

# **KENTUCKY MEDICAL ASSOCIATION**

## **CONSOLIDATED FINANCIAL STATEMENTS**

***As of and for the 18-Month Period Ended December 31, 2023  
and for the Year Ended June 30, 2022***

***And Report of Independent Auditor***

**KENTUCKY MEDICAL ASSOCIATION**  
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## Report of Independent Auditor

To the Board of Trustees  
Kentucky Medical Association  
Louisville, Kentucky

### 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 December 31, 2023 and June 30, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the 18-month period ended December 31, 2023 and year ended June 30, 2022, 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 the Association as of December 31, 2023 and June 30, 2022, and the results of its operations and its cash flows for the 18-month period ended December 31, 2023 and year ended June 30, 2022 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 the 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.

#### **Prior Period Consolidated Financial Statements**

The consolidated financial statements as of and for the year ended June 30, 2022, were audited by MCM CPAs & Advisors LLP, which was acquired by Cherry Bekaert LLP as of October 31, 2023, and whose report dated October 21, 2022, 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 the Association'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 the 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 the 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 audits.

### **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 17 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.

*Cherry Bekaert LLP*

Louisville, Kentucky  
September 24, 2024

**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2023 AND JUNE 30, 2022

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>		<u>Eliminations</u>	<u>December 31, 2023 Total all Funds</u>	<u>June 30, 2022 Total all Funds</u>
	<u>Current Fund</u>	<u>Reserve Fund</u>	<u>Legal Trust Fund</u>	<u>Kentucky Foundation for Medical Care, Inc.</u>			
<b>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 945,037	\$ 645,603	\$ 186,563	\$ 150,951	\$ -	\$ 1,928,154	\$ 2,770,365
Accounts receivable	39,992	-	-	1,375	(8,184)	33,183	4,842
Prepaid expenses	35,461	-	-	579	-	36,040	46,923
Total Current Assets	<u>1,020,490</u>	<u>645,603</u>	<u>186,563</u>	<u>152,905</u>	<u>(8,184)</u>	<u>1,997,377</u>	<u>2,822,130</u>
Investments:							
Reserve Fund investments	-	2,802,312	-	-	-	2,802,312	2,149,009
Kentucky Foundation for Medical Care, Inc. investments	-	-	-	2,113,946	-	2,113,946	1,905,774
Deferred annuity contract	1,283,755	-	-	-	-	1,283,755	1,142,449
Total Investments	<u>1,283,755</u>	<u>2,802,312</u>	<u>-</u>	<u>2,113,946</u>	<u>-</u>	<u>6,200,013</u>	<u>5,197,232</u>
Property and equipment, net	75,037	-	-	-	-	75,037	94,522
Operating lease right-of-use assets	154,238	-	-	-	-	154,238	-
<b>Total Assets</b>	<u>\$ 2,533,520</u>	<u>\$ 3,447,915</u>	<u>\$ 186,563</u>	<u>\$ 2,266,851</u>	<u>\$ (8,184)</u>	<u>\$ 8,426,665</u>	<u>\$ 8,113,884</u>

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

**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

DECEMBER 31, 2023 AND JUNE 30, 2022

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>		<u>Eliminations</u>	<u>December 31, 2023 Total All Funds</u>	<u>June 30, 2022 Total All Funds</u>
	<u>Current Fund</u>	<u>Reserve Fund</u>	<u>Legal Trust Fund</u>	<u>Kentucky Foundation for Medical Care, Inc.</u>			
<b>LIABILITIES AND NET ASSETS</b>							
Current Liabilities:							
Accounts payable	\$ 40,778	\$ -	\$ -	\$ 8,184	\$ (8,184)	\$ 40,778	\$ 38,632
Accrued expenses	222,190	-	-	-	-	222,190	151,773
Contract liabilities:							
Deferred revenue	27,135	-	-	-	-	27,135	66,745
Unearned dues	708,006	-	-	-	-	708,006	997,846
Current portion of operating lease liability	31,164	-	-	-	-	31,164	-
<b>Total Current Liabilities</b>	<b>1,029,273</b>	<b>-</b>	<b>-</b>	<b>8,184</b>	<b>(8,184)</b>	<b>1,029,273</b>	<b>1,254,996</b>
Deferred compensation	1,283,755	-	-	-	-	1,283,755	1,142,449
Accrued expenses	27,104	-	-	-	-	27,104	38,783
Long-term operating lease liability	121,641	-	-	-	-	121,641	-
<b>Total Liabilities</b>	<b>2,461,773</b>	<b>-</b>	<b>-</b>	<b>8,184</b>	<b>(8,184)</b>	<b>2,461,773</b>	<b>2,436,228</b>
Net Assets:							
Without donor restrictions	71,747	3,447,915	-	-	-	3,519,662	3,385,254
With donor restrictions	-	-	186,563	2,258,667	-	2,445,230	2,292,402
<b>Total Net Assets</b>	<b>71,747</b>	<b>3,447,915</b>	<b>186,563</b>	<b>2,258,667</b>	<b>-</b>	<b>5,964,892</b>	<b>5,677,656</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,533,520</b>	<b>\$ 3,447,915</b>	<b>\$ 186,563</b>	<b>\$ 2,266,851</b>	<b>\$ (8,184)</b>	<b>\$ 8,426,665</b>	<b>\$ 8,113,884</b>

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

**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

18-MONTH PERIOD ENDED DECEMBER 31, 2023 AND YEAR ENDED JUNE 30, 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:						
Association dues	\$ 2,690,477	\$ -	\$ 2,690,477	\$ 1,922,731	\$ -	\$ 1,922,731
Educational income	176,884	20,964	197,848	108,405	10,978	119,383
Publications income	17,995	-	17,995	8,430	-	8,430
Royalty income	117,703	-	117,703	56,790	-	56,790
Interest and dividend income	152,500	71,683	224,183	38,079	35,405	73,484
Donations	-	27,647	27,647	-	22,250	22,250
Other revenues	158,832	-	158,832	302,267	-	302,267
Satisfaction of program restrictions	252,259	(252,259)	-	271,336	(271,336)	-
Total Operating Revenues	3,566,650	(131,965)	3,434,685	2,708,038	(202,703)	2,505,335
Operating Expenses:						
Program	3,194,146	-	3,194,146	1,814,398	-	1,814,398
General and administrative	637,988	-	637,988	380,088	-	380,088
Fundraising	6,035	-	6,035	2,454	-	2,454
Total Operating Expenses	3,838,169	-	3,838,169	2,196,940	-	2,196,940
Operating Changes in Net Assets	(271,519)	(131,965)	(403,484)	511,098	(202,703)	308,395
Other (Expenses) and Revenues:						
Loss on sale of property and equipment	(11,242)	-	(11,242)	-	-	-
Investment income, net	417,169	284,793	701,962	(265,934)	(265,369)	(531,303)
Total Other (Expenses) and Revenues	405,927	284,793	690,720	(265,934)	(265,369)	(531,303)
Changes in net assets	134,408	152,828	287,236	245,164	(468,072)	(222,908)
Net assets, beginning of period	3,385,254	2,292,402	5,677,656	3,140,090	2,760,474	5,900,564
Net assets, end of period	\$ 3,519,662	\$ 2,445,230	\$ 5,964,892	\$ 3,385,254	\$ 2,292,402	\$ 5,677,656

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

**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

*18-MONTH PERIOD ENDED DECEMBER 31, 2023*

	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Advocacy	\$ 307,280	\$ -	\$ -	\$ 307,280
Annual meeting	187,141	-	6,035	193,176
Board and meeting	132,233	-	-	132,233
Computer/equipment supplies and maintenance	50,959	21,839	-	72,798
Credit card fees	44,531	-	-	44,531
Depreciation	23,937	10,258	-	34,195
Dues, subscriptions, and continuing education	-	19,783	-	19,783
Education	76,262	-	-	76,262
Insurance - general	23,422	10,038	-	33,460
KMA publications	66,236	-	-	66,236
Leadership program	156,729	-	-	156,729
Membership	32,282	-	-	32,282
Office rent	216,999	93,000	-	309,999
Office salaries and benefits	1,597,807	315,902	-	1,913,709
Office supplies	889	381	-	1,270
Other	55,236	67,846	-	123,082
Payroll taxes	86,568	37,100	-	123,668
Printing and postage	-	14,211	-	14,211
Professional services	43,645	44,070	-	87,715
Promotional	46	-	-	46
Public education	45,381	-	-	45,381
Telephone	8,307	3,560	-	11,867
Website and social media	38,256	-	-	38,256
<b>Total Expenses</b>	<b>\$ 3,194,146</b>	<b>\$ 637,988</b>	<b>\$ 6,035</b>	<b>\$ 3,838,169</b>

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



**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2022*

	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
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
<b>Total Expenses</b>	<b>\$ 1,814,398</b>	<b>\$ 380,088</b>	<b>\$ 2,454</b>	<b>\$ 2,196,940</b>

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

**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022 ALL FUNDS TOTAL

	Without Donor Restrictions		With Donor Restrictions		Eliminations	December 31, 2023 Total All Funds	June 30, 2022 Total All Funds
	Current Fund	Reserve Fund	Legal Trust Fund	Kentucky Foundation for Medical Care, Inc.			
<b>Cash flows from operating activities:</b>							
Changes in net assets	\$ (462,408)	\$ 596,816	\$ (13,640)	\$ 166,468	\$ -	\$ 287,236	\$ (222,908)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:							
Depreciation	34,195	-	-	-	-	34,195	26,808
Loss on sale of property and equipment	11,242	-	-	-	-	11,242	-
Amortization of operating lease right-of-use asset	23,451	-	-	-	-	23,451	-
Net gain on sale of investments	-	(15,254)	-	(52,186)	-	(67,440)	(87,189)
Net unrealized (gain) loss on investments	-	(401,915)	-	(232,607)	-	(634,522)	618,492
Changes in:							
Accounts receivable	(29,964)	-	-	(1,225)	-	(31,189)	319
Grant receivable	-	-	-	-	-	-	49,925
Prepaid expenses	(860)	-	-	11,743	-	10,883	(895)
Deferred annuity contract	(141,306)	-	-	-	-	(141,306)	109,653
Accounts payable	2,146	-	-	2,848	-	4,994	16,017
Accrued expenses	58,738	-	-	-	-	58,738	11,121
Deferred revenue	(21,903)	-	-	(17,707)	-	(39,610)	30,819
Unearned dues	(289,840)	-	-	-	-	(289,840)	82,465
Deferred compensation	141,306	-	-	-	-	141,306	(109,653)
Operating lease right-of-use asset and liability	(24,884)	-	-	-	-	(24,884)	-
Refundable advance	-	-	-	-	-	-	(213,029)
Net cash flows from operating activities	<u>(700,087)</u>	<u>179,647</u>	<u>(13,640)</u>	<u>(122,666)</u>	<u>-</u>	<u>(656,746)</u>	<u>311,945</u>

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

**KENTUCKY MEDICAL ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022 ALL FUNDS TOTAL

	Without Donor Restrictions		With Donor Restrictions		Eliminations	December 31, 2023 Total All Funds	June 30, 2022 Total All Funds
	Current Fund	Reserve Fund	Legal Trust Fund	Kentucky Foundation for Medical Care, Inc.			
<b>Cash flows from investing activities:</b>							
Purchases of property and equipment	\$ (25,952)	\$ -	\$ -	\$ -	\$ -	\$ (25,952)	\$ (37,729)
Change in investments, net	-	(236,134)	-	76,621	-	(159,513)	(229,347)
Transfer between funds	(6,444)	-	6,444	-	-	-	-
Net cash flows from investing activities	<u>(32,396)</u>	<u>(236,134)</u>	<u>6,444</u>	<u>76,621</u>	<u>-</u>	<u>(185,465)</u>	<u>(267,076)</u>
Change in cash and cash equivalents	(732,483)	(56,487)	(7,196)	(46,045)	-	(842,211)	44,869
Cash and cash equivalents, beginning of period	1,677,520	702,090	193,759	196,996	-	2,770,365	2,725,496
Cash and cash equivalents, end of period	<u>\$ 945,037</u>	<u>\$ 645,603</u>	<u>\$ 186,563</u>	<u>\$ 150,951</u>	<u>\$ -</u>	<u>\$ 1,928,154</u>	<u>\$ 2,770,365</u>
<b>Noncash investing and financing activities:</b>							
Obtaining a right-of-use asset in exchange for a lease liability	<u>\$ 177,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,689</u>	<u>\$ -</u>

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

# KENTUCKY MEDICAL ASSOCIATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022  
ALL FUNDS TOTAL

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### Note 1—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;
- 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 2—Summary of significant accounting policies

*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 (“U.S. GAAP”). 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.

*Accounting Estimates* – The preparation of the consolidated financial statements in accordance 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.

*Subsequent Events* – Subsequent events for the Association have been considered through the date of the Report of Independent Auditor which represents the date the consolidated financial statements were available to be issued.

**KENTUCKY MEDICAL ASSOCIATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022*  
*ALL FUNDS TOTAL*

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**Note 2—Summary of significant accounting policies (continued)**

*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, whereby the donor has stipulated the funds be maintained in perpetuity. At December 31, 2023 and June 30, 2022, 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.

*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.

*Accounts Receivable* – Accounts receivable consists of reimbursement amounts due to the Association. No allowance for credit losses has been included as management considers all amounts collectible.

*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.

*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.

*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 THE CONSOLIDATED FINANCIAL STATEMENTS**

*18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022*  
*ALL FUNDS TOTAL*

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**Note 2—Summary of significant accounting policies (continued)**

*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.

*Leases* – Effective July 1, 2022, the Association adopted the cumulative accounting standard updates initially issued by FASB in February 2016 that amend the accounting leases and are codified as ASC 842, *Leases* (“ASC 842”). ASC 842 requires the rights and obligations arising from lease contracts to be recognized as right-of-use assets and lease liabilities on the consolidated statements of financial position. The Association adopted ASC 842 using a modified retrospective approach, and, as such, prior year comparative financial statements have not been restated to reflect the adoption of ASC 842. The Association elected the transition package of practical expedients available in ASC 842 whereby upon adoption, an entity need not reassess expired or existing contracts for whether the contracts are or contain leases, lease classification, or initial direct costs.

The Association recorded an approximate \$118,000 right-of-use asset and lease liability on the consolidated statements of financial position due to the adoption of ASC 842 for a lease in effect at July 1, 2022. The adoption of ASC 842 did not have a material impact on the consolidated statements of activities and changes in net assets or cash flows for the lease in effect at July 1, 2022.

The Association leases property under an operating lease. The Association determines if an arrangement is a lease at inception. Right-of-use assets and lease liabilities are recognized for leases with terms greater than 12 months based on the net present value of the future minimum lease payments over the lease term at commencement date. When readily determinable, the Association uses the interest rate implicit in the lease to determine the present value of future minimum lease payments. However, the Association's leases does not have a readily determinable implicit interest rate. For these leases, the Association's estimated incremental borrowing rate was used. The right-of-use asset and lease liability include a value for options to extend a lease if it is reasonably certain that the option will be exercised.

Operating lease liabilities and related right-of-use assets are included in current portion and noncurrent portion of operating lease liability and operating lease right-of-use assets on the consolidated statements of financial position. Operating lease expense is recognized on a straight-line basis over the lease term and is included in other services and supplies in the consolidated statements of operations.

*Recent Accounting Pronouncements* – In June 2016, FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (“CECL”), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current U.S. GAAP, which generally require that a loss be incurred before it is recognized. On July 1, 2022, the Association adopted the standard using the modified-retrospective approach with no impact to the consolidated financial statements.

**KENTUCKY MEDICAL ASSOCIATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022*  
*ALL FUNDS TOTAL*

**Note 3—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 December 31, 2023 and June 30, 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,928,154	\$ 2,770,365
Accounts receivable	33,183	4,842
Reserve Fund investments	2,802,312	2,149,009
Kentucky Foundation for Medical Care, Inc. investments	2,113,946	1,905,774
Deferred annuity contract	<u>1,283,755</u>	<u>1,142,449</u>
Total financial assets	8,161,350	7,972,439
Less deferred annuity contract	(1,283,755)	(1,142,449)
Less amounts not available to be used within one year due to restrictions by donors for purpose or time	<u>(2,445,230)</u>	<u>(2,292,402)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,432,365</u>	<u>\$ 4,537,588</u>

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

**Note 4—Reserve fund investments**

The Reserve Fund investments consist of the following at December 31, 2023 and June 30, 2022:

	<u>2023</u>	<u>2022</u>
Mutual funds	<u>\$ 2,802,312</u>	<u>\$ 2,149,009</u>

**Note 5—Kentucky Foundation for Medical Care**

The Kentucky Foundation for Medical Care investments consist of the following at December 31, 2023 and June 30, 2022:

	<u>2023</u>	<u>2022</u>
Mutual funds	<u>\$ 2,113,946</u>	<u>\$ 1,905,774</u>

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**Note 6—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 methodology 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 method 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 method is 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 methodology used at December 31, 2023 and June 30, 2022.

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 December 31, 2023:

	<b>Investments at Fair Value as of December 31, 2023</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual Funds:				
Fixed income	\$ 1,406,717	\$ -	\$ -	\$ 1,406,717
Equity	3,509,544	-	-	3,509,544
Total	<u>\$ 4,916,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,916,261</u>

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:

	<b>Investments at Fair Value as of June 30, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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>



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*18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022*  
*ALL FUNDS TOTAL*

**Note 7—Property and equipment**

Property and equipment at December 31, 2023 and June 30, 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Office furniture and fixtures	\$ 47,573	\$ 130,169
Computer equipment and software	157,002	138,298
Leasehold improvements	4,370	6,614
Automobiles	67,673	67,673
	<u>276,618</u>	<u>342,754</u>
Less accumulated depreciation	<u>(201,581)</u>	<u>(248,232)</u>
	<u>\$ 75,037</u>	<u>\$ 94,522</u>

**Note 8—Operating leases**

In 2016, the Association entered into a lease agreement for office space that extended through November 2026. In March 2023, the lease was amended to expire on April 30, 2028. The lease contains predetermined fixed escalations of the minimum rent during the term of the lease. Operating lease expense totaled \$309,999 for the 18-month period ended December 31, 2023.

Other information related to the operating lease for the 18-month period ended December 31, 2023 is as follows:

Weighted-average remaining lease terms	
Operating leases	4.33 years
Weighted-average discount rate:	
Operating leases	6.0%

Commitments relating to the operating lease as of December 31, 2023 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2024	\$ 39,638
2025	40,827
2026	42,052
2027	43,314
2028	<u>8,455</u>
Total minimum future lease payments	174,286
Less Present value discount	<u>(21,481)</u>
Long-term lease liabilities	<u>\$ 152,805</u>

Rent expense under leases totaled \$178,976 for the year ended June 30, 2022 which was accounted for under ASC 840.

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**Note 10—Net assets with donor restrictions**

Net assets with donor restrictions at December 31, 2023 and June 30, 2022 are available for various funds of the Association. The money is required to be spent only on the programs of the funds and the operations to support those programs.

	<u>2023</u>	<u>2022</u>
Benevolent fund	\$ 2,258,667	\$ 2,092,199
Legal trust	186,563	200,203
	<u>\$ 2,445,230</u>	<u>\$ 2,292,402</u>

Net assets of the Association were released from donor restrictions by satisfying the purposes specified by donors as follows:

	<u>2023</u>	<u>2022</u>
Restricted for a specific purpose:		
Education expenses	\$ 24,075	\$ 75,775
Community health initiatives	-	19,500
Kentucky Physicians Leadership Institute	70,216	65,000
Kentucky Physicians Leadership Academy	3,300	15,000
Medical Student Outreach & Leadership Program	16,192	10,441
Rural projects	7,940	5,465
Operating expenses	130,536	80,155
Total net assets released from restrictions	<u>\$ 252,259</u>	<u>\$ 271,336</u>

**Note 11—Income taxes**

KMA 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 (“IRC”). 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 IRC.

Certain activities of the Association produce unrelated business taxable income. These activities, primarily advertising, generated no net unrelated business income for 2023 and 2022.

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.

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*18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022*  
*ALL FUNDS TOTAL*

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**Note 12—Related party transactions**

The Association paid McBrayer Law Firm to administer Kentucky Physicians Political Action Committee (“KPPAC”) from July 1, 2022 through December 31, 2023 for a total of \$13,500. KMA has control but no economic interest in 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 \$90,174 and \$51,900 for the 18-month period ended December 31, 2023 and year ended June 30, 2022, respectively. These amounts have been eliminated in consolidation.

**Note 13—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. For the August 2024 annual meeting, the Association is required to pay a minimum of \$24,135.

## **SUPPLEMENTARY INFORMATION**

**KENTUCKY MEDICAL ASSOCIATION**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND**

*18-MONTH PERIOD ENDED DECEMBER 31, 2023 WITH YEAR ENDED JUNE 30, 2022 ALL FUNDS TOTAL*

	Without Donor Restrictions			With Donor Restrictions			December 31, 2023 Total All Funds	June 30, 2022 Total All Funds
	Current Fund	Reserve Fund	Public Education Campaign Fund	Legal Trust Fund	Kentucky Foundation for Medical Care, Inc.	Eliminations		
Operating Revenues:								
Association dues	\$ 2,690,477	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,690,477	\$ 1,922,731
Service income	90,174	-	-	-	-	(90,174)	-	-
Educational income	176,884	-	-	-	20,964	-	197,848	119,383
Publications income	17,995	-	-	-	-	-	17,995	8,430
Royalty income	117,703	-	-	-	-	-	117,703	56,790
Annual meeting	-	-	-	-	-	-	-	-
Interest and dividend income	34,472	118,028	-	-	71,683	-	224,183	73,484
Donations	-	-	-	4,060	23,587	-	27,647	22,250
Other revenues	158,832	-	-	-	-	-	158,832	302,267
Satisfaction of program restrictions	252,259	-	-	(17,700)	(234,559)	-	-	-
Total Operating Revenues	<u>3,538,796</u>	<u>118,028</u>	<u>-</u>	<u>(13,640)</u>	<u>(118,325)</u>	<u>(90,174)</u>	<u>3,434,685</u>	<u>2,505,335</u>
Operating Expenses:								
Program	3,194,146	-	-	-	-	-	3,194,146	1,814,398
General and administrative	728,162	-	-	-	-	(90,174)	637,988	380,088
Fundraising	6,035	-	-	-	-	-	6,035	2,454
Total Operating Expenses	<u>3,928,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(90,174)</u>	<u>3,838,169</u>	<u>2,196,940</u>
Operating Changes in Net Assets	<u>(389,547)</u>	<u>118,028</u>	<u>-</u>	<u>(13,640)</u>	<u>(118,325)</u>	<u>-</u>	<u>(403,484)</u>	<u>308,395</u>
Other (Expenses) and Revenues:								
Loss on sale of property and equipment	(11,242)	-	-	-	-	-	(11,242)	-
Net realized/unrealized gain (loss) on investments	-	417,169	-	-	284,793	-	701,962	(531,303)
Total Other (Expenses) and Revenues	<u>(11,242)</u>	<u>417,169</u>	<u>-</u>	<u>-</u>	<u>284,793</u>	<u>-</u>	<u>690,720</u>	<u>(531,303)</u>
Changes in net assets	(400,789)	535,197	-	(13,640)	166,468	-	287,236	(222,908)
Net assets, beginning of period	534,155	2,851,099	-	200,203	2,092,199	-	5,677,656	5,900,564
Transfer from (to) other funds	(61,619)	61,619	-	-	-	-	-	-
Net assets, end of period	<u>\$ 71,747</u>	<u>\$ 3,447,915</u>	<u>\$ -</u>	<u>\$ 186,563</u>	<u>\$ 2,258,667</u>	<u>\$ -</u>	<u>\$ 5,964,892</u>	<u>\$ 5,677,656</u>