

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2025 and 2024

And Report of Independent Auditor

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
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Report of Independent Auditor

To the Board of Directors
KACo Unemployment Compensation Self-Insurance Fund
Frankfort, Kentucky

Opinion

We have audited the financial statements of KACo Unemployment Compensation Self-Insurance Fund (the "Fund"), which comprise the balance sheets as of June 30, 2025 and 2024, and the related statements of revenues, expenses and changes in members' equity, and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2025 and 2024, and the results of its operations and its 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 Financial Statements* section of our report. We are required to be independent of the Fund 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 Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 the Fund'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund'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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Cherry Bekaert LLP

Louisville, Kentucky
January 22, 2026

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
BALANCE SHEETS

JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash and cash equivalents	\$ 2,183,919	\$ 727,801
Fixed maturity investments, at fair value	9,386,241	10,543,781
Equity securities, at fair value	2,730,585	2,462,205
Premiums receivable	237,406	248,170
Accrued interest receivable	58,176	44,726
Prepaid expenses	76,336	67,850
Total Assets	<u>\$ 14,672,663</u>	<u>\$ 14,094,533</u>
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 5,841	\$ 6,852
Unemployment compensation benefits payable	98,737	87,691
Deferred revenue	385,533	379,568
Total Liabilities	490,111	474,111
Members' equity	14,182,552	13,620,422
Total Liabilities and Members' Equity	<u>\$ 14,672,663</u>	<u>\$ 14,094,533</u>

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

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS' EQUITY

YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Revenues:		
Members premiums, net	\$ 766,707	\$ 950,670
Investment income, net	497,765	392,098
Realized and unrealized gains (losses) on investments	<u>492,243</u>	<u>202,346</u>
Total Revenues	<u>1,756,715</u>	<u>1,545,114</u>
Expenses:		
Unemployment compensation benefits	505,150	480,165
General and administrative expenses	433,435	432,075
KACo management fee	255,000	232,200
KACo royalty	<u>1,000</u>	<u>1,000</u>
Total Expenses	<u>1,194,585</u>	<u>1,145,440</u>
Net Income	562,130	399,674
Members' equity, beginning of year	<u>13,620,422</u>	<u>13,220,748</u>
Members' equity, end of year	<u>\$ 14,182,552</u>	<u>\$ 13,620,422</u>

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

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash received from member premiums	\$ 783,436	\$ 938,412
Investment income received, net of investment fees	484,315	383,591
Unemployment compensation benefits paid	(494,104)	(529,294)
Cash paid to suppliers and others	(698,932)	(677,384)
Net cash flows from operating activities	<u>74,715</u>	<u>115,325</u>
Cash flows from investing activities:		
Net proceeds from (purchases of) investments	<u>1,381,403</u>	<u>(526,178)</u>
Net cash flows from investing activities	<u>1,381,403</u>	<u>(526,178)</u>
Net increase (decrease) in cash and cash equivalents	1,456,118	(410,853)
Cash and cash equivalents, beginning of year	<u>727,801</u>	<u>1,138,654</u>
Cash and cash equivalents, end of year	<u>\$ 2,183,919</u>	<u>\$ 727,801</u>
Reconciliation of net income to net cash flows from operating activities:		
Net income	\$ 562,130	\$ 399,674
Adjustments to reconcile net income to net cash flows from operating activities:		
Realized (gains) losses on investments	(282,328)	(1,289)
Unrealized (gains) losses on investments	(209,915)	(201,057)
Changes in assets and liabilities:		
Premiums receivable	10,764	178,758
Accrued interest receivable	(13,450)	(8,507)
Prepaid expenses	(8,486)	(12,270)
Accounts payable	(1,011)	161
Unemployment compensation benefits payable	11,046	(49,129)
Deferred revenue	5,965	(191,016)
Total adjustments	<u>(487,415)</u>	<u>(284,349)</u>
Net cash flows from operating activities	<u>\$ 74,715</u>	<u>\$ 115,325</u>

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

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 1—Nature of operations

The Kentucky Association of Counties Unemployment Compensation Self-Insurance Fund (the "Fund") was organized as a nonprofit fund by the Kentucky Association of Counties ("KACo"). The Fund was established as a service to KACo members and their related agencies who elect coverage ("Members") under the Kentucky Unemployment Compensation Amendments of 1976 and KRS 341.277. These statutes provide that governmental entities, in lieu of making contributions to the Kentucky Unemployment Compensation Fund, can elect to reimburse the Commonwealth of Kentucky (the "Commonwealth") for all benefits paid to workers for compensable weeks of unemployment. Each member is jointly and severally liable for reimbursing the Commonwealth in an amount equal to the quarterly benefits paid that are attributable to services performed in the employ of any or all members of the Fund.

The Members pay annual premiums to the Fund based upon premium rates determined by an actuary and approved by the Board of Trustees. Benefits paid by the Commonwealth are reimbursed by the Fund and charged to each member's account. The Bylaws provide that each member is responsible for all benefits paid to its employees, and each can be required to make additional premium payments to the Fund if a member has a deficient equity balance. Thus, the Fund assumes no liability for member deficit balances, as it operates as a pool of self-insured members rather than as a group self-insurer. As of June 30, 2025 and 2024, participation in the Fund included 484 and 483 members, respectively.

Note 2—Summary of significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the significant accounting policies adopted by the Company are as follows:

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative accounting technical literature.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Premium Receivables – Members premium revenues are billed on a calendar year basis. A discount is applied to premiums paid timely based on management's discretion.

Expected Credit Losses – The allowance for credit losses is based on the Fund's assessment of the collectability of premiums receivables. In accordance with ASC Topic 326, *Financial Instruments – Credit Losses*, the Company makes ongoing estimates relating to the collectability of accounts receivable, net and records an allowance for estimated losses expected from the inability of the members to make required payments. The Fund establishes expected credit losses by evaluating historical levels of credit losses, current economic conditions that may affect a member's ability to pay, and creditworthiness of significant members. Premiums receivable are written off when there is no reasonable expectation of recovery. These inputs are used to determine a range of expected credit losses and an allowance is recorded within the range. Based on the information available, the Company considers the allowance for expected credit losses to be de minimis, at June 30, 2025 and 2024.

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 2—Summary of significant accounting policies (continued)

Cash and Cash Equivalents – The Fund considers all highly liquid investments with a maturity when purchased of three months or less not restricted for a specific purpose, to be cash equivalents. The Fund maintains its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Fund typically maintains balances in excess of insurance limits. As of June 30, 2025, the uninsured balance was approximately \$1,637,000.

Marketable Securities – The Fund accounts for investments in accordance with U.S. GAAP. Under this guidance, investments in marketable securities with readily determinable fair values and all investments in debt and equity securities are reported at their fair values in the statements of financial position. Net realized and unrealized gains and losses are recognized in the statements of revenues, expenses and changes in members' equity.

The Fund has significant investments in U.S. governmental agency and mortgage-backed securities, corporate bonds and notes, and equity securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet. Cost basis is determined on historical purchase price.

Unemployment Compensation Benefits Payable – The liability payable to the Commonwealth represents the actual benefits paid by the Commonwealth for the quarters ended June 30, 2025 and 2024. The liability for unemployment benefits payable to the Commonwealth represents quarterly benefits paid by the Commonwealth during the year that were reimbursed by the Fund subsequent to year-end. The Fund does not recognize any liability for future benefits that may become payable relating to unemployment prior to year-end since each member is ultimately liable for benefits paid to its employees.

Premium Revenue – Members premium revenues are recognized on a pro-rata basis over the coverage period, which is typically the calendar year. Premiums billed related to the unexpired portion of policies in force at the balance sheet date are recorded as deferred revenue on the balance sheets.

Interest Income – Interest income is accrued as earned.

Income Taxes – The fund is exempt from income taxes under section 115 of the Internal Revenue Code, which pertains to instrumentalities of state and governments. However, income from certain activities not directly related to the Fund's tax-exempt purpose may be subject to taxation as unrelated business income.

As of June 30, 2025, and 2024, the fund did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

Fair Value Measurements – The Fund applies U.S. GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. U.S. GAAP defines fair value as 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. U.S. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Subsequent Events – Management has evaluated all events or transactions that occurred after June 30, 2025 through January 22, 2026, the date on which these financial statements were available to be issued and determined there were no events that occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Reclassifications – Certain amounts presented within the June 30, 2024 financial statements have been reclassified to conform with the current year presentation.

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 3—Cash and cash equivalents

Cash and cash equivalents at June 30 are comprised of the following:

	<u>2025</u>	<u>2024</u>
Checking account	\$ 297,381	\$ 725,016
Money market funds	1,886,538	2,785
	<u>\$ 2,183,919</u>	<u>\$ 727,801</u>

Note 4—Investments

During the year ended June 30, 2025, the Fund changed trustees from Central Bank & Trust Company to Fifth Third Bank, National Association ("Fifth Third"). Investments held in trust by Fifth Third at June 30, 2025 and by Central Bank & Trust Company at June 30, 2024 consisted of the following:

	<u>2025</u>	<u>2024</u>
U.S. governmental agency and mortgage-backed securities		
Federal national mortgage association	\$ 4,724,416	\$ 5,283,132
Federal Home Loan Mortgage Gold Pool ("FHLMGP")	6,841	7,073
Corporate bonds and notes	2,925,202	2,849,112
Municipal bonds	250,000	250,000
U.S. treasury notes	1,479,782	2,154,464
Subtotal: fixed maturity investments, at fair value	<u>9,386,241</u>	<u>10,543,781</u>
Common stocks	2,730,585	2,462,205
Total investments	<u>\$ 12,116,826</u>	<u>\$ 13,005,986</u>

The aggregate fair value of annual maturities of U.S. governmental agency, mortgage-backed securities, corporate and municipal bonds at June 30, 2025, based on stated maturity dates are as follows:

<u>Bonds:</u>	<u>Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 194,754	\$ 194,838
Due after one year through five years	1,980,715	1,990,744
Due after five years through ten years	822,782	831,772
Due after ten years	4,817,386	4,889,105
	<u>\$ 7,815,637</u>	<u>\$ 7,906,459</u>

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 4—Investments (continued)

Unrealized gain or loss by investment type as June 30 is as follows:

	Unrealized Gain (Loss) by Investment Type as of June 30, 2025		
	Cost	Unrealized Gain (Loss)	Fair Value
U.S. governmental agency and			
Federal National Mortgage Association	\$ 4,653,310	\$ 71,106	\$ 4,724,416
Federal Home Loan Mortgage Gold Pool	6,746	95	6,841
Corporate bonds and notes	2,905,581	19,621	2,925,202
Municipal bonds	250,000	-	250,000
U.S. treasury notes	1,471,769	8,013	1,479,782
Total fixed maturity investments	9,287,406	98,835	9,386,241
Common stocks	2,676,427	54,158	2,730,585
Total investments	<u>\$ 11,963,833</u>	<u>\$ 152,993</u>	<u>\$ 12,116,826</u>

	Unrealized Loss by Investment Type as of June 30, 2024		
	Cost	Unrealized Gain (Loss)	Fair Value
U.S. governmental agency and			
Federal National Mortgage Association	\$ 5,979,846	\$ (747,789)	\$ 5,232,057
Federal Home Loan Mortgage Gold Pool	7,841	(768)	7,073
Corporate bonds and notes	3,054,123	(153,937)	2,900,186
Municipal bonds	250,000	-	250,000
U.S. treasury notes	2,222,160	(67,695)	2,154,465
Total fixed maturity investments	11,513,970	(970,189)	10,543,781
Common stocks	1,946,162	516,043	2,462,205
Total investments	<u>\$ 13,460,132</u>	<u>\$ (454,146)</u>	<u>\$ 13,005,986</u>

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 4—Investments (continued)

Investment income at June 30 consisted of the following:

	<u>2025</u>	<u>2024</u>
Interest and other investment income	\$ 535,995	\$ 429,695
Realized (gains) losses on investments	282,328	1,289
Unrealized (gains) losses on investments	<u>209,915</u>	<u>201,057</u>
	1,028,238	632,041
Less investment management fees	<u>(38,230)</u>	<u>(37,597)</u>
	<u>\$ 990,008</u>	<u>\$ 594,444</u>

Note 5—Fair value measurements

Under FASB ASC 820, *Fair Value Measurement*, the fair value of a financial asset or liability is defined using an exit price definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), based on market data obtained from sources independent of CBIC Amigo SP, and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are described below:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets, as well as one U.S. Treasury securities whose value is set by government statute.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is based upon valuation techniques that use significant inputs that are unobservable or are generated from model-based techniques that use significant assumptions not observable in the market.

Following are descriptions of the valuation methodologies for assets measured at fair value. There have been no changes in methodologies used at June 30, 2025 and 2024.

The Fund's Level 1 investments include equity securities that are traded in an active exchange market, as well as one U.S. Treasury securities whose value is set by government statute.

The Funds' Level 2 investments include fixed maturities with quoted prices that are traded less frequently than exchange-traded instruments or instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes fixed maturities where fair values are obtained from a nationally recognized, third party pricing service.

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 5—Fair value measurements (continued)

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, while the Fund 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 is a summary of the Fund's financial assets that are accounted for at fair value on a recurring basis by level in accordance with the fair value hierarchy described above:

Investments at Fair Value as of June 30, 2025				
	Level 1	Level 2	Level 3	Total
Common stock	\$ 2,730,585	\$ -	\$ -	\$ 2,730,585
U.S. treasury notes	1,479,782	-	-	1,479,782
Government bonds and FHLMGP	-	4,731,257	-	4,731,257
Corporate and municipal bonds	-	3,175,202	-	3,175,202
	<u>\$ 4,210,367</u>	<u>\$ 7,906,459</u>	<u>\$ -</u>	<u>\$ 12,116,826</u>

Investments at Fair Value as of June 30, 2024				
	Level 1	Level 2	Level 3	Total
Common stock	\$ 2,462,205	\$ -	\$ -	\$ 2,462,205
U.S. treasury notes	2,154,464	-	-	2,154,464
Government bonds and FHLMGP	-	5,290,205	-	5,290,205
Corporate and municipal bonds	-	3,099,112	-	3,099,112
	<u>\$ 4,616,669</u>	<u>\$ 8,389,317</u>	<u>\$ -</u>	<u>\$ 13,005,986</u>

Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available and these securities are classified as Level 1 or Level 2. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions and are classified as Level 3.

The Company holds no Level 3 financial instruments at for the years ended June 30, 2025 and 2024.

Note 6—Members' equity

Members' equity consists of separate accounts maintained for each member. Each member's equity balance is increased by its contributions and allocated share of investment income and other revenues, decreased by unemployment compensation benefits paid on its behalf, dividends distributed and the allocated share of other expenses. There were no dividends paid to members or assessments charged during the years ended June 30, 2025 and 2024. At June 30 members' equity consisted of the following:

	2025	2024
Members with equity	\$ 14,995,888	\$ 14,140,989
Members with a deficit equity position	(813,336)	(520,567)
	<u>\$ 14,182,552</u>	<u>\$ 13,620,422</u>

KACO UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 7—Related party transactions

The Fund has a Program Administration Agreement whereby the Fund paid a set fee of \$112,224 and \$97,985 per quarter for the years ended June 30, 2025 and 2024, respectively, to KACo to provide management and administrative services for the Fund. The total fee is adjusted annually based upon the actual allocation of expenses covered by the agreement. For the years ended June 30, 2025 and 2024, expenses for the Fund were \$372,559 and \$341,587, respectively. The excess payments of \$76,336 and \$67,850 for the years ended June 30, 2025 and 2024, respectively, are utilized to reduce the Fund's future payments to KACo and is included in prepaid expenses on June 30, 2025 and 2024 balance sheets. An additional management fee of \$255,000 and \$232,200 was paid to KACo for the years ended June 30, 2025 and 2024, respectively.

The Fund has a licensing agreement with KACo that requires the Fund to pay an annual royalty to KACo in return for the use of KACo's name and logo. The Fund paid royalties of \$1,000 for each of the years ended June 30, 2025 and 2024.

Included in fixed maturity investments is a KACo bond with a carrying amount of \$250,000 as of June 30, 2025 and 2024. The KACo bond accrues interest at 1.57% per annum and matures at February 1, 2040.