

Bluegrass State Skills Corporation

Financial Statements

June 30, 2017

**Bluegrass State Skills Corporation
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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, 2017, 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.

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, 2017, 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 25 through 29 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 August 31, 2017, 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.



Mountjoy Chilton Medley LLP
Louisville, Kentucky
August 31, 2017

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, 2017. We encourage readers to read it in conjunction with the Corporation's financial statements and the accompanying notes thereto.

FINANCIAL HIGHLIGHTS

- The liabilities of the Corporation exceeded its assets (plus deferred outflows of resources) as of the close of the most recent fiscal year by \$634,407
- As of the close of the most recent fiscal year, the Corporation's governmental fund reported an ending fund balance of \$0
- Total expenses increased \$208,915 (2.6%) between fiscal years
- Total general revenues increased \$265,028 (3.3%) 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 12-24.

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, liabilities exceeded assets (plus deferred outflows of resources) by \$634,407 as of the close of the most recent fiscal year.

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

	<u>2017</u>	<u>2016</u>	<u>Percentage Increase (Decrease)</u>
Current assets	\$ 733	\$ 2,506	-70.8%
Deferred outflows of resources	<u>72</u>	<u>34</u>	111.8%
Total assets and deferred outflows of resources	<u>805</u>	<u>2,540</u>	-68.3%
Current liabilities	733	2,506	-70.8%
Non-current liabilities	<u>706</u>	<u>584</u>	20.9%
Total liabilities	<u>1,439</u>	<u>3,090</u>	-53.4%
Net position	<u>\$ (634)</u>	<u>\$ (550)</u>	-15.3%

Current assets generally consist primarily of 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**).

Current liabilities consist primarily of grants payable, accrued payroll expenses, and the current portion of compensated absences. 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, 2017, but for which the Corporation had not reimbursed the grantees until after year-end.

Grants payable decreased approximately \$1,800,000 (71.3%) between fiscal years, approximately \$1,500,000 of which consists of amounts payable to four grantees (of these four grantees at June 30, 2017, only \$400,000 was payable to one of the four). Grants payable will be paid from the intergovernment receivables (appropriated from the General Fund of the Commonwealth) due to the Corporation at June 30, 2017 (see also **current assets** above).

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

FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)

Government-wide Financial Analysis (Continued)

Non-current liabilities represent the non-current portion of compensated absences and the pension liability.

The non-current portion of the Corporation's compensated absences liability as of June 30, 2017 and 2016 is based on an allocation of the annual and compensated leave hours used during the fiscal year to the total hours remaining as of year-end (an estimate).

At June 30, 2017 and 2016, the Corporation's liability with respect to its estimated proportionate share of the collective net pension liability totals \$685,000 and \$577,000, respectively. The \$108,000 increase in the pension liability from 2016 to 2017 largely represents the impact of the decrease in the discount rate used to measure the total pension liability per the June 30, 2016 actuarial valuation (6.75% versus 7.50% with respect to the total pension liability per the June 30, 2015 actuarial valuation).

Deferred outflows of resources at June 30, 2017 and 2016 relate to the pension liability.

Condensed Financial Information (in thousands)
Statement of Activities
Years Ended June 30

	<u>2017</u>	<u>2016</u>	<u>Percentage Increase (Decrease)</u>
Expenses			
Grant awards	\$ 8,042	\$ 7,788	3.3%
Compensation and related benefits	236	279	-15.4%
Other	<u>20</u>	<u>23</u>	-13.0%
Total expenses	<u>8,298</u>	<u>8,090</u>	2.6%
Deficiency of revenues over expenses	<u>(8,298)</u>	<u>(8,090)</u>	2.6%
General revenues			
General Fund appropriations	<u>8,214</u>	<u>7,949</u>	3.3%
Change in net position	(84)	(141)	40.4%
Net position, beginning of the year	<u>(550)</u>	<u>(409)</u>	-34.5%
Net position, end of the year	<u>\$ (634)</u>	<u>\$ (550)</u>	-15.3%

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 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 (increased approximately \$254,000 or 3.3%).

Compensation and related benefits consist primarily 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** decreased approximately \$43,000 (15.4%) between fiscal years. The additional 2016 **compensation and related benefits** expense is largely attributable to the \$159,000 increase in the pension liability from 2015 to 2016 (as compared to the pension liability increasing \$108,000 from 2016 to 2017).

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 the primary funding source for the activities of the Corporation. Fiscal year 2017 **General Fund appropriations** exceed fiscal year 2016 **General Fund appropriations** by approximately \$265,000 (3.3%). This increase between fiscal years generally goes hand-in-hand with the above noted increase in **grant awards**.

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-wide Financial Analysis (Continued)

Condensed Financial Information (in thousands)
Balance Sheet
June 30

	<u>2017</u>	<u>2016</u>	<u>Percentage Increase (Decrease)</u>
Assets	<u>\$ 733</u>	<u>\$ 2,506</u>	-70.8%
Liabilities	\$ 733	\$ 2,506	-70.8%
Fund balance	<u>-</u>	<u>-</u>	0.0%
Total liabilities and fund balance	<u>\$ 733</u>	<u>\$ 2,506</u>	-70.8%

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, 2017, the balance sheet reflects an ending **fund balance** of \$0.

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

	<u>2017</u>	<u>2016</u>	<u>Percentage Increase (Decrease)</u>
Expenditures			
Grant awards	\$ 8,042	\$ 7,788	3.3%
Compensation and related benefits	152	138	10.1%
Other	<u>20</u>	<u>23</u>	-13.0%
Total expenditures	<u>8,214</u>	<u>7,949</u>	3.3%
Deficiency of revenues over expenditures	<u>(8,214)</u>	<u>(7,949)</u>	3.3%
General revenues			
General Fund appropriations	<u>8,214</u>	<u>7,949</u>	3.3%
Change in fund balance	-	-	0.0%
Fund balance, beginning of the year	<u>-</u>	<u>-</u>	0.0%
Fund balance, end of the year	<u>\$ -</u>	<u>\$ -</u>	0.0%

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

FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)

Governmental Fund Financial Analysis (Continued)

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

Governmental fund **compensation and related benefits** per the statement of revenues, expenditures, and changes in fund balance does not reflect the \$14,830 change (increase) in the non-current portion of compensated absences between the fiscal years, nor does it reflect the fiscal year 2017 \$70,000 net impact (increase) of adjusting the pension liability and the related **deferred outflows of resources** as of June 30, 2017.

BUDGETARY HIGHLIGHTS

During fiscal year 2017, the Corporation's budgeted appropriations as allotted for "personnel" expenses increased \$3,200 from what had been originally budgeted.

See the budgetary comparison schedule on page 28 (and the related note thereto on page 29) for additional information.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

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 is designated for "grants, loans, and benefits" to support a specific manufacturing-related investment in the Commonwealth. Such amount, to the extent not expended, will lapse on June 30, 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 2017, \$0 of the supplemental funding was made available to the Corporation.

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, 2017

	<u>Balance Sheet</u>	<u>Adjustments (Note C)</u>	<u>Statement of Net Position</u>
Assets			
Current assets			
Intergovernment receivables	\$ 732,644	\$ -	\$ 732,644
Deferred Outflows of Resources			
	<u>-</u>	<u>72,000</u>	<u>72,000</u>
Total assets and deferred outflows of resources	<u>\$ 732,644</u>	<u>72,000</u>	<u>804,644</u>
Liabilities			
Current liabilities			
Grants payable	\$ 712,497	-	712,497
Accrued payroll expenses	14,347	-	14,347
Compensated absences	5,800	-	5,800
Total current liabilities	<u>732,644</u>	<u>-</u>	<u>732,644</u>
Non-current liabilities			
Compensated absences	-	21,407	21,407
Pension liability	-	685,000	685,000
Total non-current liabilities	<u>-</u>	<u>706,407</u>	<u>706,407</u>
Total liabilities	<u>732,644</u>	<u>706,407</u>	<u>1,439,051</u>
Fund Balance/Net Position			
Fund balance			
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 732,644</u>		
Net position			
Unrestricted (deficit)		<u>\$ (634,407)</u>	<u>\$ (634,407)</u>

See accompanying notes

Bluegrass State Skills Corporation
Statement of Revenues, Expenditures, and Changes
in Fund Balance/Statement of Activities
Year ended June 30, 2017

	Statement of Revenues, Expenditures, and Changes in <u>Fund Balance</u>	Adjustments <u>(Note C)</u>	Statement <u>of Activities</u>
Expenditures/expenses			
Grant awards	\$ 8,042,245	\$ -	\$ 8,042,245
Compensation and related benefits	151,700	84,830	236,530
Professional fees	17,050	-	17,050
Miscellaneous	3,099	-	3,099
Total expenditures/expenses	<u>8,214,094</u>	<u>84,830</u>	<u>8,298,924</u>
Deficiency of revenues over expenditures/ expenses	<u>(8,214,094)</u>	<u>(84,830)</u>	<u>(8,298,924)</u>
General revenues			
General Fund appropriations	<u>8,214,094</u>	<u>-</u>	<u>8,214,094</u>
Change in fund balance/net position	-	(84,830)	(84,830)
Fund balance/net position			
Beginning of the year	<u>-</u>	<u>(549,577)</u>	<u>(549,577)</u>
End of the year	<u>\$ -</u>	<u>\$ (634,407)</u>	<u>\$ (634,407)</u>

See accompanying notes

Bluegrass State Skills Corporation
Notes to the Financial Statements
June 30, 2017

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 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 (Cabinet), in recognition of the relationship between economic development and skills training efforts.

The Corporation's four main functions are:

- To facilitate and administer customized business and industry specific training programs through agreements for Grant-in-Aid (Grant-in-Aid Program) and Skills Training Investment Credit (Skills Training Investment Credit Act Program) projects approved by the Corporation's Board of Directors;
- To act as a broker by coordinating the resources of providers of skills training and employment services;
- To facilitate the creation of public/private partnerships through education and training programs designed to meet unfilled training needs of individual and multiple company (consortia) training projects; and
- To administer any special State appropriations for customized business and industry specific training programs.

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 postsecondary 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)
June 30, 2017

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. 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/expenditures to. See Note D for details of such transactions.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

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

4. Compensated Absences

All annual and compensatory leave pay is accrued when incurred in the government-wide financial statements. In the government-wide statement of net position, the liability for compensated absences as of year-end consists of both the current and non-current portions. A liability for these amounts is recognized in the governmental fund financial statements only to the extent which is estimated as being due and payable within a year. The current portion, estimated based on an allocation of the annual and compensatory leave hours used during the fiscal year to the total hours remaining as of year-end, is considered to be due and payable within a year and is the only portion recognized in the accompanying governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

5. Pension Liability

For purposes of measuring the Corporation's estimated proportionate share of the collective net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, information regarding the Corporation's participation in the Kentucky Employees Retirement System (KERS) has been determined on the same basis as reported by the KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

6. 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.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

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

6. Fund Balance/Net Position (Continued)

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.

7. 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.

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. The non-current portion of compensated absences, the pension liability, and 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, the expenses associated with the non-current portion of compensated absences, the pension liability and the deferred outflows of resources are reported in the government-wide statement of activities.

The \$84,830 within the adjustments column (adjustment to compensation and related benefits) of the statement of revenues, expenditures, and changes in fund balance/statement of activities (statement) is reflective of the change (\$14,830 increase) in the non-current portion of compensated absences between the years ended June 30, 2017 and 2016, as well as the fiscal year 2017 \$70,000 net impact (increase) of adjusting the pension liability and the related deferred outflows of resources as of June 30, 2017. The \$549,577 adjustment to the beginning fund balance/net position per the statement is reflective of the net of the \$34,000 of deferred outflows of resources as of June 30, 2016, the \$6,577 non-current portion of compensated absences as of June 30, 2016, and the \$577,000 pension liability as of June 30, 2016. As of and for the year ended June 30, 2017, the government-wide statement of net position and statement of activities reflect deferred outflows of resources, the non-current portion of compensated absences, and the pension liability.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note D--Intergovernment Transactions

At June 30, 2017, 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 \$732,644.

Note E--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.

The regular General Fund appropriations are made available to the Corporation in quarterly allotments. House Bill 303, enacted during the 2016 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 2015-2016 and 2016-2017 (the 2016-2018 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 is designated for "grants, loans, and benefits" to support a specific manufacturing-related investment in the Commonwealth. Such amount, to the extent not expended, will lapse on June 30, 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 2017, \$0 of the supplemental funding was made available to the Corporation.

The Corporation's unexpended allotments are maintained by the Kentucky Finance and Administration Cabinet. At June 30, 2017, 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"	\$ -	\$ 167,800	\$ 167,775	\$ 25
"Operating expenses"	-	3,100	3,099	1
"Grants, loans, and benefits"	10,756,428	2,311,200	9,816,206	3,251,422
	<u>\$ 10,756,428</u>	<u>\$ 2,482,100</u>	<u>\$ 9,987,080</u>	<u>\$ 3,251,448</u>

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note F--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 D).

At June 30, 2017, obligations to disburse both active and prospective grant awards total approximately \$9,789,000 (includes the approximately \$712,000 of grants payable at June 30, 2017). 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 \$10,201,000 at June 30, 2017 (includes the \$6,950,000 amount discussed in Note E).

Note G--Compensated Absences

Employees may accumulate earned but unused annual leave, compensatory leave, and sick pay benefits. The Commonwealth's policy is to only record the cost of annual and compensatory leave.

Annual and Compensatory Leave

Annual leave is accumulated at amounts ranging from 7.50 to 15.00 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. At June 30, 2017, the Corporation's estimated liability for accrued annual leave totals \$16,426.

Compensatory leave is granted to authorized employees. At June 30, 2017, the Corporation's estimated liability for compensatory leave totals \$10,781.

The activity relative to the liability for compensated absences during fiscal year 2017 is as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 14,877	\$ 18,030	\$ 5,700	\$ 27,207	\$ 5,800

Sick Leave

The Corporation records the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits as of year-end. The estimated accumulated amount of unused sick leave as of June 30, 2017 totals approximately \$13,100.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

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--Retirement Plans

General Information

Plan Description

All employees averaging 100 or more hours per month over a calendar or fiscal year participate in the Kentucky Employees Retirement System (KERS) of the Commonwealth of Kentucky, which is a cost-sharing multiple employer defined benefit pension plan. Under the provisions of KRS 61.645, the Kentucky Retirement Systems Board of Trustees administers the KERS.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Employees Retirement System's Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2016. Such report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. The Commonwealth's CAFR should also be referred to for additional disclosures related to the KERS.

In addition to the KERS, the Corporation's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority issues a publicly available report that includes financial statements and other required supplementary information relative to the deferred compensation plans. Such report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601. The Commonwealth's CAFR should also be referred to for additional disclosures related to the two deferred compensation plans.

Benefits Provided

The KERS provides retirement, as well as health care, disability, and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. Benefits are established by State statute.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note I--Retirement Plans (Continued)

General Information (Continued)

Benefits Provided (Continued)

Covered employees hired before September 1, 2008, who retire at or after age 65 with a minimum of 48 months of credited service, are entitled to a retirement benefit equal to 1.97% to 2.20% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest upon reaching five years of service. Vested employees may retire after 27 years of service and receive full retirement benefits or after age 55 or 25 years of service and receive reduced retirement benefits.

Covered employees hired between September 1, 2008 and December 31, 2013, who retire at or after age 65 with a minimum of 60 months of credited service or when the employee's age (must be at least 57 years of age) plus their years of credited service equals at least 87 years, are entitled to a retirement benefit equal to 1.10% to 2.00% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the last five full fiscal years. Employees may be eligible to receive reduced retirement benefits at age 60 with a minimum of 120 months of credited service.

Contributions

Covered employees are required by State statute to contribute 5.00% of their salary to the KERS (covered employees hired between September 1, 2008 and December 31, 2013 are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems insurance fund). The Corporation is (for the year ended June 30, 2017) required by the same statute to contribute 48.59% of the covered employees' salaries (38.77% of the covered employees' salaries with respect to the years ended June 30, 2016 and 2015). The actuarially determined employer contribution represents the amount, that when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, the costs of administration, and an amortized portion of any unfunded liability.

Covered employees hired on or after January 1, 2014 are eligible to participate in a Cash Balance Plan which requires employees to contribute, on a pre-tax basis, 5.00% of creditable compensation. Employee accounts are also credited with a 4.00% employer pay credit. In addition to the 5.00% employee contribution, covered employees are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems insurance fund. At the end of each fiscal year, interest is paid into each employee's account. The account is guaranteed the 4.00% interest credit on the employee's account balance as of June 30 of the previous fiscal year-end. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4.00%. If an employee terminates his/her employment, the employee, if fully vested (fully vested upon reaching five years of service), is eligible to either take a refund of his/her accumulated account balance or, if the employee is eligible for retirement benefits, he/she may annuitize the account balance. If an employee terminates his/her employment prior to being fully vested and requests a refund, the employee is only eligible to receive his/her contributions plus the interest thereon, forfeiting the employer pay credit and the associated interest.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note I--Retirement Plans (Continued)

General Information (Continued)

Contributions (Continued)

Retired employees receive certain health care benefits depending on length of service. In accordance with State statutes, such benefits are provided and advanced-funded on an actuarially determined basis through the KERS. As indicated above, covered employees hired on or after September 1, 2008 are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems insurance fund. The related employer contribution is included in the required employer contribution rates indicated above.

The Corporation's contributions for the year ended June 30, 2017 total approximately \$42,000. The Corporation's contributions for each of the years ended June 30, 2016 and 2015 total approximately \$31,000.

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2017, the Corporation's liability with respect to its estimated proportionate share of the collective net pension liability is \$685,000. The June 30, 2017 net pension liability has been measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants, as actuarially determined. At June 30, 2017, the Corporation's estimated proportionate share is .00601% (as rounded).

The Corporation's estimate of pension expense with respect to the year ended June 30, 2017 totals \$104,000, approximately \$26,000 of which represents the impact of the increase in the estimated proportionate share of the collective net pension liability from .00575% at June 30, 2016 to .00601% at June 30, 2017.

At June 30, 2017, deferred outflows and inflows of resources related to pensions consist of the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience in the measurement of the total pension liability	\$ 1,000	\$ -
Changes of assumptions and/or other inputs	52,000	-
Net difference between projected and actual earnings on pension plan investments	10,000	-
Changes in the proportionate share and differences between the Corporation's contributions and its proportionate share of the contributions	<u>9,000</u>	<u>-</u>
	<u>\$ 72,000</u>	<u>\$ -</u>

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note I--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

The \$72,000 of deferred outflows of resources as of June 30, 2017 per the above table will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Actuarial Assumptions

The total pension liability per the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, as applied to all periods included in the measurement:

- Inflation - 3.25%
- Projected salary increases - 4.00%, average, including inflation
- Investment rate of return - 6.75%, net of investment expense, including inflation
- Mortality rates -
 - Active members - RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females
 - Healthy retired members and beneficiaries - RP-2000 Combined Mortality Table projected with Scale BB to 2013 setback one year for females
 - Disabled members with respect to the period after disability retirement - RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 setback four years for males

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed with respect to the period from July 1, 2008 through June 30, 2013.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed with respect to the period from July 1, 2007 through June 30, 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note I--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Actuarial Assumptions (Continued)

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows (with respect to the June 30, 2016 actuarial valuation):

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long-term Expected Real Rate of Return</u>
Combined equity	50%	5.30%
Custom fixed income	11%	3.33%
Intermediate duration fixed income	11%	1.00%
Diversified hedge funds	10%	4.00%
Diversified inflation strategies	8%	3.15%
Real estate	5%	4.25%
Cash equivalents	3%	-0.25%
Private equity	2%	8.00%
	<hr style="width: 100%; border: 0.5px solid black;"/>	
	100%	
	<hr style="width: 100%; border: 0.5px solid black;"/>	

The long-term expected rate of return on plan assets is 6.75% (with respect to the June 30, 2016 actuarial valuation), which was established by the Board of Trustees of the Kentucky Retirement Systems based on a blending of the factors described above.

Discount Rate

The discount rate used to measure the total pension liability per the June 30, 2016 actuarial valuation was 6.75%. The projection of cash flows used to determine the discount rate assumed the employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

Bluegrass State Skills Corporation
Notes to the Financial Statements (Continued)
June 30, 2017

Note I--Retirement Plans (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

Sensitivity of the Corporation's Estimated Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the Corporation's estimated proportionate share of the collective net pension liability calculated using the discount rate of 6.75%, as well as what the Corporation's estimated proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current discount rate.

	1.00% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1.00% Increase <u>(7.75%)</u>
Corporation's estimated proportionate share of the collective net pension liability	<u>\$ 772,000</u>	<u>\$ 685,000</u>	<u>\$ 612,000</u>

Liability to KERS

At June 30, 2017, the liability to KERS, which represents the amount of employer contributions required to be funded as of year-end, totals \$4,122. Such amount is included within accrued payroll expenses per the accompanying balance sheet/statement of net position.

Note J--Related Party Transactions

The Corporation received the benefit of accounting and administrative services, utilities, and office space from the Cabinet during fiscal year 2017 for which no fees were assessed.

Note K--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
Notes to the Financial Statements (Continued)
June 30, 2017

Note L--Recently Issued Pronouncement

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75). Statement No. 75 establishes accounting and financial reporting requirements for governments whose employees are provided postemployment benefits other than pensions (OPEB). Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures. For defined benefit OPEB, Statement No. 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, Statement No. 75 also addresses the related disclosure and required supplementary information requirements. The provisions of Statement No. 75 are effective for the fiscal year ending June 30, 2018. The Corporation is currently evaluating the impact, if any, the adoption of this pronouncement will have.

Bluegrass State Skills Corporation
Schedules of the Corporation's Estimated Proportionate Share
of the Collective Net Pension Liability and Related Ratios
Based on the Corporation's Participation in the KERS
Years ended June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	\$ 11,399,489,000	\$ 10,031,890,000	\$ 8,971,820,000
Corporation's estimated portion (percentage) of the total collective net pension liability	0.00601%	0.00575%	0.00466%
Corporation's estimated portion (amount) of the total collective net pension liability	\$ 685,000	\$ 577,000	\$ 418,000
Corporation's estimated portion of the covered employees payroll	\$ 98,000	\$ 89,000	\$ 74,000
Corporation's estimated proportionate share of the total collective net pension liability as a percentage of the Corporation's estimated portion of the covered employees payroll	699%	648%	565%
KERS' non-hazardous employees total fiduciary net position	\$ 1,980,292,000	\$ 2,327,782,000	\$ 2,578,290,000
KERS' non-hazardous employees total pension liability	\$ 13,379,781,000	\$ 12,359,672,000	\$ 11,550,110,000
KERS' non-hazardous employees total fiduciary net position as a percentage of the total pension liability	15%	19%	22%

See accompanying independent auditor's report
and note to the required supplemental information

**Bluegrass State Skills Corporation
Schedules of the Corporation's Contributions Based
on the Corporation's Participation in the KERS
Years ended June 30, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution amount	\$ 31,000	\$ 30,000	\$ 24,000
Contribution amount in relation to the actuarially determined contribution amount	<u>31,000</u>	<u>30,000</u>	<u>14,000</u>
Excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,000)</u>
Corporation's estimated portion of the covered employees payroll	\$ 98,000	\$ 89,000	\$ 74,000
Contribution amount as a percentage of the Corporation's estimated portion of the covered employees payroll	32%	34%	19%

See accompanying independent auditor's report
and note to the required supplemental information

Bluegrass State Skills Corporation
Note to the GASB Statement No. 68 Required
Supplemental Information
Years ended June 30, 2017, 2016, and 2015

Actuarial valuation date	June 30, 2016, 2015, and 2014, respectively
Actuarial cost method	Entry age
Amortization method	Level of percentage of payroll, closed
Remaining amortization period	27, 28, and 29 years, respectively
Asset valuation method	5-year smoothed market
Inflation	3.25%, 3.25%, and 3.50%, respectively
Projected salary increases	4.00%, 4.00%, and 4.50%, average, including inflation, respectively
Investment rate of return	6.75%, 7.50%, and 7.75%, net of investment expense, including inflation, respectively

**Bluegrass State Skills Corporation
Budgetary Comparison Schedule
Year ended June 30, 2017**

	Original Budgeted Amounts			Final Budgeted Amounts			Difference Between Original and Final Budgeted Amounts	2017 Actual Amounts	Variance with Final Budgeted Amounts
	Beginning Unexpended Balance July 1, 2016	2017 Allotments	Total	Beginning Unexpended Balance July 1, 2016	2017 Allotments	Total			
Resources (inflows)									
General Fund appropriations	\$ 10,756,428	\$ 2,478,900	\$ 13,235,328	\$ 10,756,428	\$ 2,482,100	\$ 13,238,528	\$ 3,200	\$ 13,238,528	\$ -
Charges to appropriations (outflows)									
"Personnel"	-	164,600	164,600	-	167,800	167,800	3,200	167,775	(25)
"Operating expenses"	-	3,100	3,100	-	3,100	3,100	-	3,099	(1)
"Grants, loans, and benefits"	10,756,428	2,311,200	13,067,628	10,756,428	2,311,200	13,067,628	-	9,816,206	(3,251,422)
Total charges to appropriations (outflows)	10,756,428	2,478,900	13,235,328	10,756,428	2,482,100	13,238,528	3,200	9,987,080	(3,251,448)
Excess of resources (inflows) over charges to appropriations (outflows)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,251,448	\$ 3,251,448

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

Bluegrass State Skills Corporation
Note to the Budgetary Comparison Schedule
June 30, 2017

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	\$ 13,238,528
Unexpended allotments as of June 30, 2017	(3,251,448)
General Fund appropriations receivable (intergovernment) as of June 30, 2017	732,644
General Fund appropriations receivable (intergovernment) as of June 30, 2016	<u>(2,505,630)</u>
Total general revenues per the statement of revenues, expenditures, and changes in fund balance	<u>\$ 8,214,094</u>
Total charges to appropriations (outflows) per the budgetary comparison schedule	\$ 9,987,080
Grants payable, accrued payroll expenses, and the current portion of compensated absences as of June 30, 2017	732,644
Grants payable, accrued payroll expenses, and the current portion of compensated absences as of June 30, 2016	<u>(2,505,630)</u>
Total expenditures per the statement of revenues, expenditures, and changes in fund balance	<u>\$ 8,214,094</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, 2017, 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 August 31, 2017.

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*.

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.



Mountjoy Chilton Medley LLP
Louisville, Kentucky
August 31, 2017

Bluegrass State Skills Corporation
Schedule of Findings
June 30, 2017

Schedule of Auditor's Results

We have issued an unmodified opinion, dated August 31, 2017, on the financial statements of Bluegrass State Skills Corporation as of and for the year ended June 30, 2017.

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, 2017**

The audit as of and for the year ended June 30, 2016 disclosed no findings which were required to be reported in accordance with *Government Auditing Standards*.