

Kentucky Council of Area
Development Districts

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Financial Statements and
Independent Auditor's Report
June 30, 2017 and 2016

KENTUCKY COUNCIL OF AREA
DEVELOPMENT DISTRICTS

<u>Table of Contents</u>	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-10

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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, 2017 and 2016, 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 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.

To the Board of Directors
Kentucky Council of Area
Development Districts
Frankfort, Kentucky
Page 2

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, 2017 and 2016, 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.

Faulkner, King & Wenz, PSC

Mt. Sterling, Kentucky
August 17, 2017

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash and cash equivalents	\$ 181,133	\$ 127,553
Accounts receivable, less allowance for doubtful accounts of \$15,438 and \$0 for 2017 and 2016	10,910	11,148
Property and equipment (net)	<u>366,812</u>	<u>62</u>
Total assets	<u>\$ 558,855</u>	<u>\$ 138,763</u>
 LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 9,410	\$ 7,639
Compensated absences payable	15,863	11,540
Alumni Association payable	<u>3,552</u>	<u>3,552</u>
Total liabilities	<u>28,825</u>	<u>22,731</u>
 NET ASSETS:		
Unrestricted net assets	<u>530,030</u>	<u>116,032</u>
Total liabilities and net assets	<u>\$ 558,855</u>	<u>\$ 138,763</u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Unrestricted net assets		
Revenues:		
Program Services Revenue		
Activity Fund Income	\$ 27,834	\$ 16,429
Bond Program	68,887	29,750
Total Program Services Revenue	96,721	46,179
Membership Dues & Assessments		
Dues	157,580	157,579
Total Membership Dues & Assessments	157,580	157,579
Contribution of real estate	375,000	-
Health insurance reimbursements	1,612	1,653
Total revenues	630,913	205,411
General and administrative expenses		
Program service expenditures		
Activity fund expense	28,591	28,371
Total program service expenditures	28,591	28,371
Management & General Expenditures		
Depreciation	8,250	24
Bad debt expense	15,438	-
Contract labor	-	6,800
Dues and subscriptions	2,247	2,341
Fringe benefits	780	296
Insurance	3,112	3,135
Legal and professional services	9,621	8,800
Miscellaneous	162	154
Office supplies	1,358	1,208
Printing and reproduction	-	1,098
Pension	16,050	14,220
Postage	98	98
Public relations sponsorship	3,353	5,067
Repairs and maintenance	9,202	10,695
Salaries and wages	100,788	119,469
Payroll taxes	7,713	9,255
Telephone	2,137	2,087
Travel	2,889	4,650
Utilities	5,126	5,233
Total management & general expenditures	188,324	194,630
Total general & administrative expenditures	216,915	223,001
Total change in net assets	413,998	(17,590)
Net assets as of beginning of year	116,032	133,622
Net assets as of end of year	\$ 530,030	\$ 116,032

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating activities:		
Change in net assets	\$ 413,998	\$ (17,590)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,250	24
Contribution of real estate	(375,000)	-
Provision for losses on accounts receivable	15,438	
(Increase) decrease in operating assets:		
Accounts receivable	(15,200)	(11,148)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,771	597
Compensated absences payable	4,323	7,869
Net cash provided (used) by operating activities	<u>53,580</u>	<u>(20,248)</u>
Net increase (decrease) in cash	53,580	(20,248)
Cash and cash equivalents, beginning of year	<u>127,553</u>	<u>147,801</u>
Cash and cash equivalents, end of year	<u><u>\$ 181,133</u></u>	<u><u>\$ 127,553</u></u>
Supplemental disclosures of cash flow information:		
Non-cash transactions:		
Contribution revenue due to transfer of real estate back from K-ADD	<u><u>\$ 375,000</u></u>	<u><u>\$ -</u></u>

See accompanying notes to the financial statements.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

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 recommendations of Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, the District is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, all revenues of the District have been properly recorded as unrestricted.

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.

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.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

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, 2017 and 2016:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Allowance for Doubtful		
Accounts:		
Beginning balance	\$ -0-	\$ -0-
Charge-offs	-0-	-0-
Recoveries	-0-	-0-
Provision	15,438	-0-
Ending balance	<u>\$ 15,438</u>	<u>\$ -0-</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.

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 XX, 2017. The District has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2014 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Property and equipment at June 30, 2017 is as follows:

Building	\$ 350,000
Equipment	60,745
Land	25,000
Less accumulated depreciation	(68,933)
	<u>\$ 366,812</u>

Property and equipment at June 30, 2016 is as follows:

Equipment	\$ 60,745
Less accumulated depreciation	(60,683)
	<u>\$ 62</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, 2017 and 2016 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.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

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

The amount shown below as "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

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 \$14,781,000,000 and the net assets available for the benefits were \$8,675,000,000 as of June 30, 2016, which is the latest information available.

KCADD's participation in the plan for the year ended June 30, 2017 and 2016 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 2017 and 2016 is for the plan's year end at June 30, 2016 and 2015, 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 2016 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 2017 and 2016 contributions.

KENTUCKY COUNCIL OF AREA DEVELOPMENT DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

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, 2016	2015		2017	2016		
CERS	61-6027948	Red	Red	N/A	<u>\$16,050</u>	<u>\$14,220</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, 2017.

NOTE 8 - RELATED PARTY TRANSACTIONS

On August 2, 2016, the Kentucky Area Development Districts (K-ADD), a related area development district, transferred the real estate which houses KCADD's offices back to KCADD. Contribution revenue in the amount of \$375,000 and the applicable real estate, have been recorded in the financial statements at fair value.

NOTE 9 - DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through August 17, 2017, which is the date the financial statements were available to be issued.