

Kentucky Council of Area
Development Districts

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Financial Statements and
Independent Auditor's Report
June 30, 2019 and 2018

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

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, 2019 and 2018, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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

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

Opinion

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, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2019, the Kentucky Council of Area Development Districts adopted new accounting guidance, ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Faulkner, King & Wenz, PSC

Mt. Sterling, Kentucky
August 19, 2019

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash and cash equivalents	\$ 264,941	\$ 251,599
Accounts receivable, less allowance for doubtful accounts of \$0 and \$15,438 for 2019 and 2018	6,866	13,288
Property and equipment (net)	<u>353,829</u>	<u>357,824</u>
Total assets	<u>\$ 625,636</u>	<u>\$ 622,711</u>
 LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 4,456	\$ 10,800
Compensated absences payable	1,365	-
Alumni Association payable	<u>3,552</u>	<u>3,552</u>
Total liabilities	<u>9,373</u>	<u>14,352</u>
 NET ASSETS:		
Without donor restrictions	<u>616,263</u>	<u>608,359</u>
Total liabilities and net assets	<u>\$ 625,636</u>	<u>\$ 622,711</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, 2019 AND 2018

	2019	2018
OPERATING INCREASES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Program Services Revenue:		
Activity Fund Income	\$ 4,774	\$ 5,550
Business Development Manager Reimbursement	18,000	-
Bond Program	16,364	34,440
Total Program Services Revenue	<u>39,138</u>	<u>39,990</u>
Membership Dues & Assessments:		
Dues	158,000	160,633
Total Membership Dues & Assessments	<u>158,000</u>	<u>160,633</u>
TOTAL OPERATING INCREASES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS	<u>197,138</u>	<u>200,623</u>
OPERATING DECREASES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Program service expenditures:		
Business development manager	17,500	-
Public relations sponsorship	5,000	2,525
Travel	3,611	1,587
Bad debt expense	2,634	-
Activity fund expense	789	11,551
Total program service expenditures	<u>29,534</u>	<u>15,663</u>
Management & General Expenditures:		
Salaries and wages	88,595	50,314
Pension	15,934	10,601
Legal and professional services	10,750	11,555
Depreciation	8,995	8,988
Fringe benefits	7,866	(47)
Payroll taxes	7,017	5,196
Utilities	6,901	6,476
Repairs and maintenance	6,892	8,555
Insurance	3,407	-
Telephone	1,792	2,343
Office supplies	864	873
Dues and subscriptions	317	890
Miscellaneous	207	789
Printing and reproduction	91	-
Postage	72	98
Total management & general expenditures	<u>159,700</u>	<u>106,631</u>
Total general & administrative expenditures	<u>189,234</u>	<u>122,294</u>
NET INCREASE IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS	7,904	78,329
NET ASSETS AT BEGINNING OF YEAR	<u>608,359</u>	<u>530,030</u>
NET ASSETS AT END OF YEAR	<u>\$ 616,263</u>	<u>\$ 608,359</u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating activities:		
Change in net assets without donor restrictions	\$ 7,904	\$ 78,329
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	8,995	8,988
Provision for losses on accounts receivable	2,634	-
(Increase) decrease in operating assets:		
Accounts receivable	3,788	(2,378)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(6,344)	1,390
Compensated absences payable	1,365	(15,863)
Net cash provided by operating activities	<u>18,342</u>	<u>70,466</u>
Investing activities:		
Purchases of property and equipment	<u>(5,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(5,000)</u>	<u>-</u>
Net increase in cash	13,342	70,466
Cash and cash equivalents, beginning of year	<u>251,599</u>	<u>181,133</u>
Cash and cash equivalents, end of year (without donor restrictions)	<u>\$ 264,941</u>	<u>\$ 251,599</u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

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 ADD's 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. This accounting change was applied retroactively to the June 30, 2018 financial statements with no change to previously reported net assets or change in net assets.

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, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2019 and 2018:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Allowance for Doubtful		
Accounts:		
Beginning balance	\$ 15,438	\$ 15,438
Charge-offs	(18,072)	-0-
Recoveries	-0-	-0-
Provision	2,634	-0-
Ending balance	<u>\$ -0-</u>	<u>\$ 15,438</u>

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

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.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

NOTE 3 - TAX POLICIES (CONTINUED)

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 19, 2019. The District has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2016 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Building	\$ 355,000	\$ 350,000
Equipment	60,745	60,745
Land	25,000	25,000
Less accumulated depreciation	<u>(86,916)</u>	<u>(77,921)</u>
	<u>\$ 353,829</u>	<u>\$ 357,824</u>

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, 2019 and 2018 is as follows:

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

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

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

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 \$13,192,000 and the net assets available for the benefits were \$6,950,000 as of June 30, 2018, which is the latest information available.

KCADD's participation in the plan for the year ended June 30, 2018 and 2017 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.

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 2019 and 2018 is for the plan's year end at June 30, 2018 and 2017, 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 2018 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 2019 and 2018 contributions.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

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

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of KCADD June 30,		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		June 30, 2018	2017		2019	2018		
CERS	61-6027948	Red	Red	N/A	<u>\$15,934</u>	<u>\$10,601</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 ADD's 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, 2019.

NOTE 8 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date. As of June 30, 2019 and 2018, the financial assets available at year end were \$271,807 and \$264,887 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 19, 2019, which is the date the financial statements were available to be issued.

FAULKNER, KING & WENZ, PSC
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August 19, 2019

To the Board of Directors
Kentucky Council of Area
Development Districts
Frankfort, KY 40601

We have audited the financial statements of the Kentucky Council of Area Development Districts (the Council), as of and for the year ended June 30, 2019 and have issued our report thereon dated August 19, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 2 to the financial statements. One new accounting policy was adopted changing the presentation of net assets, adding statements of functional expenses and disclosing liquidity and availability of assets. It was the adoption of ASU and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been described in Note 2 of the financial statements. The application of all other existing policies were not changed during 2019.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no known misstatements identified.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our

Board of Directors
Kentucky Council of Area
Development Districts
August 19, 2019
Page 2

satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 19, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of directors, and management of the Kentucky Council of Area Development Districts and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Faulkner, King & Wenz, PSC

FAULKNER, KING & WENZ, PSC
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To the Board of Directors
Kentucky Council of Area
Development Districts
Frankfort, Kentucky

In planning and performing our audit of the financial statements of the Kentucky Council of Area Development Districts, (The Council) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered The Council's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described below to be a significant deficiency.

- Lack of adequate controls in financial accounting and reporting to properly prepare financial statements with disclosures according to generally accepted accounting principles.

Management Response and Corrective Action Plan: It does not appear that it would be economically feasible for our organization to enlarge its staff or contract an individual with appropriate skill and knowledge in applying new authoritative guidance. Thus, it is important that our Board provide oversight and independent review functions.

The Council's response to the findings identified in our audit is described in the paragraphs above. We did not audit the Council's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the board of directors, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Faulkner, King & Wenz, PSC
August 19, 2019