GATEWAY AREA DEVELOPMENT DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Gateway Area Development District
Morehead, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Gateway Area Development District (the "District") as of June 30, 2014 and 2013, and the related notes to the financial statements, which 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gateway Area Development District as of June 30, 2014 and 2013, and the

Pikeville, KY Cold Spring, KY Cincinnati, OH

changes in its financial position and cash flows 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 information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency in 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying other supplementary schedules and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary 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 supplementary information is 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 October 6, 2014 on our consideration of Gateway 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 Gateway Area Development District's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

October 6, 2014

GATEWAY AREA DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014

Gateway Area Development District (GADD) is a governmental non-profit corporation formed pursuant to KRS Chapter 147A. One of fifteen statewide Area Development Districts established in 1969, its mission is basic: to bring local civic and governmental leaders together to accomplish major objectives and take advantage of opportunities which cannot be achieved or realized by those governments acting alone. Also it serves as a focal point of a necessary federal-state-local partnership for improvement of the quality of life in the region and the Commonwealth. GADD serves as a forum, clearinghouse, technical center, and a convener for the five-county area of Bath, Menifee, Montgomery, Morgan, and Rowan counties. As outlined in KRS, the ADD acts as the planning and administrative entity for the region.

GADD is governed by a Board of Directors comprised of elected officials from the counties and communities within the District, as well as non-elected citizen members representing a cross-section of the region's social and economic institutions. The office is managed by an Executive Director who reports directly to the Board. Office staff reports to the Executive Director.

GADD is also recognized by the Internal Revenue Service as "Gateway Area Development District, Inc." as a 501 (c) (3) tax-exempt organization determined eligible to receive tax-deductible contributions. Due to massive destruction the March 2, 2012 storms and tornados caused in its counties, GADD Inc. currently serves as the fiscal agent for the *Morgan County Tornado Relief Fund.*

This discussion and analysis narrative provides an overview of GADD's financial performance during the 2014 fiscal year, as compared to the prior fiscal year ending June 30, 2013. Please read the following in conjunction with the audited financial statements and the accompanying notes.

OVERVIEW OF THE ANNUAL REPORT

This annual report includes the management's discussion and analysis, the independent auditors report, the GADD'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

GADD's financial statements utilize the accrual basis of accounting. Also, the financial statements conform to generally accepted accounting principles and guidelines set forth by the Governmental Accounting Standards Board. GADD is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county area. As such, the entity-wide financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These statements display information about the entity as a whole.

GADD does not utilize multiple funds in accounting for its financial activities; therefore fund type statements are not presented. The Statement of Net Position details GADD's investments (assets) and debt (liabilities) and is very similar to the balance sheet. The Statement of Revenues, Expenses and Changes in Net Position details revenue classified by source and expenditures by purpose for separate fiscal years and the also takes into account adjustments, if any, for prior year events.

GADD's FINANCIAL ANALYSIS

The enclosed financial statements indicate that the overall financial condition of GADD improved for the fiscal year ended June 30, 2014 as summarized in the following table.

Condensed Statement of Net Position

	FY 2014	FY 2013
Current Assets	$1,821,971	$ 1,664,439
Notes Receivable, long term	383,015	414,184
Capital Assets	942,919	992,910
Amortized Assets	12,142	12,303
Total Assets	$ 3,160,047	$ 3,083,836
Current Liabilities	$ 380,903	$ 416,858
Long Term Liabilities	1,191,198	1,219,800
Total Liabilities	1,572,101	1,636,658
Net position		
Invested in capital assets	(180,558)	(147,969)
Restricted for depreciation	46,169	39,831
Restricted for economic development	558,724	558,724
Unrestricted	1,163,611	996,592
Total Net Position	1,587,946	1,447,178
Total Liabilities & Net Position	$3,160,047	$3,083,836

At the close of the fiscal year, assets exceeded liabilities by $1,587,946. Total assets increased $76,211 from June 30, 2013 primarily due to a significant increase (28%) in unrestricted or operating cash-on-hand. The outstanding notes receivable decreased this year by $37,182 as expected, resulting from scheduled payments, and no new loans were issued in FY 2014.

GADD's normal operating liabilities decreased by approximately 8.63% in FY 2014. Long term liabilities also decreased in direct relation to the annual mortgage payment required by the USDA Rural Development and required payments to the Kentucky Housing Corporation.

Overall, the increase in Total Assets and the decrease in Total Liabilities causes fiscal year 2014 to reflect a 9.73% net increase from June 30, 2013.

GADD's revenues earned and expenses incurred throughout fiscal year 2014 were in accordance with management's expectations. GADD closed the year with an overall increase to net position of $140,768. Fiscal year 2013's net position increase of $246,670 included significant one-time special revenues and matching contributions.

The following statement of revenues, expenses, and changes in net position provides a more detailed look.

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

	FY 2014	FY 2013
Federal and state revenues	$ 2,185,226	$ 2,264,283
Local revenues	272,739	381,981
Revolving loan interest	16,084	17,419
Total Revenues	2,474,049	2,663,683
Expenses		
Personnel	924,383	927,859
Contractual	970,347	934,433
Other	377,623	506,281
Total Operating Expenses	2,272,353	2,368,573
Operating Income (Loss)	201,696	295,110
Non-operating Income (Expense)	(47,805)	(49,162)
Increase (Decrease) in net position	153,891	245,948
Net position – beginning of year	1,447,178	1,200,508
Adjustments and changes	(13,123)	722
Net Position – End of Year	$1,587,946	$ 1,447,178

From June 30, 2013 to June 30, 2014, GADD's total net position increased by 9.73% or $140,768. Current fiscal year revenues decreased 7.12% (or $189,634) from fiscal year 2013 while expenses also decreased by 4.06%. Operating income reflects a net gain of $201,696 for the year, which is $93,414 less than fiscal year 2013's net gain of $295,110.

GADD's federal and state revenue attributable to externally-funded grants and contracts incurred a 3.49% ($79,057) decrease primarily related to four projects that closed in fiscal 2013 that therefore did not continue operations in this fiscal year.

There are two primary types of local revenue. The first type is any money received by GADD that is not related to a specific program (such as the local county and city dues) or is from a non-governmental entity. The other type is a matching contribution to a federal or state funded program by an individual, local government, or agency (such as county funding used to support the area senior citizens center's bus drivers) or is cash generated by the program (such as donations for meals). Local in-kind contributions represent any non-paid amount, such as volunteer time, for which a value can be readily calculated. Overall total local revenue from all sources, net of applied losses, decreased 28.60% during fiscal year 2014 primarily because two of the projects that closed in fiscal 2013 had significant recognizable matching contributions.

An analysis of expenditures shows that personnel costs decreased slightly during the current fiscal year (less than 1%). This decrease was due to a vacancy in full time positions.

Contractual expenses, primarily related to the Area Agency on Aging, increased by approximately 4% during the year. This is also reflective of utilizing individuals from a temporary employment agency to cover specialized tasks.

All other operating expenses for fiscal year 2014 reflected a significant decrease (25.41%) that was influenced primarily by the closure of four projects in fiscal 2013.

Non-operating revenues and expenses reflect a small 2.76% increase primarily due to a reduction in interest expense related to outstanding debt.

Adjustments or changes to net position represent occurrences that are not related to current year revenues or expenditures. In fiscal year 2014, GADD recognized a $13,123 decrease in the receivable from the CDO Medicaid Program.

CAPITAL ASSETS

GADD continued its investment in capital assets during fiscal year 2014. The amount includes property, equipment (including vehicles), building and land. Capital assets had a net balance of $942,919 at June 30, 2014.

	06-30-13 Balance	FY 2014 Additions	06-30-14 Balance
Property and equipment	$ 487,694	$ 2,478	$ 490,172
Building and land	1,109,831	-	1,109,831
Total fixed assets	1,597,525	2,478	1,600,003
Less: accumulated depreciation	604,615	(52,469)	657,084
Net	$ 992,910	$(49,991)	$ 942,919

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

GADD considered many factors when initially setting the fiscal year 2014 budget and continued to monitor it carefully as the year's activity unfolded. Our Area Development District receives the majority of its funding from federal, state and special contracts. Because of this, a portion of our annual revenue is fairly steady except for state-imposed budget reductions. With contract responsibilities and expenses increasing, while the revenue is decreasing, it is very difficult to manage. It is a constant battle to bring in enough contracts to cover what we need to do for our region. Most of our contracts are on a reimbursement basis and some of our contractors and governmental entities are slow to pay. However, we remain committed to providing as close to the same level of service as in years past to the extent funding allows. As a safeguard to be sure that there is no interruption of service, we have available to us a line of credit at the Whitaker Bank which will cover any temporary cash deficiency.

The major impact for fiscal year 2014-15 will be the same as this past years: a conscientious effort to (1) seek new federal and state funding sources and (2) acquire additional Performance Based contracts to offset the deficiency in the federal and state funded programs. Federal and state funding amounts must increase to help offset the costs required to properly administer those specific programs. Without such, management must rely upon Performance Based funding to contribute to those programs that fall short in sufficient funding, making GADD's dependency on external contracts a continued utmost importance.

Additionally, GADD remains concerned about the increases in the state's health insurance costs especially in light of regulatory changes in the past couple years. Calendar year 2014 health insurance premiums were 3-4% higher than 2013's rate, and GADD is anticipating another increase for calendar year 2015. These combined higher costs negatively impacts GADD's ability to hire full-time employees who receive a benefit package that includes health insurance.

GADD has endured another difficult year, financially. Some staff vacancies were purposely not filled and other positions are under-funded. For example, stipulations of contracts like the Transportation Regional Planning require a full time employee but there aren't enough funds to cover a seasoned full time employee. It is a continual struggle to manage the agency's current workload, while seeking additional external contracts, with a limited number of staff and resources.

CONTACTING GADD

The financial report is designed to provide GADD's citizens, investors, creditors, and other interested party's with a general overview of the agency's finances and to demonstrate GADD's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Gail K. Wright, Executive Director, at 110 Lake Park Drive, Morehead, KY 40351. Mrs. Wright may also be reached by phone at (606) 780-0090, ext. 2108 or at gailk.wright@ky.gov.

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current assets -		
Cash - unrestricted	$ 737,320	$ 575,676
Cash - restricted	522,287	487,281
Accounts receivable	500,755	533,860
Restricted notes receivable, net	61,609	67,622
Total current assets	1,821,971	1,664,439
Notes receivable, net of current portion	383,015	414,184
Other noncurrent assets	12,142	12,303
Capital assets, net	942,919	992,910
Total assets	$ 3,160,047	$ 3,083,836
LIABILITIES AND NET POSITION		
Current liabilities -		
Accounts payable	$ 113,903	$ 136,720
Accrued payroll and payroll taxes	35,370	27,334
Accrued annual leave	32,962	39,357
Accrued interest payable	6,728	3,922
Other current liabilities	13,254	12,838
Deferred revenue	37,047	55,909
Funds held for Morgan County Tornado Relief Fund	113,612	113,645
Notes payable, current portion	28,027	27,133
Total current liabilities	380,903	416,858
Long-term debt	1,191,198	1,219,800
Total liabilities	1,572,101	1,636,658
Net position -		
Invested in capital assets, net	(180,558)	(147,969)
Restricted for depreciation	46,169	39,831
Restricted for economic development	558,724	558,724
Unrestricted	1,163,611	996,592
Total net position	1,587,946	1,447,178
Total liabilities and net position	$ 3,160,047	$ 3,083,836

The accompanying notes to financial statements are an integral part of these statements.

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
REVENUES		
Federal	$ 663,224	$ 757,472
State	1,522,002	1,506,811
Local (includes in-kind and program income)	265,299	381,981
Revolving loan interest	16,084	17,419
Total revenues	2,466,609	2,663,683
EXPENSES:		
Salaries	615,678	614,867
Fringe benefits	308,705	312,992
Travel	47,891	52,258
Contractual	970,347	934,433
Other	322,292	454,023
Total expenses	2,264,913	2,368,573
OPERATING INCOME	201,696	295,110
NONOPERATING REVENUES (EXPENSES)		
Interest income	521	359
Interest expense	(48,326)	(49,521)
Total nonoperating revenues (expenses)	(47,805)	(49,162)
NET INCREASE IN NET POSITION	153,891	245,948
BEGINNING NET POSITION	1,447,178	1,200,508
Adjustments related to prior years grant activity	(13,123)	722
ENDING NET POSITION	$ 1,587,946	$1,447,178

The accompanying notes to financial statements are an integral part of these statements.

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Grant receipts	$ 2,236,618	$ 2,202,513
Other receipts	301,621	400,121
Cash paid to/for:		
Payments to suppliers and providers of goods and services	(1,344,078)	(1,409,953)
Payments to employee services and benefits	(922,326)	(917,694)
Net cash provided by operating activities	271,835	274,987
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest expense	(45,520)	(49,226)
Purchase of property, plant and equipment	(2,478)	(26,930)
Principal paid on capital debt	(27,708)	(24,136)
Net cash used for capital and related financing activities	(75,706)	(100,292)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	521	359
Net cash provided by investing activities	521	359
NET INCREASE IN CASH	196,650	175,054
CASH AT BEGINNING OF YEAR	1,062,957	887,903
CASH AT END OF YEAR	$ 1,259,607	$1,062,957
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income	$ 201,696	$295,110
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	52,469	50,383
Prior year grants receivable/deferred grant activity	(13,123)	722
Change in assets and liabilities:		
Accounts receivable	33,105	(99,643)
Loans receivable	37,182	57,519
Other noncurrent assets	161	-
Accounts payable	(22,817)	(19,623)
Accrued payroll and other liabilities	8,452	9,303
Accrued leave	(6,395)	862
Funds held for Morgan County Tornado Relief Fund	(33)	(8,199)
Deferred revenues	(18,862)	(11,447)
Net cash provided by operating activities	$ 271,835	$ 274,987

The accompanying notes to financial statements are an integral part of these statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Gateway Area Development District (the "District") is a governmental non-profit 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 a five-county area consisting of the counties of Rowan, Bath, Morgan, Menifee and Montgomery. The fifteen member Board of Directors is composed of officials of political subdivisions and private citizens within the District. Executive Order 71-1267, signed May 1969, 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 known in Kentucky as KIRP, Kentucky Intergovernmental Review Process. The 1972 Kentucky Legislature introduced and passed legislation (House Bill No. 423) which created and established the District under Kentucky Law.

The purpose of the District is to promote, protect and develop the economy, health, education and general welfare and to implement projects for the people of the counties included in the District, and to further act in conjunction with adjoining area development districts in the Northeastern Kentucky area.

In evaluating how to define the government for financial reporting purposes, management of the District has considered all potential component units. The criteria for including a potential component unit within the reporting entity is (1) ability to exercise oversight responsibility, (2) scope of public services, and (3) special financing relationships. Based upon these criteria, management has not included any component units as part of the reporting entity.

Basis of Presentation

The financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" as it relates to special-purpose governments and, accordingly, the financial statements consist of the following:

- Management's discussion and analysis (required supplementary information)
- Basic financial statements:
    - 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 city, county and nonprofit agencies within the five 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 determines when transactions are recorded in the financial records and reported in the financial statements. The District uses the accrual basis of accounting.

Revenues - 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 based upon the percentage of completion or agreed upon services method.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Deferred 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 deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Revolving Loan Notes Receivable

Revolving loan notes receivable are stated at face value, less an allowance for loan losses. The allowance is established through periodic charges to direct expenses.

Compensated Absences

Full-time employees of the District accrue sick leave at the rate of 10 hours per month. Temporary and part-time employees earn no benefits. Annual leave is earned on the same basis as sick leave and both can be carried forward from one year to the next. On June 30th of each fiscal year, the accumulated sick leave balance shall not exceed 720 hours and accumulated annual leave shall not exceed 240 hours for any employee.

The accrued leave liability for accumulated annual leave reported in the statement of net position at June 30, 2014 and 2013 was $32,962 and $39,357, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit at financial institutions.

Inventory

Supplies and materials are charged to expenses when purchased.

Allowance for Doubtful Accounts

The allowance for loan losses related to revolving loans is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	10-40 years
Equipment	5-10 years
Furniture and fixtures	5-10 years
Automobiles	5 years
Computers and technology	3-5 years

Budgets and Budgetary Accounting

The District is required to adopt a budget annually, file it with the County Clerk as a special district, and provide a copy to its member counties. Budgetary restrictions apply primarily at the grant level. The District utilizes the budget as an operational and management tool and a cost allocation plan is approved by the Department for Local Government. 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.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the District. For the District, those revenues are primarily grants and interest earned on revolving loans. All other revenues are non-operating, such as investment income. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating, such as interest expense.

Cost Allocation Plan

Gateway 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 14. The District is in conformity with 2 CFR Part 225.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District implemented GASB No. 65 in the current year which had no effect on the District's financial statements in the current year.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. The standard is effective for fiscal year ending June 30, 2015. Management has not yet determined the effect this statement will have on the financial statements.

(2) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, 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.

(3) COST ALLOCATION

Joint costs are accumulated into a cost pool and allocated to grant programs based on direct personnel costs, per a written cost allocation plan.

All funds expended by the District are charged either to a specific grant and/or program element as a direct charge or allocated to all programs as a shared (indirect) cost. Direct charges are defined in OMB Circular A-87 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. All costs are recognized under the provisions of OMB Circular A-102. Below is a listing of direct and shared costs as they are charged by the District.

1. Salaries - The salaries of all employees, both professional and supportive, are charged directly to program elements based on the amount of actual time attributable to each, in accordance with the bi-weekly time sheet. Significant hours expended are recognized as a direct cost to the respective program element(s) in which the employee worked. Central administrative staff (including the Executive Assistant, Staff Assistant, Finance Officers and Executive Director's time) is customarily charged as shared. If an unusual amount of time is expended towards a specific element(s), or if these employees serve in a dual-role, they may charge hours directly to those programs accordingly - as deemed appropriate and necessary by the Executive Director. All program planners and coordinators salaries are

charged as direct costs to the respective program element(s) in which they work. If these employees also assist with overall office-wide tasks (such as web page maintenance or providing computer and technical support), those hours are charged as shared.

2. Fringe Benefits - Burden is charged in like manner as the employee's salary by its proportionate share and is automatically calculated via the payroll software. All employee burden (e.g. FICA, workman's compensation, retirement, health insurances, etc.) which can be specifically related to an employee whose salary is being charged as a direct cost is also charged as a direct cost. The employee burden related to an employee whose salary is charged as a shared cost is charged as a shared cost. If an employee burden cost cannot be broken down by a specific element or employee with an acceptable degree of accuracy (such as the burden associated with used vacation hours), it is charged as a shared cost.
3. Shared Costs - The shared cost pool is comprised of costs that either (a) cannot be attributed directly to a program (b) relates to *all* the work that the District performs (c) is general administrative by nature or (d) relates to District facilities. At the end of each month, this pool of shared cost is distributed among the work elements directly in relation to the total personnel cost for the staff working the program.
4. Consultant Contracts and Contractual Services – Generally, contracts or sub-contracts, including thse for personal services, which the District executes with a third party can be identified to a specific program element and therefre, becomes a direct cost of said program. All consultant contracts are charged as direct cost to the program element to which the work relates.
5. Printing and Publications - Printing which is directly attributable to a specific work element is charged as a direct cost to the element, and consideration has been given to those direct costs in preparing the budget. Publications, whether prepared in-office or out-of-the office, are charged to those specific work elements to which they apply. Ads, notices of hearing, etc. that must be printed as legal notices are charged as direct costs where they can be identified in a sufficient amount. Advertising incurred to recruit new personnel is charged to the work element for which the position relates. In areas where the cost is minor or may benefit numerous work elements, the cost may be charged as shared. Miscellaneous or office-wide needs (envelopes, checks, letterhead, etc.) is charged as a shared cost.
6. Travel - Business-related travel costs are incurred for a specific purpose. All approved travel expenses is charged against the same program or element for which the employee's time is charged, as supported by his/her timesheet. Due to the limited number of staff and funds available, staff persons frequently utilize trips to cover more than one work element. If determined appropriate and necessary by the Executive Director, an employee whose travel pertains to more than one work element and can specifically identify those work elements, may also charge the cost to more than one work element.
7. Board Travel - Board members who travel pertaining to a specific element, charges travel to that work element for which the travel expense is incurred. Any travel that does not pertain to a certain work element will be charged as a shared cost.
8. Vacation Leave - At the end of each month, the cost associated with the full-time employees' earned vacation hours is charged to leave accrual accounts. The accounting software then allocates a proportionate share of the total monthly amount to each element for which the employee worked during that month. Vacation earned, which pertains to shared cost salaries, is also charged as shared cost. These provisions permit the correct charging of each element and assure that each grant fund is charged equitably for vacation accrual.
9. Audit and Accounting Fees - Costs related to the District's annual external audit, performed by an independent CPA firm, are charged as a shared cost. The accounting system then permits each element to accept its proportionate amounts of charges. Any additional charges that are directly related to extra work in a specific element will be charged directly to the program.
10. Space Cost - Space-related expenses and routine repair and maintenance is charged as a shared cost, unless otherwise determined by the Executive Director to be exclusively for a specific work element. The District's mortgage payment, utilities, insurance, depreciation, cleaning, and general upkeep or repairs are included as shared cost.
11. Telephone/Internet – Generally telephone and internet charges is charged as a shared cost.

If a particular grantee requires a special service, such as a toll-free number, that cost will be charged directly to the corresponding work element.

12. Fixed Asset Additions - General-purpose non-consumable items (such as buildings, vehicles, equipment, or computers) are capitalized and depreciated via the straight-line method over the asset's useful life. Depreciation is charged monthly as a shared cost. Equipment or other capital purchases are not charged as a shared cost.
13. Equipment-Rental/Lease/Maintenance - All equipment rentals, purchases, and maintenance costs are charged as shared cost unless the corresponding piece of equipment is used exclusively by a specific element or grant award.
14. Supplies/Materials/Postage - The Staff Assistant purchases commonly used items to keep in a central location accessible by all employees. These items are charged as a shared cost. Other items that are identifiable with a specific program area are charged directly to that work element.
15. Meetings and Conferences - The cost associated with hosting a meeting or conference (food, materials, etc.) for which the primary purpose is the dissemination of technical information is charged to the work element for which it relates. If the meeting benefits the entire agency, such as the District's board meetings, the costs is charged as shared. If determined appropriate and necessary by the Executive Director, meetings serving a dual-purpose may be charged to more than one work element.
16. Dues/Subscriptions/Memberships - The majority of these costs is for the agency as a whole, or for the Executive Director, and is recognized as a shared cost. If the item relates to a specific employee, such as a required licensure, the cost is charged as a direct cost to their primary work element.

All additional costs not identified above are charged as (a) a direct cost if specifically identifiable with a particular element or (b) as a shared cost if incurred for a common or joint purpose benefiting more than one element and is not readily assignable.

(4) GRANTS RECEIVABLE

Federal, state, and local receivables are expected to be fully collectible. Federal, state, and local grants receivable consists of the following:

	2014	2013
Aging	$ 185,377	$ 90,534
CDO	88,366	108,654
KYTC Roadway Centerline	10,269	-
Transportation	11,541	11,590
WIA	-	798
Menifee County ARC Planning	-	6,277
Morgan/Wolfe Rural Development	-	138,631
KY Agriculture Dev. Info. System	1,743	-
Various Local	188,551	164,672
EDA Technical Assistance	14,908	12,704
	$ 500,755	$ 533,860

(5) LOANS RECEIVABLE

The Revolving Loan Program was established by initial grants from the Economic Development Administration to assist high-risk small businesses in the area local communities with infrastructure.

The Nonprofit Housing Production Loan Program's funding originates from the Kentucky Housing Corporation to provide loans to purchase or rehabilitate homes for low-income individuals.

	2014	2013
Revolving loans - business	$ 630,215	$ 664,546
NHPLP	67,178	70,029
Total loans	697,393	734,575
Less: allowance for NHPLP	(17,416)	(17,416)
Less: allowance for RLP	(235,353)	(235,353)
Net loans	444,624	481,806
Less: current portion	(61,609)	(67,622)
Long-term portion of loans	$ 383,015	$ 414,184

(6) REVOLVING LOAN PROGRAM

The District received a grant of $500,000 from the U.S. Department of Commerce, Economic Development Administration (EDA) to establish a revolving loan program to stimulate economic development in the area. In addition, the District provided a local match of $167,000, as required by the grant. At June 30, 2014 and 2013, the accompanying financial statements include revolving loans receivable of $630,215 and $664,546 and cash of $280,979 and $245,744, respectively.

(7) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	June 30, 2013	Additions	Deductions	June 30, 2014
Land, not being depreciated	$ 18,500	$ -	$ -	$ 18,500
Assets being depreciated:				
Buildings	1,091,331	-	-	1,091,331
Equipment and vehicles	487,694	2,478	-	490,172
Totals at historical cost	1,597,525	2,478	-	1,600,003
Less: accumulated depreciation	(604,615)	(52,469)	-	(657,084)
Capital Assets - Net	$ 992,910	$ (49,991)	$ -	$ 942,919

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	Deductions	June 30, 2013
Land, not being depreciated	$ 18,500	$ -	$ -	$ 18,500
Assets being depreciated:				
Buildings	1,091,331	-	-	1,091,331
Equipment and vehicles	460,764	26,930	-	487,694
Totals at historical cost	1,570,595	26,930	-	1,597,525
Less: accumulated depreciation	(554,594)	(50,021)	-	(604,615)
Capital Assets - Net	$ 1,016,001	$ (23,091)	$ -	$ 992,910

(8) LONG-TERM DEBT

A summary of activity in long-term debt obligations is as follows:

Description	Balance at June 30, 2013	Issued	Payments	Balance at June 30, 2014
Kentucky Housing Corporation, various loans, each with a 20-year maturity, bearing interest at a rate of 1%, maturing June, 2025	$ 106,054	$ -	$ 10,306	$ 95,748
USDA Rural Development, secured by office building, $100,000, 4.125%, due				

May, 2040	99,615	-	2,059	97,556
$150,000 Line of Credit, with local bank at 3.5%	-	169	-	169
USDA Rural Development, secured by office building, 2 loans of $550,000, 4.125%, due June, 2047	1,041,264	-	15,509	1,025,752
	$ 1,246,933	$ 169	$ 27,874	$ 1,219,225

Description	Balance at June 30, 2012	Issued	Payments	Balance at June 30, 2013
Kentucky Housing Corporation, various loans, each with a 20-year maturity, bearing interest at a rate of 1%, maturing June, 2025	$ 116,331	$ -	$ 10,277	$ 106,054
USDA Rural Development, secured by office building, $100,000, 4.125%, due May, 2040	99,615	-	-	99,615
USDA Rural Development, secured by office building, 2 loans of $550,000, 4.125%, due June, 2047	1,055,122	-	13,858	1,041,264
	$ 1,271,068	$ -	$ 24,135	$ 1,246,933

Minimum future principal and interest requirements relating to the above notes are as follows at June 30, 2014:

Year	Principal	Interest	Requirements
2015	$ 27,948	$ 47,427	$ 75,375
2016	28,503	46,601	75,104
2017	29,257	45,837	75,094
2018	30,042	45,042	75,084
2019	30,859	44,125	74,984
2020-24	161,253	205,437	366,690
2025-29	142,772	176,813	319,585
2030-34	174,751	144,835	319,586
2035-39	213,890	105,695	319,585
2040-44	238,755	58,907	297,662
2045-47	141,195	11,042	152,237
	$ 1,219,225	$ 931,761	$2,150,986

(9) DEPRECIATION RESERVES

The notes payable to the United States Department of Agriculture - Rural Development require depreciation reserve accounts be established. The District is currently required to deposit $6,336 annually until a balance of $63,300 is attained. The balance at June 30, 2014 and 2013 was $46,169 and $39,831, respectively, equal to the required balance.

(10) CONCENTRATIONS

The District depends on grants from federal and state sources for its continued existence.

(11) PENSION PLAN

County Employees Retirement System

Substantially all full-time employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 18.89% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the years ending June 30, 2014, 2013, and 2012 were $103,137, $134,067, and $124,073, respectively, equal to the required contributions for the year.

(12) CASH

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At year end, the carrying amount of cash was $1,259,607. The bank balance totaled $1,274,424, of which $694,839 was covered by Federal depository insurance, with the remainder covered by collateral.

(13) CONTINGENCIES

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

(14) INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

(15) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

(16) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

(17) LEASE COMMITMENTS

The District also has operating leases for office equipment. Rental expense for the year ending June 30, 2014 and 2013 was $18,975 and $19,636, respectively.

Future minimum lease payments under the operating leases are as follows:

Year	
2015	$ 18,510
2016	18,510
2017	17,430
2018	16,590
2019	11,060
	$ 82,100

(18) DEFERRED REVENUE

The June 30, 2014 and 2013 deferred revenue or unearned grant revenue includes revenues received, but not earned, as follows:

	2014	2013
JFA - Economic Development	$ 220	$ 337
JFA - CDBG	70	69
JFA - ARC	218	218
JFA - Management Assistance	142	146
JFA - Program Administration	274	277
Aging - Administration	68	57
Adult Day Care	16	97
Homecare - Administration	786	1,814
Homecare - Social Services	1,484	7,883
Title III C-1	584	1,043
Title III C-2	-	218
Title III B	-	1,405
Title III E	120	6,933
SHIP	34	570
MIPPA	6,354	(281)
Title III D	7,385	10,661
Aging – Chronic Disease	3	-
Aging – Improving Arthritis	15	-
Aging - Functional Assessment	23	1,047
Aging - Community Based Care	5	1,489
Health Benefits Assistor	26	-
KY Grandparents	34	229
Transportation	4,910	4,497
ADRC	-	1,839
Money Follows Person	6,845	6,845
PCAP	202	1,284
SWIA - Adult	4	4
SWIA - Dislocated Worker	3	3
NSIP	7,167	7,170

ARRA	55	55
	$ 37,047	$ 55,909

(19) RELATED PARTY TRANSACTIONS

The District provides fiscal management services to Gateway CDO Program as Fiscal Agent (GADD CDO). GADD CDO operates the Consumer Directed Options program for the Cabinet for Health and Family Services and the Department of Aging and Independent Living (DAIL) for the Gateway 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. For support broker, the District earns $265 per month per client based upon an actual visit made by District staff. For assessments, the District earns $100 when a new client is initially assessed or re-assessed annually. For financial management, the District earns $100 per month per client. For medical goods, the CDO program bills the state for actual costs when the need is determined. For payroll, claims are submitted to the state after each payroll is processed. During the years ended June 30, 2014 and 2013, the District earned $324,270 and $302,395, respectively from the CDO program for administration and the District was owed $88,366 and $108,554, respectively by the CDO program.

(20) PRIOR YEARS GRANT ACTIVITY

The following adjustments have been made as a result of prior year activities:

	2014	2013
Cash	$ -	$ 722
Other non-operational adjustments	(13,123)	$ -
	$ (13,123)	$ 722

(21) FUNDS HELD FOR MORGAN COUNTY TORNADO RELIEF FUND

The District acts as the fiscal sponsor for the Morgan County Tornado Relief Fund. As of June 30, 2014 and 2013, the District held $113,612 and $113,645, respectively, in donations for the Morgan County Tornado Relief Fund which are included in restricted cash and a like amount as the liability Funds Held for Morgan County Tornado Relief Fund. The fund was established to assist residents of Morgan County who are victims of the March 2, 2012 tornado. Charitable contributions to the Morgan County Tornado Relief Fund are tax-deductible under section 170(c)(1) of the Internal Revenue Code, since made for a public purpose.

SUPPLEMENTAL INFORMATION

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF SHARED COSTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
INDIRECT EXPENDITURES:		
Salaries	$ 148,102	$ 144,824
Fringe benefits	75,004	76,848
Travel	7,583	10,398
Legal and accounting	20,107	17,400
Equipment, leases, depreciation and amortization	76,808	75,862
Office expense	8,865	5,210
Postage	1,931	1,482
Telephone and utilities	21,114	18,774
Committee meetings	2,907	4,002
Dues, fees, and subscriptions	10,540	10,090
Insurance	19,843	16,096
Interest	48,326	49,521
Repairs and maintenance	6,880	3,519
Other	7,941	8,283
Total	$ 455,951	$ 442,309
ALLOCATION OF SHARED COSTS:		
Joint Funding Administration	$ 86,696	$ 86,343
Homecare	83,167	71,760
Aging Programs	24,411	35,754
Other Aging related contracts	41,540	21,594
Consumer Direct Options Program	84,189	77,172
WIA	-	6,165
KYTC Roadway and Operations	4,007	-
Menifee County ARC Planning	-	8,199
KY Agriculture Dev. Info. System	889	-
Morgan/Wolfe Rural Development	-	24,842
Transportation Planning	28,879	26,649
EDA Technical Assistance Grant	21,399	11,302
Revolving Loan Program	3,046	3,477
NHPLP Grants	221	464
Hazard Mitigation	-	6,090
Performance contracts	77,507	62,498
Total	$ 455,951	$ 442,309

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET

JOINT FUNDING ADMINISTRATION PROGRAM

FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Direct	Indirect	Total	Budget Over (Under) Actual
REVENUES					
Federal	$130,475			$130,475	$ -
State	93,225			93,225	-
Local Funds	-			65	65
Total revenues	223,700			223,765	65
EXPENSES					
Community & Economic Planning & Development (120)	78,004	51,909	31,925	83,834	(5,830)
Community Development Block Grant (125)	31,000	19,210	12,380	31,590	(590)
Appalachian Regional Commission Planning (130)	107,194	65,950	42,391	108,341	(1,147)
Management Assistance (140)	3,751	-	-	-	3,751
Program Administration (150)	3,751	-	-	-	3,751
Total expenses	223,700	137,069	86,696	223,765	(65)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -			$ -	$ -

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF COMPLETED GRANTS - AREA AGENCY ON AGING

FOR THE YEAR ENDED JUNE 30, 2014

	Aging Adminis- tration	Support Services B	Cong. Meals C-1	H.D. Meals C-2	Health Prevention D	Caregiver E	Ombuds- man - VII	Elder Abuse VII	Totals
REVENUES									
Federal grant	$ 32,070	$ 115,189	$ 90,639	$ 60,064	$ 8,802	$ 45,265	$ 2,619	$ 1,490	$ 356,138
State grant	16,639	38,515	14,981	15,766	2,158	19,663	-	-	107,722
Local	-	44,927	24,341	82,175	-	-	462	263	152,168
Program income	-	2,475	16,594	1,990	-	-	-	-	21,059
Local funds applied	-	-	-	-	-	-	-	-	-
Total revenues	48,709	201,106	146,555	159,995	10,960	64,928	3,081	1,753	637,087
EXPENSES									
Direct expenses:									
Salaries	7,984	-	-	-	3,336	11,885	-	-	23,205
Fringe benefits	5,169	-	-	-	2,188	6,952	-	-	14,309
Staff travel	4,130	-	-	-	1,664	465	-	-	6,259
Contracts	21,098	197,847	144,760	158,545	-	2,818	3,081	1,753	529,902
Other	1,769	3,259	1,795	1,450	178	30,550	-	-	39,001
Total direct expenses	40,150	201,106	146,555	159,995	7,366	52,670	3,081	1,753	612,676
Shared costs	8,559	-	-	-	3,594	12,258	-	-	24,411
Total expenses	48,709	201,106	146,555	159,995	10,960	64,928	3,081	1,753	637,087
Intrafund transfers	-	-	-	-	-	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF COMPLETED GRANTS - AREA AGENCY ON AGING (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	Homecare Adminis-tration	Homecare Social Services	Personal Care Program	NSIP	ADRC	CMS - SHIP	LTC Ombudsman	Chronic Disease & Self Management Education	Improving Arthritis Outcomes
REVENUES									
Federal grant	$ -	$ -	$ -	$ 34,450	$ 4,138	$ 24,797	$ -	$ 9,092	$ 2,318
State grant	28,251	314,438	264,121	-	-	-	29,142	-	-
Local	-	35,480	-	-	-	-	-	-	-
Program income	-	429	-	-	-	-	-	-	-
Local funds applied	-	-	-	-	-	-	-	-	-
Total revenues	28,251	350,347	264,121	34,450	4,138	24,797	29,142	9,092	2,318
EXPENSES									
Direct expenses:									
Salaries	10,075	85,730	1,486	-	9,011	10,528	-	3,279	478
Fringe benefits	5,639	26,364	953	-	4,322	3,309	-	1,964	225
Staff travel	42	17,749	534	-	-	231	-	141	127
Contracts	-	114,309	242,500	34,450	7,361	288	27,250	-	-
Other	2,270	22,167	2,226	-	689	1,437	1,892	296	1,030
Total direct expenses	18,026	266,319	247,699	34,450	21,383	15,793	29,142	5,680	1,860
Shared costs	10,225	72,942	1,587	-	8,676	9,004	-	3,412	458
Total expenses	28,251	339,261	249,286	34,450	30,059	24,797	29,142	9,092	2,318
Intrafund transfers	-	(11,086)	(14,835)	-	25,921	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF COMPLETED GRANTS - AREA AGENCY ON AGING (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2014

	MIPPAA	Functional Assessment	Transitions	Health Benefits Assistor	KY Grandparents/ Caregiver	Total HC & Other	Aging, HC & Other Totals
REVENUES							
Federal grant	$ 10,928	$ 1,852	$ -	$ 24,642	$ -	$112,217	$ 468,355
State grant	-	-	13,426	-	52,559	701,937	809,659
Local	-	-	-	-	-	35,480	187,648
Program income	-	-	-	-	-	429	21,488
Local funds applied	-	-	-	-	-	-	-
Total revenues	10,928	1,852	13,426	24,642	52,559	850,063	1,487,150
EXPENSES							
Direct expenses:							
Salaries	4,075	374	5,921	5,216	3,897	140,070	163,275
Fringe benefits	2,545	265	1,942	2,243	2,332	52,103	66,412
Staff travel	-	179	229	420	51	19,703	25,962
Contracts	-	-	-	10,097	-	436,255	966,157
Other	-	618	561	1,813	42,226	77,225	116,226
Total direct expenses	6,620	1,436	8,653	19,789	48,506	725,356	1,338,032
Shared costs	4,308	416	4,773	4,853	4,053	124,707	149,118
Total expenses	10,928	1,852	13,426	24,642	52,559	850,063	1,487,150
Intrafund transfers	-	-	-	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -	$ -

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES

CONSUMER DIRECTED OPTION (CDO) PROGRAM

FOR THE YEAR ENDED JUNE 30, 2014

	Support	Management	Total CDO
REVENUES			
State grant	$ 238,070	$ 86,200	$ 324,270
Local revenue	-	-	-
Total revenues	238,070	86,200	324,270
EXPENSES			
Direct expenses:			
Salaries	70,172	22,168	92,340
Fringe benefits	23,758	13,281	37,039
Staff travel	8,318	116	8,434
Contracts	3,462	294	3,756
Other	4,203	515	4,718
Total direct expenses	109,913	36,374	146,287
Shared costs	61,122	23,067	84,189
Total expenses	171,035	59,441	230,476
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ 67,035	$ 26,759	$ 93,794

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICES

FOR THE YEAR ENDED JUNE 30, 2014

	JFA Totals	Area Agency on Aging Totals	KYTC Roadway Centerline Data	KY Agriculture Dev. Info. System	Trans-portation	EDA Technical Assistance	Revolving Loan Program	NHPLP Grants	Performance Contracts	CDO Totals	Admin-istrative Expense	Local Operations	Totals
REVENUES													
Federal grant	$ 130,475	$ 468,355	$ 8,215	$ 1,852	$ -	$ 54,327	$ -	$ -	$ -	$ -	$ -	$ -	$ 663,224
State grant	93,225	809,659	2,054	469	66,550	-	-	-	225,775	324,270	-	-	1,522,002
Local	-	187,648	-	-	7,440	-	150	85	1,744	-	5,949	-	203,016
Program income	-	21,488	-	-	-	-	13,660	2,189	-	-	-	41,551	78,888
Local funds applied	65	-	4	-	-	-	-	-	-	-	-	(69)	-
Total revenues	223,765	1,487,150	10,273	2,321	73,990	54,327	13,810	2,274	227,519	324,270	5,949	41,482	2,467,130
EXPENSES													
Direct expenses:													
Salaries	82,710	163,275	3,845	849	26,457	20,544	2,772	225	74,559	92,340	148,102	-	615,678
Fringe benefits	50,520	66,412	2,375	518	17,923	12,341	1,909	114	44,550	37,039	75,004	-	308,705
Staff travel	2,763	25,962	46	-	331	-	-	-	1,932	8,434	7,583	840	47,891
Contracts	-	966,157	-	65	-	43	-	-	326	3,756	-	-	970,347
Other	1,076	116,226	-	-	400	-	283	1,093	16,846	4,718	225,262	4,714	370,618
Total direct expenses	137,069	1,338,032	6,266	1,432	45,111	32,928	4,964	1,432	138,213	146,287	455,951	5,554	2,313,239
Shared costs	86,696	149,118	4,007	889	28,879	21,399	3,046	221	77,507	84,189	(455,951)	-	-
Total expenses	223,765	1,487,150	10,273	2,321	73,990	54,327	8,010	1,653	215,720	230,476	-	5,554	2,313,239
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,800	$ 621	$ 11,799	$ 93,794	$ 5,949	$ 35,928	$ 153,891

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number		Expenditures
Economic Development Administration				
Title IX RLP	11.307	N/A	*	$ 689,403
Economic Adjustment/Disaster Recovery	11.307	N/A	*	54,327
Passed Through Pennyrile Area Development District -				
Agriculture Development Information System	11.307	A2012-3022	*	1,852
Passed Through the State Department of Local Government -				
JFA - Community and Economic Assistance	11.302	KY-0702D-C45		62,400
Total Economic Development Administration				807,982
U.S. Department of Health and Human Services				
Passed Through the Kentucky Cabinet for Health and Family Services -				
Title III-B - Aging Program	93.044	PON2 725 13000020124	*	147,259
Title III-C1 - Nutrition Program	93.045	PON2 725 13000020124	*	90,639
Title III-C2 - Nutrition Program	93.045	PON2 725 13000020124	*	60,064
Title III-E - Family Caregiver	93.052	PON2 725 13000020124		45,265
Title III-D - Aging Program Preventive Health	93.043	PON2 725 13000020124		8,803
Title VII - Elder Abuse Prevention	93.041	PON2 725 13000020124		1,490
Title VII - Ombudsman	93.042	PON2 725 13000020124		2,619
Nutrition Services Incentive Program	93.053	PON2 725 13000020124	*	34,450
CMS - SHIP	93.779	PON2 725 13000020331		24,797
ACA - MIPPA	93.071	PON2 725 13000020331		10,928
Chronic Disease & Self Management Education	93.725	PON2 725 13000020331		9,092
Improving Arthritis Outcomes	93.945	PON2 725 13000020331		2,318
Functional Assessment Service Teams	93.069	PON2 725 13000020331		1,852
Health Benefits/Assistor Program	93.945	PON2 725 13000020331		24,642
Aging and Disability Resource Center (ADRC)	93.048	PON2 725 13000020331		4,138
Total Department of Health and Human Services				468,356

The accompanying notes are an integral part of this schedule.

FIVCO AREA DEVELOPMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
Appalachian Regional Commission			
JFA-ARC Planning	23.009	KY-0702D-C45	$ 52,575
Total Appalachian Regional Commission			52,575
U.S. Department of Transportation			
Passed Through the Kentucky Transportation Cabinet - Division of Planning - Roadway Centerline Data	20.205	1400002194	8,215
Total U.S. Department of Transportation			8,215
U. S. Department of Housing & Urban Development			
Passed Through the State Department of Local Government - JFA-Community Development Block Grant	14.218	KY-0702D-C45	15,500
Total Department of Housing & Urban Development			15,500
Total Expenditures of Federal Awards			$ 1,352,628

The accompanying notes are an integral part of this schedule.

GATEWAY AREA DEVELOPMENT DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

(1) BASIS OF PRESENTATION

This accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Gateway Area Development District (the District) under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

(3) LOANS

At June 30, 2014, the District had loans outstanding in the amount of $630,215 with an allowance for doubtful accounts of $235,353 under the Title IX-RLF loan program.

(4) SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA #	Amount Provided
Title III	93.044 & 93.045	$ 196,160
Ombudsman	93.042	2,619
Elder Abuse	93.041	1,490
Nutrition Services Incentive Program	93.053	34,450

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INDEPENDENT AUDITOR'S 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
Gateway Area Development District
Morehead, 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 Gateway Area Development District, which comprise the statements of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gateway Area Development 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 Gateway Area Development District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gateway Area Development 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 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.

Pikeville, KY Cold Spring, KY Cincinnati, OH

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gateway Area Development 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.

Kelley Galloway Smith Goolsby, PSC

October 6, 2014

KGSG
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Gateway Area Development District
Morehead, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Gateway Area Development District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gateway Area Development District's major federal programs for the year ended June 30, 2014. Gateway Area Development District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Gateway Area Development 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gateway Area Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Gateway Area Development District's compliance.

Pikeville, KY Cold Spring, KY Cincinnati, OH

Opinion on Each Major Federal Program

In our opinion, Gateway 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, 2014.

Report on Internal Control Over Compliance

Management of Gateway Area Development 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 Gateway Area Development 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gateway Area Development District's internal control over compliance.

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

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kelley Galloway Smith Goolsby, PSC

October 6, 2014

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements-

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____Yes __X__ No
- Significant deficiency(ies) identified? ____Yes __X__ None reported

Noncompliance material to the financial statements noted? ____Yes __X__ No

Federal Awards-

Internal control over major programs:

- Material weakness(es) identified? ____Yes __X__ No
- Significant deficiency(ies) identified? ____ Yes __X__ None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ____ Yes __X__ No

Identification of Major Programs	CFDA No.
Title III Aging Cluster	93.044 & 93.045 & 93.053
Economic Adjustment/Title IX RLP	11.307

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low risk auditee? __X__ Yes ____ No

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2014

B. FINANCIAL STATEMENT FINDINGS

None noted in the current year.

C. FEDERAL AWARD FINDINGS AND QUESTIONED

None noted in the current year.

GATEWAY AREA DEVELOPMENT DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

There were no findings in the prior year.

GATEWAY AREA DEVELOPMENT DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2014

NAME OF CONTACT PERSON

Gail Wright, Executive Director (606) 780-0090

CORRECTIVE ACTION PLANNED

No corrective action needed.