

**SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC**

**BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2022**

**with**

**REPORT OF INDEPENDENT AUDITORS**

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**Cloyd & Associates, PSC**  
*Certified Public Accountants  
and  
Business Advisors*

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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, 2022, and the related statement of activities, cash flow for the year 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 Somerset-Pulaski County Economic Development Authority, Inc, as of June 30, 2022, 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.

### Basis for Opinion

We conducted our audit 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 Somerset-Pulaski County Economic Development Authority, Inc, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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.

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 Somerset-Pulaski County Economic Development Authority, Inc'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, including omissions, 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.

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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 Somerset-Pulaski County Economic Development Authority, Inc'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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Somerset-Pulaski County Economic Development Authority, Inc'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.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
August 31, 2022

**SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2022**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 2,920,615
Prepaid expenses	300
Current portion of notes receivable	<u>40,000</u>
Total current assets	<u>2,960,915</u>

**Noncurrent assets**

Total capital assets, net	4,244,303
Long term portion of notes receivable	<u>81,664</u>
Total noncurrent assets	<u>4,325,967</u>

**TOTAL ASSETS**

\$ 7,286,882

**LIABILITIES**

**Current liabilities**

Accounts payable	21,563
Unearned grants	400,000
Earnest money, deposit on land	10,000
Accrued expenses	<u>988</u>
Total current liabilities	<u>432,551</u>

**TOTAL LIABILITIES**

432,551

**NET ASSETS**

Without donor restrictions	<u>6,854,331</u>
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**TOTAL NET ASSETS**

6,854,331

**TOTAL LIABILITIES AND NET ASSETS**

\$ 7,286,882

**SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
<b>Support and Revenue</b>		
Government support	\$ 436,000	-
Interest income	10,992	-
Other Income	11,602	-
Gain (loss) on sale of assets	223,827	-
	<hr/>	<hr/>
Total support and revenue	682,421	-
	<hr/>	<hr/>
<b>Expenses</b>		
Depreciation	57,266	-
Business recruitment	31,426	-
Property expenses	82,835	-
Advertising	60,496	-
Contract services	71,752	-
Office expenses	16,389	-
Rent expense	36,000	-
Insurance expense	40,503	-
Sponsorship/membership fees	90,925	-
Wages	210,700	-
Employee benefits	6,321	-
Payroll taxes	16,653	-
Training	5,092	-
Travel	12,538	-
Vehicle expense	8,335	-
Special Projects	188,570	-
	<hr/>	<hr/>
Total expenses	935,801	-
	<hr/>	<hr/>
<b>Other income</b>		
PPP loan forgiveness	36,616	-
	<hr/>	<hr/>
<b>Change in net assets</b>	(216,764)	-
Net assets as of June 30, 2021	7,071,095	-
	<hr/>	<hr/>
<b>Net assets as of June 30, 2022</b>	<u>\$ 6,854,331</u>	<u>\$ -</u>

**SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2022**

	Cost of				Total
	Program Services	Direct Benefit to Donors	Management and General	Fundraising	
Salaries and wages	\$ 52,675	\$ -	\$ 105,350	\$ 52,675	\$ 210,700
Employee benefits	1,580	-	3,161	1,580	6,321
Payroll taxes	4,163	-	8,327	4,163	16,653
<b>Total salaries and related expenses</b>	<b>58,418</b>	<b>-</b>	<b>116,838</b>	<b>58,418</b>	<b>233,674</b>
Depreciation	57,266	-	-	-	57,266
Business recruitment	31,426	-	-	-	31,426
Property expenses	82,835	-	-	-	82,835
Advertising	30,248	-	30,248	-	60,496
Contract services	71,752	-	-	-	71,752
Office expenses	-	-	16,389	-	16,389
Rent expense	-	-	36,000	-	36,000
Insurance expense	40,503	-	-	-	40,503
Sponsorship/membership fees	-	-	-	90,925	90,925
Training	-	-	5,092	-	5,092
Travel	-	-	12,538	-	12,538
Vehicle expense	-	-	8,335	-	8,335
Special Projects	188,570	-	-	-	188,570
<b>Total Expenses</b>	<b>\$ 561,018</b>	<b>\$ -</b>	<b>\$ 225,440</b>	<b>\$ 149,343</b>	<b>\$ 935,801</b>

**SOMERSET-PULASKI ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2022**

<b>Cash flows from operating activities</b>	
Change in net assets	\$ (216,763)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	57,266
Gain from sale of fixed assets	(223,827)
Income from debt forgiveness - PPP Loan	(36,616)
(Increase) decrease in operating assets:	
Prepaid insurance	(300)
Increase (decrease) in operating liabilities:	
Accounts payable	(450,177)
Earnest money	10,000
Accrued expenses	118
	<u>                    </u>
Net cash provided by (used in) operating activities	<u>(860,299)</u>
<b>Cash flows from investing activity</b>	
Payments received in connection with note receivable	18,336
Payments made in connection with note receivable	(40,000)
Purchase of property and equipment	(775,929)
Proceeds from sale of properties	1,868,292
	<u>                    </u>
Net cash provided by (used in) investing activity	<u>1,070,699</u>
<b>Cash flows from financing activity</b>	
Grant received	400,000
	<u>                    </u>
Net cash provided by (used in) financing activity	<u>400,000</u>
Net increase (decrease) in cash and cash equivalents	610,400
Cash and cash equivalents at the beginning of year	<u>2,310,215</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 2,920,615</u></b>
Interest paid	<u>\$ -</u>



**SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

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**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 serves as the primary economic development and marketing agency for Somerset and Pulaski County. The Organization'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.

The Organization's Mission Statement states 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, The Organization 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, 2022**

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**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, 2020, and 2021.

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 also 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 collection efforts 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.

**SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

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**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, 2023.

*Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial assets*

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. ASU 2020-07 was adopted by the Organization during the year ended June 30, 2022.

**SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**For the year ended June 30, 2022**

**NOTE 3 – LIQUIDITY AND AVAILABILITY**

The Organization has \$2,920,616 of financial assets available within one year of the statement of financial position date at June 30, 2022, 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 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, 2022, 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, 2022 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Local Bank	\$ 3,017,559	\$ 2,920,616
	<u>\$ 3,017,559</u>	<u>\$ 2,920,616</u>

**NOTE 5 – NOTES RECEIVABLE**

The Organization received a promissory note in the prior year from Lake Cumberland Regional Airport in the amount of \$100,000. The agreement dictates that the organization has an interest rate of 0.0% and 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. The balance as of June 30, 2022 is \$90,000.

The Organization received a promissory note from the Pulaski County Detention Center in the amount of \$40,000. The agreement dictates that the organization has an interest rate of 0.0% and will receive monthly installments of \$1,666 beginning January 1, 2022, with the full amount of the note received on or before December 31, 2023. The balance as of June 30, 2022 is \$31,664.

**NOTE 6 – UNEARNED GRANTS**

The Organization received a donation of \$400,000 from the Pulaski County Fiscal Court, which consisted of funds from the American Rescue Plan Act of 2021, for the Commerce Park project, which is not yet complete. The funds will remain a payable until the project is complete and the funds are expended.

**SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2022, was as follows:

	Balance <u>June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2022</u>
Land	\$ 3,119,692	\$ 765,894	\$ 58,247	\$ 3,827,339
Furniture and Equipment	24,097	-	-	24,097
Properties	2,077,260	-	1,653,529	423,731
Vehicles	<u>45,773</u>	<u>-</u>	<u>-</u>	<u>45,773</u>
Total cost	<u>5,266,822</u>	<u>765,894</u>	<u>1,711,776</u>	<u>4,320,940</u>
Less accumulated depreciation	<u>(96,716)</u>	<u>(57,266)</u>	<u>77,345</u>	<u>(76,637)</u>
Capital assets, net	<u>\$ 5,170,106</u>	<u>\$ 708,628</u>	<u>\$ 1,789,121</u>	<u>\$ 4,244,303</u>

**NOTE 10 – DEBT SERVICE**

The Organization received a loan in the prior year payable to a local bank in the amount of \$36,616. This was a Payroll Protection Program loan that, as of August 8, 2021, was fully forgiven.

**NOTE 11 – EARNEST MONEY DEPOSIT**

On January 31, 2022, the Organization entered into a purchase agreement obligating them to sell the Commerce Park property for \$1,100,000. In good faith, the purchaser made a nonrefundable \$10,000 earnest money deposit with the terms that closing would be no later than November 30, 2022.

**NOTE 11 – RETIREMENT PLAN**

Current employees of the Organization may participate in a Simple IRA in which the Organization matches the contribution of the participating employee's salary deferral up to 3%.

**NOTE 12 – 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, 2022, 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 to allow the community to contribute to projects and establish donor deductibility. The entity is managed by a board made up of SPEDA employees, and 3 board members. This is a joint venture with the Organization, however, while the Organization spearheads the projects for the Foundation, they do not solicit donations.

**SOMERSET-PULASKI COUNTY ECONOMIC DEVELOPMENT AUTHORITY, INC**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**For the year ended June 30, 2022**

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**NOTE 13 – SUBSEQUENT EVENTS**

The board's management has evaluated subsequent events through August 31, 2022, the date these financial statements were available for release. Subsequent to the date of the financial statements, the Organization donated funds to the SPEDA Community Foundation, which will be reimbursed at a future date. This donation had no effect on the financial statements.

Additionally, the Organization has started the sale process for the Commerce Park property referenced in note 11. The Organization received \$10,000 in earnest money from the buyer, but as of August 31, 2022, the sale has not closed and the earnest money is not recognized as revenue.

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, 2022, or those going forward.