GATEWAY AREA DEVELOPMENT DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

****

****

Kelley Galloway
Smith Goolsby, PSC
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
• Web www.kgsgcpa.com Member of Allinial GLOBAL

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, 2016 and 2015, 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, 2016 and 2015, and the 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 4 through 8 and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 26 through 28 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 supplemental schedules and the schedule of expenditures of federal awards, 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental 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 supplemental 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 20, 2016 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

Ashland, Kentucky
October 20, 2016

GATEWAY AREA DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

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 2016 fiscal year, as compared to the prior fiscal year ending June 30, 2015. 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 Statements of Net Position details GADD's investments (assets) and debt (liabilities) and is very similar to the balance sheet. The Statements 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 years ended June 30, 2016 and 2015, as summarized in the following table.

Condensed Statements of Net Position

	FY 2016	FY 2015
Current Assets	$2,488,226	$ 2,114,590
Notes Receivable, long term	74,247	336,125
Capital Assets	886,220	922,000
Amortized Assets	12,722	11,823
Deferred outflows of resources	269,691	108,667
Total Assets and Deferred Outflows	$ 3,731,106	$ 3,493,205
Current Liabilities	$ 392,457	$ 435,122
Net Pension Liability	1,133,285	771,000
Long Term Liabilities	1,127,853	1,163,985
Total Liabilities	2,653,595	2,370,107
Deferred inflow of resources	-	86,000
Net position		
Invested in capital assets	(204,430)	(185,067)
Restricted for depreciation	58,840	52,502
Restricted for economic development	472,784	513,739
Unrestricted	750,318	655,924
Total Net Position	1,077,511	1,037,098
Total Liabilities, Deferred Inflows, & Net Position	$3,731,106	$3,493,205

At the close of the fiscal year, assets (net of deferred outflows) exceeded liabilities by $807,820. Total assets (including deferred outflows) increased $237,901 from June 30, 2015 primarily due to an increase (38.61%) in restricted and unrestricted or operating cash-on-hand. The outstanding notes receivable decreased significantly this year due to a large Revolving Loan Fund loan payoff.

GADD's current operating liabilities changed only slightly in FY2016 (approximately a 9.81% decrease), primarily due to a reduction in deferred revenue. Net Pension Liability and Deferred Inflow of Resources were required to be recognized beginning with FY 15, are reflective of GADD's proportionate share of the state County Employees Retirement System (CERS). Long term liabilities decreased, as expected, 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 increase in total liabilities, along with the changes in GADD's share of the CERS, causes fiscal year 2016 to reflect a 6.81% net increase from June 30, 2015.

GADD's revenues earned and expenses incurred throughout fiscal year 2016 were in accordance with management's expectations. GADD closed the year with an overall increase to net position of $40,413. This is less than the change that occurred in fiscal year 2015 primarily due to the fact that the required CERS pension adjustment was a positive $46,667 in 2015 but a negative $115,261 for 2016.

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

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

	FY 2016	FY 2015
Revenues:		
Federal and state revenues	$ 2,959,496	$ 2,334,067
Local revenues	497,877	243,041
Revolving loan interest	11,246	17,595
Total Revenues	3,468,619	2,594,703
Expenses:		
Personnel	895,654	990,733
Contractual	1,958,157	949,428
Other	418,796	425,491
Total Operating Expenses	3,272,607	2,365,652
Operating Income	196,012	229,051
Non-operating Income (Expense)	(160,096)	1,006
Increase in net position	35,916	230,057
Net position – beginning of year	1,037,098	792,946
Adjustments and changes	4,497	14,095
Net **Position – End of Year**	$1,077,511	$ 1,037,098

From June 30, 2015 to June 30, 2016, GADD's operating income decreased by $(33,039) (14.42%). Current fiscal year revenues increased $873,916 overall, of which a one-time pass-thru grant (the Morgan Recovery Project) accounted for $859,684, leaving a very slight (less than 1%) increase derived from other grants and resources. Expenses increased by $906,955 overall which, when excluding this same one-time pass-thru grant's $859,684, also yields a very slight decrease in fiscal year expenses (of less than 2%). Thus fiscal year 2016 operations were essentially the same as 2015's.

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 funding used to support the area senior citizens center's bus drivers and home delivered meals) 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 and the one-time pass-thru Morgan County Recovery Project grant matching funds, increased $58,603 (24.11%) during fiscal year 2016. This increase is due, in part, to an additional $26,038 in contributions made by GADD's cities and counties to the home delivered meals program, so that no elderly person in their city and county would be without meals.

An analysis of expenditures shows that personnel costs decreased 9.60% during the current fiscal year primarily due to time lapses in filling vacant positions during fiscal year 2016. Contractual expenses, (excluding the one-time pass-thru grant disbursements), which are mostly related to the Area Agency on Aging sub-providers and staff obtained via a temporary employment agency, decreased slightly (2.16%) during the year. All other operating expenses for fiscal year 2016 reflect a small 1.57% decrease.

Non-operating revenues and expenses reflects a very significant decrease due to recognizing GADD's proportionate share of the state County Employees Retirement System (CERS) financial status, which was a new requirement starting with fiscal year 2015.

Adjustments or changes to net position represent occurrences that are not related to current year revenues or expenditures but affects GADD's net position.

CAPITAL ASSETS

GADD continued its investment in capital assets during fiscal year 2016. The amount is comprised of property, furniture, equipment, vehicles, building and land. Net capital assets decreased slightly (3.88%) and reflected a net balance of $886,220 at June 30, 2016.

	06-30-15 Balance	FY 2016 Additions	06-30-16 Balance
Property, furniture, vehicles, equipment	$ 507,227	$ 2,626	$ 509,853
Building and land	1,091,831	-	1,091,831
Total fixed assets	1,617,058		1,619,684
Less: accumulated depreciation	(695,058)	(38,406)	(733,464)
Net	$ 922,000	$(35,780)	$ 886,220

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

GADD considered many factors when initially setting the fiscal year 2016 budget and continued to monitor it constantly and 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. This year's budget included a $21,697 cut in the state funding late in the fiscal year from the Department of Aging and Independent Living, with a $51,635 reduction in FY17. With contractual responsibilities and expenses increasing, while the revenue is decreasing, it is quite difficult to manage these aging programs effectively.

One of the major budget constraints expected in both FY17 and FY18 will be in our Participant Directed Services program, formerly and more commonly known as CDO. Rates for these services will be decreased by $140 per client, making it almost impossible to run the program at the same level as we have in the past. However GADD remains committed to providing as close to the same level of service to the extent funding allows.

The major focus for the upcoming year remains the same as in recent ones: 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.

As reflected in this report, GADD has once again endured another difficult year, financially. Some staff vacancies were purposely not filled (or were filled via a temporary employment agency) while other positions are under-funded. In some cases, contracts stipulate a particular staffing level when there are insufficient funds to cover said level. 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 parties 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, 2016 AND 2015

	2016	2015
ASSETS		
Current assets -		
Cash - unrestricted	$ 1,172,204	$ 874,452
Cash - restricted	790,939	541,798
Accounts receivable	497,718	628,457
Restricted notes receivable, net	27,365	69,883
Total current assets	2,488,226	2,114,590
Notes receivable, net of current portion	74,247	336,125
Other noncurrent assets	12,722	11,823
Capital assets, net	886,220	922,000
Total assets	3,461,415	3,384,538
Deferred outflows of resources	269,691	108,667
Total assets and deferred outflows	$ 3,731,106	$ 3,493,205
LIABILITIES AND NET POSITION		
Current liabilities -		
Accounts payable	$ 135,569	$ 114,924
Accrued payroll and payroll taxes	35,888	29,915
Accrued annual leave	44,382	36,394
Accrued interest payable	5,054	6,131
Other current liabilities	14,304	12,503
Deferred revenue	38,543	116,881
Funds held for Morgan County Tornado Relief Fund	89,512	89,678
Notes payable, current portion	29,205	28,696
Total current liabilities	392,457	435,122
Net pension liability	1,133,285	771,000
Long-term debt	1,127,853	1,163,985
Total liabilities	2,653,595	2,370,107
Deferred inflows of resources	-	86,000
Net position -		
Invested in capital assets, net	(204,430)	(185,067)
Restricted for depreciation	58,840	52,502
Restricted for economic development	472,784	513,739
Unrestricted	750,318	655,924
Total net position	1,077,511	1,037,098
Total liabilities, deferred inflows, and net position	$ 3,731,106	$ 3,493,205

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, 2016 AND 2015

	2016	2015
REVENUES		
Federal	$ 1,413,057	$ 749,006
State	1,546,439	1,585,061
Local (includes in-kind and program income)	497,877	243,041
Revolving loan interest	11,246	17,595
Total revenues	3,468,619	2,594,703
EXPENSES:		
Salaries	603,279	667,378
Fringe benefits	292,375	323,355
Travel	47,710	58,164
Contractual	1,958,157	949,428
Other	371,086	367,327
Total expenses	3,272,607	2,365,652
OPERATING INCOME	196,012	229,051
NONOPERATING REVENUES (EXPENSES)		
Net pension adjustment	(115,261)	46,667
Interest income	757	591
Interest expense	(45,592)	(46,252)
Total nonoperating revenues (expenses)	(160,096)	1,006
NET INCREASE IN NET POSITION	35,916	230,057
BEGINNING NET POSITION	1,037,098	792,946
Adjustments related to prior years grant activity	4,497	14,095
ENDING NET POSITION	$ 1,077,511	$1,037,098

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Grant receipts	$ 3,298,637	$ 2,300,881
Other receipts	513,619	274,731
Cash paid to/for:		
Payments to suppliers and providers of goods and services	(2,281,310)	(1,335,605)
Payments for employee services and benefits	(879,892)	(993,507)
Net cash provided by operating activities	651,054	246,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(46,669)	(46,849)
Purchase of property, plant and equipment	(2,626)	(17,055)
Principal paid on capital debt	(35,623)	(26,544)
Net cash used for capital and related financing activities	(84,918)	(90,448)
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of note receivable	(20,000)	-
Interest received	757	591
Net cash provided by (used for) investing activities	(19,243)	591
NET INCREASE IN CASH	546,893	156,643
CASH AT BEGINNING OF YEAR	1,416,250	1,259,607
CASH AT END OF YEAR	$ 1,963,143	$ 1,416,250
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income	$ 196,012	$ 229,051
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	38,768	37,974
Bad debt expense	37,490	-
Prior year grants receivable/deferred grant activity	4,497	14,095
Change in assets and liabilities:		
Accounts receivable	130,739	(127,702)
Loans receivable	286,906	38,616
Other noncurrent assets	(1,261)	319
Accounts payable	20,645	1,021
Accrued payroll and other liabilities	7,774	(6,206)
Accrued leave	7,988	3,432
Funds held for Morgan County Tornado Relief Fund	(166)	(23,934)
Deferred revenues	(78,338)	79,834
Net cash provided by operating activities	$ 651,054	$ 246,500

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

Effective July, 2015, full-time employees working 40 hours a week start accruing leave on the first day of the pay period following a 3 month waiting period. The amount of annual leave hours received is based on the employee's length of service or as specified in a written employment offer. Temporary and part-time employees earn no benefits. Annual leave can be carried forward from one year to the next. On June 30^{th} of each fiscal year, the accumulated sick leave balance shall not exceed 720 hours and accumulated annual leave shall not exceed the maximum stated in the GADD's Employee Handbook applicable to the employees length of service, unless granted special permission by the Executive Director or Board of Directors.

The accrued leave liability for accumulated annual leave reported in the statement of net position at June 30, 2016 and 2015 was $44,382 and $36,394, respectively.

Cash and Cash Equivalents

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

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

Each year, the District adopts an annual budget that is approved by its Board of Directors prior to July 1st. This budget is required to be filed on the Department of Local Government's website prior to July 15th for the upcoming fiscal year. 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. Within sixty days after the fiscal year is complete, the District is required to submit financials that compares actual expenses to the adopted budget also via the Department of Local Government's website.

In-Kind

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 to 2 CFR Part 225. A summary of the cost allocation plan begins on page 16. The District is in conformity with 2 CFR Part 225.

Recent Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), which addresses accounting and financial reporting issues related to fair value measurements. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. It requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value and establishes a hierarchy of inputs to valuation techniques used to measure fair value. GASB 72 also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The adoption of this standard did not have a material effect on the Board's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans.* It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the District beginning with its year ending June 30, 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the District's financial statements.

In March, 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82, *Pension Issues,* which addresses issues that arose during the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* This pronouncement is effective for years ending June 30, 2017.

(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 2 CFR Part 225, Uniform Guidance (formerly OMB Circular A-87 and A-133) 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 2 CFR Part 225, Uniform Guidance (formerly 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 in the program.
4. Consulting Contracts and Contractual Services – Generally, contracts or sub-contracts, including those for personal services, which the District executes with a third party can be identified to a specific program element and therefore, 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, dedicated line, or conference call) 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:

	2016	2015
Aging	$ 178,528	$ 292,392
CDO	96,027	124,299
Transportation	11,712	11,541
EDA SOAR Initiative	16,934	12,597
KY Agriculture Dev. Info. System	760	1,720
KYTC Roadway Centerline	902	-
WIOA	20,486	-
Various Local	148,481	167,331
EDA Technical Assistance	23,888	18,577
	$ 497,718	$ 628,457

(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.

	2016	2015
Revolving loans - business	$ 95,377	$ 358,960
NHPLP	61,141	64,464
Total loans	156,518	423,424
Less: allowance for NHPLP	(17,416)	(17,416)
Less: allowance for RLP	(37,490)	-
Net loans	101,612	406,008
Less: current portion	(27,365)	(69,883)
Long-term portion of loans	$ 74,247	$ 336,125

(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, 2016 and 2015, the accompanying financial statements include revolving loans receivable of $95,377 and $358,960 and cash of $585,730 and $326,025, respectively.

(7) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	June 30, 2015	Additions	Deductions	June 30. 2016
Land, not being depreciated	$ 18,500	$ -	$ -	$ 18,500
Assets being depreciated:				
Buildings	1,091,331	-	-	1,091,331

Equipment and vehicles	507,227	2,626	-	509,853
Totals at historical cost	1,617,058	2,626	-	1,619,684
Less: accumulated depreciation	(695,058)	(38,406)	-	(733,464)
Capital Assets - Net	$ 922,000	$ (35,780)	$ -	$ 886,220

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	June 30, 2014	Additions	Deductions	June 30, 2015
Land, not being depreciated	$ 18,500	$ -	$ -	$ 18,500
Assets being depreciated:				
Buildings	1,091,331	-	-	1,091,331
Equipment and vehicles	490,172	17,055	-	507,227
Totals at historical cost	1,600,003	17,055	-	1,617,058
Less: accumulated depreciation	(657,084)	(37,974)	-	(695,058)
Capital Assets - Net	$ 942,919	$ (20,919)	$ -	$ 922,000

(8) LONG-TERM DEBT

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

Description	Balance at June 30, 2015	Issued	Payments	Balance at June 30, 2016
Kentucky Housing Corporation, various loans, each with a 20-year maturity, bearing interest at a rate of 1%, maturing June, 2025	$ 85,445	$ -	$ 19,037	$ 66,408
USDA Rural Development, secured by office building, $100,000, 4.125%, due May, 2040	96,367	-	1,195	95,172
$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	1,010,700	-	15,223	995,477
	$ 1,192,681	$ -	$ 35,624	$ 1,157,057

Description	Balance at June 30, 2014	Issued	Payments	Balance at June 30, 2015
Kentucky Housing Corporation, various loans, each with a 20-year maturity, bearing interest at a rate of 1%, maturing June, 2025	$ 95,748	$ -	$ 10,303	$ 85,445
USDA Rural Development, secured by office building, $100,000, 4.125%, due May, 2040	97,556	-	1,189	96,367
$150,000 Line of Credit, with local bank at 3.5%	169	169	169	169
USDA Rural Development, secured by office building, 2 loans of $550,000, 4.125%, due June, 2047	1,025,752	-	15,052	1,010,700
	$ 1,219,225	$ 169	$ 26,713	$ 1,192,681

Minimum future principal and interest requirements relating to the above notes are as follows at June 30, 2016:

Year	Principal	Interest	Requirements
2017	$ 29,205	$ 45,938	$ 75,143
2018	30,064	45,069	75,133
2019	30,881	44,152	75,033
2020	31,730	43,203	74,933
2021	32,615	42,218	74,833
2022-26	141,321	194,406	335,727
2027-31	154,585	165,000	319,585
2032-36	189,210	130,375	319,585
2037-41	232,619	86,966	319,585
2042-46	250,630	63,006	313,636
2047	34,197	1,478	35,675
	$ 1,157,057	$ 861,811	$2,018,868

(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, 2016 and 2015 was $58,840 and $52,502, 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

Plan description: Substantially all full-time classified employees of the Board 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 or at https://kyret.ky.gov.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: 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. The District's contractually required contribution rate for the years ended June 30, 2016 and 2015 was 17.06% (12.42% - pension, 4.64% - insurance) and 17.67% (12.75% - pension, 4.92% - insurance) of the member's salary, respectively. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. Contributions to the pension plan from the District were $68,750 and $78,414 for the years ended June 30, 2016 and 2015, respectively.

CERS - Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

As of June 30, 2015, the date of the latest actuarial valuation, the plan had 82,969 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed in above. The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2015 was as follows:

	000's omitted
Total medical benefit obligation	$ 2,907,827
Net position available for benefits at actuarial value	(1,997,456)
Unfunded medical benefit obligation	$ 910,371

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016, the Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The Board's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30 2015, the Board's proportion was 0.026358%, which was an increase of .002601% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Board recognized pension expense of $115,161. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,418	$ -
Changes of assumptions	114,279	-
Net difference between projected and actual earnings on pension plan investments	10,159	-
Changes in proportion and differences between district contributions and proportionate share of contributions	67,085	-
District contributions subsequent to the measurement date	68,750	-
Total	$ 269,691	$ -

At June 30, 2015, the Board reported deferred outflows of resources for Board contributions subsequent to the measurement date of $108,667 and deferred inflows of resources of $86,000 for the net difference between projected and actual earnings on pension plan investments.

At June 30, 2016, the Board reported deferred outflows of resources for Board contributions subsequent to the measurement date of $68,750. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These amounts will be recognized in pension expense as follows:

Year	
2017	$ 72,582
2018	72,582
2019	35,340
2020	20,437
	$ 200,941

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is 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 mortality table used for active members is 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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	(0.25)%
	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2015 is based on the June 30, 2015 actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate: The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Board'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%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Board's proportionate share of the net pension liability	$ 1,446,779	$ 1,133,285	$ 864,805

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at https://kyret.ky.gov.

Payables to the pension plan: At June 30, 2016 and 2015, the payables to CERS were $14,000 and $12,503, respectively.

(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 $1,963,143. The bank balance totaled $2,008,627, of which $655,029 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 has operating leases for office equipment. Rental expense for the year ending June 30, 2016 and 2015 was $18,517 and $18,917, respectively.

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

Year	
2017	$ 17,430
2018	16,590
2019	11,060
	$ 45,080

(18) DEFERRED REVENUE

The June 30, 2016 and 2015 deferred revenue or unearned grant revenue includes revenues received, but not earned, as follows:

	2016	2015
Homecare - Administration	$ -	$ 37
Homecare - Social Services	-	260
Title III B	-	708
Title III E	-	234
SHIP	506	48
MIPPA	3	81
Title III D	-	876
Aging – Chronic Disease	-	9
Aging - Functional Assessment	-	6
Health Benefits Assistor	-	73
KY Grandparents	-	23
Melodies & Memories	14	13
Transportation	38,013	42,509
SWIA - Adult	4	4
SWIA - Dislocated Worker	3	3
ARC Morgan Co. Recovery	-	71,997
	$ 38,543	$ 116,881

(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, 2016 and 2015, the District earned $399,035 and $407,375, respectively from the CDO program for administration and the District was owed $96,027 and $124,299, respectively by the CDO program.

(20) PRIOR YEARS GRANT ACTIVITY

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

	2016	2015
Other non-operational adjustments	$ 4,497	$ 14,095
	$ 4,497	$ 14,095

(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, 2016 and 2015, the District held $89,512 and $89,678, 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.

REQUIRED SUPPLEMENTARY INFORMATION

GATEWAY AREA DEVELOPMENT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
District's proportion of the net pension liability	0.026%	0.024%
District's proportionate share of the net pension liability	$ 1,133,285	$ 771,000
District's covered-employee payroll	$ 553,557	$ 614,979
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	204.728%	125.370%
Plan fiduciary net position as a percentage of the total pension liability	59.970%	66.800%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of this schedule.

GATEWAY AREA DEVELOPMENT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015	2014
Contractually required contribution	$ 68,750	$ 78,414	$ 74,890
Contributions in relation to the contractually required contribution	68,750	78,414	74,890
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	$ 553,557	$ 614,979	$ 545,052
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12.42%	12.75%	13.74%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of this schedule.

GATEWAY AREA DEVELOPMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2016

(1) CHANGES OF ASSUMPTIONS

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2016 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

SUPPLEMENTAL INFORMATION

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF SHARED COSTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
INDIRECT EXPENDITURES:		
Salaries	$ 143,161	$ 157,294
Fringe benefits	65,098	72,029
Travel	7,707	14,309
Legal and accounting	17,693	18,714
Equipment, leases, depreciation and amortization	62,458	62,181
Office expense	9,513	13,094
Postage	1,828	2,147
Telephone and utilities	25,584	22,639
Committee meetings	2,156	3,725
Dues, fees, and subscriptions	10,789	12,808
Insurance	22,583	20,713
Interest	45,592	46,252
Repairs and maintenance	11,575	2,723
Contract services	16,182	5,287
Other	7,040	8,230
Total	$ 448,959	$ 462,145
ALLOCATION OF SHARED COSTS:		
Joint Funding Administration	$ 88,482	$ 86,498
Homecare	55,416	77,324
Aging Programs	64,118	59,717
Other Aging related contracts	17,147	26,514
Consumer Direct Options Program	93,350	87,888
ARC Morgan Co. Recovery Project	7,090	4,835
KYTC Roadway and Operations	1,401	1,530
KY Agriculture Dev. Info. System	4,675	1,127
EDA SOAR Initiative BSADD	3,348	3,776
Transportation Planning	15,168	13,781
TENCO WIOA	25,540	-
EDA Technical Assistance Grant	13,710	13,552
Revolving Loan Program	3,760	3,653
NHPLP Grants	116	425
Performance contracts	55,638	81,525
Total	$ 448,959	$ 462,145

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET

JOINT FUNDING ADMINISTRATION PROGRAM

FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Direct	Indirect	Total	Budget Over (Under) Actual
REVENUES					
Federal	$134,552			$134,550	$ (2)
State	92,534			92,534	-
Program Income	-			18	18
Local Funds	-			142	142
Total revenues	227,086			227,244	158
EXPENSES					
Community & Economic Planning & Development (120)	78,750	45,087	28,820	73,907	4,843
Community Development Block Grant (125)	31,000	21,101	13,709	34,810	(3,810)
Appalachian Regional Commission Planning (130)	112,102	69,146	43,841	112,987	(885)
Management Assistance (140)	2,617	1,453	894	2,347	270
Program Administration (150)	2,617	1,975	1,218	3,193	(576)
Total expenses	227,086	138,762	88,482	227,244	(158)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -			$ -	$ -

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF COMPLETED GRANTS - AREA AGENCY ON AGING

FOR THE YEAR ENDED JUNE 30, 2016

	Aging Adminis- tration	Support Services B	Ombuds- man - B	Cong. Meals C-1	H.D. Meals C-2	Health Prevention D	Caregiver E	Ombuds- man - VII	Elder Abuse VII
REVENUES									
Federal grant	$ -	$ 147,442	$ 15,300	$ 122,000	$ 81,740	$ 7,958	$ 42,399	$ 2,506	$ 1,492
State grant	-	20,800	-	13,680	16,035	-	31,842	-	-
Local	-	31,518	-	31,007	105,952	-	-	452	274
Program income	-	5,738	-	19,311	8,173	-	-	-	-
Local funds applied	-	-	-	-	-	-	-	-	-
Total revenues	-	205,498	15,300	185,998	211,900	7,958	74,241	2,958	1,766
EXPENSES									
Direct expenses:									
Salaries	47,373	160	-	-	-	-	15,000	-	-
Fringe benefits	26,637	108	-	-	-	-	8,922	-	-
Travel	1,067	27	-	-	-	-	570	-	-
Contracts	1,336	161,179	15,300	175,271	203,855	700	-	2,958	1,766
Other	11,565	-	-	-	-	7,258	25,430	-	-
Total direct expenses	87,978	161,474	15,300	175,271	203,855	7,958	49,922	2,958	1,766
Shared costs	48,323	175	-	-	-	-	15,620	-	-
Total expenses	136,301	161,649	15,300	175,271	203,855	7,958	65,542	2,958	1,766
Intrafund transfers	136,301	(43,849)	-	(10,727)	(8,045)	-	(8,699)	-	-
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, 2016

	Homecare		Personal					Chronic Disease &	Improving
	Adminis-tration	Social Services	Care Program	NSIP	Medicaid ADRC	SHIP	LTC Ombudsman	Self Management Education	Arthritis Outcomes
REVENUES									
Federal grant	$ -	$ -	$ -	$ 39,116	$ 5,706	$ 11,777	$ -	$ 627	$ 2,999
State grant	41,665	343,730	266,261	-	5,706	-	29,217	-	-
Local	-	42,007	-	-	-	-	-	-	-
Program income	-	325	-	-	-	-	-	-	-
Local funds applied	-	-	-	-	-	-	-	-	-
Total revenues	41,665	386,062	266,261	39,116	11,412	11,777	29,217	627	2,999
EXPENSES									
Direct expenses:									
Salaries	2,477	54,853	-	-	252	2,026	-	237	-
Fringe benefits	1,473	26,072	-	-	192	1,185	-	113	-
Travel	-	21,400	-	-	-	228	-	16	-
Contracts	1,186	188,751	239,635	39,116	8,193	4,511	27,325	-	-
Other	-	28,673	-	-	-	945	1,892	-	157
Total direct expenses	5,136	319,749	239,635	39,116	8,637	8,895	29,217	366	157
Shared costs	2,579	52,837	-	-	290	2,096	-	261	-
Total expenses	7,715	372,586	239,635	39,116	8,927	10,991	29,217	627	157
Intrafund transfers	(33,950)	(13,476)	(26,626)	-	(2,485)	(786)	-	-	(2,841)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1

GATEWAY AREA DEVELOPMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

	MIPPAA	Functional Assessment	Non-Medicaid ADRC	Health Benefits Assistor	KY Grandparents/ Caregiver	Area Agency on Aging Totals
REVENUES						
Federal grant	$ 9,954	$ 2,000	$ -	$ -	$ -	$ 493,016
State grant	-	-	-	-	52,559	821,495
Local	-	-	-	-	-	211,210
Program income	-	-	-	-	938	34,485
Local funds applied	-	-	-	-	-	-
Total revenues	9,954	2,000	-	-	53,497	1,560,206
EXPENSES						
Direct expenses:						
Salaries	2,083	830	5,784	-	4,712	135,787
Fringe benefits	1,408	351	4,209	-	2,830	73,500
Travel	-	205	-	-	40	23,553
Contracts	1,375	-	12,991	-	-	1,085,448
Other	2,808	-	1,665	-	35,694	116,087
Total direct expenses	7,674	1,386	24,649	-	43,276	1,434,375
Shared costs	2,280	771	6,525	-	4,924	136,681
Total expenses	9,954	2,157	31,174	-	48,200	1,571,056
Intrafund transfers	-	157	31,174	-	(5,297)	10,851
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ 1

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES

CONSUMER DIRECTED OPTION (CDO) PROGRAM

FOR THE YEAR ENDED JUNE 30, 2016

	Participant Directed Services
REVENUES	
State grant	$ 399,035
Local revenue	-
Total revenues	399,035
EXPENSES	
Direct expenses:	
Salaries	102,348
Fringe benefits	40,624
Travel	8,446
Contracts	3,949
Other	21,438
Total direct expenses	176,805
Shared costs	93,350
Total expenses	270,155
Intrafund transfers	(10,851)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ 118,029

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICES - OTHER GRANTS

FOR THE YEAR ENDED JUNE 30, 2016

	KYTC Roadway Centerline Data	KY Agriculture Dev. Info. System	Trans-portation	EDA Technical Assistance	ARC Morgan Co. Recovery Project	TENCO WIOA	EDA SOAR Initiative	Totals
REVENUES								
Federal grant	$ 3,194	$ 9,751	$ -	$ 37,908	$ 662,998	$ 67,303	$ 4,337	$ 785,491
State grant	799	868	66,963	-	-	-	-	68,630
Local	-	-	-	-	196,233	-	-	196,233
Program income	-	-	-	2	-	1	-	3
Local funds applied	16	-	-	-	453	-	-	469
Total revenues	4,009	10,619	66,963	37,910	859,684	67,304	4,337	1,050,826
EXPENSES								
Direct expenses:								
Salaries	1,710	4,790	16,474	13,211	6,512	26,080	3,372	72,149
Fringe benefits	842	2,370	6,758	7,785	3,770	13,038	1,756	36,319
Travel	56	-	1,517	82	59	1,088	45	2,847
Contracts	-	-	343	261	842,253	-	-	842,857
Other	-	-	443	2,861	-	1,558	51	4,913
Total direct expenses	2,608	7,160	25,535	24,200	852,594	41,764	5,224	959,085
Shared costs	1,401	4,675	15,168	13,710	7,090	25,540	3,348	70,932
Total expenses	4,009	11,835	40,703	37,910	859,684	67,304	8,572	1,030,017
Intrafund transfers	-	1,216	7,440	-	-	-	4,235	12,891
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ 33,700	$ -	$ -	$ -	$ -	$ 33,700

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICES

FOR THE YEAR ENDED JUNE 30, 2016

	JFA Totals	Area Agency on Aging Totals	Other Grants Totals	Revolving Loan Program	NHPLP Grants	Performance Contracts	CDO Totals	Admin-istrative Expense	Local Operations	Totals
REVENUES										
Federal grant	$ 134,550	$ 493,016	$ 785,491	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,413,057
State grant	92,534	821,495	68,630	-	-	164,745	399,035	-	-	1,546,439
Local	-	211,210	196,233	393	71	-	-	757	-	408,664
Program income	18	34,485	3.00	9,057	1,725	100	-	6,782	49,046	101,216
Local funds applied	142	-	469	-	-	-	-	-	(611)	-
Total revenues	227,244	1,560,206	1,050,826	9,450	1,796	164,845	399,035	7,539	48,435	3,469,376
EXPENSES										
Direct expenses:										
Salaries	87,554	135,787	72,149	3,534	116	58,630	102,348	143,161	-	603,279
Fringe benefits	47,966	73,500	36,319	2,224	61	26,583	40,624	65,098	-	292,375
Travel	1,609	23,553	2,847	35	-	3,512	8,446	7,708	-	47,710
Contracts	131	1,085,448	842,857	-	-	9,544	3,949	15,182	46	1,958,157
Other	1,502	116,087	4,913	37,512	2,827	5,662	21,438	215,810	9,927	416,678
Total direct expenses	138,762	1,434,375	959,085	43,305	3,004	103,931	176,805	448,959	9,973	3,318,199
Shared costs	88,482	136,681	70,932	3,760	116	55,638	93,350	(448,959)	-	-
Total expenses	227,244	1,571,056	1,030,017	47,065	3,120	159,569	270,155	-	9,973	3,318,199
Net pension adjustment	-	-	-	-	-	-	-	-	(115,261)	(115,261)
Intrafund transfers	-	10,851	12,891	-	-	-	(10,851)	-	(12,891)	-
	-	10,851	12,891	-	-	-	(10,851)	-	(128,152)	(115,261)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	$ -	$ 1	$ 33,700	$ (37,615)	$(1,324)	$ 5,276	$118,029	$ 7,539	$ (89,690)	$ 35,916

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Passed Through to Subrecipients	Expenditures
Economic Development Administration				
Title IX RLP	11.300	N/A	$ -	$ 518,012
Economic Adjustment/Disaster Recovery	11.307	N/A	-	37,908
Passed Through Pennyrile Area Development District -				
Agriculture Development Information System	11.307	1100-1127-5710-007	-	9,750
Passed Through Big Sandy Development District -				
Economic Development Assistance	11.307	333	-	4,337
Passed Through the State Department of Local Government -				
JFA - Community and Economic Assistance	11.302	KY-0702D-C45	-	63,000
Total Economic Development Administration				633,007
U.S. Department of Health and Human Services				
Passed Through the Kentucky Cabinet for Health and Family Services -				
Title III-B - Supportive Services	93.044	PON2 725 1400001066	92,909	147,442
Title III-B - Ombudsman	93.044	PON2 725 1400001066	15,300	15,300
Title III-C1 - Nutrition Program	93.045	PON2 725 1400001066	102,600	122,000
Title III-C2 - Nutrition Program	93.045	PON2 725 1400001066	64,322	81,740
Nutrition Services Incentive Program	93.053	PON2 725 1600000226	39,116	39,116
Total Aging Cluster				405,598
Title III-E - Family Caregiver	93.052	PON2 725 1400001066	-	42,399
Title III-D - Aging Program Preventive Health	93.043	PON2 725 1400001066	-	7,958
Title VII - Elder Abuse Prevention	93.041	PON2 725 1400001073	1,492	1,492
Title VII - Ombudsman	93.042	PON2 725 1400001073	2,506	2,506
CMS - SHIP	93.779	PON2 725 1400001161	-	11,777
ACA - MIPPA	93.071	PON2 725 1600000028	-	9,954
Chronic Disease & Self Management Education	93.725	PON2 725 1400001162	-	627
Improving Arthritis Outcomes	93.945	PON2 725 1400001164	-	2,999
Functional Assessment Service Teams	93.069	PON2 725 1400001163	-	2,000
Aging and Disability Resource Center (ADRC)	93.778	PON2 725 1400001160	-	5,706
Total Department of Health and Human Services			318,245	493,016

The accompanying notes are an integral part of this schedule.

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Passed Through to Subrecipients	Expenditures
Appalachian Regional Commission				
JFA-ARC Planning	23.009	KY-0702D-C45	-	56,050
ARC Planning	23.001	KY-18000-14	- *	662,998
Total Appalachian Regional Commission			-	719,048
U.S. Department of Transportation				
Passed Through the Kentucky Transportation Cabinet - Division of Planning - Area Transportation Planning	20.205	1500002428	-	3,194
Total U.S. Department of Transportation			-	3,194
U. S. Department of Agriculture-Rural Development				
Passed Through the Kentucky Cabinet for Workforce Development - Tenco Pic - WIOA	17.258	FY16-5410	-	67,303
Total Department of Agriculture			-	67,303
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			$ 318,245	$ 1,931,068

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, 2016

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Gateway Area Development District (the District) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the 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). 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 position, 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 Uniform Guidance or 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) INDIRECT COST RATE

The District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) LOANS

At June 30, 2016, the District had loans outstanding in the amount of $95,377 with an allowance for doubtful accounts of $37,490 under the Title IX-RLF loan program. The revolving loan federal expenditures is calculated by taking the current year loan balance of $95,377, plus the cash balance of $585,730, plus the current year administrative expenditures of $9,975, plus no loans were written off in the current year, and then multiplying this total by the Federal share of 75% which equals $518,012.

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, 2016, 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 20, 2016.

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.

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

Ashland, Kentucky
October 20, 2016

Kelley Galloway Smith Goolsby, PSC
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
• Web www.kgsgcpa.com Member of Allinial GLOBAL

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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 auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 20, 2016

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements-

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	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 federal 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 federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes __X__ No
Identification of Major Programs	CFDA No.
ARC Planning	23.001
Dollar threshold used to distinguish between type A and type B programs:	$750,000
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, 2016

B. FINANCIAL STATEMENT FINDINGS

None noted in the current year.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted in the current year.

GATEWAY AREA DEVELOPMENT DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2016

There were no findings in the prior year.

GATEWAY AREA DEVELOPMENT DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2016

NAME OF CONTACT PERSON

Gail Wright, Executive Director (606) 780-0090

CORRECTIVE ACTION PLANNED

No corrective action needed.