

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Financial Statements
Years Ended June 30, 2021 and 2020

Kentucky Association of Counties, Inc. and Subsidiary
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Years Ended June 30, 2021 and 2020

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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, 2021 and 2020, and the related consolidated statements of activities and changes in net assets, functional expenses, 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, 2021 and 2020, 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.

MCM CPAs & Advisors LLP

Louisville, Kentucky
September 23, 2021

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Financial Position
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,402,838	\$ 6,801,133
Accounts receivable	49,910	86,307
Due from related parties	49,098	8,744
Prepaid expenses	<u>73,069</u>	<u>18,632</u>
Total current assets	5,574,915	6,914,816
Loans receivable	2,000,000	-
Investments	8,916,323	7,361,101
Property and equipment, net	<u>8,041,989</u>	<u>8,292,651</u>
Total assets	<u>\$ 24,533,227</u>	<u>\$ 22,568,568</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 303,725	\$ 277,888
Accrued income taxes	-	4,336
Accrued compensated absences	1,036,495	902,053
Association health plan payable	772,706	867,718
Unearned revenues	<u>683,567</u>	<u>1,115,205</u>
Total current liabilities	2,796,493	3,167,200
Net assets		
Without donor restrictions		
Board designated - program guarantee fund	2,900,000	2,700,000
Board designated - association health plan reserve	177,224	147,976
Undesignated	<u>18,237,301</u>	<u>16,131,183</u>
Total net assets without donor restrictions	21,314,525	18,979,159
With donor restrictions		
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
Total net assets	<u>21,736,734</u>	<u>19,401,368</u>
Total liabilities and net assets	<u>\$ 24,533,227</u>	<u>\$ 22,568,568</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support						
Program administration fees	\$ 4,126,786	\$ -	\$ 4,126,786	\$ 4,178,022	\$ -	\$ 4,178,022
Management fees	2,676,689	-	2,676,689	2,748,641	-	2,748,641
Advisory fees	108,764	-	108,764	70,779	-	70,779
License fees	4,000	-	4,000	5,000	-	5,000
Public official bond revenue	566,093	-	566,093	556,760	-	556,760
Commissions - other	887,158	-	887,158	919,486	-	919,486
Membership dues	27,650	-	27,650	169,950	-	169,950
Training session fees	42,445	-	42,445	45,230	-	45,230
Interest and dividend income	277,181	-	277,181	395,694	-	395,694
Rental income	45,000	-	45,000	45,000	-	45,000
Endorsement and marketing fees	22,967	-	22,967	10,215	-	10,215
KACo convention, net	45,595	-	45,595	38,410	-	38,410
Gain on disposal of equipment	15,820	-	15,820	-	-	-
Net realized and unrealized gains on investments	1,398,285	-	1,398,285	236,140	-	236,140
Miscellaneous	31,913	-	31,913	70,420	-	70,420
	<u>10,276,346</u>	<u>-</u>	<u>10,276,346</u>	<u>9,489,747</u>	<u>-</u>	<u>9,489,747</u>
Expenses						
Program services	5,115,004	-	5,115,004	5,191,844	-	5,191,844
Supporting services	2,724,159	-	2,724,159	2,957,040	-	2,957,040
Provision for income taxes	101,817	-	101,817	122,624	-	122,624
	<u>7,940,980</u>	<u>-</u>	<u>7,940,980</u>	<u>8,271,508</u>	<u>-</u>	<u>8,271,508</u>
Changes in net assets	2,335,366	-	2,335,366	1,218,239	-	1,218,239
Net assets at beginning of year	18,979,159	422,209	19,401,368	17,760,920	422,209	18,183,129
Net assets at end of year	<u>\$ 21,314,525</u>	<u>\$ 422,209</u>	<u>\$ 21,736,734</u>	<u>\$ 18,979,159</u>	<u>\$ 422,209</u>	<u>\$ 19,401,368</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021 (with Comparative Totals for the Year Ended June 30, 2020)

	2021			2020
	Program	Management and general	Total	Total
Advocacy	\$ 117,861	\$ -	\$ 117,861	\$ 178,236
Bank charges	-	1,501	1,501	6,743
Board expense	-	41,354	41,354	29,834
Board fees	-	46,850	46,850	49,050
Commissions	20,034	-	20,034	22,860
Communication and promotion	57,479	68,021	125,500	160,095
Computer supplies	67,482	28,194	95,676	75,458
Convention	23,905	-	23,905	273,190
Depreciation	-	309,849	309,849	505,059
Endorsement fee	100,000	-	100,000	96,895
Equipment and maintenance	18,921	8,883	27,804	26,370
Fringe benefits	1,314,696	540,638	1,855,334	1,888,042
Grounds and building maintenance	20,125	10,983	31,108	47,695
Insurance	88,422	30,348	118,770	114,558
Interest	-	54	54	-
Janitorial service	33,615	17,317	50,932	48,358
Office supplies	16,325	8,906	25,231	28,401
Postage	7,187	3,094	10,281	17,382
Printing	3,781	664	4,445	12,487
Professional dues	17,511	3,806	21,317	24,112
Professional fees	75,665	93,800	169,465	177,285
Provision for income taxes	101,817	-	101,817	122,624
Public official bond expense	551,760	-	551,760	542,982
Publications	6,816	5,811	12,627	12,454
Rent	8,220	-	8,220	17,579
Salaries	2,519,846	1,460,305	3,980,151	3,923,125
Telephone	27,777	17,364	45,141	60,441
Training session expenses	2,960	3,969	6,929	19,717
Utilities	38,521	22,448	60,969	63,666
	5,240,726	2,724,159	7,964,885	8,544,698
Less convention expenses netted with convention revenue on the statement of activities	(23,905)	-	(23,905)	(273,190)
Net program and supporting services/expenses	\$ 5,216,821	\$ 2,724,159	\$ 7,940,980	\$ 8,271,508

See accompanying notes.

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

	Program	Management and general	Total
Advocacy	\$ 178,236	\$ -	\$ 178,236
Bank charges	-	6,743	6,743
Board expense	-	29,834	29,834
Board fees	-	49,050	49,050
Commissions	22,860	-	22,860
Communication and promotion	103,786	56,309	160,095
Computer supplies	58,223	17,235	75,458
Convention	273,190	-	273,190
Depreciation	-	505,059	505,059
Endorsement fee	96,895	-	96,895
Equipment and maintenance	17,807	8,563	26,370
Fringe benefits	1,244,591	643,451	1,888,042
Grounds and building maintenance	31,917	15,778	47,695
Insurance	85,629	28,929	114,558
Interest	-	-	-
Janitorial service	32,400	15,958	48,358
Office supplies	25,152	3,249	28,401
Postage	11,748	5,634	17,382
Printing	1,609	10,878	12,487
Professional dues	14,837	9,275	24,112
Professional fees	78,845	98,440	177,285
Provision for income taxes	122,624	-	122,624
Public official bond expense	542,982	-	542,982
Publications	6,892	5,562	12,454
Rent	17,579	-	17,579
Salaries	2,539,752	1,383,373	3,923,125
Service fees	-	-	-
Telephone	38,649	21,792	60,441
Training session expenses	567	19,150	19,717
Utilities	40,888	22,778	63,666
	<u>5,587,658</u>	<u>2,957,040</u>	<u>8,544,698</u>
Less convention expenses netted with convention revenue on the statement of activities	<u>(273,190)</u>	<u>-</u>	<u>(273,190)</u>
Net program and supporting services/expenses	<u>\$ 5,314,468</u>	<u>\$ 2,957,040</u>	<u>\$ 8,271,508</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Changes in net assets	\$ 2,335,366	\$ 1,218,239
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(1,398,286)	(236,140)
Depreciation	309,849	505,059
Gain on sale of equipment	(15,820)	-
Changes in		
Accounts receivable	36,397	(39,482)
Due from related parties	(40,354)	(8,081)
Prepaid expenses	(54,437)	19,109
Accounts payable and accrued liabilities	16,780	33,210
Accrued income taxes	(4,336)	(10,279)
Accrued compensated absences	134,442	63,693
Association health plan payable	(95,012)	453,577
Unearned revenues	(431,638)	452,297
	<u>792,951</u>	<u>2,451,202</u>
Net cash provided by operating activities	792,951	2,451,202
Cash flows from investing activities		
Purchases of property and equipment	(69,810)	(116,688)
Proceeds from sale of property and equipment	35,500	-
Purchases of investments	(1,266,363)	(2,387,180)
Proceeds from sales of investments	1,109,427	2,216,530
	<u>(191,246)</u>	<u>(287,338)</u>
Net cash used in investing activities	(191,246)	(287,338)
Cash flows from financing activities		
Issuance of loans receivable	(2,000,000)	-
	<u>(2,000,000)</u>	<u>-</u>
Net cash used in financing activities	(2,000,000)	-
	<u>(1,398,295)</u>	<u>2,163,864</u>
(Decrease) increase in cash and cash equivalents	(1,398,295)	2,163,864
Cash and cash equivalents at beginning of year	<u>6,801,133</u>	<u>4,637,269</u>
Cash and cash equivalents at end of year	<u>\$ 5,402,838</u>	<u>\$ 6,801,133</u>
Supplemental disclosure		
Cash paid for interest	\$ 4,771	\$ 4,771
Cash paid for income taxes	62,597	62,597
Fixed assets purchases included in accounts payable	9,057	-

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years Ended June 30, 2021 and 2020

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, 2021 and 2020.

The Organization reports cash and other assets as net assets with donor restrictions if they are received with donor or grant 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.

Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note B - Summary of Significant Accounting Policies (Continued)

4. Loans Receivable: Loans receivable represent deferred payment loans disbursed to counties for flood relief. These funds were available to impacted counties that experienced flood losses not covered by insurance and have a financial need for funds to repair property that cannot otherwise be met by county's available resources. The maximum loan amount was \$500,000 per borrower who are insured by members of Kentucky Association of Counties All Lines Fund. The loans do not require collateral. Beginning on July 1, 2022, the interest component of the loans shall be at an annual rate of 3.74%. Maturity of the loans receivables is June 2027, with no principal component or interest component collected or accrued through June 30, 2022.
5. 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.
6. 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 counterparty. The Organization's management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established at June 30, 2021 and 2020.
7. 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
8. 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 as services are provided over the contract period. Total deferred amounts from related parties are \$597,354, and \$1,065,027 at June 30, 2021 and 2020, respectively. Unearned county dues as of June 30, 2021 were \$27,600. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$58,613 and \$50,178 at June 30, 2021 and 2020, respectively.
9. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$41,671 and \$37,273 in 2021 and 2020, respectively. Advertising costs are included in communication and promotion on the statement of functional of expenses.

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

Note B - Summary of Significant Accounting Policies (Continued)

10. 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 costs have 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.

11. 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 for the Agency 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, 2021 or 2020.

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.

12. 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.

13. 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 adopted ASU 2014-09 without any material impact.

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 its adoption is 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 management has not yet evaluated the impact of adoption of this standard will have on the consolidated financial statements.

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

Note C - Availability and Liquidity

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

	<u>2021</u>	<u>2020</u>
Financial assets at year end		
Cash and cash equivalents	\$ 5,402,838	\$ 6,801,133
Due from related parties	49,098	8,744
Accounts receivable	49,910	86,307
Investments	<u>8,916,323</u>	<u>7,361,101</u>
Total financial assets	14,418,169	14,257,285
Less amounts not available to be used within one year		
Board designated - program guarantee fund	2,900,000	2,700,000
Board designated - association health plan reserve	177,224	147,976
Loans receivable (maturity June 2027)	2,000,000	-
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
	<u>5,499,433</u>	<u>3,270,185</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 8,918,736</u></u>	<u><u>\$ 10,987,100</u></u>

The Organization's goal is generally to maintain liquid financial assets to meet an average of 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, 2021 and 2020

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, 2021.

	Investments at fair value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Money market	\$ 51,148	\$ -	\$ -	\$ 51,148
Common stock	2,357,582	-	-	2,357,582
Mutual funds	3,343,823	-	-	3,343,823
Corporate bonds	-	691,322	-	691,322
Municipal bonds	-	2,152,348	-	2,152,348
Real estate partnerships	-	320,100	-	320,100
Total	<u>\$ 5,752,553</u>	<u>\$ 3,163,770</u>	<u>\$ -</u>	<u>\$ 8,916,323</u>

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	<u>\$ 3,915,667</u>	<u>\$ 3,445,434</u>	<u>\$ -</u>	<u>\$ 7,361,101</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

Note D - Investments (Continued)

Investment securities are exposed to various risks, such as interest rate, market volatility 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, 2021 and 2020 consists of:

	2021	2020
Building and improvements	\$ 11,605,651	\$ 11,605,651
Land and improvements	1,573,197	1,573,197
Equipment	1,086,797	1,074,133
Vehicles	128,275	178,511
Furniture and fixtures	52,045	42,988
	<u>14,445,965</u>	<u>14,474,480</u>
Less accumulated depreciation	<u>(6,403,976)</u>	<u>(6,181,829)</u>
	<u><u>\$ 8,041,989</u></u>	<u><u>\$ 8,292,651</u></u>

Note F - Net Assets

Nets assets with donor restrictions at June 30, 2021 and 2020 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, 2021 and 2020 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 \$3,322,209 and \$3,122,209 as of June 30, 2021 and 2020, 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% of participants' salaries during the years ended June 30, 2021 and 2020, respectively. The Organization's CERS expenses for the years ended June 30, 2021 and 2020 were \$927,351 and \$908,994, 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. As of June 30, 2020 (the most recent information available), the Organization's unfunded net pension liability in CERS was \$10,776,924.

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

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 \$190,112 and \$196,661 for the years ended June 30, 2021 and 2020, respectively.

Note H - Related Party Transactions

Insurance and certain 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>2021</u>	<u>2020</u>
KACo All Lines Fund	\$ 1,547,616	\$ 1,423,063
KACo Workers' Compensation Fund	1,389,034	1,395,319
KACo Unemployment Insurance Fund	280,338	254,694
KACo Leasing Trust	909,798	1,012,302
KACo Commonwealth Insurance Company	-	92,644
KACo Insurance Agency, Inc.	<u>159,904</u>	<u>131,555</u>
	4,286,690	4,309,577
Elimination of KACo Insurance Agency, Inc.	<u>(159,904)</u>	<u>(131,555)</u>
	<u>\$ 4,126,786</u>	<u>\$ 4,178,022</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

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>2021</u>	<u>2020</u>
KACo All Lines Fund	\$ 1,173,474	\$ 1,066,478
KACo Workers' Compensation Fund	893,915	895,663
KACo Unemployment Insurance Fund	233,000	225,000
KACo Leasing Trust	288,800	315,000
KACo Commonwealth Insurance Company	179,800	246,500
KACo Insurance Agency, Inc.	<u>87,500</u>	<u>160,000</u>
	2,856,489	2,908,641
Elimination of KACo Insurance Agency, Inc.	<u>(179,800)</u>	<u>(160,000)</u>
	<u>\$ 2,676,689</u>	<u>\$ 2,748,641</u>

The license fees are summarized as follows:

	<u>2021</u>	<u>2020</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
KACo Insurance Agency, Inc.	<u>1,000</u>	<u>1,000</u>
	5,000	6,000
Elimination of KACo Insurance Agency, Inc.	<u>(1,000)</u>	<u>(1,000)</u>
	<u>\$ 4,000</u>	<u>\$ 5,000</u>

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

	<u>2021</u>	<u>2020</u>
KACo All Lines Fund	\$ 23,272	\$ 2,215
KACo Workers' Compensation Fund	<u>25,826</u>	<u>6,529</u>
	<u>\$ 49,098</u>	<u>\$ 8,744</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

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>2021</u>	<u>2020</u>
Program administrative fee		
KACo All Lines Fund	\$ 249,704	\$ 450,687
KACo Workers' Compensation Fund	230,596	349,281
KACo Unemployment Insurance Fund	46,162	72,256
KACo Leasing Trust	70,892	160,748
KACo Commonwealth Insurance Company	-	32,055
KACo Insurance Agency, Inc.	32,736	37,945
	<u>630,090</u>	<u>1,102,972</u>
Unearned county dues - non-related party	27,600	-
Elimination of KACo Insurance Agency, Inc.	<u>(32,736)</u>	<u>(37,945)</u>
	<u>\$ 624,954</u>	<u>\$ 1,065,027</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2021 and 2020, the Organization incurred total insurance expense under these agreements of \$101,679 and \$104,400, respectively.

Note I - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Convention income		
Convention registration	\$ -	\$ 117,100
Convention sponsors	69,500	120,400
Convention exhibitors	-	74,100
	<u>69,500</u>	<u>311,600</u>
Convention expenses	<u>23,905</u>	<u>273,190</u>
	<u>\$ 45,595</u>	<u>\$ 38,410</u>

**Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

Note J - Income Taxes

The provision for income taxes consists of the following:

	<u>KACo Insurance Agency, Inc.</u>	
	<u>2021</u>	<u>2020</u>
Current		
Federal	\$ 77,127	\$ 95,184
State and local	24,690	27,440
	<u> </u>	<u> </u>
Income tax expense	<u>\$ 101,817</u>	<u>\$ 122,624</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.

Note L - Leases

The Organization enters into non-cancellable operating leases for the use of copiers. Rent expense of approximately \$10,000 was recorded under these leases during the years ended June 30, 2021 and 2020.

Future minimum lease payments under this lease are as follows:

<u>Fiscal year ending June 30,</u>	<u>Amount</u>
2022	\$ 5,660
2023	5,660
2024	5,660
2025	1,887
	<u> </u>
	<u>\$ 18,867</u>

Supplementary Information

**Kentucky Association of Counties, Inc. and Subsidiary
KACo Insurance Agency, Inc. Statement of Cash Flows
Year Ended June 30, 2021**

Cash flows from operating activities	
Changes in net assets	\$ 292,724
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Changes in	
Accounts receivable	36,404
Prepaid expenses	(19,802)
Accounts payable and accrued liabilities	5,776
Accrued income taxes	(4,336)
Unearned revenues	8,435
	<hr/>
Net cash provided by operating activities	319,201
Cash flows from financing activities	
Payment of dividend declared	<hr/> (500,000)
	(180,799)
Cash and cash equivalents at beginning of year	<hr/> 604,718
	<hr/> <hr/> \$ 423,919
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, 2021

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 4,978,919	\$ 423,919	\$ -	\$ 5,402,838
Accounts receivable	6,062	43,848	-	49,910
Due from related parties	49,098	-	-	49,098
Prepaid expenses	48,058	57,747	(32,736)	73,069
Total current assets	5,082,137	525,514	(32,736)	5,574,915
Loans receivable	2,000,000	-	-	2,000,000
Investments	8,916,323	-	-	8,916,323
Property and equipment, net	8,041,989	-	-	8,041,989
Total assets	<u>\$ 24,040,449</u>	<u>\$ 525,514</u>	<u>\$ (32,736)</u>	<u>\$ 24,533,227</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities	\$ 243,934	\$ 59,791	\$ -	\$ 303,725
Accrued compensated absences	1,036,495	-	-	1,036,495
Association health plan payable	772,706	-	-	772,706
Unearned revenues	657,690	58,613	(32,736)	683,567
Total current liabilities	2,710,825	118,404	(32,736)	2,796,493
Net assets/equity				
Without donor restrictions				
Board designated - program guarantee fund	2,900,000	-	-	2,900,000
Board designated - association health plan reserve	177,224	-	-	177,224
Undesignated	17,830,191	-	-	17,830,191
Total net assets without donor restrictions	20,907,415	-	-	20,907,415
With donor restrictions				
Purpose restricted - program guarantee fund	422,209	-	-	422,209
Total net assets	21,329,624	-	-	21,329,624
Retained earnings	-	407,110	-	407,110
Total net assets/equity	<u>21,329,624</u>	<u>407,110</u>	<u>-</u>	<u>21,736,734</u>
Total liabilities and net assets	<u>\$ 24,040,449</u>	<u>\$ 525,514</u>	<u>\$ (32,736)</u>	<u>\$ 24,533,227</u>

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Unrestricted Activities
Year Ended June 30, 2021

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets				
Revenues, gains and other support				
Program administration fees	\$ 4,286,690	\$ -	\$ (159,904)	\$ 4,126,786
Management fees	2,856,489	-	(179,800)	2,676,689
Advisory fees	108,764	-	-	108,764
License fees	5,000	-	(1,000)	4,000
Public official bond revenue	-	566,093	-	566,093
Commissions - other	-	887,158	-	887,158
Membership dues	27,650	-	-	27,650
Training session fees	42,445	-	-	42,445
Interest and dividend income	774,269	2,912	(500,000)	277,181
Rental income	45,000	-	-	45,000
Endorsement and marketing fees	22,967	-	-	22,967
KACo convention	45,595	-	-	45,595
Gain on disposal of equipment	15,820	-	-	15,820
Net realized and unrealized gains on investments	1,398,285	-	-	1,398,285
Miscellaneous	31,913	-	-	31,913
Total unrestricted revenues, gains and other support	9,660,887	1,456,163	(840,704)	10,276,346
Expenses				
Program services	4,404,549	1,051,159	(340,704)	5,115,004
Supporting services	2,713,696	10,463	-	2,724,159
Provision for income taxes	-	101,817	-	101,817
Total expenses	7,118,245	1,163,439	(340,704)	7,940,980
Increase in unrestricted net assets	2,542,642	292,724	(500,000)	2,335,366
Unrestricted net assets at beginning of year	18,364,773	614,386	-	18,979,159
Dividend issued to KACo	-	(500,000)	500,000	-
Unrestricted net assets at end of year	\$ 20,907,415	\$ 407,110	\$ -	\$ 21,314,525

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Functional Expenses
Year Ended June 30, 2021

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Advocacy	\$ 117,861	\$ -	\$ -	\$ 117,861
Bank charges	1,501	-	-	1,501
Board expense	39,445	1,909	-	41,354
Board fees	38,350	8,500	-	46,850
Commissions	-	20,034	-	20,034
Communication and promotion	118,500	7,000	-	125,500
Computer supplies	95,676	-	-	95,676
Convention	23,905	-	-	23,905
Depreciation	309,849	-	-	309,849
Endorsement fee	-	100,000	-	100,000
Equipment and maintenance	27,804	-	-	27,804
Fringe benefits	1,855,334	-	-	1,855,334
Grounds and building maintenance	31,108	-	-	31,108
Insurance	89,259	29,511	-	118,770
Interest expense	-	54	-	54
Janitorial service	50,932	-	-	50,932
Office supplies	25,231	-	-	25,231
Postage	10,281	-	-	10,281
Printing	4,445	-	-	4,445
Professional dues	21,317	-	-	21,317
Professional fees	167,715	1,750	-	169,465
Program administration, management and license fees	-	340,704	(340,704)	-
Public official bond expense	-	551,760	-	551,760
Publications	12,627	-	-	12,627
Rent	8,220	-	-	8,220
Salaries	3,980,151	-	-	3,980,151
Telephone	45,141	-	-	45,141
Training session expenses	6,529	400.00	-	6,929
Utilities	60,969	-	-	60,969
Provision for income taxes	-	101,817	-	101,817
Convention expenses netted with convention revenue	(23,905)	-	-	(23,905)
Total expenses	\$ 7,118,245	\$ 1,163,439	\$ (340,704)	\$ 7,940,980

See independent auditor's report.