

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Financial Statements
Years Ended June 30, 2020 and 2019

Kentucky Association of Counties, Inc. and Subsidiary
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Years Ended June 30, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors
Kentucky Association of Counties, Inc. and Subsidiary

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kentucky Association of Counties, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kentucky Association of Counties, Inc. and Subsidiary as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on page 18 and the consolidating information on pages 19 - 21 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

MUM CPAs & Advisors LLP

Louisville, Kentucky
September 22, 2020

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Financial Position
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 6,801,133	\$ 4,637,269
Accounts receivable	86,307	46,825
Due from related parties	8,744	663
Prepaid expenses	<u>18,632</u>	<u>37,741</u>
Total current assets	6,914,816	4,722,498
Investments	7,361,101	6,954,311
Property and equipment, net	<u>8,292,651</u>	<u>8,790,828</u>
Total assets	<u>\$ 22,568,568</u>	<u>\$ 20,467,637</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 277,888	\$ 354,484
Accrued income taxes	4,336	14,615
Accrued compensated absences	902,053	838,360
Association health plan payable	867,718	414,141
Unearned revenues	<u>1,115,205</u>	<u>662,908</u>
Total current liabilities	3,167,200	2,284,508
Net assets		
Without donor restrictions		
Board designated - program guarantee fund	2,700,000	2,450,000
Board designated - association health plan reserve	147,976	77,556
Undesignated	<u>16,131,183</u>	<u>15,233,364</u>
Total net assets without donor restrictions	18,979,159	17,760,920
With donor restrictions		
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
Total net assets	<u>19,401,368</u>	<u>18,183,129</u>
Total liabilities and net assets	<u>\$ 22,568,568</u>	<u>\$ 20,467,637</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support						
Program administration fees	\$ 4,178,022	\$ -	\$ 4,178,022	\$ 4,174,851	\$ -	\$ 4,174,851
Management fees	2,748,641	-	2,748,641	2,985,339	-	2,985,339
Advisory fees	70,779	-	70,779	75,338	-	75,338
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	556,760	-	556,760	550,847	-	550,847
Commissions - other	919,486	-	919,486	818,186	-	818,186
Membership dues	169,950	-	169,950	169,000	-	169,000
Training session fees	45,230	-	45,230	59,800	-	59,800
Interest and dividend income	395,694	-	395,694	400,571	-	400,571
Rental income	45,000	-	45,000	45,000	-	45,000
Endorsement and marketing fees	10,215	-	10,215	12,575	-	12,575
KACo convention, net	38,410	-	38,410	34,698	-	34,698
Gain on disposal of equipment	-	-	-	9,800	-	9,800
Net realized and unrealized gains on investments	236,140	-	236,140	92,855	-	92,855
Miscellaneous	70,420	-	70,420	10,086	-	10,086
	<u>9,489,747</u>	<u>-</u>	<u>9,489,747</u>	<u>9,443,946</u>	<u>-</u>	<u>9,443,946</u>
Expenses						
Program services	5,191,844	-	5,191,844	5,197,566	-	5,197,566
Supporting services	2,957,040	-	2,957,040	3,388,725	-	3,388,725
Provision for income taxes	122,624	-	122,624	94,902	-	94,902
	<u>8,271,508</u>	<u>-</u>	<u>8,271,508</u>	<u>8,681,193</u>	<u>-</u>	<u>8,681,193</u>
Changes in net assets	1,218,239	-	1,218,239	762,753	-	762,753
Net assets at beginning of year	<u>17,760,920</u>	<u>422,209</u>	<u>18,183,129</u>	<u>16,998,167</u>	<u>422,209</u>	<u>17,420,376</u>
Net assets at end of year	<u>\$ 18,979,159</u>	<u>\$ 422,209</u>	<u>\$ 19,401,368</u>	<u>\$ 17,760,920</u>	<u>\$ 422,209</u>	<u>\$ 18,183,129</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020 with Comparative Totals for the Year Ended June 30, 2019

	2020			2019
	Program	Management and general	Total	Total
Advocacy	\$ 178,236	\$ -	\$ 178,236	\$ 220,694
Bank charges	-	6,743	6,743	5,238
Board expense	-	29,834	29,834	46,550
Board fees	-	49,050	49,050	47,750
Commissions	22,860	-	22,860	19,877
Communication and promotion	103,786	56,309	160,095	233,813
Computer supplies	58,223	17,235	75,458	90,825
Convention	273,190	-	273,190	303,347
Depreciation	-	505,059	505,059	541,694
Endorsement fee	96,895	-	96,895	85,694
Equipment and maintenance	17,807	8,563	26,370	23,920
Fringe benefits	1,244,591	643,451	1,888,042	1,810,394
Grounds and building maintenance	31,917	15,778	47,695	25,557
Insurance	85,629	28,929	114,558	120,403
Interest	-	-	-	4,432
Janitorial service	32,400	15,958	48,358	49,214
Office supplies	25,152	3,249	28,401	35,986
Postage	11,748	5,634	17,382	17,384
Printing	1,609	10,878	12,487	29,198
Professional dues	14,837	9,275	24,112	14,275
Professional fees	78,845	98,440	177,285	226,246
Provision for income taxes	122,624	-	122,624	94,902
Public official bond expense	542,982	-	542,982	537,222
Publications	6,892	5,562	12,454	6,060
Rent	17,579	-	17,579	16,801
Salaries	2,539,752	1,383,373	3,923,125	4,178,280
Service fees	-	-	-	31,712
Telephone	38,649	21,792	60,441	62,315
Training session expenses	567	19,150	19,717	38,657
Utilities	40,888	22,778	63,666	66,100
	<u>5,587,658</u>	<u>2,957,040</u>	<u>8,544,698</u>	<u>8,984,540</u>
Less convention expenses netted with convention revenue on the statement of activities	<u>(273,190)</u>	<u>-</u>	<u>(273,190)</u>	<u>(303,347)</u>
Net program and supporting services/expenses	<u>\$ 5,314,468</u>	<u>\$ 2,957,040</u>	<u>\$ 8,271,508</u>	<u>\$ 8,681,193</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Program	Management and general	Total
Advocacy	\$ 220,694	\$ -	\$ 220,694
Bank charges	-	5,238	5,238
Board expense	-	46,550	46,550
Board fees	-	47,750	47,750
Commissions	19,877	-	19,877
Communication and promotion	109,657	124,156	233,813
Computer supplies	70,330	20,495	90,825
Convention	303,347	-	303,347
Depreciation	-	541,694	541,694
Endorsement fee	85,694	-	85,694
Equipment and maintenance	15,768	8,152	23,920
Fringe benefits	1,185,476	624,918	1,810,394
Grounds and building maintenance	16,160	9,397	25,557
Insurance	90,497	29,906	120,403
Interest	-	4,432	4,432
Janitorial service	32,974	16,240	49,214
Office supplies	22,667	13,319	35,986
Postage	11,848	5,536	17,384
Printing	6,281	22,917	29,198
Professional dues	10,967	3,308	14,275
Professional fees	94,264	131,982	226,246
Provision for income taxes	94,902	-	94,902
Public official bond expense	537,222	-	537,222
Publications	3,245	2,815	6,060
Rent	16,801	-	16,801
Salaries	2,562,309	1,615,971	4,178,280
Service fees	-	31,712	31,712
Telephone	41,433	20,882	62,315
Training session expenses	1,327	37,330	38,657
Utilities	42,075	24,025	66,100
	<u>5,595,815</u>	<u>3,388,725</u>	<u>8,984,540</u>
Less convention expenses netted with convention revenue on the statement of activities	<u>(303,347)</u>	<u>-</u>	<u>(303,347)</u>
Net program and supporting services/expenses	<u>\$ 5,292,468</u>	<u>\$ 3,388,725</u>	<u>\$ 8,681,193</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Changes in net assets	\$ 1,218,239	\$ 762,753
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(236,140)	(92,855)
Depreciation	505,059	541,694
Gain on sale of equipment	-	(9,800)
Changes in		
Accounts receivable	(39,482)	26,444
Due from related parties	(8,081)	8,521
Prepaid expenses	19,109	18,448
Accounts payable and accrued liabilities	33,210	37,110
Accrued income taxes	(10,279)	14,615
Accrued compensated absences	63,693	(5,422)
Association health plan payable	453,577	(273,882)
Unearned revenues	452,297	(150,136)
	<u>2,451,202</u>	<u>877,490</u>
Net cash provided by operating activities	2,451,202	877,490
Cash flows from investing activities		
Purchases of property and equipment	(116,688)	(164,758)
Proceeds from sale of property and equipment	-	9,800
Purchases of investments	(2,387,180)	(5,076,873)
Proceeds from sales of investments	2,216,530	4,886,874
	<u>(287,338)</u>	<u>(344,957)</u>
Net cash used in investing activities	(287,338)	(344,957)
Cash flows from financing activities		
Principal payments on related party loan	-	(191,573)
	<u>0</u>	<u>(191,573)</u>
Increase in cash and cash equivalents	2,163,864	340,960
Cash and cash equivalents at beginning of year	<u>4,637,269</u>	<u>4,296,309</u>
Cash and cash equivalents at end of year	<u>\$ 6,801,133</u>	<u>\$ 4,637,269</u>
Supplemental disclosure		
Cash paid for interest	\$ 4,771	\$ 4,771
Cash paid for income taxes	62,597	62,597
Building improvements acquired through accounts payable	-	109,806

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years Ended June 30, 2020 and 2019

Note A - Description of Organization

Kentucky Association of Counties, Inc. ("KACo") is a non-profit organization organized under the laws of the Commonwealth of Kentucky. Its membership is the 120 county governments of the state. KACo was formed to improve and enhance county governments and their political subdivisions through educational programs, cooperative undertakings and issue advocacy. The consolidated financial statements include the accounts of KACo and its wholly owned subsidiary, KACo Insurance Agency, Inc. (the "Agency"), incorporated for the purpose of selling insurance products to county governments in Kentucky.

All inter-company transactions have been eliminated. The consolidated entity is collectively referred to herein as the "Organization".

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

KACo records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions. KACo reports information regarding its financial position and activities according to the following net asset classifications:

- *Net Assets Without Donor Restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of KACo's management and the board of directors.
- *Net Assets with Donor Restrictions*: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of KACo or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization does not have any net assets required to be maintained in perpetuity at June 30, 2020 and 2019.

The Organization reports cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction.

2. Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.
3. Cash and Cash Equivalents: The Organization considers all highly liquid investments, with a maturity of 90 days or less when purchased, not restricted for a particular purpose, to be cash equivalents. The Organization typically maintains with its bank cash and cash equivalents in excess of federally-insured limits.
4. Investments: Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recorded in the consolidated statements of activities and changes in net assets as incurred.

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note B - Summary of Significant Accounting Policies (Continued)

5. Accounts Receivable: Accounts receivable consists primarily of commissions from insurance policies and membership fees due from different counties that are predetermined amounts based on the size of the county. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Receivables are written-off based on individual credit evaluation and specific circumstances of the client. The Organization's management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established at June 30, 2020 and 2019.

6. Property and Equipment: Property and equipment is recorded at cost, if purchased, or fair market value at date of contribution, if contributed. It is the Organization's policy to capitalize purchases of property and equipment in excess of \$1,500. Lesser amounts are expensed. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	3 - 40 years
Furniture, fixtures and equipment	3 - 10 years
Vehicles	5 years

7. Unearned Revenues: Unearned revenues include amounts received from related parties for administrative expenses and services of KACo on behalf of the related parties. Unearned revenues for program administration and management fees represent annual fees generated in excess of related expenses and will be recognized as income in the following year. Total deferred amounts from related parties are \$1,065,027 and \$633,930 at June 30, 2020 and 2019, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$50,178 and \$28,978 at June 30, 2020 and 2019, respectively.

8. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$37,273 and \$84,255 in 2020 and 2019, respectively. Advertising costs are included in communication and promotion on the statement of functional of expenses.

9. Functional Allocation of Expenses: The cost of programs and supporting services activities has been summarized on a functional basis in the consolidated statement of activities and changes in net assets. The consolidated statement of functional expenses present the natural classification detail of expense by function. Accordingly, certain cost has been allocated among the programs and supporting serviced benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits which is allocated on the basis of estimates of time and effort.

10. Income Taxes: Kentucky Association of Counties, Inc. is a non-profit corporation under the laws of the Commonwealth of Kentucky and has been granted exemption from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. KACo Insurance Agency, Inc. is a for-profit corporation subject to income tax.

Deferred income taxes are recorded based upon the temporary differences between the financial statement and tax bases of assets and liabilities and net operating loss carryforwards available for tax purposes. There are no deferred income taxes at June 30, 2020 or 2019.

The Organization recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note B - Summary of Significant Accounting Policies (Continued)

11. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report, which represents the date which the consolidated financial statements were available to be issued.
12. Recent Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The ASU is effective for the Organization's year ending June 30, 2021. The Organization is in the process of finalizing its evaluation of the impact of the adoption of ASU 2014-09 on the consolidated financial statements and currently has not recorded any material impact as of July 1, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities and changes in net assets. This standard is effective for the fiscal year ending June 30, 2023 and not expected to have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities and changes in net assets will reflect the measurement of credit losses for newly-recognized financial assets as well as the increases or decreases of expected credit losses that have taken place during the period. This standard is effective for the fiscal year ending June 30, 2024 and not expected to have a material impact on the consolidated financial statements.

Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note C - Availability and Liquidity

The following represents the Organization's consolidated financial assets at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets at year end		
Cash and cash equivalents	\$ 6,801,133	\$ 4,637,269
Due from related parties	8,744	663
Accounts receivable	86,307	46,825
Investments	<u>7,361,101</u>	<u>6,954,311</u>
Total financial assets	14,257,285	11,639,068
Less amounts not available to be used within one year		
Board designated - program guarantee fund	2,700,000	2,450,000
Board designated - association health plan reserve	147,976	77,556
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
	<u>3,270,185</u>	<u>2,949,765</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 10,987,100</u>	<u>\$ 8,689,303</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments.

Note D - Investments

FASB ASC defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurement. The Organization uses the following fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels in accordance with the ASC. These levels, in order of highest to lowest priority, are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Organization's own assumptions.

Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note D - Investments (Continued)

Following is a description of the valuation methodologies for assets measured at fair value:

- *Money Market Accounts*: Valued at cost plus accrued interest which approximates fair value.
- *Common Stock*: Value at quoted market prices in an active market.
- *Mutual Funds*: Valued at the net asset value of the underlying assets.
- *Government Securities, Real Estate Partnerships and Corporate Bonds*: Valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves and other pricing models utilizing observable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods 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 following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis at June 30, 2020.

	Investments at fair value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Money market	\$ 371,764	\$ -	\$ -	\$ 371,764
Common stock	1,299,734	-	-	1,299,734
Mutual funds	2,244,169	-	-	2,244,169
Corporate bonds	-	720,110	-	720,110
Municipal bonds	-	2,405,274	-	2,405,274
Real estate partnerships	-	320,050	-	320,050
Total	\$ 3,915,667	\$ 3,445,434	\$ -	\$ 7,361,101

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis at June 30, 2019.

	Investments at fair value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Money market	\$ 351,543	\$ -	\$ -	\$ 351,543
Common stock	1,271,255	-	-	1,271,255
Mutual funds	1,857,999	-	-	1,857,999
Corporate bonds	-	1,274,729	-	1,274,729
Municipal bonds	-	1,884,846	-	1,884,846
Real estate partnerships	-	313,939	-	313,939
Total	\$ 3,480,797	\$ 3,473,514	\$ -	\$ 6,954,311

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note D - Investments (Continued)

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

Note E - Property and Equipment

Property and equipment as of June 30, 2020 and 2019 consists of:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 11,605,651	\$ 11,605,651
Land and improvements	1,573,197	1,566,315
Equipment	1,074,133	1,074,133
Vehicles	178,511	178,511
Furniture and fixtures	<u>42,988</u>	<u>42,988</u>
	14,474,480	14,467,598
Less accumulated depreciation	<u>(6,181,829)</u>	<u>(5,676,770)</u>
	<u>\$ 8,292,651</u>	<u>\$ 8,790,828</u>

Note F - Net Assets

Nets assets with donor restrictions at June 30, 2020 and 2019 are restricted for future unexpected expenses of the related organizations, also referred to as the program guarantee fund.

Board designated net assets at June 30, 2020 and 2019 represent amounts designated by the Board for the program guarantee fund and the association health plan.

Total net assets set aside for the program guarantee fund are \$3,122,209 and \$2,872,209 as of June 30, 2020 and 2019, respectively.

Note G - Retirement Plans

The Organization participates in the County Employee Retirement System of the Commonwealth of Kentucky ("CERS"). CERS is a cost-sharing multiple-employer public employee retirement system which covers all eligible full-time employees. Vesting begins after five years upon entry into CERS. CERS also provides death and disability benefits. Benefits are established by state statute. CERS requires employees to contribute 5.00% or 6.00%, based on their hire date, of their salary and employers to contribute 24.06% and 21.48% of participants' salaries during the years ended June 30, 2020 and 2019, respectively. The Organization's CERS expenses for the years ended June 30, 2020 and 2019 were \$908,994 and \$820,459, respectively.

The risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers.

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note G - Retirement Plans (Continued)

The Organization also sponsors a 401(k) defined contribution plan (the "401(k) Plan"). The 401(k) Plan covers all full-time employees. The Organization makes matching contributions at 100% of the first 6% contributed by participants. The matching contributions are remitted to a 401(a) defined contribution plan (the "401(a) Plan"). Participants are 100% vested in all employer contributions upon entering the 401(a) Plan. The Organization's matching contribution to the Plans was \$196,661 and \$199,309 for the years ended June 30, 2020 and 2019, respectively.

Note H - Related Party Transactions

Insurance and other financial services are provided to KACo members by related organizations governed by separate boards. The transactions and accounts of the related entities are not included in these financial statements. The related entities are as follows:

- The Kentucky Association of Counties All Lines Fund ("KALF") is a property, casualty and liability self-insurance program organized pursuant to state law and provides insurance, other than workers' compensation, to Kentucky counties and other political subdivisions.
- The Kentucky Association of Counties Workers' Compensation Fund ("KWC") provides workers' compensation and employers' liability coverage to Kentucky counties and other political subdivisions pursuant to state law.
- The Kentucky Association of Counties Unemployment Insurance Fund ("KUI") operates as a pooled reimbursing unemployment insurance program that allows Kentucky county governments to meet their statutory obligation to provide unemployment insurance benefits to their employees.
- The Kentucky Association of Counties Leasing Trust ("COLT") is an inter-local agreement trust that was formed to make funds available for capital improvement projects and equipment purchases by Kentucky county governments and specific districts.
- The Kentucky Association of Counties Commonwealth Insurance Company ("CIC") was established to provide employee dishonesty fidelity bond coverage to the participant members of KALF.

KACo charges its affiliates a flat program administration fee. This fee covers all expenses which had formerly been directly allocated in an itemized fashion to the affiliates. The program administration fee, which is determined annually, is due ratably to KACo at the beginning of each quarter. Such fees are summarized as follows:

	<u>2020</u>	<u>2019</u>
KACo All Lines Fund	\$ 1,423,063	\$ 1,419,358
KACo Workers' Compensation Fund	1,395,319	1,350,001
KACo Unemployment Insurance Fund	254,694	281,774
KACo Leasing Trust	1,012,302	1,037,772
KACo Commonwealth Insurance Company	92,644	85,946
KACo Insurance Agency, Inc.	<u>131,555</u>	<u>123,599</u>
	4,309,577	4,298,450
Elimination of KACo Insurance Agency, Inc.	<u>(131,555)</u>	<u>(123,599)</u>
	<u>\$ 4,178,022</u>	<u>\$ 4,174,851</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note H - Related Party Transactions (Continued)

These separately established entities pay fees to KACo from the fees charged to the programs' participant members which are reflected in the consolidated statement of activities as management fees and license fees. The management fees are summarized as follows:

	<u>2020</u>	<u>2019</u>
KACo All Lines Fund	\$ 1,066,478	\$ 1,112,215
KACo Workers' Compensation Fund	895,663	1,021,624
KACo Unemployment Insurance Fund	225,000	243,000
KACo Leasing Trust	315,000	360,000
KACo Commonwealth Insurance Company	246,500	248,500
KACo Insurance Agency, Inc.	<u>160,000</u>	<u>160,000</u>
	2,908,641	3,145,339
Elimination of KACo Insurance Agency, Inc.	<u>(160,000)</u>	<u>(160,000)</u>
	<u>\$ 2,748,641</u>	<u>\$ 2,985,339</u>

The license fees are summarized as follows:

	<u>2020</u>	<u>2019</u>
KACo All Lines Fund	\$ 1,000	\$ 1,000
KACo Workers' Compensation Fund	1,000	1,000
KACo Unemployment Insurance Fund	1,000	1,000
KACo Leasing Trust	1,000	1,000
KACo Commonwealth Insurance Company	1,000	1,000
KACo Insurance Agency, Inc.	<u>1,000</u>	<u>1,000</u>
	6,000	6,000
Elimination of KACo Insurance Agency, Inc.	<u>(1,000)</u>	<u>(1,000)</u>
	<u>\$ 5,000</u>	<u>\$ 5,000</u>

A summary of all amounts due the Organization by related parties at June 30 is as follows:

	<u>2020</u>	<u>2019</u>
KACo All Lines Fund	\$ 2,215	\$ -
KACo Workers' Compensation Fund	6,529	-
KACo Leasing Trust	<u>-</u>	<u>663</u>
	<u>\$ 8,744</u>	<u>\$ 663</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note H - Related Party Transactions (Continued)

A summary of unearned revenues from the overpayment of program administrative and management fees at June 30 is as follows:

	<u>2020</u>	<u>2019</u>
Program administrative fee		
KACo All Lines Fund	\$ 450,687	\$ 187,199
KACo Workers' Compensation Fund	349,281	282,891
KACo Unemployment Insurance Fund	72,256	49,374
KACo Leasing Trust	160,748	69,978
KACo Commonwealth Insurance Company	32,055	29,104
KACo Insurance Agency, Inc.	<u>37,945</u>	<u>37,301</u>
	1,102,972	655,847
Elimination of KACo Insurance Agency, Inc.	(37,945)	(37,301)
Additional management fee		
KACo All Lines Fund	-	4,329
KACo Workers' Compensation Fund	<u>-</u>	<u>11,055</u>
	<u>\$ 1,065,027</u>	<u>\$ 633,930</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2020 and 2019, the Organization incurred total insurance expense under these agreements of \$104,400 and \$107,424, respectively.

Note I - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Convention income		
Convention registration	\$ 117,100	\$ 147,395
Convention sponsors	120,400	120,500
Convention exhibitors	<u>74,100</u>	<u>70,150</u>
	311,600	338,045
Convention expenses	<u>273,190</u>	<u>303,347</u>
	<u>\$ 38,410</u>	<u>\$ 34,698</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

Note J - Income Taxes

The provision for income taxes consists of the following:

	<u>KACo Insurance Agency, Inc.</u>	
	<u>2020</u>	<u>2019</u>
Current		
Federal	\$ 95,184	\$ 74,772
State and local	<u>27,440</u>	<u>20,130</u>
Income tax expense	<u>\$ 122,624</u>	<u>\$ 94,902</u>

Note K - Commitments and Contingencies

The Organization is, from time to time, involved in lawsuits arising in the ordinary course of its business that, in the opinion of management, will not have a material effect on the Organization's financial position, liquidity or results of operations.

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 ("COVID-19") outbreak a pandemic. Additionally, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States. As of the date the accompanying financial statements were available to be issued, the Organization's operations have not been significantly impacted by the COVID-19 outbreak. The Organization's operations could ultimately be adversely affected as a result of COVID-19, however the impact on the Organization is generally not known at this point as the scale and severity of the outbreak, and the resulting short-term and long-term economic impact, is still largely unknown.

Supplementary Information

**Kentucky Association of Counties, Inc. and Subsidiary
KACo Insurance Agency, Inc. Statement of Cash Flows
Year Ended June 30, 2020**

Cash flows from operating activities	
Changes in net assets	\$ 350,764
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Changes in	
Accounts receivable	(38,095)
Prepaid expenses	(644)
Accounts payable and accrued liabilities	(3,136)
Accrued income taxes	(10,279)
Unearned revenues	<u>21,200</u>
Net cash provided by operating activities	319,810
Cash flows from financing activities	
Payment of dividend declared	<u>(500,000)</u>
Decrease in cash and cash equivalents	(180,190)
Cash and cash equivalents at beginning of year	<u>784,908</u>
Cash and cash equivalents at end of year	<u><u>\$ 604,718</u></u>
Supplemental disclosure	
Cash paid for income taxes	\$ 62,597

See independent auditor's report.

Consolidating Information

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Financial Position
June 30, 2020

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 6,196,415	\$ 604,718	\$ -	\$ 6,801,133
Accounts receivable	6,055	80,252	-	86,307
Due from related parties	8,744	-	-	8,744
Prepaid expenses	18,632	37,945	(37,945)	18,632
Total current assets	6,229,846	722,915	(37,945)	6,914,816
Investments	7,361,101	-	-	7,361,101
Property and equipment, net	8,292,651	-	-	8,292,651
Total assets	<u>\$ 21,883,598</u>	<u>\$ 722,915</u>	<u>\$ (37,945)</u>	<u>\$ 22,568,568</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities	\$ 223,873	\$ 54,015	\$ -	\$ 277,888
Accrued income taxes	-	4,336	-	4,336
Accrued compensated absences	902,053	-	-	902,053
Association health plan payable	867,718	-	-	867,718
Unearned revenues	1,102,972	50,178	(37,945)	1,115,205
Total current liabilities	3,096,616	108,529	(37,945)	3,167,200
Net assets/equity				
Without donor restrictions				
Board designated - program guarantee fund	2,700,000	-	-	2,700,000
Board designated - association health plan reserve	147,976	-	-	147,976
Undesignated	15,516,797	-	-	15,516,797
Total net assets without donor restrictions	18,364,773	-	-	18,364,773
With donor restrictions				
Purpose restricted - program guarantee fund	422,209	-	-	422,209
Total net assets	18,786,982	-	-	18,786,982
Retained earnings	-	614,386	-	614,386
Total net assets/equity	<u>18,786,982</u>	<u>614,386</u>	<u>-</u>	<u>19,401,368</u>
Total liabilities and net assets	<u>\$ 21,883,598</u>	<u>\$ 722,915</u>	<u>\$ (37,945)</u>	<u>\$ 22,568,568</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Unrestricted Activities
Year Ended June 30, 2020**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets				
Revenues, gains and other support				
Program administration fees	\$ 4,309,577	\$ -	\$ (131,555)	\$ 4,178,022
Management fees	2,908,641	-	(160,000)	2,748,641
Advisory fees	70,779	-	-	70,779
License fees	6,000	-	(1,000)	5,000
Public official bond revenue	-	556,760	-	556,760
Commissions - other	-	919,486	-	919,486
Membership dues	169,950	-	-	169,950
Training session fees	45,230	-	-	45,230
Interest and dividend income	884,814	10,880	(500,000)	395,694
Rental income	45,000	-	-	45,000
Endorsement and marketing fees	10,215	-	-	10,215
KACo convention	38,410	-	-	38,410
Net realized and unrealized gains on investments	236,140	-	-	236,140
Miscellaneous	70,420	-	-	70,420
	<u>8,795,176</u>	<u>1,487,126</u>	<u>(792,555)</u>	<u>9,489,747</u>
Total unrestricted revenues, gains and other support				
Expenses				
Program services	4,487,816	996,583	(292,555)	5,191,844
Supporting services	2,939,885	17,155	-	2,957,040
Provision for income taxes	-	122,624	-	122,624
	<u>7,427,701</u>	<u>1,136,362</u>	<u>(292,555)</u>	<u>8,271,508</u>
Total expenses				
	1,367,475	350,764	(500,000)	1,218,239
Increase in unrestricted net assets				
Unrestricted net assets at beginning of year	16,997,298	763,622	-	17,760,920
Dividend issued to KACo	-	(500,000)	500,000	-
	<u>18,364,773</u>	<u>614,386</u>	<u>-</u>	<u>18,979,159</u>
Unrestricted net assets at end of year				

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Functional Expenses
Year Ended June 30, 2020

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Advocacy	\$ 178,236	\$ -	\$ -	\$ 178,236
Bank charges	6,743	-	-	6,743
Board expense	19,179	10,655	-	29,834
Board fees	42,550	6,500	-	49,050
Commissions	-	22,860	-	22,860
Communication and promotion	146,020	14,075	-	160,095
Computer supplies	75,458	-	-	75,458
Convention	273,190	-	-	273,190
Depreciation	505,059	-	-	505,059
Endorsement fee	-	96,895	-	96,895
Equipment and maintenance	26,370	-	-	26,370
Fringe benefits	1,888,042	-	-	1,888,042
Grounds and building maintenance	47,695	-	-	47,695
Insurance	88,992	25,566	-	114,558
Interest expense	-	-	-	-
Janitorial service	48,358	-	-	48,358
Office supplies	28,401	-	-	28,401
Postage	17,382	-	-	17,382
Printing	12,487	-	-	12,487
Professional dues	24,112	-	-	24,112
Professional fees	175,635	1,650	-	177,285
Program administration, management and license fees	-	292,555	(292,555)	-
Public official bond expense	-	542,982	-	542,982
Publications	12,454	-	-	12,454
Rent	17,579	-	-	17,579
Salaries	3,923,125	-	-	3,923,125
Telephone	60,441	-	-	60,441
Training session expenses	19,717	-	-	19,717
Utilities	63,666	-	-	63,666
Provision for income taxes	-	122,624	-	122,624
Convention expenses netted with convention revenue	(273,190)	-	-	(273,190)
Total expenses	\$ 7,427,701	\$ 1,136,362	\$ (292,555)	\$ 8,271,508

See independent auditor's report.