

LAKE CUMBERLAND AREA
DEVELOPMENT DISTRICT, INC.
Russell Springs, Kentucky

Report on Audit of
Financial Statements
For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lake Cumberland Area Development District
Russell Springs, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Cumberland Area Development District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Lake Cumberland Area Development District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities Lake Cumberland Area Development District, as of June 30, 2018, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, in July 17 the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other than Pensions. Our opinion is not modified with respect to this matter.

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 3 through 7 and Pension and OPEB Schedules on pages 24-27 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 District's basic financial statements. The schedules of shared costs and statements of operations and combining statements 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of shared costs and statements of operations and combining statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of shared costs and statements of operations and combining statements 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 November 18, 2018, on our consideration of Lake Cumberland Area Development District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Cumberland Area Development District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
November 18, 2018

MANAGEMENTS DISCUSSION AND ANALYSIS

The management's discussion and analysis provides an overview of Lake Cumberland Area Development District's financial performance during the fiscal year 2018. Please read the following in conjunction with the District's audited financial statements. A comparative analysis has been presented as a single fund, special-purpose government.

OVERVIEW OF THE ANNUAL REPORT

This annual report includes the management's discussion and analysis, the independent auditor's report, the District's audited financial statements, and notes to the financial statements. The notes to the financial statements explain in detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The District's financial statements utilize the full accrual basis of accounting. Also, the financial statements conform to generally accepted accounting principles and guidelines set forth by the Governmental Accounting Standards Board as it relates to a single fund special-purpose government. The required financial statements are the District's statement of net position, statement of revenue, expenses and changes in net position and a statement of cash flows. The District does not utilize multiple funds in accounting for its financial activities; therefore, only fund type statements are presented. The statement of net position details the District's investments (assets), debts (liabilities), and net position (net assets).

FINANCIAL ANALYSIS OF THE DISTRICT

The Condensed Statement of Net Position reveals the following changes for the fiscal year 2018:

	FY 2018	FY 2017	Change
Current Assets	\$ 4,287,823	\$ 4,606,654	\$ (318,831)
Capital and Other Assets	3,604,645	3,676,313	(71,668)
Deferred Outflows of Resources	<u>2,351,963</u>	<u>1,522,741</u>	<u>829,222</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 10,244,431</u>	<u>\$ 9,805,708</u>	<u>\$ 438,723</u>
Current Liabilities	\$ 622,469	\$ 617,604	\$ 4,865
Long Term Liabilities	9,736,332	6,886,958	2,849,374
Deferred Inflows of Resources	<u>1,061,346</u>	<u>279,137</u>	<u>782,209</u>
Total Liabilities & Deferred Inflows of Resources	<u>11,420,147</u>	<u>7,783,699</u>	<u>3,636,448</u>
Net Position			
Net Investment in Capital assets	\$ 674,525	\$ 679,442	\$ (4,917)
Restricted	1,343,673	1,335,222	8,451
Unrestricted	<u>(3,193,914)</u>	<u>7,345</u>	<u>(3,201,259)</u>
Total Liabilities, Deferred Inflows of Resources & Net Position	<u>\$ 10,244,431</u>	<u>\$ 9,805,708</u>	<u>\$ 438,723</u>

MANAGEMENTS DISCUSSION AND ANALYSIS

The state of revenue, expenses and changes in net position had the following changes:

	FY 2018	FY 2017	Change
Operating Revenues			
Federal	\$ 6,103,387	\$ 5,535,947	\$ 567,440
State	1,610,600	1,713,135	(102,535)
In-Kind	70,734	84,183	(13,449)
Other and Local	<u>1,162,208</u>	<u>1,354,214</u>	<u>(192,006)</u>
 Total Operating Revenues	 <u>8,946,929</u>	 <u>8,687,479</u>	 <u>259,450</u>
Operating Expenses			
Salaries and Fringe	4,011,409	4,918,228	(906,819)
Subgrantees and Contractual	3,438,071	2,934,741	503,330
Other	<u>2,870,087</u>	<u>1,638,375</u>	<u>1,231,712</u>
 Total Operating Expenses	 <u>10,319,567</u>	 <u>9,491,344</u>	 <u>828,223</u>
 Operating Income	 <u>(1,372,638)</u>	 <u>(803,865)</u>	 <u>(568,773)</u>
Non-Operating Income (Expense)			
Bank Interest Income	12,903	14,293	(1,390)
Interest Expense	<u>(21,975)</u>	<u>(22,908)</u>	<u>933</u>
 Total Non-Operating Income	 <u>(9,072)</u>	 <u>(8,615)</u>	 <u>(457)</u>
 Change in Net Position	 (1,381,710)	 (812,480)	 (569,230)
Net Position, Beginning of Year	<u>205,994</u>	<u>2,834,488</u>	<u>(2,628,494)</u>
 Net Position, End of Year	 <u>\$ (1,175,716)</u>	 <u>\$ 2,022,008</u>	 <u>\$ (3,197,724)</u>

The significant change in net position is directly related to the implementation of GASB Statement 68 and 75 which requires the District to report its proportionate share of the unfunded liability of the CERS pension and OPEB plans which the District participates in.

NOTES RECEIVABLE, RLF

The District, in order to stimulate economic development and assist businesses in obtaining and acquiring low interest rate loans, has chosen to participate in the Revolving Loan Program. Through a federal grant and local funding the District created a loan program for the before mentioned reasons. The loans are repaid from payments collected from borrowers. Loan balances at June 30, 2018 totaled \$651,110 compared to \$778,629 in 2017.

MANAGEMENTS DISCUSSION AND ANALYSIS

CAPITAL ASSETS

The District did not acquire any capital assets for fiscal year 2018. Accumulated depreciation increased \$80,119 from fiscal year 2017 to fiscal year 2018, leaving a remaining balance of \$1,210,972 in net capital assets.

Capital Assets	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>June 30, 2017</u>			<u>June 30, 2018</u>
Land	\$ 70,000	\$ -	\$ -	\$ 70,000
Buildings	1,868,132	-	-	1,868,132
Equipment and Vehicles	<u>648,651</u>	<u>-</u>	<u>-</u>	<u>648,651</u>
Total	2,586,783	-	-	2,586,783
Accumulated depreciation	<u>(1,295,692)</u>	<u>(80,119)</u>	<u>-</u>	<u>(1,375,811)</u>
Net Capital Assets	<u>\$ 1,291,091</u>	<u>\$ (80,119)</u>	<u>\$ -</u>	<u>\$ 1,210,972</u>

LONG-TERM DEBT

Notes payable consists of various loans which were obtained by LCDC for various buildings upgrades and equipment additions over the last several years. These loans were obtained from, SKRECC, Shelby Energy Corporation and U S Rural Development. There were no new loans for the year ended June 30, 2018.

	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>
	<u>June 30, 2017</u>			<u>June 30, 2018</u>
Notes Payable	<u>\$ 611,649</u>	<u>\$ -</u>	<u>\$ (75,202)</u>	<u>\$ 536,447</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District considers many factors when setting the fiscal year 2018 budget. The most significant factor is the uncertainty of state and federal funding. At the start of fiscal year 2018, several of our state contracts had not been finalized due to budget uncertainty. We are speculating that many of our federal and state revenues will decrease due to budget cuts. Our Medicaid PDS program should be able to maintain revenues if not grow.

Workforce Innovation and Opportunity Act

WIOA formula funding for Adults decreased from \$1,233,521 in FY-17 to \$1,041,386 in FY-18. This is a \$192,135 decrease or 15.58%. WIA formula funding for Dislocated Workers decreased from \$968,384 in FY-17 to \$799,805 in FY-18. This is a \$168,579 decrease or 17.41%. WIOA formula funding during FY-17 for Youth services was \$1,308,949. \$400,000 of these funds came from recaptured funds from another workforce area. No Youth Funds for FY-18 were received until July 2018 due to the late passage of the Omnibus Federal Budget. No funding for Trade training was received during FY-18 due to a decrease in Trade participants. The Adult, Dislocated Worker and Youth funding amounts continue to fluctuate due to Federal Funding and the unemployment rates across the state with dictates the proration of funding.

MANAGEMENTS DISCUSSION AND ANALYSIS

Rapid Response Funds were received in the amount of \$200,000 for Trade Case Management.

Special funding awards during FY-18, \$223,976 were received under Statewide Reserve Business Driven Innovation and Impact Awards. \$20,000 was received under Medicaid IT support to help work on new IT system. \$46,363 was received to begin serving SNAP E and T participants under Kentucky Health.

LCADD also received contracts from Lincoln Trail Area Development District to serve as the One-Stop Operator and Direct Service Provider under WIOA. LCADD received \$101,884 thru the contract for the One-Stop Operator contract and \$69,620 thru the Direct Services contract. LCADD has employed 6 new employees thru these contracts with one having resigned during the year.

Two staff members left the LCADD Workforce Department during FY-18. One new employee was hired, Karen Miller to be the One-Stop Operator in the CWDA.

Planning Department

During FY-17, the LCADD Planning Department had an income totaling \$189,717 through contracts with the Kentucky Transportation Cabinet, and the Kentucky Infrastructure Authority. Current contracts for FY-18 total \$176,770 a 6.8% decrease from last year.

These contracts are as follows:

Transportation Planning	78,067.00
Water and Wastewater Planning	75,703.00
Local Road Updates	18,000.00
Local Contracts	<u>5,000.00</u>
Total:	<u>\$176,770.00</u>

While departmental revenues fell during FY-18 due to governmental cuts, efforts were undertaken to decrease costs as well. Planning Department staff was decreased by one employee early in the fiscal year. Also, changes to health insurance premiums reduced departmental costs as well. With the addition of several smaller local contracts, the Planning Department is in a better position to support itself over the next fiscal year.

Aging and Independent Living

Lake Cumberland Area Agency on Aging and Independent Living (LCAAIL) FY17 budget was \$2,532,957 after cuts. Beginning of FY17 there was a reduction in funding totaling \$149,884. During FY17 the Aging Department experienced the retirement of Carrie Frost the Homecare Coordinator and Elizabeth Foster ICC/Case Manager. These positions were not filled and duties were absorbed by the remaining Aging staff.

LCAAIL was under a 5 month moratorium of assessing new clients in FY18, and the budget was \$2,474,161 after cuts, Beginning of FY18 there was a reduction in funding totaling \$121,895. During FY18 the Aging Department experienced the retirement of Kim Foley, Director of LCAAIL/National FCP Coordinator plus the loss of two ICC/Case Managers. Three additional staff (1SSA, 2 ICC/CM's) were hired and other positions were absorbed by the remaining staff.

MANAGEMENTS DISCUSSION AND ANALYSIS

Community & Economic Development

In FY18, staff had administrative contracts for a number of projects. There are 13 open funded projects with 8 that have administration contracts.

Staff has prepared applications for 28 other potential projects, however only 12 that allow administrative fees. There are 31 projects in the planning phase that could produce administrative contracts.

Staff has administrative contracts with balances for approximately \$124,600 with the potential for approximately \$683,500 more as new projects are funded and/or applied for.

There are 3 vacant positions in the department. Current staff has picked up the workload. A reduction in Joint Funding Agreement (JFA) monies, with the Commonwealth, made it necessary to cut staffing. One person was informed of two open jobs within the agency, in other departments, and the person chose one of those jobs.

Staffing will be held at 5 persons. Services will remain unchanged as much as possible.

FY16 RLF Write-Offs

There were no loans written-off during fiscal year ended June 30, 2018.

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Current assets

Cash	\$	3,160,478
Accounts receivable		
Federal, state and local grants		831,513
Consumer Directed Option		258,350
Prepaid expenses		37,482
Total current assets		4,287,823

Other assets

Certificates of deposit		1,050,000
Revolving Loan Fund (RLF) cash, restricted		692,563
RLF notes receivable, restricted		651,110
Property and equipment, net		1,210,972
Total other assets		3,604,645

Total assets		7,892,468
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - OPEB		539,144
Deferred outflows - Pension		1,812,819
Total Deferred outflows of Resources		2,351,963

LIABILITIES AND NET POSITION

Current liabilities

Accounts payable		368,491
Accrued expenses		183,834
Current portion of notes payable		70,144
Total current liabilities		622,469

Long-term liabilities

Net pension liability		6,741,079
Net OPEB liability		2,315,251
Accrued annual leave		213,699
Notes payable		466,303
Total long-term liabilities		9,736,332

Total liabilities		10,358,801
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension		940,125
Deferred Inflows - OPEB		121,221
Total Deferred Inflows of resources		1,061,346

NET POSITION

Net investment in capital assets		674,525
Restricted		1,343,673
Unrestricted		(3,193,914)
Total net position		\$ (1,175,716)

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

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF REVENUES EXPENSES AND CHANGE IN NET POSITION
For the Year Ended June 30, 2018

OPERATING REVENUES

Federal	\$ 6,103,387
Commonwealth of Kentucky	1,610,600
In-kind	70,734
Other and local	1,162,208
Total revenues	8,946,929

OPERATING EXPENSES

Salaries	2,639,358
Fringe benefits	1,372,051
Actuarial difference in pension expense	965,379
Actuarial difference in OPEB expense	81,314
Leave time	183,714
Travel	110,812
Subgrantees & contracts	3,438,071
Depreciation and amortization	80,119
In-kind	70,734
Other	1,378,015
Total expenses	10,319,567

OPERATING INCOME (LOSS) (1,372,638)

NON-OPERATING INCOME (EXPENSE)

Bank interest income	12,903
Interest expense	(21,975)
	(9,072)

Change in net position (1,381,710)

Net Position - Beginning of Year, as Restated 205,994

Net Position - End of Year \$ (1,175,716)

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from grantor agencies	\$ 8,216,294
Local cash received	1,254,592
Payments to suppliers	(4,919,062)
Payments for employee services and benefits	<u>(4,011,409)</u>
Net cash provided by operating activities	<u>540,415</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(75,205)
Interest expense	<u>(21,975)</u>
Net cash (used in) capital and related financing activities	<u>(97,180)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Bank interest income	<u>12,903</u>
Net cash provided by investing activities	<u>12,903</u>
Net increase (decrease) in cash and cash equivalents	456,138
Cash and cash equivalents - beginning of the year	<u>3,396,903</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 3,853,041</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ (1,372,638)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation and amortization	80,119
Net pension adjustment	1,046,693
Change in assets and liabilities:	
(Increase) decrease in net receivables	594,691
(Increase) decrease Prepaid expenses	44,308
(Increase) decrease in loans receivable	127,519
Increase (decrease) accounts and other payables	35,739
Increase (decrease) in accrued expenses	(3,923)
Increase (decrease) in accrued leave	9,814
Increase (decrease) unearned revenue	<u>(21,907)</u>
Net cash provided by operating activities	<u><u>\$ 540,415</u></u>
Cash and cash equivalents consists of the following:	
Unrestricted cash	\$ 3,160,478
Restricted cash	<u>692,563</u>
Total cash and cash equivalents	<u><u>\$ 3,853,041</u></u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lake Cumberland Area Development District (the District) is a non-profit governmental corporation formed pursuant to KRS Chapter 147A which has as its primary purpose, the promotion of economic development and the establishment of a framework for joint federal, state and local efforts directed toward providing basic services and facilities essential to the social, economic and physical development of a ten-county area in the Lake Cumberland region of Kentucky. The District as an association of local governments works together to solve common problems through a regional approach. The district creates a network from citizens to local elected officials through state agencies to the governor and appropriate federal agencies.

Reporting Entity – The financial statements present the District (the primary government) and its blended component unit, Lake Cumberland Development Council, Inc. (LCDC). As defined by GASB Statement No. 14, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relationships with the District.

Basis of Presentation - The District's financial statements conform to the provisions of the Governmental Accounting Standards Board codification section 2600, as it relates to special-purpose governments and, accordingly, the financial statements consist of the following:

Management's discussion and analysis (required supplementary information):

Basic financial statements

Fund financial statements

Notes to the financial statements

Entity-wide financial statements – The District is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the ten-county area. No entity-wide statements are required because a single proprietary fund is used for the District.

Fund Financial Statements – The District's financial statements include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are prepared on a full accrual basis.

Costs for all programs (including those programs outside of the Joint Funding Administration (JFA) have been accounted for under the accounting system prescribed by the JFA. Indirect expenses have been allocated to JFA program elements and other programs on the basis of direct salary and fringe costs as allocated per employee's time records. Non-federal matching contributions are applied to individual programs on the basis of total expenses incurred on the program and the sharing ratio specified in the program agreement.

Revenue Recognition Policies - The District recognizes revenue on the accrual basis of accounting. Grant and contract revenue is recognized as eligible expenses are incurred. Revenue is recognized on performance contracts upon the completion of agreed upon services.

Non-Operating Income – The District recognizes investment income as non-operating income. All other income is recognized as operating income.

Restricted Net Position - The District uses restricted net position first to offset expense, when available, if both restricted and unrestricted net position are available.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue – Unearned revenue arises when funds are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District defines cash and cash equivalents as cash in banks, funds in overnight repurchase agreements and any highly liquid investments with initial maturities of 90 days or less.

Fixed Assets – The District does not hold any buildings, property or equipment. All such items are instead held in the Development Council. Buildings, property and equipment are stated at cost and depreciated over their estimated useful lives of three (3) to forty (40) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. Depreciation expense is charged to both direct and shared costs as rental expense. The shared cost portion is allocated to the various grants using the approved cost allocation plan.

Budgeting – The District is not required to adopt a legal budget in the manner of most local governmental entities. The budget is an operational and management tool that ensures the maximum use of resources. The budget is approved by the board of directors and monthly reports are presented to the board and management using budget comparisons.

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

Compensated Absences - Employees of the District accrue sick leave at the rate of 1 ¼ days per month. Sick leave that may be accrued is unlimited. Sick leave is forfeited upon termination of employment. Employees retiring under the CERS retirement system will receive credit for accrued but unused sick leave up to 120 days. Annual leave (vacation) earned is based on seniority at the rates of 12 to 24 days per year and can be carried forward from one year to the next. A maximum of 30 days may be carried forward. All days in excess of 30 are converted to sick. The District pays the balance of vacation upon separation with an employee. The accrued liability for accumulated annual leave as reported on the statement of net position at June 30, 2018 is \$213,699.

Rentals/Component Unit – The District leases its office facilities, equipment and automobiles from the Development Council (included within the accompanying financial statements). The District paid approximately \$180,000 in rentals for the year ended June 30, 2018. Total annual rentals are based upon operating expenses of the Development Council.

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

Income Taxes - The District is a governmental organization formed under Kentucky Revised Statute and is not required to file information form 990.

Management's Review of Subsequent Events - The District has evaluated and considered the need to recognize or disclose subsequent events through November 18, 2018, which represents the date that these financial statements were available to be issued.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

2. CASH AND INVESTMENTS

At year end, the carrying amount of the District's cash deposits and investments was \$4,903,041 and the bank balance was \$5,170,584. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank as of June 30, 2018. These amounts were covered by Federal Depository Insurance or by securities pledged by financial institutions.

Interest Rate Risk:

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Currently the District has certificate of deposits with interest rates varying from 1% to 2% with maturity dates ranging from three to twelve months.

3. GRANTS RECEIVABLE

Federal, state and local grants receivable consists of the following at June 30, 2018:

WIOA	\$	496,057
Aging		212,280
Other programs		<u>381,526</u>
Total grants receivable	\$	<u><u>1,089,863</u></u>

4. LOANS RECEIVABLE

The District has established the following loan program to assist businesses in its district:

Revolving Loan Fund (RLF) – established by initial grants from the Economic Development Administration to assist high-risk small businesses in local area communities.

Revolving Loans	\$	1,025,000
Less; Loan Repayments		<u>(373,890)</u>
Total Outstanding Loans		651,110
Less: Allowance for Bad Debts		<u>-</u>
 Net Loans Receivable	 \$	 <u><u>651,110</u></u>

Loans program receivables and the related cash balances are shown as restricted assets on the statement of net position because they cannot be used for the general operation of the District. Loan bad debts are charged to operations in the period they become uncollectible.

5. CAPITAL ASSETS

The Development Council maintains buildings, property and equipment used for the District operations. Fixed assets are stated at cost and depreciated over their estimated useful lives of three (3) to forty (40) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. Depreciation expense totaled \$80,119, for the year ended June 30, 2018. The following summarizes the changes in fixed assets during the year ended:

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

5. CAPITAL ASSETS, CONTINUED

Capital Assets	Balance <u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2018</u>
Land	\$ 70,000	\$ -	\$ -	\$ 70,000
Buildings	1,868,132	-	-	1,868,132
Equipment and Vehicles	<u>648,651</u>	<u>-</u>	<u>-</u>	<u>648,651</u>
Total	2,586,783	-	-	2,586,783
Accumulated depreciation	<u>(1,295,692)</u>	<u>(80,119)</u>	<u>-</u>	<u>(1,375,811)</u>
Net Capital Assets	<u>\$1,291,091</u>	<u>\$ (80,119)</u>	<u>\$ -</u>	<u>\$ 1,210,972</u>

6. LONG-TERM LIABILITIES

Notes payable consists of various loans which were obtained by LCDC for various buildings and equipment. Notes payable are as follows at June 30, 2018.

SKRECC, principal due \$3,000 per month bearing interest at a rate of 0%, due 5/2019.	\$ 30,000
Shelby Energy Corp, monthly payment of principal and interest of \$2,760, bearing interest at a rate of 1.8%, due 7/2019.	35,470
USDA Rural Development, annual principal and interest payments of \$28,060, bears interest at a rate of 4.38%, due 1/2049.	<u>470,977</u>
Total debt	536,447
Less: current portion	<u>(70,144)</u>
Total long-term debt	<u>\$ 466,303</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

7. LONG-TERM LIABILITIES, CONCLUDED

The following is a summary of debt maturities due for the years ending

June 30	Principal	Interest	Total
2019	70,144	21,042	91,186
2020	10,511	20,310	30,821
2021	8,095	19,966	28,061
2022	8,449	19,611	28,060
2023	8,819	19,241	28,060
2024-2028	50,240	90,060	140,300
2029-2033	62,249	78,051	140,300
2034-2038	77,130	63,170	140,300
2039-2043	95,567	44,733	140,300
2044-2048	118,412	21,889	140,301
2049-2051	26,831	6,868	33,699
	\$ 536,447	\$ 404,941	\$ 941,388

The following is a change in notes payable for the year ended June 30, 2018:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
Notes Payable	\$ 611,649	\$ -	\$ (75,202)	\$ 536,447

8. OPERATING LEASE

The District leases its offices, equipment and vehicles from the Lake Cumberland Development Council. Rents are determined by the operating needs of the Development Council. Rent expense varies from year to year. The arrangement is designed for the Development Council to operate with zero profit.

9. PENSION PLAN

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability pension expense and pension-related outflows and inflows based on their proportionate share of the collective amounts for all governments in the plan.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. PENSION PLAN, CONTINUED

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. 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. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. For retirement purposes, employees are grouped into three tiers, based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov.

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions - Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. PENSION PLAN, CONTINUED

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS of \$6,741,079.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was .115167%.

For the year ended June 30, 2018, the District recognized pension expense of \$1,364,288. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 533,885	\$ 450,506
Net difference between projected and actual earnings on pension plan investments	8,361	171,117
Changes in assumptions	871,664	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	318,502
District contributions subsequent to the measurement date	398,909	-
	\$ 1,812,819	\$ 940,125

The fiscal year 2018 CERS employer contributions of \$398,909 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows related to pensions will be amortized over five years or by the average service life and recognized as an increase or decrease in pension expense as follows:

		Net Deferred Outflows (Inflows)
2019	\$	390,939
2020		169,405
2021		(86,559)
2022		-
2023		-
Total	\$	473,785

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. PENSION PLAN, CONTINUED

Actuarial assumptions Prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30:

	<u>2017</u>	<u>2016</u>
Inflation	2.30%	3.25%
Projected salary increases	3.05%	4.00%
Investment rate of return, net of investment expense and inflation	6.25%	7.50%

Mortality rates used for active members is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). The RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected return on plan assets 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 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 timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Asset Class	Target Allocation	Long-term expected real rate of return
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10%	8.25%
Cash	<u>2.00%</u>	1.88%
	100.00%	

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. PENSION PLAN, CONTINUED

Discount rate—the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The following table presents the net pension liability of the District, calculated using the discount rates selected by CERS, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 8,501,957	\$ 6,741,079	\$5,268,117

Pension plan fiduciary net position—detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS.

Non-hazardous position employees are required to contribute 5% of gross compensation to the plan. The Board of Trustees of KRS also determines the District's required contribution annually 14.48% pension and 4.70 OPEB for the year ended June 30, 2018. For the year ended June 30, 2018 the District's total covered payroll was approximately \$2,754,895. The District contributed approximately \$398,909 in 2018 and employees contributed approximately \$136,202 to the plan.

10. RESTATEMENT

Net position as of July 1, 2017 has been adjusted for a change in accounting principle to recognize the Net OPEB liability as required by GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. The effect of this change was a decrease of \$1,816,014 to beginning net position.

Net position as previously reported	\$	2,022,008
Net OPEB liability		<u>(1,816,014)</u>
Net position as restated	\$	<u>205,994</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Effective July 1, 2017, The District adopted GASB Statement 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. The objective of this Statement is to address accounting and financial reporting for Other Post-Employment Benefits (OPEB) that are provided to the employees of state and local governmental employers. This Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows or resources, and expense. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Kentucky Retirement Systems provides participants their proportionate share of the OPEB unfunded liability calculated by Gabriel, Roeder, Smith & Co (GRS) to be used in financial reports. KRS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov

Plan Description: The Kentucky Retirement Systems' Insurance Fund is a cost sharing multiple-employer defined benefit Other Post-Employment Benefit plan for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state departments, board, agency, county, city, school board, and any additional eligible local agencies electing to participate.

Benefits Provided: The plan was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

Contributions: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. See chart for current values for Dollar Contribution. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund		Dollar Contribution for Fiscal Year 2017	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>	For Member participation date on or after July 1, 2003	
20+ years	100.00%	<u>System</u>	(in whole dollars)
15-19 years	75.00%	KERS Non-hazardous	\$13.18
10-14 years	50.00%	KERS Hazardous	\$19.77
4-9 years	25.00%	CERS Non-hazardous	\$13.18
Less than 4 years	0.00%	CERS Hazardous	\$19.77
		SPRS	\$19.77

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. The fully insured premiums KRS pays for the CERS health insurance plans are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing it to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The distributions from the retiree health insurance trust pay the employers' portion of the blended premiums, not the employers' portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts need to include an adjustment related to the implicit subsidy. Participating employers adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes.

OPEB Liability, Expense and Deferred Outflows and Deferred Inflows of Resources

At June 30, 2018, the District reported a liability of \$2,315,251 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2017, the District's proportionate share was .115167%.

As a result of its requirement to contribute to the Plan, the District recognized OPEB expense of \$210,794 for the year ended June 30, 2018 and reported deferred inflows and deferred outflows of resources from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 6,431
Changes of assumptions	437,960	-
Net difference between projected and actual earnings on Plan investments	-	109,418
Change in proportion and differences between employer contribution and proportionate share of plan contribution	-	5,372
District contributions subsequent to the measurement date	101,184	-
	<u>\$ 539,144</u>	<u>\$ 121,221</u>

The deferred outflows resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in expense as follows:

Year Ended	Net Deferred Outflows/(Inflows)
June 30, 2019	\$ 65,824
June 30, 2020	65,824
June 30, 2021	65,824
June 30, 2022	93,179
Thereafter	<u>26,088</u>
	<u>\$ 316,739</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB), CONTINUED

Actuarial Assumptions: The total OPEB liability, net OPEB liability and sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017 using generally accepted actuarial principles. The KRS Board of Trustees adopted the following updated actuarial assumptions used in performing the actuarial valuation as of June 30, 2017.

Assumed investment return	6.25%
Inflation factor	2.30%
Payroll growth	2.00%

Mortality rates were based on the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

The long-term expected rate of return was determined by using a building-block method in which the best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-term expected real rate of return
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10%	8.25%
Cash	<u>2.00%</u>	1.88%
	100.00%	

Discount Rate: The single discount rate of 5.84% for Non-hazardous was used to measure the total OPEB liability as of June 30, 2017. For both hazardous and non-hazardous groups, the single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56% as reported in Fidelity Index's "20 Year Municipal GO AA Index" as of June 30, 2017. The following presents the District's proportionate share of the net OPEB liability if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate		
CERS--		<u>Non-Hazardous</u>
1% Decrease (4.84%)	\$	2,946,028
Current Discount Rate (5.84%)	\$	2,315,251
1% Increase (6.84%)	\$	1,790,345

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB), CONCLUDED

Healthcare Trend Rate: The initial trend rate for participants under 65 years of age starts at 7.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 5 years. For those over 65 years of age the trend rate starts at 5.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 2 years. The following table presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rate:

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
CERS--		<u>Non-Hazardous</u>	
1% Decrease	\$		1,775,916
Current Healthcare Cost Trend Rate	\$		2,315,251
1% Increase	\$		3,016,353

OPEB Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued KRS financial statements.

12. COMMITMENTS AND CONTINGENCIES

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

13. LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT PDS

The District provides fiscal management services to the Lake Cumberland ADD Participant Directed Services (PDS) program as a fiscal agent. The District operates the PDS program for the Cabinet for Health and Family Services, Department of Aging and Independent Living (DAIL). Waiver clients have the option to choose PDS at any time.

The District serves as the fiscal agent for the client and as a support broker. As clients opt for PDS, Medicaid reimbursement pays funds based on services provided. These funds reimburse payment for services on behalf of the client. Throughout the year, DAIL reassesses the PDS 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 PDS program. The PDS program then pays the District for its administrative responsibilities. During the year ended June 30, 2018 the District received \$698,111 from the PDS program for administration and the District was owed \$258,350 by the PDS program.

14. COST ALLOCATION PLAN

Lake Cumberland Area Development District is required by the Department of Local Government, to operate under a cost allocation plan that conforms with 2 CFR Part 225 (OMB Circular A-87). A summary of the cost allocation plan begins on page 23. The District is in conformity with 2 CFR Part 225.

REQUIRED SUPPLEMENTARY INFORMATION

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CERS
June 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's portion of the net pension liability	0.115167%	0.12484%	0.12600%	0.12917%
District's proportionate share of net pension liability	\$ 6,741,079	\$ 6,146,609	\$ 5,417,490	\$ 4,190,368
District's covered-employee payroll	\$ 2,754,895	\$ 2,825,763	\$ 2,968,342	\$ 2,941,160
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	244.69%	217.52%	182.51%	142.47%
Plan fiduciary net position as a percentage of the total pension liability	53.00%	55.50%	59.97%	66.80%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS – CERS
June 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 398,909	\$ 527,853	\$ 506,399	\$ 519,703
Contributions in relation to the contractually required contribution	<u>(398,909)</u>	<u>(527,853)</u>	<u>(506,399)</u>	<u>(519,703)</u>
Difference in actual and required contribution	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,754,895	\$ 2,825,763	\$ 2,968,342	\$ 2,941,160
Contributions as a percentage of covered-employee payroll	14.48%	18.68%	17.06%	17.67%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – CERS
June 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
District's portion of the net OPEB liability	0.115167%	N/A
District's proportionate share of net OPEB liability	\$ 2,315,251	\$ 1,816,014
District's covered-employee payroll	\$ 2,754,895	\$ 2,825,763
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	84.04%	64.27%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	N/A

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
 SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS – CERS
 June 30, 2018**

	<u>June 30, 2018</u>
Contractually required contribution	\$ 129,480
Contributions in relation to the contractually required contribution	<u>(129,480)</u>
	<u>\$ -</u>
 District's covered-employee payroll	 \$ 2,754,895
Contributions as a percentage of covered- employee payroll	 4.70%

**Schedule is intended to show information for ten years.
 Additional years will be displayed as they become available.

SUPPLEMENTARY INFORMATION

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF SHARED/INDIRECT COSTS
For the Year Ended June 30, 2018

Cost Categories:

Salaries	\$ 381,026
Personnel Burden	176,315
Leave Time	30,928
Travel, staff and board	44,216
Equipment maintenance and rent	25,827
Building rentals	133,697
Registration and meeting expense	11,894
Contractual services, audit and legal	35,591
Utilities and telephone	48,018
Janitorial expenses	17,587
Auto expense	55,708
Dues and memberships	5,959
Printing and publications	866
Supplies	16,890
Insurance	45,155
Postage	2,832
Other	<u>3,689</u>
	<u>\$ 1,036,198</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
COST ALLOCATION POLICY
For the Year Ended June 30, 2018**

All funds expended by the Lake Cumberland Area Development District (the District) are charged either to a specific grant and/or program element as a Direct Charge or spread to all grants and/or program elements as a shared (indirect) cost in conformity with 2 CFR Part 225, (OMB Circular A-87). Direct charges are defined as those that can be identified specifically with a particular cost objective. Shared (indirect) costs are those incurred for a common or joint purposes benefiting more than one grant and/or program element. Below is a listing of direct and shared costs as they are charged by the District.

Direct/Shared Costs

1. **Salary** - Salaries of all professional employees are charged as direct costs to the grants and/or program elements in which their work is attributable. These charges are based on time sheets submitted by all employees. The Executive Director, fiscal officer and any employee whose time is fragmented between many elements are charged in part or in whole as direct or shared costs.
2. **Employee Burden, Fringe Benefits, Sick and Holiday Leave** - All employee burden which can be specifically related to an employee whose salary is charged as a direct cost, is allocated proportionately to direct salaries as a direct cost. Similarly, the employee burden of those persons whose salary is charged as a shared cost is allocated as a shared cost.
3. **Consultant Contracts and Contractual Services** - Contracts whose content can be directly attributed to a specific grant and/or program element are charged as direct costs to those programs. Other contracts, such as for public information or secretarial services, whose content can be directly attributed to a specific grant and/or program element are charged as direct costs to those programs. Other contracts, such as for public information or secretarial services whose content cannot be directly attributed to a specific program task, are charged as shared costs.
4. **Printing** - Outside printing costs which are readily identifiable and attributable to documents within a specific grant and/or work element are charged as direct costs. Miscellaneous printing costs are charged as shared costs.
5. **Travel** - All travel costs, which are directly attributable to an employee whose salary is charged as a direct cost is also charged as direct cost. All other travel costs, for Staff and Board, are charged as shared costs. Staff travel costs are allocated to grants and/or program elements accordingly to the total time spent by an employee on a specific program element during the month in which the travel occurred.
6. **Audit Fees** – General audit fees are charged as a shared cost. Specific program audit fees are charged as a direct cost.
7. **Building Rental**- Building rental and the associated utilities costs are charged as shared costs except for the Kentucky Career Centers that house the WIA counselors and case managers and local senior citizens centers. Costs associated with those particular buildings are charged as direct costs to the WIOA and Aging grants.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
COST ALLOCATION POLICY
For the Year Ended June 30, 2018**

8. **Equipment Rental/Purchase** – The purchase of equipment and/or any depreciation or rental charge on purchased equipment is charged, if allowable, as a direct cost to the applicable program element(s). All other equipment purchases and/or depreciation, or rental is to be charged as a shared cost.
9. **Communications** - All communication costs, including telephone, postage and the like, are charged as shared costs unless directly attributable to a program.
10. **Classified Advertising** – All classified advertising costs are charged as direct costs to the applicable program element(s). General classified advertising costs are charged as shared costs.

All additional costs which are not identified above are charged as shared costs unless otherwise indicated by the Department for Local Government or are prohibited.

**Shown below is LCADD's indirect cost allocation percentage for the year ended
June 30, 2018**

A. General and Administrative - Shared Costs:

Salaries	\$	381,026	
Personnel Burden		176,315	
Leave Time		30,928	
Travel, staff and board		44,216	
Equipment maintenance and rent		25,827	
Building rentals		133,697	
Registration and meeting expense		11,894	
Contractual services, audit and legal		35,591	
Utilities and telephone		48,018	
Janitorial expenses		17,587	
Auto expense		55,708	
Dues and memberships		5,959	
Printing and publications		866	
Supplies		16,890	
Insurance		45,155	
Postage		2,832	
Other		3,689	
Total Shared Costs			\$ 1,036,198

B. Direct Salaries and Benefits:

Salaries	\$	2,258,332	
Benefits		1,195,737	
Total Direct Salaries and Benefits			3,454,069

C. Total Shared Costs 1,036,198

FY 2018 Shared Costs Rate (C/ B) 30.00%

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS BY PROGRAM
For the Year Ended June 30, 2018**

	<u>JFA</u>	<u>WIOA</u>	<u>AGING</u>	<u>PDS</u>	<u>PLAN/TRANS</u>	<u>Other</u>	<u>Local</u>	<u>Expense</u>	<u>Total</u>
<u>Revenues</u>									
Federal Grants	\$ 189,238	\$4,619,243	\$1,135,409	\$ -	\$ 17,891	\$141,606	\$ -	\$ -	\$ 6,103,387
State Grants	141,737	-	1,315,093	-	153,770	-	-	-	1,610,600
Local	-	-	63,629	698,111	-	24,248	179,836	-	965,824
Other	-	-	-	-	-	650	-	-	650
Interest on Loans	-	-	-	-	-	16,299	12,444	-	28,743
In-Kind	-	-	70,734	-	-	-	-	-	70,734
Program Income	-	-	-	-	-	-	-	-	-
Total Revenues	<u>330,975</u>	<u>4,619,243</u>	<u>2,584,865</u>	<u>698,111</u>	<u>171,661</u>	<u>182,803</u>	<u>192,280</u>	<u>-</u>	<u>\$ 8,779,938</u>
<u>Expenses</u>									
Salaries	240,540	767,539	769,685	359,334	117,627	3,607	-	381,026	2,639,358
Personnel Burden	126,064	405,430	370,678	229,007	62,887	1,670	1,046,693	176,315	2,418,744
Leave Time	20,958	57,595	39,497	24,197	10,107	432	-	30,928	183,714
Subgrantees & Contracts	-	2,846,497	453,213	-	-	138,361	-	-	3,438,071
Travel staff	2,617	28,442	12,232	17,770	1,413	-	4,122	44,216	110,812
Other Direct Expenses	1,958	174,764	593,981	24,048	11,879	28,219	51,114	403,713	1,289,676
In-Kind	-	-	70,734	-	-	-	-	-	70,734
Total Shared Costs	<u>117,068</u>	<u>338,976</u>	<u>343,585</u>	<u>177,040</u>	<u>57,853</u>	<u>1,676</u>	<u>-</u>	<u>(1,036,198)</u>	<u>-</u>
Total Expenditures	<u>509,205</u>	<u>4,619,243</u>	<u>2,653,605</u>	<u>831,396</u>	<u>261,766</u>	<u>173,965</u>	<u>1,101,929</u>	<u>-</u>	<u>10,151,109</u>
Excess Revenue Over (Under)									
Expenditures	<u>\$(178,230)</u>	<u>\$ -</u>	<u>\$ (68,740)</u>	<u>\$(133,285)</u>	<u>\$ (90,105)</u>	<u>\$ 8,838</u>	<u>\$(909,649)</u>	<u>\$ -</u>	<u>\$(1,371,171)</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
JOINT FUNDING ADMINISTRATION PROGRAMS
For the Year Ended June 30, 2018**

	<u>BUDGET</u>	<u>DIRECT</u>	<u>INDIRECT</u>	<u>TOTAL</u>	<u>ACTUAL FAVORABLE (UNFAVORABLE)</u>
Revenues:					
Federal	\$ 189,238	\$ 189,238	\$ -	\$ 189,238	\$ -
State	194,227	141,737	-	141,737	(52,490)
Local funds	-	-	-	-	-
	<u>383,465</u>	<u>330,975</u>	<u>-</u>	<u>330,975</u>	<u>(52,490)</u>
Expenditures:					
Community and Economic Development EDA (120)	57,785	80,732	24,229	104,961	(47,176)
Community and Economic Development (125)	26,031	20,075	8,736	28,811	(2,780)
Community and Economic Development (130)	212,444	215,932	59,959	275,891	(63,447)
Management Assistance (140)	45,523	35,929	10,833	46,762	(1,239)
Program Administration (150)	41,682	39,469	13,311	52,780	(11,098)
	<u>383,465</u>	<u>392,137</u>	<u>117,068</u>	<u>509,205</u>	<u>(125,740)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (61,162)</u>	<u>\$ (117,068)</u>	<u>\$ (178,230)</u>	<u>\$ (178,230)</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF AGING OPERATIONS BY PROGRAM
For the Year Ended June 30, 2018**

	<u>III-B Admin</u>	<u>III-B Support Services</u>	<u>III-B Ombudsman</u>	<u>III-C1 Meals Admin</u>	<u>III-C1 Cong. Meals</u>	<u>III-C2 Meals Admin</u>	<u>III-C2 HD Meals</u>
Revenues							
Federal Grants	\$ 37,815	\$ 301,865	\$ 16,152	\$ 34,322	\$ 292,103	\$ 17,730	\$ 175,138
State Grants	11,403	145,678	1,646	11,441	29,700	5,910	31,500
Local	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Interest on Loans	-	-	-	-	-	-	-
In-Kind	-	-	-	-	17,200	-	1,800
Program Income	-	4,513	-	-	49,218	-	7,515
Total Revenues	<u>49,218</u>	<u>452,056</u>	<u>17,798</u>	<u>45,763</u>	<u>388,221</u>	<u>23,640</u>	<u>215,953</u>
Expenses							
Salaries	22,360	162,323	10,123	23,109	112,628	10,850	74,058
Personnel Burden	10,554	89,184	5,663	11,009	56,925	5,471	32,657
Leave Time	1,704	7,313	503	1,299	4,020	821	1,882
Contracts	-	60,104	-	-	-	-	-
Travel Staff	244	638	460	-	-	-	-
Other Direct Expenses	172	102,647	-	-	147,359	-	74,803
In-Kind	-	-	-	-	17,200	-	1,800
Shared Costs	14,727	79,500	3,298	10,587	50,089	7,256	30,753
Total Expenditures	<u>49,763</u>	<u>501,709</u>	<u>20,047</u>	<u>46,004</u>	<u>388,221</u>	<u>24,398</u>	<u>215,953</u>
Revenue Over (Under) Expenditures	<u>\$ (545)</u>	<u>\$ (49,653)</u>	<u>\$ (2,249)</u>	<u>\$ (241)</u>	<u>\$ -</u>	<u>\$ (758)</u>	<u>\$ -</u>

<u>III-D</u>	<u>III-E</u>	<u>III-E</u>	<u>Homecare</u>	<u>Homecare</u>	<u>Homecare HD</u>	<u>Total</u>
<u>Preventive</u>	<u>Caregiver</u>	<u>Caregiver</u>	<u>Admin</u>	<u>Case</u>	<u>Meals</u>	
<u>Health</u>	<u>Admin</u>			<u>Management</u>		
\$ 9,301	\$ -	\$ 113,565	\$ -	\$ -	\$ -	\$ 997,991
-	-	-	107,021	606,854	211,526	1,162,679
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	38,027	-	-	12,250	69,277
-	-	-	-	-	2,383	63,629
<u>9,301</u>	<u>-</u>	<u>151,592</u>	<u>107,021</u>	<u>606,854</u>	<u>226,159</u>	<u>2,293,576</u>
4,013	-	30,072	59,297	103,773	77,638	690,244
2,632	-	13,478	23,638	43,577	33,759	328,549
226	-	2,792	4,983	6,829	2,005	34,378
-	-	-	-	393,110	-	453,213
-	-	287	317	4,740	-	6,687
1,345	-	57,263	415	8,229	72,046	464,279
-	-	38,027	-	-	12,250	69,277
<u>1,085</u>	<u>-</u>	<u>9,764</u>	<u>23,107</u>	<u>46,725</u>	<u>28,461</u>	<u>305,351</u>
<u>9,301</u>	<u>-</u>	<u>151,682</u>	<u>111,757</u>	<u>606,983</u>	<u>226,159</u>	<u>2,351,977</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (90)</u>	<u>\$ (4,736)</u>	<u>\$ (129)</u>	<u>\$ -</u>	<u>\$ (58,401)</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF AGING OPERATIONS BY PROGRAM CONTINUED
For the Year Ended June 30, 2018**

	<u>VII</u> <u>Ombuds</u> <u>man</u>	<u>VII Elder</u> <u>Abuse</u>	<u>NSIP</u>	<u>KY</u> <u>Caregiver</u> <u>Admin</u>	<u>KY</u> <u>Caregiver</u> <u>Services</u>	<u>SHIP</u> <u>Admin</u>	<u>SHIP</u> <u>Services</u>	<u>STLC</u>	<u>Medicaid</u> <u>ADRC</u>
<u>Revenues</u>									
Federal Grants	\$ 5,677	\$ 3,731	\$ 59,848	\$ -	\$ -	\$ 1,721	\$ 32,698	\$ -	\$ 7,056
State Grants	500	250	-	10,285	94,330	-	-	39,993	7,056
Local	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Interest on Loans	-	-	-	-	-	-	-	-	-
In-Kind	787	671	-	-	-	-	-	-	-
Program Income	-	-	-	-	-	-	-	-	-
Total Revenues	<u>6,964</u>	<u>4,652</u>	<u>59,848</u>	<u>10,285</u>	<u>94,330</u>	<u>1,721</u>	<u>32,698</u>	<u>39,993</u>	<u>14,112</u>
<u>Expenses</u>									
Salaries	2,278	1,676	-	4,705	18,651	899	15,386	14,620	8,242
Personnel Burden	1,810	1,229	-	1,617	6,549	342	8,304	9,908	5,301
Leave Time	138	66	-	392	1,252	40	1,009	892	569
Contracts	-	-	-	-	-	-	-	-	-
Travel Staff	-	-	-	-	233	-	1,475	3,585	-
Other Direct Expenses	-	-	59,848	-	62,831	-	1,700	2,698	139
In-Kind	787	671	-	-	-	-	-	-	-
Total Shared Costs	<u>1,951</u>	<u>1,010</u>	<u>-</u>	<u>3,571</u>	<u>8,043</u>	<u>462</u>	<u>5,499</u>	<u>8,428</u>	<u>5,412</u>
Total Expenditures	<u>6,964</u>	<u>4,652</u>	<u>59,848</u>	<u>10,285</u>	<u>97,559</u>	<u>1,743</u>	<u>33,373</u>	<u>40,131</u>	<u>19,663</u>
Revenue Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,229)</u>	<u>\$ (22)</u>	<u>\$ (675)</u>	<u>\$ (138)</u>	<u>\$ (5,551)</u>

<u>CDSMP</u>	<u>FAST</u>	<u>IAO</u>	<u>MIPPA ADRC</u>	<u>MIPPA AAA</u>	<u>MIPPA SHIP</u>	<u>Total</u>
\$ -	\$ 1,000	\$ -	\$ 4,563	\$ 8,137	\$ 12,986	\$ 137,417
-	-	-	-	-	-	152,414
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	1,458
-	-	-	-	-	-	-
<u>-</u>	<u>1,000</u>	<u>-</u>	<u>4,563</u>	<u>8,137</u>	<u>12,986</u>	<u>291,289</u>
-	102	-	2,821	3,638	6,422	79,440
-	24	-	1,242	2,206	3,599	42,131
-	20	-	223	139	377	5,117
-	-	-	-	-	-	-
-	-	-	-	-	252	5,545
-	858	-	-	544	1,084	129,702
-	-	-	-	-	-	1,458
-	12	-	613	1,610	1,625	38,235
<u>-</u>	<u>1,016</u>	<u>-</u>	<u>4,899</u>	<u>8,137</u>	<u>13,359</u>	<u>301,628</u>
<u>\$ -</u>	<u>\$ (16)</u>	<u>\$ -</u>	<u>\$ (336)</u>	<u>\$ -</u>	<u>\$ (373)</u>	<u>\$ (10,339)</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
OTHER GRANTS AND CONTRACTS
For the Year Ended June 30, 2018**

	<u>Transportation Planning</u>	<u>Transportation Road Updates</u>	<u>RLF</u>	<u>KIA</u>	<u>ARC Leader in Me</u>	<u>CMRS Projects</u>	<u>Total</u>
<u>Revenues</u>							
Federal Grants	\$ -	\$ 17,891	\$ -	\$ -	\$ 122,225	\$ 19,381	\$ 159,497
State Grants	78,067	-	-	75,703	-	-	153,770
Local	-	-	8,112	-	16,136	-	24,248
Other	-	-	-	-	-	-	-
Interest on Loans	-	-	16,299	-	-	-	16,299
In-Kind	-	-	-	-	-	-	-
Program Income	-	-	650	-	-	-	650
Total Revenues	<u>78,067</u>	<u>17,891</u>	<u>25,061</u>	<u>75,703</u>	<u>138,361</u>	<u>19,381</u>	<u>354,464</u>
<u>Expenses</u>							
SALARIES/WAGES	54,197	10,263	3,607	53,167	-	-	121,234
PERSONNEL BURDEN	29,149	4,001	1,670	29,737	-	-	64,557
LEAVE TIME	4,723	970	432	4,414	-	-	10,539
CONTRACTS	-	-	-	-	138,361	-	138,361
TRAVEL - STAFF	635	-	-	778	-	-	1,413
Other Direct Expenses	4,440	288	8,839	7,149	-	19,381	40,097
Total Shared Costs	<u>27,393</u>	<u>2,369</u>	<u>1,677</u>	<u>28,091</u>	<u>-</u>	<u>-</u>	<u>59,530</u>
Total Expenses	<u>120,537</u>	<u>17,891</u>	<u>16,225</u>	<u>123,336</u>	<u>138,361</u>	<u>19,381</u>	<u>435,731</u>
Revenue Over (Under) Expenses	<u>\$ (42,470)</u>	<u>\$ -</u>	<u>\$ 8,836</u>	<u>\$ (47,633)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,267)</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS BY GRANT, WIOA
For the Year Ended June 30, 2018**

WIA Revenue by Grant			
WIA-Youth:			
274YT16 -PY 15	M-04127521	\$	420,000
274YT17 -PY 16	M-04127521		699,117
274YT18 -PY 17	M-04127521		445,421
	LTADD-17-18		40,585
WIA-Adult:			
270AD17- PY-16	M-04127521		238
270AD18- PY-17	M-04127521		148,471
273AD16 - FY 16	M-04127521		19,619
273AD17 - FY 17	M-04127521		276,039
273AD18 - FY 18	M-04127521		554,447
	LTADD-17-18		62,760
WIA-Dislocated Workers:			
271DW16 - FY-16	M-04127521		213,310
272DW16 - PY15	M-04127521		120,000
271DW17 - FY-17	M-04127521		660,495
272DW17 - PY16	M-04127521		157,285
271DW18 - FY-18	M-04127521		119,563
272DW18 - PY17	M-04127521		93,459
	LTADD-17-18		92,532
WIA-Trade:			
205BE16	M-04127521		429,709
258MC18	M-04127521		39,870
258SN18	M-04127521		16,439
	LTADD-17-18		9,884
Total Revenue			<u>4,619,243</u>
Expenditures:			
WIA-Youth:			
274YT16 -PY 15			420,000
274YT17 -PY 16			699,117
274YT18 -PY 17			445,421
LTADD			40,585
WIA-Adult:			
270AD17- PY-16			238
270AD18- PY-17			148,471
273AD16 - FY 16			19,619
273AD17 - FY 17			276,039
273AD18 - FY 18			554,447
LTADD			62,760
WIA-Dislocated Workers:			
271DW16 - FY-16			213,310
272DW16 - PY15			120,000
271DW17 - FY-17			660,495
272DW17 - PY16			157,285
271DW18 - FY-18			119,563
272DW18 - PY17			93,459
LTADD			92,532
WIA-Trade:			
205BE16			429,709
258MC18			39,870
258SN18			16,439
LTADD	LTADD-17-18-004		9,884
Total Expenditures			<u>4,619,243</u>
Revenues Over (Under) Expenditures		\$	<u><u>-</u></u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	LCADD	Development Council	Combined
ASSETS			
Current assets			
Cash	\$ 2,928,597	\$ 231,881	\$ 3,160,478
Accounts receivable			
Federal, state and local grants	831,513	-	831,513
Consumer Directed Option	258,350	-	258,350
Prepaid expenses	37,482	-	37,482
Total current assets	<u>4,055,942</u>	<u>231,881</u>	<u>4,287,823</u>
Other assets			
Certificates of deposit	1,050,000	-	1,050,000
Revolving Loan Fund (RLF) cash, restricted	692,563	-	692,563
RLF notes receivable, restricted	651,110	-	651,110
Property and equipment, net	-	1,210,972	1,210,972
Total other assets	<u>2,393,673</u>	<u>1,210,972</u>	<u>3,604,645</u>
Total assets	<u>6,449,615</u>	<u>1,442,853</u>	<u>7,892,468</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - OPEB	539,144	-	539,144
Deferred outflows - Pension	1,812,819	-	1,812,819
Total Deferred Outflows of Resources	<u>2,351,963</u>	<u>-</u>	<u>2,351,963</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable	366,229	2,262	368,491
Accrued expenses	183,834	-	183,834
Current portion of notes payable	-	70,144	70,144
Total current liabilities	<u>550,063</u>	<u>72,406</u>	<u>622,469</u>
Long-term liabilities			
Net pension liability	6,741,079	-	6,741,079
Net OPEB liability	2,315,251	-	2,315,251
Accrued annual leave	213,699	-	213,699
Notes payable	-	466,303	466,303
Total long-term liabilities	<u>9,270,029</u>	<u>466,303</u>	<u>9,736,332</u>
Total liabilities	<u>9,820,092</u>	<u>538,709</u>	<u>10,358,801</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension	940,125	-	940,125
Deferred Inflows - OPEB	121,221	-	121,221
Total Deferred Inflows of Resources	<u>1,061,346</u>	<u>-</u>	<u>1,061,346</u>
NET POSITION			
Net investment in capital assets	-	674,525	674,525
Restricted	1,343,673	-	1,343,673
Unrestricted	<u>(3,423,533)</u>	<u>229,619</u>	<u>(3,193,914)</u>
Total net position	<u>\$ (2,079,860)</u>	<u>\$ 904,144</u>	<u>\$ (1,175,716)</u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
COMBINING STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

	LCADD	Development Council	Combined
OPERATING REVENUES			
Federal	\$ 6,103,387	\$ -	\$ 6,103,387
Commonwealth of Kentucky	1,610,600	-	1,610,600
In-kind	70,734	-	70,734
Other and local	<u>982,773</u>	<u>179,435</u>	<u>1,162,208</u>
 Total	 <u>8,767,494</u>	 <u>179,435</u>	 <u>8,946,929</u>
OPERATING EXPENSES			
Salaries	2,639,358	-	2,639,358
Fringe benefits	1,372,051	-	1,372,051
Actuarial difference in pension expense	965,379	-	965,379
Actuarial difference in OPEB expense	81,314	-	81,314
Leave time	183,714	-	183,714
Travel	110,812	-	110,812
Subgrantees & contracts	3,438,071	-	3,438,071
Depreciation and amortization	-	80,119	80,119
In-kind	70,734	-	70,734
Other	<u>1,289,676</u>	<u>88,339</u>	<u>1,378,015</u>
 Total expenses	 <u>10,151,109</u>	 <u>168,458</u>	 <u>10,319,567</u>
 OPERATING INCOME (LOSS)	 (1,383,615)	 10,977	 (1,372,638)
NON-OPERATING INCOME (EXPENSE)			
Bank interest income	12,444	459	12,903
Interest expense	<u>-</u>	<u>(21,975)</u>	<u>(21,975)</u>
 Change in Net Position	 (1,371,171)	 (10,539)	 (1,381,710)
 Net Position - Beginning of Year as Restated	 <u>(708,689)</u>	 <u>914,683</u>	 <u>205,994</u>
 Net Position - End of Year	 <u><u>\$ (2,079,860)</u></u>	 <u><u>\$ 904,144</u></u>	 <u><u>\$ (1,175,716)</u></u>

LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

	LCADD	Development Council	Combined
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from grantor agencies	\$ 8,216,294	\$ -	\$ 8,216,294
Local cash received	1,075,157	179,435	1,254,592
Payments to suppliers	(4,832,988)	(86,074)	(4,919,062)
Payments for employee services and benefits	(4,011,409)	-	(4,011,409)
	<u>447,054</u>	<u>93,361</u>	<u>540,415</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	-	(75,205)	(75,205)
Interest expense	-	(21,975)	(21,975)
	<u>-</u>	<u>(97,180)</u>	<u>(97,180)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest income	12,444	459	12,903
	<u>12,444</u>	<u>459</u>	<u>12,903</u>
Net increase (decrease) in cash and cash equivalents	459,498	(3,360)	456,138
Cash and cash equivalents - beginning of the year	3,161,662	235,241	3,396,903
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 3,621,160</u></u>	<u><u>\$ 231,881</u></u>	<u><u>\$ 3,853,041</u></u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$(1,383,615)	\$ 10,977	\$(1,372,638)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation and amortization	-	80,119	80,119
Net pension and OPEB adjustment	1,046,693	-	1,046,693
Change in assets and liabilities:			
(Increase) decrease in net receivables	594,691	-	594,691
(Increase) decrease Prepaid expenses	44,308	-	44,308
(Increase) decrease in loans receivable	127,519	-	127,519
Increase (decrease) accounts and other payables	34,395	2,265	36,660
Increase (decrease) in accrued expenses	(3,923)	-	(3,923)
Increase (decrease) in accrued leave	9,814	-	9,814
Increase (decrease) unearned revenue	(21,907)	-	(21,907)
	<u>\$ 447,975</u>	<u>\$ 93,361</u>	<u>\$ 541,336</u>
Cash and cash equivalents consists of the following:			
Unrestricted cash	2,928,597	231,881	3,160,478
Restricted cash	692,563	-	692,563
	<u>\$ 3,621,160</u>	<u>\$ 231,881</u>	<u>\$ 3,853,041</u>

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018**

U.S. Dept of Health and Human Services	Pass-Through Grantor's Number	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
Passed Through KY Cabinet for Health and Family Services				
Programs for Aging Title III:				
Title III - B Administration	09-11891	93.044	\$ -	\$ 37,815
Part B: Supportive Services	09-11891	93.044	60,104	318,017
Part C1: Nutrition Services	09-11891	93.045	-	326,425
Part C2: Nutrition Services	09-11891	93.045	-	192,868
Nutrition Services Incentive Program (USDA)	09-11891	93.053	-	59,848
Total Aging Cluster			60,104	934,973
Part D: Disease Prevention	09-11891	93.043	-	9,301
Part E: National Family Caregiver Support	09-11891	93.052	-	113,565
Speciality Contracts:				
Center for Medicare & Medicaid Services (SHIP)	09-11891	93.324	-	34,419
Aging & Disability Resource Center (ADRC)	09-11891	93.778	-	7,056
FAST		93.069	-	1,000
MIPPA - AAA		93.071	-	8,137
MIPPA - SHIP		93.071	-	12,986
MIPPA - ADRC		93.071	-	4,563
Programs for Aging Title VII:				
Ombudsman	09-11891	93.042	-	5,677
Elder Abuse	09-11891	93.041	-	3,731
Total U.S. Department of Health and Human Services			-	1,135,408
US Department of Commerce:				
Direct Program				
Revolving Loan Fund (1)		11.300	-	919,214
Passed through Department for Local Government				
Leader in Me (ARC)		23.001	-	122,225
Appalachian Regional Commission (ARC)		23.009	-	106,222
Economic Development Technical Assistance (JFA-EDA)		11.302	-	44,450
JFA - Technical Assistance Program (JFA-CDBG)		11.302	-	25,550
CDBG - Technical Assistance Program (JFA-CDBG)		14.218	-	13,016
			-	311,463
Total Department of Commerce			-	1,230,677
U.S. Federal Dept of Homeland Security, Passed Through				
Ky Office of Homeland Security				
Clinton County Siren Project		97.067	-	19,381
			-	19,381
U.S. Department of Transportation, Passed Through				
Kentucky Transportation Cabinet				
Local Road Updates		20.205	-	17,891
			-	17,891

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONCLUDED
For the Year Ended June 30, 2018**

**U.S. Department of Labor, Passed Through Kentucky Cabinet for
Workforce Services: WIOA**

WIOA-Youth:				
274YT16 - PY 15	M-04127521	17.259	-	420,000
274YT17 - PY 16	M-04127521	17.259	-	699,117
274YT18 - PY 17	M-04127521	17.259	-	445,421
WIOA-Adult:				
270AD17- PY 16	M-04127521	17.258	-	238
270AD18 -PY 17	M-04127521	17.258	-	148,471
273AD16 - FY 16	M-04127521	17.258	-	19,619
273AD17 - FY 17	M-04127521	17.258	-	276,039
273AD18 - FY 18	M-04127521	17.258	69,840	554,447
WIOA-Dislocated Workers:				
271DW16 - FY 16	M-04127521	17.278	-	213,310
272DW16 - PY 15	M-04127521	17.278	-	120,000
271DW17 - FY 17	M-04127521	17.260	70,398	660,495
272DW17 - PY 16	M-04127521	17.278	-	157,285
2721W18 - FY 18	M-04127521	17.278	20,121	119,563
272DW18 - PY 17	M-04127521	17.278	-	93,459
			160,359	3,927,464

**U.S. Department of Labor
Passed Through Lincoln Trail Area Development District, WIOA**

WIOA-Adult				
	LTADD-17-18-	17.258	-	18,992
	LTADD-17-18-	17.258	-	43,768
WIOA-Youth				
	LTADD-17-18-	17.259	-	22,008
	LTADD-17-18-	17.259	-	18,577
WIOA-Dislocated Workers				
	LTADD-17-18-	17.278	-	60,937
	LTADD-17-18-	17.278	-	31,595
			-	195,877
Total WIOA Cluster			-	4,123,341

**U.S. Department of Labor, Passed Through Kentucky Cabinet for
Workforce Services: WIOA**

258MC	M-04127521		-	39,870
258SNi8	M-04127521		-	16,439
205BE16	M-04127521	17.245	-	429,709

**U.S. Department of Labor
Passed Through Lincoln Trail Area Development District, WIOA**

SNAP	LTADD-17-18-004		-	9,794
Medicaid	LTADD-17-18-004		-	90
			160,359	4,619,243
Total WIOA Federal Financial Assistance				
			\$ 220,463	\$ 7,022,600

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018**

Notes:

Schedule of Expenditures of Federal Awards Calculation for Revolving	
Balance of RLF Loans Outstanding June 30, 2018	\$ 651,110
Cash Balance at June 30, 2018	692,563
Administrative Expenses	8,112
	1,351,785
Federal Share of RLF	68%
	\$ 919,214

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lake Cumberland Area Development District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lake Cumberland Area Development District, it is not intended to and does not present the financial position, changes in net position or cash flows of Lake Cumberland Area Development District.

Summary of Significant Accounting Policies:

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Rate:

Lake Cumberland Area development District did not elect to use the 10 percent *de minimis* indirect cost rate as allowed under the uniform guidance.

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes None reported
- Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes No

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

Auditee qualified as low-risk auditee? Yes _____ No

Identification of Major Programs:

Major Programs CFDA Number

Name of Federal Program or Cluster

93.044, 93.045, 93.053

Department of Health and Human Services,
Aging Cluster
U.S. Department of Commerce,
Revolving Loan Fund

11.300

**LAKE CUMBERLAND AREA DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONCLUDED
For the Year Ended June 30, 2018**

II. FINANCIAL STATEMENTS FINDINGS

NONE

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

IV. NONCOMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

NONE

V. PRIOR AUDIT FINDINGS

NONE



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
Lake Cumberland Area Development District
Russell Springs, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lake Cumberland Area Development District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
November 18, 2018



Cindy L. Greer, CPA ■ Jonathan W. Belcher, CPA ■ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Ryan A. Mosier, CPA ■ Jenna B. Glass, CPA ■ Van Shepard, CPA ■ Sharon Waggener, CPA

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
Lake Cumberland Area Development District
Russell Springs, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lake Cumberland Area Development District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lake Cumberland Area Development District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Lake Cumberland Area Development District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Lake Cumberland Area Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Lake Cumberland Area Development District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Lake Cumberland Area Development District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an

opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
November 18, 2018

