

LAKE CUMBERLAND AREA
DEVELOPMENT DISTRICT, INC.

Report on Audit of
Financial Statements
and Supplemental Information
For the Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lake Cumberland Area Development District
Russell Springs, KY

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake Cumberland Area Development District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Cumberland Area Development District's management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake Cumberland Area Development District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof 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 December 14, 2012, on our consideration of the District'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Cumberland Area Development District's financial statements as a whole. The Supplemental section on pages 29-35 is presented for purposes of additional analysis and is not a required part of the financial statements. 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 also not a required part of the financial statements. The schedule of expenditures of federal awards and the supplemental information on pages 29-35 is the responsibility of management and was derived from and relate 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Campbell, Myers & Rutledge, PLLC

December 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Lake Cumberland Area Development District's (ADD) Annual Financial Report provides narrative discussion and analysis of the ADD's financial activities for the fiscal year ending June 30, 2012 and 2011. The ADD's financial performance is discussed and analyzed within the context of the accompanying financial statements. The discussion focuses on the ADD's primary government and unless otherwise noted, component units that report separately from the primary government are not included.

Financial Highlights

- The ADD's total net assets increased by \$592,868 or 3.78%. The increase in net assets from the prior year was primarily due to increased local funding, including the CDO program.
- The ADD's governmental funds reported a total ending fund balance of \$4,378,965 compared to the prior year fund balance of \$3,798,890. This shows an increase of \$580,075 during the current year, a 15.27% increase.
- The revenues for the current year decreased from the prior year by a little over \$9,050,000. This decrease was a result of decreased revenues principally from TANF and the WIA programs.
- Operating revenues decreased by 44.11% from the previous year and operating expenditures decreased by 44.74%.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. Government-Wide Financial Statements;
2. Fund Financial Statements;
3. Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as an indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year.

The government-wide financial statements outline functions of the District that are principally supported by Federal and State funding and local contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All the funds of the District can be divided into three categories: governmental, proprietary funds, and component unit.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the District

The following information summarizes the changes in Net Assets between June 30, 2012 and June 30, 2011.

	<u>2012</u>	<u>2011</u>	<u>% increase (decrease)</u>
Current Assets	<u>\$ 6,867,957</u>	<u>\$ 6,617,858</u>	<u>3.78%</u>
Total Assets	<u>6,867,957</u>	<u>6,617,858</u>	<u>3.78%</u>
Current Liabilities	<u>1,192,922</u>	<u>1,535,692</u>	<u>-22.32%</u>
Total Liabilities	<u>1,192,922</u>	<u>1,535,692</u>	<u>-22.32%</u>
Net Assets	<u>5,675,035</u>	<u>5,082,166</u>	<u>11.67%</u>
Total Net Assets	<u>\$ 6,867,957</u>	<u>\$ 6,617,858</u>	<u>3.78%</u>

Operating Activities: The District receives grants from Federal and State agencies. These grant funds are expended for the programs specifically designated by these pass-through entities. The District charges administration fees for the administration of these programs. Grant revenue is earned when the District has complied with the terms and conditions of the grant agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information summarizes the changes in operating income between fiscal years 2012 and 2011.

	<u>2012</u>	<u>2011</u>	<u>% increase (decrease)</u>
Operating Revenues			
Grants	\$ 9,669,829	\$ 18,601,496	-48.02%
Local Assessments	-	-	
Interest Income	29,834	43,307	-31.11%
Local	<u>1,782,908</u>	<u>1,899,655</u>	-6.15%
Total Operating Revenue	<u>11,482,571</u>	<u>20,544,458</u>	-44.11%
Operating Expenses			
Program Activities	10,140,302	19,082,407	-46.86%
Local	<u>749,401</u>	<u>625,185</u>	19.87%
Total Operating Expenses	<u>10,889,703</u>	<u>19,707,592</u>	-44.74%
Change in Net Assets	<u>\$ 592,868</u>	<u>\$ 836,866</u>	-29.16%

Overall Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position.

Other Financial Information

Budgetary Comments-The operating budget of the ADD has increased by approximately \$189,000 from FY-11 to FY-12 mostly due to an increase in normal operating expenses. Some of this increase consists of converting the part-time SHIP Coordinator position to a full time position as well as hiring another part-time van driver for the Senior Center Services. In addition to these changes, another Support Broker for the Consumer Directed Option Program (CDO) was hired. We still anticipate more increases in other activities such as the CDO program which continues to grow.

Capital Assets and Long-Term Debt Activity: The Lake Cumberland Area Development District does not hold any capital assets. Any investments in buildings and equipment are capitalized by the Lake Cumberland Development Council, Inc., (a component unit). Any fixed assets acquired with local, federal or state funds are recorded as expenditures at the time of purchases. The Council had minimal capital asset additions for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Implications: The overall losses and increases in funds of each department will result in an administrative budgetary increase for the coming year. The fiscal impact on administrative and sub-contractual budgets of each department is outlined in the attachments.

Workforce Investment Act

WIA formula funding for Adults decreased from \$1,359,096 in FY-11 to \$1,327,777 in FY-12. This is a \$31,319 decrease or 2.31%. WIA formula funding for Dislocated Workers increased from \$939,297 in FY-11 to \$993,356 in FY-12. This is a \$54,059 increase or 5.45%. WIA formula funding for Youth decreased from \$1,202,565 in FY-11 to \$1,134,283 in FY-12. This is a \$68,282 decrease or 5.68%. Trade funding decreased from \$1,550,000 in FY-11 to \$1,364,000 in FY-12. This is an \$186,000 decrease of 12.0%. The Adult funding amount was lower than the PY '10 WIA funding cuts by Congress and the allocations from the state being more evenly distributed due to all areas sharing in the 1/3 of the formula used for those having a yearly unemployment rate average of 6.5% or above. Dislocated Worker funding increased due to the number of dislocations that has occurred in our area in comparison to the other areas in the state. Youth funding decreased due to funding cuts by Congress. FY-12 funding for Adults and Youth will remain steady with the amount due to Kentucky showing a very slight increase with the Dislocated Worker funding dropping by almost 4%. Trade funding should be level after reviewing the number of enrollees and projected obligations. \$350,000 in Rapid Response Additional Assistance Funds was received to serve Dislocated Workers to cover the shortfall of formula funds.

To help a partner WIB that had a shortfall of Adult funds the Cumberland's WIB voted to allow \$70,000 to be rescinded under grant 270AD12 and sent to Western KY WIB. The same amount was rescinded by WKWIB and sent to the Cumberlands under grant number 273AD12.

Rapid Response Funds were received in the amount of \$173,000 for Trade Case Management.

An award of \$150,000 was received through a statewide National Emergency Grant (NEG) to serve and train Dislocated Workers using OJT's. Participants must be unemployed for 21 weeks or more to be eligible. A contract for \$3,500 with the Kentucky Department of Education to provide date entry and certification for JAG students was also put into place.

The Cumberland's WIA was awarded funds for meeting performance measurements. \$107,004 was received thru Statewide Reserve fund for the Cumberlands Area meeting PY '10 performance measurements.

The Workforce Department staff experienced three changes during FY-12. Mary Susan Down and Cheryl Tarter retired as Trade WIA Career Managers. Michelle Whitis moved from the Finance Department to WIA to fill one of the vacancies created by the retirements. The second is being covered by another current Career Manager.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Planning Department

During FY-12, the LCADD Planning Department had an income totaling \$188,854, with contracts with the Kentucky Transportation Cabinet and the Kentucky Infrastructure Authority. Current contracts for FY-13 total \$209,854.00, an 11% increase from last year. These contracts are as follows:

Transportation Planning	\$78,254
Water and Wastewater Planning	\$104,000
Local Road Updates	\$8,600
Local Contracts	\$19,000

With this slight increase in funding, the Planning Department will be able to sustain three full time positions, and one half time position. Currently, the department secretary is working part time for the Consumer Directed Options program to share costs. Staff is currently working on acquiring other outside contracts to increase departmental revenues throughout the fiscal year.

Aging and Independent Living

During FY-12, the Department received small increases in Title III C2 Home-Delivered Meals, MIPPA ADRC, SLTCO and CMS SHIP Benefits Counseling. Decreases were received in Title B Supportive Services, Title C1 Congregate Meals, Title III-D Preventive Health; National Family Caregiver Program, and Title III Elder Abuse. All of these programs are federally-funded programs. Another state program that received a small decrease in funding was the Kentucky Caregiver Program.

The Consumer Directed Option (CDO) Program continues to grow. Six (6) new support brokers have been hired in the past fiscal year bringing the total to eleven (11) full-time and one part-time (1) Support Broker working in the ten-county Lake Cumberland area, raising the total number to thirteen (13) employees in the CDO division of the Aging Department. There are now approximately 459 CDO clients at this time. Due to the current economic status, the future of the CDO program is certainly not guaranteed; however, we are fairly confident of the program's veracity.

At the beginning of FY-13, the Aging Department experienced a 7.64% cut in funding from the previous fiscal year. The Department of Aging and Independent Living (DAIL) has told us to expect an amendment sometime in the months of November/December 2012 to possibly include other reductions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Community and Economic Development

In FY 12, staff had administrative contracts for a number of CDBG, EDA, State House Bills and HUD projects. There are 12 open State House Bills, 1 EDA, 2 HUD-EDI, 6 CDBG, 4 CDBG-Disaster Recovery, 2 CDBG-CERF, 1 CDBG-NSP, 4 KIA-SRF and 7 other projects being administered by staff.

Our staff is working on or has prepared applications for 35 other potential projects.

The District has administration contracts for approximately \$415,025 with the potential for approximately \$125,000 more as new projects are funded. There are 6 new CDBG projects in the planning stage.

There were 3 new State House Bills and the one vacant position in the department remains unfilled. State and federally funded programs appear to be intact for the time being; therefore current staffing and services will remain unchanged.

RLF Write-Offs

There were no loans written-off in FY-12.

Request for Information

This report is designed to provide a basic financial overview of the ADD's finances, comply with financial related laws and regulations and demonstrate the ADD's commitment to public accountability. If you have any questions about this report contact Donna Diaz, Executive Director, at 270-866-4200 or by mail at Post Office Box 1570 Russell Springs, Kentucky 42642.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 3,988,231	\$ 802,087	\$ 4,790,318	\$ 156,721
Receivables				
Due from Federal and State governments	1,453,921	-	1,453,921	-
Other	-	494,353	494,353	26,369
Internal balances	-	-	-	-
Prepays	129,365	-	129,365	52,450
Total Current Assets	<u>5,571,517</u>	<u>1,296,440</u>	<u>6,867,957</u>	<u>235,540</u>
Capital Assets:				
Non-Depreciable	-	-	-	70,000
Depreciable(net)	-	-	-	1,485,463
Total Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,555,463</u>
 Total Assets	 <u>\$ 5,571,517</u>	 <u>\$ 1,296,440</u>	 <u>\$ 6,867,957</u>	 <u>\$ 1,791,003</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable:				
Vendors	\$ 124,860	\$ 370	\$ 125,230	\$ -
Subgrantees	796,397	-	796,397	-
Notes Payable	-	-	-	70,770
Accrued liabilities	271,295	-	271,295	-
Total Current Liabilities	<u>1,192,552</u>	<u>370</u>	<u>1,192,922</u>	<u>70,770</u>
Long-Term Liabilities:				
Notes Payable	-	-	-	903,322
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,322</u>
 Total Liabilities	 <u>1,192,552</u>	 <u>370</u>	 <u>1,192,922</u>	 <u>974,092</u>
NET ASSETS:				
Restricted:				
Restricted by grantor agencies	-	1,296,070	1,296,070	-
Invested in capital assets, net of related debt	-	-	-	581,461
Unrestricted	4,378,965	-	4,378,965	235,450
 Total Net Assets	 <u>\$ 4,378,965</u>	 <u>\$ 1,296,070</u>	 <u>\$ 5,675,035</u>	 <u>\$ 816,911</u>

The accompanying notes are an
integral part of the basic financial statements.
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LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Function/Program	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Change in Net Assets			Component Unit
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Government activities:								
Workforce Investment Act	\$ 5,621,664	\$ 374,558	\$ -	\$ 5,996,222	\$ -	\$ -	\$ -	\$ -
Aging	2,345,954	670,526	-	2,769,334	(247,146)	-	(247,146)	-
Type of Operation	919	315	-	1,200	(34)	-	(34)	-
JFA	567,120	130,185	-	537,325	(159,980)	-	(159,980)	-
Transportation	82,455	32,320	-	86,948	(27,827)	-	(27,827)	-
Title IX RLF	14,407	4,192	-	18,582	(17)	-	(17)	-
State Road Data Collection	6,360	2,352	-	8,600	(112)	-	(112)	-
Pre Disaster Mitigation	5,555	2,102	-	5,873	(1,784)	-	(1,784)	-
KIA Wris Planning	93,845	37,680	-	104,000	(27,525)	-	(27,525)	-
Homeland Security Programs	112,022	995	-	109,029	(3,988)	-	(3,988)	-
NIMS	3,371	1,603	-	2,650	(2,324)	-	(2,324)	-
Local Unrestricted	749,401	11,185	-	1,782,097	1,021,511	-	1,021,511	-
Administrative Expenses	1,268,013	(1,268,013)	-	-	-	-	-	-
Total Governmental Activities	10,871,086	-	-	11,421,860	550,774	-	550,774	-
Business Activities:								
Title IX RLF	18,617	-	30,066	-	-	11,449	11,449	-
Total Primary Government	10,889,703	-	30,066	11,421,860	550,774	11,449	562,223	-
Component Unit:								
LCDC	235,850	-	235,701	-	-	-	-	(149)
General Revenues:								
Local Assessments	-	-	-	-	-	-	-	-
Investment Income	-	-	-	-	29,301	1,344	30,645	1,279
Total General Revenues	-	-	-	-	29,301	1,344	30,645	1,130
Change in Net Assets	-	-	-	-	580,075	12,793	592,868	1,130
Net Assets July 1, 2011	-	-	-	-	3,798,890	1,283,277	5,082,167	815,781
Net Assets June 30, 2012	-	-	-	-	\$ 4,378,965	\$ 1,296,070	\$ 5,675,035	\$ 816,911

The accompanying notes are an integral part of the basic financial statements.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
COMBINED BALANCE SHEET
ALL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2012

	GOVERNMENTAL FUND TYPES				COMPONENT
	INTERNAL FUND	SPECIAL REVENUE		TOTAL	UNIT
		JFA STATE AND FEDERAL PROGRAMS	WORKFORCE INVESTMENT ACT		LAKE CUMBERLAND DEVELOPMENT COUNCIL
ASSETS:					
Cash	\$ 2,639,716	\$ 1,351,340	\$ (2,825)	\$ 3,988,231	\$ 156,721
Accounts receivable:					
Federal and state contributions	283,477	599,954	570,490	1,453,921	-
Other	-	-	-	-	26,369
Prepaid expenses	-	129,365	-	129,365	52,450
Due from JFA and Federal programs	1,473,185	-	-	1,473,185	-
Investment in fixed assets	-	-	-	-	1,555,463
	<u>\$ 4,396,378</u>	<u>\$ 2,080,659</u>	<u>\$ 567,665</u>	<u>\$ 7,044,702</u>	<u>\$ 1,791,003</u>
LIABILITIES:					
Accounts payable:					
Vendors	\$ 17,000	\$ 107,860	\$ -	\$ 124,860	\$ -
Subgrantees	-	228,319	568,078	796,397	-
Notes Payable	-	-	-	-	70,770
Accrued Payroll	-	115,844	-	115,844	-
Accrued vacation	-	155,451	-	155,451	-
Due to local operations	-	1,473,185	-	1,473,185	-
Total Current Liabilities	<u>17,000</u>	<u>2,080,659</u>	<u>568,078</u>	<u>2,665,737</u>	<u>70,770</u>
Long-Term Liabilities:					
Notes payable	-	-	-	-	903,322
Total Long Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,322</u>
Fund Balance:					
Nonspendable	283,477			283,477	
Restricted:					
Invested in capital assets, net of related debt					581,371
Unassigned	4,095,901	-	(413)	4,095,488	235,540
Total Fund Balance	<u>4,379,378</u>	<u>-</u>	<u>(413)</u>	<u>4,378,965</u>	<u>816,911</u>
	<u>\$ 4,396,378</u>	<u>\$ 2,080,659</u>	<u>\$ 567,665</u>	<u>\$ 7,044,702</u>	<u>\$ 1,791,003</u>

The accompanying notes are an
integral part of the basic financial statements.
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LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012

Fund balances - total governmental funds	<u>\$ 4,378,965</u>
Net assets of governmental activities	<u>\$ 4,378,965</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2012

	<u>Internal Fund</u>	<u>Special Revenue Fund</u>	<u>Totals</u>	<u>Component Unit</u>
Revenues:				
Federal and state grants	\$ -	\$ 9,541,840	\$ 9,541,840	\$ -
Local contributed cash	-	-	-	-
CDO Program Administration	1,552,069	-	1,552,069	
Other	<u>259,329</u>	<u>97,923</u>	<u>357,252</u>	<u>236,980</u>
Total Revenues	<u>1,811,398</u>	<u>9,639,763</u>	<u>11,451,161</u>	<u>236,980</u>
Expenditures:				
Current programs:				
JFA	-	567,120	567,120	-
Aging	-	2,345,954	2,345,954	-
Type of Operation	-	919	919	-
Transportation	-	82,455	82,455	-
State Road Data Collection	-	6,360	6,360	-
Title IX RLF	-	14,407	14,407	-
Pre Distaster Mitigation	-	5,555	5,555	-
Homeland Security Programs	-	112,022	112,022	-
WIA	-	5,621,664	5,621,664	-
CDO	608,719	-	608,719	-
NIMS	-	3,371	3,371	-
KIA Wris Planning	-	93,845	93,845	-
Internal	<u>140,682</u>	<u>-</u>	<u>140,682</u>	<u>235,850</u>
	749,401	8,853,672	9,603,073	235,850
Indirect costs allocated	<u>230,572</u>	<u>1,037,441</u>	<u>1,268,013</u>	<u>-</u>
Total Expenditures	<u>979,973</u>	<u>9,891,113</u>	<u>10,871,086</u>	<u>235,850</u>
Excess of Revenues over (under) Expenditures	831,425	(251,350)	580,075	1,130
Other financing sources:				
Operating transfers in (out)	<u>(251,350)</u>	<u>251,350</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures	580,075	-	580,075	1,130
Fund balance , July 1, 2011	<u>3,799,303</u>	<u>(413)</u>	<u>3,798,890</u>	<u>815,781</u>
Fund balance , June 30, 2012	<u>\$ 4,379,378</u>	<u>\$ (413)</u>	<u>\$ 4,378,965</u>	<u>\$ 816,911</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-ALL GOVERNMENTAL FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2012

Net changes in fund balances - total government funds	<u>\$ 580,075</u>
Change in net assets of governmental activities	<u>\$ 580,075</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF NET ASSETS- PROPRIETARY FUNDS
June 30, 2012

	TITLE IX LOAN FUND
	<u> </u>
ASSETS:	
Cash	\$ 802,087
Notes receivable	<u>494,353</u>
	<u>1,296,440</u>
LIABILITIES:	
Accounts payable:	
Vendors	<u>370</u>
NET ASSETS:	<u>\$ 1,296,070</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
PROPREITARY FUND – TITLE IX REVOLVING LOAN FUND
For the Year Ended June 30, 2012

Revenues:	
Interest Income - Loans	\$ 25,311
Bad Debt Recoveries	1,285
Application and Processing Fee Income	<u>3,470</u>
Total Revenues	<u>30,066</u>
Expenditures:	
Administrative Expenses	18,617
Legal and Other Fees	<u>-</u>
Total Expenditures	<u>18,617</u>
Operating Revenues Over (Under) Expenditures	11,449
Interest Income, Savings	<u>1,344</u>
Revenues Over (Under) Expenditures	12,793
Fund Balance, July 1, 2011	<u>1,283,277</u>
Fund Balance, June 30, 2012	<u><u>\$ 1,296,070</u></u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
DISCRETELY PRESENTED COMPONENT UNIT
LAKE CUMBERLAND DEVELOPMENT COUNCIL, INC.
For the Year Ended June 30, 2012

Revenues:	
Office Rent and Automobile lease	<u>\$ 235,701</u>
Total Revenue	<u>235,701</u>
Expenditures:	
Depreciation	98,109
Maintenance	26,286
Insurance	76,023
Supplies	643
Other	<u>4,997</u>
Total Operating Expenditures	<u>206,058</u>
Operating Income	<u>29,643</u>
Interest expense	(29,792)
Interest Income on Investments	<u>1,279</u>
Revenues Over (Under) Expenditures	1,130
Fund Balance July 1, 2011	<u>815,781</u>
Fund Balance June 30, 2012	<u><u>\$ 816,911</u></u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2012

	PRIMARY GOVERNMENT	COMPONENT UNIT
	TITLE IX LOAN FUND	
INCREASE (DECREASE) IN CASH :		
CASH FLOWS FROM OPERATIONS:		
Interest earned on loans	\$ 25,311	\$ -
Fees and other	4,755	-
Administrative expenses	(21,492)	-
Building and equipment rentals	-	267,310
Payments to vendors	-	(212,329)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	8,574	54,981
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayments on loans	271,432	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	1,344	1,279
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES :		
Payments on loans	-	(69,994)
Interest on loans	-	(29,792)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	(99,786)
NET CHANGE IN CASH	281,350	(43,526)
CASH AT BEGINNING OF YEAR	520,737	200,247
CASH AT END OF YEAR	\$ 802,087	\$ 156,721
Classified As:		
Current Assets	802,087	156,721
Restricted Assets	-	-
Total	\$ 802,087	\$ 156,721

The accompanying notes are an
integral part of the basic financial statements.
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LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2012

	PRIMARY GOVERNMENT	COMPONENT UNIT
	TITLE IX LOAN FUND	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:		
Operating Income (Loss)	<u>\$ 11,449</u>	<u>\$ 29,643</u>
Adjustments not Affecting Cash:		
Depreciation	-	98,109
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	-	31,609
Increase (Decrease) in Accounts Payable	<u>(2,875)</u>	<u>(104,380)</u>
Total Adjustments	<u>(2,875)</u>	<u>25,338</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 8,574</u>	<u>\$ 54,981</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies:

Organization:

Lake Cumberland Area Development District, Inc. (the District), is an association of local governments working together to solve common problems through a regional approach. The District creates a network from citizens to local elected officials through state agencies to the governor and appropriate federal agencies.

Operation of the District is financed by federal, state and local contributions. Local government contributions are received on a per capita formula basis. Major programs of non-local funding are: Joint Funding Administration, Workforce Investment Act, Aging and Homecare, Pride RLF and Title IX Revolving Loan Fund programs.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District is discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. Certain of the significant changes in the Statement include the following:

The financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Date of Management Review:

Subsequent events were evaluated through December 14, 2012 which is the date the financial statements were available to be issued.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies, Continued:

Reporting Entity:

The financial statements present the District's (the primary government) and its discretely presented component unit Lake Cumberland Development Council. As defined by GASBS No. 14, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relationships with the District.

The Development Council is a legally separate tax-exempt organization. It acts primarily as an organization that owns the facilities that the District and other agencies use as their main operating facility. The District pays rentals for the use of the facility. The Council and the District have a common Board of Directors and primarily provides these for the primarily for the use of the District. Consequently, the Council is considered a component unit of the District and is discretely presented in the District's financial statements.

Basic Financial Statement - Government-Wide Statements:

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District's administration of grants is classified as governmental activities. The District's Revolving Loan Funds are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities (revolving loan funds). The functions are also supported by general government revenues (federal and state grants and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, and operating grants. Program revenues must be directly associated with the function or a business-type activity (revolving loan fund). Operating grants include operating-specific and discretionary (either operating or capital) grants. The District has no capital grants.

The net costs (by function or business-type activity) are normally covered by operating grants or interest income from revolving loan notes.

The District allocates indirect costs to all programs. This indirect cost allocation plan is approved by the State and is used state-wide by all Area Development Districts.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies, Continued:

Basic Financial Statement - Fund Financial Statements:

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the District:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

- a) General Fund/Internal Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- b) Special Revenue Funds are used to account for the proceeds of operating grants that are restricted to expenditures for specified Federal and State programs

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the District:

- a) Title IX Loan Fund-accounts for activities relating to commercial loans made to area businesses. A loan committee, selected from the District's board, approves these loans. The Economic Development Administration and local matching funds originally funded the program.

Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified amounts due from JFA and other Federal programs as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies, Continued:

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified the JFA State and Federal Program and the Revolving Loan fund as being restricted because their use is restricted by the Grantors for specific program expenditures or making qualified loans under the grant agreements.

Unassigned: Includes all amounts not included in other spendable classifications.

Basis of Accounting:

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The government funds financial statements are also presented on the accrual basis of accounting.

Budgets and Budgetary Accounting:

Lake Cumberland Area Development District, Inc.'s primary funding source is federal, state and local grants that have grant periods that may or may not coincide with the District's fiscal year. These grants normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of Lake Cumberland Area Development District, Inc.'s dependency on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. Lake Cumberland Area Development District, Inc.'s annual budget differs from that of most local governments in two respects: (1) the uncertain nature of grant awards from other entities and (2) conversion of grant budgets to a fiscal year basis.

The resultant annual budget is subject to constant change within the fiscal year due to:

- Increases/decreases in actual grant awards from those estimated;
- Changes in grant periods;
- Unanticipated grant awards not included in the budget; and
- Expected grant awards that fail to materialize.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies, Continued:

The Executive Committee formally approves the annual budget, but greater emphasis is placed on complying with the grant budget, terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances.

Although the annual budget for the Special Revenue Funds is reviewed and approved by the Executive Committee, it is not a legally adopted budget. These funds constitute the majority of all funds received.

Financial Statement Amounts:

1. Accounts Receivable

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided as no material amounts are expected to be written off as of June 30, 2012. The direct write-off method does not significantly depart from generally accepted accounting principles.

2. Capital Assets

Fixed assets acquired with local funds and within various federal and state programs are recorded as expenditures at the time of purchase. The investment in buildings and equipment by Lake Cumberland Development Council, Inc., (a component unit) has been capitalized within that entity. Capital assets are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Equipment	5 - 10 years

For the year ended June 30, 2012, depreciation expense of \$98,109 was charged to expense within that entity.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies, Concluded:

4. Compensated Absences

The District accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. Vested or accumulated vacation and sick leave are reported as non-current liabilities on the statement of net assets.

Employees may accumulate and carry forward up to 30 days of unused vacation days and are compensated for these accumulated vacation days upon termination of employment. Employees may accumulate and carry forward up to 180 days of unused sick days. Employees are not paid for unused sick leave upon termination, except that employees who retire under the CERS retirement system receive credit for up to 120 days for retirement purposes and time in excess of 120 days up to the maximum allowable accrual of 180 days. Sick leave may be purchased from the employee if he/she makes the election. Unused sick leave accrual purchased from the employee upon retirement from the District will be used in determining the employee's final compensation.

2. Cash Flows:

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

3. Rentals/Component Unit:

Lake Cumberland Area Development District, Inc., leases its office facilities, equipment and automobiles from Lake Cumberland Development Council, Inc. (included within the accompanying financial statements). The District paid \$212,384 in rentals for the year ended June 30, 2012. Total annual rentals are based upon operating expenses of the Development Council.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

4. Deposits With Financial Institutions:

Deposits

All deposits are in financial institutions and a brokerage account. The District's bank deposits are categorized below to give an indication of the custodial credit risk assumed by the Company at June 30, 2012.

Category 1 – Insured by FDIC or collateralized with securities held by the District or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no writer or approved collateral agreement.

	Category			Total Bank Balance	Carrying Amount
	One	Two	Three		
Deposits with financial institutions:					
Primary Government	\$ 5,118,190	\$ -	\$ -	\$5,118,190	\$4,790,318
Component Unit	159,923	-	-	159,923	156,721
	\$ 5,278,113	\$ -	\$ -	\$5,278,113	\$4,947,039

Interest Rate Risk

The District invests in short term certificates of deposits with financial institutions. The District purchases these certificates as interest rates fluctuate in order to manage their exposure to fair value losses arising from increasing interest rates.

5. Retirement Plan:

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary and service credit.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.com.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
For the Year Ended June 30, 2012

5. Retirement Plan, Continued:

Employees are required to contribute 5%-6% of gross compensation to the plan. The Board of Trustees of KRS determines the District's required contribution annually, 18.96%, for the year ended June 30, 2012. For the year ended June 30, 2012, the Company's covered payroll was approximately \$2,765,000. The Company contributed approximately \$527,459 and employees contributed approximately \$143,841 to the plan.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plan and employers.

Three Year Trend Information

CERS does not make separate measurements of assets and pension benefit obligation for individual employers. CERS presents six-year historical trend information in their June 30, 2009 financial statements showing progress in accumulating sufficient assets to pay benefits when due. The following table presents certain information regarding the Plans' status as a whole, derived from actuarial valuations performed as of the date indicated.

	<u>CERS as of June 30, 2011</u>	<u>CERS as of June 30, 2010</u>	<u>CERS as of June 30, 2009</u>
Actuarial Value of Assets	\$ 7,409,156,576	\$ 7,296,321,679	\$ 7,402,277,531
Actuarial Accrued Liability (AAL)	11,777,126,077	11,131,174,187	10,491,358,112
Unfunded (Overfunded)	<u>\$ 4,367,969,501</u>	<u>\$ 3,834,852,508</u>	<u>\$ 3,089,080,581</u>

The following table presents the last three years of total employer contributions to the Plan and the Company's contributions for the years ending June 30:

<u>Fiscal Year Ended</u>	Total Plan Contributions		
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2011	\$ 620,406,321	\$ 619,074,617	99.79%
June 30, 2010	\$ 658,673,827	\$ 539,612,942	81.92%
June 30, 2009	\$ 621,644,396	\$ 451,983,080	72.71%

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS, CONCLUDED
For the Year Ended June 30, 2012**

5. Retirement Plan, Concluded:

<u>Year Ended</u>	Company Contributions		
	Annual Required <u>Contributions</u>	Actual <u>Contributions</u>	Percentage <u>Contributed</u>
2012	\$ 527,459	\$ 527,459	100.00%
2011	\$ 457,623	\$ 457,623	100.00%
2010	\$ 407,298	\$ 407,298	100.00%

As the District is only one of several employers participating in the Plan and it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

6. Contingencies:

The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

7. Exit Conference:

An exit conference was held at the office of Lake Cumberland Area Development District, Inc., with the following personnel present:

- Lake Cumberland Area Development District, Inc.:
 - Donna Diaz
 - Donna Little
 - Brentley Bault
- Campbell, Myers & Rutledge:
 - Skip Campbell

Supplementary Information

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICE
For the Year Ended June 30, 2012

	<u>JFA</u> <u>Programs</u>	<u>Aging</u>	<u>WIA</u>	<u>Trans-</u> <u>portation</u>
Revenues:				
Federal and state funds:				
Received	\$ 537,325	\$ 4,232,174	\$ 1,710,766	\$ 78,254
Local funds:				
Other	<u>-</u>	<u>89,229</u>	<u>-</u>	<u>8,694</u>
Total Revenues	<u>537,325</u>	<u>4,321,403</u>	<u>1,710,766</u>	<u>86,948</u>
Expenditures:				
Direct costs:				
Salaries	220,089	1,125,064	627,859	53,143
Employee benefits	103,461	492,040	307,960	28,292
Travel	7,090	53,860	38,942	720
Subgrantees and contracts	232,706	809,966	-	-
Other direct costs	<u>3,774</u>	<u>473,743</u>	<u>361,447</u>	<u>300</u>
Total Direct Costs	567,120	2,954,673	1,336,208	82,455
Indirect Costs:				
Indirect costs applied	<u>130,185</u>	<u>670,526</u>	<u>374,558</u>	<u>32,320</u>
Total Expenditures	<u>697,305</u>	<u>3,625,199</u>	<u>1,710,766</u>	<u>114,775</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (159,980)</u>	<u>\$ 696,204</u>	<u>\$ -</u>	<u>\$ (27,827)</u>

<u>Local Road Mapping</u>	<u>Type of Operation</u>	<u>Homeland Security Projects</u>	<u>RLF Administration</u>	<u>Pre-Disaster Mitigation</u>	<u>NIMS</u>	<u>KIA Planning</u>	<u>Total All Programs</u>	<u>General Administration</u>	<u>Unrestricted Funds</u>	<u>Total Revenues and Expenditures</u>
\$ 8,600	\$ 1,200	\$ 109,029	\$ 18,582	\$ 5,873	\$ 2,650	\$ 104,000	\$ 6,808,453	\$ -	\$ 251,665	\$ 7,060,118
-	-	-	-	-	-	-	97,923	-	7,664	105,587
<u>8,600</u>	<u>1,200</u>	<u>109,029</u>	<u>18,582</u>	<u>5,873</u>	<u>2,650</u>	<u>104,000</u>	<u>6,906,376</u>	<u>-</u>	<u>259,329</u>	<u>7,165,705</u>
4,490	657	1,911	7,444	3,956	2,556	61,627	2,108,796		18,485	2,127,281
1,870	262	733	3,334	1,503	815	28,771	969,041		6,410	975,451
-	-	-	2,174	-	-	2,381	105,167		13,074	118,241
-	-	109,029	-	-	-	-	1,151,701	-	-	1,151,701
<u>-</u>	<u>-</u>	<u>349</u>	<u>1,455</u>	<u>96</u>	<u>-</u>	<u>1,066</u>	<u>842,230</u>	<u>-</u>	<u>102,713</u>	<u>944,943</u>
6,360	919	112,022	14,407	5,555	3,371	93,845	5,176,935	-	140,682	5,317,617
<u>2,352</u>	<u>315</u>	<u>995</u>	<u>4,192</u>	<u>2,102</u>	<u>1,603</u>	<u>37,680</u>	<u>1,256,828</u>	<u>-</u>	<u>11,185</u>	<u>1,268,013</u>
<u>8,712</u>	<u>1,234</u>	<u>113,017</u>	<u>18,599</u>	<u>7,657</u>	<u>4,974</u>	<u>131,525</u>	<u>6,433,763</u>	<u>-</u>	<u>151,867</u>	<u>6,585,630</u>
<u>\$ (112)</u>	<u>\$ (34)</u>	<u>\$ (3,988)</u>	<u>\$ (17)</u>	<u>\$ (1,784)</u>	<u>\$ (2,324)</u>	<u>\$ (27,525)</u>	<u>\$ 472,613</u>	<u>\$ -</u>	<u>\$ 107,462</u>	<u>\$ 580,075</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF AGING OPERATIONS BY PROGRAM
For the Year Ended June 30, 2012

	Title III Part B, C & E <u>Admin</u>	Title III Part B: Supportive Services Includes <u>Case Management</u>	Title III Part F: Preventive <u>Health</u>	Title III Part C: Meals <u>C1, C2, HDM</u>
Revenues:				
Federal and State funds:				
Received	\$ 108,181	\$ 295,173	\$ 37,076	\$ 814,872
Local funds:				
Other	<u> -</u>	<u> 600</u>	<u> -</u>	<u> 88,629</u>
Total Revenues	<u>108,181</u>	<u>295,773</u>	<u>37,076</u>	<u>903,501</u>
Expenditures:				
Direct costs:				
Salaries	44,359	113,736	-	233,436
Employee benefits	20,263	60,706	-	86,827
Travel	2,524	1,297	-	51
Subgrantees and contracts		96,382	33,284	1,187
Other direct costs	<u>15,606</u>	<u>3,258</u>	<u> -</u>	<u>401,487</u>
Total Direct Costs	82,752	275,379	33,284	722,988
Indirect Costs:				
Indirect costs applied	<u>25,430</u>	<u>68,129</u>	<u> -</u>	<u>139,829</u>
Total Expenditures	<u>108,182</u>	<u>343,508</u>	<u>33,284</u>	<u>862,817</u>
Excess(Deficiency) of Revenues Over Expenditures	<u>\$ (1)</u>	<u>\$ (47,735)</u>	<u>\$ 3,792</u>	<u>\$ 40,684</u>
In-Kind Match				

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF AGING OPERATIONS BY PROGRAM
For the Year Ended June 30, 2012

Revised Page

	Title III Part B, C & E <u>Admin</u>	Title III Part B: Supportive Services Includes <u>Case Management</u>	Title III Part F: Preventive <u>Health</u>	Title III Part C: Meals <u>C1, C2, HDM</u>
Revenues:				
Federal and State funds: Received	\$ 108,181	\$ 295,173	\$ 37,076	\$ 814,872
Local funds: Other	-	600	-	88,629
Total Revenues	<u>108,181</u>	<u>295,773</u>	<u>37,076</u>	<u>903,501</u>
Expenditures:				
Direct costs:				
Salaries	44,359	113,736	-	233,436
Employee benefits	20,263	60,706	-	86,827
Travel	2,524	1,297	-	51
Subgrantees and contracts		96,382	33,284	1,187
Other direct costs	<u>15,606</u>	<u>3,258</u>	-	<u>401,487</u>
Total Direct Costs	82,752	275,379	33,284	722,988
Indirect Costs:				
Indirect costs applied	<u>25,430</u>	<u>68,129</u>	-	<u>139,829</u>
Total Expenditures	<u>108,182</u>	<u>343,508</u>	<u>33,284</u>	<u>862,817</u>
Excess(Deficiency) of Revenues Over Expenditures	<u>\$ (1)</u>	<u>\$ (47,735)</u>	<u>\$ 3,792</u>	<u>\$ 40,684</u>
In-Kind Match				

The accompanying notes are an
integral part of the financial statements.
Page 30

<u>Homecare</u>	<u>Homecare Case Management</u>	<u>Adult Day Care</u>	<u>Adult Day Care Case Management</u>	<u>NSIP USDA</u>	<u>Title III Caregivers</u>	<u>KY Caregivers</u>
\$ 486,850	\$ 298,144	\$ 100,772	\$ 36,752	\$ 83,629	\$ 128,446	\$ 135,681
-	-	-	-	-	-	-
<u>486,850</u>	<u>298,144</u>	<u>100,772</u>	<u>36,752</u>	<u>83,629</u>	<u>128,446</u>	<u>135,681</u>
40,659	135,481	6,336	15,040	40,772	19,670	23,341
17,544	58,553	2,167	6,500	18,467	7,964	9,409
633	6,702	-	744	-	164	29
408,360		92,740	-	-	87,709	90,304
43	16,841	-	1,870	-	927	-
<u>467,239</u>	<u>217,577</u>	<u>101,243</u>	<u>24,154</u>	<u>59,239</u>	<u>116,434</u>	<u>123,083</u>
25,249	80,599	3,555	8,947	23,749	12,012	13,191
<u>492,488</u>	<u>298,176</u>	<u>104,798</u>	<u>33,101</u>	<u>82,988</u>	<u>128,446</u>	<u>136,274</u>
<u>\$ (5,638)</u>	<u>\$ (32)</u>	<u>\$ (4,026)</u>	<u>\$ 3,651</u>	<u>\$ 641</u>	<u>\$ -</u>	<u>\$ (593)</u>
					42,815	

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF WIA OPERATIONS BY PROGRAM
For the Year Ended June 30, 2012

	WIA Adminis- tration	WIA Adult Case Management	WIA Youth Case Management	WIA Dis Worker Case Manage
Revenues:				
Federal and State funds: Received	<u>\$ 544,852</u>	<u>\$ 435,466</u>	<u>\$ 137,328</u>	<u>\$ 63,844</u>
Total Revenues	<u>544,852</u>	<u>435,466</u>	<u>137,328</u>	<u>63,844</u>
Expenditures:				
Direct costs:				
Salaries	121,347	181,491	67,198	78,084
Employee benefits	48,703	95,341	29,570	40,349
Travel	22,883	6,772	174	2,923
Other direct costs	<u>279,682</u>	<u>43,035</u>	<u>187</u>	<u>37,605</u>
Total Direct Costs	472,615	326,639	97,129	158,961
Indirect Costs:				
Indirect costs applied	<u>72,237</u>	<u>108,827</u>	<u>40,199</u>	<u>46,251</u>
Total Expenditures	<u>544,852</u>	<u>435,466</u>	<u>137,328</u>	<u>205,212</u>
Excess(Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(141,368)</u>

The accompanying notes are an integral
part of the basic financial statements.

WIA Rapid Response	WIA JAG/JKG	WIA RR-TRADE	ARRA WIA S.E.S.P. Admin.	ARRA WIA S.E.S.P. Case Mgt.	WIA N.E.G. Case Mgt.	WIA N.E.G. Admin.	Total
\$ 148,771	\$ 4,134	\$ 185,929	\$ 12,146	\$ 134,084	\$ 32,276	\$ 11,936	\$ 1,710,766
<u>148,771</u>	<u>4,134</u>	<u>185,929</u>	<u>12,146</u>	<u>134,084</u>	<u>32,276</u>	<u>11,936</u>	<u>1,710,766</u>
3,607	1,894	86,195	5,821	62,513	14,710	4,999	627,859
1,999	1,232	44,422	2,935	32,360	8,034	3,015	307,960
52		3,333	16	1,364	1,039	385	38,941
<u>-</u>	<u>-</u>	<u>739</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>361,448</u>
5,658	3,126	134,689	8,772	96,437	23,783	8,399	1,336,208
<u>1,747</u>	<u>1,008</u>	<u>51,239</u>	<u>3,374</u>	<u>37,647</u>	<u>8,492</u>	<u>3,537</u>	<u>374,558</u>
<u>7,405</u>	<u>4,134</u>	<u>185,928</u>	<u>12,146</u>	<u>134,084</u>	<u>32,275</u>	<u>11,936</u>	<u>1,710,766</u>
<u>141,366</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
WIA SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- WIA
For the Year Ended June 30, 2012

WIA Revenue by Grant	
WIA-Youth:	
274YT11 -PY 10	\$ 573,147
274YT12 -PY 11	864,883
274YT13 -PY 12	1,751
WIA-Adult:	
270AD11- PY-10	23,590
270AD12- PY-11	25,912
273AD11 - FY 11	609,044
273AD12 - FY 12	601,052
WIA-Dislocated Workers:	
271DW11 - FY11	547,592
271DW12 - FY12	128,128
272DW11 - PY10	25,072
272DW12 - PY11	115,341
272DW13 - PY12	1,520
258OJ10 NEG Grant	80,999
258MC10 NEG Grant	6,213
258MC11 NEG Grant	353,704
275EP10 NEG Grant	634,412
WIA-Trade:	
205BE09	4,355
205BE10	1,596
205BE11	1,350,000
205BE12	44,411
JKG	3,500
Total Revenue	\$ 5,996,222
Expenditures:	
WIA-Youth:	
274YT11 -PY 10	\$ 573,147
274YT12 -PY 11	864,883
274YT13 -PY 12	817
WIA-Adult:	
270AD11- PY-10	23,590
270AD12- PY-11	25,912
273AD11 - FY 11	609,044
273AD12 - FY 12	601,052
WIA-Dislocated Workers:	
271DW11 - FY11	547,592
271DW12 - FY12	128,128
272DW11 - PY10	25,072
272DW12 - PY11	115,341
272DW13 - PY12	1,520
258OJ10 NEG Grant	80,999
258MC10 NEG Grant	6,213
258MC11 NEG Grant	353,704
275EP10 NEG Grant	634,412
WIA-Trade:	
205BE09	4,355
205BE10	1,596
205BE11	1,350,000
205BE12	44,411
JKG	4,434
Total Expenditures	\$ 5,996,222
Revenues Over (Under) Expenditures	\$ -

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
CONSUMER DIRECTED OPTIONS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2012

Revenues:	
Consumer grants	<u>\$ 1,699,590</u>
Total Revenue	<u>1,699,590</u>
Expenditures:	
Client Services	1,576,643
Goods and services	99,961
Respite SCL Waiver	6,745
Other	<u>3,593</u>
Total Expenditures	<u>1,686,942</u>
Revenues Over (Under) Expenditures	12,648
Fund Balance July 1, 2011	<u>(31,348)</u>
Fund Balance June 30, 2012	<u><u>\$ (18,700)</u></u>

The accompanying notes are an integral
part of the basic financial statements.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF COMPLETED GRANT JOINT FUNDING AGREEMENT
Period of Performance: July 1, 2011 to June 30, 2012

	<u>BUDGET</u>	<u>DIRECT</u>	<u>INDIRECT</u>	<u>TOTAL</u>	ACTUAL OVER(UNDER) <u>BUDGET</u>
Revenues:					
Federal	\$ 173,578	\$ 170,181	\$ -	\$ 170,181	\$ (3,397)
State	126,703	134,438	-	134,438	7,735
Local funds	-	-	-	-	-
	<u>300,281</u>	<u>304,619</u>	<u>-</u>	<u>304,619</u>	<u>4,338</u>
Expenditures:					
Community and Economic Development EDA (120)	37,500	45,103	17,607	62,710	(25,210)
Community and Economic Development (125)	10,000	50,000	17,974	67,974	(57,974)
Community and Economic Development (130)	212,156	190,139	72,477	262,616	(50,460)
Management Assistance (140)	25,781	29,199	10,546	39,745	(13,964)
Program Administration (150)	14,844	19,972	8,312	28,284	(13,440)
	<u>300,281</u>	<u>334,413</u>	<u>126,916</u>	<u>461,329</u>	<u>(161,048)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (29,794)</u>	<u>\$ (126,916)</u>	<u>\$ (156,710)</u>	<u>\$ (156,710)</u>

The accompanying notes are an integral
part of the basic financial statements.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF ALLOCATED COSTS CLAIMED – INDIRECT EXPENSE
For the Year Ended June 30, 2012

	<u>Costs Claimed</u>	<u>Costs Allowed</u>	<u>Questioned Costs</u>
Salaries	\$ 251,282	\$ 251,282	\$ -
Personnel Burden	559,797	559,797	-
Travel staff and board	24,834	24,834	-
Equipment maintenance and rent	77,634	77,634	-
Building rentals	176,585	176,585	-
Meeting expenses	4,073	4,073	-
Utilities and telephone	62,063	62,063	-
Janitorial expenses	17,640	17,640	-
Dues and memberships	20,706	20,706	-
Printing and publications	2,966	2,966	-
Supplies	19,119	19,119	-
Insurance	29,086	29,086	-
Postage	7,073	7,073	-
Other	<u>15,155</u>	<u>15,155</u>	<u>-</u>
	<u>\$ 1,268,013</u>	<u>\$ 1,268,013</u>	<u>\$ -</u>

The accompanying notes are an integral
part of the basic financial statements.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Dept of Health and Human Services			
Passed Through KY Cabinet for Health and Family Services			
Dept of Aging and Independent Living			
Programs for Aging Title III:			
Title III - B Administration	09-11891	93.044	\$ 67,577
Part B: Supportive Services	09-11891	93.044	286,444
Part C: Nutrition Services	09-11891	93.045	509,621
Nutrition Services Incentive Program (USDA)	09-11891	93.053	<u>83,629</u>
Total Aging Cluster			<u>947,271</u>
Part D: Disease Prevention	09-11891	93.043	20,110
Part E: National Family Caregiver Support	09-11891	93.052	128,446
Center for Medicare & Medicaid Services (SHIP)	09-11891	93.052	47,489
Medicare Improvements for Patient's & Providers (MIPPA)	09-11891	93.779	50,197
Aging & Disability Resource Center (ADRC)	09-11891	93.048	8,700
Money Follows Person (Section Q)	09-11891	93.791	9,813
Programs for Aging Title VII:			
Ombudsman	09-11891	93.042	7,098
Elder Abuse	09-11891	93.041	<u>3,571</u>
			<u>1,222,695</u>
US Department of Commerce:			
Revolving Loan Fund (1)		11.300	<u>\$ 894,239</u>
U.S. Federal Dept of Homeland Security			
Ky Office of Homeland Security			
Pre - Disaster Mitigation		97.047	\$ 5,873
National Incident Management Systems	M-06189044	97.004	<u>2,650</u>
			<u>\$ 8,523</u>
U.S. Department of Commerce/Joint Funding Administration			
Governor's Office for Local Development:			
Labor Market Survey (ARC)		23.001	\$ 232,706
Appalachian Regional Commission (ARC)		23.009	102,681
Economic Development Technical Assistance (JFA-EDA)		11.303	30,000
CDBG - Technical Assistance Program (JFA-CDBG)		14.227	<u>5,000</u>
			<u>\$ 370,387</u>
U.S. Department of Transportation			
Kentucky Transportation Cabinet			
Local Road Updates		20.205	\$ 8,600
FY-12 Type of Operations		20.205	<u>1,200</u>
			<u>\$ 9,800</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

U.S. DOL, Employment Training Administration
KY Education Cabinet, Office of Employment and Training,
Division of Workforce Services:

WIA-Youth:				
274YT11 - PY 10	M-04127521	17.259	\$	573,147
274YT12 - PY 11	M-04127521	17.259		864,883
274YT13 -PY 12	M-04127521	17.259		1,751
WIA-Adult:				
270AD11- PY-10	M-04127521	17.258		23,590
270AD12 - PY11	M-04127521	17.258		25,912
273AD11 - FY-11	M-04127521	17.258		609,044
273AD12 - FY-12	M-04127521	17.258		601,052
WIA-Dislocated Workers:				
271DW11 - FY11	M-04127521	17.278		547,592
271DW12 - FY12	M-04127521	17.278		128,128
272DW11 - PY10	M-04127521	17.260		25,072
272DW12 - PY11	M-04127521	17.278		115,341
272DW13 - PY12	M-04127521	17.278		1,520
258OJ10 NEG Grant	M-04127521	17.277		80,999
258MC10 NEG Grant	M-04127521	17.277		6,213
258MC11 NEG Grant	M-04127521	17.277		353,704
JAG		17.260		3,500
Total WIA Cluster			\$	<u>3,961,448</u>
Trade Adjustment Assistance				
205BE09	M-04127521	17.245	\$	4,355
205BE10	M-04127521	17.245		1,596
205BE11	M-04127521	17.245		1,350,000
205BE12	M-04127521	17.245		44,411
			\$	<u>1,400,362</u>
Program of Competitive Grants				
275EP10 State Energy Sector Partnership Grant ARRA	M-04127521	17.275	\$	<u>634,412</u>
Total WIA			\$	<u>5,996,222</u>
Total Federal Financial Assistance			\$	<u>8,501,866</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Note 1
BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lake Cumberland Area Development District, 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 presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2
SUBRECEIPIENTS

Lake Cumberland Area District, Inc. provided federal awards to sub-recipients as follows:

SUBRECEIPIENTS

Lake Cumberland Area Development District, Inc. provided federal awards to sub-recipients as follows:

Program for Aging Title III		
Support	93.044	\$ 82,462
Disease Prevention	93.043	18,194
Workforce Investment Act		
Youth	17.259	1,170,020
Adult	17.258	524,799
Dislocated Worker	17.260	862,236
Trade	17.245	1,400,362

-

The accompanying notes are an integral
part of this statement.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

WIA Trade Adjustment Assistance	17.245
WIA Program of Competitive Grants-ARRA	17.275
National Family Caregiver Support	93.052

Dollar threshold used to distinguish Between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

CAMPBELL, MYERS & RUTLEDGE, PLLC

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

To the Board of Directors
Lake Cumberland Area Development District
Russell Springs, KY

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake Cumberland Area Development District, as of and for the year ended June 30, 2012, which collectively comprise the Lake Cumberland Area Development District's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

Internal Control Over Financial Reporting

Management of Lake Cumberland Area Development District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lake Cumberland Area Development District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Cumberland Area Development District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake Cumberland Area Development District'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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Cumberland Area Development District'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and 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.

Campbell, Myers & Rutledge, PLLC

December 14, 2012

CAMPBELL, MYERS & RUTLEDGE, PLLC

Certified Public Accountants

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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

To the Board of Directors
Lake Cumberland Area Development District
Russell Springs, KY

Compliance

We have audited Lake Cumberland Area Development District'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 Lake Cumberland Area Development District's major federal programs for the year ended June 30, 2012. Lake Cumberland Area Development District'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 grants applicable to each of its major federal programs is the responsibility of Lake Cumberland Area Development District's management. Our responsibility is to express an opinion on Lake Cumberland Area Development District'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 Lake Cumberland Area Development District'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 Lake Cumberland Area Development District's compliance with those requirements.

In our opinion, Lake Cumberland Area Development District, 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 Lake Cumberland Area Development District 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 Lake Cumberland Area Development District'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 Lake Cumberland Area Development District'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.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.

Campbell, Myers & Ratledge, PLLC

December 14, 2012

Supplementary Information