

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2022 and 2021**

**Kentucky Association of Counties, Inc. and Subsidiary**  
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## **Independent Auditor's Report**

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

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Kentucky Association of Counties, Inc. and Subsidiary, which comprise the balance sheets as of June 30, 2022 and 2021, and the related 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kentucky Association of Counties, Inc. and Subsidiary as of June 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Kentucky Association of Counties, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Association of Counties, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

## **Independent Auditor's Report (Continued)**

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Association of Counties, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Association of Counties, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The KACo Insurance Agency, Inc. Statement of Cash Flows is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Louisville, Kentucky  
September 23, 2022

**Kentucky Association of Counties, Inc. and Subsidiary  
Consolidated Statements of Financial Position  
Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,997,597	\$ 5,402,838
Accounts receivable	57,918	49,910
Due from related parties	26,887	49,098
Prepaid expenses	118,471	73,069
	<hr/>	<hr/>
Total current assets	7,200,873	5,574,915
Loans receivable	1,100,000	2,000,000
Investments	7,713,842	8,916,323
Property and equipment, net	7,770,814	8,041,989
	<hr/>	<hr/>
Total assets	<u>\$ 23,785,529</u>	<u>\$ 24,533,227</u>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 209,396	\$ 303,725
Accrued compensated absences	1,115,235	1,036,495
Association health plan payable	1,055,714	772,706
Unearned revenues	510,994	683,567
	<hr/>	<hr/>
Total current liabilities	2,891,339	2,796,493
Net assets		
Without donor restrictions		
Board designated - program guarantee fund	3,100,000	2,900,000
Board designated - association health plan reserve	131,052	177,224
Undesignated	17,240,929	18,237,301
	<hr/>	<hr/>
Total net assets without donor restrictions	20,471,981	21,314,525
With donor restrictions		
Purpose restricted - program guarantee fund	422,209	422,209
	<hr/>	<hr/>
Total net assets	20,894,190	21,736,734
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 23,785,529</u>	<u>\$ 24,533,227</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2022 and 2021**

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support						
Program administration fees	\$ 4,294,048	\$ -	\$ 4,294,048	\$ 4,126,786	\$ -	\$ 4,126,786
Management fees	2,740,846	-	2,740,846	2,676,689	-	2,676,689
Advisory fees	107,950	-	107,950	108,764	-	108,764
License fees	4,000	-	4,000	4,000	-	4,000
Public official bond revenue	583,146	-	583,146	566,093	-	566,093
Commissions - other	794,773	-	794,773	887,158	-	887,158
Membership dues	144,350	-	144,350	27,650	-	27,650
Training session fees	3,706	-	3,706	42,445	-	42,445
Interest and dividend income	393,471	-	393,471	277,181	-	277,181
Rental income	45,000	-	45,000	45,000	-	45,000
Endorsement and marketing fees	49,129	-	49,129	22,967	-	22,967
KACo convention, net	(150,974)	-	(150,974)	45,595	-	45,595
County Partner Program	222,600	-	222,600	-	-	-
Gain on disposal of equipment	21,741	-	21,741	15,820	-	15,820
Net realized and unrealized gains (losses) on investments	(1,510,851)	-	(1,510,851)	1,398,285	-	1,398,285
Miscellaneous income (expense)	(46,007)	-	(46,007)	31,913	-	31,913
	<u>7,696,928</u>	<u>-</u>	<u>7,696,928</u>	<u>10,276,346</u>	<u>-</u>	<u>10,276,346</u>
Expenses						
Program services	5,481,678	-	5,481,678	5,115,004	-	5,115,004
Supporting services	3,005,202	-	3,005,202	2,724,159	-	2,724,159
Provision for income taxes	52,592	-	52,592	101,817	-	101,817
	<u>8,539,472</u>	<u>-</u>	<u>8,539,472</u>	<u>7,940,980</u>	<u>-</u>	<u>7,940,980</u>
Changes in net assets	(842,544)	-	(842,544)	2,335,366	-	2,335,366
Net assets at beginning 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>
Net assets at end of year	<u>\$ 20,471,981</u>	<u>\$ 422,209</u>	<u>\$ 20,894,190</u>	<u>\$ 21,314,525</u>	<u>\$ 422,209</u>	<u>\$ 21,736,734</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2022 (with Comparative Totals for the Year Ended June 30, 2021)**

	2022			2021
	Program	Management and general	Total	Total
Advocacy	\$ 228,089	\$ -	\$ 228,089	\$ 117,861
Bank charges	-	2,496	2,496	1,501
Board expense	-	52,460	52,460	41,354
Board fees	-	42,900	42,900	46,850
Commissions	18,667	-	18,667	20,034
Communication and promotion	122,980	90,163	213,143	125,500
Computer supplies	74,066	33,527	107,593	95,676
Convention	342,469	-	342,469	23,905
Depreciation	-	293,462	293,462	309,849
Endorsement fee	100,000	-	100,000	100,000
Equipment and maintenance	11,280	7,585	18,865	27,804
Fringe benefits	1,328,307	801,255	2,129,562	1,855,334
Grounds and building maintenance	48,888	59,232	108,120	31,108
Insurance	85,022	30,342	115,364	118,770
Interest	-	-	-	54
Janitorial service	32,229	18,129	50,358	50,932
Office supplies	9,417	13,540	22,957	25,231
Postage	9,825	5,231	15,056	10,281
Printing	4,860	3,319	8,179	4,445
Professional dues	19,038	3,018	22,056	21,317
Professional fees	4,240	120,875	125,115	169,465
Provision for income taxes	52,592	-	52,592	101,817
Public official bond expense	570,039	-	570,039	551,760
Publications	7,005	5,904	12,909	12,627
Rent	4,300	-	4,300	8,220
Salaries	2,734,803	1,373,522	4,108,325	3,980,151
Telephone	24,825	16,618	41,443	45,141
Training session expenses	2,723	6,016	8,739	6,929
Utilities	41,075	25,608	66,683	60,969
	<u>5,876,739</u>	<u>3,005,202</u>	<u>8,881,941</u>	<u>7,964,885</u>
Less: provision for income taxes	(52,592)	-	(52,592)	(101,817)
Less: convention expenses netted with convention revenue on the statement of activities	<u>(342,469)</u>	<u>-</u>	<u>(342,469)</u>	<u>(23,905)</u>
Net program and supporting services/expenses	<u>\$ 5,481,678</u>	<u>\$ 3,005,202</u>	<u>\$ 8,486,880</u>	<u>\$ 7,839,163</u>

See accompanying notes.

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

	Program	Management and general	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Advocacy	\$ 117,861	\$ -	\$ 117,861
Bank charges	-	1,501	1,501
Board expense	-	41,354	41,354
Board fees	-	46,850	46,850
Commissions	20,034	-	20,034
Communication and promotion	57,479	68,021	125,500
Computer supplies	67,482	28,194	95,676
Convention	23,905	-	23,905
Depreciation	-	309,849	309,849
Endorsement fee	100,000	-	100,000
Equipment and maintenance	18,921	8,883	27,804
Fringe benefits	1,314,696	540,638	1,855,334
Grounds and building maintenance	20,125	10,983	31,108
Insurance	88,422	30,348	118,770
Interest	-	54	54
Janitorial service	33,615	17,317	50,932
Office supplies	16,325	8,906	25,231
Postage	7,187	3,094	10,281
Printing	3,781	664	4,445
Professional dues	17,511	3,806	21,317
Professional fees	75,665	93,800	169,465
Provision for income taxes	101,817	-	101,817
Public official bond expense	551,760	-	551,760
Publications	6,816	5,811	12,627
Rent	8,220	-	8,220
Salaries	2,519,846	1,460,305	3,980,151
Telephone	27,777	17,364	45,141
Training session expenses	2,960	3,969	6,929
Utilities	38,521	22,448	60,969
	<u>5,240,726</u>	<u>2,724,159</u>	<u>7,964,885</u>
Less: convention expenses netted with convention revenue on the statement of activities	<u>(23,905)</u>	<u>-</u>	<u>(23,905)</u>
Net program and supporting services/expenses	<u>\$ 5,216,821</u>	<u>\$ 2,724,159</u>	<u>\$ 7,940,980</u>

See accompanying notes.



**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ (842,544)	\$ 2,335,366
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investments	1,510,851	(1,398,286)
Depreciation	293,462	309,849
Gain on sale of equipment	(21,741)	(15,820)
Changes in		
Accounts receivable	(8,008)	36,397
Due from related parties	22,211	(40,354)
Prepaid expenses	(45,402)	(54,437)
Accounts payable and accrued liabilities	(85,272)	16,780
Accrued income taxes	-	(4,336)
Accrued compensated absences	78,740	134,442
Association health plan payable	283,008	(95,012)
Unearned revenues	(172,573)	(431,638)
	<u>1,012,732</u>	<u>792,951</u>
Net cash provided by operating activities	1,012,732	792,951
Cash flows from investing activities		
Purchases of property and equipment	(33,603)	(69,810)
Proceeds from sale of property and equipment	24,000	35,500
Purchases of investments	(985,109)	(1,266,363)
Proceeds from sales of investments	676,739	1,109,427
	<u>(317,973)</u>	<u>(191,246)</u>
Net cash used in investing activities	(317,973)	(191,246)
Cash flows from financing activities		
Payments of loans receivable	900,000	-
Issuance of loans receivable	-	(2,000,000)
	<u>900,000</u>	<u>(2,000,000)</u>
Net cash provided by (used in) financing activities	900,000	(2,000,000)
Increase (decrease) in cash and cash equivalents	1,594,759	(1,398,295)
Cash and cash equivalents at beginning of year	<u>5,402,838</u>	<u>6,801,133</u>
Cash and cash equivalents at end of year	<u>\$ 6,997,597</u>	<u>\$ 5,402,838</u>
Supplemental disclosure		
Cash paid for interest	\$ -	\$ 4,771
Cash paid for income taxes	81,440	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, 2022 and 2021**

**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 issue advocacy, cooperative undertakings and educational programs. 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, 2022 and 2021.

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, 2022 and 2021**

**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 had a financial need for funds to repair property that could not otherwise be met by county's available resources. The maximum loan amount was \$500,000 per borrower who were 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.
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. KACo recognized realized gains of \$53,947 and unrealized losses of \$1,564,798 for the fiscal year ended June 30, 2022. KACo recognized realized of \$25,977 and unrealized gain of \$1,372,309 for the fiscal year ended June 30, 2021.
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, 2022 and 2021.
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 \$420,740, and \$597,354 at June 30, 2022 and 2021, respectively. Unearned county dues as of June 30, 2022 and 2021 were \$0 and \$27,600, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$63,367 and \$58,613 at June 30, 2022 and 2021, respectively.
9. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$76,239 and \$41,671 in 2022 and 2021, 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, 2022 and 2021**

**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 services 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, 2022 or 2021.

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 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, 2022 and 2021**

**Note C - Availability and Liquidity**

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

	<u>2022</u>	<u>2021</u>
Financial assets at year end		
Cash and cash equivalents	\$ 6,997,597	\$ 5,402,838
Due from related parties	26,887	49,098
Accounts receivable	57,918	49,910
Investments	<u>7,713,842</u>	<u>8,916,323</u>
Total financial assets	14,796,244	14,418,169
Less amounts not available to be used within one year		
Board designated - program guarantee fund	3,100,000	2,900,000
Board designated - association health plan reserve	131,052	177,224
Loans receivable (maturity June 2027)	1,100,000	2,000,000
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
	<u>4,753,261</u>	<u>5,499,433</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 10,042,983</u>	<u>\$ 8,918,736</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, 2022 and 2021**

**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, 2022.

	Investments at fair value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Money market	\$ 541,906	\$ -	\$ -	\$ 541,906
Common stock	1,533,547	-	-	1,533,547
Mutual funds	2,756,875	-	-	2,756,875
Corporate bonds	-	691,001	-	691,001
Municipal bonds	-	1,765,277	-	1,765,277
Real estate partnerships	-	425,236	-	425,236
<b>Total</b>	<b>\$ 4,832,328</b>	<b>\$ 2,881,514</b>	<b>\$ -</b>	<b>\$ 7,713,842</b>

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
<b>Total</b>	<b>\$ 5,752,553</b>	<b>\$ 3,163,770</b>	<b>\$ -</b>	<b>\$ 8,916,323</b>

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**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 could 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, 2022 and 2021 consists of:

	<u>2022</u>	<u>2021</u>
Building and improvements	\$ 11,617,782	\$ 11,605,651
Land and improvements	1,573,197	1,573,197
Equipment	1,095,005	1,086,797
Vehicles	94,385	128,275
Furniture and fixtures	<u>47,953</u>	<u>52,045</u>
	14,428,322	14,445,965
Less accumulated depreciation	<u>(6,657,508)</u>	<u>(6,403,976)</u>
	<u><u>\$ 7,770,814</u></u>	<u><u>\$ 8,041,989</u></u>

**Note F - Net Assets**

Nets assets with donor restrictions at June 30, 2022 and 2021 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, 2022 and 2021 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 \$3,522,209 and \$3,322,209 as of June 30, 2022 and 2021, 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 26.95% and 24.06% of participants' salaries during the years ended June 30, 2022 and 2021, respectively. The Organization's CERS expenses for the years ended June 30, 2022 and 2021 was \$1,119,308 and \$927,351, 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, 2021 (the most recent information available), the Organization's unfunded net pension liability in CERS was \$8,919,021.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**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 \$214,146 and \$190,112 for the years ended June 30, 2022 and 2021, 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. CIC was dissolved during the fiscal year ended June 30, 2022.

KACo charges its related entities a program administration fee. 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>2022</u>	<u>2021</u>
KACo All Lines Fund	\$ 1,608,923	\$ 1,547,616
KACo Workers' Compensation Fund	1,457,389	1,389,034
KACo Unemployment Insurance Fund	299,111	280,338
KACo Leasing Trust	928,625	909,798
KACo Insurance Agency, Inc.	<u>206,382</u>	<u>159,904</u>
	4,500,430	4,286,690
Elimination of KACo Insurance Agency, Inc.	<u>(206,382)</u>	<u>(159,904)</u>
	<u>\$ 4,294,048</u>	<u>\$ 4,126,786</u>



**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**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>2022</u>	<u>2021</u>
KACo All Lines Fund	\$ 1,213,630	\$ 1,173,474
KACo Workers' Compensation Fund	992,016	893,915
KACo Unemployment Insurance Fund	246,000	233,000
KACo Leasing Trust	289,200	288,800
KACo Commonwealth Insurance Company	-	179,800
KACo Insurance Agency, Inc.	<u>193,800</u>	<u>87,500</u>
	2,934,646	2,856,489
Elimination of KACo Insurance Agency, Inc.	<u>(193,800)</u>	<u>(179,800)</u>
	<u>\$ 2,740,846</u>	<u>\$ 2,676,689</u>

The license fees are summarized as follows:

	<u>2022</u>	<u>2021</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 Insurance Agency, Inc.	<u>1,000</u>	<u>1,000</u>
	5,000	5,000
Elimination of KACo Insurance Agency, Inc.	<u>(1,000)</u>	<u>(1,000)</u>
	<u>\$ 4,000</u>	<u>\$ 4,000</u>

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

	<u>2022</u>	<u>2021</u>
KACo All Lines Fund	\$ 3,020	\$ 23,272
KACo Workers' Compensation Fund	<u>23,867</u>	<u>25,826</u>
	<u>\$ 26,887</u>	<u>\$ 49,098</u>

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**Note H - Related Party Transactions (Continued)**

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

	<u>2022</u>	<u>2021</u>
Program administrative fee		
KACo All Lines Fund	\$ 179,727	\$ 249,704
KACo Workers' Compensation Fund	185,136	230,596
KACo Unemployment Insurance Fund	45,639	46,162
KACo Leasing Trust	37,125	70,892
KACo Commonwealth Insurance Company	37,383	-
KACo Insurance Agency, Inc.	<u>-</u>	<u>32,736</u>
	485,010	630,090
Unearned additional management fees		
Unearned county dues - non-related party	-	27,600
Elimination of KACo Insurance Agency, Inc.	<u>(37,383)</u>	<u>(32,736)</u>
	<u>\$ 447,627</u>	<u>\$ 624,954</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2022 and 2021, the Organization incurred total insurance expense under these agreements of \$98,060 and \$101,679, respectively.

**Note I - KACo Convention**

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Convention income		
Convention registration	\$ 121,795	\$ -
Convention sponsors	-	69,500
Convention exhibitors	<u>69,700</u>	<u>-</u>
	191,495	69,500
Convention expenses	<u>342,469</u>	<u>23,905</u>
	<u>\$ (150,974)</u>	<u>\$ 45,595</u>

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**Note J - Income Taxes**

The provision for income taxes consists of the following:

	<u>KACo Insurance Agency, Inc.</u>	
	<u>2022</u>	<u>2021</u>
Current		
Federal	\$ 37,852	\$ 77,127
State and local	<u>14,740</u>	<u>24,690</u>
Income tax expense	<u>\$ 52,592</u>	<u>\$ 101,817</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.

**Note L - Leases**

The Organization enters into non-cancellable operating leases for the use of copiers. Rent expense of approximately \$11,000 was recorded under these leases during the years ended June 30, 2022 and 2021.

Future minimum lease payments under this lease are as follows:

<u>Fiscal year ending June 30,</u>	<u>Amount</u>
2023	\$ 5,660
2024	5,660
2025	<u>1,887</u>
	<u>\$ 13,207</u>

## **Supplementary Information**

**Kentucky Association of Counties, Inc. and Subsidiary  
KACo Insurance Agency, Inc. Statement of Cash Flows  
Year Ended June 30, 2022**

Cash flows from operating activities	
Changes in net assets	\$ 152,140
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Changes in	
Accounts receivable	2,192
Prepaid expenses	(33,495)
Accounts payable and accrued liabilities	(258)
Unearned revenues	<u>4,754</u>
Net cash provided by operating activities	<u>125,333</u>
Increase in cash and cash equivalents	125,333
Cash and cash equivalents at beginning of year	<u>423,919</u>
Cash and cash equivalents at end of year	<u><u>\$ 549,252</u></u>
Supplemental disclosure	
Cash paid for income taxes	\$ 81,440

See independent auditor's report.

## **Consolidating Information**

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidating Statement of Financial Position**  
**June 30, 2022**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 6,448,345	\$ 549,252	\$ -	\$ 6,997,597
Accounts receivable	16,262	41,656	-	57,918
Due from related parties	26,887	-	-	26,887
Prepaid expenses	64,612	91,242	(37,383)	118,471
Total current assets	6,556,106	682,150	(37,383)	7,200,873
Loans receivable	1,100,000	-	-	1,100,000
Investments	7,713,842	-	-	7,713,842
Property and equipment, net	7,770,814	-	-	7,770,814
Total assets	<u>\$ 23,140,762</u>	<u>\$ 682,150</u>	<u>\$ (37,383)</u>	<u>\$ 23,785,529</u>
<b>Liabilities and net assets</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 149,863	\$ 59,533	\$ -	\$ 209,396
Accrued compensated absences	1,115,235	-	-	1,115,235
Association health plan payable	1,055,714	-	-	1,055,714
Unearned revenues	485,010	63,367	(37,383)	510,994
Total current liabilities	2,805,822	122,900	(37,383)	2,891,339
Net assets/equity				
Without donor restrictions				
Board designated - program guarantee fund	3,100,000	-	-	3,100,000
Board designated - association health plan reserve	131,052	-	-	131,052
Undesignated	16,681,679	-	559,250	17,240,929
Total net assets without donor restrictions	19,912,731	-	559,250	20,471,981
With donor restrictions				
Purpose restricted - program guarantee fund	422,209	-	-	422,209
Total net assets	20,334,940	-	559,250	20,894,190
Retained earnings	-	559,250	(559,250)	-
Total net assets/equity	<u>20,334,940</u>	<u>559,250</u>	<u>-</u>	<u>20,894,190</u>
Total liabilities and net assets	<u>\$ 23,140,762</u>	<u>\$ 682,150</u>	<u>\$ (37,383)</u>	<u>\$ 23,785,529</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidating Statement of Changes in Unrestricted Net Assets**  
**Year Ended June 30, 2022**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Revenues, gains and other support				
Program administration fees	\$ 4,500,430	\$ -	\$ (206,382)	\$ 4,294,048
Management fees	2,934,646	-	(193,800)	2,740,846
Advisory fees	107,950	-	-	107,950
License fees	5,000	-	(1,000)	4,000
Public official bond revenue	-	583,146	-	583,146
Commissions - other	-	794,773	-	794,773
Membership dues	144,350	-	-	144,350
Training session fees	3,706	-	-	3,706
Interest and dividend income	393,296	175	-	393,471
Rental income	45,000	-	-	45,000
Endorsement and marketing fees	49,129	-	-	49,129
KACo convention	(150,974)	-	-	(150,974)
County Partner Program	222,600	-	-	222,600
Gain on disposal of equipment	21,741	-	-	21,741
Net realized and unrealized losses on investments	(1,510,851)	-	-	(1,510,851)
Miscellaneous	(46,007)	-	-	(46,007)
<b>Total unrestricted revenues, gains and other support</b>	<b>6,720,016</b>	<b>1,378,094</b>	<b>(401,182)</b>	<b>7,696,928</b>
Expenses				
Program services	4,729,252	1,153,608	(401,182)	5,481,678
Supporting services	2,985,448	19,754	-	3,005,202
Provision for income taxes	-	52,592	-	52,592
<b>Total expenses</b>	<b>7,714,700</b>	<b>1,225,954</b>	<b>(401,182)</b>	<b>8,539,472</b>
<b>Change in unrestricted net assets</b>	<b>(994,684)</b>	<b>152,140</b>	<b>-</b>	<b>(842,544)</b>
Unrestricted net assets at beginning of year	20,907,415	407,110	-	21,314,525
<b>Unrestricted net assets at end of year</b>	<b>\$ 19,912,731</b>	<b>\$ 559,250</b>	<b>\$ -</b>	<b>\$ 20,471,981</b>

See independent auditor's report.



**Kentucky Association of Counties, Inc. and Subsidiary  
Consolidating Statement of Functional Expenses  
Year Ended June 30, 2022**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Advocacy	\$ 228,089	\$ -	\$ -	\$ 228,089
Bank charges	2,496	-	-	2,496
Board expense	39,206	13,254	-	52,460
Board fees	36,400	6,500	-	42,900
Commissions	-	18,667	-	18,667
Communication and promotion	182,343	30,800	-	213,143
Computer supplies	107,593	-	-	107,593
Convention	342,469	-	-	342,469
Depreciation	293,462	-	-	293,462
Endorsement fee	-	100,000	-	100,000
Equipment and maintenance	18,865	-	-	18,865
Fringe benefits	2,129,562	-	-	2,129,562
Grounds and building maintenance	108,120	-	-	108,120
Insurance	84,284	31,080	-	115,364
Janitorial service	50,358	-	-	50,358
Office supplies	22,957	-	-	22,957
Postage	15,056	-	-	15,056
Printing	8,179	-	-	8,179
Professional dues	22,056	-	-	22,056
Professional fees	123,275	1,840	-	125,115
Program administration, management and license fees	-	401,182	(401,182)	-
Provision for income taxes	-	52,592	-	52,592
Public official bond expense	-	570,039	-	570,039
Publications	12,909	-	-	12,909
Rent	4,300	-	-	4,300
Salaries	4,108,325	-	-	4,108,325
Telephone	41,443	-	-	41,443
Training expenses	8,739	-	-	8,739
Utilities	66,683	-	-	66,683
Less: Convention expenses netted with convention revenue	(342,469)	-	-	(342,469)
<b>Total expenses</b>	<b>\$ 7,714,700</b>	<b>\$ 1,225,954</b>	<b>\$ (401,182)</b>	<b>\$ 8,539,472</b>

See independent auditor's report.