

**Bluegrass State Skills Corporation**

**Financial Statements**

**Year Ended June 30, 2018**

**Bluegrass State Skills Corporation  
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Year Ended June 30, 2018**

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## **Independent Auditor's Report**

To the Board of Directors  
Bluegrass State Skills Corporation  
Frankfort, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the governmental fund of Bluegrass State Skills Corporation, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Bluegrass State Skills Corporation's basic financial statements as listed in the table of contents.

### **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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 opinions.

**Kentucky**  
**Indiana**  
**Ohio**

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## Independent Auditor's Report (Continued)

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of Bluegrass State Skills Corporation as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the required supplemental information on pages 19 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018 on our consideration of Bluegrass State Skills Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bluegrass State Skills Corporation's internal control over financial reporting and compliance.



MCM CPAs & Advisors LLP  
Louisville, Kentucky  
November 28, 2018

## **BLUEGRASS STATE SKILLS CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Bluegrass State Skills Corporation (Corporation) was established in 1984 by the General Assembly of the Commonwealth of Kentucky (Commonwealth) as an independent, de jure corporation to stimulate economic development through programs of skills training to meet the needs of business and industry. The Corporation, in cooperation with other State employment and training organizations, provides for customized comprehensive programs of skills training services for new, expanding, and existing industries. The Corporation, for administrative purposes, operates under the Kentucky Cabinet for Economic Development, in recognition of the relationship between economic development and skills training efforts.

As management of the Corporation, a governmental fund type component unit of the Commonwealth, we offer the readers of the Corporation's financial statements this narrative overview and analysis of the financial performance of the Corporation for the fiscal year ended June 30, 2018. We encourage readers to read it in conjunction with the Corporation's financial statements and the accompanying notes thereto.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Corporation exceeded its liabilities as of the close of the most recent fiscal year by \$1,481,956
- As of the close of the most recent fiscal year, the Corporation's governmental fund reported an ending fund balance of \$1,481,956
- Total expenses decreased \$329,043 (4.0%) between fiscal years
- Total general revenues increased \$1,231,943 (15.0%) between fiscal years

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of three parts: Management's Discussion and Analysis (this section), the combined government-wide and fund financial statements, and the accompanying notes to the financial statements. For special-purpose governments engaged in a single governmental program, the government-wide financial statements and the fund financial statements may be combined using a columnar format that reconciles individual line items of fund financial data to government-wide data. Accordingly, the Corporation has elected to present combined financial statements as such. The perspectives of the government-wide financial statements and the fund financial statements are discussed below.

The Corporation has established a fund to account for appropriations from the Commonwealth to be used for the purpose for which the Corporation was created. The activities of the Corporation are accounted for as a governmental fund on the modified accrual basis of accounting.

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

## **BLUEGRASS STATE SKILLS CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

##### **Government-wide Financial Statements (Continued)**

The statement of activities presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

##### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other State and local governments, uses fund accounting to ensure legal requirements. The Corporation is accounted for as a single governmental fund.

The Corporation's single governmental fund is used to account for essentially the same function as that which is reported within the government-wide financial statements, however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of the fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the fund financial statements with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Corporation's near-term financial decisions.

The governmental fund balance sheet and the government-wide statement of net position are presented on page 10 with an adjustments column to provide a reconciliation between the two sets of financial statements. The governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities are presented on page 11 and contain a similar reconciliation. See Note C to the financial statements for an additional discussion of the adjustment amounts.

##### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12-18.

**BLUEGRASS STATE SKILLS CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FINANCIAL ANALYSIS OF THE CORPORATION**

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Corporation, assets exceeded liabilities by \$1,481,956 as of the close of the most recent fiscal year.

**Condensed Financial Information (in thousands)**  
**Statement of Net Position**  
**June 30**

	2018	2017	Percentage Increase (Decrease)
Current assets	\$ 2,475	\$ 733	237.7%
Non-current assets	1,256	-	100.0%
Total assets	<u>3,731</u>	<u>733</u>	409.0%
Deferred outflows of resources	-	72	-100.0%
Current liabilities	2,249	733	206.8%
Non-current liabilities	-	706	-100.0%
Total liabilities	<u>2,249</u>	<u>1,439</u>	56.3%
Net position	<u>\$ 1,482</u>	<u>\$ (634)</u>	333.8%

**Current assets** generally consist of cash/cash equivalents (the equity position of the Corporation in the State cash and investment pool of the Commonwealth of Kentucky not otherwise classified as investments) and intergovernment receivables appropriated from the General Fund of the Commonwealth to cover the Corporation's **current liabilities** (see also **current liabilities** and **General Fund appropriations** below). The equity position of the Corporation in the State cash and investment pool at June 30, 2018 represents unexpended intergovernment grant funds (see also **intergovernment grant revenue** below). At June 30, 2017, the Corporation did not have any funds on deposit in the State cash and investment pool.

**Non-current assets** at June 30, 2018 consist of investments representative of the equity position of the Corporation in the State cash and investment pool not otherwise classified as cash/cash equivalents.

**Deferred outflows of resources** at June 30, 2017 related to the pension liability. See also **transfer** below.

**Current liabilities** consist primarily of grants payable. Grants payable as of year-end are representative of active **grant awards** (see also **grant awards**) for which the requests for reimbursements reflect expenditures incurred by the grantees prior to June 30, 2018, but for which the Corporation had not reimbursed the grantees until after year-end. At June 30, 2017, **current liabilities** also consisted of accrued payroll expenses (\$14,347) and the current portion of compensated absences (\$5,800). See also **transfer** below.

**BLUEGRASS STATE SKILLS CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Government-wide Financial Analysis (Continued)**

Grants payable increased approximately \$1,536,000 (215.6%) between fiscal years, approximately \$670,000 of which consists of amounts payable to one specific grantee. Grants payable will be paid from the intergovernment receivables (appropriated from the General Fund of the Commonwealth) due to the Corporation at June 30, 2018 (see also **current assets** above).

**Non-current liabilities** typically represent the non-current portion of compensated absences (\$21,407 at June 30, 2017) and the pension liability (\$685,000 at June 30, 2017). See also **transfer** below.

**Condensed Financial Information (in thousands)**

**Statement of Activities**

**Years Ended June 30**

	<u>2018</u>	<u>2017</u>	<u>Percentage Increase (Decrease)</u>
Expenses			
Grant awards	\$ 7,940	\$ 8,042	-1.3%
Compensation and related benefits	5	236	-97.9%
Other	<u>25</u>	<u>20</u>	25.0%
Total expenses	<u>7,970</u>	<u>8,298</u>	-4.0%
Deficiency of revenues over expenses	<u>(7,970)</u>	<u>(8,298)</u>	-4.0%
General revenues			
General Fund appropriations	7,964	8,214	-3.0%
Intergovernment grant revenue	<u>1,482</u>	<u>-</u>	100.0%
Total general revenues	<u>9,446</u>	<u>8,214</u>	15.0%
Transfer	<u>640</u>	<u>-</u>	100.0%
Change in net position	2,116	(84)	2619.0%
Net position, beginning of the year	<u>(634)</u>	<u>(550)</u>	-15.3%
Net position, end of the year	<u>\$ 1,482</u>	<u>\$ (634)</u>	333.8%

## BLUEGRASS STATE SKILLS CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

#### FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)

##### Government-wide Financial Analysis (Continued)

**Grant awards** represent grants-in-aid, with matching requirements, to businesses to improve and promote employment opportunities for the residents of the Commonwealth. Such **grant awards** are typically funded primarily by **General Fund appropriations**. **Grant awards** are reported net of refunds. Refunds of **grant awards** represent the repayment of grant funds (prorated according to employment) by the recipient if grant requirements are not met (i.e. the employment threshold). **Grant awards** remained relatively consistent between fiscal years (decreased approximately \$103,000 or 1.3%).

**Compensation and related benefits** typically consist of regular salaries and wages, compensated absences (both the current and non-current portions), employer payroll taxes, and employee benefits such as retirement and health insurance. **Compensation and related benefits** with respect to fiscal year 2018 only consists of per-diem amounts paid to the individual members of the Corporation's Board of Directors. Effective July 1, 2017, the Executive Director position (the payroll expenses related thereto) was transferred to another department of State government.

**Other expenses** represent all other operating expenses of the Corporation such as professional fees, travel, and various office related expenses. **Other expenses** remained relatively consistent between fiscal years.

**General Fund appropriations** from the Commonwealth are typically the primary funding source for the activities of the Corporation. Fiscal year 2017 **General Fund appropriations** exceed fiscal year 2018 **General Fund appropriations** by approximately \$250,000 (3.0%). This decrease between fiscal years generally goes hand-in-hand with the above noted decrease in **grant awards** and **compensation and related benefits** expense.

Fiscal year 2018 **intergovernment grant revenue** consists of funding received from the Kentucky Education and Workforce Development Cabinet. Such grant funds are restricted for "grants, loans, and benefits" related to training incumbent Kentucky employees in skill and occupational upgrade training so that employers and employees can enhance productivity, improve performance, retain employment, and integrate new technologies with the goal of business retention, expansion, and growth within the Commonwealth. **Net position** at June 30, 2018 is restricted pursuant to the unexpended Kentucky Education and Workforce Development Cabinet grant funds.

The fiscal year 2018 **transfer** in the amount of \$640,207 represents the July 1, 2017 transfer of employee related liabilities as follows: (1) the current (\$5,800) and non-current (\$21,407) portions of compensated absences, and (2) the pension liability (\$685,000), including the related deferred outflows of resources (\$72,000). As discussed above, effective July 1, 2017, the Executive Director position was transferred to another department of State government.

##### Governmental Fund Financial Analysis

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Corporation's fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for program purposes at the end of the fiscal year.

**BLUEGRASS STATE SKILLS CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Government Fund Financial Analysis (Continued)**

**Condensed Financial Information (in thousands)**  
**Balance Sheet**  
**June 30**

	<u>2018</u>	<u>2017</u>	<u>Percentage Increase (Decrease)</u>
Assets	\$ 3,731	\$ 733	409.0%
Liabilities	\$ 2,249	\$ 733	206.8%
Fund balance	<u>1,482</u>	<u>-</u>	100.0%
Total liabilities and fund balance	<u>\$ 3,731</u>	<u>\$ 733</u>	409.0%

See the above discussions of **current assets** and **current liabilities** within the Government-wide Financial Analysis section.

As of the close of the fiscal year ended June 30, 2018, the balance sheet reflects an ending **fund balance** of \$1,481,956 which is restricted pursuant to the unexpended Kentucky Education and Workforce Development Cabinet grant funds (see also **intergovernment grant revenue** above).

**Condensed Financial Information (in thousands)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Years Ended June 30**

	<u>2018</u>	<u>2017</u>	<u>Percentage Increase (Decrease)</u>
Expenditures			
Grant awards	\$ 7,940	\$ 8,042	-1.3%
Compensation and related benefits	5	152	-96.7%
Other	<u>25</u>	<u>20</u>	25.0%
Total expenditures	<u>7,970</u>	<u>8,214</u>	-3.0%
Deficiency of revenues over expenditures	<u>(7,970)</u>	<u>(8,214)</u>	-3.0%
General revenues			
General Fund appropriations	7,964	8,214	-3.0%
Intergovernment grant revenue	<u>1,482</u>	<u>-</u>	100.0%
Total general revenues	<u>9,446</u>	<u>8,214</u>	15.0%
Transfer	<u>6</u>	<u>-</u>	100.0%
Change in fund balance	1,482	-	100.0%
Fund balance, beginning of the year	<u>-</u>	<u>-</u>	0.0%
Fund balance, end of the year	<u>\$ 1,482</u>	<u>\$ -</u>	100.0%

**BLUEGRASS STATE SKILLS CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Government Fund Financial Analysis (Continued)**

See the above discussions within the Government-wide Financial Analysis section.

The fiscal year 2018 **transfer** in the amount of \$5,800 represents the July 1, 2017 transfer of the current portion of compensated absences.

**BUDGETARY HIGHLIGHTS**

During fiscal year 2018, the Corporation's budgeted appropriations as allotted for "personnel" expenses decreased \$143,900 from what had been originally budgeted. As discussed above, effective July 1, 2017, the Executive Director position (the payroll expenses related thereto) was transferred to another department of State government.

Additionally, during fiscal year 2018, the Corporation's budgeted appropriations as allotted for "operating expenses" increased \$5,100 from what had been originally budgeted.

See the budgetary comparison schedule on page 19 (and the related note thereto on page 20) for additional information.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

Notwithstanding KRS 154-12.278, if the unexpended allotments designated for "grants, loans, and benefits" are not sufficient to fund obligations to disburse both active and prospective grant awards, "Restricted Funds" (funding which would be provided by the Kentucky Economic Development Finance Authority, a separate component unit of the Commonwealth of Kentucky) in an amount up to \$4,950,000 may be available to the Corporation, while an amount not to exceed \$2,000,000 may also be appropriated to the Corporation from the Commonwealth's General Fund Surplus Account and/or the Budget Reserve Trust Fund Account (a total of \$6,950,000 potentially available supplemental funding). During fiscal year 2018, \$3,407,400 of the supplemental funding was made available to the Corporation. Accordingly, at June 30, 2018, \$3,542,600 of such supplemental funding is potentially still available.

Unexpended "personnel" and "operating expenses" allotments will lapse to the extent such allotments have not been appropriated to pay accounts payable as of year-end (if applicable).

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Corporation's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact Bluegrass State Skills Corporation, Kentucky Cabinet for Economic Development, Old Capitol Annex, 300 West Broadway, Frankfort, Kentucky 40601.

**Bluegrass State Skills Corporation**  
**Balance Sheet/Statement of Net Position**  
**June 30, 2018**

	<u>Balance Sheet</u>	<u>Adjustments (Note C)</u>	<u>Statement of Net Position</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 226,056	\$ -	\$ 226,056
Intergovernment receivables	<u>2,248,807</u>	<u>-</u>	<u>2,248,807</u>
Total current assets	<u>2,474,863</u>	<u>-</u>	<u>2,474,863</u>
Non-current assets			
Investments	<u>1,255,900</u>	<u>-</u>	<u>1,255,900</u>
Total assets	<u><u>\$ 3,730,763</u></u>	<u>-</u>	<u><u>3,730,763</u></u>
<b>Liabilities</b>			
Current liabilities			
Grants payable	<u>\$ 2,248,807</u>	<u>-</u>	<u>2,248,807</u>
<b>Fund Balance/Net Position</b>			
Restricted	<u>1,481,956</u>	<u>\$ -</u>	<u><u>\$ 1,481,956</u></u>
Total liabilities and fund balance	<u><u>\$ 3,730,763</u></u>		

**Bluegrass State Skills Corporation**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balance/Statement of Activities**  
**Year Ended June 30, 2018**

	Statement of Revenues, Expenditures, and Changes in <u>Fund Balance</u>	Adjustments (Note C)	Statement of Activities
Expenditures/expenses			
Grant awards	\$ 7,939,575	\$ -	\$ 7,939,575
Compensation and related benefits	5,275	-	5,275
Professional fees	17,050	-	17,050
Miscellaneous	7,981	-	7,981
Total expenditures/expenses	<u>7,969,881</u>	<u>-</u>	<u>7,969,881</u>
Deficiency of revenues over expenditures/ expenses	<u>(7,969,881)</u>	<u>-</u>	<u>(7,969,881)</u>
General revenues			
General Fund appropriations	7,964,081	-	7,964,081
Intergovernment grant revenue	1,481,956	-	1,481,956
Total general revenues	<u>9,446,037</u>	<u>-</u>	<u>9,446,037</u>
Change in fund balance/net position before transfer	1,476,156	-	1,476,156
Transfer	<u>5,800</u>	<u>634,407</u>	<u>640,207</u>
Change in fund balance/net position	1,481,956	634,407	2,116,363
Fund balance/net position			
Beginning of the year	<u>-</u>	<u>(634,407)</u>	<u>(634,407)</u>
End of the year	<u>\$ 1,481,956</u>	<u>\$ -</u>	<u>\$ 1,481,956</u>

**Bluegrass State Skills Corporation  
Notes to the Financial Statements  
Year Ended June 30, 2018**

**Note A--Nature of Activities**

Bluegrass State Skills Corporation (Corporation) was established in 1984 by the General Assembly of the Commonwealth of Kentucky (Commonwealth) as an independent, de jure corporation to stimulate economic development through programs of skills training to meet the needs of business and industry. The Corporation, in cooperation with other State employment and training related entities, provides for customized comprehensive programs of skills training services for new, expanding, and existing industries. The Corporation, for administrative purposes, operates under the Kentucky Cabinet for Economic Development (Cabinet), in recognition of the relationship between economic development and skills training efforts.

The Corporation's three main functions are:

- To administer and fund customized business and industry specific training through agreements for Grant-in-Aid (Grant-in-Aid Program) and Skills Training Investment Credit incentives (Skills Training Investment Credit Act Program);
- To act as a broker by coordinating the resources of providers of skills upgrade training, occupational upgrade training, and employment services; and
- To facilitate the creation of public/private partnerships through education and training programs designed to meet training needs of individual and multiple company (consortia) training projects.

Additionally, the Corporation, pursuant to Kentucky Revised Statutes 141.381, is responsible for approving tax credits under the Metropolitan College Tax Credit Program, the purpose of which is to encourage an employer to provide educational opportunities to employees through a program that combines employment with post-secondary education. The tax credits are approved on behalf of a qualified tax payer under the terms of the related Metropolitan College Agreement.

The Skills Training Investment Credit Act Program and the Metropolitan College Tax Credit Program abate tax revenues of the Commonwealth. The abated tax revenues do not otherwise directly impact the Corporation's financial position and/or results of operations. The Commonwealth's Comprehensive Annual Financial Report (CAFR) should be referred to for additional disclosures related to the Skills Training Investment Credit Act Program and the Metropolitan College Tax Credit Program, including the disclosures required by Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*.

The Corporation is an instrumentality of the Commonwealth of Kentucky and is exempt from income taxation.

**Bluegrass State Skills Corporation**  
**Notes to the Financial Statements (Continued)**  
**Year Ended June 30, 2018**

**Note B--Summary of Significant Accounting Policies**

1. Basis of Presentation

The Corporation is a component unit of the Commonwealth of Kentucky. The Corporation's financial statements are included in the Commonwealth's CAFR as a discretely presented component unit.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Corporation is a governmental fund. Accordingly, the Corporation presents two sets of financial statements; government-wide financial statements and governmental fund financial statements.

The government-wide financial statements of the Corporation (the statement of net position and the statement of activities) report information on all of the activities of the Corporation. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting, however, certain expenditures, such as those related to compensated absences, are recorded only when payment is due.

An adjustments column is presented within the financial statements to provide a reconciliation between the government-wide and governmental fund financial statements. See Note C for a discussion of the adjustment amounts.

In accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Corporation's overall financial position and results of operations.

2. Use of 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.

3. Cash, Cash Equivalents, and Investments

The equity position of the Corporation in the State cash and investment pool of the Commonwealth of Kentucky (the Commonwealth of Kentucky's general depository) is reported as assets of the Corporation. The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

**Bluegrass State Skills Corporation**  
**Notes to the Financial Statements (Continued)**  
**Year Ended June 30, 2018**

**Note B--Summary of Significant Accounting Policies (Continued)**

4. Intergovernment Transactions

During the course of operations, transactions occur with other State agencies (including the Commonwealth of Kentucky in general) that may result in amounts due to/from and revenues from/expenses to. See Note E for details of such transactions.

5. Fund Balance/Net Position

Governmental fund equity is classified as fund balance and is displayed in the following classifications which depict the relative strength of the spending constraints placed on the purposes for which resources can be used (when applicable; see Note H):

- a. Non-spendable - Consists of amounts that are not in a spendable form or are required to be maintained intact.
- b. Restricted - Consists of amounts with constraints placed on the use thereof either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Committed - Consists of amounts constrained to specific purposes by the entity itself, using its highest level of decision-making authority (the Board of Directors).
- d. Assigned - Consists of amounts the entity intends to use for a specific purpose (such purposes do not meet the criteria to be classified as restricted or committed).
- e. Unassigned - Consists of spendable amounts that are otherwise available for any purpose.

Government-wide equity is classified as net position and is displayed in the following classifications (when applicable):

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use thereof either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of net investment in capital assets or restricted.

6. Expenditures/Expenses

Expenditures and expenses are both classified by natural or object classification in the statement of revenues, expenditures, and changes in fund balance/statement of activities.

**Bluegrass State Skills Corporation**  
**Notes to the Financial Statements (Continued)**  
**Year Ended June 30, 2018**

**Note C--Explanation of the Difference Between the Government-wide and the Governmental Fund Financial Statements**

Long-term liabilities applicable to the Corporation's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities. When applicable, the non-current portion of compensated absences, the pension liability, and related deferred outflows and inflows of resources are therefore not reported in the governmental fund balance sheet. The expenses associated with the non-current portion of compensated absences, the pension liability, and the deferred outflows and inflows of resources does not require the use of current financial resources and, therefore, are not reported in the governmental fund statement of revenues, expenditures, and changes in fund balance. All liabilities, both current and long-term, are reported in the government-wide statement of net position. Accordingly, when applicable, the expenses associated with the non-current portion of compensated absences, the pension liability, and the deferred outflows and inflows of resources are reported in the government-wide statement of activities.

The \$634,407 within the adjustments column (adjustment to the transfer amount; see Note E) of the statement of revenues, expenditures, and changes in fund balance/statement of activities (statement) is reflective of the fiscal year 2018 net impact of adjusting the non-current portion of compensated absences (\$21,407) and the pension liability (\$685,000) and the related deferred outflows of resources (\$72,000) to \$0 (see Note E). The \$634,407 adjustment to the beginning fund balance/net position per the statement is reflective of the net of the \$72,000 of deferred outflows of resources as of June 30, 2017, the \$21,407 non-current portion of compensated absences as of June 30, 2017, and the \$685,000 pension liability as of June 30, 2017.

**Note D--Cash, Cash Equivalents, and Investments**

The Kentucky Revised Statutes (Statutes) authorize the Corporation to invest deposits subject to its control, at its discretion, in the types of permitted investments as outlined within the Statutes. In addition, the Corporation is also allowed to participate in a cash and investment pool maintained by the Commonwealth of Kentucky. At June 30, 2018, cash and cash equivalents consist entirely of the Corporation's equity position in the State cash and investment pool (the portion that has not otherwise been classified as investments).

At June 30, 2018, investments consist entirely of the Corporation's equity position in the State cash and investment pool (the portion that has not otherwise been classified as cash and cash equivalents). Such investments are valued at the net asset value of the Corporation's equity position at year-end, a Level 2 fair value measurement (see below).

The fair value measurements framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Corporation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

**Bluegrass State Skills Corporation**  
**Notes to the Financial Statements (Continued)**  
**Year Ended June 30, 2018**

**Note D--Cash, Cash Equivalents, and Investments (Continued)**

There have been no changes from June 30, 2017 in the methodologies used to determine fair value at June 30, 2018. Valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Corporation believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Commonwealth's CAFR should be referred to for additional disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an Amendment of GASB Statement No. 3)*.

**Note E--Intergovernment Transactions**

At June 30, 2018, intergovernment receivables reported in the accompanying balance sheet/statement of net position consist of General Fund appropriations due to the Corporation in the amount of \$2,248,807.

Intergovernment grant revenue (\$1,481,956) per the accompanying statement of revenues, expenditures, and changes in fund balance/statement of activities for the year ended June 30, 2018 consists of funding received from the Kentucky Education and Workforce Development Cabinet. Such grant funds are restricted for "grants, loans, and benefits" related to training incumbent Kentucky employees in skill and occupational upgrade training so that employers and employees can enhance productivity, improve performance, retain employment, and integrate new technologies with the goal of business retention, expansion, and growth within the Commonwealth. Fund balance/net position at June 30, 2018 is thus restricted pursuant to the unexpended Kentucky Education and Workforce Development Cabinet grant funds.

The \$640,207 transfer amount per the accompanying statement of revenues, expenditures, and changes in fund balance/statement of activities for the year ended June 30, 2018 represents, effective July 1, 2017, the transfer of employee related liabilities as follows: (1) the current (\$5,800) and non-current (\$21,407) portions of compensated absences, and (2) the pension liability (\$685,000), including the related deferred outflows of resources (\$72,000). Effective July 1, 2017, the Executive Director position was transferred to another department of State government. As a result, effective July 1, 2017, the Corporation's payroll only consists of per-diem amounts paid to the individual members of the Corporation's Board of Directors.

**Note F--General Fund Appropriations**

The primary funding source for the activities of the Corporation is through legislative General Fund appropriations from the Commonwealth. The Corporation may, subject to appropriations from the Commonwealth or from funds made available to it from any other public or private source, provide grant awards restricted only to the extent of its remaining unexpended funds.

**Bluegrass State Skills Corporation**  
**Notes to the Financial Statements (Continued)**  
**Year Ended June 30, 2018**

**Note F--General Fund Appropriations (Continued)**

The regular General Fund appropriations are made available to the Corporation in quarterly allotments. House Bill 200, enacted during the 2018 Regular Session of the Kentucky legislature, generally authorized the Corporation's unexpended allotments designated for "grants, loans, and benefits" to carry forward for fiscal years 2017-2018 and 2018-2019 (the 2018-2020 biennium) and not lapse to the Commonwealth's General Fund Surplus Account, notwithstanding Kentucky Revised Statutes (KRS) 45.229. Unexpended "personnel" and "operating expenses" allotments will lapse to the extent such allotments have not been appropriated to pay accounts payable as of year-end (if applicable).

During fiscal year 2016, pursuant to House Bill 235 enacted during the 2014 Regular Session of the Kentucky legislature, \$15,000,000 was appropriated to the Corporation from the Commonwealth's General Fund. Such amount was designated for "grants, loans, and benefits" to support a specific manufacturing-related investment in the Commonwealth. Such amount, to the extent not expended, was to lapse on June 30, 2018. The appropriations were expended during fiscal year 2018.

Notwithstanding KRS 154-12.278, if the unexpended allotments designated for "grants, loans, and benefits" are not sufficient to fund obligations to disburse both active and prospective grant awards, "Restricted Funds" (funding which would be provided by the Kentucky Economic Development Finance Authority, a separate component unit of the Commonwealth of Kentucky) in an amount up to \$4,950,000 may be available to the Corporation, while an amount not to exceed \$2,000,000 may also be appropriated to the Corporation from the Commonwealth's General Fund Surplus Account and/or the Budget Reserve Trust Fund Account (a total of \$6,950,000 potentially available supplemental funding). During fiscal year 2018, \$3,407,400 of the supplemental funding was made available to the Corporation. Accordingly, at June 30, 2018, \$3,542,600 of such supplemental funding is potentially still available.

The Corporation's unexpended allotments are maintained by the Kentucky Finance and Administration Cabinet. At June 30, 2018, unexpended allotments (includes those allotments already appropriated to pay accounts payable or certain grants payable as of year-end) consist of the following:

	Beginning Unexpended Balance	Inflows	Outflows	Ending Unexpended Balance
"Personnel"	\$ -	\$ 22,400	\$ 22,325	\$ 75
"Operating expenses"	-	8,000	7,982	18
"Grants, loans, and benefits"	3,251,422	5,719,226	6,403,265	2,567,383
	<u>\$ 3,251,422</u>	<u>\$ 5,749,626</u>	<u>\$ 6,433,572</u>	<u>\$ 2,567,476</u>

**Bluegrass State Skills Corporation**  
**Notes to the Financial Statements (Continued)**  
**Year Ended June 30, 2018**

**Note G--Grant Awards**

The Corporation awards grants-in-aid, with matching requirements, to businesses to improve and promote employment opportunities for the residents of the Commonwealth. Such grant awards are funded primarily by General Fund appropriations.

Grants payable as of year-end represent active grant awards for which the requests for reimbursements reflect expenditures incurred by the grantees prior to year-end; however, the Corporation had not reimbursed the grantees for such expenditures until after year-end. These grants will be paid from the intergovernment receivables (General Fund appropriations) due to the Corporation at year-end (see Note E).

At June 30, 2018, obligations to disburse both active and prospective grant awards total approximately \$5,207,000 (includes the approximately \$2,249,000 of grants payable at June 30, 2018). The Corporation may not however ultimately fund these grants due to certain factors. The Corporation cannot make such disbursements in excess of its available funds ("grants, loans, and benefits") which total approximately \$7,592,000 at June 30, 2018 (includes the approximately \$1,482,000 and \$3,543,000 amounts discussed in Notes E and F, respectively).

**Note H--Fund Balance Classification Policies and Procedures**

The Board of Directors is the Corporation's highest level of decision-making authority. Commitments of fund balance (if and when applicable) must be formally approved through a vote by the Board of Directors. When warranted, the Board of Directors has the authority to assign amounts to a specific purpose utilizing the same policy established for committing funds to a specific purpose. The Corporation has not adopted formal policies which would govern (1) the order of priority relative to the use of fund balance when an expenditure is incurred for purposes for which both restricted or unrestricted fund balance is available and (2) whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts classified as committed, assigned, or unassigned fund balance may be used.

**Note I--Related Party Transactions**

The Corporation received the benefit of management, accounting, and administrative services, as well as utilities and office space, from the Cabinet during fiscal year 2018 for which no fees were assessed.

**Note J--Risk Management**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Corporation purchases commercial insurance coverage for errors and omissions and directors' and officers' liability. The Corporation also utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to any remaining potential losses. The Commonwealth's CAFR should be referred to for additional disclosures related to the Risk Management Fund.

**Bluegrass State Skills Corporation  
Budgetary Comparison Schedule  
Year Ended June 30, 2018**

	Original Budgeted Amounts			Final Budgeted Amounts			Difference Between Original and Final Budgeted Amounts	2018 Actual Amounts	Variance with Final Budgeted Amounts
	Beginning Unexpended Balance July 1, 2017	2018 Allotments	Total	Beginning Unexpended Balance July 1, 2017	2018 Allotments	Total			
Resources (inflows)									
General Fund appropriations	\$ 3,251,422	\$ 2,481,000	\$ 5,732,422	\$ 3,251,422	\$ 5,749,626	\$ 9,001,048	\$ 3,268,626	\$ 9,001,048	\$ -
Charges to appropriations (outflows)									
"Personnel"	-	166,300	166,300	-	22,400	22,400	(143,900)	22,325	(75)
"Operating expenses"	-	2,900	2,900	-	8,000	8,000	5,100	7,982	(18)
"Grants, loans, and benefits"	3,251,422	2,311,800	5,563,222	3,251,422	5,719,226	8,970,648	3,407,426	6,403,265	(2,567,383)
Total charges to appropriations (outflows)	3,251,422	2,481,000	5,732,422	3,251,422	5,749,626	9,001,048	3,268,626	6,433,572	(2,567,476)
Excess of resources (inflows) over charges to appropriations (outflows)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,567,476	\$ 2,567,476

See accompanying independent auditor's report  
and note to the budgetary comparison schedule

**Bluegrass State Skills Corporation**  
**Note to the Budgetary Comparison Schedule**  
**Year Ended June 30, 2018**

**Budgetary Basis Versus GAAP**

The accompanying budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on the budgetary basis. Accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles (GAAP). An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

Total resources (inflows) per the budgetary comparison schedule	\$ 9,001,048
Intergovernment grant revenue for the year ended June 30, 2018	1,481,956
Unexpended allotments as of June 30, 2018	(2,567,476)
General Fund appropriations receivable (intergovernment) as of June 30, 2018	2,248,807
General Fund appropriations receivable (intergovernment) as of June 30, 2017 less accrued payroll expenses as of June 30, 2017	<u>(718,298)</u>
Total general revenues per the statement of revenues, expenditures, and changes in fund balance	<u>\$ 9,446,037</u>
Total charges to appropriations (outflows) per the budgetary comparison schedule	\$ 6,433,572
Grants payable as of June 30, 2018	2,248,807
Grants payable as of June 30, 2017	<u>(712,498)</u>
Total expenditures per the statement of revenues, expenditures, and changes in fund balance	<u>\$ 7,969,881</u>



**Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
Bluegrass State Skills Corporation  
Frankfort, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Bluegrass State Skills Corporation as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Bluegrass State Skills Corporation’s basic financial statements, and have issued our report thereon dated November 28, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Bluegrass State Skills Corporation’s internal control over financial reporting (internal control) to determine the 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 Bluegrass State Skills Corporation’s internal control. Accordingly, we do not express an opinion of the effectiveness of Bluegrass State Skills Corporation’s internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Bluegrass State Skills Corporation’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Kentucky**  
**Indiana**  
**Ohio**

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)**

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "MCM CPAs & Advisors LLP". The letters are stylized and cursive.

MCM CPAs & Advisors LLP  
Louisville, Kentucky  
November 28, 2018

**Bluegrass State Skills Corporation**  
**Schedule of Findings**  
**June 30, 2018**

**Schedule of Auditor's Results**

We have issued an unmodified opinion, dated November 28, 2018, on the financial statements of Bluegrass State Skills Corporation as of and for the year ended June 30, 2018.

Our audit disclosed no instances of noncompliance which are material to Bluegrass State Skills Corporation's financial statements.

**Findings Relating to the Financial Statements**

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

**Bluegrass State Skills Corporation**  
**Schedule of Prior Audit Findings and Their Resolution**  
**June 30, 2018**

The audit as of and for the year ended June 30, 2017 disclosed no findings which were required to be reported in accordance with *Government Auditing Standards*.