

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

REPORT OF AUDIT
Year Ended June 30, 2016

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Marr, Miller & Myers, PSC

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INDEPENDENT AUDITOR'S REPORT

November 18, 2016

Board of Directors
Cumberland Valley Area Development District
London, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cumberland Valley Area Development District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District'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 District'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 opinions.

Marr, Miller & Myers, PSC

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis (Unaudited), the Schedules of District's Proportionate Share of the Net Pension Liability and Pension Contributions and budgetary comparison information on pages 4-7, 28-29, and 31, respectively, 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statements of Operations by Program and Statement of Shared Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Requisitions Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, also not a required part of the basic financial statements.

The Statements of Operations by Program, Statement of Shared Expenses 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 U.S. generally accepted auditing standards. In our opinion, the Statements of Operations by Program, Statement of Shared Expenses and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Marr, Miller & Myers, PSC

Certified Public Accountants

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2016

As management of the Cumberland Valley Area Development District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities on pages 8 and 9, respectively, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most financially significant funds.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The accruals of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position, the difference between assets and liabilities as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's revenue stream and the condition of the District's capital assets (buildings and land) to assess the overall health of the District.

In the Statement of Net Position and the Statement of Activities, the District only has governmental activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about the District's funds. Some funds are required to be established by State law. However, the District may establish many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for grant funds.

Governmental funds: All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2016

determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in two reconciliations on pages 11 and 13.

Net Position for the Period Ending June 30, 2016

Fiscal year 2016 government-wide net position compared to 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 2,489,378	\$ 2,644,544
Noncurrent assets	759,714	578,783
Deferred outflows (inflows) of resources	<u>394,639</u>	<u>23,838</u>
Total Assets	<u>\$ 3,643,731</u>	<u>\$ 3,247,165</u>
Current liabilities	\$ 338,015	\$ 249,172
Noncurrent liabilities	<u>2,138,379</u>	<u>1,771,000</u>
Total Liabilities	<u>\$ 2,476,394</u>	<u>\$ 2,020,172</u>
Net position		
Net investment in capital assets (deficit)	\$ 11,045	\$ (25,990)
Restricted	2,649,462	2,447,378
Unrestricted (deficit)	<u>(1,493,170)</u>	<u>(1,194,395)</u>
Total Net Position	<u>\$ 1,167,337</u>	<u>\$ 1,226,993</u>

The most significant change in the financial position of the District since the last audit was the increase in total assets of \$396,566 and the increase in total liabilities of \$456,222. The increase in total liabilities was the result of recording the CERS pension liability in the current year in the amount of \$432,379.

Governmental Activities

The following table presents a summary of the District's operating revenues and expenditures for the fiscal years ended June 30:

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
REVENUES				
Federal and state grants	\$ 4,421,306	63.41%	\$ 4,384,911	66.16%
Medicaid	2,270,196	32.55	1,983,375	29.92
Local	93,777	1.34	99,454	1.50
Program fees and donations	96,833	1.39	75,713	1.14
In-kind match	76,225	1.09	76,231	1.15
Other	<u>15,246</u>	<u>.22</u>	<u>8,397</u>	<u>.13</u>
TOTAL REVENUES	<u>6,973,583</u>	<u>100.00</u>	<u>6,628,081</u>	<u>100.00</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2016

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
EXPENDITURES				
Salaries	1,085,306	15.56	1,010,060	15.24
Employee benefits and taxes	523,108	7.50	472,744	7.13
Travel	87,220	1.25	82,431	1.24
Shared expenses	515,195	7.39	432,117	6.52
Other	404,587	5.80	326,157	4.92
Services and contracts	4,232,781	60.70	4,050,372	61.11
Principal payments	60,000	.86	60,000	.91
Interest	24,274	.35	27,300	.41
In-kind match	76,225	1.09	76,231	1.15
TOTAL EXPENDITURES	7,008,696	100.50	6,537,412	98.63
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 \$ (35,113)	 (.50)%	 \$ 90,669	 1.37%

The excess (deficiency) of revenues over expenditures in the general fund/revolving loan funds was \$21,748 before an adjustment for a uncollectible receivable on aging that had to be absorbed by the general fund in the amount of \$39,175. This resulted in a deficiency of revenues over expenditures of \$17,427.

GENERAL FUND BUDGETARY HIGHLIGHTS

The current year budget relied on the expectation of lower federal and state funding. The District ended the year with a fund balance that was \$17,427 less than what was budgeted.

Actual revenues for the year, as compared to budget, were \$482,908 more than the budgeted amount.

Actual expenditures for the year, as compared to budget, were \$73,632 more than the budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2016, the District had \$1,115,962 invested in capital assets. There were no asset additions or deletions during the current year.

A comparison of the capital assets at June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 53,750	\$ 53,750
Buildings, improvements and infrastructure	832,831	832,831
Machinery and equipment	229,381	229,381
Totals	\$ 1,115,962	\$ 1,115,962

Debt Administration

At the year-end of June 30, 2016, the District had \$360,000 in outstanding debt compared to \$420,000 last year. That is a decrease of 14.3%.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is experiencing slow-growing revenues and rising operating costs. More economical ways of delivering services and paying for those services is currently being researched.

In summary, the District enjoys a high level of services, excellent facilities, and adequate financial reserves. However, the reality is that steady development in the District that would generate new revenue to offset increased costs has not occurred due to state and federal budget constraints.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director at P.O. Box 1740, London, Kentucky 40743 or phone at 606-864-7391.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF NET POSITION
June 30, 2016

ASSETS

	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,521,140
Accounts receivable	968,238
Total current assets	<u>2,489,378</u>
NONCURRENT ASSETS	
Capital assets, net	371,045
Notes receivable, net of allowance for uncollectible notes of \$84,902	388,669
Total noncurrent assets	<u>759,714</u>
DEFERRED OUTFLOWS (INFLOWS) OF RESOURCES	<u>394,639</u>
TOTAL ASSETS	<u>3,643,731</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable and accrued expenses	272,084
Current portion of bonds payable	65,000
Unearned revenues	931
Total current liabilities	<u>338,015</u>
NONCURRENT LIABILITIES	
Noncurrent portion of bonds payable	295,000
Net pension liability – CERS	1,843,379
Total noncurrent liabilities	<u>2,138,379</u>
TOTAL LIABILITIES	<u>2,476,394</u>
NET POSITION	
Net investment in capital assets	11,045
Restricted	2,649,462
Unrestricted (deficit)	<u>(1,493,170)</u>
TOTAL NET POSITION	<u>\$ 1,167,337</u>

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>PROGRAM REVENUES</u> <u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
GOVERNMENTAL ACTIVITIES:					
Aging	\$ 4,360,960	\$ -	\$ 112,334	\$ 5,189,557	\$ 940,931
Other	<u>2,157,084</u>	<u>515,195</u>	<u>161,025</u>	<u>1,501,945</u>	<u>(1,009,309)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 6,518,044</u>	<u>\$ 515,195</u>	<u>\$ 273,359</u>	<u>\$ 6,691,502</u>	(68,378)
GENERAL REVENUES					
Interest					<u>8,722</u>
Change in net position					(59,656)
Net position, July 1, 2015					<u>1,226,993</u>
Net position, June 30, 2016					<u>\$ 1,167,337</u>

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

BALANCE SHEETS
GOVERNMENTAL FUNDS
June 30, 2016

	Revolving Loan Funds		General	Special	Total
	EDA	ARC	Fund	Revenue Funds	Governmental Funds
ASSETS AND RESOURCES					
Cash and cash equivalents	\$ 1,013,323	\$ 26,831	\$ 527,938	\$ (46,952)	\$ 1,521,140
Accounts receivable	-	-	429,494	538,744	968,238
Notes receivable, net of allowance for uncollectible notes of \$84,902	333,838	54,831	-	-	388,669
Due to (from) other funds	-	-	416,560	(416,560)	-
TOTAL ASSETS AND RESOURCES	<u>\$ 1,347,161</u>	<u>\$ 81,662</u>	<u>\$ 1,373,992</u>	<u>\$ 75,232</u>	<u>\$ 2,878,047</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 3,881	\$ 1,129	\$ 264,797	\$ 2,277	\$ 272,084
Unearned revenues	418,740	54,831	-	931	474,502
TOTAL LIABILITIES	<u>422,621</u>	<u>55,960</u>	<u>264,797</u>	<u>3,208</u>	<u>746,586</u>
FUND BALANCES					
Restricted					
Aging	-	-	-	72,024	72,024
Projects and contracts	-	-	1,209,569	-	1,209,569
Revolving loans	924,540	25,702	-	-	950,242
Unassigned (deficit)	-	-	(100,374)	-	(100,374)
TOTAL FUND BALANCES	<u>924,540</u>	<u>25,702</u>	<u>1,109,195</u>	<u>72,024</u>	<u>2,131,461</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,347,161</u>	<u>\$ 81,662</u>	<u>\$ 1,373,992</u>	<u>\$ 75,232</u>	<u>\$ 2,878,047</u>

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

RECONCILIATION OF THE BALANCE SHEETS – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
June 30, 2016

Total Fund Balances – Governmental Funds	\$ 2,131,461
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets (net) used in governmental activities are not financial resources, but they are reported in the Statement of Net Position.	371,045
Outstanding balances of notes receivable related to revolving loan funds (RLF) are reported as unearned revenues in the fund financial statements because revenues will be recognized as principal payments are received. Unearned revenues are not reported in the Statement of Activities and principal payments are reported as reductions of the assets.	473,571
CERS contributions subsequent to the measurement date (\$193,161) net of the net difference between projected and actual earnings on CERS pension plan investments, changes in assumptions, etc. are reported as deferred outflows (inflows) of resources in governmental funds.	394,639
Net CERS pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	(1,843,379)
Certain liabilities, such as bonds payable, are not reported in this fund financial statement because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	<u>(360,000)</u>
Total Net Position - Governmental Funds	<u>\$ 1,167,337</u>

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	<u>Revolving Loan Funds</u>		<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
	<u>EDA</u>	<u>ARC</u>			
REVENUES					
Federal grants	\$ -	\$ -	\$ 555,334	\$ 1,482,461	\$ 2,037,795
State grants	-	-	946,611	1,436,900	2,383,511
Medicaid	-	-	-	2,270,196	2,270,196
Interest	5,409	2,308	379	626	8,722
Dues	-	-	72,517	-	72,517
Rental	-	-	12,538	-	12,538
Program fees and donations	-	-	73,170	23,663	96,833
In-kind match	-	-	-	76,225	76,225
Other	2,800	-	-	12,446	15,246
TOTAL REVENUES	<u>8,209</u>	<u>2,308</u>	<u>1,660,549</u>	<u>5,302,517</u>	<u>6,973,583</u>
EXPENDITURES					
Salaries	-	-	1,085,306	-	1,085,306
Employee benefits and taxes	-	-	523,108	-	523,108
Travel	-	-	87,220	-	87,220
Shared expenses	-	-	515,195	-	515,195
Other	-	22,837	329,796	51,954	404,587
Services and contracts	-	-	-	4,232,781	4,232,781
Principal payments	-	-	60,000	-	60,000
Interest	274	-	24,000	-	24,274
In-kind match	-	-	-	76,225	76,225
TOTAL EXPENDITURES	<u>274</u>	<u>22,837</u>	<u>2,624,625</u>	<u>4,360,960</u>	<u>7,008,696</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>7,935</u>	<u>(20,529)</u>	<u>(964,076)</u>	<u>941,557</u>	<u>(35,113)</u>
OTHER FINANCING SOURCES (USES)					
Receipt (disbursement) of notes receivable	(218,516)	14,620	-	-	(203,896)
Transfers in	-	-	958,485	-	958,485
Transfers out	(3,881)	(1,129)	(11,836)	(941,639)	(958,485)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(222,397)</u>	<u>13,491</u>	<u>946,649</u>	<u>(941,639)</u>	<u>(203,896)</u>
NET CHANGE IN FUND BALANCES	(214,462)	(7,038)	(17,427)	(82)	(239,009)
FUND BALANCES, JULY 1, 2015	<u>1,139,002</u>	<u>32,740</u>	<u>1,126,622</u>	<u>72,106</u>	<u>2,370,470</u>
FUND BALANCES, JUNE 30, 2016	<u>\$ 924,540</u>	<u>\$ 25,702</u>	<u>\$ 1,109,195</u>	<u>\$ 72,024</u>	<u>\$ 2,131,461</u>

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Net Change In Total Fund Balances – per fund financial statements \$ (239,009)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount that depreciation exceeded capital expenditures is as follows:

Depreciation	\$ (22,965)	
Capital outlay	<u>-</u>	(22,965)

Principal payments received and additional loans made on outstanding notes receivable are reported as other financing sources (uses) in the fund financial statements because they are current financial resources, but they are presented as an increase (reduction) to notes receivable in the Statement of Activities.	203,896
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Payments on the bonds payable are an expenditure in the governmental funds, but the repayments reduce noncurrent liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.	60,000
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CERS payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are shown as deferred outflows (inflows) of resources in the Statement of Net Position. The amount of the current year expense and the effect on the net position is as follows:

Deferred inflows	\$ 193,161	
Current year expense - CERS	<u>(254,739)</u>	<u>(61,578)</u>

Change In Net Position of Governmental Activities \$ (59,656)

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that affect the significant elements of the Cumberland Valley Area Development District are summarized as follows:

NATURE OF ORGANIZATION AND OPERATIONS

Cumberland Valley Area Development District ("District") was created and established by KRS 147A.050 to 147A.120 and is a "Public Agency" within the meaning of KRS 65.210 to 65.300. The purpose of the Area Development District (ADD) is to improve the quality of life in the Cumberland Valley area by promoting economic development, to provide basic facilities essential to the stimulation of business, manufacturing, services, tourism and commercial activities; and through efforts promoting human resource development to improve health, welfare and education systems within the eight county area; and provide a forum for elected officials and citizens to reach a consensus and establish local-state-federal partnerships to seek a coordinated solution to problems.

The basic financial statements of the District have been prepared in accordance with U.S. generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

BASIS OF PRESENTATION

Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. This is different from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues and for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements: Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds, if any, are aggregated into one column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balances.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. These are a major fund of the District.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using modified accrual for governmental funds.

Revenues, Exchange and Nonexchange Transactions: Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the fiscal year when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been met. 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. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Expenditures/Expenses: On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on a flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for principal and interest on general long-term debt, which is recorded when due.

CASH AND CASH EQUIVALENTS

The District has bank accounts and certificates of deposit. The monies are either maintained in a central bank account or used to purchase legal investments.

It is the policy of the District to value investment contracts and money market investments with a maturity of one year or less at the time of purchase at cost or amortized cost. Investment contracts and money market investments that had a remaining maturity of greater than one year at the time of purchase are reported at fair value.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Kentucky Revised Statutes authorize the District to invest in United States and State of Kentucky bonds, notes and other obligations; bank certificates of deposit; banker's acceptances; and commercial paper notes rated prime and issued by United States corporations. It is the District's policy to invest in all of the above types of investments. Under existing Kentucky statutes, all investment earnings accrue to the general fund except certain trust funds, which accrue to those funds individually.

PREPAID EXPENSES

Payments made that will benefit periods beyond June 30, 2016 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CAPITAL ASSETS AND DEPRECIATION

These assets are reported in the government-wide statement of net position but are not reported in the fund financial statements.

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. The District follows the policy of not capitalizing assets with a cost of less than \$5,000 and a useful life of less than 1 year.

All reported capital assets, with the exception of 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 governmental fund capital assets:

<u>Description</u>	<u>Useful Life</u>
Buildings, improvements and infrastructure	10-50 years
Machinery and equipment	10 years

INTERFUND ACTIVITY

Transfers between funds on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and special revenue funds, which are presented as internal balances.

ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued at the rate of one and one quarter (1.25) days per month with no maximum accumulation. Per District policy, no payment of sick leave will be made to any employee in the event of termination of employment, regardless of the reason. Therefore, there is no liability for unused sick leave benefits recorded in the accompanying financial statements.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The entire unpaid vacation benefit liability is reported on both the government-wide financial statements and governmental fund financial statements.

ACCRUED LIABILITIES AND LONG-TERM DEBT

All accrued liabilities and long-term debt are reported in the government-wide financial statements.

For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

RESTRICTED RESOURCES

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NET POSITION

Net position in government-wide financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- *Inventories* – Portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed Fund Balance – Portion of fund balance that can only be used for specific purposes imposed by a majority vote of the Cumberland Valley Area Development District's Board members. Any changes or removal of specific purposes also requires majority action by the Board.

Assigned Fund Balance – Portion of fund balance that has been budgeted by the Board.

- *Purchase Obligations* – Portion of fund balance that is appropriated in the subsequent year's budget that is not already classified in restricted or committed.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned Fund Balance – Portion of fund balance that has not been restricted, committed or assigned for a specific purpose.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the District's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETARY PROCESS

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than U.S. generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis are that revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP) and expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under statutory regulations. The depository bank deposits for safekeeping and trust, with the District's third party agent, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation coverage.

The Economic Development Administration (EDA) has determined that the Revolving Loan Funds have excess funds. The EDA required the District to sequester excess funds by depositing them in an interest-bearing account. EDA approval is required to withdraw sequestered funds. At June 30, 2016, sequestered funds consist of certificates of deposit in the amount of \$892,490.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

At June 30, 2016, the carrying amount of the District's deposits (cash and investments) was \$1,521,140 and the bank balance was \$1,820,699. The securities pledged, in combination with federal depository insurance, were adequate to cover the bank balances at June 30, 2016.

The deposits were deemed collateralized under Kentucky Law during the year and the District maintains copies of all safekeeping receipts. The following is disclosed:

- a. Name of banks utilized during fiscal year: Cumberland Valley National Bank and PNC Bank.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$2,114,534.
- c. Largest cash, savings and time deposit combined account balance amounted to \$2,614,534 and occurred during the month of February 2016.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$250,000 per bank.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- | | |
|------------|---|
| Category 1 | Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name. |
| Category 2 | Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. |
| Category 3 | Deposits, which are not collateralized or insured. |

Based on these three levels of risk, the District's cash deposits are classified as Category 1 and 2.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of various receivables from state and local sources. All receivables are considered collectible in full.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – DEFERRED OUTFLOWS (INFLOWS) OF RESOURCES

Changes in the District's deferred outflows (inflows) of resources during the fiscal year 2016 were as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>
CERS contributions subsequent to the measurement date	\$ 181,838	\$ 193,161	\$ 181,838	\$ 193,161
Net difference between projected and actual earnings on CERS pension plan investments, changes in assumptions, etc.	(158,000)	359,478	-	201,478
	<u>\$ 23,838</u>	<u>\$ 552,639</u>	<u>\$ 181,838</u>	<u>\$ 394,639</u>

NOTE 5 – CAPITAL ASSETS

A summary of capital assets activity during the fiscal year is as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Land	\$ 53,750	\$ -	\$ -	\$ 53,750
Buildings, improvements and infrastructure	832,831	-	-	832,831
Machinery and equipment	229,381	-	-	229,381
Totals at cost	1,115,962	-	-	1,115,962
Less accumulated depreciation	721,952	-	22,965	744,917
Governmental activities capital assets, net	<u>\$ 394,010</u>	<u>\$ -</u>	<u>\$ 22,965</u>	<u>\$ 371,045</u>

Governmental activities depreciation was allocated to other programs.

NOTE 6 – BONDS PAYABLE

Bonds in the amount of \$1,015,000 were issued in 2001 by the City of Barbourville, Kentucky (for the Cumberland Valley Area Development District), Series 2001. A resolution was adopted by the City approving certificates of participation and a lease financing agreement with the District. A trust agreement was executed, by the City and the District, related to the execution and delivery of certificates of participation to investors.

The above bonds were issued May 17, 2001, with interest rates varying from 5.25% to 5.75%. The bonds outstanding of \$360,000 at June 30, 2016 are payable out of revenues of the District. Bonds retired during the year were \$60,000.

A summary of bonds payable activity during the fiscal year is as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Balance July 1, 2015</u>	<u>Bond Proceeds</u>	<u>Principal Payments</u>	<u>Balance June 30, 2016</u>
Bonds payable	\$ 420,000	\$ -	\$ 60,000	\$ 360,000

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – BONDS PAYABLE (CONTINUED)

Debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 65,000	\$ 20,700	\$ 85,700
2018	70,000	16,963	86,963
2019	70,000	12,937	82,937
2020	75,000	8,913	83,913
2021	80,000	4,600	84,600
Totals	<u>\$ 360,000</u>	<u>\$ 64,113</u>	<u>\$ 424,113</u>

Interest expense of \$24,000 is included in current year expense.

NOTE 7 – UNEARNED REVENUES

Unearned revenues at June 30, 2016 consist of the following programs:

Caregiver	\$ 590
Adult Day	341
	<u>\$ 931</u>

NOTE 8 – 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. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky Association of Counties (KACO) public entity risk pool. These public entity risk pools operate as common risk management and insurance programs for all participating members. The District pays an annual premium to each fund for coverage. Contributions to the workers' compensation fund are based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro-rata basis.

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, fidelity bonds and employee dishonesty bonds. The District has purchased certain policies, which are retrospectively rated, which include workers' compensation insurance.

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). There were no instances of noncompliance noted.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – RETIREMENT PLANS

Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Employees Retirement Systems (KERS) administers the CERS. CERS issues publicly available financial reports that include financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2015, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

For the fiscal year ended June 30, 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Plan members who began participating after September 1, 2008 were required to contribute 6% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first date of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The District's contractually required contribution rate for the year ended June 30, 2016, was 17.06 percent of annual creditable compensation. Contributions to the pension plan from the District were \$193,161.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability of \$1,843,379 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2015, the District's proportion was 0.042874 percent.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

For the year ended June 30, 2016, the District recognized pension expense of \$254,739. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (1) Deferred outflows of resources for District contributions subsequent to the measurement date of \$193,161 and (2) Deferred inflows of resources for differences between expected and actual experience, changes in assumptions, etc. of \$359,478. The amount reported as deferred outflows for the District contributions subsequent to the measurement date of \$193,161 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected return on pension plan investments is reviewed as part of the regular experience studies prepared every five years for KERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. 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 lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in the future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Non-US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.75%. 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.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement who do not perform the investing function for these plans, to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The District receives funding from federal, state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not 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 grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

No provision was made in the accompanying financial statements for any contingent liabilities.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 – OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Accounting Standards require disclosure of information about financial instruments for which risk could exceed amounts reflected in the financial statements and information about significant geographic, industry, or other concentrations of credit risk for all financial instruments. We noted no additional items that needed to be disclosed.

NOTE 12 – DEFICIT OPERATING/FUND BALANCES

The following funds had operations that resulted in current year operating deficits in governmental funds, resulting in corresponding reductions in fund balances, as follows:

Revolving Loan Fund – EDA	\$ (214,462)
Revolving Loan Fund – ARC	\$ (7,038)
General Fund	\$ (17,427)
Special Revenue Funds	\$ (82)

NOTE 13 – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Special Revenue	General	Ombudsman	\$ 93,797
Operating	Special Revenue	General	Direct services	311,654
Operating	Special Revenue	General	Administration	235,288
Operating	Special Revenue	General	Case management	210,495
Operating	Special Revenue	General	Information/assistance	90,405
Operating	EDA	General/local	Administration	3,881
Operating	ARC	General/local	Administration	1,129
Operating	General/local	General/contracts	Required Match	11,836

NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES

There were \$416,560 in interfund receivables and payables at June 30, 2016.

NOTE 15 – COST ALLOCATION PLAN

The Cumberland Valley Area Development District is required by the Department of Local Government to operate under a cost allocation plan that conforms with Title 2 U.S. Code of Federal Regulations Part 200 which provides standards and principles for the determination of federally aided program costs applicable to contracts and grants and how the costs are allocated. A summary of the costs allocated is shown in the Statement of Shared Expenses on page 36. The District is in conformity with Title 2 U.S. Code of Federal Regulations Part 200.

The cost allocation plan is used to assure consistency in determining which costs are direct and which are shared, and as a method of allocating the shared costs to the program elements. Shared costs will be allocated to program elements in an amount equal to that program's direct wages and fringe benefits, times the ratio of total shared costs to total direct wages and fringe benefits. Direct costs are those that can be identified specifically with a particular cost objective or

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 – COST ALLOCATION PLAN (CONTINUED)

program, and shared costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective/program, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved, as defined in Office of Management and Budget (OMB), 2CFR Part 200, and "Administration, Office of Federal Management Policy, Federal Management Circular" (FMC 74-4).

The cost categories to be used are as follows:

Direct Costs

1. Compensation of employees for time devoted to a specific program and related personnel burden.
2. Travel costs as identified by employees whose time is directly charged.
3. Consultant or contractor who performs work on a particular program(s).
4. Meeting expense when directly related to a program.
5. Any other cost(s) directly related to a specific program that is readily assignable.

Shared Costs

Cost incurred for a common or joint purpose benefiting more than one program element, and not readily assignable to the program specifically benefited, without effort disproportionate to the results achieved are considered shared.

Mixed and Shared Costs

Cost of certain salaries and related personnel burden, travel, registrations, meetings and printing/publications are sometimes mixed direct and shared.

Equipment Purchases

Equipment purchased specifically for a grant program will be expensed directly to the benefiting program in accordance with the grantor's instructions in the year acquired. Equipment purchases having a unit cost of more than \$5,000 will be capitalized and depreciated over its' estimated useful life. Equipment of a technological nature (computers) will be depreciated over three years using the straight line method. Depreciation on equipment benefiting all programs will be charged as a shared cost.

Definitions of Shared Costs

Salary and Fringes

This category includes a portion of the salaries/burden of the Executive Director, Finance Officer, Bookkeeper, Receptionist, and any other person(s) whose time is so fragmented between programs that it would be impracticable to charge otherwise.

Travel

Any travel expense that cannot be readily identified to a specific program by the person incurring the expense.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 – COST ALLOCATION PLAN (CONTINUED)

Registration/Meetings

These costs are charges shared when they are not directly identifiable with any single program. They usually benefit the entire organizational function.

Communications

All communication costs are to be charged as shared costs because time consumption of direct costing would outweigh the benefits. This category includes telephones, fax machine, e-mail, postage, etc.

Consumables are purchased in quantities whenever possible so as to have extra supplies when needed. These supplies are centrally located and are replenished by the bookkeeper in order that an adequate supply is on hand at all times. This is another example, which shows that the amount of money involved does not justify the time it would require to keep a record of each paper clip, pencil or other article used.

Equipment Rental and Office Space

These costs are charged as shared because of the interchangeability of tasks within a given space and the many administration areas of that space and usage.

Printing/Publications

Both are charged as shared whenever it is impossible or impracticable to charge directly.

Insurance and Bonding

These benefit all programs, are considered to be impracticable to track by program and will be charged as shared.

Miscellaneous and Professional Dues

Both generally represent items which are beneficial to all work programs, and are therefore charged as shared.

NOTE 16 – SUBSEQUENT EVENTS

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through November 18, 2016, the date on which we issued our financial statements.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Years Ended June 30,

	<u>Reporting Fiscal Year (Measurement Date)</u>	
	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
District and PSCA's proportion of the net pension liability	0.042874%	0.043504%
District and PSCA's proportionate share of the net pension liability	\$ 1,843,379	\$ 1,411,000
District and PSCA's covered-employee payroll	\$ 1,132,246	\$ 1,029,493
District and PSCA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.81%	137.06%
Plan fiduciary net position as a percentage of the total pension liability	66.75%	66.80%

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

SCHEDULE OF PENSION CONTRIBUTIONS
Years Ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
Contractually required contribution	\$ 193,161	\$ 181,838	\$ 193,848
Contributions in relation to the contractually required contribution	<u>(193,161)</u>	<u>(181,838)</u>	<u>(193,848)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District and PSCA's covered-employee payroll	\$ 1,132,246	\$ 1,029,493	\$ 1,026,458
District and PSCA's contributions as a percentage of its covered-employee payroll	17.06%	17.67%	18.89%

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2016

(1) CHANGES OF ASSUMPTIONS

The assumption changes are notes below.

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

The actuarially determined contribution rates in the Schedule of Pension Contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of June 30, 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.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal grants	\$ 655,120	\$ 655,900	\$ 555,334	\$ (100,566)
State grants	308,067	316,741	946,611	629,870
Contract/administrative fees	125,000	125,000	-	(125,000)
Local	<u>80,000</u>	<u>80,000</u>	<u>158,604</u>	<u>78,604</u>
TOTAL REVENUES	<u>1,168,187</u>	<u>1,177,641</u>	<u>1,660,549</u>	<u>482,908</u>
EXPENDITURES				
Salaries	1,121,159	1,165,359	1,085,306	80,053
Employee benefits and taxes	601,062	618,460	523,108	95,352
Travel	100,000	100,000	87,220	12,780
Other operating costs	540,675	581,849	844,991	(263,142)
Principal and interest payments	<u>85,325</u>	<u>85,325</u>	<u>84,000</u>	<u>1,325</u>
TOTAL EXPENDITURES	<u>2,448,221</u>	<u>2,550,993</u>	<u>2,624,625</u>	<u>(73,632)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,280,034)</u>	<u>(1,373,352)</u>	<u>(964,076)</u>	<u>409,276</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,284,000	1,375,000	958,485	(416,515)
Transfers out	<u>(3,966)</u>	<u>(1,648)</u>	<u>(11,836)</u>	<u>(10,188)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,280,034</u>	<u>1,373,352</u>	<u>946,649</u>	<u>(426,703)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(17,427)</u>	<u>\$ (17,427)</u>
FUND BALANCE, JULY 1, 2015			<u>1,126,622</u>	
FUND BALANCE, JUNE 30, 2016			<u>\$ 1,109,195</u>	

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

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2016

The District's budgetary process accounts for transactions on the modified accrual basis of accounting, which is consistent with U.S. generally accepted accounting principles. In accordance with state law, the District prepares an annual budget based upon the amount of revenue to be raised by local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget shall be submitted to the board not later than thirty days prior to the beginning of the fiscal year it covers. The board adopts the budget. The District has the ability to amend the budget. The budget was properly amended during the year.

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF OPERATIONS BY PROGRAM – GENERAL FUND/REVOLVING LOAN FUNDS
Year Ended June 30, 2016

	<u>JFA</u>	<u>Aging</u>	<u>CDO</u>	<u>Contracts</u>
REVENUES				
Federal grants	\$ 184,300	\$ -	\$ -	\$ 371,034
State grants	140,188	-	570,808	235,615
Interest	-	-	-	-
Dues	-	-	-	-
Rental	-	-	-	-
Program fees and donations	-	-	72,708	-
Transfers for:				
Ombudsman	-	93,797	-	-
Direct services	-	311,654	-	-
Administration	-	235,288	-	-
Case management	-	210,495	-	-
Information/assistance	-	90,405	-	-
Required match	-	-	-	11,836
TOTAL REVENUES	<u>324,488</u>	<u>941,639</u>	<u>643,516</u>	<u>618,485</u>
EXPENDITURES				
Salaries	165,393	486,275	205,374	226,241
Employee benefits and taxes	77,008	202,772	122,440	119,072
Travel	6,859	32,403	22,086	25,587
Shared expenses	73,811	193,370	115,554	121,648
Other	1,417	36,774	99,578	176,099
Principal payments	-	-	-	-
Interest	-	-	-	-
Transfers	-	-	-	11,836
TOTAL EXPENDITURES	<u>324,488</u>	<u>951,594</u>	<u>565,032</u>	<u>680,483</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ (9,955)</u>	<u>\$ 78,484</u>	<u>\$ (61,998)</u>

<u>Local</u>	<u>Revolving Loan-EDA/ARC</u>	<u>Total</u>
\$ -	\$ -	\$ 555,334
-	-	946,611
379	-	379
72,517	-	72,517
12,538	-	12,538
462	-	73,170
-	-	93,797
-	-	311,654
-	-	235,288
-	-	210,495
-	-	90,405
-	5,010	16,846
<u>85,896</u>	<u>5,010</u>	<u>2,619,034</u>
-	2,023	1,085,306
-	1,816	523,108
-	285	87,220
9,459	1,353	515,195
15,903	25	329,796
60,000	-	60,000
24,000	-	24,000
-	-	11,836
<u>109,362</u>	<u>5,502</u>	<u>2,636,461</u>
<u>\$ (23,466)</u>	<u>\$ (492)</u>	<u>\$ (17,427)</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF OPERATIONS BY PROGRAM – AGING
Year Ended June 30, 2016

	Title IIIB Ombudsman	Title III Support Services	Title III Congregate Meals and Services	Title III Home Delivered Meals and Services	Title IIIE Caregiver
REVENUES					
Federal grants	\$ 36,060	\$ 279,073	\$ 320,503	\$ 286,595	\$ 124,068
State grants	6,368	77,344	65,291	64,216	44,156
Medicaid	-	-	-	-	-
Program fees and donations	-	5,568	10,069	4,947	-
Interest	-	-	-	-	-
Local meals and trays	-	-	-	-	-
In-kind match	-	-	-	-	-
TOTAL REVENUES	<u>42,428</u>	<u>361,985</u>	<u>395,863</u>	<u>355,758</u>	<u>168,224</u>
EXPENDITURES					
Services and contracts	-	326,942	340,782	311,975	90,204
Other	-	-	14,700	17,584	-
In-kind match	-	-	-	-	-
Transfers for:					
Ombudsman	42,428	-	-	-	-
Direct services	-	-	-	-	-
Administration	-	35,043	40,381	26,199	16,206
Case management	-	-	-	-	-
Information/assistance	-	-	-	-	61,814
TOTAL EXPENDITURES	<u>42,428</u>	<u>361,985</u>	<u>395,863</u>	<u>355,758</u>	<u>168,224</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Title VII Elder Abuse</u>	<u>Title IIID Prevention</u>	<u>Title VII Ombudsman</u>	<u>NSIP</u>	<u>Arthritis</u>	<u>Title V Senior Community Service Employment</u>	<u>SHIP</u>
\$ 4,529	\$ 15,438	\$ 7,623	\$ 149,044	\$ 450	\$ 175,511	\$ 37,515
801	1,816	1,345	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	20,281	-
<u>5,330</u>	<u>17,254</u>	<u>8,968</u>	<u>149,044</u>	<u>450</u>	<u>195,792</u>	<u>37,515</u>
-	6,000	-	149,044	-	-	-
-	6,466	-	-	-	-	-
-	-	-	-	-	20,281	-
5,330	-	8,968	-	-	-	-
-	4,788	-	-	450	161,048	37,515
-	-	-	-	-	14,463	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>5,330</u>	<u>17,254</u>	<u>8,968</u>	<u>149,044</u>	<u>450</u>	<u>195,792</u>	<u>37,515</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF OPERATIONS BY PROGRAM – AGING (CONTINUED)
Year Ended June 30, 2016

	<u>Homecare</u>	<u>Adult Day</u>	<u>State LTC Ombudsman</u>	<u>Nonmedicaid ADRC</u>	<u>Medicaid ADRC</u>	<u>KY Caregiver Grandparent</u>
REVENUES						
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 11,682	\$ -
State grants	932,624	14,355	37,071	50,119	11,682	129,712
Medicaid	-	-	-	-	-	-
Program fees and donations	3,079	-	-	-	-	-
Interest	-	-	-	-	-	-
Local meals and trays	-	-	-	-	-	-
In-kind match	<u>55,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>991,647</u>	<u>14,355</u>	<u>37,071</u>	<u>50,119</u>	<u>23,364</u>	<u>129,712</u>
EXPENDITURES						
Services and contracts	638,583	11,004	-	-	-	88,051
Other	50	-	-	-	-	-
In-kind match	55,944	-	-	-	-	-
Transfers for:						
Ombudsman	-	-	37,071	-	-	-
Direct services	-	-	-	50,119	23,364	-
Administration	88,667	1,259	-	-	-	13,070
Case management	208,403	2,092	-	-	-	-
Information/assistance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,591</u>
TOTAL EXPENDITURES	<u>991,647</u>	<u>14,355</u>	<u>37,071</u>	<u>50,119</u>	<u>23,364</u>	<u>129,712</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<u>MIPPA SHIP</u>	<u>MIPPA AAA</u>	<u>MIPPA ADRC</u>	<u>CDO</u>	<u>FAST</u>	<u>Local</u>	<u>Total</u>
\$ 15,310	\$ 13,243	\$ 4,301	\$ -	\$ 1,516	\$ -	\$ 1,482,461
-	-	-	-	-	-	1,436,900
-	-	-	2,270,196	-	-	2,270,196
-	-	-	-	-	-	23,663
-	-	-	-	-	626	626
-	-	-	-	-	12,446	12,446
-	-	-	-	-	-	76,225
<u>15,310</u>	<u>13,243</u>	<u>4,301</u>	<u>2,270,196</u>	<u>1,516</u>	<u>13,072</u>	<u>5,302,517</u>
-	-	-	2,270,196	-	-	4,232,781
-	-	-	-	-	13,154	51,954
-	-	-	-	-	-	76,225
-	-	-	-	-	-	93,797
15,310	13,243	4,301	-	1,516	-	311,654
-	-	-	-	-	-	235,288
-	-	-	-	-	-	210,495
-	-	-	-	-	-	90,405
<u>15,310</u>	<u>13,243</u>	<u>4,301</u>	<u>2,270,196</u>	<u>1,516</u>	<u>13,154</u>	<u>5,302,599</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82)</u>	<u>\$ (82)</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

STATEMENT OF SHARED EXPENSES
Year Ended June 30, 2016

Professional dues	\$ 14,298
Printing and publications	1,582
Audit	18,500
Janitorial service and supplies	16,813
Contractual services	660
Utilities	13,717
Building maintenance and repairs	11,076
Equipment rent and repairs	18,800
Supplies	58,851
Insurance and bonding	40,038
Telephone and internet	20,199
Postage	7,929
Miscellaneous	1,060
Registration	5,350
Meetings	5,289
Salaries	181,590
Fringe	85,463
Travel	13,980
	<u>\$ 515,195</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Disbursements</u>
<u>Appalachian Regional Commission</u>			
Passed through State Department of Local Government:			
Appalachian Local Development District Assistance	23.009	PON2 *177	\$ 116,347
Total Appalachian Regional Commission			<u>\$ 116,347</u>
<u>U.S. Department of Commerce</u>			
Passed through State Department of Local Government:			
Economic Development-Support for Planning Organizations	11.302	PON2 *177	\$ 63,000
Economic Adjustment Assistance	11.307	127-005	272
Direct Funding:			
Economic Adjustment Assistance	11.307		1,005,161
Total U.S. Department of Commerce			<u>\$ 1,068,433</u>
<u>U.S. Department of Transportation</u>			
Passed through State Transportation Cabinet:			
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
Highway Planning and Construction	20.205	*2414	\$ 1,695
Total Highway Planning and Construction Cluster			<u>1,695</u>
HIGHWAY SAFETY CLUSTER			
State and Community Highway Safety	20.600	PON2 625* 6051	36,417
Child Safety and Child Booster Seats Incentive Grants	20.613	PON2 160* 2962 1	8,000
Total Highway Safety Cluster			<u>44,417</u>
Statewide Transportation Planning	20.505	G 04S5042	12,649
Total U.S. Department of Transportation			<u>\$ 58,761</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through KY Cabinet for Health and Family Services/ Department for Aging and Independent Living:			
AGING CLUSTER			
Special Programs of Aging, Title III Part B, Grants for Supportive Services and Senior Centers	93.044	PON2 725* 1066 2	\$ 315,132*
Special Programs of Aging, Title III Part C, Nutrition Services	93.045	PON2 725* 1066 2	607,098*
Nutrition Services Incentive Program	93.053	PON2 725* 1074 1	149,044*
Total Aging Cluster			<u>1,071,274*</u>
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043	PON2 725* 1066	15,438
Centers for Medicare and Medicaid Services (CMS) Research Demonstrations and Evaluations	93.779	PON2 725* 1161 3	37,515

* Denotes major program

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Disbursements</u>
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	PON2 725* 1073 1	4,529
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042	PON2 725* 1073 1	7,623
National Family Caregiver Support, Title III, Part E Medical Assistance Program	93.052 93.778	PON2 725* 1066 PON2 725* 1160 4	124,068 11,682
Assistance Programs for Chronic Disease Prevention and Control	93.945	PON2 725* 1167 1	450
Public Health Emergency Preparedness	93.069	PON2 725* 1163 1	1,516
Medicare Enrollment Assistance Program	93.071	PON2 725* 1168 2	<u>32,854</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,306,949</u>
 <u>U.S. Department of Labor</u>			
Passed through Department for Aging and Independent Living: Senior Community Service Employment Program, Title V	17.235	PON2 725* 1202 1	<u>\$ 175,511</u>
Passed through Lake Cumberland Area Development District: WIAWIOA CLUSTER			
WIAWIOA Adult Program	17.258	H0221101	<u>112,438</u>
Total WIAWIOA Cluster			<u>112,438</u>
Total U.S. Department of Labor			<u>\$ 287,949</u>
 <u>U.S. Environmental Protection Agency</u>			
Passed through Office of Solid Waste and Emergency Response: Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF00D001120	<u>\$ 139,417</u>
Total U.S. Environmental Protection Agency			<u>\$ 139,417</u>
 <u>U.S. Department of Housing and Urban Development</u>			
Passed through State Department of Local Government: CDBG – ENTITLEMENT GRANTS CLUSTER			
Community Development Block Grant/Entitlement Grants	14.218	PON2 *177	<u>\$ 5,000</u>
Total CDBG – Entitlement Grants Cluster			<u>5,000</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 5,000</u>
Total Expenditures of Federal Awards			<u>\$ 2,982,856</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Cumberland Valley Area Development 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 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 or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – SUBRECIPIENTS

Of the federal expenditures presented in the accompanying schedule, the Cumberland Valley Area Development District provided federal awards to subrecipients, as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amounts Provided to Subrecipients</u>
Various	Aging Cluster	<u>\$ 1,071,274</u>

NOTE D – EDA REVOLVING LOAN FUND (RLF) GRANT CALCULATION

The Accounting Standards require disclosure of the calculation of the Revolving Loan Fund's federal expenditures as shown in the accompanying Schedule of Expenditures of Federal Awards. The RLF calculation for June 30, 2016 is as follows:

Loans outstanding	\$ 418,740
Cash and investments	1,013,323
Administrative expenses paid	3,881
Unpaid principal of loans written off during year	<u>-</u>
	<u>\$ 1,435,944</u>
 Federal participation rate	 <u>70%</u>
Federal share of the RLF	<u>\$ 1,005,161</u>

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued		Unmodified		
Internal control over financial reporting:				
Material weakness identified	_____	Yes	_____ ✓ _____	No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	_____ ✓ _____	None reported
Noncompliance material to financial statement notes	_____	Yes	_____ ✓ _____	No

Federal Awards

Internal control over major programs:				
Material weaknesses identified	_____	Yes	_____ ✓ _____	No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	_____ ✓ _____	None reported
Type of auditor's report issued on compliance for major programs		Unmodified		
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	_____	Yes	_____ ✓ _____	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.044	Special Programs of Aging, Title III Part B, Grants for Supportive Services and Senior Centers
93.045	Special Programs of Aging, Title III Part C, Nutrition Services
93.053	Nutrition Services Incentive Program

Dollar threshold used to distinguish between Type A and Type B programs		\$ 750,000		
Auditee qualified as low risk	_____ ✓ _____	Yes	_____	No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
London, Kentucky

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2016

There were no prior year audit findings.

Marr, Miller & Myers, PSC

Certified Public Accountants
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P.O. Box 663
Corbin, Kentucky 40702

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*

November 18, 2016

Board of Directors
Cumberland Valley Area Development District
London, Kentucky

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cumberland Valley Area Development District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November XX, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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.

Marr, Miller & Myers, PSC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marr, Miller & Myers, PSC

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

November 18, 2016

Board of Directors
Cumberland Valley Area Development District
London, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Cumberland Valley 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 U.S. generally accepted auditing standards; 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 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.

Marr, Miller & Myers, PSC

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.

Marr, Miller & Myers, PSC

Certified Public Accountants