

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

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**FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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## 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, 2016 and 2015, 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 opinions 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.

### ***Opinions***

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, 2016 and 2015, 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 schedule of proportionate share of the net pension liability and the schedule of 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, schedules of shared costs and grant schedules 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, schedules of shared costs, supplementary grant schedules 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, schedules of shared costs the supplementary grant schedules 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 12, 2016 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 12, 2016

**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 2016 and 2015. 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 the implementation of GASB 68 (see note 8) and unrestricted net position for fiscal year 2015, decreased by \$1,698,374 from fiscal year 2014. The current year increase in the net pension liability totaled \$650,009.

**Condensed Statement of Net Position**

	<u>FY 2016</u>	<u>FY 2015</u>
Current Assets	\$ 2,943,764	\$ 2,833,631
Other Assets	771,833	746,292
Deferred Outflows	<u>502,474</u>	<u>159,284</u>
<b>Total Assets &amp; Deferred Outflows</b>	<b><u>\$ 4,218,071</u></b>	<b><u>\$ 3,739,207</u></b>
Current Liabilities	\$ 259,388	\$ 216,143
Long-term Liabilities	2,418,656	1,771,876
Deferred Inflows	-	147,200
Net Position		
Investment in capital assets	423,286	398,930
Unrestricted	<u>1,116,741</u>	<u>1,205,058</u>
<b>Total Liabilities, Deferred Inflows &amp; Net Position</b>	<b><u>\$ 4,218,071</u></b>	<b><u>\$ 3,739,207</u></b>

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 \$69,739 for year ended June 30, 2016, which is approximately \$328,000 less than the fiscal year ending June 30, 2015. Revenues decreased as did expenses. The decrease in revenue was \$485,913, while the decrease in expenses totaled \$157,036. This resulted in a \$328,877 decrease in operating income.

**Statement of Revenues, Expenses, and Changes in Net Position**

	<u>FY 2016</u>	<u>FY 2015</u>
<b>Operating Revenues</b>		
Federal revenues	\$ 1,393,155	\$ 1,308,168
State revenues	1,104,124	1,142,408
Local	<u>2,986,145</u>	<u>3,518,761</u>
<b>Total Operating Revenues</b>	<u>5,483,424</u>	<u>5,969,337</u>
<b>Operating Expenses</b>		
Salaries	1,463,780	1,388,646
Fringe benefits	942,467	691,879
Travel	106,076	96,341
Subgrantees	2,323,169	2,929,286
Non-Capital grant purchases	57,641	74,518
Other	<u>660,030</u>	<u>529,529</u>
<b>Total Expenses</b>	<u>5,553,163</u>	<u>5,710,199</u>
<b>Operating Income</b>	<u><b>\$ (69,739)</b></u>	<u><b>\$ 259,138</b></u>
Bank Interest Income	7,683	8,038
Interest Expense	<u>-</u>	<u>(16,800)</u>
<b>Change in Net Position</b>	<u>(62,056)</u>	<u>250,376</u>
<b>Net Position – Beginning of the Year</b>	<b>1,603,988</b>	<b>3,036,121</b>
GASB 68 Restatement	-	(1,704,178)
Adjustments for deferred income, A/R, & write-offs	<u>(1,905)</u>	<u>21,669</u>
<b>Net Position – End of Year</b>	<u><b>\$ 1,540,027</b></u>	<u><b>\$ 1,603,988</b></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 2016 to fiscal year 2015, Cash and Cash Equivalents increased by \$63,033.

### Condensed Statement of Cash Flows

	<u>FY 2016</u>	<u>FY 2015</u>
Net Cash Flow from Operating Activities	\$ 112,850	\$ 297,039
Net Cash from Capital & Financing Activities	(56,315)	(342,740)
Net Cash provided by (used in) Investing Activities	<u>6,498</u>	<u>7,147</u>
Net Increase (Decrease) in Cash & Cash Equivalents	63,033	(38,554)
<b>Cash &amp; Cash Equivalents – Beginning of the Year</b>	<u>2,050,594</u>	<u>2,089,148</u>
<b>Cash &amp; Cash Equivalents – End of the Year</b>	<u><b>\$ 2,113,627</b></u>	<u><b>\$ 2,050,594</b></u>

### CAPITAL ASSETS

The District invested \$56,315 in capital assets for fiscal year 2016. This amount includes the purchase of computer equipment, office furniture and a vehicle. Accumulated depreciation increased \$31,959. The net investment in fixed assets at the end of FY 2016 totaled \$423,286.

	<u>Balance June 30, 2014</u>	<u>FY 2015 Additions</u>	<u>FY 2015 Disposals</u>	<u>Balance June 30, 2015</u>	<u>FY 2016 Additions</u>	<u>FY 2016 Disposals</u>	<u>Balance June 30, 2016</u>
Work in Progress	\$ 10,680	\$ 3,948	\$ 0	\$ 14,628	\$ 10,400	\$ 0	\$ 25,028
Property & Equipment	910,168	21,992	(153,543)	778,617	45,915	0	824,532
Accumulated Depreciation	<u>(480,159)</u>	<u>(40,719)</u>	<u>126,563</u>	<u>(394,315)</u>	<u>(31,959)</u>	<u>0</u>	<u>(426,274)</u>
<b>NET</b>	<u><b>\$ 440,689</b></u>	<u><b>\$ (14,779)</b></u>	<u><b>\$ (26,980)</b></u>	<u><b>\$ 398,930</b></u>	<u><b>\$ 24,356</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 423,286</b></u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District considers many factors when setting the fiscal year 2017 budget. The most significant factor is the uncertainty of state and federal funding. At the start of fiscal year 2017, 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. Our Medicaid CDO program should continue to grow in fiscal year 2016. However, major changes may be taking place in the Medicaid CDO program for fiscal year 2017 and may 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 P.O. Box 239, Hazard, KY 41702 or 941 North Main Street, Hazard, Kentucky 41701.



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

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	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 2,113,627	\$ 2,050,594
Accounts receivable		
Federal, state and local grants	690,774	586,938
Miscellaneous	18,545	-
Related party	119,997	194,994
Prepaid expenses	<u>821</u>	<u>1,105</u>
Total current assets	<u>2,943,764</u>	<u>2,833,631</u>
Other assets		
Certificates of deposit	348,547	347,362
Property and equipment, net	<u>423,286</u>	<u>398,930</u>
	<u>771,833</u>	<u>746,292</u>
Total assets	3,715,597	3,579,923
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension payments	<u>502,474</u>	<u>159,284</u>
Total assets and deferred outflows of resources	<u>\$ 4,218,071</u>	<u>\$ 3,739,207</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 181,227	\$ 135,952
Accrued expenses	62,647	56,419
Unearned grant revenue	<u>15,514</u>	<u>23,772</u>
Total current liabilities	<u>259,388</u>	<u>216,143</u>
Long-term liabilities		
Accrued annual leave	116,469	119,698
Net pension liability	<u>2,302,187</u>	<u>1,652,178</u>
Total long-term liabilities	<u>2,418,656</u>	<u>1,771,876</u>
Total liabilities	<u>2,678,044</u>	<u>1,988,019</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension items	<u>-</u>	<u>147,200</u>
<b>NET POSITION</b>		
Net investment in capital assets	423,286	398,930
Unrestricted	<u>1,116,741</u>	<u>1,205,058</u>
Total net position	<u>1,540,027</u>	<u>1,603,988</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,218,071</u>	<u>\$ 3,739,207</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,

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	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Federal	\$ 1,393,155	\$ 1,308,168
Commonwealth of Kentucky	1,104,124	1,142,408
Local (includes in-kind)	<u>2,986,145</u>	<u>3,518,761</u>
Total revenues	<u>5,483,424</u>	<u>5,969,337</u>
<b>OPERATING EXPENSES</b>		
Salaries	1,463,780	1,388,646
Fringe benefits	942,467	691,879
Travel	106,076	96,341
Subgrantees	2,323,169	2,929,286
Title V enrollees	176,681	174,668
Supplies	49,055	39,484
Postage	11,555	10,393
Dues, fees and subscriptions	17,794	18,004
Non-capital grant purchases and leases	57,641	74,518
Depreciation and amortization	31,959	40,719
Other (includes in-kind)	<u>372,986</u>	<u>246,261</u>
Total expenses	<u>5,553,163</u>	<u>5,710,199</u>
<b>OPERATING INCOME</b>	(69,739)	259,138
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Bank interest income	7,683	8,038
Interest expense	<u>-</u>	<u>(16,800)</u>
<b>Change in net position</b>	(62,056)	250,376
<b>Net position - beginning of year (as restated)</b>	1,603,988	1,331,943
Adjustment for unearned income, accounts receivable and write-offs from prior years	<u>(1,905)</u>	<u>21,669</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,540,027</u>	<u>\$ 1,603,988</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,

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from grantor agencies	\$ 2,441,637	\$ 2,464,653
Local cash received	2,912,731	131,664
Payments to suppliers	(3,018,822)	(426,441)
Payments for employee services and benefits	<u>(2,222,696)</u>	<u>(1,872,837)</u>
Net cash provided by operating activities	<u>112,850</u>	<u>297,039</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(56,315)	(25,940)
Principal paid on capital debt	-	(300,000)
Interest expense	<u>-</u>	<u>(16,800)</u>
Net cash (used in) capital and related financing activities	<u>(56,315)</u>	<u>(342,740)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Bank interest income	7,683	8,038
Purchase of certificates of deposit	<u>(1,185)</u>	<u>(891)</u>
Net cash provided by investing activities	<u>6,498</u>	<u>7,147</u>
Net (decrease) in cash and cash equivalents	63,033	(38,554)
Cash and cash equivalents - beginning of the year	<u>2,050,594</u>	<u>2,089,148</u>
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<u><b>\$ 2,113,627</b></u>	<u><b>\$ 2,050,594</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Excess revenues over expenses	\$ (69,739)	\$ 259,138
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	31,959	40,719
Loss on disposal of assets	-	26,979
Adjustments for deferred income and accounts receivable	-	21,669
Net pension adjustment	157,714	(64,084)
Change in assets and liabilities:		
Receivables, net	(47,384)	13,974
Prepaid expenses	284	679
Accounts and other payables	45,275	(40,208)
Accrued expenses	6,228	14,593
Accrued leave	(3,229)	23,477
Unearned revenues	<u>(8,258)</u>	<u>103</u>
Net cash provided by operating activities	<u><b>\$ 112,850</b></u>	<u><b>\$ 297,039</b></u>

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

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

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**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, 2016 and 2015**

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**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 ten (10) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. 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 upon agreement with the retirement system, 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, 2016 is \$116,469.

**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 2012.

**Management's Review of Subsequent Events** - The District has evaluated and considered the need to recognize or disclose subsequent events through December 12, 2016, 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, 2016, 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 Health Department 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, 2016 and 2015**

**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,:

	<b>2016</b>	<b>2015</b>
FDIC Insurance	\$ 598,547	\$ 597,362
Collateralized by letter of credit held in District's name	<u>                  -</u>	<u>          2,000,000</u>
Covered cash and investments	598,547	2,597,362
Total cash and investments	<u>          2,562,225</u>	<u>          2,515,317</u>
Amount not insured/collateralized	<u>          \$ 1,963,678</u>	<u>                  \$ 0</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 expires July 18, 2017.

**3. GRANTS RECEIVABLE**

Federal, state and local grants receivable consists of the following at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
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	18,816
2015 Local projects	7,700	36,408
2016 Local projects	58,872	-
KIA	42,499	42,275
Aging	277,586	342,947
KYDOT	14,268	14,073
CDO	92,064	-
Economic Development grants	27,397	-
KDEM – FEMA	24,344	-
Homecare	<u>          1,552</u>	<u>          1,126</u>
Total grant receivable	<u>          \$ 690,774</u>	<u>          \$ 586,938</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 ten (10) 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 \$31,959 and \$40,719 for the years ended June 30, 2016 and 2015, respectively. The following summarizes the changes in fixed assets during the years ended:

	<b>6/30/2014</b>	<b>FY 2015</b>	<b>FY 2015</b>	<b>6/30/2015</b>	<b>FY 2016</b>	<b>FY 2016</b>	<b>6/30/2016</b>
	<b>Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance</b>
Work in process	\$ 10,680	\$ 3,948	\$ -	\$ 14,628	\$ 10,400	\$ -	\$ 25,028
Building and equipment	910,168	21,992	(153,543)	778,617	45,915	-	824,532
Accumulated depreciation	<u>(480,159)</u>	<u>(40,719)</u>	<u>126,563</u>	<u>(394,315)</u>	<u>(31,959)</u>	<u>                  -</u>	<u>(426,274)</u>
Net	<u>          \$ 440,689</u>	<u>          \$ (14,779)</u>	<u>          \$ (26,980)</u>	<u>          \$ 398,930</u>	<u>          \$ 24,356</u>	<u>                  \$ -</u>	<u>          \$ 423,286</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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**5. UNEARNED GRANT REVENUE**

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

<b>Grant Name</b>	<b>2016</b>	<b>2015</b>
KOHS Tower project	\$ 2,497	\$ 2,497
Data collection	1,260	1,260
Senior games	3,150	8,575
RAM Event	2,736	2,736
Senior ADRC	46	46
Elder Abuse Council	2,161	3,733
Kentucky Caregiver	72	72
TBI	44	44
Medicare Fraud Grant	1,380	3,382
Aging Community Project	2,161	1,294
CDSME	<u>7</u>	<u>133</u>
<b>Total</b>	<b><u>\$ 15,514</u></b>	<b><u>\$ 23,772</u></b>

**6. LONG-TERM LIABILITIES**

During the year ended June 30, 2005, the District obtained a debt issue for \$450,000 to complete a building project to include a training facility, meeting room and convention facility. The debt issue is payable over 20 years with semi-annual interest payments and annual interest payments. The first interest payment was due 10/20/04 with final payment due 10/20/24. The debt issue is at a variable rate with rates from 2.75% to 5.50%. Interest expense for the year ended June 30, 2016 was \$0. The District paid the debt issue in full during fiscal year 2016.

Change in long-term liabilities is as follows:

	<b>6/30/2014</b>	<b>Additions</b>	<b>Payment</b>	<b>6/30/2015</b>	<b>Additions</b>	<b>Payments</b>	<b>6/30/2016</b>
Leave	\$ 96,221	\$ 84,830	\$ (61,353)	\$ 119,698	\$ 67,887	\$ (71,116)	\$ 116,469
Pension liability	-	1,864,681	(212,503)	1,652,178	812,811	(162,802)	2,302,187
Debt	<u>300,000</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 396,221</u></b>	<b><u>\$ 1,949,511</u></b>	<b><u>\$ (573,856)</u></b>	<b><u>\$ 1,771,876</u></b>	<b><u>\$ 880,698</u></b>	<b><u>\$ (233,918)</u></b>	<b><u>\$ 2,418,656</u></b>

**7. LEASES**

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 \$576 for fiscal year 2016. The District will pay \$3,454 for the years ending June 30, 2017, 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 will total \$96,000 and payments for FY 2017 will total \$88,000.

Additionally, The District leases small equipment on an as-needed basis for short periods of time. Total lease expense for the year ended June 30, 2016 and 2015 was 15,385 and \$17,506, respectively.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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**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, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are 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, 2016, participating employers contributed 17.06% 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 \$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.

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



**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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**8. RETIREMENT PLAN (CONTINUED)**

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, 2016, the District reported a liability of \$2,302,187 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the District's proportion was .0535 percent, which was an increase of its proportion measured at June 30, 2014, of .0509 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$132,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 19,132	\$ -
Changes of assumptions	232,150	-
Net difference between projected and actual earnings on Plan investments	20,637	-
Changes in proportion and differences between District contributions and proportionate share of contributions	67,753	-
District contributions subsequent to the measurement date	<u>162,802</u>	<u>-</u>
 Total	 <u>\$ 502,474</u>	 <u>\$ -</u>

The \$162,802 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2017	\$ 120,765
2018	\$ 120,765
2019	\$ 58,483
2020	\$ 39,659

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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**8. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2015 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, 2015 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:

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

*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.

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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**8. RETIREMENT PLAN (CONTINUED)**

*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:

	Discount rate	District's proportionate share of net pension liability
1% decrease	6.50%	\$ 2,939,021
Current discount rate	7.50%	\$ 2,302,187
1% increase	8.50%	\$ 1,756,786

*Payable to the Pension Plan* – At June 30, 2016, the District reported a payable of \$18,112 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. 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 \$194,994 for the years ended June 30, 2016 and 2015, respectively.

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

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**11. PERFORMANCE CONTRACTS**

Performance contracts represent contracts in which the grant is earned based on performance. For the fiscal years ended June 30, 2016 and 2015, the following revenues were recorded in performance contracts:

	<b>2016</b>	<b>2015</b>
Transportation Planning	\$ 80,565	\$ 80,565
Transportation Road Updates	6,773	9,957
KIA	64,997	64,550
KIA - WRIS	20,000	19,509
Jackson LS Rehab	-	15,000
Perry Co. Sanitation	-	21,800
Letcher Pert/Pine/Cram	2,500	700
Letcher Millstone	-	7,500
Letcher Deanne	250	1,200
West Campton Sewer	-	5,000
Breathitt Robinson Water	300	6,000
Cumberland River Water	-	550
Campton Bethany Water	-	1,500
Jenkins Phase III	-	13,900
KADIS – PADD	8,929	6,028
Buckhorn Route 28 Water	2,625	650
Letcher Radio Read Meters	-	250
Ball Creek WWTP	-	500
Pippa Passes WWTP	-	500
Perry Lewis Hollow Water	500	3,000
Craft Colley/Dry Fork Sewer	15,000	3,500
Jenkins Phase IV	34,450	500
Campton School Apts.	35,500	1,700
SPGE Training	-	5,000
Jenkins KIA	10,000	14,500
Perry Pomp Hollow Water	500	1,500
Perry Fort Branch	7,500	-
Ball Creek Phase II Sewer	7,500	-
Economic Development Leakage Study	27,397	-
Economic Development Recovery Grant	948	-
Campton Sewer Rehab	1,200	-
Beattyville Tourism	1,000	-
Letcher Cumberland River Water	1,200	-
Pre-Disaster Mitigation	18,984	-
Flood Assistance Mitigation	5,361	-
Other	<u>842</u>	<u>874</u>
Total performance contracts	<u><b>\$ 354,821</b></u>	<u><b>\$ 286,233</b></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 Three Fiscal Years\***

	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's proportion of the net pension liability	0.05%	0.05%	0.05%
District's proportionate share of the net pension liability (asset)	\$ 2,302,187	\$ 1,652,178	\$ 1,864,681
District's covered employee payroll	\$ 1,322,534	\$ 929,916	\$ 1,168,143
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	174.07%	177.67%	159.63%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%	61.22%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

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 assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

\* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

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

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

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

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 assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

## **SUPPLEMENTARY INFORMATION**



**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISONS  
for the year ended June 30, 2016**

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	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
Federal funds	\$ 1,284,401	\$ 1,284,401	\$ 1,393,155	\$ 108,754
State funds	996,278	996,278	1,104,124	107,846
Local dues	88,367	88,367	88,616	249
Local service and other funds	<u>1,520,300</u>	<u>1,520,300</u>	<u>2,905,212</u>	<u>1,384,912</u>
 Total revenues	 <u>3,889,346</u>	 <u>3,889,346</u>	 <u>5,491,107</u>	 <u>1,601,761</u>
 <b>EXPENSES</b>				
Salaries and wages	1,220,495	1,220,495	1,463,780	243,285
Employee benefits	757,150	757,150	942,467	185,317
Travel	100,750	100,750	106,076	5,326
Aging pass through to local agencies	1,105,500	1,105,500	2,323,169	1,217,669
Title V enrollees	169,656	169,656	176,681	7,025
Accounting	35,500	35,500	35,500	-
Supplies	40,000	40,000	49,055	9,055
Postage	9,300	9,300	11,555	2,255
Dues, fees and subscriptions	22,300	22,300	17,794	(4,506)
Equipment, leases and depreciation	119,806	119,806	89,600	(30,206)
Other costs	<u>308,889</u>	<u>308,889</u>	<u>337,486</u>	<u>28,597</u>
 Total expenses	 <u>3,889,346</u>	 <u>3,889,346</u>	 <u>5,553,163</u>	 <u>1,663,817</u>
 <b>EXCESS REVENUES OVER EXPENSES</b>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (62,056)</u>	 <u>\$ (62,056)</u>

## **COST ALLOCATION POLICY**

## KENTUCKY RIVER AREA DEVELOPMENT DISTRICT COST ALLOCATION POLICY

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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. 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**

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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.

**STATEMENTS OF OPERATIONS  
BY PROGRAM**

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

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<b>Cost Category</b>	<b>2016</b>	<b>2015</b>
Personnel compensation	\$ 230,662	\$ 221,428
Fringe benefits	106,294	117,475
Travel	15,615	16,406
Accounting	35,500	35,500
Supplies	48,535	36,872
Postage	11,437	10,229
Telephone and utilities	27,543	33,407
Dues, fees and subscriptions	18,150	17,625
Equipment, leases and depreciation	131,494	80,219
Other	<u>65,624</u>	<u>61,026</u>
 Total shared costs allocated	 <u>\$ 690,854</u>	 <u>\$ 630,187</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF OPERATIONS BY PROGRAM**  
for the year ended June 30, 2016

	JFA Schedule	Total Area Agency on Aging	Total Other Aging Programs	CDO	Other Grants	Local Operations	G & A Expense	Total
<b>Revenues</b>								
Federal	\$ 182,741	\$ 1,144,409	\$ -	\$ -	\$ 66,005	\$ -	\$ -	\$ 1,393,155
State	137,172	799,003	-	-	167,949	-	-	1,104,124
Local	-	1,403,167	-	-	-	96,835	-	1,500,002
Other	-	3,158	25,089	1,310,391	120,867	-	-	1,459,505
Interest on advance	-	-	-	-	-	-	-	-
Program income	-	34,321	-	-	-	-	-	34,321
Applied to programs	27,621	151,680	-	-	32,762	(212,063)	-	-
<b>Total revenues</b>	<b>347,534</b>	<b>3,535,738</b>	<b>25,089</b>	<b>1,310,391</b>	<b>387,583</b>	<b>(115,228)</b>	<b>-</b>	<b>5,491,107</b>
<b>Expenses</b>								
Salaries	142,258	533,943	-	415,057	141,860	-	230,662	1,463,780
Employee benefits	88,472	254,230	-	252,434	81,418	159,619	106,294	942,467
Travel	14,201	39,120	-	18,730	18,088	322	15,615	106,076
Subgrantees	-	2,323,169	-	-	-	-	-	2,323,169
Other costs	10,871	137,170	25,089	164,832	36,600	4,826	338,283	717,671
<b>Total direct cost</b>	<b>255,802</b>	<b>3,287,632</b>	<b>25,089</b>	<b>851,053</b>	<b>277,966</b>	<b>164,767</b>	<b>690,854</b>	<b>5,553,163</b>
Shared costs	91,732	244,977	-	265,376	88,768	-	(690,854)	-
<b>Total expenses</b>	<b>347,534</b>	<b>3,532,609</b>	<b>25,089</b>	<b>1,116,429</b>	<b>366,734</b>	<b>164,767</b>	<b>-</b>	<b>5,553,163</b>
<b>Revenue over expenses</b>	<b>\$ -</b>	<b>\$ 3,129</b>	<b>\$ -</b>	<b>\$ 193,962</b>	<b>\$ 20,848</b>	<b>\$ (279,995)</b>	<b>\$ -</b>	<b>\$ (62,056)</b>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
JOINT FUNDING ADMINISTRATION PROGRAM  
for the year ended June 30, 2016**

		<b>Budget</b>	<b>Direct Expenses</b>	<b>Indirect Expenses</b>	<b>Total</b>	<b>Over (Under) Budget</b>	<b>Questioned Costs (Ref.)</b>
<b>Revenues</b>							
Federal Funds		\$ 182,741			\$ 182,741	\$ -	
State Funds		137,172			137,172	-	
Local Funds		<u>-</u>			<u>27,621</u>	<u>27,621</u>	
		<u>319,913</u>			<u>347,534</u>	<u>27,621</u>	
<b>Expenses</b>							
Community & Economic Planning & Development	120	78,750	61,148	22,559	83,707	4,957	
Community Development Block Grant	125	10,000	9,991	3,174	13,165	3,165	
ARC Planning	130	180,243	143,060	50,495	193,555	13,312	
Management Assistance	140	36,760	30,607	11,328	41,935	5,175	
Program Administration	150	<u>14,160</u>	<u>10,996</u>	<u>4,176</u>	<u>15,172</u>	<u>1,012</u>	
		<u>319,913</u>	<u>255,802</u>	<u>91,732</u>	<u>347,534</u>	<u>27,621</u>	<u><u>-</u></u>
<b>Revenues over expenses</b>		<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	



**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
AREA AGENCY ON AGING  
for the year ended June 30, 2016**

	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	<b>Total Contracts</b>
<b>Revenues</b>															
Federal grant	\$ 15,402	\$ 141,889	\$ 17,000	\$ 15,400	\$ 174,844	\$ 15,400	\$ 182,505	\$ 9,892	\$ 6,451	\$ 63,285	\$ 2,532	\$ 4,252	\$ -	\$ 209,905	\$ 858,757
State grant	7,594	25,600	3,000	7,052	36,351	7,592	20,390	1,824	2,153	21,254	456	766	535,337	-	669,369
Local	-	287,640	-	-	351,279	-	653,750	51,798	-	-	-	-	25,147	33,553	1,403,167
Other	665	12	105	-	-	-	-	-	-	-	-	-	2,376	-	3,158
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Program income	-	7,145	-	-	13,685	-	7,142	3,197	-	-	-	-	3,152	-	34,321
Local funds applied	9,738	14,570	1,946	5,080	-	5,174	-	242	667	6,869	380	449	78,601	8,845	132,561
<b>Total revenues</b>	<b>33,399</b>	<b>476,856</b>	<b>22,051</b>	<b>27,532</b>	<b>576,159</b>	<b>28,166</b>	<b>863,787</b>	<b>66,953</b>	<b>9,271</b>	<b>91,408</b>	<b>3,368</b>	<b>5,467</b>	<b>644,613</b>	<b>252,303</b>	<b>3,101,333</b>
<b>Expenses</b>															
Salaries	14,000	12,759	8,422	10,976	-	11,228	-	-	3,514	20,490	1,393	2,277	190,394	180,823	456,276
Fringe benefits	7,113	8,329	5,479	5,518	-	5,761	-	-	2,035	12,898	931	1,506	137,970	21,274	208,814
Staff travel	763	581	1,298	362	-	306	-	-	24	287	-	-	30,166	2,282	36,069
Subgrantees	-	444,274	-	-	576,159	-	863,787	66,285	-	-	-	-	137,340	33,553	2,121,398
Other costs	3,129	2,529	1,325	4,118	-	4,117	-	668	1,492	44,459	120	180	18,195	2,402	82,734
<b>Total direct cost</b>	<b>25,005</b>	<b>468,472</b>	<b>16,524</b>	<b>20,974</b>	<b>576,159</b>	<b>21,412</b>	<b>863,787</b>	<b>66,953</b>	<b>7,065</b>	<b>78,134</b>	<b>2,444</b>	<b>3,963</b>	<b>514,065</b>	<b>240,334</b>	<b>2,905,291</b>
Shared costs	8,394	8,384	5,527	6,558	-	6,754	-	-	2,206	13,274	924	1,504	130,548	11,969	196,042
<b>Total expenses</b>	<b>33,399</b>	<b>476,856</b>	<b>22,051</b>	<b>27,532</b>	<b>576,159</b>	<b>28,166</b>	<b>863,787</b>	<b>66,953</b>	<b>9,271</b>	<b>91,408</b>	<b>3,368</b>	<b>5,467</b>	<b>644,613</b>	<b>252,303</b>	<b>3,101,333</b>
<b>Revenue over expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
AREA AGENCY ON AGING (CONTINUED)  
for the year ended June 30, 2016**

	KY LTC Ombudsman	KY Caregiver / ADRC	Medicaid ADRC	CMS SHIP	CDSME	IAO	FAST	HBE	MIPPA SHIP	MIPPA AAA	MIPPA ADRC	NSIP	Total Contracts	Total Area Agency on Aging
<b>Revenues</b>														
Federal grant	\$ -	\$ -	\$ 12,510	\$ 19,734	\$ 3,453	\$ 6,550	\$ 2,000	\$ -	\$ 19,133	\$ 13,481	\$ 9,347	\$ 199,444	\$ 285,652	\$ 1,144,409
State grant	34,072	83,052	12,510	-	-	-	-	-	-	-	-	-	129,634	799,003
Local	-	-	-	-	-	-	-	-	-	-	-	-	-	1,403,167
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	3,158
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Program income	-	-	-	-	-	-	-	-	-	-	-	-	-	34,321
Local funds applied	2,846	2,946	2,650	6,520	-	-	1,147	573	838	1,598	-	2	19,119	151,680
<b>Total revenues</b>	<u>36,918</u>	<u>85,998</u>	<u>27,670</u>	<u>26,254</u>	<u>3,453</u>	<u>6,550</u>	<u>3,147</u>	<u>573</u>	<u>19,971</u>	<u>15,079</u>	<u>9,347</u>	<u>199,446</u>	<u>434,405</u>	<u>3,535,738</u>
<b>Expenses</b>														
Salaries	14,823	15,343	12,122	11,525	1,283	591	1,069	166	9,389	7,102	4,254	-	77,667	533,943
Fringe benefits	9,788	9,357	7,505	6,033	717	399	727	244	4,756	3,617	2,273	-	45,416	254,230
Staff travel	1,223	528	92	120	214	137	637	-	54	46	-	-	3,051	39,120
Subgrantees	-	-	-	-	425	1,900	-	-	-	-	-	199,446	201,771	2,323,169
Other costs	1,299	50,950	148	1,595	-	-	-	-	148	148	148	-	54,436	137,170
<b>Total direct cost</b>	<u>27,133</u>	<u>76,178</u>	<u>19,867</u>	<u>19,273</u>	<u>2,639</u>	<u>3,027</u>	<u>2,433</u>	<u>410</u>	<u>14,347</u>	<u>10,913</u>	<u>6,675</u>	<u>199,446</u>	<u>382,341</u>	<u>3,287,632</u>
Shared costs	9,785	9,820	7,803	6,981	814	394	714	163	5,624	4,166	2,672	-	48,935	244,977
<b>Total expenses</b>	<u>36,918</u>	<u>85,998</u>	<u>27,670</u>	<u>26,254</u>	<u>3,453</u>	<u>3,421</u>	<u>3,147</u>	<u>573</u>	<u>19,971</u>	<u>15,079</u>	<u>9,347</u>	<u>199,446</u>	<u>431,276</u>	<u>3,532,609</u>
<b>Revenue over expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,129</u>	<u>\$ 3,129</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
HOMECARE  
for the year ended June 30, 2016**

	Admin	Assessment	Case Management	Social Services	H.D.Meals	<b>Total Homecare</b>
<b>Revenues</b>						
Federal grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	48,375	4,000	157,391	307,706	17,865	535,337
Local	-	-	-	15,899	9,248	25,147
Other	-	-	2,376	-	-	2,376
Interest on advance	-	-	-	-	-	-
Program income	-	-	-	1,943	1,209	3,152
Local funds applied	2,547	3,974	44,137	27,943	-	78,601
<b>Total revenues</b>	<b>50,922</b>	<b>7,974</b>	<b>203,904</b>	<b>353,491</b>	<b>28,322</b>	<b>644,613</b>
<b>Expenses</b>						
Salaries	20,468	2,971	81,269	85,686	-	190,394
Fringe benefits	10,742	2,385	58,988	65,855	-	137,970
Staff travel	388	297	3,213	26,268	-	30,166
Subgrantees	-	-	-	109,018	28,322	137,340
Other costs	6,916	192	4,672	6,415	-	18,195
<b>Total direct cost</b>	<b>38,514</b>	<b>5,845</b>	<b>148,142</b>	<b>293,242</b>	<b>28,322</b>	<b>514,065</b>
Shared costs	12,408	2,129	55,762	60,249	-	130,548
<b>Total expenses</b>	<b>50,922</b>	<b>7,974</b>	<b>203,904</b>	<b>353,491</b>	<b>28,322</b>	<b>644,613</b>
<b>Revenue over expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF OPERATIONS**  
**TITLE V**  
**for the year ended June 30, 2016**

	Title V			Total Title V
	Admin	Enrollees	Other	
<b>Revenues</b>				
Federal grant	\$ 16,633	\$ 167,577	\$ 25,695	\$ 209,905
State grant	-	-	-	-
Local	-	-	33,553	33,553
Other	-	-	-	-
Interest on advance	-	-	-	-
Program income	-	-	-	-
Local funds applied	819	4,417	3,609	8,845
<b>Total revenues</b>	<u>17,452</u>	<u>171,994</u>	<u>62,857</u>	<u>252,303</u>
<b>Expenses</b>				
Salaries	8,359	159,343	13,121	180,823
Fringe benefits	3,175	12,651	5,448	21,274
Staff travel	559	-	1,723	2,282
Subgrantees	-	-	33,553	33,553
Other costs	773	-	1,629	2,402
<b>Total direct cost</b>	12,866	171,994	55,474	240,334
Shared costs	4,586	-	7,383	11,969
<b>Total expenses</b>	<u>17,452</u>	<u>171,994</u>	<u>62,857</u>	<u>252,303</u>
<b>Revenue over expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF OPERATIONS**  
**OTHER AGING PROGRAMS**  
for the year ended June 30, 2016

	Elder Council	Senior Games	Medicaid Fraud Grant	Community Service Projects	<b>Total Other Aging</b>
<b>Revenues</b>					
Federal grant	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Local	-	-	-	-	-
Other	11,754	8,201	2,000	3,134	25,089
Interest on advance	-	-	-	-	-
Program income	-	-	-	-	-
Local funds applied	-	-	-	-	-
<b>Total revenues</b>	<u>11,754</u>	<u>8,201</u>	<u>2,000</u>	<u>3,134</u>	<u>25,089</u>
<b>Expenses</b>					
Salaries	-	-	-	-	-
Fringe benefits	-	-	-	-	-
Staff travel	-	-	-	-	-
Subgrantees	-	-	-	-	-
Other costs	11,754	8,201	2,000	3,134	25,089
<b>Total direct cost</b>	11,754	8,201	2,000	3,134	25,089
Shared costs	-	-	-	-	-
<b>Total expenses</b>	<u>11,754</u>	<u>8,201</u>	<u>2,000</u>	<u>3,134</u>	<u>25,089</u>
<b>Revenue over expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
CONSUMER DIRECTED OPTION (CDO)  
for the year ended June 30, 2016**

	HCB Fin. Mgmt.	HCB Support Brok.	Durable Goods	<b>Total CDO</b>
<b>Revenues</b>				
Federal grant	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-
Local	-	-	-	-
Other	295,355	883,189	131,847	1,310,391
Interest on advance	-	-	-	-
Program income	-	-	-	-
Local funds applied	-	-	-	-
<b>Total revenues</b>	<u>295,355</u>	<u>883,189</u>	<u>131,847</u>	<u>1,310,391</u>
<b>Expenses</b>				
Salaries	130,721	284,336	-	415,057
Fringe benefits	78,461	173,973	-	252,434
Staff travel	-	18,730	-	18,730
Subgrantees	-	-	-	-
Other costs	<u>8,235</u>	<u>24,750</u>	<u>131,847</u>	<u>164,832</u>
<b>Total direct cost</b>	217,417	501,789	131,847	851,053
Shared costs	<u>83,165</u>	<u>182,211</u>	<u>-</u>	<u>265,376</u>
<b>Total expenses</b>	<u>300,582</u>	<u>684,000</u>	<u>131,847</u>	<u>1,116,429</u>
<b>Revenue over expenses</b>	<u>\$ (5,227)</u>	<u>\$ 199,189</u>	<u>\$ -</u>	<u>\$ 193,962</u>

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
OTHER GRANTS AND PERFORMANCE CONTRACTS  
for the year ended June 30, 2016**

	Transportation Planning	Transportation Road Updates	Waste Water Planning	Pre-Disaster Mitigation	Flood Assistance Mitigation	Misc. Performance Contracts	Total
<b>Revenues</b>							
Federal	\$ -	\$ 5,419	\$ -	\$ 18,984	\$ 5,361	\$ 36,241	\$ 66,005
State	80,565	1,354	-	-	-	86,030	167,949
Local							-
Other	-	-	842	-	-	120,025	120,867
Interest on advance	-	-	-	-	-	-	-
Program income	-	-	-	-	-	-	-
Applied to programs	23,005	220	-	5,096	4,441	-	32,762
Total revenues	<u>103,570</u>	<u>6,993</u>	<u>842</u>	<u>24,080</u>	<u>9,802</u>	<u>242,296</u>	<u>387,583</u>
<b>Expenses</b>							
Salaries	44,263	2,896	-	10,387	4,217	80,097	141,860
Employee benefits	23,752	2,002	-	6,215	2,717	46,732	81,418
Travel	5,618	148	-	308	111	11,903	18,088
Subgrantees	-	-	-	-	-	-	-
Other costs	2,896	-	428	569	-	32,707	36,600
Total direct cost	76,529	5,046	428	17,479	7,045	171,439	277,966
Shared costs	27,041	1,947	-	6,601	2,757	50,422	88,768
Total expenses	<u>103,570</u>	<u>6,993</u>	<u>428</u>	<u>24,080</u>	<u>9,802</u>	<u>221,861</u>	<u>366,734</u>
<b>Revenue over expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,435</u>	<u>\$ 20,849</u>



**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, 2016, 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 12, 2016.

**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 opinions 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 12, 2016



**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, 2016. 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, 2016.

## 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.

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Lexington, Kentucky  
December 12, 2016

**KENTUCKY RIVER AREA DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended June 30, 2016**

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-C46-15	1/1/15-12/31/16	\$ -	\$ 57,370
ARC Planning	23.009	KY-702-I-C46-16	1/1/16-12/31/16	-	32,500
JFA-Management Assistance	23.009	KY-702-I-C46-16	1/1/16-12/31/16	-	17,710
JFA-Program Assistance	23.009	KY-702-I-C46-16	1/1/16-12/31/16	-	7,160
Total Appalachian Regional Commission				-	114,740
U.S. Department of Commerce					
Economic Development Administration					
Direct Award - Economic Leakage Study					
	11.302	04-86-07109	9/25/15-9/25/16	-	27,397
Passed through State (DLG) (Note 1)					
JFA-Community and Economic Assistance					
	11.302	FY 2016 JFA MOA	7/1/15-6/30/16	-	63,000
Passed through Big Sandy Area Development District					
Economic Development Recovery Coordinator					
	11.302	MOU	1/1/16-9/26/18	-	948
Passed through Pennyriple Area Development District					
Kentucky Agriculture Development Information System					
	11.307	MOU	7/1/13-6/30/16	-	7,896
Total Department of Commerce				-	99,241
U.S. Department of Housing & Urban Development (HUD)					
Passed through State (DLG) (Note 1)					
JFA- CDBG					
	14.218	FY 20156JFA MOA	7/1/15-6/30/16	-	5,000
U.S. Federal Highway Administration (FHWA)					
Passed through the Kentucky Transportation Cabinet					
Road updates, various counties					
	20.205	P02 625 1600000815	7/1/15-6/30/16	-	5,419
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 1400001066 7	7/1/15-6/30/16	126,589	162,794
Title III C1 Congregate Meals					
	93.045	PON2 725 1400001066 7	7/1/15-6/30/16	174,844	194,920
Title III C2 Home Delivered Meals					
	93.045	PON2 725 1400001066 7	7/1/15-6/30/16	170,011	202,769
NSIP					
	93.053	PON2 725 1600000226 1	7/1/15-6/30/16	-	199,444
Total aging cluster				471,444	759,927
Title VII Elder Abuse					
	93.041	PON2 725 1400001073 5	7/1/15-6/30/16	-	2,532
Title VII Ombudsman					
	93.042	PON2 725 1400001073 5	7/1/15-6/30/16	-	4,252
Title III D Preventative Health					
	93.043	PON2 725 1400001066 7	7/1/15-6/30/16	9,527.00	10,135
Title III E Caregiver					
	93.052	PON2 725 1400001066 7	7/1/15-6/30/16	-	71,450
FAST					
	93.069	PON2 725 1400001163 1	7/1/15-6/30/16	-	2,000
MIPPA SHIP/ AAA/ ADRC					
	93.071	PON2 725 1600000228 2	7/1/15-6/30/16	-	41,961
CMS SHIP					
	93.324	PON2 725 1600001180 1	4/1/16-3/31/17	-	19,734
CDSME					
	93.734	PON2 725 1600001141 1	2/22/16-8/29/16	-	3,453
Medicaid ADRC					
	93.778	PON2 725 1400001160 7	7/1/15-6/30/16	-	12,510
IAO					
	93.945	PON2 725 1400001164 5	7/1/15-6/30/16	-	6,550
Total HHS				480,971	934,504
U.S. Department of Labor (DOL)					
Passed through State (CHFS/DAIL)					
Title V SCSEP					
	17.235	PON2 725 1400001202 3	7/1/15-6/30/16	-	209,905
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	-	18,985
FEMA Flood Mitigation Assistance					
	97.029	PON2 095 1500000948 1	1/30/15-9/30/17	-	5,361
Total FEMA				-	24,346
Total federal awards, as presented in the financial statements.				\$ 480,971	\$ 1,393,155

**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, 2016**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified  Yes  No

Significant deficiencies identified that are not  
considered to be material weaknesses  Yes  None reported

Non-compliance material to financial statements noted  Yes  No

Federal Awards:

Internal control over major programs:

Material weaknesses identified  Yes  No

Significant deficiencies identified that are not  
considered to be material weaknesses  Yes  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  No

**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

Auditee qualified as a low-risk auditee?  Yes  No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

NONE

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE