

SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC

**BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021
with
REPORT OF INDEPENDENT AUDITORS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Somerset-Pulaski County Economic Development Authority, Inc
City of Somerset, Kentucky and County of Pulaski, Kentucky

We have audited the accompanying financial statements of Somerset-Pulaski County Economic Development Authority, Inc, which comprise the statements of financial position as of June 30, 2021, and the related statement of activities, cash flow for the year 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 audit. We conducted our audit 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Somerset-Pulaski County Economic Development Authority, Inc as of June 30, 2021, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
September 30, 2021

SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC
STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 2,310,215
Current portion of notes receivable	<u>10,000</u>
Total current assets	<u>2,320,215</u>

Noncurrent assets

Total capital assets, net	5,170,107
Long term portion of notes receivable	<u>90,000</u>
Total noncurrent assets	<u>5,260,107</u>

TOTAL ASSETS \$ 7,580,322

LIABILITIES

Current liabilities

Accounts payable	471,741
Paycheck protection program loan payable	36,616
Accrued expenses	<u>870</u>
Total current liabilities	<u>509,227</u>

TOTAL LIABILITIES 509,227

NET ASSETS

Without donor restrictions 7,071,095

TOTAL NET ASSETS 7,071,095

TOTAL LIABILITIES AND NET ASSETS \$ 7,580,322

SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions
Support and Revenue		
Government support	\$ 562,503	-
Rental income	40,021	-
Interest income	20,524	-
Other Income	16,022	-
Gain (loss) on sale of assets	(150,000)	-
	<u>489,070</u>	<u>-</u>
Total support and revenue		
Expenses		
Depreciation	86,404	-
Business recruitment	31,555	-
Company incentives	27,000	-
Property expenses	1,707,859	-
Advertising	42,650	-
Contract services	81,781	-
Office expenses	14,057	-
Rent expense	36,000	-
Insurance expense	40,707	-
Sponsorship/membership fees	28,735	-
Wages	187,750	-
Employee benefits	5,633	-
Payroll taxes	14,479	-
Training	466	-
Travel	1,340	-
Vehicle expense	2,768	-
Special Projects	192,331	-
Miscellaneous	67,888	-
	<u>2,569,403</u>	<u>-</u>
Total expenses		
Change in net assets	(2,080,333)	-
Net assets as of June 30, 2020	<u>9,151,428</u>	<u>-</u>
Net assets as of June 30, 2021	<u>\$ 7,071,095</u>	<u>\$ -</u>

SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

	Program Services	Cost of Direct Benefit to Donors	Management and General	Fundraising	Total
Salaries and wages	\$ 48,815	\$ -	\$ 90,120	\$ 48,815	\$ 187,750
Employee benefits	1,465	-	2,703	1,465	5,633
Payroll taxes	3,765	-	6,949	3,765	14,479
Total salaries and related expenses	54,045	-	99,772	54,045	207,862
Depreciation	86,404	-	-	-	86,404
Business recruitment	31,555	-	-	-	31,555
Company incentives	27,000	-	-	-	27,000
Property expenses	1,707,859	-	-	-	1,707,859
Advertising	21,325	-	21,325	-	42,650
Contract services	81,781	-	-	-	81,781
Office expenses	-	-	14,057	-	14,057
Rent expense	-	-	36,000	-	36,000
Insurance expense	40,707	-	-	-	40,707
Sponsorship/membership fees	-	-	-	28,735	28,735
Training	-	-	466	-	466
Travel	-	-	1,340	-	1,340
Vehicle expense	-	-	2,768	-	2,768
Special Projects	192,331	-	-	-	192,331
Miscellaneous	33,944	-	33,944	-	67,888
Total Expenses	\$ 2,276,951	\$ -	\$ 209,672	\$ 82,780	\$ 2,569,403

SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC
STATEMENT OF CASH FLOWS
For the year ended June 30, 2021

Cash flows from operating activities

Change in net assets	\$ (2,080,333)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	45,904
Proceeds from sale of fixed assets	150,000
(Increase) decrease in operating assets:	
Prepaid insurance	2,036
Increase (decrease) in operating liabilities:	
Accounts payable	462,833
Prepaid rent payable	(24,324)
Accrued expenses	<u>58</u>
 Net cash provided by (used in) operating activities	 <u>(1,443,826)</u>

Cash flows from investing activity

Payments made in connection with note receivable	(100,000)
Purchase of property and equipment	(1,015,348)
Proceeds from loan	36,616
Proceeds from sale of properties	<u>1,650,000</u>
 Net cash provided by (used in) investing activity	 <u>571,268</u>

Net increase (decrease) in cash and cash equivalents	(872,558)
Cash and cash equivalents at the beginning of year	<u>3,182,773</u>
 Cash and cash equivalents at end of year	 <u>\$ 2,310,215</u>

SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

NOTE 1 – REPORTING ENTITY

Somerset-Pulaski County Economic Development Authority, Inc (The Organization) was formed by an interlocal agreement between the City of Somerset and Pulaski County Fiscal Court with ordinances passed to create the quasi-governmental entity. The organization is comprised of eight board members, headed by the Somerset Mayor and the Pulaski County Judge Executive. Each elected official shall name three members to help make up the remaining positions on the board of directors.

Somerset-Pulaski Economic Development Authority, Inc is also known under the acronym S.P.E.D.A. (SPEDA). It serves as the primary economic development and marketing agency for Somerset and Pulaski County. SPEDA's mission is to enhance the business climate in and foster cooperation among various government entities and private sector organizations. It is an essential point of contact for businesses interested in locating in the community as well as assisting existing local companies in expansion and the region's workforce development efforts.

SPEDA's Mission Statement reads that it is "an aggressive, innovative, and collaborative city-county partnership that leads the way in improving the economic, political, and social well-being of its citizens. Using a proactive mindset, SPEDA utilizes industrial recruitment, retail and commercial development, tourism marketing and promotion, education, workforce development, arts and entertainment with overall community planning to improve quality of life in Somerset, Pulaski County, and the Lake Cumberland region."

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for Not-for-Profit Organizations. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

(b) Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(6). Donors may deduct contributions to the Organization in accordance with the provisions of Section 170 of the IRS.

The Organization files Federal Form 990. The Organization is subject to IRS examination for the years ended June 30, 2019 and 2020.

It is difficult to predict the final timing and resolution of any particular uncertain tax position. The Organization does not currently anticipate any significant changes in its tax positions over the next 12 months.

(d) Cash Equivalents and Investments

Management considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

(e) Contributions Receivable

Contributions receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for uncollectable receivables using the allowance method, which is based on management's judgement concerning historical collectability. Past due amounts are individually analyzed for collectability and written off when all efforts at collection have been exhausted.

(f) Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported on a pro rate basis as services are consumed.

(g) Capital Assets

Acquisitions of property and equipment and major replacements of retired property are capitalized per the threshold; while the cost of repairs, maintenance, and minor replacements is charged to expense. Management defines capital assets as assets with a cost of \$500 or more and an estimated useful life in excess of one year. Property and equipment are stated at cost, except for donated assets, which are recorded at fair value at the date of the gift.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or charged in the non-operating section of the statements of revenues, expenses and changes in net position. The cost of repairs, maintenance, and minor replacements is charged to expense. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Computers and software	3 years
Equipment, furniture, and fixtures	5 years

(h) Contributions and Event Revenue

Contributions and event revenue, if any, including unconditional promises, are recognized as revenues in the period made. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions and event revenue received are recorded as support with or without donor restrictions, depending on the existence and/or nature or any donor restrictions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Contributed Goods and Services

Contributed goods, which would have otherwise been purchased, are recorded at fair value.

Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed with people with those skills, and would otherwise be purchased by the Organization. Contributed services are reflected in the accompanying statements at their estimated fair value at the date provided.

(j) Concentration of Credit Risk

Financial instruments that potentially subject the Organization to a concentration of credit risk consist principally of cash and cash equivalents. The Organization maintains interest-bearing cash balances in multiple financial institutions, and, at times, such cash balances may be in excess of the FDIC insurance limits.

Concentrations of credit risk with respect to contributions receivable are limited due to the composition of the Organization's contributor base. Management assesses the financial strength of its unconditional contributions receivable based on prior history and experience with its donor and grantor agencies

(k) Use of Estimates

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

(l) Accounting Pronouncements Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, (Topic 842). ASU 2016-02 improves transparency and comparability among organizations by requiring recognition of lease assets and lease liabilities in the statement of financial position, except for leases with lease terms of 12 months or less. Lease assets represent the right to use the underlying asset for the lease term, and lease liabilities represent the liability to make lease payments. Organizations are also required to disclose key information about leasing arrangements. ASU 2016-02 is effective for the Organization's year ended June 30, 2022.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958) *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial assets*, requiring an entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. ASU 2020-07 includes additional disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The standard will be applied on a retrospective basis and will be effective for periods beginning after June 15, 2021. The Organization does not expect the new standard will impact its financial statements other than a reclassification on the statement of activities and additional disclosures.

SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the year ended June 30, 2021

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization has \$2,310,215 of financial assets available within one year of the statement of financial position date at June 30, 2021, consisting of cash. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. The Organization, Inc has a goal to maintain liquid financial assets, which consist of cash and cash equivalents, on hand to meet 90 days of normal operating expenses, which are approximately \$205,000.

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. As of June 30, 2021, none of the Organization's bank balance were exposed to custodial credit risk because of coverage by Federal Depository insurance and pledged securities.

Cash and cash equivalents at June 30, 2021 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Local Bank	\$ 2,352,110	\$ 2,310,215
	<u>\$ 2,352,110</u>	<u>\$ 2,310,215</u>

NOTE 5 – NOTES RECEIVABLE

At June 30, 2021, notes receivable were as follows:

Short term portion	\$ 10,000
Long term portion	<u>90,000</u>
Total notes receivable	<u>\$ 100,000</u>

The Organization received a promissory note in the current year from Lake Cumberland Regional Airport in the amount of \$100,000. The agreement dictates that the organization will receive monthly installments of \$1,666 beginning January 15, 2022, with the full amount of the note received on or before January 15, 2027.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2021, accounts payable and accrued expenses were as follows:

Accounts payable:	
Due to:	
Vendors	<u>\$ 471,741</u>
Accrued expense	
Accrued retirement	<u>\$ 870</u>

SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Retirements	Balance June 30, 2021
Furniture and Equipment	\$ 24,097	\$ -	\$ -	\$ 24,097
Properties	5,981,605	1,015,348	(1,800,000)	5,196,953
Vehicles	45,773	-	-	45,773
	<u>6,051,475</u>	<u>1,015,348</u>	<u>(1,800,000)</u>	<u>5,266,823</u>
Total cost				
Less accumulated depreciation	<u>(50,811)</u>	<u>(86,405)</u>	<u>40,500</u>	<u>(96,716)</u>
Capital assets, net	<u>\$ 6,000,664</u>	<u>\$ 928,943</u>	<u>\$ (1,759,500)</u>	<u>\$ 5,170,107</u>

NOTE 8 – DEBT SERVICE

The Organization received a loan in the current year payable to a local bank in the amount of \$36,616. This was a Payroll Protection Program loan that was eligible for forgiveness as long as the entity met the requirements put forth by the CARES Act. As of August 8, 2021, the loan has been fully forgiven.

NOTE 9 – RETIREMENT PLAN

The Organization does not participate in a retirement program. Current employees may participate in a Simple IRA in which the Organization matches the contribution of the participating employee's salary deferment up to 30%.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Organization's Board of Directors includes volunteers from the business community who provide valuable assistance to the Organization. During the year ended June 30, 2021, the Organization contracted to receive payroll services from a company by which a board member is employed.

SPEDA properties 1, LLC is a single member LLC that is 100% owned by the Organization. This entity was formed to hold real estate and provide liability protection for the real estate.

SPEDA Community Foundation is a not for profit 501(c)(3) that was established for donations, to enhance community involvement in special projects, and establish donor deductibility. The entity is managed by a board made up of SPEDA employees, and 4 board members.

NOTE 11 – SUBSEQUENT EVENTS

The board's management has evaluated subsequent events through September 30, 2021, the date these financial statements were available for release. One event occurred subsequent to the date of the financial statements that would require adjustment or disclosure in the financial statements, the Payroll Protection Program Loan was forgiven as of August 8, 2021.

NOTE 11 – SUBSEQUENT EVENTS (CONTINUED)

COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could continue to be disrupted in the near future. The extent to which COVID-19 may impact the Organization will depend on future developments and governmental regulations, which are highly uncertain and cannot be predicted. As a result, the Organization has not yet determined the impact this disruption may have on its financial statements for the year ended June 30, 2021, or those going forward.