

**KENTUCKY ASSOCIATION OF
COUNTIES, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

As of and for the Years Ended June 30, 2024 and 2023

And Report of Independent Auditor

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Report of Independent Auditor

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

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, 2024 and 2023, 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, 2024 and 2023, 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. 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.

Prior Period Consolidated Financial Statements

The consolidated financial statements as of June 30, 2023, were audited by MCM CPAs & Advisors LLP, which was acquired by Cherry Bekaert LLP as of October 31, 2023, and whose report dated October 4, 2023, expressed an unmodified opinion on those statements.

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.

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 generally accepted auditing standards 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 generally accepted auditing standards, 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 consolidating information and the KACO Insurance Agency, Inc. Statement of Cash Flows is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies 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.

Cherry Bekaert LLP

Louisville, Kentucky
October 18, 2024

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,532,189	\$ 7,105,139
Restricted cash - association health plan	1,384,465	1,114,366
Accounts receivable	365,006	74,949
Due from related parties	86,660	53,171
Prepaid expenses	45,930	59,961
Total Current Assets	<u>10,414,250</u>	<u>8,407,586</u>
Loans receivable	505,955	651,721
Investments	10,991,378	8,909,686
Property and equipment, net	7,318,161	7,537,622
Total Assets	<u><u>\$ 29,229,744</u></u>	<u><u>\$ 25,506,615</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 356,875	\$ 230,887
Accrued compensated absences	892,067	917,122
Association health plan payable	1,279,951	1,042,846
Unearned revenues	1,276,843	820,709
Total Current Liabilities	<u>3,805,736</u>	<u>3,011,564</u>
Total Liabilities	3,805,736	3,011,564
Net Assets:		
Without Donor Restrictions:		
Board designated - program guarantee fund	3,100,000	3,100,000
Board designated - association health plan reserve	104,716	71,723
Undesignated	21,797,083	18,901,119
Total Net Assets Without Donor Restrictions	<u>25,001,799</u>	<u>22,072,842</u>
With Donor Restrictions:		
Purpose restricted - program guarantee fund	422,209	422,209
Total Net Assets	<u>25,424,008</u>	<u>22,495,051</u>
Total Liabilities and Net Assets	<u><u>\$ 29,229,744</u></u>	<u><u>\$ 25,506,615</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2024 AND 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support:						
Program administration fees	\$ 4,551,840	\$ -	\$ 4,551,840	\$ 4,652,873	\$ -	\$ 4,652,873
Management fees	3,108,142	-	3,108,142	2,673,398	-	2,673,398
Advisory fees	152,031	-	152,031	173,930	-	173,930
License fees	4,000	-	4,000	4,000	-	4,000
Public official bond revenue	623,611	-	623,611	723,234	-	723,234
Commissions - other	826,854	-	826,854	824,106	-	824,106
Donations	-	-	-	998	-	998
Membership dues	144,550	-	144,550	144,550	-	144,550
Training session fees	15,280	-	15,280	17,985	-	17,985
Investment returns, net	2,403,970	-	2,403,970	1,317,222	-	1,317,222
Rental income	18,000	-	18,000	18,000	-	18,000
Endorsement and marketing fees	95,933	-	95,933	75,374	-	75,374
KACo convention, net	3,773	-	3,773	(33,456)	-	(33,456)
County Partner Program	201,960	-	201,960	242,200	-	242,200
Miscellaneous income (expense)	33,196	-	33,196	(59,329)	-	(59,329)
Total Revenues, Gains, and Other Support	12,183,140	-	12,183,140	10,775,085	-	10,775,085
Expenses:						
Program services	5,575,025	-	5,575,025	5,998,257	-	5,998,257
Supporting services	3,631,333	-	3,631,333	3,128,896	-	3,128,896
Provision for income taxes	47,825	-	47,825	47,071	-	47,071
Total Expenses	9,254,183	-	9,254,183	9,174,224	-	9,174,224
Change in net assets	2,928,957	-	2,928,957	1,600,861	-	1,600,861
Net assets, beginning of year	22,072,842	422,209	22,495,051	20,471,981	422,209	20,894,190
Net assets, end of year	\$ 25,001,799	\$ 422,209	\$ 25,424,008	\$ 22,072,842	\$ 422,209	\$ 22,495,051

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED
 JUNE 30, 2023)

	2024			2023
	Program	Supporting Services	Total	Total
Advocacy	\$ -	\$ 246,081	\$ 246,081	\$ 232,480
Bank charges	-	2,196	2,196	3,929
Board expense	-	55,941	55,941	60,226
Board fees	-	74,284	74,284	51,400
Commissions	22,611	-	22,611	22,633
Communication and promotion	112,321	129,983	242,304	239,556
Computer supplies	68,224	30,786	99,010	100,755
Convention	331,052	-	331,052	317,256
Depreciation	-	280,856	280,856	288,486
Endorsement fee	100,000	-	100,000	100,000
Equipment and maintenance	11,386	7,356	18,742	23,868
Fringe benefits	1,437,817	789,379	2,227,196	2,589,949
Grounds and building maintenance	70,517	52,066	122,583	103,480
Insurance	90,109	38,019	128,128	112,118
Janitorial service	42,897	25,194	68,091	67,431
Miscellaneous	-	-	-	15
Office supplies	15,300	14,509	29,809	30,158
Postage	10,728	5,939	16,667	19,710
Printing	1,191	5,672	6,863	10,249
Professional dues	4,952	3,087	8,039	8,957
Professional fees	8,905	285,717	294,622	187,414
Provision for income taxes	47,825	-	47,825	47,071
Public official bond expense	607,583	-	607,583	705,807
Publications	3,252	2,695	5,947	5,191
Rent	-	-	-	900
Salaries	2,902,977	1,522,057	4,425,034	4,035,666
Telephone	24,538	14,771	39,309	39,252
Training session expenses	1,105	17,453	18,558	19,140
Utilities	38,613	27,291	65,904	68,383
	<u>5,953,903</u>	<u>3,631,332</u>	<u>9,585,235</u>	<u>9,491,480</u>
Less provision for income taxes	(47,825)	-	(47,825)	(47,071)
Less convention expenses netted with convention revenue on the statement of activities	<u>(331,052)</u>	<u>-</u>	<u>(331,052)</u>	<u>(317,256)</u>
Net Program and Supporting Services/Expenses	<u>\$ 5,575,026</u>	<u>\$ 3,631,332</u>	<u>\$ 9,206,358</u>	<u>\$ 9,127,153</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	2023		
	Program	Supporting Services	Total
Advocacy	\$ 232,480	\$ -	\$ 232,480
Bank charges	-	3,929	3,929
Board expense	-	60,226	60,226
Board fees	-	51,400	51,400
Commissions	22,633	-	22,633
Communication and promotion	105,464	134,092	239,556
Computer supplies	66,615	34,140	100,755
Convention	317,256	-	317,256
Depreciation	-	288,486	288,486
Endorsement fee	100,000	-	100,000
Equipment and maintenance	11,990	11,878	23,868
Fringe benefits	1,688,726	901,223	2,589,949
Grounds and building maintenance	63,892	39,588	103,480
Insurance	79,987	32,131	112,118
Interest	-	-	-
Janitorial service	42,482	24,949	67,431
Miscellaneous	-	15	15
Office supplies	12,818	17,340	30,158
Postage	12,517	7,193	19,710
Printing	4,934	5,315	10,249
Professional dues	2,630	6,327	8,957
Professional fees	8,810	178,604	187,414
Provision for income taxes	47,071	-	47,071
Public official bond expense	705,807	-	705,807
Publications	1,884	3,307	5,191
Rent	900	-	900
Salaries	2,768,084	1,267,582	4,035,666
Telephone	24,441	14,811	39,252
Training session expenses	958	18,182	19,140
Utilities	40,205	28,178	68,383
	<u>6,362,584</u>	<u>3,128,896</u>	<u>9,491,480</u>
Less provision for incomes taxes	(47,071)	-	(47,071)
Less convention expenses netted with convention revenue on the statement of activities	-	-	-
	<u>(317,256)</u>	<u>-</u>	<u>(317,256)</u>
Net Program and Supporting Services/Expenses	<u>\$ 5,998,257</u>	<u>\$ 3,128,896</u>	<u>\$ 9,127,153</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Changes in net assets	\$ 2,928,957	\$ 1,600,861
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net realized and unrealized losses (gains) on investments	(1,874,212)	(1,026,784)
Depreciation	280,856	288,486
Changes in:		
Accounts receivable	(290,057)	(17,031)
Due from related parties	(33,489)	(26,284)
Prepaid expenses	14,031	58,510
Accounts payable and accrued liabilities	125,988	21,491
Accrued compensated absences	(25,055)	(198,113)
Association health plan payable	237,105	(12,868)
Unearned losses	456,134	309,715
Net cash flows from operating activities	<u>1,820,258</u>	<u>997,983</u>
Cash flows from investing activities:		
Purchases of property and equipment	(61,395)	(55,294)
Purchases of investments	(1,984,801)	(1,233,034)
Proceeds from sales of investments	1,777,321	1,063,974
Net cash flows from investing activities	<u>(268,875)</u>	<u>(224,354)</u>
Cash flows from financing activities:		
Payments of loans receivable	145,766	448,279
Net cash flows from financing activities	<u>145,766</u>	<u>448,279</u>
Net change in cash and cash equivalents	1,697,149	1,221,908
Cash, cash equivalents, and restricted cash beginning of year	8,219,505	6,997,597
Cash, cash equivalents, and restricted cash end of year	<u>\$ 9,916,654</u>	<u>\$ 8,219,505</u>
Supplemental disclosure:		
Cash paid for income taxes	<u>\$ 31,207</u>	<u>\$ 3,295</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 1—Description of organization

Kentucky Association of Counties, Inc. (“KACo” or “Organization”) 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 2—Summary of significant accounting policies

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 (“U.S. GAAP”). The Accounting Standards Codification (“ASC”) as produced by the Financial Accounting Standards Board (“FASB”) is the sole source of authoritative U.S. 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, 2024 and 2023.

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.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. 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.

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. At June 30, 2024, the Organization's cash accounts exceeded federally insured limits by approximately \$9,416,000. The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 2—Summary of significant accounting policies (continued)

Restricted Cash – Restricted cash for the Organization consists of monthly premiums received from members participating in the Organization’s health and welfare insurance program for monthly premiums (See Note 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 adopted ASC Topic 326, *Financial Instruments – Credit Losses* effective July 1, 2023. The allowance for credit losses is based on the Organization’s assessment of collectability of customer accounts receivable. In accordance with ASC Topic 326, the Organization makes ongoing estimates relating to the collectability of accounts receivable and records an allowance for estimated losses expected from the inability of customers to make required payments. The Organization establishes expected credit losses by evaluating historical levels of credit losses, current economic conditions that may affect a customer’s ability to pay, and creditworthiness of significant customers. These inputs are used to determine a range of expected credit losses and an allowance is recorded within the range. Accounts receivable are written off when there is no reasonable expectation of recovery and all reasonable collection efforts have been made. Recoveries of trade receivables previously charged to operations will be recognized when collected. The Organization’s policy is not to accrue interest on past due trade receivables. The adoption of this ASC did not have a material impact on the Organization’s consolidated financial statements but did change how the Organization determines the allowance for credit losses. The allowance for credit losses as of both June 30, 2024 and 2023 was immaterial.

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 originating loan amount was \$500,000 per borrower who was 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, however, the loans can be repaid at any time without penalty. No new loans were issued during the year ended June 30, 2024, and no loans were written off during the years ended June 30, 2024 and 2023. As of June 30, 2024 and 2023, the allowance for credit losses was immaterial.

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 \$534,446 and unrealized gains of \$1,339,765 for the year ended June 30, 2024. KACo recognized realized losses of \$(92,887) and unrealized gains of \$1,119,671 for the year ended June 30, 2023.

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

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 2—Summary of significant accounting policies (continued)

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 \$781,837, and \$632,077 at June 30, 2024 and 2023, respectively. The Agency has unearned revenues representing cash received for insurance policies for which the Agency is the agent, but that are not in effect at year-end of \$67,156 and \$75,833 at June 30, 2024 and 2023, respectively.

Advertising Costs – Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$78,451 and \$94,062 in 2024 and 2023, respectively. Advertising costs are included in communication and promotion on the statement of functional of expenses.

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.

Leases – The Organization determines if an arrangement is a lease at inception. Finance leases, if any, are included in right-of-use ("ROU") assets-finance leases and lease liability-finance leases, and operating leases, if any, are included in right-of-use ("ROU") assets-operating leases and lease liability-operating leases in the balance sheet. The Organization has elected to recognize payments for short-term leases with a lease term of 12 twelve months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the balance sheet.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Organization uses rates implicit in the lease, or if not readily available, the Organization uses a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

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 material deferred income taxes at June 30, 2024 or 2023.

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

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 2—Summary of significant accounting policies (continued)

Subsequent Events – Subsequent events for the Organization have been considered through the October 8, 2024, which represents the date which the consolidated financial statements were available to be issued.

Note 3—Availability and liquidity of resources

The table below represents the Organization's financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30 are as follows:

	<u>2024</u>	<u>2023</u>
Financial assets, year end:		
Cash and cash equivalents	\$ 8,532,189	\$ 7,105,139
Due from related parties	86,660	53,171
Accounts receivable	365,006	74,950
Long-term receivables	505,955	651,721
Investments	10,991,378	8,909,686
Total financial assets	<u>20,481,188</u>	<u>16,794,667</u>
Less amounts not available to be used within one year:		
Board designated - program guarantee fund	3,100,000	3,100,000
Board designated - association health plan reserve	104,716	71,723
Loans receivable (maturity June 2027)	505,955	651,721
Purpose restricted - program guarantee fund	422,209	422,209
	<u>4,132,880</u>	<u>4,245,653</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 16,348,308</u>	<u>\$ 12,549,014</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.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 4—Investments and fair value measurements

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.

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 and Real Estate Partnerships – Valued at the net asset value of the underlying assets.

Government Securities, Municipal Bonds, 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, 2024.

	Investments at Fair Value as of June 30, 2024				Total
	Level 1	Level 2	Level 3	NAV Practical Expedient	
Money market	\$ 1,088,540	\$ -	\$ -	\$ -	\$ 1,088,540
Common stock	4,586,927	-	-	-	4,586,927
Mutual funds	-	1,206,772	-	-	1,206,772
Municipal bonds	-	1,522,156	-	-	1,522,156
Corporate bonds	-	2,021,904	-	-	2,021,904
Real estate partnerships	-	-	-	565,079	565,079
Total	\$ 5,675,467	\$ 4,750,832	\$ -	\$ 565,079	#####

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 4—Investments and fair value measurements (continued)

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, 2023.

	Investments at Fair Value as of June 30, 2023				Total
	Level 1	Level 2	Level 3	NAV Practical Expedient	
Money market	\$ 207,600	\$ -	\$ -	\$ -	\$ 207,600
Common stock	1,497,001	-	-	-	1,497,001
Mutual funds	-	3,661,982	-	-	3,661,982
Municipal bonds	-	897,021	-	-	897,021
Corporate bonds	-	2,095,819	-	-	2,095,819
Real estate partnerships	-	-	-	550,263	550,263
Total	<u>\$ 1,704,601</u>	<u>\$ 6,654,822</u>	<u>\$ -</u>	<u>\$ 550,263</u>	<u>\$ 8,909,686</u>

In accordance with Accounting Standards Codification Subtopic 820-10, certain investments that are measured at fair value using NAV per share (or its equivalents) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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 5—Property and equipment

Property and equipment as of June 30, 2024 and 2023 consists of:

	2024	2023
Building and improvements	\$ 11,666,360	\$ 11,656,364
Land and improvements	1,607,883	1,573,197
Equipment	979,423	976,064
Vehicles	94,385	94,385
Furniture and fixtures	74,023	60,668
	14,422,074	14,360,678
Less accumulated depreciation	(7,103,913)	(6,823,056)
	<u>\$ 7,318,161</u>	<u>\$ 7,537,622</u>

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 6—Net assets

Nets assets with donor restrictions at June 30, 2024 and 2023 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, 2024 and 2023 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 as of June 30, 2024 and 2023, respectively.

KACo sponsors and is the administrative agent for a fully insured association health and welfare insurance program for members electing to participate in the plan. The plan is insured by Anthem Blue Cross Blue Shield. Counties that elect coverage for their employees and dependents with the plan remit monthly premium amounts to KACo, who in turn remit the underlying premium for coverage to Anthem. KACo, or their designee, provide tracking of participating employees and dependents and acts as the administrator of the plan. Amounts received from participating counties are included in cash as an association health plan payable, with any amounts received in excess of amounts due being treated as a board designated reserve of the Organization. The cumulative balance of premiums received by the KACo in excess of amounts due as of June 30, 2024 and 2023 was \$104,716 and \$71,723, respectively.

Note 7—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 23.34% and 26.95% of participants' salaries during the years ended June 30, 2024 and 2023, respectively. The Organization's CERS expenses for the years ended June 30, 2024 and 2023 was \$1,028,478 and \$1,131,524, 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, 2023 (the most recent information available), the Organization's unfunded net pension liability in CERS was \$8,764,181.

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 \$243,548 and \$230,701 for the years ended June 30, 2024 and 2023, respectively.

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 8—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:

	2024	2023
KACo All Lines Fund	\$ 1,693,625	\$ 1,697,986
KACo Workers' Compensation Fund	1,534,446	1,538,490
KACo Unemployment Insurance Fund	341,587	336,360
KACo Leasing Trust	982,182	1,080,037
KACo Insurance Agency, Inc.	254,199	246,345
	<u>4,806,039</u>	<u>4,899,218</u>
Elimination of KACo Insurance Agency, Inc.	<u>(254,199)</u>	<u>(246,345)</u>
	<u><u>\$ 4,551,840</u></u>	<u><u>\$ 4,652,873</u></u>

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 8 – 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>2024</u>	<u>2023</u>
KACo All Lines Fund	\$ 1,419,411	\$ 1,193,126
KACo Workers' Compensation Fund	1,198,691	1,026,147
KACo Unemployment Insurance Fund	232,200	221,500
KACo Leasing Trust	257,840	232,625
KACo Insurance Agency, Inc.	22,530	234,550
	<u>3,130,672</u>	<u>2,907,948</u>
Elimination of KACo Insurance Agency, Inc.	(22,530)	(234,550)
	<u>\$ 3,108,142</u>	<u>\$ 2,673,398</u>

The license fees are summarized as follows:

	<u>2024</u>	<u>2023</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.	1,000	1,000
	<u>5,000</u>	<u>5,000</u>
Elimination of KACo Insurance Agency, Inc.	(1,000)	(1,000)
	<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>2024</u>	<u>2023</u>
KACo All Lines Fund	\$ 2,301	\$ 4,201
KACo Workers' Compensation Fund	84,359	48,970
	<u>\$ 86,660</u>	<u>\$ 53,171</u>

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 8—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>2024</u>	<u>2023</u>
Program administrative fee		
KACo All Lines Fund	\$ 305,225	\$ 293,363
KACo Workers' Compensation Fund	298,154	280,460
KACo Unemployment Insurance Fund	67,850	55,580
KACo Leasing Trust	110,608	2,673
KACo Insurance Agency, Inc.	<u>57,416</u>	<u>56,365</u>
	839,253	688,441
Elimination of KACo Insurance Agency, Inc.	<u>(57,416)</u>	<u>(56,365)</u>
	<u>\$ 781,837</u>	<u>\$ 632,076</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2024 and 2023, the Organization incurred total insurance expense under these agreements of \$116,754 and \$97,516, respectively.

Note 9—KACo convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Convention income:		
Convention registration	\$ 238,425	\$ 193,150
Convention exhibitors	<u>96,400</u>	<u>90,650</u>
	334,825	283,800
Less Convention expenses	<u>(331,052)</u>	<u>(317,256)</u>
	<u>\$ 3,773</u>	<u>\$ (33,456)</u>

Note 10—Income taxes

The provision for income taxes consists of the following:

	<u>KACo Insurance Agency, Inc.</u>	
	<u>2024</u>	<u>2023</u>
Current:		
Federal	\$ 36,645	\$ 35,616
State and local	<u>11,180</u>	<u>11,455</u>
Income tax expense	<u>\$ 47,825</u>	<u>\$ 47,071</u>

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

Note 11—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.

SUPPLEMENTARY INFORMATION

**KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
KACO INSURANCE AGENCY, INC. STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2024

	<u>2024</u>
Cash flows from operating activities:	
Changes in net assets	\$ 144,062
Adjustments to reconcile changes in net assets to net cash flows from operating activities:	
Benefit from deferred income taxes	-
Changes in:	
Accounts receivable	(65,376)
Prepaid expenses	15,567
Accounts payable and accrued liabilities	(7,128)
Unearned revenues	(8,677)
Net cash flows from operating activities	<u>78,448</u>
Cash flows from financing activities:	
Payment of dividend declared	<u>(200,000)</u>
Net change in cash and cash equivalents	(121,552)
Cash and cash equivalents, beginning of year	<u>463,890</u>
Cash and cash equivalents, end of year	<u>\$ 342,338</u>
Supplemental disclosure:	
Cash paid for income taxes	<u>\$ 31,207</u>

See report of independent auditor.

CONSOLIDATING INFORMATION

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 8,189,851	\$ 342,338	\$ -	\$ 8,532,189
Restricted cash - association health plan	1,384,465	-	-	1,384,465
Accounts receivable	251,335	113,671	-	365,006
Due from related parties	86,660	-	-	86,660
Prepaid expenses	52,465	50,881	(57,416)	45,930
Total current assets	9,964,776	506,890	(57,416)	10,414,250
Loans receivable	505,955	-	-	505,955
Investments	10,991,378	-	-	10,991,378
Property and equipment, net	7,318,161	-	-	7,318,161
Total Assets	\$ 28,780,270	\$ 506,890	\$ (57,416)	\$ 29,229,744
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 301,793	\$ 55,082	\$ -	\$ 356,875
Accrued compensated absences	892,067	-	-	892,067
Association health plan payable	1,279,951	-	-	1,279,951
Unearned revenues	1,267,103	67,156	(57,416)	1,276,843
Total Current Liabilities	3,740,914	122,238	(57,416)	3,805,736
Net Assets/Equity:				
Without Donor Restrictions:				
Board designated - program guarantee fund	3,100,000	-	-	3,100,000
Board designated - association health plan reserve	104,716	-	-	104,716
Undesignated	21,412,431	-	384,652	21,797,083
Total net assets without donor restrictions	24,617,147	-	384,652	25,001,799
With Donor Restrictions:				
Purpose restricted - program guarantee fund	422,209	-	-	422,209
Total Net Assets	25,039,356	-	384,652	25,424,008
Retained earnings	-	384,652	(384,652)	-
Total Net Assets/Equity	25,039,356	384,652	-	25,424,008
Total Liabilities and Net Assets	\$ 28,780,270	\$ 506,890	\$ (57,416)	\$ 29,229,744

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS

YEAR ENDED JUNE 30, 2024

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Revenues, Gains, and Other Support:				
Program administration fees	\$ 4,806,039	\$ -	\$ (254,199)	\$ 4,551,840
Management fees	3,333,462		(225,320)	3,108,142
Advisory fees	152,031	-	-	152,031
License fees	5,000	-	(1,000)	4,000
Public official bond revenue	-	623,611	-	623,611
Commissions - other	-	826,854	-	826,854
Membership dues	144,550	-	-	144,550
Training session fees	15,280	-	-	15,280
Investment returns, net	2,594,621	9,349	(200,000)	2,403,970
Rental income	18,000	-	-	18,000
Endorsement and marketing fees	95,933	-	-	95,933
KACo convention	3,773	-	-	3,773
County Partner Program	201,960	-	-	201,960
Miscellaneous	33,196	-	-	33,196
Total Unrestricted Revenues, Gains, and				
Other Support	11,403,845	1,459,814	(680,519)	12,183,140
Expenses:				
Program services	4,806,044	1,249,500	(480,519)	5,575,025
Supporting services	3,612,906	18,427	-	3,631,333
Provision for income taxes	-	47,825	-	47,825
Total Expenses	8,418,950	1,315,752	(480,519)	9,254,183
Change in unrestricted net assets	2,984,895	144,062	(200,000)	2,928,957
Unrestricted net assets, beginning of year	21,632,252	440,590	-	22,072,842
Dividend issued to KACo	-	(200,000)	200,000	-
Unrestricted net assets, end of year	\$ 24,617,147	\$ 384,652	\$ -	\$ 25,001,799

See report of independent auditor

KENTUCKY ASSOCIATION OF COUNTIES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Advocacy	\$ 246,081	\$ -	\$ -	\$ 246,081
Bank charges	2,196	-	-	2,196
Board expense	47,206	8,735	-	55,941
Board fees	64,592	9,692	-	74,284
Commissions	-	22,611	-	22,611
Communication and promotion	230,974	11,330	-	242,304
Computer supplies	99,010	-	-	99,010
Convention	331,052	-	-	331,052
Depreciation	280,856	-	-	280,856
Endorsement fee	-	100,000	-	100,000
Equipment and maintenance	18,742	-	-	18,742
Fringe benefits	2,227,196	-	-	2,227,196
Grounds and building maintenance	122,583	-	-	122,583
Insurance	102,796	25,332	-	128,128
Janitorial service	68,091	-	-	68,091
Miscellaneous	-	-	-	-
Office supplies	29,809	-	-	29,809
Postage	16,667	-	-	16,667
Printing	6,863	-	-	6,863
Professional dues	8,039	-	-	8,039
Professional fees	292,497	2,125	-	294,622
Program administration, management, and license fees	-	480,519	(480,519)	-
Provision for income taxes	-	47,825	-	47,825
Public official bond expense	-	607,583	-	607,583
Publications	5,947	-	-	5,947
Rent	-	-	-	-
Salaries	4,425,034	-	-	4,425,034
Telephone	39,309	-	-	39,309
Training expenses	18,558	-	-	18,558
Utilities	65,904	-	-	65,904
Less provision for income taxes	-	(47,825)	-	(47,825)
Less convention expenses netted with convention revenue	(331,052)	-	-	(331,052)
Total Expenses	\$ 8,418,950	\$ 1,267,927	\$ (480,519)	\$ 9,206,358