

**KENTUCKY RIVER AREA
DEVELOPMENT DISTRICT
Hazard, Kentucky**

**FINANCIAL STATEMENTS
June 30, 2017 and 2016**

CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10-18
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	19
Schedule of Contributions	20
Supplementary Information	
Budgetary Comparisons	21
Cost Allocation Policy	22-23
Schedules of Shared Costs	24
Statements of Operations by Program	25-33
Independent Auditors' Report on Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	36-37
Schedule of Expenditures of Federal Awards	38
Schedule of Findings and Questioned Costs	39



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentucky River Area Development District
Hazard, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky River Area Development District (the District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky River Area Development District, as of June 30, 2017 and 2016, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of proportionate share of the net pension liability and contributions on pages 3-6, 19 and 20 are 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kentucky River Area Development District's basic financial statements. The supplementary budgetary comparison, cost allocation policy, schedules of shared costs and statements of operations by program are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary comparison, cost allocation policy, schedules of shared costs, statements of operations by program and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison, cost allocation policy, schedules of shared costs the statements of operations by program and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 on our consideration of the Kentucky River Area Development 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* in considering the Kentucky River Area Development District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
December 4, 2017

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis provides an overview of Kentucky River Area Development District's financial performance during the fiscal years 2017 and 2016. Please read the following in conjunction with the District's audited financial statements.

OVERVIEW OF THE ANNUAL REPORT

This annual report includes the management's discussion and analysis, the independent auditors' report, the District's audited financial statements, and notes to the financial statements. The notes to the financial statements explain in detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The District's financial statements utilize the full accrual basis accounting. Also, the financial statements conform to generally accepted accounting principles and guidelines set forth by the Governmental Accounting Standards Board. The required financial statements are the District's statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows. The statement of net position details the District's investments (assets), debt (liabilities), and deferred inflows and outflows. The statement of net position is very similar to a traditional balance sheet. The statement of revenues, expenses and changes in net position classify revenue by source and expenditures by object and changes in fund balance takes into account adjustments for prior year events.

FINANCIAL ANALYSIS OF THE DISTRICT

The Condensed Statement of Net Position reveals the long-term liabilities increased significantly due to a new note from the USDA to purchase the building we have been leasing. Unrestricted net position for fiscal year 2017 decreased by \$484,072 and in 2016, decreased by \$1,698,374 due to the implementation of GASB 68. The total current year increase in the net pension liability totaled \$227,296.

Condensed Statement of Net Position

	<u>FY 2017</u>	<u>FY 2016</u>
Current Assets	\$ 2,716,103	\$ 2,943,764
Other Assets	2,318,585	771,833
Deferred Outflows	<u>702,659</u>	<u>502,474</u>
Total Assets & Deferred Outflows	<u>\$ 5,737,347</u>	<u>\$ 4,218,071</u>
Current Liabilities	\$ 319,525	\$ 259,388
Long-term Liabilities	4,347,972	2,418,656
Deferred Inflows	-	-
Net Position		
Investment in capital assets	469,037	423,286
Unrestricted	<u>600,813</u>	<u>1,116,741</u>
Total Liabilities, Deferred Inflows & Net Position	<u>\$ 5,737,347</u>	<u>\$ 4,218,071</u>

The statement of revenues, expenses, and changes in net position provides a more detailed look at the nature of these changes. The District had an operating loss of (\$456,503) for year ended June 30, 2017, compared to a loss of (\$69,739) in 2016. Revenues decreased as did expenses. The decrease in revenue was \$699,491, while the decrease in expenses totaled \$312,727. This resulted in a (\$386,764) decrease in operating income.

Statement of Revenues, Expenses, and Changes in Net Position

	<u>FY 2017</u>	<u>FY 2016</u>
Operating Revenues		
Federal revenues	\$ 1,367,254	\$ 1,393,155
State revenues	1,194,783	1,104,124
Local	<u>2,315,419</u>	<u>2,986,145</u>
Total Operating Revenues	<u>4,877,456</u>	<u>5,483,424</u>
Operating Expenses		
Salaries	1,651,923	1,463,780
Fringe benefits	1,167,510	942,467
Travel	108,147	106,076
Subgrantees	1,600,575	2,323,169
Non-capital grant purchases	74,623	57,641
Other	<u>731,181</u>	<u>660,030</u>
Total Expenses	<u>5,333,959</u>	<u>5,553,163</u>
Operating Income	<u>\$ (456,503)</u>	<u>\$ (69,739)</u>
Bank Interest Income	4,855	7,683
Interest Expense	<u>(21,563)</u>	<u>-</u>
Change in Net Position	<u>(473,211)</u>	<u>(62,056)</u>
Net Position – Beginning of the Year	1,540,027	1,603,988
Adjustments for deferred income, A/R, & write-offs	<u>3,034</u>	<u>(1,905)</u>
Net Position – End of Year	<u>\$ 1,069,850</u>	<u>\$ 1,540,027</u>

The Statement of Cash Flows describes the sources of cash being received by the District and the areas in which that cash was spent. From fiscal year 2017 to fiscal year 2016, Cash and Cash Equivalents decreased by (\$362,420).

Condensed Statement of Cash Flows

	<u>FY 2017</u>	<u>FY 2016</u>
Net Cash Flow from Operating Activities	\$ (261,468)	\$ 112,850
Net Cash from Capital & Financing Activities	(104,806)	(56,315)
Net Cash provided by (used in) Investing Activities	<u>3,854</u>	<u>6,498</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(362,420)	63,033
Cash & Cash Equivalents – Beginning of the Year	<u>2,113,627</u>	<u>2,050,594</u>
Cash & Cash Equivalents – End of the Year	<u>\$ 1,751,207</u>	<u>\$ 2,113,627</u>

CAPITAL ASSETS

The District invested \$1,629,833 in capital assets for fiscal year 2017. This amount includes the purchase of computer equipment, office furniture a vehicle and a building. Accumulated depreciation increased \$59,054. The net investment in fixed assets at the end of FY 2017 totaled \$469,037.

	<u>Balance June 30, 2015</u>	<u>FY 2016 Additions</u>	<u>FY 2016 Disposals</u>	<u>Balance June 30, 2016</u>	<u>FY 2017 Additions</u>	<u>FY 2017 Disposals</u>	<u>Balance June 30, 2017</u>
Work in Progress	\$ 14,628	\$ 10,400	\$ 0	\$ 25,028	\$ 0	\$ (25,028)	\$ 0
Property & Equipment	778,617	45,915	0	824,532	1,629,833	0	2,545,365
Accumulated Depreciation	<u>(394,315)</u>	<u>(31,959)</u>	<u>0</u>	<u>(426,274)</u>	<u>(59,054)</u>	<u>0</u>	<u>(485,328)</u>
NET	<u>\$ 398,930</u>	<u>\$ 24,356</u>	<u>\$ 0</u>	<u>\$ 423,286</u>	<u>\$1,570,779</u>	<u>\$ (25,028)</u>	<u>\$1,969,037</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District considers many factors when setting the fiscal year 2018 budget. The most significant factor is the uncertainty of state and federal funding. At the start of fiscal year 2018, several of our state contracts, including Aging, had not been finalized due to budget cuts. We are speculating that our federal and state revenues will most likely be cut. Major changes have taken place in the Medicaid CDO program for fiscal year 2017 that will have a large impact for the future.

CONTACTING THE DISTRICT

The financial report is designed to provide the District's citizens, investors, creditors, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Michelle Allen, Finance Officer, at 941 North Main Street, Hazard, Kentucky 41701.

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENTS OF NET POSITION
JUNE 30,

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,751,207	\$ 2,113,627
Accounts receivable		
Federal, state and local grants	825,859	690,774
Miscellaneous	18,340	18,545
Related party	119,997	119,997
Prepaid expenses	<u>700</u>	<u>821</u>
Total current assets	<u>2,716,103</u>	<u>2,943,764</u>
Other assets		
Certificates of deposit	349,548	348,547
Property and equipment, net	<u>1,969,037</u>	<u>423,286</u>
	<u>2,318,585</u>	<u>771,833</u>
Total assets	5,034,688	3,715,597
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension items	<u>702,659</u>	<u>502,474</u>
Total assets and deferred outflows of resources	<u>\$ 5,737,347</u>	<u>\$ 4,218,071</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 129,132	\$ 181,227
Accrued expenses	98,184	62,647
Unearned grant revenue	50,171	15,514
Accrued interest	21,563	-
Current portion of debt	<u>20,475</u>	<u>-</u>
Total current liabilities	<u>319,525</u>	<u>259,388</u>
Long-term liabilities		
Accrued annual leave	138,779	116,469
Long-term portion of debt	1,479,525	-
Net pension liability	<u>2,729,668</u>	<u>2,302,187</u>
Total long-term liabilities	<u>4,347,972</u>	<u>2,418,656</u>
Total liabilities	<u>4,667,497</u>	<u>2,678,044</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension items	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	469,037	423,286
Unrestricted	<u>600,813</u>	<u>1,116,741</u>
Total net position	<u>1,069,850</u>	<u>1,540,027</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,737,347</u>	<u>\$ 4,218,071</u>

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

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended June 30,

	2017	2016
OPERATING REVENUES		
Federal	\$ 1,367,254	\$ 1,393,155
Commonwealth of Kentucky	1,194,783	1,104,124
Local (includes in-kind)	<u>2,315,419</u>	<u>2,986,145</u>
Total revenues	<u>4,877,456</u>	<u>5,483,424</u>
OPERATING EXPENSES		
Salaries	1,651,923	1,463,780
Fringe benefits	1,167,510	942,467
Travel	108,147	106,076
Subgrantees	1,600,575	2,323,169
Title V enrollees	248,103	176,681
Supplies	135,850	49,055
Postage	10,801	11,555
Dues, fees and subscriptions	17,206	17,794
Non-capital grant purchases and leases	74,623	57,641
Depreciation and amortization	59,054	31,959
Other (includes in-kind)	<u>260,167</u>	<u>372,986</u>
Total expenses	<u>5,333,959</u>	<u>5,553,163</u>
OPERATING INCOME (LOSS)	(456,503)	(69,739)
NON-OPERATING INCOME (EXPENSE)		
Bank interest income	4,855	7,683
Interest expense	<u>(21,563)</u>	<u>-</u>
Total non-operating income (expense)	<u>(16,708)</u>	<u>7,683</u>
Change in net position	(473,211)	(62,056)
Net position - beginning of year	1,540,027	1,603,988
Adjustment for unearned income, accounts receivable and write-offs from prior years	<u>3,034</u>	<u>(1,905)</u>
NET POSITION - END OF YEAR	<u>\$ 1,069,850</u>	<u>\$ 1,540,027</u>

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

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended June 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grantor agencies	\$ 2,459,938	\$ 2,441,637
Local cash received	2,234,806	2,912,731
Payments to suppliers	(2,425,739)	(3,018,822)
Payments for employee services and benefits	<u>(2,530,473)</u>	<u>(2,222,696)</u>
Net cash provided by (used in) operating activities	<u>(261,468)</u>	<u>112,850</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,604,806)	(56,315)
Note for purchase of building	<u>1,500,000</u>	<u>-</u>
Net cash (used in) capital and related financing activities	<u>(104,806)</u>	<u>(56,315)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Bank interest income	4,855	7,683
Purchase of certificates of deposit	<u>(1,001)</u>	<u>(1,185)</u>
Net cash provided by investing activities	<u>3,854</u>	<u>6,498</u>
Net increase (decrease) in cash and cash equivalents	(362,420)	63,033
Cash and cash equivalents - beginning of the year	<u>2,113,627</u>	<u>2,050,594</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 1,751,207</u>	<u>\$ 2,113,627</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating (loss)	\$ (456,503)	\$ (69,739)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	59,054	31,959
Adjustments for deferred income and accounts receivable	3,034	-
Net pension adjustment	227,296	157,714
Change in assets and liabilities:		
Receivables, net	(134,880)	(47,384)
Prepaid expenses	121	284
Accounts and other payables	(52,094)	45,275
Accrued expenses	35,537	6,228
Accrued leave	22,310	(3,229)
Unearned revenues	<u>34,657</u>	<u>(8,258)</u>
Net cash provided by (used in) operating activities	<u>\$ (261,468)</u>	<u>\$ 112,850</u>

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

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kentucky River Area Development District (the District) is a non-profit governmental corporation formed pursuant to KRS Chapter 147A which has as its primary purpose the promotion of economic development and the establishment of a framework for joint federal, state and local efforts directed toward providing basic services and facilities essential to the social, economic and physical development of an eight-county area in eastern Kentucky. Executive Order 71-1267, signed November 16, 1971, designated the District as the official comprehensive planning and program development agency for eastern Kentucky. The Order further designated the District as the regional clearinghouse pursuant to United States Office of Management and Budget Circular A-95. The 1972 Kentucky Legislature introduced and passed legislation (House Bill No. 423), which created and established the District under Kentucky law.

Reporting Entity - The District's financial statements include the operations of all entities for which its Board of Directors exercise oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Basis of Presentation - The District's financial statements conform to the provisions of the Codification of the Governmental Accounting Standards Board as it relates to special-purpose governments and, accordingly, the financial statements consist of the following:

- Management's discussion and analysis (required supplementary information);
- Fund financial statements
- Notes to the financial statements

Entity-wide financial statements - The District is a single fund, special-purpose entity that provides regional planning, development and aging services to the cities, counties and non-profit agencies within its eight county area. No entity-wide statements are required because a single proprietary fund is used for the District.

Fund Financial Statements – The District's financial statements include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are prepared on a full accrual basis.

Costs for all programs, including those programs outside of the Joint Funding Administration (JFA) have been accounted for under the accounting system prescribed by the JFA. Indirect expenses have been allocated to JFA program elements and other programs on the basis of direct salary and fringe costs as allocated per employee's time records. Non-federal matching contributions are applied to individual programs on the basis of total expenses incurred on the program and the sharing ratio specified in the program agreement.

Revenue Recognition - The District recognizes revenue on the accrual basis of accounting. Grant and contract revenue is recognized as eligible expenses are incurred. Revenue is recognized on performance contracts upon the completion of agreed upon services. The District does not carry an allowance for doubtful accounts because it believes all receivables are collectable. Alternatively, the District writes off accounts receivable at a time it is determined they cannot be collected.

Non-Operating Income - The district recognizes investment income as non-operating income. All other income is recognized as operating income.

Restricted Net Position - The District uses restricted net position first to offset expense, when available, if both restricted and unrestricted net position is available.

Unearned Grant Revenue - Unearned revenue arises when funds are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned grant revenue.

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - For purposes of the cash flow statement, the District defines cash and cash equivalents as cash in banks, funds in overnight repurchase agreements and any highly liquid investments with initial maturities of 90 days or less.

Fixed Assets - Property and equipment are stated at cost and depreciated over their estimated useful lives of three (3) to forty (40) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements land and buildings. Depreciation expense is charged to shared costs and is allocated to the various grants using the approved cost allocation plan.

Budgeting - The District is not required to adopt a legal budget in the manner of most local governmental entities, the budget is an operational and management tool that ensures the maximum use of resources. The budget is approved by the board of directors and monthly reports are presented to the board and management using budget comparisons.

In-Kind - In-kind contributions included in the accompanying financial statements consist of donated volunteer time, facilities or services.

Compensated Absences - Employees of the District accrue sick leave at the rate of 1 day per month. Part-time employees earn sick leave on a pro rata basis as determined by the Executive Director. There is no limit as to the amount of sick leave that may be accrued; however, sick leave is forfeited upon termination of employment. The District will pay into the retirement system an amount equal to six months of the employers' contribution based upon the amount of sick leave the employee has accumulated, toward retirement credit of the employee. Annual leave earned is based on seniority at the rates of 12 to 21 days per year and can be carried forward from one year to the next. A maximum of 60 days may be carried forward. All days in excess of 60 that are forfeited are converted to sick leave at the end of the year. The accrued liability for accumulated annual leave reported on the balance sheet at June 30, 2017 and 2016 is \$138,779 and \$116,469, respectively.

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.

Income Taxes - The District is a non-profit organization incorporated November 12, 1974, and is exempt from income taxes under Internal Revenue Code, 501(c)(3) as determined by the IRS in a determination letter dated October 27, 1989. The District is no longer subject to income tax examinations by tax authorities for years before 2013.

Management's Review of Subsequent Events - The District has evaluated and considered the need to recognize or disclose subsequent events through December 4, 2017, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended June 30, 2017, have not been evaluated by the District.

2. CASH AND INVESTMENTS

Kentucky Revised Statutes authorize local governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

2. CASH AND INVESTMENTS (CONTINUED)

The District's cash and investment balances covered by FDIC insurance and collateralized by the holding institution with an irrevocable, unconditional and non-transferable letter of credit, is detailed as of June 30,:

	2017	2016
FDIC Insurance	\$ 599,548	\$ 598,547
Collateralized by letter of credit held in District's name	<u>2,300,000</u>	<u>-</u>
Covered cash and investments	2,899,548	598,547
Total cash and investments	<u>2,230,465</u>	<u>2,562,225</u>
Amount not insured/collateralized	<u>\$ -</u>	<u>\$ 1,963,678</u>

The District did not have the letter of credit in place between April 8, 2016 and July 20, 2016. The current letter of credit in place expired July 18, 2017.

3. GRANTS RECEIVABLE

Federal, state and local grants receivable consists of the following at June 30, 2017 and 2016:

	2017	2016
2008 Local projects	\$ 7,500	\$ 7,500
2009 Local projects	10,000	10,000
2010 Local projects	3,034	3,034
2011 Local projects	41,823	41,823
2012 Local projects	20,336	20,336
2013 Local projects	48,600	48,600
2014 Local projects	13,199	13,199
2015 Local projects	7,700	7,700
2016 Local projects	33,650	58,872
2017 Local projects	43,999	-
DLG	67,550	-
KIA	39,560	42,499
Aging	287,996	277,586
KYDOT	14,269	14,268
CDO	97,700	92,064
Economic Development grants	30,019	27,397
KDEM – FEMA	57,490	24,344
Homecare	<u>1,434</u>	<u>1,552</u>
Total grant receivable	<u>\$ 825,859</u>	<u>\$ 690,774</u>

4. CAPITAL ASSETS

The District maintains property and equipment used in its operations. Fixed assets are stated at cost and depreciated over their estimated useful lives of three (3) to forty (40) years using the straight-line method of depreciation. Depreciation expense is charged to shared costs and is allocated to the various grants using the approved cost allocation plan. Depreciation expense totaled \$59,054 and \$31,959 for the years ended June 30, 2017 and 2016, respectively. The following summarizes the changes in fixed assets during the years ended:

	6/30/2015	FY 2016	FY 2016	6/30/2016	FY 2017	FY 2017	6/30/2017
	Balance	Additions	Disposals	Balance	Additions	Disposals	Balance
Work in process	\$ 14,628	\$ 10,400	\$ -	\$ 25,028	\$ -	\$ (25,028)	\$ -
Building and equipment	778,617	45,915	-	824,532	1,629,833	-	2,454,365
Accumulated depreciation	<u>(394,315)</u>	<u>(31,959)</u>	<u>-</u>	<u>(426,274)</u>	<u>(59,054)</u>	<u>-</u>	<u>(485,328)</u>
Net	<u>\$ 398,930</u>	<u>\$ 24,356</u>	<u>\$ -</u>	<u>\$ 423,286</u>	<u>\$ 1,570,779</u>	<u>\$ (25,028)</u>	<u>\$ 1,969,037</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

5. UNEARNED GRANT REVENUE

At June 30, 2017 and 2016, unearned grant revenue includes revenues received, but not earned. For the District, those grants are as follows:

Grant Name	2017	2016
KOHS Tower project	\$ 2,497	\$ 2,497
Data collection	1,260	1,260
Senior games	5,140	3,150
RAM Event	2,736	2,736
Senior ADRC	-	46
Elder Abuse grant	1,380	-
Elder Abuse Council	3,467	2,161
Kentucky Caregiver	72	72
TBI	44	44
Medicare Fraud Grant	-	1,380
Aging Community Project	4,673	2,161
CDSME	-	7
Brownfields	4,689	-
Lee Co. Senior Center Project	2,428	-
Wolfe Co. Senior Center Project	534	-
Local dues – total	<u>21,251</u>	<u>-</u>
Total	<u>\$ 50,171</u>	<u>\$ 15,514</u>

6. LONG-TERM LIABILITIES

During the year ended June 30, 2017, the District obtained a debt issue for \$1,500,000 to purchase a building for their daily operation. The debt issue is payable over 40 years with annual principal and interest payments. The first interest payment is due 1/12/2018 with final payment due 1/12/2057. The debt issue is at a fixed rate of interest of 2.875%. Interest expense for the year ended June 30, 2017 was \$21,563. The following is an amortization of future maturities:

June 30,	Principal	Interest	Total
2018	\$ 20,475	\$ 43,125	\$ 63,600
2019	21,061	42,539	63,600
2020	21,669	41,931	63,600
2021	22,291	41,309	63,600
2022	22,932	40,668	63,600
2023-2027	124,931	193,069	318,000
2028-2032	143,944	174,056	318,000
2033-2037	165,852	152,148	318,000
2038-2042	191,095	126,905	318,000
2043-2047	220,182	97,818	318,000
2048-2052	253,698	64,302	318,000
2053-2057	<u>291,870</u>	<u>26,130</u>	<u>318,000</u>
Totals	<u>\$ 1,500,000</u>	<u>\$ 1,044,000</u>	<u>\$ 2,544,000</u>

Change in long-term liabilities is as follows:

	6/30/2015	Additions	Payment	6/30/2016	Additions	Payments	6/30/2017
Accrued leave	\$ 119,698	\$ 67,887	\$ (71,116)	\$ 116,469	\$ 91,975	\$ (69,665)	\$ 138,779
Pension liability	1,652,178	812,811	(162,802)	2,302,187	625,458	(197,977)	2,729,668
Debt	-	-	-	-	<u>1,500,000</u>	-	<u>1,500,000</u>
Total	<u>\$1,771,876</u>	<u>\$ 880,698</u>	<u>\$ (233,918)</u>	<u>\$ 2,418,656</u>	<u>\$ 2,217,433</u>	<u>\$ (267,642)</u>	<u>\$ 4,368,447</u>

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

7. LEASES

The District entered into an operating lease for a copier on April 27, 2017. The terms of the lease require 48 monthly payments in the amount of \$263 totaling \$12,624. The district paid \$789 the fiscal year ended June 30, 2017. The District will pay \$3,156 for the years ending June 30, 2018, 2019 and 2020. The District will pay \$2,367 for the year ended June 30, 2021.

The District entered into an operating lease for a copier on February 26, 2016. The terms of the lease require 48 monthly payments in the amount of \$228 totaling \$13,817. The district paid \$3,454 and \$576 for fiscal years ended June 30, 2017 and 2016, respectively. The District will pay \$3,454 for the years ending June 30, 2018 and 2019. The District will pay \$2,879 for the year ended June 30, 2020.

The District entered into an operating lease on June 1, 2015, for new office space. The lease is for 24 months at a rate of \$8,000 per month. Payments for FY 2016 totaled \$96,000 and payments for FY 2017 totaled \$48,000. The District purchased this building in January 2017 (see note 6).

Additionally, The District also leases small equipment on an as-needed basis for short periods of time. Total lease expense for the year ended June 30, 2017 and 2016 was 19,874 and \$15,385, respectively.

8. RETIREMENT PLAN

Kentucky River Area Development District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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 (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2017, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$265,105 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$197,977 to the CERS pension fund and \$67,128 to the CERS insurance fund. The District contributed \$225,624 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$162,802 to the CERS pension fund and \$62,822 to the CERS insurance fund.

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

8. RETIREMENT PLAN (CONTINUED)

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
	At least	25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87+
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the District reported a liability of \$2,729,668 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the District's proportion was .0554 percent, which was an increase of 0.0019 percent from its proportion measured at June 30, 2015, of .0535 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$425,273. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 11,917	\$ -
Changes of assumptions	144,603	-
Net difference between projected and actual earnings on Plan investments	256,617	-
Changes in proportion and differences between District contributions and proportionate share of contributions	91,545	-
District contributions subsequent to the measurement date	<u>197,977</u>	<u>-</u>
Total	<u>\$ 702,659</u>	<u>\$ -</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

8. RETIREMENT PLAN (CONTINUED)

The \$197,977 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$ 197,958
2019	\$ 141,026
2020	\$ 104,419
2021	\$ 61,279

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income Real Return (Diversified Inflation Strategies)	19%	1.5%
Real Estate	10%	3.5%
Absolute Return (Diversified Hedge Funds)	5%	4.5%
Private Equity	10%	4.25%
Cash Equivalent	10%	8.5%
	2%	-.25%
Total	100%	

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

8. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>Discount rate</u>	<u>District’s proportionate share of net pension liability</u>
1% decrease	6.50%	\$ 3,401,610
Current discount rate	7.50%	\$ 2,729,668
1% increase	8.50%	\$ 2,153,682

Payable to the Pension Plan – At June 30, 2017 and 2016, the District reported a payable of \$0 and \$18,112 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017 and 2016, respectively. The payable includes both the pension and insurance contribution allocation.

9. COMMITMENTS AND CONTINGENCIES

The financial statements contained herein do not include any provisions or allowances for any questioned or disallowed costs.

10. KENTUCKY RIVER MEDICAID CDO

The District provides fiscal management services to Kentucky River Medicaid CDO, Inc. Kentucky River Medicaid CDO, Inc operates the Consumer Directed Options program for the Cabinet for Health and Family Services, Department of Aging and Independent Living (DAIL) for the Kentucky River Area District. Waiver clients have the option to choose CDO at any time. The District serves as the fiscal agent for the client and as a support broker. As clients opt for CDO, Medicaid advances funds based on client budgets. These funds are to be used to pay for services on behalf of the client. Throughout the year, DAIL reassesses the CDO program funding. Funds for each district are realigned and/or increased in accordance with the client data. In addition to advances, as client services are rendered, Medicaid is billed and the funds are paid to each district to reimburse the client account. The District was owed \$119,997 and \$119,997 for the years ended June 30, 2017 and 2016, respectively.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

11. PERFORMANCE CONTRACTS

Performance contracts represent contracts in which the grant is earned based on performance. For the fiscal years ended June 30, 2017 and 2016, the following revenues were recorded in performance contracts:

	2017	2016
Transportation Planning	\$ 80,565	\$ 80,565
Transportation Road Updates	3,371	6,773
KIA	59,120	64,997
KIA - WRIS	20,000	20,000
Campton Sewer Rehab	4,573	1,200
Beattyville Tourism	6,000	1,000
Brownfields	32,512	-
Leslie Co. Clerk Maps	1,800	-
Flemming Neon Water Plant	5,000	-
Jackson Lift Station PH. II	500	-
Hazard Water GPS	1,500	-
Whitesburg Daniel Boone Hotel	500	-
Letcher Pert/Pine/Cram Creek	500	2,500
Craft Colley/Dry Fork Sewer	1,500	15,000
Jenkins Phase IV	6,000	34,450
Perry Fort Branch	32,500	7,500
Ball Creek Phase II Sewer	12,500	7,500
Economic Development Leakage Study	1,877	27,397
Economic Development Recovery Grant	2,787	948
Letcher Deanne	-	250
Breathitt Robinson Water	-	300
KADIS – PADD	-	8,929
Buckhorn Route 28 Water	-	2,625
Perry Lewis Hollow Water	-	500
Campton School Apts.	-	35,500
Jenkins KIA	-	10,000
Perry Pomp Hollow Water	-	500
Letcher Cumberland River Water	-	1,200
Pre-Disaster Mitigation	-	18,984
Flood Assistance Mitigation	-	5,361
Other	-	842
	\$ 273,105	\$ 354,821
Total performance contracts	<u>\$ 273,105</u>	<u>\$ 354,821</u>

12. COST ALLOCATION PLAN

Kentucky River Area Development District is required by the Department of Local Government, to operate under a cost allocation plan that conforms with 2 CFR Part 225. A summary of the cost allocation plan begins on page 22. The District is in conformity with 2 CFR Part 225.

REQUIRED SUPPLEMENTARY INFORMATION

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Fiscal Years**

	2017	2016	2015	2014
District's proportion of the net pension liability	0.0544%	0.0535%	0.0509%	0.0500%
District's proportionate share of the net pension liability (asset)	\$ 2,729,668	\$ 2,302,187	\$ 1,652,178	\$ 1,864,681
District's covered employee payroll	\$ 1,322,534	\$ 929,916	\$ 1,168,143	\$ 1,065,548
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	206.40%	247.57%	141.44%	175.00%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the District

The District's covered payroll reported above is for payroll for the corresponding measurement date of the net pension liability and differs from the District's fiscal year payroll reported on the Schedule of Contributions.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS
Last Four Fiscal Years**

	2017	2016	2015	2014
Contractually required employer contribution	\$ 197,977	\$ 162,802	\$ 159,284	\$ 160,503
Contributions relative to contractually required employer contribution	<u>197,977</u>	<u>162,802</u>	<u>159,284</u>	<u>160,503</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,419,189	\$ 1,322,534	\$ 929,916	\$ 1,168,143
Employer contributions as a percentage of covered-employee payroll	13.95%	12.31%	17.13%	13.74%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms or the assumptions used in the current fiscal year.

The District's covered payroll reported above is the payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

SUPPLEMENTARY INFORMATION

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
for the year ended June 30, 2017**

	Original Budget	Amended Budget	Actual	Variance
REVENUES				
Federal funds	\$ 1,350,692	\$ 1,350,692	\$ 1,367,254	\$ 16,562
State funds	1,074,545	1,074,545	1,194,783	120,238
Local dues	44,184	44,184	43,871	(313)
Local service and other funds	<u>1,415,300</u>	<u>1,415,300</u>	<u>2,276,403</u>	<u>861,103</u>
 Total revenues	 <u>3,884,721</u>	 <u>3,884,721</u>	 <u>4,882,311</u>	 <u>997,590</u>
 EXPENSES				
Salaries and wages	1,312,777	1,312,777	1,651,923	339,146
Employee benefits	846,386	846,386	1,167,510	321,124
Travel	101,000	101,000	108,147	7,147
Aging pass through to local agencies	809,989	809,989	1,600,575	790,586
Title V enrollees	236,578	236,578	248,103	11,525
Accounting	35,500	35,500	41,700	6,200
Supplies	128,000	128,000	135,850	7,850
Postage	10,000	10,000	10,801	801
Dues, fees and subscriptions	20,300	20,300	17,206	(3,094)
Equipment, leases and depreciation	141,306	141,306	133,677	(7,629)
Other costs	<u>242,885</u>	<u>242,885</u>	<u>240,030</u>	<u>(2,855)</u>
 Total expenses	 <u>3,884,721</u>	 <u>3,884,721</u>	 <u>5,355,522</u>	 <u>1,470,801</u>
 EXCESS REVENUES OVER EXPENSES	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (473,211)</u>	 <u>\$ (473,211)</u>

COST ALLOCATION POLICY

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
COST ALLOCATION POLICY**

All funds expended by Kentucky River Area Development District are charged either to a specific grant and/or program element as a Direct Charge or spread to all grants and/or program elements as a Shared (Indirect) cost. Direct charges are defined in 2 CFR Part 225 as those that can be identified specifically with a particular cost objective. Shared (Indirect) costs are those incurred for a common or joint purposes benefiting more than one grant and/or program element. Shared costs are allocated proportionately to all programs based upon each programs' direct salary and direct benefit charges. Below is a listing of direct and shared costs as they are charged by the District.

Direct/Shared Costs

1. **Salary** - Salaries of all professional employees are charged as direct costs to the grants and/or program elements in which their work is attributable. These charges are based on time sheets submitted by all employees. The Executive Director, fiscal officer and any employee whose time is so fragmented between elements are charged as shared costs.
2. **Employee Burden** - All employee burden which can be specifically related to an employee whose salary is charged as a direct cost is also charged as a direct cost. Similarly, the employee burden of those persons whose salary is charged as a shared cost is charged as a shared cost.
3. **Consultant Contracts and Contractual Services** - Contracts whose content can be directly attributed to a specific grant and/or program element are charged as direct costs to those programs. Other contracts, such as for public information or secretarial services, whose content can be directly attributed to a specific grant and/or program element are charged as direct costs to those programs. Other contracts, such as for public information or secretarial services whose content cannot be directly attributed to a specific program task, are charged as shared costs.
4. **Printing** - Outside printing costs which are readily identifiable and attributable to documents within a specific grant and/or work element are charged as direct costs. Miscellaneous printing costs are charged as shared costs.
5. **Travel** - All travel costs, which are directly attributable to an employee whose salary is charged as a direct cost is also charged as direct cost. All other travel costs, for Staff and Board, are charged as shared costs. Staff travel costs are allocated to grants and/or program elements accordingly to the total time spent by an employee on a specific program element during the month in which the travel occurred.
6. **Vacation, Sick and Holiday Leave** - All leave which can be specifically related to an employee whose salary is being charged as a direct cost is also charged as a direct cost. Any leave which is related to an employee whose salary is being charged as a shared cost is also charged as a shared cost.
7. **Audit Fees** - All audit fees are charged as a shared cost.
8. **Space Cost** - The space cost is charged as a shared cost.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
COST ALLOCATION POLICY, continued**

9. **Equipment Rental/Purchase** - Because of the fact that all rental office equipment will, during the course of a fiscal year, benefit all grants and/or program elements, equipment rental costs are charged as shared costs. In accordance with the District's policy on capitalization, all equipment purchases under \$5,000 are charged as shared costs to all grants and program elements. Equipment purchases in excess of \$5,000 are ineligible grant costs and therefore are paid out of local cash. These items are then depreciated, and the depreciation is charged as a shared cost.

10. **Communications** - All communication costs, including telephone, postage and the like, are charged as shared costs.

11. All additional costs which are not identified above are charged as shared costs unless otherwise indicated by the Department for Local Government or prohibited by Federal regulations.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
SCHEDULES OF SHARED COSTS
for the years ended June 30,**

Cost Category	2017	2016
Personnel compensation	\$ 248,291	\$ 230,662
Fringe benefits	149,582	106,294
Travel	16,794	15,615
Accounting	41,700	35,500
Supplies	45,174	48,535
Postage	10,649	11,437
Telephone and utilities	31,653	27,543
Dues, fees and subscriptions	17,843	18,150
Equipment, leases and depreciation	130,272	131,494
Other	<u>60,403</u>	<u>65,624</u>
 Total shared costs allocated	 <u>\$ 752,361</u>	 <u>\$ 690,854</u>

**STATEMENTS OF OPERATIONS
BY PROGRAM**

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS BY PROGRAM
for the year ended June 30, 2017

	JFA Schedule	Total Area Agency on Aging	Total Other Aging Programs	CDO	Other Grants	Local Operations	G & A Expense	Total
Revenues								
Federal	\$ 191,043	\$ 1,103,192	\$ -	\$ -	\$ 73,019	\$ -	\$ -	\$ 1,367,254
State	198,898	835,525	-	-	160,360	-	-	1,194,783
Local	-	921,380	-	-	5,465	69,693	-	996,538
Other	3,200	7,533	16,925	1,190,253	73,271	-	-	1,291,182
Interest on advance	-	-	-	-	-	-	-	-
Program income	-	32,554	-	-	-	-	-	32,554
Applied to programs	7,571	200,279	-	35,797	38,439	(282,086)	-	-
Total revenues	<u>400,712</u>	<u>3,100,463</u>	<u>16,925</u>	<u>1,226,050</u>	<u>350,554</u>	<u>(212,393)</u>	<u>-</u>	<u>4,882,311</u>
Expenses								
Salaries	165,881	657,519	-	456,283	123,949	-	248,291	1,651,923
Employee benefits	100,813	307,932	-	302,335	79,552	227,296	149,582	1,167,510
Travel	14,194	39,232	166	20,125	15,320	2,316	16,794	108,147
Subgrantees	-	1,600,575	-	-	-	-	-	1,600,575
Other costs	16,786	216,367	16,750	150,506	36,667	52,597	337,694	827,367
Total direct cost	<u>297,674</u>	<u>2,821,625</u>	<u>16,916</u>	<u>929,249</u>	<u>255,488</u>	<u>282,209</u>	<u>752,361</u>	<u>5,355,522</u>
Shared costs	103,038	277,604	-	293,095	78,624	-	(752,361)	-
Total expenses	<u>400,712</u>	<u>3,099,229</u>	<u>16,916</u>	<u>1,222,344</u>	<u>334,112</u>	<u>282,209</u>	<u>-</u>	<u>5,355,522</u>
Revenue over expenses	<u>\$ -</u>	<u>\$ 1,234</u>	<u>\$ 9</u>	<u>\$ 3,706</u>	<u>\$ 16,442</u>	<u>\$ (494,602)</u>	<u>\$ -</u>	<u>\$ (473,211)</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
JOINT FUNDING ADMINISTRATION PROGRAM
for the year ended June 30, 2017**

		Budget	Direct Expenses	Indirect Expenses	Total	Over (Under) Budget	Questioned Costs (Ref.)
Revenues							
Federal Funds		\$ 191,043			\$ 191,043	\$ -	
State Funds		198,898			198,898	-	
Local Funds		<u>3,200</u>			<u>10,771</u>	<u>7,571</u>	
		<u>393,141</u>			<u>400,712</u>	<u>7,571</u>	
Expenses							
Community & Economic Planning & Development	120	78,750	59,277	21,191	80,468	1,718	
Community Development Block Grant	125	26,602	19,608	6,986	26,594	(8)	
ARC Planning	130	226,869	171,369	57,130	228,499	1,630	
Management Assistance	140	46,760	35,461	13,186	48,647	1,887	
Program Administration	150	<u>14,160</u>	<u>11,959</u>	<u>4,545</u>	<u>16,504</u>	<u>2,344</u>	
		<u>393,141</u>	<u>297,674</u>	<u>103,038</u>	<u>400,712</u>	<u>7,571</u>	<u>-</u>
Revenues over expenses		<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
AREA AGENCY ON AGING
for the year ended June 30, 2017**

	Agency Adminis- tration	Social Services III-B	Om- budsman III-B	Admin Title III C1	Cong. Meals III-C1	Admin Title III C2	H.D. Meals III-C2	Preventative Health III-D	Caregiver Admin III E	Caregiver Services / ADRC	Title VII Elder Abuse	Title VII Ombuds- man	Total Homecare	Total Title V	Total Contracts
Revenues															
Federal grant	\$ 15,545	\$ 139,691	\$ 17,000	\$ 15,545	\$ 179,949	\$ 15,544	\$ 172,296	\$ 9,555	\$ 6,418	\$ 63,404	\$ 2,445	\$ 4,075	\$ -	\$ 295,955	\$ 937,422
State grant	7,753	35,258	3,000	7,218	43,851	7,112	27,890	1,420	2,140	21,135	543	943	565,791	-	724,054
Local	-	262,264	-	-	231,595	-	357,675	20,231	-	-	-	-	17,091	32,524	921,380
Other	-	-	115	-	4,800	-	-	-	-	-	-	-	1,718	-	6,633
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Program income	-	8,564	-	-	15,288	-	4,551	874	-	-	-	-	3,277	-	32,554
Local funds applied	7,729	9,561	1,808	3,233	70,661	2,547	988	251	409	7,073	307	724	53,886	12,462	171,639
Total revenues	31,027	455,338	21,923	25,996	546,144	25,203	563,400	32,331	8,967	91,612	3,295	5,742	641,763	340,941	2,793,682
Expenses															
Salaries	12,466	21,796	8,709	10,158	32,319	10,029	1,452	1,830	3,541	21,334	1,436	2,512	206,736	254,208	588,526
Fringe benefits	7,261	12,511	5,630	6,342	21,347	5,925	668	800	2,057	14,190	905	1,576	153,859	32,703	265,774
Staff travel	741	2,212	984	154	644	118	227	74	98	528	-	-	27,883	3,318	36,981
Subgrantees	-	395,456	-	-	432,076	-	534,939	28,611	-	-	-	-	92,935	32,524	1,516,541
Other costs	2,937	10,108	1,060	2,967	39,024	2,967	25,295	-	1,108	41,835	50	75	21,033	2,739	151,198
Total direct cost	23,405	442,083	16,383	19,621	525,410	19,039	562,581	31,315	6,804	77,887	2,391	4,163	502,446	325,492	2,559,020
Shared costs	7,622	13,255	5,540	6,375	20,734	6,164	819	1,016	2,163	13,725	904	1,579	139,317	15,449	234,662
Total expenses	31,027	455,338	21,923	25,996	546,144	25,203	563,400	32,331	8,967	91,612	3,295	5,742	641,763	340,941	2,793,682
Revenue over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
AREA AGENCY ON AGING (CONTINUED)
for the year ended June 30, 2017**

	KY LTC Ombudsman	KY Caregiver / ADRC	Medicaid ADRC	CMS SHIP	CDSME	IAO	MIPPA SHIP	MIPPA AAA	MIPPA ADRC	NSIP	Total Contracts	Total Area Agency on Aging
Revenues												
Federal grant	\$ -	\$ -	\$ 14,814	\$ 12,694	\$ 258	\$ 5,325	\$ 11,611	\$ 8,828	\$ 5,533	\$ 106,707	\$ 165,770	\$ 1,103,192
State grant	33,842	62,815	14,814	-	-	-	-	-	-	-	111,471	835,525
Local	-	-	-	-	-	-	-	-	-	-	-	921,380
Other	-	900	-	-	-	-	-	-	-	-	900	7,533
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-
Program income	-	-	-	-	-	-	-	-	-	-	-	32,554
Local funds applied	4,614	2,777	6,899	5,822	972	-	1,227	2,061	4,268	-	28,640	200,279
Total revenues	38,456	66,492	36,527	18,516	1,230	5,325	12,838	10,889	9,801	106,707	306,781	3,100,463
Expenses												
Salaries	15,612	12,089	16,249	8,562	517	842	5,784	5,007	4,331	-	68,993	657,519
Fringe benefits	10,437	7,565	10,054	4,564	327	517	3,257	2,743	2,694	-	42,158	307,932
Staff travel	1,321	370	-	175	60	-	242	83	-	-	2,251	39,232
Subgrantees	-	-	-	-	-	-	-	-	-	84,034	84,034	1,600,575
Other costs	1,022	38,875	62	144	-	2,207	62	62	62	22,673	65,169	216,367
Total direct cost	28,392	58,899	26,365	13,445	904	3,566	9,345	7,895	7,087	106,707	262,605	2,821,625
Shared costs	10,064	7,593	10,162	5,071	326	525	3,493	2,994	2,714	-	42,942	277,604
Total expenses	38,456	66,492	36,527	18,516	1,230	4,091	12,838	10,889	9,801	106,707	305,547	3,099,229
Revenue over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,234	\$ -	\$ -	\$ -	\$ -	\$ 1,234	\$ 1,234

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
HOMECARE
for the year ended June 30, 2017**

	Admin	Assessment	Case Management	Social Services	H.D.Meals	Total Homecare
Revenues						
Federal grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	50,008	8,100	188,404	303,866	15,413	565,791
Local	-	-	-	13,146	3,945	17,091
Other	-	-	1,718	-	-	1,718
Interest on advance	-	-	-	-	-	-
Program income	-	-	-	2,167	1,110	3,277
Local funds applied	11,928	1,515	22,614	17,431	398	53,886
Total revenues	61,936	9,615	212,736	336,610	20,866	641,763
Expenses						
Salaries	24,212	3,634	84,203	94,687	-	206,736
Fringe benefits	15,302	2,924	64,476	71,157	-	153,859
Staff travel	332	443	3,069	24,039	-	27,883
Subgrantees	-	-	-	79,323	13,612	92,935
Other costs	6,824	80	3,545	3,330	7,254	21,033
Total direct cost	46,670	7,081	155,293	272,536	20,866	502,446
Shared costs	15,266	2,534	57,443	64,074	-	139,317
Total expenses	61,936	9,615	212,736	336,610	20,866	641,763
Revenue over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
TITLE V
for the year ended June 30, 2017

	Title V			Total Title V
	Admin	Enrollees	Other	
Revenues				
Federal grant	\$ 24,046	\$ 235,481	\$ 36,428	\$ 295,955
State grant	-	-	-	-
Local	-	-	32,524	32,524
Other	-	-	-	-
Interest on advance	-	-	-	-
Program income	-	-	-	-
Local funds applied	1,020	11,442	-	12,462
Total revenues	25,066	246,923	68,952	340,941
Expenses				
Salaries	11,132	228,784	14,292	254,208
Fringe benefits	6,156	18,139	8,408	32,703
Staff travel	813	-	2,505	3,318
Subgrantees	-	-	32,524	32,524
Other costs	318	-	2,421	2,739
Total direct cost	18,419	246,923	60,150	325,492
Shared costs	6,647	-	8,802	15,449
Total expenses	25,066	246,923	68,952	340,941
Revenue over expenses	\$ -	\$ -	\$ -	\$ -

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
OTHER AGING PROGRAMS
for the year ended June 30, 2017**

	Elder Council	Senior Day	Senior Games	Community Service Projects	Total Other Aging
Revenues					
Federal grant	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Local	-	-	-	-	-
Other	8,840	350	6,247	1,488	16,925
Interest on advance	-	-	-	-	-
Program income	-	-	-	-	-
Local funds applied	-	-	-	-	-
	<u>8,840</u>	<u>350</u>	<u>6,247</u>	<u>1,488</u>	<u>16,925</u>
Total revenues	<u>8,840</u>	<u>350</u>	<u>6,247</u>	<u>1,488</u>	<u>16,925</u>
Expenses					
Salaries	-	-	-	-	-
Fringe benefits	-	-	-	-	-
Staff travel	166	-	-	-	166
Subgrantees	-	-	-	-	-
Other costs	8,674	341	6,247	1,488	16,750
	<u>8,674</u>	<u>341</u>	<u>6,247</u>	<u>1,488</u>	<u>16,750</u>
Total direct cost	8,840	341	6,247	1,488	16,916
Shared costs	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>8,840</u>	<u>341</u>	<u>6,247</u>	<u>1,488</u>	<u>16,916</u>
Revenue over expenses	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
CONSUMER DIRECTED OPTION (CDO)
for the year ended June 30, 2017**

	HCB Fin. Mgmt.	HCB Support Brok.	Durable Goods	Total CDO
Revenues				
Federal grant	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-
Local	-	-	-	-
Other	289,465	770,236	130,552	1,190,253
Interest on advance	-	-	-	-
Program income	-	-	-	-
Local funds applied	<u>32,270</u>	<u>-</u>	<u>3,527</u>	<u>35,797</u>
Total revenues	<u>321,735</u>	<u>770,236</u>	<u>134,079</u>	<u>1,226,050</u>
Expenses				
Salaries	139,669	316,614	-	456,283
Fringe benefits	88,953	213,382	-	302,335
Staff travel	512	19,613	-	20,125
Subgrantees	-	-	-	-
Other costs	<u>4,272</u>	<u>12,155</u>	<u>134,079</u>	<u>150,506</u>
Total direct cost	233,406	561,764	134,079	929,249
Shared costs	<u>88,329</u>	<u>204,766</u>	<u>-</u>	<u>293,095</u>
Total expenses	<u>321,735</u>	<u>766,530</u>	<u>134,079</u>	<u>1,222,344</u>
Revenue over expenses	<u>\$ -</u>	<u>\$ 3,706</u>	<u>\$ -</u>	<u>\$ 3,706</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
OTHER GRANTS AND PERFORMANCE CONTRACTS
for the year ended June 30, 2017**

	Transportation Planning	Transportation Road Updates	Waste Water Planning	Pre-Disaster Mitigation	Flood Assistance Mitigation	Brownfields	Misc. Performance Contracts	Total
Revenues								
Federal	\$ -	\$ 2,697	\$ -	\$ 26,172	\$ 6,975	\$ 32,512	\$ 4,663	\$ 73,019
State	80,566	674	-	-	-	-	79,120	160,360
Local	-	-	-	5,465	-	-	-	5,465
Other	-	-	398	-	-	-	72,873	73,271
Interest on advance	-	-	-	-	-	-	-	-
Program income	-	-	-	-	-	-	-	-
Applied to programs	26,964	1,357	-	5,137	4,981	-	-	38,439
Total revenues	107,530	4,728	398	36,774	11,956	32,512	156,656	350,554
Expenses								
Salaries	46,399	1,913	-	13,186	5,027	2,966	54,458	123,949
Employee benefits	25,548	1,461	-	8,887	3,597	2,026	38,033	79,552
Travel	5,682	50	-	577	-	905	8,106	15,320
Subgrantees	-	-	-	-	-	-	-	-
Other costs	2,104	-	322	5,596	-	24,686	3,959	36,667
Total direct cost	79,733	3,424	322	28,246	8,624	30,583	104,556	255,488
Shared costs	27,797	1,304	-	8,528	3,332	1,929	35,734	78,624
Total expenses	107,530	4,728	322	36,774	11,956	32,512	140,290	334,112
Revenue over expenses	\$ -	\$ -	\$ 76	\$ -	\$ -	\$ -	\$ 16,366	\$ 16,442



**INDEPENDENT AUDITORS' 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
Kentucky River Area Development District
Hazard, Kentucky

We have audited, in accordance with the 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, the financial statements of the Kentucky River Area Development District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
December 4, 2017



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Kentucky River Area Development District
Hazard, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Kentucky River Area Development District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Kentucky River Area Development District, complied, in all material respects, with the types of 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, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
December 4, 2017

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2017**

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Amount Passed to Subrecipients	Expenditures
Appalachian Regional Commission					
Direct Award					
ARC Planning	23.009	KY-702-I-C47-16	1/1/15-12/31/16	\$ -	\$ 57,371
ARC Planning	23.009	KY-702-I-C48-17	1/1/17-6/30/17	-	32,501
JFA-Management Assistance	23.009	KY-702-I-C48-17	1/1/17-6/30/17	-	17,710
JFA-Program Assistance	23.009	KY-702-I-C48-17	1/1/17-6/30/17	-	7,160
Total Appalachian Regional Commission				-	114,742
U.S. Department of Commerce					
Economic Development Administration					
Direct Award - Economic Leakage Study					
Passed through State (DLG) (Note 1)	11.302	04-86-07109	9/25/15-9/25/16	-	1,876
JFA-Community and Economic Assistance	11.302	FY 2017 JFA MOA	7/1/16-6/30/17	-	63,000
Passed through Big Sandy Area Development District					
Economic Development Recovery Coordinator	11.302	MOU	1/1/16-9/26/18	-	2,787
Total Department of Commerce				-	67,663
U.S. Department of Housing & Urban Development (HUD)					
Passed through State (DLG) (Note 1)					
JFA- CDBG	14.218	FY 2017 JFA MOA	7/1/16-6/30/17	-	13,301
U.S. Federal Highway Administration (FHWA)					
Passed through the Kentucky Transportation Cabinet					
Road updates, various counties	20.205	P02 625 1600001485	7/1/16-6/30/17	-	2,697
U.S. Environmental Protection Administration					
Direct Award					
Brownfields Assessment and Cleanup	66.818	00D46216	10/1/16-9/30/19	-	32,512
U.S. Department of Health and Human Services (HHS)					
Passed through State (CHFS/DAIL) (Note 2)					
Title III B Support Services	93.044	PON2 725 1600001203 4	7/1/16-6/30/17	128,043	160,623
Title III C1 Congregate Meals	93.045	PON2 725 1600001203 4	7/1/16-6/30/17	188,603	200,400
Title III C2 Home Delivered Meals	93.045	PON2 725 1600001203 4	7/1/16-6/30/17	172,713	192,555
NSIP	93.053	PON2 725 1700000099 1	10/1/16-9/30/17	84,034	106,707
Total aging cluster				573,393	660,285
Title VII Elder Abuse	93.041	PON2 725 1600001202 2	7/1/16-6/30/17	-	2,445
Title VII Ombudsman	93.042	PON2 725 1600001202 2	7/1/16-6/30/17	-	4,075
Title III D Preventative Health	93.043	PON2 725 1600001203 4	7/1/16-6/30/17	7,506	9,795
Title III E Caregiver	93.052	PON2 725 1600001203 4	7/1/16-6/30/17	-	71,574
MIPPA SHIP/ AAA/ ADRC	93.071	PON2 725 1700000082 2	10/1/16-9/30/17	-	25,972
CMS SHIP	93.324	PON2 725 1600001180 1	4/1/16-3/31/17	-	12,694
CDSME	93.734	PON2 725 1600001141 1	2/22/16-8/29/16	-	258
Medicaid ADRC	93.778	PON2 725 1600001210 2	7/1/16-6/30/17	-	14,814
IAO	93.945	PON2 725 1600001213 3	7/1/16-6/30/17	-	5,325
Total HHS				580,899	807,237
U.S. Department of Labor (DOL)					
Passed through State (CHFS/DAIL)					
Title V SCSEP	17.235	PON2 725 1600001201 3	7/1/16-6/30/17	-	295,955
U.S. FEMA					
Passed through Kentucky Division of Emergency Management					
Pre-Disaster Mitigation	97.047	PDMC-PL-04-KY-2014-0005	1/31/15-9/30/16	-	26,172
FEMA Flood Mitigation Assistance	97.029	PON2 095 1500000948 1	1/30/15-9/30/17	-	6,975
Total FEMA				-	33,147
Total federal awards, as presented in the financial statements.				\$ 580,899	\$ 1,367,254

Notes:

1) The Joint Funding Administration (JFA) program, which is reported under various federal agencies, is passed through the Commonwealth of Kentucky, Department of Local Government (DLG).

2) The Health & Human Services programs are passed through from the Commonwealth of Kentucky, Cabinet for Health and Family Services (CHFS), Department of Aging and Independent Living (DAIL).

3) Unearned revenue from other grantors both current and prior are disclosed in Note 5 to the financial statements.

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kentucky River Area Development District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Indirect Cost Rates: The Kentucky River Area District did not elect to use the 10 percent *de minimis* cost rate as allowed under the *Uniform Guidance*.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2017**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	__Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	__Yes	<u>X</u> None reported

Non-compliance material to financial statements noted	__Yes	<u>X</u> No
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Federal Awards:

Internal control over major programs:

Material weaknesses identified	__Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	__Yes	<u>X</u> None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	__Yes	<u>X</u> No
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Major Programs:

CFDA Number	Name of Federal Program or Cluster
93.044, 93.045, 93.053	Title III, Part B & C, NSIP Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
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Auditee qualified as a low-risk auditee?	<u>X</u> Yes	__No
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II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE