



**KENNEBEC VALLEY
COMMUNITY ACTION PROGRAM**

Financial Statements

Years Ended September 30, 2015 and 2014

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, 2015 and 2014, 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 misstatement 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, 2015 and 2014, 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 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 March 23, 2016, 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 & Clair, LLC

Augusta, Maine
March 23, 2016

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statements of Financial Position
September 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 944,831	90,916	85,697	1,121,444	551,776	87,766	84,577	724,119
Designated cash and cash equivalents	1,348,158	-	-	1,348,158	1,347,484	-	-	1,347,484
Accounts and grants receivable	1,750,018	-	-	1,750,018	1,583,837	-	-	1,583,837
Current portion of loans receivable, net	-	-	1,080	1,080	-	-	1,000	1,000
Current portion of prepaid expenses	235,248	-	-	235,248	231,224	-	-	231,224
Total current assets	4,278,255	90,916	86,777	4,455,948	3,714,321	87,766	85,577	3,887,664
Property and equipment:								
Land	57,787	-	-	57,787	57,787	-	-	57,787
Buildings and improvements	3,838,591	-	-	3,838,591	3,796,484	-	-	3,796,484
Equipment and fixtures	548,507	-	-	548,507	1,054,245	-	-	1,054,245
Vehicles	1,857,550	-	-	1,857,550	1,742,203	-	-	1,742,203
Total property and equipment	6,302,435	-	-	6,302,435	6,650,719	-	-	6,650,719
Less: Accumulated depreciation	(2,416,189)	-	-	(2,416,189)	(2,656,104)	-	-	(2,656,104)
Net property and equipment	3,886,246	-	-	3,886,246	3,994,615	-	-	3,994,615
Other assets:								
Work in progress	293,254	-	-	293,254	157,230	-	-	157,230
Investments	661,312	-	108,577	769,889	646,379	-	108,577	754,956
Loans receivable, net of current portion	170,055	23,731	40,723	234,509	216,935	26,881	41,923	285,739
Prepaid expenses, net of current portion	8,472,568	-	-	8,472,568	8,652,537	-	-	8,652,537
Total other assets	9,597,189	23,731	149,300	9,770,220	9,673,081	26,881	150,500	9,850,462
Total assets	\$ 17,761,690	114,647	236,077	18,112,414	17,382,017	114,647	236,077	17,732,741
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	\$ 210,525	-	-	210,525	102,793	-	-	102,793
Current portion of obligation under capital lease	2,790	-	-	2,790	9,422	-	-	9,422
Accounts payable	649,452	-	-	649,452	599,420	-	-	599,420
Accrued expenses	627,918	-	-	627,918	602,488	-	-	602,488
Reserves	177,423	-	-	177,423	214,429	-	-	214,429
Due to funding sources	43,095	-	-	43,095	26,167	-	-	26,167
Deferred revenue	1,367,366	-	-	1,367,366	802,415	-	-	802,415
Total current liabilities	3,078,569	-	-	3,078,569	2,357,134	-	-	2,357,134
Non-current liabilities:								
Obligation under capital lease, net of current portion	5,040	-	-	5,040	7,920	-	-	7,920
Long-term debt, net of current portion	12,242,715	-	-	12,242,715	12,467,574	-	-	12,467,574
Total non-current liabilities	12,247,755	-	-	12,247,755	12,475,494	-	-	12,475,494
Total liabilities	15,326,324	-	-	15,326,324	14,832,628	-	-	14,832,628
Total net assets	2,435,366	114,647	236,077	2,786,090	2,549,389	114,647	236,077	2,900,113
Total liabilities and net assets	\$ 17,761,690	114,647	236,077	18,112,414	17,382,017	114,647	236,077	17,732,741

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Statements of Activities

Years Ended September 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Grants and contracts	\$ 10,316,994	-	-	10,316,994	9,709,328	-	-	9,709,328
Program revenue	9,008,188	-	-	9,008,188	5,507,392	-	-	5,507,392
Other revenue	803,772	-	-	803,772	949,255	-	-	949,255
In-kind	641,197	-	-	641,197	529,350	-	-	529,350
Total revenues, gains and other support	20,770,151	-	-	20,770,151	16,695,325	-	-	16,695,325
Expenses:								
Program services:								
Community services	9,870,232	-	-	9,870,232	6,158,763	-	-	6,158,763
Energy & housing services	2,633,323	-	-	2,633,323	3,078,246	-	-	3,078,246
Child & family services	6,592,586	-	-	6,592,586	5,972,340	-	-	5,972,340
Agency services	203,942	-	-	203,942	152,553	-	-	152,553
Total program expenses	19,300,083	-	-	19,300,083	15,361,902	-	-	15,361,902
Supporting services:								
Management & general	1,567,855	-	-	1,567,855	1,479,950	-	-	1,479,950
Fundraising	16,236	-	-	16,236	-	-	-	-
Total supporting service expenses	1,584,091	-	-	1,584,091	1,479,950	-	-	1,479,950
Total expenses	20,884,174	-	-	20,884,174	16,841,852	-	-	16,841,852
Change in net assets	(114,023)	-	-	(114,023)	(146,527)	-	-	(146,527)
Net assets, beginning of year	2,549,389	114,647	236,077	2,900,113	2,695,916	114,647	236,077	3,046,640
Net assets, end of year	\$ 2,435,366	114,647	236,077	2,786,090	2,549,389	114,647	236,077	2,900,113

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Statement of Functional Expenses
Year Ended September 30, 2015

	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	\$ 2,400,718	695,371	3,481,410	4,311	6,581,810	1,017,807	6,167	1,023,974	7,605,784
Payroll taxes and employee benefits	710,536	222,458	1,059,241	1,772	1,994,007	243,950	1,849	245,799	2,239,806
Staff development	16,703	15,444	57,695	-	89,842	20,246	705	20,951	110,793
Travel	60,208	14,078	63,566	274	138,126	27,039	202	27,241	165,367
Direct client assistance - common carrier	1,807,527	-	-	-	1,807,527	-	-	-	1,807,527
Direct client assistance - other	3,672,713	1,387,439	11,979	-	5,072,131	-	-	-	5,072,131
Office costs	37,814	51,368	50,749	819	140,750	49,294	439	49,733	190,483
Insurance	1,242	3,291	8,266	5,038	17,837	27,452	-	27,452	45,289
Telecommunications	68,020	19,586	36,102	461	124,169	15,913	-	15,913	140,082
Space and occupancy	167,164	124,003	135,020	26,229	452,416	-	-	-	452,416
Space and occupancy - in-kind	-	-	634,362	-	634,362	-	-	-	634,362
Contract services	164,040	16,407	432,190	15,690	628,327	36,053	4,833	40,886	669,213
Contract services - in-kind	-	-	6,406	-	6,406	-	-	-	6,406
Vehicle	613,827	13,266	-	90	627,183	-	-	-	627,183
Housing property costs	-	918	-	2,568	3,486	-	-	-	3,486
Material & supplies	20,500	45,280	274,637	322	340,739	29,484	-	29,484	370,223
Material & supplies - in-kind	-	-	429	-	429	-	-	-	429
Administration	397	115	576	1	1,089	-	1	1	1,090
Interest	5,283	3,600	256,763	12,001	277,647	59	-	59	277,706
Depreciation	73,332	10,649	25,661	111,185	220,827	8,480	-	8,480	229,307
Provision for bad debts/loan losses	-	-	-	18,271	18,271	-	-	-	18,271
Other	50,208	10,050	57,534	4,910	122,702	92,078	2,040	94,118	216,820
Total expenses	\$ 9,870,232	2,633,323	6,592,586	203,942	19,300,083	1,567,855	16,236	1,584,091	20,884,174

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
Direct client assistance - common carrier	211,064	-	-	-	211,064	-	211,064
Direct client assistance - other	1,711,210	1,478,689	11,558	-	3,201,457	-	3,201,457
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	215,779	378,681	8,443	712,158	41,334	753,492
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	53,579	197,802	909	278,445	5,402	283,847
Material & supplies - in-kind	-	-	1,813	-	1,813	-	1,813
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
Other	41,694	3,944	40,587	2,672	88,897	59,250	148,147
Total expenses	\$ 6,158,763	3,078,246	5,972,340	152,553	15,361,902	1,479,950	16,841,852

See accompanying notes to financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Statements of Cash Flows

Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (114,023)	(146,527)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	271,192	267,136
Unrealized gain on investments	(14,933)	(2,619)
Loss on disposal	4,230	-
Forgiveness of debt	(9,520)	(9,520)
(Increase) decrease in:		
Accounts and grants receivable	(166,181)	(125,135)
Loans receivable	51,150	(93,996)
Prepaid expenses	175,945	87,187
Work in progress	(136,024)	63,449
Increase (decrease) in:		
Accounts payable	50,032	32,259
Accrued expenses	25,430	(26,276)
Reserves	(37,006)	132,966
Due to funding sources	16,928	(91,269)
Deferred revenue	564,951	258,386
Net cash provided by operating activities	682,171	346,041
Cash flows from investing activities:		
Purchase of property and equipment, net of retirements	(167,053)	(84,683)
Net cash used in investing activities	(167,053)	(84,683)
Cash flows from financing activities:		
Payments on obligation under capital lease	(9,512)	(18,265)
Repayment of long-term debt, net	(107,607)	(87,284)
Proceeds from (repayment of) short-term debt/lines of credit, net	-	(112,000)
Net cash used in financing activities	(117,119)	(217,549)
Increase in cash and cash equivalents	397,999	43,809
Cash and cash equivalents, beginning of year	2,071,603	2,027,794
Cash and cash equivalents, end of year	\$ 2,469,602	2,071,603
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 277,706	298,604
Cash paid during the year for taxes	-	-

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, 2015 and 2014, \$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, 2015 and 2014, \$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 2014, 2013, and 2012 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 2015 and 2014 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 \$96,449 and \$74,202 for the years ended September 30, 2015 and 2014, 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 5-15 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 \$174,743 and \$192,934 for the years ended September 30, 2015 and 2014, respectively.

Depreciation expense for agency facilities totaled \$41,885 and \$41,063 for the years ended September 30, 2015 and 2014, respectively. These amounts are recognized as part of the space and occupancy expense line on the Statements 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

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, 2015 and 2014 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 \$122,813 and \$95,135 worth of non-professional volunteer services during the years ended September 30, 2015 and 2014, respectively. These amounts are not included in the amount recognized in the financial statements at September 30, 2015 and 2014.

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.

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.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

DESCRIPTION OF PROGRAMS, CONTINUED

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.

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.

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 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, 2015 and 2014, 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>2015</u>	<u>2014</u>
<u>Common and preferred stock</u>	<u>\$ 34,223</u>	<u>19,290</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>2015</u>	<u>2014</u>
<u>Unrealized gains</u>	<u>\$ 14,933</u>	<u>2,619</u>

The investment in Cony Village, LLC, of which KVCAP has a 50% interest, totaled \$734,666 as of September 30, 2015 and 2014.

The investment in KVCAP Real Estate Development, Inc., of which KVCAP has a 100% interest, totaled \$1,000 as of September 30, 2015 and 2014.

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 \$14,638 and \$15,758 at September 30, 2015 and 2014, 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 \$405,848, less a \$232,874 reserve for uncollectible loans at September 30, 2015 and \$412,148 less a \$236,024 reserve for uncollectible loans at September 30, 2014.

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 \$47,977 and \$94,857 at September 30, 2015 and 2014, respectively.

LINES OF CREDIT

At September 30, 2015 and 2014, 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, 2016. There was no outstanding balance at September 30, 2015 and 2014.

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 July 31, 2016, and can be renewed. There was no outstanding balance at September 30, 2015 and 2014.

LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</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
\$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.	191,564	202,146
\$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.	9,790	14,685
\$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.	9,250	13,875
\$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

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, paid in full at September 30, 2015.</p>			-	23,801
<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>			87,636	98,845
			12,453,240	12,570,367
<p>Less current portion</p>			210,525	102,793
<p>Long-term debt</p>			\$ 12,242,715	12,467,574

Maturities on long-term debt are as follows:

Fiscal year

2016	\$ 210,525
2017	19,482
2018	10,497
2019	11,062
2020	11,650
Thereafter	12,190,024

Total **\$ 12,453,240**

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

CHANGE IN NET ASSETS

For the year ended September 30, 2015, the change in net assets of \$(114,023) was arrived at as follows:

Excess revenue over expenses (before depreciation and agency reserves)	\$ 158,511
<u>Less: Annual depreciation</u>	<u>(271,192)</u>
Net deficit from operations	(112,681)
<u>Less: Expenses on agency reserves</u>	<u>(1,342)</u>
<u>Total change in net assets</u>	<u>\$ (114,023)</u>

The total change in net assets of \$(114,023) 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, 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
<u>Less: Annual depreciation</u>	<u>(267,136)</u>
Net deficit from operations	(145,185)
<u>Less: Expenses on agency reserves</u>	<u>(1,342)</u>
<u>Total change in net assets</u>	<u>\$ (146,527)</u>

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.

OPERATING LEASES

The Organization leases a postage machine in its Augusta office. 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, 2015 and 2014 were \$863 and \$878, 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, 2015:

Year ended September 30:	
2016	\$ 2,790
2017	2,880
2018	2,160
Total minimum lease payments	7,830
Less amount representing interest	(218)
<u>Present value of minimum lease payments</u>	<u>\$ 7,612</u>

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)
<u>Present value of minimum lease payments</u>	<u>\$ 10,401</u>

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 lease was paid in full in 2015.

The following is a schedule of its present value as of September 30, 2014:

Year ended:	
September 30, 2014	\$ 6,542
Less amount representing interest	(638)
<u>Present value of minimum lease payments</u>	<u>\$ 5,904</u>

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Notes to Financial Statements, Continued

CAPITAL LEASES, CONTINUED

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, \$8,459,863 at September 30, 2015, and \$8,598,550 at September 30, 2014, 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>2015</u>	<u>2014</u>
MSHA housing preservation revolving loan fund	\$	<u>114,647</u>	<u>114,647</u>

Permanently restricted net assets consist of the following:

		<u>2015</u>	<u>2014</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 2015 and 2014, approximately 78% and 81%, 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.

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 schedules on pages 17-19.

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 March 2014, notification was received of a potential complaint being filed against the Organization. The complaint was 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. This matter is expected to be settled in 2016 with no further exposure to the agency.

In December 2014, notification was received of a potential complaint being filed against the Organization. The complaint was 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. As of the date of this report, no further action has been taken and the matter is deemed closed.

Subsequent events were evaluated through March 23, 2016, 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, 2015

	KVCAP Educare	KVCAP Non-Educare	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 158,511	962,933	1,121,444
Designated cash and cash equivalents	1,348,158	-	1,348,158
Accounts and grants receivable	23,764	1,726,254	1,750,018
Due (to)/from KVCAP Non Educare Programs	497,587	(497,587)	-
Current portion of loans receivable, net	-	1,080	1,080
Current portion of prepaid expenses	167,888	67,360	235,248
Total current assets	2,195,908	2,260,040	4,455,948
Property and equipment:			
Land	-	57,787	57,787
Buildings and improvements	1,288,601	2,549,990	3,838,591
Equipment and fixtures	-	548,507	548,507
Vehicles	-	1,857,550	1,857,550
Total property and equipment	1,288,601	5,013,834	6,302,435
Less: Accumulated depreciation	(77,646)	(2,338,543)	(2,416,189)
Net property and equipment	1,210,955	2,675,291	3,886,246
Other assets:			
Work in progress	-	293,254	293,254
Investments	-	769,889	769,889
Loans receivable, net of current portion	-	234,509	234,509
Prepaid expenses, net of current portion	8,332,735	139,833	8,472,568
Total other assets	8,332,735	1,437,485	9,770,220
Total assets	\$ 11,739,598	6,372,816	18,112,414
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion of long-term debt	\$ -	210,525	210,525
Current portion of obligation under capital lease	-	2,790	2,790
Accounts payable	-	649,452	649,452
Accrued expenses	-	627,918	627,918
Reserves	210	177,213	177,423
Due to funding sources	-	43,095	43,095
Deferred revenue	47,320	1,320,046	1,367,366
Total current liabilities	47,530	3,031,039	3,078,569
Non-current liabilities:			
Obligation under capital lease, net of current portion	-	5,040	5,040
Long-term debt, net of current portion	12,155,000	87,715	12,242,715
Total non-current liabilities	12,155,000	92,755	12,247,755
Total liabilities	12,202,530	3,123,794	15,326,324
Net assets (deficit)	(462,932)	3,249,022	2,786,090
Total liabilities and net assets	\$ 11,739,598	6,372,816	18,112,414

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Activities
Educare and Non-Educare Portion
Year ended September 30, 2015

	KVCAP Educare	KVCAP Non-Educare	Total
Revenues:			
Grants and contracts	\$ 2,618,882	7,698,112	10,316,994
Program revenue	1,022,043	7,986,145	9,008,188
Other revenue	121,350	682,422	803,772
Inkind	-	641,197	641,197
Total revenue	3,762,275	17,007,876	20,770,151
Expenses:			
Personnel	1,927,570	5,678,214	7,605,784
Payroll taxes and employee benefits	611,779	1,628,027	2,239,806
Staff development	33,137	77,656	110,793
Travel	16,208	149,159	165,367
Direct client assistance - common carrier	-	1,807,527	1,807,527
Direct client assistance - other	243	5,071,888	5,072,131
Office costs	21,772	168,711	190,483
Insurance	2,482	42,807	45,289
Telecommunications	22,139	117,943	140,082
Space and occupancy	109,878	342,538	452,416
Space and occupancy - inkind	-	634,362	634,362
Contract services	225,560	443,653	669,213
Contract services - inkind	-	6,406	6,406
Vehicle	-	627,183	627,183
Housing property costs	-	3,486	3,486
Material & supplies	169,222	201,001	370,223
Material & supplies - inkind	-	429	429
Administration	319	771	1,090
Interest	255,940	21,766	277,706
Depreciation	22,178	207,129	229,307
Provision for loan losses	-	18,271	18,271
Other	23,372	193,448	216,820
Total before general and administrative	3,441,799	17,442,375	20,884,174
General and administrative	458,737	(458,737)	-
Total expenses	3,900,536	16,983,638	20,884,174
Change in Net Assets	\$ (138,261)	24,238	(114,023)

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM

Schedule of Cash Flows

Educare and Non-Educare Portion

Year ended September 30, 2015

	KVCAP Educare	KVCAP Non-Educare	Total
Cash flows from operating activities:			
Change in net assets	\$ (138,261)	24,238	(114,023)
Adjustments to reconcile change in net assets to cash flows provided by (used in) operating activities:			
Depreciation	19,824	251,368	271,192
Unrealized loss on investment	-	(14,933)	(14,933)
Loss on disposal	-	4,230	4,230
Forgiveness of debt	-	(9,520)	(9,520)
(Increase) decrease in:			
Accounts and grants receivable	387,417	(553,598)	(166,181)
Due (to)/from KVCAP Non-Educare	(454,522)	454,522	-
Loans receivable	-	51,150	51,150
Prepaid expenses	138,686	37,259	175,945
Work in progress	-	(136,024)	(136,024)
Increase (decrease) in:			
Accounts payable	-	50,032	50,032
Accrued expenses	-	25,430	25,430
Reserves	210	(37,216)	(37,006)
Due to funding sources	-	16,928	16,928
Deferred revenue	47,320	517,631	564,951
Net cash provided by operating activities	674	681,497	682,171
Cash flows from investing activities:			
Purchase of property and equipment, net of retirements	-	(167,053)	(167,053)
Net cash used in investing activities	-	(167,053)	(167,053)
Cash flows from financing activities:			
Payments on obligations under capital leases	-	(9,512)	(9,512)
Repayment of long-term debt	-	(107,607)	(107,607)
Net cash used in financing activities	-	(117,119)	(117,119)
Increase in cash and cash equivalents	674	397,325	397,999
Cash and cash equivalents, beginning of year	1,505,995	565,608	2,071,603
Cash and cash equivalents, end of year	\$ 1,506,669	962,933	2,469,602
Supplemental cash flow disclosures:			
Cash paid during the year for interest	\$ 116,810	160,896	277,706
Cash paid during the year for taxes	-	-	-