	(87,284)
Proceeds from (repayment of) short-term debt, lines of credit, net	-	(112,000)	(112,000)
Net cash provided by (used in) financing activities	-	563,420	(217,549)
Increase (decrease) in cash and cash equivalents	(217,457)	261,266	43,809
Cash and cash equivalents, beginning of year	1,723,452	304,342	2,027,794
Cash and cash equivalents, end of year	\$ 1,505,995	565,608	2,071,603
Supplemental cash flow disclosures:			
Cash paid during the year for interest	\$ 116,810	43,108	159,918
Cash paid during the year for taxes	-	-	-