

**Kentucky Medical Association**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2022 and 2021**

**Kentucky Medical Association  
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Years Ended June 30, 2022 and 2021**

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## **Independent Auditor's Report**

The Board of Trustees  
Kentucky Medical Association

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

#### ***Opinion***

We have audited the consolidated financial statements of Kentucky Medical Association (the "Association") which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kentucky Medical Association as of June 30, 2022 and 2021, 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 ("GAAS"). 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 Kentucky Medical Association 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 Medical Association's ability to continue as a going concern for one year after the date that the 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 Medical Association'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 Medical Association'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 supplementary information on page 18 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  
October 21, 2022

**Kentucky Medical Association**  
**Consolidated Statements of Financial Position**  
**June 30, 2022 and 2021**

	Without donor restrictions			With donor restrictions		Eliminations	June 30, 2022 total all funds	June 30, 2021 total all funds
	Current fund	Reserve fund	Public education campaign fund	Legal trust fund	Kentucky Foundation for Medical Care, Inc.			
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 1,671,076	\$ 702,090	\$ -	\$ 200,203	\$ 196,996	\$ -	\$ 2,770,365	\$ 2,725,496
Accounts receivable	10,028	-	-	-	150	(5,336)	4,842	12,045
Grant receivable	-	-	-	-	-	-	-	49,925
Prepaid expenses	34,601	-	-	-	12,322	-	46,923	46,028
Total current assets	1,715,705	702,090	-	200,203	209,468	(5,336)	2,822,130	2,833,494
Investments								
Reserve Fund investments	-	2,149,009	-	-	-	-	2,149,009	2,141,182
Kentucky Foundation for Medical Care, Inc. investments	-	-	-	-	1,905,774	-	1,905,774	2,215,557
Deferred annuity contract	1,142,449	-	-	-	-	-	1,142,449	1,252,102
Total investments	1,142,449	2,149,009	-	-	1,905,774	-	5,197,232	5,608,841
Property and equipment, net	94,522	-	-	-	-	-	94,522	83,601
Total assets	<u>\$ 2,952,676</u>	<u>\$ 2,851,099</u>	<u>\$ -</u>	<u>\$ 200,203</u>	<u>\$ 2,115,242</u>	<u>\$ (5,336)</u>	<u>\$ 8,113,884</u>	<u>\$ 8,525,936</u>

See accompanying notes.

**Kentucky Medical Association**  
**Consolidated Statements of Financial Position (Continued)**  
**June 30, 2022 and 2021**

	Without donor restrictions			With donor restrictions		Eliminations	June 30, 2022 total all funds	June 30, 2021 total all funds
	Current fund	Reserve fund	Public education campaign fund	Legal trust fund	Kentucky Foundation for Medical Care, Inc.			
<b>Liabilities and net assets</b>								
Current liabilities								
Accounts payable	\$ 38,632	\$ -	\$ -	\$ -	\$ 5,336	\$ (5,336)	\$ 38,632	\$ 29,499
Accrued expenses	151,773	-	-	-	-	-	151,773	138,355
Refundable advance	-	-	-	-	-	-	-	213,029
Deferred revenue	49,038	-	-	-	17,707	-	66,745	35,926
Unearned dues	997,846	-	-	-	-	-	997,846	915,381
Total current liabilities	1,237,289	-	-	-	23,043	(5,336)	1,254,996	1,332,190
Deferred compensation	1,142,449	-	-	-	-	-	1,142,449	1,252,102
Accrued expenses	38,783	-	-	-	-	-	38,783	41,080
Total liabilities	2,418,521	-	-	-	23,043	(5,336)	2,436,228	2,625,372
Net assets								
Without donor restrictions	534,155	2,851,099	-	-	-	-	3,385,254	3,140,090
With donor restrictions	-	-	-	200,203	2,092,199	-	2,292,402	2,760,474
Total net assets	534,155	2,851,099	-	200,203	2,092,199	-	5,677,656	5,900,564
Total liabilities and net assets	<u>\$ 2,952,676</u>	<u>\$ 2,851,099</u>	<u>\$ -</u>	<u>\$ 200,203</u>	<u>\$ 2,115,242</u>	<u>\$ (5,336)</u>	<u>\$ 8,113,884</u>	<u>\$ 8,525,936</u>

See accompanying notes.

**Kentucky Medical Association**  
**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
Operating revenues						
Association dues	\$ 1,922,731	\$ -	\$ 1,922,731	\$ 1,919,181	\$ -	\$ 1,919,181
Service income	-	-	-	1,512	-	1,512
Educational income	108,405	10,978	119,383	69,205	-	69,205
Publications income	8,430	-	8,430	9,290	-	9,290
Royalty income	56,790	-	56,790	53,419	-	53,419
Grant income	-	-	-	-	99,850	99,850
Interest and dividend income	38,079	35,405	73,484	40,183	34,685	74,868
Donations	-	22,250	22,250	-	24,185	24,185
Other revenues	302,267	-	302,267	147,521	-	147,521
Net assets released from restrictions						
Satisfaction of program restrictions	271,336	(271,336)	-	84,130	(84,130)	-
Total operating revenues	2,708,038	(202,703)	2,505,335	2,324,441	74,590	2,399,031
Operating expenses						
Program	1,814,398	-	1,814,398	1,673,835	-	1,673,835
General and administrative	380,088	-	380,088	391,458	-	391,458
Fundraising	2,454	-	2,454	1,924	-	1,924
Total operating expenses	2,196,940	-	2,196,940	2,067,217	-	2,067,217
Operating changes in net assets	511,098	(202,703)	308,395	257,224	74,590	331,814
Other (expenses) and revenues						
Net realized/unrealized (loss) gain on investments	(265,934)	(265,369)	(531,303)	502,411	440,961	943,372
Total other (expenses) and revenues	(265,934)	(265,369)	(531,303)	502,411	440,961	943,372
Changes in net assets	245,164	(468,072)	(222,908)	759,635	515,551	1,275,186
Net assets at beginning of year	3,140,090	2,760,474	5,900,564	2,380,455	2,244,923	4,625,378
Net assets at end of year	\$ 3,385,254	\$ 2,292,402	\$ 5,677,656	\$ 3,140,090	\$ 2,760,474	\$ 5,900,564

See accompanying notes.

**Kentucky Medical Association**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2022**

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advocacy	\$ 130,655	\$ -	\$ -	\$ 130,655
Annual meeting	26,616	-	2,454	29,070
Board and meeting	41,374	-	-	41,374
Community health initiatives	19,500	-	-	19,500
Computer/equipment supplies and maintenance	27,927	11,969	-	39,896
Credit card fees	27,764	-	-	27,764
Depreciation	18,766	8,042	-	26,808
Dues, subscriptions, and continuing education	-	18,030	-	18,030
Education	105,054	-	-	105,054
Insurance - general	14,831	6,356	-	21,187
KMA publications	35,030	-	-	35,030
Leadership program	90,441	-	-	90,441
Legal trust	14,807	-	-	14,807
Membership	18,147	-	-	18,147
Office rent	120,420	51,608	-	172,028
Office salaries and benefits	922,875	209,496	-	1,132,371
Office supplies	372	159	-	531
Other	13,745	9,766	-	23,511
Payroll taxes	51,225	21,953	-	73,178
Printing and postage	-	9,940	-	9,940
Professional services	19,234	30,063	-	49,297
Promotional	5,822	-	-	5,822
Public education	79,171	-	-	79,171
Telephone	6,314	2,706	-	9,020
Website and social media	24,308	-	-	24,308
	<u>\$ 1,814,398</u>	<u>\$ 380,088</u>	<u>\$ 2,454</u>	<u>\$ 2,196,940</u>
Total expenses				

See accompanying notes.



**Kentucky Medical Association**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2021**

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advocacy	\$ 224,307	\$ -	\$ -	\$ 224,307
Annual meeting	7,513	-	1,924	9,437
Board and meeting	2,494	-	-	2,494
Community health initiatives	7,750	-	-	7,750
Computer/equipment supplies and maintenance	27,855	11,938	-	39,793
Credit card fees	31,326	-	-	31,326
Depreciation	20,327	8,713	-	29,040
Dues, subscriptions, and continuing education	-	12,496	-	12,496
Education	46,199	-	-	46,199
Insurance - general	14,713	6,305	-	21,018
KMA publications	46,008	-	-	46,008
Leadership program	10,912	-	-	10,912
Legal trust	3,626	-	-	3,626
Membership	24,128	-	-	24,128
Office rent	129,423	55,467	-	184,890
Office salaries and benefits	942,313	231,256	-	1,173,569
Office supplies	302	130	-	432
Other expense	3,104	4,956	-	8,060
Payroll taxes	54,224	23,239	-	77,463
Printing and postage	-	12,828	-	12,828
Professional services	12,687	21,665	-	34,352
Promotional	5,295	-	-	5,295
Public education	20,189	-	-	20,189
Telephone	5,751	2,465	-	8,216
Website and social media	33,389	-	-	33,389
	<u>\$ 1,673,835</u>	<u>\$ 391,458</u>	<u>\$ 1,924</u>	<u>\$ 2,067,217</u>

See accompanying notes.

**Kentucky Medical Association**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

	Without donor restrictions			With donor restrictions		Eliminations	June 30, 2022 total all funds	June 30, 2021 total all funds
	Current fund	Reserve fund	Public education campaign fund	Legal trust fund	Kentucky Foundation for Medical Care, Inc.			
Cash flows from operating activities								
Changes in net assets	\$ 473,221	\$ (228,057)	\$ -	\$ (11,657)	\$ (456,415)	\$ -	\$ (222,908)	\$ 1,275,186
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities								
Depreciation	26,808	-	-	-	-	-	26,808	29,040
Net gain on sale of investments	-	(34,773)	-	-	(52,416)	-	(87,189)	(269,117)
Net unrealized (loss) gain on investments	-	300,708	-	-	317,784	-	618,492	(674,255)
Changes in								
Accounts receivable	1,982	-	-	-	(100)	(1,563)	319	(10,877)
Grant receivable	-	-	-	-	49,925	-	49,925	(49,925)
Prepaid expenses	11,359	-	-	-	(12,254)	-	(895)	(2,527)
Deferred annuity contract	109,653	-	-	-	-	-	109,653	(197,915)
Accounts payable	14,133	-	-	(5,000)	5,321	1,563	16,017	6,820
Accrued expenses	11,121	-	-	-	-	-	11,121	(632)
Deferred revenue	12,850	-	-	-	17,969	-	30,819	(7,512)
Unearned dues	82,465	-	-	-	-	-	82,465	46,223
Deferred compensation	(109,653)	-	-	-	-	-	(109,653)	197,915
Refundable advance	(213,029)	-	-	-	-	-	(213,029)	213,029
Net cash provided (used) by operating activities	420,910	37,878	-	(16,657)	(130,186)	-	311,945	555,453

See accompanying notes.

**Kentucky Medical Association**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2022 and 2021**

	Without donor restrictions			With donor restrictions			June 30, 2022 total all funds	June 30, 2021 total all funds
	Current fund	Reserve fund	Public education campaign fund	Legal trust fund	Kentucky Foundation for Medical Care, Inc.	Eliminations		
Cash flows from investing activities								
Purchases of property and equipment	\$ (37,729)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (37,729)	\$ (2,191)
Change in investments, net	-	(273,762)	-	-	44,415	-	(229,347)	905,937
Transfer between funds	406,949	61,623	(468,572)	-	-	-	-	-
Net cash provided (used) by investing activities	369,220	(212,139)	(468,572)	-	44,415	-	(267,076)	903,746
Increase (decrease) in cash and cash equivalents	790,130	(174,261)	(468,572)	(16,657)	(85,771)	-	44,869	1,459,199
Cash and cash equivalents at beginning of year	880,946	876,351	468,572	216,860	282,767	-	2,725,496	1,266,297
Cash and cash equivalents at end of year	\$ 1,671,076	\$ 702,090	\$ -	\$ 200,203	\$ 196,996	\$ -	\$ 2,770,365	\$ 2,725,496

See accompanying notes.

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2022 and 2021**

**Note A - Nature of Organization and Operations**

Kentucky Medical Association ("KMA") is a professional organization representing Kentucky physicians. Operations are primarily funded by annual dues collected from KMA member physicians. Assets, liabilities, and net assets of the Association are reported in self-balancing funds. The funds are:

- Current Fund, which reflects the unrestricted resources available for operations. This includes legislative monitoring, continuing medical education for physicians and ongoing investigation of and recommendations on social economic issues;
- Reserve Fund, which reflects the unrestricted long-term investments of KMA;
- Public Education Campaign Fund, which reflects an unrestricted board-designated portion of dues income used to promote the positive aspects of the medical profession to the general public. The Public Education Fund was rolled into the Current Fund in fiscal year 2022;
- Legal Trust Fund, which reflects resources provided by voluntary contributions restricted to support the legal efforts of any active KMA member to effect change of, or gain redress from, legislation, government regulations, or third party policies when so approved by trustees of the fund; and
- The Kentucky Foundation for Medical Care, Inc. (the "Foundation") is a Not-for-Profit organization established in 1971 for charitable, educational, and scientific purposes related to physicians and the general public. Operations are funded by contributions and grants. The KMA Board of Trustees annually appoints the board of directors of the Foundation. The Foundation is an Internal Revenue Code Section 509(a)(3) supporting organization for KMA.

Kentucky Medical Association and The Kentucky Foundation for Medicare Care, Inc. are known collectively as the "Association".

**Note B - Summary of Significant Accounting Policies**

1. Basis of Accounting: The consolidated financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative accounting technical literature. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader. The inter-organization balances and transactions have been eliminated in these consolidated financial statements.
2. Accounting Estimates: The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America 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. Subsequent Events: Subsequent events for the Association have been considered through the date of the Independent Auditor's Report which represents the date the consolidated financial statements were available to be issued.

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note B - Summary of Significant Accounting Policies (Continued)**

4. Donor-imposed Restrictions: The Association records and reports its assets, liabilities, net assets, revenues, gains and losses, and other support based on the existence or absence of donor-imposed restrictions. The Association 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 Association. These net assets may be used at the discretion of the Association's management and the board of directors. From time to time the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.
  - *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 the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. At June 30, 2022 and 2021, there were no net assets restricted in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities and changes in net assets.

5. Cash and Cash Equivalents: The Association considers all short-term investments with a maturity of three months or less when purchased to be cash equivalents. The Association typically maintains cash on deposit at banks in excess of federally insured limits.
6. Accounts Receivable: Accounts receivable consists of reimbursement amounts due to the Association. No allowance for uncollectible accounts has been included as management considers all amounts collectible.
7. Investments: Investments in securities are measured at fair value. Realized gains and losses on disposals of investments are computed based upon the carrying amount of the specific investments.

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

8. Property and Equipment: The Association records property and equipment at cost if purchased and at the estimated fair value at the date of acquisition if donated. The Association typically capitalizes items costing or valued over \$500. Repairs and maintenance are expensed as incurred. Depreciation is provided on the basis of the estimated useful lives of the assets ranging from 3 to 10 years, using the straight-line method.
9. Revenue Recognition: Revenue derived from membership dues is recognized over the period to which the dues relate. Revenues from services and fees are recognized as the services are performed. Publications income consists primarily of advertising revenues, which are recognized as the advertisements are published. Education income is recognized in accordance with the event or activity. Royalty income is recognized in accordance with specific agreements. Contributions are recognized as revenue in the period they are received. Unconditional grants are recognized in the period of award. Conditional grants are recognized upon compliance with applicable conditions.

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note B - Summary of Significant Accounting Policies (Continued)**

10. Functional Expenses: The cost of providing program and other activities has been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Association are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on time and effort or usage. Accordingly, certain costs have been allocated among program, general and administrative and fundraising. Office salaries, payroll related expenses, professional fees, office rent and depreciation expense, and office supplies are some of the costs which have been allocated.
11. Recent Accounting Pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases*, to improve financial reporting with respect to leasing transactions. 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 consolidated 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 consolidated statement of activities and changes in net assets. This standard will be effective for the Association's year ending June 30, 2023. The Association has commenced its evaluation of the Standard and anticipates a material impact to the consolidated financial statements upon adoption by recognition of a material right-of-use asset and lease liability on the consolidated statement of financial position.

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 consolidated statement of activities and changes in net assets will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the Association's year ending June 30, 2024. The Association is currently in the process of evaluating the impact of the adoption of this ASU on the consolidated financial statements.

**Note C - Coronavirus Pandemic**

During 2020, the outbreak of the global novel coronavirus disease 2019 ("COVID-19") was declared a United States and global pandemic. The Association's operations have generally been impacted by the outbreak of COVID-19. Since the situation surrounding the pandemic is on-going, the duration, nature, and extent of the ultimate direct or indirect impact on the Association's financial condition, liquidity, and/or future results of operations cannot be reasonably estimated at this time. As a result of the uncertainty surrounding the COVID-19 pandemic, the Association applied for, and in January 2021, received a Paycheck Protection Program ("PPP") loan under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act (see Note J).

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note D - Liquidity and Availability of Resources**

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Association's financial assets available within one year of the consolidated statement of financial position date for general expenditures, liabilities, and other obligations as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,770,365	\$ 2,725,496
Accounts receivable	4,842	12,045
Reserve Fund investments	2,149,009	2,141,182
Kentucky Foundation for Medical Care, Inc. investments	1,905,774	2,215,557
Deferred annuity contract	<u>1,142,449</u>	<u>1,252,102</u>
 Total financial assets	 7,972,439	 8,346,382
 Less: deferred annuity contract	 (1,142,449)	 (1,252,102)
Less: amounts not available to be used within one year due to restrictions by donors for purpose or time	   <u>(2,292,402)</u>	   <u>(2,760,474)</u>
 Total financial assets available to meet cash needs for general expenditures within one year	   <u><u>\$ 4,537,588</u></u>	   <u><u>\$ 4,333,806</u></u>

The Association has liquidity and availability of resources to satisfy general expenditures, liabilities, and other obligations.

**Note E - Reserve Fund Investments**

The Reserve Fund investments consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Mutual funds	<u>\$ 2,149,009</u>	<u>\$ 2,141,182</u>

**Note F - Kentucky Foundation for Medical Care**

The Kentucky Foundation for Medical Care investments consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Mutual funds	<u>\$ 1,905,774</u>	<u>\$ 2,215,557</u>

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note G - Fair Value Measurement**

FASB ASC defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. The provisions also establish a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. 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 Association's own assumptions.

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

*Mutual funds:* Valued at the net asset value of shares held by the Association at year end.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association 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. There have been no changes in the methodologies used at June 30, 2022 and 2021.

The following table sets forth by level, within the fair value hierarchy, the Association's assets measured at fair value on a recurring basis as of June 30, 2022:

	Investments at fair value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income	\$ 1,447,988	\$ -	\$ -	\$ 1,447,988
Equity	2,606,795	-	-	2,606,795
Total	<u>\$ 4,054,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,054,783</u>



**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note G - Fair Value Measurement (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Association's assets measured at fair value on a recurring basis as of June 30, 2021:

	Investments at fair value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income	\$ 1,630,119	\$ -	\$ -	\$ 1,630,119
Equity	2,726,620	-	-	2,726,620
Total	<u>\$ 4,356,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,356,739</u>

**Note H - Property and Equipment**

Property and equipment at June 30, 2022 and 2021 consist of the following:

	2022	2021
Office furniture and fixtures	\$ 130,169	\$ 125,495
Computer equipment and software	138,298	105,243
Leasehold improvements	6,614	6,614
Automobiles	67,673	67,673
	342,754	305,025
Less accumulated depreciation	(248,232)	(221,424)
	<u>\$ 94,522</u>	<u>\$ 83,601</u>

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note I - Leases**

In 2016, the Association entered into a lease agreement for office space that extends through November 2026. The leases contain predetermined fixed escalations of the minimum rent during the term of the lease. The Association recognizes rent expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and the amounts paid as deferred rent. The Association also has operating lease agreements for office equipment through September 2024. Future minimum rental commitments under the leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 170,744
2024	171,725
2025	175,158
2026	178,635
2027	<u>75,040</u>
	<u>\$ 771,302</u>

Rental expense under leases totaled \$178,976 and \$194,140 for 2022 and 2021, respectively.

**Note J - Refundable Advance**

The Association received a refundable advance of \$213,029 during the year ended June 30, 2021, from the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"). Under the provisions of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the Association was notified the loan was fully forgiven in September 2021 and the Association has been legally released by the SBA. The PPP loan amount was recognized as other revenue on the consolidated statement of activities and changes in net assets for the year ended June 30, 2022. In accordance with the related PPP loan guidelines, the SBA reserves the right to audit any PPP loan at any time during the loan process, including after the loan is partially or fully forgiven and the Association has been legally released.

**Note K - Income Taxes**

The Kentucky Medical Association is organized as a Not-for-Profit organization and is exempt from federal taxation under the provisions of Section 501(c)(6) of the Internal Revenue Code. The Kentucky Foundation for Medical Care, Inc. is organized as a Not-for-Profit organization and is exempt from federal taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Certain activities of the Association produce unrelated business taxable income. These activities, primarily advertising, generated no net unrelated business income for 2022 and 2021.

The Association 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 consolidated financial statements.

**Kentucky Medical Association**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2022 and 2021**

**Note L - Related Party Transactions**

The Association funded administrative expenses for the Kentucky Physicians Political Action Committee ("KPPAC") through fiscal year 2021. KMA has control but no economic interest in KPPAC. During 2022 and 2021, the Association funded \$25,000 of administrative expenses annually for KPPAC.

Kentucky Medical Association leases office space and provides administrative services to the Kentucky Foundation for Medicare Care, Inc. Revenues from this agreement and other reimbursed expenses totaled \$51,900 and \$53,004 for 2022 and 2021, respectively. These amounts have been eliminated in consolidation.

**Note M - Commitments**

The Association has committed to pay minimums based upon days before cancellation notification has been given for a number of hotel rooms and catering service relating to their annual meeting. The August 2020 annual meeting was rescheduled, with no penalty, to August 2022. For the August 2022 annual meeting, the Association is required to pay a minimum of \$24,593.

## **Supplementary Information**

**Kentucky Medical Association**  
**Consolidating Statement of Activities and Changes in Net Assets by Fund**  
**Year Ended June 30, 2022 with year ended June 30, 2021 All Funds Total**

	Without donor restrictions			With donor restrictions		Eliminations	June 30, 2022 Total all funds	June 30, 2021 Total all funds
	Current Fund	Reserve Fund	Public Education Campaign Fund	Legal Trust Fund	Kentucky Foundation for Medical Care, Inc.			
Operating revenues								
Association dues	\$ 1,922,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,922,731	\$ 1,919,181
Service income	51,900	-	-	-	-	(51,900)	-	1,512
Educational income	108,405	-	-	-	10,978	-	119,383	69,205
Publications income	8,880	-	-	-	-	(450)	8,430	9,290
Royalty income	56,790	-	-	-	-	-	56,790	53,419
Grant income	-	-	-	-	-	-	-	99,850
Interest and dividend income	202	37,877	-	-	35,405	-	73,484	74,868
Donations	-	-	-	3,150	19,100	-	22,250	24,185
Other revenues	302,267	-	-	-	-	-	302,267	147,521
Net assets released from restrictions								
Satisfaction of program restrictions	271,336	-	-	(14,807)	(256,529)	-	-	-
Total operating revenues	2,722,511	37,877	-	(11,657)	(191,046)	(52,350)	2,505,335	2,399,031
Operating expenses								
Program	1,814,398	-	-	-	-	-	1,814,398	1,673,835
General and administrative	431,988	-	-	-	-	(51,900)	380,088	391,458
Fundraising	2,904	-	-	-	-	(450)	2,454	1,924
Total operating expenses	2,249,290	-	-	-	-	(52,350)	2,196,940	2,067,217
Operating changes in net assets	473,221	37,877	-	(11,657)	(191,046)	-	308,395	331,814
Other (expenses) and revenues								
Net realized/unrealized (loss) gain on investments	-	(265,934)	-	-	(265,369)	-	(531,303)	943,372
Total other (expenses) and revenues	-	(265,934)	-	-	(265,369)	-	(531,303)	943,372
Changes in net assets	473,221	(228,057)	-	(11,657)	(456,415)	-	(222,908)	1,275,186
Net (deficit) assets at beginning of year	(346,015)	3,017,533	468,572	211,860	2,548,614	-	5,900,564	4,625,378
Transfer from/(to) other funds	406,949	61,623	(468,572)	-	-	-	-	-
Net assets at end of year	\$ 534,155	\$ 2,851,099	\$ -	\$ 200,203	\$ 2,092,199	\$ -	\$ 5,677,656	\$ 5,900,564

See independent auditor's report.