

**BIG SANDY AREA DEVELOPMENT
DISTRICT, INC.**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

PREPARED BY:

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BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big Sandy Area Development District, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Big Sandy Area Development District, Inc. as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Big Sandy Area Development District, Inc.'s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Board of Directors
December 30, 2017

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Big Sandy Area Development District, Inc. as of June 30, 2017, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv – xi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency 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 Big Sandy Area Development District, Inc.'s basic financial statements. The individually presented programs in the supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Board of Directors
December 30, 2017

The individually presented programs in the supplementary information section 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 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these individually presented programs and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2017, on our consideration of the Big Sandy Area Development District, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Big Sandy Area Development District, Inc.'s internal control over financial reporting and compliance.

Lynette R. Schindler, CPA, PSC

Pikeville, Kentucky
December 30, 2017

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2017

The following comments are provided as an overview of the financial activities for the year ended June 30, 2017, and to assist the reader in assessment of the financial condition of the Big Sandy Area Development District, Inc. (BSADD) as of June 30, 2017. Please assess these comments in conjunction with the following financial statements and the Independent Auditors' Report.

Basic Financial Statements

The basic financial statements include both government-wide financial statements and fund financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 1-3), and they provide information about the activities of the BSADD as a whole and present the longer-term view of BSADD's finances. The fund financial statements (beginning on page 4) focus on governmental activities and how various services were financed in the short-term as well as the balance remaining for future spending. Fund financial statements also report BSADD operations in more detail than the government-wide statements by providing information about BSADD's most significant funds.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on BSADD as a whole. Grants and contracts between BSADD and various units of government fund governmental activities. The BSADD develops a cost allocation plan, which determines how funds are used, in accordance with OMB rules on cost principles and administrative requirements. BSADD records revenue and expense activity into separate departments that follow the cost allocation plan.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2017

The following summary is based on the fund financial statements:

Financial Highlights:

- Unrestricted Fund Balance increased by .2% to \$1,401,189. Restricted Fund Balance increased 1.2% to \$396,442.
- The District had \$7,899 of revenues in excess of expenses.
- Net Surplus / deficit for each division were as follows:
 1. TANF (KY Works Program) broke even.
 2. Projects / GIS/ Casey Foundation had a surplus of \$994.
 3. Local initiatives, which captures rental and other income and provides other programs with local cash had a surplus of \$298.
 4. JFA broke even.
 5. Aging Division had a surplus of \$5,341.
 6. All other departments combined to break even.
 7. Economic development RLF program (Restricted Funds) had a combined surplus of \$1,266.
- Total revenues decreased from 8.14 million in 2016 to 7.9 million in 2017.
- Total expenses decreased from 8.07 million in 2016 to 7.9 million in 2017.
- Final budgeted surplus was \$34,010; final surplus was \$7,899.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2017

The following summary is based on the government-wide financial statements:

Assets – Total assets as of June 30, 2017 were \$3,230,363 compared to \$3,413,915 at the end of 2016. Of the \$183,552 decrease, current assets decreased \$107,246, capital assets decreased \$62,344 and long-term assets decreased \$13,962 to \$14,171 as of June 30, 2017. Current assets decreased mainly due to decreased cash in bank. Capital assets decreased due to depreciation. Long-term assets decreased due to receipt of outstanding RLF loans. Deferred pension outflows increased from \$952,236 at the close of FY 16 to \$1,209,692 at the close of FY 2017.

Liabilities – Current liabilities decreased \$156,738 from \$960,264 at the close of FY 16 to \$803,526 as of June 30, 2017. Long-term liabilities increased from \$4,751,504 to \$4,995,060. The decrease in current liabilities was due to reduction in accounts payable. The substantial increase in long-term liabilities was due to change in net pension liability in accordance with GASB 68. Deferred pension inflows increased from \$77,662 at the close of FY 2016 to \$246,316 at the close of FY 2017.

Net Assets – The net asset balance at the end of FY 2017 was at a deficit of \$1,604,847. This is due to recognizing BSADD's share of net pension liability of the Kentucky Retirement System. Unrestricted general net assets totaled -\$2,704,361, restricted net assets totaled \$396,442, and net capital assets totaled \$703,072.

Year End Financial Position

The recognition of net pension liability according to GASB 68 has caused BSADD to continue to have a negative unrestricted fund balance. BSADD pays all required contributions to Kentucky Retirement System as a participating employer and has no control over how the system manages employee and employer contributions. More information regarding this change in accounting standards can be found within notes 6 and 7 of the accompanying notes to financial statements.

Capital Asset Activity

Depreciation of \$36,114 reduced capital assets. The District increased capital assets by \$5,500 with HVAC improvements.

Long Term Debt Activity

The District has a capital lease for the building that it presently occupies. During the year, the principal amount was reduced by \$56,000. Outstanding principal at year-end was \$59,000. The ADD stands as a pass-through agent for loans to Mountain Housing Corporation from Kentucky Housing Corporation. The ending balance of these loans was \$76,940, a decrease of \$9,099 from FY 2016.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2017

Conditions that affect FY 2018

Funding for programs in regards to internal operating costs is expected to decrease compared to FY 2017 levels in accordance with state budget cuts. BSADD management continues to look at new ways to reduce costs and increase operating efficiencies.

Requests for additional information

This report is intended to be a general overview of the finances of the District. If you have questions regarding the report or need additional information, please contact Big Sandy Area Development District, Attention: Finance, 110 Resource Court, Prestonsburg, KY 41653.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF NET ASSETS
 June 30, 2017

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 978,021.00
Accounts Receivable	1,449,248.00
Accounts Receivable - Other	46.00
Prepaid Expenses	13,128.00
Deposits	1,500.00
Loans Receivable - ED RLF, Current Portion	<u>12,177.00</u>

TOTAL CURRENT ASSETS 2,454,120.00

CAPITAL ASSETS

Land	41,000.00
Buildings	1,393,489.00
Equipment	565,686.00
Less Accumulated Depreciation	<u>1,238,103.00</u>

NET CAPITAL ASSETS 762,072.00

LONG-TERM ASSETS

Loans Receivable - ED RLF, Less Current Portion	<u>14,171.00</u>
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TOTAL LONG-TERM ASSETS 14,171.00

TOTAL ASSETS 3,230,363.00

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension	<u>1,209,692.00</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 4,440,055.00

The accompanying notes to financial statements are an integral part of this statement

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF NET ASSETS
 June 30, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 311,636.00
Payroll Liabilities	101,404.00
Accrued Salaries	105,540.00
Accrued Vacation, Current Portion	23,995.00
Notes Payable, KHC	76,940.00
Capital Leases Payable, Current Portion	59,000.00
Unearned Revenue	<u>125,011.00</u>

TOTAL CURRENT LIABILITIES 803,526.00

LONG-TERM LIABILITIES

Accrued Vacation, Less Current Portion	81,814.00
Capital Leases Payable, Less Current Portion	0.00
Net Pension Liability	<u>4,913,246.00</u>

TOTAL LONG-TERM LIABILITIES 4,995,060.00

TOTAL LIABILITIES 5,798,586.00

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	246,316.00
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	703,072.00
Restricted Net Assets	396,442.00
Unrestricted Net Assets	<u>(2,704,361.00)</u>

TOTAL NET ASSETS (1,604,847.00)

TOTAL LIABILITIES AND NET ASSETS \$ 4,440,055.00

The accompanying notes to financial statements are an integral part of this statement

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Charges for Service	Operating Grants & Contributions	
Governmental activities:					
Aging Programs	\$ 4,034,487.00	\$ 430,574.00	\$ 157,154.00	\$ 4,230,871.00	\$ (77,036.00)
JFA Programs	259,073.00	68,801.00		314,711.00	(13,163.00)
Kentucky Works	2,026,789.00	384,648.00		2,337,847.00	(73,590.00)
Transportation Planning	57,453.00	13,573.00		68,429.00	(2,597.00)
Project Development/Other	524,139.00	67,856.00		579,631.00	(12,364.00)
Management Services	77,309.00	0.00		77,607.00	298.00
Comm Collaborative for Children	108,512.00	24,868.00		128,621.00	(4,759.00)
Revolving Loan Programs	191.00	0.00		0.00	(191.00)
Total Governmental Activities	\$ 7,087,953.00	\$ 990,320.00	\$ 157,154.00	\$ 7,737,717.00	(183,402.00)
General Revenues:					
Interest Income					1,834.00
Change in Net Assets					(181,568.00)
Net Assets, Beginning of Year, restated					(1,423,279.00)
Net Assets, End of Year					\$ (1,604,847.00)

The accompanying notes to financial statements are an integral part of this statement

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.

BALANCE SHEET

June 30, 2017

ASSETS

Cash and Cash Equivalents	\$ 978,021.00
Accounts Receivable	1,449,248.00
Accounts Receivable - Other	46.00
Prepaid Expenses	13,128.00
Deposits	1,500.00
Loans Receivable - ED RLF	26,348.00

PROPERTY, PLANT AND EQUIPMENT, NET 155,680.00

TOTAL ASSETS \$ 2,623,971.00

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 311,636.00
Payroll Liabilities	101,404.00
Accrued Salaries	105,540.00
Accrued Vacation	105,809.00
Unearned Revenues	125,011.00
Notes Payable-KHC	<u>76,940.00</u>

TOTAL LIABILITIES 826,340.00

FUND BALANCE

Restricted Fund Balance	396,442.00
Unrestricted Fund Balance	<u>1,401,189.00</u>

TOTAL FUND BALANCE 1,797,631.00

TOTAL LIABILITIES AND FUND BALANCE \$ 2,623,971.00

The accompanying notes to financial statements are an integral part of this statement

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
GOVERNMENTAL FUND
June 30, 2017

Fund balance - governmental fund	\$ 1,797,631.00
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets of land, buildings, and equipment specifically charged to individual programs are not reported in the government funds, net of accumulated depreciation of \$1,238,103	606,392.00
Deferred outflows - pension are not recorded in the government funds	1,209,692.00
Capital leases are expensed as they are paid in the government funds	(59,000.00)
Deferred inflows - pension are not recorded in the government funds	(246,316.00)
Net pension liability is not recorded in the government funds	<u>(4,913,246.00)</u>
Net assets of governmental activities	<u>\$ (1,604,847.00)</u>

The accompanying notes to financial statements are an integral part of this statement

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

REVENUES

Federal Funds	\$ 3,777,441.00
State Funds	1,802,309.00
Local Cash	1,722,575.00
Program Income	157,154.00
In-Kind Revenue	7,445.00
Other Income	400,154.00
Contract Income	27,793.00
Interest Income	<u>1,834.00</u>

TOTAL REVENUES \$ 7,896,705.00

EXPENDITURES

Direct Cost	
Salaries	2,251,998.00
Fringe Benefits	1,219,591.00
Subcontractors	2,738,049.00
Travel	174,600.00
Supplies	13,410.00
Telephone	40,376.00
Training	11,573.00
Space Rent	133,536.00
Equipment/Eq Lease	3,536.00
Other Expense	111,782.00
Postage/Printing	26,161.00
Short Term Training	71,826.00
Wage Subsidy	225,295.00
Transportation	<u>66,220.00</u>

Total Direct Cost 7,087,953.00

Indirect Costs (Applied) 800,853.00

TOTAL EXPENDITURES 7,888,806.00

EXCESS REVENUES OVER/
 (UNDER) EXPENDITURES 7,899.00

FUND BALANCE - JULY 1, 2016 1,789,732.00

FUND BALANCE - JUNE 30, 2017 \$ 1,797,631.00

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
For the Year Ended June 30, 2017

Net change in fund balance - governmental fund \$ 7,899.00

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

Capital assets of equipment not benefiting the entire entity are specifically charged to the programs while governmental activities report depreciation expense to allocate those expenditures over the life of the assets: 5,500.00

Additional depreciation expense (37,230.00)

The difference in retirement expense due to recording pension inflows and outflows (213,737.00)

The repayment of capital lease principal is an expenditure of governmental funds but the repayment reduces long-term debt in the statement of net assets. 56,000.00

Change in net assets of governmental activities \$ (181,568.00)

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET TO ACTUAL
For the Year Ended June 30, 2017

<u>REVENUES</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE OVER/(UNDER) FINAL BUDGET</u>	<u>%</u>
Federal & State Funds	5,579,750.00	6,280,707.00	(700,957.00)	0.13
Local Cash	1,713,287.00	56,930.00	1,656,357.00	(0.97)
Other Income	409,442.00	347,911.00	61,531.00	(0.15)
Contract Income	192,392.00	132,285.00	60,107.00	(0.31)
Interest Income	1,834.00	400.00	1,434.00	(0.78)
TOTAL REVENUES	7,896,705.00	6,818,233.00	1,078,472.00	(2.09)
EXPENDITURES				
Direct Cost				
Salaries	2,251,998.00	2,343,420.00	(91,422.00)	0.04
Fringe Benefits	1,219,591.00	1,259,803.00	(40,212.00)	0.03
Subcontractors	2,738,049.00	1,329,707.00	1,408,342.00	(0.51)
Travel	174,600.00	223,429.00	(48,829.00)	0.28
Supplies	13,410.00	34,643.00	(21,233.00)	1.58
Telephone	40,376.00	38,400.00	1,976.00	(0.05)
Training	11,573.00	16,397.00	(4,824.00)	0.42
Space Rent	133,536.00	123,290.00	10,246.00	(0.08)
Equipment/Eq Lease	3,536.00	13,430.00	(9,894.00)	2.80
Other Expense	111,782.00	29,374.00	82,408.00	(0.74)
Postage/Printing	26,161.00	22,371.00	3,790.00	(0.14)
Short Term Training	71,826.00	75,000.00	(3,174.00)	0.04
Wage Subsidy	225,295.00	400,000.00	(174,705.00)	0.78
Transportation	66,220.00	75,000.00	(8,780.00)	0.13
Total Direct Cost	7,087,953.00	5,984,264.00	1,103,689.00	4.58
Indirect Costs (Applied)	800,853.00	799,959.00	894.00	(0.00)
TOTAL EXPENDITURES	7,888,806.00	6,784,223.00	1,104,583.00	(0.16)
EXCESS REVENUES OVER/ (UNDER) EXPENDITURES	7,899.00	34,010.00	(26,111.00)	3.31

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Big Sandy Area Development District, Inc. (BSADD), incorporated in 1965, is a multi-county, substate region authorized and organized pursuant to the Statutes of the Commonwealth of Kentucky (KRS 147) which was the enabling legislation forming the 15 Area Development Districts. The BSADD has, as its primary purpose, the promotion of economic development and the establishment of a framework for joint federal, state, and local efforts directed toward providing basic services and facilities essential to the social, economic, and physical development of the eastern most region of Kentucky including Floyd, Johnson, Magoffin, Martin, and Pike Counties.

The BSADD is managed by a Board of Directors, members of which are widely representative of local government leadership, both county and municipal, and leadership in the private and public sector fields deemed critical to the development of the Region.

The BSADD's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the BSADD are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* which added a Management Discussion and Analysis (MD&A) section; required the financial statements to be prepared using full accrual accounting for all activities; and changed the fund financial statements to focus on the major funds.

For the fiscal year ended June 30, 2004, the BSADD implemented the new financial reporting requirements of GASB No. 33, 34, and 37 which added the above changes and changed the presentation and content of the financial statements and the notes to the financial statements.

A. REPORTING ENTITY

In evaluating how to define the BSADD, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *Defining the Reporting Entity*. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

to evaluate component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the BSADD is able to exercise oversight responsibilities. Based on these criteria, there are no component units.

B. BASIC FINANCIAL STATEMENTS—GOVERNMENT-WIDE STATEMENTS

The Statement of Net Assets and the Statement of Activities display information about the BSADD as a whole. These statements include all funds of the BSADD and are presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The BSADD's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The BSADD first utilizes restricted resources to finance qualifying activities.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

Governmental Funds: General Fund. The BSADD uses only a general fund to account for all financial resources. The various governmental funds are accounted for in the general ledger by using specific accounts to segregate each program's activities. The BSADD has no proprietary or fiduciary funds.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual: The government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The governmental funds financial statements use a current financial resources measurement and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Estimates and Assumptions: The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

E. BUDGETS AND BUDGETARY ACCOUNTING

The BSADD is required by various funding sources to adopt an annual budget for the general fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles applicable to state and local governments and is the same basis as the funds statements.

The BSADD's primary funding sources are federal, state, and local grants and contracts that have periods that may or may not coincide with the BSADD's fiscal year. These grants normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of the BSADD's dependency on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The BSADD's annual budget differs from that of a local government in two respects: (1) the uncertain nature of grant awards and funding from other entities and (2) conversion of grant budgets to a fiscal year basis. The resultant annual budget is subject to constant change within the fiscal year due to:

- Increases/decreases in actual grant and contracts from those estimated
- Changes in grant periods
- Unanticipated grant awards not included in the budget
- Expected grant or funding which fails to materialize

The Financial Director prepares the budget at least 30 days prior to the start of each fiscal year. The budget is then submitted to the Executive Director, who in turn, will submit the budget to the Board of Directors for approval.

The Financial Director also monitors expenditures on a monthly basis. Adoptions of budget amendments follow the above procedures.

F. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

The cash and cash equivalent amount includes the general checking accounts.

2. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additional improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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Depreciation on all assets is provided on the straight-line basis of the following estimated useful lives:

Buildings and Leasehold Improvements	40 years
Plumbing / HVAC / Electrical Systems	20 years
Land Improvements	15 years
Furniture	15 years
Business Machines / Communication Equip	7 years
Vehicles	6 years
Computer Equipment and Software	5 years
Photocopiers	5 years

In the fund financial statements, property used in governmental fund operations is expensed to the various programs upon acquisition. Equipment, which benefits the entire Organization, is capitalized according to the above policy and depreciated through shared costs. This represents a reconciling item between the government-wide and fund statement presentations.

3. Compensated Absences/Accumulated Vacation:

The BSADD allows full time permanent employees to accumulate vacation leave at a rate of 7.5 hours per month for the first year of employment; 8.5 hours for 2-5 years of employment; and then 10 hours after 5 completed years. Upon termination, the BSADD pays to employees who have been employed twelve months or longer, a maximum of twenty days of accumulated vacation. As of June 30, 2017, the liability for accrued vacation is a total of \$105,809. This is broken down into two categories: the amount of \$23,995 which would be expected to be paid out in the upcoming year is recorded as a current liability and \$81,814 which represents the non-current portion or the amount estimated to be used in subsequent fiscal years is recorded as a long-term debt.

The BSADD's sick leave policy permits the accumulation of up to ten hours per month worked up to a maximum of forty-three days. Employees are not paid for unused sick days upon termination of employment. Accordingly, no provision has been made in the financial statements for unused sick leave.

4. Long-Term Liabilities:

All long-term debt is reported as liabilities in the government-wide statements. The long-term debt consists of capital leases payable.

The capital leases payable for governmental funds is not reported as liabilities in the fund financial statements. The payment of principal and interest are reported as expenditures. This represents a reconciling item between the government-wide and fund statement presentations.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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5. Equity Classifications:

Government-wide financial statements classify equity as net assets and this is displayed in three components:

- a. **Invested in capital assets, net of related debt** consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted net assets** consists of net assets with constraints placed on the use either by:
 - i. external groups such as creditors, grantors, contributors, or laws or regulations of other governments, and
 - ii. law through constitutional provisions or enabling legislation.
- c. **Unrestricted net assets** consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

6. Revenues and Expenditures:

Substantially all governmental fund revenues are accrued. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures/Expenses are classified by function. All direct expenses have been charged as a direct cost to the program in which it benefits. Indirect costs have been charged to governmental activities based on a cost allocation plan in which indirect costs are allocated to activities based on personnel costs of the program.

G. INCOME TAX STATUS

The BSADD is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code. No income tax expense has been recorded in these financial statements because the Organization has no unrelated business income that will be subject to taxation.

NOTE 2 – CASH

Cash includes cash on hand and cash in checking accounts. Separate accounts are maintained for general operations and each of the revolving loan funds. The operating account had a balance of \$609,080 as of June 30, 2017 and the eKAMI account had a balance of \$2,101 at Citizens National Bank of Paintsville. Collateral with a total of \$1,745,851 market value has been

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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pledged by Citizens National Bank to cover the cash in excess of the \$250,000 guaranteed by the Federal Deposit Insurance Corporation (F.D.I.C.) for all of the BSADD's accounts in that financial institution.

The Revolving Loan Fund (Economic Development) had a cash balance of \$366,531, \$267,277 of which has been sequestered according to the requirements of the Economic Development Administration because of the account holding excess funds for two or more consecutive reporting periods. This balance was collateralized by the above pledged securities.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts Receivable consist of the following categories:

Contract Payments Receivable	913,317.00
Annual City/County Payments to BSADD	3,000.00
Consumer Directed Options (CDO)	332,118.00
Mountain Housing Corporation	<u>200,813.00</u>
Total Accounts Receivable	<u>1,449,248.00</u>

The BSADD has evaluated the accounts receivable balances for the various accounts as to collectability. The BSADD uses the direct write-off method to account for bad debts in the accounts receivable. As of June 30, 2017, all receivables are expected to be collected. Therefore, no allowance for estimated uncollectible accounts receivable has been recorded.

NOTE 4 – NOTES RECEIVABLE – REVOLVING LOAN FUND (ECONOMIC DEVELOPMENT)

The BSADD, in a cooperative effort with a group of local banks, established a Revolving Loan Fund (RLF), which is accessible to new and expanding businesses in the region. The overall philosophy of the Revolving Loan Fund is to provide flexible financing mechanisms to new or expanding businesses in the region, thus leveraging more conventional financing and consequently bridging financing gaps that currently exist. The impending net result will be the stimulation of economic development activities, the expansion and development of business enterprises, and ultimately the creation of permanent and stable jobs throughout the region.

The Revolving Loan Fund was funded by \$457,500 of monies from the U.S. Department of Commerce, Economic Development Administration under Title IX. These funds were matched by local cash from the group of banks of \$152,500.

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As of June 30, 2017, the fund had the following outstanding notes receivable:

Note receivable from Pig in a Poke III payable in 84 monthly installments of \$981.44 including 4.75% interest, beginning March 28, 2011	<u>26,348.00</u>
Total Notes Receivable	26,348.00
Less Current Portion	<u>(12,177.00)</u>
Long-term Notes Receivable	<u>14,171.00</u>

There is no allowance for loan loss as of June 30, 2017. Any provision is recorded as other direct expense in the combining schedule of operations by program and supporting services. In management's opinion, all known and anticipated loan losses have been either written off or adequately provided for in the allowance for loan losses.

EDA requires sequestration of excess funds when the amount of cash available in the RLF program exceeds 25 % of the program capital base for more than one year. These funds are set aside and the federal share of interest earned on the funds is forwarded to EDA on a quarterly basis. The amount required to be sequestered as of June 30, 2017 is \$267,277.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2017 as reflected on the statement of net assets.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	41,000	-	-	41,000
Other capital assets:				
Vehicles	209,880	-	-	209,880
Buildings	1,393,489	-	-	1,393,489
Equipment	<u>344,806</u>	<u>11,000</u>	-	<u>355,806</u>
Total other capital assets	1,948,175	11,000	-	1,959,175
Less accumulated				
Depreciation:				
Vehicles	129,876	15,628	-	145,504
Buildings	767,075	36,315	-	803,390
Equipment	<u>267,808</u>	<u>21,401</u>	-	<u>289,209</u>
Total accumulated deprec.	<u>1,164,759</u>	<u>73,344</u>	-	<u>1,238,103</u>
Other capital assets, net	<u>783,416</u>	<u>(62,344)</u>	-	<u>721,072</u>
Governmental activities capital assets, net	<u>824,416</u>	<u>(62,344)</u>	-	<u>762,072</u>

Total governmental activities depreciation expense recorded as indirect cost. 73,344

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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The following is a summary of changes in capital assets for the year ended June 30, 2017 as reflected in the funds statements.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Buildings	35,477	-	-	35,477
Vehicles	190,158	-	-	190,158
Equipment	<u>262,359</u>	<u>5,500</u>	-	<u>267,859</u>
Total capital assets	487,994	5,500	-	493,494
Less accumulated depreciation:				
Buildings	22,377	2,365	-	24,742
Vehicles	110,153	15,628	-	125,781
Equipment	<u>169,170</u>	<u>18,121</u>	-	<u>187,291</u>
Total accumulated deprec.	<u>301,700</u>	<u>36,114</u>	-	<u>337,814</u>
Capital assets, net	<u>186,294</u>	<u>(30,614)</u>	-	<u>155,680</u>
Governmental activities capital assets, net	<u>186,294</u>	<u>53,681</u>	-	<u>155,680</u>

Total funds statement depreciation expense, recorded in the programs through indirect cost. 36,114

Differences in depreciation and recorded equipment represent reconciling items between the government-wide and funds statement presentations.

NOTE 6 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. BSADD has one item that qualifies for reporting in this category: the pension deferred outflows totaling \$1,209,692 at June 30, 2017. The pension deferred outflows are described in note 7 to the financial statements.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. BSADD has one item which qualifies for reporting in this category: the pension deferred inflows totaling \$246,316 at June 30, 2017, as described in Note 7 to the financial statements.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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BSADD reports unearned revenue on its financial statements. Unearned revenues arise when potential revenue does not meet both the "measureable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are unearned by BSADD and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when BSADD has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statements and revenue is recognized. Unearned revenues in the financial statements at June 30, 2017, totaled \$125,011.

NOTE 7 – RETIREMENT

The BSADD's original retirement plan was a 403(b) tax deferred annuity, which covered all full time employees who had been employed at least six months and was administered by Lincoln National Life Insurance Company. The IRS froze this plan October 1, 1999.

Beginning October 1, 1999, BSADD employees had two retirement plans from which to choose: a deferred compensation plan administered by the Kentucky Public Employees' Deferred Compensation Authority and the County Employees Retirement System (CERS). As of September 30, 2002, the BSADD ceased matching contributions to the Deferred Compensation plan and all employees were required to participate in the CERS plan. Employees still have the option to contribute to the Deferred Compensation plan in addition to participating in the CERS plan.

Employees hired after April 1, 2000 and all employees after September 30, 2002, must use the CERS plan.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in the System. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of the Kentucky Retirement Systems (KRS) administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website, www.kyret.ky.gov.

Benefits Provided - The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the state legislature. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at age 65 with at least 48 months of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at age 57 if the member's age and years of service equal 87 or at age 65 with at least 60 months of service credit.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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Contributions – Per Kentucky Revised Statutes Section 78.545 (33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board on the basis of an annual valuation last proceeding the July 1 of a new biennium, if is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Plan members who began participating in CERS prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. For Plan members who began participating in CERS on or after September 1, 2008, the contribution rate is 6%. For the year ended June 30, 2017, BSADD’s actuarially determined contribution rate was 18.68% of annual creditable compensation. Contributions to CERS by BSADD were \$466,069 for the year ended June 30, 2017.

Plan members who began participating on, or after January 1, 2014, were required to contribute to the Cash Balance Plan. This Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the District reported a liability of \$4,913,246 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, BSADD’s proportion was 9.9789 percent, which is .7449 lower than its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, BSADD recognized pension expense of \$213,737. At June 30, 2017, BSADD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on plan investments	\$ 21,450	
Changes of assumptions	260,278	
Net difference between projected and actual earnings on investments	461,895	

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
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Changes in proportion and differences between agency contributions and proportionate share of contributions		\$246,316
Agency contributions subsequent to the measurement date	<u>466,069</u>	<u>-</u>
Total	\$1,209,692	\$246,316

The \$466,069 of deferred outflows of resources resulting from BSADD's contributions subsequent to the measurement date will be recognized as a deduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2018	276,182
2019	184,790
2020	179,957
2021	<u>102,694</u>
	<u>\$743,623</u>

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

Inflation	3.25%
Salary increases	4.0% average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including Inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.

NOTES TO FINANCIAL STATEMENTS

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of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

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

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. 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 7.5%. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of BSADD’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents BSADD’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what BSADD’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount rate	BSADD’s Proportionate share of net pension liability
1% decrease	6.5%	\$6,122,679
Current discount rate	7.5%	\$4,913,246
1% increase	8.5%	\$3,876,490

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

Plan Fiduciary Net Position – Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

CERS – Medical Insurance Plan

Plan Description: CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member’s years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member’s health insurance premium. Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service.

For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Funding policy: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan.

Contributions: The District’s total payroll for employees covered under CERS for the years ending June 30, 2017 was \$2,508,998. The District’s contributions for CERS for the years ending June 30, 2017 was \$118,676 and equaled the actually required contributions for the year.

Funding status: The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

Total medical benefit obligation	<u>000’s omitted</u> \$2,988,121
Net position available for benefits	
At actuarial value	<u>(2,079,811)</u>
Unfunded medical benefit obligation	<u>\$ 908,310</u>

NOTE 8 – NOTES PAYABLE

The BSADD is the pass-through agent for several loans from Kentucky Housing Corporation to Mountain Housing Corporation. These loans are recorded as notes payable to Kentucky Housing Corporation and a note receivable from Mountain Housing Corporation. The balance of this payable is \$76,940.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 9 – CAPITAL LEASES

The BSADD has entered into a lease for the building it presently occupies. This lease qualifies as a capital lease and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The following is the summary of leased assets under capital lease agreements by the BSADD as of June 30, 2017.

	<u>Capital Assets</u>
Building	<u>910,000</u>

The following is a schedule of the future minimum lease payments required under these capital leases and the present value of the net minimum lease payments as of June 30, 2017.

<u>Year Ending June 30,</u>	<u>General Long- Term Debt</u>
2018	<u>60,660</u>
Total minimum lease payments	60,660
Less amount representing interest	<u>(1,660)</u>
Present value of future minimum lease payments	<u>59,000</u>

NOTE 10 – INSURANCE AND RELATED ACTIVITIES

The BSADD is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicle accidents, error and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance, which includes worker's compensation insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

The BSADD's receivables are due primarily from federal, state, and local governments. BSADD has not experienced any significant losses from uncollectible accounts.

During the year ended June 30, 2017, the BSADD received 90% of its revenues from federal and state grants.

NOTE 12 – INTER-FUND RECEIVABLES AND PAYABLES

The BSADD has no inter-fund balances as of June 30, 2017.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 – IN-KIND CONTRIBUTIONS

The BSADD received in-kind contributions for the aging program from several counties and cities within their service area for vehicles, gas, salaries, and space. The aging program received a total of \$1,410,060 in cash contributions, allocated among the programs as follows:

Title III Program	Total State <u>Funds</u>	<u>Cash</u>	Total Funds available for <u>Match</u>	Required <u>Match</u>
Title III - B (15% Match)	33,671	282,044	344,580	35,741
C1 (15% Match)	26,306	227,027	253,333	26,306
C2 15% Match)	43,009	893,880	906,889	39,643
Title III - E (25% Match)	26,580	7,109	33,689	33,689
Title VII - Elder Abuse (15% Match)	547		547	547
Title VII - Ombudsman (15% Match)	911		911	911
Total	131,024	1,410,060	1,541,084	134,766

The five county Fiscal Courts and city governments provided In-Kind for Title IIIB, C1, and C2 in the form of space.

The Homecare Aging Program received \$7,445 as In-Kind space provided by the Floyd County Fiscal Court and the Paintsville First Baptist Church. The program generated \$8,784 in program income and donations, and received \$27,769 in local funds from the BSADD.

The Community Connections for Children Program used \$37,975 of local match. Local funds from the BSADD totaled \$14,697 for support of local operations.

The transportation planning program received \$1,167 in local funds from the BSADD.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 14 – RESTRICTED FUND BALANCES

The amounts in these accounts are the restricted balances, which belong exclusively to the ED revolving loan fund. This balance is not available for use by the BSADD in other programs. The restricted net assets are broken down as follows:

	<u>ED RLF</u>	<u>IIIE</u>	<u>FAST</u>	<u>Total Restricted Net Assets</u>
Beginning Balance	391,537	0	0	391,537
Current Net Income (Loss)	<u>1,266</u>	<u>3,601</u>	<u>38</u>	<u>5,096</u>
Ending Balance	<u>392,803</u>	<u>3,601</u>	<u>38</u>	<u>396,442</u>

NOTE 15 – COST ALLOCATION PLAN

Big Sandy Area Development District, Inc. is required by the Department of Local Government to operate under a cost allocation plan that conforms with 2 CFR Part 225. A summary of the cost allocation plan follows on page 21. The District is in conformity with 2 CFR Part 225.

BSADD has one shared cost pool. Expenses not readily identifiable to a particular element are charged to that pool. Shared costs are allocated on the basis of total salary and burden per department, in relation to total salary and burden cost for the district. Detail of how specific expenditure categories are processed follow:

Salaries

The salaries of all employees are charged directly into program elements based on the amount of time attributable to each element. The Executive Director, Financial Director, ADD Accountant, and Communications Coordinator, and maintenance manager are all charged to the shared cost pool. Other personnel whom have portions of their salaries charged to the shared cost pool perform tasks for the District that cannot be identified to a particular direct element. Leave time is charged to a common pool which is spread to elements automatically based on gross salary by the District's accounting software.

Burden

All employee burden costs such as FICA, Workman's compensation, unemployment insurance, health insurance, and retirement contributions are charged to elements based on gross salary expense by employee.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Audits

The cost of the audit is charged to the shared cost pool. The single audit is performed by an independent certified public accounting firm.

Contract Services

All budgeted contract payments are recorded as direct costs in the respective work element to which they apply. Service contracts that cannot be identified as a direct cost of any element are charged to the indirect cost pool. These are professional services provided by outside organizations that provide a special skill.

Depreciation

Depreciation for shared elements that cost over \$5,000 is charged to the shared cost pool. These elements include leasehold improvements to the ADD's office building as well as vehicles.

Printing and Postage

Printing and postage costs are coded directly to each element based on activity reports generated from office machines. Printing and postage that cannot be attributed to a particular element is charged to the shared cost pool.

Insurance

General insurance to protect the ADD from liabilities arising as part of normal course of operations and insurance to protect the property of the ADD is charged to the shared cost pool.

Travel

Travel costs are charged directly to individual work elements based on requisitions which identify the specific element to which each item of travel is to be charged. Employees who charge their time to shared cost also charge related travel to shared cost if it cannot be identified with a particular direct charge work element. All travel is for official business and is governed by the written travel policy of the ADD.

Vacation Accrual

Vacation accrual expense is charged through the leave pool to individual elements based on the amount of each individual's salary and the amount of leave accrued.

Space costs

Space rental costs for the main office building (lease costs) are charged directly to program departments based on the ratio of hours worked in each element to total hours. Space associated with hours worked in the shared cost pool is charged to the shared cost pool. Space for remote offices is charged directly to the associated element.

Utilities

Utilities for the office building (electricity, water, and sewer service) are charged to the shared cost pool. This is separate from space costs which only consist of lease expenses.

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Equipment

Equipment costs are charged to the elements for which it is purchased. If equipment cannot be traced directly to an element, it is charged to the shared cost pool.

Communications

Charges that can be identified by a program element are charged directly to that program element. Phone usages that cannot be identified with a particular element are charged to the shared cost pool. Internet service costs are charged to the indirect cost pool.

Supplies/Materials

Amounts specifically identifiable by program element are directly charged. Those that cannot be identified as a specific program expense such as building supplies and office supplies for shared staff are charged to the shared cost pool.

Other (Organizational Fees/Board Expense/etc)

These items are charged directly to individual elements based on what the cost related to. Organizational fees are those that are paid to business, technical, or professional organizations. Those that cannot be specifically identified to a particular program are charged to the shared cost pool. Board expenses include supplies for meetings and travel for members' meetings and conferences where the primary purpose is the dissemination of technical information.

Building Maintenance

Maintenance to maintain the current condition of the ADD office building is charged to the shared cost pool. Maintenance does not enhance or improve the building.

Training

Training is used to encourage employee development and help employees add value to the work they contribute to the ADD. Training is charged to the work element of the employee. Training for employees whose salaries are in the shared cost pool is charged to the shared cost pool.

NOTE 16 – RELATED PARTY TRANSACTIONS

Big Sandy Area Development District CDO

BSADD provides fiscal management services to Big Sandy CDO program as Fiscal Agent (BSADD CDO). BSADD CDO operates the Consumer Directed Options program for the Cabinet for Health and Family Services, Department of Aging and Independent Living (DAIL) for the Big Sandy Area Development District. Waiver clients have the option to choose CDO at any time.

BSADD serves as the fiscal agent for the client and as a support broker. As clients opt for CDO, Medicaid advances funds based on client budgets. These funds are to be used to pay for services on behalf of the client. Throughout the year, DAIL reassesses the CDO program funding. Funds for each ADD are realigned and/or increased in accordance with the client data. In addition to advances, as client services are rendered, Medicaid is billed and the funds are paid to the CDO

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

program. The CDO program then pays BSADD for its administrative responsibilities. During the year ended June 30, 2017, BSADD received \$566,424 from the CDO program for administration and the District was owed \$332,118 by the CDO program.

NOTE 17 – CONTINGENCIES

The BSADD 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 grantors' 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 BSADD for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the BSADD's grant programs are predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The BSADD has one lawsuit pending as of June 30, 2017. The suit is covered by insurance and there should be no exposure to the BSADD.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 30, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES AND EXPENDITURES - SUMMARY
For the Year Ended June 30, 2017

<u>REVENUES</u>	<u>JFA</u>	<u>AGING PROGRAMS</u>	<u>OTHER PROGRAMS</u>	<u>TOTAL</u>
Federal Funds	163,885.00	976,077.00	2,637,479.00	3,777,441.00
State Funds	167,533.00	1,507,571.00	127,205.00	1,802,309.00
Local Cash	47.00	1,739,778.00	(17,250.00)	1,722,575.00
Program Income	0.00	157,154.00	0.00	157,154.00
In-Kind Revenue	0.00	7,445.00	0.00	7,445.00
Other Income	0.00	0.00	400,154.00	400,154.00
Contract Income	0.00	0.00	27,793.00	27,793.00
Interest Income	0.00	0.00	1,834.00	1,834.00
TOTAL REVENUES	331,465.00	4,388,025.00	3,177,215.00	7,896,705.00
 <u>EXPENDITURES</u>				
Direct Cost				
Salaries	166,349.00	977,809.00	1,107,840.00	2,251,998.00
Fringe Benefits	88,450.00	531,573.00	599,568.00	1,219,591.00
Subcontractors	0.00	2,394,678.00	343,371.00	2,738,049.00
Travel	6,938.00	52,972.00	114,690.00	174,600.00
Supplies	260.00	4,823.00	8,327.00	13,410.00
Telephone	0.00	3,071.00	37,305.00	40,376.00
Training	2,790.00	2,778.00	6,005.00	11,573.00
Space Rent	5,735.00	32,174.00	95,627.00	133,536.00
Equipment/Eq Lease	0.00	259.00	3,277.00	3,536.00
Other Expense	235.00	22,402.00	89,145.00	111,782.00
Short Term Training	0.00	0.00	71,826.00	71,826.00
Wage Subsidy	0.00	0.00	225,295.00	225,295.00
Transportation	0.00	0.00	66,220.00	66,220.00
Postage/Printing	1,930.00	11,948.00	12,283.00	26,161.00
Total Direct Cost	272,687.00	4,034,487.00	2,780,779.00	7,087,953.00
 Indirect Costs (Applied)	 58,778.00	 348,197.00	 393,878.00	 800,853.00
TOTAL EXPENDITURES	331,465.00	4,382,684.00	3,174,657.00	7,888,806.00
 EXCESS REVENUES OVER/ (UNDER) EXPENDITURES	 <u>0.00</u>	 <u>5,341.00</u>	 <u>2,558.00</u>	 <u>7,899.00</u>

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES AND EXPENDITURES - AGING PROGRAMS
For the Year Ended June 30, 2017

<u>REVENUES</u>	<u>TOTAL TITLE III</u>	<u>IIIB Admin</u>	<u>CI Admin</u>	<u>CII Admin</u>	<u>IIIE Admin</u>	<u>TITLE IIIB</u>
Federal Funds						
Title IIIB	218,830.00	26,943.00	0.00	0.00	0.00	173,187.00
Title IIIC1	164,013.00	0.00	14,944.00	0.00	0.00	0.00
Title IIIC2	239,587.00	0.00	0.00	14,944.00	0.00	0.00
Title IIID	12,100.00	0.00	0.00	0.00	0.00	0.00
Title IIIE	104,669.00	0.00	0.00	0.00	8,128.00	0.00
Title VII	8,257.00	0.00	0.00	0.00	0.00	0.00
Total Federal Funds	747,456.00	26,943.00	14,944.00	14,944.00	8,128.00	173,187.00
State Funds						
IIIB State	48,287.00	14,617.00	0.00	0.00	0.00	30,370.00
CI State	33,969.00	0.00	7,663.00	0.00	0.00	0.00
CII State	50,672.00	0.00	0.00	7,663.00	0.00	0.00
IIIE State	26,580.00	0.00	0.00	0.00	0.00	0.00
State VII	1,458.00	0.00	0.00	0.00	0.00	0.00
Elder Abuse	26,759.00	0.00	0.00	0.00	0.00	0.00
Total State Funds	187,725.00	14,617.00	7,663.00	7,663.00	0.00	30,370.00
Total Federal & State Funds	935,181.00	41,560.00	22,607.00	22,607.00	8,128.00	203,557.00
Local Cash	1,461,120.00	29,218.00	13,970.00	12,585.00	3,064.00	282,044.00
Program Income	148,370.00	0.00	0.00	0.00	0.00	5,354.00
Other Income	5,000.00	0.00	0.00	0.00	0.00	0.00
TOTAL REVENUES	2,549,671.00	70,778.00	36,577.00	35,192.00	11,192.00	490,955.00
EXPENDITURES						
Direct Cost						
Salaries	168,525.00	34,038.00	18,086.00	17,367.00	5,234.00	22,400.00
Fringe Benefits	87,912.00	18,660.00	9,915.00	9,521.00	2,869.00	12,280.00
Subcontractors	2,205,296.00	0.00	0.00	107.00	0.00	447,117.00
Space Rent	7,338.00	1,367.00	627.00	586.00	105.00	1,067.00
Training	1,672.00	12.00	0.00	0.00	0.00	0.00
Travel	4,692.00	913.00	234.00	152.00	115.00	24.00
Other Expense	7,406.00	1,867.00	1,256.00	1,256.00	1,000.00	0.00
Telephone	1,453.00	1,386.00	0.00	0.00	0.00	67.00
Postage/Printing	1,370.00	323.00	0.00	0.00	0.00	0.00
Supplies	1,248.00	55.00	0.00	0.00	0.00	0.00
Total Direct Cost	2,486,912.00	58,621	30,118.00	28,989.00	9,323.00	482,955.00
Indirect Cost (Applied)	59,158.00	12,157.00	6,459.00	6,203.00	1,869.00	8,000.00
TOTAL EXPENDITURES	2,546,070.00	70,778.00	36,577.00	35,192.00	11,192.00	490,955.00
EXCESS REVENUE OVER/ (UNDER) EXPENDITURES	3,601.00	0.00	0.00	0.00	0.00	0.00

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

<u>TITLE III C1</u>	<u>TITLE III C2</u>	<u>TITLE III D</u>	<u>TITLE III E</u>	<u>III B</u> <u>Ombudsman</u>	<u>VII</u> <u>Ombudsman</u>	<u>VII</u> <u>Elder Abuse</u>	<u>STLCO</u>
0.00	0.00	0.00	0.00	18,700.00	0.00	0.00	0.00
149,069.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	224,643.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	12,100.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	96,541.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	5,160.00	3,097.00	0.00
<u>149,069.00</u>	<u>224,643.00</u>	<u>12,100.00</u>	<u>96,541.00</u>	<u>18,700.00</u>	<u>5,160.00</u>	<u>3,097.00</u>	<u>0.00</u>
0.00	0.00	0.00	0.00	3,300.00	0.00	0.00	0.00
26,306.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	43,009.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	26,580.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	911.00	547.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	26,759.00
<u>26,306.00</u>	<u>43,009.00</u>	<u>0.00</u>	<u>26,580.00</u>	<u>3,300.00</u>	<u>911.00</u>	<u>547.00</u>	<u>26,759.00</u>
175,375.00	267,652.00	12,100.00	123,121.00	22,000.00	6,071.00	3,644.00	26,759.00
227,027.00	888,880.00	286.00	4,045.00	0.00	1.00	0.00	0.00
89,519.00	53,497.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	5,000.00	0.00	0.00	0.00	0.00	0.00	0.00
491,921.00	1,215,029.00	12,386.00	127,166.00	22,000.00	6,072.00	3,644.00	26,759.00
12,178.00	12,034.00	0.00	21,020.00	9,732.00	2,521.00	1,573.00	12,342.00
6,676.00	6,597.00	0.00	7,049.00	5,363.00	1,524.00	899.00	6,559.00
468,127.00	1,191,504.00	10,838.00	86,183.00	531.00	151.00	89.00	649.00
591.00	588.00	0.00	840.00	586.00	166.00	98.00	717.00
0.00	0.00	1,548.00	50.00	23.00	7.00	4.00	28.00
0.00	8.00	0.00	176.00	1,148.00	326.00	192.00	1,404.00
0.00	0.00	0.00	850.00	440.00	125.00	74.00	538.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	893.00	58.00	16.00	10.00	70.00
0.00	0.00	0.00	29.00	624.00	244.00	118.00	178.00
<u>487,572.00</u>	<u>1,210,731.00</u>	<u>12,386.00</u>	<u>117,090.00</u>	<u>18,505.00</u>	<u>5,080.00</u>	<u>3,057.00</u>	<u>22,485.00</u>
4,349.00	4,298.00	0.00	6,475.00	3,495.00	992.00	587.00	4,274.00
491,921.00	1,215,029.00	12,386.00	123,565.00	22,000.00	6,072.00	3,644.00	26,759.00
<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>3,601.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES AND EXPENDITURES - AGING PROGRAMS
For the Year Ended June 30, 2017

	TOTAL AGING PROGRAMS	TITLE III TOTALS	NSIP	KY HOMECARE ADMIN	KY HOMECARE	SHIP
REVENUES						
Federal Funds						
Title III B	218,830.00	218,830.00	0.00	0.00	0.00	0.00
Title III C1	164,013.00	164,013.00	0.00	0.00	0.00	0.00
Title III C2	239,587.00	239,587.00	0.00	0.00	0.00	0.00
Title III D	12,100.00	12,100.00	0.00	0.00	0.00	0.00
Title III E	104,669.00	104,669.00	0.00	0.00	0.00	0.00
NSIP	155,215.00	0.00	155,215.00	0.00	0.00	0.00
Title VII-Ombudsman	8,257.00	8,257.00	0.00	0.00	0.00	0.00
CMS SHIP	12,678.00	0.00	0.00	0.00	0.00	12,678.00
MIPPA SHIP	19,215.00	0.00	0.00	0.00	0.00	0.00
MIPPA ADRC	9,416.00	0.00	0.00	0.00	0.00	0.00
MIPPA AAA	17,521.00	0.00	0.00	0.00	0.00	0.00
IAO Federal	3,000.00	0.00	0.00	0.00	0.00	0.00
Medicaid ADRC	10,224.00	0.00	0.00	0.00	0.00	0.00
FAST	1,352.00	0.00	0.00	0.00	0.00	0.00
Total Federal Funds	976,077.00	747,456.00	155,215.00	0.00	0.00	12,678.00
State Funds						
IIIB State	48,287.00	48,287.00	0.00	0.00	0.00	0.00
IIIC1 State	33,969.00	33,969.00	0.00	0.00	0.00	0.00
IIIC2 State	50,672.00	50,672.00	0.00	0.00	0.00	0.00
IIIE State	26,580.00	26,580.00	0.00	0.00	0.00	0.00
VII State (Ombudsman)	1,458.00	1,458.00	0.00	0.00	0.00	0.00
Homecare	743,198.00	0.00	0.00	76,812.00	666,386.00	0.00
Elder Abuse	26,759.00	26,759.00	0.00	0.00	0.00	0.00
Medicaid ADRC	10,224.00	0.00	0.00	0.00	0.00	0.00
Consumer Directed Options	541,786.00	0.00	0.00	0.00	0.00	0.00
CDO-Patient Liability	24,638.00	0.00	0.00	0.00	0.00	0.00
Total State Funds	1,507,571.00	187,725.00	0.00	76,812.00	666,386.00	0.00
Total Federal & State Funds	2,483,648.00	935,181.00	155,215.00	76,812.00	666,386.00	12,678.00
Local Cash	1,739,778.00	1,466,120.00	1.00	2,540.00	25,229.00	10,606.00
Other Income	0.00	0.00	0.00	0.00	0.00	0.00
In-Kind Donations	7,445.00	0.00	0.00	0.00	7,445.00	0.00
Program Income	157,154.00	148,370.00	0.00	0.00	8,784.00	0.00
TOTAL REVENUES	4,388,025.00	2,549,671.00	155,216.00	79,352.00	707,844.00	23,284.00
EXPENDITURES						
Direct Expenditures						
Salaries	977,809.00	168,525.00	0.00	39,432.00	350,655.00	11,157.00
Fringe Benefits	531,573.00	87,912.00	0.00	21,617.00	192,234.00	6,116.00
Subcontractors	2,394,678.00	2,205,296.00	155,216.00	0.00	30.00	0.00
Travel	52,972.00	4,692.00	0.00	278.00	22,944.00	68.00
Supplies	4,823.00	1,248.00	0.00	449.00	1,590.00	28.00
Telephone	3,071.00	1,453.00	0.00	0.00	1,618.00	0.00
Training	2,778.00	1,672.00	0.00	0.00	846.00	0.00
Other Expense	22,402.00	7,406.00	0.00	1,496.00	12.00	0.00
Postage/Printing	11,948.00	1,370.00	0.00	796.00	2,181.00	1,102.00
Total Direct Expenditures	4,034,487.00	2,486,912.00	155,216.00	65,269.00	582,606.00	19,299.00
Indirect Costs (Applied)	348,197.00	59,158.00	0.00	14,083.00	125,238.00	3,985.00
TOTAL EXPENDITURES	4,382,684.00	2,546,070.00	155,216.00	79,352.00	707,844.00	23,284.00
EXCESS REVENUES OVER/ (UNDER) EXPENDITURES	5,341.00	3,601.00	0.00	0.00	0.00	0.00

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

SENIOR GAMES	CDO/PDS	MEDICAID ADRC	MIPPA	IAO	FAST	UMWA
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	19,215.00	0.00	0.00	0.00
0.00	0.00	0.00	9,416.00	0.00	0.00	0.00
0.00	0.00	0.00	17,521.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	3,000.00	0.00	0.00
0.00	0.00	10,224.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	1,352.00	0.00
0.00	0.00	10,224.00	46,152.00	3,000.00	1,352.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	10,224.00	0.00	0.00	0.00	0.00
0.00	541,786.00	0.00	0.00	0.00	0.00	0.00
0.00	24,638.00	0.00	0.00	0.00	0.00	0.00
0.00	566,424.00	10,224.00	0.00	0.00	0.00	0.00
0.00	566,424.00	20,448.00	46,152.00	3,000.00	1,352.00	0.00
4,288.00	(121,412.00)	1,246.00	6,229.00	(400.00)	0.00	345,331.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
4,288.00	445,012.00	21,694.00	52,381.00	2,600.00	1,352.00	345,331.00
0.00	205,484.00	10,929.00	22,002.00	0.00	0.00	169,625.00
0.00	112,650.00	5,991.00	12,062.00	0.00	0.00	92,991.00
0.00	31,832.00	0.00	0.00	990.00	1,314.00	0.00
0.00	3,224.00	32.00	202.00	0.00	0.00	21,532.00
0.00	1,470.00	17.00	15.00	0.00	0.00	6.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	95.00	0.00	12.00	0.00	0.00	153.00
4,108.00	470.00	0.00	8,399.00	90.00	0.00	421.00
0.00	6,107.00	146.00	225.00	0.00	0.00	21.00
4,108.00	371,622.00	17,791.00	44,521.00	1,080.00	1,314.00	284,749.00
0.00	73,390.00	3,903.00	7,858.00	0.00	0.00	60,582.00
4,108.00	445,012.00	21,694.00	52,379.00	1,080.00	1,314.00	345,331.00
180.00	0.00	0.00	2.00	1,520.00	38.00	0.00

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES AND EXPENDITURES - OTHER PROGRAMS
For the Year Ended June 30, 2017

	<u>TOTAL OTHER PROGRAMS</u>	<u>AML</u>	<u>FEMA PDM</u>	<u>EDA POWER</u>	<u>EDA SOAR</u>	<u>EDA RLF</u>
REVENUES						
Federal Funds	2,637,479.00	70,787.00	896.00	52,387.00	36,507.00	0.00
State Funds	127,205.00	0.00	0.00	0.00	0.00	0.00
Local Cash	(17,250.00)	0.00	296.00	28,729.00	2,044.00	0.00
Contract Income	27,793.00	0.00	0.00	750.00	0.00	0.00
Other Income	400,154.00	1.00	0.00	750.00	0.00	0.00
Interest Income	1,834.00	0.00	0.00	0.00	0.00	1,457.00
TOTAL REVENUES	3,177,215.00	70,788.00	1,192.00	82,616.00	38,551.00	1,457.00
EXPENDITURES						
Direct Cost						
Salaries	1,107,840.00	0.00	572.00	38,635.00	2,969.00	0.00
Fringe Benefits	599,568.00	0.00	313.00	21,180.00	1,628.00	0.00
Subcontracts	343,371.00	69,147.00	0.00	0.00	32,551.00	0.00
Space Rent	95,627.00	0.00	65.00	1,576.00	152.00	0.00
Travel	114,690.00	0.00	38.00	3,673.00	128.00	0.00
Equipment/Eq Lease	3,277.00	0.00	0.00	0.00	0.00	0.00
Telephone	37,305.00	0.00	0.00	640.00	63.00	0.00
Training	6,005.00	0.00	0.00	1,052.00	0.00	0.00
Supplies	8,327.00	113.00	0.00	68.00	0.00	27.00
Other Expense	89,145.00	746.00	0.00	1,993.00	0.00	164.00
Postage/Printing	12,283.00	0.00	0.00	0.00	0.00	0.00
Short Term Training	71,826.00	0.00	0.00	0.00	0.00	0.00
Wage Subsidy	225,295.00	0.00	0.00	0.00	0.00	0.00
Transportation	66,220.00	0.00	0.00	0.00	0.00	0.00
Total Direct Cost	2,780,779.00	70,006.00	988.00	68,817.00	37,491.00	191.00
Indirect Costs (Applied)	393,878.00	0.00	204.00	13,799.00	1,060.00	0.00
TOTAL EXPENDITURES	3,174,657.00	70,006.00	1,192.00	82,616.00	38,551.00	191.00
EXCESS REVENUE OVER/ (UNDER) EXPENDITURES	2,558.00	782.00	0.00	0.00	0.00	1,266.00

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

LOCAL INITIATIVES	GIS	TRANS-PORTATION PLANNING	PROJECT DEPARTMENT	COMM. COLLABORATIVE FOR CHILDREN	COMMUNITY OF HOPE	TANF - KENTUCKY WORKS
0.00	0.00	382.00	24,750.00	113,923.00	0.00	2,337,847.00
0.00	60,325.00	66,880.00	0.00	0.00	0.00	0.00
(133,812.00)	48,531.00	1,167.00	21,097.00	14,698.00	0.00	0.00
0.00	11,733.00	0.00	15,310.00	0.00	0.00	0.00
211,042.00	0.00	0.00	10,400.00	0.00	177,961.00	0.00
377.00	0.00	0.00	0.00	0.00	0.00	0.00
<u>77,607.00</u>	<u>120,589.00</u>	<u>68,429.00</u>	<u>71,557.00</u>	<u>128,621.00</u>	<u>177,961.00</u>	<u>2,337,847.00</u>
0.00	53,954.00	30,732.00	36,032.00	56,306.00	17,705.00	870,935.00
0.00	29,579.00	16,848.00	11,987.00	30,868.00	9,706.00	477,459.00
0.00	2,703.00	0.00	5,927.00	10,807.00	143,093.00	79,143.00
0.00	2,736.00	1,610.00	1,694.00	3,370.00	0.00	84,424.00
0.00	5,524.00	6,213.00	676.00	5,418.00	643.00	92,377.00
0.00	2,862.00	135.00	0.00	0.00	0.00	280.00
0.00	0.00	0.00	702.00	0.00	0.00	35,900.00
0.00	998.00	1,630.00	1,405.00	885.00	0.00	35.00
37.00	256.00	14.00	123.00	319.00	0.00	7,370.00
77,272.00	804.00	15.00	268.00	30.00	130.00	7,723.00
0.00	1,902.00	256.00	1,666.00	509.00	148.00	7,802.00
0.00	0.00	0.00	0.00	0.00	0.00	71,826.00
0.00	0.00	0.00	0.00	0.00	0.00	225,295.00
0.00	0.00	0.00	0.00	0.00	0.00	66,220.00
<u>77,309.00</u>	<u>101,318.00</u>	<u>57,453.00</u>	<u>60,480.00</u>	<u>108,512.00</u>	<u>171,425.00</u>	<u>2,026,789.00</u>
0.00	19,271.00	10,976.00	11,077.00	20,109.00	6,324.00	311,058.00
<u>77,309.00</u>	<u>120,589.00</u>	<u>68,429.00</u>	<u>71,557.00</u>	<u>128,621.00</u>	<u>177,749.00</u>	<u>2,337,847.00</u>
<u>298.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>212.00</u>	<u>0.00</u>

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
STATEMENT OF REVENUES AND EXPENDITURES BY JFA PROGRAM ELEMENT
For the Year Ended June 30, 2017

	DEVELOP BLOCK GRANT	ARC PLANNING & ASSISTANCE	ED ADM	JFA ADMIN	TOTAL JFA
REVENUES					
Federal Funds	18,055.00	82,830.00	63,000.00	0.00	163,885.00
State Funds	18,055.00	82,830.00	15,750.00	0.00	116,635.00
State Unmatched	9,939.00	3,440.00	0.00	37,519.00	50,898.00
Other Income	0.00	0.00	0.00	0.00	0.00
Local Funds	0.00	0.00	47.00	0.00	47.00
TOTAL REVENUES	46,049.00	169,100.00	78,797.00	37,519.00	331,465.00
EXPENDITURES					
Salaries	23,612.00	85,464.00	36,652.00	20,621.00	166,349.00
Fringe Benefits	12,945.00	46,853.00	20,093.00	8,559.00	88,450.00
Service Contracts	0.00	0.00	0.00	0.00	0.00
Travel	243.00	2,121.00	4,534.00	40.00	6,938.00
Space Rent	740.00	3,421.00	1,574.00	0.00	5,735.00
Supplies	0.00	236.00	24.00	0.00	260.00
Telephone	0.00	0.00	0.00	0.00	0.00
Training	0.00	180.00	2,610.00	0.00	2,790.00
Equipment/Eq Lease	0.00	0.00	0.00	0.00	0.00
Other Expense	0.00	0.00	217.00	18.00	235.00
Postage/Printing	76.00	301.00	3.00	1,550.00	1,930.00
Total Direct Cost	37,616.00	138,576.00	65,707.00	30,788.00	272,687.00
Indirect Costs (Applied)	8,433.00	30,524.00	13,090.00	6,731.00	58,778.00
TOTAL EXPENDITURES	46,049.00	169,100.00	78,797.00	37,519.00	331,465.00
EXCESS REVENUES OVER/ (UNDER) EXPENDITURES	0.00	0.00	0.00	0.00	0.00
TOTAL EXPENDITURES	46,049.00	169,100.00	78,797.00	37,519.00	331,465.00
TOTAL BUDGET	53,214.00	172,825.00	86,054.00	0.00	314,525.00
(OVER)/UNDER BUDGET	7,165.00	3,725.00	7,257.00	(37,519.00)	(16,940.00)

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF INDIRECT COST ALLOCATION
For the Year Ended June 30, 2017

INDIRECT COST

Salaries	325,458.00
Employee Benefits	178,421.00
Educational Assistance	241.00
Service Contracts	32,530.00
Travel	8,341.00
Space Rental	11,018.00
Equipment/Eq Lease	8,433.00
Telephone	33,436.00
Utilities	28,022.00
Maintenance	25,418.00
Supplies	7,761.00
Postage/Printing	8,275.00
Other Expense	5,767.00
Training	2,676.00
Depreciation	36,114.00
Board Expense	5,182.00
Dues & Publications	14,817.00
Insurance	68,943.00
Total Indirect Cost	<u>800,853.00</u>

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

FEDERAL AGENCY	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	GRANT NUMBER	RECEIPTS	DISBURSE- MENTS	PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Health and Human Services						
Passed through Kentucky Cabinet						
for Health and Family Services						
Title III B	93.044	267,118	PON2 725-1400001066-7	218,830.00	218,830.00	149,242.00
Title III C	93.045	488,241	PON2 725-1400001066-7	403,600.00	403,600.00	350,047.00
NSIP	93.053	157,109	PON2 725-1400001066-7	155,215.00	155,215.00	155,215.00
				777,645.00	777,645.00	654,504.00
Title VII - Elder Abuse	93.041	3,644	PON2 725-1400001066-7	3,097.00	3,097.00	-
Ombudsman Education	93.042	6,071	PON2 725-1400001066-7	5,160.00	5,160.00	-
Title III D	93.043	12,693	PON2 725-1400001066-7	12,100.00	12,100.00	10,838.00
Caregiver Support Title III E	93.052	154,397	PON2 725-1400001066-7	104,669.00	104,669.00	-
MIPPA AAAA/SHP/ADRC	93.071	27,477	PON2 725-1400001066-7	46,152.00	46,152.00	-
Medicaid ADRC	93.778	20,448	PON2 725-1400001066-7	10,224.00	10,224.00	-
CMS-SHIP	93.324	24,772	PON2 725-1400001066-7	12,678.00	12,678.00	-
Functional Assessment Service Team	93.069	2,000	PON2 725-1400001066-7	1,352.00	1,352.00	-
Improving Arthritis Outcomes	93.945	3,000	PON2 725-1400001066-7	3,000.00	3,000.00	-
Title IV-B	93.556	90,974	PON2 736-1400002324	44,774.00	44,774.00	-
Community Based Child Abuse Prevention	93.590	58,577	PON2 736-1400002324	69,149.00	69,149.00	-
Temporary Assistance to Needy Families (KY Works)	93.558	2,868,974	PON2 736-1400001469	2,337,847.00	2,337,847.00	79,142.00
Total U.S. Department of Health and Human Services			<u>PON2 736-1400001469</u>	<u>3,427,847.00</u>	<u>3,427,847.00</u>	<u>744,484.00</u>
Appalachian Regional Commission (ARC)						
Appalachian Local Development						
District Assistance	23.009	82,830	<u>PON2 112-1600000357-1</u>	82,830.00	82,830.00	-
Total ARC				<u>82,830.00</u>	<u>82,830.00</u>	-

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2017

<u>FEDERAL AGENCY</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>GRANT NUMBER</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>PASSED THROUGH TO SUBRECIPIENTS</u>
<u>U.S. Department of Commerce Economic Development Administration</u>						
Passed through Department for						
Local Government (DLG):						
EDA - Planning Assistance	11.302	63,000	PON2 112-1600000357-1	63,000.00	63,000.00	-
EDA - Power	11.302	274,500	04-86-07119	52,387.00	52,387.00	-
				115,387.00	115,387.00	
EDA - Magoffin Co. Fiscal Court	11.307					
EDA - SOAR	11.307	312,000	04-79-06942	36,507.00	36,507.00	
Economic Adjustment Assistance:						
EDA - Title IX EAAP - Revolving Loan Fund	11.307		-	0.00	294,802.00	
				36,507.00	331,309.00	0.00
U.S. Department of Commerce Economic Development Adm						
<u>U.S. Department of Transportation</u>						
Passed through the Kentucky Transportation Cabinet:						
Highway Planning & Construction -						
Centerline Maintenance Program	20.205	9,100	-	382.00	382.00	-
U.S. Department of Transportation						
<u>U.S. Department of Agriculture - Rural Housing Service</u>						
Passed through Magoffin Co. Fiscal Court:						
Magoffin Co. Fiscal Court	10.766	750	-	750.00	750.00	-
				750.00	750.00	

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2017

FEDERAL AGENCY	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	GRANT NUMBER	RECEIPTS	DISBURSE- MENTS	PASSED THROUGH TO SUBRECIPIENTS
<u>U.S. Department of Homeland Security</u>						
Passed through the Kentucky Department of Homeland Security:						
Kentucky Emergency Management	97.047	896	PDMC 04-KY-2013	896.00	896.00	-
Total U.S. Department of Homeland Security				896.00	896.00	-
<u>U.S. Department of Housing & Urban Development</u>						
Passed through Department for Local Government (DLG)						
	14.228	18,055	PON2 112-1600000357-1	18,055.00	18,055.00	-
Passed through Martin Co. Fiscal Court:						
Martin Co. Fiscal Court	14.228	24,000	-	24,000.00	24,000.00	-
Total U.S. Department of Housing & Urban Development				42,055.00	42,055.00	-
<u>Department of Interior Office of Surface Mining Reclamation & Enforcement</u>						
Abandoned Mine Land Reclamation	15.252	70,787	-	70,787.00	70,787.00	-
Total Dept of Interior Office of Surface Mining Reclamation				70,787.00	70,787.00	-
Total Federal Awards			0.00	3,777,441.00	4,072,243.00	744,484.00

**The amounts reported are the federal grant activity of Big Sandy Area Development District, Inc and are presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. The Big Sandy Area Development District, Inc. has not elected to use the 10 percent *de minimis* indirect rate as allowed under the Uniform Guidance.

As of June 30, 2017, the Big Sandy Development District, Inc. had RLF loans outstanding in the amount of \$26,348, all of which are expected to be collected. The revolving loan federal expenditures is calculated by taking the current year loan balance of \$26,348, plus the cash balance of \$366,531, plus current administrative expenditures of \$191 and then multiplying this total by the federal share of 75% which equals \$294,802.

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

FY 2017

KY Works subrecipients - 100% federal

Kentucky Educational Development Corporation \$ 79,142 61-0659010
940 W Rose Road Ashland, KY 41102

Aging:

IIIB Subrecipients (federal share)

Appalachian Research and Defense Fund of KY, Inc. \$ 6,115 61-0849848
140 N Front Street Prestonsburg KY 41653

Pike County Senior Citizens Program, Inc \$ 45,642 61-1160806
PO Box 751 Pikeville KY 41502

Martin County Senior Citizens, Inc \$ 14,982 61-0060988
PO Box 631 Inez KY 41224

Magoffin County Senior Citizens, Inc \$ 22,205 61-1161769
PO Box 531 Salyersville KY 41465

Johnson County Senior Citizens Program, Inc \$ 18,097 61-1161767
PO Box 446 Paintsville KY 41240

Floyd County Senior Citizens, Inc \$ 42,199 61-1160817
149 S Central Ave Prestonsburg KY 41653

\$ 149,242

CI Subrecipients (federal share)

Pike County Senior Citizens Program, Inc \$ 44,861

Martin County Senior Citizens, Inc \$ 12,121

Magoffin County Senior Citizens, Inc \$ 21,618

Johnson County Senior Citizens Program, Inc \$ 17,618

Floyd County Senior Citizens, Inc \$ 41,065

\$ 137,282

CII subrecipients (federal share)

Pike County Senior Citizens Program, Inc \$ 68,645

Martin County Senior Citizens, Inc \$ 20,923

Magoffin County Senior Citizens, Inc \$ 33,408

Johnson County Senior Citizens Program, Inc \$ 26,429

Floyd County Senior Citizens, Inc \$ 63,361

\$ 212,765

IIID subrecipients (federal share)

Pike County Senior Citizens Program, Inc \$ 3,101

Martin County Senior Citizens, Inc \$ 944

Magoffin County Senior Citizens, Inc \$ 2,200

Johnson County Senior Citizens Program, Inc \$ 1,125

Floyd County Senior Citizens, Inc \$ 3,468

\$ 10,838

NSIP subrecipients - 100% federal

Pike County Senior Citizens Program, Inc \$ 67,070

Martin County Senior Citizens, Inc \$ 11,946

Magoffin County Senior Citizens, Inc \$ 12,890

Johnson County Senior Citizens Program, Inc \$ 18,109

Floyd County Senior Citizens, Inc \$ 45,200

\$ 155,215

\$ 744,484

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

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2017

There are no prior audit findings that meet the requirements to be included in this schedule.

LYNETTE R. SCHINDLER, CPA, PSC

130 Scott Ave.
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(606) 437-1025
Fax (606) 437-1026

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Big Sandy Area Development District, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the Big Sandy Area Development District, Inc. as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Big Sandy Area Development District, Inc.'s basic financial statements, and have issued our report thereon dated December 30, 2017.

Internal Control over Financial Reporting

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

Board of Directors
December 30, 2017

Compliance and Other Matters

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

Purpose of this Report

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

Lynette R. Schindler, CPA, PSC

Pikeville, Kentucky
December 30, 2017

LYNETTE R. SCHINDLER, CPA, PSC

130 Scott Ave.
Pikeville, KY 41501
(606) 437-1025
Fax (606) 437-1026

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

To the Board of Directors
Big Sandy Area Development District, Inc.

Report on Compliance for Each Major Federal Program

We have audited Big Sandy Area Development District, Inc.'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 Big Sandy Area Development District, Inc.'s major federal programs for the year ended June 30, 2017. Big Sandy Area Development District, Inc.'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Big Sandy Area Development District, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Big Sandy Area Development District, Inc.'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 on Big Sandy Area Development District, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Big Sandy Area Development District, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Big Sandy Area Development District, Inc. 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 Big Sandy Area Development District, Inc.'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 Big Sandy Area Development District, Inc.'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.

Lynette R. Schindler, CPA, PSC

BIG SANDY AREA DEVELOPMENT DISTRICT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Significant deficiencies identified Yes No
Significant deficiencies identified that are considered to be material weaknesses Yes None reported

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Significant deficiencies identified Yes No
Significant deficiencies identified that are considered to be material weaknesses Yes None reported

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

Unmodified for all major programs

Any audit findings disclosed that are required to be reported in accordance with CFR Section 200.516(a)? Yes No

Major Programs:

- CFDA: 93.558 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - TANF - Kentucky Works
- CFDA: 93.044 TITLE III, Part B - Grants for Supportive Services and Senior Centers
- 93.045 TITLE III, Part C - Nutrition Services
- 93.053 Nutrition Service Incentive Program (NSIP)

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as a low-risk auditee? Yes No