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KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.

AUDITED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
JUNE 30, 2012

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**PUBLIC SERVICE
COMMISSION**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	I -2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
STATEMENT OF FUNCTIONAL EXPENSES	6
NOTES TO FINANCIAL STATEMENTS	7 - 11
GOVERNMENTAL REPORTS AND SCHEDULES	
Report of Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	12 - 13
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program And on Internal Control Over Compliance in Accordance with OMB CIRCULAR A-133	14 - 15
Schedule of Expenditures of Federal Awards	16
Schedule of Findings and Questioned Costs	17 - 18



ADAMS, HILL, McDANIELS & CO., P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

200 North Third Street
Richmond, Kentucky 40475

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, KY

We have audited the accompanying statement of financial position of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) as of June 30, 2012, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Mountain Housing Development Corporation, Inc., as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, on our consideration of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits, of States, Local Governments, and Non-Profit Organizations*, and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole

Adams, Hill, McDaniels & Co.

Adams, Hill, McDaniels, & Co.

February 13, 2013

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

	<u>2012</u>
Cash and cash equivalents	\$ 3,556,689
Interest receivable	45,319
Grants receivable	166,983
Accounts receivable	2,524
Notes receivable, net allowance for doubtful accounts \$584,885	7,989,060
Investments	683,619
Inventory	425,658
Prepaid expenses	13,269
Construction in progress	52,663
Property and equipment, net	<u>633,535</u>
 TOTAL ASSETS	 <u><u>\$ 13,569,319</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 19,214
Accrued expenses	69,837
Promissory notes payable	<u>1,237,431</u>
 TOTAL LIABILITIES	 <u>1,326,482</u>
 NET ASSETS	
Unrestricted	<u>12,242,837</u>
Total Net Assets	<u>12,242,837</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 13,569,319</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

REVENUES, RECLASSIFICATIONS
AND OTHER SUPPORT

Contributions	
Individuals and churches	\$ 6,934
Non-Federal Grants	
Affordable Housing Trust Fund	116,535
Other non federal grants	109,075
Federal Financial Assistance	661,378
Program service revenues	
Construction receipts	530,581
Rent receipts	28,124
Miscellaneous	7,243
Residential revenue	1,797
Investment return	
Interest income	222,910
Investment earnings	(31,969)
Realized Loss	
Unrealized gain	<u>30,712</u>
 TOTAL REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT	 <u>1,683,320</u>
 EXPENSES	
 Program Services	 1,053,878
Supporting Services	<u>367,301</u>
 TOTAL EXPENSES	 <u>1,421,179</u>
 CHANGE IN NET ASSETS	 262,141
 NET ASSETS BEGINNING OF YEAR	 <u>11,980,696</u>
 NET ASSETS END OF YEAR	 <u><u>\$ 12,242,837</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 262,141
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Depreciation	24,122
(Increase) decrease in operating assets	
Grants receivable	(162,483)
Marketable securities	418,894
Accounts Receivable	2,665
Interest receivable	(4,907)
Inventory	(203,208)
Construction in progress	39,794
Prepaid expenses	(2,187)
Prior Period Adjustment	(4,250)
Increase (decrease) in operating liabilities	
Accounts payable	(8,734)
Accrued expenses and other liabilities	<u>14,632</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>376,479</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in notes receivable	(123,217)
Purchase of fixed assets	<u>(32,843)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(156,060)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in notes payable	<u>(245,862)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(245,862)</u>
NET INCREASE IN CASH	(25,443)
CASH AT BEGINNING OF YEAR	<u>3,582,132</u>
CASH AT END OF YEAR	<u><u>\$ 3,556,689</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	<u><u>\$ 17,324</u></u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Housing Services</u>	<u>Management & General</u>	<u>Totals</u>
Personnel	\$ 95,194	\$ 216,133	\$ 311,327
Employee benefits			
Medical	16,259	37,937	54,196
Retirement	4,127	9,629	13,756
Payroll taxes	9,752	22,754	32,506
Advertising		960	960
Construction			
Materials	269,845		269,845
Small tools	2,714		2,714
Subcontractors	531,937		531,937
Dues and fees	11,714		11,714
Travel and training	349	125	474
Depreciation	18,097		18,097
Insurance			
General Liability	19,517	3,334	22,851
Worker's Compensation	8,531		8,531
Interest	16,545	779	17,324
Maintenance of equipment	14,078		14,078
Occupancy			
Building maintenance		5,553	5,553
Utilities		8,494	8,494
Postage		2,788	2,788
Professional services		33,580	33,580
Supplies	3,275		3,275
Telephone and internet		8,184	8,184
Transportation			
Gas and oil	7,556		7,556
Vehicle	1,315		1,315
Treatment and disposal	1,597		1,597
Rental Expense		4,961	4,961
Client Insurance Expense	17,345		17,345
Service Fees		4,508	4,508
Miscellaneous	4,131	7,582	11,713
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	<u>\$ 1,053,878</u>	<u>\$ 367,301</u>	<u>\$ 1,421,179</u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kentucky Mountain Housing Development Corporation, Inc. is a faith-based non-profit corporation whose mission is to provide safe, decent and affordable housing for low and very low income families in Southeastern Kentucky. The organization provides both construction and financing to eligible families.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Expense Allocation

Expenses are charged to programs and supporting services based on the use of expenditures. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

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 180(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Financial Accounting Standards Board (FASB) has issued an Interpretation (FIN48), Accounting for Uncertainty in Income Taxes, which requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of December 31, 2012. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2008 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Kentucky Mountain Housing Development Corporation, Inc. receives funding from federal, state and other non-profit organizations. The funding can be for a variety of housing programs including forgivable loans, low interest loans, counseling grants, or development programs. Revenue recognition depends on the contracts and grants. Construction management fees and interest income are recognized when earned.

Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by Kentucky Mountain Housing Development Corporation, Inc. with the terms of the grants/contracts.

The Organization recognizes revenues on the completed-contract method. That method is used because the typical contract is completed in two months or less, and financial position and results of operations do not vary significantly from those that would result using the percentage-of-completion method. A contract is considered complete when a customer accepts the work.

Donations and Promises to Give

Donations received may be recorded either as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor restrictions.

Donations are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donations that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized.

The Organization uses the allowance method to determine uncollectible, unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Cash and Cash Equivalents

Cash equivalents consist of all demand deposits and highly liquid investments not permanently restricted with an initial maturity date of one year or less. Accordingly, carrying amounts approximate fair value due to their short-term nature.

Investments

The Organization has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values, which are established by quoted market prices at year-end. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Certificates of deposits are carried at cost, which approximates fair market value.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory generally consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and is limited to the net realizable value.

Allowance for Uncollectible Loans

The Organization has not had sufficient experience with bad debts to establish a policy. The Organization considers loans receivable to be fully collectible. Additionally, the Organization treats all forgivable deferred loans as bad debts due to the terms of the loans.

Fixed Assets

Kentucky Mountain Housing Development Corporation, Inc. follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of \$500.

Contributed Services

Services contributed to the Organization are recorded at fair market value by the donor. The contributed services are recorded as income and expensed in the same period. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Subsequent Events

Management of the Organization has considered subsequent events through February 13, 2013, the date this report becomes available for issue.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2012 the carrying amount of the Organization's cash and cash equivalents was \$3,556,689. The Organization maintains its cash balance with several financial institutions in Southeastern Kentucky. From time to time, the Organization's cash balances may exceed federally insured limits. The Organization considered the risk associated with excess cash balances to be minimal.

NOTE 3 – NOTES RECEIVABLE

Notes receivable are executed by the Organization based on a recipient's credit history and financial need. All notes are collateralized by real estate to which they relate. The majority of notes bear interest from one to three percent.

NOTE 4 – NET ASSETS

Organizations may have certain contractual or other limitations placed on the use of net assets other than those resulting from donor-imposed restrictions. If the limitations or restrictions on net assets do not relate to donor stipulations, the net assets are unrestricted. Certain government grants that are exchange transactions may have restrictions limiting the organization's use of the funds. If there are restrictions related to these exchange transactions, the associated net assets are unrestricted because the restrictions are imposed by the other party to the exchange, not by a donor.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 4 – NET ASSETS (CONTINUED)

Exchange transactions are reciprocal transfers in which each party receives and gives up something of value. Exchange transactions that give rise to revenues typically involve an organization's efforts to provide goods or services to its members, clients or customers. Revenues for these transactions are recorded in the financial statements when the amounts are realized (convertible into cash) and when earned (activities prerequisite to obtaining benefits have been completed). The organization considers all grant revenue received to be exchange transactions.

NOTE 5 – PROMISSORY NOTES PAYABLE

Promissory notes payable as of June 30, 2012 consisted of the following:

	<u>2012</u>
Red Bird Missionary Conference, Inc. unsecured, 90 day notice	\$ 24,989
Jackson County Bank, due December 2, 2018, bearing 2% interest; secured by Certificates of Deposit totaling \$150,000	73,856
Note payable to an individual, non interest bearing, due January 1, 2012; unsecured	10,000
Notes payable to various charitable organizations, bearing interest up to 1% payable annually, with principal amounts due at various dates through June 4, 2014; unsecured	155,000
Jackson County Bank, due December 18, 2020, bearing interest of 2%; secured by Certificates of Deposit totaling \$150,000	93,488
Kentucky Housing Corporation, bearing interest at 1% and due in annual principal amounts ranging from \$3,000 to \$12,630, due at various dates through July 1, 2016; unsecured.	72,500
The Housing Foundation, Inc., due in annual installments of \$1500, non-interest bearing, due March 1, 2016	7,500
The Federation of Housing Enterprises, Inc., interest at 1%, payable quarterly, with annual principal payments ranging from \$3,437 to \$6,485, due at various dates through June 15, 2025	367,924
Kentucky Housing Corporation – Affordable Housing Trust Fund, interest at 1%, payable monthly and quarterly, with annual principal payments ranging from \$609 - \$5,559 due at various dates through July 1, 2034	<u>432,174</u>
Total	<u>\$ 1,237,431</u>

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 5 – PROMISSORY NOTES PAYABLE (CONTINUED)

The principal repayment requirements at June 30, 2012 relating to the above notes payable are as follows:

2013	\$ 233,289
2014	173,698
2015	116,115
2016	110,541
Later Years	<u>603,788</u>
Total	<u>\$ 1,237,431</u>

NOTE 6 – RETIREMENT PROGRAM

The Organization participates in a Tax Shelter Annuity Retirement Program (“Program”) covering all eligible employees. The Organization makes contributions of 4 percent of annual employee compensation, provided the employee contributes 50 percent of the employer portion. Contributions are deposited into an investment account in the names of participating employees. Contributions to the Program for the year ended June 30, 2012 amounted to \$13,756. The Organization has no further obligations beyond the annual contributions.

NOTE 7 – PROPERTY AND EQUIPMENT

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>June 30, 2012</u>
Land	\$ 136,819	\$	\$ 136,819
Buildings and improvements	646,543	6,043	652,586
Equipment	<u>307,718</u>	<u>26,800</u>	<u>334,518</u>
Total at historical cost	<u>1,091,080</u>	<u>32,843</u>	<u>1,123,923</u>
Less: Accumulated Depreciation			
Buildings and improvements	191,903	16,282	208,185
Equipment	<u>274,363</u>	<u>7,840</u>	<u>282,203</u>
Total accumulated depreciation	<u>466,266</u>	<u>24,122</u>	<u>490,388</u>
Capital assets – net	<u>\$ 624,814</u>	<u>\$ 8,721</u>	<u>\$ 633,535</u>



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

We have audited the financial statements of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) as of and for the twelve months ended June 30, 2012, and have issued our report thereon dated February 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits continued in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Kentucky Mountain Housing Development Corporation, Inc is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Reportable conditions are described in the accompanying schedule of questioned costs as item 12-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Mountain Housing Development Corporation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Kentucky Mountain Housing Development Corporation, Inc's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kentucky Mountain Housing Development Corporation, Inc's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Adams, Hill, McDaniel & Co.
February 13, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIRMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

Compliance

We have audited Kentucky Mountain Housing Development Corporation, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kentucky Mountain Housing Development Corporation, Inc.'s major federal programs for the year ended June 30, 2012. Kentucky Mountain Housing Development Corporation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant applicable to each of its major federal programs is the responsibility of Kentucky Mountain Housing Development Corporation, Inc.'s management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Mountain Housing Development Corporation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kentucky Mountain Housing Development Corporation, Inc.'s compliance with those requirements.

In our opinion, Kentucky Mountain Housing Development Corporation, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Kentucky Mountain Housing Development Corporation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kentucky Mountain Housing Development, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Kentucky Mountain Housing Development Corporation, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Board's responses and, accordingly, we express no opinion on the responses.

The report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Hill, McDaniels & Co.

Adams, Hill, McDaniels & Co., PSC

Richmond, KY

February 13, 2013

**KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditure
Department of Housing and Urban Development Home Investment Partnership Program	14.239	HB11-0103-01	\$ 545,860 *
USDA Outreach and Assistance for Socially Disadvantaged	10.443		91,518
ARC Appalachian Regional Development	23.001		<u>24000</u>
Total Expenditures of Federal Financial Awards			<u>\$ 661,378</u>

* denotes major program

Notes:

Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kentucky Mountain Housing Development Corporation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	___ Yes	_X_ No
Reportable conditions that are not considered to material weaknesses	_X_ Yes	___ No

Non-compliance material to financial statements noted	___ Yes	_X_ No
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Federal Awards:

Internal control over major programs:

Material weaknesses identified	___ Yes	_X_ No
Reportable conditions that are not considered to material weaknesses	___ Yes	_X_ No

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to reported in accordance with Section 510(a) of Circular A-133	___ Yes	_X_ No
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Major Program:

CFDA Number	Name of Federal Program or Cluster
14.239	Home Investments Partnership Program

Dollar threshold used to distinguish between type A and type B programs:	\$ 500,000
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Auditee qualified as low-risk auditee?	___ Yes	_X_ No
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**KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

12-1: Criteria: Proper segregation of duties

Condition: The Organization has a lack of segregation of duties.

Effect: Due to lack of segregation of duties, the Organization could have inaccurate financial data; however, our audit disclosed no instances

Cause: One person controls all aspects of disbursements, receipts, and bank reconciliations.

Recommendation: We recommend the Organization have someone other than the Financial Director review all deposits, checks, bank statements, and reconciliations.

Management's response: Management understands the need for additional review of financial information and will work to implement this procedure.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE