

Kentucky Council of Area
Development Districts

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Financial Statements and
Independent Auditor's Report
June 30, 2022 and 2021

KENTUCKY COUNCIL OF AREA
DEVELOPMENT DISTRICTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kentucky Council of Area
Development Districts
Frankfort, Kentucky

Opinion

We have audited the accompanying financial statements of the Kentucky Council of Area Development Districts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Council of Area Development Districts as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Kentucky Council of Area Development Districts and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kentucky Council of Area Development District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kentucky Council for Area Development District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Kentucky Council for Area Development District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Faulkner, King & Wenz, PSC

Mt. Sterling, Kentucky
August 15, 2022

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS:		
Cash and cash equivalents	\$ 404,162	\$ 404,206
Accounts receivable, less allowance for doubtful accounts of \$0 and \$0 for 2022 and 2021	750	-
Property and equipment (net)	<u>330,361</u>	<u>340,443</u>
Total assets	<u>\$ 735,273</u>	<u>\$ 744,649</u>
 LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 5,908	\$ 5,230
Compensated absences payable	489	3,354
Alumni Association payable	<u>3,552</u>	<u>3,552</u>
Total liabilities	<u>9,949</u>	<u>12,136</u>
 NET ASSETS:		
Without donor restrictions	<u>725,324</u>	<u>732,513</u>
Total liabilities and net assets	<u>\$ 735,273</u>	<u>\$ 744,649</u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF ACTIVITIES, FUNCTIONAL EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING INCREASES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Program Services Revenue:		
Business Development Manager Reimbursement	\$ 60,000	\$ 60,000
Admin Community Living Grant	-	125,000
Activity Fund Income	2,572	97
Interest Income	2,570	3,591
Miscellaneous Income	-	166
Bond Program	13,819	8,745
Total Program Services Revenue	<u>78,961</u>	<u>197,599</u>
Membership Dues & Assessments:		
Dues	157,500	157,500
Total Membership Dues & Assessments	<u>157,500</u>	<u>157,500</u>
TOTAL OPERATING INCREASES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS	<u>236,461</u>	<u>355,099</u>
OPERATING DECREASES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Program service expenditures:		
Business development manager	48,600	60,000
Activity fund expense	16,776	1,998
Travel	1,246	245
Public relations sponsorship	795	-
Total program service expenditures	<u>67,417</u>	<u>62,243</u>
Management & General Expenditures:		
Salaries and wages	99,308	100,754
Pension	22,418	19,099
Legal and professional services	10,658	10,300
Depreciation	10,082	9,184
Fringe benefits	8,723	7,851
Payroll taxes	8,135	8,007
Utilities	5,519	5,504
Repairs and maintenance	4,064	5,554
Insurance	2,794	3,042
Telephone	1,790	1,872
Dues and subscriptions	1,437	531
Office supplies	1,189	891
Postage	116	55
Printing and reproduction	-	126
Total management & general expenditures	<u>176,233</u>	<u>172,770</u>
Total general & administrative expenditures	<u>243,650</u>	<u>235,013</u>
NET (DECREASE) INCREASE IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS	(7,189)	120,086
NET ASSETS AT BEGINNING OF YEAR	<u>732,513</u>	<u>612,427</u>
NET ASSETS AT END OF YEAR	<u>\$ 725,324</u>	<u>\$ 732,513</u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating activities:		
Change in net assets without donor restrictions	\$ (7,189)	\$ 120,086
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	10,082	9,184
(Increase) decrease in operating assets:		
Accounts receivable	(750)	2,634
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	678	(185)
Compensated absences payable	(2,865)	912
Net cash (used) provided by operating activities	<u>(44)</u>	<u>132,631</u>
Investing activities:		
Purchases of property and equipment	<u>-</u>	<u>(4,900)</u>
Net cash used in investing activities	<u>-</u>	<u>(4,900)</u>
Net (decrease) increase in cash	(44)	127,731
Cash and cash equivalents, beginning of year (without donor restrictions)	<u>404,206</u>	<u>276,475</u>
Cash and cash equivalents, end of year (without donor restrictions)	<u>\$ 404,162</u>	<u>\$ 404,206</u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS

Kentucky Council of Area Development Districts ("KCADD") is an organization representing all Area Development District (ADD) Board members throughout the state. The ADDs are regional organizations in which local officials and citizens unite to provide for the planned growth of their area and assist in the formation and implementation of human resources and infrastructure related plans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

KCAAD's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they become due. Expenses are recognized in the period in which the related liability occurs.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of presentation

Financial statement presentation follows the requirements of the ASU 2016-14, adopted during 2018, which is included in ASC 958 of the Financial Accounting Standards Board (FASB) Codification. Under ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Net assets were previously reported according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, all net assets of the Organization have been recorded as net assets without donor restrictions.

Revenue Recognition

Membership dues are recognized as revenue in the applicable membership period. Revenue and expenses from training conferences are recognized as the conferences are completed. Administrative and overhead expenses not directly attributable to the conferences are expensed as incurred.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 06)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year.

Effective July 1, 2020, the Council adopted the requirements of ASU 2014-09 and all related amendments (the new revenue standard).

There was no adjustment necessary to the opening balance of net assets as a result of adopting the new revenue standard. For the year ended June 30, 2021, the Council has determined that there are no significant differences between the amounts reported for revenue and contract assets and liabilities using topic 605 (previously in effect) and the accounting treatment used in accordance with the new revenue standard. Adoption of ASU 2014-09 had no other impact on the Council's 2020 financial statements.

Cash and cash equivalents

For purposes of the statement of cash flows, KCADD considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Property and equipment

Expenditures greater than \$2,500 for property, equipment, and items which substantially increase the useful lives of existing assets are reported at cost for purchased items and at fair value for contributed items. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

Equipment and furnishings	3-10 years
Building improvements	40 years

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. An allowance for uncollectible accounts receivable is provided based on management's evaluation of potential uncollectible account balances at year end. Management charges off past due receivables at the point which collection seems unlikely.

The following table presents the balance in the allowance for doubtful accounts as of June 30, 2022 and 2021:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Allowance for Doubtful		
Accounts:		
Beginning balance	\$ -0-	\$ -0-
Charge-offs	-0-	-0-
Recoveries	-0-	-0-
Provision	-0-	-0-
Ending balance	<u>\$ -0-</u>	<u>\$ -0-</u>

NOTE 3 - TAX POLICIES

KCADD is a non-profit organization which is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and accordingly, no provision for federal and state income taxes has been made in these statements.

The Organization has adopted Accounting Standards Codification (ASC) 740-10 as it relates to uncertain tax positions. The District is not aware of any uncertain income tax positions as of August 15, 2022. The District has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2019 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Property and equipment at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Building	\$ 355,000	\$ 355,000
Equipment	65,645	65,645
Land	25,000	25,000
Less accumulated depreciation	(115,284)	(105,202)
	<u>\$ 330,361</u>	<u>\$ 340,443</u>

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 and 2021

NOTE 5 - SCHEDULE OF ALUMNI ASSOCIATION PAYABLE

This liability constitutes donor monies in which the Kentucky Council of Area Development Districts, Inc. is the agent assigned by the Board for Alumni Associations activities. Balance at June 30, 2022 and 2021 is as follows:

Beginning balance of	
Alumni Association Payable	\$ 3,552
Interest revenue	0
Balance	<u>\$ 3,552</u>

NOTE 6 - MULTI-EMPLOYER DEFINED BENEFIT PENSION PLANS

In connection with the KCADD's agreements with Kentucky Retirement Systems - County Employee Retirement System (CERS), KCADD participates with other Organizations in the State in a defined benefit pension plan. This multi-employer plan covers all of the Organization's employees who are eligible to participate. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Organization chooses to stop participating in its multi-employer plan, it may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability. At this time, the Organization has not established any liabilities because withdrawal from this plan is not probable.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986 and 4% thereafter. All required contributions were paid at year end or within thirty (30) days thereafter. The percentage of the Council's contribution to total employers' contribution in the CERS for the year is not known.

The CERS total actuarial accrued liability was \$14,895,000 and the net assets available for the benefits were \$7,716,000 as of June 30, 2021, which is the latest information available.

KCADD's participation in the plan for the year ended June 30, 2021 and 2020 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number assigned to the plan by the Internal Revenue Service.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 and 2021

NOTE 6 - MULTI-EMPLOYER DEFINED BENEFIT PENSION PLANS (CONTINUED)

KCADD is providing less than 5% of the total contributions to the plan.

Form 5500 is not required for this plan.

Unless otherwise noted, the most recent "Pension Protection Act (PPA) Zone Status" available in 2022 and 2021 is for the plan's year end at June 30, 2021 and 2020, respectively. The zone status is based on information that KCADD received from the plan. A plan in the "red" zone has been determined to be in "critical status", based on criteria established under the Tax Code and is generally less than 65% funded. A plan in the "yellow" zone has been determined to be in "endangered status", based on criteria established under the Tax Code and is generally less than 80% funded. A plan in the "green" zone is generally at least 80% funded.

The "FIP/RP Status Pending/Implemented" column indicates a plan for which a financial improvement plan (FIP), as required under the Code to be adopted by a plan in the "yellow" zone, or a Rehabilitation Plan (RP), as required under the Code to be adopted by a plan in the "red" zone, is either pending or has been implemented.

The "Surcharge Imposed" column indicates whether the Organization's contribution rate for 2021 included an amount in addition to the contribution rate specified in the applicable collective bargaining agreement, as imposed by a plan in "critical status", in accordance with the requirement of the Code. The last column lists the expiration dates of the collective bargaining agreements to which the plan is subject. Finally, there have been no significant changes that affect the comparability of 2022 and 2021 contributions.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending/Implemented</u>	<u>Contributions of KCADD</u>		<u>Surcharge Imposed</u>	<u>Expiration Date of Collective Bargaining Agreement</u>
		<u>June 30, 2021</u>	<u>2020</u>		<u>June 30, 2022</u>	<u>2021</u>		
CERS	61-6027948	Red	Red	N/A	<u>\$22,418</u>	<u>\$19,099</u>	N/A	N/A

NOTE 7 - BOND PROGRAM AND BOND RESERVE

KCADD is a beneficiary of a Bond Leasing Program which is managed by Civics Finance. The program is designed to make money available, in the form of loans, to ADDs and other agencies or governmental entities. As a beneficiary, KCADD receives a portion of the fees as the loans are repaid.

There was no balance in the bond reserve at June 30, 2022.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 and 2021

NOTE 8 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date. As of June 30, 2022 and 2021, the financial assets available at year end were \$404,912 and \$404,206 respectively, and are all available to meet cash needs for general expenditures within one year. There were no amounts unavailable due to contractual restrictions or donor imposed restrictions.

NOTE 9 - DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through August 15, 2022, which is the date the financial statements were available to be issued.

NOTE 10 - SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and the financial markets. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the Council will depend upon future developments, which are highly uncertain and cannot be predicted. As a result, the Council has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2023.